

## Double trouble...

Even as RBK's operating performance was better than expected, the near doubling of anticipated stress since 1QFY20 dampens near term recovery. With asset quality on a slippery slope, we reduce our target multiple to 1.50x from 2.0x. Maintain NEUTRAL with a TP of Rs 294 (1.50x Sept-21E ABV of Rs 196).

### HIGHLIGHTS OF THE QUARTER

- Sharp Asset Quality Decline:** Post the worrying 1QFY20 guidance on asset quality, GNPA's doubled QoQ to ~Rs 15.4bn (2.6%) led by a fivefold increase in C&IB GNPA's to ~Rs 8.4bn (3.8%). Slippages were ~Rs 13.8bn (9.7 % ann.) and incl. technical slippages of ~Rs 2.5bn. Worse still, the pool of forewarned stressed loans increased by ~Rs 8bn to Rs 18bn. Of this, a significant chunk slipped in 2Q. We are now baking significantly higher slippages at 3.2% over FY20-22E.
- Growth Falls Off:** Loan growth slowed to ~28/3%, as wholesale loans remained flat QoQ. C&IB loans were flat QoQ while CB loans shrank ~5%. Growth in the BBB book was resilient at ~62/10%. Notably, the credit card portfolio grew ~121/20% to ~Rs 80bn. Growth is likely to fall further as the bank limits corporate credit growth to conserve capital. Retail growth, too, may

decelerate as the bank tightens credit filters (suggested by commentary). We have still factored 21% loan CAGR over FY20-22E.

- Margins Expand, Yet Again:** For the 12<sup>th</sup> straight qtr, NIMs (4.35%, +27/5bps) inched up. This owed to higher non-wholesale yields (15.4%, +130/20bps) with faster growth in high yielding segments (CC ~14%, Micro ~9%). Interestingly, interest reversals were merely ~Rs 200mn despite slippages. Further slippages will cap NIMs, even as higher yielding loans grow faster. We expect NIMs of 3.85% over FY20-22E.

### STANCE

**With the sharp rise in 'anticipated' stress (up ~80% in a quarter), we expect significantly higher credit costs ahead, denting RoAAs till FY21E. We find this trend rather alarming and asset quality seems perched on a slippery slope. Reflexivity will increasingly play out here, with the bank's future prospects being dependent on fund raise (not factored in our estimates). While a full blown implosion is not yet apparent to us, we are compelled to cut valuation multiple to 1.50x vs. 2.0 earlier. Maintain NEUTRAL with a TP of Rs 294 (1.50x Sep-21E ABV of Rs 196).**

### 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 | 31,099 | 36,803 | 44,153 |
| PPOP                | 6,188  | 4,323  | 43.1%   | 5,600  | 10.5%   | 13,311 | 19,398 | 24,751 | 28,485 | 33,571 |
| PAT                 | 2,671  | 1,900  | 40.5%   | 2,472  | 8.0%    | 6,351  | 8,670  | 5,437  | 10,131 | 14,593 |
| EPS (Rs)            | 6.2    | 4.5    | 38.3%   | 5.8    | 7.8%    | 15.1   | 20.3   | 12.6   | 23.5   | 33.9   |
| ROAE (%)            |        |        |         |        |         | 11.5   | 12.2   | 7.0    | 12.0   | 15.4   |
| ROAA (%)            |        |        |         |        |         | 1.15   | 1.22   | 0.62   | 0.98   | 1.18   |
| Adj. BVPS (Rs)      |        |        |         |        |         | 151.8  | 168.1  | 160.6  | 178.8  | 213.7  |
| P/ABV (x)           |        |        |         |        |         | 1.89   | 1.71   | 1.79   | 1.60   | 1.34   |
| P/E (x)             |        |        |         |        |         | 19.0   | 14.1   | 22.7   | 12.2   | 8.5    |

Source: Bank, HDFC sec Inst Research

| INDUSTRY                       | BANKS         |
|--------------------------------|---------------|
| <b>CMP (as on 22 Oct 2019)</b> | <b>Rs 287</b> |
| <b>Target Price</b>            | <b>Rs 294</b> |
| Nifty                          | 11,588        |
| Sensex                         | 38,964        |

### KEY STOCK DATA

|                             |             |
|-----------------------------|-------------|
| Bloomberg                   | RBK IN      |
| No. of Shares (mn)          | 430         |
| MCap (Rsbn) / (\$ mn)       | 124 / 1,740 |
| 6m avg traded value (Rs mn) | 3,148       |

### STOCK PERFORMANCE (%)

| 52 Week high / low | Rs 717/241 |        |        |
|--------------------|------------|--------|--------|
|                    | 3M         | 6M     | 12M    |
| Absolute (%)       | (40.0)     | (57.9) | (38.8) |
| Relative (%)       | (41.6)     | (57.4) | (52.4) |

### SHAREHOLDING PATTERN (%)

|                 | Jun-19 | Sep-19 |
|-----------------|--------|--------|
| Promoters       | -      | -      |
| FIs & Local MFs | 26.9   | 27.4   |
| FPIs            | 38.6   | 32.8   |
| Public & Others | 34.6   | 39.8   |
| Pledged Shares  | Nil    | Nil    |

Source : BSE

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- **Further On Stressed Loans:** The corporate stress of ~Rs 18bn is present possibly across the Eveready group, Essel Group, Coffee Day and Sintex Industries amongst other exposures. Of this ~Rs 8bn slipped in 2Q. SMA 1 was ~45bps and SMA 2 was ~39bps incl. 15bps and 17bps resp. of the aforementioned exposures.
- **Provisions Jump:** In tandem with stressed loans, provisions jumped ~282/150% to ~Rs 5.3bn. These incl. ~Rs 3.5bn against the slippages of ~Rs 8bn. Coverage fell ~680/1220bps to 41%. Elevated provisions are likely to continue, as RBK struggles to improve coverage on present and anticipated slippages. FY20E will be seriously dented. We increase our LLPs to 1.98% over FY20-22E.
- **Fee Growth Too Falls:** After 9 qtrs of sustained growth, fee income fell ~5% QoQ (+19% YoY). Lower processing (-38/40%) and general banking fees (-24/29%) possibly due to a slack in corporate loans, depressed overall fee income. This may suggest a stronger than previously expected link between wholesale loan traction and fee income. Sustained growth in card fees continued (+70/15%) continued while distribution fees grew ~19/43%. As we anticipate slower loan growth, we've also lowered our other income estimates to 2.10% of average assets.
- **Opex Stable QoQ:** This was led by a ~3% dip in other opex (+47%), while staff costs grew ~6% (+30%). The C-I ratio dipped ~90bps QoQ to 51.5%. RBK added 14 branches, 10 banking outlets and 143 BC branches in the qtr. Considerable branch expansion and faster growth in opex-intensive segments (cards and micro banking) will drive opex growth. We model a core C-I ratio of 53% over FY20-22E.
- **Micro banking:** Micro banking loans, grew ~32/4% to ~Rs 51bn. The o/s customer base grew ~21/4% with the ATS at ~Rs 19,400 (industry average for banks is Rs 23,000). TN (15%), BH (14%) and MH (12%) ranked as the top states in terms of exposure, while KA, TN and OD grew the fastest. The qtr saw a sharp, but not alarming increase in the proportion of repeat cycle borrowers (+500bps, 31%).
- **Strong CASA Growth:** Overall deposits grew ~32/3% to ~Rs 628bn, led by faster CASA growth (+42/6%). Commentary suggests slower TD growth (+28/3%) was a conscious choice given that it raised ~\$ 150mn from the IFC in 1Q and obtained refinance at competitive rates in the qtr.
- **Capital Position:** RBK's CRAR stands at ~12.3% with Tier I at ~11.3%. While the mgt has hinted for a fund raise in FY20E, we have not yet factored it in our estimates.

**Five Quarters At A Glance**

| (Rs mn)               | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | YoY Growth | QoQ Growth |
|-----------------------|--------|--------|--------|--------|--------|------------|------------|
| Net Interest Income   | 5,930  | 6,551  | 7,387  | 8,173  | 8,687  | 46.5%      | 6.3%       |
| Non Interest Income   | 3,331  | 3,741  | 4,092  | 4,812  | 4,415  | 32.5%      | -8.2%      |
| Core Fee Income       | 3,264  | 3,479  | 3,888  | 4,090  | 3,885  | 19.0%      | -5.0%      |
| Treasury Income       | 67     | 262    | 205    | 722    | 530    | 695.3%     | -26.6%     |
| Operating Income      | 9,261  | 10,291 | 11,480 | 12,985 | 13,102 | 41.5%      | 0.9%       |
| Operating Expenses    | 4,770  | 5,307  | 5,880  | 6,797  | 6,744  | 41.4%      | -0.8%      |
| Pre provision Profits | 4,490  | 4,985  | 5,600  | 6,188  | 6,358  | 41.6%      | 2.8%       |
| Other Provisions      | 1,397  | 1,607  | 2,000  | 2,132  | 5,333  | 281.8%     | 150.2%     |
| PBT                   | 3,094  | 3,378  | 3,600  | 4,056  | 1,025  | -66.9%     | -74.7%     |
| Provision for Tax     | 1,048  | 1,126  | 1,128  | 1,386  | 482    | -54.0%     | -65.2%     |
| PAT                   | 2,045  | 2,252  | 2,472  | 2,671  | 543    | -73.4%     | -79.7%     |

10% ahead of estimates, led by ~28/3% loan growth and ~27/5bps NIM expansion; Interest reversals were merely ~Rs 200mn

Led by a ~40% dip in processing fees and ~29% dip in general banking fees

Incl. Rs 3.5bn of provisions on stressed pools of loans that slipped in 2Q (~Rs8 bn)

**Balance Sheet items/ratios**

|                                 |       |       |       |       |       |          |         |
|---------------------------------|-------|-------|-------|-------|-------|----------|---------|
| Deposits (Rs bn)                | 477.9 | 521.9 | 583.9 | 608.1 | 628.3 | 31.5%    | 3.3%    |
| CASA Ratio (%)                  | 24.5  | 24.6  | 25.0  | 25.8  | 26.5  | 200 bps  | 70 bps  |
| Advances (Rs bn)                | 458.7 | 498.9 | 543.1 | 568.4 | 584.8 | 27.5%    | 2.9%    |
| Wholesale                       | 271.3 | 284.8 | 302.3 | 307.1 | 304.7 | 12.3%    | -0.8%   |
| Non-Wholesale                   | 124.1 | 146.4 | 164.7 | 183.9 | 201.4 | 62.3%    | 9.5%    |
| BBB (Branch & Business Banking) | 63.4  | 67.7  | 76.1  | 77.3  | 78.7  | 24.1%    | 1.7%    |
| DB & FI                         | 187.4 | 214.2 | 240.8 | 261.2 | 280.1 | 49.4%    | 7.2%    |
| CD Ratio (%)                    | 96.0  | 95.6  | 93.0  | 93.5  | 93.1  | -292 bps | -39 bps |
| CAR (%)                         | 13.7  | 12.9  | 13.5  | 12.4  | 12.3  | -140 bps | -10 bps |
| Tier I (%)                      | 12.5  | 11.6  | 12.1  | 11.3  | 11.3  | -120 bps | 0 bps   |

CASA deposits grew ~42/6% while TDs grew ~28/2%

C&IB grew ~18% YoY (flat QoQ) while CB loans were flat YoY (-5% QoQ)

**PROFITABILITY**

|                       |       |       |       |       |       |          |          |
|-----------------------|-------|-------|-------|-------|-------|----------|----------|
| Yield on Advances (%) | 10.90 | 11.20 | 11.80 | 12.00 | 12.10 | 120 bps  | 10 bps   |
| Cost of Funds (%)     | 6.40  | 6.60  | 6.76  | 6.82  | 6.80  | 40 bps   | -2 bps   |
| NIM (%)               | 4.08  | 4.12  | 4.23  | 4.30  | 4.35  | 27 bps   | 5 bps    |
| Cost-Income (%)       | 51.5  | 51.6  | 51.2  | 52.3  | 51.5  | -4 bps   | -87 bps  |
| Tax Rate (%)          | 33.9  | 33.3  | 31.3  | 34.2  | 47.0  | 1314 bps | 1286 bps |

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

~Rs 13.8bn, incl. ~Rs 2.5bn of technical slippages and ~Rs 8bn of slippages from identified stress

**ASSET QUALITY**

|                          |       |       |       |       |        |          |           |
|--------------------------|-------|-------|-------|-------|--------|----------|-----------|
| Gross NPA (Rs mn)        | 6,450 | 6,955 | 7,546 | 7,892 | 15,391 | 138.6%   | 95.0%     |
| Net NPA (Rs mn)          | 3,386 | 3,582 | 3,727 | 3,716 | 9,123  | 169.5%   | 145.5%    |
| Gross NPAs (%)           | 1.40  | 1.38  | 1.38  | 1.38  | 2.60   | 120 bps  | 122 bps   |
| Net NPAs (%)             | 0.74  | 0.72  | 0.69  | 0.65  | 1.56   | 82 bps   | 91 bps    |
| Slippages Ratio (%)      | 1.29  | 1.76  | 1.58  | 1.62  | 9.55   | 826 bps  | 793 bps   |
| Calc. Coverage Ratio (%) | 47.5  | 48.5  | 50.6  | 52.9  | 40.7   | -678 bps | -1218 bps |
| Restructured book (%)    | 0.07  | 0.09  | 0.04  | 0.06  | 0.04   | -3 bps   | -2 bps    |
| Net stressed assets (%)  | 0.81  | 0.81  | 0.73  | 0.71  | 1.60   | 79 bps   | 89 bps    |

Revised Stress book at Rs 18bn (vs. Rs 10bn QoQ) incl. exposures in Eveready group, Essel Group, Coffee Day and Sintex Industries

Source: Bank, HDFC sec Inst Research

**NBFCs (5.3%), Construction (5.2%), Engineering (4.6%), Retail (3.9%) & Real Estate (3.3%) are the Top5 sectors in terms of exposure**

**Wholesale advances constitute 52% (vs. 54% QoQ) of total loans**

**Segment wise growth:**

**C&IB (+18/1%)**

**CB (-/-5%)**

**LAP (+61/5%)**

**CC (+122/20%)**

**Retail Agri (-5/-4%)**

**BIL (+23/3%)**

**Micro banking (+32/4%)**

**IFI (-6/-7%)**

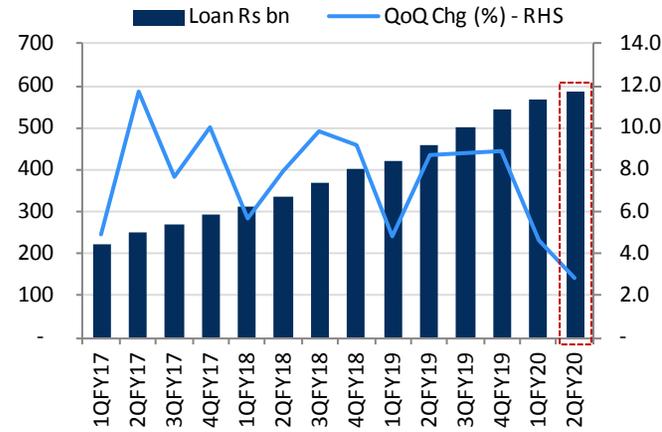
**MSME (+52/7%)**

**Cards constitute ~14% (+200bps QoQ) of the book & account for ~57% of Fees**

**RBK has ~2.29mn cards in force (+92/13%)**

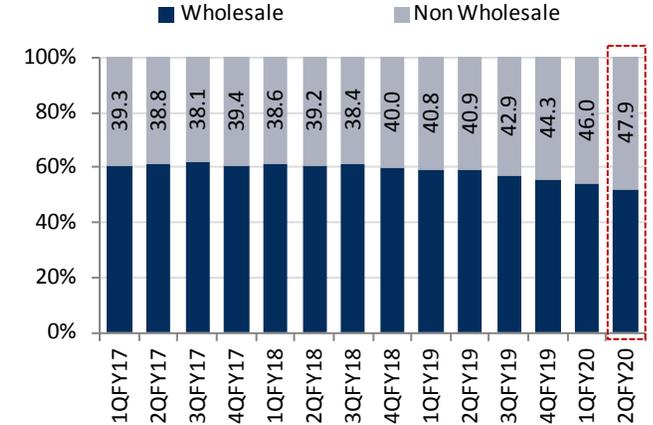
**Fees were ~49% of the cards**

**Loans Growth Slowed to ~28/3%**



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                         | 1QFY1        | 2QFY1        | 3QFY1        | 4QFY1        | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                               | 7            | 7            | 7            | 7            | FY18*        | FY18*        | FY18*        | FY18*        | FY19*        | FY19*        | FY19*        | FY19*        | FY20*        | FY20*        |
| C&IB                          | 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        | 221.4        |
| CB                            | 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         | 83.3         |
| <b>Wholesale</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>304.7</b> |
| <b>% of total loans</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>  | <b>52.1</b>  |
| BBB (LAP, Credit Cards, etc.) | 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        | 201.4        |
| Agri                          | 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          | 0.0          |
| FI                            | 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         | 78.7         |
| <b>Non Wholesale</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>280.1</b> |
| <b>% of total loans</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>47.9</b>  |
| <b>TOTAL</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> | <b>584.8</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: Sharp Fall In General Banking And Processing Fees**

| %                   | 1QFY17   | 2QFY17   | 3QFY17   | 4QFY17    | 1QFY18    | 2QFY18    | 3QFY18    | 4QFY18    | 1QFY19    | 2QFY19    | 3QFY19    | 4QFY19    | 1QFY20    | 2QFY20    |
|---------------------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Forex               | 19       | 20       | 21       | 16        | 19        | 17        | 15        | 14        | 12        | 12        | 11        | 12        | 11        | 10        |
| Processing fees     | 39       | 39       | 35       | 38        | 31        | 28        | 29        | 24        | 24        | 23        | 23        | 23        | 19        | 12        |
| General Banking     | 16       | 14       | 16       | 19        | 15        | 15        | 12        | 14        | 12        | 14        | 14        | 11        | 12        | 9         |
| Distribution #      | 15       | 16       | 18       | 4         | 3         | 4         | 4         | 6         | 4         | 3         | 3         | 4         | 2         | 3         |
| Trade and others    | 11       | 11       | 9        | 9         | 9         | 10        | 9         | 10        | 8         | 8         | 8         | 9         | 9         | 9         |
| <b>Credit Cards</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> | <b>57</b> |

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

**After growing swiftly over 4QFY19 and 1QFY20 (+26% and +22%QoQ each), SA was flat QoQ**

**CA grew ~16% QoQ (+15% YoY) after dipping ~11% QoQ in 1QFY20**

**As a result of sequentially flattish opex, the C-I improved ~90bps QoQ to 51.5%**

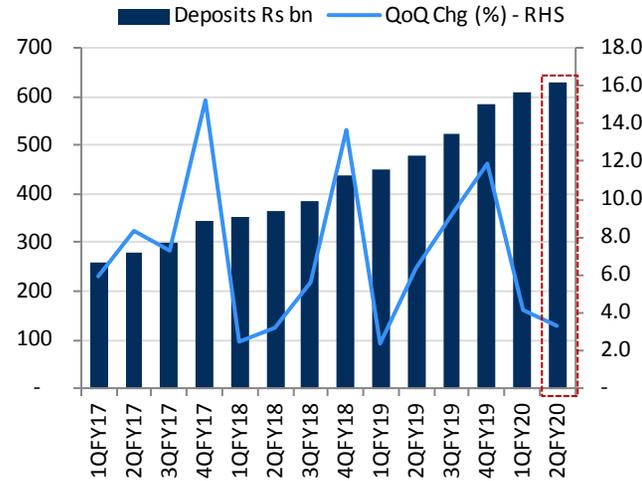
**RBK added 14 branches, 10 banking outlets and 143 BC branches in the qtr**

**The mgt intends on adding another ~50 branches in FY20E**

**Non-wholesale yields inched up ~130/20bps to 15.4% while wholesale yields dipped ~20bps QoQ (+~60bps YoY) to 9.2%**

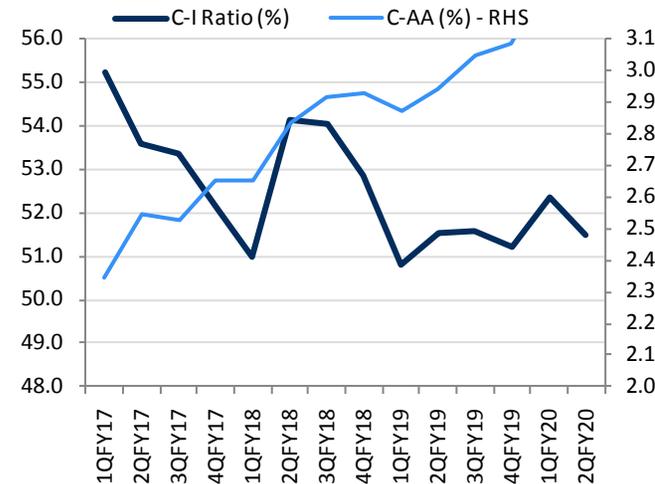
**Surprisingly, interest reversals were a mere Rs 200mn**

### Deposit Growth Too Slows To 32/3%



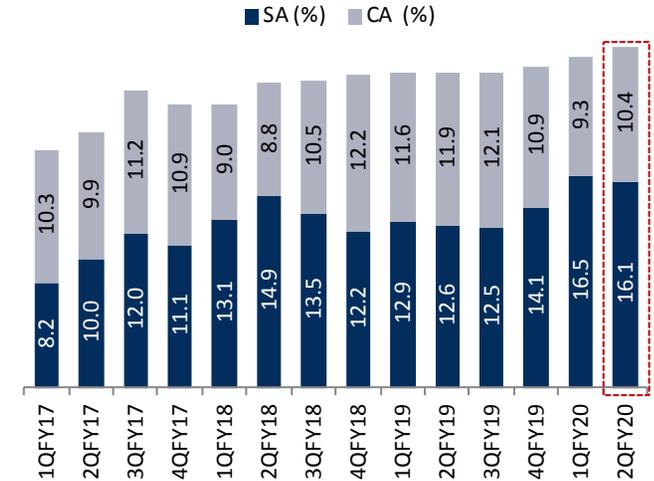
Source: Bank, HDFC sec Inst Research

### C-I Ratio: Improves QoQ



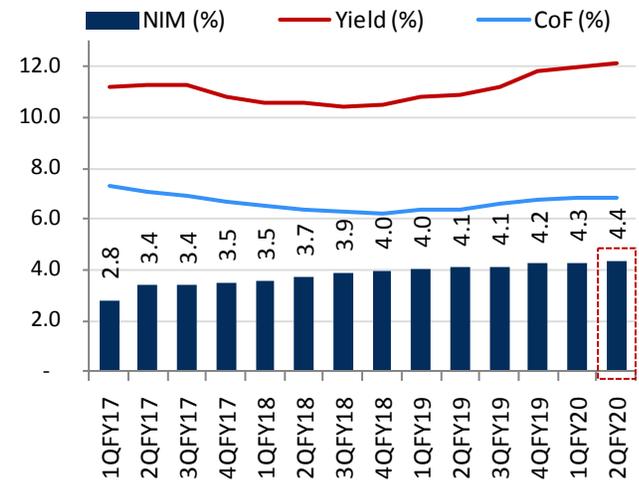
Source : Bank, HDFC sec Inst Research

### CASA Ratio Up 70bps QoQ To ~26.5%



Source: Bank, HDFC sec Inst Research

### NIMs Continue To Rise, Up 5bps QoQ (27bps YoY)



Source : Bank, HDFC sec Inst Research

**Slippages jumped to ~Rs 13.8bn (~9.6% ann.), led by a nearly fivefold increase in C&IB GNPA's**

**Of the slippages, ~Rs 2.5bn were technical, and ~Rs 8bn was from previously identified stress**

**The pool of identified stressed corporate loans increased to ~Rs 18bn from ~Rs 10bn**

**This was mostly spread across possibly the following a/cs:**

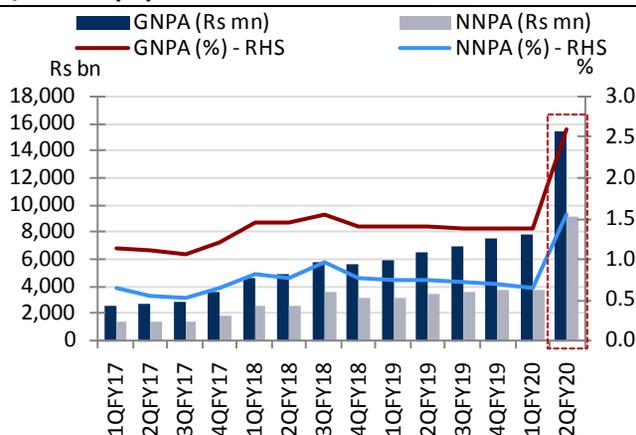
- Eveready Group**
- Essel Group**
- Coffee Day Group**
- Sintex Industries**

**Details of sectors with Nil. SMA 1 or 2:**

| Sector       | Exposure | ATS      |
|--------------|----------|----------|
| RE           | Rs 25bn  | Rs 570mn |
| Construction | Rs 40bn  | Rs 440mn |
| NBFCs#       | Rs32bn   | Rs820mn  |
| HFCs         | Rs9bn    | Rs1.15bn |
| Power        | Rs24bn   | Rs520mn  |

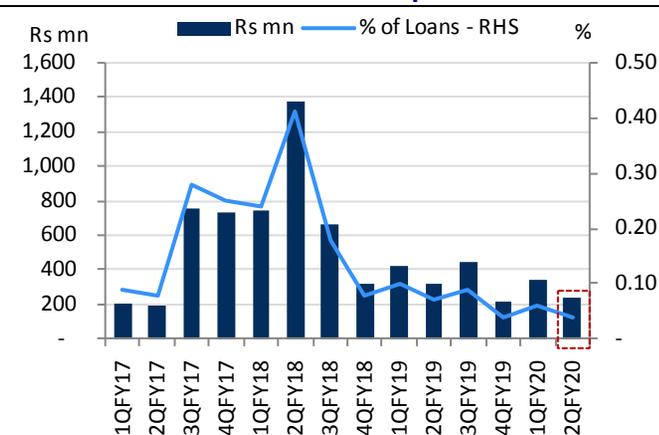
#Ex. Strategic partner

**G/NNPA (%) More Than Double QoQ**



Source : Bank, HDFC sec Inst Research

**Restructured Book At A Mere 4bps**



Source : Bank, HDFC sec Inst Research

**Slippages: Jump Sequentially**

| Rs bn            | 1QFY17       | 1HFY17       | 9MFY17       | FY17         | 1QFY18       | 1HFY18       | 9MFY18       | FY18         | 1QFY19       | 2QFY19       | 3QFY19       | 4QFY19       | 1QFY20       | 2QFY20        |
|------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Opening          | 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        | 7,890         |
| <b>Slippages</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>13,770</b> |
| % ann.           | 1.28         | 1.00         | 1.00         | 2.51         | 2.07         | 1.66         | 2.05         | 1.19         | 1.44         | 1.29         | 1.76         | 1.58         | 1.62         | 9.55          |
| Reductions       | 230          | 400          | 510          | 3,850        | 520          | 1,140        | 2,310        | 1,280        | 1,180        | 940          | 1,600        | 1,470        | 1,910        | 6,280         |
| <b>Closing</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> | <b>15,380</b> |

Source: Bank, HDFC sec Inst Research

**Segmental GNPA's: Sharp Rise in C&IB GNPA's**

| Rs bn        | 1QFY17       | 1HFY17       | 9MFY17       | FY17         | 1QFY18       | 1HFY18       | 9MFY18       | FY18         | 1QFY19       | 1HFY19       | 9MFY19       | FY19         | 1QFY20       | 2QFY20        |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| C&IB         | 266          | 378          | 378          | 1,038        | 1,030        | 1,028        | 1,422        | 831          | 923          | 921          | 921          | 1,215        | 1,395        | 8,424         |
| CB #         | 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        | 1,986         |
| <b>BBB #</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> | <b>4,214</b>  |
| LAP          | 61           | 85           | 128          | 199          | 153          | 254          | 253          | 259          | 306          | 289          | NA           | NA           | NA           | NA            |
| Biz Loans    | 56           | 78           | 108          | 159          | 197          | 186          | 257          | 316          | 323          | 254          | NA           | NA           | NA           | NA            |
| PL           | 13           | 19           | 27           | 43           | 57           | 77           | 85           | 118          | 159          | 166          | NA           | NA           | NA           | NA            |
| Cards        | 69           | 81           | 84           | 98           | 144          | 158          | 193          | 199          | 333          | 399          | NA           | NA           | NA           | NA            |
| Others       | 273          | 285          | 270          | 264          | 315          | 362          | 320          | 237          | 164          | 220          | NA           | NA           | NA           | NA            |
| Agri#        | 102          | 107          | 117          | 181          | -            | 264          | 576          | 815          | NA           | NA           | NA           | NA           | NA           | NA            |
| FI           | 98           | 119          | 131          | 197          | 1,012        | 1,307        | 1,635        | 1,628        | 1,174        | 970          | 673          | 564          | 599          | 599           |
| <b>TOTAL</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> | <b>15,391</b> |

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

### Change In Estimates

| Rs mn          | FY20E  |        |        | FY21E  |        |        |
|----------------|--------|--------|--------|--------|--------|--------|
|                | Old    | New    | Change | Old    | New    | Change |
| NII            | 30,595 | 31,099 | 1.6%   | 36,352 | 36,803 | 1.2%   |
| PPOP           | 23,731 | 24,751 | 4.3%   | 26,999 | 28,485 | 5.5%   |
| PAT            | 7,790  | 5,437  | -30.2% | 12,252 | 10,131 | -17.3% |
| Adj. BVPS (Rs) | 173    | 161    | -7.3%  | 198    | 179    | -9.6%  |

Source: HDFC sec Inst Research

### Peer Set Comparison

|            | Mcap<br>(Rs bn) | CMP<br>(Rs) | Rating     | TP<br>(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       |
| KMB #      | 3,107           | 1,628       | NEU        | 1,638      | 242        | 283        | 329        | 37.4        | 30.3        | 24.6       | 5.50        | 4.61        | 3.87        | 15.5       | 15.9        | 16.4        | 2.01        | 2.05        | 2.09        |
| ICICIBC #  | 2,909           | 451         | BUY        | 510        | 156        | 181        | 214        | 20.2        | 12.7        | 9.1        | 2.22        | 1.89        | 1.56        | 9.3        | 13.5        | 16.4        | 1.08        | 1.48        | 1.79        |
| AXSB #     | 2,009           | 713         | BUY        | 958        | 272        | 314        | 363        | 33.4        | 15.2        | 12.4       | 2.52        | 2.18        | 1.88        | 7.5        | 13.7        | 14.8        | 0.68        | 1.31        | 1.41        |
| IIB        | 950             | 1,341       | BUY        | 1,904      | 515        | 581        | 688        | 18.0        | 14.1        | 11.2       | 2.60        | 2.31        | 1.95        | 16.5       | 16.6        | 18.1        | 1.73        | 1.86        | 1.94        |
| <b>RBL</b> | <b>124</b>      | <b>287</b>  | <b>NEU</b> | <b>294</b> | <b>161</b> | <b>179</b> | <b>214</b> | <b>22.7</b> | <b>12.2</b> | <b>8.5</b> | <b>1.79</b> | <b>1.60</b> | <b>1.34</b> | <b>7.0</b> | <b>12.0</b> | <b>15.4</b> | <b>0.62</b> | <b>0.98</b> | <b>1.18</b> |
| FB         | 166             | 84          | BUY        | 119        | 63         | 74         | 85         | 9.8         | 8.1         | 6.5        | 1.32        | 1.13        | 0.99        | 12.2       | 13.2        | 14.8        | 1.00        | 1.04        | 1.13        |
| CUB        | 155             | 211         | BUY        | 261        | 68         | 80         | 94         | 18.4        | 16.0        | 14.0       | 3.08        | 2.63        | 2.26        | 16.0       | 15.8        | 15.5        | 1.72        | 1.69        | 1.65        |
| DCBB       | 57              | 182         | BUY        | 243        | 97         | 113        | 130        | 13.8        | 11.3        | 9.0        | 1.88        | 1.62        | 1.40        | 12.4       | 13.5        | 14.9        | 1.07        | 1.14        | 1.22        |
| KVB        | 44              | 56          | BUY        | 89         | 52         | 61         | 67         | 12.2        | 6.9         | 4.4        | 1.06        | 0.91        | 0.83        | 5.6        | 9.6         | 14.6        | 0.50        | 0.79        | 1.11        |
| SBIN #     | 2,414           | 270         | BUY        | 416        | 184        | 222        | 261        | 8.1         | 4.6         | 3.4        | 0.98        | 0.79        | 0.64        | 8.6        | 13.5        | 15.7        | 0.51        | 0.81        | 0.97        |
| AUBANK     | 208             | 688         | BUY        | 807        | 121        | 148        | 184        | 30.6        | 22.2        | 17.2       | 5.66        | 4.65        | 3.75        | 18.1       | 19.6        | 20.8        | 1.80        | 1.91        | 1.93        |

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

**Income Statement**

| (Rs mn)                                 | FY18          | FY19          | FY20E         | FY21E         | FY22E         |
|---|---------------|---------------|---------------|---------------|---------------|
| Interest Earned                         | 45,076        | 63,007        | 78,691        | 94,755        | 113,849       |
| Interest Expended                       | 27,413        | 37,612        | 47,593        | 57,953        | 69,696        |
| <b>Net Interest Income</b>              | <b>17,663</b> | <b>25,395</b> | <b>31,099</b> | <b>36,803</b> | <b>44,153</b> |
| <b>Other Income</b>                     | <b>10,682</b> | <b>14,424</b> | <b>18,582</b> | <b>21,652</b> | <b>25,402</b> |
| <i>Fee Income (CEB)</i>                 | <i>7,226</i>  | <i>11,656</i> | <i>14,132</i> | <i>17,062</i> | <i>20,695</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>49,681</b> | <b>58,454</b> | <b>69,555</b> |
| <b>Total Operating Exp</b>              | <b>15,034</b> | <b>20,420</b> | <b>24,929</b> | <b>29,969</b> | <b>35,983</b> |
| <i>Employee Expense</i>                 | <i>5,507</i>  | <i>6,362</i>  | <i>8,063</i>  | <i>10,055</i> | <i>12,364</i> |
| <b>PPOP</b>                             | <b>13,311</b> | <b>19,398</b> | <b>24,751</b> | <b>28,485</b> | <b>33,571</b> |
| Provisions & Contingencies              | 3,645         | 6,407         | 17,485        | 14,946        | 14,070        |
| <i>Prov. for NPAs (incl. std prov.)</i> | <i>2,995</i>  | <i>5,234</i>  | <i>16,485</i> | <i>13,946</i> | <i>13,070</i> |
| <b>PBT</b>                              | <b>9,665</b>  | <b>12,992</b> | <b>7,266</b>  | <b>13,539</b> | <b>19,501</b> |
| <i>Provision for Tax</i>                | <i>3,315</i>  | <i>4,322</i>  | <i>1,829</i>  | <i>3,408</i>  | <i>4,908</i>  |
| <b>PAT</b>                              | <b>6,351</b>  | <b>8,670</b>  | <b>5,437</b>  | <b>10,131</b> | <b>14,593</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          | 4,306          | 4,306            | 4,306            |
| Reserves                    | 62,643         | 71,206         | 75,807         | 84,380           | 96,727           |
| <b>Shareholders' Funds</b>  | <b>66,840</b>  | <b>75,473</b>  | <b>80,113</b>  | <b>88,685</b>    | <b>101,033</b>   |
| <i>Savings</i>              | <i>53,395</i>  | <i>82,448</i>  | <i>112,952</i> | <i>152,483</i>   | <i>201,276</i>   |
| <i>Current</i>              | <i>53,388</i>  | <i>63,427</i>  | <i>72,941</i>  | <i>83,882</i>    | <i>96,465</i>    |
| <i>Term Deposit</i>         | <i>332,240</i> | <i>438,069</i> | <i>530,085</i> | <i>636,123</i>   | <i>763,369</i>   |
| <b>Total Deposits</b>       | <b>439,023</b> | <b>583,944</b> | <b>715,978</b> | <b>872,488</b>   | <b>1,061,109</b> |
| Borrowings                  | 92,614         | 118,321        | 119,573        | 130,800          | 143,150          |
| 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>945,391</b> | <b>1,127,097</b> | <b>1,346,794</b> |
| <b>APPLICATION OF FUNDS</b> |                |                |                |                  |                  |
| Cash & Bank Balance         | 42,844         | 66,021         | 62,246         | 79,197           | 95,111           |
| Investments                 | 154,473        | 168,404        | 195,261        | 219,081          | 248,925          |
| <i>G-Secs</i>               | <i>113,220</i> | <i>119,427</i> | <i>150,355</i> | <i>178,860</i>   | <i>212,222</i>   |
| Advances                    | 402,678        | 543,082        | 657,307        | 793,571          | 962,555          |
| 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>945,391</b> | <b>1,127,097</b> | <b>1,346,794</b> |

Source: Bank, HDFC sec Inst Research

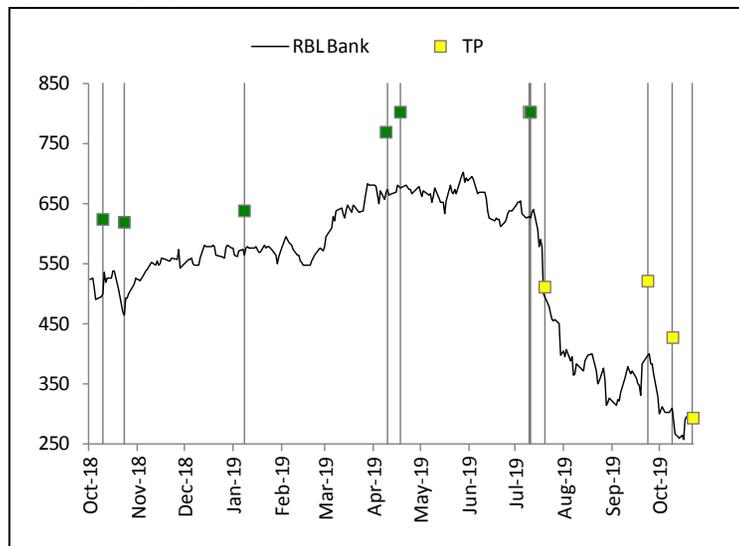
## Key Ratios

|                                 | FY18  | FY19  | FY20E  | FY21E | FY22E |
|---------------------------------|-------|-------|--------|-------|-------|
| <b>VALUATION RATIOS</b>         |       |       |        |       |       |
| EPS (Rs)                        | 15.1  | 20.3  | 12.6   | 23.5  | 33.9  |
| Earnings Growth (%)             | 52.1  | 36.5  | (37.3) | 86.3  | 44.0  |
| BVPS (Rs)                       | 159.2 | 176.9 | 186.0  | 205.9 | 234.6 |
| Adj. BVPS (Rs)                  | 151.8 | 168.1 | 160.6  | 178.8 | 213.7 |
| DPS (Rs)                        | 2.1   | 2.7   | 1.7    | 3.1   | 4.5   |
| ROAA (%)                        | 1.15  | 1.22  | 0.62   | 0.98  | 1.18  |
| ROAE (%)                        | 11.5  | 12.2  | 7.0    | 12.0  | 15.4  |
| P/E (x)                         | 19.0  | 14.1  | 22.7   | 12.2  | 8.5   |
| P/ABV (x)                       | 1.89  | 1.71  | 1.79   | 1.60  | 1.34  |
| P/PPOP (x)                      | 9.0   | 6.3   | 5.0    | 4.3   | 3.7   |
| Dividend Yield (%)              | 0.7   | 0.9   | 0.6    | 1.1   | 1.6   |
| <b>PROFITABILITY</b>            |       |       |        |       |       |
| Yield On Advances (%)           | 9.84  | 10.68 | 10.76  | 10.81 | 10.84 |
| Yield On Investment (%)         | 6.90  | 6.77  | 6.75   | 6.75  | 6.75  |
| Cost Of Funds (%)               | 5.58  | 6.09  | 6.14   | 6.26  | 6.75  |
| Cost Of Deposits (%)            | 5.96  | 6.34  | 6.45   | 6.48  | 6.46  |
| Core Spread (%)                 | 4.27  | 4.59  | 4.61   | 4.55  | 4.09  |
| NIM (%)                         | 3.48  | 3.90  | 3.87   | 3.83  | 3.85  |
| <b>OPERATING EFFICIENCY</b>     |       |       |        |       |       |
| Cost/Avg. Asset Ratio (%)       | 2.72  | 2.87  | 2.85   | 2.89  | 2.91  |
| Core Cost-Income Ratio (%)      | 56.35 | 52.31 | 52.56  | 53.23 | 53.27 |
| <b>BALANCE SHEET STRUCTURE</b>  |       |       |        |       |       |
| Loan Growth (%)                 | 36.7  | 34.9  | 21.0   | 20.7  | 21.3  |
| Deposit Growth (%)              | 26.9  | 33.0  | 22.6   | 21.9  | 21.6  |
| C/D Ratio (%)                   | 91.7  | 93.0  | 91.8   | 91.0  | 90.7  |
| Equity/Assets (%)               | 10.8  | 9.4   | 8.5    | 7.9   | 7.5   |
| Equity/Advances (%)             | 16.6  | 13.9  | 12.2   | 11.2  | 10.5  |
| CASA (%)                        | 24.3  | 25.0  | 26.0   | 27.1  | 28.1  |
| Capital Adequacy Ratio (CAR, %) | 15.3  | 13.5  | 12.1   | 11.2  | 10.6  |
| W/w Tier I CAR (%)              | 13.6  | 12.1  | 10.9   | 10.2  | 9.8   |

|                          | FY18   | FY19   | FY20E  | FY21E  | FY22E  |
|--------------------------|--------|--------|--------|--------|--------|
| <b>ASSET QUALITY</b>     |        |        |        |        |        |
| Gross NPLs (Rsm)         | 5,667  | 7,546  | 26,923 | 26,680 | 22,897 |
| Net NPLs (Rsm)           | 3,126  | 3,728  | 10,933 | 11,681 | 9,003  |
| Gross NPLs (%)           | 1.40   | 1.39   | 4.10   | 3.36   | 2.38   |
| Net NPLs (%)             | 0.78   | 0.69   | 1.66   | 1.47   | 0.94   |
| Slippages (%)            | 1.63%  | 1.50%  | 4.80%  | 2.75%  | 2.00%  |
| Coverage Ratio (%)       | 44.8   | 50.6   | 59.4   | 56.2   | 60.7   |
| Provision/Avg. Loans (%) | 0.74   | 0.99   | 2.67   | 1.85   | 1.41   |
| <b>ROAA TREE</b>         |        |        |        |        |        |
| Net Interest Income      | 3.20%  | 3.57%  | 3.56%  | 3.55%  | 3.57%  |
| Non Interest Income      | 1.93%  | 2.03%  | 2.12%  | 2.09%  | 2.05%  |
| Treasury Income          | 0.30%  | 0.11%  | 0.26%  | 0.21%  | 0.16%  |
| Operating Cost           | 2.72%  | 2.87%  | 2.85%  | 2.89%  | 2.91%  |
| Provisions               | 0.66%  | 0.90%  | 2.00%  | 1.44%  | 1.14%  |
| Provisions For NPAs      | 0.47%  | 0.66%  | 1.83%  | 1.29%  | 1.00%  |
| Tax                      | 0.60%  | 0.61%  | 0.21%  | 0.33%  | 0.40%  |
| ROAA                     | 1.15%  | 1.22%  | 0.62%  | 0.98%  | 1.18%  |
| Leverage (x)             | 10.03  | 9.99   | 11.24  | 12.28  | 13.04  |
| ROAE                     | 11.53% | 12.18% | 6.99%  | 12.00% | 15.38% |

Source: Bank, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



| Date      | CMP | Reco | Target |
|-----------|-----|------|--------|
| 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    |
| 9-Jul-19  | 627 | BUY  | 803    |
| 10-Jul-19 | 626 | BUY  | 803    |
| 22-Jul-19 | 500 | NEU  | 512    |
| 22-Sep-19 | 383 | NEU  | 522    |
| 9-Oct-19  | 310 | NEU  | 428    |
| 23-Oct-19 | 287 | NEU  | 294    |

**Rating Definitions**

- 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

## INSTITUTIONAL RESEARCH

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