

Mixed Q1FY20; structural transformation under way

Domestic credit growth continues to remain strong at 19% YoY while overseas book de-grew 34% YoY leading to overall advances growth of 12.7% YoY. Domestic growth was fuelled by retail (22% YoY) led by unsecured, auto & small business banking. However, SME & corporate growth remained muted. In contrast, deposit growth remain healthy at 21% YoY deposit led by strong term deposit growth (34% YoY) while sequential decline in CASA led to ~310 bps QoQ decline in CASA ratio to 41.3%.

Slippages came in higher at ₹ 4798 crore vs. ₹ 3012 crore in Q4FY19 led by corporate slippages of ₹ 2128 crore though write-off of ₹ 3005 crore aid in maintaining absolute GNPA numbers. Exposure to recently cropped 8 stressed corporates stood at ~₹ 12200 crore out of which ₹ 2200 is classified as NPA and ₹ 2900 crore is in BB & below book, leaving ~₹ 7000 crore of assets as standard and unprovided. Overall BB and below book continues to remain steady at ₹ 7504 crore, flat QoQ (₹ 7467 crore in Q4FY19).

Operating profit was at ~₹ 5893 crore, up 35% YoY largely led by strong other income (33% YoY) though NII growth moderated to 13% YoY on back of contraction in margins (6 bps YoY & 4 bps QoQ) at 3.4%. Other income growth was fuelled by higher treasury profits (₹ 872 crore) & strong retail fee growth (28% YoY). Provisions inched up to ~₹ 3815 crore vs. ₹ 2711 crore in Q4FY19 led by higher slippages QoQ & YoY on the back of additional stress in BB & below book. Accordingly, PAT came in lower at ₹ 1370 crore. The bank as of Q1FY20 maintains ₹ 2358 crore of contingent provisions.

Credit cost to be contained via better risk assessment

Of incremental lending, ~94% was to corporates with rating 'A- & above'. The bank's 'BB & below' rated book remained broadly stable at ₹ 7504 crore; 1.3% of gross customer assets vs. 7.3% peak in June 2016. Corporate slippages were at ₹ 2128 crore, of which ~56% came from 'BB & below' account. Hence, credit costs are expected to moderate from 3.7% to 1.5% by FY21E. With recognition of stressed account, which has cropped up recently, moderation is seen in slippages ahead. With contingent provision and anticipated recovery of large stressed cases referred to NCLT, we expect GNPA ratio to improve to ~4% by FY21E.

Valuation & Outlook

The long term focus continues to remain on offering loans with higher risk weighted return. The remaining ₹ 7000 crore of exposure to stressed names still standard to keep credit cost higher in FY20E. Accordingly, we cut our PAT & advances growth estimates by ~19% & 2.3%, respectively, for FY20E. However, we remain positive on management's effort to build a sustainable franchise. We value subsidiaries at ₹ 35 per share, post 20% holding discount. Factoring capital raising and subsequent dilution in return ratios, we cut down our target multiple from 2.9x earlier to 2.4x. Accordingly, we revise our target price to ₹ 850 (earlier ₹ 880) and maintain our **BUY** rating.

Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	18093	18618	21707	24615	29278	16%
PPP	17585	15594	19004	23024	28676	23%
PAT	3679	-263	5697	8004	12460	48%
ABV (₹)	196.8	182.5	219.4	299.1	336.6	
P/E	47.6	-714.4	33.0	25.9	16.6	
P/ABV	3.7	4.0	3.3	2.4	2.2	
RoA	0.6	0.0	0.8	0.9	1.2	
RoE	6.8	-0.4	8.7	9.7	12.1	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 178061 crore
GNPA (Q1FY20)	₹ 29405 crore
NNPA (Q1FY20)	₹ 11037 crore
NIM (Q1FY20)	3.40
52 week H/L	827 /534
Net worth	₹ 71228 Crore
Face value	₹ 2
DII Holding (%)	21.4
FII Holding (%)	48.2

Key Highlights

- Additional contingent provisions worth ₹ 2358 crore provides comfort
- Management reiterated achieving 18% RoE in medium term led by sustainable growth & profitability
- Maintain BUY rating with revised target price of ₹ 850 (earlier ₹ 880)

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	5,844	5,909	5,167	13.1	5,706	2.4	Declining margins offset healthy domestic credit growth
NIM (%)	3.40	3.40	3.46	-6 bps	3.44	-4 bps	
Other Income	3,869	3,085	2,925	32.3	3,526	9.7	Strong growth on the back of robust treasury gains & strong retail fee growth
Net Total Income	9,712	8,994	8,092	20.0	9,232	5.2	
Staff cost	1,307	1,211	1,228	6.4	1,142	14.4	
Other Operating Expenses	2,513	2,875	2,492	0.8	3,075	-18.3	
PPP	5,893	4,908	4,372	34.8	5,014	17.5	
Provision	3,815	2,333	3,338	14.3	2,711	40.7	Higher provisions attributable to incremental stress in BB & below book
PBT	2,078	2,575	1,034	NM	2,303	-9.8	
Tax Outgo	708	850	333	NM	798	-11.3	
PAT	1,370	1,725	701	NM	1,505	-9.0	Higher provisions offset healthy operational performance
Key Metrics							
GNPA	29,405	28,300	32,662	-10.0	29,789	-1.3	Higher slippages offset by higher write-off but reduction continues to remain steady
NNPA	11,037	11,309	14,902	-25.9	11,276	-2.1	
Credit	497,276	507,236	441,074	12.7	494,798	0.5	Domestic credit growth continues to remain healthy at 19% YoY. De-growth in overseas book led to lower credit growth
Deposit	540,678	563,263	447,079	20.9	548,472	-1.4	CASA at 41.3%, down 3.1% QoQ on back of robust traction in term deposit & de-growth in CASA

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	Old	New	Change	Old	New	Change
Net Interest Income	24,746	24,615	-0.5	29,894	29,278	-2.1
Pre Provision Profit	21,812	23,024	5.6	26,991	28,676	6.2
NIM(%) (calculated)	3.3	3.3	1 bps	3.4	3.4	-1 bps
PAT	9,816	8,004	-18.5	12,539	12,460	-0.6
ABV per share (₹)	255.9	299.1	16.9	293.2	336.6	14.8

Source: Company, ICICI Direct Research

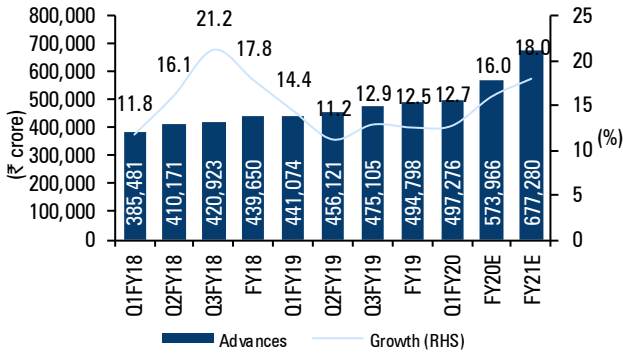
Exhibit 3: Assumption

	Current			Earlier	
	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	12.5	16.0	18.0	18.3	18.9
Deposit Growth (%)	20.9	16.0	17.0	15.1	15.4
CASA ratio (%)	44.4	41.2	39.0	41.2	39.0
NIM Calculated (%)	3.4	3.3	3.4	3.3	3.4
Cost to income ratio (%)	45.4	41.9	38.7	44.5	42.0
GNPA (₹ crore)	29,789	30,205	30,300	30,334	30,802
NNPA (₹ crore)	11,276	12,131	12,981	12,196	14,044
Slippage ratio (%)	3.2	2.8	2.4	2.8	2.4
Credit cost (%)	2.1	1.9	1.4	1.2	1.1

Source: Company, ICICI Direct Research

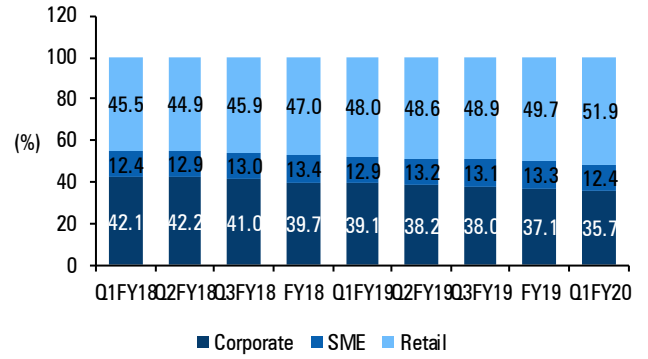
Story in Charts

Exhibit 4: Advances growth to remain healthy



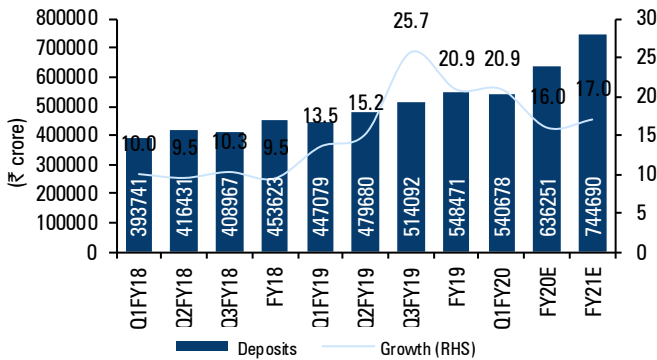
Source: Company, ICICI Direct Research

Exhibit 5: Retail sector to drive further earning



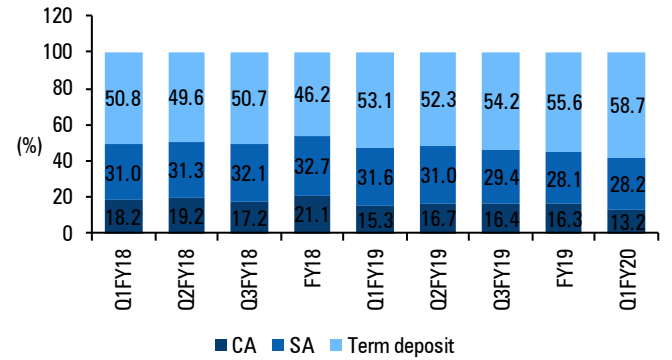
Source: Company, ICICI Direct Research

Exhibit 6: Retail deposits to remain in focus



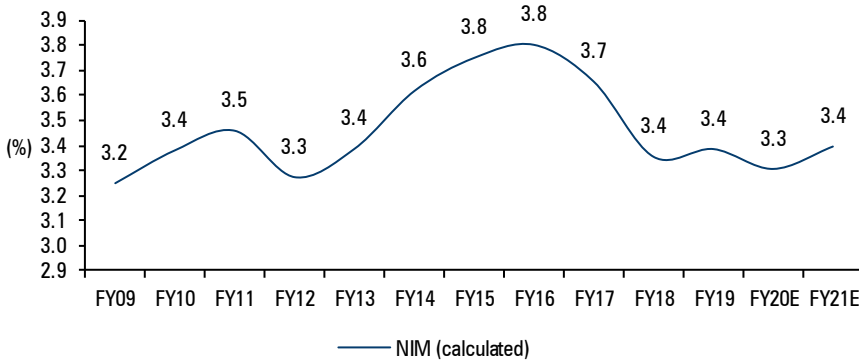
Source: Company, ICICI Direct Research

Exhibit 7: TD growth healthy in Q1FY20; though a bit behind



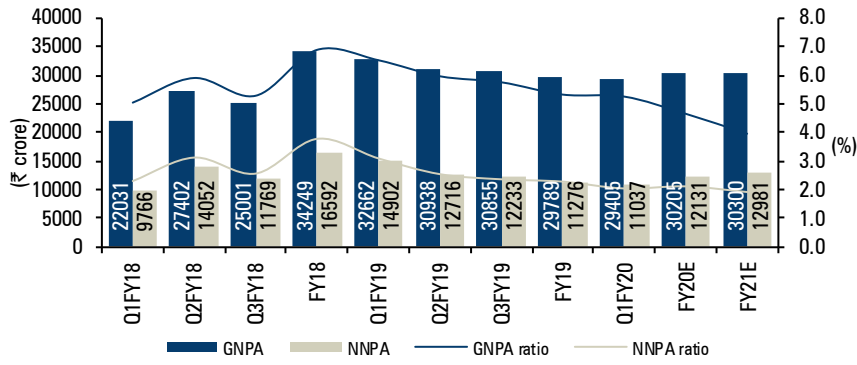
Source: Company, ICICI Direct Research

Exhibit 8: Margins to remain steady at ~3.4% ahead



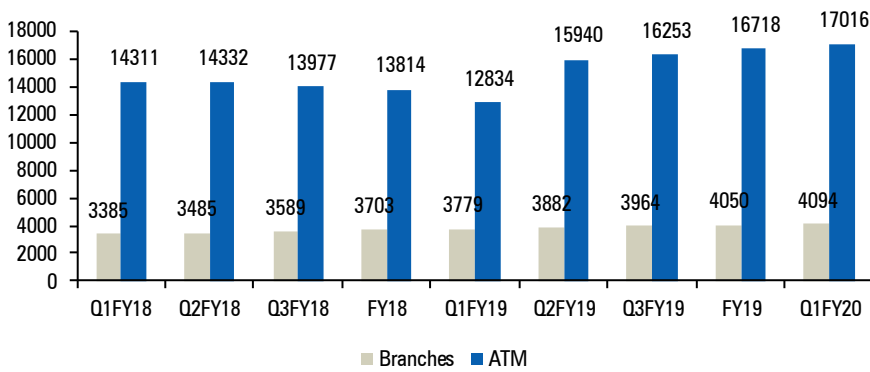
Source: Company, ICICI Direct Research

Exhibit 9: Improving asset quality



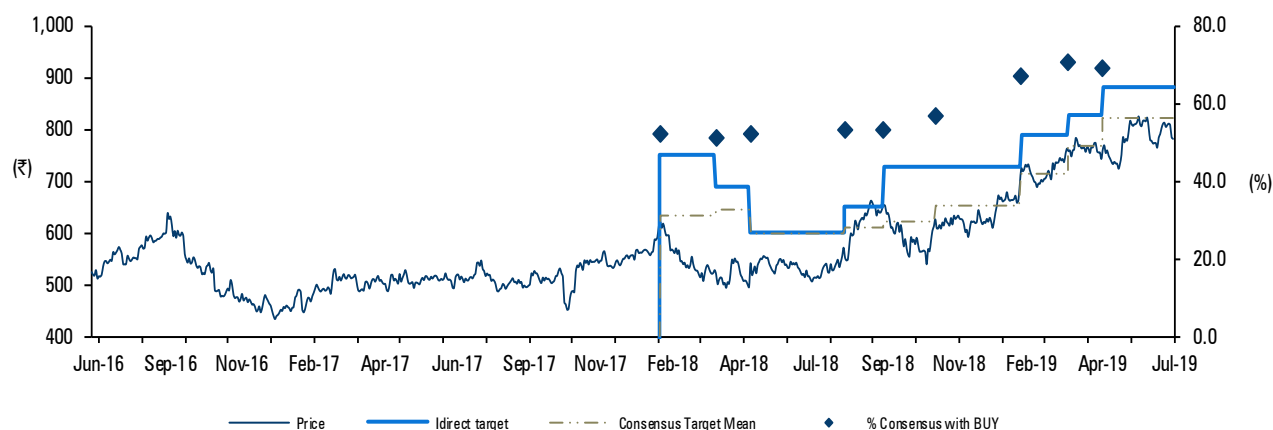
Source: Company, ICICI Direct Research

Exhibit 10: Branch network increasing at consistent pace



Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	Life Insurance Corporation of India	02-07-2019	9.84%	257.74M	-0.88M
2	UTI Asset Management Co. Ltd.	31-03-2019	5.23%	136.89M	0
3	Dodge & Cox	30-06-2018	3.17%	83.08M	+3.63M
4	Capital Research Global Investors	31-03-2019	2.47%	64.61M	-0.98M
5	The Vanguard Group, Inc.	31-05-2019	2.46%	64.41M	+0.80M
6	SBI Funds Management Pvt. Ltd.	31-05-2019	2.44%	63.96M	+1.44M
7	Tybourne Capital Management (HK) Limited	31-03-2019	2.30%	60.35M	+26.92M
8	BlackRock Institutional Trust Company, N.A.	30-06-2019	2.14%	55.99M	+0.18M
9	Vanguard Investments Australia Ltd.	31-03-2019	2.14%	55.97M	+0.83M
10	Bain Capital Private Equity, LP	31-03-2019	2.12%	55.60M	0

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys				Sells			
Investor name	Value	Shares		Investor name	Value	Shares	
Tybourne Capital Management (HK) Limited	+302.50M	+26.92M		Ivy Investment Management Company	-76.19M	-6.78M	
Schroder Investment Management (Hong Kong) I	+50.77M	+4.52M		Lazard Asset Management, L.L.C.	-23.20M	-2.07M	
GIC Private Limited	+49.01M	+4.36M		FIL Investment Management (Hong Kong) Limited	-22.30M	-1.98M	
ICICI Prudential Life Insurance Company Ltd.	+43.75M	+3.89M		HDFC Asset Management Co., Ltd.	-12.85M	-1.14M	
				The New India Assurance Co. Ltd.	-10.96M	-0.98M	

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	0.0	0.0	23.7	18.7	18.1
FII	28.3	27.6	47.2	49.6	48.2
DII	23.0	24.2	19.5	21.2	21.4
Others	48.7	48.2	9.6	10.4	12.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	45,780	54,986	64,729	75,665
Interest Expended	27,163	33,279	40,114	46,387
Net Interest Income	18,618	21,707	24,615	29,278
growth (%)	2.9	16.6	13.4	18.9
Non Interest Income	10,967	13,130	15,014	17,467
Fees and advisory	7,730	9,199	11,038	13,025
Trading Gains	1,325	1,391	1,670	2,004
Other income	1,912	2,540	2,306	2,438
Net Income	29,585	34,837	39,629	46,744
Staff cost	4,313	4,753	5,148	5,747
Other operating Expense	9,677	11,080	11,456	12,322
Operating Profit	15,594	19,004	23,024	28,676
Provisions	16,011	10,510	10,952	9,798
PBT	(417)	8,494	12,072	18,878
Taxes	(154)	2,797	4,068	6,419
Net Profit	(263)	5,697	8,004	12,460
growth (%)	-107.1	-2268.1	40.5	55.7
EPS (₹)	(1.0)	22.2	28.3	44.0

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	256.7	257.2	283.3	283.3
EPS (₹)	-1.0	22.2	28.3	44.0
BV (₹)	247.2	263.2	341.9	382.4
ABV (₹)	182.5	219.4	299.1	336.6
P/E	-714.4	33.0	25.9	16.6
P/BV	3.0	2.8	2.1	1.9
P/ABV	4.0	3.3	2.4	2.2
Yields & Margins (%)				
Net Interest Margins	3.4	3.4	3.3	3.4
Yield on assets	8.3	8.6	8.7	8.8
Avg. cost on funds	4.8	5.1	5.3	5.3
Yield on average advances	8.4	8.9	9.2	9.3
Avg. Cost of Deposits	4.4	5.1	5.4	5.5
Quality and Efficiency				
Cost to income ratio	47	45	42	39
Credit/Deposit ratio	96.9	90.2	90.2	90.9
GNPA	6.9	5.3	4.6	4.0
NNPA	3.8	2.3	2.1	1.9
ROE	-0.4	8.7	9.7	12.1
ROA	(0.0)	0.8	0.9	1.2

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	513	514	567	567
Reserves and Surplus	62924	67182	96300	107765
Networth	63438	67696	96867	108332
Deposits	453623	548471	636251	744690
Borrowings	148016	152776	168951	189578
Other Liabilities & Provision	26245	33073	41515	51140
Total	691322	802016	943584	1093740
Application of Funds				
Fixed Assets	3972	4037	4772	5675
Investments	153876	174969	195715	218966
Advances	439650	494798	573966	677280
Other Assets	45111	61007	91225	101370
Cash with RBI & call mone	48713	67205	77906	90450
Total	691322	802016	943584	1093740

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets				
Total assets	14.9	16.0	17.7	15.9
Advances	17.8	12.5	16.0	18.0
Deposit	9.5	20.9	16.0	17.0
Total Income	0.9	20.0	17.1	16.8
Net interest income	2.9	16.6	13.4	18.9
Operating expenses	14.7	13.2	4.9	8.8
Operating profit	-11.3	21.9	21.2	24.5
Net profit	-107.1	-2268.1	40.5	55.7
Net worth	13.8	6.7	43.1	11.8
EPS	(106.7)	(2,263.8)	27.5	55.7

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E	FY18	FY19	Y20E
Bank of Baroda (BANBAR)	105	140	Buy	40,410	-9.2	7.7	18.5	-11.4	13.6	5.7	0.9	1.3	1.0	-0.3	0.4	0.6	-5.8		9.7			
State Bank of India (STABAN)	329	400	Buy	293,173	-7.3	1.0	27.2	-45.0	339	12.1	2.7	2.3	1.7	-0.2	0.0	0.7	-3.0	0.5	12.3			
Indian Bank (INDIBA)	184	300	Buy	9,057	26.2	6.7	25.2	7.0	27.5	7.3	0.8	0.8	0.7	0.5	0.1	0.4	7.1	1.7	6.1			
Axis Bank (AXIBAN)	680	850	Buy	178,088	-1.0	22.2	28.3	-664.0	30.7	24.1	3.7	3.1	2.3	0.0	0.8	0.9	0.0	0.8	0.9			
City Union Bank (CITUNI)	193	240	Buy	14,191	8.9	9.3	10.3	21.7	20.8	18.7	3.5	3.3	2.8	1.6	1.6	1.6	15.5	15.3	14.7			
DCB Bank (DCB)	194	250	Buy	6,011	7.8	10.5	12.6	24.7	18.4	15.4	2.5	2.2	2.0	0.9	1.0	1.0	10.9	12.1	12.9			
Federal Bank (FEDBAN)	92	125	Buy	18,261	4.5	6.3	7.7	20.6	14.7	11.9	1.7	1.6	1.4	0.7	0.8	0.9	8.2	9.8	11.1			
HDFC Bank (HDFBAN)	2,248	2,400	Hold	614,705	67.4	77.4	93.7	33.4	29.0	24.0	5.6	4.2	3.7	1.8	1.8	1.9	17.9	16.5	16.0			
IndusInd Bank (INDBA)	1,384	1,550	Hold	95,870	60.1	55.0	92.3	23.0	25.2	15.0	3.6	3.4	2.8	1.8	1.3	1.8	16.2	13.1	19.0			
Jammu & Kashmir Bk(JAMKAS)	35	53	Hold	1,924	3.6	8.3	14.7	9.5	4.1	2.3	0.6	0.6	0.5	0.2	0.5	0.7	3.4	7.3	11.8			
Kotak Mahindra Bank (KOTMAH)	1,502	1,500	Hold	286,718	21.4	25.5	30.4	70.1	58.9	49.4	8.0	7.0	6.2	1.7	1.7	1.7	12.5	12.1	12.7			
Yes Bank (YESBAN)	90	UR	UR	20,755	18.3	6.4	5.8	4.9	14.0	15.4	0.8	0.9	1.0	1.7	0.4	0.4	17.6	5.6	5.5			
Bandhan Bank (BANBAN)	478	650	Buy	57,018	11.3	16.4	22.0	7.9	5.5	4.1	1.2	1.0	0.8	3.6	3.9	4.0	19.5	19.0	21.1			

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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