

**Estimate change**

**TP change**

**Rating change**


Bloomberg	BANDHAN IN
Equity Shares (m)	1,610
M.Cap.(INRb)/(USD\$)	549.2 / 7.9
52-Week Range (INR)	487 / 152
1, 6, 12 Rel. Per (%)	-18/-34/-49
12M Avg Val (INR M)	4637

### Financials & Valuations (INR b)

Y/E March	FY20	FY21E	FY22E
NII	63.2	79.3	100.4
OP	54.5	70.7	88.4
NP	30.2	27.9	47.6
NIM (%)	9.0	8.2	8.6
EPS (INR)	21.6	17.3	29.6
EPS Gr. (%)	31.9	-19.7	70.5
BV/Sh. (INR)	94	107	131
ABV/Sh. (INR)	93	97	122

### Ratios

RoE (%)	22.9	17.2	24.9
RoA (%)	4.1	2.8	3.9

### Valuations

P/E(X)	15.8	19.7	11.5
P/BV (X)	3.6	3.2	2.6
P/ABV (X)	3.7	3.5	2.8

### Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	40.0	40.0	61.0
DII	4.4	5.8	8.2
FII	35.2	32.2	13.9
Others	20.4	21.9	17.0

FII Includes depository receipts

**CMP: INR341 TP: INR370 (+9%) Downgrade to Neutral**

## Asset quality deteriorates; collection efficiency in Assam witnesses a sharp decline

### Liability traction remains robust

- BANDHAN reported a weak quarter, with net earnings falling sharply below estimates, affected by provisions of INR10b predominantly towards rising asset quality concerns in the Assam portfolio. However, operating performance remains strong, led by higher NII as margin improved 30bp QoQ, while AUMs grew at 23% YoY. Liability traction was robust at 30% YoY.
- On the asset quality front, the pro-forma GNPA/NNPA ratio increased to ~7.1%/2.36%, with Odpd of ~76.5%. Collection efficiency in Assam dropped by 1,000bp to 78% during 1-16 Jan'21. We raise our credit cost estimate for FY21E/FY22E to 4.4%/2.6% and downgrade our rating to Neutral.

### Higher provisions drive earnings miss; business momentum remains strong

- 3QFY21 PAT stood at INR6.3b (13% YoY decline; ~32% below our estimate) as provisions increased ~170% QoQ to INR10.7b as the management made COVID-related provisions of INR10b. BANDHAN holds total COVID-related provisions of INR27.4b (~3.6% of loans or ~5% of MFI loans).
- NII grew 35% YoY to INR20.7b (6% beat) as NIMs improved by 30bp QoQ to 8.3%. Other income trends were also strong and grew at 55% YoY, while opex grew 12% YoY to INR7.1b. PPOP grew 51% YoY to INR19.1b (15% beat). For 9MFY21, PPOP grew at 31% YoY, while PAT declined 16% YoY.
- Advances grew ~23% YoY (~5% QoQ), led by ~32% growth in the MFI book. The Mortgage portfolio growth remained muted. The share of MFI portfolio stood at 66% of total AUM (v/s ~65% in 2QFY21). Disbursements in the MFI portfolio grew at 14% YoY (59% QoQ), while the Housing portfolio grew at 29% YoY. Total number of active borrowers in the MFI portfolio touched 11.3m (7.6% YoY).
- Deposits grew 30% YoY to INR712b, led by ~62% YoY growth in CASA deposits to ~INR305b. CASA ratio improved to 42.9% (v/s 38.2% in 2QFY21), while the proportion of retail deposits increased to ~81%.
- On the asset quality front, the pro-forma GNPA/NNPA ratio increased to ~7.1%/2.36%, (v/s ~1.1%/0.3% at present) due to increasing challenges in core geographies: Assam and West Bengal. Collection efficiency in the MFI portfolio declined to ~90% as of 16 Jan'21 (~92% as of Dec'20). Among states, collection efficiency in Assam dropped to 78% as on 16 Jan'21 (88% during Dec'20). However, collection trends in the Affordable Housing and Commercial Banking portfolio stood stable at 98%.

### Highlights from the management commentary

- Around 80% of the customers are making full payments, while 13% are making partial payments. About 76.5% of total portfolio are in the 'O' dpd category.
- Credit cost for FY21E increased to 5% (v/s 3.5% guided earlier) due to rising concerns in the Assam region.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

BANDHAN reported a sharp deterioration in asset quality trends, with pro-forma GNPA ratio increasing to ~7.1%, while collection efficiency in the MFI portfolio in its core state of Assam has witnessed a sharp decline. The bank has made higher COVID-related provisions of INR10b during 3QFY21, pre-dominantly towards rising stress in Assam, thus taking additional provisions to 3.6% of loans to manage higher delinquencies in coming quarters. Operating performance remains strong and continues to demonstrate strong deposit performance, led by retail deposits. We cut our earnings for FY21E by 22% to factor in higher credit cost at 4.4%/2.6% for FY21E/FY22E. We downgrade our rating to Neutral on rising asset quality concerns and revise our TP to INR370/share (2.5x Sep'22E BV).

**Quarterly performance****(INR m)**

Y/E March	FY20				FY21E				FY20	FY21E	3QFY21E	v/s our estimate
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net interest income</b>	<b>15,746</b>	<b>15,290</b>	<b>15,403</b>	<b>16,800</b>	<b>18,115</b>	<b>19,231</b>	<b>20,717</b>	<b>21,237</b>	<b>63,239</b>	<b>79,300</b>	<b>19,612</b>	<b>6%</b>
% change (YoY)	51.8	41.9	37.0	33.6	15.0	25.8	34.5	26.4	40.7	25.4	27.3	
Other income	3,310	3,603	3,577	5,002	3,868	3,818	5,533	5,682	15,492	18,900	4,268	30%
<b>Total income</b>	<b>19,056</b>	<b>18,893</b>	<b>18,980</b>	<b>21,802</b>	<b>21,983</b>	<b>23,049</b>	<b>26,250</b>	<b>26,919</b>	<b>78,731</b>	<b>98,201</b>	<b>23,880</b>	<b>10%</b>
Operating expenses	5,505	5,824	6,341	6,595	6,141	6,773	7,109	7,475	24,265	27,499	7,226	-2%
<b>Operating profit</b>	<b>13,551</b>	<b>13,069</b>	<b>12,639</b>	<b>15,207</b>	<b>15,842</b>	<b>16,275</b>	<b>19,141</b>	<b>19,444</b>	<b>54,466</b>	<b>70,702</b>	<b>16,654</b>	<b>15%</b>
% change (YoY)	65.1	49.5	40.4	31.9	16.9	24.5	51.4	27.9	45.3	29.8	31.8	
Other provisions	1,254	1,455	2,949	8,274	8,491	3,945	10,687	10,266	13,932	33,389	4,212	154%
<b>Profit before tax</b>	<b>12,297</b>	<b>11,614</b>	<b>9,690</b>	<b>6,933</b>	<b>7,351</b>	<b>12,330</b>	<b>8,454</b>	<b>9,178</b>	<b>40,534</b>	<b>37,313</b>	<b>12,442</b>	<b>-32%</b>
Tax	4,261	1,896	2,380	1,760	1,853	3,130	2,128	2,292	10,297	9,403	3,123	-32%
<b>Net profit</b>	<b>8,036</b>	<b>9,718</b>	<b>7,310</b>	<b>5,173</b>	<b>5,498</b>	<b>9,200</b>	<b>6,326</b>	<b>6,886</b>	<b>30,237</b>	<b>27,910</b>	<b>9,319</b>	<b>-32%</b>
% change (YoY)	66.8	99.3	120.7	-20.5	-31.6	-5.3	-13.5	33.1	54.9	-7.7	27.5	
<b>Operating parameters</b>												
Deposits (INR b)	437	492	549	571	606	661	712	736	571	736	712	0%
Loans (INR b)	415	598	606	666	697	733	768	816	666	816	759	1%
Deposit growth (%)	42.3	49.3	58.5	32.0	38.7	34.4	29.6	29.0	32.0	29.0	29.6	0
Loan growth (%)	35.9	88.4	78.9	68.1	68.1	22.6	26.7	22.4	68.1	22.4	25.2	-149
<b>Asset quality</b>												
Gross NPA (%)	1.7	1.8	1.9	1.5	1.4	1.2	1.1	7.4	1.5	7.4	1.9	82
Net NPA (%)	0.6	0.6	0.8	0.6	0.5	0.4	0.3	2.9	0.6	2.9	0.6	38
PCR (%)	65.9	68.3	58.4	60.8	66.6	70.0	76.6	60.5	60.8	60.5	67.0	-957

E: MOFSL estimates

## Quarterly snapshot

	FY19				FY20				FY21			Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
<b>Profit and Loss (INR m)</b>													
<b>Interest income</b>	<b>15,562</b>	<b>16,056</b>	<b>16,496</b>	<b>18,327</b>	<b>26,313</b>	<b>26,903</b>	<b>27,176</b>	<b>28,463</b>	<b>30,181</b>	<b>31,976</b>	<b>33,078</b>	<b>22</b>	<b>3</b>
Loans	12,981	13,998	14,356	15,938	22,817	23,702	23,711	24,632	26,220	27,925	29,068	23	4
Investment	1,509	1,594	1,513	1,555	1,902	1,955	2,006	2,465	2,292	2,723	3,158	57	16
Others	1,072	464	627	834	1,594	1,246	1,459	1,365	1,669	1,328	852	-42	-36
<b>Interest expenses</b>	<b>5,190</b>	<b>5,282</b>	<b>5,256</b>	<b>5,752</b>	<b>10,567</b>	<b>11,612</b>	<b>11,774</b>	<b>11,663</b>	<b>12,066</b>	<b>12,745</b>	<b>12,361</b>	<b>5</b>	<b>-3</b>
<b>Net interest income</b>	<b>10,372</b>	<b>10,775</b>	<b>11,240</b>	<b>12,575</b>	<b>15,746</b>	<b>15,290</b>	<b>15,403</b>	<b>16,800</b>	<b>18,115</b>	<b>19,231</b>	<b>20,717</b>	<b>35</b>	<b>8</b>
<b>Other income</b>	<b>2,107</b>	<b>2,304</b>	<b>2,341</b>	<b>3,878</b>	<b>3,310</b>	<b>3,603</b>	<b>3,577</b>	<b>5,002</b>	<b>3,868</b>	<b>3,818</b>	<b>5,533</b>	<b>55</b>	<b>45</b>
<b>Total income</b>	<b>12,479</b>	<b>13,079</b>	<b>13,581</b>	<b>16,453</b>	<b>19,056</b>	<b>18,893</b>	<b>18,980</b>	<b>21,802</b>	<b>21,983</b>	<b>23,049</b>	<b>26,250</b>	<b>38</b>	<b>14</b>
<b>Operating expense</b>	<b>4,273</b>	<b>4,339</b>	<b>4,576</b>	<b>4,921</b>	<b>5,505</b>	<b>5,824</b>	<b>6,341</b>	<b>6,595</b>	<b>6,141</b>	<b>6,773</b>	<b>7,109</b>	<b>12</b>	<b>5</b>
Employee	2,489	2,342	2,558	2,699	3,318	3,327	3,405	3,621	3,894	4,148	4,348	28	5
Others	1,785	1,997	2,019	2,222	2,187	2,497	2,936	2,975	2,247	2,626	2,762	-6	5
<b>Operating profit</b>	<b>8,205</b>	<b>8,740</b>	<b>9,005</b>	<b>11,532</b>	<b>13,551</b>	<b>13,069</b>	<b>12,639</b>	<b>15,207</b>	<b>15,842</b>	<b>16,275</b>	<b>19,141</b>	<b>51</b>	<b>18</b>
<b>Core operating profit</b>	<b>8,205</b>	<b>8,740</b>	<b>9,005</b>	<b>11,532</b>	<b>13,551</b>	<b>13,069</b>	<b>12,639</b>	<b>15,207</b>	<b>15,842</b>	<b>16,275</b>	<b>19,141</b>	<b>51</b>	<b>18</b>
<b>Provisions</b>	<b>800</b>	<b>1,242</b>	<b>3,776</b>	<b>1,533</b>	<b>1,254</b>	<b>1,455</b>	<b>2,949</b>	<b>8,274</b>	<b>8,491</b>	<b>3,945</b>	<b>10,687</b>	<b>262</b>	<b>171</b>
<b>PBT</b>	<b>7,405</b>	<b>7,498</b>	<b>5,228</b>	<b>9,999</b>	<b>12,297</b>	<b>11,614</b>	<b>9,690</b>	<b>6,933</b>	<b>7,351</b>	<b>12,330</b>	<b>8,454</b>	<b>-13</b>	<b>-31</b>
Taxes	2,588	2,622	1,916	3,491	4,261	1,896	2,380	1,760	1,853	3,130	2,128	-11	-32
<b>PAT</b>	<b>4,817</b>	<b>4,877</b>	<b>3,313</b>	<b>6,509</b>	<b>8,036</b>	<b>9,718</b>	<b>7,310</b>	<b>5,173</b>	<b>5,498</b>	<b>9,200</b>	<b>6,326</b>	<b>-13</b>	<b>-31</b>
<b>Balance Sheet (INR b)</b>													
Deposits	307	330	346	432	437	492	549	571	606	661	712	30	8
Loans	305	317	339	396	415	598	606	666	697	733	768	27	5
<b>Asset quality (INR m)</b>													
<b>GNPA</b>	<b>3,883</b>	<b>4,133</b>	<b>8,310</b>	<b>8,196</b>	<b>10,197</b>	<b>10,642</b>	<b>11,820</b>	<b>9,928</b>	<b>10,067</b>	<b>8,740</b>	<b>8,592</b>	<b>-27</b>	<b>-2</b>
<b>NNPA</b>	<b>1,924</b>	<b>2,204</b>	<b>2,367</b>	<b>2,283</b>	<b>3,475</b>	<b>3,369</b>	<b>4,914</b>	<b>3,894</b>	<b>3,358</b>	<b>2,625</b>	<b>2,013</b>	<b>-59</b>	<b>-23</b>

## Quarterly snapshot continued

Ratios (%)	FY19				FY20				FY20			Change (bps)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
<b>- Asset quality ratios</b>													
GNPA (%)	1.3	1.3	2.4	2.0	1.7	1.8	1.9	1.5	1.4	1.2	1.1	-82	-7
NNPA (%)	0.6	0.7	0.7	0.6	0.6	0.6	0.8	0.6	0.5	0.4	0.3	-55	-10
PCR (calculated, %)	50.4	46.7	71.5	72.1	65.9	68.3	58.4	60.8	66.6	70.0	76.6	1,815	661
<b>- Business ratios</b>													
Cost-to-core income	34.2	33.2	33.7	29.9	28.9	30.8	33.4	30.3	27.9	29.4	27.1	-633	-230
Tax rate	34.9	35.0	36.6	34.9	34.6	16.3	24.6	25.4	25.2	25.4	25.2	61	-22
CASA (%)	35.5	36.9	41.4	40.8	36.1	32.9	34.3	36.8	37.1	38.2	42.9	856	464
Loan-to-deposit ratio	99.4	96.3	97.8	91.7	94.9	121.5	110.4	116.7	115.1	110.9	107.8	-252	-301
<b>- Profitability ratios</b>													
RoA	4.5	4.3	2.9	5.2	4.9	4.8	3.5	2.4	2.3	3.6	2.4	-110	-120
RoE	19.9	19.3	12.5	24.1	24.4	28.3	20.0	13.7	14.1	22.5	14.6	-540	-790
Yield	15.4	15.3	15.4	15.6	15.7	14.2	14.0	13.8	13.6	13.3	13.3	-70	0
Cost of funds	6.5	6.3	6.3	6.1	6.6	7.2	7.2	6.7	6.4	6.2	6.0	-120	-20
Margin	10.3	10.3	10.5	10.7	10.5	8.2	7.9	8.1	8.2	8.0	8.3	39	30
<b>Other details</b>													
Branches	937	938	978	986	999	1,000	1,009	1,018	1,018	1,045	1,107	98	62
ATM	475	476	480	481	481	485	485	485	485	487	487	2	0



## Highlights from the management commentary

### Asset quality related

- The bank adopted a conservative approach in the recognition of pro-forma GNPA as it included borrowers who made partial payments. **However, pro-forma GNPA ratio, excluding part payment borrowers, declined to 3.5%.**
- **Collection efficiency** in the first 15 days of Jan'21 dropped sharply in Assam due to loan waivers announced by political parties, which led to a drop in collections.
- Around 80% of the customers are making full payments, while 13% are making partial payments. Overall, 5-6% of customers are not paying their dues.
- About 76.5% of total portfolio are in the '0' dpd category. However, 30-60 days overdue is 6% and 60-90 days overdue is 4-5%.
- **Credit cost for FY21E increased to 5% (v/s 3.5% guided earlier) due to rising concerns in the Assam region.** The increase in provisions during 3QFY21 was pre-dominantly towards Assam at INR7b.
- The bank has not restructured any loans so far.
- **Collection efficiency in West Bengal:** Consumer demand has not yet revived fully in West Bengal, so collection efficiency has not normalized so far there. Collection efficiency in West Bengal stands at 90% as some proportion of customers have made partial payments.
- Total write-offs during 3QFY21 is nil. Total write-offs during FY20 in the Assam portfolio was INR2.7b.

### Balance Sheet and P&L related

- Fee-based trends improved led by increasing disbursement and higher cross sell of third-party products.
- It opened 219 new banking outlets during 3QFY21.
- **The management has been cautious in disbursements in Assam, but continues to focus on West Bengal.**
- The profile of the saving accounts' customer is largely retail. In value terms, 67% of the savings account balances are less than INR0.1m.
- During the quarter gone by, less than 6% of disbursements are top up loans (v/s 25% in 2QFY21).
- The share of MFI loans in Assam is 14% of total MFI AUM (v/s 17% earlier).

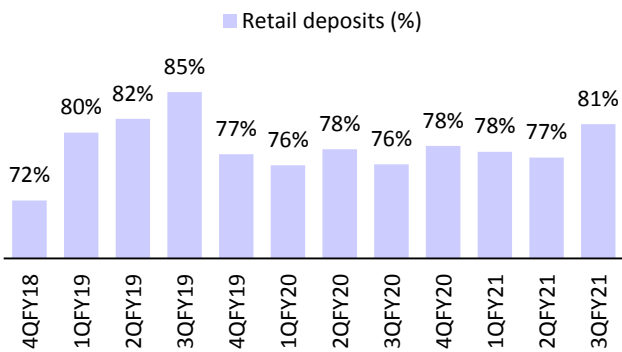
**Key exhibits**

CASA mix increased to 42.9% (+460bp) QoQ

**Healthy traction in deposits continue, margin expands to 8.3%**

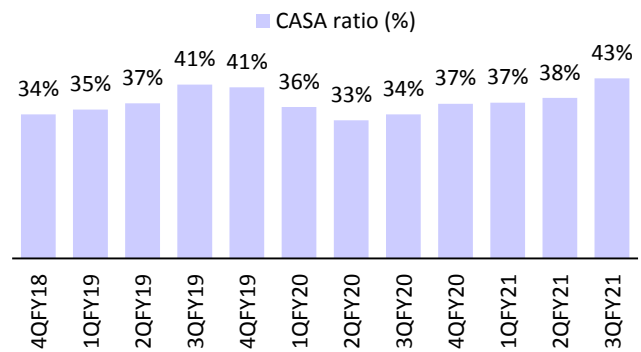
- Deposits grew 30% YoY to INR712b, within which term deposits grew ~13% YoY, while CASA deposits grew ~62% YoY (20.7% QoQ). The CASA mix increased ~460bp QoQ to ~42.9% (v/s 38.2% in 2QFY21). Retail deposits constitute ~81% of total deposits.
- NIM expanded 30bp QoQ to 8.3% due to moderation in cost of funds, which improved 20bp QoQ to 6%.

**Exhibit 1: Retail deposit base improves to ~81%**



Source: MOFSL, Company

**Exhibit 2: CASA ratio improves ~460bp to ~42.9%**



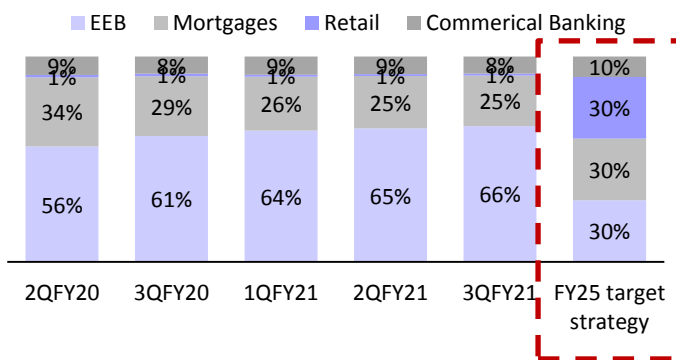
Source: MOFSL, Company

AUM grew ~23% YoY, within which the MFI book grew ~32% YoY and non-micro credit grew ~7% YoY

**AUM grows ~23% YoY; MFI disbursement grew 14% YoY**

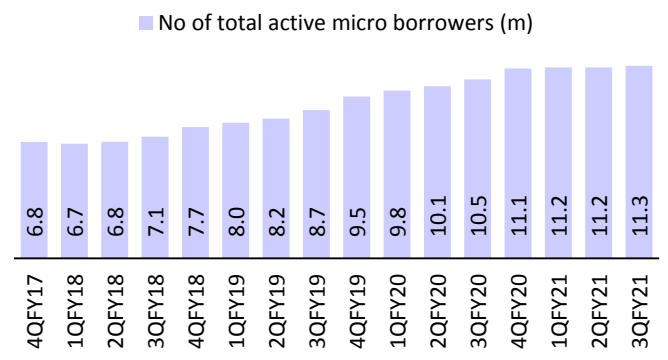
- Total loans grew 22.6% YoY to INR802b, led by ~32% growth in the MFI book. The non-MFI credit book grew by 7% YoY. The MFI book now comprises ~66% of total AUM, and the Mortgage book comprises ~25% of total AUM.
- Within Microfinance, the number of active borrowers grew ~8% YoY to 11.3m.
- Disbursement in the MFI portfolio improved to INR166b (v/s INR104b in 2QFY21). Thus, disbursements for 3QFY21 grew 14% YoY.
- The Housing portfolio grew 3.5% YoY. Disbursement in the portfolio grew ~29% YoY. Overall, 55% of this portfolio is salaried.

**Exhibit 3: FY25 asset mix strategy – Rapid diversification in non-MFI segment over the next five years**



Source: MOFSL, Company

**Exhibit 4: Active MFI borrowers grows 8% YoY to 11.3m**



Source: MOFSL, Company

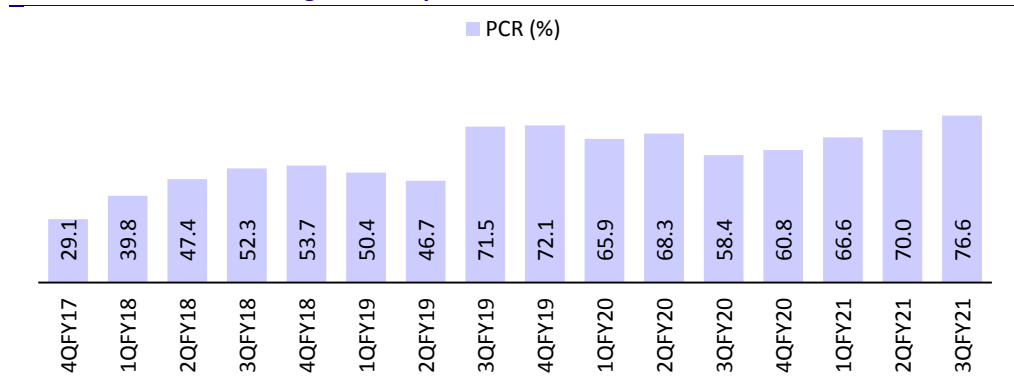
**Asset quality deteriorates with pro-forma GNPA/NNPA at 7.12%/2.36%**

- Absolute GNPL/NNPL fell 2%/23% QoQ due to the Supreme Court order lifting the moratorium on term loan EMIs. GNPA/NNPA ratio improved by 7bp/10bp QoQ to 1.11%/0.26%. Calculated PCR improved to 76.6% (+660bp QoQ).
- **If not for the SC order, the GNPA/NNPA ratio would have deteriorated sharply and would have been much higher at 7.12%/2.36%. This is due to rising stress in the Assam region. Around 20% of its customers are either making part payments or not paying their dues at all.**
- Along with provision coverage, the bank holds total additional provisions of INR31.2b (~4.1% of loans).

**Collection trends: Collection efficiency in Assam dropped sharply**

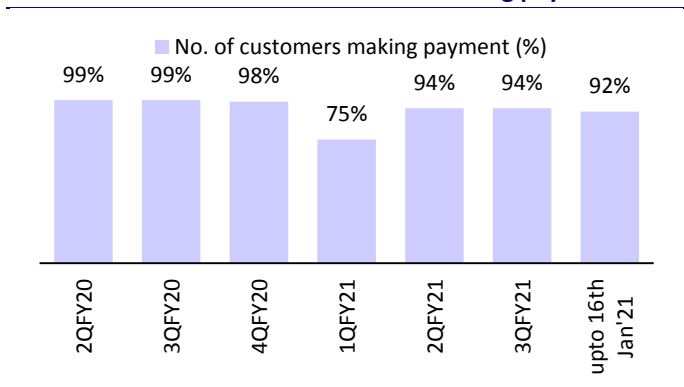
- **MFI:** Collection efficiency declined to ~90% as of 16 Jan'21 (~92% as of Dec'20), with 92% of customers having started to make payments.
- **Mortgage:** Collection efficiency stood at 98% as of Dec'20 (v/s 85% in Apr'20).
- **Commercial Banking:** Collection efficiency stood at 98% in Dec'20.
- **State-wise collection trends:** a) **West Bengal** – Collection trends by value declined to 89% as of 16 Jan'21 (90% in Dec'20). b) **Assam** – Collection trends deteriorated sharply to 78% (88% in Dec'20). c) **Rest of India** – Collection efficiency stood at 94%.

**Exhibit 5: Provision coverage ratio improves to ~77%**



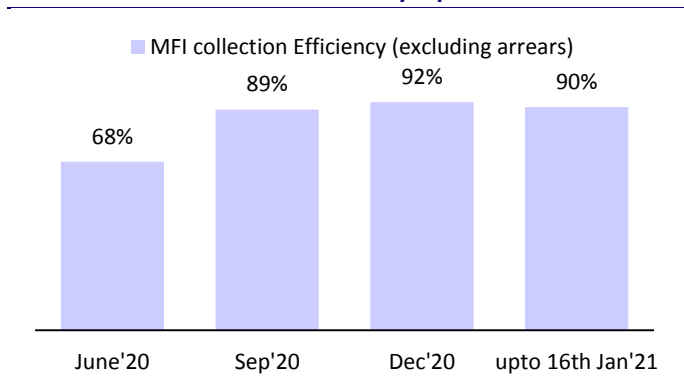
Source: MOSL, Company

**Exhibit 6: MFI – 92% of customers are making payments**



Source: MOSL, Company

**Exhibit 7: MFI – collection efficiency dips to 90% in Jan'21**



Source: MOSL, Company

## Valuation and view

- The bank has demonstrated strong execution skills in building its deposit franchise. It has scaled up its deposit base to INR712b within a few years of banking operations, with a focus on low-ticket granular book (CASA mix at ~43%; retail TDs constitute nearly ~81% of the total deposit base). Cost of funds improved to 6%.
- BANDHAN has one of the best operating metrics as it runs on a low-cost operating model. It has the lowest cost per employee and low cost asset centers in rural/semi-urban geographies. The management the highlighted limited scope for improvement in its C/I ratio. We estimate the cost-to-income ratio to remain stable at an average 29% over FY21-23E.
- **Asset quality to deteriorate:** Pro-forma GNPA/NNPA ratio increased to ~7.1%/2.36%, with 20% of customers either making part payments or not paying their dues. Collection efficiency dropped sharply in Assam to ~78%. We expect slippages to rise sharply in the coming quarters and thus increase our FY21E/FY22E credit cost estimates to 4.4%/2.6%.
- **Downgrade to Neutral, revise TP to INR370/share:** BANDHAN reported a sharp deterioration in asset quality trends, with pro-forma GNPA ratio increasing to ~7.1%, while collection efficiency in the MFI portfolio in its core state of Assam has witnessed a sharp decline. The bank has made higher COVID-related provisions of INR10b during 3QFY21, pre-dominantly towards rising stress in Assam, thus taking additional provisions to 3.6% of loans to manage higher delinquencies in coming quarters. Operating performance remains strong and continues to demonstrate strong deposit performance, led by retail deposits. We cut our earnings for FY21E to factor in higher credit cost at 4.4%/2.6% for FY21E/FY22E. **We downgrade our rating to Neutral on rising asset quality concerns and revise our TP to INR370/share (2.5x Sep'22E BV).**

**Exhibit 8: DuPont Analysis: Expect RoA to decline to 2.9% in FY21E, but normalize from FY23E onwards**

	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Net interest income</b>	8.1	8.9	8.5	7.9	8.3	8.4
<b>Other income</b>	1.9	2.1	2.1	1.9	2.0	2.0
<b>Total income</b>	10.0	11.0	10.6	9.8	10.3	10.4
<b>Operating expenses</b>	3.5	3.6	3.3	2.7	3.0	3.2
Employees	1.8	2.0	1.8	1.6	1.8	1.9
Others	1.7	1.6	1.4	1.1	1.2	1.3
<b>Operating profit</b>	6.5	7.4	7.4	7.0	7.3	7.2
<b>Core operating profit</b>	6.4	7.4	7.2	6.9	7.2	7.1
<b>Provisions</b>	1.0	1.5	1.9	3.3	2.0	1.5
NPA	0.6	1.3	0.8	3.2	2.0	1.4
Others	0.4	0.1	1.1	0.1	0.1	0.1
<b>PBT</b>	5.5	6.0	5.5	3.7	5.2	5.8
Tax	1.9	2.1	1.4	0.9	1.3	1.5
<b>RoA</b>	3.61	3.87	4.08	2.8	3.9	4.3
Leverage (x)	5.4	4.9	5.6	6.2	6.3	6.3
<b>RoE</b>	19.5	19.0	22.9	17.2	24.9	27.0

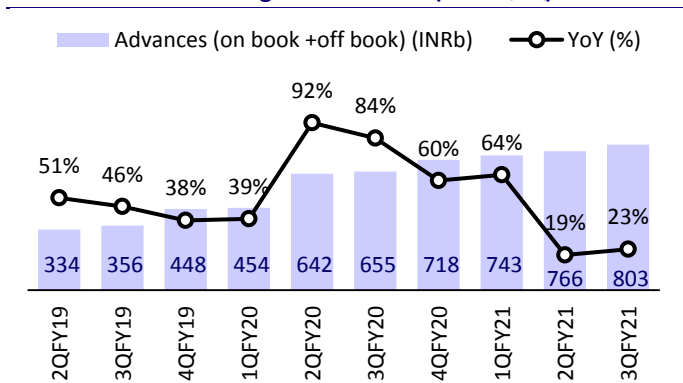
Exhibit 9: We cut our earnings for FY21E by 22% to factor in higher credit cost at 4.4% for FY21E/FY22E.

INR B	Old Estimates			New Estimates			Change (%/bps)		
	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
<b>Net Interest Income</b>	<b>78.8</b>	<b>97.8</b>	<b>120.2</b>	<b>79.3</b>	<b>100.4</b>	<b>124.5</b>	<b>0.6</b>	<b>2.7</b>	<b>3.6</b>
Other Income	17.4	22.2	27.5	18.9	24.2	30.0	8.9	8.9	8.9
<b>Total Income</b>	<b>96.2</b>	<b>120.0</b>	<b>147.8</b>	<b>98.2</b>	<b>124.6</b>	<b>154.5</b>	<b>2.1</b>	<b>3.9</b>	<b>4.6</b>
Operating Expenses	27.9	36.7	46.6	27.5	36.2	47.2	-1.5	-1.5	1.1
<b>Operating Profit</b>	<b>68.3</b>	<b>83.3</b>	<b>101.1</b>	<b>70.7</b>	<b>88.4</b>	<b>107.4</b>	<b>3.6</b>	<b>6.2</b>	<b>6.2</b>
Provisions	20.5	19.3	18.1	33.4	24.8	21.9	62.5	28.8	21.3
<b>PBT</b>	<b>47.7</b>	<b>64.0</b>	<b>83.1</b>	<b>37.3</b>	<b>63.6</b>	<b>85.4</b>	<b>-21.8</b>	<b>-0.6</b>	<b>2.9</b>
Tax	12.0	16.1	20.9	9.4	16.0	21.5	-21.8	-0.6	2.9
<b>PAT</b>	<b>35.7</b>	<b>47.9</b>	<b>62.1</b>	<b>27.9</b>	<b>47.6</b>	<b>63.9</b>	<b>-21.8</b>	<b>-0.6</b>	<b>2.9</b>
Loans	802	993	1,248	816	1,016	1,277	1.7	2.3	2.3
Deposits	731	921	1,178	736	935	1,188	0.8	1.6	0.8
Margins (%)	8.2	8.5	8.5	8.2	8.6	8.6	0.0	0.1	0.1
Credit Cost (%)	2.7	2.0	1.5	4.4	2.6	1.8	1.7	0.6	0.3
<b>RoA (%)</b>	<b>3.5</b>	<b>4.0</b>	<b>4.2</b>	<b>2.8</b>	<b>3.9</b>	<b>4.3</b>	<b>-0.8</b>	<b>0.0</b>	<b>0.1</b>
<b>RoE (%)</b>	<b>21.5</b>	<b>24.0</b>	<b>25.5</b>	<b>17.2</b>	<b>24.9</b>	<b>27.0</b>	<b>-4.3</b>	<b>0.8</b>	<b>1.5</b>
EPS	22.2	29.7	38.6	17.3	29.6	39.7	-21.8	-0.6	2.9
<b>BV</b>	<b>111.8</b>	<b>135.7</b>	<b>167.2</b>	<b>107.0</b>	<b>130.7</b>	<b>163.3</b>	<b>-4.3</b>	<b>-3.7</b>	<b>-2.3</b>
ABV	109.8	133.2	164.4	96.7	121.9	155.7	-12.0	-8.5	-5.3

Source: MOSL, Company

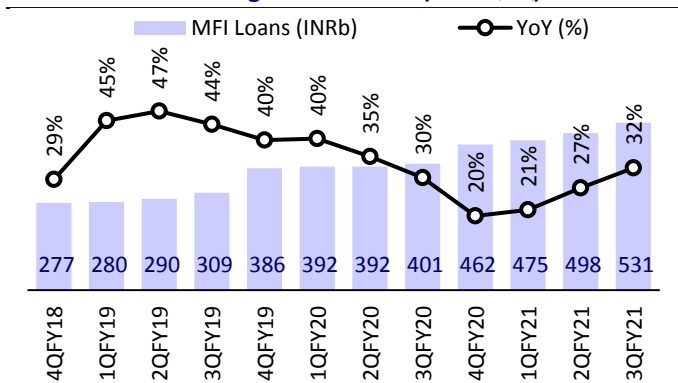
## Story in charts

Exhibit 10: Total AUM grows 23% YoY (+5% QoQ)



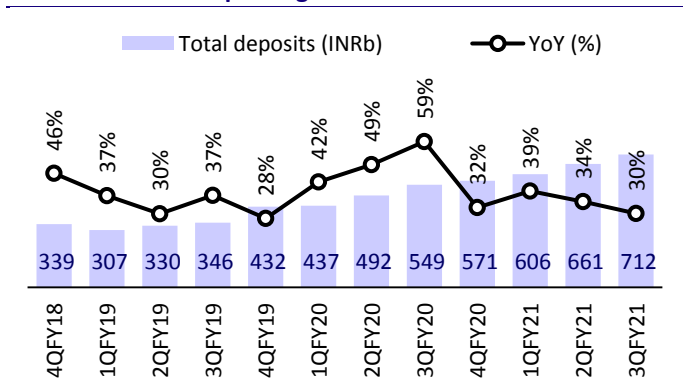
Source: MOFSL, Company; 2QFY20-1QFY21 loan growth not comparable due to merger

Exhibit 11: MFI loans grows 32% YoY (+7% QoQ)



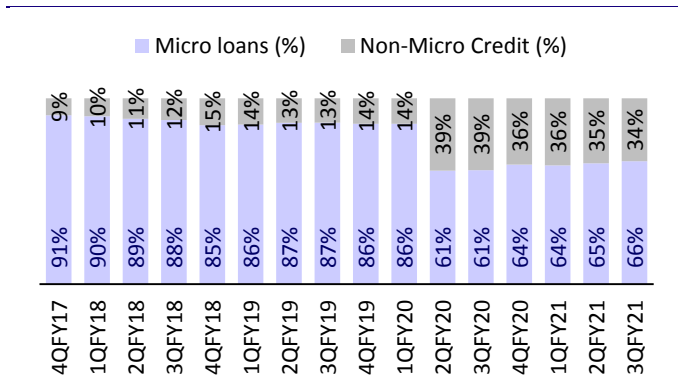
Source: MOFSL, Company

Exhibit 12: Total deposits grows 30% YoY to INR712b



Source: MOFSL, Company

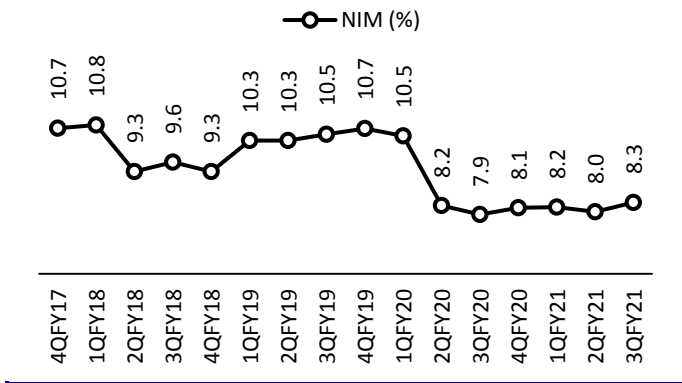
Exhibit 13: Share of MFI loans rises to 66% of total AUM



Source: MOFSL, Company

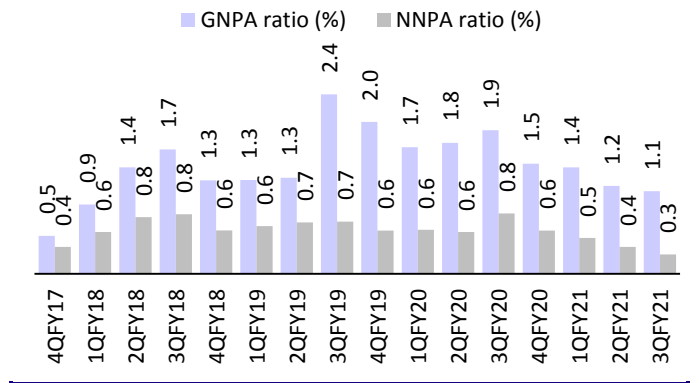


**Exhibit 14: Margin expands 30bp QoQ to 8.3%**



Source: MOFSL, Company

**Exhibit 15: Reported GNPA/NNPA ratio improves; pro-forma GNPA/NNPA deteriorates sharply to 7.12%/2.36%**



Source: MOFSL, Company

## Financials and valuations

Income Statement							(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	39.1	48.0	66.4	108.9	135.1	165.6	202.2
Interest Expense	15.1	17.7	21.5	45.6	55.8	65.2	77.6
<b>Net Interest Income</b>	<b>24.0</b>	<b>30.3</b>	<b>45.0</b>	<b>63.2</b>	<b>79.3</b>	<b>100.4</b>	<b>124.5</b>
Growth (%)	157.7	26.2	48.3	40.7	25.4	26.6	24.0
Non Interest Income	4.1	7.1	10.6	15.5	18.9	24.2	30.0
<b>Total Income</b>	<b>28.1</b>	<b>37.4</b>	<b>55.6</b>	<b>78.7</b>	<b>98.2</b>	<b>124.6</b>	<b>154.5</b>
Growth (%)	160.0	32.8	48.7	41.6	24.7	26.9	24.0
Operating Expenses	10.2	13.1	18.1	24.3	27.5	36.2	47.2
<b>Pre Provision Profits</b>	<b>17.9</b>	<b>24.3</b>	<b>37.5</b>	<b>54.5</b>	<b>70.7</b>	<b>88.4</b>	<b>107.4</b>
Growth (%)	284.1	35.5	54.2	45.3	29.8	25.1	21.4
<b>Core PPOp</b>	<b>17.7</b>	<b>23.8</b>	<b>37.1</b>	<b>53.3</b>	<b>69.3</b>	<b>86.8</b>	<b>105.4</b>
Growth (%)	281.1	34.6	55.7	43.7	30.0	25.2	21.4
Provisions (excl tax)	0.9	3.7	7.4	13.9	33.4	24.8	21.9
<b>PBT</b>	<b>17.0</b>	<b>20.6</b>	<b>30.1</b>	<b>40.5</b>	<b>37.3</b>	<b>63.6</b>	<b>85.4</b>
Tax	5.9	7.1	10.6	10.3	9.4	16.0	21.5
Tax Rate (%)	34.8	34.6	35.2	25.4	25.2	25.2	25.2
<b>PAT</b>	<b>11.1</b>	<b>13.5</b>	<b>19.5</b>	<b>30.2</b>	<b>27.9</b>	<b>47.6</b>	<b>63.9</b>
Growth (%)	304.0	21.0	45.0	54.9	-7.7	70.5	34.3
<b>Balance Sheet</b>							
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	11.0	11.9	11.9	16.1	16.1	16.1	16.1
Reserves & Surplus	33.5	81.9	100.1	135.9	156.2	194.3	246.8
<b>Net Worth</b>	<b>44.5</b>	<b>93.8</b>	<b>112.0</b>	<b>152.0</b>	<b>172.3</b>	<b>210.4</b>	<b>262.9</b>
<b>Deposits</b>	<b>232.3</b>	<b>338.7</b>	<b>432.3</b>	<b>570.8</b>	<b>736.4</b>	<b>935.2</b>	<b>1,187.7</b>
Growth (%)	92.2	45.8	27.6	32.0	29.0	27.0	27.0
<b>of which CASA Dep</b>	<b>68.4</b>	<b>116.2</b>	<b>176.2</b>	<b>210.3</b>	<b>318.1</b>	<b>410.5</b>	<b>534.4</b>
Growth (%)	162.4	70.0	51.6	19.4	51.3	29.1	30.2
Borrowings	10.3	2.9	5.2	163.8	155.6	147.8	155.2
Other Liabilities & Prov.	15.3	7.7	14.9	30.6	32.1	33.8	35.4
<b>Total Liabilities</b>	<b>302.4</b>	<b>443.1</b>	<b>564.4</b>	<b>917.2</b>	<b>1,096.4</b>	<b>1,327.1</b>	<b>1,641.2</b>
Current Assets	73.6	55.1	58.0	83.5	69.7	78.5	99.2
<b>Investments</b>	<b>55.2</b>	<b>83.7</b>	<b>100.4</b>	<b>153.5</b>	<b>202.6</b>	<b>228.0</b>	<b>273.6</b>
Growth (%)	46.8	51.8	19.9	52.9	32.0	12.5	20.0
<b>Loans</b>	<b>168.4</b>	<b>297.1</b>	<b>396.4</b>	<b>666.3</b>	<b>815.6</b>	<b>1,015.7</b>	<b>1,276.6</b>
Growth (%)	35.4	76.5	33.4	68.1	22.4	24.5	25.7
Fixed Assets	2.5	2.4	3.3	3.7	4.2	4.6	4.9
Other Assets	2.6	4.8	6.3	10.1	4.3	0.4	-13.1
<b>Total Assets</b>	<b>302.4</b>	<b>443.1</b>	<b>564.4</b>	<b>917.2</b>	<b>1,096.4</b>	<b>1,327.1</b>	<b>1,641.2</b>
<b>Asset Quality</b>							
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
GNPA	0.9	3.7	8.2	9.9	60.2	68.2	68.3
NNPA	0.6	1.7	2.3	3.9	23.8	20.1	17.5
GNPA Ratio	0.5	1.3	2.1	1.5	7.4	6.7	5.4
NNPA Ratio	0.4	0.6	0.6	0.6	2.9	2.0	1.4
Credit Cost	0.3	1.0	1.9	1.2	4.4	2.6	1.8
PCR (Excl Tech. write off)	29.1	53.7	72.1	60.8	60.5	70.6	74.4

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY22E
<b>Spread Analysis (%)</b>							
<b>Avg. Yield- on Earning Assets</b>	<b>17.3</b>	<b>13.9</b>	<b>14.2</b>	<b>15.4</b>	<b>14.0</b>	<b>14.2</b>	<b>14.0</b>
Avg. Yield on loans	21.3	16.4	16.5	17.9	16.0	16.0	15.8
Avg. Yield on Investments	9.2	7.1	6.7	6.6	6.3	6.2	6.1
<b>Avg. Cost of Int. Bear. Liab.</b>	<b>8.0</b>	<b>6.5</b>	<b>6.0</b>	<b>8.3</b>	<b>7.2</b>	<b>6.9</b>	<b>6.8</b>
Avg. Cost of Deposits	6.8	6.7	6.5	5.6	6.6	6.5	6.3
<b>Interest Spread</b>	<b>9.4</b>	<b>7.5</b>	<b>8.2</b>	<b>7.2</b>	<b>6.8</b>	<b>7.2</b>	<b>7.2</b>
<b>Net Interest Margin</b>	<b>10.7</b>	<b>8.8</b>	<b>9.6</b>	<b>9.0</b>	<b>8.2</b>	<b>8.6</b>	<b>8.6</b>

### Capitalisation Ratios (%)

CAR	26.4	31.5	29.2	27.4	23.6	22.8	21.9
Tier I	24.8	30.3	27.9	25.2	23.2	22.4	21.6
Tier II	1.6	1.2	1.3	2.2	0.5	0.4	0.3

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	72.5	87.7	91.7	116.7	110.8	108.6	107.5
CASA Ratio	29.4	34.3	40.8	36.8	43.2	43.9	45.0
Cost/Assets	3.4	3.0	3.2	2.6	2.5	2.7	2.9
Cost/Total Income	36.3	35.0	32.6	30.8	28.0	29.0	30.5
Cost/Core income	36.6	35.4	32.8	31.3	28.4	29.4	30.9
Int. Expense/Int.Income	38.5	36.9	32.3	41.9	41.3	39.4	38.4
Fee Income/Total Income	13.8	17.7	18.4	18.2	17.9	18.1	18.1
Non Int. Inc./Total Income	14.6	18.9	19.1	19.7	19.2	19.4	19.4
Empl. Cost/Total Expense	53.4	52.6	55.7	56.3	59.2	60.3	60.1
Investment/Deposit Ratio	23.7	24.7	23.2	26.9	27.5	24.4	23.0

### Profitability Ratios and Valuation

RoE	28.6	19.5	19.0	22.9	17.2	24.9	27.0
RoA	4.4	3.6	3.9	4.1	2.8	3.9	4.3
RoRWA	7.4	5.6	5.7	5.9	3.9	5.4	5.7
Book Value (INR)	41	79	94	94	107	131	163
Growth (%)	33.3	93.7	19.4	0.5	13.4	22.1	25.0
<b>Price-BV (x)</b>	<b>8.4</b>	<b>4.3</b>	<b>3.6</b>	<b>3.6</b>	<b>3.2</b>	<b>2.6</b>	<b>2.1</b>
Adjusted BV (INR)	40	78	93	93	97	122	156
<b>Price-ABV (x)</b>	<b>8.5</b>	<b>4.4</b>	<b>3.7</b>	<b>3.7</b>	<b>3.5</b>	<b>2.8</b>	<b>2.2</b>
EPS (INR)	10.2	11.8	16.4	21.6	17.3	29.6	39.7
Growth (%)	NM	15.8	39.1	31.9	-19.7	70.5	34.3
<b>Price-Earnings (x)</b>	<b>33.6</b>	<b>29.0</b>	<b>20.8</b>	<b>15.8</b>	<b>19.7</b>	<b>11.5</b>	<b>8.6</b>
Dividend Per Share (INR)	0.0	1.2	3.6	0.0	4.7	5.9	7.1
<b>Dividend Yield (%)</b>	<b>0.0</b>	<b>0.4</b>	<b>1.1</b>	<b>0.0</b>	<b>1.4</b>	<b>1.7</b>	<b>2.1</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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