

Industry
Bloomberg
BSE CODE

Financial
FB IN
500469

RATING	BUY
CMP	82
Price Target	99
Potential Upside	21%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	110/76
Mkt Capital (Rs Cr)	16,343
Free float (%)	100%
Avg. Vol 1M (,000)	12,209
No. of Shares (Crs)	195
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	4176	4703	5559
PPP	2763	3120	3729
PAT	1244	1668	2182
NIM %	3.0	2.9	3.0
EPS (Rs)	6	8	11
EPS growth (%)	41	34	31
ROE (%)	10	12	14
ROA (%)	0.8	1.0	1.1
BV	67	74	83
P/B (X)	1.4	1.1	1.0
P/E (x)	15	10	7

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Spike in slippages along with moderation in advances growth impacted profitability

2QFY20 Result Update

- The bank reported NII growth of 18%/1% YoY/QoQ lower than our expectation mainly on account of NIM contraction and slowdown in advances growth. Higher employee expenses (one-offs of Rs 43 Cr) and elevated credit cost dragged the operating profit growth to 3%/-8% YoY/QoQ. PAT grew by 57%/8% YoY/QoQ on majorly account of taxation benefit.
- Other income reported robust growth of 30%/8% YoY/QoQ due to fee income growth of 21% YoY/QoQ.
- Advances growth moderated to 13% YoY against 18% growth in previous quarter. Corporate grew by 7% YoY only. Deposits grew by 18% YoY.
- Slippages have been high at Rs 540 Cr mainly coming from corporate book. Agriculture book also reported high slippages. GNPA/NNPA deteriorated to 3.07/1.59% in 2QFY20.

Margin Contracted

NII growth has been 18%/1% YoY/QoQ due to slower advance growth of 13%/3% YoY/QoQ. NIM contracted by 14 bps QoQ impacted by higher slippages, carrying cost on excessive deposits and fall in yield on loans linked to T-Bills. All the three reasons impacted the NIM to fall. However, Management is hopeful for the recovery in subsequent quarter driven by re price in saving deposits. OPEX has registered high growth of 28% YoY leading to a C/I ratio of 53% in 2QFY20. There was one off in employee expenses related to yield impact on pension & gratuity liability as well as provisions for accumulated wage revision.

Slow growth in advances

Advances growth has continued to be slow since last quarter reporting a growth of 13%/3% YoY/QoQ. The growth has been driven by retail segment growth of 24% YoY. Retail composition in the total portfolio increased to 30% in 2QFY20 from 29% in the last quarter. Corporate book reported low growth of 7% YoY and composition decline to 41% in 2QFY20.

Slippages Spiked

Slippages grew by 24% QoQ to Rs 540 Cr; reductions also grew by 18% QoQ. Asset quality has been deteriorated due as GNPA/NNPA both increased by 8/10 bps QoQ to 3.07%/1.59% in 2QFY20. The management still holds the credit cost guidance of 60 bps for FY20. Corporate slippages stood at Rs 199 Cr in 2QFY20 from Rs 88 Cr in the last quarter. Slippages in retail segment have been low at Rs 124 Cr as against the previous quarter. During the quarter management provided Rs 62 Cr standard provisions on stress accounts. The total stress book increased by 5 bps to 1.72%.

View and Valuation

Slowdown in the economy and conservative approach towards corporate portfolio moderated the loan book growth significantly. Exposure towards the stressed assets (DHFL, RCAP, IL&FS) will impact the assets quality going ahead. Credit cost will continue to remain elevated in near term. Retail book growth remained robust with focus on newer segment. Fee income continues to do well. Due to near term challenges in growth and assets quality we reduce our estimates by 13% in FY20 led by higher credit cost and lower advances growth and cut the target price to Rs 99 at 1.2X BV FY21e. Maintain BUY.

Key Risks to our rating and target.

- Increase in delinquencies will increase the credit cost
- Continued slowdown in Growth

2QFY20 Results Below the Expectations

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	2,765	2,954	3,032	3,229	3,254	18%	1%	9,753	11,419	17.1%
Interest Exp.	1,742	1,877	1,936	2,075	2,130	22%	3%	6,170	7,243	17.4%
NII	1,022	1,077	1,097	1,154	1,124	10%	-3%	3,583	4,176	16.6%
Other Income	323	346	412	392	421	30%	8%	1,159	1,351	16.6%
Total Income	1,345	1,423	1,508	1,546	1,545	15%	0%	4,742	5,527	16.6%
Ope Exp.	648	715	754	763	826	28%	8%	2,451	2,764	12.8%
PPP	698	708	755	783	719	3%	-8%	2,291	2,763	20.6%
Provisions	289	190	178	192	252	-13%	31%	947	856	-9.6%
PBT	409	518	577	591	467	14%	-21%	1,344	1,907	41.9%
Tax	143	184	195	207	50	-65%	-76%	465	663	42.7%
Net Profit	266	334	382	384	417	57%	8%	879	1,244	41.5%

Concall Highlights

- NIM declined by 14 bps sequentially, the reason being the bank grew Rs 7000 Cr of deposits and the credit was Rs 3800 Cr so the cost impact carrying this has been Rs 8 Cr for 2QFY20 and Rs 30 Cr for full year, impact of 4 bps on NIM, 4 bps impact due to high slippages and the impact of T-Bill linked rates had another 4 bps impact on the NIM. NIM is expected to be at 3.10-3.15% by 4QFY20.
- Credit growth is expected to be at 15% for FY20. The composition is expected to be 50:50 for retail and wholesale.
- The management maintained his earlier guidance of ROA of 1-1.25% for FY20. Credit cost is expected to be 55-60 bps for FY20.
- The recovery stood at Rs 223 Cr for 2QFY20 and most of them have been from non corporate book..
- The bank had taken an additional hit of Rs 23 Cr for last 27 months for wage increase and pensioning impact has been of Rs 14 Cr due to the fall in yield and the bank had a off gain of IDBI FEDERAL, the dividend paid out of Rs 20 Cr in last quarter which does not exist in this quarter. All these have added to decline in Operating profit from Rs 784 Cr last quarter to Rs 719 Cr this quarter.
- The corporate tax cut has added to the growth in net profit to be all time high.
- Exposure to two HFCs mentioned last quarter is still standard and the bank has made significant provisions for these assets. The IL&FS account is fully performing one and is likely to be sold this quarter. Exposure to an account to the extent of \$25 Mn has slipped to NPA in 2QFY20 and has coverage of 2x. CASA declined to 31% from 32% in the last quarter mainly on the account of low growth in savings account. CASA ratio is expected to be at more than 33% in FY20.
- Slippages have been high at Rs 540 Cr which includes one corporate account of Rs 180 Cr from ADAG Group. At the beginning of year the bank mentioned 4 accounts totaling Rs 700 Cr which may slip in the entire year FY20. The management holds the earlier guidance of credit cost at 60 bps for FY20.
- Some liability re pricing benefit is expected to be restored from next quarter which is expected to give cushion to margin expansion..
- Standard asset provisioning collectively stood at 62 Cr in 2QFY20 on IL&FS, Reliance home, and DHFL. Cumulative provisioning stood at Rs 72 Cr on the exposure of Rs 475 Cr..
- PCR (without technical write off) is expected to be at 50% for FY20. 70% with technical write off.
- Rs 475 Cr is the total exposure to IL&FS and two stressed HFCs. Exposure to India bulls stands at Rs 300 Cr. Exposure to Reliance Home stands at Rs 99 Cr and DHFL: Rs 175 Cr.
- PCR is expected to grow by 250-300 bps by the end of FY20.
- The bank is planning to open 8 branches in 3QFY20 and 10-12 branches in 4QFY20.
- The external benchmark price has gone live both on assets as well as liabilities from September 1.
- The ICA for Reliance Home Finance ends in January 2020.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	52.8	51.8	48.1	50.3	50.0	49.4	53.5	5.32	4.11
Empl. Cost/ Tot. Exp. %	50.2	53.2	47.7	49.5	49.1	52.1	53.4	5.67	1.21
Other Exp/Tot. Exp.%	49.8	46.8	52.3	50.5	50.9	47.9	46.6	-5.67	-1.21
Provision/PPP %	63.1	33.0	41.4	26.9	23.6	24.5	35.0	-6.38	10.49
Tax Rate %	33.2	34.9	34.9	35.6	33.9	35.0	10.8	-24.14	-24.18
Int Exp./Int Inc. (%)	63.4	63.3	63.0	63.5	63.8	64.3	65.5	2.45	1.21
Other Inc./Net Inc. %	25.2	21.7	24.0	24.3	27.3	25.3	27.2	3.25	1.92
PAT/ Net Income %	11.6	21.0	19.8	23.4	25.3	24.9	27.0	7.20	2.12
RoE %	4.9	8.6	8.5	10.5	11.9	11.4	12.1	3.56	0.62
RoA %	0.5	0.8	0.8	0.9	1.0	1.0	1.0	0.27	0.05

Margin Performance

MARGIN %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	9.1	9.1	9.2	9.3	9.4	9.6	9.3	0.16	-0.22
Yield (Total Assets)	8.5	8.6	8.6	8.8	8.6	8.9	8.6	0.07	-0.21
Cost of Deposits	5.8	5.6	5.7	5.9	5.9	6.0	5.9	0.27	-0.04
Cost Of Funds	5.7	5.8	5.8	6.0	5.0	6.1	6.0	0.20	-0.10
NIM	3.1	3.1	3.2	3.2	3.2	3.2	3.0	-0.14	-0.14

Exhibit: Yield and Cost

Yield declined .Cost increased

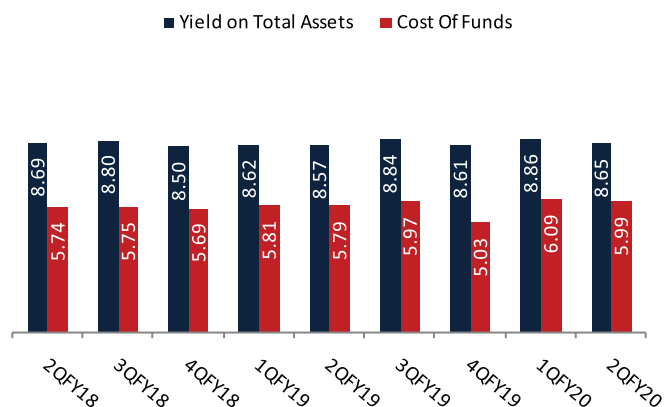
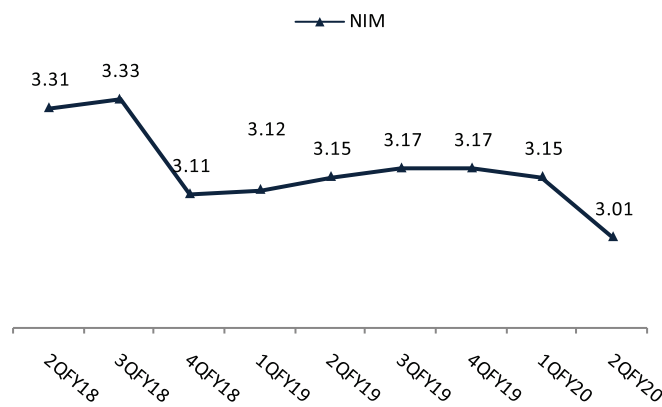


Exhibit: Net Interest Margin

Decline in NIM



Other Income Break Up- smart growth in processing fee

Fig in Rs Cr

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Loan Processing Fee	35	34	46	31	53	50	50	49	61
Commission, Exchange, Brokerage	119	120	136	129	147	156	185	169	191
Net Profit on Forex Transactions	41	39	56	47	61	74	54	43	64
Total Fee-Based Income	195	193	238	207	261	280	289	261	316
Growth YoY %	28%	13%	12%	15%	34%	45%	21%	26%	21%
Profit on sale of securities	75	29	22	49	51	55	74	91	82
Recovery from assets written off & Other Receipts	17	7	54	14	11	11	49	40	22
Other Income	287	229	314	270	323	346	412	392	420
Growth YoY %	10%	-17%	11%	-18%	13%	51%	31%	45%	30%

Exhibit: Fee Income/Advances %

Fee income decreased

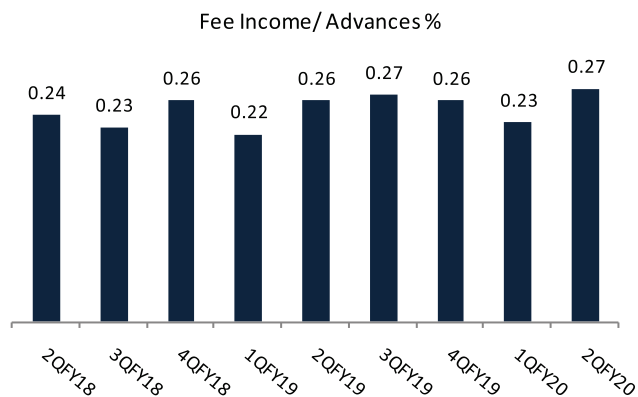
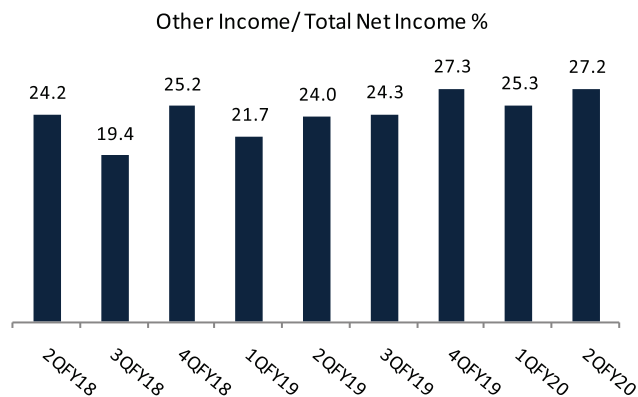


Exhibit: Other Income/ Total Income %

Other income as % of total income decreased



Asset Quality

Fig in Rs Cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	2,796	2,869	3,185	3,361	3,261	3,395	3,612	13%	6%
GNPA %	3.00	3.00	3.11	3.14	2.92	2.99	3.07	-0.04	0.08
NNPA (Rs in Cr)	1,552	1,620	1,796	1,817	1,626	1,673	1,844	3%	10%
NNPA %	1.69	1.72	1.78	1.72	1.48	1.49	1.59	-0.19	0.10
Slippages (Rs in Cr)	892	482	482	435	269	434	540	12%	24%
Std Restructured Assets %	0.86	0.62	0.57	0.61	0.50	0.55	0.53	-0.04	-0.02
Net Stress Assets %	3	2	3	3	2	2	2	-0.37	0.05
PCR %	65	65	63	64	67	67	66	2.79	-1.25

Slippage Contribution (%)

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Retail	37	36	8	24	25	25	26	34	23
Agriculture	18	10	6	12	14	17	36	16	13
SME	38	30	16	20	35	45	38	29	27
Wholesale	7	24	69	45	26	13	-	21	37
Total	100	100	100	100	100	100	100	100	100

Exhibit: Asset Quality

Assets quality deteriorated

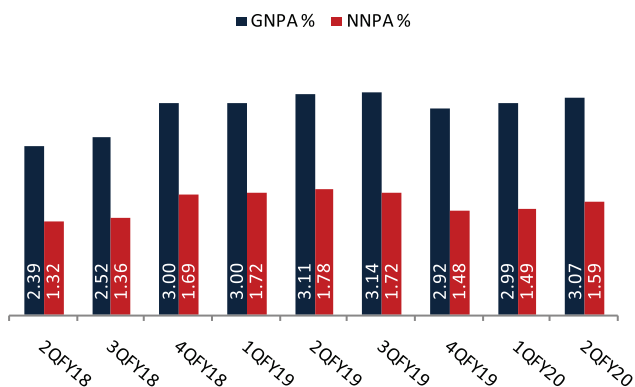


Exhibit: Provisions

PCR almost stable

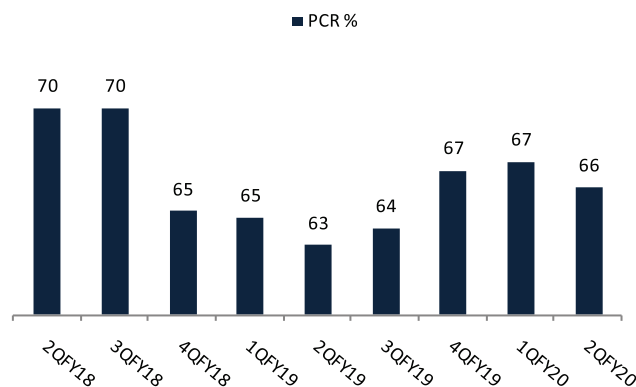


Exhibit: Advances Performance

Slow Advances Growth

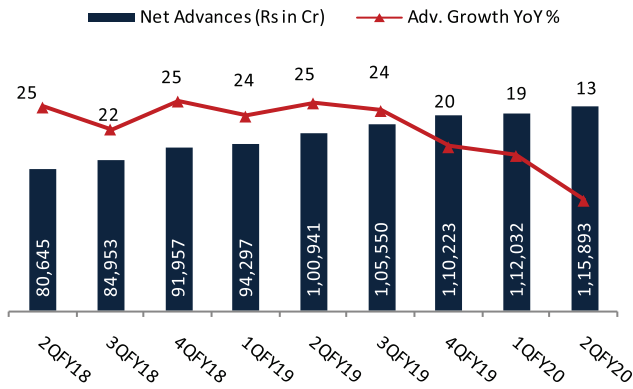


Exhibit: Advances Breakup%

Better retail portfolio share, selective for corporate

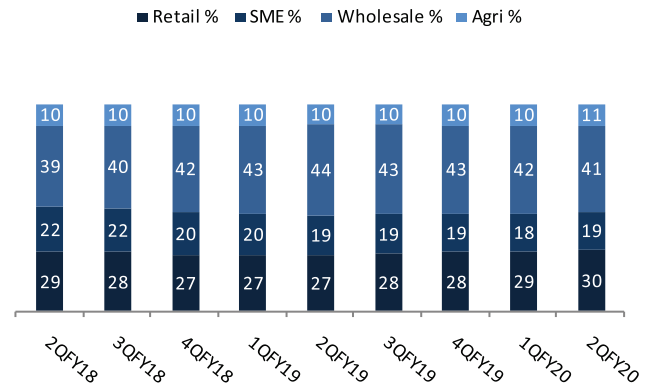


Exhibit: Deposits Performance

Deposits growth slightly low

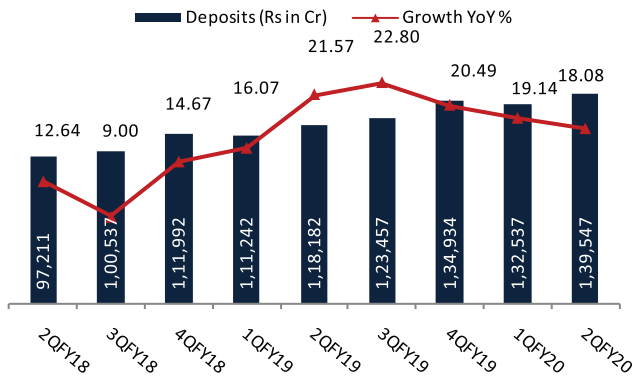


Exhibit: CASA Performance

CASA ratio improved

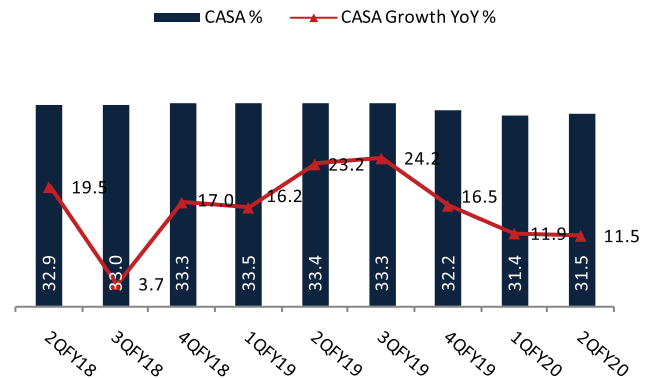


Exhibit: Credit Deposit Ratio

CD ratio decreased

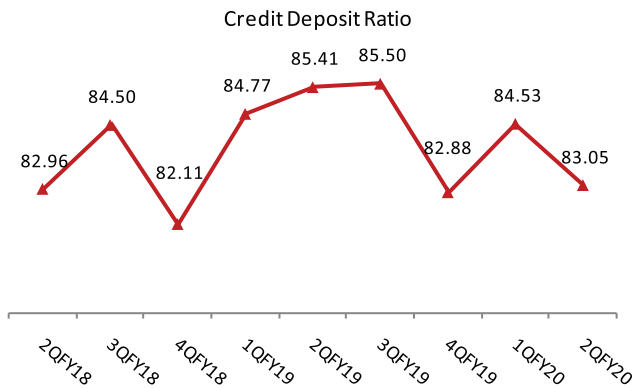
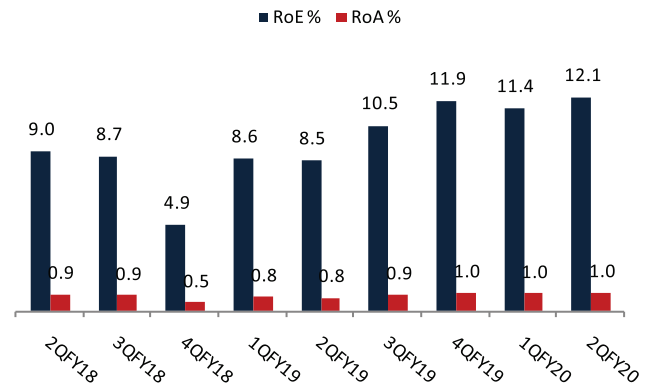


Exhibit: Return Ratios

Return ratio profile.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	171	171	344	345	394	397	397	398
Equity Capital	171	171	344	345	394	397	397	397
Preference Capital	0	0	0	0	0	0	0	1
Reserves & Surplus	6780	7567	7747	8598	11816	12876	14210	16011
Networth	6951	7738	8091	8942	12210	13273	14607	16408
Deposits	59731	70825	79172	97665	111992	134954	150063	177074
Change (%)	4	19	12	23	15	21	11	18
CASA Deposits	18401	21550	25705	31838	37252	43388	48770	60205
Change (%)	19	17	19	24	17	16	12	23
Borrowings	5688	2308	5115	5897	11534	7781	8749	10323
Other Liabilities & Provisions	2601	2268	2204	2473	2578	3331	3602	4250
Total Liabilities	74970	83140	94581	114977	138314	159340	177020	208055
Cash & Bank	4529	4780	5420	7452	9204	10066	10762	12850
Investments	24118	24409	25155	28196	30781	31824	34514	40727
Change (%)	14	1	3	12	9	3	8	18
Advances	43436	51285	58090	73336	91957	110223	124552	146971
Change (%)	-1	18	13	26	25	20	13	18
Fixed Assets	425	467	520	489	457	472	496	520
Other Assets	2462	2199	5396	5503	5915	6754	6696	6987
Total Assets	74970	83140	94581	114977	138314	159340	177020	208055

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	6,946	7,419	7,745	8,677	9,753	11,419	13,243	15,162
Interest expended	4,717	5,039	5,240	5,625	6,170	7,243	8,540	9,602
Net Interest Income	2,229	2,380	2,504	3,053	3,583	4,176	4,703	5,559
Change (%)	13	7	5	22	17	17	13	18
Other Income	694	878	786	1,082	1,159	1,351	1,625	1,825
Change (%)	4	27	(10)	38	7	17	20	12
Core Fee Income	464	498	554	677	806	1,037	1,244	1,494
Treasury Income	156	256	129	309	238	229	269	242
Others	74	124	103	96	115	85	112	90
Total Net Income	2,922	3,259	3,291	4,134	4,742	5,527	6,328	7,385
Operating Expenses	1,442	1,631	1,867	2,210	2,451	2,764	3,208	3,656
Change (%)	22	13	14	18	11	13	16	14
Employee Expenses	772	892	1,053	1,164	1,242	1,378	1,648	1,846
Pre-provisioning Profit	1,480	1,628	1,424	1,925	2,291	2,763	3,120	3,729
Change (%)	1	10	(13)	35	19	21	13	20
Provisions	268	107	704	618	947	856	904	813
Change (%)	1	(60)	560	(12)	53	(10)	6	(10)
PBT	1,212	1,521	720	1,307	1,344	1,907	2,216	2,916
Tax	373	515	244	476	465	663	548	734
Profit After Tax	839	1,006	476	831	879	1,244	1,668	2,182
Change (%)	0	20	(53)	75	6	42	34	31

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	(1)	18	13	26	25	20	13	18
Deposit Growth (%)	4	19	12	23	15	21	11	18
C/D Ratio (%)	72.7	72.4	73.4	75.1	82.1	81.7	83.0	83.0
CASA (%)	30.8	30.4	32.5	32.6	33.3	32.2	32.5	34.0
Investment/Deposit (%)	40.4	34.5	31.8	28.9	27.5	23.6	23.0	23.0
CRAR (%)	15.1	15.5	13.9	12.4	14.7	14.1	13.1	12.5
Tier 1 (%)	14.6	14.8	13.4	11.8	14.2	13.4	12.6	12.2
Tier 2 (%)	0.6	0.7	0.6	0.6	0.5	0.8	0.5	0.4

Assets Quality Metrics

Gross NPA (Rs)	1,087	1,058	1,668	1,727	2,796	3,261	4,283	4,602
Gross NPA (%)	2.5	2.0	2.8	2.3	3.0	2.9	3.4	3.1
Net NPA(Rs)	322	373	950	941	1,552	1,626	2,056	2,209
Net NPA (%)	0.7	0.7	1.6	1.3	1.7	1.5	1.7	1.5
Slippages (%)	2	2	4	2	3	2	2	1
Provision Coverage (%)	84	84	72	72	65	67	70	70
Provision/Average Advances (%)	0.6	0.2	1.3	0.9	1.1	0.8	0.8	0.6

Margin Metrics

Yield On Advances (%)	11.4	11.5	10.4	10.0	9.1	9.0	9.1	9.1
Yield On Investment (%)	7.8	7.6	7.1	6.8	6.5	6.5	6.6	6.6
Yield on Earning Assets (%)	10.0	9.9	9.4	8.9	8.1	8.1	8.3	8.2
Cost Of Deposits (%)	7.2	7.1	6.7	6.1	5.5	5.5	5.7	5.6
Cost Of Funds (%)	7.3	7.3	6.6	6.0	5.4	5.4	5.6	5.5
Spread (%)	2.7	2.7	2.7	2.9	2.7	2.7	2.6	2.7
NIM (%)	3.2	3.2	3.0	3.1	3.0	3.0	2.9	3.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	67.9	67.9	67.7	64.8	63.3	63.4	64.5	63.3
Fee Income/NII (%)	20.8	20.9	22.1	22.2	22.5	24.8	26.5	26.9
Cost to Income (%)	49.3	50.0	56.7	53.4	51.7	50.0	50.7	49.5
Cost on Average Assets (%)	2.0	2.1	2.1	2.1	1.9	1.9	1.9	1.9
Tax Rate (%)	30.8	33.9	33.9	36.4	34.6	34.8	24.7	25.2

Valuation Ratio Metrics

EPS (Rs)	4.9	5.9	2.8	4.8	4.5	6.3	8.4	11.0
Change (%)	0.1	19.9	(52.9)	74.7	(7.8)	41	34.1	30.9
ROAE (%)	12.6	13.7	6.0	9.8	8.3	9.8	12.0	14.1
ROAA (%)	1.1	1.3	0.5	0.8	0.7	0.8	1.0	1.1
Dividend Payout (%)	20.4	18.7	25.3	18.6	22.4	22.3	19.0	16.4
Dividend yield (%)	2.1	1.7	1.5	1.0	1.1	1.5	2.0	2.2
Book Value (Rs)	40.6	45.2	47.1	52.0	61.9	66.9	73.6	82.7
Change (%)	9	11	4	11	19	8	10	12
ABVPS (Rs)	39	43	42	47	54	59	63	72
P/B (X)	1.2	1.5	1.0	1.8	1.4	1.4	1.1	1.0
P/E (X)	9.7	11.2	16.7	18.9	20.0	15.4	9.8	7.5

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.4	8.7	8.3	7.7	7.7	7.9	7.9
Interest expended	6.4	5.9	5.4	4.9	4.9	5.1	5.0
Net Interest Income	3.0	2.8	2.9	2.8	2.8	2.8	2.9
Non-Fund Based Income	1.1	0.9	1.0	0.9	0.9	1.0	0.9
Core Fee Income	0.6	0.6	0.6	0.6	0.7	0.7	0.8
Trading and Other Income	0.5	0.3	0.4	0.3	0.2	0.2	0.2
Core Operating Income	3.6	3.4	3.6	3.5	3.5	3.5	3.7
Total Income	4.1	3.7	3.9	3.7	3.7	3.8	3.8
Total Operating Expenses	2.1	2.1	2.1	1.9	1.9	1.9	1.9
Employee Expenses	1.1	1.2	1.1	1.0	0.9	1.0	1.0
Other Expenses	0.9	0.9	1.0	1.0	0.9	0.9	0.9
Operating Profit	2.1	1.6	1.8	1.8	1.9	1.9	1.9
Provisions	0.1	0.8	0.6	0.7	0.6	0.5	0.4
Others	-	-	-	-	-	-	-
PBT	1.9	0.8	1.2	1.1	1.3	1.3	1.5
Tax	0.7	0.3	0.5	0.4	0.4	0.3	0.4
PAT/RoAA	1.3	0.5	0.8	0.7	0.8	1.0	1.1
Equity Multiplier (x)	10.8	11.2	12.3	12.0	11.7	12.1	12.4
ROAE	13.7	6.0	9.8	8.3	9.8	12.0	14.1

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