21 March 2023

Company Update | Sector: Financials

# Equitas Small Finance Bank

| BSE SENSEX | S&P CNX |
|---|---|
| 57,925 | 17,077 |

| | |
|---|---|
| Bloomberg | EQUITASB IN |
| Equity Shares (m) | 1,11,0m |
| M.Cap.(INRb)/(USDb) | 71.9 / 0.9 |
| 52-Week Range (INR) | 78 / 38 |
| 1, 6, 12 Rel. Per (%) | -4/33/21 |
| 12M Avg Val (INR M) | 173 |
| Free float (%) | 25.5 |

**Financials & Valuation (INR b)**

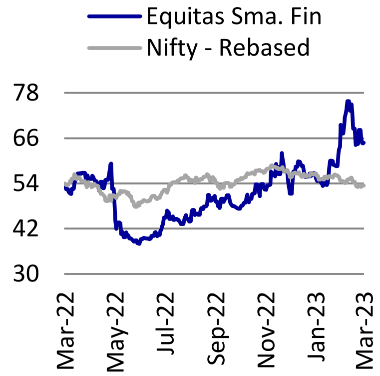
| Y/E MARCH | FY23E | FY24E | FY25E |
|---|---|---|---|
| NII | 25.2 | 32.5 | 40.2 |
| OP | 11.0 | 15.0 | 19.1 |
| NP | 5.6 | 8.0 | 10.4 |
| NIM (%) | 8.8 | 9.0 | 8.9 |
| EPS (INR) | 4.7 | 7.2 | 9.4 |
| BV/Sh. (INR) | 46 | 52 | 59 |
| ABV/Sh. (INR) | 43 | 49 | 57 |
| **Ratios** | | | |
| RoE (%) | 12.0 | 14.9 | 16.9 |
| RoA (%) | 1.8 | 2.1 | 2.2 |
| **Valuations** | | | |
| P/E (X) | 13.7 | 9.0 | 6.9 |
| P/BV (X) | 1.4 | 1.3 | 1.1 |
| P/ABV (X) | 1.5 | 1.3 | 1.1 |

**Shareholding pattern (%)**

| As On | Dec-22 | Sep-22 | Dec-21 |
|---|---|---|---|
| Promoter | 74.5 | 74.5 | 81.4 |
| DII | 15.4 | 15.4 | 12.8 |
| FII | 4.1 | 4.3 | 0.7 |
| Others | 6.1 | 5.9 | 5.1 |

FII Includes depository receipts

**Stock's performance (one-year)**




## CMP: INR65 TP: INR77 (+19%) Buy

## Robust profitability aided by superior business growth

### Moving coverage from hold co to bank; Estimate FY25E RoA at 2.2%

- **EQUITASB has been focusing on building a diversified loan book with small business loans (SBL), vehicle finance, MFI and housing finance being the key business segments. Loan growth has witnessed a gradual recovery at 27% vs 15% last year and we estimate 26% CAGR in loan book over FY23-25E.**
- **The bank has progressed well in building a granular liability franchise with total deposits up 45% CAGR over the past five years while CASA/retail term deposits grew 55%/54% CAGR. During 9MFY23 the bank has reported 23% growth in total deposits while CASA growth has also been healthy at 10% (CASA mix of 46%).**
- **The bank has demonstrated a strong improvement in asset quality with X bucket collection efficiency improving to Pre-Covid levels and GNPA/NNPA moderating to 3.6%/1.8% as on 3QFY23. The bank expects slippages to moderate and has guided to improve its PCR to 60% by FY25 vs ~51% at present. We thus estimate credit cost to moderate to 1.3% by FY25 vs management guidance of 1%.**
- **The reverse merger with the hold co has driven ~21% increase in BV. We believe the merger would also solely shift the focus on the fundamental performance of the bank. We thus transition our coverage from Equitas Holding to Equitas Small Finance Bank.**
- **We estimate EQUITASB to deliver FY25E RoA/RoE of 2.2%/16.9% and value it at INR77 (1.4x Sep'24E ABV). We thus transition our coverage with Buy rating.**

### SBL remains a key focused segment; Estimate 26% loan CAGR over FY23-25E

EQUITASB has been focusing on building a diversified loan book with small business loans (SBL), vehicle finance, MFI and housing finance to be the key focused segments. Over the past five years, AUM has grown by a healthy ~26% CAGR led by SBL which grew at 33%. Vehicle finance grew by 23% YoY while MFI loans grew by 13% over the similar period. Housing finance grew at robust 59% albeit on a lower base. The bank believes that SBL segment offers huge opportunity which will continue to grow at a healthy pace while vehicle/MFI loans are witnessing a gradual recovery which will continue to drive the loan growth. We thus estimate loans to grow at 26% CAGR over FY23-25E.

### Business mix well diversified; MFI mix to remain steady at ~15-20%

The bank has progressed well in reducing the concentration of MFI loans which moderated to 18.5% of AUM in 3QFY23 vs 53.6% in FY16. The mix of vehicle loans has remained broadly stale at ~25% while the mix of SBL loans has increased to 37% vs 18% over the similar period. The mix of housing loans too has increased and now constitutes ~10% of the AUM. Disbursements in the MFI and vehicle loans have started to witness a pick up and thus the bank expects business mix to remain broadly stable with MFI contributing ~15-20% of the AUM. We believe that the bank has been successful in building a diversified franchise which will enable it to report a healthy loan growth.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**Yash Agarwal - Research Analyst** (Yash.Agarwal@motilaloswal.com)

### Deposit franchise holding well despite competition; CASA mix healthy at 46%

The bank has progressed well in building a granular liability franchise with total deposits up 45% CAGR over the past five years. This was led by CASA deposits which grew at 55% over the similar period with the CASA mix improving to 46.2% vs 17.4% in FY17. While the term deposits grew at 38% CAGR over the past five years, retail term deposits grew at robust 54% YoY and constitutes 66% of total term deposits vs 31% in FY18. Further, the bank has indicated that ~95% of the bulk deposits are non-callable which provides further comfort. The bank has shown significant resilience and was among the few to post a healthy growth in CASA deposits in 3QFY23 at 19% YoY/3.5% QoQ. The bank indicated that it will refrain from raising its SA rate and will play the competition via TD rates.

### CE remains strong; Estimate credit cost to moderate to 1.3% by FY25

The bank has demonstrated a strong improvement in asset quality with X bucket collection efficiency improving to 99.5% for MFI, 99.6% for SBL loans and 98% for vehicle finance. While the slippages have been elevated, recoveries and upgrades have been strong enabling an improvement in asset quality ratios with GNPA/NNPA at 3.6%/1.8% as on 3QFY23. The bank expects slippages to moderate and has guided to improve its PCR to 60% by FY25 vs ~51% at present. Further, 1-90 DPD stands at 7.53% in 3QFY23 vs 10.43% in FY22 while the restructured book moderated to 2.9% of AUM. The management expects credit cost to be ~1% on a steady state (1.5% for FY23) and we conservatively estimate credit cost to moderate to 1.3% by FY25.

### Amalgamation with holding company largely completed; BV to increase by ~21%

As per the approved scheme of amalgamation, EQUITASB pursuant to the NCLT approval received on 12th Jan'23, set the record date at 3rd Feb'23 and approved the allotment of shares on 8th Feb'23. As per the scheme, the shareholders of EQUITAS have received 231 shares of bank for every 100 shares of holding. Post which existing shares of ~934m held by holding has extinguished and the bank has allotted ~790m shares to its shareholders. Thus, the outstanding shares of bank have moderated to ~1.11b while net worth increases by ~INR3.25b. As a result, book value increases by ~21% and holding company has ceased to exist. We believe this completes the impending overhang around the merger and would shift the focus on the fundamental performance of the bank.

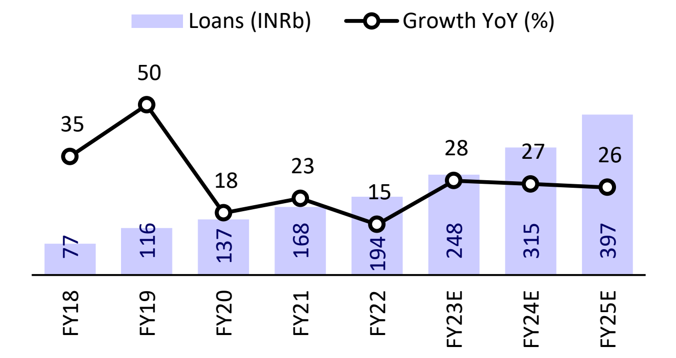
### Valuation and view: Moving coverage to bank with Buy rating and TP of INR77

EQUITASB has been reporting a gradual improvement in operating performance over the past few quarters with steady AUM growth, led by healthy traction across segments while moderation in credit cost has aided earnings. As a result, the bank reported a RoA/RoE of ~2.2%/~15% in 3QFY23. Growth in deposit too remains healthy with CASA mix of ~46%. On the asset quality front, collection efficiency has improved to Pre-Covid levels while gradual moderation in 1-90DPD and restructured book augurs well for incremental asset quality. The bank has completed the amalgamation scheme and we believe the merger would solely shift the focus on the fundamental performance of the bank. **We estimate EQUITASB to deliver FY25E RoA/RoE of 2.2%/16.9% and value it at INR77 (1.4x Sep'24E ABV). We thus transition our coverage from Equitas Holding to Equitas Small Finance Bank with a Buy rating.**

## SBL remains a key focused segment; Estimate 26% loan CAGR over FY23-25E

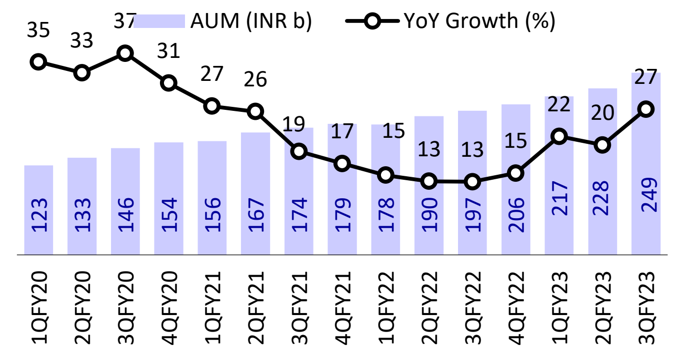
- EQUITASB has been focusing on building a diversified loan book with small business loans (SBL), vehicle finance, MFI and housing finance to be the key focused segments.
- Over the past five years, AUM has grown by a healthy ~26% CAGR led by SBL which grew at 33%. Vehicle finance grew by 23% YoY while MFI loans grew by 13% over the similar period. Housing finance grew at robust 59% albeit on a lower base.
- The bank believes that SBL segment offers huge opportunity which will continue to grow at a healthy pace while vehicle/MFI loans are witnessing a gradual recovery which will continue to drive the loan growth. We thus estimate loans to grow at 26% CAGR over FY23-25E.

**Exhibit 1: We estimates loans to grow at healthy 26% CAGR over F23-25 after reporting a strong 28% growth in FY23**



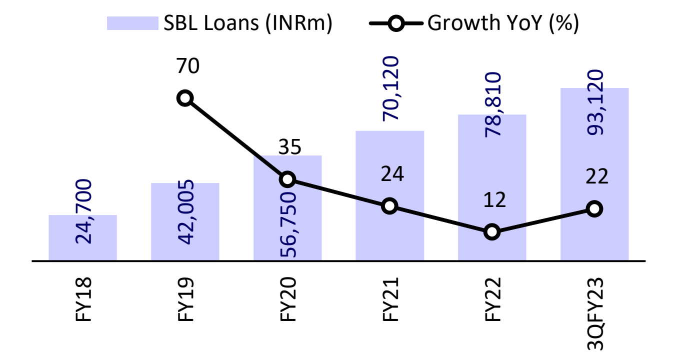

Source: MOFSL, Company

**Exhibit 2: AUM growth has been healthy and gaining pace over the past few quarters**



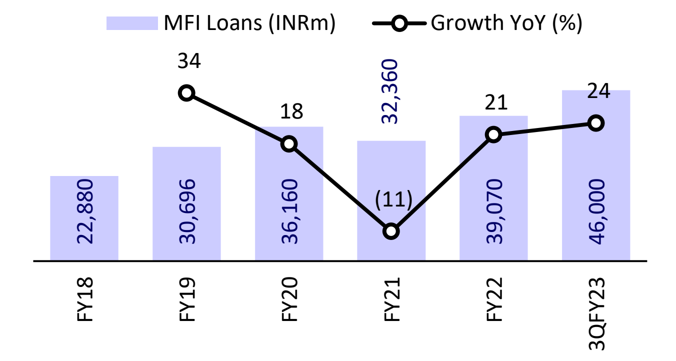

Source: MOFSL, Company

**Exhibit 3: SBL loans grew at 33% CAGR over the past five years; expect momentum to remain healthy**




Source: MOFSL, Company

**Exhibit 4: MFI loans have witnessed a recovery; expect traction to sustain**




Source: MOFSL, Company

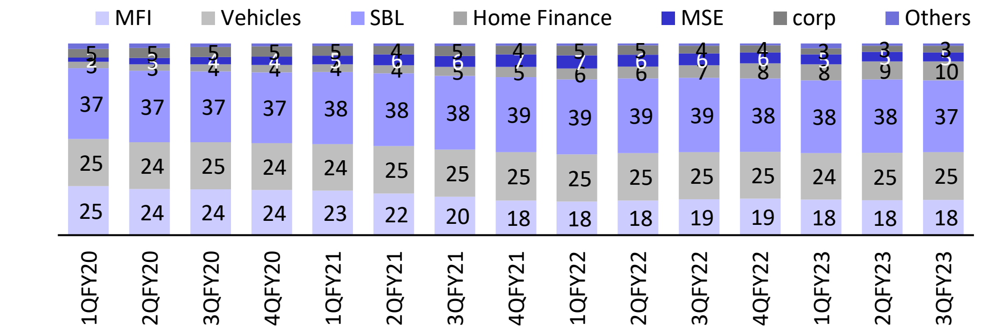
## Business mix well diversified; MFI mix to remain steady at ~15-20%

- The bank has progressed well in reducing the concentration of MFI loans which moderated to 18.5% of AUM in 3QFY23 vs 53.6% in FY16. The mix of vehicle loans has remained broadly stale at ~25% while the mix of SBL loans has increased to 37% vs 18% over the similar period. The mix of housing loans too has increased and now constitutes ~10% of the AUM.

- Disbursements in the MFI and vehicle loans have started to witness a pick up and thus the bank expects business mix to remain broadly stable with MFI contributing ~15-20% of the AUM. We believe that the bank has been successful in building a diversified franchise which will enable it to report a healthy loan growth.

The bank expects the mix of MFI loans to remain ~15-20% going ahead

**Exhibit 5: Mix of SBL loans have improved to 37% while vehicle/home loans constitutes 25%/10% of total AUM as on 3QFY23**

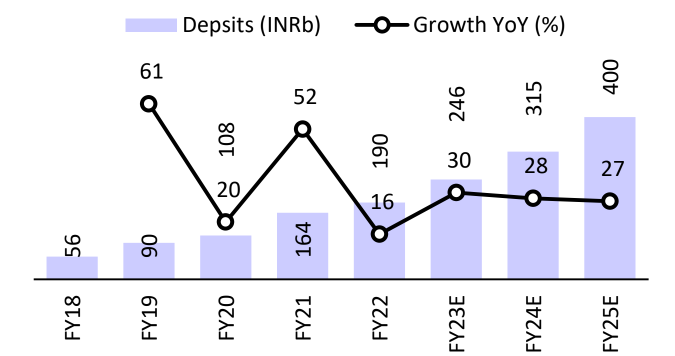



Source: MOFSL, Company

## Deposit franchise holding well despite competition; CASA mix healthy at 46%

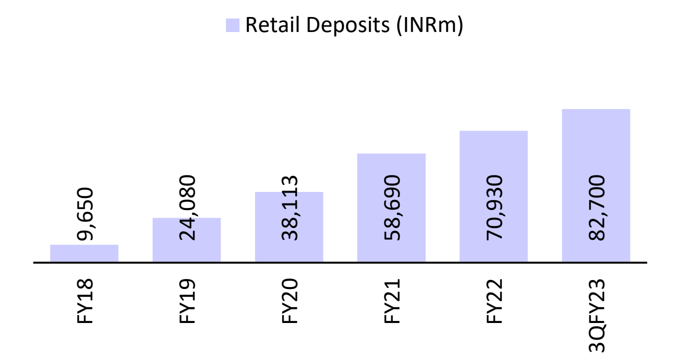
- The bank has progressed well in building a granular liability franchise with total deposits up 45% CAGR over the past five years. This was led by CASA deposits which grew at 55% over the similar period with the CASA mix improving to 46.2% vs 17.4% in FY17.
- While the term deposits grew at 38% CAGR over the past five years, retail term deposits grew at robust 54% YoY and constitutes 66% of total term deposits vs 31% in FY18. Further, the bank has indicated that ~95% of the bulk deposits are non-callable which provides further comfort.
- The bank has shown significant resilience and was among the few to post a healthy growth in CASA deposits in 3QFY23 at 19% YoY/3.5% QoQ. The bank indicated that it will refrain from raising its SA rate and will play the competition via TD rates.

**Exhibit 6: EQUITASB has demonstrated strong capability in garnering deposits; expects to grow at 27% over FY23-25**




Source: MOFSL, Company

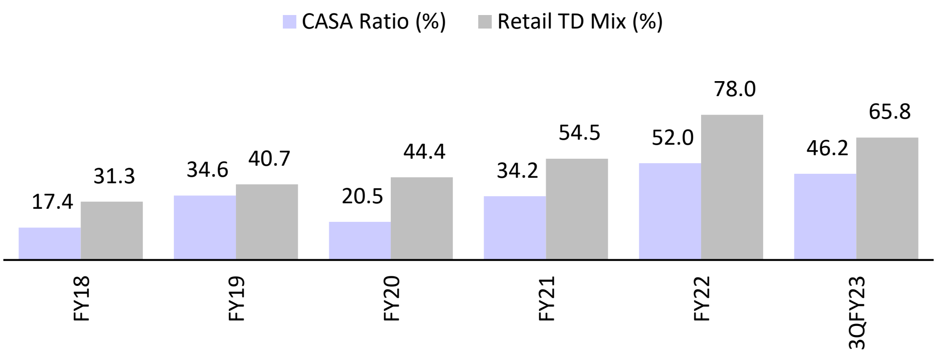
**Exhibit 7: Retail term deposits have grown at a healthy pace of 54% CAGR over the past five years**




Source: MOFSL, Company

Retail term deposits constitutes 66% of total term deposits vs 31% in FY18

**Exhibit 8: CASA ratio stands healthy at 46%; highest among the small finance banks**

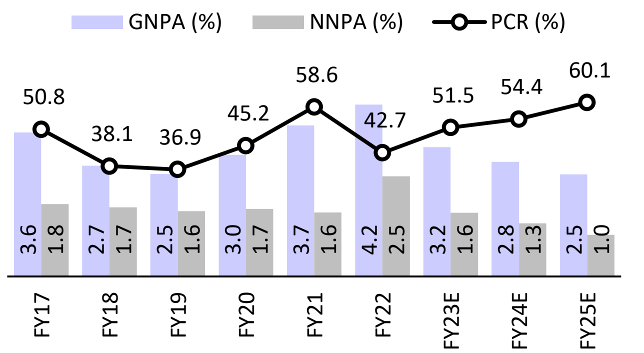



Source: MOFSL, Company

## CE remains strong; Estimate credit cost to moderate to 1.3% by FY25

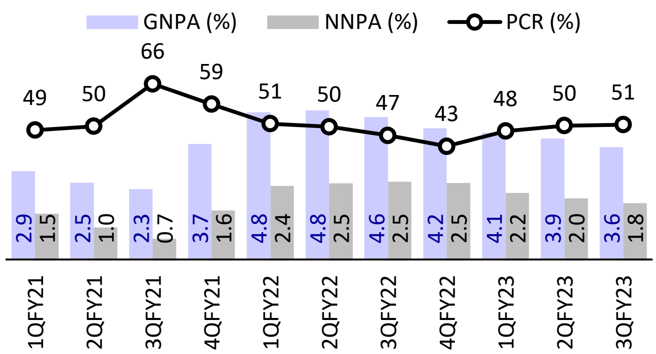
- The bank has demonstrated a strong improvement in asset quality with X bucket collection efficiency improving to 99.5% for MFI, 99.6% for SBL loans and 98% for vehicle finance. While the slippages have been elevated, recoveries and upgrades have been strong enabling an improvement in asset quality ratios with GNPA/NNPA at 3.6%/1.8% as on 3QFY23.
- The bank expects slippages to moderate and has guided to improve its PCR to 60% by FY25 vs ~51% at present. Further, 1-90 DPD stands at 7.53% in 3QFY23 vs 10.43% in FY22 while the restructured book moderated to 2.9% of AUM.
- The management expects credit cost to be ~1% on a steady state (1.5% for FY23) and we conservatively estimate credit cost to moderate to 1.3% by FY25.

**Exhibit 9: Asset quality to continue to see a gradual improvement; PCR to improve to 60% by FY25**




Source: MOFSL, Company

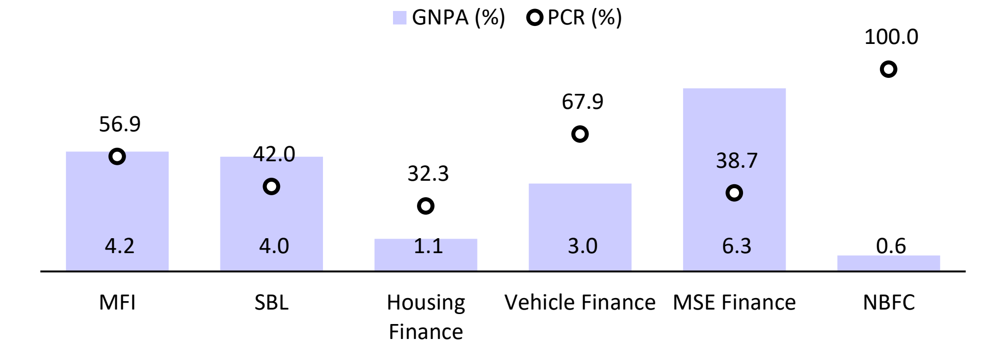
**Exhibit 10: GNPA/NNPA has moderated to 3.6%/1.8% vs 4.6%/2.5% in 3QFY22**




Source: MOFSL, Company

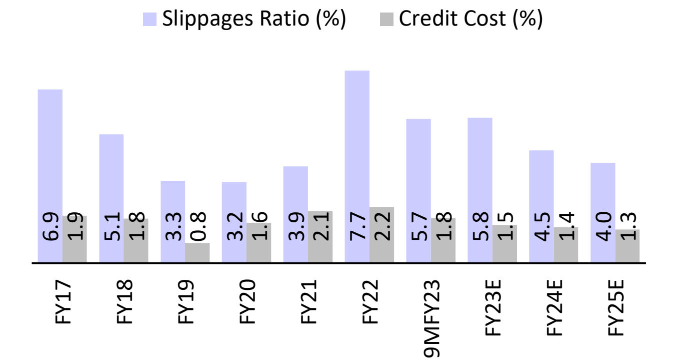
**Exhibit 11: Segmental Asset Quality – witnessing gradual moderation over the past few quarters**

Bank maintains a healthy PCR across segments; focusing on improving the PCR in MFI segment



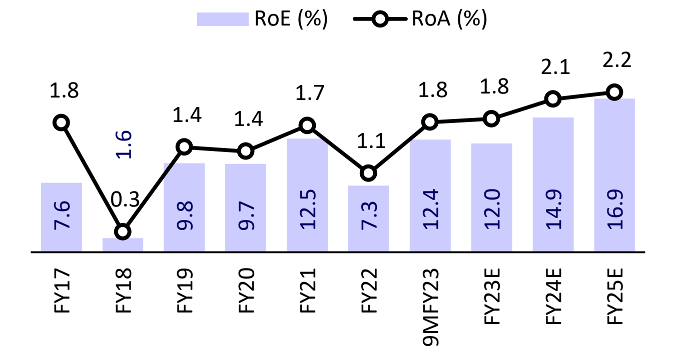

Source: MOFSL, Company

**Exhibit 12: We expect credit cost to moderate to 1.3% by FY25 while slippage ratio to remain slightly elevated at 4.0%**



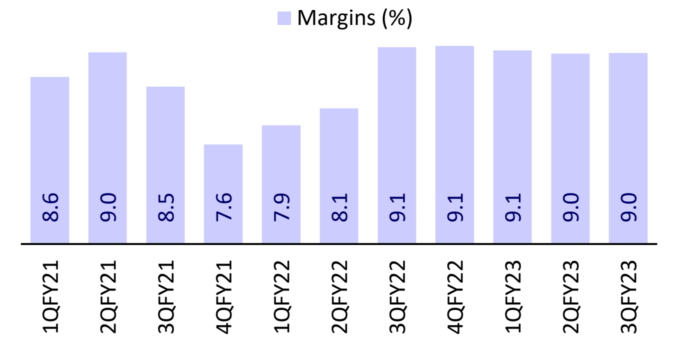

Source: MOFSL, Company

**Exhibit 13: Return ratios to witness a gradual improvement with RoA/RoE at 2.2%/16.9% by FY25**



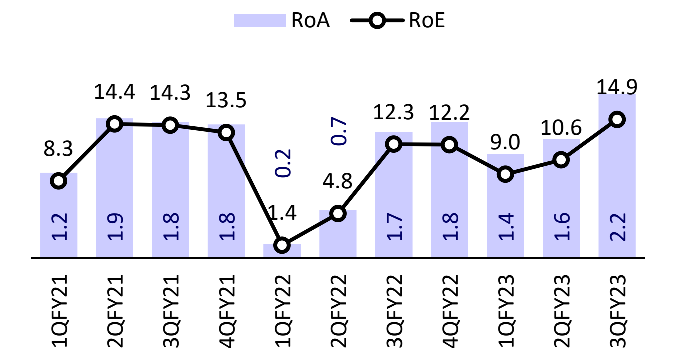

Source: MOFSL, Company

**Exhibit 14: Margins have been largely stable at ~9%; likely to remain around the current levels**




Source: MOFSL, Company

**Exhibit 15: RoA/RoE profile has been improving with bank reporting RoA/RoE of 2.2%/14.9% in 3QFY23**




Source: MOFSL, Company

## Amalgamation with Hold co completed; BV increases by ~21%

- As per the approved scheme of amalgamation, EQUITASB pursuant to the NCLT approval received on 12th Jan'23, set the record date at 3rd Feb'23 and approved the allotment of shares on 8th Feb'23.
- As per the scheme, the shareholders of EQUITAS holding have received 231 shares of bank for every 100 shares of holding. Post which existing shares of ~934m held by holding has extinguished while the bank has allotted ~790m shares to its shareholders.
- Thus, the outstanding shares of bank have moderated to ~1.11b while net worth increases by ~INR3.25b. As a result, book value increases by ~21% and holding company has ceased to exist. We believe this completes the impending overhang around the merger and would shift the focus on the fundamental performance of the bank.

**Exhibit 16: Post the amalgamation, book value increases by ~21%**

| | 3QFY23 |
|---|---|
| Net-worth of Equitas SFB (INRb) | 46.40 |
| Net-worth of Equitas Holdings Limited (INRb) | 3.25 |
| Net-worth of Equitas SFB post-merger (INRb) | 49.65 |
| No of shares of Equitas SFB (Mn) | 1,254 |
| No of shares of Equitas SFB post-merger (Mn) | 1,110 |
| Book Value pre-merger | 36.98 |
| Book Value post-merger | 44.72 |
| **Increase in BV** | **21%** |

Source: MOFSL, Company

## Valuation and view: Maintain BUY with a TP of INR77

- The Non-MFI businesses such as SBL and Commercial Vehicle loans are likely to be the key growth drivers. Considering the under-penetration in both these segments, EQUITASB can continue to grow the same at healthy rates and we thus estimate loans to grow at 26% CAGR over FY23-25.
- EQUITAS is making strong progress on the liability front, with a focus on mass affluent customers. It is offering higher SA rates (on deposits above INR0.1m) to improve its Retail deposits. Its CASA ratio stands healthy at 46%.
- EQUITASB has been reporting a gradual improvement in operating performance over the past few quarters with steady AUM growth, led by healthy traction across segments while moderation in credit cost has aided earnings. As a result, the bank reported a RoA/RoE of ~2.2%/~15% in 3QFY23. Growth in deposit too remains healthy with CASA mix of ~46%. On the asset quality front, collection efficiency has improved to Pre-Covid levels while gradual moderation in 1-90DPD and restructured book augurs well for incremental asset quality.
- **Moving coverage to bank with Buy rating and TP of INR77:** The bank has completed the amalgamation and the reverse merger has increased the book value by ~21%. We believe the merger would also solely shift the focus on the fundamental performance of the bank. **We estimate EQUITASB to deliver FY25E RoA/RoE of 2.2%/16.9% and value it at INR77 (1.4x Sep'24E ABV). We thus transition our coverage from Equitas Holding to Equitas Small Finance Bank with a Buy rating.**

**Exhibit 17: DuPont Analysis: Return ratios to show a steady improvement over FY23-25**

| | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|
| Interest Income | 13.6 | 14.5 | 15.1 | 14.5 | 13.4 | 13.8 | 14.4 | 14.5 |
| Interest Expense | 6.0 | 6.6 | 6.6 | 6.3 | 5.5 | 5.5 | 5.8 | 6.0 |
| **Net Interest Income** | **7.63** | **7.93** | **8.53** | **8.17** | **7.89** | **8.33** | **8.58** | **8.49** |
| Fee income | 2.23 | 1.92 | 1.59 | 1.70 | 1.92 | 1.80 | 1.73 | 1.65 |
| Trading and others | -0.09 | 0.02 | 0.02 | 0.20 | 0.17 | 0.19 | 0.15 | 0.12 |
| **Other Income** | **2.14** | **1.95** | **1.61** | **1.90** | **2.08** | **1.99** | **1.88** | **1.77** |
| **Total Income** | **9.77** | **9.87** | **10.14** | **10.07** | **9.97** | **10.31** | **10.46** | **10.26** |
| **Operating Expenses** | **7.82** | **6.94** | **6.73** | **6.04** | **6.60** | **6.67** | **6.49** | **6.23** |
| Employees | 4.57 | 3.79 | 4.05 | 3.60 | 3.48 | 3.53 | 3.47 | 3.34 |
| Others | 3.24 | 3.15 | 2.68 | 2.45 | 3.12 | 3.14 | 3.01 | 2.90 |
| **Operating Profits** | **1.96** | **2.93** | **3.41** | **4.03** | **3.38** | **3.65** | **3.97** | **4.03** |
| **Core operating Profits** | **2.05** | **2.91** | **3.39** | **3.83** | **3.21** | **3.46** | **3.82** | **3.91** |
| **Provisions** | **1.53** | **0.70** | **1.41** | **1.71** | **1.91** | **1.19** | **1.15** | **1.09** |
| NPA | **0.43** | 0.61 | 0.75 | 1.97 | 1.32 | 1.11 | 1.07 | 1.01 |
| Others | 1.10 | 0.09 | 0.65 | -0.26 | 0.59 | 0.08 | 0.08 | 0.08 |
| **PBT** | **0.43** | **2.23** | **2.00** | **2.32** | **1.46** | **2.46** | **2.82** | **2.95** |
| Tax | 0.15 | 0.78 | 0.61 | 0.58 | 0.38 | 0.62 | 0.71 | 0.74 |
| **RoA** | **0.28** | **1.45** | **1.39** | **1.75** | **1.09** | **1.84** | **2.11** | **2.20** |
| Leverage (x) | 5.6 | 6.8 | 7.0 | 7.2 | 6.8 | 6.5 | 7.0 | 7.7 |
| **RoE** | **1.6** | **9.8** | **9.7** | **12.5** | **7.3** | **12.0** | **14.9** | **16.9** |

Source: MOFSL, Company

# Financials and valuations

| Income Statement | | | | | | | | (INRm) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY18** | **FY19** | **FY20** | **FY21** | **FY22** | **FY23E** | **FY24E** | **FY25E** |
| Interest Income | 15,317 | 21,119 | 26,454 | 31,944 | 34,597 | 41,878 | 54,571 | 68,520 |
| Interest Expense | 6,711 | 9,602 | 11,501 | 13,965 | 14,211 | 16,653 | 22,083 | 28,365 |
| **Net Interest Income** | **8,605** | **11,517** | **14,953** | **17,980** | **20,385** | **25,226** | **32,487** | **40,155** |
| Growth (%) | 61.2 | 33.8 | 29.8 | 20.2 | 13.4 | 23.7 | 28.8 | 23.6 |
| Non-Interest Income | 2,412 | 2,829 | 2,824 | 4,181 | 5,376 | 6,021 | 7,104 | 8,383 |
| **Total Income** | **11,018** | **14,346** | **17,777** | **22,160** | **25,761** | **31,247** | **39,592** | **48,538** |
| Growth (%) | 43.6 | 30.2 | 23.9 | 24.7 | 16.2 | 21.3 | 26.7 | 22.6 |
| Operating Expenses | 8,811 | 10,085 | 11,801 | 13,294 | 17,041 | 20,199 | 24,559 | 29,471 |
| **Pre Provision Profits** | **2,206** | **4,261** | **5,976** | **8,866** | **8,719** | **11,048** | **15,033** | **19,067** |
| Growth (%) | -1.5 | 93.1 | 40.2 | 48.4 | -1.7 | 26.7 | 36.1 | 26.8 |
| **Core PPoP** | **2,309** | **4,229** | **5,942** | **8,419** | **8,293** | **10,482** | **14,467** | **18,501** |
| Growth (%) | 11.3 | 83.1 | 40.5 | 41.7 | -1.5 | 26.4 | 38.0 | 27.9 |
| Provisions (excl. tax) | 1,721 | 1,024 | 2,466 | 3,753 | 4,938 | 3,601 | 4,354 | 5,137 |
| **PBT** | **485** | **3,237** | **3,509** | **5,113** | **3,781** | **7,447** | **10,678** | **13,930** |
| Tax | 167 | 1,132 | 1,073 | 1,270 | 974 | 1,877 | 2,688 | 3,506 |
| Tax Rate (%) | 34.4 | 35.0 | 30.6 | 24.8 | 25.8 | 25.2 | 25.2 | 25.2 |
| **PAT** | **318** | **2,106** | **2,436** | **3,842** | **2,807** | **5,570** | **7,990** | **10,424** |
| Growth (%) | -69.4 | NM | 15.7 | 57.7 | -26.9 | 98.4 | 43.5 | 30.5 |

**Balance Sheet**

| **Y/E March** | **FY18** | **FY19** | **FY20** | **FY21** | **FY22** | **FY23E** | **FY24E** | **FY25E** |
|---|---|---|---|---|---|---|---|---|
| Equity Share Capital | 10,059 | 10,059 | 10,534 | 11,393 | 12,520 | 11,076 | 11,076 | 11,076 |
| Reserves & Surplus | 10,378 | 12,484 | 16,907 | 22,571 | 29,941 | 39,399 | 46,061 | 54,823 |
| **Net Worth** | **20,438** | **22,543** | **27,441** | **33,963** | **42,462** | **50,475** | **57,137** | **65,899** |
| **Deposits** | **56,040** | **90,067** | **107,884** | **163,920** | **189,508** | **246,360** | **315,341** | **400,483** |
| Growth (%) | 191.7 | 60.7 | 19.8 | 51.9 | 15.6 | 30.0 | 28.0 | 27.0 |
| **of which CASA Deposits** | **16,378** | **22,743** | **22,082** | **56,138** | **98,554** | **131,064** | **171,861** | **223,069** |
| Growth (%) | 393.8 | 38.9 | -2.9 | 154.2 | 75.6 | 33.0 | 31.1 | 29.8 |
| Borrowings | 51,772 | 39,730 | 51,349 | 41,653 | 26,164 | 27,211 | 33,469 | 40,163 |
| Other Liabilities & Prov. | 4,762 | 5,286 | 6,281 | 7,548 | 11,385 | 12,296 | 15,001 | 18,302 |
| **Total Liabilities** | **133,012** | **157,626** | **192,955** | **247,085** | **269,519** | **336,343** | **420,948** | **524,847** |
| Current Assets | 12,112 | 12,606 | 25,368 | 33,787 | 21,325 | 14,226 | 18,487 | 22,032 |
| **Investments** | 38,568 | 23,445 | 23,425 | 37,052 | 44,498 | 63,633 | 76,359 | 91,631 |
| Growth (%) | 104.0 | -39.2 | -0.1 | 58.2 | 20.1 | 43.0 | 20.0 | 20.0 |
| **Loans** | **77,060** | **115,935** | **137,282** | **168,482** | **193,742** | **247,990** | **314,947** | **396,833** |
| Growth (%) | 35.2 | 50.4 | 18.4 | 22.7 | 15.0 | 28.0 | 27.0 | 26.0 |
| Fixed Assets | 2,809 | 2,373 | 2,128 | 1,851 | 2,004 | 2,405 | 2,838 | 3,349 |
| Other Assets | 2,462 | 3,267 | 4,752 | 5,914 | 7,949 | 8,089 | 8,317 | 11,001 |
| **Total Assets** | **133,012** | **157,626** | **192,955** | **247,085** | **269,519** | **336,343** | **420,948** | **524,847** |
| **Total AUM** | **82,390** | **117,043** | **153,660** | **179,250** | **205,970** | **263,642** | **334,825** | **421,879** |
| Growth (%) | **14.8** | **42.1** | **31.3** | **16.7** | **14.9** | **28.0** | **27.0** | **26.0** |

| **Asset Quality** | **FY18** | **FY19** | **FY20** | **FY21** | **FY22** | **FY23E** | **FY24E** | **FY25E** |
|---|---|---|---|---|---|---|---|---|
| GNPA (INR m) | 2,125 | 2,957 | 4,173 | 6,427 | 8,371 | 8,039 | 9,049 | 10,164 |
| NNPA (INR m) | 1,315 | 1,864 | 2,286 | 2,662 | 4,795 | 3,902 | 4,126 | 4,052 |
| GNPA Ratio | 2.73 | 2.53 | 3.00 | 3.73 | 4.24 | 3.19 | 2.83 | 2.52 |
| NNPA Ratio | 1.71 | 1.61 | 1.67 | 1.58 | 2.47 | 1.57 | 1.31 | 1.02 |
| Slippage Ratio | 5.14 | 3.29 | 3.23 | 3.86 | 7.67 | 5.80 | 4.50 | 4.00 |
| Credit Cost | 1.78 | 0.81 | 1.61 | 2.07 | 2.24 | 1.52 | 1.44 | 1.34 |
| PCR (Excl. Tech. write off) | 38.1 | 36.9 | 45.2 | 58.6 | 42.7 | 51.5 | 54.4 | 60.1 |

Source: Company, MOFSL

## Financials and valuations

### Ratios

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|---|---|---|
| **Yield and Cost Ratio (%)** | | | | | | | | |
| **Avg. Yield- on Earning Assets** | **14.7** | **15.5** | **16.0** | **15.3** | **14.3** | **14.7** | **15.1** | **15.2** |
| Avg. Yield on loans | 19.9 | 18.9 | 19.1 | 19.0 | 17.3 | 17.2 | 17.6 | 17.5 |
| Avg. Yield on Investments | 6.3 | 8.3 | 6.7 | 7.3 | 6.1 | 6.5 | 6.8 | 7.0 |
| **Avg. Cost of Int. Bear. Liab.** | **7.7** | **8.1** | **8.0** | **7.7** | **6.7** | **6.8** | **7.1** | **7.2** |
| **Interest Spread** | **7.0** | **7.5** | **8.1** | **7.7** | **7.5** | **7.9** | **8.0** | **8.0** |
| **NIM (on IEA)** | **8.3** | **8.5** | **9.1** | **8.6** | **8.4** | **8.8** | **9.0** | **8.9** |
| | | | | | | | | |
| **Business and Efficiency Ratios (%)** | | | | | | | | |
| Loans/Deposit Ratio | 137.5 | 128.7 | 127.2 | 102.8 | 102.2 | 100.7 | 99.9 | 99.1 |
| CASA Ratio | 29.2 | 25.3 | 20.5 | 34.2 | 52.0 | 53.2 | 54.5 | 55.7 |
| Cost/Assets | 6.6 | 6.4 | 6.1 | 5.4 | 6.3 | 6.0 | 5.8 | 5.6 |
| Cost/Total Income | 80.0 | 70.3 | 66.4 | 60.0 | 66.2 | 64.6 | 62.0 | 60.7 |
| Cost/Core income | 79.2 | 70.5 | 66.5 | 61.2 | 67.3 | 65.8 | 62.9 | 61.4 |
| Int. Expense/Int. Income | 43.8 | 45.5 | 43.5 | 43.7 | 41.1 | 39.8 | 40.5 | 41.4 |
| Fee Income/Total Income | 22.8 | 19.5 | 15.7 | 16.8 | 19.2 | 17.5 | 16.5 | 16.1 |
| Non Int. Inc./Total Income | 21.9 | 19.7 | 15.9 | 18.9 | 20.9 | 19.3 | 17.9 | 17.3 |
| Emp. Cost/Total Expense | 58.5 | 54.7 | 60.1 | 59.5 | 52.7 | 52.9 | 53.5 | 53.5 |
| Investment/Deposit Ratio | 68.8 | 26.0 | 21.7 | 22.6 | 23.5 | 25.8 | 24.2 | 22.9 |
| | | | | | | | | |
| **Profitability Ratios and Valuation** | | | | | | | | |
| RoE | 1.6 | 9.8 | 9.7 | 12.5 | 7.3 | 12.0 | 14.9 | 16.9 |
| RoA | 0.3 | 1.4 | 1.4 | 1.7 | 1.1 | 1.8 | 2.1 | 2.2 |
| Book Value (INR) | 20 | 22 | 26 | 30 | 34 | 46 | 52 | 59 |
| Growth (%) | 1.6 | 10.3 | 16.2 | 14.4 | 13.8 | 34.4 | 13.2 | 15.3 |
| **Price-BV (x)** | **3.2** | **2.9** | **2.5** | **2.2** | **1.9** | **1.4** | **1.3** | **1.1** |
| Adjusted BV (INR) | 19 | 21 | 25 | 28 | 31 | 43 | 49 | 57 |
| **Price-ABV (x)** | **3.3** | **3.1** | **2.6** | **2.3** | **2.1** | **1.5** | **1.3** | **1.1** |
| EPS (INR) | 0.3 | 2.1 | 2.4 | 3.5 | 2.3 | 4.7 | 7.2 | 9.4 |
| Growth (%) | -78.3 | NM | 13.0 | 48.1 | -33.0 | 101.1 | 52.8 | 30.5 |
| **Price-Earnings (x)** | **NM** | **30.9** | **27.3** | **18.5** | **27.6** | **13.7** | **9.0** | **6.9** |

Source: Company, MOFSL

| 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 |

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