

Banks & NBFCs

1QFY17E Results Preview

8 July 2016

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1QFY17E: Gradual recovery on the way?

This quarter will have sequentially lower (although elevated) slippages for PSBs, thus crystallising expectations of peaked out stress. Although the industry has passed the AQR overhang in H2FY16, the elevated corporate watch-list, guided by large private corporate banks (AXSB, ICICIBC), may result in subdued performance. Smaller private banks will build on the positive operating metric trend exhibited in 4QFY16. An improved macro scenario mirrored in increased OEM sales will aide the operating metric of vehicle finance NBFCs.

Public sector banks (PSB)

- **Sequentially better performance:** Asset quality will deteriorate in 1Q, albeit at a slower pace as the banks have already taken a major hit (under AQR) in FY16. Elevated credit cost (YoY) will continue to dent net earnings. However, sequentially lower provisions and better margins (no reduction base rate, lower slippages and re-pricing of deposits) will drive net earnings. Loan growth will remain muted owing to weak demand and UDAY impact.

Private banks

- **Mixed show:** Private banks are likely to report mixed trends, with large corporate banks (AXSB and ICICIBC) reporting subdued performance. The business momentum will continue with growth in retail assets, along with market share gain in the corporate segment. However, elevated slippages and higher LLP will hit the net earnings of large corporate. With negligible exposure to stressed sectors and a granular book, the retail/mid-sized banks are expected to continue the steady momentum.

- UJJIVAN is expected to continue its healthy core operating performance.

Non-banking financial companies (NBFC)

- **Momentum to continue:** Vehicle finance NBFCs will continue to grow. We expect MMFS to see improved YoY performance despite 1Q being a seasonally weak quarter. SCUF is likely to hold onto the improved growth performance even as provisions cost restricts net earnings. An increase in high-yielding LAP/builder book for LICHF will allay competitive pressure on the core housing business and a seasonally weak quarter.
- **Key things to watch out for:** PSBs' asset quality performance is eagerly awaited, with the expectation of sequentially lower slippages and positive guidance. Additional disclosures on stressed assets by large corporate private banks will be keenly watched. We believe the recent RBI measures for stress asset resolution (S4A) are an effective tool. We await the banks' assessment on its applicability on the stressed book.
- **View:** With the recent underperformance, ICICIBC (BUY) offers a relatively better risk/reward vs. AXSB (NEUTRAL). PSBs such as SBIN and BOB with relatively better CRAR are an opportunity to capitalise on the cyclical upside in PSB. With the recent outperformance, we downgrade OBC and UNBK to NEUTRAL from BUY. While the vehicle finance stocks have substantially outperformed the broader markets, an improved economic outlook keeps us positive on CIFC and MMFS.

1QFY17E: PSBs - Sequentially better performance

COMPANY	1QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
BOB	AVG	<ul style="list-style-type: none"> Subdued loan growth and NIM compression are expected to drag NII by 15% Despite controlled opex, PPOP to decline 21% With a sequential decline in provisions, BOB is expected to be back in black (PAT of Rs 3.5bn) 	<ul style="list-style-type: none"> Slippages from the disclosed watch-list Comments on business strategy - growth, NIM (MCLR impact), etc Benefit from the recent RBI relaxation (S4A)
OBC	AVG	<ul style="list-style-type: none"> Subdued loan growth of 3% and flat NIMs to keep NII flattish Higher opex to drag PPOP (-14%) With a sequential decline in provisions, OBC is expected to report PAT of Rs 1.3bn 	<ul style="list-style-type: none"> Impairment additions Comment on growth and margin (MCLR impact) Benefit from the recent RBI relaxation (S4A)
SBIN	AVG	<ul style="list-style-type: none"> Despite ~12% loan growth, we expect NII to remain flat with NIM compression PPOP expected to jump ~13% with lower opex growth of 9% and higher non-interest income Higher provisions (LLP +2x) will drag net earnings ~36% YoY 	<ul style="list-style-type: none"> Slippages from the disclosed watch-list Benefit from the recent RBI relaxation (S4A) Comment on consolidation of subsidiaries MCLR impact
UNBK	AVG	<ul style="list-style-type: none"> Muted loan growth of <6% and NIM compression are expected to lead to flat NII (+2% QoQ) Decline in non-interest income will lead to ~13% drop in PPOP Higher loan-loss provisions (2x YoY) will lead to ~63% decline in net earnings 	<ul style="list-style-type: none"> Impairment additions Comment on growth and margin (MCLR impact) Benefit from the recent RBI relaxation (S4A)

1QFY17E: Private banks – A mixed show

COMPANY	1QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
AXSB	BAD	<ul style="list-style-type: none"> Strong loan growth of ~20% to continue. However, NII growth to come in at 14% owing to higher reversals. No base rate cut in near term to provide some cushion to NIMs Lower treasury gains and ~16% opex growth will contain PPOP at <5% With 30% YoY rise in provisions, PAT is expected to de-grow ~8% 	<ul style="list-style-type: none"> Impairments from the disclosed watch-list Additional disclosure on non funded stressed exposures Comments on the new S4A mechanism
CUB	GOOD	<ul style="list-style-type: none"> With a pick-up in loan growth (~16%) and improvement in NIMs, we have factored in NII growth of ~19% However, with slower non-interest income and ~14% opex growth, PPOP is expected to grow at ~12% With stable asset quality performance, we have factored in increase in provisions by ~11% PAT growth expected at ~12% 	<ul style="list-style-type: none"> Comments on growth momentum Comments on a few stressed SME exposures
DCBB	GOOD	<ul style="list-style-type: none"> NII growth of 26%+ YoY to be driven by healthy loan growth PPOP decline of 4% owing to higher opex growth (23%) and 24% decline in non-interest income (due to lower treasury gains) PAT to remain flat YoY, albeit 35% decline QoQ owing to higher tax provisions 	<ul style="list-style-type: none"> Movement in C-I ratio, branch additions and opex growth Commentary on rising competition in the LAP business
FB	AVG	<ul style="list-style-type: none"> Loan growth to remain below private peers. We have modeled 14% loan growth and 12% NII growth Flat non-interest income and 13% opex growth are expected to restrict PPOP growth to a mere 4% With stable other provisions, 9% PAT growth is expected 	<ul style="list-style-type: none"> Commentary on impairment from the retail and SME segments Relapse from the restructured book Growth and margin outlook

1QFY17E: Private banks – A mixed show

COMPANY	1QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
ICICIB	BAD	<ul style="list-style-type: none"> Despite 12% loan growth, we expect NII growth of <6% owing to NIM compression (higher reversals) Further, muted non-interest income is expected to restrict PPOP growth to a mere 1.4% Elevated provisions will lead to 12% decline in net earnings 	<ul style="list-style-type: none"> Impairments from the disclosed watch-list Implication of the S4A scheme Dividend income from subsidiaries and profit repatriation Growth pick-up
IIB	GOOD	<ul style="list-style-type: none"> Strong loan growth (+27%) to drive core earnings (+33% YoY) with higher NIMs Further, strong fee income to drive ~26% growth in PPOP despite higher opex growth With stable asset quality, provisions will decline sequentially 	<ul style="list-style-type: none"> Traction in fee income Growth in RWA vs. loan growth
KMB	GOOD	<ul style="list-style-type: none"> On a smaller base, net earnings to report sharp rise YoY, albeit decline of 4% QoQ 19% loan growth and stable NIMs expected to drive 20% NII growth Opex to decline 14% YoY led by 30% decline in staff cost (KMB provided additional Rs 3.4bn towards staff cost). Thus, PPOP to more than double YoY Provisions, too, expected to be ~32% YoY, up 4% QoQ 	<ul style="list-style-type: none"> Commentary on merger integration — cost and 'bad bank' SA growth and improving efficiency
UJJIVAN	GOOD	<ul style="list-style-type: none"> NII growth is estimated to remain strong (13.8% QoQ) led by robust AUM growth (10% QoQ) and largely stable margins We have built in higher operational costs towards SFB conversion, restricting PAT growth at 10.6% QoQ 	<ul style="list-style-type: none"> Guidance on the benefits of cost of borrowing post the SFB conversion are keenly awaited

1QFY17E: NBFCs – Momentum to continue

COMPANY	1QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
CIFC	GOOD	<ul style="list-style-type: none"> AUM growth of ~18% and NIM improvement (although QoQ decline) to drive NII (+22%) Relatively slower opex growth of ~10% will lead to marginal improvement in C-AA We have factored in higher provisions QoQ despite CIFC making additional provisions of Rs 540mn in 4Q 	<ul style="list-style-type: none"> Commentary on growth in VF business Rising competition and NPAs in LAP
LICHF	AVG	<ul style="list-style-type: none"> Steady 15% loan growth + flat NIM (YoY) to drive NII (+18%, albeit 5% decline QoQ) Net earnings growth at 15% after factoring in higher opex (~27%) and LLP (+42% YoY) Asset quality to deteriorate sequentially, a seasonal phenomenon 	<ul style="list-style-type: none"> Rising growth and yield competition in the housing segment Commentary on growth in LAP and builder loans Recoveries in builder loan NPAs
MMFS	GOOD	<ul style="list-style-type: none"> Asset quality to deteriorate QoQ (seasonal phenomenon) AUM growth to be in the 8-10% range, with the management's focus on recoveries vs. growth Sequentially, NIMs expected to decline and provisions expected to jump Net earnings to decline ~69% QoQ (rise ~30% YoY) 	<ul style="list-style-type: none"> Commentary on collection efficiency Branch additions Growth momentum
SCUF	AVG	<ul style="list-style-type: none"> 17% AUM growth and stable YoY NIMs to drive NII growth of 16% Higher opex and provisions cost to drag net earnings growth (a mere 4%) 	<ul style="list-style-type: none"> Commentary on gold loan disbursements Impact of shift to 120DPD and PCR movement

1QFY17E: NBFCs - Momentum to continue

COMPANY	1QFY17E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
SHTF	GOOD	<ul style="list-style-type: none"> 1Q includes merger effect of the CE business AUM growth expected to remain healthy YoY, thus driving 25% NII growth We continue to factor in higher provisions – in line with the management's focus on higher PCR PAT to jump ~25% YoY 	<ul style="list-style-type: none"> Commentary on growth trends Collection trend in the CE segment Impact of shift to 120DPD and PCR movement

Financial summary

COMPANY	NII (Rs bn)			PPOP (Rs bn)			APAT (Rs bn)		
	1QFY17E	YoY (%)	QoQ (%)	1QFY17E	YoY (%)	QoQ (%)	1QFY17E	YoY (%)	QoQ (%)
Public Sector Banks									
BOB	29.5	(14.8)	(11.5)	17.3	(21.4)	(32.7)	3.5	(66.5)	NA
OBC	13.3	0.5	(1.4)	8.9	(14.4)	1.7	1.3	(49.9)	497.1
SBIN	139.6	1.6	(8.7)	107.4	16.7	(24.3)	23.8	(35.6)	88.2
UNBK	21.2	(0.5)	1.7	13.0	(12.6)	(7.8)	1.9	(63.1)	99.4
Private Sector Banks									
AXSB	46.4	14.3	1.8	42.7	4.4	(2.9)	18.3	(7.5)	(15.1)
CUB	2.7	19.4	0.9	2.2	11.9	(1.5)	1.2	11.8	11.2
DCBB	1.8	26.6	5.3	0.9	(3.8)	(11.1)	0.5	(3.8)	(35.2)
FB	6.8	11.9	(1.4)	3.8	4.2	(3.0)	1.5	8.9	1,401.0
ICICIBC	53.9	5.3	(0.3)	51.1	1.4	(28.1)	26.1	(12.2)	272.1
IIB	13.0	33.0	2.9	11.7	26.3	1.2	6.5	23.2	4.3
KMB	19.2	20.1	3.3	11.9	12.2	104.9	6.7	255.4	(3.1)
Small Finance Bank									
UJJIVAN	1.7	NA	13.8	1.0	NA	8.1	0.6	NA	10.6
NBFCs									
CIFC	6.0	24.1	0.7	3.7	34.1	(5.7)	1.7	58.0	(9.3)
LICHF	7.8	18.0	(5.3)	7.3	17.1	(0.3)	4.4	15.1	(1.8)
MMFS	8.2	14.2	(18.2)	5.1	11.4	(24.5)	1.2	30.1	(68.7)
SCUF	6.7	16.2	7.0	3.8	12.2	11.8	1.5	4.3	177.6
SHTF	14.3	25.8	(1.0)	10.7	23.9	(0.6)	3.8	23.3	163.5

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 (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
PSU Banks																			
BOB	365	158	BUY	170	82	88	121	-6.8	17.0	10.0	1.94	1.79	1.30	-14.0	5.5	8.8	-0.78	0.31	0.47
OBC	36	121	NEU	112	135	125	160	26.9	9.3	5.5	0.90	0.97	0.76	1.1	3.1	5.0	0.07	0.18	0.29
SBIN #	1,708	220	BUY	241	100	109	126	12.5	11.0	8.1	1.60	1.50	1.23	7.9	8.4	10.3	0.46	0.49	0.57
UNBK	91	133	NEU	133	96	114	161	6.8	6.8	5.1	1.39	1.16	0.83	6.9	7.7	10.3	0.34	0.39	0.51
PVT Banks																			
AXSB	1,292	542	NEU	530	213	234	265	15.7	15.5	13.1	2.55	2.32	2.05	16.8	14.7	15.3	1.67	1.45	1.44
CUB	73	122	BUY	132	46	52	60	16.4	14.8	12.7	2.67	2.34	2.03	15.5	15.1	15.6	1.50	1.46	1.46
DCBB	29	103	BUY	115	58	63	72	15.0	17.0	13.4	1.78	1.63	1.44	11.9	9.5	10.7	1.10	0.81	0.82
FB	103	60	BUY	64	41	44	50	21.7	15.9	12.2	1.45	1.37	1.21	6.0	7.8	9.5	0.55	0.66	0.74
ICICIBC #	1,424	245	BUY	274	113	124	140	11.6	9.4	8.0	1.70	1.53	1.30	10.8	11.7	11.9	1.42	1.52	1.53
IIB	659	1,108	BUY	1,188	285	329	383	28.8	22.2	17.4	3.88	3.37	2.89	16.6	16.0	17.6	1.84	1.89	1.93
KMB #	1,367	746	BUY	761	120	135	153	55.5	35.9	28.7	5.28	4.55	3.88	11.0	12.4	13.8	1.41	1.51	1.56
SFB																			
UJJIVAN	49	417	BUY	510	118	153	169	23.8	19.1	23.5	3.54	2.73	2.46	18.3	17.1	10.9	3.65	3.46	1.88

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
NBFCs																			
CIFC	150	961	BUY	973	194	224	278	26.4	21.4	16.7	4.95	4.29	3.46	18.0	17.8	19.4	2.20	2.31	2.47
LICHF	252	498	NEU	499	175	205	238	15.1	13.4	12.1	2.84	2.43	2.09	19.6	19.0	18.1	1.37	1.34	1.28
MMFS #	198	350	BUY	357	86	89	113	28.7	23.7	19.5	3.98	3.86	3.04	11.4	12.7	13.9	1.80	1.90	1.97
SCUF	115	1,740	BUY	1,896	651	702	758	21.7	17.9	15.2	2.67	2.48	2.29	12.2	13.2	13.8	2.72	2.82	2.83
SHTF	275	1,213	BUY	1,304	397	419	466	23.4	18.6	16.5	3.06	2.90	2.60	12.2	13.8	14.0	2.05	2.29	2.21

Source: HDFC sec Inst Research, #Adjusted for subsidiaries

INSTITUTIONAL RESEARCH

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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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