

<b>INDUSTRY</b>	<b>BANKS</b>
<b>CMP (as on 04 Jun 2018)</b>	<b>Rs 537</b>
<b>Target Price</b>	<b>Rs 539</b>
Nifty	10,629
Sensex	35,012
<b>KEY STOCK DATA</b>	
Bloomberg/Reuters	AXSB IN
No. of Shares (mn)	2,568
MCap (Rs bn) / (\$ mn)	1,379/20,539
6m avg traded value (Rs mn)	4,360
<b>STOCK PERFORMANCE (%)</b>	
<b>52 Week high / low</b>	<b>Rs 628/448</b>
	3M 6M 12M
Absolute (%)	2.1 0.4 5.7
Relative (%)	(0.7) (6.1) (6.2)
<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	28.04
FIs & Local MFs	11.99
FPIs	51.64
Public & Others	8.33
Source : BSE	

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## Corporate aches, retail puzzles

Axis Bank's FY18 annual report vindicates our cautious stance on the bank, even as the street has begun to get constructive around the resolution of corporate stress in India. We are skeptical on the large pool of assets below investment grade (Rs 90bn). What is well documented is that stress has shot up (GNPAs up from 1.67% in FY16 to 6.77% currently) and that profitability has taken a hit.

The segment data on the retail business is a bit of a puzzle. NII is flat despite the ~23% rise in retail assets. Increasing granularity in the B/S and fees are encouraging, but not quite enough for our stance to change. Maintain NEUTRAL with a TP of Rs 539 at 2x Mar-20E ABV.

- Asset quality** has deteriorated over the past couple of years as industry NPAs jumped from 1.2% in FY16 to 15.2% in FY18. NPAs in most risky sectors have jumped with Infrastructure (~29.1%) and metals (~17%) leading the pack. While risky sectors in AXSB's loan mix have fallen (Iron/Steel at 3.4% vs. 4.4% in FY17; infra at 8.4% vs. 10.3%), the large pool of sub-investment grade assets (~Rs 90bn) will keep GNPAs elevated for at least two more quarters, in our view. Other segments also deteriorated, with GNPAs in Services and PLs almost doubling over FY16-18. The NPA recognition in FY18 has been largely on RBI's prodding. AXSB's industry NPAs at 15.2% significantly lag ICICIBC (18.1% in FY17). Our slippage est of ~2.75% over FY19-20E is generous.

- The retail conundrum:** Retail profitability was AXSB's savior in FY17, but took a significant (and surprising) hit in FY18 as segmental PBT almost halved YoY to ~Rs

20bn. This was led by flattish NII (a puzzling aspect), 17% rise in opex and a 2.2x jump in provisions. The retail fee growth was ~29%.

- Robust CASA franchise:** AXSB's deposit franchise continued to flourish as CASA deposits rose to ~54% of total deposits. Incremental contribution of SA to total deposits was ~57%. With CASA/branch of ~Rs 658.5mn, AXSB is in line with large peers. Differential SA pricing (6% for balances above Rs 10mn) can further propel growth hereon.
- Improving granularity:** Retail loans now form ~47% of total loans (vs ~40.9% in FY16) while the share of top 20 advances dropped to 10.3% from ~11.2% in FY17.
- Other highlights:** (a) Robust growth in retail fees, now ~48% of total fees, (b) PBT level loss for the wholesale segment for the 2<sup>nd</sup> consecutive year, (c) Deterioration in Agri portfolio (GNPAs +60bps to 3.93%) relatively contained, (d) Overall share of corp loans dipped below 40%, (e) RWA growth lagged advances growth as share of retail and better rated borrowers increased and (f) ESOPs outstanding stable at 1.2% of O/S shares.

### FINANCIAL SUMMARY

YE Mar (Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Net Interest Income	168,330	180,931	186,177	221,385	264,416
PPOP	161,036	175,845	155,945	186,362	225,363
PAT	82,237	36,793	2,757	51,104	95,005
EPS (Rs)	34.4	15.4	1.1	19.6	36.4
ROAE (%)	16.8	6.8	0.5	7.7	12.9
ROAA (%)	1.67	0.65	0.04	0.69	1.13
Adj. BVPS (Rs)	212	197	184	226	269
P/ABV (x)	2.53	2.73	2.92	2.38	1.99
P/E (x)	15.6	35.0	500.0	27.4	14.7

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

## AXIS BANK : ANNUAL REPORT HIGHLIGHTS

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Sectoral NPA (%)</b>							
Agri	2.33	2.36	2.83	2.26	2.44	3.25	3.93
<b>Industry</b>	<b>0.75</b>	<b>1.09</b>	<b>1.25</b>	<b>1.65</b>	<b>2.22</b>	<b>9.61</b>	<b>15.20</b>
Services	0.96	1.60	1.94	1.70	2.04	4.96	3.85
PL	0.81	0.64	0.57	0.61	0.69	0.89	1.17
<b>GNPL : PSL (%)</b>							
Agri & Allied	-	-	2.83	2.26	2.44	3.25	3.93
Industry eligible for PSL	-	-	1.38	1.53	1.75	3.11	3.70
Services	-	-	0.66	0.62	1.78	2.69	3.39
Personal loan	-	-	0.36	0.48	0.65	0.76	1.68
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1.29</b>	<b>1.21</b>	<b>1.59</b>	<b>2.26</b>	<b>3.07</b>
<b>GNPL : NoN PSL (%)</b>							
Agri & Allied	-	-	-	-	-	-	-
<b>Industry</b>	<b>-</b>	<b>-</b>	<b>1.2</b>	<b>1.7</b>	<b>2.3</b>	<b>10.7</b>	<b>17.2</b>
Services	-	-	2.4	2.0	2.1	5.5	3.9
Personal loan	-	-	0.6	0.7	0.7	0.9	1.0
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1.3</b>	<b>1.4</b>	<b>1.7</b>	<b>6.2</b>	<b>7.8</b>
<b>GNPA (%)</b>							
Sub-standard	31.07	29.01	34.69	25.75	26.51	27.44	23.13
Doubtful 1	8.17	18.99	8.28	21.82	21.46	25.64	34.45
Doubtful 2	8.12	4.43	15.30	14.50	28.26	19.76	28.66
Doubtful 3	1.14	2.83	2.26	1.10	0.93	2.22	6.72
Loss	51.49	44.75	39.48	36.84	22.83	24.94	7.04
<b>GNPA Movement (Rs bn)</b>							
Opening Balance	16.0	18.1	23.9	31.5	41.1	60.9	212.9
<b>Slippages</b>	<b>18.4</b>	<b>20.2</b>	<b>25.5</b>	<b>28.5</b>	<b>72.4</b>	<b>217.8</b>	<b>334.2</b>
Slippage Ratio (%)	1.18	1.10	1.19	1.12	2.34	6.12	8.22
Less: Total Deductions	16.3	13.8	17.9	18.9	52.6	65.9	204.5
Upgrades	7.4	3.3	3.3	3.2	3.4	21.8	49.1
Recoveries	2.2	2.5	5.4	3.6	16.8	21.8	38.5
Write offs	6.7	8.0	9.2	12.2	32.3	22.2	116.9
<b>Closing Balance</b>	<b>18.1</b>	<b>24.5</b>	<b>31.5</b>	<b>41.1</b>	<b>60.9</b>	<b>212.9</b>	<b>342.5</b>
Top 4 GNPA's (Rs bn)	5.82	9.38	6.51	9.31	11.21	49.84	53.40
<b>Loan Mix (%)</b>							
SME	13.2	14.4	14.8	15.3	13.2	13.2	13.4
Agri	9.8	10.3	10.0	10.2	10.2	9.4	8.4
Retail	26.9	31.4	36.8	39.8	40.9	45.0	47.0
Corp	50.3	47.1	42.7	38.5	45.9	41.8	39.7

*Despite the spike, recognition lags ICICIB, where industry NPAs crossed 18% a year ago*

*Accretion in Agri NPAs curtailed*

*Provisioning will remain elevated, given the large proportion of NPAs in lower buckets*

*Primarily from the corporate book. RBI's withdrawal of restructuring schemes further dented asset quality*

*Share of retail loans continued to rise*

Source : Company, HDFC sec Inst Research

## AXIS BANK : ANNUAL REPORT HIGHLIGHTS (cont'd)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Exposure (Fund based + non-fund based, %)</b>							
Infra	7.7	7.7	8.0	7.8	8.3	6.7	5.5
Power	8.1	6.8	5.5	4.9	5.0	3.6	3.0
<b>Total Infra</b>	<b>15.8</b>	<b>14.5</b>	<b>13.5</b>	<b>12.7</b>	<b>13.3</b>	<b>10.3</b>	<b>8.4</b>
Textile	1.6	1.5	1.5	1.5	1.6	1.1	1.0
Gems & Jewellery	0.6	0.8	0.4	0.4	0.4	-	0.3
Iron & Steel	4.3	4.1	3.8	4.3	4.7	4.4	3.4
CRE	2.2	2.1	2.5	2.6	3.5	2.2	2.3
<b>Total stressed sector exposure</b>	<b>24.4</b>	<b>22.9</b>	<b>21.7</b>	<b>21.5</b>	<b>23.5</b>	<b>18.1</b>	<b>15.6</b>
<b>Loan mix : usage wise (%)</b>							
Working capital	29.9	30.6	31.3	30.5	29.9	29.7	34.3
Term loan	70.1	69.4	68.7	69.5	70.1	70.3	65.7
PSL Loans (%)	33.6	29.1	32.3	29.7	28.3	28.9	25.6
Unsecured Loans (%)	13.6	17.2	16.6	20.7	23.6	22.1	28.8
<b>Rating Mix</b>							
<b>Corp (%)</b>							
AAA	8.0	9.0	11.0	10.0	12.0	12.0	13.0
AA	19.0	16.0	15.0	20.0	20.0	25.0	34.0
A	40.0	37.0	35.0	32.0	30.0	29.0	30.0
<b>Sub-total A and above</b>	<b>67.0</b>	<b>62.0</b>	<b>61.0</b>	<b>62.0</b>	<b>62.0</b>	<b>66.0</b>	<b>77.0</b>
BBB	30.0	32.0	30.0	29.0	28.0	22.0	18.0
<BBB or unrated	3.0	6.0	9.0	9.0	10.0	12.0	5.0
<b>SME (%)</b>							
SME1	5.0	6.0	7.0	8.0	7.0	6.0	6.0
SME2	18.0	16.0	15.0	15.0	14.0	14.0	16.0
SME3	57.0	58.0	58.0	61.0	63.0	66.0	66.0
SME4	12.0	12.0	13.0	9.0	8.0	9.0	6.0
SME 5-8	9.0	8.0	7.0	7.0	8.0	5.0	6.0
<b>Concentration (%)</b>							
Top-20 Advances	11.9	10.6	11.0	11.0	10.2	11.1	10.3
Top-20 Exposures	12.3	11.8	12.5	13.1	12.4	13.1	13.2

*Exposure to risky sectors has dipped*

*Greater focus with increasing disbursements in WC loans*

*Visible uptick in corporate loans rated A and above*

*Asset concentration remained stable*

**AXIS BANK : ANNUAL REPORT HIGHLIGHTS (cont'd)**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Maturity Profile of Loans</b>							
Avg Duration (years)	3.12	3.18	3.39	3.27	3.33	3.31	3.39
<b>Maturity profile</b>							
Upto 6 months	16%	15%	11%	14%	14%	16%	15%
6-12 months	7%	6%	6%	7%	7%	9%	6%
1-3 years	23%	23%	23%	21%	18%	17%	17%
3-5 years	14%	13%	13%	12%	13%	13%	13%
Above 5 years	40%	42%	47%	46%	47%	47%	49%
<b>CASA Contribution (Rs bn)</b>							
SA	517	638	778	883	1,058	1,260	1,482
% Change YoY	26.5	23.4	21.9	13.5	19.8	19.1	17.6
% of Deposits	23.5	25.2	27.7	27.4	29.6	30.4	32.7
Incremental Contribution (%)	35.0	37.3	49.4	25.3	49.3	35.9	56.5
CA	398	483	487	561	637	870	956
% Change YoY	7.7	21.6	0.8	15.2	13.4	36.7	9.9
% of Deposits	18.1	19.1	17.3	17.4	17.8	21.0	21.1
Incremental Contribution (%)	9.2	26.4	1.3	17.9	21.2	41.4	22.0
<b>Per Branch (Rs mn)</b>							
SA	319	328	324	341	364	382	400
CA	245	248	203	217	219	263	258
CASA	564	576	526	558	583	645	659
Total Deposits	1,357	1,297	1,170	1,245	1,233	1,254	1,225
Top-20 Deposits (%)	14.14	13.89	13.63	12.61	10.90	11.60	11.44
<b>Maturity Profile of Deposits</b>							
Avg Duration (years)	2.04	2.41	2.52	2.68	2.59	2.59	2.62
<b>Maturity Profile</b>							
Upto 6 months	34%	31%	29%	25%	26%	30%	31%
6-12 months	24%	14%	18%	13%	19%	16%	15%
1-3 years	8%	13%	9%	17%	10%	8%	8%
3-5 years	6%	9%	7%	5%	3%	2%	4%
Above 5 years	28%	32%	37%	40%	41%	44%	43%
<b>Bancassurance Fees (Rs bn)</b>							
% of CEB	8.6	10.2	12.3	14.1	13.3	14.2	13.9
% of other income	6.9	7.8	8.9	10.3	9.5	8.5	9.8
% of PPOp	5.0	5.5	5.8	6.4	5.5	5.7	6.9
% of PAT	8.8	9.9	10.6	11.7	10.8	27.1	389.2

*Despite a drop in term loans, increasing share of Housing loans has kept the avg duration high*

*Incremental contribution for FY18 one of the highest in the peerset*

*In line with comparable peers (ICICIBC Rs 595mn, KMB Rs 704mn and HDFCB Rs 717mn)*

Source : Company, HDFC sec Inst Research

**AXIS BANK : ANNUAL REPORT HIGHLIGHTS (cont'd)**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Fee Income Break-up (Rs bn)</b>							
Large and Mid Corp	17.1	17.8	17.9	18.2	18.9	18.6	16.4
Treasury	9.7	11.7	13.4	14.1	8.1	1.4	1.7
Agri and SME banking	2.9	3.6	3.9	3.7	3.9	4.0	4.3
Business banking	4.3	4.5	4.9	5.7	13.6	20.2	23.7
Capital Markets	0.6	0.6	0.3	-	-	-	-
Retail Banking	12.8	17.1	19.3	25.9	30.3	34.8	42.8
<b>Total Fee Income</b>	<b>47.3</b>	<b>55.2</b>	<b>59.6</b>	<b>67.6</b>	<b>74.7</b>	<b>79.1</b>	<b>88.9</b>

*Share of corporate fees continued to dip*

<b>% of total fees</b>							
Large and Mid Corp	36.1	32.2	30.0	26.9	25.2	23.5	18.4
Treasury	20.4	21.2	22.4	20.9	10.9	1.8	1.9
Agri and SME banking	6.1	6.5	6.5	5.5	5.2	5.1	4.8
Business banking	9.2	8.1	8.2	8.4	18.2	25.6	26.7
Capital Markets	1.2	1.0	0.5	-	-	-	-
Retail Banking	27.0	31.0	32.4	38.3	40.5	44.0	48.1

<b>Dividend from Subsidiaries</b>							
Rs mn	11	15	19	338	1,398	1,765	2,561
% of total non-interest income	0.0	0.0	0.0	0.4	1.5	1.5	2.3
% of PPOP	0.0	0.0	0.0	0.3	0.9	1.0	1.6
% of PAT	0.0	0.0	0.0	0.5	1.7	4.8	92.9

*Higher Dividend payouts from subsidiaries led by Axis capital (2x YoY) and 28% rise in Axis Finance*

<b>Contingent Liability (CL)</b>							
Rs bn	4,802	5,481	5,748	5,912	6,174	6,696	7,353
% Change	7.8	14.1	4.9	2.8	4.4	8.5	9.8
CL/BS (x)	1.7	1.6	1.5	1.3	1.2	1.1	1.1
CL/NW (x)	21.1	16.6	15.0	13.2	11.6	12.0	11.6

<b>ESOP</b>							
Outstanding ESOPs (mn shares)	-	10.9	41.8	41.8	35.5	29.7	29.6
% of Equity Share Capital	-	0.5	1.8	1.8	1.5	1.2	1.2

<b>Risk Weighted Assets</b>							
Rs bn	2,317	2,584	2,838	3,452	4,039	4,848	5,176
% Change	17.9	11.5	9.9	21.6	17.0	20.0	6.8
% Assets	81.1	75.9	74.1	74.7	76.9	80.6	74.9
PAT % RWA	1.83	2.00	2.19	2.13	2.04	0.76	0.05

*Slower growth in RWA as retail and better rated corporates grow in the mix*

Source : Company, HDFC sec Inst Research

**AXIS BANK : ANNUAL REPORT HIGHLIGHTS (cont'd)**

	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Segment Performance</b>							
<b>Retail (Rs bn)</b>							
<b>Loans</b>	<b>487</b>	<b>655</b>	<b>880</b>	<b>1,119</b>	<b>1,385</b>	<b>1,680</b>	<b>2,065</b>
<b>NII</b>	<b>27.6</b>	<b>38.5</b>	<b>46.7</b>	<b>59.5</b>	<b>76.3</b>	<b>96.6</b>	<b>96.3</b>
Other Income	12.4	16.1	16.2	21.5	27.0	30.9	39.9
<b>Total Income</b>	<b>40.0</b>	<b>54.6</b>	<b>62.9</b>	<b>81.0</b>	<b>103.3</b>	<b>127.5</b>	<b>136.2</b>
Opex	37.6	47.1	54.1	64.7	70.7	83.1	97.5
<b>PPOP</b>	<b>2.4</b>	<b>7.4</b>	<b>8.8</b>	<b>16.3</b>	<b>32.6</b>	<b>44.4</b>	<b>38.6</b>
Provisions	2.5	2.3	3.3	4.6	5.1	8.4	18.6
<b>PBT</b>	<b>(0.0)</b>	<b>5.1</b>	<b>5.5</b>	<b>11.8</b>	<b>27.4</b>	<b>36.0</b>	<b>20.0</b>
<b>Growth (%)</b>							
Loans	35.3	34.6	34.4	27.2	23.8	21.3	22.9
<b>NII</b>	<b>3.5</b>	<b>39.2</b>	<b>21.4</b>	<b>27.5</b>	<b>28.3</b>	<b>26.6</b>	<b>(0.4)</b>
Other Income	25.1	30.0	0.5	32.9	25.4	14.5	29.2
Total Income	9.3	36.4	15.2	28.9	27.5	23.4	6.8
Opex	31.6	25.4	14.7	19.7	9.3	17.5	17.4
<b>PPOP</b>	<b>(69.9)</b>	<b>208.2</b>	<b>18.4</b>	<b>85.2</b>	<b>99.5</b>	<b>36.4</b>	<b>(13.1)</b>
Provisions	(40.3)	(6.4)	43.3	37.8	13.0	63.6	121.1
<b>PBT</b>	<b>(101.2)</b>	<b>NA</b>	<b>7.2</b>	<b>113.6</b>	<b>132.9</b>	<b>31.3</b>	<b>(44.4)</b>
<b>RoAA (%)</b>							
<b>NII</b>	<b>6.53%</b>	<b>6.74%</b>	<b>6.08%</b>	<b>5.95%</b>	<b>6.09%</b>	<b>6.30%</b>	<b>5.14%</b>
Other Income	2.93%	2.82%	2.11%	2.15%	2.15%	2.02%	2.13%
<b>Total Income</b>	<b>9.45%</b>	<b>9.56%</b>	<b>8.19%</b>	<b>8.10%</b>	<b>8.25%</b>	<b>8.32%</b>	<b>7.27%</b>
Opex	8.88%	8.26%	7.04%	6.47%	5.65%	5.42%	5.21%
<b>PPOP</b>	<b>0.57%</b>	<b>1.30%</b>	<b>1.15%</b>	<b>1.63%</b>	<b>2.60%</b>	<b>2.90%</b>	<b>2.06%</b>
Provisions	0.58%	0.40%	0.43%	0.46%	0.41%	0.55%	0.99%
<b>PBT</b>	<b>-0.01%</b>	<b>0.90%</b>	<b>0.72%</b>	<b>1.18%</b>	<b>2.19%</b>	<b>2.35%</b>	<b>1.07%</b>

*Despite robust growth, NII was flat. Pricing pressure can be one reason, but we are not sure this is an exhaustive explanation when the book has grown 23%*

*Provisions doubled YoY*

Source : Company, HDFC sec Inst Research

**AXIS BANK : ANNUAL REPORT HIGHLIGHTS (cont'd)**

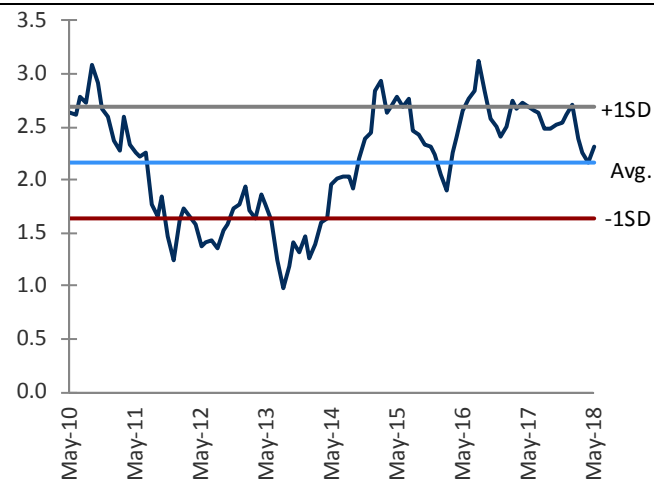
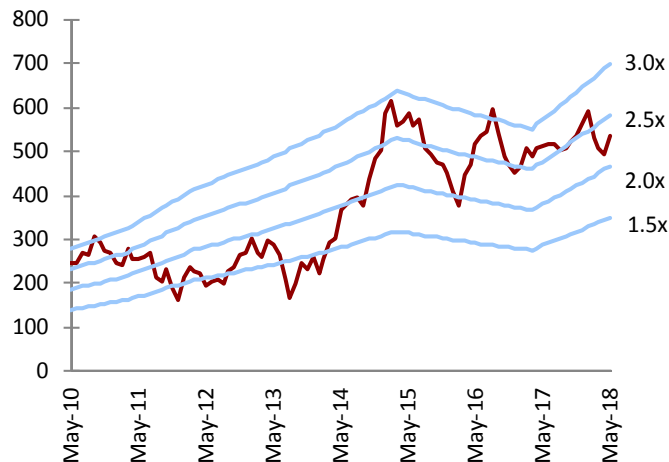
	FY12	FY13	FY14	FY15	FY16	FY17	FY18
<b>Segment Performance</b>							
<b>Wholesale (Rs bn)</b>							
<b>Loans</b>	<b>911</b>	<b>982</b>	<b>1,022</b>	<b>1,082</b>	<b>1,554</b>	<b>1,559</b>	<b>1,744</b>
<b>NII</b>	<b>48.4</b>	<b>59.4</b>	<b>66.5</b>	<b>70.4</b>	<b>78.4</b>	<b>85.2</b>	<b>68.5</b>
Other Income	28.0	28.4	30.2	31.0	32.6	29.6	28.1
<b>Total Income</b>	<b>76.4</b>	<b>87.8</b>	<b>96.7</b>	<b>101.4</b>	<b>110.9</b>	<b>114.8</b>	<b>96.6</b>
Opex	17.4	16.2	20.1	22.6	25.3	33.2	37.3
<b>PPOP</b>	<b>59.0</b>	<b>71.6</b>	<b>76.6</b>	<b>78.8</b>	<b>85.7</b>	<b>81.7</b>	<b>59.3</b>
Provisions	7.4	16.1	17.7	18.6	30.1	100.4	118.5
<b>PBT</b>	<b>51.7</b>	<b>55.4</b>	<b>58.9</b>	<b>60.2</b>	<b>55.6</b>	<b>(18.8)</b>	<b>(59.3)</b>
<b>Growth (%)</b>							
Loans	19.9	7.9	4.1	5.9	43.6	0.3	11.9
<b>NII</b>	<b>1,186.0</b>	<b>22.8</b>	<b>12.1</b>	<b>5.8</b>	<b>11.3</b>	<b>8.7</b>	<b>(19.7)</b>
Other Income	1,123.4	1.5	6.1	2.9	4.9	(9.1)	(5.0)
<b>Total Income</b>	<b>1,162.3</b>	<b>15.0</b>	<b>10.1</b>	<b>4.9</b>	<b>9.4</b>	<b>3.5</b>	<b>(15.9)</b>
Opex	1,104.8	(6.6)	24.2	12.4	11.8	31.2	12.5
PPOP	1,180.3	21.3	7.0	2.9	8.7	(4.7)	(27.4)
Provisions	913.4	119.4	9.4	5.3	61.7	234.1	18.0
<b>PBT</b>	<b>1,230.2</b>	<b>7.3</b>	<b>6.3</b>	<b>2.2</b>	<b>(7.7)</b>	<b>(133.7)</b>	<b>215.8</b>
<b>RoAA (%)</b>							
<b>NII</b>	<b>5.79%</b>	<b>6.27%</b>	<b>6.64%</b>	<b>6.69%</b>	<b>5.95%</b>	<b>5.48%</b>	<b>4.15%</b>
Other Income	3.35%	3.00%	3.01%	2.95%	2.47%	1.90%	1.70%
<b>Total Income</b>	<b>9.15%</b>	<b>9.28%</b>	<b>9.65%</b>	<b>9.64%</b>	<b>8.42%</b>	<b>7.38%</b>	<b>5.85%</b>
Opex	2.08%	1.71%	2.01%	2.15%	1.92%	2.13%	2.26%
<b>PPOP</b>	<b>7.07%</b>	<b>7.56%</b>	<b>7.64%</b>	<b>7.49%</b>	<b>6.50%</b>	<b>5.25%</b>	<b>3.59%</b>
Provisions	0.88%	1.71%	1.76%	1.77%	2.28%	6.45%	7.18%
<b>PBT</b>	<b>6.19%</b>	<b>5.86%</b>	<b>5.88%</b>	<b>5.72%</b>	<b>4.22%</b>	<b>-1.21%</b>	<b>-3.59%</b>

**2<sup>nd</sup> consecutive yearly loss**

**Core income dip owing to high interest reversals**

Source : Company, HDFC sec Inst Research

### P/ABV Band Chart



Source : Company, HDFC sec Inst Research

### Peer Valuations

BANK	Mcap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
KMB #	2485	1304	BUY	1371	175	198	228	49.0	37.2	28.9	6.01	5.19	4.39	13.2	14.1	15.5	1.72	1.82	1.88
ICICIBC #	1844	287	BUY	377	105	126	150	18.9	12.6	8.7	1.88	1.46	1.12	7.3	9.5	9.8	0.81	1.00	1.17
<b>AXSB</b>	<b>1,379</b>	<b>537</b>	<b>NEU</b>	<b>539</b>	<b>184</b>	<b>226</b>	<b>269</b>	<b>500.0</b>	<b>27.4</b>	<b>14.7</b>	<b>2.92</b>	<b>2.38</b>	<b>1.99</b>	<b>0.5</b>	<b>7.7</b>	<b>12.9</b>	<b>0.04</b>	<b>0.69</b>	<b>1.13</b>
IIB	1132	1902	BUY	1,966	379	443	524	31.7	25.5	20.2	5.02	4.29	3.63	16.5	17.6	19.0	1.80	1.79	1.82
RBL	212	508	BUY	582	152	170	194	30.4	24.0	17.9	3.35	2.98	2.62	12.7	12.6	15.1	1.27	1.26	1.33
FB	160	81	NEU	102	54	60	68	18.2	14.5	10.7	1.50	1.35	1.20	8.3	8.7	11.0	0.69	0.73	0.85
CUB	127	191	BUY	231	55	66	77	21.4	18.3	15.8	3.44	2.89	2.48	15.3	15.4	15.4	1.57	1.60	1.57
KVB	76	104	BUY	156	61	70	78	21.9	15.3	8.4	1.72	1.48	1.34	6.1	7.8	13.6	0.54	0.70	1.14
DCBB	54	175	BUY	216	78	88	98	22.0	17.0	13.8	2.24	1.99	1.78	9.8	10.8	12.0	0.90	0.95	0.97
SBIN #	2,347	263	BUY	328	93	137	175	-22.3	13.9	6.4	1.75	1.19	0.93	-3.4	5.0	10.2	-0.21	0.29	0.60
BOB	304	132	BUY	182	70	109	140	-14.3	17.5	8.6	1.89	1.21	0.94	-6.3	4.8	9.3	-0.34	0.27	0.50

Source: Company, HDFC sec Inst Research; # Adjusted for Subsidiaries



### Income Statement

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Interest Earned	409,880	445,422	457,803	546,459	638,189
Interest Expended	241,551	264,490	271,626	325,074	373,774
<b>Net Interest Income</b>	<b>168,330</b>	<b>180,931</b>	<b>186,177</b>	<b>221,385</b>	<b>264,416</b>
<b>Other Income</b>	<b>93,715</b>	<b>116,913</b>	<b>109,671</b>	<b>121,235</b>	<b>136,448</b>
Fee Income (CEB)	67,076	70,283	77,299	90,403	105,457
Treasury Income	10,186	31,738	13,252	10,500	9,500
<b>Total Income</b>	<b>262,044</b>	<b>297,844</b>	<b>295,848</b>	<b>342,620</b>	<b>400,863</b>
<b>Total Operating Exp</b>	<b>101,008</b>	<b>121,999</b>	<b>139,903</b>	<b>156,258</b>	<b>175,500</b>
Employee Expense	33,760	38,919	43,130	48,058	53,623
<b>PPOP</b>	<b>161,036</b>	<b>175,845</b>	<b>155,945</b>	<b>186,362</b>	<b>225,363</b>
Provisions & Contingencies	37,099	121,170	154,729	115,873	94,321
Prov. for NPAs (incl. std prov.)	41,891	115,055	164,544	116,623	95,071
<b>PBT</b>	<b>123,938</b>	<b>54,676</b>	<b>1,216</b>	<b>70,488</b>	<b>131,042</b>
Provision for Tax	41,701	17,883	-1,541	19,384	36,037
<b>PAT</b>	<b>82,237</b>	<b>36,793</b>	<b>2,757</b>	<b>51,104</b>	<b>95,005</b>

Source: Bank, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	4,775	4,790	5,133	5,213	5,213
Reserves	526,883	552,835	629,320	692,253	770,460
<b>Shareholder's Funds</b>	<b>531,658</b>	<b>557,625</b>	<b>634,453</b>	<b>697,466</b>	<b>775,673</b>
Savings	1,057,931	1,260,483	1,482,020	1,704,324	1,959,972
Current	636,519	870,017	956,496	1,071,275	1,205,184
Term Deposit	1,885,225	2,013,288	2,097,711	2,522,751	3,054,998
<b>Total Deposits</b>	<b>3,579,676</b>	<b>4,143,788</b>	<b>4,536,227</b>	<b>5,298,350</b>	<b>6,220,155</b>
Borrowings	992,264	1,050,309	1,480,161	1,527,840	1,651,763
Other Liabilities & Provisions	151,079	262,955	262,455	282,119	323,406
<b>Total Liabilities</b>	<b>5,254,676</b>	<b>6,014,677</b>	<b>6,913,296</b>	<b>7,805,776</b>	<b>8,970,996</b>
<b>APPLICATION OF FUNDS</b>					
Cash & Bank Balance	333,254	502,562	434,549	381,907	349,975
Investments	1,220,062	1,287,934	1,538,761	1,674,726	1,912,856
G-Secs	850,430	905,981	1,013,546	1,123,250	1,306,232
Advances	3,387,737	3,730,693	4,396,503	5,165,891	6,095,751
Fixed Assets	35,232	37,469	39,717	41,703	43,788
Other Assets	278,391	456,019	503,766	541,549	568,626
<b>Total Assets</b>	<b>5,254,676</b>	<b>6,014,677</b>	<b>6,913,296</b>	<b>7,805,776</b>	<b>8,970,996</b>

Source: Bank, HDFC sec Inst Research

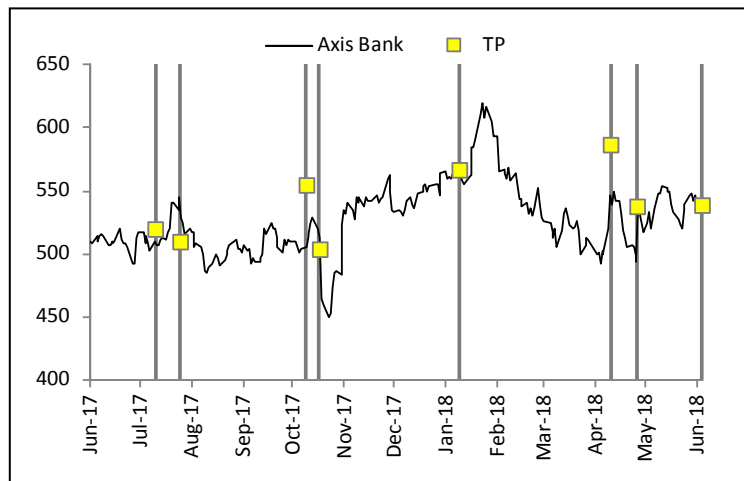
## Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratios</b>					
EPS	34.4	15.4	1.1	19.6	36.4
Earnings Growth (%)	11.8	(55.3)	(92.5)	1,753.8	85.9
BVPS (Rs.)	222.7	232.8	247.2	267.6	297.6
Adj. BVPS (Rs; 100% cover)	212.1	196.8	183.7	225.7	269.4
DPS (Rs)	5.0	5.0	0.0	3.5	5.5
ROAA (%)	1.7	0.7	0.0	0.7	1.1
ROAE (%)	16.8	6.8	0.5	7.7	12.9
P/E (x)	15.6	35.0	500.0	27.4	14.7
P/ABV (x)	2.5	2.7	2.9	2.4	1.99
P/PPOP (x)	1.6	1.5	1.8	1.5	1.2
Dividend Yield (%)	0.9	0.9	-	0.7	1.0
<b>Profitability</b>					
Yield on Advances (%)	9.69	9.31	8.40	8.82	8.91
Yield on Investment (%)	7.83	7.67	7.06	6.91	6.85
Cost of Deposits (%)	5.62	5.42	4.85	5.06	5.09
Core Spread (%)	5.45	5.09	4.42	4.69	4.80
NIM (%)	4.07	3.89	3.55	3.76	3.82
<b>Operating Efficiency</b>					
Cost/Avg. Asset Ratio (%)	2.0	2.2	2.2	2.1	2.1
Cost-Income Ratio (Excl Treasury)	40.1	45.8	49.5	47.0	44.8
<b>Balance Sheet Structure Ratios</b>					
Loan Growth (%)	20.5	10.1	17.8	17.5	18.0
Deposit Growth (%)	11.0	15.8	9.5	16.8	17.4
C/D Ratio (%)	94.6	90.0	96.9	97.5	98.0
Equity/Assets (%)	10.1	9.3	9.2	8.9	8.6
Equity/Loans (%)	15.7	14.9	14.4	13.5	12.7
CASA (%)	47.3	51.4	53.8	52.4	50.9
Capital Adequacy Ratio (CAR, %)	15.3	15.0	16.6	16.6	16.0
W/w Tier I (%)	12.5	11.9	13.0	13.1	12.8

	FY16	FY17	FY18E	FY19E	FY20E
<b>Asset Quality</b>					
Gross NPLs (Rs mn)	60,918	212,862	342,544	292,406	236,454
Net NPLs (Rs mn)	25,222	86,266	163,067	109,121	73,594
Gross NPLs (%)	1.67	5.04	6.77	5.66	3.88
Net NPLs (%)	0.70	2.11	3.40	2.11	1.21
Slippages (%)	2.34	6.12	8.22	3.25	2.20
Coverage Ratio (%)	58.6	59.5	52.4	62.7	68.9
Provision/Avg. Loans (%)	1.23	3.13	4.08	2.41	1.66
<b>RoAA Tree</b>					
Net Interest Income	3.41%	3.21%	2.88%	3.01%	3.15%
Non Interest Income	1.90%	2.07%	1.70%	1.65%	1.63%
Treasury Income	0.21%	0.56%	0.21%	0.14%	0.11%
Operating Cost	2.05%	2.17%	2.16%	2.12%	2.09%
Provisions	0.75%	2.15%	2.39%	1.57%	1.12%
Provisions for NPAs	0.77%	1.98%	2.57%	1.56%	1.11%
Tax	0.84%	0.32%	-0.02%	0.26%	0.43%
ROAA	1.67%	0.65%	0.04%	0.69%	1.13%
Leverage (x)	10.1	10.3	10.8	11.1	11.4
ROAE	16.81%	6.76%	0.46%	7.67%	12.90%

Source: Bank, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jul-17	506	NEU	520
26-Jul-17	545	NEU	510
9-Oct-17	503	NEU	555
18-Oct-17	512	NEU	504
9-Jan-18	563	NEU	567
10-Apr-18	546	NEU	587
27-Apr-18	495	NEU	538
5-Jun-18	537	NEU	539

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**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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