

# Karur Vysya Bank

## The pain continues

KVB's 4Q earnings were ahead of our estimates. However, a look at the fine print reveals that (1) a sharp rise in treasury gains boosted earnings and (2) high w/offes and the standstill classification optically curtailed GNPA's. The sharp fall in deposits was inexplicable. We maintain REDUCE with a TP of Rs 33 (0.54x FY22E ABV). Our stance is premised upon, the (1) leadership void and corresponding uncertainty, and (2) weak performance outlook.

- Asset quality:** GNPA's dipped 5.3/4.8% to Rs 42.1bn (8.7%), and were aided by w/os of ~Rs 3.5bn (mostly in corporate loans) and ARC sales of ~Rs 0.9bn. However, this improvement was optical, due to the standstill classification benefit of Rs 1.95bn, adjusted for this GNPA's would've been flattish YoY/QoQ. Further, slippages remained elevated at 3.6% ann., with gross corporate slippages at 7.8%, and gross SME slippages at 3.3%. Performance of the retail and agri portfolios was relatively satisfactory. While the management guides for slippages of 1.75-2.5%, we conservatively build slippages of 3.5% over FY21-22E, owing to extrinsic factors and the moratorium % (esp. in the commercial banking segment).
- Funding:** Performance on this front was a tad disappointing, as deposits dipped 5.1% QoQ, led by a 3.3/6.1% fall in TDs and a 5.3/12.1% fall in CA. We find this inexplicable, and commentary suggests that certain bulk deposits flowed out towards the end of 4Q. The bank is comfortable on the liquidity front, with an average LCR of ~400% (unusually high). CRAR rose 117/130bps to 17.2%, with a 99/113bps increase in Tier I capital, as a result of de-growth in the loan book and the inclusion of annual audited earnings.
- Advances** de-grew 5.1/2.2%, led by persistent de-growth in corporate loans at 9.9/2.7%. Commercial loans too, dipped 8.4/3.7%. The management partly attributed the decline in the loan book to a dip in the IBPC portfolio (from ~Rs 20bn in FY19 to ~Rs 8bn in FY20) and discontinuation of the warehousing finance business (advances of ~Rs 5bn). Akin to its peers, KVB saw good agri loan traction, as the segment grew 10.1/5.0%, led by growth in agri gold loans. We expect muted credit growth of 7.4% over FY21-22E.
- COVID-19 related management commentary:** (1) 41% of KVB's book is under moratorium as at 21-Jun-20 vs. ~51% in Mar-20 (details of segment-wise moratorium on Page 2). (2) ~Rs 120bn of the bank's book was eligible under the NCGTC scheme, implying a lending opportunity of ~Rs 22bn, of which ~Rs 8bn have already disbursed (3) The management team intends to continue with the strategic changes initiated by the earlier MD&CEO.

### Financial Summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Net int inc.	5,905	6,192	-4.6%	5,772	2.3%	23,628	23,479	24,452	26,318
PPOP	4,998	4,648	7.5%	3,847	29.9%	17,108	17,609	16,683	17,771
PAT	837	600	39.5%	151	455.4%	2,109	2,350	3,228	4,582
EPS (Rs)	1.0	0.8	39.5%	0.2	455.4%	2.6	2.9	4.0	5.7
ROAE (%)						3.3	3.6	4.8	6.7
ROAA (%)						0.31	0.34	0.46	0.61
Adj. BVPS (Rs)						50.1	59.9	51.1	61.9
P/ABV (x)						0.68	0.56	0.66	0.55
P/E (x)						12.8	11.5	8.4	5.9

Source: Bank, HSIE Research

## REDUCE

CMP (as on 25 June 2020)	Rs 34
Target Price	Rs 33
NIFTY	10,289

KEY CHANGES	OLD	NEW
Rating	REDCUE	REDUCE
Price Target	Rs 33	Rs 33
EPS %	FY21E	FY22E
	-19.2%	-1.2%

### KEY STOCK DATA

Bloomberg code	KVB IN
No. of Shares (mn)	799
MCap (Rs bn) / (\$ mn)	27/357
6m avg. traded value (Rs mn)	42
52 Week high / low	Rs 72/18

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	65.0	(43.8)	(52.4)
Relative (%)	42.9	(27.8)	(40.8)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	2.1	2.1
FIs & Local MFs	23.6	22.8
FPIs	20.8	21.6
Public & Others	53.5	53.5

Pledged Shares

Source: BSE

### Darpan Shah

darpan.shah@hdfcsec.com  
+91-22-6171-7328

### Aakash Dattani

aakash.dattani@hdfcsec.com  
+91-22-6171-7337

### Punit Bahlani

punit.bahlani@hdfcsec.com  
+91-22-6171-7354

- Coverage improves:** Non-tax provisions increased 21.8/17.8% to Rs 4.3bn, w/w NPA provisions were Rs 3.54bn (+28.3% YoY, flat QoQ, 3.04% of advances ann.). Calc. coverage improved 1146/105bps to 57.1%, despite the significant w/offes during the qtr. KVB made COVID-19 related provisions of Rs 470mn (just 10bps of advances), of which mandatory provisions were Rs 195mn. COVID-19 related provisions appear low, relative to those made by peers. Taking this into a/c, we conservatively build non-tax provisions of 1.66% of average assets over FY21-22E.
- Margins** improved slightly sequentially (+13bps) to 3.5%, led by a 21bps QoQ fall in the cost of deposits, ahead of the fall in yields (-6bps QoQ) and an increase in the CD ratio. We expect NIMs of ~3.75%, as the bank could benefit from a fall in its CoF.

### Moratorium details

Segment	o/s (Rs mn)	Moratorium (Rs mn)	% of o/s	SMA 0,1 & 2 as on 29-Feb-20	% of o/s
Agriculture	89,360	22,890	26	720	0.81
Commercial	1,56,200	89,350	57	2190	1.4
Corporate	1,27,670	48,800	38	350	0.27
Retail	1,11,930	37,850	34	2720	2.43
<b>Total</b>	<b>4,85,160</b>	<b>1,98,890</b>	<b>41</b>	<b>5,980</b>	<b>1.23</b>

Source: Bank, HSIE Research

### Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
NII	23,271	24,452	5.1%	24,447	26,318	7.7%
PPOP	16,626	16,683	0.3%	16,723	17,771	6.3%
PAT	3,967	3,228	-18.6%	4,637	4,582	-1.2%
ABV (Rs)	53.5	51.1	-4.4%	61.6	61.9	0.5%

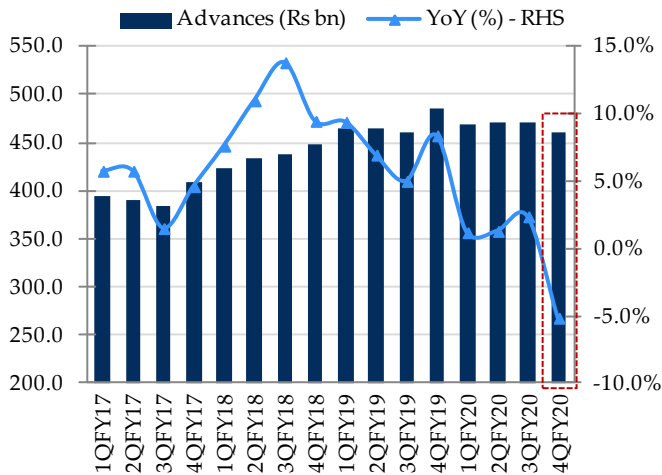
Source: HSIE Research

**Five Quarters at a glance**

	Rs mn	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY Growth	QoQ Growth
<b>Net interest income</b>		<b>6,192</b>	<b>5,840</b>	<b>5,963</b>	<b>5,772</b>	<b>5,905</b>	<b>-4.6%</b>	<b>2.3%</b>
<i>Non-interest income was boosted by treasury income</i>	Non-interest income	2,725	2,698	2,777	2,601	3,470	27.4%	33.4%
	Treasury income	570	670	910	450	1,370	140.4%	204.4%
	Operating income	8,917	8,538	8,740	8,373	9,375	5.1%	12.0%
	Operating expenses	4,269	4,087	4,429	4,525	4,376	2.5%	-3.3%
<b>Op-cost growth was controlled</b>	<b>PPOP</b>	<b>4,648</b>	<b>4,451</b>	<b>4,312</b>	<b>3,847</b>	<b>4,998</b>	<b>7.5%</b>	<b>29.9%</b>
	Non-tax provisions	3,523	3,300	3,652	3,643	4,293	21.8%	17.8%
	NPA Provisions	2,760	3,180	3,350	3,520	3,540	28.3%	0.6%
	PBT	1,124	1,152	660	205	706	-37.2%	244.7%
<i>Non-tax provisions incl. Rs 470mn of COVID-19 related provisions, of which ~Rs 195mn were mandated</i>	Tax expense	524	422	27	54	(131)	-125.1%	-343.3%
	<b>PAT</b>	<b>600</b>	<b>729</b>	<b>633</b>	<b>151</b>	<b>837</b>	<b>39.5%</b>	<b>455.4%</b>
	<b>Other details</b>							
	<b>Balance sheet items</b>							
	Deposits (Rs bn)	599	617	622	623	591	-1.3%	-5.1%
	CASA deposits (%)	29.9	29.7	29.8	30.6	31.3	140 bps	71 bps
	Advances (Rs bn)	486	470	471	471	461	-5.1%	-2.2%
<i>The fall in deposits is surprising</i>	CD ratio (%)	81.1	76.1	75.7	75.7	78.0	-311 bps	235 bps
	CAR (%)	16.0	16.0	16.0	15.9	17.2	117 bps	130 bps
	Tier I (%)	14.3	14.3	14.3	14.1	15.3	99 bps	113 bps
	<b>Profitability (%)</b>							
	Yield on advances	9.81	9.61	9.85	9.51	9.5	-36 bps	-6 bps
	Cost of deposits	5.80	5.82	5.86	5.76	5.6	-25 bps	-21 bps
	NIM	3.88	3.49	3.46	3.33	3.5	-42 bps	13 bps
<i>The CRAR increase was aided by loan de-growth and capitalisation of FY audited profits</i>	Cost-income ratio	47.9	47.9	50.7	54.0	46.7	-119 bps	-737 bps
	Tax rate (%)	46.6	36.7	4.0	26.4	(18.6)	NA	NA
<i>Tax reversal on a/c of DTA adjustment</i>	<b>Asset quality</b>							
	Gross NPA (Rs bn)	44.5	45.1	43.9	44.2	42.1	-5.3%	-4.8%
	Net NPA (Rs bn)	24.2	23.2	21.2	19.5	18.1	-25.3%	-7.0%
<i>Segment-wise GNPA's</i>	Gross NPAs (%)	8.79	9.17	8.89	8.92	8.68	-11 bps	-24 bps
	Net NPAs (%)	4.98	4.94	4.50	4.13	3.92	-106 bps	-21 bps
<i>Corporate- 20.8%</i>	Restructured book (%)	0.15	0.29	0.35	0.43	0.42	27 bps	-1 bps
	Delinquency ratio (%)	5.26	3.97	4.25	3.81	3.62	-164 bps	-19 bps
<i>Commercial- 7.1%</i>	Calc. PCR (%)	45.6	48.5	51.8	56.0	57.1	1146 bps	105 bps
	<b>Gross slippages (Rs mn)</b>							
<i>Agriculture- 2.6%</i>	Corp	3,530	600	2,390	2,190	2,520	-28.6%	15.1%
	SME	2,320	3,120	1,810	1,600	1,330	-42.7%	-16.9%
	Agri	180	510	480	330	110	-38.9%	-66.7%
<i>Retail- 1.9%</i>	Retail	180	510	320	370	260	44.4%	-29.7%

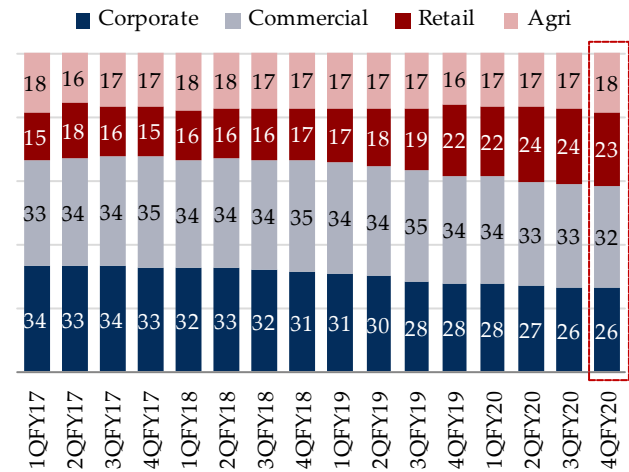
Source: HSIE Research

**Net advances dip**



Source: Company, HSIE Research

**Advances mix: Share of corporate loans on the decline**



Source: Company, HSIE Research

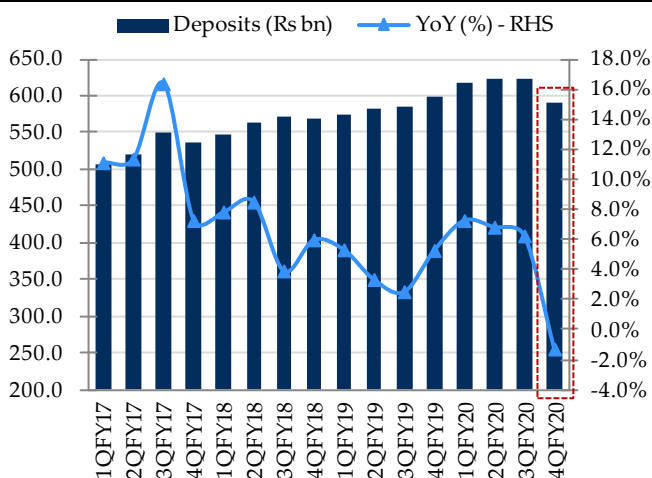
**Retail book split**

(%)	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Housing	37.2	36.8	36.8	37.0	36.1	36.7	36.2	35.7	36.9	32.1	35.6	35.4	37.2	40.6
LAP	14.5	15.2	15.9	17.1	17.8	18.3	17.9	17.8	17.8	15.2	15.8	15.3	14.6	15.0
Vehicle Loan	4.3	14.5	14.6	14.5	13.7	13.3	12.8	12.1	11.6	9.3	9.5	8.8	8.7	8.8
Jewel Loans	5.4	9.4	9.1	8.6	8.0	7.6	7.2	6.6	6.3	5.5	6.1	5.8	6.3	8.0
Personal Loans	10.2	5.0	4.7	4.4	4.0	3.9	3.6	3.8	4.3	3.8	4.1	4.3	4.6	5.0
Education	14.4	4.2	4.0	4.0	3.6	3.4	3.1	2.8	2.6	2.1	2.1	1.9	1.8	1.8
Others	14.0	14.9	14.9	14.5	16.8	16.8	19.3	21.3	20.5	32.1	26.8	28.5	26.7	20.6

**Commercial book split: Tilt towards smaller ticket size loans over the long term**

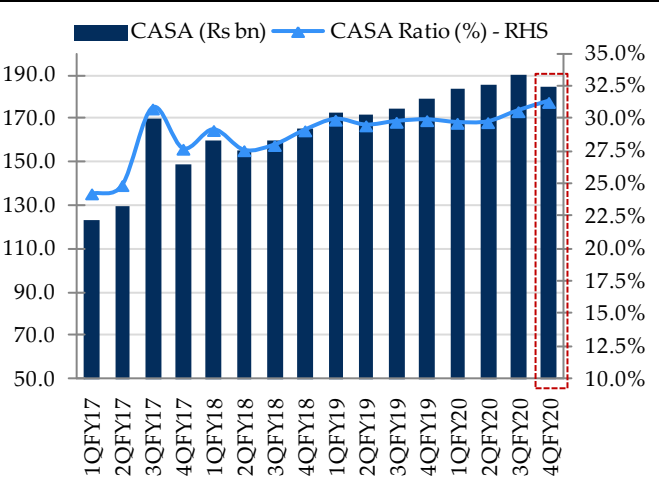
(%)	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Avg Ticket Size (Rs mn)	4.67	4.67	4.92	4.12	3.90	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
< 50 mn	78%	79%	78%	76%	80%	80%	79%	79%	80%	84%	84%	85%	84%
50mn - 100mn	11%	11%	11%	11%	11%	11%	12%	12%	12%	11%	11%	11%	11%
100mn -250mn	10%	9%	10%	11%	8%	8%	8%	8%	7%	5%	5%	4%	5%
> 250mn	1%	1%	1%	2%	1%	1%	1%	1%	1%	0%	0%	0%	0%

**Deposits dip (surprisingly)**



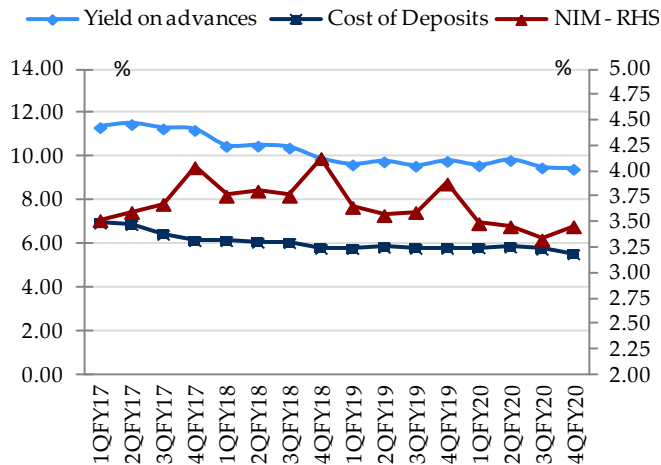
Source: Company, HSIE Research

**Slight improvement in the CASA ratio**



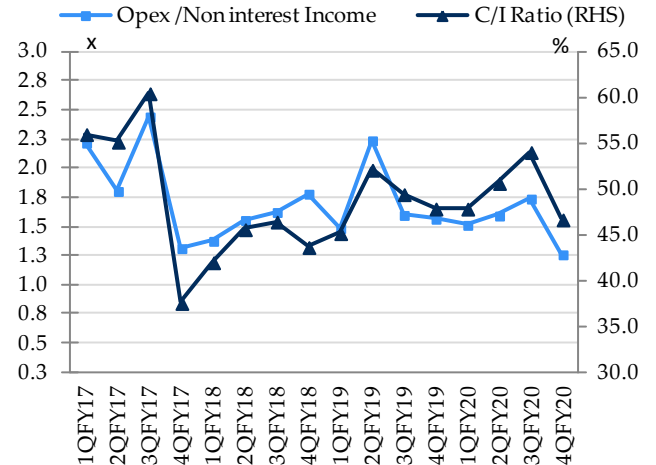
Source: Company, HSIE Research

**NIMs recover slightly**



Source: Company, HSIE Research

**Sharp improvement in C-I ratio, aided by treasury**



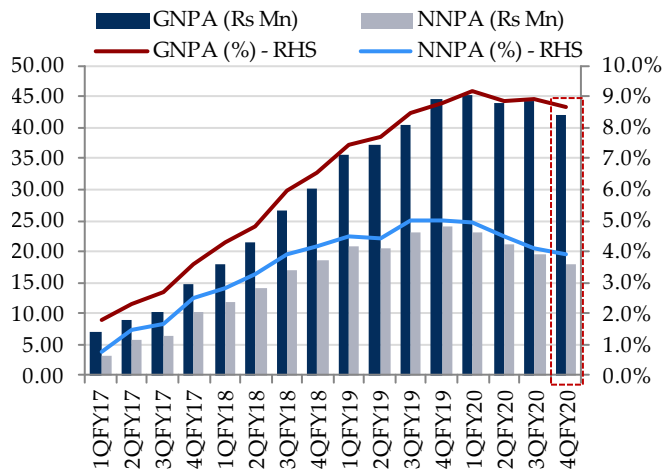
Source: Company, HSIE Research

**Non-interest income was boosted by treasury gains**

Rs mn	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Fees	1,380	1,550	1,890	2,100	1,990	2,010	1,910	1,760	1,610	1,630	1,680	1,530	1,780	1,590
<b>Ann. % of avg loans</b>	<b>1.42%</b>	<b>1.56%</b>	<b>1.81%</b>	<b>1.96%</b>	<b>1.83%</b>	<b>1.82%</b>	<b>1.68%</b>	<b>1.52%</b>	<b>1.39%</b>	<b>1.38%</b>	<b>1.41%</b>	<b>1.30%</b>	<b>1.51%</b>	<b>1.36%</b>
Treasury	320	780	470	200	260	80	70	-210	270	570	670	910	450	1,370
Forex	100	90	110	110	80	140	130	70	90	120	90	100	80	100
others	160	390	170	500	380	340	440	130	630	410	260	230	290	410
<b>TOTAL</b>	<b>1,960</b>	<b>2,810</b>	<b>2,640</b>	<b>2,910</b>	<b>2,710</b>	<b>2,570</b>	<b>2,550</b>	<b>1,750</b>	<b>2,600</b>	<b>2,730</b>	<b>2,700</b>	<b>2,770</b>	<b>2,601</b>	<b>3,470</b>
% of total inc	24.7%	28.6%	30.5%	29.3%	28.6%	24.5%	30.4%	23.3%	30.9%	30.6%	31.6%	31.8%	31.1%	37.0%

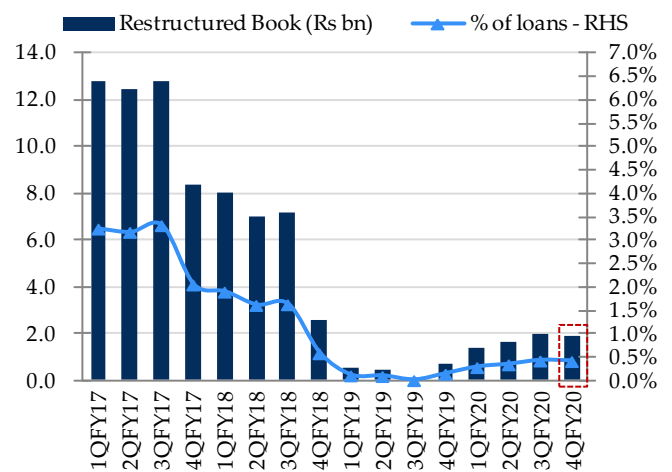
Source: Bank, HSIE Research

**NPAs dip**



Source: Bank, HSIE Research

**Restructured book**



Source: Bank, HSIE Research

**GNPA Movement: Slippages remain elevated**

Rs mn	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
<b>Opening</b>	5,112	7,024	9,027	10,222	14,838	18,070	21,362	26,633	30,158	35,628	37,068	40,557	44,496	45,106	43,906	44,240
<b>Slippages</b>	2,389	4,253	2,433	5,800	3,892	4,268	7,133	5,627	7,850	3,410	7,370	6,220	4,740	5,000	4,490	4,220
<b>% ann.</b>	2.43	4.35	2.53	5.67	3.67	3.93	6.51	5.02	6.77	2.93	6.41	5.12	3.97	4.25	3.81	3.62
<b>Deductions</b>	477	2,249	1,238	1,184	660	977	1,861	2,102	2,380	1,970	3,880	2,282	4,130	6,200	4,156	6,340
<b>Closing</b>	7,024	9,027	10,222	14,838	18,070	21,362	26,633	30,158	35,628	37,068	40,558	44,496	45,106	43,906	44,240	42,120

Source: Bank, HSIE Research

**Breakup Of Provisions : Rise in other provisions**

Rs mn	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	FY16	FY17	FY17	FY17	FY17	FY18	FY18	FY18	FY18	FY19	FY19	FY19	FY19	FY20	FY20	FY20	FY20
NPA	530	940	960	880	2,040	1,570	1,600	3,020	4,210	4,030	2,070	4,320	2,760	3,180	3,350	3,520	3,540
St asset	50	(40)	-	(40)	(20)	10	40	30	(270)	60	(160)	20	50	(10)	110	(20)	(40)
Rest asset	(320)	(60)	(30)	2	(40)	80	110	20	(330)	(90)	(10)	(20)	30	20	20	10	(20)
Others	(190)	(100)	80	96	-	674	1,110	20	-	167	100	104	263	120	42	103	553
Inv.	(200)	(70)	180	3	190	-	350	190	330	60	130	(420)	420	(10)	130	30	260
<b>TOTAL</b>	<b>(130)</b>	<b>670</b>	<b>1,190</b>	<b>940</b>	<b>2,170</b>	<b>2,334</b>	<b>3,210</b>	<b>3,280</b>	<b>3,940</b>	<b>4,227</b>	<b>2,130</b>	<b>4,004</b>	<b>3,523</b>	<b>3,300</b>	<b>3,652</b>	<b>3,643</b>	<b>4,293</b>

Source: Bank, HSIE Research

**Peer set comparison**

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AUBANK	180	590	ADD	549	135	145	172	29.1	28.6	23.6	4.27	3.96	3.35	18.6	13.3	14.1	1.61	1.35	1.39
AXSB	1,189	421	BUY	541	268	292	341	69.8	12.2	9.2	1.50	1.38	1.17	2.1	10.4	12.4	0.19	0.98	1.20
CUBK	91	123	BUY	164	61	65	77	19.1	17.9	12.0	2.01	1.89	1.61	9.4	9.2	12.3	1.00	1.00	1.38
DCBB	25	82	ADD	100	93	94	114	7.5	8.4	6.6	0.88	0.87	0.72	10.3	8.5	9.9	0.91	0.76	0.89
FB	104	52	BUY	62	65	67	76	6.7	8.8	6.7	0.80	0.78	0.69	11.1	7.9	9.5	0.91	0.63	0.76
ICICIBC	2,273	351	BUY	442	155	173	201	19.1	10.5	8.4	1.51	1.32	1.12	6.3	10.9	12.1	0.77	1.23	1.39
IIB	337	475	ADD	575	459	512	575	7.5	11.5	8.1	1.04	0.93	0.83	14.7	8.1	10.2	1.51	0.93	1.21
KMB	2,735	1,382	ADD	1,282	240	292	330	35.2	35.3	30.2	4.56	3.85	3.30	13.6	11.6	11.1	1.78	1.67	1.75
<b>KVB</b>	<b>27</b>	<b>34</b>	<b>REDUCE</b>	<b>33</b>	<b>60</b>	<b>51</b>	<b>62</b>	<b>11.5</b>	<b>8.4</b>	<b>5.9</b>	<b>0.56</b>	<b>0.66</b>	<b>0.55</b>	<b>3.6</b>	<b>4.8</b>	<b>6.7</b>	<b>0.34</b>	<b>0.46</b>	<b>0.61</b>
RBK	97	190	REDUCE	136	185	194	215	19.1	19.8	11.7	1.03	0.98	0.88	5.6	4.5	7.2	0.60	0.53	0.84
SBIN	1,653	185	BUY	270	176	167	207	4.5	6.3	3.1	0.41	0.44	0.35	6.4	4.4	8.2	0.38	0.26	0.48

Source: Company, HSIE Research, # Adjusted for subsidiaries value

## Financials

### Income statement

Year End (March) - Rs mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest earned	53,959	54,434	56,224	56,997	58,158	59,900	59,118	62,886
Interest expended	39,300	36,620	35,486	34,015	34,530	36,420	34,666	36,569
<b>Net interest income</b>	<b>14,659</b>	<b>17,814</b>	<b>20,737</b>	<b>22,981</b>	<b>23,628</b>	<b>23,479</b>	<b>24,452</b>	<b>26,318</b>
<b>Non-interest income</b>	<b>5,808</b>	<b>7,068</b>	<b>7,822</b>	<b>8,999</b>	<b>9,628</b>	<b>11,546</b>	<b>10,690</b>	<b>11,436</b>
<i>Fee income (CEB)</i>	<i>3,973</i>	<i>4,595</i>	<i>4,802</i>	<i>6,171</i>	<i>6,549</i>	<i>6,580</i>	<i>6,531</i>	<i>7,021</i>
<i>Treasury income</i>	<i>710</i>	<i>944</i>	<i>2,046</i>	<i>1,011</i>	<i>705</i>	<i>3,400</i>	<i>2,250</i>	<i>2,250</i>
<b>Total income</b>	<b>20,467</b>	<b>24,882</b>	<b>28,559</b>	<b>31,980</b>	<b>33,256</b>	<b>35,026</b>	<b>35,142</b>	<b>37,754</b>
<b>Total operating exp</b>	<b>11,034</b>	<b>11,851</b>	<b>12,850</b>	<b>14,207</b>	<b>16,148</b>	<b>17,417</b>	<b>18,459</b>	<b>19,982</b>
<i>Employee expense</i>	<i>5,471</i>	<i>5,474</i>	<i>6,080</i>	<i>6,391</i>	<i>7,612</i>	<i>8,567</i>	<i>9,463</i>	<i>10,542</i>
<b>PPOP</b>	<b>9,433</b>	<b>13,031</b>	<b>15,710</b>	<b>17,773</b>	<b>17,108</b>	<b>17,609</b>	<b>16,683</b>	<b>17,771</b>
Provisions & contingencies	4,805	3,914	6,875	12,250	14,142	14,887	12,368	11,646
<i>Prov. for NPAs (Incl. Std Prov.)</i>	<i>4,968</i>	<i>3,443</i>	<i>4,061</i>	<i>10,219</i>	<i>13,157</i>	<i>13,590</i>	<i>12,618</i>	<i>11,396</i>
<b>PBT</b>	<b>4,628</b>	<b>9,116</b>	<b>8,835</b>	<b>5,524</b>	<b>2,966</b>	<b>2,722</b>	<b>4,316</b>	<b>6,126</b>
Provision for tax	72	3,440	2,775	2,067	857	372	1,088	1,544
<b>PAT</b>	<b>4,556</b>	<b>5,676</b>	<b>6,060</b>	<b>3,457</b>	<b>2,109</b>	<b>2,350</b>	<b>3,228</b>	<b>4,582</b>

Source: Bank, HSIE Research

### Balance sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>								
Share capital	1,216	1,219	1,219	1,453	1,599	1,599	1,599	1,599
Reserves	41,244	44,511	49,138	61,189	62,629	64,404	65,582	67,254
<b>Shareholders' funds</b>	<b>42,460</b>	<b>45,729</b>	<b>50,357</b>	<b>62,642</b>	<b>64,228</b>	<b>66,003</b>	<b>67,181</b>	<b>68,853</b>
<i>Savings deposits</i>	<i>63,137</i>	<i>76,473</i>	<i>99,683</i>	<i>1,10,006</i>	<i>1,21,014</i>	<i>1,30,030</i>	<i>1,39,132</i>	<i>1,53,045</i>
<i>Current deposits</i>	<i>35,285</i>	<i>40,272</i>	<i>49,203</i>	<i>55,764</i>	<i>58,136</i>	<i>55,040</i>	<i>57,792</i>	<i>61,837</i>
<i>Term deposits</i>	<i>3,48,481</i>	<i>3,84,044</i>	<i>3,88,112</i>	<i>4,03,131</i>	<i>4,19,530</i>	<i>4,05,680</i>	<i>4,25,964</i>	<i>4,60,041</i>
<b>Total deposits</b>	<b>4,46,903</b>	<b>5,00,789</b>	<b>5,36,998</b>	<b>5,68,901</b>	<b>5,98,680</b>	<b>5,90,750</b>	<b>6,22,888</b>	<b>6,74,924</b>
Borrowings	29,008	28,942	16,957	23,940	15,653	11,842	12,389	12,991
Other liabilities	13,154	14,386	13,765	13,932	14,840	14,187	15,355	16,891
<b>Total liabilities</b>	<b>5,31,525</b>	<b>5,89,847</b>	<b>6,18,076</b>	<b>6,69,414</b>	<b>6,93,401</b>	<b>6,82,782</b>	<b>7,17,813</b>	<b>7,73,658</b>
<b>APPLICATION OF FUNDS</b>								
Cash & bank balances	27,491	28,916	43,451	43,092	36,970	43,926	40,747	35,894
Investments	1,27,730	1,44,427	1,48,575	1,58,032	1,48,816	1,57,624	1,72,109	1,83,692
<i>G-Secs</i>	<i>1,15,114</i>	<i>1,33,850</i>	<i>1,28,955</i>	<i>1,40,128</i>	<i>1,26,710</i>	<i>1,29,567</i>	<i>1,43,264</i>	<i>1,53,883</i>
Advances	3,61,089	3,90,844	4,09,077	4,48,001	4,85,808	4,60,981	4,83,752	5,31,922
Fixed assets	4,112	4,201	4,186	5,282	5,830	5,866	6,160	6,468
Other assets	11,103	21,459	12,787	15,007	15,977	14,384	15,045	15,682
<b>Total assets</b>	<b>5,31,525</b>	<b>5,89,847</b>	<b>6,18,076</b>	<b>6,69,414</b>	<b>6,93,401</b>	<b>6,82,782</b>	<b>7,17,813</b>	<b>7,73,658</b>

Source: Bank, HSIE Research

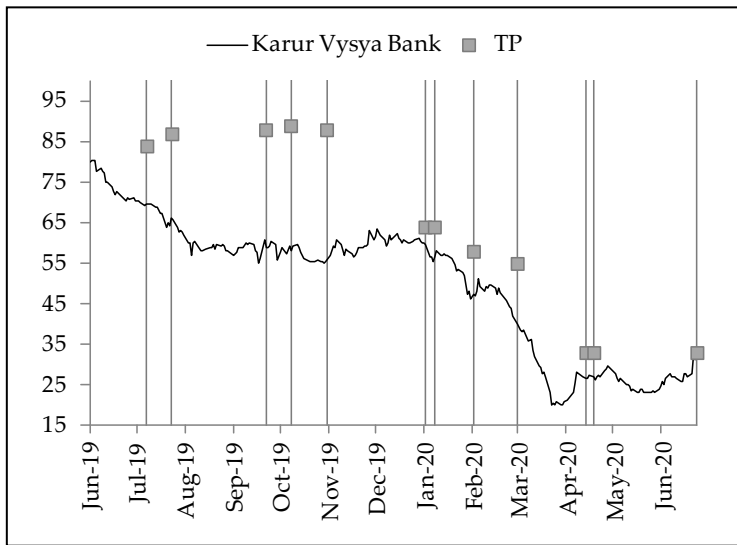
## Key Ratios

Particulars	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>								
EPS (Rs)	7.5	9.3	9.9	4.8	2.6	2.9	4.0	5.7
Earnings growth (%)	6.1	24.6	6.8	(43.0)	(39.0)	11.5	37.4	41.9
BVPS (Rs)	349.1	75.1	82.6	86.2	80.4	82.6	84.0	86.1
ABVPS (Rs)	65.2	71.5	65.7	60.6	50.1	59.9	51.1	61.9
DPS (Rs)	2.8	2.8	2.6	0.6	0.6	0	0.3	0.4
RoAA (%)	0.87	1.01	1.00	0.54	0.31	0.34	0.46	0.61
RoAE (%)	12.0	12.9	12.6	6.1	3.3	3.6	4.8	6.7
P/E (x)	4.5	3.6	3.4	7.1	12.8	11.5	8.4	5.9
P/ABV (x)	0.5	0.5	0.5	0.6	0.7	0.6	0.7	0.5
P/PPOP (x)	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Dividend yield (%)	1.7	1.7	7.7	1.8	1.8	-	0.9	1.3
<b>PROFITABILITY (%)</b>								
Yield on advances	12.01	11.52	11.01	10.32	9.84	9.85	9.68	9.59
Yield on investment	8.90	8.05	7.55	7.32	7.50	7.50	7.25	7.25
Cost of deposits	8.01	7.24	6.64	5.99	5.72	5.92	5.57	5.50
Core spread	4.01	4.27	4.37	4.33	4.12	3.94	4.11	4.09
NIM	3.04	3.46	3.73	3.85	3.75	3.68	3.75	3.76
<b>OPERATING EFFICIENCY (%)</b>								
C-AA ratio	2.1	2.1	2.1	2.2	2.4	2.5	2.6	2.7
Cost-income ratio (excl. treasury)	55.9	49.5	48.5	45.9	49.6	55.1	56.1	56.3
<b>BALANCE SHEET STRUCTURE (%)</b>								
Loan growth	6.2	8.2	4.7	9.5	8.4	(5.1)	4.9	10.0
Deposit growth	2.1	12.1	7.2	5.9	5.2	(1.3)	5.4	8.4
C/D ratio	80.8	78.0	76.2	78.7	81.1	78.0	77.7	78.8
Equity/assets	8.0	7.8	8.1	9.4	9.3	9.7	9.4	8.9
Equity/advances	11.8	11.7	12.3	14.0	13.2	14.3	13.9	12.9
CASA	22.0	23.3	27.7	29.1	29.9	31.3	31.6	31.8
Capital adequacy ratio (CAR)	14.6	12.2	12.5	14.4	16.0	17.2	16.3	15.3
W/w Tier I CAR (%)	13.6	11.3	11.9	13.9	14.3	15.3	14.7	13.9
<b>ASSET QUALITY</b>								
Gross NPLs (Rs mn)	6,778	5,112	14,838	30,158	44,496	42,128	51,167	43,396
Net NPLs (Rs mn)	2,810	2,162	10,335	18,628	24,203	18,086	26,311	19,372
Gross NPLs (%)	1.88	1.31	3.63	6.56	8.79	8.68	10.58	8.16
Net NPLs (%)	0.78	0.55	2.53	4.16	4.98	3.92	5.44	3.64
Slippages (%)	1.77	3.01	3.33	4.88	5.02	3.38	4.50	2.50
Coverage ratio (%)	58.5	57.7	30.4	38.2	45.6	57.1	48.6	55.4
Provision/avg. loans (%)	1.33	0.93	1.04	2.39	2.82	2.86	2.67	2.23
<b>RoAA TREE</b>								
Net interest income	2.80%	3.18%	3.43%	3.57%	3.47%	3.41%	3.49%	3.53%
Non-interest income	1.11%	1.26%	1.30%	1.40%	1.41%	1.68%	1.53%	1.53%
<i>Treasury income</i>	0.14%	0.17%	0.34%	0.16%	0.10%	0.49%	0.32%	0.30%
Operating cost	2.11%	2.11%	2.13%	2.21%	2.37%	2.53%	2.64%	2.68%
Provisions	0.92%	0.70%	1.14%	1.90%	2.08%	2.16%	1.77%	1.56%
<i>Provisions for NPAs</i>	0.95%	0.61%	0.67%	1.59%	1.93%	1.98%	1.80%	1.53%
Tax expense	0.01%	0.61%	0.46%	0.32%	0.13%	0.05%	0.16%	0.21%
RoAA	0.87%	1.01%	1.00%	0.54%	0.31%	0.34%	0.46%	0.61%
Leverage (x)	13.83	12.72	12.57	11.39	10.74	10.57	10.52	10.96
RoAE	12.03%	12.87%	12.61%	6.12%	3.32%	3.61%	4.85%	6.74%

Source: Bank, HSIE Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
9-Jul-19	69	NEU	84
26-Jul-19	66	BUY	87
22-Sep-19	56	BUY	88
9-Oct-19	60	BUY	89
3-Nov-19	55	BUY	88
6-Jan-20	60	NEU	64
9-Jan-20	55	NEU	64
3-Feb-20	48	NEU	58
2-Mar-20	42	REDUCE	55
15-Apr-20	27	ADD	33
20-Apr-20	28	REDUCE	33
25-Jun-20	34	REDUCE	33

From 2<sup>nd</sup> March 2020, we have moved to new rating system

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)