

Stable performance, trending as expected...

Slippages increased to ₹ 415 crore vs. ₹ 256 crore in Q4FY19, largely led by stress in retail & SME book. Within retail, majority of stress was witnessed in home state Kerala on the back of stress post moratorium. However, the management expects a swift recovery. The bank had exposure of ~₹ 245 crore to three SPV of IL&FS out of which exposure to one SPV worth ₹ 32 crore has been downgraded & balance exposure still stays standard. Overall higher slippages led to QoQ increase in absolute GNPA to ₹ 3394 crore and GNPA ratio by ~7 bps to 2.99%. Credit cost for the quarter was at 17 bps. The management is confident of containing it below 60 bps for FY20.

Operational performance came in healthy at 30% YoY to ₹ 783 crore, led by higher other income at ₹ 392 crore (~45% YoY). However, NII growth came in at 18% YoY to ₹ 1154 crore, lower compared to our estimate. Margins improved 3 bps excluding one off of 5 bps in margins in Q4FY19. As of Q1FY20, margins were at 3.15%. Led by higher slippages in the quarter, provisions increased 8% QoQ, to ₹ 192 crore, while stable YoY. Accordingly, PAT was at ₹ 384 crore, up 46% YoY, largely in line with our estimates.

Advance growth came in lower at ~19% YoY to ₹ 113717 crore. However, growth run rate was a bit slower compared to previous run rate. This growth was driven by traction in retail (26% YoY to ₹ 32797 crore) and corporate segment (~18% YoY to ₹ 48211 crore). Growth in SME segment was a bit slower. Deposit grew ~19% YoY to ₹ 132537 crore, with strong growth in CA deposit. However, accretion in SA deposit remained subdued.

Growth, operating leverage, steady credit cost to drive RoA

The management remains confident on the growth trajectory of the bank. We expect credit growth to continue at ~21% CAGR in FY19-21E. This growth is to be driven by retail franchise while the stance on commercial banking remains cautious. Stable CASA at current level of ~32-34% is expected to keep margins at ~3.1%. Utilising existing infrastructure for growth, focus on granular business and negligible exposure to stressed groups would enable strengthening of opex as well as credit cost ahead. These multiple levers are expected to plough improvement in return ratio ahead. The management has guided for ~250 bps improvement in CI ratio in the next two years and achieve exit RoA of 1.25% by FY21E.

Valuation & Outlook

A strategic focus on improving retail business, digital experience and reducing stress will continue to aid healthy performance, going ahead. Return ratios are seen improving led by margin expansion, operating leverage and stable asset quality. Overall, the bank is on the path towards building strong sustainable earnings. We maintain our positive stance on the stock with a **BUY** rating and an unchanged target price of ₹ 125 per share, valuing the stock at ~1.7x FY21E ABV.



Particulars	Amount
Market Capitalisation	₹ 20716 crore
GNPA (Q1FY20)	₹ 3395 crore
NNPA (Q1FY20)	₹ 1673 crore
NIM (Q1FY20)	3.15%
52 week H/L	110 /67
Net Worth	₹ 13661 Crore
Face value	₹ 2
DII Holding (%)	29.7
FII Holding (%)	37.2

Key Highlights

- Steady operating profits & provisions keep earnings healthy
- Management confident of achieving 1.25% exit RoA by FY21E, which is not factored by us
- Exposure to stressed assets remain minimal
- Maintain **BUY** with unchanged target price of ₹ 125

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Key Financial Summary

₹ Crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	3,048	3,583	4,368	4,953	5,804	15.3%
PPP	1,919	2,291	2,741	3,288	3,835	18.3%
PAT	831	880	1,246	1,534	1,789	19.8%
ABV (₹)	47.5	54.1	58.6	64.7	71.0	
P/E	18.7	20.2	14.4	11.6	10.0	
P/ABV	1.9	1.7	1.5	1.4	1.3	
RoA (%)	0.8	0.7	0.8	0.9	0.9	
RoE (%)	9.5	8.2	9.8	11.1	11.8	

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
NII	1,154	1,186	980	17.8	1,097	5.3	Muted credit growth impacted NII growth
NIM (%)	3.15	3.17	3.12	3 bps	3.17	-2 bps	Margins in previous quarter included one off from interest on I-T return. Adjusting one-off, margins improved by 3 bps QoQ
Other Income	392	366	271	44.5	412	-4.9	Core fee income grew 25% YoY. Strong growth in comission & treasury book aided other income
Net Total Income	1,546	1,551	1,251	23.6	1,508	2.5	
Staff cost	398	397	345	15.3	370	7.5	
Other Operating Expense:	365	364	303	20.5	383	-4.8	
PPP	783	791	603	29.8	755	3.7	
Provision	192	184	199	-3.6	178	8.0	
PBT	591	607	404	46.3	577	2.4	
Tax Outgo	207	213	141	46.4	195	5.6	
PAT	384	395	263	46.3	382	0.7	Healthy operational performance coupled with steady provision aided PAT, largely in line with our estimates
Key Metrics							
GNPA	3,395	3,424	2,869	18.3	3,261	4.1	Fresh slippages came in at ₹ 415 crore led by retail & SME
NNPA	1,673	1,732	1,620	3.2	1,626	2.9	
Total Restructured asset:	1,064	9,600	1,144	-7.0	9,550	-88.9	
Credit	113,717	114,921	95,515	19.1	110,223	3.2	Advance growth at 19% YoY, marginally lower than previous run rate. SME segment remained lower
Deposit	132,537	136,089	111,242	19.1	134,954	-1.8	CASA ratio declined 71 bps QoQ to 31.44% on the back of slower SA growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	4,998	4,953	-0.9	5,970	5,804	-2.8
Pre Provision Profit	3,333	3,288	-1.4	4,000	3,835	-4.1
NIM(%) (calculated)	3.2	3.1	-1 bps	3.2	3.1	-5 bps
PAT	1,531	1,534	0.2	1,861	1,789	-3.9
ABV per share (₹)	64.7	64.7	0.0	71.2	71.0	-0.4

Source: Company, ICICI Direct Research

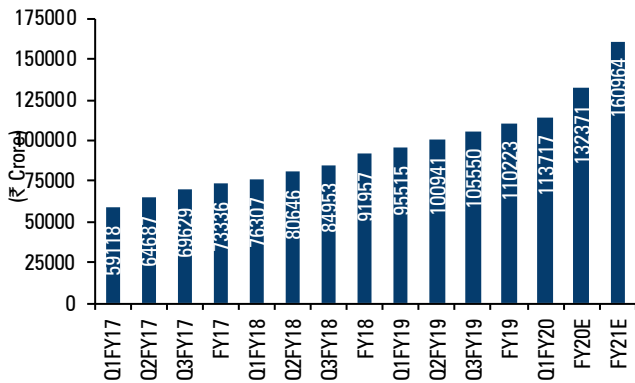
Exhibit 3: Assumption

	Current				Earlier		
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	26.3	25.4	19.9	20.1	21.6	21.9	22.0
Deposit Growth (%)	23.4	14.7	20.5	17.9	19.1	18.6	19.1
CASA ratio (%)	32.6	33.3	32.4	33.5	34.9	33.9	35.3
NIM Calculated (%)	3.2	3.1	3.1	3.1	3.1	3.2	3.2
Cost to income ratio (%)	53.5	51.7	50.0	49.1	48.8	48.8	47.8
GNPA (₹ crore)	1,726	2,793	3,260	3,393	3,554	3,395	3,559
NNPA (₹ crore)	939	1,556	1,626	1,632	1,802	1,632	1,806
Slippage ratio (%)	1.9	2.7	1.5	1.0	1.0	1.0	1.0
Credit cost (%)	0.8	1.0	0.8	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

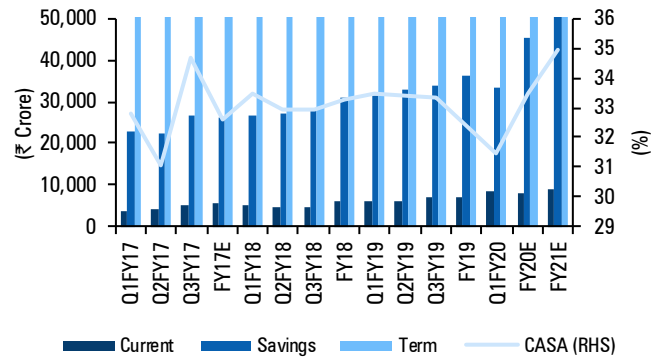
Story in Charts

Exhibit 4: Credit growth seen at ~21% CAGR in FY19-21E



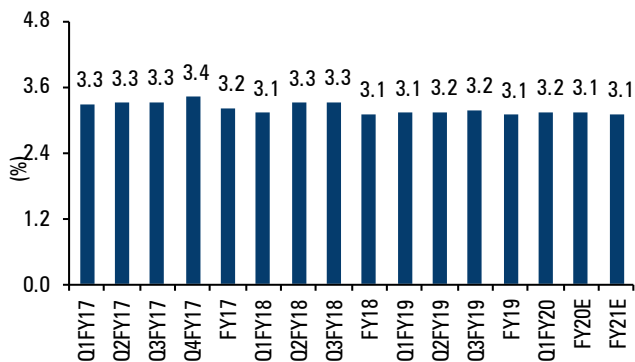
Source: Company, ICICI Direct Research

Exhibit 5: CASA to remain broadly at 32-34% level



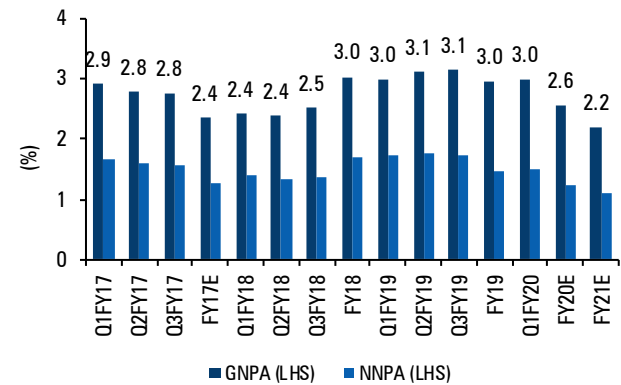
Source: Company, ICICI Direct Research

Exhibit 6: Stable CASA to keep margin steady at ~3.1%



Source: Company, ICICI Direct Research

Exhibit 7: Asset quality seen stable ahead



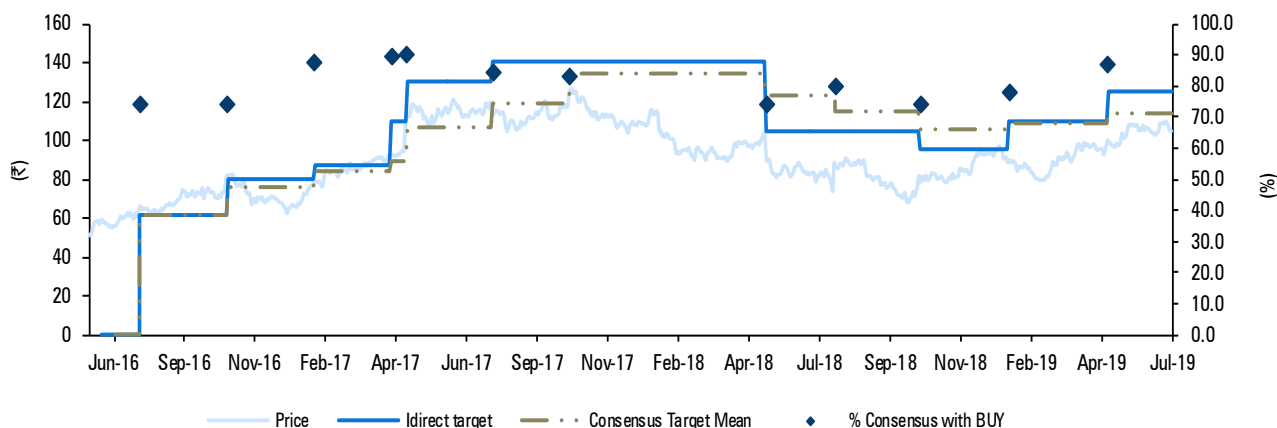
Source: Company, ICICI Direct Research

Exhibit 8: Growth, operating leverage & steady credit cost to drive RoA

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net interest income/ avg total assets	3.0	2.8	2.9	2.8	2.8	2.9	2.9
Non-interest income/ avg total assets	1.1	0.9	1.0	0.9	0.9	0.9	0.8
Net total income/ avg total assets	4.1	3.7	3.9	3.7	3.7	3.7	3.7
Operating expenses/ avg total assets	2.1	2.1	2.1	1.9	1.9	1.8	1.8
Operating profit/ avg total assets	2.1	1.6	1.8	1.8	1.9	1.9	1.9
Provisions/ avg total assets	0.1	0.8	0.6	0.7	0.6	0.6	0.6
Return on avg assets	1.3	0.5	0.8	0.7	0.8	0.9	0.9
Leverage (avg assets/ avg equity) (x)	10.7	11.1	12.0	11.9	11.7	12.4	13.3
Return on equity	13.7	5.9	9.5	8.2	9.8	11.1	11.8

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	East Bridge Capital Management L.P.	31-03-2019	4.33%	86.07M	0
2	Veetil (Yusuffal Musaliam AB)	31-03-2019	3.77%	74.83M	0
3	Reliance Nippon Life Asset Management Limited	31-05-2019	3.37%	66.92M	-1.57M
4	Jhunjhunwala (Rakesh Radheshyam)	31-03-2019	3.33%	66.22M	-1.25M
5	ICICI Prudential Asset Management Co. Ltd.	31-05-2019	3.17%	63.02M	-1.08M
6	HDFC Asset Management Co., Ltd.	31-05-2019	3.11%	61.83M	+10.07M
7	The Vanguard Group, Inc.	31-05-2019	2.43%	48.35M	+1.49M
8	Amansa Capital Pte Ltd.	31-03-2019	2.37%	47.16M	0
9	Life Insurance Corporation of India	31-03-2019	2.31%	45.80M	+5.46M
10	Aditya Birla Sun Life AMC Limited	31-05-2019	2.23%	44.26M	+0.97M

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
First State Investments (Singapore)	+40.55M	+30.25M	First State Investments (U.K.) Ltd	-50.49M	-36.22M
Kotak Mahindra Asset Management Company Ltd.	+32.58M	+23.37M	Goldman Sachs Asset Management International	-10.95M	-7.85M
HDFC Asset Management Co., Ltd.	+15.54M	+10.07M	Macquarie Funds Management Hong Kong Ltd.	-9.21M	-7.60M
Life Insurance Corporation of India	+7.61M	+5.46M	Mirae Asset Global Investments (India) Pvt. Ltd.	-8.71M	-5.64M
Norges Bank Investment Management (NBIM)	+5.78M	+4.14M	CPP Investment Board	-6.65M	-4.77M

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	-	-	-	-
FII	38.0	37.4	38.0	37.2
DII	27.0	30.8	31.0	29.7
Others	35.0	31.8	31.0	33.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Interest Earned	9,752.6	11,418.2	13,368.6	15,727.5
Interest Expended	6170.0	7243.1	8415.4	9923.2
Net Interest Income	3,582.6	4,175.1	4,953.2	5,804.2
growth (%)	17.5	16.5	18.6	17.2
Non Interest Income	1159.1	1350.9	1507.9	1688.7
Fees and advisory	636.0	763.2	877.7	1026.9
Trading Gains	238.0	249.9	262.4	267.6
Other income	285.1	337.8	367.8	394.1
Net Income	4741.7	5526.0	6461.1	7492.9
Staff cost	1242.5	1377.4	1519.7	1675.2
Other operating Expense	1208.3	1386.0	1653.5	1983.2
Operating Profit	2290.9	2762.6	3287.9	3834.6
Provisions	943.7	855.9	963.5	1123.8
PBT	1347.2	1906.7	2324.4	2710.7
Taxes	467.5	663.4	790.3	921.6
Net Profit	879.7	1,243.3	1,534.1	1,789.1
growth (%)	5.8	41.3	23.4	16.6
EPS (₹)	4.5	6.3	7.7	9.0

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	197.0	198.5	198.5	198.5
EPS (₹)	4.5	6.3	7.7	9.0
BV (₹)	62.0	66.8	72.9	80.1
ABV (₹)	54.1	58.6	64.7	71.0
P/E	20.2	14.4	11.6	10.0
P/BV	1.5	1.3	1.2	1.1
P/ABV	1.7	1.5	1.4	1.3
Yields & Margins (%)				
Net Interest Margins	3.1	3.1	3.1	3.1
Yield on assets	8.5	8.4	8.5	8.4
Avg. cost on funds	5.5	5.5	5.5	5.5
Yield on average advances	9.1	9.0	9.2	9.2
Avg. Cost of Deposits	5.2	5.2	5.3	5.3
Quality and Efficiency (%)				
Cost to income ratio	51.7	50.0	49.1	48.8
Credit/Deposit ratio	82.1	81.7	83.2	84.9
GNPA	3.0	3.0	2.6	2.2
NNPA	1.7	1.5	1.2	1.1
RoE	8.2	9.8	11.1	11.8
RoA	0.7	0.8	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	394	397	397	397
Reserves and Surplus	11816	12876	14088	15501
Networth	12210	13273	14485	15898
Deposits	111990	134954	159112	189495
Borrowings	11540	7782	8430	8841
Other Liabilities & Provisions	2576	3325	3919	4606
Total	138316	159334	185946	218840
Application of Funds				
Fixed Assets	455	472	570	697
Investments	30781	31824	34359	38424
Advances	91958	110224	132371	160964
Other Assets	7151	6747	7749	6949
Cash with RBI & call money	7971	10067	10896	11807
Total	138316	159334	185946	218840

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total assets	20.1	15.2	16.7	17.7
Advances	25.4	19.9	20.1	21.6
Deposit	14.7	20.5	17.9	19.1
Total Income	11.8	17.0	16.5	17.1
Net interest income	17.5	16.5	18.6	17.2
Operating expenses	10.9	12.8	14.8	15.3
Operating profit	19.4	20.6	19.0	16.6
Net profit	5.8	41.3	23.4	16.6
Net worth	33.5	8.7	9.1	9.8

Source: Company, ICICI Direct Research

Exhibit 17: 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)	125	170	Buy	48,123	-9.2	7.7	18.5	-13.6	16.2	6.8	1.0	1.5	1.2	-0.3	0.4	0.6	-5.8						9.7	
State Bank of India (STABAN)	368	400	Buy	328,515	-7.3	1.0	27.2	-50.5	379	13.5	3.0	2.6	1.9	-0.2	0.0	0.7	-3.0	0.5	12.3					
Indian Bank (INDIBA)	235	300	Buy	11,549	26.2	6.7	25.2	9.0	35.0	9.3	1.0	1.0	0.9	0.5	0.1	0.4	7.1	1.7	6.1					
Axis Bank (AXIBAN)	758	880	Buy	198,474	-1.0	22.2	37.5	-740.1	34.2	20.2	4.2	3.5	3.0	0.0	0.8	1.1	0.0	0.8	1.1					
City Union Bank (CITUNI)	208	240	Buy	15,303	8.9	9.3	10.3	23.4	22.4	20.2	3.8	3.5	3.0	1.6	1.6	1.6	15.5	15.3	14.7					
DCB Bank (DCB)	209	250	Buy	6,473	7.8	10.5	12.6	26.6	19.8	16.6	2.6	2.4	2.1	0.9	1.0	1.0	10.9	12.1	12.9					
Federal Bank (FEDBAN)	104	125	Buy	20,634	4.5	6.3	7.7	23.3	16.6	13.4	1.9	1.8	1.6	0.7	0.8	0.9	8.2	9.8	11.1					
HDFC Bank (HDFBAN)	2,410	2,700	Buy	658,526	67.4	77.4	97.9	35.8	31.1	24.6	6.0	4.5	3.9	1.8	1.8	2.0	17.9	16.5	16.7					
IndusInd Bank (INDBA)	1,479	1,550	Hold	102,448	60.1	55.0	92.3	24.6	26.9	16.0	3.8	3.6	3.0	1.8	1.3	1.8	16.2	13.1	19.0					
Jammu & Kashmir Bk(JAMKAS)	39	53	Hold	2,183	3.6	8.3	14.7	10.8	4.7	2.7	0.6	0.6	0.6	0.2	0.5	0.7	3.4	7.3	11.8					
Kotak Mahindra Bank (KOTMAH)	1,543	1,500	Hold	294,600	21.4	25.5	30.4	72.0	60.5	50.8	8.2	7.2	6.4	1.7	1.7	1.7	12.5	12.1	12.7					
Yes Bank (YESBAN)	101	UR	UR	23,409	18.3	8.4	13.3	5.5	12.0	7.6	1.0	1.0	0.8	1.6	0.6	0.9	17.6	7.3	10.9					
Bandhan Bank (BANBAN)	547	725	Buy	65,244	11.3	16.4	22.0	8.9	6.2	4.6	1.3	1.1	0.9	3.6	3.9	4.0	19.5	19.0	21.1					

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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