

Industry
Bloomberg
BSE CODE

Financial
IIB IN
532187

Slippages Spiked, Elevated Provisioning Dented the Profitability

RATING	NEUTRAL
CMP	1481
Price Target	1631
Potential Upside	10%
Rating Change	↓
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	1192/1835
Mkt Capital (Rs Cr)	102,650
Free float (%)	83.00%
Avg. Vol 1M (,000)	2,936
No. of Shares (Crs)	628
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	8846	12007	14607
PPP	8088	10702	12882
PAT	3301	5389	7019
NIM %	3.8	4.2	4.3
EPS (Rs)	55	78	99
EPS growth (%)	-9	42	27
ROE (%)	13	17	18
ROA (%)	1.3	1.8	1.9
BV	443	511	627
P/B (X)	4.0	2.9	2.4
P/E (x)	33	19	15

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3QFY20 Result Update

- NII grew by 34%/6% on YoY/QoQ basis with advance growing by 20% YoY and NIM increasing by 5 bps QoQ to 4.15%, while the PAT grew by 32% YoY below our expectation mainly on account of elevated provisions of Rs 1043 Cr.
- Other income grew by 22%/4% on YoY/QoQ basis while the Fee income grew by 19%/3% on YoY/QoQ basis.
- Slippages during the quarter stood at Rs 1945 Cr v/s Rs 1102 Cr in Q2FY20 with corporate slippages at Rs 1237 Cr and Consumer slippages at Rs 708 Cr. GNPA stood at 2.18% vs 2.19% QoQ while NNPA improved 1.12% v/s 1.23% in Q2FY20. Bank has declared an HFC and a travelling company exposure as fraud during the quarter.

Sequential Pickup in advances growth

Loan Book during the quarter grew by 20%/5% on YoY/QoQ basis with consumer advances growing by 4% on QoQ basis while wholesale book grew by 6% QoQ. The growth in the retail loans was on account of the healthy growth in the equipment financing which grew by 20%/2%, Tractor which grew by 32%/6% and Credit Card which grew by 29%/9% on YoY/QoQ basis respectively. CV portfolio de-grew marginally during the quarter. Bank now has business banking and microfinance book being reported under consumer finance division, the composition of the book has change to 54:46 for consumer finance and corporate banking respectively from 61:39 in Q4FY19.

Elevated Level of slippages

The slippages during the quarter continued to be elevated and increased to Rs 1945 Cr v/s Rs 1102 Cr in Q2FY20 with corporate slippages at Rs 1237 Cr and Consumer slippages at Rs 708 Cr. Slippages included Rs 282 Cr from Travel company, Diversified Group from 3 Stressed groups of Rs 250 Cr which is fully recovered and Rs 177 Cr from a paper company. The reduction during the quarter were Rs 1737 Cr, however majority of it was from write-off. The GNPA during the quarter were stable at 2.18% vs 2.19% QoQ while NNPA improved 1.12% v/s 1.23% in Q2FY20. Bank has declared DHFL as fraud during the quarter. The SMA 1 stood at 0.64% v/s the 0.38% in Q2FY20 while the SMA 2 stood at 0.53% which excludes overlap with three stressed accounts v/s 0.58% in Q2FY20.

NIM Improves Further

The NII during the quarter grew by 34%/6% On YoY/QoQ basis. The yield on advance for the bank stood at 12% with the yield on corporate banking at 8.87% v/s 9.02% QoQ and Yield on Consumer Finance at 14.67% v/s 14.57% QoQ. The cost of fund stood at 5.73% v/s 5.90% QoQ while the cost of deposit stood at 6.49% v/s 6.70% QoQ. NIM improved by 5 bps sequentially.

View and Valuation

Slippages continue to remain elevated with the worsening of corporate book as well as pressure in CV and MSME portfolio. Slowdown and pressure in the economy creates further uncertainty over the asset quality in near term. Profitability is expected to remain under pressure with rise in the provisioning for NPA and MTM for downgraded investment book. Incremental loan growth showed pickup despite the moderating industry growth. Margin continue to improve due to rise in microfinance book. We expect the deterioration in asset profile to continue in near term and credit cost to remain elevated in the 1HFY21. We reduce PAT estimate by 9% for FY21 and downgrade the stock to neutral with reduced target price of Rs 1631 at 2.6x BV FY21e.

Key Risks to our rating and target

- Further Stress in CV Portfolio
- Increase in Credit cost

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3QFY20 Results

PAT Below Expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	5,763	5,991	6,961	7,150	7,285	26.4%	1.9%	17,281	22,261	28.8%
Interest Exp.	3,475	3,759	4,117	4,241	4,211	21.2%	-0.7%	9,783	13,415	37.1%
NII	2,288	2,232	2,844	2,910	3,074	34.3%	5.7%	7,497	8,846	18.0%
Other Income	1,469	1,559	1,663	1,727	1,789	21.8%	3.6%	4,750	5,647	18.9%
Total Income	3,757	3,791	4,507	4,636	4,863	29.5%	4.9%	12,248	14,493	18.3%
Ope Exp.	1,640	1,724	1,916	2,036	2,118	29.2%	4.0%	5,591	6,405	14.5%
PPP	2,117	2,068	2,591	2,600	2,745	29.7%	5.6%	6,656	8,088	21.5%
Provisions	607	1,561	431	738	1,043	72.0%	41.4%	1,175	3,108	164.4%
PBT	1,510	507	2,160	1,862	1,702	12.7%	-8.6%	5,481	4,981	-9.1%
Tax	525	147	728	479	402	-23%	-16.1%	1,875	1,679	-10.4%
Net Profit	985	360	1,433	1,383	1,300	32.0%	-6.0%	3,606	3,301	-8%

Concall Highlights

- Bank believes that cyclical elements that are prevailing which are contributing to slowdown may show signs of easing out over next couple of quarter except for some structural element which may linger on.
- Management said that the operating environment remains tough however there are some evidence of stabilization of economic activity at lower levels. There are some green shoots at ground level. There is some stabilization of flow of credit to the NBFC sector.
- Management made accelerated provisioning of Rs 252 Cr during the quarter totaling to Rs 600 Cr in the last two quarters. Accelerated provisioning were mainly provided on the IL&FS group. PCR on this account has increased to 73%.
- Exposure to the housing finance company was 0.3% of loan book as on 2Q FY20 and has been accounted as fraud in 3Q FY20. The exposure has not been accounted in the slippages number for the quarter as the exposure was through investment route. Provisions has been done through MTM.
- Exposure to HFC and travelling company has been recognized as fraud and have made provisions of around Rs 240 Cr on them. 100% Provisions on these accounts have been made of which 25% is routed through P&L and rest is debited through reserve & surplus which would be reversed through P&L in next 3 quarters. The provisions were made from reserve considering that there could be resolution going forward for the housing finance company and expect LGD of around 50% based on present value of the cash flow.
- The exposure to the three stressed groups one each in Media / Diversified / Housing Finance sectors has been reduced to 0.47% from 1.9% in Q4FY19. Consolidated security cover of 169% for the exposures, of which marketable security in the form of listed shares covers 27% of the total exposure as on date.
- On growth in the microfinance management said that it had slowed down in Assam about two to three months back and slowed down in West Bengal itself but rest of growth has been secular from rest of the country.
- On the two wheelers growth management said the growth has been due to festive season sales. The market share increase has not been very significant.
- Barring IL&FS credit cost guidance is around 60-70 bps going in next fiscal.
- SMA trends in the CV business have improved during the quarter however there has not been improvement on YoY basis.
- The bank has exposure to all the 3-telecom company.
- The banks have received the prepayments and repayments of around Rs 7000 Cr for period of last three quarters. It had requested for prepayment of loan from HFC real estate group and hence the exposure has declined significantly. This has also contracted the loan growth of the bank.
- The bank has had sell down worth Rs 1500 Cr in Corporate book during the quarter.
- The deposit concentration is down from last reported in the FY19 annual report with increase in retail deposits.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	44.2	43.4	43.7	45.5	42.5	43.9	43.6	-0.10	-0.37
Empl. Cost/ Tot. Exp. %	30.5	30.0	27.6	27.9	33.8	25.3	26.0	-1.59	0.66
Other Exp/Tot. Exp.%	69.5	70.0	72.4	72.1	66.2	74.7	74.0	1.59	-0.66
Provision/PPP %	18.3	29.6	28.7	75.5	16.6	28.4	38.0	9.35	9.63
Tax Rate %	33.7	34.4	34.8	29.0	33.7	25.7	25.2	-9.61	-0.54
Int Exp./Int Inc. (%)	58.1	59.5	60.3	62.7	59.1	59.3	57.8	-2.50	-1.51
Other Inc./Net Inc. %	38.0	37.4	39.1	41.1	36.9	37.2	36.8	-2.30	-0.45
PAT/ Net Income %	30.2	26.1	26.2	9.5	31.8	29.8	26.7	0.51	-3.11
RoE %	17.3	17.6	18.0	17.8	18.5	17.3	15.6	-2.42	-1.64
RoA %	1.9	1.9	1.9	1.8	2.1	2.0	1.8	-0.07	-0.16

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	11.2	11.4	11.5	11.3	12.0	12.0	12.0	0.45	-0.03
Yield (Corp. Loan)	9.2	9.7	9.8	9.3	9.1	9.0	8.9	-0.95	-0.15
Yield (Ret. Loans)	13.9	14.1	14.1	14.1	14.6	14.7	14.7	0.55	0.02
Yield (Total Assets)	9.4	9.5	9.6	9.5	10.0	10.0	9.9	0.24	-0.11
Cost of Deposits	6.2	6.5	6.7	6.8	6.9	6.7	6.5	-0.25	-0.21
Cost Of Funds	5.4	5.6	5.8	5.9	5.9	5.9	5.7	-0.08	-0.17
NIM	3.9	3.8	3.8	3.6	4.1	4.1	4.2	0.32	0.05

Exhibit: Yield and Cost

Both Cost of fund and Yield Reduced

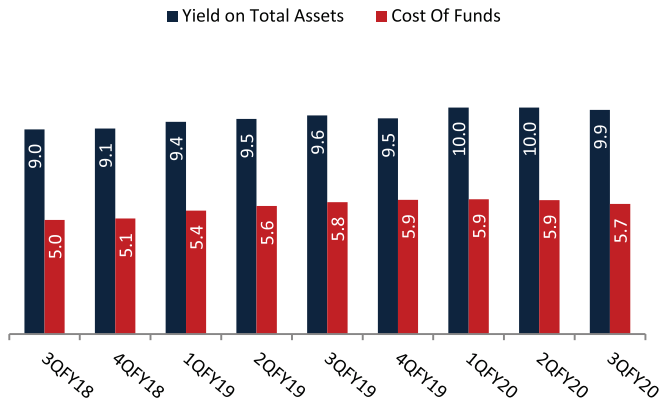
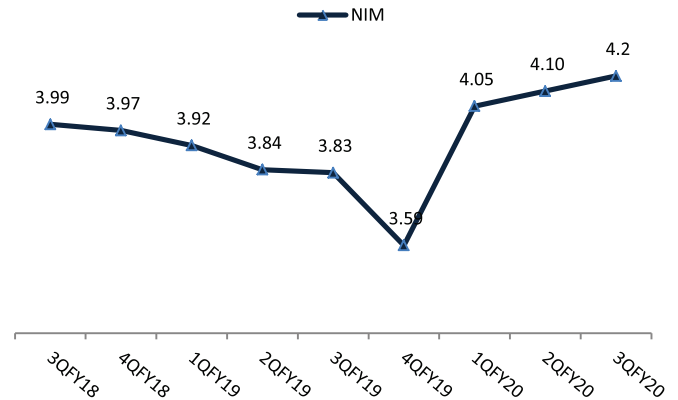


Exhibit: Net Interest Margin

Nim improves



Other Income Break Up - Strong growth in Loan processing fee

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Trade and Remit.	127	153	141	151	155	189	164	182	185
Foreign Exchange Income	202	197	228	223	275	289	250	277	241
Distribution Fees	256	273	278	280	268	302	302	322	347
General Banking Fees	70	65	80	91	91	84	90	90	85
Loan Processing fees	242	228	230	260	276	328	337	360	388
Investment Banking	180	197	208	213	201	228	235	201	209
PSLC							43	36	51
Total Fee-Based In.	1077	1113	1165	1218	1266	1420	1421	1468	1506
Growth YoY %	21.7	11.6	19.6	20.2	17.5	27.6	22.0	20.5	19.0
Securities/MM/FX Trading/Others	110	95	137	99	203	140	241	259	284
Total Other Income	1187	1208	1302	1317	1469	1560	1662	1727	1790
Growth YoY %	16.7	-0.3	11.6	10.9	23.8	29.1	27.6	31.1	21.9

Exhibit: Fee Income/Advances %

Fee income as a % of advance decreased

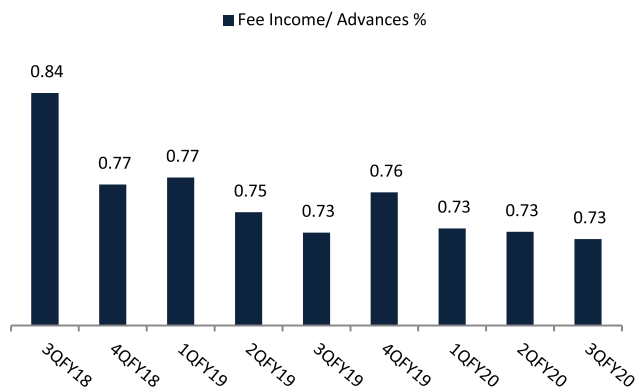
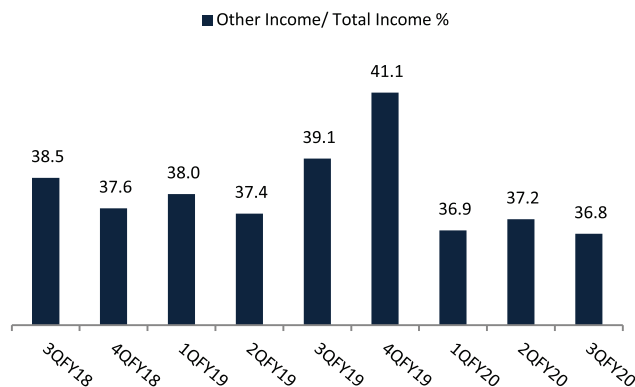


Exhibit: Other Income/ Total Income %

Other income as % of Total income decreased



Asset Quality

Fig in Rs Cr

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	1,741	1,781	1,968	3,947	4,200	4,370	4,578	133%	5%
GNPA %	1.15	1.09	1.13	2.10	2.15	2.19	2.18	2.15	2.19
NNPA (Rs in Cr)	762	788	1,029	2,248	2,381	2,203	2,173	111%	-1%
NNPA %	0.51	0.48	0.59	1.21	1.23	1.12	1.05	1.23	1.12
Slippages (Rs in Cr)	475	419	806	3,688	725	1,102	1,945	141%	76%
Restructured Assets %	0.05	0.11	0.11	0.09	0.08	0.11	0.06	0.08	0.11
Specific PCR %	61	56	56	56	48	43	43	49.59	52.53

GNPA Composition (%) – Consumer Finance Segment

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Comm Vehicle	0.99	0.91	0.93	1.05	1.16	1.30	1.43	1.65
Utility	1.28	1.38	1.32	1.32	1.29	1.23	1.20	1.08
Construction Equip	1.07	0.88	0.73	0.76	0.71	0.84	0.97	1.00
Small CV	1.27	1.09	1.27	1.32	1.38	1.38	1.72	1.66
TW	3.81	3.67	3.87	3.60	3.75	3.56	3.16	2.88
Cars	0.67	0.69	0.80	0.82	0.79	0.76	0.73	0.70
LAP/HL/PL	0.59	0.39	0.60	0.41	0.42	-	-	-
Tractor	1.29	1.20	1.72	1.46	1.76	1.49	1.57	1.56
Cards	1.61	1.77	1.78	1.90	1.87	2.22	2.40	2.57
Total	1.13	1.04	1.13	1.12	1.18	1.24	1.34	1.35

Exhibit: Asset Quality

Assets quality Improves

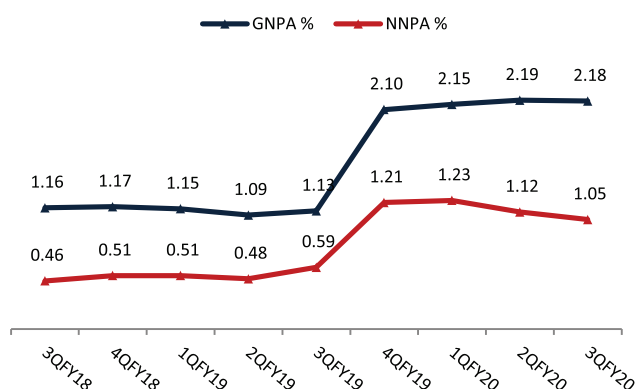


Exhibit: Provisions

PCR Improves

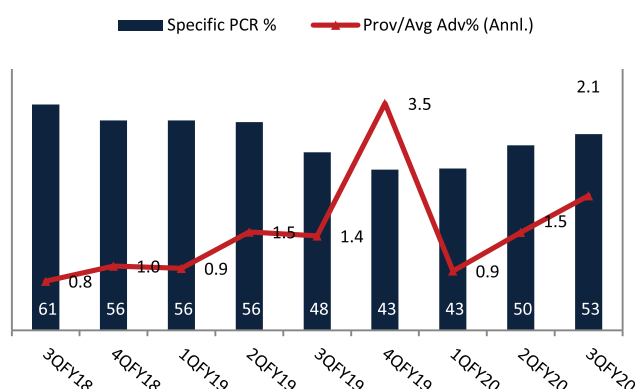


Exhibit: Advances Performance

Advance growth moderated

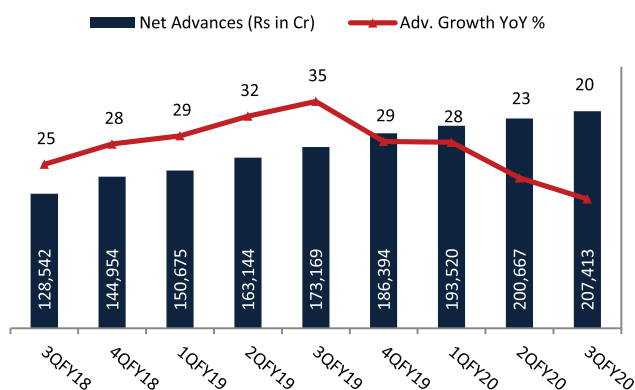


Exhibit: Advances Breakup%

Loanbook composition changed post merger

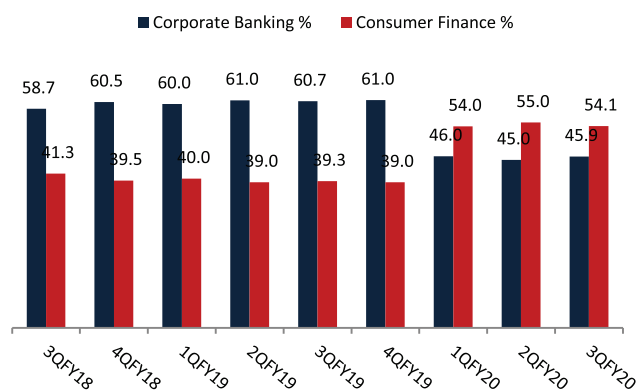


Exhibit: Deposits Performance

Moderated deposit growth

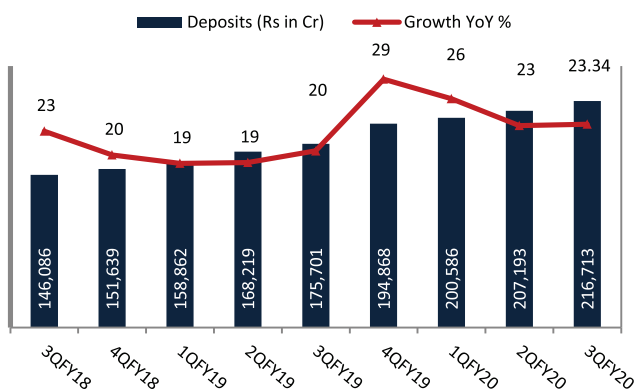


Exhibit: CASA Performance

CASA ratio declined

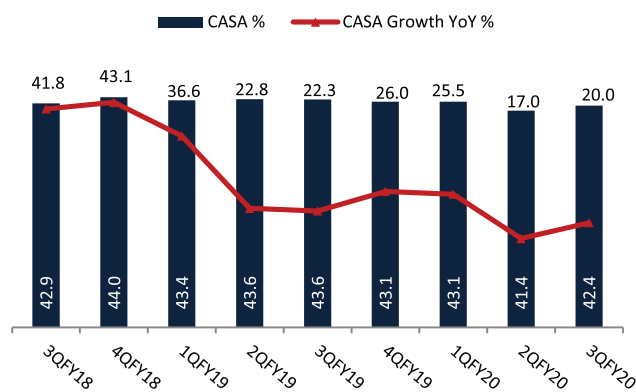


Exhibit: Credit Deposit Ratio

CD ratio improved

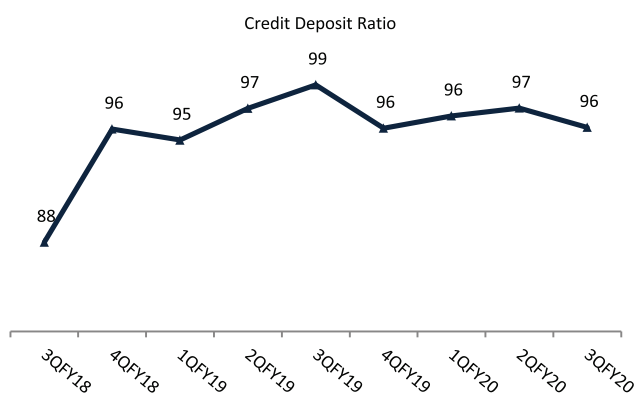
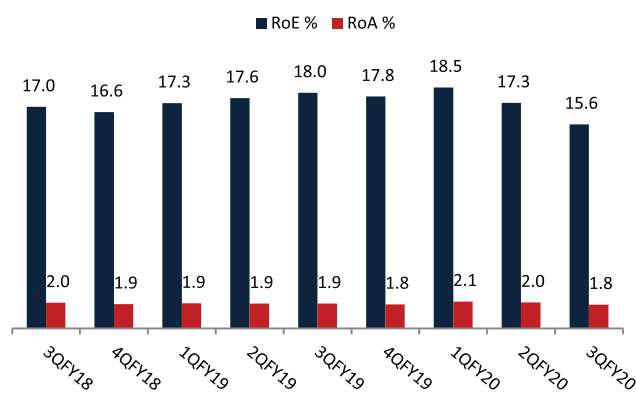


Exhibit: Return Ratios

return ratio profile effected



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	526	529	595	598	600	603	693	709
Equity Capital	526	529	595	598	600	603	693	709
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	8517	10115	17101	20048	23241	26083	34744	43751
Networth	9043	10645	17696	20646	23842	26686	35437	44460
Deposits	60502	74134	93000	126572	151639	194868	233984	293260
Change (%)	12	23	25	36	20	29	20	25
CASA Deposits	19691	25300	32724	46646	66729	84070	98273	123169
Change (%)	24	28	29	43	43	26	17	25
Borrowings	14762	20618	22156	22454	38289	47321	48528	51907
Other Liabilities & Provisions	2719	6390	7205	8976	7856	8944	9359	10997
Total Liabilities	87026	111787	140057	178648	221626	277819	327308	400624
Cash & Bank	6769	10779	10112	18628	13215	14783	23471	33196
Investments	21563	22878	31214	36702	50077	59266	65516	82113
Change (%)	10	6	36	18	36	18	11	25
Advances	55102	68788	88419	113081	144954	186394	219945	263934
Change (%)	24	25	29	28	28	29	18	20
Fixed Assets	1016	1158	1255	1335	1339	1710	1881	2069
Other Assets	2575	8184	9057	8902	12041	15666	16496	19312
Total Assets	87026	111787	140057	178648	221626	277819	327308	400624

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	8,254	9,692	11,581	14,406	17,281	22,261	28,907	33,626
Interest expended	5,363	6,272	7,064	8,343	9,783	13,415	16,900	19,018
Net Interest Income	2,891	3,420	4,517	6,063	7,497	8,846	12,007	14,607
Change (%)	29	18	32	34	24	18	36	22
Other Income	1,891	2,404	3,297	4,171	4,750	5,647	6,983	8,049
Change (%)	39	27	37	27	14	19	24	15
Core Fee Income	1,610	2,087	2,772	3,489	4,177	5,069	6,023	7,139
Treasury Income	263	317	487	683	573	579	960	910
Others	18	-	37	(1)	0	(1)	0	-
Total Net Income	4,781	5,824	7,814	10,234	12,248	14,493	18,990	22,656
Operating Expenses	2,185	2,726	3,672	4,783	5,591	6,405	8,288	9,775
Change (%)	24	25	35	30	17	15	29	18
Employee Expenses	809	980	1,236	1,521	1,781	1,854	2,410	2,945
Pre-provisioning Profit	2,596	3,098	4,141	5,451	6,656	8,088	10,702	12,882
Change (%)	41	19	34	32	22	22	32	20
Provisions	468	389	672	1,091	1,175	3,108	3,280	3,397
Change (%)	78	(17)	73	62	8	164	6	4
PBT	2,128	2,709	3,469	4,360	5,481	4,981	7,422	9,485
Tax	720	915	1,183	1,492	1,875	1,679	2,033	2,466
Profit After Tax	1,408	1,794	2,286	2,868	3,606	3,301	5,389	7,019
Change (%)	33	27	27	25	26	(8)	63	30

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	24	25	29	28	28	29	18	20
Deposit Growth (%)	12	23	25	36	20	29	20	25
C/D Ratio (%)	91.1	92.8	95.1	89.3	95.6	95.7	94.0	90.0
CASA (%)	32.5	34.1	35.2	36.9	44.0	43.1	42.0	42.0
Investment/Deposit (%)	35.6	30.9	33.6	29.0	33.0	30.4	28.0	28.0
CRAR (%)	14	12	16	15	15	14	15	16
Tier 1 (%)	12.7	11.2	14.9	14.7	14.6	12.1	13.2	13.6
Tier 2 (%)	1.1	0.9	0.6	0.6	0.4	0.5	0.5	0.4

Assets Quality Metrics

GGross NPA (Rs)	621	563	777	1,055	1,705	3,947	5,136	3,388
Gross NPA (%)	1.1	0.8	0.9	0.9	1.2	2.1	2.3	1.3
Net NPA(Rs)	184	210	322	439	746	2,248	2,227	1,042
Net NPA (%)	0.3	0.3	0.4	0.4	0.5	1.2	1.0	0.4
Slippages (%)	1	1	1	1	2	4	3	2
Provision Coverage (%)	70	63	59	58	56	43	57	69
Provision/Average Advances (%)	0.9	0.6	0.9	1.1	0.9	1.9	1.6	1.4

Margin Metrics

Yield On Advances (%)	13.3	12.5	11.8	11.4	10.6	11.0	11.8	11.7
Yield On Investment (%)	7.2	7.6	6.6	7.3	7.1	6.7	7.0	6.8
Yield on Earning Assets (%)	11.0	10.5	9.8	9.6	9.3	9.5	10.2	10.0
Cost Of Deposits (%)	7.6	7.7	6.8	6.3	5.8	6.1	6.4	6.0
Cost Of Funds (%)	7.6	7.2	6.5	6.1	5.6	6.1	6.3	5.9
Spread (%)	3.5	3.3	3.3	3.5	3.7	3.5	3.9	4.1
NIM (%)	3.9	3.7	3.8	4.1	4.0	3.8	4.2	4.3

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	65.0	64.7	61.0	57.9	56.6	60.3	58.5	56.6
Fee Income/NII (%)	55.7	61.0	61.4	57.6	55.7	57.3	50.2	48.9
Cost to Income (%)	45.7	46.8	47.0	46.7	45.7	44.2	43.6	43.1
Cost on Average Assets (%)	2.7	2.7	2.9	3.0	2.8	2.6	2.7	2.7
Tax Rate (%)	33.8	33.8	34.1	34.2	34.2	33.7	27.4	26.0

Valuation Ratio Metrics

EPS (Rs)	26.8	33.9	38.4	47.9	60.1	54.8	77.8	99.0
Change (%)	32.0	26.4	13.4	24.8	25.3	(9)	42.0	27.4
ROAE (%)	16.9	18.2	16.1	15.0	16.2	13.1	17.3	17.6
ROAA (%)	1.8	1.8	1.8	1.8	1.8	1.3	1.8	1.9
Dividend Payout (%)	13.1	11.8	11.7	12.5	12.5	13.7	10.9	10.6
Dividend yield (%)	0.7	0.5	0.5	0.4	0.4	0.4	0.6	0.7
Book Value (Rs)	172.1	201.0	297.4	345.2	397.2	442.8	511.4	627.3
Change (%)	18	17	48	16	15	11	15	23
ABVPS (Rs)	169	197	292	338	385	405	479	613
P/B (X)	2.9	4.4	3.2	4.1	4.5	4.0	2.9	2.4
P/E (X)	18.7	26.2	25.1	29.4	29.9	32.5	19.0	15.0

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	9.7	9.2	9.0	8.6	8.9	9.6	9.2
Interest expended	6.3	5.6	5.2	4.9	5.4	5.6	5.2
Net Interest Income	3.4	3.6	3.8	3.7	3.5	4.0	4.0
Non-Fund Based Income	2.4	2.6	2.6	2.4	2.3	2.3	2.2
Core Fee Income	2.1	2.2	2.2	2.1	2.0	2.0	2.0
Trading and Other Income	0.3	0.4	0.4	0.3	0.2	0.3	0.2
Core Operating Income	5.5	5.8	6.0	5.8	5.6	6.0	6.0
Total Income	5.9	6.2	6.4	6.1	5.8	6.3	6.2
Total Operating Expenses	2.7	2.9	3.0	2.8	2.6	2.7	2.7
Employee Expenses	1.0	1.0	1.0	0.9	0.7	0.8	0.8
Other Expenses	1.8	1.9	2.0	1.9	1.8	1.9	1.9
Operating Profit	3.1	3.3	3.4	3.3	3.2	3.5	3.5
Provisions	0.4	0.5	0.7	0.6	1.2	1.1	0.9
Others	-	-	-	-	-	-	-
PBT	2.7	2.8	2.7	2.7	2.0	2.5	2.6
Tax	0.9	0.9	0.9	0.9	0.7	0.7	0.7
PAT/RoAA	1.8	1.8	1.8	1.8	1.3	1.8	1.9
Equity Multiplier (x)	10.1	8.9	8.3	9.0	9.9	9.7	9.1
ROAE	18.2	16.1	15.0	16.2	13.1	17.3	17.6

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