

Positive surprise in margins...

Kotak Mahindra Bank reported a strong set of numbers. The operational performance continued to remain healthy at ₹ 2509 crore, up 20% YoY on the back of healthy NII growth & stable core fee income. Net interest income (NII) was at ₹ 3350 crore, up 24.6% YoY due to an improvement in margins of 41 bps YoY at 4.61%. Other income was flat YoY at ₹ 124 crore. Benefit from lower tax rate was more than enough to offset higher provisions on advances of ~₹ 398 crore. Accordingly, PAT was at ₹ 1724 crore, up 51% YoY. Overall asset quality broadly remain stable with GNPA ratio at 2.32% (13 bps increase) & NNPA ratio at 0.85% (12 bps increase).

The ongoing slowdown in the economy impacted credit growth as credit growth across portfolio witnessed moderation though above industry at ~15% YoY at ₹ 213299 crore. Notable slowdown was witnessed within small business & CV book. Growth in corporate segment continued to remain in single digit at 7.5% YoY. On the back of credit slowdown, the management has guided for mid-teen credit growth with cautious approach towards SME business. Deposit growth was lower at 13% YoY to ₹ 233071 crore. However, unlike peers, CASA accretion was higher with 24% YoY and 19% YoY growth in current (₹ 38200 crore) and saving deposits (₹ 86712 crore), leading to ~340 bps YoY (+290 bps QoQ) increase in CASA ratio to 53.6%.

Consolidated PAT came in at ₹ 2407 crore; up 38% YoY, led by strong profitability in life insurance (up 14% YoY) & AMC business (up 63% YoY) of ₹ 144 crore & ₹ 85 crore, respectively. Securities business also posted 33% YoY growth in profitability to ₹ 149 crore due to a lower tax rate.

Growth guidance moderates; still above industry

Kotak Mahindra Bank with a large branch network and focus on retail segment is set to drive credit growth ahead. Credit offtake remained moderate in the quarter in line with the general slowdown in the recent period. Going ahead, the bank is poised to pedal on credit growth focusing on retail and better rated SME and corporate. We expect credit & deposit growth of 18.1% & 17.7% CAGR in FY19-21E, respectively. The management continues to remain selective in SME segment in near term.

Valuation & Outlook

KMB has maintained a consistent performance in terms of RoA at 1.7%, RoE of 12-14%. Going ahead, focus on pedalling b/s growth, maintaining risk adjusted returns will benefit return ratios. The bank is seen as one of the major beneficiaries of lower tax regime. Performance of subsidiaries (prime, life insurance, AMC business) remains strong on growth & profitability. Value enrichment remains positive with contribution at 28%. Hence, we maintain **HOLD** with a revised TP of ₹ 1700, based on SOTP valuation. Outcome of tussle between bank and RBI continues to remain key monitorable.



Particulars

| Particulars | Amount |
|-----------------------|----------------|
| Market Capitalisation | ₹ 310045 crore |
| GNPA (Q2FY20) | ₹ 5034 crore |
| NNPA (Q2FY20) | ₹ 1811 crore |
| NIM (Q2FY20) | 4.6% |
| 52 week H/L | 1682/1099 |
| Net worth | ₹ 45912 crore |
| Face value | ₹ 5 |
| DII holding (%) | 12.3 |
| FII holding (%) | 40.2 |

Key Highlights

- Consistent performance on credit growth & earnings.
- Margins reported at 4.61%; positive surprise during the quarter.
- Maintain our HOLD recommendation with a revised target price of ₹ 1700

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Key Financial Summary

| ₹ crore | FY17 | FY18 | FY19 | FY20E | FY21E | CAGR (FY19-21E) |
|-------------|------|------|-------|-------|-------|-----------------|
| NII | 8126 | 9532 | 11259 | 13611 | 15998 | 19% |
| PPP | 5985 | 7158 | 8348 | 10178 | 12019 | 20% |
| PAT | 3412 | 4084 | 4865 | 6427 | 7591 | 25% |
| ABV | 141 | 188 | 216 | 244 | 282 | |
| P/E | 87.5 | 75.7 | 63.6 | 48.2 | 40.8 | |
| P/ABV | 11.3 | 8.5 | 7.5 | 6.6 | 5.7 | |
| Consol P/E | 60.4 | 49.7 | 40.0 | 32.8 | 27.1 | |
| Consol P/BV | 7.8 | 6.1 | 5.4 | 4.7 | 4.0 | |
| RoA | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 | |
| RoE | 13.2 | 12.5 | 12.1 | 14.0 | 14.4 | |

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

| | Q1FY20 | Q1FY20E | Q2FY19 | YoY (%) | Q1FY20 | QoQ (%) | Comments |
|---------------------------|----------|----------|----------|---------|----------|---------|--|
| NII | 3,349.6 | 3,191.3 | 2,689.1 | 24.6 | 3,173.0 | 5.6 | Credit growth of 15.3% YoY & surge of 41 bps YoY in margins at 4.61% led to strong NII growth |
| NIM (%) | 4.61 | 4.40 | 4.20 | 41 bps | 4.49 | 12 bps | Margin improvement led by change in asset mix coupled with steady growth in CASA |
| Other Income | 1,224.4 | 1,349.9 | 1,205.3 | 1.6 | 1,304.7 | -6.2 | Core fee income grew at 13% YoY |
| Net Total Income | 4,574.0 | 4,541.2 | 3,894.4 | 17.5 | 4,477.8 | 2.1 | |
| Staff cost | 915.0 | 956.4 | 745.2 | 22.8 | 901.5 | 1.5 | |
| Other Operating Expenses | 1,150.4 | 1,168.9 | 1,054.2 | 9.1 | 1,177.3 | -2.3 | |
| PPP | 2,508.6 | 2,415.9 | 2,095.0 | 19.7 | 2,398.9 | 4.6 | |
| Provision | 407.9 | 300.3 | 353.8 | 15.3 | 316.8 | 28.8 | |
| PBT | 2,100.6 | 2,115.6 | 1,741.2 | 20.6 | 2,082.2 | 0.9 | |
| Tax Outgo | 376.2 | 539.5 | 599.5 | -37.3 | 722.0 | -47.9 | |
| PAT | 1,724.5 | 1,576.1 | 1,141.7 | 51.1 | 1,360.2 | 26.8 | Healthy operational performance & lower Tax aided strong earning growth |
| Key Metrics | | | | | | | |
| GNPA | 5,034.0 | 4,751.9 | 4,033.1 | 24.8 | 4,613.5 | 9.1 | GNPA ratio broadly stable at 2.32% |
| NNPA | 1,811.0 | 1,585.4 | 1,500.8 | 20.7 | 1,524.4 | 18.8 | |
| Total Restructured assets | 0.0 | 0.0 | 0.0 | NA | 0.0 | NA | Outstanding SMA 2 - ~₹ 431 crore (0.2% of advances) |
| Advances | 2,13,299 | 2,14,531 | 1,84,940 | 15.3 | 2,08,030 | 2.5 | Credit growth marginally moderated to 15% YoY led by overall moderation in loan book with notable decline in CV & small business |
| Deposits | 2,33,071 | 2,42,879 | 2,05,830 | 13.2 | 2,32,931 | 0.1 | CASA ratio improved by 290 bps QoQ to 53.6% |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY20E | | | FY21E | | |
|----------------------|----------|----------|----------|----------|----------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 13,386.8 | 13,611 | 1.7 | 16,155.5 | 15,998 | -1.0 |
| Pre Provision Profit | 9,955.5 | 10,177.7 | 2.2 | 12,152.1 | 12,018.6 | -1.1 |
| NIM (%) | 4.1 | 4.3 | 12 bps | 4.2 | 4.3 | 11 bps |
| PAT | 6,517.3 | 6,427.2 | -1.4 | 7,896.3 | 7,591.4 | -3.9 |
| ABV (₹) | 246.2 | 243.8 | -1.0 | 284.5 | 281.6 | -1.0 |

Source: Company, ICICI Direct Research

Exhibit 3: Assumption

| | Current | | | | Earlier | |
|--------------------------|---------|---------|---------|---------|---------|---------|
| | FY18 | FY19 | FY20E | FY21E | FY20E | FY21E |
| Credit growth (%) | 24.7 | 21.2 | 18.1 | 18.1 | 21.0 | 20.5 |
| Deposit growth (%) | 22.4 | 17.3 | 18.4 | 17.1 | 20.4 | 20.6 |
| CASA ratio (%) | 31.9 | 36.4 | 38.9 | 46.3 | 38.9 | 46.3 |
| NIM calculated (%) | 4.3 | 4.1 | 4.3 | 4.3 | 4.1 | 4.2 |
| Cost to income ratio (%) | 47.3 | 47.4 | 46.2 | 46.0 | 46.7 | 45.8 |
| GNPA (₹ crore) | 1,059.6 | 1,237.2 | 1,454.0 | 1,706.3 | 1,454.0 | 1,706.3 |
| NNPA (₹ crore) | 573.7 | 609.1 | 659.4 | 508.5 | 659.4 | 508.5 |
| Slippage ratio (%) | 1.9 | 1.1 | 1.2 | 1.3 | 1.2 | 1.3 |
| Credit cost (%) | 0.5 | 0.3 | 0.3 | 0.6 | 0.3 | 0.6 |

Source: Company, ICICI Direct Research

Outlook and valuation

KMB has been trading at rich valuations consistently due to its superior return ratios with RoA of 1.7%. It earns one of the highest NIM in the industry. This depicts its strong operational business model. The management has full control via a consistent performance.

KMB has maintained consistent performance in terms of RoA at 1.7% and RoE of 12-14%. Going ahead, focus on pedalling balance sheet growth, maintaining risk adjusted returns will benefit return ratios. The bank is seen as one of the major beneficiaries of a lower tax regime. Performance of subsidiaries (prime, life insurance and AMC business) remains strong on growth & profitability. Value enrichment remains positive with contribution at 28%. Therefore, we maintain our **HOLD** rating with a revised target price of ₹ 1700, based on SOTP valuation. The outcome of the tussle between the bank and RBI continues to remain a key monitorable.

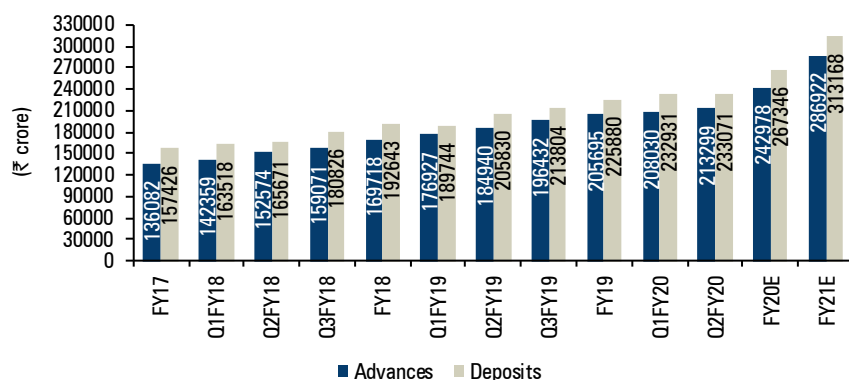
Exhibit 4: Valuation (₹) – Merged Entity

| Company | Value / share |
|---------------------------------|---------------|
| KMB (Merged entity) | 1334 |
| Kotak Life (assumed 100% stake) | 100 |
| Kotak Mahindra Prime | 90 |
| Kotak Mahindra Capital | 28 |
| Kotak Securities | 70 |
| Kotak AMC | 78 |
| | 1700 |

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 5: Healthy pace of business growth to continue



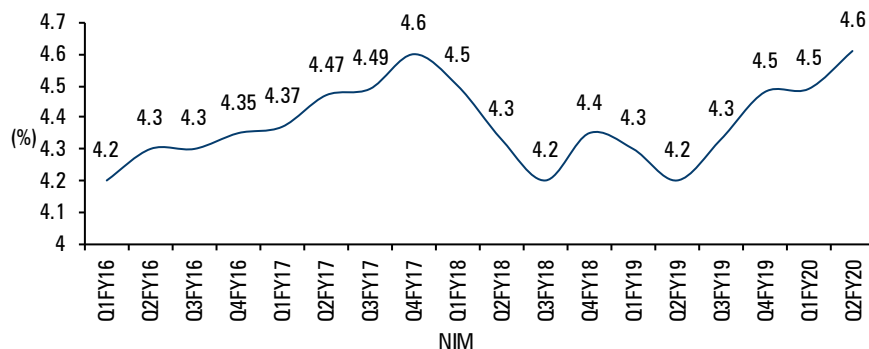
Source: Company, ICICI Direct Research

Exhibit 6: Loan book movement

| ₹ crore | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 | Growth yoy (%) |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| CVs and construction eqmt. | 11442 | 12205 | 13251 | 15202 | 16024 | 17048 | 17999 | 19706 | 19910 | 19688 | 15 |
| Personal Loans incl small business | 18257 | 20876 | 22904 | 25129 | 26210 | 29039 | 31085 | 33164 | 33719 | 34852 | 20 |
| Home loans | 27459 | 29429 | 30944 | 32429 | 34005 | 36064 | 38305 | 40722 | 42243 | 44371 | 23 |
| Corporate banking | 63573 | 67108 | 67978 | 70402 | 75799 | 76647 | 80984 | 80104 | 81418 | 82374 | 7 |
| Agricultural finance | 18563 | 19741 | 20550 | 22916 | 21249 | 22425 | 23742 | 26991 | 25986 | 27068 | 21 |
| Others | 3065 | 3215 | 3444 | 3640 | 3640 | 3717 | 4317 | 5008 | 4754 | 4946 | 33 |
| Total | 142359 | 152574 | 159071 | 169718 | 176927 | 184940 | 196432 | 205695 | 208030 | 213299 | 15 |

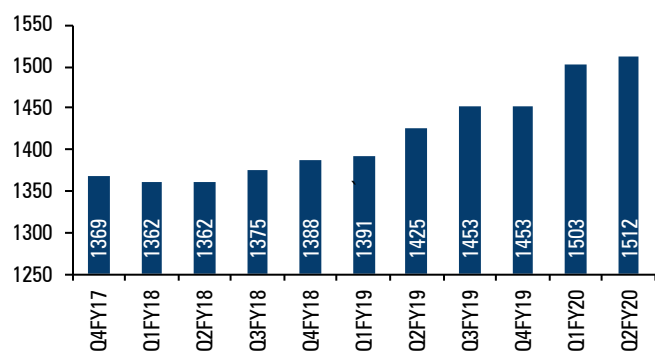
Source: Company, ICICI Direct Research

Exhibit 7: Margins to remain steady, going ahead



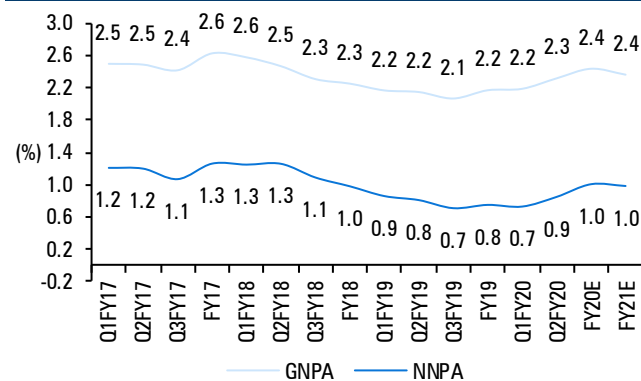
Source: Company, ICICI Direct Research

Exhibit 8: Total 50 new branches added in Q1FY20



Source: Company, ICICI Direct Research

Exhibit 9: Best in class asset quality to be maintained



Source: Company, ICICI Direct Research

Exhibit 10: Consolidated performance over quarters

| | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 | Q1FY20 | Q2FY20 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Kotak Bank | 813 | 880 | 976 | 913 | 994 | 1053 | 1124 | 1025 | 1142 | 1291 | 1408 | 1360 | 1724 |
| Kotak Securities | 96 | 85 | 121 | 125 | 118 | 154 | 134 | 130 | 112 | 99 | 111 | 110 | 149 |
| Kotak Mahindra Capital | 5 | 7 | 11 | 5 | -1 | 36 | 25 | 25 | 14 | 3 | 21 | 45 | 1 |
| Kotak Prime | 130 | 133 | 133 | 132 | 150 | 148 | 160 | 139 | 157 | 139 | 164 | 153 | 172 |
| Kotak AMC & Trust | 7 | 16 | 13 | 15 | 23 | 38 | 39 | 51 | 52 | 76 | 75 | 73 | 85 |
| International Subsidiaries | 31 | 22 | 21 | 17 | 28 | 32 | 38 | 33 | 47 | 37 | 32 | 29 | 34 |
| Kotak Investment advisors/ other | 1 | | -12 | -1 | -2 | 12 | 2 | 28 | 13 | 11 | 15 | 17 | 22 |
| Kotak Mahindra Investments | 53 | 48 | 56 | 45 | 55 | 50 | 95 | 48 | 45 | 40 | 73 | 63 | 67 |
| Kotak Mahindra Old Mutual | 63 | 68 | 101 | 103 | 100 | 97 | 114 | 117 | 127 | 125 | 138 | 134 | 144 |
| Total (net off affiliates/minority) | 1176 | 1267 | 1404 | 1347 | 1441 | 1624 | 1789 | 1574 | 1747 | 1844 | 2038 | 1932 | 2407 |

Source: Company, ICICI Direct Research

Exhibit 11: Kotak Prime – Second highest profit contributor

| | Q2FY20 | Q1FY20 | Q4FY19 | Q3FY19 | Q2FY19 | Q1FY19 | Q4FY18 | Q3FY18 | Q2FY18 | Q1FY18 | Q4FY17 | Q3FY17 | Q2FY17 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| PBT | 234 | 235 | 240 | 274 | 266 | 271 | 244 | 286 | 229 | 203 | 203 | 203 | 198 |
| PAT | 172 | 153 | 164 | 139 | 157 | 139 | 160 | 148 | 150 | 132 | 133 | 133 | 130 |
| Loans | 27298 | 27749 | 28268 | 27907 | 28544 | 27908 | 28018 | 28799 | 28373 | 27643 | 25122 | 23465 | 23311 |
| -car loans | 19041 | 19554 | 20271 | 20191 | 20740 | 20375 | 20104 | 19968 | 19831 | 18372 | 18178 | 17310 | 17249 |
| CAR | 21 | 20.1 | 19.4 | 18.9 | 18.2 | 17.7 | 17.7 | 16.6 | 17.2 | 17.2 | 17.2 | 18.2 | 18.2 |
| ROA | 2.3 | 2 | 2.2 | 1.8 | 2 | 1.8 | 2.1 | 1.9 | 2 | 2 | 2 | 2.3 | 2.3 |
| Net NPA -cars | 0.56% | 0.54% | 0.44% | 0.43% | 0.40% | 0.39% | 0.37% | 0.40% | 0.41% | 0.36% | 0.36% | 0.28% | 0.42% |

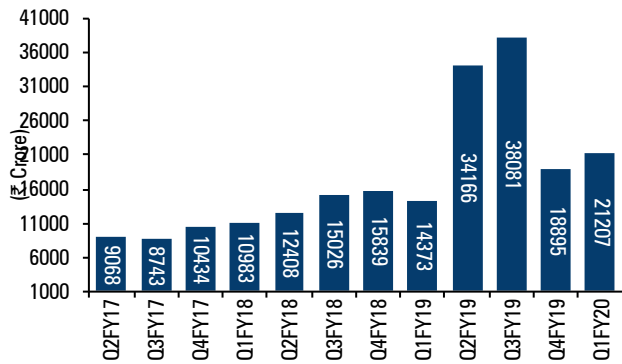
Source: Company, ICICI Direct Research

Exhibit 12: Life insurance performance

| Premium (₹ crore) | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|
| Renewal | 1395.0 | 529.0 | 894.0 | 946.0 | 1823.0 | 702 | |
| Indvl Regular | 688.0 | 200.0 | 308.0 | 386.0 | 723.0 | 840.0 | 1366.0 |
| Group | 471.0 | 381.0 | 448.0 | 399.0 | 617.0 | 709.0 | 659.0 |
| Single | 245.0 | 78.0 | 68.0 | 105.0 | 264.0 | 91.0 | 165.0 |
| New Business Premium | 1404.0 | 659.0 | 824.0 | 890.0 | 1604.0 | 938 | |
| APE | 1183.5 | 588.8 | 762.8 | 795.5 | 1366.4 | | |
| Solvency Ratio (%) | 3.1 | 3.1 | 3.1 | 3.1 | 3.0 | 3.0 | 3.1 |
| PAT | 114.0 | 117.0 | 127.0 | 125.0 | 138.0 | 134.0 | 144.0 |

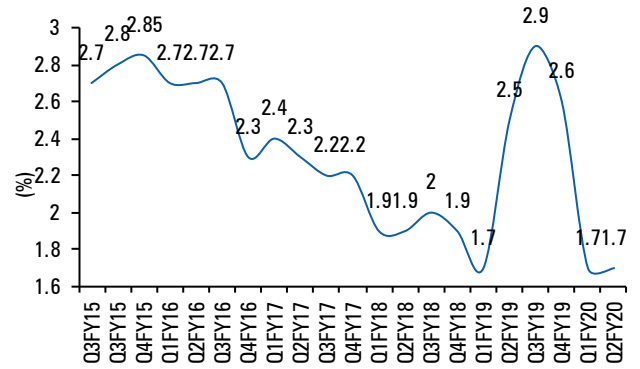
Source: Company, ICICI Direct Research

Exhibit 13: Average daily turnover – improving QoQ



Source: Company, ICICI Direct Research

Exhibit 14: Market share in average daily volume



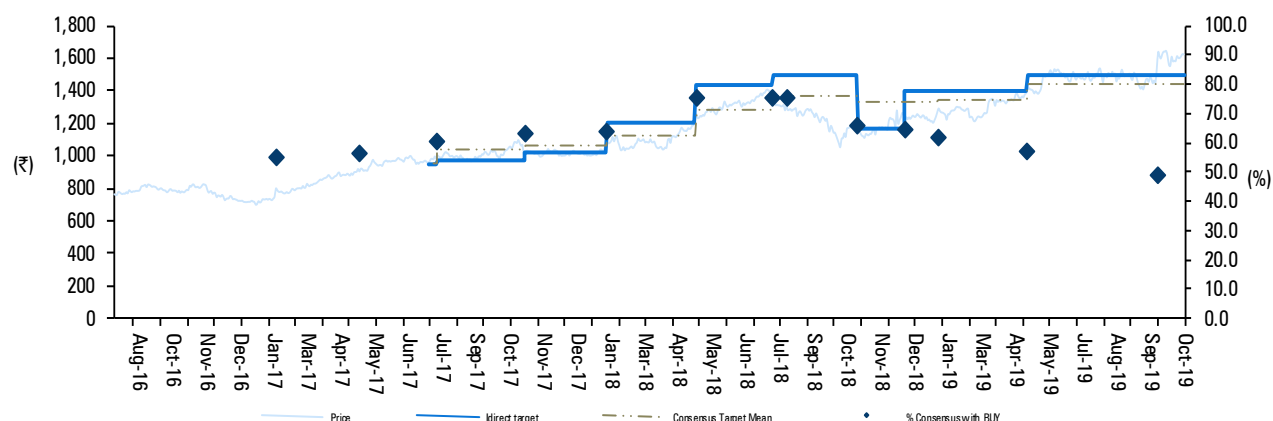
Source: Company, ICICI Direct Research

Exhibit 15: Du point analysis (Standalone)

| | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|---|------|------|------|------|------|------|------|-------|-------|
| Net interest income/ avg. total assets | 4.3 | 4.3 | 4.4 | 4.0 | 4.0 | 4.0 | 3.9 | 4.0 | 4.0 |
| Non-interest income/ avg. total assets | 1.6 | 1.6 | 2.1 | 1.7 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 |
| Non-operating profit/ avg. total assets | 5.8 | 6.0 | 6.5 | 5.7 | 5.7 | 5.7 | 5.5 | 5.6 | 5.6 |
| Operating expenses/ avg. total assets | 3.0 | 3.0 | 3.4 | 2.8 | 2.8 | 2.7 | 2.6 | 2.6 | 2.6 |
| Operating profit/ avg. total assets | 2.9 | 3.0 | 3.1 | 2.9 | 2.9 | 3.0 | 2.9 | 3.0 | 3.0 |
| Provisions/ avg. total assets | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.5 | 0.5 |
| Return on avg. total assets | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 |
| Leverage | 8.6 | 7.9 | 7.4 | 7.9 | 7.9 | 7.4 | 7.2 | 7.4 | 7.5 |
| Return on equity | 15.6 | 13.8 | 12.7 | 13.2 | 13.2 | 12.5 | 12.1 | 14.0 | 14.4 |

Source: Company, ICICI Direct Research

Exhibit 16: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Top 10 Shareholders

| Rank | Name | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|--|--------------------|-------|--------------|------------|
| 1 | Kotak (Uday Suresh) | 30-Sep-19 | 30% | 566.9 | 0.0 |
| 2 | Capital Research Global Investors | 30-Sep-19 | 9% | 164.6 | -52.1 |
| 3 | CPP Investment Board [Activist] | 30-Sep-19 | 6% | 115.2 | 0.0 |
| 4 | Invesco Advisers, Inc. | 30-Sep-19 | 3% | 58.8 | -7.4 |
| 5 | ING Bank N.V. | 31-Dec-18 | 3% | 58.5 | -12.7 |
| 6 | SBI Funds Management Pvt. Ltd. | 30-Sep-19 | 2% | 45.5 | -0.5 |
| 7 | Life Insurance Corporation of India | 30-Sep-19 | 2% | 43.6 | 6.4 |
| 8 | Sumitomo Mitsui Banking Corp | 30-Sep-19 | 2% | 32.8 | 0.0 |
| 9 | Fidelity Management & Research Company | 31-Aug-19 | 1% | 27.6 | 0.2 |
| 10 | Caladium Investments Pte. Ltd. | 30-Sep-19 | 1% | 26.0 | 0.0 |

Source: Reuters, ICICI Direct Research

Exhibit 18: Recent Activity

| Buys | | | Sells | | |
|--|--------|--------|--|----------|--------|
| Investor name | Value | Shares | Investor name | Value | Shares |
| Life Insurance Corporation of India | 148.37 | 6.37 | Capital Research Global Investors | -1211.70 | -52.05 |
| Capital World Investors | 93.49 | 4.02 | Invesco Advisers, Inc. | -171.90 | -7.38 |
| Motilal Oswal Asset Management Company Ltd. | 67.76 | 2.91 | Ivy Investment Management Company | -18.92 | -0.98 |
| Morgan Stanley Investment Management (Singapore) | 28.55 | 1.42 | Morgan Stanley Investment Management Ltd. (UK) | -15.24 | -0.71 |
| ICICI Prudential Asset Management Co. Ltd. | 12.23 | 0.53 | APG Asset Management N.V. | -11.42 | -0.59 |

Source: Reuters, ICICI Direct Research

Exhibit 19: Shareholding Pattern

| (in %) | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 30.02 | 30.01 | 29.99 | 29.98 | 29.97 |
| FII | 39.44 | 39.36 | 40.27 | 40.52 | 40.15 |
| DII | 8.79 | 9.63 | 11.51 | 11.74 | 12.26 |
| Others | 21.75 | 21.00 | 18.23 | 17.76 | 17.62 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 20: Profit and loss statement | | | | |
|---------------------------------------|---------|---------|---------|---------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Interest Earned | 19748.5 | 23943.2 | 28373.1 | 33244.2 |
| Interest Expended | 10216.8 | 12684.2 | 14761.8 | 17246.6 |
| Net Interest Income | 9531.7 | 11259.0 | 13611.3 | 15997.6 |
| growth (%) | 17.3 | 18.1 | 20.9 | 17.5 |
| Non Interest Income | 4052.2 | 4604.0 | 5303.0 | 6256.1 |
| Net Income | 13583.9 | 15863.0 | 18914.3 | 22253.7 |
| Operating expense | 6425.7 | 7514.8 | 8736.6 | 10235.1 |
| Gross profit | 7158.2 | 8348.2 | 10177.7 | 12018.6 |
| Provisions | 940.0 | 962.4 | 1550.5 | 1828.8 |
| Taxes | 2133.9 | 2520.4 | 2199.9 | 2598.4 |
| Net Profit | 4084.3 | 4865.4 | 6427.2 | 7591.4 |
| growth (%) | 19.7 | 19.1 | 32.1 | 18.1 |
| EPS | 21.4 | 25.5 | 33.7 | 39.8 |

Source: Company, ICICI Direct Research

| Exhibit 21: Key Ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Valuation | | | | |
| No. of Equity Shares | 190.6 | 190.9 | 190.9 | 190.9 |
| EPS (₹) | 21.4 | 25.5 | 33.7 | 39.8 |
| BV (₹) | 196.7 | 223.7 | 256.6 | 296.4 |
| ABV (₹) | 187.9 | 215.6 | 243.8 | 281.6 |
| P/E | 75.7 | 63.6 | 48.2 | 40.8 |
| P/BV | 8.6 | 7.5 | 6.7 | 5.8 |
| P/ABV | 8.5 | 7.5 | 6.6 | 5.7 |
| Yields & Margins (%) | | | | |
| Yield on avg earning assets | 9.0 | 8.8 | 8.9 | 9.0 |
| Avg. cost on funds | 5.1 | 5.3 | 5.2 | 5.2 |
| Net Interest Margins | 4.3 | 4.1 | 4.3 | 4.3 |
| Avg. Cost of Deposits | 5.1 | 5.1 | 5.2 | 5.2 |
| Yield on average advance | 9.6 | 9.9 | 10.2 | 10.2 |
| Quality and Efficiency (%) | | | | |
| Cost / Total net income | 47.3 | 47.4 | 46.2 | 46.0 |
| Credit/Deposit ratio | 88.1 | 91.1 | 90.9 | 91.6 |
| GNPA | 2.3 | 2.2 | 2.4 | 2.4 |
| NNPA | 1.0 | 0.8 | 1.0 | 1.0 |
| ROE | 12.5 | 12.1 | 14.0 | 14.4 |
| ROA | 1.7 | 1.7 | 1.9 | 1.9 |

Source: Company, ICICI Direct Research

| Exhibit 22: Balance sheet | | | | |
|-----------------------------|----------|----------|----------|----------|
| | ₹ crore | | | |
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Sources of Funds | | | | |
| Capital | 952.8 | 1454.4 | 1454.4 | 1454.4 |
| ESOPS | 2.2 | 2.1 | 2.1 | 2.1 |
| Reserves and Surplus | 36528.8 | 41241.5 | 47524.4 | 55115.8 |
| Networth | 37483.8 | 42697.9 | 48980.9 | 56572.2 |
| Deposits | 192643.3 | 225880.4 | 267345.6 | 313168.3 |
| Borrowings | 25154.2 | 32248.3 | 37619.7 | 43897.6 |
| Other Liabilities & Provisi | 9652.1 | 11143.0 | 12323.1 | 13639.7 |
| Total | 264933.4 | 311969.6 | 366269.3 | 427277.8 |
| Applications of Funds | | | | |
| Fixed Assets | 1527.2 | 1651.6 | 1888.1 | 2162.1 |
| Investments | 64562.3 | 71189.1 | 82293.3 | 97743.1 |
| Advances | 169717.9 | 205695 | 242977.8 | 286921.9 |
| Other Assets | 9505.8 | 8758.6 | 15855.5 | 17681.6 |
| Cash with RBI & call mo | 19620.1 | 24675.5 | 23254.5 | 22769.1 |
| Total | 264933.4 | 311969.6 | 366269.3 | 427277.8 |

Source: Company, ICICI Direct Research

| Exhibit 23: Key ratios | | | | |
|------------------------|------|------|-------|-------|
| (Year-end March) | FY18 | FY19 | FY20E | FY21E |
| Total assets | 23.5 | 17.8 | 17.4 | 16.7 |
| Advances | 24.7 | 21.2 | 18.1 | 18.1 |
| Deposits | 22.4 | 17.3 | 18.4 | 17.1 |
| Total Income | 12.4 | 19.9 | 18.0 | 17.3 |
| Net interest income | 17.3 | 18.1 | 20.9 | 17.5 |
| Operating expenses | 14.4 | 16.9 | 16.3 | 17.2 |
| Operating profit | 19.6 | 16.6 | 21.9 | 18.1 |
| Net profit | 19.7 | 19.1 | 32.1 | 18.1 |
| Book value | 35.7 | 13.9 | 14.7 | 15.5 |
| EPS | 15.7 | 18.9 | 32.1 | 18.1 |

Source: Company, ICICI Direct Research

Exhibit 24: ICICI Direct coverage universe (BFSI)

| Sector / Company | CMP | | Rating | M Cap | | | EPS (₹) | | | P/E (x) | | | P/ABV (x) | | | RoA (%) | | | RoE (%) | | |
|-----------------------|-------|-----------|--------|--------|------|-------|---------|-------|-------|---------|------|-------|-----------|------|-------|---------|------|-------|---------|--|--|
| | (₹) | TP(₹) | | (₹ Bn) | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | FY19 | FY20E | FY21E | | |
| BoB (BANBAR) | 92 | 140 | Buy | 355 | 1.8 | 12.2 | 23.1 | 51.6 | 7.5 | 4.0 | 1.1 | 0.8 | 0.7 | 0.1 | 0.3 | 0.6 | 0.9 | 5.6 | 9.4 | | |
| SBI (STABAN) | 276 | 400 | Buy | 2467 | 1.0 | 26.7 | 35.9 | 284.9 | 10 | 7.7 | 2.0 | 1.5 | 1.3 | 0.0 | 0.7 | 0.8 | 0.5 | 12.1 | 13.8 | | |
| Indian Bank (INDIBA) | 134 | 220 | Hold | 66 | 6.7 | 21.7 | 40.6 | 20.0 | 6.2 | 3.3 | 0.6 | 0.6 | 0.5 | 0.1 | 0.3 | 0.6 | 1.7 | 5.3 | 9.4 | | |
| Axis Bank (AXIBAN) | 719 | 865 | Buy | 2028 | 18.1 | 21.3 | 49.0 | 40 | 33.8 | 14.7 | 3.3 | 2.7 | 2.3 | 0.6 | 0.7 | 1.4 | 0.6 | 0.7 | 1.4 | | |
| City Union (CITUNI) | 211 | 240 | Buy | 155 | 9.3 | 10.4 | 12.0 | 22.6 | 20.3 | 17.6 | 3.6 | 3.1 | 2.7 | 1.6 | 1.6 | 1.6 | 15.3 | 14.8 | 14.8 | | |
| DCB Bank (DCB) | 181 | 260 | Buy | 56 | 10.5 | 12.6 | 16.7 | 17.3 | 14.4 | 10.9 | 2.1 | 1.9 | 1.6 | 1.0 | 1.0 | 1.2 | 12.2 | 12.9 | 14.8 | | |
| Federal Bank (FEDBAN) | 84 | 125 | Buy | 167 | 6.3 | 8.7 | 10.2 | 13.4 | 9.6 | 8.3 | 1.4 | 1.3 | 1.2 | 0.8 | 1.0 | 1.0 | 9.8 | 12.4 | 13.1 | | |
| HDFC Bank (HDFBAN) | 1,244 | 1,440 | Buy | 6805 | 38.7 | 47.7 | 56.8 | 32.2 | 26.1 | 21.9 | 4.7 | 4.1 | 3.6 | 1.8 | 1.9 | 1.9 | 16.5 | 16.3 | 17.0 | | |
| IndusInd Bank (INDBA) | 1,330 | 1,400 | Buy | 922 | 60.9 | 83.4 | 110.7 | 21.8 | 15.9 | 12.0 | 3.2 | 2.6 | 2.2 | 1.6 | 1.9 | 2.1 | 14.5 | 16.8 | 18.4 | | |
| J&K (JAMKAS) | 32 | 48 | Hold | 18 | 8.3 | 9.4 | 14.5 | 3.8 | 3.4 | 2.2 | 0.5 | 0.5 | 0.4 | 0.5 | 0.5 | 0.6 | 7.3 | 7.7 | 11.0 | | |
| Kotak Bank (KOTMAH) | 1,622 | 1,700 | Hold | 3098 | 25.5 | 33.7 | 39.8 | 63.6 | 48.2 | 40.8 | 7.5 | 6.7 | 5.8 | 1.7 | 1.9 | 1.9 | 12.1 | 14.0 | 14.4 | | |
| Yes Bank (YESBAN) | 51 | UR Reduce | | 131 | 6.2 | 6.2 | 8.6 | 8.4 | 8.2 | 6.0 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | 5.4 | 5.3 | 6.5 | | |
| Bandhan (BANBAN) | 558 | 650 | Buy | 666 | 16.4 | 25.2 | 33.4 | 3.1 | 2.0 | 1.5 | 0.6 | 0.5 | 0.4 | 3.9 | 4.6 | 4.5 | 19.0 | 23.9 | 25.1 | | |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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