

## HDFC BANK

Industry **BANKING**  
 Bloomberg **HDFCB IN**  
 BSE Code **500180**  
 NSE Code **HDFCBANK**

Monday, April 23, 2018

RATING	BUY
CMP	1961
Price Target	2342
Previous Target	2174
Potential Upside	19%

### Stock Info

52wk Range H/L	2014/1450
Mkt Capital (Rs Cr)	508884
Free float (%)	74%
Avg. Vol 1M (,000)	1287
No. of Shares (Crore)	260
Promoters Pledged %	0%

### Key Highlights

- ☑ Loan book CAGR of 22% in last 5 years with best in assets quality has resulted in 21% earnings CAGR during the same period. Bank has continuously gaining the market share in both loan and deposits. Loan book constitutes 57% retail asset and the rest is wholesale portfolio. Retail assets have shown tremendous growth in recent times backed by healthy vehicle demand and personal segment. We expect bank to grow at 19% CAGR over FY20 despite the higher base.
- ☑ Due to intensive investment in digitalization and slow down in branch expansion, operating expense has shown a modest growth in last few quarters. Cost to income ratio has declined to 40% mark for the first time.
- ☑ Net interest margin has remained best among large size private banks at 4.3%. Assets quality also continues to remain best among peers.
- ☑ HDFC BANK proposes to raise equity capital to the tune of Rs 24000 Cr through various routes. Its promoter HDFC will infuse Rs 8500 Cr via preferential allotment.

### 4Q FY18 Result:

HDFC Bank reported steady 3Q FY18 numbers. However PAT missed our estimates by 2% due to lower advances growth than expected. Its PAT grew by 20% YoY. NII grew by 18% YoY led by stable margin. Fee income growth was stronger at 30% YoY. Overall other income grew by 23% YoY despite treasury loss. HDFC Bank booked loss in treasury income to the tune of Rs 22 Cr (Posted treasury loss in last 18th quarter) Treasury income was lower at Rs 259 Cr against Rs 400 Cr a year back. Treasury income was impacted by increase in bond yield during the quarter. C/I ratio declined by 113 bps YoY signifying stringent control over operating expenses.

### View and Valuation

HDFC Bank has planned to raise capital to the tune of Rs 24000 Cr. We believe it will help the bank to further snatch the market shares from PSU banks as the latter are grappling with capital constraint and assets quality issues. We are factoring Capital raise plan in our estimates and expect RoE/RoA of 17%/2% by FY20. However we reduce our PAT estimate for FY19 by 3% due to lower treasury income which has been impacted by rising bond yield.

We roll over our target price on FY20 estimates and assign 4x multiple on FY20 BV to arrive at the target price of Rs 2342. Recommend BUY.

### Key Risks to our rating and target

- ♦ Significant increase in bond yields implying a rise in cost of funds.
- ♦ Weaker credit growth cycle will hurt advances growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	27592	33139	40095	47851	58030
PPP	21364	25732	32625	38623	46866
PAT	12296	14550	17487	21473	26176
NIM %	4.5	4.4	4.6	4.6	4.7
EPS (Rs)	49	57	67	78	94
EPS growth (%)	19.3	16.7	18.7	15.9	20.5
ROE (%)	18.3	17.9	17.9	16.9	16.9
ROA (%)	1.8	1.8	1.8	1.9	2.0
BV	287	349	410	537	586
P/B (X)	3.7	4.1	4.8	3.7	3.3
P/E (x)	22.0	25.4	29.1	25.1	20.8

Research Analyst

DEEPAK KUMAR SAW

Deepak.kumar@narnolia.com

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## 4Q FY 18 Results Missed our estimates

## Steady Quarter

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	18,114	18,669	19,670	20,581	21,321	17.7%	3.6%	69,306	80,241	15.8%
Interest Exp.	9,059	9,298	9,918	10,267	10,663	17.7%	3.9%	36,167	40,146	11.0%
NII	9,055	9,371	9,752	10,314	10,658	17.7%	3.3%	33,139	40,095	21.0%
Other Income	3,446	3,517	3,606	3,869	4,229	22.7%	9.3%	12,296	15,220	23.8%
Total Income	12,501	12,887	13,358	14,184	14,886	19.1%	5.0%	45,436	55,315	21.7%
Ope Exp.	5,222	5,367	5,540	5,732	6,051	15.9%	5.6%	19,703	22,690	15.2%
PPP	7,279	7,520	7,818	8,451	8,836	21.4%	4.5%	25,732	32,625	26.8%
Provisions	1,262	1,559	1,476	1,351	1,541	22.1%	14.0%	3,593	5,927	65.0%
PBT	6,018	5,961	6,342	7,100	7,295	21.2%	2.7%	22,139	26,697	20.6%
Tax	2,028	2,067	2,191	2,457	2,495	23.1%	1.5%	7,589	9,211	21.4%
Net Profit	3,990	3,894	4,151	4,643	4,799	20.3%	3.4%	14,550	17,487	20.2%

### Steady NIM

HDFC Bank reported flat NIM at 4.3% both YoY and QoQ basis. Despite increase in incremental borrowing cost, HDFC Bank was able to maintain the margins at 4.3% due to increase in MCLR rate and higher mix of retail assets portfolio during the quarter.

HDFCBANK has been reporting superior net interest income among its peers on the back of healthier CASA level and higher yield assets mix. Superior assets quality has provided cushion to its margins.

Going forward we expect margin to sustain at current level due to increase in higher yield unsecured assets mix and healthy CASA level despite pricing pressure.

### Assets Quality remained stable.

GNPA ratio was stable with 1.30% vs 1.29 QoQ and NNPA was at 0.40% vs 44 bps QoQ. Slippages were constrained at 44 bps during the quarter. In last one year assets quality of HDFCB was impacted severely and GNPA increased beyond its comfort zone of 110 bps mainly impacted by agriculture portfolio. Going forward with the normalization of situation we don't expect any further significant impact in its assets quality.

PCR improved on sequential basis at 70% vs 66% QoQ. Total floating provisions now stand at Rs 1451 Cr against Rs 1300 Cr in 3Q FY18.

### Muted corporate loan growth but retail growth remained healthy. Deposits picked up well.

Overall advances grew by 19% YoY below our expectation as corporate loan growth muted at 9% YoY growth. However retail loan growth remained strong at 28% YoY backed by strong growth in vehicle portfolio as well as unsecured portfolio. Mix of retail and wholesale was in the ratio 57:43 against 53:47 a year ago. Banking business portfolio grew by 49% YoY while home loan growth declined by 5% YoY as management indicated that they did not purchase the home loan portfolio since last 2 quarters due to some GST issues. Unsecured retail book growth continues to register healthy growth and now constitute 16.4% of the total book against 13.7% a year back. This segment grew by 42% YoY. PL and credit card grew by 44% and 39% YoY. Auto loan also picked up well during the quarter benefiting from healthy auto sales in the country. Auto loans grew by 23% YoY while 2 wheeler loans grew by 38% YoY.

Deposits registered healthy growth of 23% YoY (highest in last 9 quarter) and CASA grew by just 11% YoY. Growth in term deposits was mainly on account of increasing deposits rate in the system. Share of CASA ratio was at 43.5%.

We expect HDFC bank is in well position to gain some market share of corporate loans from PSU banks as the latter is grappling with assets quality and capital issues. We expect HDFC Bank to register 19% CAGR loan over FY18-20.

### Concall Highlights :

- ✓ Management is hopeful to maintain NIM of 4.1-4.3 range in near future.
- ✓ Management remained focus on wholesale book within their risk appetite.
- ✓ Got shareholders approval for raising Rs 24000 Cr of capital. Waiting for Government approval to raise fund from foreign above Rs 5000 Cr.
- ✓ Fee income growth was strong mainly contributed by three segments- third party products, retail loan fee and credit card fee.
- ✓ There was no impact in assets quality of revised guidelines by RBI during the quarter.
- ✓ Movement of GNPA- Slippages of Rs 2790 Cr, upgrade- Rs 807 Cr, recovery Rs 883 Cr and write-offs Rs 723 Cr.

**Profitability Matrix**

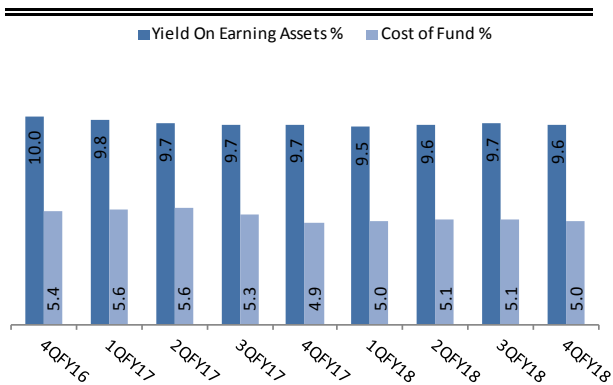
	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	44.7	42.3	41.8	41.6	41.5	40.4	40.6	-1.13	0.23
Empl. Cost/ Tot. Exp. %	34.0	34.9	29.7	30.9	31.0	29.5	28.8	-0.96	-0.73
Other Exp/Tot. Exp. %	66.0	65.1	70.3	69.1	69.0	70.5	71.2	0.96	0.73
Provision/PPP %	12.4	10.8	17.3	20.7	18.9	16.0	17.4	0.11	1.45
Provision/Avg. Adv. %	0.6	0.6	1.0	1.1	1.0	0.9	1.0	-0.01	0.08
Tax Rate %	34.5	34.4	33.7	34.7	34.5	34.6	34.2	0.51	-0.40
Int Exp./Int Inc. (%)	53.2	52.8	50.0	49.8	50.4	49.9	50.0	0.00	0.13
Other Inc./Net Inc. %	26.6	27.4	27.6	27.3	27.0	27.3	28.4	0.84	1.13
PAT/ Net Income %	31.7	33.8	31.9	30.2	31.1	32.7	32.2	0.32	-0.49
PAT Growth %	20.4	15.1	18.3	20.2	20.1	20.1	20.3	2.03	0.17
NII Growth % (YoY)	19.6	17.6	21.5	20.4	22.0	24.1	17.7	-3.79	-6.43
Op. Profit Growth YoY %	19.5	15.2	26.9	29.2	29.8	27.9	21.4	-5.55	-6.49
RoE %	17.6	18.7	18.3	17.0	17.5	18.9	18.5	0.22	-0.34
RoA %	1.8	1.9	1.9	1.8	1.8	2.0	1.9	0.02	-0.07

**Margin Performance**

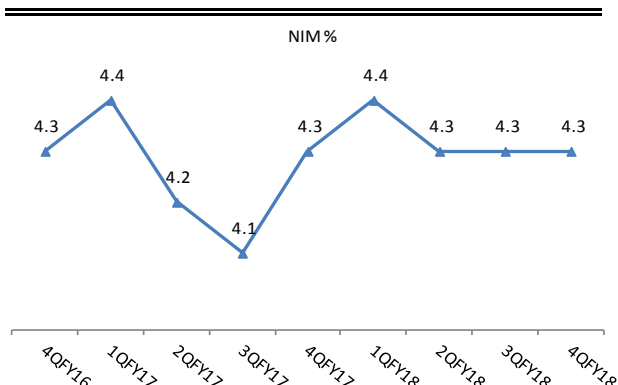
Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	9.7	9.7	9.7	9.5	9.6	9.7	9.6	-0.05	-0.09
Cost Of Funds	5.6	5.3	4.9	5.0	5.1	5.1	5.0	0.12	-0.09
NIM	4.2	4.1	4.3	4.4	4.3	4.3	4.3	0.00	0.00

**Exhibit: Yield and Cost**

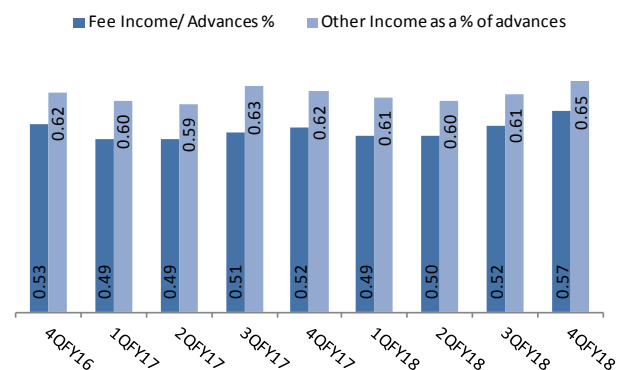
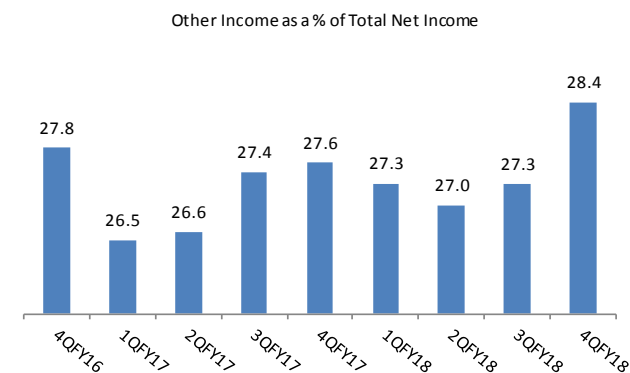
Yield and cost on declining trend.


**Exhibit: Net Interest Margin**

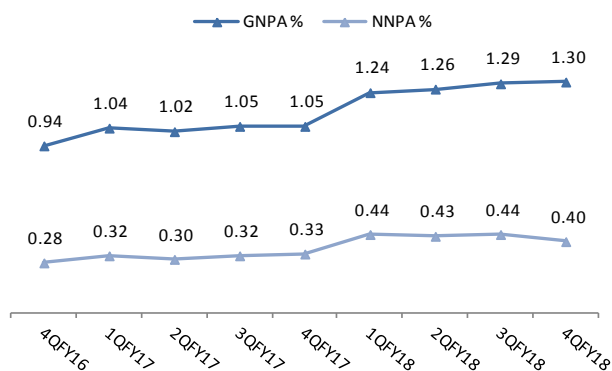
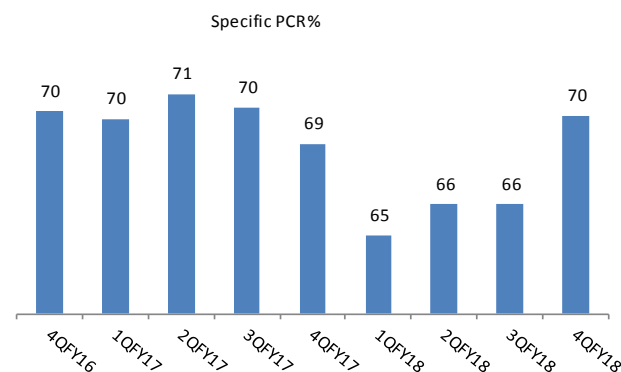
NIM has remained stable.


**Other Income Break Up- smart growth in distribution income**

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Fees & Commissions	2172	1978	2104	2207	2523	2578	2614	2872	3330
FX & Derivatives	283	315	295	297	357	297	384	426	416
<b>Total Fee-Based In.</b>	<b>2455</b>	<b>2292</b>	<b>2399</b>	<b>2504</b>	<b>2880</b>	<b>2875</b>	<b>2998</b>	<b>3298</b>	<b>3746</b>
<i>Growth YoY %</i>	<i>13.5</i>	<i>11.2</i>	<i>9.6</i>	<i>9.7</i>	<i>17.3</i>	<i>25.4</i>	<i>25.0</i>	<i>31.7</i>	<i>30.1</i>
Profit / (loss) on	116	277	284	399	180	331	356	259	-22
Miscellaneous Income	295	237	219	240	386	310	252	311	504
<b>Total Other Income</b>	<b>2866</b>	<b>2807</b>	<b>2901</b>	<b>3143</b>	<b>3446</b>	<b>3517</b>	<b>3606</b>	<b>3869</b>	<b>4229</b>
<i>Growth YoY %</i>	<i>11.8</i>	<i>14.0</i>	<i>13.7</i>	<i>9.4</i>	<i>20.3</i>	<i>25.3</i>	<i>24.3</i>	<i>23.1</i>	<i>22.7</i>

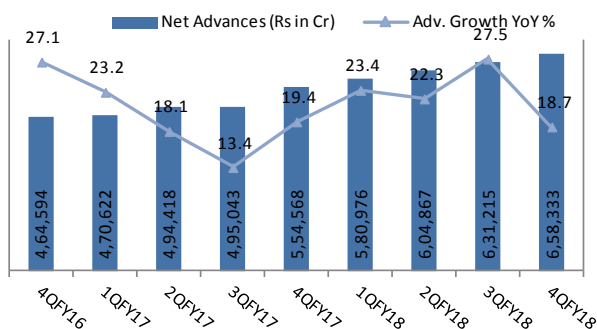
**Exhibit: Fee Income/Advances %**
*Healthy fee income growth during the quarter.*

**Exhibit: Other Income/ Total Income %**

**Asset Quality**

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	5,069	5,232	5,886	7,243	7,703	8,235	8,607	46%	5%
GNPA %	1.0	1.1	1.1	1.2	1.3	1.3	1.3	0.25	0.01
NNPA (Rs in Cr)	1,489	1,564	1,844	2,528	2,597	2,774	2,601	41%	-6%
NNPA %	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.07	-0.04
Slippages (Rs in Cr)	1,440	1,700	2,100	3,100	2,473	4,588	2,790	33%	-39%
Specific PCR %	70.6	70.1	68.7	65.1	66.3	66.3	69.8	1.11	3.46

**Exhibit: Asset Quality**
*Stable assets quality*

**Exhibit: Provisions**
*PCR Increased*


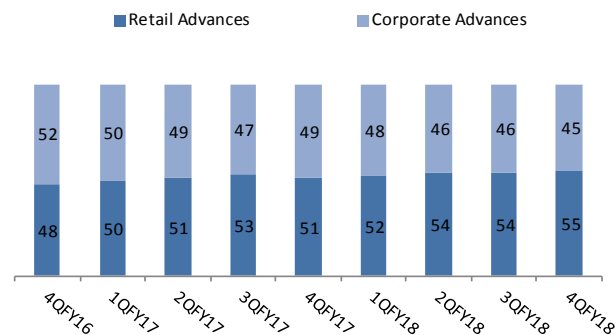
## Exhibit: Advances Performance

Slightly Slower advances growth during the quarter.



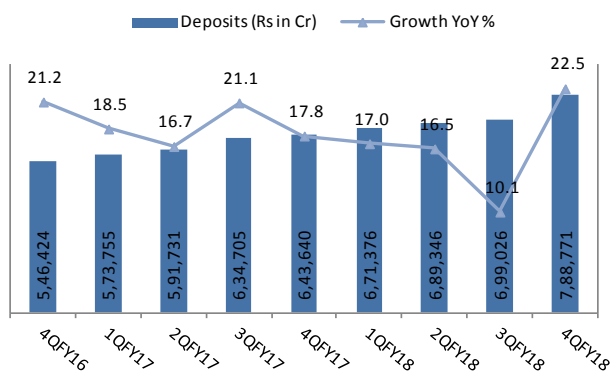
## Exhibit: Advances Breakup%

Portfolio has slightly tilted towards retail profile



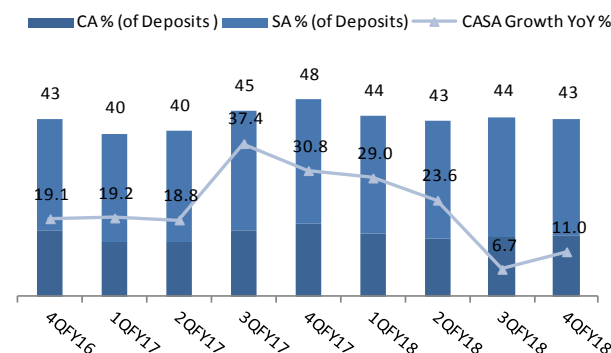
## Exhibit: Deposits Performance

Deposits growth picked up



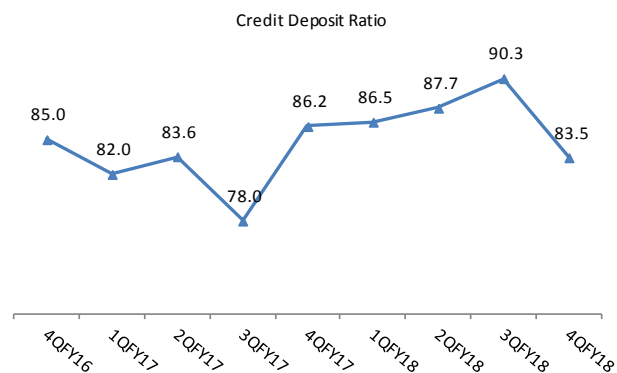
## Exhibit: CASA Performance

Stable CASA level



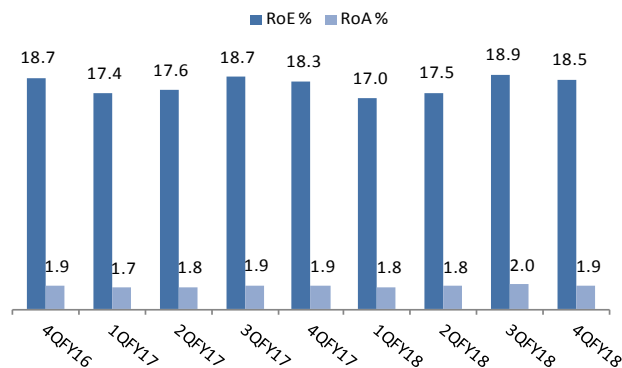
## Exhibit: Credit Deposit Ratio

Average at healthy level.



## Exhibit: Return Ratios

Higher return ratio profile.



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>476</b>	<b>480</b>	<b>501</b>	<b>506</b>	<b>513</b>	<b>519</b>	<b>550</b>	<b>557</b>
>> <i>Equity Capital</i>	476	480	501	506	513	519	550	557
>> <i>Preference Capital</i>	-	-	-	-	-	-	-	-
Reserves & Surplus	35,738	42,999	61,508	72,172	88,950	105,776	147,176	162,392
<b>Networth</b>	<b>36,214</b>	<b>43,479</b>	<b>62,009</b>	<b>72,678</b>	<b>89,462</b>	<b>106,295</b>	<b>147,726</b>	<b>162,948</b>
Deposits	296,247	367,337	450,796	546,424	643,640	788,771	870,463	1,054,599
Change (%)	20.1	24.0	22.7	21.2	17.8	22.5	10.4	21.2
>> <i>CASA Deposits</i>	140,521	164,621	198,492	236,311	309,153	343,093	378,651	464,024
Change (%)	17.7	17.2	20.6	19.1	30.8	11.0	10.4	22.5
Borrowings	33,007	39,439	45,214	84,969	74,029	123,105	126,339	138,271
Other Liabilities & Provisions	34,864	41,344	32,484	36,725	56,709	45,764	48,210	52,730
<b>Total Liabilities</b>	<b>400,332</b>	<b>491,600</b>	<b>590,503</b>	<b>740,796</b>	<b>863,840</b>	<b>1,063,934</b>	<b>1,192,738</b>	<b>1,408,548</b>
Cash & Bank	27,280	39,584	36,331	38,919	48,952	122,915	63,680	67,075
Investments	111,614	120,951	151,642	195,836	214,463	242,200	287,253	348,018
Change (%)	14.5	8.4	25.4	29.1	9.5	12.9	18.6	21.2
Advances	239,721	303,000	365,495	464,594	554,568	658,333	783,416	932,265
Change (%)	22.7	26.4	20.6	27.1	19.4	18.7	19.0	19.0
Fixed Assets	2,703	2,940	3,122	3,343	3,627	3,607	4,152	4,443
Other Assets	19,014	25,125	33,913	38,104	42,230	36,879	54,237	56,747
<b>Total Assets</b>	<b>400,332</b>	<b>491,600</b>	<b>590,503</b>	<b>740,796</b>	<b>863,840</b>	<b>1,063,934</b>	<b>1,192,738</b>	<b>1,408,548</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	35,065	41,136	48,470	60,221	69,306	80,241	95,696	114,291
Interest expended	19,254	22,653	26,074	32,630	36,167	40,146	47,845	56,262
<b>Net Interest Income</b>	<b>15,811</b>	<b>18,483</b>	<b>22,396</b>	<b>27,592</b>	<b>33,139</b>	<b>40,095</b>	<b>47,851</b>	<b>58,030</b>
Change (%)	28.6	16.9	21.2	23.2	20.1	21.0	19.3	21.3
Other Income	6,853	7,920	8,996	10,752	12,296	15,220	17,123	19,992
Change (%)	30.7	15.6	13.6	19.5	14.4	23.8	12.5	16.8
>> <i>Core Fee Income</i>	6,154	7,136	7,612	8,987	10,075	12,917	15,000	17,428
>> <i>Treasury Income</i>	161	110	582	732	1,139	925	94	600
>> <i>Others</i>	537	673	802	1,033	1,082	1,378	2,029	1,964
Total Net Income	22,664	26,402	31,392	38,343	45,436	55,315	64,974	78,021
Operating Expenses	11,236	12,042	13,988	16,980	19,703	22,690	26,350	31,156
Change (%)	30.8	7.2	16.2	21.4	16.0	15.2	16.1	18.2
>> <i>Employee Expenses</i>	3,965	4,179	4,751	5,702	6,484	6,806	7,729	9,106
<b>Pre-provisioning Profit</b>	<b>11,428</b>	<b>14,360</b>	<b>17,404</b>	<b>21,364</b>	<b>25,732</b>	<b>32,625</b>	<b>38,623</b>	<b>46,866</b>
Change (%)	27.7	25.7	21.2	22.7	20.5	26.8	18.4	21.3
Provisions	1,677	1,588	2,076	2,726	3,593	5,927	5,841	6,901
Change (%)	16.7	(5.3)	30.7	31.3	31.8	65.0	(1.5)	18.2
PBT	9,751	12,772	15,329	18,638	22,139	26,697	32,783	39,964
Tax	3,024	4,294	5,113	6,342	7,589	9,211	11,310	13,788
<b>Profit After Tax</b>	<b>6,726</b>	<b>8,478</b>	<b>10,216</b>	<b>12,296</b>	<b>14,550</b>	<b>17,487</b>	<b>21,473</b>	<b>26,176</b>
Change (%)	30.2	26.0	20.5	20.4	18.3	20.2	22.8	21.9

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Balance Sheet Metrics</b>								
Loan Growth (%)	22.7	26.4	20.6	27.1	19.4	18.7	19.0	19.0
Deposit Growth (%)	20.1	24.0	22.7	21.2	17.8	22.5	10.4	21.2
C/D Ratio (%)	80.9	82.5	81.1	85.0	86.2	83.5	90.0	88.4
CASA (%)	47.4	44.8	44.0	43.2	48.0	43.5	43.5	44.0
Investment/Deposit (%)	37.7	32.9	33.6	35.8	33.3	30.7	33.0	33.0
CRAR (%)	16.8	16.1	16.8	15.5	14.6	14.8	18.1	16.9
>> Tier 1 (%)	11.1	11.8	13.7	13.2	12.8	13.2	16.1	15.0
>> Tier 2 (%)	5.7	4.3	3.1	2.3	1.8	1.6	2.1	1.9

### Assets Quality Metrics

Gross NPA	2,335	2,989	3,438	4,393	5,886	8,607	10,663	12,817
Gross NAP (%)	1.0	1.0	0.9	0.9	1.1	1.3	1.3	1.4
Net NPA	469	820	896	1,320	1,844	2,601	2,986	3,589
Net NPA (%)	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Slippages (%)	1.6	1.9	1.7	1.6	1.5	2.3	1.8	1.7
Provision Coverage (%)	79.9	72.6	73.9	69.9	68.7	65.1	72.0	72.0
Provision/Average Advances (%)	0.8	0.6	0.6	0.7	0.7	1.0	0.8	0.8

### Margin Metrics

Yield On Advances (%)	12.3	11.7	11.1	10.8	10.2	10.3	10.4	10.4
Yield On Investment (%)	7.5	7.8	7.9	8.1	7.8	7.1	7.3	7.4
Yield on Earning Assets (%)	10.4	9.9	9.7	9.7	9.2	9.2	9.3	9.3
Cost Of Deposits (%)	6.0	5.7	5.7	5.9	5.3	4.8	4.8	4.9
Cost Of Funds (%)	6.0	5.8	5.5	5.6	5.2	4.8	4.9	5.0
Spread (%)	4.4	4.1	4.2	4.1	4.1	4.4	4.4	4.3
NIM (%)	4.7	4.5	4.5	4.5	4.4	4.6	4.6	4.7

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	54.9	55.1	53.8	54.2	52.2	50.0	50.0	49.2
Fee Income/NII (%)	38.9	38.6	34.0	32.6	30.4	32.2	31.3	30.0
Cost to Income (%)	51.2	47.0	46.6	46.4	45.6	42.8	41.9	41.3
Cost on Average Assets (%)	3.3	2.9	2.8	2.7	2.6	2.6	2.6	2.5
Tax Rate (%)	31.0	33.6	33.4	34.0	34.3	34.5	34.5	34.5

### Valuation Ratio Metrics

EPS (Rs)	28	35	41	49	57	67	78	94
Change (%)	28.4	25.0	15.3	19.3	16.7	18.7	15.9	20.5
ROAE (%)	20.3	21.3	19.4	18.3	17.9	17.9	16.9	16.9
ROAA (%)	1.8	1.9	1.9	1.8	1.8	1.8	1.9	2.0
Dividend Payout (%)	19.5	19.4	19.6	19.5	19.4	19.3	19.2	19.1
Dividend yield (%)	0.9	0.9	0.8	0.9	0.8	0.7	0.8	0.9
Book Value (Rs)	152	181	247	287	349	410	537	586
Change (%)	19.4	19.1	36.5	16.2	21.4	17.3	31.1	9.0
P/B (X)	4.1	4.1	4.1	3.7	4.1	4.8	3.7	3.3
P/E (X)	22.1	21.2	25.1	22.0	25.4	29.1	25.1	20.8

## Financial Details

### Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	9.2	9.0	9.0	8.6	8.3	8.5	8.8
Interest expended	5.1	4.8	4.9	4.5	4.2	4.2	4.3
Net Interest Income	4.1	4.1	4.1	4.1	4.2	4.2	4.5
Non-Fund Based Income	1.8	1.7	1.6	1.5	1.6	1.5	1.5
>> Core Fee Income	1.6	1.4	1.4	1.3	1.3	1.3	1.3
>> Trading and Other Income	0.2	0.3	0.3	0.3	0.2	0.2	0.2
Core Operating Income	5.7	5.5	5.5	5.4	5.5	5.6	5.8
Total Income	5.9	5.8	5.8	5.7	5.7	5.8	6.0
Total Operating Expenses	2.7	2.6	2.6	2.5	2.4	2.3	2.4
>> Employee Expenses	0.9	0.9	0.9	0.8	0.7	0.7	0.7
>> Other Expenses	1.8	1.7	1.7	1.6	1.6	1.7	1.7
Operating Profit	3.2	3.2	3.2	3.2	3.4	3.4	3.6
Provisions	0.4	0.4	0.4	0.4	0.6	0.5	0.5
Others	-	-	-	-	-	-	-
PBT	2.9	2.8	2.8	2.8	2.8	2.9	3.1
Tax	1.0	0.9	1.0	0.9	1.0	1.0	1.1
PAT/RoA	1.9	1.9	1.8	1.8	1.8	1.9	2.0
>> Equity Multiplier (x)	11.2	10.3	9.9	9.9	9.8	8.9	8.4
RoE	21.3	19.4	18.3	17.9	17.9	16.9	16.9





## Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose Road |  
Kolkata-700 020 , Ph : 033-40501500

email: [narnolia@narnolia.com](mailto:narnolia@narnolia.com), website  
: [www.narnolia.com](http://www.narnolia.com)

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