Sector Thematic

Banks

Down cycle stress testing

We've analysed our FY21 earnings under 4 scenarios (by increasing segment wise NPA and PCR estimates) to evaluate the potential downside risks. Under the most extreme scenario (IV), ABVs fall by 3-22% and ROAAs fall by 25-70bps. SBIN and KVB are the most vulnerable. KMB performs the best across scenarios and parameters. Mid-tier private banks and SBIN, under our base case, trade at close to trough valuations and factor in scenario I/II to a certain extent. However, banks such as ICICIBC, AXSB, KMB and CUBK trade at a premium to their previous down cycle valuations. We believe that current valuations across our coverage do not adequately capture potential downside risks to earnings under scenario III & IV, especially after the recent run up. Given their strong funding base, we believe large private banks such as ICICIBC and AXSB offer a favourable risk-reward trade off. Our top picks are ICICIBC, AXSB and CUBK.

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Banks

Down cycle stress testing

Even as the nationwide lockdown gradually lifts, there is more than enough evidence to suggest that the economic impact of COVID-19 is set to continue. Contextually, for banks, liability franchises and potential asset quality outcomes have come to be of paramount importance, and rightly so. In our earlier note, entitled 'Double whammy for some', we focussed on the liabilities' aspect.

While the moratorium will optically limit GNPAs till 1HFY21E, asset quality deterioration is inevitable. As the situation remains extremely fluid, we've analysed FY21 earnings under 4 scenarios (increasing segment wise NPA and PCR estimates) to evaluate the potential downside risks.

Under the most extreme scenario (IV), ABVs fall by 3-22% and ROAAs fall by 25-70bps. SBIN and KVB are the most vulnerable, as both report losses under scenario III and IV. Across parameters and scenarios, KMB performs the best (lowest dip in ABVs and healthy RoAAs).

Mid-tier private banks and SBIN, under our base case, trade at close to trough valuations and factor in scenario I/II to a certain extent. However, banks such as ICICIBC, AXSB, KMB and CUBK trade at a premium to their previous down cycle valuations.

We believe, that current valuations across our coverage do not adequately capture potential downside risks to earnings under scenario III & IV, especially after the recent run up. It is difficult to assign probabilities to individual scenarios. However, we believe, it is evident that across scenarios, banks with healthy B/S (CRAR, PCR and liability franchises) are well placed to absorb shocks. Consequently, we continue to prefer large private banks such as ICICIBC (SoTP of Rs 442) and AXSB (SoTP of Rs 541). SBIN (SoTP of Rs 270), too, offers a favourable risk reward trade-off, despite its earnings vulnerability. Amongst the mid-tier banks we prefer CUBK (TP of Rs 164).

The results of our analysis are as follows:

- **Asset quality:** Under various scenarios, we project a relatively greater increase in NPAs in the services/ SME and retail/ personal loan segments. Book mix is an important driver. Consequently, banks with a higher proportion of such loans see a greater increase in GNPAs. AUBANK, DCBB, FB and IIB report the greatest increase in GNPAs across scenarios, while KMB reports the lowest increase.

- **LLPs:** Our provision estimates under various scenarios have multiple drivers. Under the most extreme scenario (IV), we expect that majority of our coverage banks will see provisions rise by more than 45%. The base effect results in some anomalous trends- ICICIBC registers a 62.8% rise in FY21E LLPs and RBK sees a mere 22.9% rise, under scenario IV.

- **Earnings:** Banks report the greatest variability on this parameter on a/c of high sensitivity to LLPs. SBIN, KVB and RBK report the greatest decline in earnings across scenarios, with SBIN and KVB reporting losses under scenario III and IV. KMB is the best placed on this front, as earnings dip 17.7% and RoAAs reach ~1.4%, even under scenario IV. AUBANK reports 1%+ RoAA, even under scenario IV.

- **CRAR:** Even under scenario IV, our coverage banks see their CRAR fall between 31-69bps, with KMB reporting the lowest fall and SBIN reporting the highest. Almost all remain fairly well capitalised, even under scenario IV.

Exhibit 1: P/ABVs & RoAA

FY21E	P/ABV (x)	RoAA (%)
AUBANK	4.18	1.08
AXSB	1.50	0.50
CUBK	2.07	0.58
DCBB	0.95	0.45
FB	0.85	0.28
ICICIBC	1.39	0.72
IIB	0.98	0.55
KMB	3.84	1.38
KVB	0.96	-0.24
RBK	1.04	0.18
SBIN	0.54	-0.20

Source: HSIE Research, P/ABV and RoAA for FY21E under scenario IV

Exhibit 2: Impact on Earnings and ABVs

FY21E	Earnings	ABVs
AUBANK	-20.3%	-5.3%
AXSB	-49.3%	-8.0%
CUBK	-41.8%	-8.6%
DCBB	-41.5%	-8.8%
FB	-55.5%	-7.9%
ICICIBC	-42.1%	-6.6%
IIB	-40.9%	-4.8%
KMB	-17.7%	-3.0%
KVB	-153.9%	-22.4%
RBK	-65.6%	-5.6%
SBIN	-179.1%	-20.3%

Source: HSIE Research, Impact for FY21E under scenario IV

Note: All changes (in % or bps) are calc. wrt our FY21 base case estimates.

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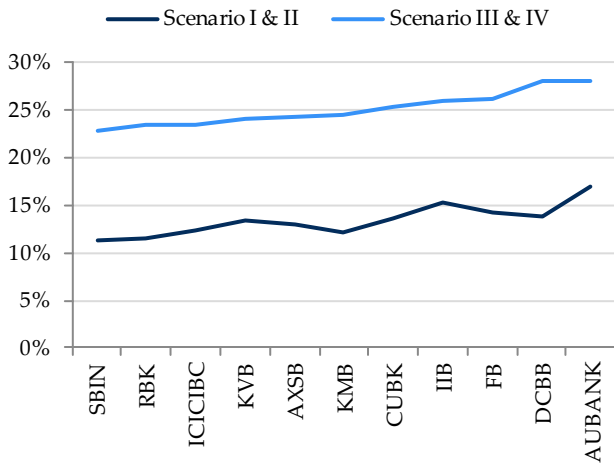+91-22-6171-7328

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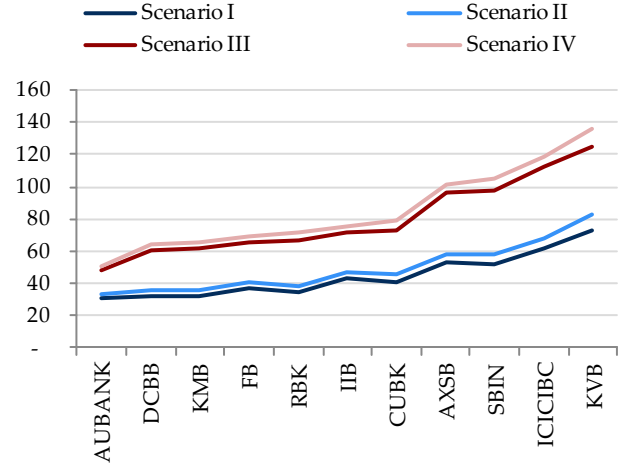punit.bahlani@hdfcsec.com
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Focus Charts

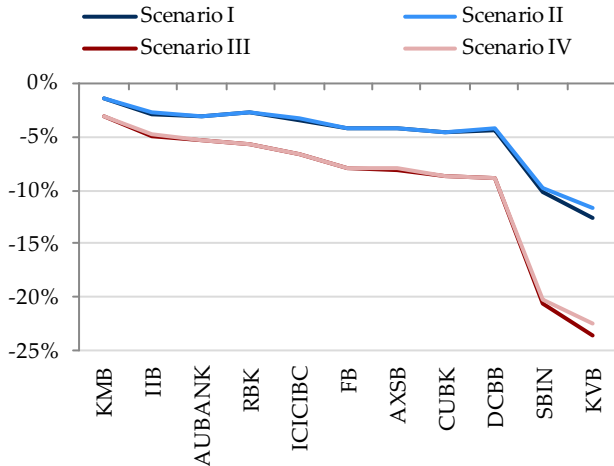### Exhibit 3: Projected GNPA increase across scenarios

Source: HSIE Research

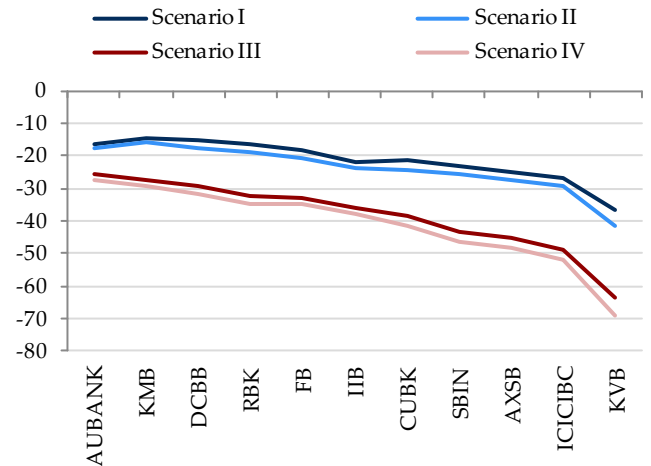### Exhibit 4: LLP (bps) increase under various scenarios

Source: HSIE Research
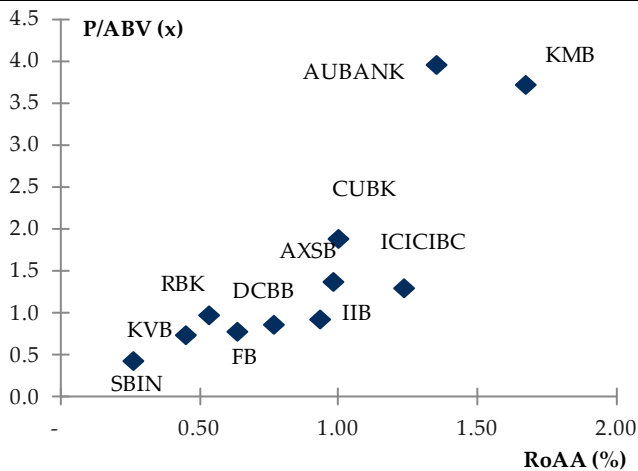
Exhibit 5 : ABV change under various scenarios

Source: HSIE Research

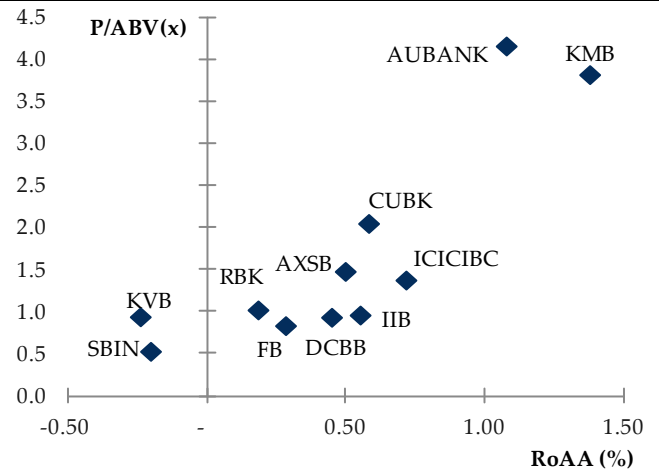### Exhibit 6 : RoAA (bps) change under various scenarios

Source: HSIE Research

Exhibit 7 : FY21E P/ABV vs. RoAA- base case

Source: HSIE Research

Note: All changes (in % or bps) are calc. wrt our FY21 base case estimates.

Exhibit 8 : FY21E P/ABV vs. RoAA- scenario IV

Source: HSIE Research

Our approach

- We've considered banks advances, GNPAs and provisions across various segments. The choice of segments and exact definition thereof varies across banks, depending upon available disclosures.

- Taking into consideration historical trends, management commentary, and our expectations of performance of various segments, we've modelled for segment-wise advances, NPAs and provisioning requirements. These are part of our existing estimates across these parameters and constitute our base case.

Exhibit 9: Our base case FY21E GNPA and PCR assumptions

Bank	Agri loans		Corporate loans/ industrial credit		SME loans / Service credit		Retail loans/ Personal loans		Overall	
	GNPA	PCR	GNPA	PCR	GNPA	PCR	GNPA	PCR	GNPA	PCR
AUBANK	2.9	40.0	2.5	45.0	3.8	56.0	1.7	39.0	2.9	52.0
AXSB	6.1	60.0	8.5	75.0	6.4	60.0	2.7	60.0	5.4	67.3
CUBK	2.2	50.0	7.8	52.0	6.7	52.3	4.3	43.3	5.3	49.6
DCBB	2.7	50.0	2.3	51.0	4.5	60.0	4.3	45.0	3.8	49.0
FB	5.2	56.0	2.5	59.0	8.0	60.0	3.1	53.0	4.0	57.3
ICICIBC	5.0	54.0	11.2	78.0	6.4	75.0	2.3	60.0	5.8	72.8
IIB	3.0	56.0	6.2	68.0	3.3	67.0	4.2	58.6	3.9	65.9
KMB	4.7	60.0	3.8	62.0	3.7	67.0	3.2	62.0	3.7	62.5
KVB	3.3	35.0	30.0	54.0	9.7	39.0	3.8	30.0	10.6	45.3
RBK	3.2	53.0	8.5	63.0	2.3	50.0	3.1	52.0	4.6	58.0
SBIN	16.0	38.0	10.0	71.0	11.7	55.0	1.8	38.0	6.9	58.7

Source: HSIE Research

- In this report, we've attempted to capture potential downside risks (stemming from adverse economic outcomes as a result of the spread of COVID-19) to our estimates, and consequently, their impact on valuations. Nevertheless, the situation remains extremely fluid.

- We've created 4 scenarios. Our current estimates constitute the base case. Each scenario assumes an increase in GNPAs and provisioning requirements (which vary across loan book segments) from our base case estimates.

- Each progressive scenario entails a greater fall in earnings vs. our base case.

Exhibit 10: Scenario construct

Particulars	Scenario I		Scenario II		Scenario III		Scenario IV	
	Δ GNPA %	Δ PCR	Δ GNPA %	Δ PCR	Δ GNPA %	Δ PCR	Δ GNPA %	Δ PCR
Agri loans	5%	50bps	5%	125bps	20%	50bps	20%	125bps
Corporate loans/ industrial credit	10%	50bps	10%	125bps	20%	50bps	20%	125bps
SME loans/ Service credit	20%	60bps	20%	150bps	30%	60bps	30%	150bps
Retail loans/ Personal loans	15%	70bps	15%	150bps	30%	70bps	30%	150bps

Source: HSIE Research

Scenario analysis outcomes

- **Impact on GNPAs:** The projected rise in GNPAs under various scenarios is a function of banks' projected loan mix. <u>We have built a greater increase in SME/ services and retail/ personal loan GNPAs (relative to industry/ corporate and agri GNPAs) as the former are more vulnerable, contextually. Consequently, banks with a higher proportion of retail and SME/service credit (AUBANK, DCBB, FB and IIB)show a greater rise across scenarios</u>. Under scenario I/II, the projected increase ranges between 11.4% and 17.0% and between 22.8% and 28.1% under scenario III/IV.

Exhibit 11: GNPA (Rs bn) scenarios – AUBANK shows the sharpest rise

Bank	GNPAs (Rs bn)					Δ from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	10.0	11.7	11.7	12.8	12.8	17.0%	17.0%	28.1%	28.1%
AXSB	343.8	388.6	388.6	427.6	427.6	13.0%	13.0%	24.4%	24.4%
CUBK	19.3	21.9	21.9	24.2	24.2	13.6%	13.6%	25.3%	25.3%
DCBB	10.8	12.3	12.3	13.8	13.8	13.9%	13.9%	28.0%	28.0%
FB	52.4	59.9	59.9	66.1	66.1	14.2%	14.2%	26.1%	26.1%
ICICIBC	426.3	479.1	479.1	526.3	526.3	12.4%	12.4%	23.5%	23.5%
IIB	85.2	98.3	98.3	107.4	107.4	15.3%	15.3%	26.0%	26.0%
KMB	87.3	98.0	98.0	108.6	108.6	12.2%	12.2%	24.4%	24.4%
KVB	54.4	61.7	61.7	67.6	67.6	13.4%	13.4%	24.2%	24.2%
RBK	28.4	31.6	31.6	35.0	35.0	11.5%	11.5%	23.4%	23.4%
SBIN	1,697.2	1,889.9	1,889.9	2,083.6	2,083.6	11.4%	11.4%	22.8%	22.8%

Source: HSIE Research

Exhibit 12: GNPA (%) scenarios– KVB shows the sharpest rise

Bank	GNPAs (%)					Δ (bps) from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	2.91	3.41	3.41	3.73	3.73	50	50	82	82
AXSB	5.43	6.14	6.14	6.76	6.76	71	71	132	132
CUBK	5.26	5.95	5.95	6.54	6.54	69	69	128	128
DCBB	3.83	4.34	4.34	4.85	4.85	51	51	102	102
FB	3.98	4.55	4.55	5.02	5.02	57	57	104	104
ICICIBC	5.82	6.50	6.50	7.09	7.09	67	67	127	127
IIB	3.89	4.48	4.48	4.90	4.90	59	59	101	101
KMB	3.70	4.15	4.15	4.60	4.60	45	45	90	90
KVB	10.59	12.01	12.01	13.15	13.15	142	142	256	256
RBK	4.59	5.11	5.11	5.66	5.66	53	53	108	108
SBIN	6.93	7.72	7.72	8.51	8.51	79	79	158	158

Source: HSIE Research

- **Impact on loan loss provisions:** The projected rise in FY21E LLPs is a function of (1) projected GNPAs, (2) the modelled increase in PCR based, on the book mix (varies from slight to moderate), and (3) our base PCR estimates. <u>Several banks could see more than a 45% increase in provisions under scenario IV. Some seemingly anomalous trends here, can be explained by the base effect- (1) ICICIBC sees the greatest increase across scenarios with a 62.8% increase under scenario 4, (2) RBK sees the lowest increase across scenarios with just a 22.9% (largely due to a higher base) increase under scenario IV.</u>

Exhibit 13: Provisions (Rs bn) scenarios

Bank	Provisions (Rs bn)					Δ from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	4.7	5.7	5.8	6.3	6.4	20.9%	23.0%	32.9%	35.3%
AXSB	122.8	154.4	157.5	180.5	183.9	25.7%	28.2%	47.0%	49.8%
CUBK	7.0	8.4	8.6	9.6	9.8	20.3%	22.8%	36.2%	39.0%
DCBB	3.4	4.2	4.3	5.0	5.1	24.1%	27.0%	45.9%	49.2%
FB	16.7	21.3	21.8	24.9	25.5	27.9%	30.9%	49.4%	52.7%
ICICIBC	126.1	167.2	171.0	201.2	205.3	32.6%	35.6%	59.6%	62.9%
IIB	51.3	60.5	61.3	66.5	67.4	18.0%	19.6%	29.7%	31.5%
KMB	27.5	34.8	35.6	41.5	42.4	26.5%	29.3%	50.9%	54.0%
KVB	12.4	16.1	16.6	18.7	19.3	29.6%	33.6%	50.9%	55.3%
RBK	18.6	20.7	20.9	22.6	22.9	10.9%	12.2%	21.4%	22.9%
SBIN	510.1	634.2	649.0	743.9	760.3	24.3%	27.2%	45.8%	49.1%

Source: HSIE Research

Exhibit 14: LLP (%) scenarios

Bank	LLPs (%)					Δ (bps) from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	1.45	1.75	1.78	1.93	1.96	30	33	48	51
AXSB	2.04	2.56	2.61	3.00	3.05	52	58	96	101
CUBK	2.02	2.42	2.47	2.74	2.80	41	46	73	79
DCBB	1.30	1.62	1.66	1.90	1.94	31	35	60	64
FB	1.31	1.68	1.72	1.96	2.00	37	41	65	69
ICICIBC	1.89	2.51	2.56	3.02	3.08	62	67	113	119
IIB	2.41	2.84	2.88	3.12	3.16	43	47	72	76
KMB	1.24	1.56	1.59	1.85	1.89	32	35	61	65
KVB	2.46	3.19	3.29	3.72	3.82	73	83	125	136
RBK	3.11	3.45	3.49	3.78	3.82	34	38	67	71
SBIN	2.14	2.66	2.72	3.12	3.19	52	58	98	105

Source: HSIE Research

Exhibit 15: PCR (%) scenarios- AUBANK sees the sharpest rise

Bank	PCR (%)					Δ (bps) from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	52.0	52.8	53.7	52.7	53.6	87	173	74	161
AXSB	67.3	67.7	68.5	67.6	68.4	37	116	31	110
CUBK	49.6	50.1	50.9	50.1	50.9	57	138	51	131
DCBB	49.0	49.7	50.5	49.6	50.4	73	153	67	147
FB	57.3	57.9	58.7	57.9	58.7	65	147	60	142
ICICIBC	72.8	73.3	74.1	73.2	74.0	57	136	44	123
IIB	65.9	66.5	67.3	66.5	67.3	64	147	58	142
KMB	62.5	63.2	63.9	63.1	63.9	65	144	62	141
KVB	45.3	45.9	46.7	45.8	46.7	58	138	51	131
RBK	57.9	58.4	59.2	58.3	59.1	50	127	41	119
SBIN	58.7	59.3	60.1	59.0	59.8	58	137	34	112

Source: HSIE Research

- **Impact on net earnings:** Expectedly, FY21E earnings estimates show the greatest variability of all parameters, given their sensitivity to LLPs. Banks with weak PPOP profiles and/or high base case provisions register the greatest decline in earnings. <u>KVB and SBIN report a loss in FY21E under scenario III/IV. RBK also records a significant decline in earnings. KMB and AUBANK display the greatest earnings' resilience across scenarios.</u>

Exhibit 16: Net earnings scenarios - SBIN and KVB report losses under scernario III and IV

Bank	Net Earnings (Rs bn)					Δ from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	6.1	5.4	5.3	5.0	4.9	-12.0%	-13.3%	-19.0%	-20.3%
AXSB	92.8	69.1	66.8	49.6	47.0	-25.5%	-28.0%	-46.5%	-49.3%
CUBK	5.1	4.0	3.8	3.1	3.0	-21.8%	-24.5%	-38.8%	-41.8%
DCBB	3.0	2.4	2.3	1.9	1.8	-20.3%	-22.8%	-38.7%	-41.5%
FB	11.8	8.3	8.0	5.7	5.3	-29.4%	-32.5%	-52.0%	-55.5%
ICICIBC	140.9	110.1	107.3	84.7	81.6	-21.9%	-23.9%	-39.9%	-42.1%
IIB	29.4	22.5	21.9	18.0	17.4	-23.4%	-25.5%	-38.6%	-40.9%
KMB	62.9	57.4	56.9	52.4	51.8	-8.7%	-9.6%	-16.7%	-17.7%
KVB	3.3	0.6	0.2	-1.4	-1.8	-82.3%	-93.5%	-141.7%	-153.9%
RBK	4.9	3.3	3.2	1.9	1.7	-31.3%	-35.1%	-61.4%	-65.6%
SBIN	104.6	11.7	0.6	-70.4	-82.7	-88.8%	-99.4%	-167.4%	-179.1%

Source: HSIE Research

Exhibit 17: ABV scenarios - KMB sees the lowest decline

Bank	Core ABV (Rs)					Δ from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	145	141	141	138	138	-3.2%	-3.1%	-5.3%	-5.3%
AXSB	292	280	280	269	269	-4.3%	-4.2%	-8.1%	-8.0%
CUBK	65	62	62	59	60	-4.7%	-4.6%	-8.7%	-8.6%
DCBB	94	90	90	86	86	-4.4%	-4.3%	-8.9%	-8.8%
FB	67	64	64	61	61	-4.3%	-4.2%	-8.0%	-7.9%
ICICIBC	173	167	167	161	162	-3.5%	-3.4%	-6.7%	-6.6%
IIB	512	497	497	486	487	-2.9%	-2.8%	-4.9%	-4.8%
KMB	292	288	288	283	283	-1.5%	-1.5%	-3.1%	-3.0%
KVB	46	40	40	35	35	-12.7%	-11.7%	-23.5%	-22.4%
RBK	194	189	189	183	183	-2.8%	-2.7%	-5.7%	-5.6%
SBIN	167	150	151	132	133	-10.1%	-9.8%	-20.6%	-20.3%

Source: HSIE Research

Exhibit 18: RoAA scenarios – KMB and AUBANK achieve 1%+ RoAA across scenarios

Bank	RoAAs (%)					Δ (bps) from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	1.4	1.2	1.2	1.1	1.1	-16	-18	-25	-27
AXSB	1.0	0.7	0.7	0.5	0.5	-25	-27	-45	-48
CUBK	1.0	0.8	0.8	0.6	0.6	-22	-24	-39	-42
DCBB	0.8	0.6	0.6	0.5	0.4	-15	-17	-30	-32
FB	0.6	0.4	0.4	0.3	0.3	-19	-21	-33	-35
ICICIBC	1.2	1.0	0.9	0.7	0.7	-27	-29	-49	-52
IIB	0.9	0.7	0.7	0.6	0.6	-22	-24	-36	-38
KMB	1.7	1.5	1.5	1.4	1.4	-14	-16	-28	-29
KVB	0.4	0.1	0.0	-0.2	-0.2	-37	-42	-63	-69
RBK	0.5	0.4	0.3	0.2	0.2	-17	-19	-33	-35
SBIN	0.3	0.0	0.0	-0.2	-0.2	-23	-26	-43	-46

Source: HSIE Research

- **Impact on CRAR:** Even under scenario IV, we project CRAR to be lower by 31bps to 69bps across our coverage, with SBIN recording the steepest fall (relatively). KMB is the best place with a projected fall of just 31bps under scenario IV. Most of our coverage banks consequently appear fairly-well capitalised even under scenario IV. However, under various scenarios we have not changed our RWA/Assets % assumptions.

Exhibit 19: CRAR (%) – SBIN sees the sharpest fall

Bank	CRAR (%)					Δ (bps) from base case			
	Base Case	Scenario I	Scenario II	Scenario III	Scenario IV	Scenario I	Scenario II	Scenario III	Scenario IV
AUBANK	20.0	19.8	19.7	19.6	19.6	-22	-24	-35	-37
AXSB	17.1	16.8	16.8	16.6	16.6	-29	-32	-54	-57
CUBK	15.8	15.5	15.5	15.3	15.3	-25	-28	-45	-48
DCBB	16.8	16.6	16.6	16.4	16.4	-21	-23	-40	-42
FB	13.8	13.6	13.5	13.4	13.4	-23	-25	-41	-44
ICICIBC	16.4	16.1	16.0	15.8	15.8	-29	-31	-52	-55
IIB	16.7	16.5	16.4	16.3	16.3	-21	-23	-35	-37
KMB	20.3	20.2	20.1	20.0	20.0	-15	-17	-29	-31
KVB	14.9	14.7	14.7	14.6	14.5	-19	-22	-33	-36
RBK	15.8	15.6	15.6	15.4	15.4	-18	-21	-36	-38
SBIN	12.6	12.3	12.2	12.0	11.9	-34	-38	-64	-69

Source: HSIE Research

What do valuations look like?

- Broadly, the sector, and most of our coverage have seen valuation troughs around FY08-09 (GFC) and FY16 (first round of AQR). At the emergence of the outbreak, our coverage saw a steep drop in prices, along with the sector, which was followed by a recovery of sorts. Banks like IIB, DCBB, SBIN within our coverage continue to trade at valuations, close to those seen in previous troughs. KMB, ICICBC, AXSB and CUBK have fared relatively better.

- Even under our most extreme scenario, valuations remain attractive for several banks.

- **AXSB:** At ~1.4x FY21E, AXSB trades significantly below its average valuation since Mar-06, a little above 2 standard deviations below the average. Current valuations are at a premium to those seen in FY09 and FY16. Under our most extreme scenario (IV), the bank still trades at ~1.5xFY21E ABV, which is below its long term average. We assign a target multiple of 1.5xFY22E ABV.

- **CUBK:** At ~1.9x FY21E, CUBK trades at close to its average valuation since Mar-06, and at a significant premium relative to its peers. We believe the relative premium is justified by the bank's consistent performance, superior return profile, conservative management, and capital base. Under our most extreme scenario (IV), the bank trades at ~2.1xFY21E ABV. We assign a target multiple of 2.1xFY22E ABV.

- **DCBB:** DCBB currently trades at 0.87xFY21E, close to 1 standard deviation below its average valuation since FY07, and close to the lows last seen around FY09. Under our most extreme scenario (IV), DCBB trades at 0.95xFY21E ABV. We assign a target multiple of 0.9xFY22E ABV.

- **FB:** At ~0.8xFY21E, FB trades close to the -1 standard deviation mark, but higher than the low of 0.47x it hit in Dec-09. FB trades at 0.85xFY21E under our most extreme scenario (IV), although RoAEs could compress significantly under this scenario (28bps in FY21E). We assign a target multiple of 0.8xFY22E ABV.

- **ICICIBC** trades at 1.3xFY21E core ABV, above previous lows seen around FY09 and FY16 respectively. Under our most extreme case (scenario IV), ICICIBC trades at 1.4xFY21E ABV, which we belive is attractive given capital, liability fanchise and much healtier B/S. We assign a multiple of 1.6xFY22E, given the potential for eventual RoAE improvement and strong deposit base.

- **IIB:** Given the sharp correction, albeit followed by some recovery, the bank trades at 0.93xFY21E ABV, close to trough valuations seen around FY09. Under our most extreme scenario (IV), IIB trades at 1xFY21E ABV. We assign a multiple of just 1xFY22E, given the bank's weak liability franchise and significant exposure to stressed sectors, which is likely to dent returns in the near term.

- **KMB:** The bank trades slightly below its long-term average multiple at ~3.7xFY21E ABV (one of the highest amongst our coverage). Under our most extreme scenario (IV), it trades at 3.8xFY21E, again, at a significant premium to its large cap peers. This can be partly explained by its attractive liability franchise, strong capital base and return ratio resiliency. We expect the bank to clock RoAAs of ~1.4% in FY21E, even under our most extreme scenario IV. We assign a target multiple of 3.0xFY22E ABV.

- **KVB:** The bank trades below at -2 standard deviation mark, at ~0.74xFY21E ABV, and even below the trough around FY09. Under our most extreme case, it trades at 0.96xFY21E. While valuations may appear tantalising, we believe that the bank's earnings are particularly vulnerable and in 2 out of 4 scenarios. Further low PCR, change in management and subdued growth remain near term challenges.

Exhibit 20: FY21E P/ABV vs. RoAA- base case
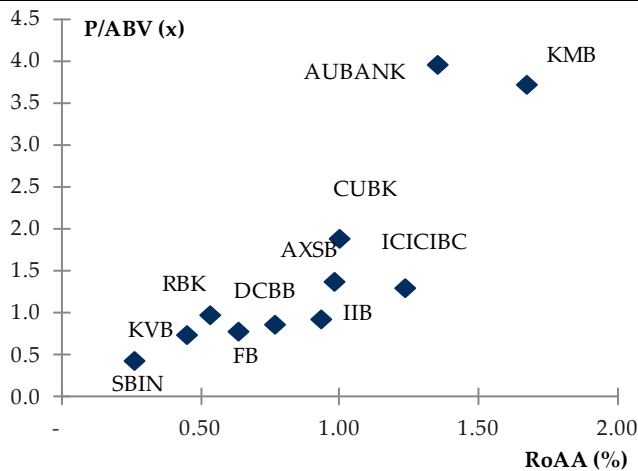
Source: HSIE Research

Exhibit 21:FY21E P/ABV vs. RoAA - scenario I
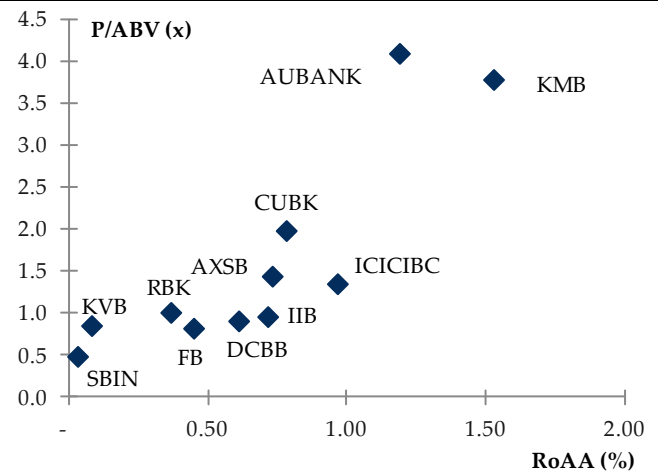
Source: HSIE Research

Exhibit 22: FY21E P/ABV vs. RoAA - scenario II
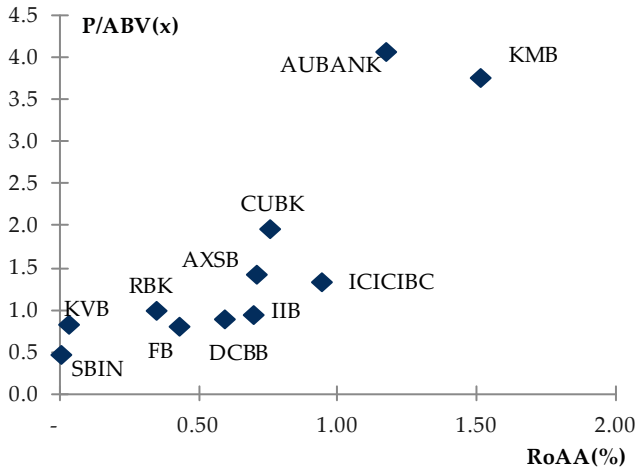
Source: HSIE Research

Exhibit 23: FY21E P/ABV vs. RoAA - scenario III
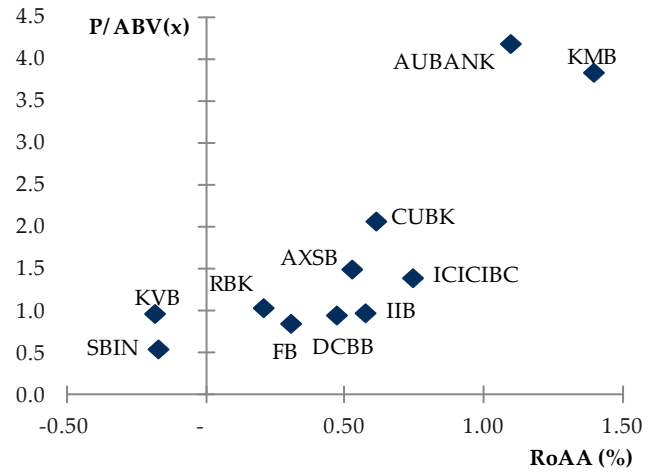
Source: HSIE Research

Exhibit 24 FY21E P/ABV vs. RoAA - scenario IV
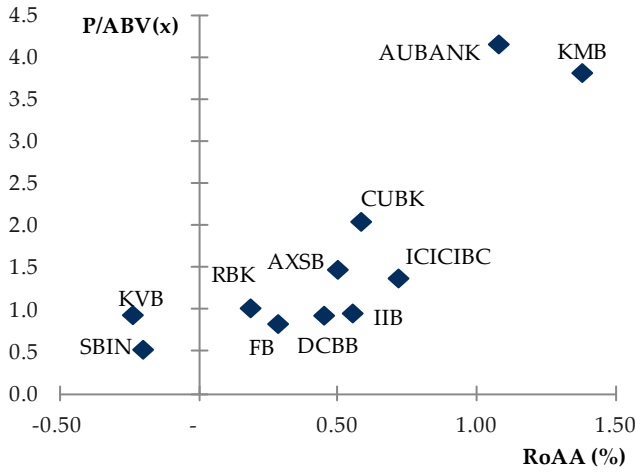
Source: HSIE Research

Exhibit 25: AXSB trades below -1 SD
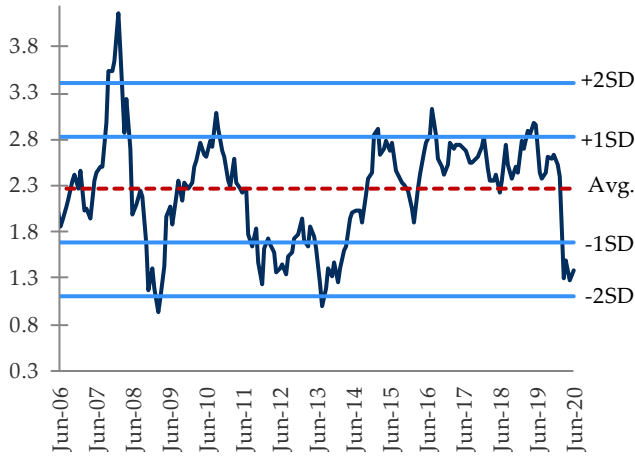
Source: HSIE Research

Exhibit 26: CUBK trades close to its long-term average
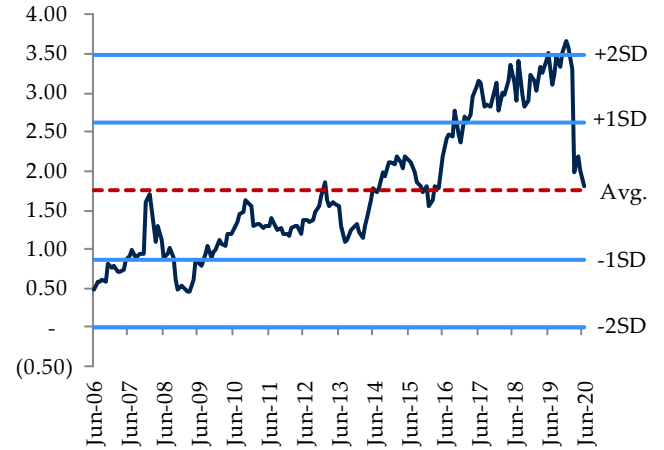
Exhibit 27: DCBB trades below -1 SD
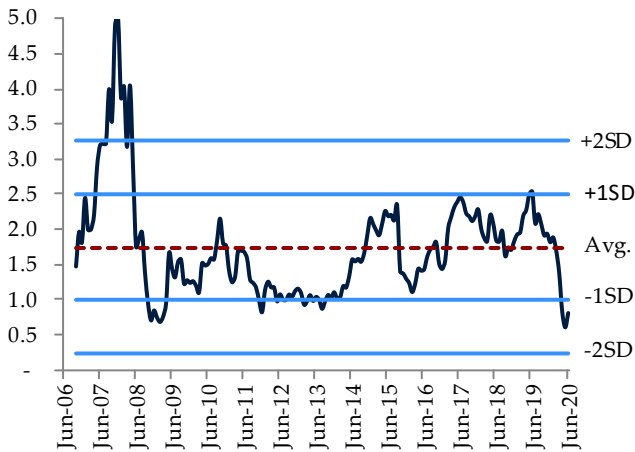
Source: HSIE Research

Exhibit 28: FB, too, trades below -1SD
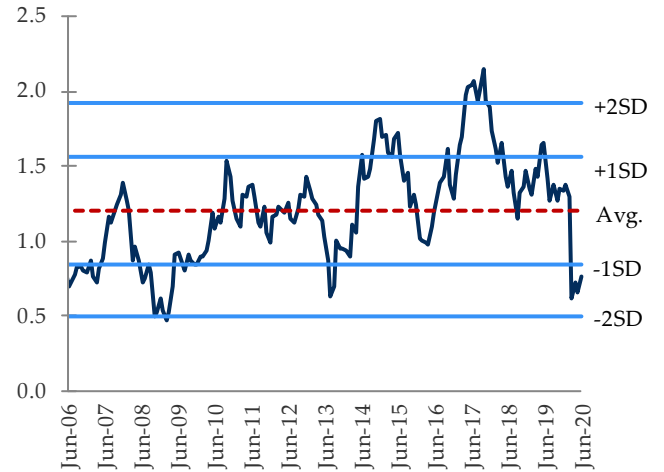
Exhibit 29: ICICIBC trades below its long-term average
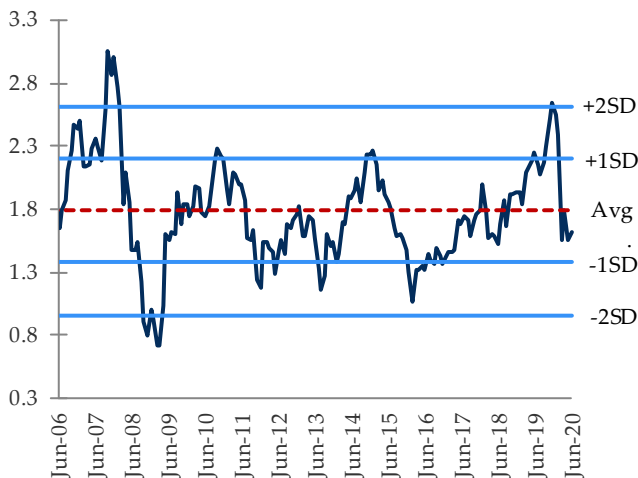
Source: HSIE Research (consol.)

Exhibit 30: IIB trades close to the -2 SD mark
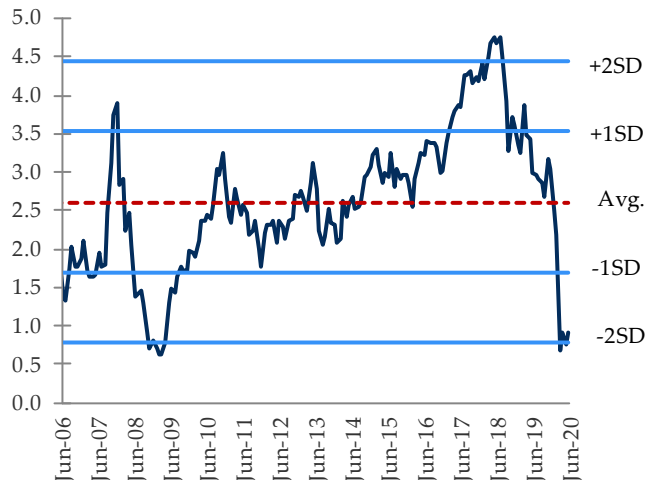
Exhibit 31: KMB trades clse to its long term average
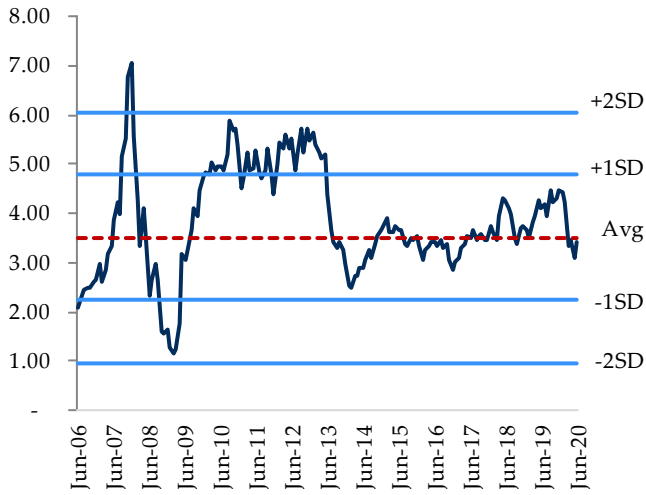
Source: HSIE Research

Exhibit 32: KVB – trades at below -2SD

Source: HSIE Research
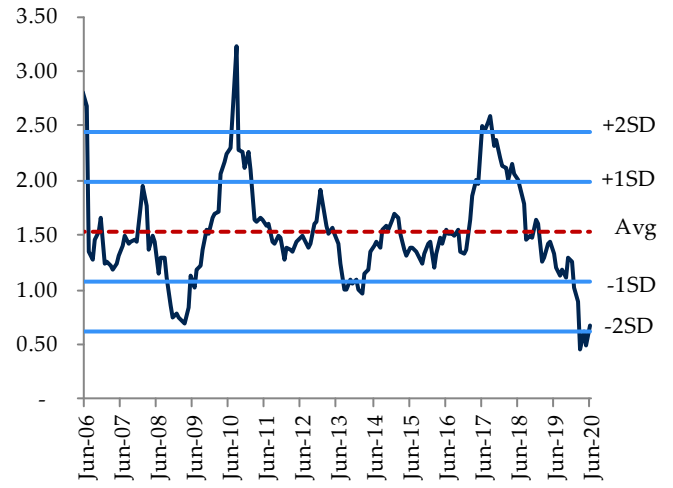
Exhibit 33: SBIN trades a little above the -2 SD mark
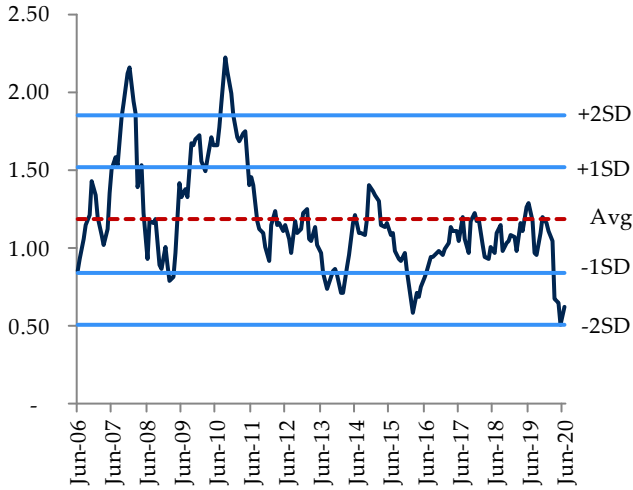
Source: HSIE Research

Limitations to our approach

▪ Due to the limited nature of disclosures, we've had to make several assumptions regarding historical parameters, such as segment wise coverage, which in turn impact our estimates.

▪ Disclosures on segment-wise advances and GNPAs across banks are not consistent in their definition. We have made a few simplifying assumptions in this case, which affect our estimates.

▪ As part of our analysis, we have only modified our GNPA and provision assumptions. Real economic outcomes, that our scenarios aim to capture, would ideally affect other parameters such as growth, NIMs, fee income, and RWA/ assets etc. This would present further downside risks to our current estimates.

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
KVB	27	34	REDUCE	33	60	51	62	11.5	8.4	5.9	0.56	0.66	0.55	3.6	4.8	6.7	0.34	0.46	0.61
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: Banks, HSIE Research, #Adjusted for subsidiaries

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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