HDFC Bank

20 July 2020

Reuters: HDBK.BO; Bloomberg: HDFCB IN

1QFY21 Result Update

HDFC Bank is the next HDFC Bank; Top Pick In The Banking Sector

HDFC Bank reported a robust 1QFY21 with NII and operating profit in line with our estimates. PAT was 3.1% below our expectation primarily on account of higher than expected provisions. Advances grew by 21% YoY and 1% QoQ, led by growth in the wholesale banking segment where we believe the bank has been gaining market share. Deposit accretion was also strong with an overall growth of 24.6% YoY and 3.7% QoQ. CASA ratio dipped to 40.1% compared to 42.2% in 4QFY20 on account of 1.5% decline QoQ versus a growth of 14.9% in 4QFY20. On the other hand, term deposits grew by 23.7% YoY and 5.5% QoQ. NIM (calc.) stood at 4.2%, within the guided range of 4-4.4%. On a sequential basis, the NIM (calc.) declined by ~10bps on account of higher growth in the wholesale banking segment/lower growth in high yielding retail assets and higher balance sheet liquidity (8.4% in 1QFY21 compared with 6.7% in 4QFY20). We think that delivering a 17.8% YoY and 3% QoQ growth in NII on the back of 21% YoY credit growth while at the same time ensuring higher balance sheet liquidity is a superior feat to achieve. Though non-interest income generation was impacted to the extent of Rs20bn due to the lockdown, the bank's control on opex more than made up for the lost revenue. Operating profit grew by 15.1% YoY (down 1% QoQ). Total opex was down 2.9% YoY and 16.5% QoQ on the back of sharp decline in other expenses due to lower sales volume and business generation. Cost/income ratio at 35% was down ~400bps YoY/QoQ. Provisions were higher by 48.9% YoY and 2.8% QoQ, led by loan loss provisioning on accelerated NPA recognition as well as ~Rs10bn worth of contingent provisions. Overall credit cost was 1.6%, nearly same as 4QFY20 and 30bps higher YoY. NPA ratios increased on the back of accelerated recognition based on the bank's internal analytical model, resulting in a slippage ratio of 1.2%. Prudent recognition should lessen the NPA impact once the moratorium deadline is over. Presently, loan book under moratorium is 9%, of which 4.3% seems at a higher risk of slipping. At the current juncture, we keep our NPA estimates unchanged. However, we believe that the quality of underwriting and strengthened collection system should keep overall asset quality in a relatively much better shape than peers. A robust balance sheet, including a strong PCR, places the bank strongly in the current crisis. The management commented a fair bit on technological progress as well. The flavor of FY20 annual report as well as anecdotal evidence (a recent experience) suggest that the bank's strategy of blending technology with banking is playing out well from multiple perspectives (market share, cost economics, underwriting quality). We maintain our earlier stance – that HDFC Bank is Entering the crisis on a strong footing. Given the balance sheet quality and ability to deliver robust profitability even in the most testing times, we remain positive on the stock. The bank currently trades at 2.6x FY22E ABV. We retain our BUY rating with a target price of Rs1,425 based on 3.2x FY22E ABV. Though not explicitly stated, the successor to Aditya Puri is likely to be an internal candidate. Capital raising is not on the table in the short term.

Wholesale continues to lead growth, retail to be tepid: Wholesale portfolio grew by 36.7% YoY and 5.8% QoQ, driving the overall loan book. Wholesale banking growth continued to be of top quality as asset creation came on the back of lending to the highly rated corporates with strong access to liquidity. The month-on-month cash flow and collection trends in 1QFY21 have been encouraging. In terms of wholesale disbursements, all of the quarter's accretion came from top half of the 10-point internal scale (that the bank maintains). ~78% of QoQ/YoY disbursals, including rollovers were of <1 year maturity. Given the bank's technological prowess, we believe it is poised to gain market share in the wholesale banking segment. Retail portfolio growth was a soft 7.2% YoY while it declined 3.9% QoQ as retail originations fell 70% during the quarter. The drop in retail business was partially due to the adverse economic environment and partially due to the bank tightening its credit risk filters. Retail business growth will be tepid over the short term as the bank is expected to remain cautious in terms of consumer loans. However, deeper markets (rural) are expected to see better traction in terms of retail lending, driven by demand for small cars, 2-wheelers and tractors. In the SME piece, focus was on pursuing granularity and geographical expansion. New client acquisition in the SME book was 530 during the quarter compared to 1,500 customers in 4QFY20.

BUY

Sector: Banking

CMP: Rs1,103

Target Price: Rs1,425

Upside: 29%

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Key Data

Current Shares O/S (mn)	5,490.3
Mkt Cap (Rsbn/US$bn)	6,030.8/80.4
52 Wk H / L (Rs)	1306/739
Daily Vol. (3M NSE Avg.)	20,267,250

Price Performance (%)

	1 M	6 M	1 Yr
HDFC Bank	7.7	(14.1)	(8.7)
Nifty Index	6.4	(10.8)	(4.5)

Source: Bloomberg

Y/E March (Rsmn)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
Interest Income	303,780	273,916	298,851	10.9	1.6
Interest Expenses	147,126	140,973	146,810	4.4	0.2
Net Interest Income	**156,654**	**132,943**	**152,041**	17.8	3.0
NIM (%)	***4.3***	***4.3***	***4.3***	0 bps	0 bps
Non Interest Income	40,753	49,703	60,326	-18.0	-32.4
Total Income	**197,407**	**182,645**	**212,366**	8.1	-7.0
Staff Cost	25,134	22,174	24,983	13.4	0.6
Other Op Exp	43,980	48,999	57,796	-10.2	-23.9
Total Operating Expenses	69,115	71,173	82,778	-2.9	-16.5
Cost to Income (%)	*35.0*	*39.0*	*39.0*	-396 bps	-397 bps
Pre-provisioning Operating Profit	**128,293**	**111,472**	**129,588**	15.1	-1.0
Provisions	38,915	26,137	37,845	48.9	2.8
PBT	**89,378**	**85,336**	**91,743**	4.7	-2.6
Tax	22,791	29,654	22,466	(23.1)	1.4
-effective tax rate	25.5	34.8	24.5	-925 bps	101 bps
PAT	**66,586**	**55,682**	**69,277**	19.6	-3.9
EPS (Rs)	12.1	10.2	12.6	19.4	-4.0
BV (Rs)	324	284	312	14.2	3.9
Deposits	11,893,873	9,545,537	11,475,023	24.6	3.7
Advances	10,032,989	8,297,298	9,937,029	20.9	1.0

Source: Company, Nirmal Bang Institutional Equities Research

Income generation impacted due to lower fees: NII grew by 17.8% YoY and 3% QoQ on the back of strong loan growth. NIM was within the guided range. Fee income was impacted to the extent of Rs20bn due to lower economic activity during the quarter. As a result, non-interest revenue declined YoY/QoQ. With the opening up of the economy and given the trends in the life insurance monthly numbers, we expect fee income traction to pick up from 2QFY20 onwards. From a margin standpoint, we believe that higher balance sheet liquidity would keep NIM at the lower end of the guided range (of 4-4.4%) but largely stable.

Couple of exits does not break large organizations: Recently, concerns around the bank's stability going forward have gathered steam. Exits of Munish Mittal, Abhay Aima and Ashok Khanna have only added fuel to the fire (i.e. succession planning). While the concerns may be valid to some extent, we have always been of the opinion that a couple or more exits cannot break an organization as large as HDFC Bank. In addition, we have always believed that HDFC Bank's bench strength has been one of the strongest in the corporate world (past instances are proof), capable enough of filling the spaces. Regarding succession planning, management commentary indicated that it would most likely be an internal candidate.

Deposit accretion robust: Accretion in total deposits was quite strong as balances grew by 3.7% QoQ. CASA deposits witnessed a decline of 1.5% QoQ though TDs were up 7.4% QoQ (23.7% YoY). Corporate deposit business continued to see robust traction. Corporate CASA grew by 37% YoY (on average balance basis) while corporate FDs grew by 31% YoY. Liability customer acquisition was 1.2mn during the quarter, about 80% of last year's levels.

NPAs not a worry – whichever way you cut it: GNPA ratio increased by 10bps to 1.36% as the bank went in for accelerated NPA recognition based on its internal analytical model. The slippage ratio for the quarter was 1.2%. For FY21, we keep our GNPA ratio estimate at 1.56% (unchanged) even as **the book under moratorium is 9%**, out of which ~4.3% is at a greater risk of slipping. The net NPA ratio declined by 3bps QoQ to 0.33% as PCR increased by 400bps QoQ to 76%. Overall credit cost was 1.6% (flat QoQ) as the bank provided for accelerated slippages and Rs10bn towards contingent provisions. Note that the bank has been carrying out stepped up provisioning for the past few quarters as a pre-emptive measure against deteriorating macros. While the ultimate economic impact of covid-19 remains uncertain, we believe the higher provisioning buffer would certainly help cushion the NPA impact going forward. In the wake of the current crisis and with the benefit of hindsight, we can only appreciate the prudent measures taken by the bank. A reading of 2009 cycle indicates that stepping up provisions in anticipation of stress and opportunistically using higher profitability to accelerate provisioning has been a norm at the bank which is likely to continue. Our confidence regarding the bank's asset quality going forward is based on the trends and various data points provided by the management (listed out in our earnings call takeaways).

Blending technology and banking – HDFC Bank is on top of it: One of the most prominent flavors that one would get while surfing through the bank's latest annual report is its focus on technology. Digitisation is expected to be the key enabler for embarking on the next leg of growth for the bank and renew its push into semi-urban and rural markets. Retail branch banking business is being reimagined through the levers of digital processes and big data analytics. From choosing products based on consumption and spending patterns arrived at by using data analytics, to going completely paperless with documentation, the focus is on leveraging technology. A recent visit to a merchant shop has brought to light the Verifone V240M POS machine deployed by HDFC Bank. Based on our conversation with the merchant, the machine is being offered only against opening an account with HDFC Bank. How the machine differentiates (as per the merchant) from other POS machines in the market is that it comes with an in-built internet, unlike other machines which depend on an external internet/wifi connection (cutting friction? aiding seamlessness?). The result is much faster processing time for the merchant/customers and business, and (cash flow) data generation for the bank. This assessment is based on our short conversation with the merchant. At the current juncture, we are yet to carry out our research on the advantages of the V240M POS machine; will release a detailed update later on the same.

Comprehensive Conference Call Takeaways

Asset quality

- 9% of the portfolio is under moratorium. On 4.7% of the 9% (under moratorium), the bank is very comfortable. On the remaining 4.3%, the bank has created contingent provisions. 97% of the customers availing the moratorium are zero dpd. Of the salaried customers availing the moratorium, 98% continued to receive salary till June. 90% of the customers in moratorium 2.0 have flowed in from moratorium 1.0. 70% of the customers accessing moratorium 1.0 have repaid installments till June 2020.
- Deep-dive asset quality assessment was conducted on each corporate banking customer and extreme caution was exercised in terms of lending, whether through fresh lines or existing. Corporate loans were disbursed to AAA rated companies, leading to 30bps improvement in risk rating to 4.3%.
- Slippages stood at 1.2% on account of accelerated recognition of customers who were not under moratorium. Slippages were accelerated based on the bank's analytical model, leading to a 30bps impact on the GNPA ratio. 2/3rd of the total provisions of Rs27.4bn were due to accelerated NPA recognition. Contingent provisions were ~Rs10bn.
- Around 86% of externally rated portfolio is either AAA or AA. Based on internal rating scale (of 1-10, 10 being the worst) weighted average rating for the unsecured book (wholesale) stands at 3.45 compared to portfolio average of 4.43 and secured portfolio average of 4.81. As per historical trends, PD for unsecured wholesale portfolio is 55% - lower than the secured portfolio.
- Compared to the earlier estimate of 9-11% SME portfolio turning bad in the worst case scenario, the bank now estimates only 4.5-5.5% of the segment to be impacted. Cash flows in these accounts are improving MoM. On average, cash flows dipped 47% in April'20, 20% in May'20 and improved 13% in June'20. Given the cash flow trends in the SME accounts, the bank believes its customer selection has been good.
- In SMEs, while difference between highly impacted and not-so-highly impacted sectors was significant in earlier months, it has come down in recent months. Exposure to highly-impacted sectors stands in single digits.
- Cheque bounce trends have improved slightly since bulk of the customers continue to pay.
- Initial months of lockdown were used to ensure that the collection infra remains intact. ~20,000 team members, from sales and credit underwriting teams, were shifted to the collection team and systems were revamped in line with the work from home concept.
    - Collection agencies were impacted due to migration of population. To make sure that collections can be pursued with full force as lockdown lifts, the bank provided advances and incentives to collection agencies.
    - Resolution rates stand at 65-70% of historical levels and are further expected to improve as the lockdown is lifted.
- Personal loan portfolio is entirely to the salaried class with majority of customers being employed with highly rated private companies wherein the volatility of income is low. Only 5% of the personal loan portfolio is in the employer category wherein the salary drop was 20% or more. Bulk of the personal loan portfolio is in the employer-category where the salary cut was minimal-to-nil.
- Based on bank's data, the reduction in salary credits during initial months was around 2%, which may have been a banking/cash flow matter rather than actual haircut on salaries.
- Even before the current crisis, FOIR was 20% lower than the industry, which means that even a 20% dip in salary would not manifest into a large asset quality impact. Further, savings have gone up during this period.
- In terms of new business on-boarded, the bank's share in high bureau score, in every product, has been higher than the rest of the market which may provide a proxy for the superior asset quality.

Loan and business growth

- Improvement in high-frequency indicators points to sharp recovery in the economy from April '20. Anecdotal evidence on capacity utilization supports this conclusion.
- Rural economy has been more insulated from the virus impact. Pick-up in the sales of small cars, FMCG items and tractors indicates a rural bias towards recovery. Further, crops from the previous cycle

and this year's kharif have contributed positively to income. Post some recovery momentum, there could be some moderation as pent-up demand could lose steam.

- In the payments business, volume has bounced back and engagement levels have been higher.
- Retail loan originations were down 70% during the quarter. Personal loan originations were down 86%. Credit cards dropped 87% while spends were down 40%. In the auto loans business, originations fell 66% initially but have come back on track, especially in case of tractors and small cars (back to about 75% of pre-covid levels). Drop in the 2-wheeler business was restricted to 15% while tractors saw 26% growth. Gold loan originations were down 15% but the book grew by 3%.
    - 2-wheeler and tractor disbursals are in line with pre-covid levels. Auto loans are at 60-70% of pre-covid levels. Personal and business loans are at 30-40% of pre-covid levels, partially because of tighter filters from before.
    - Consumer loans have been stopped till better recovery is seen and may be resumed in September 2020.
- Wholesale portfolio: Performance was satisfactory with focus on high quality companies/businesses with strong liquidity access either through government holding or through being part of large groups/conglomerates, MNCs, PSUs. Broad based growth was witnessed in the public sector space. The bank participated in LTRO 1.0 and also provided liquidity to mutual funds through asset purchase under the RBI scheme.
    - In terms of disbursements, all of the quarter's accretion came from top half of the 10-point internal scale (that the bank maintains). ~78% of QoQ/YoY disbursals, including rollovers were of <1 year maturity. In the wholesale banking segment, the bank is expecting market share gains on the back of better digital back-end systems.
    - Existing data and analytics based on corporate collections through the bank's system helped growth. Corporate collections declined 45% YoY in April '20, increased 47% MoM in May '20 and increased 38% MoM in June '20.
    - Nearly all industries witnessed positive growth trend in June '20 over May '20. Telecom, agri, fertilizers and pharma sectors witnessed improved collections. NBFCs witnessed 66% increase in collection over May '20.
    - End use of top 25 disbursals:
        - 46.5% towards capex
        - 30.2% towards working capital requirements
        - 9.5% for supporting other market participants
        - 7.5% for other reasons including availing of existing lines to build up liquidity buffers
        - 6.3% on-lending for PSL
- Summer treats have shown good results. The product was launched to boost sales and send a confidence message to merchants and customers.
- Wholesale SME portfolio: Focus was on pursuing granularity, expanding geographic reach, high collateral value and higher-level of documentation.
    - Self-funding ratio, a key metric tracked by the bank, was 103% for the business banking group in June 2020 and 100% in May 2020 due to high inflows of CASA. Excluding those who are not credit customers for the bank, the self-funding ratio was 75%. Self-funding ratio has improved over the last period, partially because of lower working capital utilization and but largely because of higher customer savings.
    - Collateral in the portfolio stands at ~80%. Wealth of the owners and their families is intact and cash flows are coming back.
    - Decline in SME segment was offset by ECLGS. As of June '20, the bank had reached out to 100% of the customers who were eligible for the emergency credit line. As of now, the bank is in the process of disbursing Rs55bn. 68% of the disbursals are of ticket size of <Rs10mn. As of day before, eligible customers on record (pre-approved) were in excess of 300,000 across the bank, totaling Rs200bn in value. Of this, 57,574 customers have been disbursed Rs101.7bn with another Rs10.76bn in the pipeline.

- New client acquisition was 530 customers during 1QFY21 compared to 1,500 customers in 4QFY20. Acquisition was mainly from north and south India. Further, for 89% of the new-to-bank customers, collateral cover was >100% compared to only 79% last year.

Margin, Liabilities and Liquidity

- 150bps rate cut has been transmitted since Feb'20 and presence of large surplus liquidity has led to sharp drop in yields. There is expectation of further 25-50bps cut.
- During the quarter, the bank interacted with 225,000 customers per day, ~2x the March'20 run-rate. 1.2mn liability customers were acquired during the quarter, which is about 80% of last year's levels.
- Corporate CASA witnessed 25% YoY growth (end of period basis) and 37% YoY growth (average balance). For corporate FDs, YoY growth stood at 14% (end of period) and 31% (average balance). Reduction in number of corporate salary accounts receiving monthly salary credit was not material. There was an increase in average salary credited per salary account.

Fee and Other Income

- Miscellaneous income was partially impacted due to weaker collections. This resulted in a negative impact of Rs3bn in recoveries. Impact on fee income stood at Rs17bn.
- 89% of fee income was retail.

Operating Expenses

- 95% branches are operational along with ~13,000 ATMs with an uptime of ~92%. 2/3rd employees (outside branches) are working from home. 200 branches would have been opened in 1QFY21 in the absence of covid. These would be opened shortly.
- In terms of human capital, the bank has paid full salaries, given bonus and increments and has not laid off anyone.
- The bank would be aiming for 35% cost/income ratio over a 3-4 year period. In the medium term, the ratio might go up to 38-39% as business volume picks up.

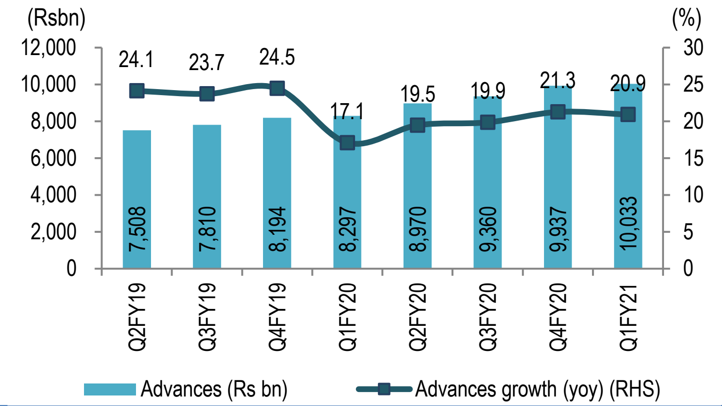
Capital Adequacy

- The bank doesn't feel the need to raise capital in the short term.
- During the quarter, 60bps capital was generated and 30bps was consumed, leading to net capital generation of 30bps. During FY20, the capital generation was 250bps against a consumption of 110bps. At the current juncture, internal capital generation seems adequate to sustain the business in the short term.

Other

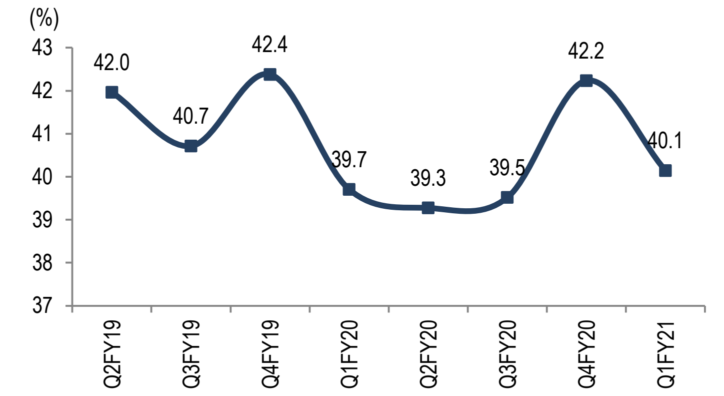
- On the succession plans, the bank reiterated its earlier view that it is/will be well planned.
- On employee attrition, the bank indicated that it has a strong bench strength and sounded confident about the competency of existing employees to take up the vacant roles.
  - Regarding Munish Mittal's exit, the bank had been aware about his plans to pursue further studies from about a year (pursuing further studies at Oxford).
  - Abhay Aima had also expressed his alternate interests to the bank well in time.
  - Both the exiting executives were asked to train their successors which was accomplished.
- Regarding the auto loans controversy, the bank has conducted its own assessment after whistle blower complaints surfaced. There have been no conflict of interest or impact on loans due to this. The investigation has brought to light personal gains by some employees, against which appropriate action has been taken. Ashok Khanna had also participated in this inquiry.
- On Altico Capital, the bank had earlier appropriated the money based on sound legal advice. However, as per the RBI's latest order, it will carry out the directive and refund.

Exhibit 1: Advances, advances growth



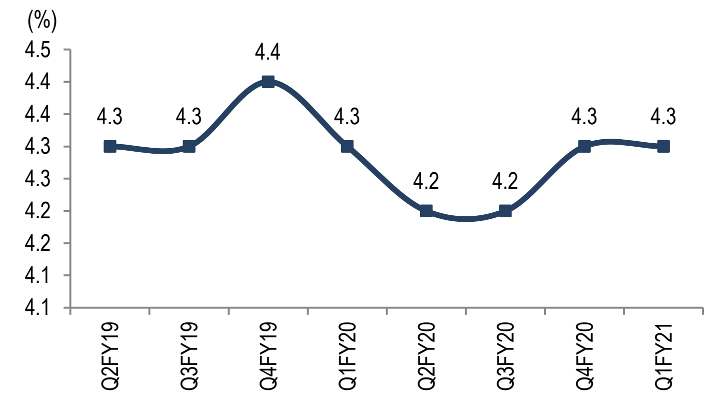
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: CASA ratio (%)



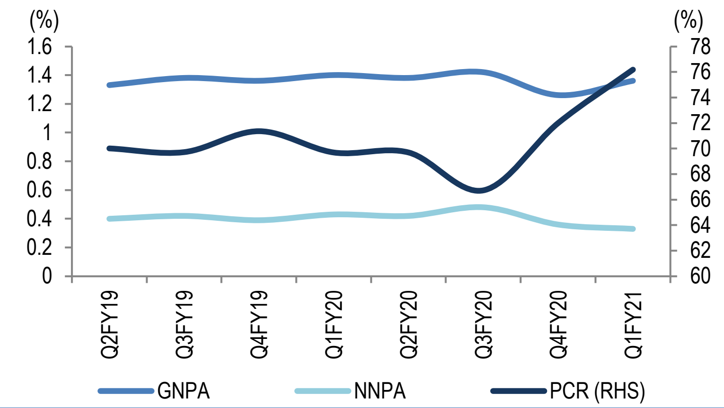
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: NIM (Reported, %)



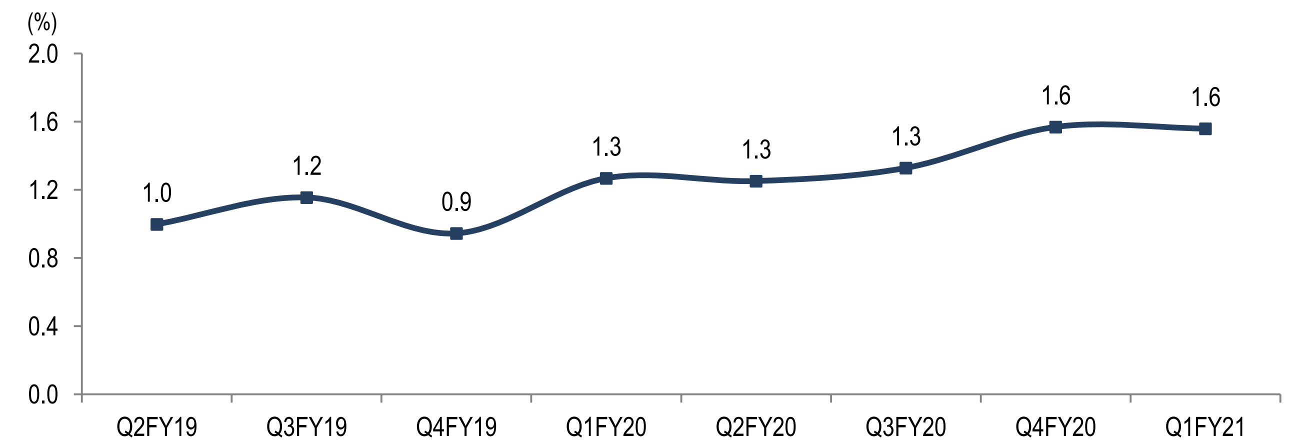
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Asset Quality (%)



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Credit Cost (Calculated, Annualized, %)



Source: Company, Nirmal Bang Institutional Equities Research

Loan book – segment wise break-up (Regulatory classification, %)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Retail	**53.5**	**53.9**	**52.6**	**53.4**	**51.4**	**51.3**	**49.8**	**47.3**
Auto Loans	10.7	10.6	9.8	9.9	9.0	8.9	8.4	8.1
Personal Loans	11.1	11.4	11.3	11.7	11.4	11.7	11.6	11.1
Home loans	6.4	6.6	6.3	6.7	6.7	6.6	6.4	6.2
Business Banking (Secured)	7.2	7.1	7.0	7.0	7.0	6.8	6.5	6.0
Kisan Gold Card (Farm Credit)	4.8	4.5	4.7	4.4	4.4	4.2	4.4	4.0
Credit Cards	5.4	5.7	5.7	6.0	5.8	6.2	5.8	5.5
CVCE	3.4	3.5	3.5	3.5	3.2	3.0	2.9	2.8
Others	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0
Two Wheelers	1.3	1.3	1.2	1.2	1.1	1.1	1.0	1.0
Gold/Others	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.6
Loans Against Securities	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Wholesale	**46.5**	**46.1**	**47.4**	**46.6**	**48.6**	**48.7**	**50.2**	**52.7**

Loan book – segment wise growth (Regulatory classification, YoY, %)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Retail	**23.8**	**24.0**	**19.0**	**16.5**	**14.7**	**14.1**	**14.6**	**7.2**
Auto Loans	16.3	13.6	5.6	5.5	0.6	0.7	4.0	-1.0
Personal Loans	37.5	32.9	29.4	24.8	22.4	23.3	24.3	14.8
Home loans	19.6	35.8	41.7	26.7	25.4	19.2	23.5	12.3
Business Banking (Secured)	19.0	18.6	5.4	10.9	15.7	13.6	12.4	5.0
Kisan Gold Card (Farm Credit)	16.0	13.1	11.7	10.6	8.3	10.9	11.8	9.2
Credit Cards	31.5	33.4	29.1	28.8	28.4	28.6	23.5	10.4
CVCE	26.0	26.9	22.8	17.6	11.7	3.5	1.1	-4.9
Others	26.5	25.6	28.7	10.9	9.5	15.0	12.2	10.1
Two Wheelers	40.8	31.3	15.9	9.1	1.7	0.5	-1.9	-5.0
Gold/Others	2.5	2.1	2.4	2.3	2.4	3.0	4.7	6.5
Loans Against Securities	13.7	7.0	3.6	1.8	0.2	1.3	-4.3	-15.7
Wholesale	**24.5**	**23.4**	**31.2**	**17.8**	**24.9**	**26.6**	**28.7**	**36.7**

Exhibit 6: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net interest income	400,949	482,432	561,863	650,628	782,561
Pre-provisioning operating profit	326,248	397,497	487,238	553,965	670,936
PAT	174,867	210,782	262,315	286,949	386,240
EPS (Rs)	33.7	38.7	47.8	52.3	70.3
BV (Rs)	204.8	273.9	311.8	362.7	429.0
P/E (x)	32.7	28.5	23.1	21.1	15.7
P/BV (x)	5.4	4.0	3.5	3.0	2.6
GNPAs (%)	*1.3*	*1.4*	*1.3*	*1.6*	*1.3*
NNPAs (%)	*0.4*	*0.4*	*0.4*	*0.4*	*0.3*
RoA (%)	*1.8*	*1.8*	*1.9*	*1.7*	*2.0*
RoE (%)	*17.9*	*16.5*	*16.4*	*15.5*	*17.8*

Source: Company,Nirmal Bang Institutional Equities Research

Exhibit 7: Actual performance versus our estimates

(Rsmn)	Q1FY21	Q1FY20	Q4FY20	*YoY (%)*	*QoQ (%)*	Q1FY21E	*Devi. (%)*
Net interest income	156,654	132,943	152,041	*17.8%*	*3.0%*	156,067	*0.4%*
Pre-provisioning Operating profit	128,293	111,472	129,588	*15.1%*	*-1.0%*	129,135	*-0.7%*
PAT	66,586	55,682	69,277	*19.6%*	*-3.9%*	68,723	*-3.1%*

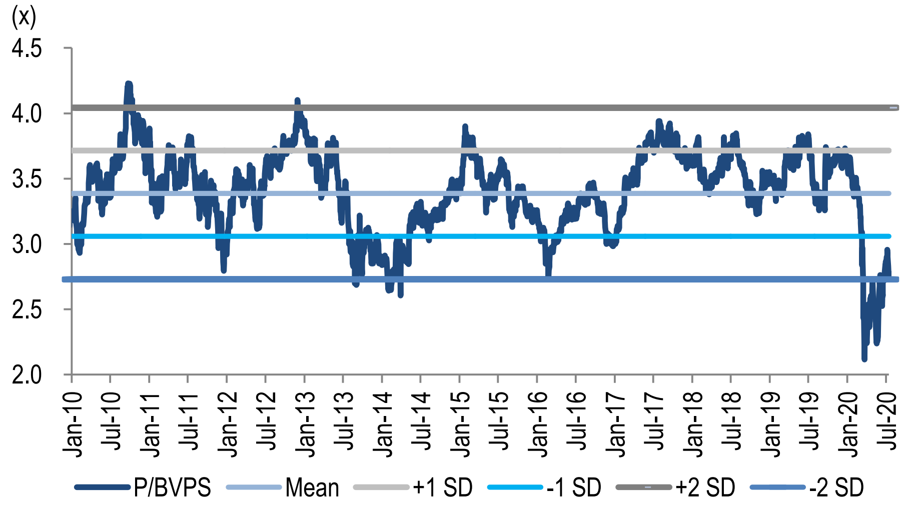
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Change in our estimates

	Revised Estimate		Earlier Estimate		*% Revision*	
	FY21E	FY22E	FY21E	FY22E	*FY21E*	*FY22E*
Net Interest Income (Rsmn)	650,628	782,561	665,522	816,233	*(2.2)*	*(4.1)*
NIM (%)	*4.1*	*4.2*	*4.1*	*4.2*	***-3 bps***	***-1 bps***
PPOP (Rsmn)	553,965	670,936	577,588	737,844	*(4.1)*	*(9.1)*
Profit after tax (Rsmn)	286,949	386,240	301,606	427,477	*(4.9)*	*(9.6)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/BV



Source: Company, Nirmal Bang Institutional Equities Research

Financial statements

Exhibit 10: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Interest Income	802,414	989,721	1,148,127	1,284,850	1,542,010
Interest expense	401,465	507,288	586,264	634,222	759,450
Net interest income	**400,949**	**482,432**	**561,863**	**650,628**	**782,561**
Non-interest income	152,203	176,259	232,350	230,136	274,938
Net Revenue	553,152	658,691	794,213	880,764	1,057,499
Operating Expense	226,904	261,194	306,975	326,799	386,563
-Employee Exp	68,057	77,618	95,257	103,827	116,286
-Other Exp	158,846	183,576	211,719	222,972	270,277
Operating profit	**326,248**	**397,497**	**487,238**	**553,965**	**670,936**
Provisions	59,275	75,501	121,424	170,102	154,780
PBT	266,973	321,997	365,814	383,862	516,156
Taxes	92,106	111,215	103,498	96,913	129,917
PAT	**174,867**	**210,782**	**262,315**	**286,949**	**386,240**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	5,190	5,447	5,483	5,490	5,490
Reserves & Surplus	1,057,760	1,486,617	1,704,377	1,985,888	2,349,935
Shareholder's Funds	**1,062,950**	**1,492,064**	**1,709,860**	**1,991,379**	**2,355,425**
Deposits	**7,887,706**	**9,231,409**	**11,475,023**	**13,999,528**	**17,079,424**
Borrowings	1,231,050	1,170,851	1,446,285	1,157,028	925,623
Other liabilities	457,637	551,083	673,944	733,410	746,322
Total liabilities	**10,639,343**	**12,445,407**	**15,305,113**	**17,881,345**	**21,106,794**
Cash/Equivalent	1,229,151	813,476	866,187	1,303,464	1,278,358
Advances	6,583,331	8,194,012	9,937,029	11,386,042	13,486,033
Investments	2,422,002	2,905,879	3,918,267	4,549,847	5,636,210
Fixed Assets	36,072	40,300	44,319	48,751	53,626
Other assets	368,787	491,740	539,311	593,242	652,566
Total assets	**10,639,343**	**12,445,407**	**15,305,113**	**17,881,345**	**21,106,794**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

Y/E March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
NII growth	21.0	20.3	16.5	15.8	20.3
Pre-provision profit growth	26.8	21.8	22.6	13.7	21.1
PAT growth	20.2	20.5	24.4	9.4	34.6
Business (%)					
Deposit growth	22.5	17.0	24.3	22.0	22.0
Advance growth	18.7	24.5	21.3	14.6	18.4
CD	83.5	88.8	86.6	81.3	79.0
CASA	43.5	42.4	42.2	40.5	42.5
Operating efficiency (%)					
Cost-to-income	41.0	39.7	38.7	37.1	36.6
Cost-to-assets	2.4	2.3	2.2	2.0	2.0
Spreads (%)					
Yield on advances	10.3	10.5	10.1	9.5	9.7
Yield on investments	7.1	7.5	6.0	5.6	5.7
Cost of deposits	4.6	4.8	4.9	0.0	0.0
Yield on assets	8.7	8.9	8.6	8.0	8.2
Cost of funds	4.9	5.2	5.0	4.5	4.6
NIMs	4.4	4.4	4.2	4.1	4.2
Capital adequacy (%)					
Tier I	13.2	15.8	17.2	16.9	16.1
Tier II	1.6	1.3	1.3	1.4	1.4
Total CAR	14.8	17.1	18.5	18.3	17.5
Asset Quality (%)					
Gross NPA	1.3	1.4	1.3	1.6	1.3
Net NPA	0.4	0.4	0.4	0.4	0.3
Provision coverage	69.8	71.4	72.0	75.8	81.3
Slippage	2.3	2.2	2.2	1.8	1.5
Credit-cost	1.0	1.0	1.3	1.6	1.2
Return (%)					
ROE	17.9	16.5	16.4	15.5	17.8
ROA	1.8	1.8	1.9	1.7	2.0
RORWA	2.4	2.4	2.7	2.6	2.9
Per share					
EPS	33.7	38.7	47.8	52.3	70.3
BV	204.8	273.9	311.8	362.7	429.0
ABV	199.8	268.0	305.4	354.1	422.8
Valuation					
P/E	32.7	28.5	23.1	21.1	15.7
P/BV	5.4	4.0	3.5	3.0	2.6
P/ABV	5.5	4.1	3.6	3.1	2.6

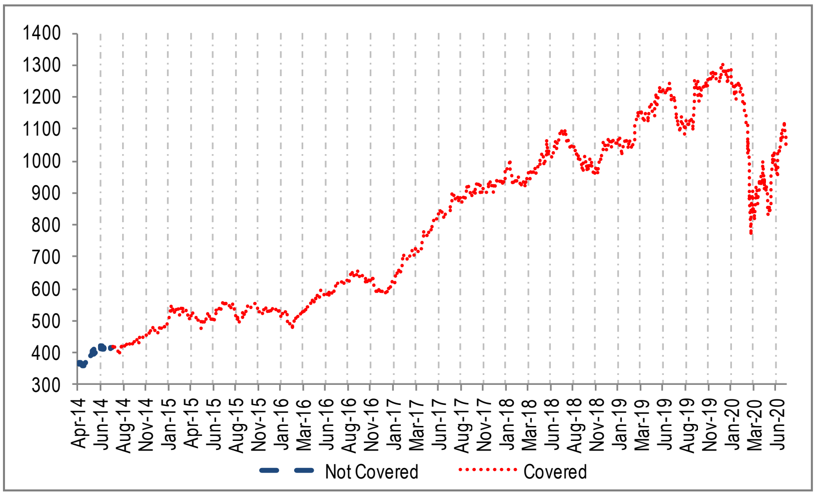
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
22 July 2014	Buy	830	960
8 October 2014	Buy	860	960
22 October 2014	Buy	897	1,060
16 February 2015	Buy	1,066	1,265
24 April 2015	Buy	1,012	1,265
22 July 2015	Buy	1,095	1,265
23 October 2015	Buy	1,095	1,265
27 January 2016	Buy	1,041	1,305
25 April 2016	Buy	1,094	1,315
22 July 2016	Buy	1,230	1,450
26 October 2016	Buy	1,247	1,570
25 January 2017	Buy	1,270	1,570
14 February 2017	Buy	1,311	1,690
24 April 2017	Buy	1,499	1,820
25 July 2017	Buy	1,707	2,025
25 October 2017	Buy	1,866	2,205
22January 2018	Buy	1,952	2,301
23 April 2018	Buy	1,961	2,301
23 July 2018	Buy	2,189	2,541
9 October 2018	Buy	1,945	2,519
22 October 2018	Buy	1,968	2,442
21 January 2019	Buy	2,131	2,443
8 April 2019	Accumulate	2,306	2,514
22 April 2019	Accumulate	2,293	2,547
8 July 2019	Accumulate	2,472	2,719
22 July 2019	Accumulate	2,376	2,576
7 October 2019	Accumulate	1,190	1,335
22 October 2019	Accumulate	1,229	1,334
8 January 2020	Accumulate	1,257	1,322
20 January 2020	Accumulate	1,278	1,358
27 March 2020	Buy	898	1,282
9 April 2020	Buy	889	1,282
20 April 2020	Buy	915	1,260
9 July 2020	Buy	1,110	1,347
20 July 2020	Buy	1,103	1,425

**Stock split 2 for 1 on 19 September 2019*

Rating track graph



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