

Industry	Financial
Bloomberg	YES IN
BSE CODE	532648

Rise in Stress pool will Continue to Haunt the Bank

RATING Under Review

CMP 67

Price Target -

Potential Upside -

Rating Change

Estimate Change

Target Change -

Stock Info

52wk Range H/L	286/29
Mkt Capital (Rs Cr)	16,985
Free float (%)	80.00%
Avg. Vol 1M (,000)	331,890
No. of Shares (Cr)	255
Promoters Pledged %	

fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	9809	8740	8613
PPP	8135	6194	5932
PAT	1720	-1428	259
NIM %	3.0	2.6	2.6
EPS (Rs)	7	-6	1
EPS growth	-59	-175	-118
ROE (%)	7	-5	1
ROA (%)	0.5	-0.4	0.1
BV	116	105	106
P/B (X)	2.4	0.6	0.6
P/E (x)	37	-12	66

Research Analyst

DEEPAK KUMAR

Deepak.kumar@narnolia.com

+91-22-62701205

2QFY20 Result Update

- BB & Below book exposure increased from Rs 29470 Cr to Rs 31400 Cr. There was gross addition of Rs 5230 Cr in the stress pool assets. GNPA during the quarter stood at 7.39%v/s 5.01% QoQ and NNPA stood at 4.35% v/s 2.91% QoQ. Slippages were Rs 5945 Cr vs Rs 6232 Cr sequentially.
- NII during the quarter declined by 9% YoY on account of the declining advances and also impacted by fresh slippages. NIM during the quarter stood at 2.7% v/s 2.8% sequentially. Yield on advances stood at 9.8% v/s 10.1% in Q2FY19 and Cost of Fund stood at 6.7% v/s 6.4% in Q2FY19. Loss during the quarter was Rs 600 Cr owing to one time impact of deferred tax impact excluding which there would have been profit of Rs 109 Cr.
- Advances during the quarter declined by 6%/5% on YoY/QoQ basis with corporate book declining 15% YoY and growth in retail book was 30% YoY. The deposits declined by 6% YoY with CASA declining by 14% YoY.

BB & below Book continue to bring the pain.

Asset quality during the quarter continued to deteriorate as GNPA stood at 7.39%v/s 5.01% QoQ and NNPA standing at 4.35% v/s 2.91% QoQ. The gross slippages were Rs 5945 Cr and recovery and upgrade were around Rs 850 Cr. BB & Below book exposure increased from Rs 29470 Cr to Rs 31400 Cr. Out of around 6000 Cr of slippages during the quarter 60% came from the BB & Below book. Management has now increased its credit cost guidance for the year from 1.25% to 2.5% for the full year with delay of the resolutions owing to tough microeconomic conditions.

Contraction continue in Advances and deposits.

Advances declined by 6%/5% on YoY/QoQ basis with corporate book declining 15% YoY and growth in retail book growing by 30% YoY. The Corporate book composition to the total loan book stood at 62% while the MSME and consumer banking contributed 18%/20% respectively. The deposits declined by 6% YoY with CASA declining by 15% YoY. The CASA ratio stood at 30.8% V/S 33.8%..

Boards Capital Raising Committee to evaluate Capital Raising Options.

Bank had reported that it has received the binding contract from the global investor for 1.2 billion dollar and the time line for the binding offer is 30th Nov 2019. The binding offer said that pricing will be as per SEBI Formula of two week pricing. The bank has received 8 bids from domestic and equity private equity funds aggregating to 1.5 billion dollar. Management has clear sight of capital which is subject to shareholders and regulatory approvals. Capital raising committee of the Board will decide what will be the optimal mix for the bank. Management said that voting rights of new investors will be capped at 15% and believes capital raising wont trigger open offer, investors have asked for board seat which management will consider if approval is accepted.

View and Valuation

Bank saw another quarter of pain with BB & Below book increasing to Rs 31400 Cr which would continue to dampen its asset quality and profitability. Further real estate woes still to come, we don't think BB & Below book has peaked. Slippages apart from stress pool also remain elevated. Management has increased the credit cost guidance from 1.25% to 2.5% which signifies pain in near term. The advance and deposits both witnessed de-growth. The Growth in the loan book would depend on the capital raising option as it is evaluating including one binding contract of \$ 1.2 Bn from foreign investor subject to regulatory and shareholders' approval. Capital raising will require huge dilution at this stage. Clarity on the capital raising plan and resolution on the NPA would be a key points going ahead. Considering the above we continue to keep the stock as Under Review.

Key Risks to our rating and target

- Further increase in the stress pool
- Capital raising plan of the management

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2Q FY20 Results
Result Below expectation

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	fig in Rs cr
										YoY %
Interest Inc.	7,231	7,959	7,857	7,816	7,386	2.1%	-5.5%	20,267	29,625	46.2%
Interest Exp.	4,814	5,293	5,351	5,535	5,200	8.0%	-6.1%	12,530	19,816	58.1%
NII	2,418	2,666	2,506	2,281	2,186	-9.6%	-4.2%	7,737	9,809	26.8%
Other Income	1,473	891	532	1,273	946	-35.8%	-25.7%	5,224	4,590	-12.1%
Total Income	3,891	3,557	3,038	3,554	3,132	-19.5%	-11.9%	12,961	14,399	11.1%
Ope Exp.	1,525	1,567	1,714	1,594	1,673	9.8%	5.0%	5,213	6,264	20.2%
PPP	2,366	1,990	1,323	1,959	1,458	-38.4%	-25.6%	7,748	8,135	5.0%
Provisions	940	550	3,662	1,784	1,336	42.2%	-25.1%	1,554	5,778	271.8%
PBT	1,426	1,440	(2,338)	175	122	-91%	-30%	6,194	2,357	-61.9%
Tax	462	438	(832)	61	722	56%	1080%	1,970	637	-67.7%
Net Profit	965	1,002	(1,507)	114	(600)	-162%	LTP	4,225	1,720	-59%

Concall Highlights

- ❑ The Management said that despite reasonably tough conditions with regards to liability business bank has been able to raise CASA ratio from 30.2% to 30.8%.
- ❑ On capital raising front management said that it has received binding offer from global investor of Rs 1.2 billion dollar and bank said it went to its lawyer as soon as term sheets was received and the lawyer to check it is legally binding and opinion it received was it is sensitive information and needed to be disclosed to exchanges. The timeline for the binding offer is 30 nov 2019. The float price for bid would be 2 week pricing formula. Bank has had 8 bids from the domestic and foreign private equity firms which aggregate to 1.5 billion us dollar so the above mentioned option is not the only one thus has clear sight of capital.
- ❑ The capital raising committee of the board will go through various options and decide what would be the optimal capital
- ❑ Management said the investor it had received the bid from has financial ability for the investment and is backed by large financial institution thus there should not be any doubt should bank choose to go for the option.
- ❑ Bank is in process of segregating CRO and CCO and has shortlisted the candidates and would be able to decide on that soon.
- ❑ On asset quality front management said that it had provided for credit cost guidance of 125 bps at the start of the year but now with challenging conditions the credit cost guidance could be exceeded by 125 bps from the earlier guidance to around 225-250 bps for the full year
- ❑ Management said that NII reduction was on account of the fresh slippages and sequential reduction in interest bearing assets. Management said although it reported NIM of 2.7% its core NIM stands in excess of 3%.
- ❑ Management expects bounce back on corporate banking fees as soon as it gets capital infusion.
- ❑ PAT excluding the DTA impact of was Rs 109 Cr.
- ❑ The gross slippages during the 5945 Cr and recovery and upgrade were around Rs 850 Cr. About 60% of the net slippages reported by the bank were from BB&BELOW book and around Rs 2000 Cr slippages from Non BB&Below book. Bank has been able to make good amount of recovery from the amount that slipped from BB&Below book during the quarter post September quarter.
- ❑ Bank said certain resolutions which bank was expecting were delayed by tough microeconomic condition thus bank has changed credit cost guidance.
- ❑ On telecom exposure bank has around 3% outstanding with NIL delinquencies till date.
- ❑ On BB&Below book management said LGD on the BB&Below would be around 25%.
- ❑ Overall exposure to commercial real estate is around 7% and about 1/3 is already part of BB&Below book. BB& below book has two real estate exposure and management expects definitive resolutions for both the exposures.
- ❑ Current BB&Below book according to management is at peak excluding the Commercial real exposure which might through some surprises.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	40.3	37.3	39.2	44.0	56.4	44.9	53.4	14.25	8.56
Empl. Cost/ Tot.	38.0	40.5	39.0	39.9	38.5	41.5	39.4	0.43	-2.10
Other Exp/Tot.	62.0	59.5	61.0	60.1	61.5	58.5	60.6	-0.43	2.10
Provision/PPP %	18.7	25.5	39.7	27.6	276.7	91.1	91.6	51.90	0.55
Tax Rate %	32.1	31.1	32.4	30.4	34.0	35.0	19.0	-13.37	-15.99
Int Exp./Int Inc.	62.5	66.3	66.6	66.5	68.1	70.8	70.4	3.84	-0.41
Other Inc./Net	39.7	43.3	37.9	25.0	17.5	35.8	30.2	-7.66	-5.61
PAT/ Net	33.0	32.2	24.8	28.2	(49.6)	3.2	(19.2)	-43.95	-22.36
PAT Growth %	29.0	30.5	(3.8)	(7.0)	(227.7)	(91.0)	(162.2)	-158.41	-71.23
NII Growth %	31.4	22.7	28.2	41.2	16.3	2.8	(9.6)	-37.83	-12.36
Op. Profit	26.3	44.0	24.1	(0.6)	(38.0)	(20.2)	(38.4)	-62.48	-18.18
RoE %	18.8	19.4	14.4	14.4	(21.8)	1.7	1.6	-12.80	-0.10
RoA %	1.6	1.6	1.1	1.1	(1.6)	0.1	0.1	-1.00	0.00

Margin

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on	9.9	10.0	10.1	10.2	10.2	10.0	9.8	-0.30	-0.20
Avg Yield on	9.5	9.7	9.5	10.6	9.1	9.0	8.7	-0.71	-0.28
Cost Of Funds	6.0	6.3	6.4	6.5	6.7	6.8	6.7	0.30	-0.10
NIM	3.4	3.3	3.3	3.3	3.1	2.8	2.7	-0.60	-0.10

Exhibit: Yield and Cost

fall in both cost of fund and yield on earning asset

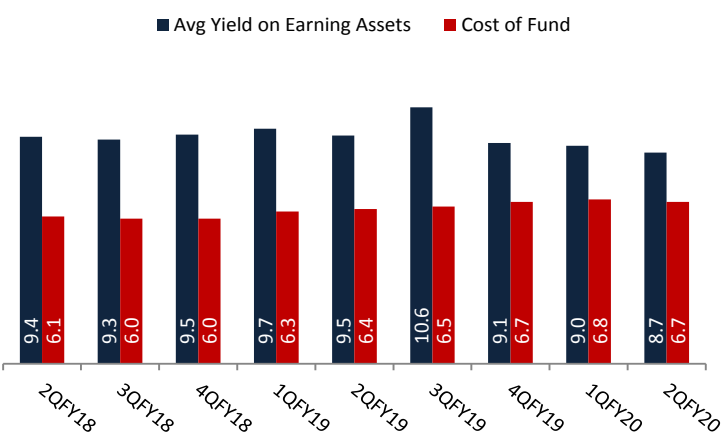
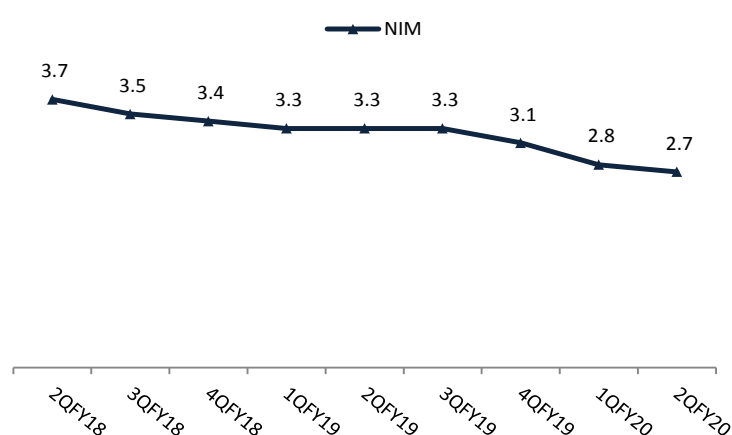


Exhibit: Net Interest Margin

NIM Fell



Other Income Break Up

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Trade & Remittance	98	102	129	115	140	136	122	87	103
Facility / Processing Fee	64	77	66	69	71	81	67	68	63
Third Party Sales	30	27	54	23	24	24	50	20	24
Interchange Income	49	47	55	69	74	51	103	114	125
General Banking Fees	32	37	43	56	51	61	65	58	67
Retail Banking Fees	272	290	347	333	361	353	406	347	382
Corporate Banking Fees	477	723	644	683	668	472	-112	61	0
Cor. Trade & Cash Mgt	144	154	240	216	212	224	210	200	165
Total Fee-Based In.	893	1167	1231	1232	1241	1049	504	608	547
Growth YoY%	0.52	0.78	0.21	0.53	0.39	-0.10	-0.59	-0.51	-0.56
Forex, Debt Capital Mkt	352	243	178	460	222	-160	11	656	386
Others	4	12	12	2	10	2	16	9	13
Total Other Income	1248	1422	1421	1694	1473	891	532	1273	946
Growth YoY%	0.41	0.42	0.13	0.50	0.18	-0.37	-0.63	-0.25	-0.56

Exhibit: Fee Income/Advances %

Fee income as a % of total advances stable

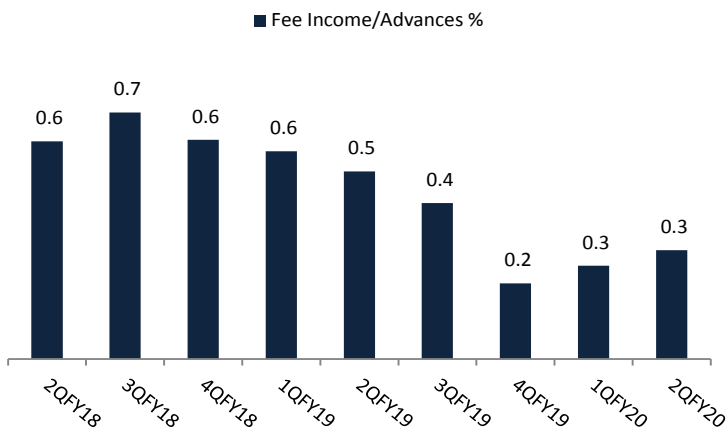
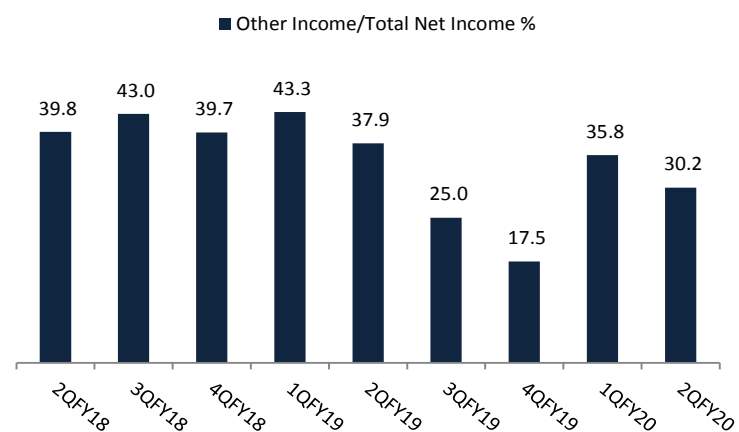


Exhibit: Other Income/ Total Income %

Growth in other income decreased



Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	2,627	2,825	3,866	5,159	7,883	12,092	17,134	343%	42%
GNPA %	1.3	1.3	1.6	2.1	3.2	5.0	7.4	5.79	2.38315
NNPA (Rs in Cr)	1,313	1,260	2,020	2,876	4,485	6,883	9,757	383%	42%
NNPA %	0.6	0.6	0.8	1.2	1.9	2.9	4.4	3.51	1.44
Slippages (Rs in Cr)	380	560	1,632	2,297	3,481	6,232	5,945	264%	-5%
Specific PCR %	50.0	55.4	47.8	44.2	43.1	43.1	43.1	-4.71	-0.02

Exhibit: Asset Quality

Assets quality impacted.

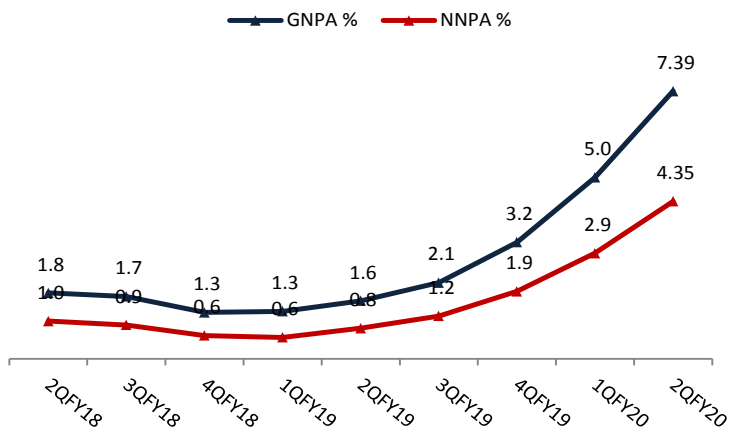


Exhibit: Provisions

PCR maintained

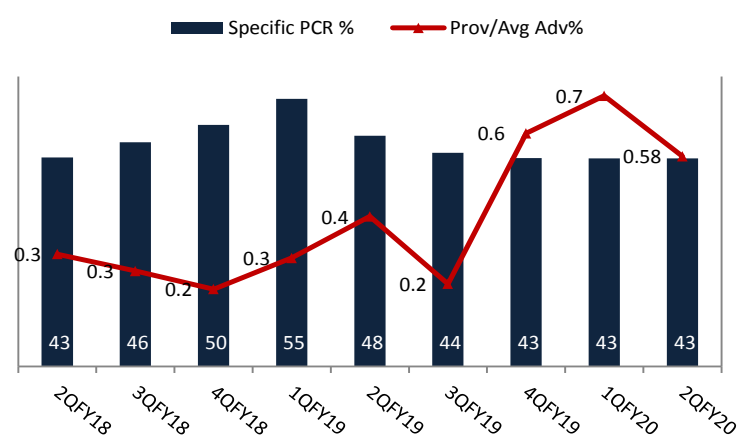


Exhibit: Advances Performance

Advances degrew

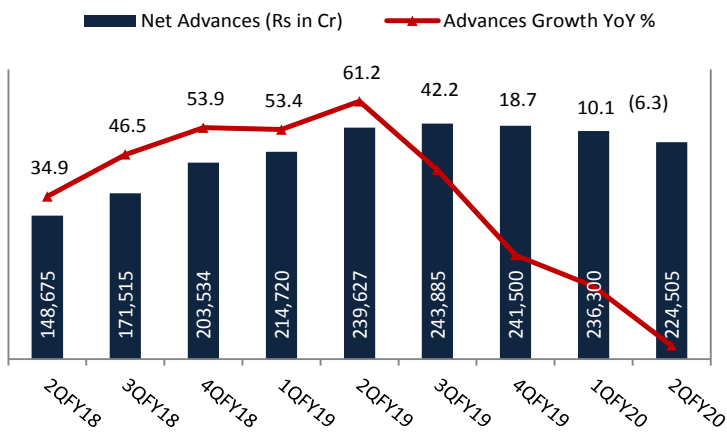


Exhibit: Advances Breakup%

Corporate banking share fell

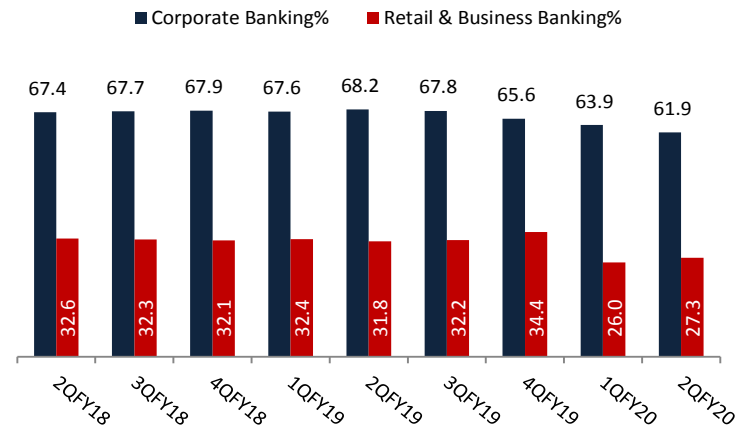


Exhibit: Deposits Performance

Deposits growth declined.

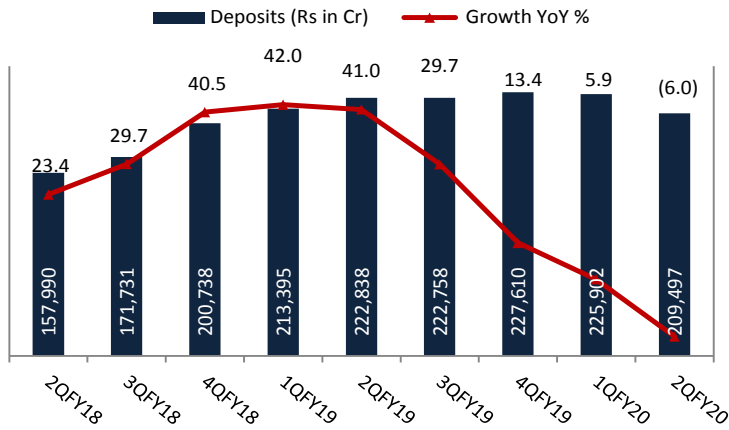


Exhibit: CASA Performance

Growth in CASA heavily affected

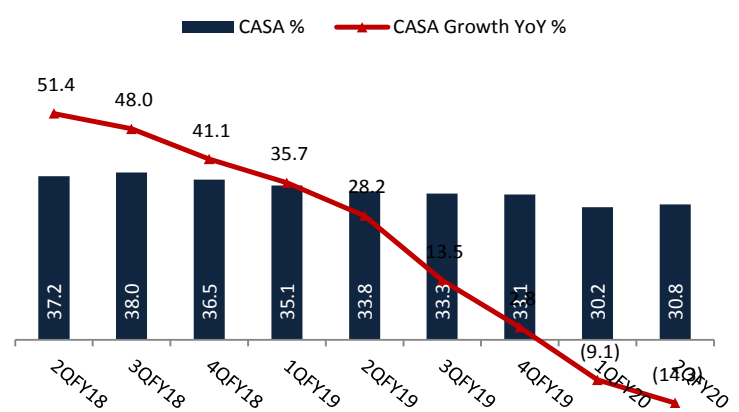


Exhibit: Credit Deposit Ratio

CD ratio moved down.

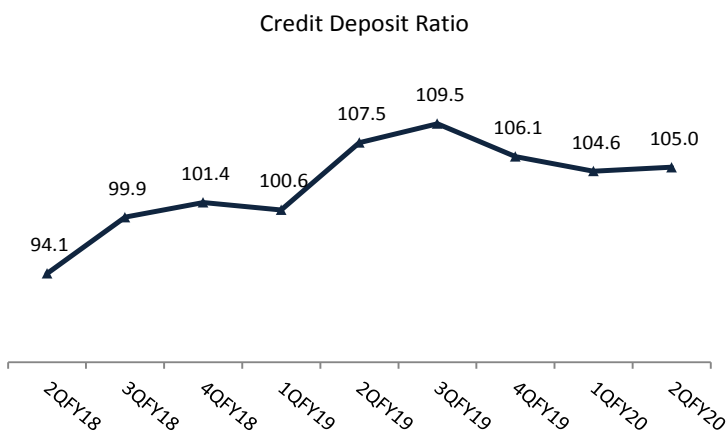
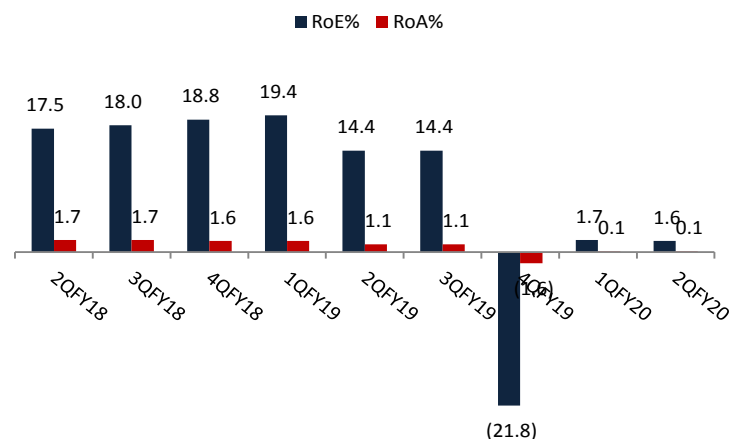


Exhibit: Return Ratios

Return ratio profile affected



Financial Details
Balance Sheet

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	361	418	421	456	461	463	509	509
>> Equity Capital	361	418	421	456	461	463	509	509
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	6761	11262	13366	21598	25298	26441	26342	26600
Networth	7122	11680	13787	22054	25758	26904	26851	27109
Deposits	74192	91176	111720	142874	200738	227610	209902	224595
Change (%)	10.8	22.9	22.5	27.9	40.5	13.4	-7.8	7.0
>> CASA Deposits	16345	21079	31340	51870	73176	75253	65069	69624
Change (%)	28.8	29.0	48.7	65.5	41.1	2.8	-13.5	7.0
Borrowings	21314	26220	31659	38607	74894	108424	94708	93656
Other Liabilities & Prov.	6388	7094	8098	11525	11056	17888	17174	14620
Total Liabilities	109016	136170	165263	215060	312446	380826	348634	359980
Cash & Bank	5892	7557	8218	19549	24734	26890	30523	24937
Investments	40950	46605	48838	50032	68399	89522	71367	76362
Change (%)	-4.7	13.8	4.8	2.4	36.7	30.9	-20.3	7.0
Advances	55633	75550	98210	132263	203534	241500	224595	235824
Change (%)	18.4	35.8	30.0	34.7	53.9	18.7	-7.0	5.0
Fixed Assets	293	319	471	684	832	817	961	1009
Other Assets	6247	6139	9526	12532	14946	22098	21188	21847
Total Assets	109016	136170	165263	215060	312446	380826	348634	359980

Income Statement

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	9981	11572	13533	16425	20267	29625	29426	28531
Interest expended	7265	8084	8967	10627	12530	19816	20686	19918
Net Interest Income	2716	3488	4567	5797	7737	9809	8740	8613
Change (%)	22.4	28.4	30.9	26.9	33.5	26.8	-10.9	-1.4
Other Income	1722	2046	2712	4157	5224	4590	3790	3746
Change (%)	36.9	18.9	32.5	53.3	25.7	-12.1	-17.4	-1.2
>> Core Fee Income	0	1374	2244	3019	4095	4026	2277	2763
>> Treasury Income	166	142	261	711	513	551	417	412
>> Others	1555	530	208	426	615	14	1096	571
Total Net Income	4438	5534	7279	9954	12961	14399	12530	12359
Operating Expenses	1750	2285	2976	4117	5213	6264	6335	6427
Change (%)	31.1	30.6	30.3	38.3	26.6	20.2	1.1	1.4
>> Employee Expenses	784	980	1297	1805	2189	2470	2548	2595
Pre-provisioning Profit	2688	3250	4303	5838	7748	8135	6194	5932
Change (%)	25.5	20.9	32.4	35.7	32.7	5.0	-23.9	-4.2
Provisions	362	339	536	793	1554	5778	7161	5585
Change (%)	67.5	-6.1	58.0	47.9	95.8	271.8	23.9	-22.0
PBT	2326	2910	3766	5044	6194	2357	-966	347
Tax	709	905	1227	1714	1970	637	461	89
Profit After Tax	1618	2005	2539	3330	4225	1720	-1428	259
Change (%)	24.4	24.0	26.6	31.1	26.9	-59.3	-183.0	-118.1

Financial Details
Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	18	36	30	35	54	19	(7)	5
Deposit Growth (%)	11	23	23	28	41	13	(8)	7
C/D Ratio (%)	75.0	82.9	87.9	92.6	101.4	106.1	107.0	105.0
CASA (%)	22.0	23.1	28.1	36.3	36.5	33.1	31.0	31.0
Investment/Deposit (%)	55.2	51.1	43.7	35.0	34.1	39.3	34.0	34.0
CRAR (%)	14.4	15.6	16.5	17.0	18.4	16.5	15.7	15.4
>> Tier 1 (%)	9.8	11.5	10.7	13.3	9.7	8.4	9.2	9.0
>> Tier 2 (%)	4.6	4.1	5.8	3.7	5.2	5.2	3.6	3.5

Assets Quality Metrics

Gross NPA (Rs)	175	313	749	2,019	2,627	7,883	22,765	26,241
Gross NPA (%)	0.3	0.4	0.8	1.5	1.3	3.2	9.7	11.1
Net NPA (Rs)	26	88	284	1,072	1,313	4,485	11,838	11,021
Net NPA (%)	0.1	0.1	0.3	0.8	0.6	1.9	5.3	4.7
Slippages (%)	-	1	1	2	4	3	9	3
Provision Coverage (%)	85	72	62	47	50	43	48	58
Provision/Average Advances (%)	0.7	0.5	0.6	0.7	0.9	2.6	3.1	2.4

Margin Metrics

Yield On Advances (%)	12.7	12.2	11.2	10.6	9.2	10.3	10.0	9.9
Yield On Investment (%)	8.1	8.0	7.4	7.7	6.9	7.7	7.0	7.0
Yield on Earning Assets (%)	10.4	10.2	9.6	9.2	8.2	9.1	8.7	8.7
Cost Of Deposits (%)	8.0	7.9	7.1	6.4	5.5	6.4	6.1	5.9
Cost Of Funds (%)	7.8	7.5	6.8	6.5	5.4	6.4	6.4	6.3
Spread (%)	2.6	2.7	2.8	2.7	2.8	2.7	2.3	2.4
NIM (%)	2.8	3.1	3.2	3.2	3.1	3.0	2.6	2.6

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	72.8	69.9	66.3	64.7	61.8	66.9	70.3	69.8
Fee Income/NII (%)	-	39.4	49.1	52.1	52.9	41.0	26.1	32.1
Cost to Income (%)	39.4	41.3	40.9	41.4	40.2	43.5	50.6	52.0
Cost on Average Assets (%)	1.7	1.9	2.0	2.2	2.0	1.8	1.7	1.8
Tax Rate (%)	30.5	31.1	32.6	34.0	31.8	27.0	(47.7)	25.5

Valuation Ratio Metrics

EPS (Rs)	9.0	9.6	12.1	14.6	18.3	7.4	(5.6)	1.0
Change (%)	23.7	7.0	25.8	20.8	25.7	(59)	(175.5)	(118.1)
ROAE (%)	25.0	21.3	19.9	18.6	17.7	6.5	(5.3)	1.0
ROAA (%)	1.6	1.6	1.7	1.8	1.6	0.5	(0.4)	0.1
Dividend Payout (%)	17.8	18.7	16.6	16.4	14.7	26.9	-	-
Dividend yield (%)	2.0	1.1	1.2	0.8	0.9	0.7	-	-
Book Value (Rs)	39.5	55.9	65.6	96.6	111.8	116.2	105.5	106.5
Change (%)	22	42	17	47	16	4	(9)	1
P/B (X)	2.1	2.9	2.6	3.2	2.7	2.4	0.6	0.6
P/E (X)	9.0	17.0	14.3	21.2	16.6	37.0	(11.9)	65.6

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	9.4	9.0	8.6	7.7	8.5	8.1	8.1
<i>Interest expended</i>	6.6	5.9	5.6	4.8	5.7	5.7	5.6
<i>Net Interest Income</i>	2.8	3.0	3.0	2.9	2.8	2.4	2.4
<i>Non-Fund Based Income</i>	1.7	1.8	2.2	2.0	1.3	1.0	1.1
>> <i>Core Fee Income</i>	1.1	1.5	1.6	1.6	1.2	0.6	0.8
>> <i>Trading and Other Income</i>	0.5	0.3	0.6	0.4	0.2	0.4	0.3
<i>Core Operating Income</i>	4.0	4.5	4.6	4.5	4.0	3.0	3.2
<i>Total Income</i>	4.5	4.8	5.2	4.9	4.2	3.4	3.5
<i>Total Operating Expenses</i>	1.9	2.0	2.2	2.0	1.8	1.7	1.8
>> <i>Employee Expenses</i>	0.8	0.9	0.9	0.8	0.7	0.7	0.7
>> <i>Other Expenses</i>	1.1	1.1	1.2	1.1	1.1	1.0	1.1
<i>Operating Profit</i>	2.7	2.9	3.1	2.9	2.3	1.7	1.7
<i>Provisions</i>	0.3	0.4	0.4	0.6	1.7	2.0	1.6
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	2.4	2.5	2.7	2.3	0.7	(0.3)	0.1
<i>Tax</i>	0.7	0.8	0.9	0.7	0.2	0.1	0.0
<i>PAT/RoAA</i>	1.6	1.7	1.8	1.6	0.5	(0.4)	0.1
<i>Equity Multiplier (x)</i>	13.0	11.8	10.6	11.0	13.2	13.6	13.1
<i>ROAE</i>	21.3	19.9	18.6	17.7	6.5	(5.3)	1.0

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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