

Strong Improvement in NIM drives Profitability

RATING	BUY
CMP	71
Price Target	79
Potential Upside	12%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	110/57
Mkt Capital (Rs Cr)	23,226
Free float (%)	16.03%
Avg. Vol 1M (,000)	9,301
No. of Shares (Cr)	328
Promoters Pledged %	

fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	13658	15250	16663
PPP	8092	10513	11284
PAT	-5547	1673	3267
NIM %	2.4	2.7	2.8
EPS (Rs)	-20	5	10
EPS growth	-42	-125	95
ROE (%)	-14	4	7
ROA (%)	-0.9	0.3	0.5
BV	168	146	156
P/B (X)	0.6	0.5	0.5
P/E (x)	-5	14	7

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2Q FY20 Result Update

- ❑ NII during the quarter stood at Rs 3860 Cr v/s Rs 2927 Cr in Q2FY19 registering a growth of 32% YoY while the NIM stood at 2.99% v/s 2.27% in Q2FY19. PAT for the quarter stood at Rs 266 Cr v/s loss of Rs 1156 Cr in Q2FY19.
- ❑ Other income grew by 22% YoY with Fee income growing by 22% YoY. The growth in other income was boosted by the 41% YoY increase in Commission, Exchange and Brokerage.
- ❑ Gross NPA during the quarter stood at 16.31% v/s 16.50% QoQ while the Net NPA stood at 5.87% v/s 5.79% QoQ.
- ❑ Advances during the quarter stood at Rs 334800 Cr down 1.6% YoY however the advance grew 1% QoQ with Retail segment registering growth of 12 % YoY.

Strong NIM

The NII during the quarter grew by 32%/11% YoY/QoQ while the NIM stood at 2.99% v/s 2.27% in Q4FY18 and 2.55% in Q3FY19. Management expects NIM to be around 3% for FY20. Yield on advances stood at 8.78% v/s 7.85% in Q2FY19 while the cost of deposit stood at 5.17% v/s 5.25% YoY. The cost to income ratio stood at 53 v/s 58.4% in Q2FY19. The employee cost during the quarter grew by 15% YoY while the other expense grew by 22% YoY. On credit cost front management believes to be around 1.5% by the end of FY20. On effect of repo rate cut and MCLR cut on the yield on advances management said the effect comes with time lag and are applicable to fresh customers.

Recovery remained Muted

Gross NPA during the quarter stood at 16.31% v/s 16.50% QoQ while the Net NPA stood at 5.87% v/s 5.79% QoQ. The slippages during the quarter were Rs 3166 Cr v/s 3816 Cr in Q2FY19. The recovery however was muted to around Rs 970 Cr. Management said that recovery were muted as some of the NCLT cases which are in advance stages and decisions have come were delayed due to some legal processes however the management is confident that recoveries would increase going forward. Management expects Rs 1200 Cr from the 4 Samadhan accounts and some recoveries are expected under OTA scheme. On SMA 2 book increase management said that there is one HFC account worth Rs 4000 Cr and is the cause of concern and other than that there is one restructured aviation account backed by government less than 4000 Cr on which there is some delayed payment but is not expected to slip and also two government guaranteed accounts which have come in due to technical reason and will not appear going forward.

Loan Growth Continues to be sluggish

Advances during the quarter stood at Rs 334800 Cr down 1.6% YoY however the advance grew 1% QoQ with retail segment registering growth of 12 % YoY. The growth in the retail advances was on account of Home loan and other segment which grew by 15%/2% and 45%/2% On YoY/QoQ basis. The domestic advances grew by 5% YoY however overseas advances de-grew by 21% YoY. Management expects advance growth to be better in H2FY20. Deposits grew by 1% on YoY/QoQ basis with CASA at 35.4% v/s 35.2% QoQ.

View and Valuation

Bank has continued to be in profitability for H1FY20 which is a positive sign after reporting loss for last 4 years. The profitability is boosted by improvement in NIM and cleaner balance sheet. Management has guided for slippages in the range of Rs 3000 for the H2FY20 barring and HFC account which may slip. Strong Recoveries are expected in H2FY20. SMA 1 and 2 has risen for the bank but management said only one HFC account worth Rs 4000 Cr is a worry and remaining is government backed. Tier 1 capital at 11% gives comfort for the growth support. Management has guided the NIM to be around 3% going ahead which would boost profitability. Rise in stress assets give the current environment continue to be worrisome but healthy PCR at 68% gives comfort. Maintain BUY with the target price of Rs 79 at 0.5x BV FY21

Key risk to our rating and target

- ❑ Delay in Recoveries
- ❑ New Stress owing to adverse microeconomic conditions

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2Q FY20 Results PAT Below Expectation

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %	fig in Rs cr
Interest Inc.	9,770	10,171	10,814	10,332	10,658	9.1%	3.2%	38,071	40,768	7.1%	
Interest Exp.	6,843	6,839	6,770	6,847	6,798	-0.7%	-0.7%	27,565	27,110	-1.7%	
NII	2,927	3,332	4,044	3,485	3,860	31.9%	10.8%	10,506	13,658	30.0%	
Other Income	1,030	1,669	1,603	1,195	1,327	28.8%	11.1%	5,734	5,132	-10.5%	
Total Income	3,957	5,001	5,647	4,680	5,188	31.1%	10.8%	16,240	18,790	15.7%	
Opex Exp.	2,310	2,728	3,344	2,409	2,728	18.1%	13.2%	9,101	10,697	17.5%	
PPP	1,647	2,273	2,303	2,271	2,460	49.4%	8.3%	7,139	8,092	13.4%	
Provisions	3,343	9,001	1,897	1,912	2,052	-38.6%	7.3%	15,772	16,806	6.6%	
PBT	(1,696)	(6,728)	406	359	408	LTP	LTP	(8,634)	(8,713)	NA	
Tax	(540)	(1,990)	154	117	141	-126%	20.9%	(2,590)	(3,167)	NA	
Net Profit	(1,156)	(4,738)	252	243	266	LTP	LTP	(6,044)	(5,547)	NA	

Concall Highlights

- ❑ Management said that slippages will be going down further in the coming quarter.
- ❑ On recovery front management said it has not ben upto their expectations as some of the NCLT cases which are in advance stages and decisions have come were delayed due to some legal processes and also in power sector under Samadhan 4 accounts are different stages of approvals with different banks which would improve recoveries. Management expects Rs 1200 Cr from the above mentioned 4 accounts under Samadhan. Recoveries are also expected in OTA scheme.
- ❑ On SMA 2 book increase management said that there is one HFC account worth Rs 4000 Cr and is the cause of concern and other than that there is one restructured aviation account backed by government less than 4000 Cr on which there is some delayed payment but is not expected to slip and also two government guaranteed accounts which have come in due to technical reason and will not appear going forward.
- ❑ The exposure in Essel group is Rs 386 Cr in ADAG exposure is around Rs 2000 Cr in which one major account has almost 90% provision. India bulls housing account is standard.
- ❑ On MSME accounts which under special dispensation management said that almost 70% are having recovery and 30% are going for restructuring.
- ❑ On High Writeoff during the quarter management said that the accounts were 100% provided, the recovery processes in the accounts were totally exhausted.
- ❑ On effect of repo rate cut and MCLR cut on the yield on advances management said the effect comes with time lag and are applicable to fresh customers.
- ❑ Management expects NIM to stay around 3%.
- ❑ Management expects loan growth to be better during the second half of the year.
- ❑ Management expects slippages to be below Rs 3000 Cr with exception to One HFC account and reliance commercial. The slippages during first half of year has been to the tune of Rs 2000 Cr from agriculture and Rs 1000 Cr from MSME and Rs 550 Cr in retail and Rs 2000 Cr in corporate.
- ❑ Credit cost is expected to go below 1.5% by the end of year.
- ❑ The Claim admitted on Essar steel with NCLT is Rs 1985 Cr.
- ❑ The PCR on NCLT list 1 and list 2 is 100% and amount wise it is list 1 Rs 3500Cr and list 2 Rs 2781 Cr.
- ❑ The exposure to SRIE group is Rs 1300 Cr and is Standard.
- ❑ The Mudra loan outstanding is around Rs 12000 Cr.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	70.2	55.3	58.4	54.5	59.2	51.5	52.6	-5.80	1.12
Empl. Cost/ Tot. Exp. %	55.3	47.1	60.2	55.3	60.8	58.4	58.9	-1.28	0.47
Other Exp/Tot. Exp.%	44.7	52.9	39.8	44.7	39.2	41.6	41.1	1.28	-0.47
Provision/PPP %	569.4	137.2	203.0	396.0	82.4	84.2	83.4	-119.56	-0.75
Tax Rate %	27.9	113.7	31.8	29.6	37.9	32.5	34.6	2.81	2.16
Int Exp./Int Inc. (%)	72.6	66.5	70.0	67.2	62.6	66.3	63.8	-6.26	-2.49
Other Inc./Net Inc. %	34.9	19.8	26.0	33.4	28.4	25.5	25.6	-0.45	0.06
PAT/ Net Income %	(100.8)	2.3	(29.2)	(94.7)	4.5	5.2	5.1	34.35	-0.05
PAT Growth %	279.6	8.4	N/A	N/A	N/A	155.1	NA	NA	NA
NII Growth %	(26.1)	32.4	0.6	33.2	57.7	3.9	31.9	31.26	27.99
Op. Profit	(62.5)	(21.4)	(26.2)	67.8	96.5	21.5	49.4	75.60	27.84
RoE %	(48.3)	1.1	(12.9)	(58.2)	3.4	2.2	2.3	15.21	0.08
RoA %	(2.6)	0.1	(0.8)	(3.1)	0.2	0.2	0.2	0.94	0.02

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield (Total Assets)	6.7	8.1	7.9	8.3	8.6	8.3	8.8	11.21	2.90
Yield on Advances	7.2	7.2	7.4	7.3	7.8	7.4	7.2	-0.17	-0.15
Cost of deposit	4.6	4.5	4.5	4.5	4.5	4.6	4.6	6.58	2.09
NIM	1.7	2.5	2.3	2.6	2.9	2.7	3.0	3.90	1.35

Exhibit: Yield and Cost

yield and cost deposit increased

■ Yield on Advances% ■ Cost of Deposits%

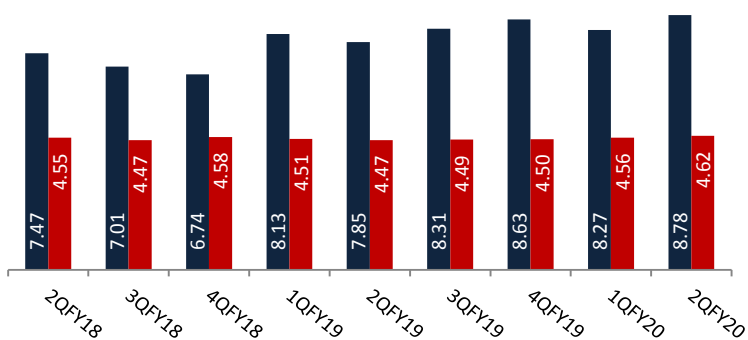


Exhibit: Net Interest Margin

NIM Increases

▲ NIM%

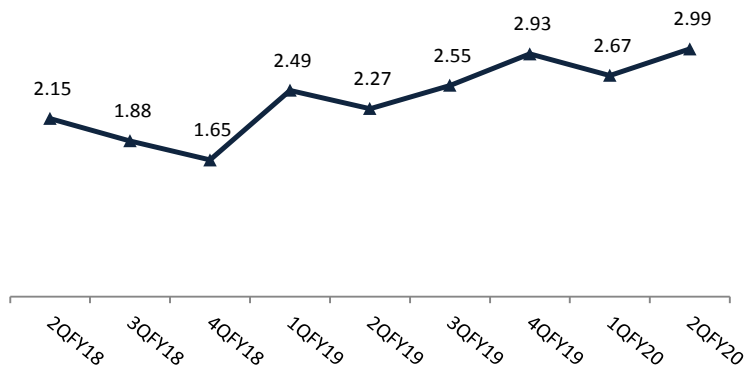


fig in Rs cr

Other Income Break Up- Healthy growth in FX&Derivatives (YoY)

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Commission, Exchange,	306	334	377	265	278	322	378	321	392
Profit from Exchange	312	275	456	365	373	325	246	294	405
Total Fee-Based Income	879	876	1239	1087	946	647	624	615	797
Growth YoY %	-17%	3%	79%	-7%	5%	6%	-25%	-2%	22%
Other Non Int Income	261	267	406	457	295	689	613	318	321
Profit from Sale of	743	81	-34	-465	-198	71	148	173	112
Recovery In W/o accounts	85	84	170	208	282	262	218	89	98
Other Income	1707	1041	1375	830	1030	1669	1603	1195	1328
Growth YoY %	-15%	-41%	-22%	-48%	-40%	60%	17%	44%	29%

Exhibit: Fee Income/Advances %

Fee income/Other income as a % of total advances stable

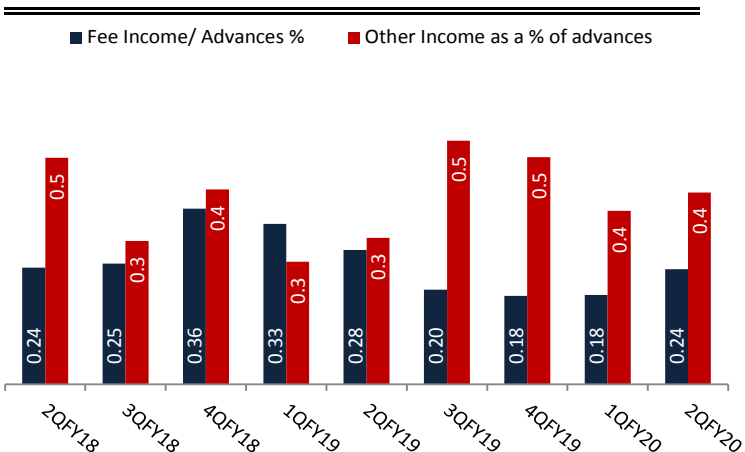
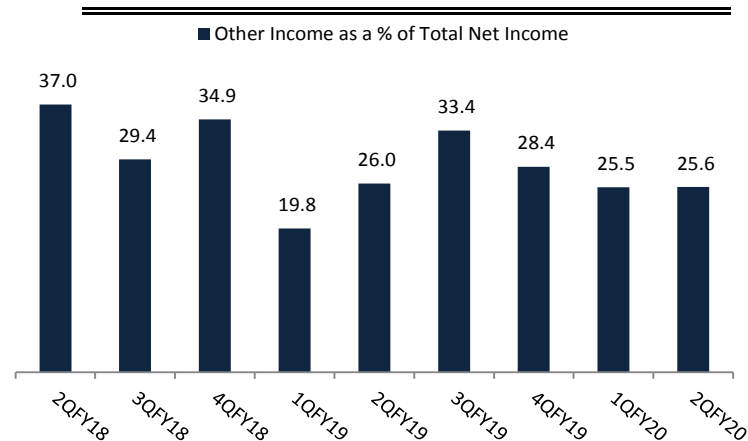


Exhibit: Other Income/ Total Income %



Asset Quality

fig in Rs cr

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	62,328	60,604	61,561	60,798	60,661	62,068	61,476	0%	-1%
GNPA %	16.6	16.7	16.4	16.3	15.8	16.5	16.3	-0.05	-0.19
NNPA (Rs in Cr)	28,207	27,932	25,994	19,438	19,119	19,288	19,646	-24%	2%
NNPA %	8.3	8.5	7.6	5.9	5.6	5.8	5.9	-1.77	0.08
Slippages (Rs in Cr)	12,973	6,671	3,816	4,315	3,102	3,683	3,166	-17%	-14%
Specific PCR %	54.7	53.9	57.8	68.0	68.5	68.9	68.0	10.27	-0.88

Exhibit: Asset Quality

Net NPA Increased

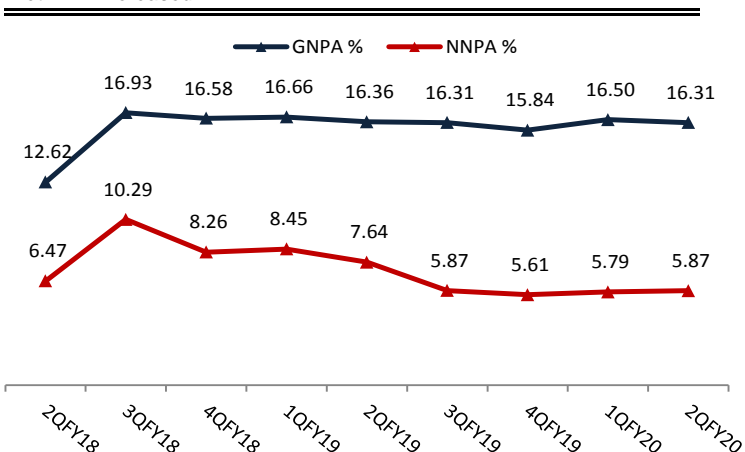


Exhibit: Provisions

PCR remained stable..

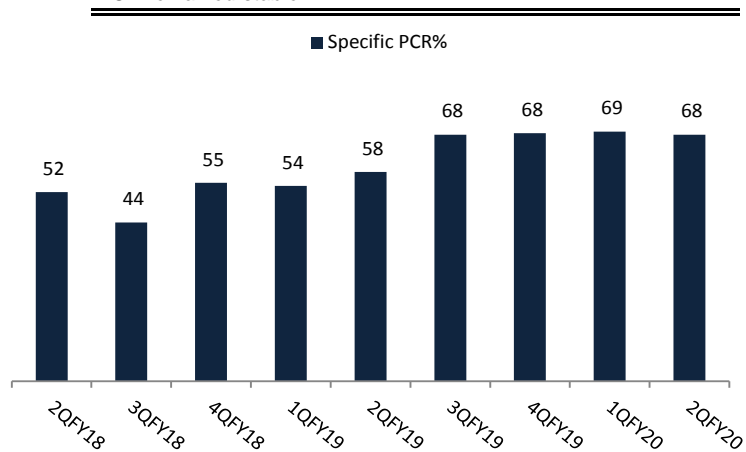


Exhibit: Advances Performance

advance growth impacted

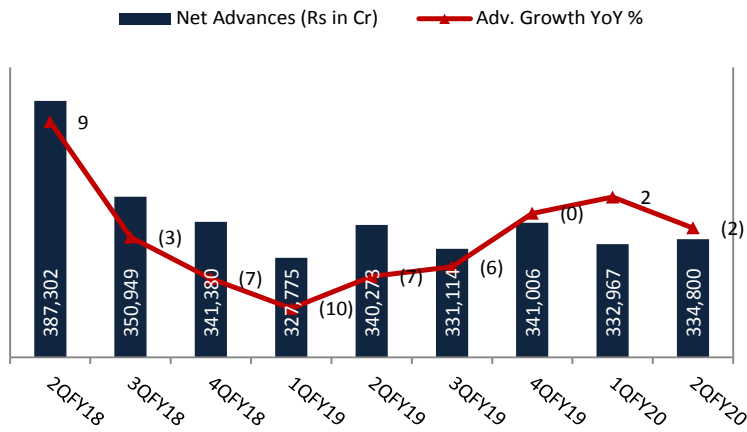


Exhibit: Advances Breakup%

Share of corporate book coming down

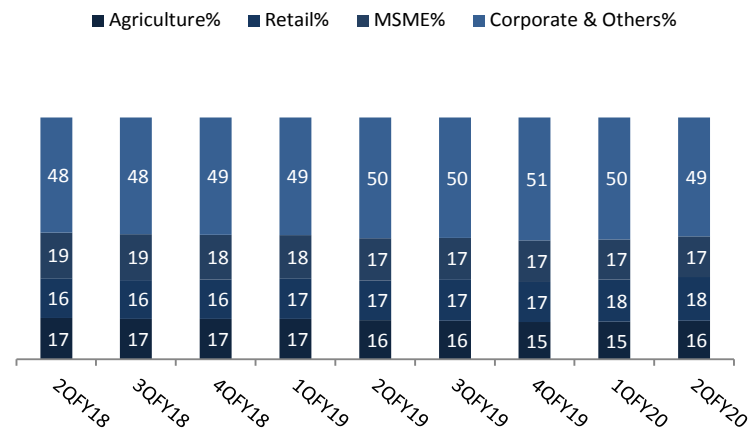


Exhibit: Deposits Performance

Deposit growth increased

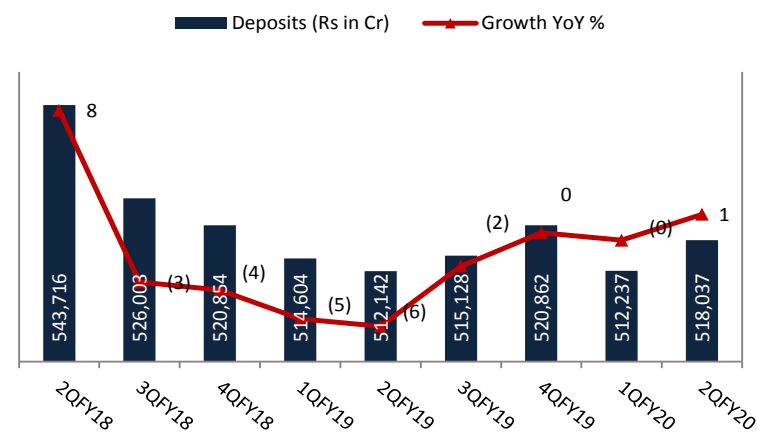


Exhibit: CASA Performance

CASA growth improved

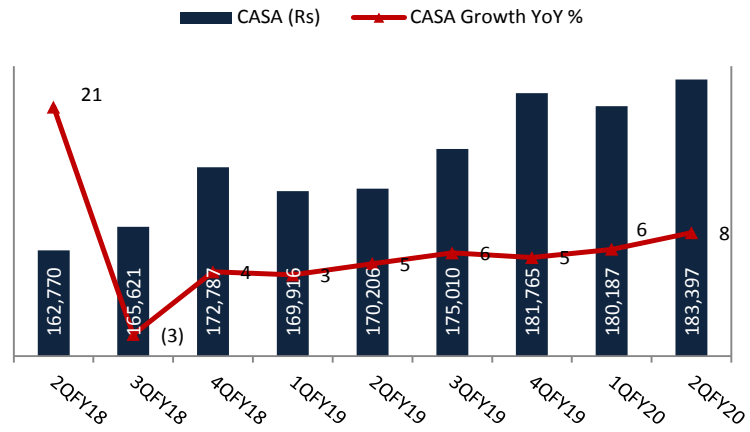
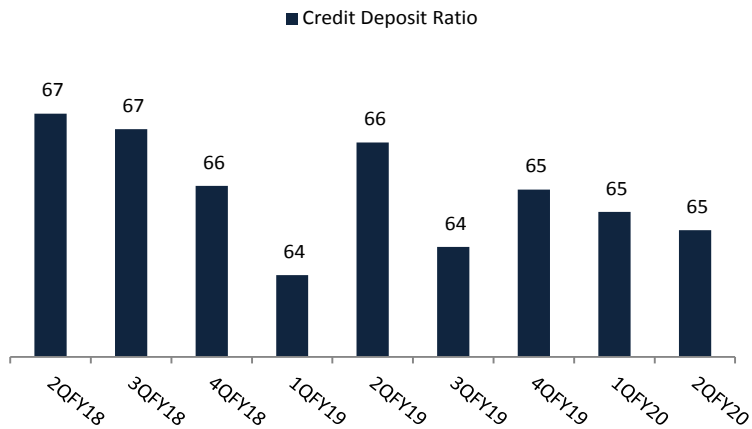


Exhibit: Credit Deposit Ratio

CD ratio falls



Financial Details
Balance Sheet

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	643	666	817	1055	1744	2760	3277	3278
>> Equity Capital	643	666	817	1055	1744	2760	3277	3277
>> Preference Capital	0	0	0	0	0	0	0	1
Reserves & Surplus	29280	30781	31500	31432	33797	43559	44715	47682
Networth	29923	31447	32317	32487	35541	46319	47991	50959
Deposits	476974	531907	513005	540032	520854	520862	524233	537185
Change (%)	25	12	-4	5	-4	0	1	2
>> CASA Deposits	105467	114386	127924	166609	172787	181765	185578	190163
Change (%)	12	8	12	30	4	5	2	2
Borrowings	48428	40057	51083	39406	43589	44241	44822	46413
Other Liabilities & Prov.	17866	15287	13509	14385	9591	13800	13980	14325
Total Liabilities	573190	618698	609914	626309	609575	625223	631026	648881
Cash & Bank	61382	76404	99141	95888	95883	94811	93131	92239
Investments	114152	119792	118849	127827	137111	147639	146785	150412
Change (%)	21	5	-1	8	7	8	-1	2
Advances	370734	402026	359189	366482	341380	341006	351236	365286
Change (%)	28	8	-11	2	-7	0	3	4
Fixed Assets	5786	5886	8480	8462	8265	8920	8742	8567
Other Assets	21136	14591	24254	27651	26936	32846	31132	32378
Total Assets	573190	618698	609914	626309	609575	625223	631026	648881

Income Statement

fig in Rs cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	37,910	43,430	41,796	39,291	38,071	40,768	42,330	43,626
Interest expended	27,080	32,086	30,072	27,465	27,565	27,110	27,080	26,963
Net Interest Income	10,831	11,344	11,725	11,826	10,506	13,658	15,250	16,663
Change (%)	20	5	3	1	-11	30	12	9
Other Income	4,292	4,233	3,653	6,772	5,734	5,132	6,696	6,365
Change (%)	14	-1	-14	85	-15	-10	30	-5
>> Core Fee Income	2,137	2,296	2,066	2,501	2,735	2,552	2,761	2,829
>> Treasury Income	795	931	750	3,298	1,438	(444)	510	1,216
>> Others	1,360	1,006	837	973	1,561	3,024	3,425	2,320
Total Net Income	15,122	15,576	15,377	18,598	16,240	18,790	21,946	23,028
Operating Expenses	6,699	8,089	9,342	8,866	9,101	10,697	11,432	11,744
Change (%)	26	21	15	-5	3	18	7	3
>> Employee Expenses	3,991	4,986	5,357	5,397	4,903	6,021	6,517	6,678
Pre-provisioning Profit	8,423	7,488	6,036	9,733	7,139	8,092	10,513	11,284
Change (%)	13	-11	-19	61	-27	13	30	7
Provisions	4,878	5,693	13,826	12,105	15,772	16,806	7,982	6,333
Change (%)	10	17	143	-12	30	7	-53	-21
PBT	3,545	1,795	(7,791)	(2,373)	(8,634)	(8,713)	2,531	4,950
Tax	816	86	(1,702)	(814)	(2,590)	(3,167)	858	1,683
Profit After Tax	2,729	1,709	(6,089)	(1,558)	(6,044)	(5,547)	1,673	3,267
Change (%)	-1	-37	-456	-74	NA	-8	NA	95

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	28	8	(11)	2	(7)	(0)	3	4
Deposit Growth (%)	25	12	(4)	5	(4)	0	1	2
C/D Ratio (%)	78	76	70	68	66	65	67	68
CASA (%)	22	22	25	31	33	35	35	35
Investment/Deposit (%)	24	23	23	24	26	28	28	28
CRAR (%)	10.0	10.7	12.0	12.1	12.9	14.2	15.4	15.8
>> Tier 1 (%)	7.2	8.2	9.0	8.9	9.7	11.1	12.3	12.9
>> Tier 2 (%)	2.7	2.6	3.0	3.2	3.2	3.1	3.0	3.0

Assets Quality Metrics

Gross NPA (Rs)	11,868	22,193	49,879	52,045	62,328	60,661	62,682	60,531
Gross NPA (%)	3.2	5.4	13.1	13.2	16.6	15.8	15.9	14.8
Net NPA (Rs)	7,417	13,518	27,996	25,305	28,207	19,119	18,805	18,159
Net NPA (%)	2.0	3.4	7.8	6.9	8.3	5.6	5.4	5.0
Slippages (%)	3.1	4.6	10.1	6.1	11.0	5.7	5.1	3.1
Provision Coverage (%)	38	39	44	61	66	77	77	77
Provision/Average Advances (%)	1.5	1.5	3.6	3.3	4.5	4.9	2.3	1.8

Margin Metrics

Yield On Advances (%)	8.2	8.2	8.0	7.5	7.1	8.0	8.3	8.4
Yield On Investment (%)	8.1	8.0	7.5	7.3	6.9	7.0	7.0	6.9
Yield on Earning Assets (%)	7.8	7.7	7.3	6.9	6.7	7.3	7.4	7.4
Cost Of Deposits (%)	5.5	5.7	5.2	4.6	4.6	4.4	4.3	4.2
Cost Of Funds (%)	5.6	5.7	5.2	4.7	4.8	4.7	4.7	4.6
Spread (%)	2.2	2.0	2.1	2.2	2.0	2.5	2.7	2.8
NIM (%)	2.2	2.0	2.1	2.1	1.9	2.4	2.7	2.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	71.4	73.9	71.9	69.9	72.4	66.5	64.0	61.8
Fee Income/NII (%)	19.7	20.2	17.6	21.1	26.0	18.7	18.1	17.0
Cost to Income (%)	44.3	51.9	60.7	47.7	56.0	56.9	52.1	51.0
Cost on Average Assets (%)	1.3	1.4	1.5	1.4	1.5	1.7	1.8	1.8
Tax Rate (%)	23.0	4.8	21.8	34.3	30.0	36.3	33.9	34.0

Valuation Ratio Metrics

EPS (Rs)	42.4	25.7	(74.5)	(14.8)	(34.7)	(20.1)	5.1	10.0
Change (%)	(7.9)	(39.5)	(390.2)	(80.2)	134.7	(42)	(125.4)	95.2
ROAE (%)	10.1	5.6	(19.1)	(4.8)	(17.8)	(13.6)	3.5	6.6
ROAA (%)	0.5	0.3	(1.0)	(0.3)	(1.0)	(0.9)	0.3	0.5
Dividend Payout (%)	11.8	19.5	-	-	-	-	-	-
Dividend yield (%)	2.2	2.6	-	-	-	-	-	-
Book Value (Rs)	465.4	472.4	395.4	307.8	203.8	167.9	146.5	155.5
Change (%)	16	2	(16)	(22)	(34)	(18)	(13)	6
P/B (X)	0.5	0.4	0.2	0.5	0.5	0.6	0.5	0.5
P/E (X)	5.4	7.6	(1.3)	(9.4)	(3.0)	(5.2)	13.9	7.1

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	7.3	6.8	6.4	6.2	6.6	6.7	6.8
<i>Interest expended</i>	5.4	4.9	4.4	4.5	4.4	4.3	4.2
<i>Net Interest Income</i>	1.9	1.9	1.9	1.7	2.2	2.4	2.6
<i>Non-Fund Based Income</i>	0.7	0.6	1.1	0.9	0.8	1.1	1.0
>> <i>Core Fee Income</i>	0.4	0.3	0.4	0.4	0.4	0.4	0.4
>> <i>Trading and Other Income</i>	0.3	0.3	0.7	0.5	0.4	0.6	0.6
<i>Core Operating Income</i>	2.3	2.2	2.3	2.1	2.6	2.9	3.0
<i>Total Income</i>	2.6	2.5	3.0	2.6	3.0	3.5	3.6
<i>Total Operating Expenses</i>	1.4	1.5	1.4	1.5	1.7	1.8	1.8
>> <i>Employee Expenses</i>	0.8	0.9	0.9	0.8	1.0	1.0	1.0
>> <i>Other Expenses</i>	0.5	0.6	0.6	0.7	0.8	0.8	0.8
<i>Operating Profit</i>	1.3	1.0	1.6	1.2	1.3	1.7	1.8
<i>Provisions</i>	1.0	2.3	2.0	2.6	2.7	1.3	1.0
<i>Others</i>	-	-	-	-	-	-	-
<i>PBT</i>	0.3	(1.3)	(0.4)	(1.4)	(1.4)	0.4	0.8
<i>Tax</i>	0.0	(0.3)	(0.1)	(0.4)	(0.5)	0.1	0.3
<i>PAT/RoAA</i>	0.3	(1.0)	(0.3)	(1.0)	(0.9)	0.3	0.5
<i>Equity Multiplier (x)</i>	19.4	19.3	19.1	18.2	15.1	13.3	12.9
<i>ROAE</i>	5.6	(19.1)	(4.8)	(17.8)	(13.6)	3.5	6.6

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Analyst's ownership of the stocks mentioned in the Report	NIL
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