Five Star Business Finance

NBFCs

Reaching the un reached; niche position in INR 22trn MSME lending

Five Star Business Finance’s FY23 annual report provides an insight on how it is progressing towards its vision of “reaching the un reached through suitable credit solution” and capturing the INR 22trn MSME lending opportunity. AUM growth reviving to 37% in FY23 vs 14% CAGR between FY20-22 (covid impact) is a testimony to its agility and business resiliency. In a high human touch model, adherence to standard-operating-process (SOPs) becomes a prerequisite, and negligible frauds / mishandling of cash in FY23 (and even in previous years) reflects its tight control on processes and staff quality. Notably, gross stage 3 increased marginally to 1.36% in FY23 vs 1.06% in FY22 despite the implementation of daily DPD recognition from Oct’22. Maintain BUY with an unchanged target price of INR 860, valuing the stock at 4.5x on Sep’24 BVPS.

Huge untapped opportunity of INR 22trn

CIRISIL Research estimates total self-occupied residential property backed small business lending market at INR 22trn. Five Star with more than 2 decades of lending experience in small business loans is uniquely positioned to capture the largest pie of this huge untapped market. Unique underwriting model based on 3Cs – character, cashflow and collateral – and its continued investment towards branch expansion could help Five Star become a formidable player in small business loan segment.

37% AUM growth in FY23 reflects its agility and business resiliency

While Five Star has been able to deliver ~100% AUM CAGR during FY15-20, taking gross AUM to >INR 40bn by FY20 from INR 1.3bn in FY15, covid onset derailed its growth trajectory as reflected in AUM growth decelerating to 14% during FY20-22. However, with subsiding covid impact, Five Star has re-emerged into a strong growth phase as it reported strong 37% YoY AUM growth in FY23, showcasing its agility and business resiliency.

Set-up of separate collection team

With increasing balance sheet size and to sharpen its focus on collection as well as sustain growth momentum, Five Star has set up a separate collection vertical. While the primary responsibility of early collections still remains with the sourcing officer, accounts with certain vintage will now move to collections vertical, which will free up the time for business team to on-board new business.

Key Risks.

Deceleration in AUM growth, and stress unfolding higher than anticipated.

Financial Summary

<table>
<thead>
<tr>
<th>Y/E March (INR mn)</th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Interest Income (NII)</td>
<td>9,032</td>
<td>12,325</td>
<td>15,787</td>
<td>20,178</td>
</tr>
<tr>
<td>PAT (INR mn)</td>
<td>4,535</td>
<td>6,035</td>
<td>7,356</td>
<td>9,588</td>
</tr>
<tr>
<td>EPS (INR)</td>
<td>15.6</td>
<td>20.8</td>
<td>25.4</td>
<td>33.0</td>
</tr>
<tr>
<td>% Chg YoY</td>
<td>26.3</td>
<td>33.1</td>
<td>21.9</td>
<td>30.3</td>
</tr>
<tr>
<td>P/E (x)</td>
<td>46.6</td>
<td>35.0</td>
<td>28.7</td>
<td>22.0</td>
</tr>
<tr>
<td>P/BV (x)</td>
<td>5.7</td>
<td>4.9</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Gross Stage - 3 (%)</td>
<td>1.1</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>RoAA (%)</td>
<td>7.5</td>
<td>8.0</td>
<td>7.7</td>
<td>7.9</td>
</tr>
<tr>
<td>RoAE (%)</td>
<td>15.0</td>
<td>15.0</td>
<td>15.8</td>
<td>17.5</td>
</tr>
</tbody>
</table>

Please refer to important disclosures at the end of this report
A large, untapped market with Five-Star being “category creator”

As per CRISIL Research, small-ticket size secured MSME segment has a lending market potential of INR 22trn.

Exhibit 1: MSME lending market potential

Five Star has been a “category creator” and has conceptualised a credit solution to SORP backed small business lending 2 decades ago, when most lending institutions were focusing on consumer durables and vehicles. It took almost a decade for Five Star to understand the credit need of consumers, who are graduating from unorganised market to organised market, and build underwriting model which can help it evaluate customers from this segment, who may often lack formal cashflow proofs.

FY23 was an eventful year, wherein Five Star was listed and it re-emerged into a strong growth phase after successfully navigating two years of covid. It delivered strong 37% YoY AUM growth in FY23 vs 14% CAGR between FY20-22.

Exhibit 2: AUM growth revived sharply to 37% YoY, after subdued 14% CAGR between FY20-22
Strategically focuses on “unreached” customer and locations

The share of new-to-credit customers stands at 25% and for ~75% of its new customers SORP backed small business loan would be 1st ever secured borrowing from formal financiers, indicating its unwavering focus on organisational vision of “Reaching the Unreached”. Further, in line with this, it has built significant branch presence in tier 3 and beyond locations to ensure its reach to last-mile customer - >80% of its total branches are located in tier 4 / 5 / 6 towns.

Exhibit 5: Continued focus on extending “Lending to the Unlent”
Exhibit 6: Significant branch presence in beyond tier 3 cities is driving strong credit demand

![Branch presence (%)](image)

Source: Company data, I-Sec research

Exhibit 7: Increasing share of women borrowers

![% of Women borrowers](image)

Source: Company data, I-Sec research

Steady investment in technology and branch infrastructure

Given the segment in which Five Star operates, where the availability of formal documentation is minimal and hence, it becomes challenging to conduct credit assessment of such customers, it is important for the company to enhance its processes in order to better manage the portfolio. Five Star has been continuously investing in technology in order to ensure efficient and effective risk management practices.

To meet this, the company has built a strong technology team headed by Mr. Vanamali Sridharan (Chief Technology Officer). The company has also hired senior professionals heading the areas of analytics and data science to manage its proposed tech developments.

Some of its broad key initiatives that are either ongoing or the company plans to take towards the technological advancement are as follows:

- **Developing Application Performance Interface (API)** – The company plans to develop API infrastructure to leverage the strength of various third party service providers / fintech companies and aims to partner with them to augment / create more efficient processes.
• **Improving accuracy and breadth of customer data** captured across the portfolio for data analytics and insight generation.

• **Using of data, analytics and machine learning** – The company plans to increase its usage of data analytics through AI/ML run credit models, which may help in faster processing of loan applications with lower turnaround time.

• **Supplementing collections infrastructure** by leveraging the existing payment architecture for collecting EMI repayments.

With increasing size, it has also tied up with several service providers to replace existing applications as well as enhance technology stack in the years to come.

• **Salesforce** for customer acquisition and loan origination.

• **Oracle** for general ledger and financial reporting.

• **Darwinbox** for HRMS.

• **Credence** for treasury management.

**Exhibit 8: Continued investments in building franchise; 74 branches added in FY23**

![Graph showing branch addition per year]

Source: Company data, I-Sec research

**Stringent sourcing and risk management framework**

Five Star, with its 2 decades of experience, has implemented a comprehensive and robust credit assessment and risk management framework to monitor and manage the risks inherent in its line of business. The company primarily caters to small business owners and self-employed customers, where the inherent risks are relatively high. In line with the same, the company has taken the following step to mitigate these risks:

• **100% in-house sourcing** – The sourcing process of the company is completely in-house, which is driven either by branch-led marketing efforts, repeat customers or walk-ins. In-house sourcing allows the company to have better control over its customers and helps it manage its portfolio quality in a better manner. Furthermore, with no third-party being involved in the sourcing process, the churn rate for customers also remains low.

• **Multi-level evaluation** – The company follows a multi-level evaluation for each of its loan starting from preliminary assessment at the sourcing stage, followed by an independent assessment by the field credit team and the final check by file credit team.
- **Assignment of co-applicants** – Loans are given to households, where all family members’ cashflows are factored in, and are asked to sign the loan agreement as co-applicants, thereby, enforcing further moral obligation to repay the loan.

- **95% of loans are secured by single-unit, self-occupied residential properties.**

- **Conservative average loan to value ratio (LTV) and instalment to income ratio (IIR)** – The company maintains 50% LTV and IIR ratios at the time of origination, which ensures that the loan is adequately provided during its tenure.

**Exhibit 9: Stage 2 assets fell sharply in FY23 to 9% from 16% in FY22**

<table>
<thead>
<tr>
<th>March’22</th>
<th>March’23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio (Rs mn)</td>
<td>% of AUM</td>
</tr>
<tr>
<td>Stage 1</td>
<td>42,170</td>
</tr>
<tr>
<td>Stage 2</td>
<td>7,971</td>
</tr>
<tr>
<td>Stage 3</td>
<td>531</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research

**Robust collection mechanism; creating separate collections vertical**

In order to instil a sense of responsibility in its business development team, Five Star used to hold its sourcing officer responsible for the collections. The incentives of field officers and other branch staff are also decided in a manner that is linked to both the business and the collections.

However, the company understands that its complete reliance on the business officer for collections impacts its ability to generate leads, and at the same time, completely delineating the business and collections vertical hampers the accountability of the business team. Therefore, in order to strike the balance between the two, the company has started creating collections verticals at each of its branches, wherein the business team will be responsible for the collections until a certain stage, post which, collections team will take over. So far, **collections verticals have been piloted in 2 states** and the company will continue to put up these verticals in the remaining states over coming quarters.

**Exhibit 10: Strong collection efficiency across the quarters**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of EMI received during the month (including arrears of previous months) divided by EMI demand for the current month</td>
<td>102.0%</td>
<td>98.2%</td>
<td>101.5%</td>
<td>99.2%</td>
<td>100.1%</td>
<td>100.1%</td>
<td>100.5%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Amount of EMI received during the month, restricted to a max of 1 EMI per loan divided by EMI demand for the current month</td>
<td>96.5%</td>
<td>95.2%</td>
<td>96.2%</td>
<td>100.1%</td>
<td>96.6%</td>
<td>97.0%</td>
<td>97.5%</td>
<td>97.5%</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research
Stable asset quality with negligible write-offs

While headline asset quality metric continued to be robust even during covid, fresh NPA accretion has elevated as reflected in gross slippage increasing to 1.4% in FY23, much higher than pre-covid level of 0.8%. However, average write-offs at only 30bps during the past 5 years despite >1% of slippages show Five Star’s deep understanding of its customer base and ability to work with customer in challenging times to help them get back to normal, which eventually leads to better recovery.

The asset quality metrics remained healthy with GNPA/NNPA ratio of 1.4%/0.7% as of Mar’23.

**Exhibit 11: Movement in NPA**

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross NPA (%)</td>
<td>0.9%</td>
<td>1.4%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>Net NPA (%)</td>
<td>0.7%</td>
<td>1.1%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>Opening GNPA (INR Mn)</td>
<td>152</td>
<td>176</td>
<td>187</td>
<td>532</td>
<td>452</td>
<td>530</td>
</tr>
<tr>
<td>Additions during the year (INR Mn)</td>
<td>105</td>
<td>79</td>
<td>455</td>
<td>142</td>
<td>456</td>
<td>689</td>
</tr>
<tr>
<td>Reductions during the year (INR Mn)</td>
<td>-36</td>
<td>-50</td>
<td>-61</td>
<td>-123</td>
<td>-86</td>
<td>-161</td>
</tr>
<tr>
<td>Write-off (INR Mn)</td>
<td>-45</td>
<td>-18</td>
<td>-49</td>
<td>-100</td>
<td>-293</td>
<td>-120</td>
</tr>
<tr>
<td>Closing GNPA (INR Mn)</td>
<td>175</td>
<td>187</td>
<td>532</td>
<td>452</td>
<td>530</td>
<td>939</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research

**Exhibit 12: Slippages and write-offs as a %age of opening AUM**

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-offs as a % of opening AUM</td>
<td>0.2%</td>
<td>0.8%</td>
<td>0.3%</td>
<td>0.7%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Slippages as a % of opening AUM</td>
<td>0.2%</td>
<td>2.2%</td>
<td>0.4%</td>
<td>1.0%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research

**Exhibit 13: Scale up in business with steady asset quality**

Source: Company data, I-Sec research
Effective asset liability management (ALM) - >3 years of borrowings form 26% of total borrowing, highest share in last 3 years

Asset-liability management becomes extremely important for a business having asset maturity of >5 years and Five Star scores high on effective asset-liability management. Notably, in FY23, it had further strengthened its liability profile by increasing the share of longer-tenure borrowing – the share of more than 3-year borrowings increased to 26% in FY23 from 4% in FY22 and 10% in FY21.

Similar to past years, as of Mar'23, the company had positive cumulative gap across all buckets. Even liquidity coverage ratio, which is a measure of the next 30 days' liquidity position, stood at 302% in Mar’23.

**Exhibit 14: Asset maturity profile broadly remained stable in FY23 with ~50% of advances maturing in >3 years**

![Advance maturity profile](image)

Source: Company data, I-Sec research

**Exhibit 15: Share of >3 years’ borrowings increased to 26% in FY23**

![Borrowings maturity profile](image)

Source: Company data, I-Sec research
The effective asset-liability management is further complemented by the diversified funding mix spread across loans from banks/FIs, NCDs, ECBs and securitisation. The share of loans from banks (relatively lower cost) increased to 56% in FY23 from 40% in FY19, while the share of NCDs reduced to 12% in FY23 from 45% in FY19. The share of securitisation also increased to 23% in FY23 from nil in FY19, which has further enhanced its liquidity position and reduced its cost of funds. The company’s average cost of borrowing reduced to 10.1% in FY23 from 11.1% in FY19, despite the RBI rate hikes.

**Exhibit 16: Average liquidity coverage of 300% maintained across quarters**

![Average liquidity coverage chart](chart)

Source: Company data, I-Sec research

**Exhibit 17: Increasing share of bank borrowing to ensure stability in securing funding at competitive rates**

![Share of funding sources chart](chart)

Source: Company data, I-Sec research
Steady decline in cost of borrowing

Source: Company data, I-Sec research

Employee turnover rate increasing; management is cognisant of this and has implemented best HR policies to retain talent

Post covid, with the opening up of economy, Five Star has witnessed rapid increase in its employee turnover rate which increased to as high as 48% in FY23 from 27% in FY21. In a high human touch business model, managing attrition is a prerequisite and retaining key employees becomes extremely important to manage book quality and sustain growth.

To retain top talent, the company has initiated certain incentive schemes as a means to appreciate employees’ relentless contribution to the organisation’s success.

Lakshathipathi Scheme
- Senior employees are given INR 0.1mn on successful completion of 3 years at Five Star.

The scheme was introduced in 2018 - 175 employees were covered under the scheme with benefits ranging from INR 0.1mn-0.5mn.

Two employee stock option schemes
- Five Star Associate Stock Option Scheme 2015 (ASOP 2015).
- Five Star Associate Stock Option Scheme 2018 (ASOP 2018).

Total 314 employees have been granted ESOPs under the above schemes.

Group personal accident policy
In the event of a medical emergency or casualty, employees working as collection agents are entitled to receive the basic pay component of their salary for the duration of the treatment period under a group personal accident policy.
Employee turnover increased to 48% in FY23

<table>
<thead>
<tr>
<th></th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male employees</td>
<td>26%</td>
<td>42%</td>
<td>49%</td>
</tr>
<tr>
<td>Female employees</td>
<td>75%</td>
<td>26%</td>
<td>40%</td>
</tr>
<tr>
<td>Total</td>
<td>27%</td>
<td>41%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research

Negligible fraud instances reflect its tight control on processes

Majority of fraud instances primarily occur from cash mishandling. However, the company has been able to fully recover the amount involved in the fraud in the past, i.e. in FY21 and FY22.

Fraud instances across years

Source: Company data, I-Sec research
Cases and penalties

There were no penalties, strictures imposed on the company by any statutory authority / regulatory authority, on any matter related to capital markets, during the last three years.

Audit framework

Five Star has strengthened its audit framework and has implemented Risk-based Internal Audit Framework (RBIA) as mandated by the RBI. The Audit Committee of the Board oversees the audit processes which are broken into 3 parts –

- Statutory audit undertaken by statutory auditors
- Internal audit undertaken by an external audit firm
- Internal process audit undertaken by an in-house audit team.

All the aspects across regulatory compliance, company-specific policies and procedures, financial reporting and adherence to accounting standards, etc. are covered and reported to the Audit Committee of the Board.

In FY23, the RBIA framework had taken into account all the functional processes, found out the risks inherent in those processes and accordingly defined the audit scope in line with the risk profiles. All the findings of the audit exercise are presented to the audit committee on quarterly basis. In FY23, the company also appointed a Chief Audit Officer (Naveen Raj) to overlook audit procedures.

Exhibit 21: Shareholding pattern

<table>
<thead>
<tr>
<th>%</th>
<th>Dec'22</th>
<th>Mar'23</th>
<th>Jun'23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoters</td>
<td>34.9</td>
<td>34.9</td>
<td>34.4</td>
</tr>
<tr>
<td>Institutional investors</td>
<td>12.1</td>
<td>12.0</td>
<td>13.4</td>
</tr>
<tr>
<td>MFs and other</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>FIs/Banks</td>
<td>3.5</td>
<td>2.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Insurance Cos.</td>
<td>1.1</td>
<td>1.2</td>
<td>0.8</td>
</tr>
<tr>
<td>FIs</td>
<td>6.5</td>
<td>7.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Others</td>
<td>53.0</td>
<td>53.1</td>
<td>52.2</td>
</tr>
</tbody>
</table>

Source: Bloomberg, I-Sec research

Exhibit 22: Price chart

Source: Bloomberg, I-Sec research
### Financial Summary

#### Exhibit 23: Profit & Loss
**(INR mn, year ending March)**

<table>
<thead>
<tr>
<th></th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest Income</strong></td>
<td>12,038</td>
<td>14,988</td>
<td>19,719</td>
<td>25,753</td>
</tr>
<tr>
<td><strong>Net gain on fair value changes</strong></td>
<td>209</td>
<td>83</td>
<td>202</td>
<td>277</td>
</tr>
<tr>
<td><strong>Interest Expenses</strong></td>
<td>(3,006)</td>
<td>(2,663)</td>
<td>(3,932)</td>
<td>(5,575)</td>
</tr>
<tr>
<td><strong>Net Interest Income (NII)</strong></td>
<td>9,032</td>
<td>12,325</td>
<td>15,787</td>
<td>20,178</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Income (net of interest expenses)</strong></td>
<td>9,556</td>
<td>12,627</td>
<td>16,208</td>
<td>20,727</td>
</tr>
<tr>
<td><strong>Employee benefit expenses</strong></td>
<td>(2,361)</td>
<td>(3,464)</td>
<td>(4,790)</td>
<td>(5,906)</td>
</tr>
<tr>
<td><strong>Depreciation and amortization</strong></td>
<td>(122)</td>
<td>(173)</td>
<td>(201)</td>
<td>(267)</td>
</tr>
<tr>
<td><strong>Fee and commission expenses</strong></td>
<td>-</td>
<td>-</td>
<td>(19)</td>
<td>(26)</td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td>(575)</td>
<td>(741)</td>
<td>(835)</td>
<td>(1,046)</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td>(3,058)</td>
<td>(4,378)</td>
<td>(5,846)</td>
<td>(7,245)</td>
</tr>
<tr>
<td><strong>Pre Provisioning Profits (PPoP)</strong></td>
<td>6,497</td>
<td>8,249</td>
<td>10,362</td>
<td>13,482</td>
</tr>
<tr>
<td><strong>Provisions and write offs</strong></td>
<td>(455)</td>
<td>(201)</td>
<td>(531)</td>
<td>(669)</td>
</tr>
<tr>
<td><strong>Profit before tax (PBT)</strong></td>
<td>6,042</td>
<td>8,047</td>
<td>9,830</td>
<td>12,813</td>
</tr>
<tr>
<td><strong>Total tax expenses</strong></td>
<td>(1,507)</td>
<td>(2,012)</td>
<td>(2,474)</td>
<td>(3,225)</td>
</tr>
<tr>
<td><strong>Profit after tax (PAT)</strong></td>
<td>4,535</td>
<td>6,035</td>
<td>7,356</td>
<td>9,588</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research

#### Exhibit 24: Balance sheet
**(INR mn, year ending March)**

<table>
<thead>
<tr>
<th></th>
<th>FY22A</th>
<th>FY23A</th>
<th>FY24E</th>
<th>FY25E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share capital</strong></td>
<td>291</td>
<td>291</td>
<td>291</td>
<td>291</td>
</tr>
<tr>
<td><strong>Reserves &amp; surplus</strong></td>
<td>36,812</td>
<td>43,104</td>
<td>50,460</td>
<td>60,048</td>
</tr>
<tr>
<td><strong>Shareholders’ funds</strong></td>
<td>37,104</td>
<td>43,395</td>
<td>50,751</td>
<td>60,339</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td>25,588</td>
<td>42,473</td>
<td>54,324</td>
<td>78,038</td>
</tr>
<tr>
<td><strong>Provisions &amp; Other Liabilities</strong></td>
<td>739</td>
<td>1,160</td>
<td>921</td>
<td>1,328</td>
</tr>
<tr>
<td><strong>Total Liabilities and Stakeholder’s Equity</strong></td>
<td>63,431</td>
<td>87,028</td>
<td>1,05,996</td>
<td>1,39,705</td>
</tr>
<tr>
<td><strong>Cash and balance with RBI</strong></td>
<td>8,799</td>
<td>15,809</td>
<td>11,022</td>
<td>14,584</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td>328</td>
<td>449</td>
<td>597</td>
<td>790</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td>51,024</td>
<td>68,222</td>
<td>91,848</td>
<td>1,21,534</td>
</tr>
<tr>
<td><strong>Deferred tax assets (net)</strong></td>
<td>467</td>
<td>533</td>
<td>533</td>
<td>533</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td>330</td>
<td>569</td>
<td>506</td>
<td>730</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>63,431</td>
<td>87,028</td>
<td>1,05,996</td>
<td>1,39,705</td>
</tr>
</tbody>
</table>

Source: Company data, I-Sec research
### Exhibit 25: Key ratios

**FY22A** | **FY23A** | **FY24E** | **FY25E**
---|---|---|---
**AUM and Disbursements (INR mn)**
AUM | 51,024 | 68,222 | 91,848 | 1.21,534
On-book Loans | 51,024 | 68,222 | 91,848 | 1.21,534
Off-book Loans | - | - | - | -
Disbursements | 17,562 | 33,914 | 43,108 | 57,823
Repayments | 11,345 | 15,437 | 20,408 | 28,137
**Growth (%):**
Total AUM (%) | 17.1 | 33.7 | 34.6 | 32.3
Disbursements (%) | 41.1 | 93.1 | 27.1 | 34.1
Repayments (%) | 64.0 | 36.1 | 32.2 | 37.9
Loan book (on balance sheet) (%) | 17.1 | 33.7 | 34.6 | 32.3
**Total Assets (%)** | 8.8 | 37.2 | 21.8 | 31.8
**Net Interest Income (NII) (%)** | 31.0 | 36.5 | 28.1 | 27.8
**Non-interest income (%)** | 35.8 | (30.7) | (0.1) | 24.3
**Total Income (net of interest expenses) (%)** | 31.6 | 32.1 | 28.4 | 27.9
**Operating Expenses (%)** | 42.6 | 43.1 | 33.5 | 23.9
**Employee Cost (%)** | 44.2 | 46.7 | 38.3 | 23.3
**Non-Employee Cost (%)** | 96.7 | 28.8 | 12.8 | 25.2
**Pre provisioning operating profits (PPOP) (%)** | 27.0 | 27.0 | 25.6 | 30.1
**Provisions (%)** | 29.4 | (55.7) | 163.8 | 25.8
**PBT (%)** | 26.8 | 33.2 | 22.2 | 30.3
**PAT (%)** | 26.3 | 33.1 | 21.9 | 30.3
**EPS (%)** | 26.3 | 33.1 | 21.9 | 30.3
**Yields, interest costs and spreads (%)**
NIM on loan assets (%) | 17.7 | 18.1 | 17.2 | 16.6
NIM on IA (%) | 15.4 | 17.1 | 16.9 | 16.9
NIM on AUM (%) | 19.1 | 20.7 | 19.7 | 18.9
**Yield on loan assets (%)** | 23.6 | 22.0 | 21.5 | 21.2
**Yield on IA (%)** | 20.6 | 20.8 | 21.1 | 21.6
**Yield on AUM (%)** | 25.4 | 25.1 | 24.6 | 24.1
**Cost of borrowings (%)** | 10.0 | 7.8 | 8.1 | 8.4
**Interest Spreads (%)** | 15.4 | 17.3 | 16.5 | 15.7
**Operating efficiencies**
Non interest income as % of total income (x) | 71.9 | 80.6 | 78.4 | 76.7
Net interest income as % of total income (x) | 32.0 | 34.7 | 36.1 | 35.0
Op.casts/avg assets (%) | 5.0 | 5.8 | 6.1 | 5.9
Op.casts/AUM (%) | 6.5 | 7.3 | 7.3 | 6.8
No of employees (estimate) (x) | 5,675 | 7,347 | 7,794 | 8,874
**Costs of branches (%)** | 299 | 373 | 433 | 493
**Salaries as % of non-interest costs (%)** | 77.2 | 79.1 | 81.9 | 81.5
**N II/employee (INR mn)** | 1.6 | 1.7 | 2.0 | 2.3
**AUM/employee (INR mn)** | 9.0 | 9.3 | 11.8 | 13.7
**AUM/ branch (INR mn)** | 170.6 | 182.9 | 212.1 | 246.5
**Capital Structure**
**Average gearing ratio (x)** | 0.7 | 1.0 | 1.1 | 1.3
**Leverage (x)** | 1.7 | 2.0 | 2.1 | 2.3
CAR (%) | 75.2 | 67.2 | 62.6 | 56.5
**Tier 1 CAR (%)** | 75.2 | 67.2 | 62.6 | 56.5
**Tier 2 CAR (%)** | - | - | - | -
RWA (estimate) - INR mn | 44,659 | 54,914 | 68,897 | 90,808
RWA as a % of loan assets | 87.5 | 80.5 | 75.0 | 74.7

### Exhibit 26: Key metrics

**FY22A** | **FY23A** | **FY24E** | **FY25E**
---|---|---|---
**Asset quality and provisioning**
GNPA (%) | 1.0 | 1.3 | 1.5 | 1.5
NNPA (%) | 0.7 | 0.7 | 0.8 | 0.8
GNPA (INR mn) | 531 | 864 | 1,378 | 1,823
NNPA (INR mn) | 345 | 469 | 772 | 912
Coverage ratio (%) | 34.9 | 45.7 | 44.0 | 50.0
Credit Costs as a % of avg AUM (bps) | 96 | 34 | 66 | 63
Credit Costs as a % of avg on book loans (bps) | 96 | 34 | 66 | 63
**Return ratios**
RoAE (%) | 7.5 | 8.0 | 7.6 | 7.8
RoAA (%) | 15.0 | 15.0 | 15.6 | 17.3
ROAAUAM (%) | 9.6 | 10.1 | 9.2 | 9.0
**Valuation Ratios**
No of shares | 290 | 290 | 290 | 290
No of shares (fully diluted) | 290 | 290 | 290 | 290
EPS (INR) | 15.6 | 20.8 | 25.4 | 33.0
EPS fully diluted (INR) | 15.6 | 20.8 | 25.4 | 33.0
Price to Earnings (x) | 46.6 | 35.0 | 28.7 | 22.0
Price to Earnings (fully diluted) (x) | 46.6 | 35.0 | 28.7 | 22.0
Book Value (fully diluted) (x) | 128 | 150 | 175 | 208
Adjusted book value | 127 | 148 | 173 | 206
Price to Book | 5.7 | 4.9 | 4.2 | 3.5
Price to Adjusted Book | 5.7 | 4.9 | 4.2 | 3.5

Source Company data, I-Sec research

Source Company data, I-Sec research

Source Company data, I-Sec research

Source Company data, I-Sec research
In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors.

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasohse Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities AIF Trust’s SEBI Registration number is IN/AIF/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India’s largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates").

Terms & conditions and other disclosures:

Analytical reports are issued by ICICI Securities Limited Research Analyst SEBI Registration No. INH000000658. ICICI Securities Limited Research Analyst SEBI Registration No. INH000000658 is a Research Analyst associated with ICICI Securities Limited. ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or be contrary to the views, estimates, rating, and target price of the Retail Research. The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, in or certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objective, financial situation and needs of speaking. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research reports. ICICI Securities or its associates did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report. We submit that no material discriminatory action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities. This report does not constitute solicitation or an invitation for distribution, publication, availability or use. It is for distribution, publication, availability or use by the recipient only or use by the recipient or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

ICICI Securities Limited is a full-service investment banking, merchant banking, financial advisory and asset management firm. ICICI Securities is one of the leading merchant bankers/underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prevented from maintaining a financial interest in the securities or derivatives of any companies that are the analysts' coverage. Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research reports. ICICI Securities’ analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months. ICICI Securities or its associates might have managed or co-managed public offerings for the subject company or might have been mandated by the subject company or for any other assignment in the past twelve months. ICICI Securities or its associates might have received an compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction. ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months. ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

ICICI Securities and ICICI Securities Limited together are collectively referred to as ICICI Securities or ICICI. ICICI Securities Gordon Gekko is the owner of ICICI Securities. ICICI Securities is registered with Insurance Regulatory and Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited (SEBI) Registration No. INZ00013631 for stock broker.

The report may contain forward-looking statements which are not predictions and may be subject to change without notice. ICICI Securities AIF Trust’s SEBI Registration number is IN/AIF/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India’s largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates").

India | Equity Research
Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot, Email address: headservicequality@icicidirect.com, Contact Number: 18601231122