

## Inline with expectations; Positive commentary

Q2FY21 was in-line with expectations with reported PAT at Rs 119cr vs. est. Rs 115cr. While loan growth was flattish, improvement in NIM to 3.08% on lower CoD, led NII growth of 15/7% YoY/QoQ. Deposits growth of 4% was led by CASA, up ~11%. CASA ratio improved to 29.2% from 27.4%, a year ago. Fee income was muted on competitive pressures, but higher treasury income supported non-interest growth of 7% YoY. C-I improved to 44.7% vs 48.8% YoY but was sequentially down from 35.8%. Provisioning remained elevated at 2.4% vs. 1.9/3.8% YoY/QoQ. Asset quality movement was benign on regulatory dispensation. Morat book has come down to ~51% as on 'June20 to ~11% as on 'Sep20. Management intends to improve PCR to ~80% by March '21. Slippages from the morat book in Q3 is expected to be ~60bps. Loan growth for FY21 is expected to be flat which we have already built in our estimates. NIM uptick and healthy reported PCR (75%) in Q2 are key operational positives. Restructuring portfolio trends will be closely watched. Concerns on CAR (Tier I - 11.1%) remain due to macro uncertainties. With some visible improvement in operational efficiency and undemanding valuations, we recommend a Buy with a TP of Rs 48 (0.25x FY22E ABV)

## Key Concall/Result Takeaways

- Moratorium reduced to 11.4% with no major sector exposure being in excess of 15%. vs. 51% as at June'20. Management expects morat portfolio to reduce to 1% by Dec'20, ~2% of the morat portfolio to come up for restructuring as per the RBI directive and ~50-60bps of slippages from the morat portfolio in Q3.
- Under restructuring, two proposals amounting to ~Rs500cr (Trading & Infra sector) are expected in Q3. Restructuring portfolio stood at ~Rs640cr as at Sept'20. Restructuring portfolio trends will be closely watched.
- Overall loan growth was flattish. However, healthy traction was seen in Retail/SME loans up 8.6/16.5% YoY. Corporate book degrew by 31%.
- Growth in retail was led by gold/home/agri loans up 22/13/20% YoY.
- SME loan growth was led by healthy traction in core MSME segment and Emergency Credit Line Guarantee Scheme (ECLGS). Rs1600cr has been disbursed under ECLGS scheme.
- For FY21, management expects loan growth to be flat.
- CASA improved to 29.2% vs 28.7/27.4% QoQ/YoY. CASA target is of 30% by year end.
- Improvement in NIM from 2.82/2.89% YoY/QoQ to 3.08% was led by decline in cost of deposits from 6.2/5.7% YoY/QoQ to 5.4% resulting in an expansion in spread from 3.5% to 4%. The bank expects further decline in CoD.
- Muted fee income on competitive pressures was offset by higher treasury gains
- Slippage of 90cr could not be marked as GNPA due to SC directive. In Q2, recoveries stood at 156cr, W/off172cr and slippages ~2cr.

## Key Financials (Standalone)

| (Rs. cr)   | FY19  | FY20  | FY21E | FY22E |
|------------|-------|-------|-------|-------|
| NII        | 1,905 | 2,030 | 2,180 | 2,398 |
| PPOP       | 1,450 | 1,657 | 2,281 | 2,279 |
| Net Profit | 500   | 432   | 464   | 912   |
| EPS (Rs.)  | 17.7  | 13.9  | 14.9  | 29.3  |
| ABV        | 146.5 | 135.6 | 155.0 | 191.3 |
| P/ABV      | 0.2   | 0.2   | 0.2   | 0.2   |
| ROAA       | 0.7   | 0.5   | 0.3   | 0.5   |
| NNPA (%)   | 3     | 3.1   | 2.7   | 2.3   |

Source: Company, Axis Research9

(CMP as of Oct 13, 2020)

|                            |           |
|----------------------------|-----------|
| CMP (Rs)                   | 42        |
| Upside /Downside (%)       | 14%       |
| High/Low (Rs)              | 75/34     |
| Market cap (Cr)            | 1303      |
| Avg. daily vol. (6m) Shrs. | 13,22,152 |
| No. of shares (Cr)         | 31.09     |

## Shareholding (%)

|             | Sep-20 | Jun-20 | Mar-20 |
|-------------|--------|--------|--------|
| Promoter    | 0.0    | 0.0    | 0.0    |
| FIs         | 7.3    | 8.7    | 12.8   |
| MFs / UTI   | 0.6    | 2.0    | 4.6    |
| Banks / FIs | 0.0    | 0.7    | 0.4    |
| Others      | 93.1   | 88.6   | 82.3   |

## Financial & Valuations

| Y/E Mar (Rs. cr) | 2020  | 2021E | 2022E |
|------------------|-------|-------|-------|
| NII              | 2,030 | 2,180 | 2,398 |
| PPOP             | 1,657 | 2,281 | 2,279 |
| Net Profit       | 432   | 464   | 912   |
| EPS (Rs.)        | 13.9  | 14.9  | 29.3  |
| ABV              | 135.6 | 155.0 | 191.3 |
| P/ABV            | 0.2   | 0.2   | 0.2   |
| ROAA             | 0.5   | 0.3   | 0.5   |
| NNPA (%)         | 3.1   | 2.7   | 2.3   |

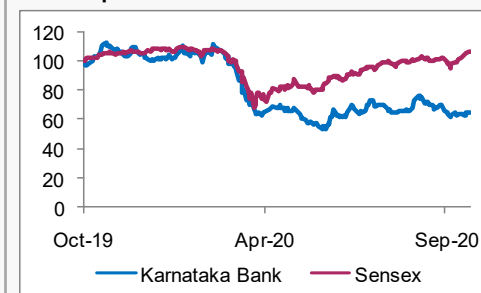
## Change in Estimates (%)

| Y/E Mar | FY21E | FY22E |
|---------|-------|-------|
| NII     | 5.7   | 13.1  |
| PPOP    | 29.3  | 30.0  |
| PAT     | 16.9  | 32.7  |

## Axis vs Consensus

| EPS Estimates                  | 2021E | 2022E       |
|--------------------------------|-------|-------------|
| Axis                           | 14.9  | 29.3        |
| Consensus                      | 16.3  | 22.0        |
| <b>Mean Consensus TP (12M)</b> |       | <b>65.8</b> |

## Relative performance



Source: Capitaline, Axis Securities

**Siji Philip**  
 Sr. Research Analyst

Call: (022) 4267 1738  
 email: siji.philip@axissecurities.in

**Change in FY22 Estimates**
**(Rs cr)**

|      | Revised |       | Old   |       | %Change |       |
|------|---------|-------|-------|-------|---------|-------|
|      | FY21E   | FY22E | FY21E | FY22E | FY21E   | FY22E |
| NII  | 2,180   | 2,398 | 2,062 | 2,121 | 5.7     | 13.1  |
| PPOP | 2,281   | 2,279 | 1,764 | 1,753 | 29.3    | 30.0  |
| PAT  | 464     | 912   | 397   | 687   | 16.9    | 32.7  |
| EPS  | 14.9    | 29.3  | 12.8  | 22.1  | 16.7    | 32.7  |

Source: Company, Axis Research

**Valuation & Outlook**

Key positives from the Q2 management commentary was the decline in morat book from ~51% to ~11%, indications of PCR improvement to 80% by March 21 and ~60bps of slippages from the morat book expected in Q3. Loan growth for FY21 is expected to be flat which we have already built in our estimates. Uptick in NIM and healthy PCR of 75% in Q2 are key operational positives. We expect credit costs to remain elevated but sustaining NIM and maintaining costs control will support operational performance. We have revised our estimates to factor in improvement in NIM. Concerns on low CAR remain due to macro uncertainties. We recommend a Buy with a TP of Rs 48 (0.25x FY22E ABV).

**Result Update (Standalone)**
**(Rs cr)**

| Y/E March                    | Q2FY21 | Q2FY20 | % YoY | Q1FY21 | % QoQ |
|------------------------------|--------|--------|-------|--------|-------|
| Net Interest Income          | 575    | 499    | 15.3  | 535    | 7.4   |
| Non Interest Income          | 330    | 309    | 6.8   | 519    | -36.4 |
| Operating expenses           | 404    | 394    | 2.6   | 377    | 7.2   |
| Staff Cost                   | 205    | 163    | 25.4  | 202    | 1.5   |
| Pre provision profits        | 500    | 413    | 21.0  | 677    | -26.1 |
| Provisions and contingencies | 322    | 262    | 22.8  | 509    | -36.7 |
| PBT                          | 178    | 151    | 18.1  | 168    | 6.1   |
| Provision for Tax            | 59     | 45     | 30.5  | -28    | NM    |
| PAT                          | 119    | 106    | 12.8  | 196    | -39.2 |
| Deposits                     | 72,929 | 70,190 | 3.9   | 71,854 | 1.5   |
| Advances                     | 54,099 | 53,468 | 1.2   | 54,209 | -0.2  |
| CD ratio (%)                 | 74     | 76     |       | 75     |       |
| NIM (%)                      | 4.0    | 4.8    |       | 4.6    | 4.0   |
| Cost-Income ratio (%)        | 2.2    | 3.5    |       | 3.0    | 2.2   |
| Gross NPAs (%)               | 1.5    | 4.8    |       | 1.5    | 1.5   |
| Net NPAs (%)                 | 4.0    | 4.8    |       | 4.6    | 4.0   |
| Slippages                    | 2.2    | 3.5    |       | 3.0    | 2.2   |
|                              | 1.5    | 4.8    |       | 1.5    | 1.5   |

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs cr)

| Y/E March                  | FY19  | FY20  | FY21E | FY22E |
|----------------------------|-------|-------|-------|-------|
| <b>Net Interest Income</b> | 1,905 | 2,030 | 2,180 | 2,398 |
| <b>Other Income</b>        | 1,002 | 1,396 | 1,691 | 1,671 |
| <b>Total Income</b>        | 2,907 | 3,427 | 3,871 | 4,069 |
| <b>Total Operating Exp</b> | 1,457 | 1,770 | 1,590 | 1,790 |
| <b>PPOP</b>                | 1,450 | 1,657 | 2,281 | 2,279 |
| Provisions & Contingencies | 820   | 1,135 | 1,662 | 1,140 |
| <b>PBT</b>                 | 630   | 522   | 619   | 1,140 |
| Provision for Tax          | 131   | 90    | 155   | 228   |
| <b>PAT</b>                 | 500   | 432   | 464   | 912   |

Source: Company, Axis Securities

### Balance Sheet

(Rs cr)

| Y/E March                      | FY19   | FY20   | FY21E  | FY22E  |
|--------------------------------|--------|--------|--------|--------|
| <b>SOURCES OF FUNDS</b>        |        |        |        |        |
| Share Capital                  | 283    | 311    | 311    | 311    |
| Reserves                       | 5,503  | 5,660  | 6,124  | 7,035  |
| <b>Shareholder's Funds</b>     | 5,785  | 5,971  | 6,435  | 7,346  |
| <b>Total Deposits</b>          | 68,452 | 71,785 | 74,657 | 78,389 |
| Borrowings                     | 3,326  | 4,065  | 4,268  | 4,482  |
| Other Liabilities & Provisions | 1,483  | 1,493  | 1,425  | 1,439  |
| <b>Total Liabilities</b>       | 79,046 | 83,314 | 86,784 | 91,656 |
| <b>APPLICATION OF FUNDS</b>    |        |        |        |        |
| Cash & Bank Balance            | 3,610  | 2,920  | 4,835  | 5,386  |
| Investments                    | 16,185 | 17,545 | 18,664 | 19,597 |
| Advances                       | 54,828 | 56,964 | 57,534 | 60,411 |
| Fixed Assets & Other Assets    | 4,423  | 5,884  | 6,068  | 6,262  |
| <b>Total Assets</b>            | 79,046 | 83,314 | 86,784 | 91,656 |

Source: Company, Axis Securities

**Ratio Analysis**

(%)

| Y/E March                             | FY19  | FY20  | FY21E | FY22E |
|---------------------------------------|-------|-------|-------|-------|
| <b>VALUATION RATIOS</b>               |       |       |       |       |
| EPS                                   | 17.7  | 13.9  | 14.9  | 29.3  |
| Earnings Growth (%)                   | 42.6  | -21.4 | 7.5   | 96.4  |
| BVPS                                  | 204.7 | 192.0 | 207.0 | 236.3 |
| Adj. BVPS                             | 146.5 | 135.6 | 155.0 | 191.3 |
| ROAA (%)                              | 0.7   | 0.5   | 0.3   | 0.5   |
| ROAE (%)                              | 8.9   | 7.3   | 3.5   | 6.6   |
| P/E (x)                               | 2.4   | 3.0   | 2.8   | 1.4   |
| P/ABV (x)                             | 0.20  | 0.22  | 0.20  | 0.18  |
| <b>PROFITABILITY</b>                  |       |       |       |       |
| NIM (%)                               | 2.8   | 2.8   | 2.9   | 2.8   |
| Cost-Income Ratio                     | 50.1  | 51.6  | 41.1  | 44.0  |
| <b>BALANCE SHEET STRUCTURE RATIOS</b> |       |       |       |       |
| Loan Growth (%)                       | 16    | 3.9   | 1.0   | 5.0   |
| Deposit Growth (%)                    | 8.9   | 4.9   | 4.0   | 5.0   |
| C/D Ratio (%)                         | 80.1  | 79.4  | 77.1  | 77.1  |
| CAR                                   | 13.2  | 12.7  | 13.0  | 12.6  |
| <b>ASSET QUALITY</b>                  |       |       |       |       |
| Gross NPLs (%)                        | 4.4   | 4.8   | 5.1   | 4.8   |
| Net NPLs (%)                          | 3.0   | 3.1   | 2.7   | 2.3   |
| Slippage                              | 2.8   | 2.9   | 3.0   | 2.5   |
| <b>SPREADS</b>                        |       |       |       |       |
| Yield on Advances                     | 9.2   | 9.2   | 9.1   | 9.1   |
| Cost of Deposits                      | 5.8   | 6.0   | 5.7   | 5.8   |
| NIM                                   | 2.8   | 2.8   | 2.9   | 2.8   |

Source: Company, Axis Securities

**About the analyst****Analyst:** Siji Philip**Contact Details:** [siji.philip@axissecurities.in](mailto:siji.philip@axissecurities.in)**Sector:** BFSI**Analyst Bio:** Siji Philip is MBA (Finance) from NMIMS with over 15 years of research experience in the Banking/NBFC sector and stock markets.**Disclosures:**

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