INSTITUTIONAL RESEARCH

Banks & NBFCs

4QFY17E Results Preview

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Healing gradually

4QFY17 will continue to be a challenging quarter for Indian Banks (especially the corporate-heavy ones), given slower loan growth, NIM decline and continued elevated credit costs. However, due to the low base (AQR impact in 4QFY16), these Banks are expected to a report a sharp rise in net earnings (except AXSB). Retail-tilted and Tier II private banks will continue to build on positive operating metric trends exhibited in the previous quarters. In a seasonally-strong quarter, Vehicle finance (VF) NBFCs are expected to report sequentially better earnings, led by strong business growth and better recoveries.

Public sector banks (PSBs)

- Though loan growth is expected to improve sequentially, the trajectory is trending downward. Due to the demonitisation effect, growth in deposits is expected to remain strong (led by CASA). Improvement in the CD ratio, declining trends in slippages and no one-offs (interest reversals on SDR/S4A exposures) will drive NIMs sequentially. However, with an uptick in G-sec yields (since 3Q), treasury gains are expected to moderate. While asset quality is expected to be stable, improving coverage will keep provisions elevated (albeit a sharp dip YoY, given the higher base of AQR). On a low base, neat earnings are expected to more than double. Things to watch out for (1) Asset quality movement with sequential moderation in the slippages and implementation of various RBI dispensations. (2) Commentary on resolutions in large exposures.

Private sector banks (PVT banks)

- The divergent performance of PVT banks will continue, with corporate-heavy banks expected to report subdued performance across parameters (slower loan growth, NIM compression, muted fees, elevated LLP and asset quality issues). While the asset quality issues persist, commentary on resolutions and the watch list will be keenly monitored The retail-tilted and Tier II PVT Banks are expected to continue to sail smoothly in 4Q as well (healthy loan growth, stable NIMs and better /improving asset quality trends).

Small finance banks (SFBs)

- Both Ujjivan and Equitas are expected to report muted numbers. The loan book growth would be weak sequentially. Collections from MFIs would be a key montiorable. Opex would increase due to a rollout of branches. We remain positive on Equitas owing to its diversified book, though there are intermediate challenges as the company reduces the share of its MFI book.

Non-banking finance companies (NBFCs)

- **VF NBFCs:** 4Q being a seasonally strong quarter, VF-NBFCs are expected to report sequentially better earnings. The implementation of emission norms (BS IV) from Apr-17 has benefitted NBFCs, as volumes spiked in 4Q (especially in Mar-17). Further, with a decline in borrowing costs and better recoveries, VF NBFCs are expected to report healthy NIMs. We expect CIFC's, net earnings to grow ~27% QoQ and MMFS to report net earning of Rs 2.9bn (vs. loss in 3Q).

View

- We maintain our positive stance on Retail/Tier II PVT Banks, with preferred bets on KMB and CUB. Among the corporate-heavy banks, we prefer ICICIBC (attractive valuations). Amongst PSBs, we prefer SBIN and BOB, given relatively better CRAR. These are an opportunity to capitalise on the cyclical macro upside and resolutions in asset quality. Amongst NBFCs, we prefer CIFC (steady RoA improvement) and REPCO (huge business opportunities in the affordable housing space)

4QFY17E: PSBs - Muted Growth And Stable Asset Quality

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
SBIN	**GOOD**	▪ A mere 3% loan growth and NIM decline are expected to lead to a core earnings growth of <2% YoY ▪ Lumpy fees (4Q phenomenon) will provide a cushion to PPOP (flat QoQ), even as treasury gains are expected to decline ▪ With lower provisions and a smaller base, net earnings to more than double YoY	▪ Comments on integration of banking subsidiaries ▪ Disinvestment in non-core business and life insurance subsidiary ▪ Comments on asset quality – watchlist and resolutions
BOB	**GOOD**	▪ Advances to grow sequentially, albeit down YoY ▪ NIMs to improve sequentially and YoY, led by a rise in the CD ratio and no one-offs (interest reversal on SDR/S4A exposures in 3Q) ▪ PPOP growth of 9% led by NII growth (5%) and 6% drop in opex (staff cost down ~18% YoY)	▪ Comments on growth and NIM ▪ Asset quality movement and comments on FY18 trends ▪ Comments on sale of non-core investments

4QFY17E: Private Banks - Mixed Show

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ICICIBC	**AVG**	▪ Flattish NII growth on the back of NIM compression, despite ~8% loan growth ▪ Non-interest income to decline, given the normalisation of treasury gains (QoQ and no one-offs, as seen in 4QFY16). Core fees to grow ~2% QoQ ▪ ~3x YoY rise in PAT is due to a sharp drop in provisions. Sequential PAT decline, led by lower non-interest income and 3% rise in opex.	▪ Asset quality – Developments on resolutions and remaining stress in the corp portfolio ▪ Commentary on growth and margins ▪ Disinvestments in subsidiaries
KMB	**GOOD**	▪ Loan growth of 14% and NIM improvement to drive NII growth (+15%) ▪ PPOP to grow ~32% YoY, driven by a ~37% jump in non-interest income. ▪ Led by flattish provisions, PAT expected to grow at ~30% YoY	▪ Comments on growth ▪ Trends in SA growth and efficiency ▪ Subsidiary performance (especially KMP) ▪ Comments on inorganic growth opportunities
AXSB	**BAD**	▪ Muted loan growth (<10%) and NIM dip will lead to flattish NII ▪ PPOP to decline ~8% QoQ, led by a drop in treasury gains and ~3% rise in opex ▪ Provisions to remain elevated, led by continued asset quality pain and management's ambition to further increase PCR (64% in 3Q) ▪ Subsequently, PAT to decline ~69% YoY (albeit up 16% QoQ)	▪ Comments on asset quality – slippages in the watch list, guidance for FY18 and resolutions ▪ Growth and NIM commentary
IIB	**GOOD**	▪ Core earnings growth of 29% to be driven by healthy loan growth of ~25% and NIM expansion (albeit down ~7bps QoQ) ▪ Non-interest income to grow at ~18%, led by strong core fee growth ▪ PAT growth of ~29% to be further driven by flattish provisions	▪ Planning Cycle 4 ▪ Loan book mix and growth in the VF business ▪ Comments of the acquisition (IL&FS Securities)

4QFY17E: Private Banks – Mixed Show

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
FB	GOOD	▪ Strong loan growth (+27%) momentum to sustain in 4Q as well ▪ NIM moderation will lead to 18% NII growth ▪ Non-interest income to moderate with lower treasury gains ▪ With a sharp drop in provision s(-63% YoY) , we expect PAT of Rs 2.1bn (+3% QoQ)	▪ Growth outlook ▪ Comments on specific steel exposures and overall asset quality
CUB	GOOD	▪ Strong NII growth of ~20% YoY, led by NIM improvement (albeit decline QoQ) and ~12% loan growth ▪ PPOP growth restricted at 17%, with a sharp (26%) rise in opex ▪ PAT to grow at ~18% YoY after 11% rise in provisions	▪ Comments on growth ▪ Resolutions in NPAs and comments on a few stressed SME exposures. ▪ Movement in C-I ratio
DCBB	GOOD	▪ Healthy core earnings growth (29%) to be driven by 22%+ loan growth and superior NIMs ▪ Elevated cost s(+27% YoY) and slower non-interest income growth will restrict PPOP growth to 18% ▪ With full tax provisions (vs. NIL in 4Q), PAT is expected to decline 19% YoY to Rs 561mn.	▪ Movement in C/I ratio, branch addition and opex ▪ Comments on growth and margins ▪ Asset quality trends across segments

4QFY17E: Small Finance Banks – Weak Quarter

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
UJJIVAN	**WEAK**	▪ NII to increase by ~6% YoY; NIM is expected to drop due to bank conversion; loan book growth of 2% ▪ PPOP should dip due to a sharp sequential uptick of 32% in opex, due to rollout of SFB branches ▪ Provisions are expected to dip, as in the previous quarter they created provisioning for delinquent accounts ▪ PAT to drop by ~14% sequentially	▪ Collection on the MFI book ▪ Outlook on the loan book and diversification strategy with ▪ Opex outlook on SFB roll out
EQUITAS	**WEAK**	▪ NII is expected to be down sequentially, as the MFI book is expected to decline ▪ Opex is expected to increase further, as more branches are rolled out ▪ Provisioning is expected to be high at Rs 284mn ▪ PAT is expected to drop by 39% to Rs 277mn on higher opex and muted loan book growth	▪ Loan book growth ▪ MFI collection and provisioning ▪ Opex and new branches traction

4QFY17E: NBFCs – Seasonally Strong Quarter

COMPANY	4QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
LICHF	GOOD	▪ NII to see strong growth of ~23% YoY ▪ PAT growth s expected to be in line with loan book growth	▪ Loan book mix ▪ Yield and prepayment outlook ▪ Impact of the government's push on affordable housing
MMFS	GOOD	▪ Seasonally strong quarter will drive recoveries (better NIM and lower provisions). ▪ AUM growth of ~16% YoY (3.5% QoQ) and NIM improvement will drive core earnings (+36% QoQ) ▪ With a ~56% QoQ drop (+87% YoY) in provisions, we expect PAT of Rs 2.9bn (vs. loss in 3Q).	▪ Commentary on collection efficiency and growth ▪ Asset quality performance – shift to 90DPD
CIFC	GOOD	▪ Core earnings growth of ~8% YoY with ~15% AUM growth and NIM decline (albeit QoQ improvement) ▪ With no one-offs during the quarter (3Q additional opex related to reposed vehicles) PPOP is expected to rise by ~15% QoQ ▪ With lower provisions requirement (led by better collections in VF), net earnings to grow ~27% QoQ	▪ Comments on LAP business – growth and asset quality ▪ Traction in the VF business ▪ Comments on changes in the top management
REPCO	GOOD	▪ NII growth is expected to be sequentially up by ~6% ▪ PAT to take a hit (down 25% sequentially), as provisioning costs to jump up significantly, as in the previous quarter the company had taken RBI dispensation	▪ Asset quality recovery and outlook ▪ Impact of the government's push on affordable housing

Financial Summary

COMPANY	NII (Rs bn)			PPOP (Rs bn)			APAT (Rs bn)		
	4QFY17E	*YoY (%)*	*QoQ (%)*	4QFY17E	*YoY (%)*	*QoQ (%)*	4QFY17E	*YoY (%)*	*QoQ (%)*
Public Sector Banks									
SBIN	155.6	*1.7*	*5.7*	125.9	*(11.3)*	*0.6*	27.2	*114.9*	*5.3*
BOB	35.1	*5.3*	*11.9*	27.9	*8.5*	*7.6*	5.8	*(117.8)*	*128.0*
Private Sector Banks									
ICICIBC	54.8	*1.3*	*2.1*	53.4	*(24.9)*	*(3.4)*	20.7	*194.3*	*(15.4)*
KMB	21.3	*14.7*	*3.9*	15.7	*31.7*	*2.9*	9.0	*29.5*	*2.5*
AXSB	45.3	*(0.5)*	*4.6*	42.5	*(3.3)*	*(8.3)*	6.8	*(68.4)*	*17.3*
IIB	16.4	*29.1*	*3.7*	14.3	*24.2*	*4.9*	8.0	*28.8*	*6.4*
FB	8.1	*17.6*	*2.0*	4.6	*17.5*	*(2.4)*	2.1	*1,970.4*	*3.3*
CUB	3.2	*20.4*	*3.8*	2.6	*17.4*	*(3.8)*	1.3	*17.7*	*4.4*
DCBB	2.2	*29.2*	*4.1*	1.1	*18.3*	*5.0*	0.6	*(19.3)*	*9.4*
Small Finance Bank									
EQUITAS	2.2	*34*	*(5)*	0.7	*(25)*	*(34)*	0.3	*(41)*	*(38)*
UJJIVAN	2.0	*34*	*2.3*	0.7	*(24)*	*(42)*	0.4	*(31)*	*(14)*
NBFCs									
LICHF	10	*23*	*10*	8.8	*20.3*	*8.6*	5.5	*23*	*10*
MMFS	10.1	*1.4*	*36.0*	6.5	*(4.1)*	*65.1*	2.9	*(21.5)*	*NA*
CIFC	6.5	*8.1*	*7.3*	4.0	*2.2*	*14.9*	2.1	*7.7*	*27.3*
REPCO	0.9	*9*	*5.6*	0.8	*(0.6)*	*(3.1)*	0.3	*(18.2)*	*(25.3)*

Source: Banks, HDFC sec Inst Research

Peer Valuation

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
PSU Banks																			
SBIN #	2,252	290	BUY	328	112	129	148	16.6	13.4	10.2	1.92	1.62	1.30	7.4	8.3	9.6	0.43	0.46	0.53
BOB	398	172	BUY	220	89	123	157	20.1	11.1	8.3	1.93	1.40	1.10	5.4	9.1	11.1	0.29	0.51	0.63
PVT Banks																			
ICICIBC #	1,634	281	BUY	333	115	131	148	12.9	12.2	9.8	2.00	1.68	1.42	10.7	9.8	10.8	1.40	1.30	1.37
KMB#	1,612	879	BUY	987	135	155	179	40.4	32.4	25.7	5.50	4.66	3.90	13.2	14.6	15.6	1.65	1.74	1.81
AXSB	1,210	506	NEU	520	195	222	260	33.0	19.9	11.9	2.60	2.28	1.95	6.7	10.3	15.5	0.66	0.96	1.38
IIB	855	1,438	BUY	1,552	325	379	443	29.1	23.0	18.8	4.42	3.79	3.24	15.9	17.4	18.3	1.88	1.92	1.89
FB	159	93	BUY	101	44	51	56	20.3	16.2	13.3	2.09	1.83	1.65	9.3	10.8	12.1	0.77	0.81	0.84
CUB	89	149	BUY	175	52	61	70	17.7	15.5	13.5	2.85	2.46	2.14	15.4	15.5	15.7	1.49	1.47	1.47
DCBB	52	182	BUY	183	64	73	82	26.2	21.9	17.5	2.83	2.48	2.23	10.7	11.4	12.5	0.93	0.90	0.91
SFB																			
Equitas	56	165	BUY	187	61.2	64.0	68.8	29.3	34.9	23.5	2.70	2.58	2.40	10.6	6.9	9.4	2.47	1.55	1.74
Ujjivan	46	391	NEU	390	141	160	184	27.6	20.8	15.8	2.78	2.45	2.13	11.7	12.5	14.4	2.49	2.57	2.63

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
NBFCs																			
LICHF	318	630	NEU	582	205	238	278	16.2	15.6	13.2	3.07	2.65	2.26	19.8	17.7	18.1	1.42	1.32	1.39
MMFS#	189	335	BUY	347	84	94	113	44.6	26.7	18.8	3.88	3.49	2.89	6.6	10.4	13.4	0.98	1.42	1.73
CIFC	167	1,070	BUY	1,294	227	276	341	24.0	18.4	14.9	4.72	3.88	3.14	17.6	19.6	20.5	2.33	2.59	2.64
REPCO	46	738	BUY	775	173	202	234	25.7	22.2	19.8	4.27	3.66	3.15	17.3	17.1	16.5	2.11	2.05	1.92

Source: HDFC sec Inst Research, #Adjusted for subsidiaries

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

Disclosure:

We, Darpin Shah, MBA, Vishal Rampuria, CA & Pranav Gupta, ACA, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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