29 October 2023

2QFY24 Results Update | Sector: Financials

# IDFC First Bank

| | |
|---|---|
| Estimate change | ↓ |
| TP change | ↓ |
| Rating change | ↓ |

| | |
|---|---|
| Bloomberg | IDFCFB IN |
| Equity Shares (m) | 6618 |
| M.Cap.(INRb)/(USDb) | 607.1 / 7.3 |
| 52-Week Range (INR) | 101 / 52 |
| 1, 6, 12 Rel. Per (%) | -8/38/44 |
| 12M Avg Val (INR M) | 2860 |

**Financial and Valuation Summary (INR b)**

| Y/E March | FY23 | FY24E | FY25E |
|---|---|---|---|
| NII | 126.4 | 161.8 | 201.7 |
| OP | 49.3 | 64.3 | 85.8 |
| NP | 24.4 | 31.6 | 41.3 |
| NIM (%) | 6.4 | 6.6 | 6.6 |
| EPS (INR) | 3.8 | 4.7 | 6.1 |
| BV/Sh. (INR) | 39 | 48 | 54 |
| ABV/Sh. (INR) | 37 | 46 | 52 |
| **Ratios** | | | |
| RoE (%) | 10.4 | 10.8 | 11.9 |
| RoA (%) | 1.1 | 1.2 | 1.3 |
| **Valuations** | | | |
| P/E(X) | 22.6 | 18.2 | 14.1 |
| P/BV (X) | 2.2 | 1.8 | 1.6 |
| P/ABV (X) | 2.4 | 1.9 | 1.7 |

**Shareholding pattern (%)**

| As On | Sep-23 | Jun-23 | Sep-22 |
|---|---|---|---|
| Promoter | 39.4 | 39.9 | 36.5 |
| DII | 9.5 | 11.7 | 14.1 |
| FII | 24.5 | 20.9 | 19.3 |
| Others | 26.7 | 27.5 | 30.2 |

FII Includes depository receipts


**CMP: INR86** **TP: INR95 (+10%)** **Downgrade to Neutral**

## Earnings in line; margins stable at 6.3%

### RoA to expand gradually; downgrade to Neutral on limited upside

- IDFC First Bank (IDFCFB) reported 2QFY24 PAT of INR7.5b (up 35% YoY, slight 4% miss), led by robust revenues.
- NII grew 32% YoY, led by healthy loan growth and largely stable margins (down 1bp QoQ to 6.32%).
- Loan book (incl. credit subs) grew 28%YoY/7% QoQ. Deposit growth was healthy at 39% YoY, with CASA mix broadly stable at 46.4%.
- IDFCFB is well poised to deliver healthy loan growth, led by robust traction across retail, while drag from the wholesale book continues to moderate. However, higher opex will curb the pace of RoA expansion.
- IDFCFB stock has delivered ~60% return since we initiated coverage on the stock in Oct-22. However post sharp outperformance over past one year the stock now offers a limited upside to our revised fair value. **We estimate bank to deliver 30% earnings CAGR over FY23-26 with RoA/RoE thus reaching to 1.33%/13.6% in FY26. We downgrade our rating to Neutral with a revised TP of INR95.**

### Margins broadly stable at 6.3%; SMA book under control at 0.77%

- IDFCFB reported 2QFY24 PAT of INR7.5b (up 35% YoY; 4% miss), led by steady NII, healthy other income and in-line provisions.
- NII grew 32% YoY to INR39.5b (in line), driven by strong loan growth (up 28% YoY) and flat margin at 6.32% (down 1bp QoQ). The bank expects the margin to remain stable, aided by healthy loan growth, continued unwinding of high-cost legacy borrowings and re-pricing of MCLR-linked loans.
- Other income grew 35% YoY, with robust 47% YoY growth in core fees, while treasury income declined. Opex grew 34% YoY, with the C/I ratio staying elevated at 72%. PPoP rose 29% YoY to INR15b (in line).
- On the business front, funded assets grew 26% YoY/7% QoQ, led by 51%/29% YoY growth in Rural/Retail finance. The SME & Corporate book also grew 22% YoY. Within retail, growth was led by housing (26% YoY), vehicle finance (41% YoY) and cards (58% YoY). The share of Consumer and Rural finance stood at 69% as on 2QFY24.
- Deposits grew 39% YoY (up 11% QoQ), with healthy growth in CASA deposits at 26% YoY/11% QoQ. Thus, the CASA ratio was flat at 46.4%.
- Asset quality continued to improve, with GNPA/NNPA ratios declining by 6bp/2bp QoQ to 2.11%/0.7%. PCR was stable at ~68%. Further, the SMA book declined to 0.77% as on 2QFY24 vs. 0.85% in 1QFY24. Restructured book declined to 0.4% of funded assets vs. 0.5% in 1QFY24.

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## Highlights from the management commentary

- The C/I ratio remains elevated on continued business investments; however, the bank expects operating leverage to play out, resulting in a moderation in C/I by FY25 end.
- The credit card business is likely to achieve a breakeven by FY25 and profits will show up in FY26.
- IDFCFB's exposure to customers with less than INR50k unsecured loans is minimal at INR5.4b (0.3% of funded assets and 0.37% of retail loans). It has, though, tightened risk management policies. CE remains strong at 99.5%.
- A large part of the re-pricing has happened in the deposit portfolio and another 10-15bp will occur in coming quarters. INR25-26b of legacy borrowing at 8.9% is due to mature in 2H.

## Valuation and view

- IDFCFB delivered a steady quarter with healthy business growth and stable margins. RoA stood at 1.16% as high opex remains a drag. We believe that the C/I ratio may remain elevated in the near term, mainly due to the need to mobilize deposits at a healthy run rate and continued investment in business, technology and branches.
- We estimate margins to remain stable, benefiting from steady loan growth, limited deposit re-pricing and further replacement of high-cost borrowings in FY25. While IDFCFB's asset quality metrics and CE remain strong, we would monitor its credit quality given the increasing stress in the unsecured retail segment. We note that even a slight increase in credit costs can prolong the guided recovery in RoA.
- IDFCFB stock has delivered ~60% return since we initiated coverage on the stock in Oct-22. However post the sharp outperformance over past one year the stock now offers a limited upside to our revised fair value. **We estimate bank to deliver 30% earnings CAGR over FY23-26 with RoA/RoE thus reaching to 1.33%/13.6% in FY26. We downgrade our rating to Neutral with a revised TP of INR95 (1.8x FY25E ABV)**.

**Quarterly performance (INR b)**

| | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | V/s |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | | | 2QE | Est |
| **Net Interest Income** | **27.5** | **30.0** | **32.9** | **36.0** | **37.5** | **39.5** | **41.4** | **43.5** | **126.4** | **161.8** | **39.3** | **0%** |
| % Change (Y-o-Y) | 25.9 | 32.1 | 27.3 | 34.7 | 36.1 | 31.6 | 26.1 | 20.8 | 30.2 | 28.1 | 31.0 | |
| Other Income | 8.6 | 10.6 | 11.5 | 14.0 | 14.1 | 14.3 | 14.9 | 15.6 | 44.7 | 59.0 | 14.5 | -1% |
| **Total Income** | **36.1** | **40.6** | **44.4** | **49.9** | **51.6** | **53.8** | **56.4** | **59.1** | **171.0** | **220.8** | **53.8** | **0%** |
| Operating Expenses | 26.6 | 28.9 | 31.8 | 34.4 | 36.6 | 38.7 | 39.9 | 41.3 | 121.7 | 156.5 | 38.0 | 2% |
| **Operating Profit** | **9.4** | **11.7** | **12.6** | **15.6** | **15.0** | **15.1** | **16.4** | **17.8** | **49.3** | **64.3** | **15.8** | **-4%** |
| % Change (Y-o-Y) | -5.1 | 68.7 | 63.8 | 88.6 | 59.0 | 29.2 | 30.4 | 13.9 | 50.2 | 30.4 | 35.2 | |
| Provisions | 3.1 | 4.2 | 4.5 | 4.8 | 4.8 | 5.3 | 5.8 | 6.1 | 16.6 | 21.9 | 5.3 | 0% |
| **Profit before Tax** | **6.4** | **7.4** | **8.1** | **10.8** | **10.2** | **9.8** | **10.6** | **11.7** | **32.7** | **42.4** | **10.5** | **-7%** |
| Tax | 1.6 | 1.9 | 2.1 | 2.7 | 2.6 | 2.3 | 2.7 | 3.2 | 8.3 | 10.8 | 2.7 | -14% |
| **Net Profit** | **4.7** | **5.6** | **6.0** | **8.0** | **7.7** | **7.5** | **7.9** | **8.5** | **24.4** | **31.6** | **7.9** | **-4%** |
| % Change (Y-o-Y) | NM | 266.1 | 115.1 | 134.2 | 61.3 | 35.2 | 31.2 | 6.3 | NM | 29.8 | 41.4 | |
| **Operating Parameters** | | | | | | | | | | | | |
| Deposit (INR b) | 1,133 | 1,234 | 1,330 | 1,446 | 1,544 | 1,712 | 1,792 | 1,895 | 1,446 | 1,895 | 1,639 | 4% |
| Deposit Growth (%) | 24.1 | 36.8 | 43.4 | 36.9 | 36.2 | 38.7 | 34.7 | 31.0 | 36.9 | 31.0 | 32.8 | 593 |
| Loan (INR b) | 1,326 | 1,402 | 1,471 | 1,564 | 1,674 | 1,792 | 1,870 | 1,957 | 1,518 | 1,913 | 1,728 | 4% |
| Loan Growth (%) | 22.0 | 37.1 | 26.4 | 26.0 | 26.3 | 27.8 | 27.1 | 25.1 | 28.8 | 26.0 | 23.2 | 457 |
| **Asset Quality** | | | | | | | | | | | | |
| Gross NPA (%) | 3.4 | 3.2 | 3.0 | 2.5 | 2.2 | 2.1 | 2.1 | 2.0 | 2.6 | 2.1 | 2.1 | |
| Net NPA (%) | 1.3 | 1.1 | 1.0 | 0.9 | 0.7 | 0.7 | 0.7 | 0.7 | 0.9 | 0.7 | 0.7 | |
| PCR (%) | 62.0 | 66.3 | 66.0 | 66.4 | 68.1 | 68.1 | 68.6 | 67.3 | 66.4 | 67.3 | 69.6 | |

Source: MOFSL, Company

## Quarterly snapshot

| | FY22 | | | | FY23 | | | | FY24 | | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Profit and Loss (INR m)** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **YPY** | **QPQ** |
| **Net Interest Income** | **21,848** | **22,722** | **25,800** | **26,692** | **27,511** | **30,022** | **32,853** | **35,968** | **37,451** | **39,502** | **32** | **5** |
| **Other Income** | **8,425** | **7,797** | **7,686** | **8,312** | **8,557** | **10,613** | **11,525** | **13,975** | **14,138** | **14,296** | **35** | **1** |
| **Total Income** | **30,273** | **30,519** | **33,486** | **35,005** | **36,068** | **40,635** | **44,378** | **49,942** | **51,589** | **53,798** | **32** | **4** |
| **Operating Expenses** | **20,323** | **23,593** | **25,789** | **26,740** | **26,630** | **28,948** | **31,770** | **34,356** | **36,586** | **38,696** | **34** | **6** |
| Employee | 5,544 | 6,358 | 7,217 | 7,846 | 8,302 | 9,186 | 9,528 | 10,407 | 11,528 | 11,901 | 30 | 3 |
| Others | 14,779 | 17,235 | 18,571 | 18,893 | 18,328 | 19,762 | 22,242 | 23,949 | 25,059 | 26,795 | 36 | 7 |
| **Operating Profits** | **9,949** | **6,926** | **7,697** | **8,265** | **9,438** | **11,687** | **12,608** | **15,587** | **15,003** | **15,103** | **29** | **1** |
| **Core Operating Profits** | **6,019** | **5,706** | **7,447** | **8,355** | **9,878** | **10,527** | **12,248** | **13,427** | **14,273** | **14,563** | **38** | **2** |
| Provisions | 18,723 | 4,749 | 3,919 | 3,695 | 3,080 | 4,242 | 4,502 | 4,824 | 4,762 | 5,284 | 25 | 11 |
| **PBT** | **-8,774** | **2,176** | **3,779** | **4,571** | **6,358** | **7,445** | **8,105** | **10,762** | **10,242** | **9,819** | **32** | **-4** |
| Taxes | -2,473 | 659 | 968 | 1,143 | 1,615 | 1,890 | 2,059 | 2,736 | 2,590 | 2,306 | 22 | -11 |
| **PAT** | **-6,300** | **1,517** | **2,811** | **3,427** | **4,743** | **5,556** | **6,046** | **8,026** | **7,652** | **7,513** | **35** | **-2** |
| **Balance Sheet (INR B)** | | | | | | | | | | | | |
| **Loans** | **1,086** | **1,023** | **1,164** | **1,241** | **1,326** | **1,402** | **1,471** | **1,564** | **1,674** | **1,792** | **28** | **7** |
| Investments | 414 | 418 | 316 | 415 | 471 | 466 | 510 | 578 | 563 | 598 | 28 | 6 |
| **Deposits** | **913** | **902** | **928** | **1,056** | **1,133** | **1,234** | **1,330** | **1,446** | **1,544** | **1,712** | **39** | **11** |
| CASA Deposits | 464 | 463 | 479 | 512 | 567 | 633 | 665 | 720 | 718 | 795 | 26 | 11 |
| Borrowings | 484 | 526 | 508 | 530 | 557 | 566 | 544 | 572 | 557 | 532 | -6 | -5 |
| **Total Assets** | **1,690** | **1,725** | **1,742** | **1,902** | **2,006** | **2,128** | **2,214** | **2,399** | **2,490** | **2,647** | **24** | **6** |
| **Asset Quality** | | | | | | | | | | | | |
| GNPA | 46,671 | 44,855 | 44,569 | 44,691 | 43,548 | 43,962 | 43,026 | 38,845 | 36,034 | 37,478 | -15 | 4 |
| NNPA | 22,932 | 21,503 | 19,140 | 18,081 | 16,538 | 14,800 | 14,642 | 13,041 | 11,490 | 11,925 | -19 | 4 |
| **Ratios (%)** | **FY22** | | | | **FY23** | | | | **FY24** | | **Change (bp)** | |
| **Asset quality ratios** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **YPY** | **QPQ** |
| GNPA | 4.6 | 4.3 | 4.0 | 3.7 | 3.4 | 3.2 | 3.0 | 2.5 | 2.2 | 2.1 | -107 | -6 |
| NNPA | 2.3 | 2.1 | 1.7 | 1.5 | 1.3 | 1.1 | 1.0 | 0.9 | 0.7 | 0.7 | -41 | -2 |
| PCR (Calculated) | 50.9 | 52.1 | 57.1 | 59.5 | 62.0 | 66.3 | 66.0 | 66.4 | 68.1 | 68.1 | 178 | 0 |
| Credit Cost | 7.3 | 2.0 | 1.4 | 1.3 | 1.0 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | -8 | 5 |
| **Business ratios** | | | | | | | | | | | | |
| CASA (Reported) | 50.9 | 51.3 | 51.6 | 48.4 | 50.0 | 51.3 | 50.0 | 49.8 | 46.5 | 46.4 | -488 | -10 |
| Loan/Deposit | 119.0 | 113.3 | 125.5 | 117.5 | 116.9 | 113.6 | 110.6 | 108.1 | 108.4 | 104.6 | -897 | -375 |
| Non Int. to Total Income | 27.8 | 25.5 | 23.0 | 23.7 | 23.7 | 26.1 | 26.0 | 28.0 | 27.4 | 26.6 | 46 | -83 |
| Cost to Income | 67.1 | 77.3 | 77.0 | 76.4 | 73.8 | 71.2 | 71.6 | 68.8 | 70.9 | 71.9 | 69 | 101 |
| Tax Rate | 28.2 | 30.3 | 25.6 | 25.0 | 25.4 | 25.4 | 25.4 | 25.4 | 25.3 | 23.5 | -190 | -181 |
| CAR | 15.6 | 15.6 | 15.4 | 16.7 | 15.8 | 15.4 | 16.1 | 16.8 | 17.0 | 16.5 | 119 | -42 |
| Tier I | 14.9 | 14.9 | 14.8 | 14.9 | 14.0 | 13.7 | 13.5 | 14.2 | 13.7 | 13.5 | -18 | -21 |
| **Profitability ratios** | | | | | | | | | | | | |
| YoA | 12.9 | 14.2 | 12.9 | 13.6 | 13.8 | 15.2 | 15.2 | 15.4 | 15.6 | 15.8 | 65 | 25 |
| YoI | 7.3 | 5.5 | 8.5 | 5.7 | 5.9 | 7.3 | 8.0 | 7.7 | 7.3 | 7.3 | 2 | -2 |
| YoF | 11.5 | 11.7 | 12.3 | 11.7 | 11.9 | 13.2 | 13.7 | 13.5 | 13.6 | 13.8 | 60 | 20 |
| CoF | 5.8 | 5.5 | 5.5 | 5.1 | 5.6 | 6.1 | 6.3 | 6.3 | 6.6 | 6.7 | 62 | 15 |
| RoA | -1.5 | 0.4 | 0.6 | 0.8 | 1.0 | 1.1 | 1.1 | 1.4 | 1.3 | 1.2 | 9 | -10 |
| Margins | 5.5 | 5.8 | 6.2 | 6.3 | 5.8 | 6.0 | 6.1 | 6.4 | 6.3 | 0.0 | -598 | -633 |
| **Other Details** | | | | | | | | | | | | |
| Branches | 601 | 599 | 599 | 641 | 651 | 670 | 707 | 809 | 824 | 862 | 192 | 38 |

Source: MOFSL, Company

## Highlights from the management commentary

### Balance sheet and P&L

- CASA ratio is stable for the bank at 46.4%; 77% of the book is now retail deposits.
- High-cost borrowing stands at INR150b, and another INR30b is coming for the repayment. Deposit growth will make up for this run-down in high-cost borrowing.
- Asset-side book is well diversified, with mortgage book forming 28% of the overall book, VF at 10%, CV at 3%, Rural at 11%, and Consumer loan at 13%.
- The balance sheet expanded 24% YoY, with lending and deposit mobilization staying strong.
- Retail deposits are growing at a faster rate. TD too grew faster at 11% QoQ as customers looked to lock in deposits at a higher rate.
- Legacy borrowing has come down by INR10b and INR26b is scheduled to run off.
- Funded assets grew 26% YoY to INR1.8t. Infra book was 1.8% of the overall asset. Retail book grew 29% YoY, Rural book grew 51% YoY, SME grew 22% YoY, and Infra book declined 44% YoY.
- The bank raised INR30b from QIP. CET1 would be higher by 150bp in Sep'23. LCR at 122% and should be maintained at this level going ahead.
- C/I is higher as the bank is in the expansion phase. The drag is mainly coming from the liability side of the book. The exit quarter of FY25 will see C/I in line with the previous guidance.
- By FY25 the credit card business is expected to break-even, and by FY26, the profit will show up.
- The bank is in process of a merger and things are moving smoothly. It does not see any hiccups in the timeline.
- Large part of repricing has been done in deposits; 10-15bp may be left. INR25-26b of legacy borrowing at 8.9% would be coming for repayment in 2H, which should give the bank cost benefits.
- The NBFC book's performance is going well, with more than 50% of the INR150b book rated AAA & above. While lending to NBFCs, the bank looks at their capital ratios, ability to raise capital in past, discipline of lending practices, reputation in the market, and trends in asset quality.
- The bank stringently evaluates the portfolio and does 5-6 levels of checks. The underwriting team has its own KPIs and the policy approval team also looks at this. The bank keeps on micro-identifying the portfolio even after disbursing.
- Margins should remain stable. In Q2, a 2bp impact came from ICRR. The bank should see benefits when there is repricing in investments. It has some loans with 1-year MCLR repricing, which should keep margins stable.
- Deposits per branch stood at INR1.85b, comparable to some large private sector banks. The bank has been catching up as the brand has been developed. The product of the bank is also clean, as a result the flow of the deposits are good for the bank.
- The size of the credit substitute book is INR50b.
- TD pricing strategy: The bank offers 4.5% for the 180-day bucket, 5.75% for 181 days to 1 year, and 6.5% for over 1 year. The rates are very competitive vs .other banks. SA rates is 7% for above 5 lac. The bank looks to raise deposits either by

SA or TDs. It has dropped rates to 3% for 0-3 lac. The bank is comfortable in its strategy to raise deposits.

- Product per customer is a bit less for the bank, and it takes this as an opportunity to sell products. As the bank is relatively an NTB bank rather than an ETB bank, it focuses on quality customers.

## Asset quality

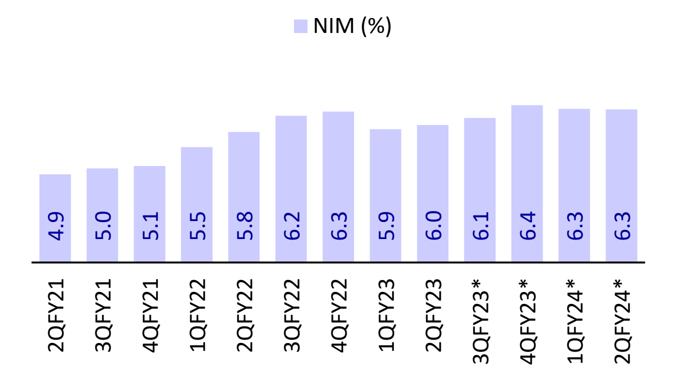
- Bureau info said that less than INR50,000 loans have higher delinquencies. IDFCFB's exposure is minimal at INR5.4b/0.3% of funded assets and 0.37% of the retail, rural book. The bank does not lend in small ticket size (does not include BNPL book). It has tightened the risk management policies.
- Entire retail (unsecured or secured) is behaving well. The bank does a cash flow analysis of customers. The entire book is built on the concept of cash flow, and as a result, the book is doing well.
- GNPA has come down to 2.11%, with NNPA at 0.68%. GNPA without infra is 1.65%, with NNPA at 0.46%.
- GNPA in Retail, Rural and MSME finance stood at 1.53%, and there is no trend to worry about.
- The bank also monitors the collection percentage, which has been at 99.5% for 12-13 months in a row.
- If there is an asset quality issue, collections will be affected first. It will act as a leading indicator.
- SMA is low at 0.77%, indicating a better portfolio.
- Restructured book continues to decline at 0.38%; 85% of book is secured.
- The bank's gross slippage stood at INR13.5b and net slippages at INR8.5b.
- The bank remains extra careful on the credit card business. For better asset quality bank lends to credit card to customer to existing to bank customers.
- 2QFY24 slippages stood at 3%. The bank has five metrics to track asset quality – collection percentage, SMA, Gross NPA, Net NPA and credit costs.
- Provisioning policy starts in 90DPD in a conservative manner. The bank does not see any issues in asset quality.

## Valuation and view

- **Robust liability franchise:** IDFCFB continues to witness strong growth in Retail deposits and has succeeded in building a robust liability franchise over the past three years, led by attractive customer service levels, higher interest rates, a strong brand, and transparent products and services. In 2QFY24, deposits grew 39% YoY (up 11% QoQ), with CASA deposits up 26% YoY/11% QoQ and TD up 11% QoQ to INR853b. Thus, the CASA ratio was flat at 46.4% vs. 46.5% as on 1QFY24.
- **Asset quality continues to improve**, with GNPA/NNPA ratios declining by 6bp/2bp QoQ to 2.11%/0.7%. The PCR ratio was stable at ~68%. Further, the SMA book declined to 0.77% as on 2QFY24 vs. 0.85% in 1QFY24. Restructuring book too declined to 0.4% of funded assets vs. 0.5% in 1QFY24. We estimate a credit cost of 1.3-1.4% over FY23-25.
- **Reiterate BUY with a TP of INR95:** IDFCFB delivered a steady quarter with healthy business growth and stable margins. RoA stood at 1.16% as high opex remained a drag. We believe that C/I ratio may remain elevated in the near term, mainly due to the need to mobilize deposits at a healthy run rate and continued investment in business, technology and branches. We estimate margins to remain stable, benefitting from steady loan growth, limited deposit re-pricing and further replacement of high-cost borrowings in FY25. While asset quality metrics and CE for IDFCFB remain strong, we remain watchful on credit quality given the rising stress in unsecured retail segment. We note that even a slight increase in credit costs can prolong the guided recovery in RoA. IDFCFB stock has delivered ~60% return since we initiated coverage on the stock in Oct-22. However post the sharp outperformance over past one year the stock now offers a limited upside to our revised fair value. **We estimate bank to deliver 30% earnings CAGR over FY23-26 with RoA/RoE thus reaching to 1.33%/13.6% in FY26. We downgrade our rating to Neutral with a revised TP of INR95 (1.8x FY25E ABV)**.

## Story in charts

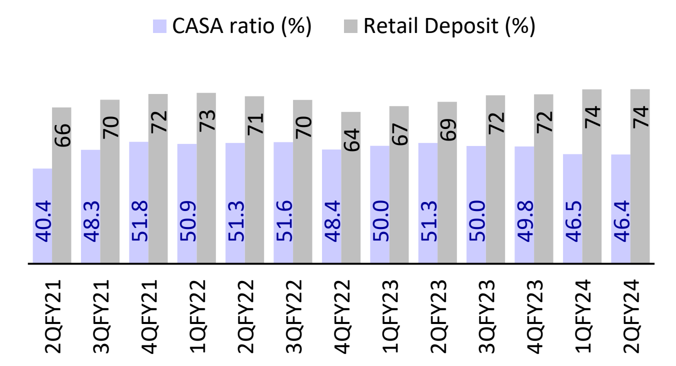
**Exhibit 1: NIM stood flat QoQ at 6.33%**




*NIMs reported are gross of IBPC and Sell-down

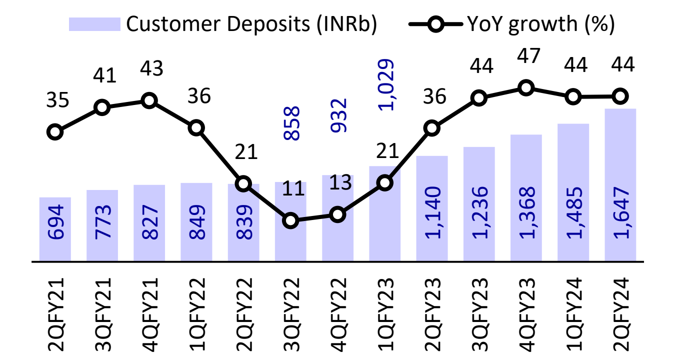
Source: MOFSL, Company

**Exhibit 2: CASA ratio moderated 10bp QoQ to 46.4%**



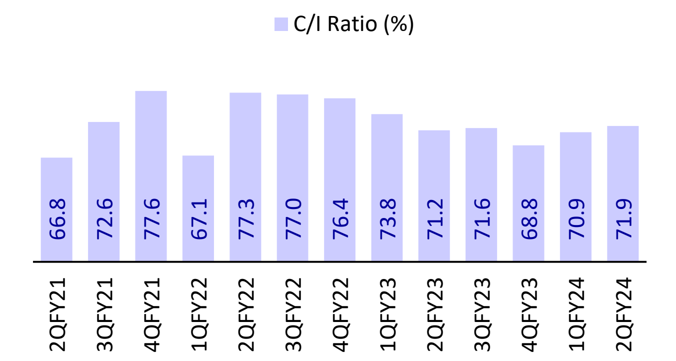

Source: MOFSL, Company

**Exhibit 3: Customer deposits grew 44% YoY to INR1.6t**



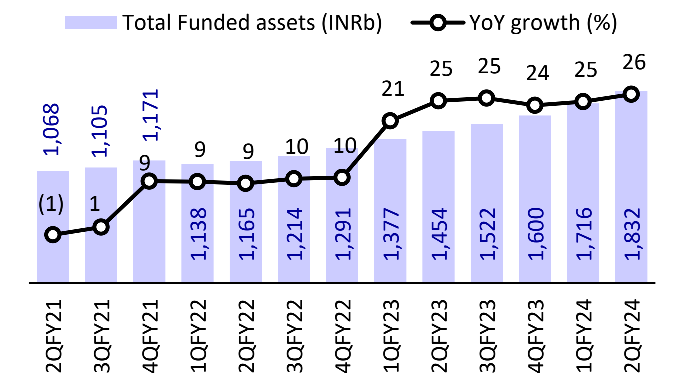

Source: MOFSL, Company

**Exhibit 4: Cost-to-income ratio remains elevated at 72%**



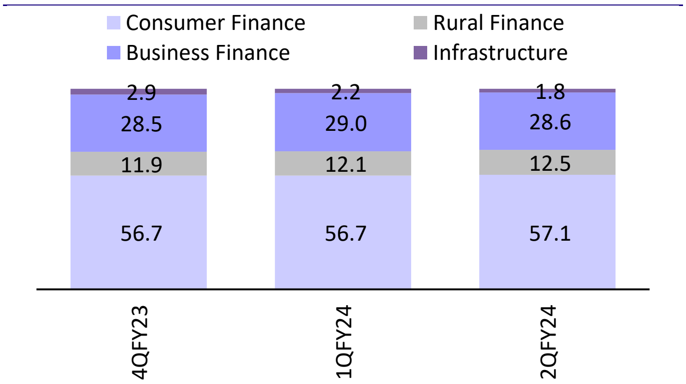

Source: MOFSL, Company

**Exhibit 5: Total funded assets grew 26% YoY in 2QFY24**



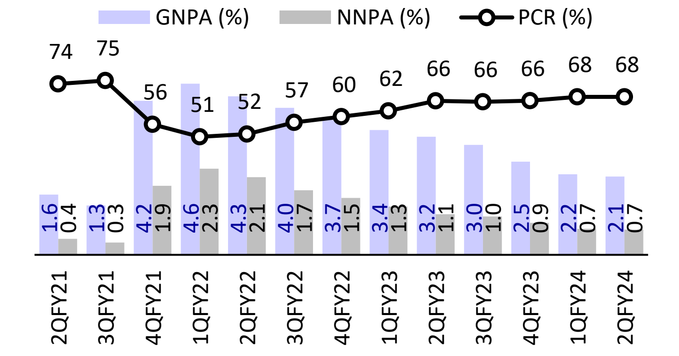

Source: MOFSL, Company

**Exhibit 6: Consumer & Rural Finance forms ~70% of loans**



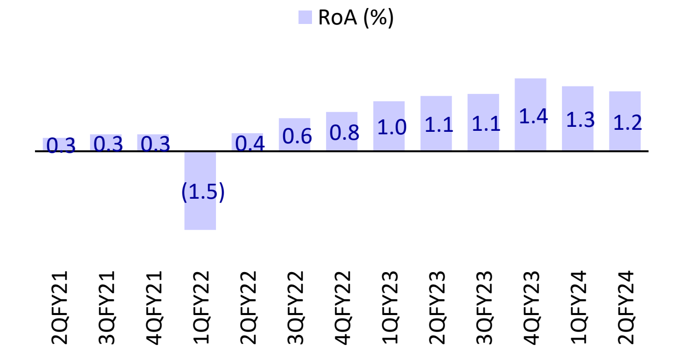

Source: MOFSL, Company

**Exhibit 7: GNPA/NNPA ratios moderate 6bp/2bp QoQ to 2.1%/0.7% as of Sep'23; PCR healthy at ~68%**




Source: MOFSL, Company

**Exhibit 8: RoA moderates to 1.2% (annualized) for 2QFY24 vs. 1.3% in 1QFY24**




Source: MOFSL, Company

**Exhibit 9: DuPont Analysis – Return ratios to improve gradually with RoA at 1.3% and RoE recovering to 13.6% by FY26E**

| Y/E MARCH | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY25E |
|---|---|---|---|---|---|---|---|
| Interest Income | 10.3 | 10.2 | 9.7 | 10.6 | 11.2 | 11.3 | 11.3 |
| Interest Expense | 6.5 | 5.5 | 4.2 | 4.7 | 5.1 | 5.2 | 5.2 |
| **Net Interest Income** | **3.8** | **4.7** | **5.5** | **5.9** | **6.0** | **6.1** | **6.2** |
| Fee income | -245.7 | -380.8 | -307.4 | -145.8 | -110.5 | -84.6 | -65.0 |
| Trading and others | 246.8 | 382.2 | 309.3 | 147.9 | 112.7 | 86.9 | 67.3 |
| **Non Interest income** | **1.1** | **1.4** | **1.8** | **2.1** | **2.2** | **2.3** | **2.3** |
| **Total Income** | **4.9** | **6.1** | **7.3** | **8.0** | **8.2** | **8.4** | **8.5** |
| **Operating Expenses** | **3.7** | **4.5** | **5.5** | **5.7** | **5.8** | **5.8** | **5.7** |
| Employee cost | 965.6 | 1,265.9 | 1,526.4 | 1,740.1 | 1,730.3 | 1,700.0 | 1,665.2 |
| Others | -961.9 | -1,261.4 | -1,520.9 | -1,734.4 | -1,724.4 | -1,694.2 | -1,659.5 |
| **Operating Profit** | **1.2** | **1.6** | **1.9** | **2.3** | **2.4** | **2.6** | **2.7** |
| **Core Operating Profit** | **-245.6** | **-380.6** | **-307.4** | **-145.6** | **-110.3** | **-84.3** | **-64.6** |
| **Provisions** | **2.7** | **1.3** | **1.8** | **0.8** | **0.8** | **0.9** | **0.9** |
| NPA | 279.1 | 605.2 | 131.6 | -45.9 | 799.5 | 879.5 | 896.5 |
| Others | -276.4 | -603.9 | -129.8 | 46.7 | -798.7 | -878.5 | -895.6 |
| **PBT** | **-1.5** | **0.3** | **0.1** | **1.5** | **1.6** | **1.7** | **1.8** |
| Tax | 0.3 | 0.0 | 0.0 | 0.4 | 0.4 | 0.4 | 0.5 |
| **RoA** | **-1.8** | **0.3** | **0.1** | **1.1** | **1.2** | **1.3** | **1.3** |
| Leverage (x) | 9.4 | 9.4 | 9.1 | 9.2 | 9.2 | 9.5 | 10.2 |
| **RoE** | **-17.1** | **2.7** | **0.7** | **10.4** | **10.8** | **11.9** | **13.6** |

# Financials and valuations

**Income Statement** (INRb)

| Y/E March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Interest Income | 163.1 | 159.7 | 171.7 | 227.3 | 299.6 | 373.0 | 459.6 |
| Interest Expense | 102.3 | 85.9 | 74.7 | 100.9 | 137.7 | 171.3 | 210.2 |
| **Net Interest Income** | **60.8** | **73.8** | **97.1** | **126.4** | **161.8** | **201.7** | **249.4** |
| Growth (%) | 89.9 | 21.5 | 31.5 | 30.2 | 28.1 | 24.6 | 23.6 |
| Non Interest Income | 17.2 | 22.1 | 32.2 | 44.7 | 59.0 | 74.9 | 93.6 |
| **Total Income** | **78.0** | **95.9** | **129.3** | **171.0** | **220.8** | **276.6** | **343.0** |
| Growth (%) | 92.5 | 23.0 | 34.8 | 32.3 | 29.1 | 25.3 | 24.0 |
| Operating Expenses | 58.6 | 70.9 | 96.4 | 121.7 | 156.5 | 190.8 | 232.2 |
| **Pre Provision Profits** | **19.4** | **25.0** | **32.8** | **49.3** | **64.3** | **85.8** | **110.8** |
| Growth (%) | -205.5 | 29.0 | 31.4 | 50.2 | 30.4 | 33.5 | 29.1 |
| **Core PPP** | **15.5** | **19.0** | **27.4** | **46.1** | **61.3** | **83.0** | **108.1** |
| Growth (%) | -182.8 | 23.0 | 44.0 | 68.6 | 32.8 | 35.4 | 30.3 |
| Provisions (excl tax) | 43.2 | 20.2 | 31.1 | 16.6 | 21.9 | 30.4 | 38.4 |
| **PBT** | **-23.8** | **4.8** | **1.8** | **32.7** | **42.4** | **55.4** | **72.4** |
| Tax | 4.9 | 0.2 | 0.3 | 8.3 | 10.8 | 14.1 | 18.4 |
| Tax Rate (%) | -20.4 | 4.9 | 16.9 | 25.4 | 25.4 | 25.4 | 25.4 |
| **PAT** | **-28.6** | **4.5** | **1.5** | **24.4** | **31.6** | **41.3** | **54.0** |
| Growth (%) | NM | NM | -67.8 | 1,575.3 | 29.8 | 30.7 | 30.7 |

**Balance Sheet**

| Y/E March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Equity Share Capital | 48.1 | 56.8 | 62.2 | 66.2 | 67.9 | 67.9 | 67.9 |
| Reserves & Surplus | 105.3 | 121.3 | 147.7 | 190.7 | 260.0 | 301.3 | 355.3 |
| **Net Worth** | **153.4** | **178.1** | **209.9** | **256.8** | **327.9** | **369.2** | **423.2** |
| **Deposits** | **651.1** | **886.9** | **1,056.3** | **1,446.4** | **1,894.7** | **2,463.2** | **3,152.9** |
| Growth (%) | -7.6 | 36.2 | 19.1 | 36.9 | 31.0 | 30.0 | 28.0 |
| **of which CASA Dep** | **209.4** | **459.0** | **511.7** | **719.8** | **852.6** | **1,125.7** | **1,450.3** |
| Growth (%) | 129.8 | 119.2 | 11.5 | 40.7 | 18.5 | 32.0 | 28.8 |
| Borrowings | 574.0 | 457.9 | 529.6 | 572.1 | 611.9 | 672.7 | 739.5 |
| Other Liabilities & Prov. | 113.5 | 108.6 | 105.8 | 123.7 | 129.9 | 136.4 | 143.2 |
| **Total Liabilities** | **1,492.0** | **1,631.4** | **1,901.7** | **2,399.0** | **2,964.4** | **3,641.4** | **4,458.8** |
| Current Assets | 41.9 | 58.3 | 157.6 | 139.0 | 150.4 | 172.5 | 214.1 |
| **Investments** | **454.0** | **454.1** | **461.4** | **611.2** | **764.0** | **947.4** | **1,174.8** |
| Growth (%) | -22.4 | 0.0 | 1.6 | 32.5 | 25.0 | 24.0 | 24.0 |
| **Loans** | **856.0** | **1,005.5** | **1,178.6** | **1,517.9** | **1,912.6** | **2,390.8** | **2,988.5** |
| Growth (%) | -0.8 | 17.5 | 17.2 | 28.8 | 26.0 | 25.0 | 25.0 |
| Fixed Assets | 10.4 | 12.7 | 13.6 | 20.9 | 31.8 | 35.2 | 38.9 |
| Other Assets | 129.7 | 100.9 | 90.6 | 110.4 | 105.5 | 95.6 | 42.6 |
| **Total Assets** | **1,492.0** | **1,631.4** | **1,901.8** | **2,399.4** | **2,964.4** | **3,641.4** | **4,458.8** |

| Asset Quality | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| GNPA (INR m) | 22.8 | 43.0 | 44.7 | 38.8 | 39.4 | 51.1 | 63.9 |
| NNPA (INR m) | 8.1 | 18.8 | 18.1 | 13.0 | 12.9 | 16.2 | 16.9 |
| GNPA Ratio | 2.7 | 4.3 | 3.8 | 2.6 | 2.1 | 2.1 | 2.1 |
| NNPA Ratio | 0.9 | 1.9 | 1.5 | 0.9 | 0.7 | 0.7 | 0.6 |
| Slippage Ratio | 3.1 | 6.0 | 6.9 | 3.4 | 3.2 | 3.1 | 3.0 |
| Credit Cost | 5.0 | 2.2 | 2.8 | 1.2 | 1.3 | 1.4 | 1.4 |
| PCR (Excl Tech. write off) | 64.5 | 56.2 | 59.5 | 66.4 | 67.3 | 68.3 | 73.5 |

E: MOFSL Estimates

# Financials and valuations

**Ratios**

| Y/E March | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| **Yield and Cost Ratios (%)** | | | | | | | |
| **Avg. Yield-Earning Assets** | **11.3** | **11.1** | **10.4** | **11.2** | **11.8** | **11.8** | **11.7** |
| Avg. Yield on loans | 14.0 | 13.6 | 13.0 | 14.2 | 14.6 | 14.5 | 14.3 |
| Avg. Yield on Investments | 7.6 | 6.8 | 5.8 | 6.1 | 6.5 | 7.0 | 7.0 |
| **Avg. Cost-Int. Bear. Liab.** | **7.8** | **6.7** | **5.1** | **5.6** | **6.1** | **6.1** | **6.0** |
| Avg. Cost of Deposits | 7.0 | 6.2 | 4.4 | 5.0 | 5.9 | 5.9 | 5.8 |
| **Interest Spread** | **7.1** | **7.4** | **8.6** | **9.2** | **8.7** | **8.6** | **8.5** |
| **Net Interest Margin** | **4.3** | **5.3** | **6.1** | **6.4** | **6.6** | **6.6** | **6.6** |
| | | | | | | | |
| **Capitalisation Ratios (%)** | | | | | | | |
| CAR | 13.4 | 13.8 | 16.7 | 16.8 | 17.1 | 15.2 | 13.8 |
| Tier I | 13.3 | 13.3 | 14.9 | 14.2 | 14.5 | 13.1 | 12.0 |
| Tier II | 0.1 | 0.5 | 1.9 | 2.6 | 2.6 | 2.1 | 1.8 |
| | | | | | | | |
| **Business and Efficiency Ratios (%)** | | | | | | | |
| Loans/Deposit Ratio | 131.5 | 113.4 | 111.6 | 104.9 | 100.9 | 97.1 | 94.8 |
| CASA Ratio | 32.2 | 51.7 | 48.4 | 49.8 | 45.0 | 45.7 | 46.0 |
| Cost/Assets | 3.9 | 4.3 | 5.1 | 5.1 | 5.3 | 5.2 | 5.2 |
| Cost/Total Income | 75.2 | 74.0 | 74.6 | 71.2 | 70.9 | 69.0 | 67.7 |
| Cost/Core Income | 79.1 | 78.9 | 77.9 | 72.5 | 71.9 | 69.7 | 68.2 |
| Int. Expense/Int.Income | 62.7 | 53.8 | 43.5 | 44.4 | 46.0 | 45.9 | 45.7 |
| Fee Income/Total Income | 17.1 | 16.8 | 20.7 | 24.3 | 25.3 | 26.0 | 26.5 |
| Non Int. Inc./Total Income | 22.1 | 23.1 | 24.9 | 26.1 | 26.7 | 27.1 | 27.3 |
| Empl. Cost/Total Expense | 26.1 | 27.9 | 28.0 | 30.7 | 29.6 | 29.4 | 29.0 |
| Investment/Deposit Ratio | 69.7 | 51.2 | 43.7 | 42.3 | 40.3 | 38.5 | 37.3 |
| | | | | | | | |
| **Profitability Ratios and Valuation** | | | | | | | |
| RoE | -17.1 | 2.7 | 0.7 | 10.4 | 10.8 | 11.9 | 13.6 |
| RoA | -1.8 | 0.3 | 0.1 | 1.1 | 1.2 | 1.3 | 1.3 |
| RoRWA | -2.6 | 0.4 | 0.1 | 1.6 | 1.6 | 1.7 | 1.7 |
| Book Value (INR) | 32 | 31 | 34 | 39 | 48 | 54 | 62 |
| Growth (%) | -16.0 | -1.6 | 7.6 | 15.0 | 24.4 | 12.6 | 14.6 |
| **Price-BV (x)** | **2.7** | **2.8** | **2.6** | **2.2** | **1.8** | **1.6** | **1.4** |
| Adjusted BV (INR) | 30 | 28 | 31 | 37 | 46 | 52 | 59 |
| **Price-ABV (x)** | **2.9** | **3.1** | **2.8** | **2.4** | **1.9** | **1.7** | **1.5** |
| EPS (INR) | -6.0 | 0.9 | 0.2 | 3.8 | 4.7 | 6.1 | 8.0 |
| Growth (%) | NM | NM | -71.6 | 1,452.3 | 24.2 | 29.1 | 30.7 |
| **Price-Earnings (x)** | **NM** | **100.9** | **NM** | **22.9** | **18.4** | **14.3** | **10.9** |
| Dividend Per Share (INR) | 0.75 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Dividend Yield (%)** | **0.9** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

E: MOFSL Estimates

| 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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