

## Challenged, not vanquished

IIB's 2QFY20 was mostly inline. Several operating parameters (NIM, deposit growth and C-I) were stable. However, slower growth and evident stress build-up (higher slippages and SMA II) raise concerns. Maintain BUY with a TP of Rs 1,904 (3.0x Sept-21E ABV of Rs 635).

### HIGHLIGHTS OF THE QUARTER

- Asset Quality Deteriorates:** While slippages were substantially higher QoQ (~Rs 11bn i.e. 2.26% ann., +52%) and SMA II jumped 41bps QoQ to 58bps, headline GNPA's (Rs 43.7bn, 2.19%) were stable. The silver lining here is that (1) A substantial portion of Gross CCB slippages (~25%) were upgraded in 2Q itself and (2) Std exposure to known stress, was ~80bps lower QoQ at 1.1%. We build in slippages of ~2.3% over FY20-22E to factor in elevated SMA II and exposure to an HFC and RE group which has in the news.
- Book Growth Slows:** At ~21% YoY, loan growth was significantly lower vs. expectations. Comparable YoY growth was ~13%. Adjusted (for reclassification) CCB growth slowed to ~10%, as IIB sold down ~Rs 30bn of CCB loans and saw large repayments. Core VF book growth slowed to ~21% YoY. In spite of adequate capital and opportunity, we have reduced our growth assumptions by 900bps over FY20E, due to slower than

expected growth in 1HFY20. We build loan growth of ~23% over FY20-22E

- NIM Expansion:** Led by a sharp fall in the CoD (-16bps QoQ), NIMs rose 5bps QoQ to 4.1%. Yields grew ~4bps QoQ in spite of high slippages. NIMs are likely to expand here on, driven by (1) An increase in the share of high yielding unsecured loans, (2) Downward trend in interest rates and CoF and (3) A large fixed rate book (44%). NIMs are likely to touch 4.4% by FY22E.
- Near term outlook:** (1) Stress build up (2) Slower growth and (3) The imminent leadership change will weigh down on the stock.

### STANCE

**Our earnings estimates fall by 6% over FY20-22E, with slower growth, higher NPAs and credit costs. IIB's significant slips on asset quality, broader macro stress and the upcoming leadership change preclude lofty valuations (our target multiple has been 3.5x 1 yr-fwd ABV for over seven years). We are constrained to reduce this to 3.0x for now. With its top-drawer pvt banking franchise is intact, even if challenged, we believe IIB has the capability to pull back from this slip. A smooth leadership transition amidst the stress buildup will help immeasurably. Most other boxes are ticked. Maintain BUY.**

### Financial Summary

(Rs mn)	2QFY20*	2QFY19	YoY (%)	1QFY20*	QoQ (%)	FY19	FY20E*	FY21E*	FY22E*
Net Interest Income	29,095	22,033	32.1%	28,440	2.3%	88,462	117,113	147,405	174,257
PPOP	25,999	19,924	30.5%	25,910	0.3%	80,882	106,664	129,883	150,241
PAT	13,834	9,203	50.3%	14,325	-3.4%	33,011	52,772	67,282	84,535
EPS (Rs)	20.0	15.3	30.5%	20.7	-3.4%	54.8	74.5	94.9	119.3
ROAE (%)						13.3	16.5	16.6	18.1
ROAA (%)						1.32	1.73	1.86	1.94
Adj. BVPS (Rs)						400	490	581	688
P/ABV (x)						3.07	2.51	2.11	1.79
P/E (x)						22.4	16.5	12.9	10.3

Source: Bank, HDFC sec Inst Research. \* Post BHAFIN's merger with IIB, may not be comparable with prior periods.

INDUSTRY	BANKS
<b>CMP (as on 10 Oct 2019)</b>	<b>Rs 1,229</b>
<b>Target Price</b>	<b>Rs 1,904</b>
Nifty	11,235
Sensex	37,880

### KEY STOCK DATA

Bloomberg	IIB IN
No. of Shares (mn)	693
MCap (Rs bn) / (\$ mn)	852/11,987
6m avg traded value (Rs mn)	7,255

### STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,835/1,188		
	3M	6M	12M
Absolute (%)	(17.4)	(29.7)	(25.0)
Relative (%)	(15.6)	(27.8)	(33.9)

### SHAREHOLDING PATTERN (%)

	Jun19	Sep19
Promoters	14.9	13.0
FIs & Local MFs	9.7	15.6
FPIs	46	47.2
Public & Others	29.4	24.2
Pledged Shares	-	-

Source : BSE

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**Note : CCB refers to Corporate & Commercial Banking (wholesale), CFD to Consumer Finance Division (retail)**

- **Core Growth Slows:** Adjusted (for CCB loans reclassified as CFD in 1Q) CFD loans grew ~39% YoY while CCB loans grew ~9%. Pro forma CFD growth was 69% and CCB growth was -10%. Core VF loan growth slowed to ~21% YoY. Except for two-wheelers (+24%), loan growth slowed across products (VF). PL (+57/11%) and CC (+32/8%) growth remained robust, on a small base and in line with systemic trends. LAP growth was consciously restrained at ~5.5/1.2%, as expected. Micro loan growth remained muted at ~4% QoQ as a prolonged monsoon and floods impacted disbursals.
- **Further On Current And Expected Stress:**
  - Both CCB (GNPAs: 3.27%, +3bps QoQ) and CFD (GNPAs: 1.34%, +9bps QoQ) deteriorated sequentially. Technical slippages/ upgrades (~25% of CCB slippages) and higher recoveries curtailed CCB GNPAs in spite of higher slippages (2.14% vs. 78bps QoQ and 37bps YoY).
  - Microfinance GNPAs increased 33bps QoQ to 94bps as floods in certain geographies impacted collections. Collections are now back on track (98-99% efficiency), except where meetings have been granted.
  - Exposure to 3 stressed groups (Media, Diversified and HFC) declined to 1.1% of advances vs. 1.7% in 1QFY20 and 1.9% in 4QFY19. Scheduled repayments accounted for most of the reduction. Mgmt guides for further reduction to ~0.8% in the near term.
  - Exposure to an HFC which has in the news is 0.27% of loans (vs. 0.35% disclosed earlier) and to the group's real estate business at 0.45%. Exposure to the real estate business is expected to dip to ~0.2% based on scheduled repayments.
- The aforementioned exposure remains standard and the management expects them to run down further.
- The 41bps increase in SMA II was led by a ~Rs 2.6bn NBFC exposure, which is incl. within the 1.1% stressed group exposure.
- **Provisions Jump:** As expected, provisions jumped 71% QoQ (+25% YoY) to ~Rs 7.4bn (i.e. 1.5% ann.). IIB chose to make accelerated provisions of Rs 3.6bn, thus utilising the opportunity presented by lower tax rates to increase coverage (+640bps QoQ to 49.6%). We estimate LLPs of 1.4% over FY20-22E and PCR of 70% by FY22E (mgt guidance of 60% by FY20E).
- **Healthy Deposit Growth:** At ~23%, deposit growth, fuelled by ~28% term deposit growth was laudable. We expected similar trends at peers as well, in 2QFY20. CA de-grew ~4% QoQ (+24% YoY), while SA was sequentially flat (+13.7% YoY). Consequently, the CASA ratio dipped ~220/170bps to 41.4%. Retail deposits grew an impressive ~51% YoY. IIB's share of Top 20 depositors (~24% as at Mar-19) remains the highest amongst its peers. Increasing retailisation of deposits will be welcome.
- **Tax Cut Impact:** Tax expense dipped ~34% QoQ while PBT fell ~14%. Consequently the effective tax rate fell ~800bps to 25.7%. As at Mar-19. IIB had a Net DTA of ~Rs 6.7bn as at Mar-19. It should marked down the DTA, to the necessary extent (also suggested by commentary) in this qtr.
- **Capital Infusion By Promoter:** We have built in a capital infusion of Rs 27bn at Rs 1,709. This is obviously, book-accretive. This comes after the promoter's holding was diluted w

**Five Quarters At A Glance (see next page for comparable quarterly data)**

Rs mn	2QFY19	4QFY19	4QFY19	1QFY20*	2QFY20*	YoY Growth	QoQ Growth
<b>Net Interest Income</b>	<b>22,033</b>	<b>22,881</b>	<b>22,324</b>	<b>28,440</b>	<b>29,095</b>	<b>32.1%</b>	<b>2.3%</b>
Non-interest Income	13,173	14,689	15,590	16,633	17,267	31.1%	3.8%
Treasury Income	990	2,030	1,400	2,410	2,590	161.6%	7.5%
<b>Operating Income</b>	<b>35,206</b>	<b>37,569</b>	<b>37,914</b>	<b>45,072</b>	<b>46,362</b>	<b>31.7%</b>	<b>2.9%</b>
Operating Expenses	15,281	16,400	17,237	19,163	20,363	33.3%	6.3%
<b>Pre Provision Profits (PPOP)</b>	<b>19,924</b>	<b>21,170</b>	<b>20,677</b>	<b>25,910</b>	<b>25,999</b>	<b>30.5%</b>	<b>0.3%</b>
Provisions And Contingencies	5,903	6,067	15,607	4,306	7,377	25.0%	71.3%
<b>NPA Provisions</b>	<b>2,000</b>	<b>3,060</b>	<b>20,040</b>	<b>3,050</b>	<b>3,630</b>	<b>81.5%</b>	<b>19.0%</b>
<b>PBT</b>	<b>14,022</b>	<b>15,103</b>	<b>5,070</b>	<b>21,603</b>	<b>18,622</b>	<b>32.8%</b>	<b>-13.8%</b>
Provision for Tax	4,819	5,253	1,469	7,278	4,789	-0.6%	34.2%
<b>PAT</b>	<b>9,203</b>	<b>9,850</b>	<b>3,601</b>	<b>14,325</b>	<b>13,834</b>	<b>50.3%</b>	<b>-3.4%</b>
<b>Balance Sheet items/ratios</b>							
Deposits (Rs bn)	1,682	1,757	1,949	2,006	2,072	23.2%	3.3%
CASA Deposits (%)	43.6	43.6	43.1	43.1	41.4	-219 bps	-171 bps
Advances (Rs bn)	1,631	1,732	1,864	1,935	1,971	20.8%	1.9%
CD Ratio (%)	97.0	98.6	95.7	96.5	95.1	-185 bps	-134 bps
CAR (%)	14.28	14.19	14.16	15.47	15.77	149 bps	30 bps
Tier I (%)	13.86	13.78	13.53	15.04	15.34	148 bps	30 bps
<b>Profitability</b>							
Yield On Advances (%)	11.44	11.52	11.25	12.00	12.04	60 bps	4 bps
Cost Of Deposits (%)	6.54	6.74	6.80	6.86	6.70	16 bps	-16 bps
NIM (%)	3.84	3.83	3.59	4.05	4.10	26 bps	5 bps
Cost-Income Ratio (%)	43.4	43.7	45.5	42.5	43.9	52 bps	141 bps
Tax Rate (%)	34.4	34.8	29.0	33.7	25.7	-866 bps	-798 bps
<b>Asset quality</b>							
Gross NPA (Rs bn)	17.81	19.68	39.47	42.0	43.7	145.3%	4.1%
Net NPA (Rs bn)	7.88	10.29	22.48	23.8	22.0	179.7%	-7.5%
Gross NPAs (%)	1.09	1.13	2.10	2.15	2.19	110 bps	4 bps
Net NPAs (%)	0.48	0.59	1.21	1.23	1.12	64 bps	-11 bps
Delinquency Ratio (%)	1.07	1.92	8.21	1.53	2.26	119 bps	73 bps
Restructuring O/s (%)	0.11	0.11	0.09	0.08	0.11	0 bps	3 bps
Coverage Ratio (%)	55.8	47.7	43.0	43.3	49.6	-619 bps	628 bps

Led by ~21% loan growth and a ~26bps YoY NIM expansion

Core fee growth at ~21/3%; core fee income continues to constitute ~3% of average loans

Staff costs dipped ~20% QoQ, while other opex grew ~20%; accounting reclassification likely

Includes ~Rs 3.6bn of accelerated provisions

Effective tax rate fell ~800bps QoQ to 25.7%; IIB made necessary DTA markdowns

TD growth robust at ~28%, as expected for most banks in 2QFY20; Retail deposits grew ~51% YoY

Adjusted for reclassifications in 1QFY20, CFD loans grew ~39% YoY while CCB loans grew ~10% YoY

Sequential expansion led by sharp fall in CoD; further expansion likely

CCB GNPA: 3.27%, CFD GNPA: 1.34%  
CCB Slippages: 2.14%, CFD Slippages: 2.32%

**Change In Estimates**

Rs mn	FY20E			FY21E			FY22E		
	Old	New	Change	Old	New	Change	Old	New	Change
NII	119,981	117,113	-2.4%	154,818	147,405	-4.8%	187,127	174,257	-6.9%
PPOP	106,083	106,664	0.5%	131,930	129,883	-1.6%	155,550	150,241	-3.4%
PAT	55,078	52,772	-4.2%	72,199	67,282	-6.8%	90,992	84,535	-7.1%
ABV (Rs)	467.6	489.8	4.7%	565.8	581.2	2.7%	675.5	688.1	1.9%

Source: HDFC sec Inst Research

**Comparable Five Quarters At A Glance (IIB + BHAFIN)**

Rs mn	2QFY19	4QFY19	4QFY19	1QFY20	2QFY20	YoY Growth	QoQ Growth
<b>Net Interest Income</b>	<b>27,587</b>	<b>26,399</b>	<b>24,723</b>	<b>28,440</b>	<b>29,095</b>	<b>5.5%</b>	<b>2.3%</b>
Non Interest Income	13,173	17,269	19,891	16,633	17,267	31.1%	3.8%
<b>Operating Income</b>	<b>40,760</b>	<b>43,668</b>	<b>44,615</b>	<b>45,072</b>	<b>46,362</b>	<b>13.7%</b>	<b>2.9%</b>
Operating Expenses	17,501	18,500	19,644	19,163	20,363	16.4%	6.3%
<b>Pre Provision Profits</b>	<b>23,259</b>	<b>25,168</b>	<b>24,971</b>	<b>25,910</b>	<b>25,999</b>	<b>11.8%</b>	<b>0.3%</b>
Provisions	6,140	6,295	15,823	4,306	7,377	20.2%	71.3%
<b>PBT</b>	<b>17,120</b>	<b>18,872</b>	<b>9,148</b>	<b>21,603</b>	<b>18,622</b>	<b>8.8%</b>	<b>-13.8%</b>
Provision for Tax	5,568	6,174	2,466	7,278	4,789	-14.0%	-34.2%
<b>PAT</b>	<b>11,552</b>	<b>12,698</b>	<b>6,682</b>	<b>14,325</b>	<b>13,834</b>	<b>19.8%</b>	<b>-3.4%</b>
<b>Loans (Rs bn)</b>	<b>1,739</b>	<b>1,833</b>	<b>1,941</b>	<b>1,935</b>	<b>1,971</b>	<b>13.3%</b>	<b>1.9%</b>
Deposits (Rs bn)	1,682	1,757	1,949	2,006	2,072	23.2%	3.3%
C/D Ratio (%)	103.4	104.3	99.6	96.5	95.1	(827.2)	(134.3)
Borrowings (Rs bn)	505	523	521	498	446	-11.9%	-10.5%
<b>Profitability</b>							
Yield on Advances (% Calc.)	12.44	11.91	11.27	11.88	12.18	-26 bps	31 bps
Cost of Funds (% Calc.)	6.50	6.59	6.64	6.62	6.76	26 bps	13 bps
NIM (%)	4.90	4.46	3.97	4.34	4.38	-51 bps	4 bps
Cost-Income Ratio (%)	42.9	42.4	44.0	42.5	43.9	98 bps	141 bps
Tax Rate (%)	32.5	32.7	27.0	33.7	25.7	-681 bps	-798 bps
<b>Asset quality</b>							
Gross NPA (Rs bn)	18.2	20.1	40.1	42.0	43.7	139.8%	4.1%
Net NPA (Rs bn)	8.0	10.4	22.7	23.8	22.0	175.4%	-7.5%
Gross NPAs (%)	1.05	1.10	2.06	2.15	2.19	114 bps	4 bps
Net NPAs (%)	0.46	0.57	1.17	1.23	1.12	66 bps	-11 bps
Coverage Ratio (%) Calc.	56.11	48.16	43.44	43.32	49.60	-651 bps	628 bps

**IIB's overall loan growth fell to ~21% YoY, with a sharp slowdown in CCB loan growth**

**O/S Microfinance loans were ~Rs 189bn and they grew ~3.5% QoQ**

**Floods impacted QoQ microfinance loan book growth**

**PL (+57/11%) and CC (+32/7.5%) were the fastest growing segments**

**Vehicle finance loans grew ~21% YoY vs. 24% in 1QFY20**

**Large corporate and small business loans dipped ~4% and 2% QoQ, resp.**

**Avg CCB loan growth was 14%**

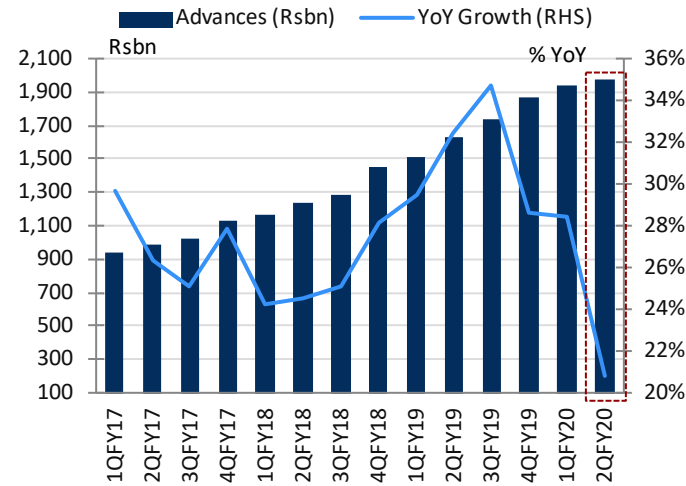
**Large repayments and ~Rs 30bn of sell downs depressed CCB loan growth**

**Mid-corporate loan growth resilient at 24/6%**

**Retail deposits grew ~51% YoY, strong evidence of IIB's retail liability franchise**

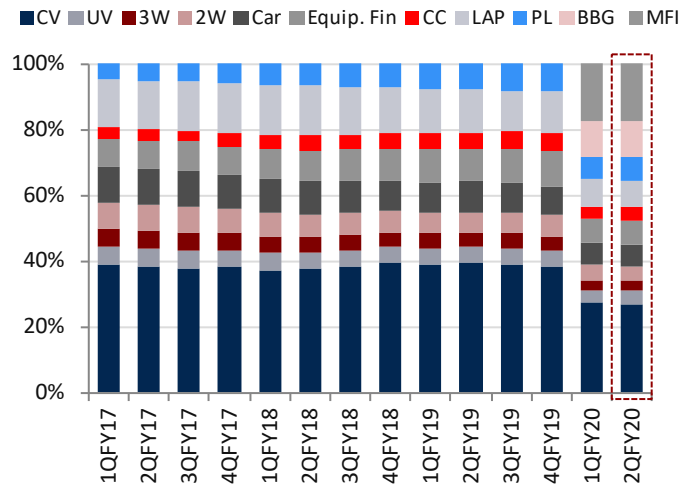
**NOTE: Across charts, FY20 nos are Not comparable with prior periods, due to reclassifications and the integration of BHAFIN**

**Loan Growth Falls To ~21% YoY**



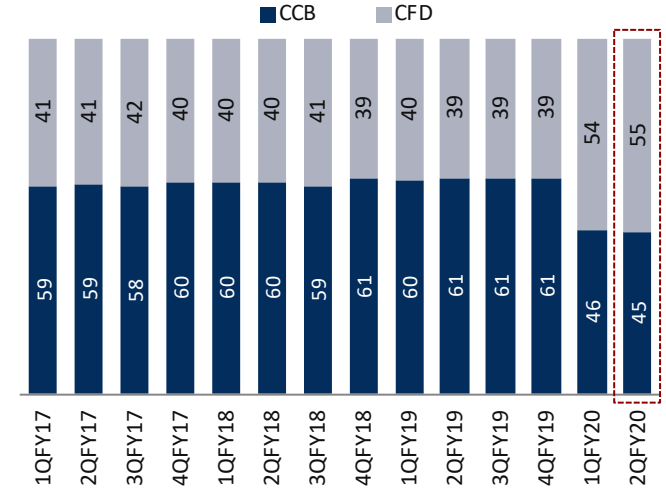
Source: Company, HDFC sec Inst Research

**CFD Mix: PL & CC Continue To Gain Share**



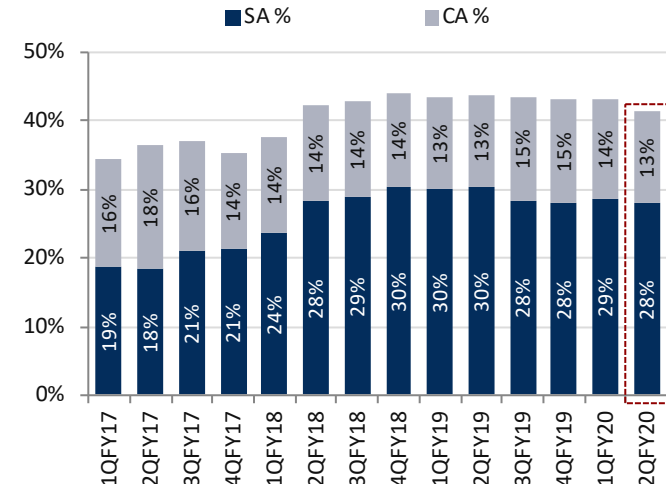
Source: Bank, HDFC sec Inst Research

**Loan Book Mix (%): CFD's Share Inches Up**



Source: Company, HDFC sec Inst Research

**CASA Ratio: Falls QoQ**



Source: Bank, HDFC sec Inst Research

*We have factored in calc. NIMs of ~4.4% over FY20-22E*

*Mgt guides for NIMs of 4.25%*

*IIB's NIMs (ex-BHAFIN's book) are 3.69% vs. 3.61% QoQ and 3.59% in 4QFY19*

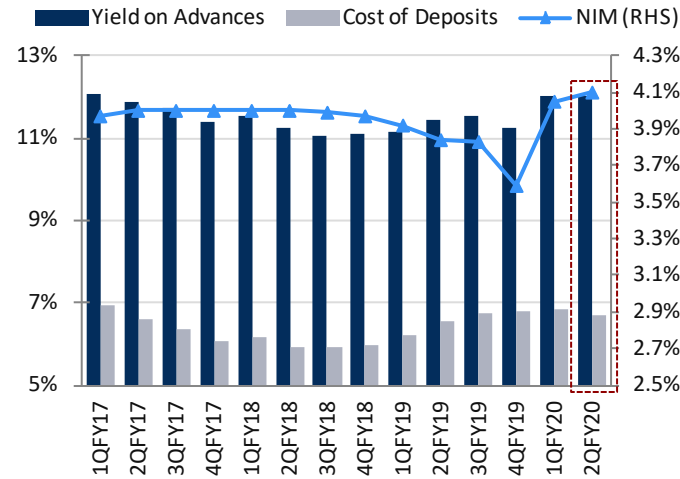
*NIMs improved ~5bps QoQ, due to a sharp fall in the CoD (-16bps) while yields improved 4bps*

*IIB's fee Income break-up indicates a diversified and stable mix, derived from traditional and new-found strengths, post BHAFIN:*

- **Distribution (19%)**
- **Retail Loan processing (15%)**
- **Corp FX Fees (10%)**
- **Corp trade & remittance fees (8%)**
- **Retail FX Fees (4%)**
- **IB Syndication (8%)**
- **Corp Loan Processing (4%)**
- **IB Structured Finance (3%)**

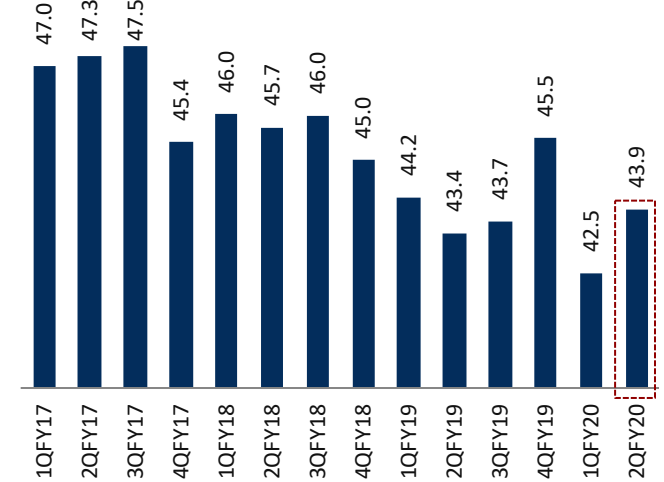
*Fee Income grew ~21% YoY, driven by a 38% rise in loan processing fees*

**NIM Jumps QoQ, Led By Fall In CoD**



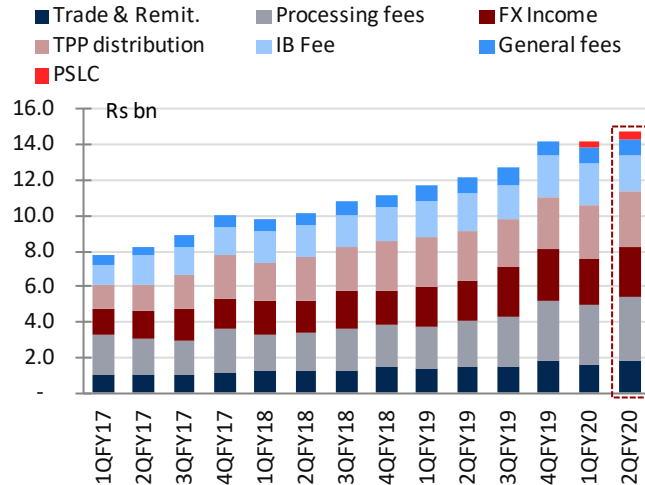
Source: Bank, HDFC sec Inst Research

**C-I Ratio: Jumps 140bps QoQ**



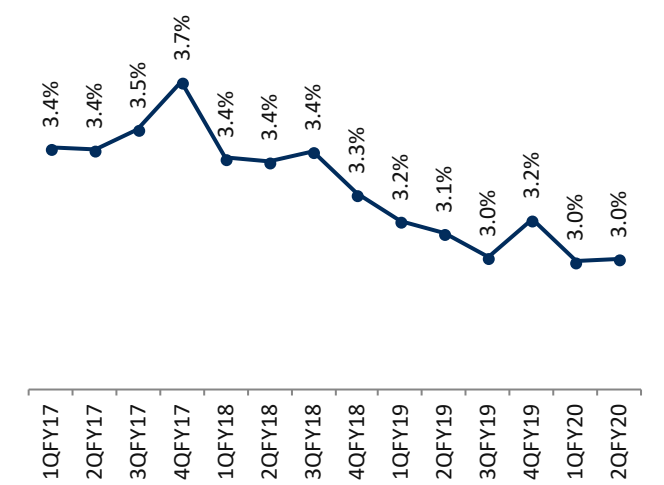
Source: Bank, HDFC sec Inst Research

**Fee Income Mix: Share of Distribution Fees Up QoQ**



Source: Bank, HDFC sec Inst Research

**Fee Income As % Of Loans: Stable QoQ**



Source: Bank, HDFC sec Inst Research

**Both CCB (2.14%) and CFD (2.32%) GNPA were higher QoQ**

**~25% of CCB slippages were technical (due to delayed renewal of facilities) and upgraded in the qtr**

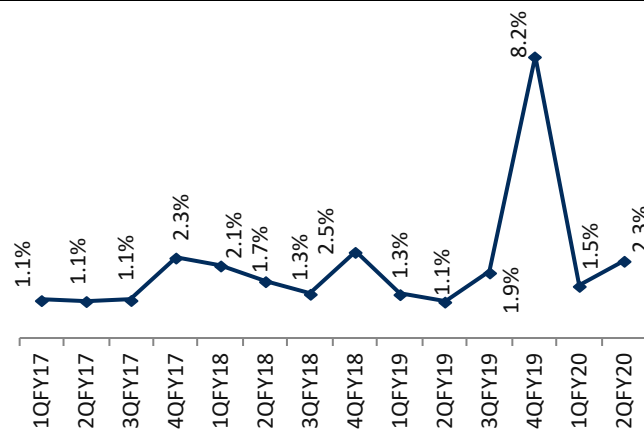
**Exposure to stressed cos was ~1.1% vs. ~1.67% QoQ (~Rs 10.6bn absolute reduction)**

**The spike in LAP NPAs is due to the reclassification of loans from CCB to CFD**

**Significant recoveries from IL&FS assets pose an upside risk to our estimates**

**The management expects some resolutions on this front within FY20.**

**Slippages Rise QoQ, Led By CCB**



Source : Bank, HDFC sec Inst Research

**Segment-Wise Asset Quality**

CCB	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GNPA	0.74%	0.76%	0.73%	0.79%	0.81%	0.98%	1.12%	1.21%	1.20%	1.23%	1.07%	1.14%	2.72%	3.24%	3.27%
Slippages (Ann.)	0.85%	0.70%	0.51%	0.75%	2.87%	2.03%	1.55%	0.75%	2.46%	0.92%	0.37%	1.74%	11.36%	0.78%	2.14%
LLP (Ann.)	0.56%	0.48%	0.52%	0.51%	1.17%	0.63%	0.78%	0.40%	0.72%	0.36%	0.25%	0.62%	6.72%	0.26%	0.45%

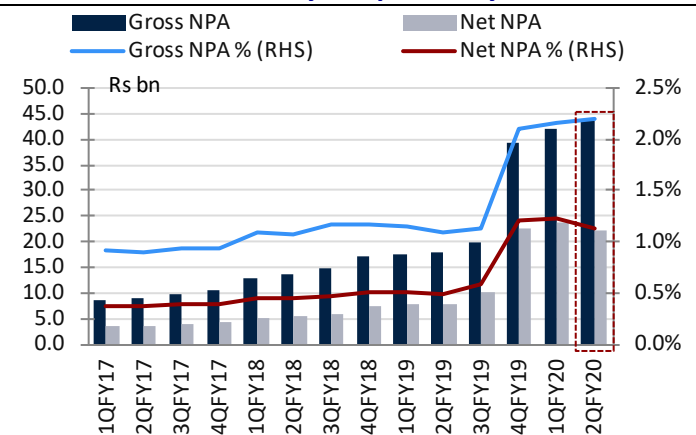
CFD	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
GNPA	1.08%	1.14%	1.17%	1.16%	1.12%	1.25%	1.06%	1.10%	1.14%	1.05%	1.13%	1.12%	1.18%	1.25%	1.34%
Slippages (Ann.)	1.90%	1.69%	1.90%	1.63%	1.60%	2.18%	1.72%	2.00%	2.24%	1.77%	2.05%	2.05%	2.52%	2.12%	2.32%
LLP(Ann.)	0.88%	0.85%	0.79%	0.73%	0.62%	0.89%	0.68%	0.88%	0.99%	0.88%	0.91%	0.90%	0.95%	1.08%	0.99%

**Consumer Finance: GNPA**

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
CV	1.03%	1.01%	1.01%	0.94%	0.91%	1.09%	1.02%	0.96%	1.03%	0.95%	1.03%	1.10%	1.24%	1.33%	1.46%
UV	1.22%	1.29%	1.16%	1.07%	1.11%	1.44%	1.39%	1.27%	1.29%	1.39%	1.34%	1.33%	1.31%	1.25%	1.20%
CE	1.31%	1.40%	1.42%	1.24%	1.19%	1.07%	0.98%	1.06%	1.08%	0.88%	0.73%	0.76%	0.71%	0.84%	0.98%
3W/SCVs	0.98%	1.08%	0.97%	0.84%	0.93%	1.34%	1.13%	1.22%	1.27%	1.10%	1.28%	1.32%	1.40%	1.39%	1.74%
2Ws	3.06%	3.19%	3.70%	3.67%	3.59%	3.62%	3.62%	3.86%	3.90%	3.73%	3.96%	3.66%	3.82%	3.63%	3.23%
Cars	0.52%	0.49%	0.49%	0.74%	0.66%	0.75%	0.67%	0.63%	0.67%	0.70%	0.80%	0.83%	0.80%	0.77%	0.74%
LAP/PL/HL	0.76%	0.90%	0.97%	1.10%	1.21%	1.44%	0.53%	0.82%	0.90%	0.61%	0.95%	0.67%	0.69%	3.89%	3.86%
Cards	1.54%	1.75%	1.70%	1.65%	1.35%	1.23%	1.48%	1.66%	1.63%	1.78%	1.48%	1.92%	1.87%	2.25%	2.43%
Microfin														0.61%	0.94%

Source: Bank, HDFC sec Inst Research

**Headline Asset Quality: Sequentially Stable**

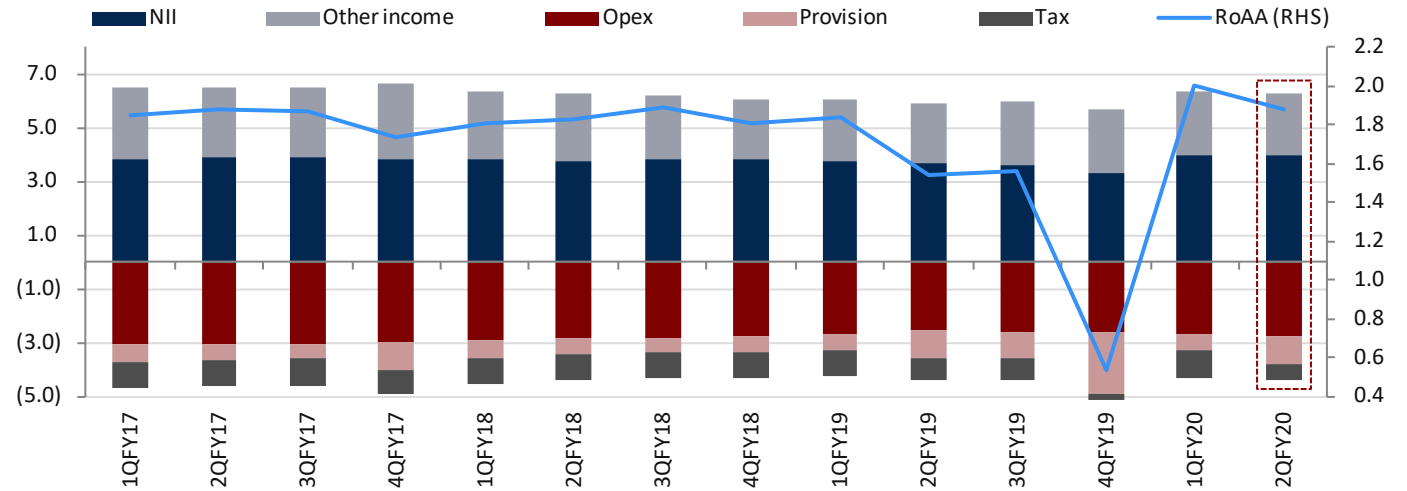


Source: Bank, HDFC sec Inst Research

**GNPA Movement (CFD +CCB): Slippages Rise QoQ**

Rs bn	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Opening	6.81	7.77	8.61	8.99	9.71	10.55	12.72	13.46	14.99	17.05	17.41	17.81	19.68	39.47	42.00
Additions	2.74	2.53	2.61	2.81	6.34	6.08	4.98	4.08	8.6	4.75	4.19	8.06	36.88	7.25	11.02
Reductions	1.78	1.69	2.23	2.09	5.5	3.91	4.24	2.55	6.54	4.39	3.79	6.19	17.09	4.72	9.32
Closing	7.77	8.61	8.99	9.71	10.55	12.72	13.46	14.99	17.05	17.41	17.81	19.68	39.47	42.00	43.70
Slipp. (%)	1.28	1.11	1.08	1.11	2.35	2.12	1.66	1.30	2.52	1.29	1.07	1.92	8.21	1.53	2.26

**Higher Provisions Drag RoAAs QoQ While Lower Tax Compensates**



Source: Bank, HDFC sec Inst Research



**Peer Set Comparison**

BANK	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
KMB#	3,025	1,585	NEU	1,638	242	283	329	36.2	29.3	23.8	5.32	4.46	3.74	15.5	15.9	16.4	2.01	2.05	2.09
ICICIBC #	2,732	424	BUY	510	156	181	214	18.6	11.7	8.3	2.05	1.74	1.43	9.3	13.5	16.4	1.08	1.48	1.79
AXSB	1,897	673	BUY	986	278	322	376	22.2	13.8	11.4	2.31	2.00	1.71	10.5	13.8	14.8	0.97	1.36	1.43
<b>IIB</b>	<b>852</b>	<b>1,229</b>	<b>BUY</b>	<b>1,904</b>	<b>515</b>	<b>581</b>	<b>688</b>	<b>16.5</b>	<b>12.9</b>	<b>10.3</b>	<b>2.39</b>	<b>2.11</b>	<b>1.79</b>	<b>16.5</b>	<b>16.6</b>	<b>18.1</b>	<b>1.73</b>	<b>1.86</b>	<b>1.94</b>
FB	167	84	BUY	124	65	77	89	9.3	7.1	5.8	1.29	1.09	0.95	12.8	15.1	16.1	1.05	1.19	1.24
CUB	162	220	BUY	261	68	80	94	19.2	16.7	14.6	3.22	2.75	2.35	16	15.8	15.5	1.72	1.69	1.65
RBL	123	289	NEU	428	173	198	231	15.9	10.1	7.7	1.67	1.46	1.25	9.9	14	16.1	0.89	1.18	1.28
DCBB	57	182	BUY	252	100	116	136	12.5	9.7	7.8	1.83	1.57	1.34	13.6	15.4	16.6	1.16	1.26	1.32
KVB	46	58	BUY	89	52	61	67	12.7	7.2	4.5	1.10	0.95	0.87	5.6	9.6	14.6	0.50	0.79	1.11
SBIN #	2,268	254	BUY	416	184	222	261	7.4	4.2	3.0	0.89	0.72	0.58	8.6	13.5	15.7	0.51	0.81	0.97
AUBANK	193	639	BUY	795	120	146	181	29.5	21.7	16.4	5.31	4.37	3.53	17.5	18.8	20.7	1.72	1.82	1.91

Source: Company, HDFC sec Inst Research, # Adjusted for subsidiaries value

## Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	172,807	222,612	284,039	340,740	411,717
Interest Expended	97,833	134,150	166,926	193,335	237,460
<b>Net Interest Income</b>	<b>74,974</b>	<b>88,462</b>	<b>117,113</b>	<b>147,405</b>	<b>174,257</b>
<b>Other Income</b>	<b>47,501</b>	<b>56,467</b>	<b>69,041</b>	<b>78,759</b>	<b>91,238</b>
<i>Fee Income (CEB)</i>	34,119	40,730	49,621	59,104	71,314
<i>Treasury Income</i>	3,638	1,151	3,750	3,250	2,750
<b>Total Income</b>	<b>122,475</b>	<b>144,929</b>	<b>186,154</b>	<b>226,164</b>	<b>265,495</b>
<b>Total Operating Exp</b>	<b>55,914</b>	<b>64,047</b>	<b>79,490</b>	<b>96,281</b>	<b>115,255</b>
<i>Employee Expense</i>	17,807	18,535	22,436	27,166	32,510
<b>PPOP</b>	<b>66,561</b>	<b>80,882</b>	<b>106,664</b>	<b>129,883</b>	<b>150,241</b>
Provisions & Contingencies	11,754	31,077	35,226	38,573	36,259
<i>Prov. For NPAs (Incl. Std Prov.)</i>	9,009	27,190	33,139	36,483	33,839
<b>PBT</b>	<b>54,807</b>	<b>49,806</b>	<b>71,438</b>	<b>91,310</b>	<b>113,982</b>
Provision for Tax	18,747	16,795	18,666	24,028	29,447
<b>PAT</b>	<b>36,060</b>	<b>33,011</b>	<b>52,772</b>	<b>67,282</b>	<b>84,535</b>

Source: Bank, HDFC sec Inst Research

## Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>SOURCES OF FUNDS</b>					
Share Capital	6,002	6,027	7,087	7,087	7,087
Reserves	232,414	260,833	372,741	429,123	499,963
<b>Shareholders' Funds</b>	<b>238,416</b>	<b>266,860</b>	<b>379,828</b>	<b>436,210</b>	<b>507,050</b>
<i>Savings</i>	458,883	544,857	667,449	814,288	993,432
<i>Current</i>	208,410	295,845	332,825	382,749	440,162
<i>Term Deposit</i>	849,099	1,107,978	1,354,399	1,672,336	2,139,355
<b>Total Deposits</b>	<b>1,516,392</b>	<b>1,948,679</b>	<b>2,354,674</b>	<b>2,869,374</b>	<b>3,572,949</b>
Borrowings	382,891	473,211	474,090	512,298	575,236
Other Liabilities	78,563	89,444	100,348	110,383	121,421
<b>Total Liabilities</b>	<b>2,216,262</b>	<b>2,778,194</b>	<b>3,308,941</b>	<b>3,928,265</b>	<b>4,776,655</b>
<b>APPLICATION OF FUNDS</b>					
Cash & Bank Balance	132,159	147,834	215,209	228,289	280,207
Investments	500,767	592,662	660,511	744,772	866,704
<i>G-Secs</i>	403,660	486,448	541,575	616,915	732,454
Advances	1,449,537	1,863,935	2,236,940	2,740,252	3,394,301
Fixed Assets	13,388	17,100	19,120	20,076	21,080
Other Assets	120,412	156,663	177,160	194,876	214,363
<b>Total Assets</b>	<b>2,216,262</b>	<b>2,778,194</b>	<b>3,308,941</b>	<b>3,928,265</b>	<b>4,776,655</b>

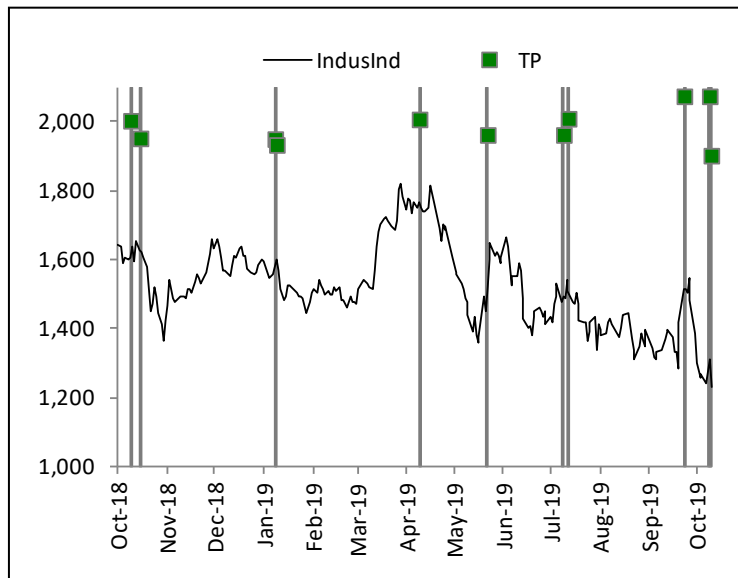
Source: Bank, HDFC sec Inst Research

## Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
<b>VALUATION RATIOS</b>					
EPS (Rs)	60.1	54.8	74.5	94.9	119.3
Earnings Growth (%)	25.7	(8.5)	59.9	27.5	25.6
BVPS (Rs)	390.9	437.2	531.2	610.8	710.7
Adj. BVPS (Rs)	378.5	399.9	489.8	581.2	688.1
DPS (Rs)	7.5	7.5	10.1	12.8	16.1
ROAA (%)	1.80	1.32	1.73	1.86	1.94
ROAE (%)	16.5	13.3	16.5	16.6	18.1
P/E (x)	20.5	22.4	16.5	12.9	10.3
P/ABV (x)	3.25	3.07	2.51	2.11	1.79
P/PPOP (x)	11.1	9.2	8.2	6.7	5.8
Dividend Yield (%)	0.6	0.6	0.8	1.0	1.3
<b>PROFITABILITY</b>					
Yield On Advances (%)	10.62	11.02	11.54	11.55	11.43
Yield On Investment (%)	7.09	6.73	6.90	6.90	6.90
Cost Of Funds (%)	5.77	6.21	6.36	6.23	6.31
Cost Of Deposits (%)	5.78	6.12	6.00	6.02	6.04
Core Spread (%)	4.83	4.90	5.54	5.53	5.39
NIM (%)	4.19	3.95	4.29	4.54	4.43
<b>OPERATING EFFICIENCY</b>					
Cost/Avg. Asset Ratio (%)	2.8	2.6	2.6	2.7	2.6
Cost-Income Ratio (Ex. Treasury)	47.1	44.5	43.6	43.2	43.9
<b>BALANCE SHEET STRUCTURE</b>					
Loan Growth (%)	28.2	28.6	20.0	22.5	23.9
Deposit Growth (%)	19.8	28.5	20.8	21.9	24.5
C/D Ratio (%)	95.6	95.7	95.0	95.5	95.0
Equity/Assets (%)	10.8	9.6	11.5	11.1	10.6
Equity/Advances (%)	16.4	14.3	17.0	15.9	14.9
CASA (%)	44.0	43.1	42.5	41.7	40.1
Capital Adequacy Ratio (CAR, %)	15.0	14.2	16.4	15.6	14.8
W/w Tier I CAR (%)	14.6	13.7	16.0	15.3	14.5

	FY18	FY19	FY20E	FY21E	FY22E
<b>ASSET QUALITY</b>					
Gross NPLs (Rs mn)	17,049	39,474	62,491	59,118	53,677
Net NPLs (Rs mn)	7,457	22,483	29,352	20,978	16,025
Gross NPLs (%)	1.18	2.12	2.79	2.16	1.58
Net NPLs (%)	0.51	1.21	1.31	0.77	0.47
Slippages (%)	2.58%	3.25%	2.95%	2.25%	1.75%
Coverage Ratio (%)	56.3	43.0	53.0	64.5	70.1
Provision/Avg. Loans (%)	0.7	1.6	1.6	1.5	1.1
<b>ROAA TREE</b>					
Net Interest Income	3.75%	3.54%	3.85%	4.07%	4.00%
Non Interest Income	2.37%	2.26%	2.27%	2.18%	2.10%
<i>Treasury Income</i>	<i>0.18%</i>	<i>0.05%</i>	<i>0.12%</i>	<i>0.09%</i>	<i>0.06%</i>
Operating Cost	2.79%	2.56%	2.61%	2.66%	2.65%
Provisions	0.59%	1.24%	1.16%	1.07%	0.83%
<i>Provisions for NPAs</i>	<i>0.45%</i>	<i>1.09%</i>	<i>1.09%</i>	<i>1.01%</i>	<i>0.78%</i>
Tax	0.94%	0.67%	0.61%	0.66%	0.68%
ROAA	1.80%	1.32%	1.73%	1.86%	1.94%
Leverage (x)	9.2	10.0	9.5	8.9	9.3
ROAE	16.50%	13.25%	16.49%	16.63%	18.05%

Source: Bank, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
9-Oct-18	1,601	BUY	2,005
15-Oct-18	1,627	BUY	1,954
8-Jan-19	1,558	BUY	1,952
10-Jan-19	1,602	BUY	1,935
9-Apr-19	1,752	BUY	2,009
23-May-19	1,519	BUY	1,964
9-Jul-19	1,476	BUY	1,964
13-Jul-19	1,510	BUY	2,011
9-Jul-19	1,476	BUY	1,964
22-Sep-19	1,420	BUY	2,076
9-Oct-19	1,310	BUY	2,076
11-Oct-19	1,229	BUY	1,904

**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

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