

Industry
Bloomberg
BSE CODE

Financial
BOB IN
532134

RATING	ACCUMULATE
CMP	96
Price Target	107
Potential Upside	11%

Rating Change	↓
Estimate Change	↔
Target Change	↓

STOCK INFO	
52wk Range H/L	144/86
Mkt Capital (Rs Cr)	43,133
Free float (%)	26.00
Avg. Vol 1M (,000)	21,311
No. of Shares (Crs)	462
Promoters Pledged %	0%

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	18684	27845	30051
PPP	13487	19292	19498
PAT	434	532	4689
NIM %	2.6	3.1	2.8
EPS (Rs)	2	1	10
EPS growth (%)	118	-30	782
ROE (%)	1	1	6
ROA (%)	0.1	0.1	0.4
BV	173	154	164
P/B (X)	0.6	0.6	0.6
P/E (x)	58	83	9

RESEARCH ANALYST

DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

AYUSHI GOYAL

aayushi.goyal@narnolia.com

Profitability Dragged By High Provisioning And Deterioration In Asset Quality

3QFY20 Result Update

- Bank reported number below our expectation with loss of Rs 1400 Cr mainly on the back of high provisioning. NII growth by 1% QoQ along with stable margins. NIM has remained stable at 2.80% in 3QFY20. Operating profit reported de-growth of 7% QoQ.
- Advances growth has been muted at 3% QoQ in line with expectations, however deposits largely remained flat on sequential basis.
- Asset quality deteriorated as GNPA/NNPA both increased by 18/14 bps QoQ to 10.43%/4.05% in 3QFY20 on the account of high slippages reported in the quarter. Fresh slippage for the quarter was at Rs 10,387 Cr. Slippages of Rs 4,509 Cr is on account of RBI divergence. Watch list for the quarter stood at Rs 10500 Cr down from Rs 14500 Cr last quarter.

Muted advance growth

Advances grew by 35 QoQ led by retail and corporate growth. Retail loans grew by 5% on sequential basis mainly driven by growth in auto loans. SME loans reported growth of 3% QoQ Education loans grew by 3% QoQ. The management looks the growth to be at 4-5% going ahead in near term to be driven by both retail and some corporate.

Margins stable

NII grew by 1% mainly due to advances growth of 3% QoQ. NIM has been stable at 2.80% QoQ the reason being decline in both yield and cost. Domestic NIM declined by 7 bps QoQ to 2.88% from 2.95% last quarter. Overseas NIM has shown improvement of 25 bps QoQ to 1.51% from 1.26% last quarter. Global yield on advances declined by 21 bps QoQ to 7.94% from 8.15% whereas domestic yield declined by 27 bps QoQ to 8.73% from 9%. Global and domestic both cost of deposits declined by 16 bps QoQ. Overseas yield on advance increased by 15 bps QoQ to 3.91%.

High slippages

Asset quality deteriorated as GNPA/NNPA both increased by 18/14 bps QoQ to 10.43%/4.05% in 3QFY20 on the account of high slippages reported in the quarter. Fresh slippage for the quarter was at Rs 10,387 Cr. Slippages of Rs 4,509 Cr is on account of RBI divergence. Watch list for the quarter stood at Rs 10500 Cr down from Rs 14500 Cr last quarter. RBI divergence has been on the account of shortfall in provision due to depreciation in security value and some asset reclassification. The bank has provided for all the RBI divergence this quarter only. These divergence are mainly from BOB and expect 2-3 accounts (Chemical, road sector) to be reclassified going ahead as they are the paying one on regular basis. Apart from RBI divergence slippages, Rs 2000 Cr slippages have been from an NBFC account and Rs 3000 Cr from agri, retail, SME.

View and Valuation

Bank reported loss mainly on account of huge provisions related to divergence in NPA reporting of FY19. Slowdown in the economy and pressure in some of the accounts resulted in further assets quality deterioration. However watch list reduced to Rs 10000 was the positive development. Margin continues to expand driven by loan mix change. Loan growth will remain muted in near term due to economy slowdown and merger impact. We expect near term profitability to remain muted and reduce our target price to Rs 107 at 0.65x BVFY21e and downgrade our rating to ACCUMULATE.

Key Risks to our rating and target

- Slippages on the account of exposure to stressed assets.
- Advance growth

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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.	12,942	13,314	18,945	19,274	19,068	47.3%	-1.1%	43,649	49,974	14.5%
Interest Exp.	8,198	8,247	12,447	12,246	11,939	45.6%	-2.5%	28,127	31,290	11.2%
NII	4,743	5,067	6,498	7,028	7,129	50.3%	1.4%	15,522	18,684	20.4%
Other Income	1,621	1,970	1,916	2,824	2,741	69.1%	-2.9%	6,657	6,091	-8.5%
Total Income	6,364	7,037	8,414	9,852	9,870	55.1%	0.2%	22,179	24,775	11.7%
Ope Exp.	2,826	3,177	4,137	4,516	4,912	73.8%	8.8%	10,173	11,288	11.0%
PPP	3,539	3,861	4,276	5,336	4,958	40.1%	-7.1%	12,006	13,487	12.3%
Provisions	2,794	5,399	3,285	4,209	7,155	156.1%	70.0%	14,796	12,789	-13.6%
PBT	744	(1,539)	991	1,127	(2,197)	NA	NA	(2,791)	698	NA
Tax	273	(547)	281	390	(790)	NA	NA	(359)	265	NA
Net Profit	471	(991)	710	737	(1,407)	NA	NA	(2,432)	434	NA

Note: YoY Numbers for 3QFY20 not comparable due to amalgamation

Concall Highlights

- OPEX has been high in 3QFY20, the reason being ESPS done in the quarter.
- Other income has been high YoY at 69% the reason being increase in trading gains.
- The management looks the growth to be at 4-5% going ahead in near term.
- Of the total fresh slippages of Rs 10,387 Cr, Rs 4,509 Cr is on account of RBI divergence. RBI divergence has been on the account of shortfall in provision due to shortfall in security value and some asset reclassification. The bank has provided for all the RBI divergence this quarter only.
- These divergence are mainly from BOB and expect 2-3 accounts (Chemical, road sector) to be reclassified going ahead as they are the paying one on regular basis.
- Apart from RBI divergence slippages, Rs 2000 Cr slippages have been from an NBFC account and Rs 3000 Cr from agri, retail, SME.
- The bank holds 20% provisioning on Reliance home finance.
- NPAs in international business spiked from Rs 7623 Cr to Rs 10530 Cr QoQ due to divergence.
- The watch list came down to Rs 10500 Cr from Rs 14000 Cr last quarter. 85% slippage in December 2019 quarter was from watch-list of September 2019 of Amalgamated book.
- Slippages break up for the quarter: Agri: Rs 552 Cr, MSME: Rs 1000 Cr, Retail: Rs 450 Cr, Corporate: Rs 5100 Cr and International business: Rs 3300 Cr.
- MSME dispensation and restructuring amount stood at Rs 1300 Cr (cumulative).
- The bank is expecting better recovery in the current quarter on the account of 2-3 accounts as compared to last quarter.
- The bank raised Rs 3397 Cr through AT-1 Bonds in Q3FY20.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	46	47	44	45	49	46	50	5	4
Empl. Cost/ Tot. Exp. %	44	44	46	44	47	51	53	7	2
Other Exp/Tot. Exp. %	56	56	54	56	53	49	47	-7	-2
Provision/PPP %	72	79	79	140	77	79	144	65	65
Tax /PBT %	37	35	37	36	28	35	36	-1	1
Int Exp./Int Inc. (%)	62	63	63	62	66	64	63	-1	-1
Other Inc./Net Inc. %	21	23	25	28	23	29	28	2	-1
PAT/ Net Income %	10	7	7	(14)	8	7	(14)	-22	-22
PAT Growth %	160	20	322	(68)	34	73	(399)	-720	-472
NII Growth % (YoY)	29	21	8	27	48	56	50	42	-6
Oper. Profit Growth YoY %	13	1	(3)	45	42	73	40	43	-33

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances%	7.5	7.4	7.7	7.9	8.0	8.2	7.9	0.23	-0.21
Yield on Total Assets %	7.1	7.2	7.6	7.6	7.6	7.7	7.6	-0.05	-0.11
Cost Of Funds%	4.4	4.6	4.8	4.8	5.0	5.1	5.0	0.12	-0.13
Cost of Deposits%	4.5	4.6	4.8	4.8	5.1	5.0	4.9	0.11	-0.16
NIM%	2.7	2.6	2.7	2.9	2.6	2.8	2.8	0.11	-0.01

Exhibit: Yield and Cost

Yield and cost both declined

■ Yield on Advances% ■ Cost of Deposits%

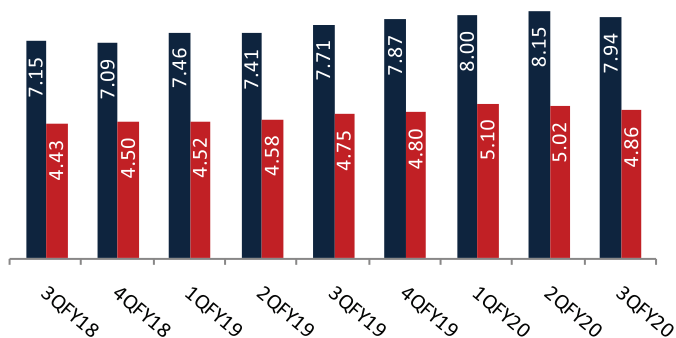
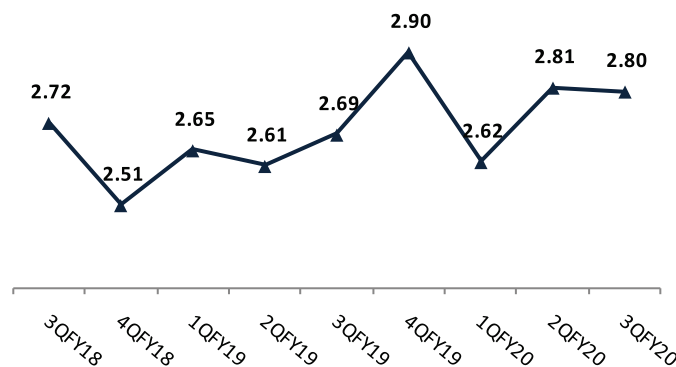


Exhibit: Net Interest Margin

NIM stable

▲ NIM%



Asset & Borrowings Growth Trend

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Net Advances (Rs in Cr)	399381	427432	414517	433549	448679	468819	633181	637340	654465
Adv. Growth YoY %	14.1	11.5	9.8	11.9	12.3	9.7	53.0	47.0	0.5
Growth QoQ %	3.0	7.0	-3.0	4.0	3.0	4.0	-3.0	1.0	2.7

Note: YoY Numbers for 3QFY20 not comparable due to amalgamation

	573265	591315	581484	606973	610569	638690	895542	894130	896162
Deposits (Rs in Cr)	573265	591315	581484	606973	610569	638690	895542	894130	896162
Growth YoY %	(2.8)	(1.7)	1.9	4.1	6.5	8.0	54.0	47.0	46.8
Growth QoQ %	(1.7)	3.1	(1.7)	4.4	0.6	4.6	(2.1)	(0.2)	0.2
CASA (Rs Cr)	198487	211779	206544	214414	213633	223794	301572	312022	320264
Growth YoY %	1.1	9.4	9.7	10.0	7.6	5.7	46.0	45.0	49.9
Growth QoQ %	1.8	6.7	(2.5)	3.8	(0.4)	4.8	(3.1)	3.5	2.6

Note: YoY Numbers for 3QFY20 not comparable due to amalgamation

Exhibit: Fee Income/Advances %

Fee income increased

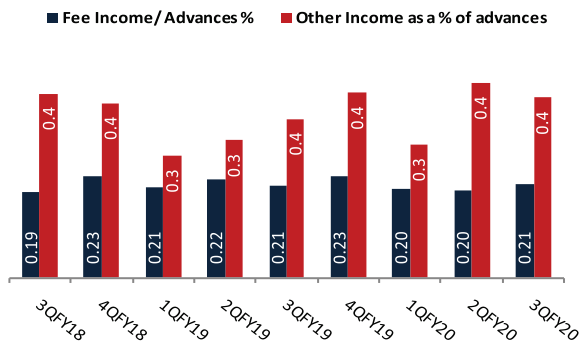
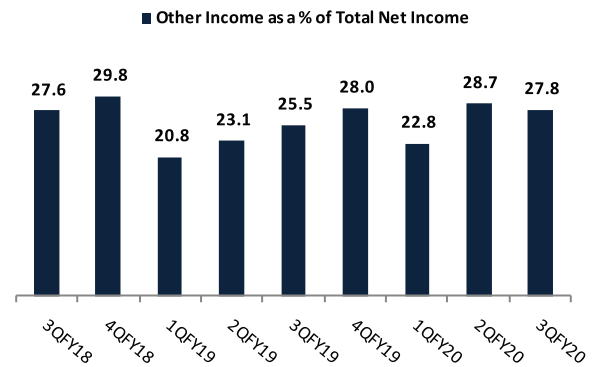


Exhibit: Other Income/ Total Income %

Other income declined



Asset Composition %

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Large Corporates%	69	67	67	67	66	67	65	66	65
SME /MSME%	13	12	12	12	12	12	13	13	13
Retail Advance%	17	16	17	18	18	18	18	18	18
Others%	1	5	3	3	3	3	4	3	3
Total	100	100	100	100	100	100	100	100	100

Borrowing Mix

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
CASA %	35	36	36	35	35	35	34	35	36
CA %	7	8	7	7	7	7	6	6	7
SA %	27	28	28	28	28	28	27	28	29

Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
GNPA (Rs Cr)	48,480	56,480	55,874	55,121	53,184	48,233	69,714	69,969	73,139
GNPA %	11	12	12	12	11	10	10	10	10
NNPA (Rs Cr)	19,852	23,483	22,384	21,059	19,130	15,609	25,030	24,894	26,504
NNPA %	5	5	5	5	4	3	4	4	4
Slippages (Rs Cr)	5,630	12,569	4,733	3,751	3,733	3,745	6,624	7,259	11,820
Std Restructured Assets %	2	-	-	-	-	-	-	-	-
Net Stress Assets %	8	8	7	7	6	6	4	4	4
PCR %	68	67	69	71	73	79	77	78	78
Credit Cost %	3	7	2	1	3	4	2	2	4
Prov/Avg Adv% (Annl.)	3	6	2	2	3	5	2	3	4
Specific PCR%	59	58	60	62	64	68	64	64	64

Note: YoY Numbers for 3QFY20 not comparable due to amalgamation

Exhibit: Asset Quality

Asset quality deteriorated.

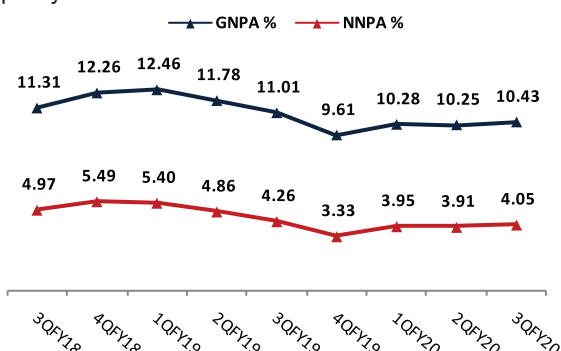


Exhibit: Provisions

PCR stable

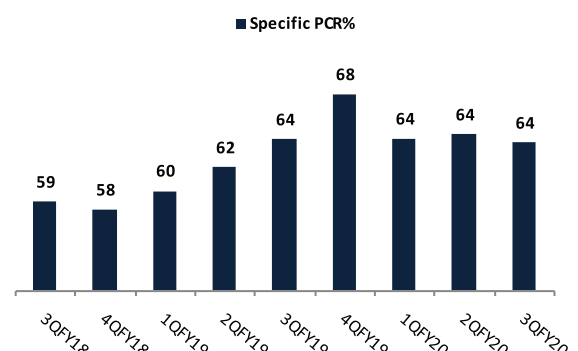


Exhibit: Advances Performance

Advances growth

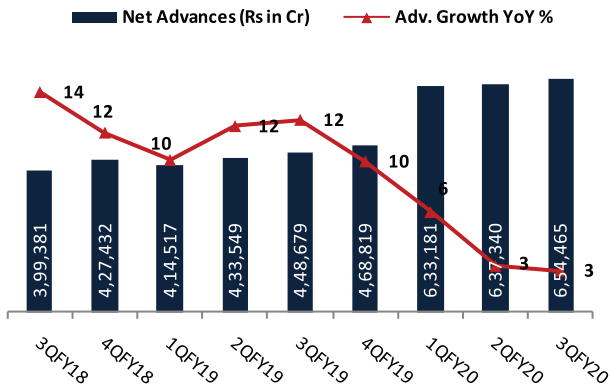


Exhibit: Advances Breakup%

Advance mix.

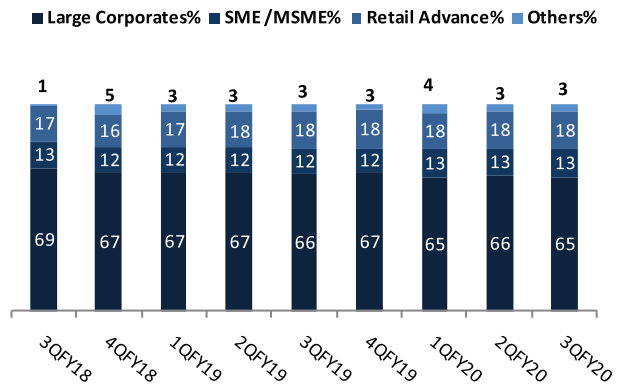


Exhibit: Deposits Performance

Deposits growth.

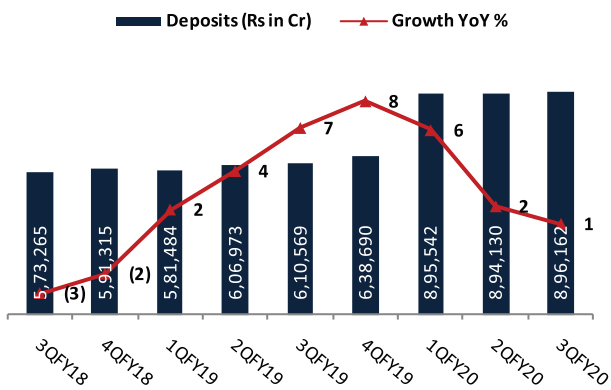


Exhibit: CASA Performance

CASA ratio

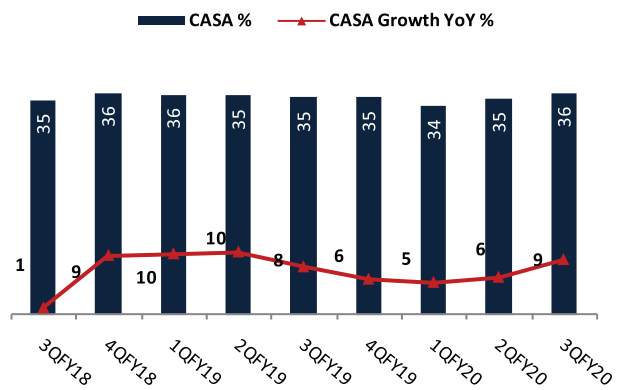


Exhibit: Credit Deposits Ratio

CD ratio increased

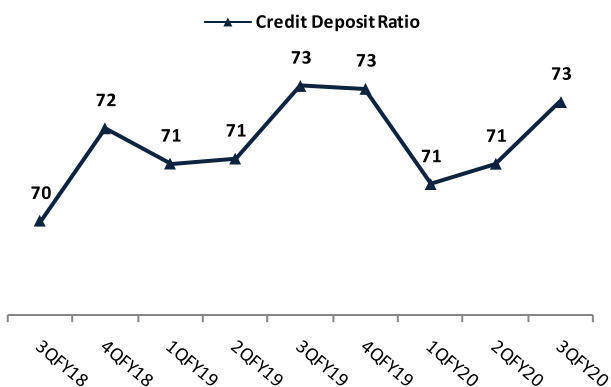
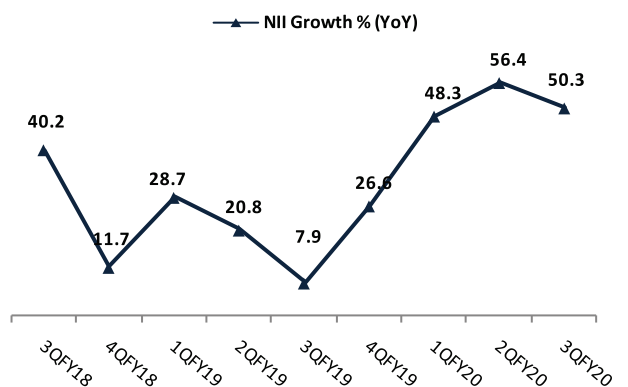


Exhibit: Improving NII growth

NII Trend



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	431	444	462	462	530	530	924	924
Equity Capital	431	444	462	462	530	530	924	924
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	35555	39392	39737	39841	42864	50453	70094	74783
Networth	35986	39835	40199	40303	43395	45941	71019	75707
Deposits	568894	617560	574038	601675	591315	638690	944966	1025558
Change (%)	20	9	-7	5	-2	8	48	9
CASA Deposits	146489	162969	151334	193496	211779	223794	340188	369201
Change (%)	22	11	-7	28	9	6	52	9
Borrowings	36813	35264	33472	30611	62572	67201	75219	80814
Other Liabilities & Provisions	17812	22329	23667	22286	22718	24113	29924	32476
Total Liabilities	659505	714989	671376	694875	720000	780987	1121127	1214555
Cash & Bank	130878	148353	133900	150470	92897	89230	126049	139092
Investments	116113	122320	120450	129631	163185	182298	269315	292284
Change (%)	-4	5	-2	8	26	12	48	9
Advances	397006	428065	383770	383259	427432	468819	670926	717890
Change (%)	21	8	-10	0	12	10	43	7
Fixed Assets	2734	2875	6254	5758	5367	6990	8388	10066
Other Assets	12774	13376	27002	25757	31119	33651	46449	55222
Total Assets	659505	714989	671376	694875	720000	780987	1121127	1214555

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	38,940	42,964	44,061	42,200	43,649	49,974	76,431	80,054
Interest expended	26,974	29,776	31,321	28,687	28,127	31,290	48,586	50,003
Net Interest Income	11,965	13,187	12,740	13,513	15,522	18,684	27,845	30,051
Change (%)	5.7	10.2	(3.4)	6.1	14.9	20.4	49.0	7.9
Other Income	4,463	4,402	4,999	6,758	6,657	6,091	10,231	9,740
Change (%)	22.9	(1.4)	13.6	35.2	(1.5)	(8.5)	68.0	(4.8)
Core Fee Income	2,117	2,200	2,346	2,835	3,277	3,837	5,316	5,627
Treasury Income	1,783	2,013	2,432	3,595	2,699	1,268	3,197	3,713
Others	563	189	221	328	681	986	1,719	400
Total Net Income	16,428	17,589	17,739	20,271	22,179	24,775	38,076	39,792
Operating Expenses	7,075	7,674	8,923	9,296	10,173	11,288	18,784	20,294
Change (%)	20.5	8.5	16.3	4.2	9.4	11.0	66.4	8.0
Employee Expenses	4,140	4,261	4,978	4,638	4,607	5,039	9,449	9,948
Pre-provisioning Profit	9,353	9,915	8,816	10,975	12,006	13,487	19,292	19,498
Change (%)	3.1	6.0	(11.1)	24.5	9.4	12.3	43.0	1.1
Provisions	3,794	4,495	15,514	8,502	14,796	12,789	18,626	12,394
Change (%)	(9.0)	18.5	245.2	(45.2)	74.0	(13.6)	45.6	(33.5)
PBT	5,497	5,421	(6,698)	2,473	(2,791)	698	667	7,104
Tax	956	2,022	(1,303)	1,090	(359)	265	135	2,415
Profit After Tax	4,541	3,398	(5,396)	1,383	(2,432)	434	532	4,689
Change (%)	1.3	(25.2)	(258.8)	(125.6)	(275.8)	117.8	22.7	781.8

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	21.0	7.8	(10.3)	(0.1)	11.5	9.7	43.1	7.0
Deposit Growth (%)	20.0	8.6	(7.0)	4.8	(1.7)	8.0	48.0	8.5
C/D Ratio (%)	69.8	69.3	66.9	63.7	72.3	73.4	71.0	70.0
CASA (%)	25.7	26.4	26.4	32.2	35.8	35.0	36.0	36.0
Investment/Deposit (%)	20.4	19.8	21.0	21.5	27.6	28.5	28.5	28.5
CRAR (%)	12.3	12.6	13.2	12.2	12.1	13.4	13.6	13.3
Tier 1 (%)	9.3	9.9	10.8	9.9	10.5	11.6	11.7	11.5
Tier 2 (%)	3.0	2.7	2.4	2.3	1.7	1.9	1.9	1.8

Assets Quality Metrics

								Fig in Rs Cr
Gross NPA	11,876	16,261	40,521	42,718	56,480	48,233	73,023	65,432
Gross NAP (%)	2.9	3.7	10.0	10.5	12.3	9.6	11.0	9.2
Net NPA	6,035	8,069	19,406	18,080	23,483	15,609	24,828	22,247
Net NPA (%)	1.5	1.9	5.1	4.7	5.5	3.3	3.7	3.1
Slippages (%)	2.1	2.2	7.3	4.7	7.3	3.9	7.8	3.9
Provision Coverage (%)	65.5	65.0	60.1	66.8	67.2	78.7	76.8	76.8
Provision/Average Advances (%)	1.0	1.1	3.8	2.2	3.7	2.9	3.3	1.8

Margin Metrics

Yield On Advances (%)	7.7	7.5	7.3	7.2	7.2	7.7	9.6	8.3
Yield On Investment (%)	7.3	8.1	8.8	8.5	7.1	7.4	8.0	6.5
Yield on Earning Assets (%)	6.7	6.5	6.7	6.5	6.5	7.1	8.6	7.4
Cost Of Deposits (%)	4.8	4.7	4.9	4.6	4.4	4.5	5.5	4.6
Cost Of Funds (%)	4.8	4.7	4.9	4.5	4.3	4.5	5.5	4.6
Spread (%)	1.9	1.8	1.8	2.0	2.2	2.6	3.1	2.7
NIM (%)	2.1	2.0	1.9	2.1	2.3	2.6	3.1	2.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	69.3	69.3	71.1	68.0	64.4	62.6	63.6	62.5
Fee Income/NII (%)	17.7	16.7	18.4	21.0	21.1	20.5	19.1	18.7
Cost to Income (%)	43.1	43.6	50.3	45.9	45.9	45.6	49.3	51.0
Cost on Average Assets (%)	1.2	1.1	1.3	1.4	1.4	1.5	2.0	1.7
Tax Rate (%)	17.4	37.3	19.4	44.1	12.9	37.9	20.3	34.0

Valuation Ratio Metrics

EPS (Rs)	21	15	(24)	6	(9)	2	1	10
Change (%)	(0.6)	(27.3)	(258.8)	(125.6)	(247.0)	117.8	(29.6)	781.8
ROAE (%)	13.5	9.0	(13.5)	3.4	(5.8)	1.0	0.9	6.4
ROAA (%)	0.8	0.5	(0.8)	0.2	(0.3)	0.1	0.1	0.4
Dividend Payout (%)	20.4	20.9	-	19.2	-	-	-	14.8
Dividend yield (%)	3.0	2.0	-	0.7	-	-	-	1.6
Book Value (Rs)	167	180	181	182	164	173	154	164
Change (%)	10.4	7.5	0.9	0.3	(10.0)	5.9	(11.3)	6.6
ABVPS (Rs)	134	139	75	84	62	101	92	108
P/B (X)	0.9	0.9	0.8	1.0	0.9	0.6	0.6	0.6
P/E (X)	6.8	10.7	(6.0)	27.7	(15.5)	58.5	83.1	9.4

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	6.3	6.4	6.2	6.2	6.7	8.0	6.9
Interest expended	4.3	4.5	4.2	4.0	4.2	5.1	4.3
Net Interest Income	1.9	1.8	2.0	2.2	2.5	2.9	2.6
Non-Fund Based Income	0.6	0.7	1.0	0.9	0.8	1.1	0.8
Core Fee Income	0.3	0.3	0.4	0.5	0.5	0.6	0.5
Trading and Other Income	0.3	0.4	0.6	0.5	0.3	0.5	0.4
Core Operating Income	2.2	2.2	2.4	2.7	3.0	3.5	3.1
Total Income	2.6	2.6	3.0	3.1	3.3	4.0	3.4
Total Operating Expenses	1.1	1.3	1.4	1.4	1.5	2.0	1.7
Employee Expenses	0.6	0.7	0.7	0.7	0.7	1.0	0.9
Other Expenses	0.5	0.6	0.7	0.8	0.8	1.0	0.9
Operating Profit	1.4	1.3	1.6	1.7	1.8	2.0	1.7
Provisions	0.7	2.2	1.2	2.1	1.7	2.0	1.1
Others	-	-	-	-	-	-	-
PBT	0.8	(1.0)	0.4	(0.4)	0.1	0.1	0.6
Tax	0.3	(0.2)	0.2	(0.1)	0.0	0.0	0.2
PAT/RoAA	0.5	(0.8)	0.2	(0.3)	0.1	0.1	0.4
Equity Multiplier (x)	18.1	17.3	17.0	16.9	16.8	16.3	15.9
ROAE	9.0	(13.5)	3.4	(5.8)	1.0	0.9	6.4

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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, AJC 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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