

## Steady quarter; healthy progress on b/s restructuring

Amid Covid, the bank offered moratorium to customers as per regulatory requirement. Customers with ~35% of advances opted for the same. Provision was at ₹ 679 crore, including ₹ 225 crore related to Covid-19. Out of remaining normalised provision of ₹ 454 crore, ₹ 349 crore is for retail loans and ₹ 105 crore pertains to wholesale loans. Asset quality saw QoQ improvement with GNPA, NNPA ratio improving ~23 bps, ~29 bps to 2.60% 0.94%, respectively.

The bank had earlier provided with a watch list comprising stressed exposures. Total exposure to this stressed pool has reduced by ₹ 313 crore QoQ at ₹ 3205 crore with provision cover of ~49%, being maintained. Apart from this, it has provided 50% for telecom exposure worth ₹ 3244 crore.

With continued focus on balance sheet restructuring funded asset remained broadly stable at ₹ 107400 crore. Within the same, wholesale book, as targeted, de-grew ~11% QoQ to ₹ 39388 crore (infrastructure exposure declined 5% QoQ, corporate fell 15% QOQ). Retail book continued to grow at 7% QoQ at ₹ 57310 crore. On the liabilities side, the bank continued to replace bulk borrowing with retail deposit, thereby increasing proportion of CASA and retail term deposit to ~33.7% in Q4FY20.

Restructuring of advances & liabilities led to ~38 bps QoQ improvement in margins to 4.24% in Q4FY20. This led to 40% YoY increase in NII to ₹ 1563 crore. Other income was strong at 40% YoY to ₹ 1527 crore, though included substantial treasury gains of ₹ 319 crore. Higher provision impacted earnings reported at ₹ 72 crore.

The bank raised ₹ 2000 crore by issuing ~86.24 crore shares via preferential share route at ₹ 23.19/share. Post this capital raise, CRAR will increase from 13.38% to 15.55% while CET1 ratio will improve from 13.30% to 15.32%.

### Consistency in balance sheet as planned; relatively lower on moratorium provides comfort

The management's strategy to restructure balance sheet thereby increasing proportion of retail asset and liabilities continued as planned earlier. On liabilities, higher quarterly accretion of CASA and retail term deposit is enabling to improve margins. We expect CASA ratio + retail term deposits to hit 50% of borrowings in the medium term. In the current environment, moratorium at ~35% of advances is relatively better amid substantial exposure to SME segment. The management has kept its long term guidance unchanged with RoA targeted at 1.4-1.6%.

### Valuation & Outlook

Restructuring of b/s underway has continued with rise in run rate of low cost deposits. Prudent approach providing adequately for lumpy stress adds to confidence. However, in current scenario, substantial exposure to SME segment makes it prone to near asset quality concerns. Capital raised provides improved ability to absorb any near term shocks but delays return ratio target. Revising earnings estimate by factoring the current scenario, we value the bank at ~0.75x FY22E ABV with a revised TP of ₹ 23. Maintain **BUY**.

#### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	CAGR (FY19-22E)
Net profit (₹crore)	(1,944)	(2,864)	(10)	764	173.2
EPS (₹)	(3.4)	(4.6)	0.0	1.4	173.3
P/E (x)	NM	NM	NM	30.3	
BV (₹)	38.1	31.9	30.5	31.7	
P/BV (x)	1.1	1.3	1.3	1.3	
ABV (₹)	35.7	30.2	29.1	30.2	
P/ABV (x)	1.1	1.4	1.4	1.4	
RoA (%)	(1.1)	(1.3)	0.0	0.4	
RoE (%)	(9.8)	(13.1)	-0.1	4.3	



#### Particulars

	Amount
Market Capitalisation	₹9981 crore
Net worth	₹15343 crore
52 week H/L	51/18
Equity capital	₹ 4810 crore
Face value	₹10
DII Holding (%)	4.41
FII Holding (%)	13.56

#### Key Highlights

- The bank has provided ₹ 225 crore for Covid-19
- Total 35% of customers opted for moratorium
- Total stressed pool reduced by ₹ 313 crore to ₹ 3205 crore. Bank has provided 49% for the same
- Maintain BUY recommendation with revised target price of ₹ 21

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**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q3FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
NII	1,563	1,612	1,113	40.5	1,534	1.9	Improvement in margins on the back of shift towards better asset mix led to improvement in NII
NIM (%)	4.2	3.3	3.0	10 bps	3.9	9.8	Restructuring of advances and liabilities led to ~38 bps QoQ improvement in margins to 4.24% in Q4FY 20
Other Income	484	550	316	53.0	579	-16.4	Total ₹319 crore treasury gain lead to healthy gains in other income
Net Total Income	2,047	2,162	1,429	43.3	2,113	-3.1	
Staff cost	364	407	348	4.5	399	-8.8	
Other Operating Expenses	1,164	1,116	800	45.6	1,033	12.7	Higher branch cost continues to keep cost elevated
PPP	519.8	640.1	281.5	84.7	681.7	-23.8	PPP beat on back of higher other income
Provision	6,790.0	418.9	698.2	872.5	2,304.8	194.6	Provisions includes ₹225 crore related to Covid-19. Provided 50% for telecom exposure worth ₹3244 crore.
Exceptional Items	0.0	0.0	0.0	-100.0	0.0	NM	
PBT	-6,270.2	221.1	-416.7	1,404.7	-1,623.0	286.3	
Tax	35.8	56.4	-198.7	-118.0	15.8	126.2	
PAT	-6,306.1	164.8	-218.0	2,792.4	-1,638.9	284.8	Profitability continues to take a toll due to higher provisioning due to Covid-19

**Key Metrics**

GNPA	2,279.6	2,636.6	2,136.0	6.7	2,511.0	-9.2	Excluding RBI moratorium, GNPA and NNPA would have stood at 2.88% and 1.14% respectively
NNPA	808.6	1,146.0	1,106.6	-26.9	1,071.0	-24.5	
Advances	1,07,004	1,04,557	1,10,400	-3.1	1,06,140	0.8	Infrastructure exposure declined 5% QoQ, corporate declined 15% QoQ. Retail book continued to grow at 7% QoQ at ₹ 57310 crore.
Deposits	65,108	70,831	70,479	-7.6	67,351	-3.3	CASA accretion continued to remain robust with growth of 28% QoQ to ₹20661 crore with CASA ratio at 33.7%

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Net Interest Income	6,570.0	6,574.0	0.1	7,986.8	7,678.6	-3.9
Pre Provision Profit	2,451.8	2,487.2	1.4	3,384.7	3,128.7	-7.6
NIM calculated (%)	4.0	4.1	9 bps	4.3	4.4	8 bps
PAT	541.9	-10.1	-101.9	1,167.6	764.1	-34.6
ABV (₹)	30.5	30.8	1.2	32.1	31.9	-0.5

Source: Company, ICICI Direct Research

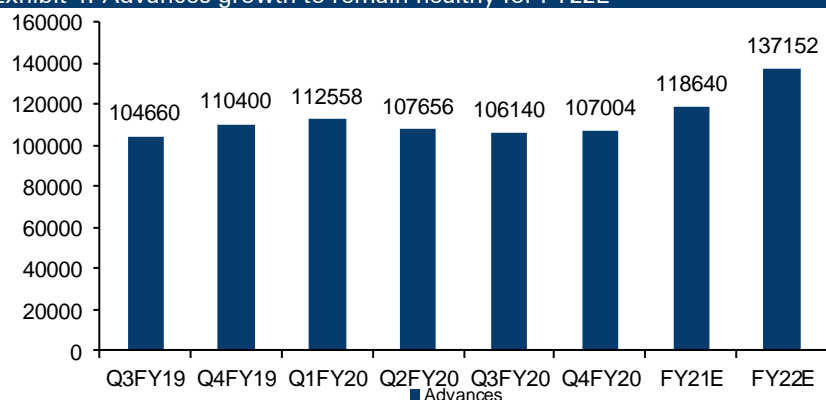
**Exhibit 3: Assumption**

	Current			Earlier	
	FY20	FY21E	FY22E	FY21E	FY22E
Credit growth (%)	-0.8	12.0	13.0	13.1	15.9
Deposit Growth (%)	-7.6	31.8	20.1	29.6	30.0
CASA ratio (%)	27.3	33.7	38.8	32.4	36.4
NIM Calculated (%)	3.8	4.1	4.4	4.0	4.3
Cost to income ratio (%)	71.4	70.5	68.1	70.9	66.6
GNPA (₹crore)	2,280	3,036	3,306	3,625	4,036
NNPA (₹crore)	809	823	880	1,688	1,954
Credit cost (%)	5.0	2.6	1.9	1.5	1.3

Source: Company, ICICI Direct Research

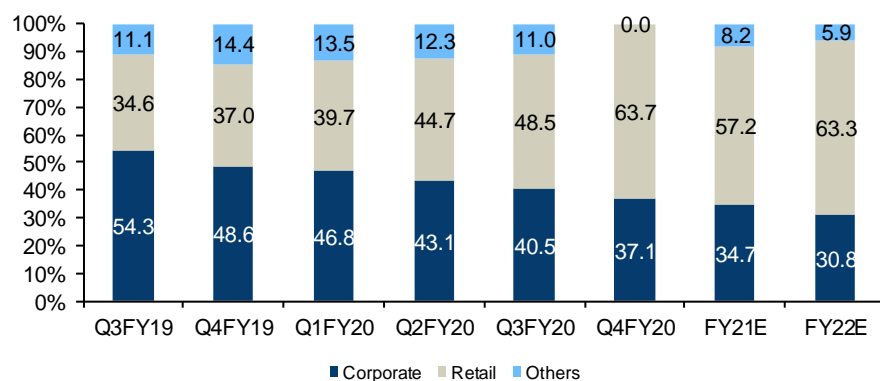
## Story in Charts

**Exhibit 4: Advances growth to remain healthy for FY22E**



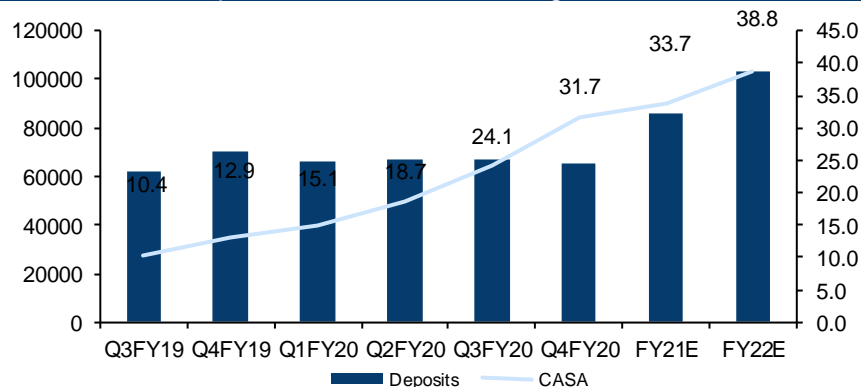
Source: Company, ICICI Direct Research

**Exhibit 5: Shift towards retail faster than anticipated**



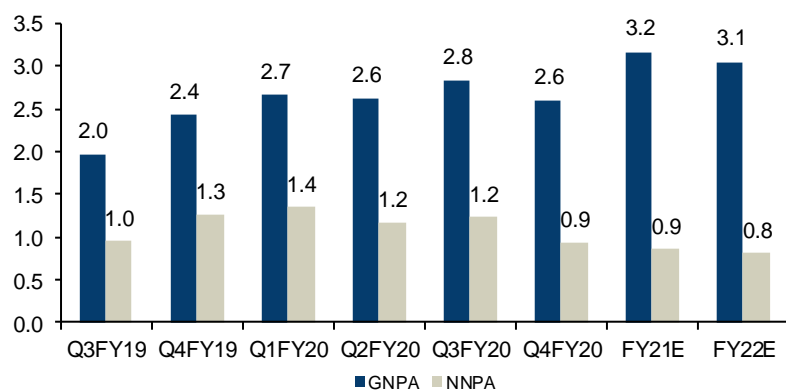
Source: Company, ICICI Direct Research

**Exhibit 6: Robust deposit accretion; well ahead of guidance**



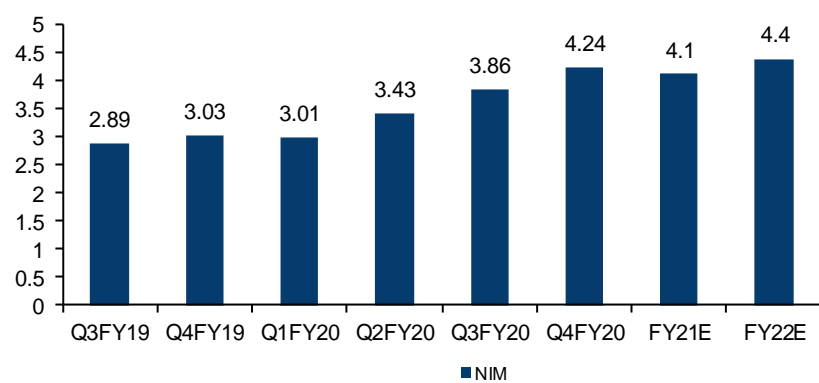
Source: Company, ICICI Direct Research

**Exhibit 7: Asset quality concerns to remain an overhang**



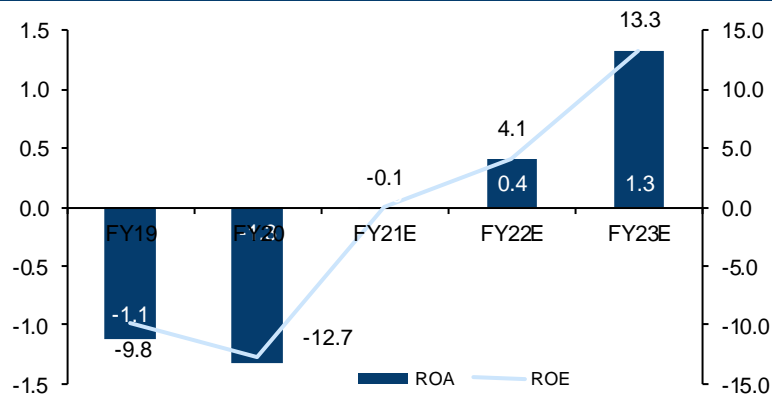
Source: Company, ICICI Direct Research

**Exhibit 8: Margin improvement to sustain**



Source: Company, ICICI Direct Research

**Exhibit 9: Return ratios to improve gradually**

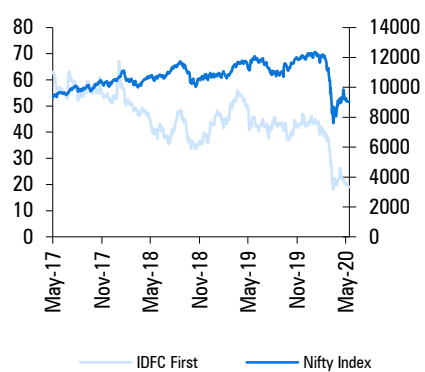


Source: Company, ICICI Direct Research

**Exhibit 10: Shareholding Pattern**

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	40.0	40.0	40.0	40.0	40.0
FII	13.5	13.8	16.4	15.1	13.6
DII	4.0	4.0	4.0	4.3	4.4
Others	42.5	42.2	39.6	40.6	42.0

Source: Company, ICICI Direct Research

**Exhibit 11: Price Chart**


Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement					₹ crore
(₹Crore)	FY19	FY20	FY21E	FY22E	
Interest Earned	11,948	15,867	17,269	19,266	
Interest Expended	8,749	10,232	10,695	11,588	
Net Interest Income	3,199	5,635	6,574	7,679	
Growth (%)	62	76	17	17	
Non Interest Income	852	1,722	1,846	2,136	
Fees and advisory	542	948	1,090	1,286	
Treasury Income	236	307	323	371	
Other income	74	467	433	478	
Net Income	4,051	7,357	8,420	9,814	
Employee cost	1,118	1,528	1,849	2,044	
Other operating Exp.	2,169	3,893	4,084	4,642	
Operating Income	764	1,937	2,487	3,129	
Provisions	1,460	4,315	2,501	2,103	
PBT	(696)	(2,379)	(14)	1,026	
Exceptional items	2,599.3	-	-	-	
Taxes	(1,351)	486	(4)	267	
Net Profit	(1,944)	(2,864)	(10)	764	
Growth (%)	(303)	47	(100)	(7,634)	
EPS (₹)	(3.4)	(4.6)	(0.0)	1.4	

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios				
	FY19	FY20	FY21E	FY22E
Valuation				
No. of shares (crore)	478.2	478.2	564.4	564.4
EPS (₹)	(3.4)	(4.6)	(0.0)	1.4
DPS (₹)	-	(0.4)	(0.0)	0.1
BV (₹)	38.1	33.95	32.29	33.51
ABV (₹)	35.7	32.3	30.8	31.9
P/E	NA	NA	NA	13.9
P/BV	0.5	0.6	0.6	0.6
P/ABV	0.5	0.6	0.6	0.6
Yields & Margins (%)				
Net Interest Margins	2.8	3.8	4.1	4.4
Yield on assets	9.0	10.5	10.8	11.0
Avg. cost on funds	7.9	7.4	7.4	7.4
Yield on average advan	10.6	11.9	12.4	12.7
Avg. Cost of Deposits	7.5	7.1	6.8	6.7
Quality and Efficiency (%)				
Cost to income ratio	72.5	71.4	70.5	68.1
Credit/Deposit ratio	155.2	151.3	135.7	130.7
GNPA	2.5	2.7	3.2	3.1
NNPA	1.3	0.9	0.9	0.8
ROE	(9.8)	(12.7)	(0.1)	4.115
ROA	(1.1)	(1.3)	(0.0)	0.4
RWA/assets	68.0	70.0	71.0	72.0
RWA/ NW	16.0	14.1	14.4	13.8

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet					₹ crore
(₹Crore)	FY19	FY20	FY21E	FY22E	
Sources of Funds					
Capital	4,782	4,810	5,644	5,644	
Reserves and Surplus	13,417	10,533	12,579	13,267	
Networth	18,199	15,343	18,223	18,911	
Deposits	70,478	65,108	85,790	1,03,055	
Borrowings	69,983	57,397	65,468	58,500	
Other Liabilities & Provis	8,562	11,353	8,972	9,508	
Total	1,67,222	1,49,200	1,78,454	1,89,973	
Application of Funds					
Fixed Assets	950	1,038	1,075	1,183	
Investments	58,475	45,405	46,545	51,445	
Advances	86,302	85,595	95,867	1,08,329	
Other Assets	17,344	13,783	7,880	(4,555)	
Cash with RBI & call mc	4,150	3,380	6,527	7,176	
Total	1,67,222	1,49,200	1,57,894	1,63,577	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					(%)
(% growth)	FY19	FY20	FY21E	FY22E	
Total assets	32.3	(1.5)	8.4	6.5	
Funded asset	109.7	(2.2)	8.8	15.7	
Deposit	46.7	0.3	21.3	20.1	
Total Income	47.7	18.7	6.8	12.0	
Net interest income	117.4	38.2	11.0	16.8	
Operating expenses	116.9	38.7	9.7	12.7	
Operating profit	14.4	46.1	14.9	25.8	
Net profit	(271.7)	33.2	(99.5)	(7,634.2)	
Net worth	19.1	(10.8)	12.3	3.8	
EPS	(222.2)	33	(100)	(7,634)	

Source: Company, ICICI Direct Research

**Exhibit 16: ICICI Direct coverage universe (BFSI)**

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	37	65	Hold	17,304.0	-0.4	-1.9	-4.3	NA	NA	NA	0.5	0.5	0.4	0.0	-0.1	-0.2	-0.3	-1.2	-2.5
State Bank of India (STABAN)	151	250	Buy	1,34,627	16.8	24.2	33.7	9.0	6.2	4.5	0.9	0.8	0.7	0.4	0.6	0.7	7.6	11.0	13.2
Indian Bank (INDIBA)	44	50	Hold	4,997	-27.2	8.5	13.0	-1.6	5.2	3.4	0.3	0.3	0.2	-0.8	0.2	0.3	-11.6	3.5	5.1
Axis Bank (UTIBAN)	337	500	Buy	95,128	5.8	17.4	27.9	58.4	19.4	12.1	1.3	1.3	1.2	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	128	171	Buy	9,404	8.7	10.1	11.4	14.7	12.7	11.2	2.0	1.8	1.5	1.4	1.4	1.4	12.6	13.0	13.0
Development Credit Bank (DCB)	60	59	Hold	2,524	13.0	13.5	15.0	4.6	4.4	4.0	0.6	0.6	0.5	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	37	47	Hold	7,440	7.7	7.9	12.5	4.8	4.7	3.0	0.6	0.5	0.5	0.9	0.8	1.2	11.0	10.4	14.9
HDFC Bank (HDFBAN)	839	1,100	Buy	46,00,483	47.9	57.1	69.6	17.5	14.7	12.0	2.7	2.5	2.2	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	338	400	Hold	23,456	63.7	54.9	66.7	5.3	6.2	5.1	0.7	0.7	0.6	1.5	1.2	1.2	13.5	10.5	11.4
Jammu & Kashmir Bank (JAMKAS)	13	12	Sell	895	-12.7	-0.1	-6.1	-1.0	NA	NA	0.2	0.2	0.3	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,160	1,600	Buy	2,22,049	31.1	30.4	34.9	37.3	38.2	33.2	4.6	3.8	3.4	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	203	300	Buy	32,737	18.1	18.8	19.9	11.2	10.8	10.2	2.3	2.0	1.8	3.9	2.9	2.5	22.1	18.8	17.4
IDFC First (IDFBAN)	19	23	Buy	9,067	-4.6	0.0	1.4	NA	#####	14.0	0.6	0.6	0.6	-1.3	0.0	0.4	-12.7	-0.1	4.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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