

# Federal Bank

## Challenges more than factored in

FB's 4QFY20 PAT was below estimates due to higher opex and provisions. We've cut our earnings to factor in (1) NIM compression as the fall in yields is likely to outstrip any CoF reduction given the significant proportion of floating rate loans and (2) higher provisions, given low PCR and extrinsic factors. Depressed RoAEs in the near term with a gradual recovery cause us to assign a measly multiple (0.8x). Maintain BUY with a TP of Rs 62. A strong liability franchise and valuations underpin our stance.

- Asset quality:** GNPA's (Rs 35.3bn, 2.84%) were 2.4% lower QoQ as slippages dipped 52.9% QoQ to Rs 2.84bn (94bps ann.). However, (1) there appears to be an element of seasonality and, (2) the standstill classification had a 23/100bps cushioning impact on GNPLs and slippages. While w/os were 47.9% lower QoQ, they were significantly higher than FB's usual run rate. The mgt hinted at some corp stress on the horizon (\$20mn to a middle eastern co. - std. for now). We have increased our slippages to 2.6% for FY21E factor in the impact of the prolonged COVID-19 related disruptions.
- Deposits:** At 12.8/5.3%, FB saw reasonable deposit traction, led by term deposits at ~16/7% and more specifically NRE deposits. Retail deposits grew 4% QoQ. As per latest regulatory filings, the bank's deposits from retail and small business customers are 85.2% of overall deposits- one of the highest in the banking industry. Further, the bank saw deposits grow ~2-2.5% in 1QFY21 so far (led by retail deposits), vs. a decline seen in earlier years.
- Loans:** At 10.9/2.6%, loan growth expectedly slowed and this trend was broad-based. The mgt indicated that the bank lost out on ~Rs 10bn of corporate and ~Rs 4-5bn of retail disbursements towards the year end. Retail loans remained the fastest growing segment of the bank's book, at 19.3/3.6% and constituted 30.5% of the book. For now, the bank is considering incremental gold loans (a peer bank's mgt has suggested the same), selective corporate lending and cross-selling to existing retail customers. We've reduced our growth estimates further, to ~10% over FY20-22E.
- Management commentary on COVID-19:** (1) 35% of the bank's portfolio as at 25-May-20 is under moratorium, (~65% in case of SME loans) (2) at its peak, ~38% of the bank's book was under moratorium, (3) the bank put 5-7% of its retail moratorium portfolio under the 'high-risk' category, (4) Rs 160-180bn of FB's portfolio is eligible under the NCGTC scheme and the bank intends to lend ~Rs 20bn under the scheme, and (5) the mgt puts overall LGDs between 38-40% (higher for corp and lower for retail loans).

### Financial summary

(Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY20	QoQ (%)	FY19	FY20P	FY21E	FY22E
Net Interest Income	12,160	10,965	10.9%	11,549	5.3%	41,763	46,489	48,888	53,182
PPOP	9,593	7,548	27.1%	7,438	29.0%	27,631	32,047	31,694	34,604
PAT	3,012	3,815	-21.0%	4,406	-31.6%	12,439	15,428	11,856	15,466
EPS (Rs)	1.5	1.9	-21.3%	2.2	-31.7%	6.3	7.7	6.0	7.8
ROAE (%)						9.8	11.1	7.9	9.6
ROAA (%)						0.84	0.91	0.64	0.77
Adj. BVPS (Rs)						58.7	64.8	66.6	76.0
P/ABV (x)						0.73	0.66	0.64	0.56
P/E (x)						6.8	5.5	7.2	5.5

Source: Bank, HSIE Research

## BUY

CMP (as on 28May 2020)	Rs 43	
Target Price	Rs 62	
NIFTY	9,490	
KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 71	Rs 62
EPS %	FY21E	FY22E
	-28.2%	-9.2%

### KEY STOCK DATA

Bloomberg code	FB IN
No. of Shares (mn)	1,992
MCap (Rs bn) / (\$ mn)	851/1,079
6m avg traded value (Rs mn)	1,050
52 Week high / low	Rs 110/36

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(53.9)	(53.2)	(62.1)
Relative (%)	(33.4)	(30.2)	(41.7)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	-	-
FIs & Local MFs	38.0	37.1
FPIs	32.5	33.3
Public & Others	29.5	29.6
Pledged Shares	0.0	0.0

Source : BSE

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- Non-tax provisions** saw a sharp 219/253% rise to Rs 5.68bn, led by a 204/72% rise in NPL provisions. Consequently, calc. PCR rose ~810bps QoQ to 54.5% (highest in the last 19 qtrs), in line the mgt's intent to insulate the b/s against the potential impact of COVID-19. In furtherance of that intention, the bank provided Rs 302.6mn as per RBI requirements (10% of SMA 2) and Rs 630.3mn additionally (these were a part of std. asset provisions). Additional COVID-19 related provisions amount to ~11% of the overall SMA book. Given the bank's (1) low PCR, even after the substantial increase in 4Q, (2) low floating provisions, as indicated by mgt commentary, and (3) low additional provisions made vs. those made by other banks, we believe FB will need to make considerably higher provisions. We've increased our LLP estimates to 1.20% over FY21-22E.
- FB saw its **margins** expand slightly QoQ to 3.04% (-13bps YoY), aided by a 19/10bps fall in CoD as yields on advances dipped 19/9bps. In the near term, we believe FB, along with most banks is likely to see its NIMs compress. Given FB's significant floating rate book (~70%, of which ~25% is linked to the external benchmark rates), the fall in its yields is likely to outpace the fall in its CoF resulting in spread compression. Further, maintenance of a higher proportion of liquid assets (6.96% of assets, +24.9/-8.7%) and sluggish loan growth will limit NIMs. We build NIMs of ~2.9% over FY21-22E.
- Non- interest income** growth at 72.7/74.4% to Rs 7.11bn, was boosted by 4/4.7x increase in treasury gains to Rs 3.69bn. Core fee income (37.3% of other income) growth slowed to 12.8/4.3%.
- Even though business growth was muted, FB's **op-costs** grew 28.4/18.2%. This was led by a 40.2/25.1% to Rs 5.19bn, which incl. provisions of Rs 450mn related to wage negotiation and Rs 750mn related to the employee benefit. The large quantum of additional employee benefit provisions due to change in interest rates is unusual, given that benchmark yields have not fallen dramatically. The mgt indicated that ~Rs 10bn of opex is fixed. Other opex growth, at 17.1/11.0% too was elevated. Op-lev has been a bit of a challenge for the bank. The bank has not achieved any dramatic improvements in op-lev, despite not adding branches for the last several years. We expect a C-I ratio of 52.5% over FY21-22E.

#### Additional loan book details

Segment	Moratorium	SMA 0/1/2
Agri	31%	0.60%
Retail	38%	1.10%
Biz. banking	79%	1.20%
Comm. banking	53%	1.20%
Corporate	20%	0.20%
<b>Total</b>	<b>35%</b>	<b>0.70%</b>

Source: Bank, HSIE Research

38% of the HL/LAP portfolio was under moratorium

## Five quarters at a glance

Rs mn	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY Growth	QoQ Growth
<b>Income statement</b>							
<b>Net interest income</b>	10,965	11,542	11,238	11,549	12,160	10.9%	5.3%
Non-interest income	4,117	3,915	4,209	4,079	7,111	72.7%	74.4%
Treasury income	740	910	820	650	3,690	398.6%	467.7%
Operating income	15,083	15,457	15,447	15,628	19,271	27.8%	23.3%
Operating expenses	7,535	7,629	8,259	8,190	9,678	18.0%	18.2%
<b>PPOP</b>	<b>7,548</b>	<b>7,828</b>	<b>7,188</b>	<b>7,438</b>	<b>9,593</b>	<b>27.1%</b>	<b>29.0%</b>
Non-tax provision	1,778	1,920	2,518	1,609	5,675	219.3%	252.8%
NPA Provisions	1,370	1,730	1,750	2,420	4,170	204.4%	72.3%
<b>PBT</b>	<b>5,770</b>	<b>5,907</b>	<b>4,670</b>	<b>5,830</b>	<b>3,918</b>	<b>-32.1%</b>	<b>-32.8%</b>
Tax expenses	1,955	2,065	503	1,423	906	-53.7%	-36.3%
<b>PAT</b>	<b>3,815</b>	<b>3,842</b>	<b>4,167</b>	<b>4,406</b>	<b>3,012</b>	<b>-21.0%</b>	<b>-31.6%</b>
<b>Balance sheet items</b>							
Deposits (Rs bn)	1,350	1,325	1,395	1,446	1,523	12.8%	5.3%
CASA deposits (%)	32.2	31.4	31.5	31.5	30.5	-165 bps	-96 bps
Advances (Rs bn)	1,102	1,120	1,159	1,192	1,223	10.9%	2.6%
CD ratio (%)	81.7	84.5	83.0	82.5	80.3	-139 bps	-217 bps
CAR (%)	14.1	14.1	14.0	13.6	14.4	21 bps	71 bps
Tier I (%)	13.4	13.0	12.9	12.6	13.3	-9 bps	67 bps
<b>Profitability</b>							
Yields on advances (%)	9.37	9.55	9.33	9.27	9.18	-19 bps	-9 bps
Cost of deposits (%)	5.93	5.97	5.93	5.84	5.74	-19 bps	-10 bps
NIM (%)	3.17	3.15	3.01	3.00	3.04	-13 bps	4 bps
Cost-income ratio (%)	50.0	49.4	53.5	52.4	50.2	26 bps	-218 bps
Tax rate (%)	33.9	35.0	10.8	24.4	23.1	-1076 bps	-129 bps
<b>Asset quality</b>							
Gross NPA (Rs bn)	32.61	33.95	36.12	36.19	35.31	8.3%	-2.4%
w/w SME (Rs bn)	13.20	13.90	14.33	13.71	13.81	4.6%	0.7%
w/w agri (Rs bn)	4.70	5.17	5.54	5.65	5.67	20.6%	0.4%
w/w corp (Rs bn)	8.56	7.87	8.93	9.52	8.66	1.2%	-9.0%
w/w retail (Rs bn)	6.15	7.01	7.31	7.31	7.17	16.6%	-1.9%
Net NPA (Rs bn)	16.26	16.73	18.44	19.41	16.07	-1.2%	-17.2%
Gross NPAs (%)	2.92	2.99	3.07	2.99	2.84	-8 bps	-15 bps
Net NPAs (%)	1.48	1.49	1.59	1.63	1.31	-17 bps	-32 bps
Delinquency ratio (%)	0.95	1.56	2.00	2.05	0.94	-1 bps	-111 bps
PCR (% Calc.)	50.13	50.72	48.96	46.36	54.48	435 bps	812 bps
PCR (% Reported.)	67.16	67.41	66.16	66.38	72.48	532 bps	610 bps
Restructured book (%)	0.55	0.55	0.53	0.39	0.32	-22 bps	-6 bps

Treasury gains incl. One off gains of Rs 2.76bn

Retail fees grew ~14/12%, while, corp fee growth was muted at 8%

Opex growth was driven by a 40.2/25.1% growth in staff costs and other opex growth at 17.1/11.0%, too was elevated

FB made COVID-19 related provisions of ~Rs 932.9mn of which ~Rs 302.6mn were as per RBI requirements

FB saw strong retail deposit traction

~70% of FB's book is floating rate

The standstill classification had a 23/100bps cushioning impact on GNPLs and slippages.

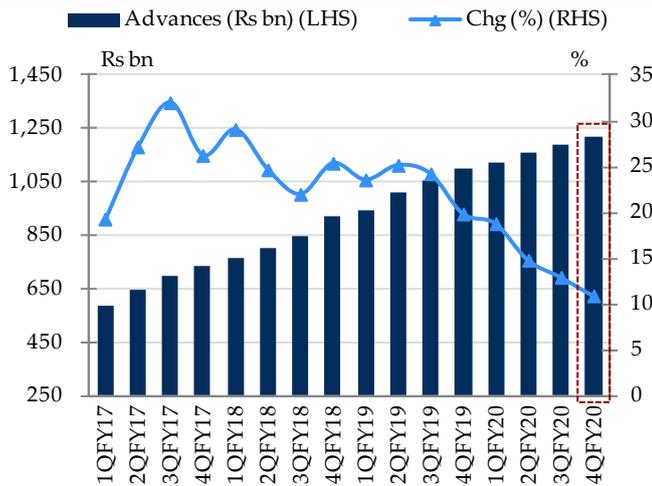
W/os were 47.9% lower QoQ

## Change In Estimates

Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
NII	50,748	48,888	-3.7%	55,951	53,182	-4.9%
PPOP	34,229	31,694	-7.4%	36,611	34,604	-5.5%
PAT	16,518	11,856	-28.2%	17,029	15,466	-9.2%
ABV (Rs)	66.8	66.6	-0.3%	76.8	76.0	-1.0%

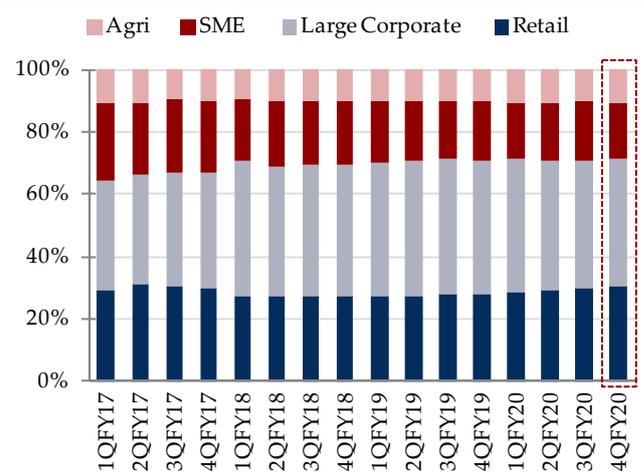
Source: HSIE Research

**Growth slows further to 10.9%**



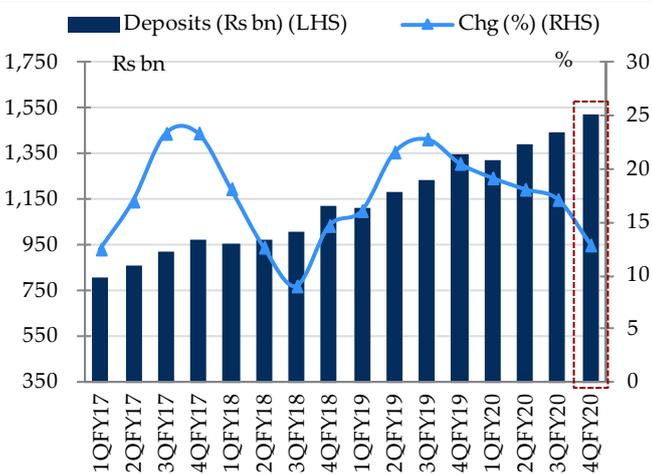
Source: Bank, HSIE Research

**Share of retail loans on the rise**



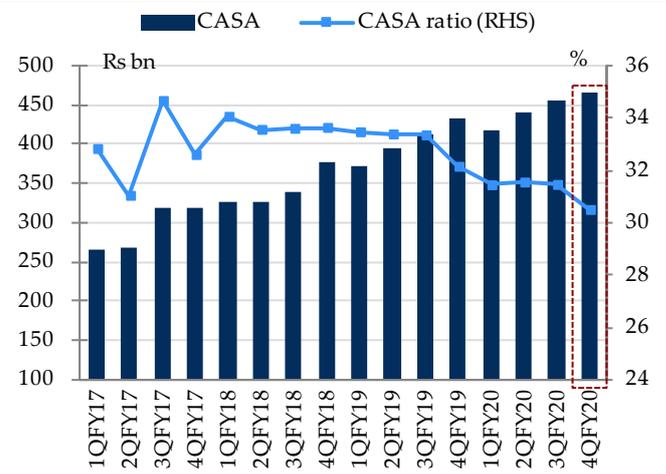
Source: Bank, HSIE Research

**Deposit growth remains ahead of loan growth**



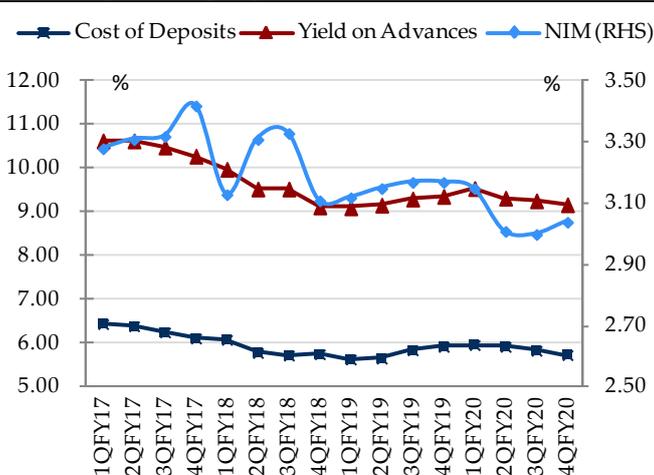
Source: Bank, HSIE Research

**CASA % dips QoQ**



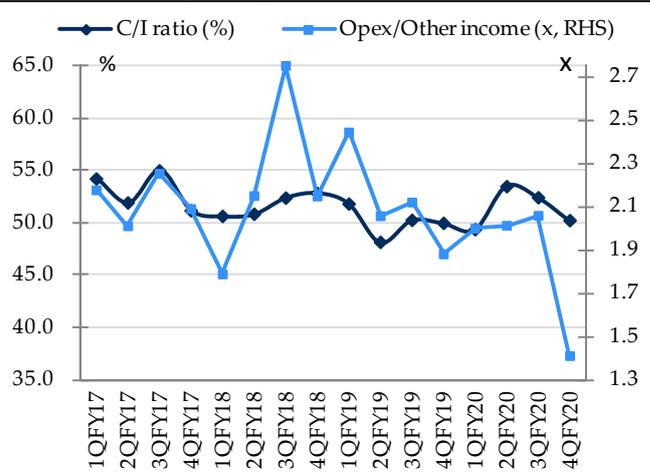
Source: Bank, HSIE Research

**NIMs expand slightly QoQ**



Source: Bank, HSIE Research

**C-I ratio falls optically, QoQ**



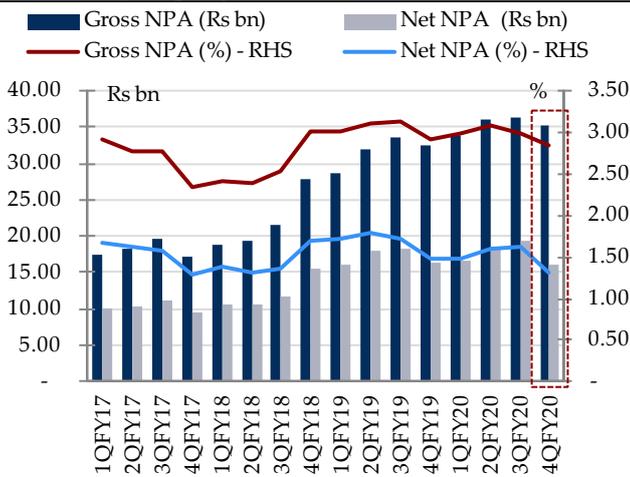
Source: Bank, HSIE Research

**Non-Interest Income: Boosted by treasury gains**

Rs mn	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Fee	1,010	1,250	1,150	1,250	1,260	1,710	1,460	1,540	1,540	1,820	1,600	2,000	2,060	2,350	2,180	2,520	2,540	2,650
% Avg Loans	0.78	0.90	0.78	0.81	0.75	0.96	0.78	0.78	0.74	0.82	0.69	0.82	0.80	0.87	0.78	0.88	0.86	0.88
FX	190	370	270	270	330	410	340	410	390	560	470	610	740	540	430	640	560	760
Treasury	230	410	830	860	860	540	1,120	750	290	220	490	510	550	740	910	820	650	3,690
Recovery	410	230	130	240	180	160	370	170	70	540	140	110	110	490	400	220	320	10
<b>Total</b>	<b>1,833</b>	<b>2,363</b>	<b>2,370</b>	<b>2,616</b>	<b>2,633</b>	<b>2,821</b>	<b>3,291</b>	<b>2,872</b>	<b>2,286</b>	<b>3,142</b>	<b>2,709</b>	<b>3,229</b>	<b>3,456</b>	<b>4,117</b>	<b>3,915</b>	<b>4,209</b>	<b>4,079</b>	<b>7,111</b>
Chg % (YoY)	-17%	-23%	22%	44%	44%	19%	39%	10%	-13%	11%	-18%	12%	51%	31%	45%	30%	18%	73%

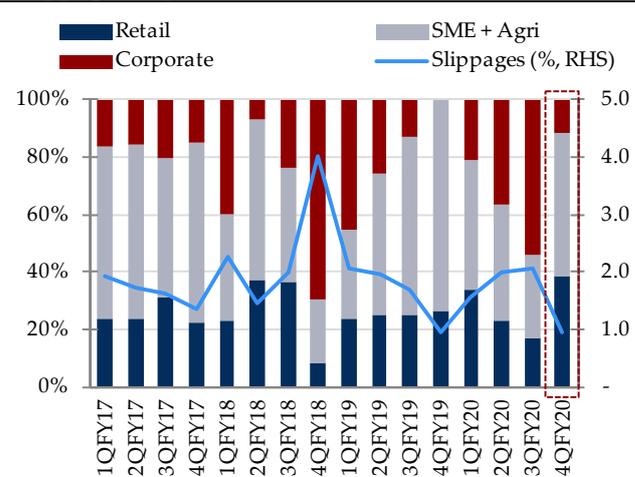
Source: Bank, HSIE Research

**GNPAs dip slightly QoQ**



Source: Bank, HSIE Research

**Slippages dip QoQ**



Source: Bank, HSIE Research

**GNPA Movement: Slippages and w/os dip sharply**

Rs mn	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Opening	16,678	17,473	18,197	19,516	17,271	18,680	19,489	21,612	27,957	28,687	31,847	33,607	32,607	33,947	36,117	36,197
Slippages	2,830	2,660	2,730	2,440	4,250	2,840	4,110	8,917	4,820	4,820	4,350	2,560	4,340	5,710	6,030	2,840
Ann. (%)	1.93	1.72	1.63	1.37	2.27	1.45	1.99	4.03	2.07	1.98	1.69	0.95	1.56	2.00	2.05	0.94
Recoveries	1,100	1,146	1,110	1,500	1,381	1,528	1,987	2,388	2,460	1,550	2,400	3,230	2,020	2,230	2,630	2,270
W/Os	930	790	460	180	1,460	502	-	184	1,630	110	190	330	980	1,310	3,320	1,730
<b>Closing</b>	<b>17,478</b>	<b>18,197</b>	<b>19,357</b>	<b>20,276</b>	<b>18,680</b>	<b>19,489</b>	<b>21,612</b>	<b>27,957</b>	<b>28,687</b>	<b>31,847</b>	<b>33,607</b>	<b>32,607</b>	<b>33,947</b>	<b>36,117</b>	<b>36,197</b>	<b>35,037</b>

Source: Bank, HSIE Research

## Slippages Break Up: Sharp dip in corp slippages

Rs mn	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Retail	670	630	860	550	970	1,060	1,500	700	1,090	1,200	1,080	670	1,410	1,240	1,010	970
SME	1,340	1,350	1,190	1,220	1,140	1,070	1,220	1,420	900	1,690	1,920	970	1,190	1,460	1,210	900
Corp	450	420	550	370	1,690	200	980	6,040	2,070	1,230	560	-	880	1,990	3,210	290
Agri	340	260	140	300	450	510	420	560	540	650	710	920	670	720	500	360

Source: Bank, HSIE Research

## Segment-wise GNPL (Rs bn): Dip across most segments

Rs bn	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
SME	7.24	8.28	9.01	8.55	8.90	9.48	10.57	11.34	10.62	12.13	13.40	13.20	13.90	14.33	13.71	13.81
Agri	1.65	1.56	1.58	1.70	2.11	2.42	2.66	2.91	3.25	3.67	3.67	4.70	5.17	5.54	5.65	5.67
Corp	5.23	5.47	5.25	3.54	3.51	2.57	2.68	8.43	8.87	9.79	9.79	8.56	7.87	8.93	9.52	8.66
Retail	3.12	3.11	3.68	3.48	4.15	5.01	5.69	5.27	5.95	6.25	6.58	6.15	7.01	7.31	7.31	7.17
<b>Total</b>	<b>17.24</b>	<b>18.42</b>	<b>19.52</b>	<b>17.27</b>	<b>18.67</b>	<b>19.48</b>	<b>21.60</b>	<b>27.95</b>	<b>28.69</b>	<b>31.84</b>	<b>33.44</b>	<b>32.61</b>	<b>33.95</b>	<b>36.11</b>	<b>36.19</b>	<b>35.31</b>

Source: Bank, HSIE Research

## Segment-wise GNPL (%): QoQ dip across most segments

(%)	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
SME	5.04	5.54	5.52	5.23	5.56	5.37	5.72	6.02	5.68	6.21	6.65	6.26	6.64	6.58	5.99	6.09
Agri	2.56	2.30	2.33	2.27	2.75	2.88	3.03	3.18	3.35	3.61	3.46	4.11	4.39	4.48	4.53	4.40
Corp	2.53	2.44	2.06	1.30	1.01	0.74	0.71	2.08	2.07	2.12	2.04	1.80	1.63	1.84	1.93	1.71
Retail	1.79	1.56	1.73	1.60	1.87	2.15	2.34	2.05	2.28	2.25	2.21	1.94	2.14	2.10	2.00	1.89
<b>Total</b>	<b>2.93</b>	<b>2.87</b>	<b>2.79</b>	<b>2.37</b>	<b>2.32</b>	<b>2.32</b>	<b>2.42</b>	<b>2.97</b>	<b>2.95</b>	<b>3.07</b>	<b>3.08</b>	<b>2.92</b>	<b>2.99</b>	<b>3.07</b>	<b>2.99</b>	<b>2.84</b>

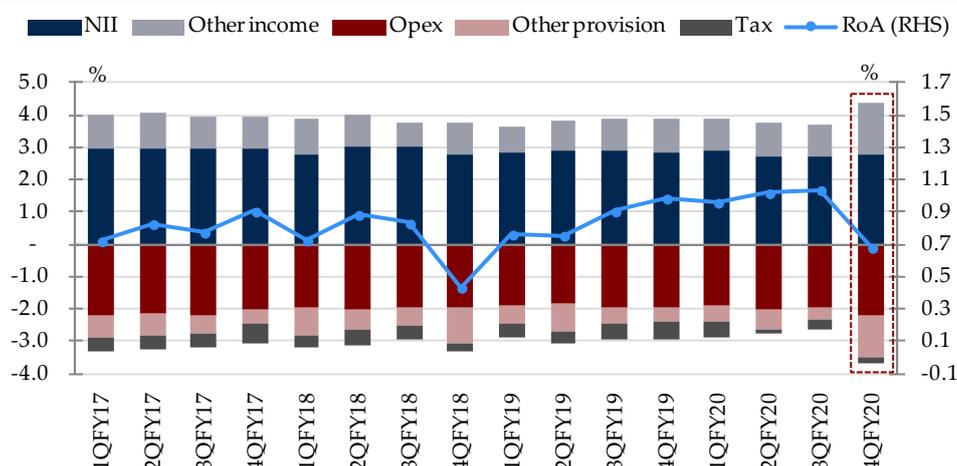
Source: Bank, HSIE Research

## Stressed book dips QoQ

Rs bn	1Q FY17	2Q FY17	3Q FY17	4Q FY17	1Q FY18	2Q FY18	3Q FY18	4Q FY18	1Q FY19	2Q FY19	3Q FY19	4Q FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20
Std. Restructured	13.5	14.9	14.5	12.8	13.3	13.4	14.3	7.9	5.8	5.8	6.4	6.0	6.2	6.1	4.6	4.0
NNPA	10.0	10.4	11.0	9.4	10.6	10.7	11.6	15.5	16.2	18.0	18.2	16.3	16.7	18.4	19.4	16.1
Net SR	6.2	6.1	5.8	7.5	8.0	7.9	7.8	5.5	4.8	4.1	3.9	3.5	3.3	3.2	2.9	2.4
<b>Total</b>	<b>29.6</b>	<b>31.4</b>	<b>31.4</b>	<b>29.7</b>	<b>31.9</b>	<b>32.0</b>	<b>33.6</b>	<b>28.9</b>	<b>26.8</b>	<b>27.8</b>	<b>28.6</b>	<b>25.8</b>	<b>26.2</b>	<b>27.7</b>	<b>26.9</b>	<b>22.4</b>
% of Loans	5.00	4.85	4.51	4.05	4.18	3.96	3.95	3.14	2.84	2.76	2.70	2.34	2.34	2.39	2.26	1.83

Source: Bank, HSIE Research

## Provisions dent return ratios



Source: Bank, HSIE Research

## Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AUBANK	120	396	ADD	549	124	137	163	19.3	19.0	15.6	3.08	2.79	2.35	16.6	13.3	14.1	1.61	1.35	1.39
AXSB	1,103	391	BUY	541	268	292	341	64.5	11.3	8.5	1.39	1.27	1.08	2.1	10.4	12.4	0.19	0.98	1.20
CUBK	95	129	BUY	176	66	72	83	12.5	12.6	11.7	1.95	1.78	1.55	14.6	12.7	12.1	1.61	1.47	1.43
DCBB	19	62	ADD	100	93	94	114	5.7	6.4	5.0	0.67	0.66	0.55	10.3	8.5	9.9	0.91	0.76	0.89
<b>FB</b>	<b>85</b>	<b>43</b>	<b>BUY</b>	<b>62</b>	<b>65</b>	<b>67</b>	<b>76</b>	<b>5.5</b>	<b>7.2</b>	<b>5.5</b>	<b>0.66</b>	<b>0.64</b>	<b>0.56</b>	<b>11.1</b>	<b>7.9</b>	<b>9.6</b>	<b>0.91</b>	<b>0.64</b>	<b>0.77</b>
ICICIBC	2,115	327	BUY	442	155	173	201	17.2	9.4	7.5	1.35	1.18	1.00	6.3	10.9	12.1	0.77	1.23	1.39
IIB	274	387	ADD	575	459	512	575	6.1	9.3	6.6	0.84	0.76	0.67	14.7	8.1	10.2	1.51	0.93	1.21
KMB	2,430	1,228	ADD	1,282	240	292	330	30.3	30.5	26.0	3.92	3.32	2.84	13.6	11.6	11.1	1.78	1.67	1.75
KVB	19	24	REDUCE	33	56	53	62	7.9	4.7	4.1	0.42	0.44	0.38	3.7	6.0	6.9	0.33	0.53	0.59
RBK	59	117	REDUCE	136	185	194	215	11.7	12.2	7.2	0.63	0.60	0.54	5.6	4.5	7.2	0.60	0.53	0.84
SBIN	1,413	158	BUY	316	179	183	227	2.7	2.2	1.7	0.27	0.26	0.21	7.0	8.2	9.6	0.43	0.50	0.60

Source: Company, HSIE Research, # Adjusted for subsidiaries value

## Financials

### Income statement

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Interest earned	74,195	77,482	86,774	97,529	114,190	132,108	141,293	151,657
Interest expended	50,391	52,404	56,247	61,701	72,427	85,619	92,405	98,475
<b>Net interest income</b>	<b>23,804</b>	<b>25,077</b>	<b>30,526</b>	<b>35,828</b>	<b>41,763</b>	<b>46,489</b>	<b>48,888</b>	<b>53,182</b>
Other income	8,783	8,082	10,818	11,591	13,510	19,314	17,734	18,927
<i>Fee income (CEB)</i>	3,811	4,155	5,761	6,368	8,010	9,890	10,414	11,887
<i>Treasury income</i>	2,557	1,275	3,087	2,389	2,284	6,070	3,750	3,250
<b>Total income</b>	<b>32,587</b>	<b>33,159</b>	<b>41,345</b>	<b>47,419</b>	<b>55,274</b>	<b>65,803</b>	<b>66,622</b>	<b>72,109</b>
<b>Operating expenses</b>	<b>16,309</b>	<b>18,921</b>	<b>22,095</b>	<b>24,509</b>	<b>27,643</b>	<b>33,756</b>	<b>34,928</b>	<b>37,505</b>
<i>Employee expenses</i>	8,920	10,529	11,638	12,425	13,778	17,724	18,250	19,880
<b>PPOP</b>	<b>16,278</b>	<b>14,238</b>	<b>19,249</b>	<b>22,910</b>	<b>27,631</b>	<b>32,047</b>	<b>31,694</b>	<b>34,604</b>
Provisions and contingencies	1,067	7,041	6,184	9,472	8,559	11,722	15,779	13,844
<i>Provisions for std. and non-performing advances</i>	2,043	5,553	4,051	7,527	6,306	10,105	16,592	14,189
<b>Profit before tax</b>	<b>15,210</b>	<b>7,197</b>	<b>13,065</b>	<b>13,439</b>	<b>19,073</b>	<b>20,325</b>	<b>15,915</b>	<b>20,760</b>
Tax expense	5,153	2,440	4,757	4,650	6,634	4,898	4,058	5,294
<b>Profit After Tax</b>	<b>10,057</b>	<b>4,757</b>	<b>8,308</b>	<b>8,788</b>	<b>12,439</b>	<b>15,428</b>	<b>11,856</b>	<b>15,466</b>

Source: Bank, HSIE Research

### Statement of assets and liabilities

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
<b>Source of funds</b>								
Share capital	1,713	3,438	3,448	3,944	3,970	3,985	3,985	3,985
Reserves and surplus	75,668	77,474	85,976	118,158	128,760	141,191	151,269	164,415
<b>Shareholders' funds</b>	<b>77,381</b>	<b>80,912</b>	<b>89,424</b>	<b>122,102</b>	<b>132,730</b>	<b>145,176</b>	<b>155,254</b>	<b>168,401</b>
Savings deposits	177,269	214,222	263,977	309,198	349,786	391,920	423,272	465,598
Current deposits	40,566	46,304	56,552	67,669	87,528	72,550	76,178	81,891
Term deposits	490,415	531,191	656,117	743,058	912,230	1,058,431	1,121,937	1,245,350
<b>Total deposits</b>	<b>708,250</b>	<b>791,717</b>	<b>976,646</b>	<b>1,119,925</b>	<b>1,349,543</b>	<b>1,522,901</b>	<b>1,621,386</b>	<b>1,792,838</b>
Borrowings	23,082	21,766	58,973	115,335	77,813	103,724	108,911	117,079
Other liabilities	19,791	19,905	24,727	25,777	33,313	34,579	37,658	41,026
<b>Total equity and liabilities</b>	<b>828,505</b>	<b>914,300</b>	<b>1,149,769</b>	<b>1,383,140</b>	<b>1,593,400</b>	<b>1,806,381</b>	<b>1,923,209</b>	<b>2,119,344</b>
<b>Application of funds</b>								
Cash and bank balances	47,800	54,198	74,522	92,034	100,668	125,746	131,878	137,590
Investments	205,688	222,175	281,961	307,811	318,241	358,927	372,270	397,982
<i>Government securities</i>	168,761	170,040	215,654	244,662	273,508	310,824	321,845	345,121
<b>Advances</b>	<b>512,850</b>	<b>580,901</b>	<b>733,363</b>	<b>919,575</b>	<b>1,102,230</b>	<b>1,222,679</b>	<b>1,317,437</b>	<b>1,479,481</b>
Fixed assets	4,666	5,200	4,895	4,574	4,720	4,800	5,040	5,292
Other assets	57,500	51,826	55,029	59,146	67,541	94,229	96,585	98,999
<b>Total assets</b>	<b>828,505</b>	<b>914,300</b>	<b>1,149,769</b>	<b>1,383,140</b>	<b>1,593,400</b>	<b>1,806,381</b>	<b>1,923,209</b>	<b>2,119,344</b>

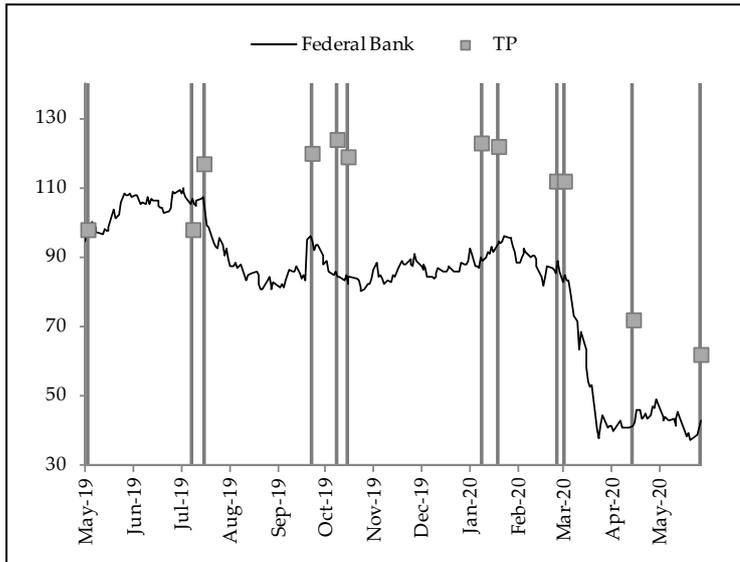
Source: Bank, HSIE Research

## Key ratios

	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
<b>Valuation ratios</b>								
EPS (Rs)	5.9	2.8	4.8	4.5	6.3	7.7	6.0	7.8
Earnings growth (%)	19.9	(52.7)	74.7	5.8	41.5	24.0	(23.1)	30.4
BVPS (Rs)	45.1	47.1	51.9	61.9	66.9	72.9	77.9	84.5
ABVPS (Rs)	42.9	41.5	46.4	54.0	58.7	64.8	66.6	76.0
DPS (Rs)	1.10	0.70	0.9	1.0	1.4	-	0.9	1.2
RoAA (%)	1.28	0.55	0.81	0.69	0.84	0.91	0.64	0.77
RoAE(%)	13.7	6.0	9.8	8.3	9.8	11.1	7.9	9.6
P/E (x)	7.3	15.4	8.9	9.6	6.8	5.5	7.2	5.5
P/ABV (x)	1.00	1.03	0.92	0.79	0.73	0.66	0.64	0.56
P/PPOP (x)	4.5	5.2	3.8	3.7	3.1	2.7	2.7	2.5
Dividend yield (%)	1.3	1.6	2.1	2.3	3.3	-	2.1	2.7
<b>Profitability (%)</b>								
Yield on advances	11.50	10.37	9.96	9.12	8.99	9.18	8.92	8.73
Yield on investments	7.38	8.24	7.15	6.50	6.51	6.45	6.45	6.45
Cost of funds	7.27	6.78	6.08	5.43	5.44	5.61	5.51	5.41
Cost of deposits	7.09	6.75	6.11	5.46	5.46	5.64	5.52	5.42
Core spread	4.23	3.58	3.88	3.69	3.55	3.57	3.41	3.32
NIM	3.35	3.23	3.28	3.10	3.07	3.00	2.87	2.87
<b>Operating efficiency</b>								
Cost/average assets	2.1	2.2	2.1	1.9	1.9	2.0	1.9	1.9
Cost/income	54.3	59.3	57.8	54.4	52.2	56.5	55.6	54.5
<b>Balance sheet structure (%)</b>								
Loan growth	18.1	13.3	26.2	25.4	19.9	10.9	7.7	12.3
Deposit growth	18.6	11.8	23.4	14.7	20.5	12.8	6.5	10.6
CD ratio	72.4	73.4	75.1	82.1	81.7	80.3	81.3	82.5
Equity/ assets	9.3	8.8	7.8	8.8	8.3	8.0	8.1	7.9
Equity/ advances	15.1	13.9	12.2	13.3	12.0	11.9	11.8	11.4
CASA	30.8	32.9	32.8	33.7	32.4	30.5	30.8	30.5
Capital adequacy (CAR)	15.5	13.9	12.4	14.7	14.1	14.3	13.8	13.5
w/w Tier 1	14.8	13.4	11.8	14.2	13.4	13.3	12.8	12.7
<b>Asset quality</b>								
Gross NPLs (Rs mn)	10,577	16,678	17,271	27,956	32,607	35,037	52,292	49,056
Net NPLs (Rs mn)	3,733	9,500	9,412	15,520	16,262	16,072	22,521	16,893
Gross NPL (%)	2.0	2.84	2.33	3.00	2.92	2.84	3.97	3.32
Net NPL (%)	1.0	1.64	1.28	1.69	1.48	1.31	1.71	1.14
Slippage ratio (%)	1.72%	3.47%	1.64%	2.66%	1.65%	1.63%	2.60%	1.90%
Calc. PCR (%)	64.7	43.0	45.5	44.5	50.1	54.1	56.9	65.6
Provisions/ average loans (%)	0.43	1.0	0.6	0.91	0.62	0.87	1.31	1.01
<b>RoAA Tree</b>								
Net interest income	3.02%	2.88%	2.96%	2.83%	2.81%	2.73%	2.62%	2.63%
Non-interest income	1.12%	0.93%	1.05%	0.92%	0.91%	1.14%	0.95%	0.94%
Treasury income	0.32%	0.15%	0.30%	0.19%	0.15%	0.36%	0.20%	0.16%
Operating cost	2.07%	2.17%	2.14%	1.94%	1.86%	1.99%	1.87%	1.86%
Non-tax provisions	0.14%	0.81%	0.60%	0.75%	0.58%	0.69%	0.85%	0.68%
Provisions for std. & non-performing assets	0.26%	0.64%	0.39%	0.59%	0.42%	0.59%	0.89%	0.70%
Tax expense	0.65%	0.28%	0.46%	0.37%	0.45%	0.29%	0.22%	0.26%
RoAA	1.28%	0.55%	0.81%	0.69%	0.84%	0.91%	0.64%	0.77%
Leverage (x)	10.72	11.01	12.12	11.97	11.68	12.23	12.41	12.49
RoAE	13.69%	6.01%	9.75%	8.31%	9.76%	11.10%	7.89%	9.56%

Source: Bank, HSIE Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
5-May-19	98	NEU	98
9-Jul-19	105	NEU	98
17-Jul-19	107	BUY	117
22-Sep-19	95	BUY	120
9-Oct-19	86	BUY	124
17-Oct-19	82	BUY	119
9-Jan-20	87	BUY	123
21-Jan-20	94	BUY	122
27-Feb-20	85	BUY	112
2-Mar-20	86	ADD	112
15-Apr-20	41	BUY	71
29-May-20	43	BUY	62

From 2<sup>nd</sup> March 2020, we have moved to new rating system

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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