ICICI direct Research

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Lenders: Still not out of the woods…

In Q4FY20, the Indian banking system witnessed a significant correction amid fears of emergence of Covid and its impact on business growth and asset quality. With lenders preparing for unforeseen rise in NPA, provisioning remained elevated impacting profitability of many players.

The economic slowdown kept business growth in single digits, which further got accentuated by lockdown amid Covid. Moratorium by the RBI kept asset quality stable though a revival in repayment (post end of moratorium in August) remains uncertain. Proportion of moratorium varied vastly with large private banks at 20-30% book in moratorium while mid-sized banks reported ~35-70% based on composition of book (higher for micro finance, CV, LAP, etc). NBFCs have 50-70% book under moratorium and are trying to manage liquidity as majority did not receive moratorium from banks.

In the current scenario, which is quite different from what one would have envisaged earlier, our outlook on the banking sector remains as under;

- Preservation of capital is top priority followed by recovery while growth has taken a backseat
- Advances growth to remain muted in FY21E (Crisil estimate: 1-2% system credit growth). MSME segment to witness traction as banks are disbursing loans under credit guarantee scheme, while traction in retail segment to remain more stringent due to risk averseness. Gold loans to remain in focus with south based banks and players like Bajaj Finance
- With muted opportunity to lend and higher deposit inflow, deposit rates would remain benign thereby keeping MCLR trending downwards. Higher liquidity, declining interest rate structurally impacts NIM for banks
- Management commentary suggests that not everyone taking moratorium is in trouble but majority conserving cash. However, asset quality assessment is only possible post moratorium is over in August 2020
- Banker commentary suggests decline in moratorium to the extent of 5-10%, in unlocking phase. However, given standstill economic activity during lockdown and increased risk aversion, asset quality pains cannot be ruled out. Bottom 5-10% of moratorium customers remain most vulnerable. Therefore, banks are shoring up capital
- Any relaxation in terms of one-time restructuring will act as a near term breather rather than structural solution; delaying recognition of asset quality pain
- Rural India is expected to recover faster than urban cities post lockdown. Exposure to smaller ticket size loans in rural areas and essential services (for example MFI loans) and home loans in retail space are expected to revive faster
- Gold loans are expected to remain in focus with south-based gold finance NBFCs, small southern banks doing well and players like Bajaj Finance entering the segment

A discussion paper on management control wherein a promoter can be CEO for 10 years and professional management can remain in office for 15 years is seen bringing structural changes in the banking landscape. Immediate impact is seen on Kotak Bank as tenure of 10 years is over and current MD will not get extension once current term is over. SFBs and Bandhan Bank would get impacted in the long run with >5 years left for current MD.

Sector View

Banks & NBFCs –Neutral

Insurance – Overweight

AMC – Overweight

Exchanges- Overweight

Recommend business without asset quality risk

SBI Life Insurance

HDFC AMC

Multi Commodity Exchange Ltd

Selective in banking space

HDFC Bank

IDFC First Bank

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Sector Update

ICICI Securities – Retail Equity Research

We expect financial performance and thereby stock price of lenders (banks and NBFCs) to remain volatile in near term. However, impact of structural changes would remain to be seen in long run. Any announcement on one time restricting could lead to a bounce in stock prices of financials, though it remains a near term respite. Therefore, **we prefer businesses without balance sheet risk and long term growth potential – life and general insurance and AMCs. With PSBs focussed on integration, prefer large private banks with capacity to raise capital, without diluting book value, along with diversified exposure and healthy deposit base. In NBFC space, we prefer leaders with capacity to shore up liquidity as well as equity capital.**

NPA stable due to moratorium; recovery to be watched

On March 27, 2020, RBI permitted all banks/NBFCs to allow a moratorium of three months for payments of all term loan instalments outstanding on March 1, 2020. Keeping in mind the economic slowdown amid Covid-19, RBI further extended moratorium period till August 2020. Apart from this, to provide further support to borrowers, RBI is mulling a one-time loan restructuring scheme. However, RBI has not yet arrived at a decision on this.

Q4FY20 numbers were characterised by lower slippages on the back of standstill asset classification norms. In terms of recovery, as majority of the recovery is undertaken during the end of the quarter, lockdown during the end of March 2020 stalled the recovery pace. Apart from this, temporary suspension of IBC led to a further slowdown in the recovery space, thus delaying the required breather to major banks. Lower slippages were offset by a muted recovery pace, which led GNPA to inch up 4.9% QoQ to ₹ 939651 crore. Subsequently, GNPA ratio increased 80 bps QoQ to 9.4%. With provision continuing to remain elevated, NNPA came in a tad lower by 0.6% QoQ to ₹ 324865 crore (Covid related provision not included in calculation of NNPA), with PCR witnessing an improvement. Going ahead, extension of moratorium till August 2020 is expected to keep slippages on the lower end in Q1FY21E though repayment from borrowers post August 2020 will remain a key monitorable with probability of defaults ahead.

Exhibit 1: Asset quality of Indian banking system as of March 2020

	FY17	FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
GNPA	776835	1021959	999858	993381	955970	912179	912179	904777	895706	939651
NNPA	430173	516462	483919	461063	414961	350022	346883	332139	326900	324865
GNPA Ratio	9.6	11.6	11.2	10.7	10.2	9.1	9.3	9.3	8.6	9.4
NNPA Ratio	5.3	5.8	5.4	5.0	4.4	3.5	8.5	3.4	3.1	3.3
GNPA of PSB	648733	896601	874071	868812	829745	789016	788087	778310	766154	743126
GNPA of Pvt Banks	92102	125358	125787	124569	126226	123401	124092	126467	129552	196526

Source: Company, Capitaline, ICICI Direct Research

In terms of moratorium trend, public sector banks reported ~40-50% of book under moratorium with Bank of Baroda being an exception (on account of moratorium option being offered to all customers by default). Mid-sized private banks reported higher moratorium above 50% due to substantial exposure to MSME, auto and MFI segment, which were the most impacted. In contrast, the moratorium book of large sized private banks, was relatively lower at ~20-30%. **Within NBFCs, lenders with exposure to real estate and MFI witnessed a significant proportion of exposure under moratorium**. NBFC with significant real estate exposure reported moratorium in excess of ~60% while other NBFCs reported a moratorium of ~25-30%.

In a bid to protect the balance sheet from a surge in slippages post the moratorium period, all banks have undertaken sufficient Covid provisions (not included in PCR calculation). Total provisioning for Q4FY20 was at ₹ 90,674 crore. As majority of banks granted moratorium to all customers in case of non-payment of EMIs, initial moratorium looked larger. However, streamlining of the moratorium opt in process coupled with easing of the lockdown is expected to lead to a decline in the moratorium proportion in Q1FY21E. **As ambiguity remains on assessment of moratorium by each lender, it is difficult to ascertain faith of asset quality. However, exposure to smaller ticket size loans in rural areas and essential services (for example MFI loans) along with home loans in retail space are expected to revive faster.**

Exhibit 2: Lender wise moratorium and related provision

Lender	Advances	Moratorium (by value)	Provision in Q4FY20	Provision/ Advances
Public Sector Banks				
SBI	24,22,845	23.0%	938.0	0.0%
BoB	6,90,121	65.0%	810.0	0.1%
Indian Bank	1,97,887	40-45%	108.9	0.1%
Private Sector Banks				
HDFC Bank	9,93,703	9.0%	1,550.0	0.2%
Axis Bank	5,71,424	28.0%	3,526.0	0.6%
IndusInd Bank	2,06,783	5.0%	283.0	0.1%
Kotal Bank	2,19,748	26.0%	650.0	0.3%
Bandhan Bank	71,000	71.0%	690.0	1.0%
DCB Bank	25,348	60.0%	63.0	0.2%
IDFC First Bank	1,07,004	35.0%	225.0	0.2%
Federal Bank	1,24,153	35.0%	30.0	0.0%
City Union Bank	34,576	52.0%	125.0	0.4%
NBFCs				
Bajaj Finance	1,45,092	22.0%	850.0	0.6%
HDFC Ltd	4,50,903	26.0%	590.0	0.1%
Chola	70,000	76.0%	534.0	0.8%
CanFin Home	20,768	29.0%	36.0	0.2%
LIC HF	2,10,578	25.0%	0.0	0.0%

Source: Company, ICICI Direct Research

Credit growth to be muted; large banks to gain market share

A gradual slowdown in the economy has been leading to deceleration in credit growth since April 2019. Growth in advances was reported in single digits at 6.7% in FY20 to ₹ 92.1 lakh crore. This slowdown in economic activity has been further accentuated by emergence of Covid. Lockdown and falling confidence level of consumers is expected to lead to contraction in GDP in FY21E. Thus, it is believed to keep advances growth moderate in bare minimum positive territory. While announcement of moratorium by RBI has provided respite to ailing borrowers, non-repayment of dues (utilising moratorium) led outstanding credit to remain broadly constant. Consequently, outstanding credit of banking system stayed at ~₹ 92 lakh crore as of May 2020.

A lockdown in the first two months of the fiscal and a gradual recovery in capex, discretionary spending in the unlock period are seen impacting fresh disbursements; lower repayment amid moratorium is likely to keep credit growth positive at 0-1% YoY in FY21E (Crisil), which is at a multi-year low.

- Corporate segment is expected to bear the brunt led by a gradual uptick in capacity utilisation and absence of large capex plans
- Job losses, pay cuts, reduction in discretionary spending and increasing caution of lenders on unsecured lending are seen impacting growth in the retail segment ahead. This has been providing support to overall credit offtake. **Gold loans are expected to witness traction as majority of lenders have geared up disbursements in the segment**
- While corporate and retail segment are expected to remain weak, agriculture and MSME segment may witness relatively better growth. As per Crisil, the agriculture segment is expected to grow at 3-4% YoY in FY21E, supported by expectation of normal monsoon and a faster revival in the rural economy
- Growth in the MSME segment is expected to scale up at 6-7% YoY, given disbursements related to government's ₹ 3 lakh crore Emergency Credit Line Guarantee Scheme (ECLGS)

Industry growth remained broadly flattish at 0.7% in March 2020, mainly due to de-growth in the infrastructure and metals sector. However, growth in the chemical sector provided some respite. Infrastructure and metals de-grew 0.2% & 5.7% YoY to ₹ ~10.5 lakh crore, ~₹ 3.5 lakh crore, respectively, while credit to the chemical segment grew 6% YoY to ~₹ 2.0 lakh crore. In the infrastructure segment, telecom remained the odd one out with ~24.4% YoY growth in advances.

Services segment, on the other hand, grew faster at 7.4% YoY, primarily led by traction in NBFCs segment at 25.9%, which was at ~ ₹ 8.1 lakh crore in March 20220 vs.₹ 6.4 lakh crore in March 2019. As banks maintained a cautious stance towards NBFC lending, NBFC loan growth remained broadly flattish at ~₹ 8.1 lakh crore in April 2020. Retail loan segment continued with consistent growth at ~15% YoY in March 2020 with major traction towards housing loans at ~₹ 13.4 lakh crore.

Exhibit 3: Muted credit growth trend

₹crores	FY18	FY19	Jan-20	Feb-20	FY20	Apr-20
Non-Food Credit	76,88,423	86,33,418	89,00,136	89,14,711	92,11,544	91,00,648
Agriculture & Allied Activities	10,30,215	11,11,300	11,53,386	11,55,990	11,57,795	11,51,330
Industry	26,99,268	28,85,778	28,17,525	27,92,812	29,05,151	28,84,372
Large	22,22,589	24,03,878	23,37,662	23,13,977	24,17,728	24,26,574
Services	20,50,471	24,15,609	24,31,975	24,33,858	25,94,946	25,74,155
NBFCs	4,96,393	6,41,208	7,37,198	7,03,667	8,07,383	8,12,388
Personal Loans	19,08,469	22,20,732	24,97,250	25,32,051	25,53,652	24,90,791
Housing (Including Priority Sector	9,74,565	11,60,111	13,16,481	13,28,991	13,38,964	13,30,709
Credit Card Outstanding	68,628	88,262	1,10,864	1,10,946	1,08,094	96,978
Vehicle Loans	1,89,786	2,02,154	2,20,240	2,21,129	2,20,609	2,16,968
YOY growth (%)						
Non-Food Credit	8.4%	12.3%	8.5%	7.3%	6.7%	7.3%
Agriculture & Allied Activities	3.8%	7.9%	6.5%	5.8%	4.2%	3.9%
Industry	0.7%	6.9%	2.5%	0.7%	0.7%	1.7%
Large	0.8%	8.2%	2.8%	0.7%	0.6%	2.7%
Services	13.8%	17.8%	8.9%	6.9%	7.4%	11.2%
NBFCs	26.9%	29.2%	32.2%	22.3%	25.9%	30.3%
Personal Loans	17.8%	16.4%	16.9%	17.0%	15.0%	12.1%
Housing (Including Priority Sector	13.3%	19.0%	17.5%	17.1%	15.4%	13.9%
Credit Card Outstanding	31.6%	28.6%	31.6%	33.0%	22.5%	4.8%
Vehicle Loans	11.3%	6.5%	9.8%	10.3%	9.1%	8.6%
Proportion (%)						
Agriculture & Allied Activities	13.4%	12.9%	13.3%	13.3%	13.4%	13.3%
Industry	35.1%	33.4%	32.5%	32.2%	33.5%	33.3%
Large	28.9%	27.8%	26.3%	26.0%	26.2%	26.7%
Services	26.7%	28.0%	28.1%	28.1%	30.0%	29.7%
NBFCs	6.5%	7.4%	8.3%	7.9%	8.8%	8.9%
Personal Loans	24.8%	25.7%	28.8%	29.2%	29.5%	28.8%
Housing (Including Priority Sector	12.7%	13.4%	14.8%	14.9%	14.5%	14.6%
Credit Card Outstanding	0.9%	1.0%	1.2%	1.2%	1.2%	1.1%
Vehicle Loans	2.5%	2.3%	2.5%	2.5%	2.4%	2.4%

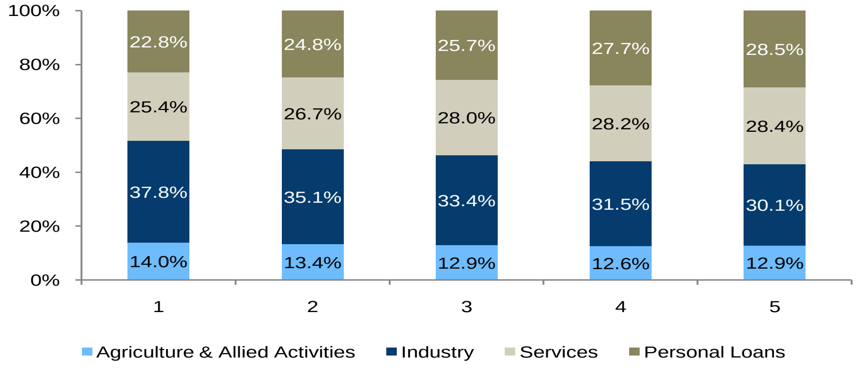
Source: RBI, ICICI Direct Research

Exhibit 4: Industry wise credit deployment data

₹crores	FY18	FY19	Jan-20	Feb-20	FY20	Apr-20
Food Processing	1,55,358	1,57,058	1,50,279	1,49,851	1,54,146	1,52,326
Textiles	2,09,902	2,03,549	1,90,108	1,88,067	1,92,424	1,90,040
Chemicals & Chemical Products	1,62,992	1,91,484	1,83,048	1,84,239	2,02,949	1,93,201
Basic Metal & Metal Product	4,16,018	3,71,564	3,35,104	3,33,597	3,50,325	3,54,085
All Engineering	1,55,320	1,68,621	1,57,586	1,55,428	1,57,259	1,54,251
Infrastructure	8,90,937	10,55,921	10,36,852	10,18,749	10,53,913	10,55,204
Power	5,19,619	5,68,966	5,59,305	5,38,993	5,59,774	5,66,556
Telecommunications	84,560	1,15,585	1,36,080	1,41,171	1,43,760	1,39,040
Roads	1,66,540	1,86,852	1,92,232	1,86,148	1,90,676	1,89,441
Industry	26,99,268	28,85,778	28,17,525	27,92,812	29,05,151	28,84,372
Non-Food Credit	76,88,423	86,33,418	89,00,136	89,14,711	92,11,544	91,00,648
YoY growth (%)	**FY18**	**FY19**	**Jan-20**	**Feb-20**	**FY20**	**Apr-20**
Food Processing	6.8%	1.1%	-0.2%	-3.1%	-1.9%	-1.1%
Textiles	6.9%	-3.0%	-4.1%	-6.6%	-5.5%	-4.6%
Chemicals & Chemical Products	-5.5%	17.5%	2.0%	0.7%	6.0%	8.8%
Basic Metal & Metal Product	-1.2%	-10.7%	-9.3%	-10.0%	-5.7%	-0.3%
All Engineering	3.8%	8.6%	-2.2%	-4.8%	-6.7%	-7.3%
Infrastructure	-1.7%	18.5%	5.1%	3.3%	-0.2%	-0.9%
Power	-1.1%	9.5%	0.9%	-2.8%	-1.6%	-0.6%
Telecommunications	-0.6%	36.7%	46.7%	54.3%	24.4%	7.2%
Roads	-7.5%	12.2%	2.1%	-1.6%	2.0%	1.8%
Industry	0.7%	6.9%	2.5%	0.7%	0.7%	1.7%
Non-Food Credit	8.4%	12.3%	8.5%	7.3%	6.7%	7.3%
Proportion of non-food credit(%)						
Infrastructure	11.6%	12.2%	11.6%	11.4%	11.4%	11.6%
Power	6.8%	6.6%	6.3%	6.0%	6.1%	6.2%
Telecommunications	1.1%	1.3%	1.5%	1.6%	1.6%	1.5%
Roads	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%
Industry	35.1%	33.4%	31.7%	31.3%	31.5%	31.7%
Non-Food Credit	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: RBI, ICICI Direct Research

Exhibit 5: Growth in MSME led by GoI guarantee; corp to remain slow



Source: RBI, ICICI Direct Research

Indian industry advances were at ₹ 103.7 lakh crore as of March 2020 with deposits at ₹ 137.5 lakh crore. Top five banks (Axis Bank, HDFC Bank, Kotak Mahindra Bank, SBI and a large private bank) contribute ~48.5% in advances and ~60% in systematic deposits. Incremental growth in advances on sequential basis have been ~₹ 3.3 lakh crore, of which ~64% i.e. ₹ 2.12 lakh crore is contributed by top five banks. On deposits, incremental flow in the Indian banking system has been at ₹ 3.6 lakh crore in Q4FY20, of which ~100% i.e. ₹ 3.3 lakh crore has accrued by top five banks. Given extensive reach of branches, trust and large customer base, top five banks have garnered majority of incremental business in Q4FY20. Going ahead, adequate capital, customer base, extensive branch reach and customer confidence are seen enabling these players to garner majority of incremental business ahead.

Exhibit 6: Top 4 banks contribute to majority of incremental business

Q4FY20	Axis Bank	HDFC Bank	SBI	Kotak
Advances	**571424**	**993703**	**2422845**	**219748**
Corporate	2,04,103	4,99,304	8,44,215	84,855
SME	61,921		2,67,614	
Oversea			3,57,360	
Retail & Agri	3,05,400	4,94,399	9,53,656	1,34,893
Home Loans	1,06,890	63,445	4,55,865	46,881
Rural Lending	36,648	43,301	2,06,067	28,757
Auto loans	39,702	1,22,835	72,662	19,253
Personal Loan	39,702	1,15,557	4,25,129	34,294
LAP	27,486			
Credit Cards	15,270	57,575		
Business Banking	12,216	64,124		
Gold loan		5,430		
Others	27,486	22,132		5,708
Deposits	**640105**	**1147502**	**3241621**	**262821**
Saving deposit	173592	310377	1193566	104609
Current deposit	90114	174248	217415	43013
Term deposit	376399	662877	1713635	115199
Foreign deposit			117005	
BV (FY20)	298	312	260	259

Source: RBI, ICICI Direct Research

Healthy sanction in credit to MSME, large bank play major role

Given emergence of Covid and its impact on medium, small and micro enterprises segment (MSMEs), the government has announced ₹ 3 lakh crore Emergency Credit Line Guarantee Scheme for MSME segment under Atmanirbhar Bharat Abhiyan. This scheme aims to provide liquidity to MSMEs to fight economic distress being faced due to Covid-19 pandemic and related lockdown. Such incremental disbursement up to ₹ 3 lakh crore will be fully guaranteed by the Government of India.

Under this scheme, MSME borrowers with outstanding borrowing up to ₹ 25 crore and standard (i.e. not default) are eligible to avail an additional 20% of funding from banks, NBFCs and other financial institutions. As per the scheme, incremental loans will have a one year moratorium with maximum permissible interest rate that can be charged capped at 9.25% by banks and 14% by NBFCs.

As per media sources, as on June 20, 2020, 12 PSBs and 16 private sector banks sanctioned ₹ 75426 crore to MSME under this scheme. Out of this, 44% i.e. ₹ 32894 crore has been disbursed so far. While PSBs have sanctioned ~57% of credit to MSMEs, large private banks are taking active participation by sanctioning ₹ 32687 crore i.e. 43% of total sanctions. Mid-sized private banks, with substantial exposure to MSME segment, are seen remaining behind as cap on yield at 9.25% impacts overall yields, margins.

Exhibit 7: Sanctions to MSME segment at a healthy rate

Rs crore	05 June 2020	22 June 2020	Latest achievement
Sanction	17,705	75,426	25%
Disbursement	8,320	32,894	11%

Source: Media sources, ICICI Direct Research

Exhibit 8: Share in sanctions to MSME segment

	Amount (Rs crore)	Share (%)
PSB	42,739	57%
Private	32,687	43%
Total	**75,426**	**100%**

Source: Media sources, ICICI Direct Research

Exhibit 9: 2/3 disbursements by PSBs

	Amount (Rs crore)	Share (%)
PSB	22,197	67%
Private	10,697	33%
Total	**32,894**	**100%**

Source: Media sources, ICICI Direct Research

Treasury to support overall performance amid rate cuts

A gradual slowdown in economic activity warranted continued cooling off in G-sec yield in the past lead to healthy treasury performance for banks in the past. Post January 2020, concerns related to spread of Coronavirus and its impact on economic activity have led global central banks to cut down their benchmark rates. Accordingly, G-sec yields have moved southwards to 6.15% led by anticipation of RBI following global central banks in cutting rates.

To curb impact of lockdown amid emergence of Covid, RBI has announced a slew of actions including massive rate cuts and introduction of LTROs. This has led to a decline in G-sec yields from 6.54% on December 30, 2019 to 6.14% on March 31, 2020. Such a decline in interest rates has favoured the treasury performance of banks, which has supported the overall operational performance, especially PSBs.

Further rates cuts, post March 2020, have led to a decline in G-sec yields to 5.92% on June 24, 2020. A decline in interest rates along with a bump up in investment (as banks are seeing inflow of deposits and lack disbursement opportunity amid lockdown) is seen favouring treasury gains in Q1FY21E. Further, interest rates are expected to remain low, though declining trend is seen getting pared down leading to moderation in treasury benefit post Q1FY21E. PSU banks, being more sensitive to change in yield, will remain major beneficiaries with positive impact in the range of 10-30% while the benefit for private players will remain in lower single digits.

Exhibit 10: Decline in G-sec yields led to healthy treasury performance

Q4FY20	Investment book	AFS	Duration (yrs)	Absolute Impact due to decline in Yield		Average asset	Impact on RoA due to decline in yield		Impact on PAT due to decline in yield		Networth	Impact on NW due to decline in yield	
₹crore				30 bps	50 bps		30 bps	50 bps	30 bps	50 bps		30 bps	50 bps
Public sector banks													
Bank of Baroda	2,65,016	95,846	1.3	380	633	8,18,053	4.6	5.4	4.1%	6.8%	71856	0.5%	0.9%
PNB*	2,40,466	74,541	3.6	807	1,345	5,43,125	14.9	17.3	18.5%	30.8%	62358	1.3%	2.2%
SBI	10,46,955	3,83,017	2.1	2,367	3,945	27,83,150	8.5	9.9	6.4%	10.6%	232500	1.0%	1.7%
Indian Bank	81,242	34,892	3.2	336	560	2,29,057	14.7	17.1	19.4%	32.3%	22089	1.5%	2.5%
Private sector banks													
Axis Bank	1,56,734	39,184	NA	NA	NA	6,05,765	NA	NA	NA	NA	84004	NA	NA
City Union Bank	9,236	1,552	0.8	4	6	37,380	1.0	1.2	0.4%	0.6%	5296	0.1%	0.1%
DCB	7,742	1,605	1.0	5	8	27,858	1.8	2.1	0.8%	1.4%	3422	0.1%	0.2%

Source: Company, ICICI Direct Research

Top Picks

Reliance Nippon Asset Management

Incorporated in 1995, Reliance Nippon Asset Management (RNAM) is strategically focused on leadership in the retail segment (24% of AAUM) vs. industry average of 19%. With a widespread distribution network of independent financial advisors, RNAM possesses industry leading presence in B30 cities (17% of AAUM). Amid an uncertain economic environment, RNAM witnessed a dip in AUM. However with the lockdown easing and subsequent market gaining momentum, AUM growth is expected to recover quickly. In addition, buyout of old promoter's stake by Nippon Life has removed substantial overhang and aiding better flows. As on March 31, 2020, equity & debt AUM of RNAM was at ₹ 107211 crore and ₹ 57368 crore, respectively, with a stable SIP book of ₹ 808 crore per month. Well controlled opex and stable AUM growth have supported RNAM to deliver healthy earnings growth over the years. Given the current economic scenario, a business model without large credit risk remains preferred. We expect MF AUM growth at ~6% CAGR in FY21-22E to ₹ 2.45 lakh crore and earnings momentum at ~27% CAGR in FY21-22E to ₹ 667 crore. We have a **BUY** recommendation with a revised target price of ₹ 364

IDFC First

Led by V Vaidyanathan, IDFC First Bank has walked a long path of transformation starting from an infrastructure finance NBFC to universal bank. IDFC First Bank, in its new avatar, envisages becoming a retail centric bank and shifting focus from corporate to granular retail loans, building a strong & sustainable retail liability franchise. With continued focus on balance sheet restructuring funded asset remained broadly stable at ₹ 107400 crore as on March 2020. Within the same, wholesale book, as targeted, de-grew ~11% QoQ to ₹ 39388 crore. Retail book continued to grow at 7% QoQ at ₹ 57310 crore. We expect the bank to increase its focus on MSME loans under the government's MSME credit guarantee scheme. 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. Amid Covid-19, lower moratorium at ~35% coupled with higher PCR at 64.5% provides comfort. Furthermore, a reduction in the moratorium book from March 2020 levels is expected to add to the benefit. Capital raising worth ₹ 2000 crore could delay return ratios target however would improve the ability to absorb any near term shocks. We value the bank at ~0.9x FY22E ABV with a revised TP of ₹ 30. Maintain BUY.

Bandhan Bank

Bandhan Bank is a unique business model of high yielding micro finance loan portfolio (~64% of merged AUM) and low cost deposit franchise with 36.84% CASA offered in the ambit of a commercial bank. On January 1, 2019, Bandhan Bank merged with Gruh Finance (a housing finance company). As on March 31, 2020, AUM growth of the merged entity was reported at 60.5% YoY to ₹ 71846 crore. Healthy traction continued in micro finance segment at 19.6% YoY to ₹ 46189 crore. During the same period, deposit accretion remained healthy at 32% YoY to ₹ 57082 crore with CASA ratio at 36.8%. On account of Covid led lockdown, the bank reported 71% of the total loan book under moratorium. However, as the bank has higher exposure towards essential services in rural areas, it would lead to higher pace of revival in disbursement and collection post lifting of the lockdown. Also, ~76% of micro finance exposure in green/amber zone, healthy liabilities franchise and strong capital adequacy provide cushion against any rise in delinquencies. Hence, we expect earnings trajectory at ~18% CAGR in FY21-22E to ₹ 3209 crore. We revise our target price to ₹ 370 per share, valuing the stock (post merger) at ~18.6x FY22E EPS (~3.2x FY22E ABV). We maintain BUY rating on the stock

Annexure

Exhibit 11: Asset quality trend

Asset quality trend	GNPA (₹crore)					NNPA (₹crore)				
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
PSU coverage										
Bank of Baroda	48,233	69,714	69,969	73,140	69,381	15,610	25,030	24,894	26,504	21,576
SBI	1,72,750	1,68,494	1,61,636	1,59,660	1,49,089	65,895	65,624	59,939	58,248	51,871
Private coverage										
Axis Bank	29,789	29,405	29,071	30,073	30,234	11,276	11,037	11,138	12,160	9,360
DCB Bank	439	476	523	552	632	154	196	238	261	294
IndusInd Bank	3,947	4,200	4,370	4,578	5,147	2,248	2,381	2,203	2,173	1,887
HDFC Bank	11,224	11,769	12,508	13,427	12,650	3,215	3,567	3,791	4,468	3,542
Federal Bank	3,261	3,395	3,612	3,612	3,531	1,626	1,673	1,844	1,941	1,607
Kotak Bank	4,468	4,614	5,034	5,413	5,027	1,544	1,524	1,811	1,925	1,558
Bandhan Bank	820	1,020	1,064	1,182	993	228	348	337	491	389
IDFC First	2,136	2,419	2,306	2,511	2,280	1,107	1,216	1,012	1,071	808

Source: Company, ICICI Direct Research

Exhibit 12: Quarterly margin trend

NIM (%)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
PSU coverage							
Bank of Baroda	2.6	2.7	2.9	2.6	2.8	2.8	2.7
SBI	2.7	2.8	2.8	2.8	2.9	3.1	3.0
Private coverage							
Axis Bank	3.4	3.5	3.4	3.4	3.5	3.6	3.6
Bandhan Bank	10.3	10.5	10.7	10.5	8.2	7.9	8.1
DCB Bank	3.8	3.8	3.8	3.7	3.7	3.7	3.7
Federal Bank	3.2	3.2	3.2	3.2	3.0	3.0	3.0
HDFC Bank	4.3	4.3	4.4	4.3	4.2	4.2	4.3
IndusInd Bank	3.8	3.8	3.6	4.1	4.1	4.2	4.3
Kotak Mahindra Bank	4.2	4.3	4.5	4.5	4.6	4.7	4.7
IDFC First Bank		2.9	3.0	3.0	3.4	3.9	4.2

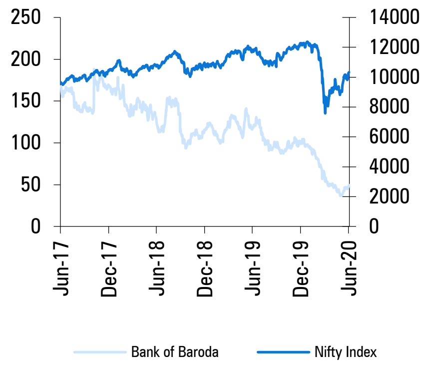
Source: Company, ICICI Direct Research

Exhibit 13: Key financial of industry as of Q4FY20

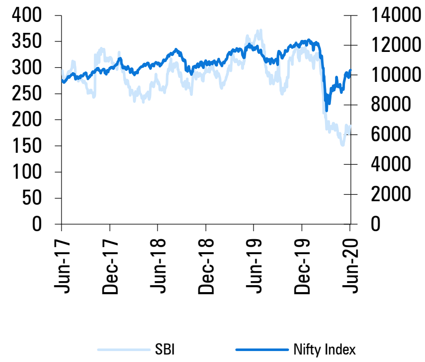
	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
NII	99779.0	100055.0	103916.0	11960.0	111298.5
Growth YoY	**20.7**	**8.8**	**15.8**	**15.0**	**11.5**
Other Income	48118.0	41393.0	49408.0	51938.0	67162.1
Growth YoY	4.7	16.9	39.0	28.5	39.6
Total Operating Expense	73797.0	69446.0	73395.0	75838.0	86326.5
Staff Cost	35468.0	35539.0	37144.0	38041.0	41760.8
Operating Profit	74100.0	72002.0	79929.0	87061.0	92134.2
Growth YoY	22.0	12.0	27.4	30.0	24.3
Provsions	103481.0	54326.0	59165.0	62698.0	90674.8
PBT	-29381.0	17598.0	20691.0	24136.0	1459.4
PAT	-19961.0	11095.0	7245.0	6867.0	-2113.2
Growth YoY	**NM**	**NM**	**NM**	**NM**	**NM**
GNPA	912417.0	912179.0	904777.0	895706.0	939651.2
Growth YoY	**-10.7**	**-8.8**	**-8.9**	**-6.3**	**3.0**
NNPA	350022.0	346883.0	332139.0	326900.0	324865.3
Growth YoY	**-32.2**	**-28.3**	**-28.0**	**-21.2**	**-7.2**

Source: Capital-line, Company, ICICI Direct Research

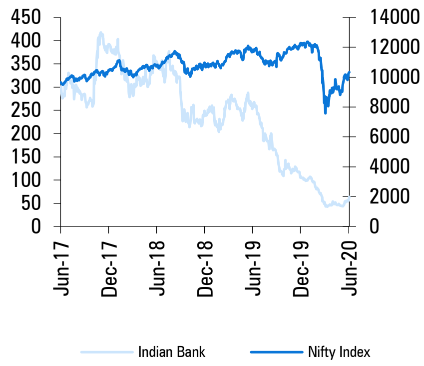
Bank of Baroda price chart



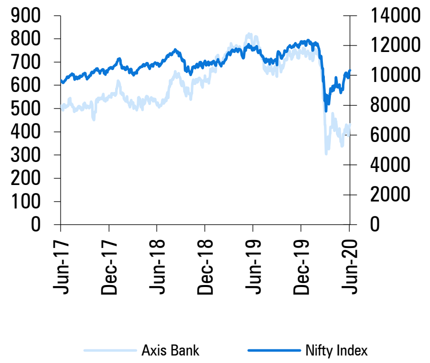
State Bank of India price chart



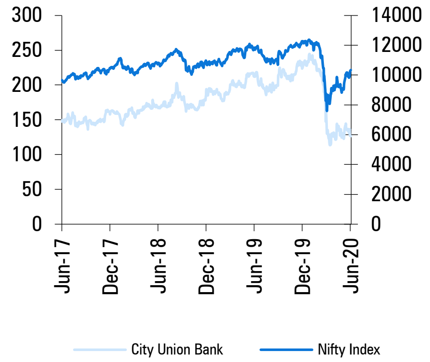
Indian Bank price chart



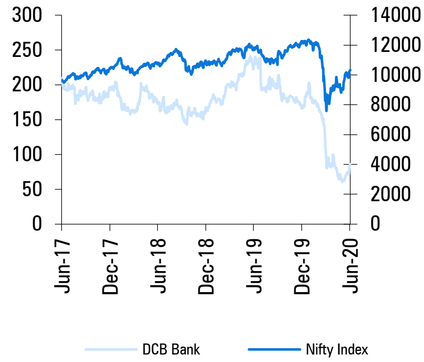
Axis Bank price chart



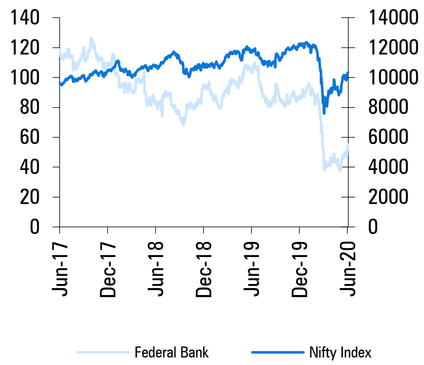
City Union price chart



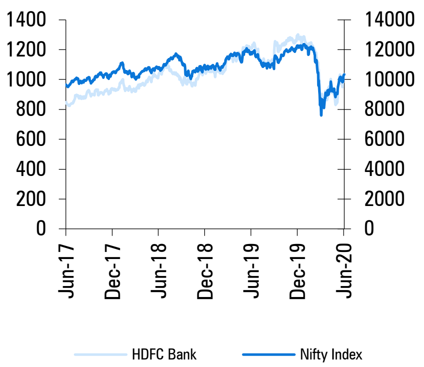
DCB Bank price chart



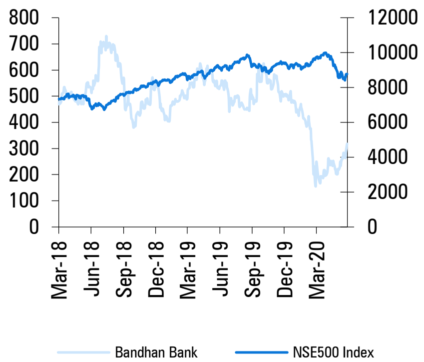
Federal Bank price chart



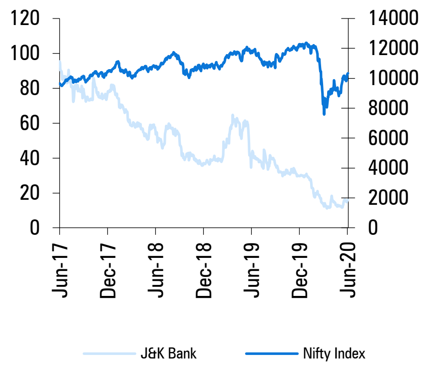
HDFC Bank price chart



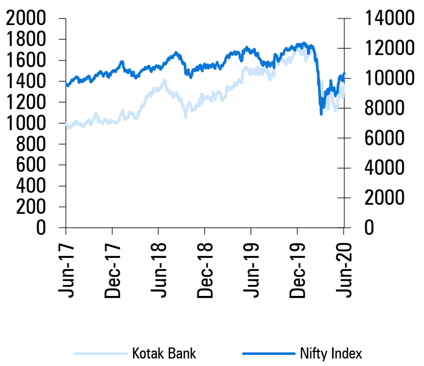
Bandhan Bank price chart



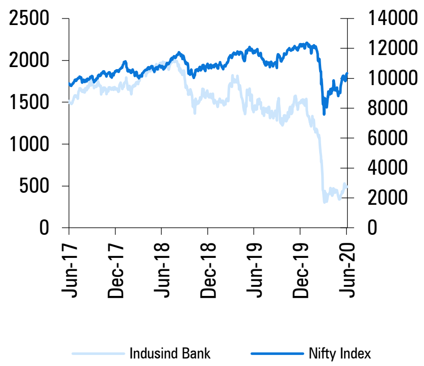
Jammu & Kashmir Bank price chart



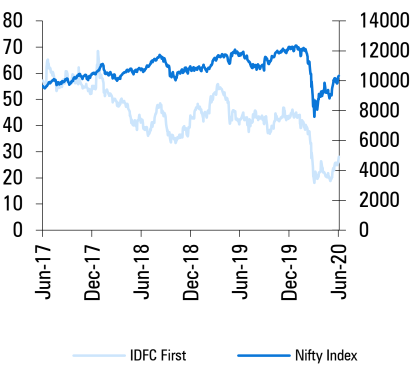
Kotak Mahindra Bank price chart



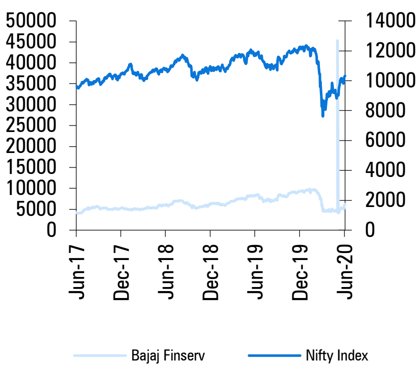
Indusind Bank price chart



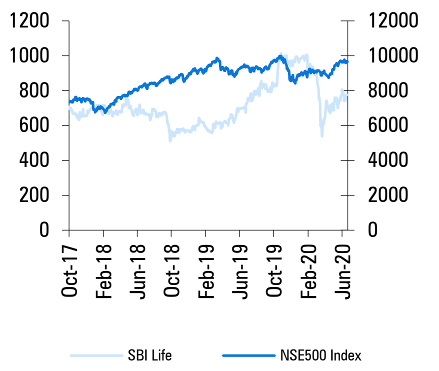
IDFC First Bank price chart



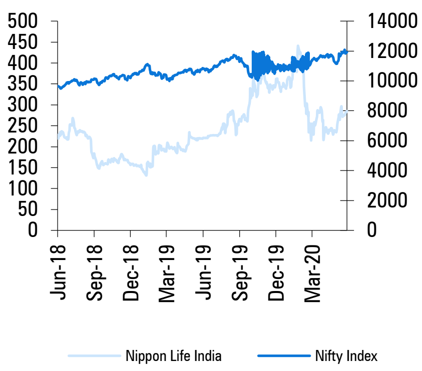
Bajaj Finserv Bank price chart



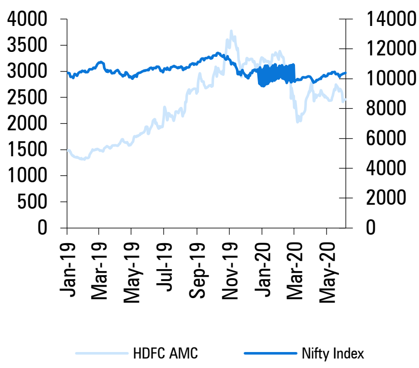
SBI Life price chart



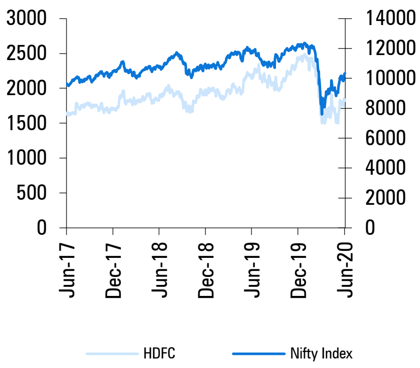
Nippon Life AMC price chart



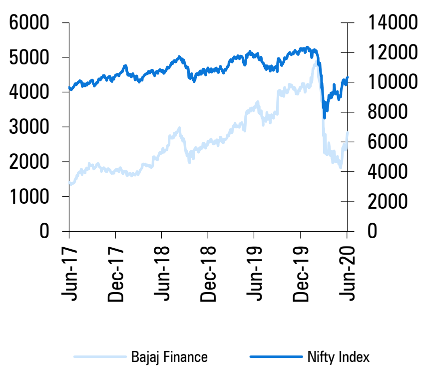
HDFC AMC price chart



HDFC Ltd price chart



Bajaj Finance price chart



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Sell: <-15%

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