

## Skid or crash?

RBK ticked most boxes in 1QFY20, but guidance on asset quality (potential corporate slippages of Rs 10bn) is **seriously disconcerting at the very least. DOWNGRADE to NEUTRAL. Sensitivity to asset quality outcomes is high.**

### HIGHLIGHTS OF THE QUARTER

- Asset Quality:** Reported asset quality was stable with G/NNPAs at 1.38/0.65%. Mgt alluded to potential slippages of ~Rs 10bn (~1.75% of loans, ~13% of net worth) from the C&IB segment. GNPA's can thus hit ~2.5% with incremental LLPs of 35-40bps over FY20E. RBK's largest group exposure is ~15% of net worth. We build higher slippages (2.5% over FY20-21E vs. 1.6% earlier).
- Stable Growth:** Driven by the non-wholesale segment (+52/8% YoY/QoQ), total advances grew ~35/5%. Wholesale assets are now ~54% of the book vs. 59% YoY. Cards (~12% of the book) grew ~2.3x/26%. Retail agri (-3%) and micro loans (-1%) dipped QoQ in a seasonally weak quarter. We have cut loan growth to 31% over FY19-21E vs. 33% earlier.

- Margin Expansion Continues:** Driven by the rising share of high yielding segments (CC ~12%, MFI 9%), non-wholesale yields jumped ~90bps QoQ. Upward MCLR resets drove up wholesale yields ~50bps QoQ. Overall NIMs expanded for the 10<sup>th</sup> straight quarter to 4.3% (reported). Interest reversals on higher slippages will weigh down on NIMs (flat over FY20-21E), in spite of faster growth in high yielding segments.
- Near Term Outlook:** The stock will remain hostage to asset quality commentary and (eventually) outcomes.

### STANCE

**We have cut earnings estimates for FY20/21E by 25/19% to factor higher slippages and consequent provisions. A fund raise is still possible, and will be crucial for RBL to provide for the upcoming stress and maintain growth rates. We are factoring Rs 35bn (at Rs 500/sh), pushing up est. ABVs by 27/20% over FY20/21E. Guidance on stress, and concentration commentary are red flags that underpin our DOWNGRADE to NEUTRAL. We value RBL at 2x Jun-21E ABV (vs. 3x earlier). Our TP is Rs 512.**

### FINANCIAL SUMMARY

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Interest Income	8,173	5,527	47.9%	7,387	10.6%	17,663	25,395	31,894	41,461	52,902
PPOP	6,188	4,323	43.1%	5,600	10.5%	13,311	19,398	24,265	31,636	40,293
PAT	2,671	1,900	40.5%	2,472	8.0%	6,351	8,670	9,215	13,230	19,086
EPS (Rs)	6.2	4.5	38.3%	5.8	7.8%	15.1	20.3	18.5	26.6	38.3
ROAE (%)						11.5	12.2	9.5	10.6	13.8
ROAA (%)						1.15	1.22	1.00	1.14	1.32
Adj. BVPS (Rs)						151.8	168.1	215.9	247.4	281.6
P/ABV (x)						3.30	2.98	2.32	2.02	1.78
P/E (x)						33.1	24.6	27.0	18.8	13.1

Source: Bank, HDFC sec Inst Research

INDUSTRY	BANKS
<b>CMP (as on 19 Jul 2019)</b>	<b>Rs 500</b>
<b>Target Price</b>	<b>Rs 512</b>
Nifty	11,419
Sensex	38,337

### KEY STOCK DATA

Bloomberg	RBK IN
No. of Shares (mn)	428
MCap (Rsbn) / (\$ mn)	214 / 3,109
6m avg traded value (Rs mn)	1,309

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 717/438		
	3M	6M	12M
Absolute (%)	(25.9)	(12.2)	(10.2)
Relative (%)	(23.9)	(17.5)	(15.7)

### SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	-	-
FIs & Local MFs	25.9	26.9
FPIs	38.4	38.6
Public & Others	35.7	34.6
Pledged Shares	Nil	Nil

Source : BSE

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**RBK's 1QFY20 show ticks most boxes.**

**-A rich fee stream continues to grow.**

**- Opex growth is arguably value accretive as branch expansion gallops and the lucrative CC portfolio expands faster than system.**

**- Risks in the micro finance portfolio (another high yield segment) seem to be under decent control.**

**- Deposit mobilisation is impressive, ahead of comparable and even larger competitors.**

**But the upcoming corporate stress (we can't imagine an optimistic outcome given the spectre of corporate defaults, especially by leveraged promoters) will take its toll on reported profits, adjusted book value and capital adequacy.**

**This necessitates a fund raise, in the foreseeable future, to keep the growth engine going.**

- **Fee Growth Healthy:** A significant contributor to RoAAs (~2% in FY19), overall fee income grew ~41/5%. Card fees grew ~66/21% to constitute ~47% of fee income vs. ~41% QoQ. Rapid increase in the no. of cards (~2x YoY) and POS terminals (+39% over FY19) have driven card fee growth. General banking (+41/15%) and trade (+59/5%) fees contributed to ~23% of fee income. We estimate a 26% fee income CAGR over FY20-21E.
- **Opex Jumps QoQ:** Opex rose ~52/16% QoQ, driven by a ~69/18% rise in other opex. Expenses on the card business, costs related to newly added branches (+8 in 1QFY20 and +44 over 2HFY19) were responsible for the rise in other opex. Further, processing fees on a \$150mn loan from the IFC were charged in 1Q. The C-I ratio came in at 52% (+155/115bps). Considerable branch expansion (mgt intends to add 60-80 branches over FY20E on a base of 332 branches), rapid growth of the credit card and micro banking portfolios will drive opex growth. We have built in a C-I ratio of 51% in FY21E.
- **Micro banking:** The high yielding micro banking book was sequentially flat at ~Rs 49.7bn (+34% YoY), as 1Q is lean for the industry. Customer count grew ~2% QoQ to 2.55mn. Average ticket size (ATS) on O/S loans was ~Rs 19,500 (industry average for banks is Rs 26,000). RBK is focused on reducing risk (albeit statistically) by diversifying the book and tightening indebtedness limits for borrowers. The top 3 states in terms of exposure were TN (14%), BH (14%) and MH (12%).
- **Asset Quality:** At ~Rs 2.25bn (1.62%), slippages were up ~52/9% YoY/QoQ. The sharp rise in writeoffs (+2.4x/62%) to ~Rs 1.47bn was driven by the cards business (WOs at ~4.3% vs. 4% QoQ). The C&IB segment witnessed a ~51/15% rise in GNPA's to Rs 1.4bn (~63bps). BBB NPA's (1.89%) dipped ~17bps sequentially, due to a growing base. RBK has seen a buildup in agri stress over FY19.
- The exposure to stressed cos (expected to slip), is std (rated investment grade) at present and is concentrated (to ~5 a/cs).
- **Impressive Deposit Growth:** Even as deposit mobilisation is a systemic challenge, RBK managed impressive deposit growth at ~35/4%. CASA deposits grew at ~43/8% to form 25.8% of its deposit base (+130/80bps), even as most banks saw CASA% drop in 1Q. SA deposits grew ~22% QoQ (after 26% QoQ in 4Q) while CA dipped ~11%. A combination of differential interest rates and a rapidly expanding branch network have worked in RBK's favour.
- **Capital Consumption:** RBK consumed ~110bps/80bps of CRAR/Tier 1 in 1Q vs. the avg. rate of ~50bps over FY17-19. CRAR/Tier 1 capital now stands at ~12.4/11.3%. This can be attributed to (1) A bump up in the capital requirement for operating risk, a 1Q phenomenon (linked to income level of the past 3 years), and (2) An increase in risk weights for unrated exposures (150% now, ~16bps impact). For RBK to meet its growth guidance (~30%), it would need to raise funds in the near future. Recent developments on asset quality dampen its prospects. Nevertheless, we have built in a capital raise of Rs 35bn at Rs 500 a share.

**Five Quarters At A Glance**

(Rs mn)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY Growth	QoQ Growth
Net Interest Income	5,527	5,930	6,551	7,387	8,173	47.9%	10.6%
Non Interest Income	3,260	3,331	3,741	4,092	4,812	47.6%	17.6%
Core Fee Income	2,901	3,264	3,479	3,888	4,090	41.0%	5.2%
Treasury Income	359	67	262	205	722	101.3%	252.8%
Operating Income	8,787	9,261	10,291	11,480	12,985	47.8%	13.1%
Operating Expenses	4,464	4,770	5,307	5,880	6,797	52.3%	15.6%
Pre provision Profits	4,323	4,490	4,985	5,600	6,188	43.1%	10.5%
Other Provisions	1,404	1,397	1,607	2,000	2,132	51.9%	6.6%
PBT	2,920	3,094	3,378	3,600	4,056	38.9%	12.7%
Provision for Tax	1,019	1,048	1,126	1,128	1,386	35.9%	22.8%
PAT	1,900	2,045	2,252	2,472	2,671	40.5%	8.0%

6% ahead of estimates, driven by ~7bps QoQ NIM expansion and ~5% advances growth

Fee growth was led by Card fees (47% of total fees, +21% QoQ) and General Banking fees (+15% QoQ)

Other opex grew ~18% QoQ which incl. a one off related to processing fees on a loan taken from the IFC

**Balance Sheet items/ratios**

Deposits (Rs bn)	449.5	477.9	521.9	583.9	608.1	35.3%	4.1%
CASA Ratio (%)	24.5	24.5	24.6	25.0	25.8	130 bps	80 bps
Advances (Rs bn)	422.0	458.7	498.9	543.1	568.4	34.7%	4.7%
Wholesale	249.9	271.3	284.8	302.3	307.1	22.9%	1.6%
Non-Wholesale	172.1	187.4	214.1	240.8	261.3	51.8%	8.5%
BBB (Branch & Business Banking)	113.6	124.1	146.4	164.7	183.9	61.9%	11.7%
DB & FI	58.5	63.4	67.7	76.1	77.3	32.2%	1.6%
CD Ratio (%)	93.9	96.0	95.6	93.0	93.5	-41 bps	46 bps
CAR (%)	14.6	13.7	12.9	13.5	12.4	-220 bps	-106 bps
Tier I (%)	13.1	12.5	11.6	12.1	11.3	-180 bps	-80 bps

SA grew ~73/22% YoY/QoQ (after a 26% growth QoQ in 4Q), while CA degrew ~11% QoQ

Non wholesale advances constitute ~46% (vs. 44% QoQ)

**PROFITABILITY**

Yield on Advances (%)	10.80	10.90	11.20	11.80	12.00	120 bps	20 bps
Cost of Funds (%)	6.40	6.40	6.60	6.80	6.80	40 bps	0 bps
NIM (%)	4.04	4.08	4.12	4.23	4.30	26 bps	7 bps
Cost-Income (%)	50.8	51.5	51.6	51.2	52.3	155 bps	113 bps
Tax Rate (%)	34.9	33.9	33.3	31.3	34.2	-75 bps	282 bps

Led by the rising share of high yielding non-wholesale loans (CC and Microfinance) and upward MCLR resets

**ASSET QUALITY**

Gross NPA (Rs mn)	5,959	6,450	6,955	7,546	7,892	32.4%	4.6%
Net NPA (Rs mn)	3,158	3,386	3,582	3,727	3,716	17.7%	-0.3%
Gross NPAs (%)	1.40	1.40	1.38	1.38	1.38	-2 bps	0 bps
Net NPAs (%)	0.75	0.74	0.72	0.69	0.65	-10 bps	-4 bps
Slippages Ratio (%)	1.44	1.29	1.76	1.58	1.62	18 bps	4bps
Calc. Coverage Ratio (%)	47.0	47.5	48.5	50.6	52.9	590 bps	230 bps
Restructured book (%)	0.10	0.07	0.09	0.04	0.06	-4 bps	2 bps
Net stressed assets (%)	0.85	0.81	0.81	0.73	0.71	-14 bps	-2 bps

Marginal deterioration, led by the C&IB (+15% QoQ) segment

Mgt guided for additional slippages of ~Rs 10bn from the C&IB book over FY20E; GNPA's to touch ~2.5%

Source: Bank, HDFC sec Inst Research

**Construction (5.5%), Engineering (4.9%), NBFCs (4.8%), Retail (4.1%) & Pharma (3.4%) are the Top5 sectors in terms of exposure**

**Wholesale advances constitute 54% (vs. 56% QoQ) of total loans, the mgt aims to maintain a 50:50 mix between wholesale and non-wholesale advances**

**Wholesale advances grew ~23/2% YoY/QoQ, driven by the C&IB segment (28/3%) while Non-wholesale advances grew ~52/9%**

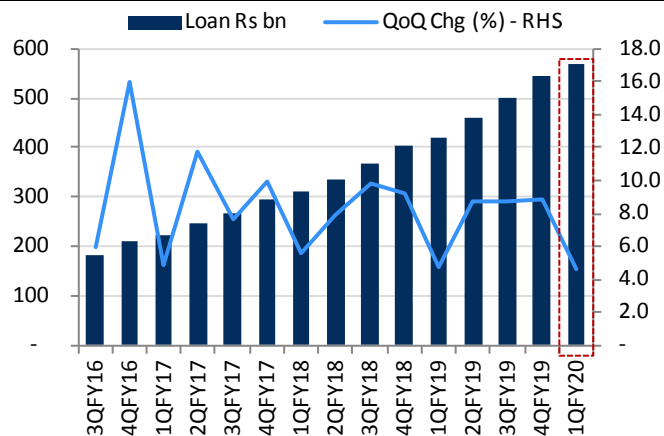
**Within the non-wholesale segment, CC grew ~2.3x/26% YoY/QoQ, MSME grew ~65/6% on a small base and LAP grew ~60/8%**

**Cards constitute ~12% (+200bps QoQ) of the book & account for ~47% of Fees**

**RBK has ~2.02mn cards in force**

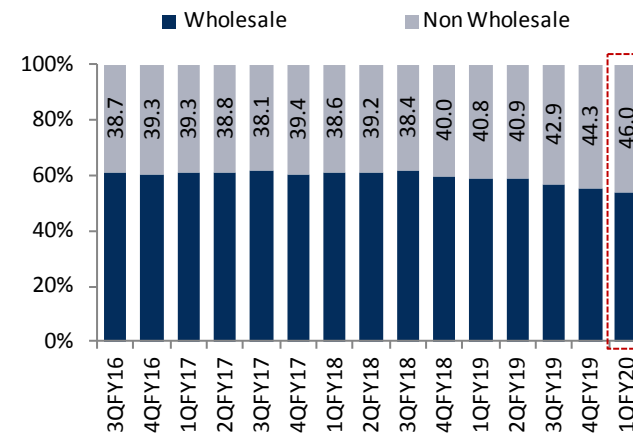
**Fees were ~49% of the cards business revenues vs. ~45% QoQ**

**Advances Grew ~35/5% YoY/QoQ**



Source: Bank, HDFC sec Inst Research

**Non-Wholesale Continues To Gain Share**



Source: Bank, HDFC sec Inst Research; Reclassification from 3QFY19

**Breakup Of Loans: Non Wholesale On The Rise**

Rs bn	4QFY1 6	1QFY1 7	2QFY1 7	3QFY1 7	4QFY1 7	1Q FY18*	2Q FY18*	3Q FY18*	4Q FY18*	1Q FY19*	2Q FY19*	3Q FY19*	4Q FY19*	1Q FY20*
C&IB	81.9	88.7	105.9	115.4	123.4	130.8	139.0	156.1	162.4	171.5	188.3	199.4	213.5	219.8
CB	46.9	46.5	46.2	50.3	55.1	60.1	65.3	71.1	75.1	78.4	83.0	85.4	88.8	87.3
<b>Wholesale</b>	<b>128.8</b>	<b>135.3</b>	<b>152.2</b>	<b>165.8</b>	<b>178.5</b>	<b>190.9</b>	<b>204.2</b>	<b>227.1</b>	<b>237.5</b>	<b>249.9</b>	<b>271.3</b>	<b>284.8</b>	<b>302.3</b>	<b>307.1</b>
<b>% of total loans</b>	<b>60.7</b>	<b>60.7</b>	<b>61.2</b>	<b>61.9</b>	<b>60.6</b>	<b>61.4</b>	<b>60.8</b>	<b>61.6</b>	<b>59.0</b>	<b>59.2</b>	<b>59.1</b>	<b>57.1</b>	<b>55.7</b>	<b>54.0</b>
BBB (LAP, Credit Cards, etc.)	34.6	37.3	43.4	47.9	53.7	78.2	85.4	94.0	104.3	113.6	124.1	146.4	164.7	183.9
Agri	17.6	18.3	16.8	17.5	21.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FI	31.3	31.7	36.4	36.6	41.2	42.0	46.1	47.8	56.8	58.5	63.4	67.7	76.1	77.3
<b>Non Wholesale</b>	<b>83.5</b>	<b>87.4</b>	<b>96.6</b>	<b>102.0</b>	<b>116.0</b>	<b>120.2</b>	<b>131.5</b>	<b>141.8</b>	<b>165.2</b>	<b>172.1</b>	<b>187.4</b>	<b>214.2</b>	<b>240.8</b>	<b>261.2</b>
<b>% of total loans</b>	<b>39.3</b>	<b>39.3</b>	<b>38.8</b>	<b>38.1</b>	<b>39.4</b>	<b>38.6</b>	<b>39.2</b>	<b>38.4</b>	<b>40.0</b>	<b>40.8</b>	<b>40.9</b>	<b>42.9</b>	<b>44.3</b>	<b>46.0</b>
<b>TOTAL</b>	<b>212.2</b>	<b>222.6</b>	<b>248.7</b>	<b>267.7</b>	<b>294.5</b>	<b>311.1</b>	<b>335.8</b>	<b>368.9</b>	<b>402.7</b>	<b>422.0</b>	<b>458.7</b>	<b>498.9</b>	<b>543.1</b>	<b>568.4</b>

Source: Bank, HDFC sec Inst Research; C&IB – Corporate & Institutional Banking, CB – Commercial Banking, BBB – Branch & Business Banking, FI – Financial Inclusion; \*Not comparable with other quarters owing to reclassification of agri loans

**Breakup Of Fee Streams: Card Fees Holds The Lion’s Share At 47% (+600bps QoQ)**

%	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Forex	14	19	20	21	16	19	17	15	14	12	12	11	12	11
Processing fees	41	39	39	35	38	31	28	29	24	24	23	23	23	19
General Banking	19	16	14	16	19	15	15	12	14	12	14	14	11	12
Distribution #	13	15	16	18	4	3	4	4	6	4	3	3	4	2
Trade and others	13	11	11	9	9	9	10	9	10	8	8	8	9	9
<b>Credit Cards</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15</b>	<b>23</b>	<b>25</b>	<b>31</b>	<b>33</b>	<b>40</b>	<b>40</b>	<b>41</b>	<b>41</b>	<b>47</b>

Source: Bank, HDFC sec Inst Research; # includes credit card fees till 3QFY17

**After 26% QoQ growth in 4Q, SA grew 22% QoQ (+73% YoY) which is very impressive in the current environment**

**Despite strong core earnings growth, the C-I ratio deteriorated to ~52.3% (+115bps QoQ)**

**Treasury gains were ~Rs 722mn (+2/3.5x YoY/QoQ)**

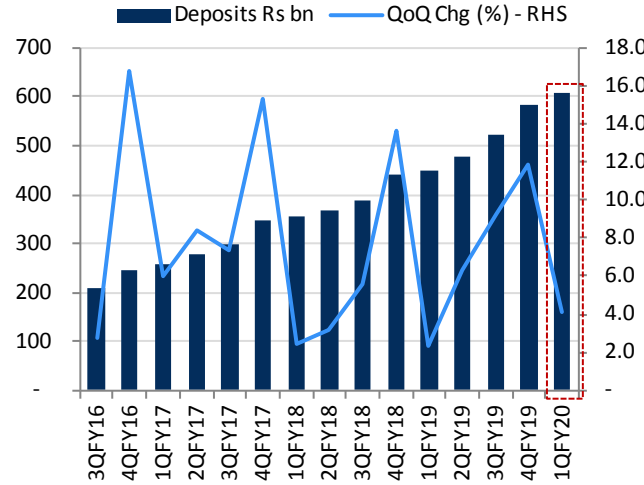
**Adjusted for treasury gains, the Core C-I ratio jumped ~330bps QoQ to 55.4%**

**The mgt guided for the addition of ~60-80 branches over FY20E, we thus expect opex to remain elevated**

**The mgt guided for a C-I ratio of ~51-52% over FY20-21E**

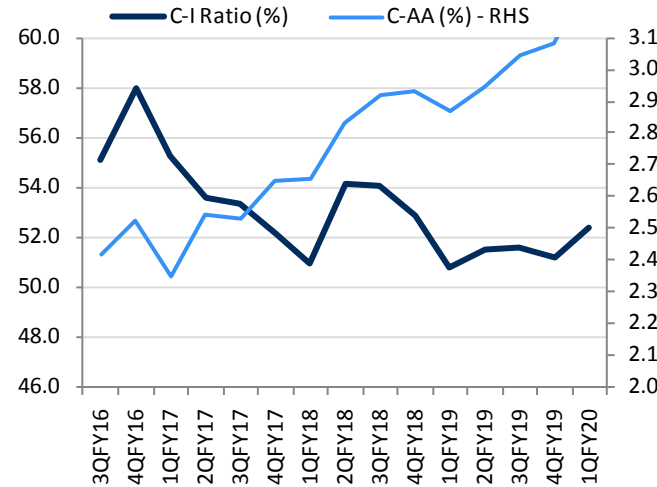
**Wholesale yields rose 50bps QoQ to 9.4% (Upward MCLR resets) while Non-wholesale yields jumped 90bps to 15.2%**

**Deposit Growth Robust At ~35/4% YoY/QoQ**



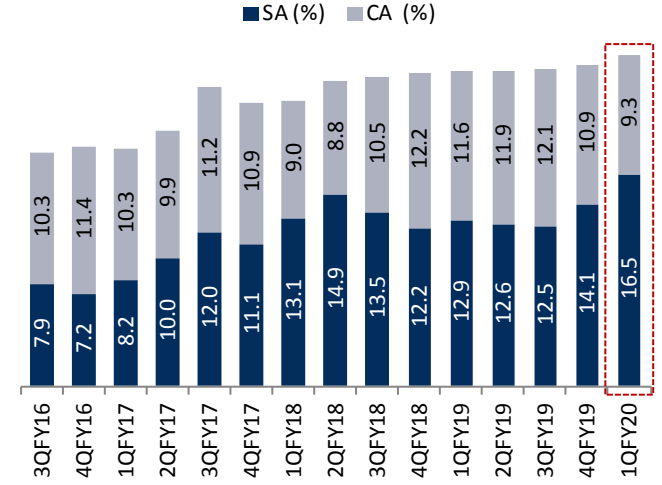
Source: Bank, HDFC sec Inst Research

**C-I Ratio: Deteriorated QoQ**



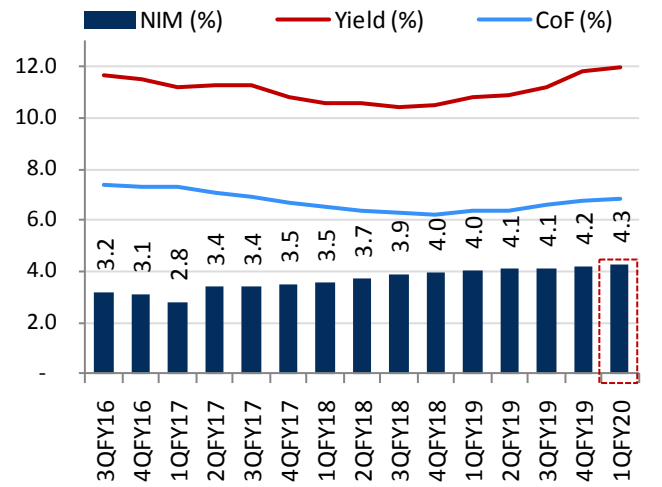
Source : Bank, HDFC sec Inst Research

**CASA Ratio Up 80bps QoQ To ~25.8%**



Source: Bank, HDFC sec Inst Research

**NIMs Continue To Rise, Up 7bps QoQ (26bps YoY)**



Source : Bank, HDFC sec Inst Research

**Reported PCR improved ~400bps QoQ to ~69% after a ~200bps QoQ rise in 4Q**

**Slippages were up ~52/9% sequentially to ~Rs 2.25bn i.e. calc. 1.62%. (vs. ~Rs 2.1bn i.e. 1.58% QoQ)**

**Marginal deterioration in asset quality led the by C&IB (+15% QoQ), segment**

**WOs at ~Rs 1.47bn (+141/62%) were significantly higher, driven by the cards segment**

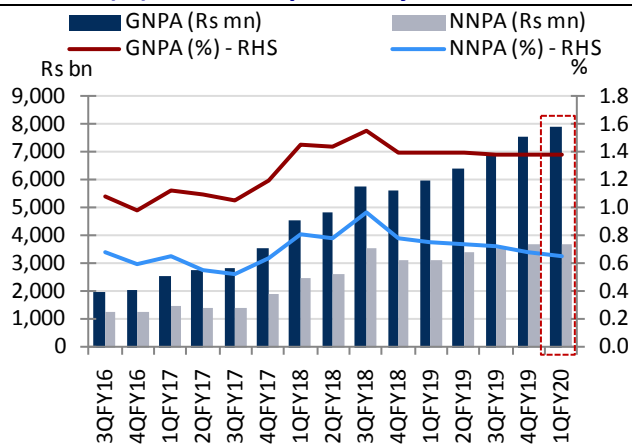
**Asset Quality Guidance:**

**-Additional stress of ~Rs 10bn (i.e. 1.75% of loans) over FY20E - GNPA's expected to rise by ~110bps by FY20E to 2.5% - Additional LLPs of 35-40bps assuming coverage of ~ 25-30%**

**The bank's largest group exposure is ~15% of its net worth**

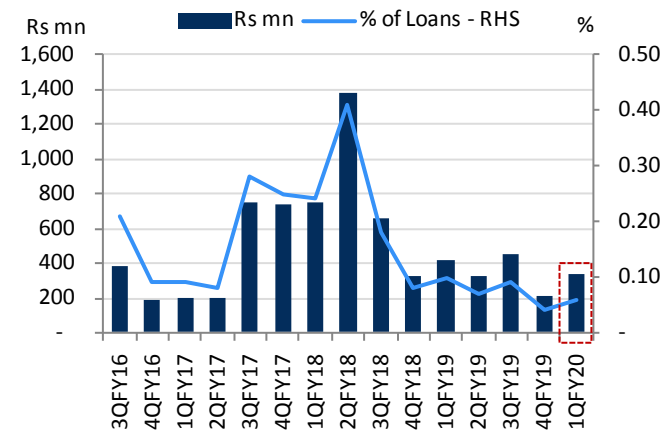
**Card NPAs at ~1.15% vs. 1.0% QoQ**

**G/NNPA (%) Stable Sequentially**



Source : Bank, HDFC sec Inst Research

**Restructured Book At A Mere 6bps**



Source : Bank, HDFC sec Inst Research

**Slippages: Rise Sequentially**

Rs bn	FY16	1QFY17	1HFY17	9MFY17	FY17	1QFY18	1HFY18	9MFY18	FY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Opening	1,110	2,080	2,080	2,080	2,080	3,570	3,570	3,570	5,800	5,670	5,970	6,450	6,960	7,550
<b>Slippages</b>	<b>2,000</b>	<b>680</b>	<b>1,060</b>	<b>1,280</b>	<b>5,330</b>	<b>1,520</b>	<b>2,440</b>	<b>4,540</b>	<b>1,150</b>	<b>1,480</b>	<b>1,420</b>	<b>2,110</b>	<b>2,060</b>	<b>2,250</b>
<b>% ann.</b>	<b>1.09</b>	<b>1.28</b>	<b>1.00</b>	<b>1.00</b>	<b>2.51</b>	<b>2.07</b>	<b>1.66</b>	<b>2.05</b>	<b>1.19</b>	<b>1.44</b>	<b>1.29</b>	<b>1.76</b>	<b>1.58</b>	<b>1.62</b>
Reductions	1,030	230	400	510	3,850	520	1,140	2,310	1,280	1,180	940	1,600	1,470	1,910
Closing	<b>2,080</b>	<b>2,530</b>	<b>2,740</b>	<b>2,850</b>	<b>3,560</b>	<b>4,570</b>	<b>4,870</b>	<b>5,800</b>	<b>5,670</b>	<b>5,970</b>	<b>6,450</b>	<b>6,960</b>	<b>7,550</b>	<b>7,890</b>

Source: Bank, HDFC sec Inst Research

**Segmental GNPA's: Marginal Rise Across Segments**

Rs bn	FY16	1QFY17	1HFY17	9MFY17	FY17	1QFY18	1HFY18	9MFY18	FY18	1QFY19	1HFY19	9MFY19	FY19	1QFY20
C&IB	171	266	378	378	1,038	1,030	1,028	1,422	831	923	921	921	1,215	1,395
CB #	1,384	1,589	1,592	1,604	1,389	1,438	1,236	1,057	1,264	2,187	2,551	2,496	2,369	2,421
<b>BBB #</b>	<b>378</b>	<b>472</b>	<b>550</b>	<b>617</b>	<b>763</b>	<b>865</b>	<b>1,037</b>	<b>1,108</b>	<b>1,138</b>	<b>1,675</b>	<b>2,007</b>	<b>2,865</b>	<b>3,398</b>	<b>3,477</b>
LAP	42	61	85	128	199	153	254	253	259	306	289	NA	NA	NA
Biz Loans	34	56	78	108	159	197	186	257	316	323	254	NA	NA	NA
PL	8	13	19	27	43	57	77	85	118	159	166	NA	NA	NA
Cards	46	69	81	84	98	144	158	193	199	333	399	NA	NA	NA
Others	248	273	285	270	264	315	362	320	237	164	220	NA	NA	NA
Agri#	66	102	107	117	181	-	264	576	815	NA	NA	NA	NA	NA
FI	82	98	119	131	197	1,012	1,307	1,635	1,628	1,174	970	673	564	599
<b>TOTAL</b>	<b>2,081</b>	<b>2,527</b>	<b>2,746</b>	<b>2,847</b>	<b>3,568</b>	<b>4,345</b>	<b>4,872</b>	<b>5,798</b>	<b>5,667</b>	<b>5,959</b>	<b>6,449</b>	<b>6,955</b>	<b>7,546</b>	<b>7,892</b>

Source: Bank, HDFC sec Inst Research; # Agri is now split into wholesale and retail and included in CB and BBB respectively

*We have factored in a fund raise of Rs 35bn at Rs 500 vs. Rs 650 earlier*

### Change In Estimates

Rs mn	FY20E			FY21E		
	Old	New	Change	Old	New	Change
NII	32,568	31,894	-2.1%	43,148	41,461	-3.9%
PPOP	24,163	24,265	0.4%	31,887	31,636	-0.8%
PAT	12,206	9,215	-24.5%	16,326	13,230	-19.0%
Adj. BVPS (Rs)	243	216	-11.1%	268	247	-7.6%

Source: HDFC sec Inst Research

### Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
KMB #	2,861	1,499	BUY	1,481	201	238	272	46.8	38.2	31.1	5.94	5.00	4.29	13.0	13.7	14.3	1.70	1.74	1.76
ICICIBC #	2,645	410	BUY	454	138	153	172	59.6	18.0	12.6	2.26	2.01	1.75	3.3	9.2	12.0	0.36	1.07	1.33
AXSB	1,908	729	BUY	896	215	261	309	38.5	20.5	14.3	3.25	2.68	2.26	7.2	12.4	15.4	0.63	1.05	1.32
IIB	984	1,422	BUY	1,964	400	515	550	26.0	20.0	15.3	3.55	2.76	2.59	13.3	16.1	17.2	1.32	1.58	1.68
<b>RBL</b>	<b>214</b>	<b>500</b>	<b>NEU</b>	<b>512</b>	<b>168</b>	<b>216</b>	<b>247</b>	<b>24.6</b>	<b>27</b>	<b>18.8</b>	<b>2.98</b>	<b>2.32</b>	<b>2.02</b>	<b>12.2</b>	<b>9.5</b>	<b>10.6</b>	<b>1.22</b>	<b>1.00</b>	<b>1.14</b>
FB	196	99	BUY	117	59	64	75	15.8	12.3	9.3	1.68	1.54	1.31	9.8	11.5	13.7	0.84	0.93	1.06
CUB	147	201	BUY	240	58	68	80	21.6	18.6	15.8	3.47	2.93	2.51	15.2	15.1	15.4	1.60	1.61	1.61
KVB	60	194	NEU	234	88	98	112	18.4	14.9	11.6	2.21	1.97	1.72	11.0	12.2	14.0	0.99	1.03	1.12
DCBB	54	67	NEU	84	50	52	60	25.4	15.6	9.1	1.34	1.28	1.12	3.3	5.3	8.9	0.31	0.47	0.73
SBIN #	3,177	356	BUY	383	146	188	222	275.7	9.6	6.5	1.82	1.41	1.18	0.4	10.6	14.0	0.02	0.64	0.85
AUBANK	199	659	BUY	680	101	128	151	50.5	35.6	25.5	6.52	5.15	4.36	14.1	15.3	17.3	1.48	1.49	1.62

Source: Bank, HDFC sec Inst Research; # Adjusted for subsidiary

**Income Statement**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	45,076	63,007	80,919	104,623	134,459
Interest Expended	27,413	37,612	49,025	63,162	81,557
<b>Net Interest Income</b>	<b>17,663</b>	<b>25,395</b>	<b>31,894</b>	<b>41,461</b>	<b>52,902</b>
<b>Other Income</b>	<b>10,682</b>	<b>14,424</b>	<b>18,561</b>	<b>22,921</b>	<b>28,203</b>
<i>Fee Income (CEB)</i>	<i>7,226</i>	<i>11,656</i>	<i>14,251</i>	<i>18,570</i>	<i>23,838</i>
<i>Treasury Income</i>	<i>1,665</i>	<i>784</i>	<i>2,250</i>	<i>2,150</i>	<i>2,000</i>
<b>Total Income</b>	<b>28,345</b>	<b>39,818</b>	<b>50,455</b>	<b>64,381</b>	<b>81,105</b>
<b>Total Operating Exp</b>	<b>15,034</b>	<b>20,420</b>	<b>26,190</b>	<b>32,746</b>	<b>40,812</b>
<i>Employee Expense</i>	<i>5,507</i>	<i>6,362</i>	<i>8,511</i>	<i>10,613</i>	<i>13,051</i>
<b>PPOP</b>	<b>13,311</b>	<b>19,398</b>	<b>24,265</b>	<b>31,636</b>	<b>40,293</b>
Provisions & Contingencies	3,645	6,407	10,613	12,037	12,017
<i>Prov. for NPAs (incl. std prov.)</i>	<i>2,995</i>	<i>5,234</i>	<i>10,363</i>	<i>11,787</i>	<i>11,517</i>
<b>PBT</b>	<b>9,665</b>	<b>12,992</b>	<b>13,652</b>	<b>19,599</b>	<b>28,276</b>
<i>Provision for Tax</i>	<i>3,315</i>	<i>4,322</i>	<i>4,437</i>	<i>6,370</i>	<i>9,190</i>
<b>PAT</b>	<b>6,351</b>	<b>8,670</b>	<b>9,215</b>	<b>13,230</b>	<b>19,086</b>

Source: Bank, HDFC sec Inst Research

**Balance Sheet**

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	4,197	4,267	4,980	4,980	4,980
Reserves	62,643	71,206	113,654	125,352	142,229
<b>Shareholders' Funds</b>	<b>66,840</b>	<b>75,473</b>	<b>118,634</b>	<b>130,332</b>	<b>147,209</b>
<i>Savings</i>	<i>53,395</i>	<i>82,448</i>	<i>115,425</i>	<i>155,822</i>	<i>205,684</i>
<i>Current</i>	<i>53,388</i>	<i>63,427</i>	<i>76,113</i>	<i>92,857</i>	<i>111,429</i>
<i>Term Deposit</i>	<i>332,240</i>	<i>438,069</i>	<i>565,131</i>	<i>726,214</i>	<i>944,099</i>
<b>Total Deposits</b>	<b>439,023</b>	<b>583,944</b>	<b>756,668</b>	<b>974,893</b>	<b>1,261,211</b>
Borrowings	92,614	118,321	129,423	144,077	160,124
Other Liabilities	20,031	25,850	29,728	35,123	41,501
<b>Total Liabilities</b>	<b>618,508</b>	<b>803,588</b>	<b>1,034,453</b>	<b>1,284,426</b>	<b>1,610,046</b>
<b>APPLICATION OF FUNDS</b>					
Cash & Bank Balance	42,844	66,021	95,099	85,461	92,163
Investments	154,473	168,404	196,239	235,199	285,793
<i>G-Secs</i>	<i>113,220</i>	<i>119,427</i>	<i>151,334</i>	<i>194,979</i>	<i>249,089</i>
Advances	402,678	543,082	712,536	928,516	1,191,887
Fixed Assets	3,340	4,025	4,830	5,554	6,387
Other Assets	15,172	22,056	25,748	29,695	33,816
<b>Total Assets</b>	<b>618,508</b>	<b>803,588</b>	<b>1,034,453</b>	<b>1,284,426</b>	<b>1,610,046</b>

Source: Bank, HDFC sec Inst Research



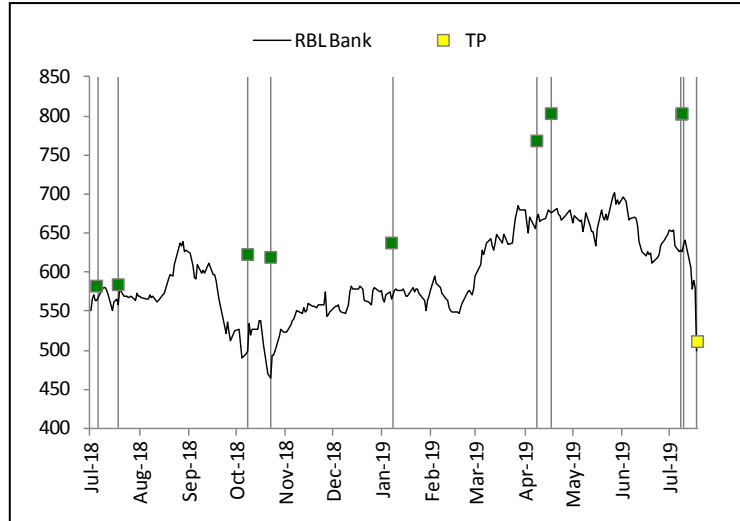
## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>					
EPS (Rs)	15.1	20.3	18.5	26.6	38.3
Earnings Growth (%)	52.1	36.5	6.3	43.6	44.3
BVPS (Rs)	159.2	176.9	238.2	261.7	295.6
Adj. BVPS (Rs)	151.8	168.1	215.9	247.4	281.6
DPS (Rs)	2.1	2.7	1.9	2.7	3.8
ROAA (%)	1.15	1.22	1.00	1.14	1.32
ROAE (%)	11.5	12.2	9.5	10.6	13.8
P/E (x)	33.1	24.6	27.0	18.8	13.1
P/ABV (x)	3.30	2.98	2.32	2.02	1.78
P/PPOP (x)	15.8	11.0	10.3	7.9	6.2
Dividend Yield (%)	0.4	0.5	0.4	0.5	0.8
<b>PROFITABILITY</b>					
Yield On Advances (%)	9.84	10.68	10.67	10.72	10.79
Yield On Investment (%)	6.90	6.77	6.75	6.75	6.75
Cost Of Funds (%)	5.58	6.04	6.12	6.25	6.85
Cost Of Deposits (%)	5.96	6.34	6.44	6.51	6.59
Core Spread (%)	4.27	4.64	4.55	4.47	3.94
NIM (%)	3.48	3.90	3.84	3.90	3.92
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	2.72	2.87	2.85	2.82	2.82
Core Cost-Income Ratio (%)	53.0	51.3	51.9	50.9	50.3
<b>BALANCE SHEET STRUCTURE</b>					
Loan Growth (%)	36.7	34.9	31.2	30.3	28.4
Deposit Growth (%)	26.9	33.0	29.6	28.8	29.4
C/D Ratio (%)	91.7	93.0	94.2	95.2	94.5
Equity/Assets (%)	10.8	9.4	11.5	10.1	9.1
Equity/Advances (%)	16.6	13.9	16.6	14.0	12.4
CASA (%)	24.3	25.0	25.3	25.5	25.1
Capital Adequacy Ratio (CAR, %)	15.3	13.5	16.1	14.2	12.7
W/w Tier I CAR (%)	13.6	12.1	15.0	13.3	12.0

	FY18	FY19	FY20E	FY21E	FY22E
<b>ASSET QUALITY</b>					
Gross NPLs (Rsm)	5,667	7,546	21,095	19,457	19,794
Net NPLs (Rsm)	3,126	3,728	11,109	7,104	6,951
Gross NPLs (%)	1.40	1.39	2.96	2.10	1.66
Net NPLs (%)	0.78	0.69	1.56	0.77	0.58
Slippages (%)	1.63	1.50	3.30	1.60	1.50
Coverage Ratio (%)	44.8	50.6	47.3	63.5	64.9
Provision/Avg. Loans (%)	0.74	0.99	1.60	1.38	1.04
<b>ROAA TREE</b>					
Net Interest Income	3.20%	3.57%	3.47%	3.58%	3.66%
Non Interest Income	1.93%	2.03%	2.02%	1.98%	1.95%
Treasury Income	0.30%	0.11%	0.24%	0.19%	0.14%
Operating Cost	2.72%	2.87%	2.85%	2.82%	2.82%
Provisions	0.66%	0.90%	1.15%	1.04%	0.83%
Provisions For NPAs	0.47%	0.66%	1.09%	0.98%	0.76%
Tax	0.60%	0.61%	0.48%	0.55%	0.63%
ROAA	1.15%	1.22%	1.00%	1.14%	1.32%
Leverage (x)	10.03	9.99	9.47	9.31	10.43
ROAE	11.53%	12.18%	9.49%	10.63%	13.75%

Source: Bank, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
6-Jul-18	564	BUY	582
20-Jul-18	556	BUY	584
9-Oct-18	495	BUY	623
23-Oct-18	465	BUY	618
8-Jan-19	574	BUY	638
9-Apr-19	659	BUY	768
19-Apr-19	675	BUY	803
09-Jul-19	627	BUY	803
10-Jul-19	626	BUY	803
22-Jul-19	500	NEU	512

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- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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