MOTILAL OSWAL
FINANCIAL SERVICES

5 November 2023
Update | Sector: Financials

AU Small Finance Bank

BSE SENSEX	S&P CNX
64,364	19,231

AU SMALL FINANCE BANK

Stock Info

Bloomberg	AUBANK IN
Equity Shares (m)	667
M.Cap.(INRb)/(USDb)	447.2 / 5.4
52-Week Range (INR)	795 / 548
1, 6, 12 Rel. Per (%)	-4/-9/2
12M Avg Val (INR M)	1223
Free float (%)	74.5

Financials & Valuations (INR b)

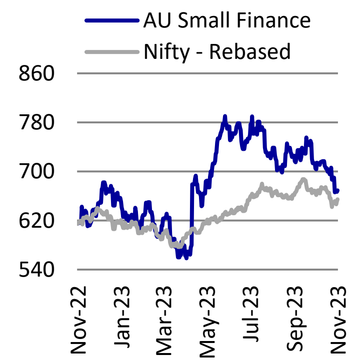
Y/E March	FY23	FY24E	FY25E
NII	44.3	52.3	67.5
PPoP	20.2	25.8	34.3
PAT	14.3	17.0	22.6
NIM (%)	5.6	5.2	5.5
EPS (INR)	22.0	25.5	33.9
EPS Gr. (%)	22.3	15.7	33.1
BV/Sh. (INR)	159	184	218
ABV/Sh. (INR)	157	181	215
Ratios			
RoE (%)	15.8	14.8	16.8
RoA (%)	1.8	1.7	1.8
Valuations			
P/E(X)	30.1	26.1	19.6
P/BV (X)	4.2	3.6	3.0
P/ABV (X)	4.2	3.7	3.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	25.5	25.5	25.6
DII	19.6	19.3	21.3
FII	41.7	41.6	38.5
Others	13.3	13.6	14.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR669 TP: INR780 (+17%) Buy

AUBANK merger with Fincare SFB: Analyst meet takeaways

Merger to enable steady growth while ensuring regulatory compliance

We attended AUBANK's analyst meet wherein the management highlighted its rationale for merger with Fincare SFB and the outlook for the merged entity as bank aspires to reach a balance sheet of INR2t over next three years. The merger will improve the bank's geographical diversification and improve AU's branch presence across the country. New business verticals like MFI and Gold Loans will improve its lending yields and open new avenues for growth. Moreover, since Fincare is a rural-focused SFB with 85% of its advances qualifying under the priority sector (56% of MFI and 30% of overall book being SMF eligible), the merger will enable AUBANK to not only meet its PSL target, but also generate PSLC income in the long run. While its execution prowess to consummate the merger will be vital, we believe that the merger will enable AUBANK to further strengthen its position and deliver all-round growth. **We reiterate BUY on the stock with a TP of INR780 (3.6x FY25E BV of standalone bank).**

Gearing for the next leap; Aiming for INR2t loan book over next 3 years

The merger with Fincare SFB will add 16% to AUBANK's loan book and we estimate the merged entity to have a balance sheet of INR1.25t by the end of FY24. Over the next three years, the bank expects the size of its balance sheet to cross INR2t, supported by an increase in the customer base and a wider geographical reach after the merger. The merger will enable AUBANK to more than double its touchpoint count to 2,334, with almost 150 branches to be added by the time the merger is completed in 4QFY24. AUBANK has not yet expanded in the southern region and will benefit from Fincare's much stronger presence in the region, with a 28% share of total touchpoints of the merged entity. Overall the bank will expand its reach from four states currently to nine states, with more than 100 touch points in each state (vs. four currently).

Business mix to diversify; merged entity to see steady growth

The consolidation of two SFBs, a first of its kind, will add new business segments to AUBANK's product offerings. It will diversify the bank's loan book and provide new avenues for growth as AUBANK strengthens its leadership position in the SFB space. The bank's overall business mix will become much more diversified, with concentration of wheels reducing from 32% to 27.4% and new segments MFI/Gold forming 7.5%/1.6% of the merged loan book. AUBANK aims to maintain a healthy growth rate in these newly acquired businesses, while it intends to keep the MFI mix below 10% from 7.5% post-merger.

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Merger to aid PSL compliance; mix of SMF to increase

SFBs have a stringent requirement for Priority sector assets at 75% of ANBC, of which Agri mix requirement is 18%, Micro enterprise at 10% and weaker sections at 12%. The recent increase in the PSL sub-category of small and marginal farmers (SMFs) to 10% by FY24 from 8% in FY21 has been one of the most challenging requirements to comply with. AUBANK was compelled to buy PSL certificates in 1Q due to a shortfall in the SMF category, which the bank did not really appreciate as it goes against the basic objective of an SFB, which is to promote financial inclusion. Since Fincare is a rural-focused SFB with 94% of the book being rural by value and 85% of advances qualifying under the Priority sector (56% of MFI and 30% of overall book is SMF eligible), it will enable AUBANK to not only meet the PSL target, but also help to generate PSLC income in the long run. Moreover, with sustained growth in the newly acquired business verticals, the merger will help AUBANK deliver a 25-27% CAGR in loans while complying with PSL requirements.

Cost ratios to remain at ~60% in near term; FY27 to be a turning point

AUBANK has been making significant investments in delivering sustainable growth across business verticals, building on technological capabilities and expanding the branch network. Thus, its cost ratio is high at ~63%. While the merger will support its geographical diversification and enable the bank to scale up both existing and new product segments, the improvement in cost ratios will be gradual as the bank continues to invest in building the franchise. The cost-to-income ratio is thus likely to remain at ~60% over the next few years. However, we believe that FY27 will be a turning point — when incidentally the bank completes 10 years of operations as well. The pick-up in core-fee growth on the back of improved product offerings, higher cross-selling opportunities, healthy distribution income and potential benefits from AD-1 license will boost revenue growth and improve cost ratios. The bank highlighted the following points about merger-related costs:

- INR650-700m of stamp duty expenses to be paid by AUBANK
- INR1b to be kept as retention costs, with 80% for cash benefits to be paid over time and 20% for ESOPs.
- Plans to keep another INR1b as a buffer toward tech integration (INR500m) and miscellaneous provisions (INR500m).

Asset quality ratios steady; merged entity has Net NPA ratio of 0.6%

AUBANK has followed rigorous underwriting practices with in-house origination and collection teams in order to maintain robust asset quality in a segment that is prone to vulnerabilities. Fincare has also cleaned up its balance sheet over the recent past and reported 3.2% annualized RoA in 1HFY24 with net NPA ratio of 0.8%. The MFI segment has been on the mend and the growth/asset quality dynamics have improved considerably. Further, Fincare has maintained a fairly diversified distribution, with state-wise capping of MFI loans at 15% and district capping at 2%, thus eliminating the concentration risk. The balance ~45% of non-MFI Fincare book has the same asset quality standards as AUBANK, with Fincare following a similar or conservative provisioning policy compared to AUBANK. We thus expect the merged entity's asset quality to remain steady, though we will keep an eye on any negative surprises after the merger.

RoA trajectory to remain intact; return ratios expected to improve

AUBANK has been reporting RoA of 1.7%, which we believe will recover gradually to ~2% over FY25E/FY26E. The management suggested that while the merger is RoA accretive, it will not affect the RoA trajectory of the standalone bank in the near term. We believe that given strong return ratios of the microfinance and gold segments and even the small business loans (where Fincare operates at a much higher yield), AUBANK will benefit from the RoA-accretive merger over the medium term. We believe the bank's execution capability will play an important role in maintaining robust asset quality metrics while delivering sustainable growth/RoA to its stakeholders. We are optimistic about a smooth execution, given the management's execution prowess and track record over the past few decades.

Valuation and view

In the first round of consolidation in SFBs, AUBANK is merging with Fincare SFB. The merger is EPS, BV, and RoA accretive and will enable AUBANK to diversify its loan book and gain access to the rural-dominated MFI portfolio as the segment will form ~7.5% of total loans. The bank will also benefit from Fincare's geographical presence with a strong foothold in southern India. The merger will also reduce some margin pressure and improve the bank's compliance with sub-segmental PSL targets. While the bank's execution prowess in consummating the merger while delivering robust growth and profitability will be vital, we believe that the merger will enable AUBANK to further strengthen its position and deliver all-round growth with a more diversified balance sheet and near pan-India presence. **We reiterate Buy on the stock with a TP of INR780 (3.6x FY25E BV of standalone bank).**

Exhibit 1: Transaction values Fincare SFB at 2.2x P/BV; implies 11% equity dilution for AUBANK

	Total
AUBANK O/s shares, mn	**668.2**
Fincare O/s shares, mn	**220.8**
Swap ratio	579:2000
New shares of AUBANK to be issued, mn	73.5
Revised shares of AUBANK post deal completion, mn	741.7
Dilution in current equity base	11.0%
AUBANK CMP, INR	669
Value of new shares, INRm	49,158.1
1HFY24 PAT for Fincare, INRm	2,190
FY24E P/E	11.2
Fincare Networth post primary infusion of INR7b	22,390
P/B	**2.2**

Source: MOFSL, Company

AUBANK's post-merger loan mix in absolute terms

	AUBANK	Fincare SFB	Proforma merged
Loan mix, INR m			
Wheels	2,07,443	-	2,07,443
SBL	1,85,983	19,922	2,05,905
Commercial assets	1,48,266	-	1,48,266
Home loan	50,723	14,968	65,691
Microfinance	-	56,816	56,816
Gold loans	-	10,963	10,963
Others	57,876	2,741	60,616
Gross advances	**6,50,290**	**1,05,410**	**7,55,700**

Source: MOFSL, Company

AUBANK's post-merger loan mix in percentage terms

	AUBANK	Fincare SFB	Proforma merged
Loan mix (%)			
Wheels	31.9	0.0	27.5
SBL	28.6	18.9	27.2
Commercial assets	22.8	0.0	19.6
Home loan	7.8	14.2	8.7
Microfinance	0.0	53.9	7.5
Gold loans	0.0	10.4	1.5
Others	8.9	2.6	8.0
Gross advances	**100**	**100**	**100**

Source: MOFSL, Company

Key takeaways from the session with the top management

Merger Related

- The bank expects to double its balance sheet in the next 3-4 years.
- The merger is a 100% share swap deal and the swap ratio is 579 shares of AU for every 2,000 shares held in Fincare SFB.
- After the transaction, Fincare SFB shareholders will hold a 9.9% stake in the bank.
- The deal is valued at 2.2x P/B.
- There will be a capital infusion of INR7b by promoters of Fincare SFB.
- The merged entity would have a combined balance sheet size of INR1.1t as of Sep'23.
- Mr. Rajeev Yadav, (CEO of Fincare SFB), will join AUBANK as Deputy CEO. Uttam Tibrewal, (Whole Time Director), will also be elevated to Deputy CEO. A board seat will be given to Divya Sehgal, (Partner at True-North).
- About 150 liability branches will be added to AUBANK's distribution network (136 branches already there + 14 branches will be opened by merger time).
- With this merger, AUBANK will expand its presence to nine states with more than 100 branches in each state.
- None of the state accounts for more than 15% of MFI business. Fincare was already IPO-bound, with a customer base of 5.5m.
- The merged entity's balance sheet by Mar'24 will be INR1.25t.
- Fincare's policy on unsecured provisioning is stronger than AUBANK's.
- About 94% of Fincare SFB's operation is rural-focused. It has AUM of INR123b and gross advances at INR105b.
- The bank has received the AD-1 license, which will be operated from next year.
- In product suites, it has wheels, MBL, Home Loan, Merchant Lending, Personal Loan and Wealth Solutions.
- PSL requirements have increased from the last quarter, and in 2Q, the bank had to buy some PSL. But the merger will remove the PSL requirement.
- The merger is voluntary and most of the shareholders in Fincare are PEs. True North will continue to hold its share in AUBANK.
- After the merger, AUBANK will benefit from Fincare SFB's large deposit franchise and tech integration.
- The merger is likely to be completed in 4-6 months with requisite approvals.
- About 78.6% is owned by HoldCo, which is likely to exceed 80% after the infusion of INR7b; translates to ~8% AUSFB shareholding. About 73.4m shares will be issued to Fincare.
- **Why SFB and not NBFC-MFI?** An NBFC-MFI has a different regulatory framework and would have created issues on SLR, CRR compliance and liability sourcing.
- There is a regulatory requirement to build a 10% SMF portfolio for all the banks, with expected BS growth of 25-30%.
- SMF requirement will keep increasing and can be done either by originating SMF or buy PSLC; therefore, the bank bought 8.6b PSLCs. However, the bank wanted to originate assets and comply with the spirit of regulations.

Fincare – Key business metrics

- Fincare's MFI yields stand at 23-25%.
- About 1700k of Fincare customers are in urban areas and can be targeted for cross-selling.
- About 56% of MFI lending goes to SMFs, i.e., 30% of the book. About 94% of the book by value is focused on rural.
- Fincare hardly has any GNPAs. The credit cost stood at ~1.1-1.2% as of 1HFY24. ROE is greater than 30%.
- In terms of diversification, Fincare is one of the best in the industry and has stayed away from the east for a long term.
- It has ~1,800 people on the sales side and 5,00 on collections.
- INR2-2.3b of monthly volumes on the mortgage side; productivity stands at 1500k/month per employee.
- Fincare has a proposal for an IPO of INR6.25b. The capital will be infused by the holding company and Fincare will get the shares of AUSFB. There is no lock-in on shares held by PEs.
- HR: All 15,000 employees of Fincare will get some sort of retention package.
- Recovery is coming from a 1.5-year old NPA portfolio. Recoveries are not expected to sustain and should come down in 12-24 months.
- Around 44% of gross advances are focused on Agri and allied activities.
- In MFI, there are 43.4% new-to-credit customers and 93.6% rural customers.

Asset quality

- It has ~3% stressed assets as of Mar'23. The bank expects the credit cost to fall to 2-2.5% by FY24.
- The 10-year average credit cost for the industry has been 2.3% and 6-year average RoA of 2.4%, including Covid.
- Fincare's 45% of the book is as per AUBANK's asset quality; therefore, Fincare's asset quality will not be a problem.
- Fincare has written off INR9.5b during Covid, which they are trying to recover.

Costs

- ~INR650-700m of the stamp duty pool will be paid by AUBANK.
- INR1b will be kept as a buffer, which will include INR500m of tech integration and INR500m of other provisions, so RoA will be protected. Apart from this, INR1b will be kept as retention costs, of which 80% will be in cash and 20% will be ESOPs.
- C/I should not go up due to the merger, but the C/I ratio is not expected to go below 60%.
- The bank's cost of fund is 6.64% vs. Fincare's 7.36%.
- AUBANK has a strong presence in Rajasthan — 75bp benefit in CoF.

Geographical diversification

- AUBANK has about 64% of branches in the north and 17% in the south, while Fincare has 49% of branches in the south.
- As a bank, AUBANK operates predominately in the northern region and very less in the southern region. After the merger, AUBANK will almost have a pan-India presence.

- AUBANK will not look for branch expansion for next 18 months after the date of merger. Around 80 branches will be added by Fincare.
- The merged entity will have a presence in nine states with more than 100 touchpoints each.
- Around 150 branches will be integrated with existing liability infra as they have only three adjacent branches.

Business mix

- The MFI portfolio will form about 7.5% of the total book, and MBL portfolio will form 27.2% of the overall book.
- Gold loan of Fincare is in the rural segment and classifies under PSL.
- Gold loan book has not been able to scale up, and the bank is looking to scale up the gold business.
- The entire liability side of Fincare will be rebranded as the AU SFB bank.
- Annualized RoA to be ~1.9% after the merger on pro forma basis.
- The bank expects the loan book to be ~INR2t in two years.

Microfinance

- The MFI business is profitable, with average RoA of 2.4% in the last six years.
- AUBANK needs microfinance business for PSL requirements and profitability. It aims to increase the MFI business to 10% of total assets.
- MFI portfolio forms ~7.5% of gross advances post-merger on pro forma basis.
- While the MFI portfolio comes with its own set of risk, but in banks the risk is mitigated to a great extent. Microfinance yield stood at 23.7% in 1HFY24.
- Given the high-RoA nature of MFI, enough countercyclical buffers can be created to sail through volatile periods.
- Most of the MFI players cleared up their books by FY22, but as Fincare used its profit to clean up its book, it recorded write-offs in FY23.

Exhibit 2: Pro-forma merged financials for AUBANK and Fincare SFB; RoA to increase to 1.9%

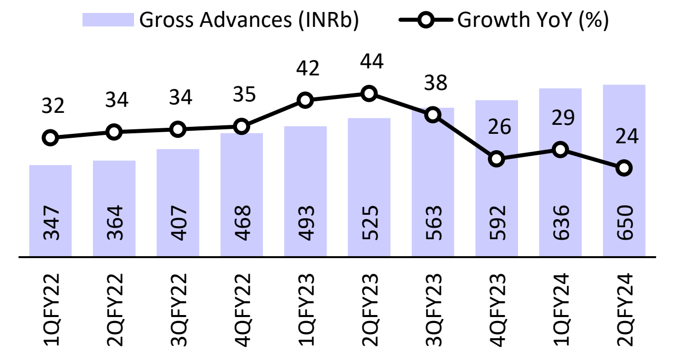
1HFY24 (INR m)	AUBANK	Fincare SFB	Proforma Merged	% change for AUBANK
Profit & Loss				
Interest income from Loans	49,894	12,122	62,016	24%
Interest Expense	24,942	4,614	29,556	
Net Interest Income	**24,952**	**7,508**	**32,460**	**30%**
Non-Interest Income	7,406	1,483	8,888	
Total Income	**32,358**	**8,991**	**41,348**	
Operating Expenses	20,420	5,468	25,888	
Pre Provision Profits	**11,937**	**3,523**	**15,460**	**30%**
Provisions	1,473	640	2,113	
PBT	**10,465**	**2,883**	**13,347**	**28%**
Tax	2,577	694	3,271	
PAT	**7,887**	**2,189**	**10,076**	**28%**
Balance Sheet				
Balances with Banks & money at Call & Short Notice	62,573	8,240	70,813	
Loans	6,41,685	1,04,695	7,46,380	16%
Investments	2,32,199	29,364	2,61,563	
Interest Earnings Assets	**9,36,457**	**1,42,299**	**10,78,756**	
Networth	1,17,627	15,390	1,33,017	13%
Deposits	7,57,429	94,532	8,51,961	12%
Borrowings	53,441	33,355	86,797	
Interest Bearing Liabilities	**9,28,497**	**1,43,277**	**10,71,774**	
CASA Deposits	2,56,660	18,906	2,75,566	
Total Assets	9,59,774	1,47,776	11,07,550	15%
Asset Quality				
GNPA	12,448	1,675	14,123	
NNPA	3,847	804	4,651	
GNPA ratio	1.9	1.6	1.9	
NNPA ratio	0.6	0.8	0.6	
PCR	69.1%	52.0%	67.1%	
Key Ratios				
NIM	5.6%	10.9%		
CoF	6.6%	7.4%		
CASA ratio	33.9%	20.0%	32.3%	
Cost-income ratio	63.1%	60.8%	62.6%	
BVPS*	176.0	69.7	188.8	7%
CAR*	22.4%	22.3%	23.5%	
EPS*	11.8	9.9	13.6	15%
RoA*	1.7	3.2	1.9	11%
Others				
Touch points	1,042.0	1,292	2,334	
Employees	28,500	14,867	43,367	

* Proforma number includes primary capital Infusion of INR7b

Source: MOFSL, Company

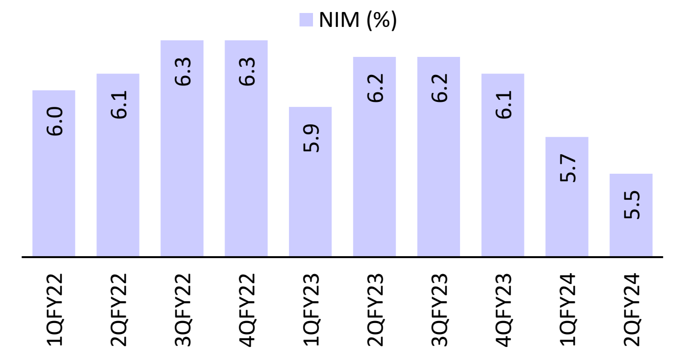
Story in charts

Exhibit 3: Gross advances grew 24% YoY to INR650b



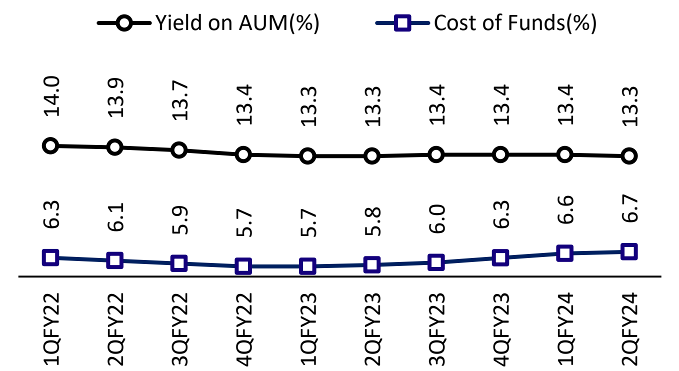
Source: Company, MOFSL

Exhibit 4: Margins moderated 22bp QoQ to 5.5%



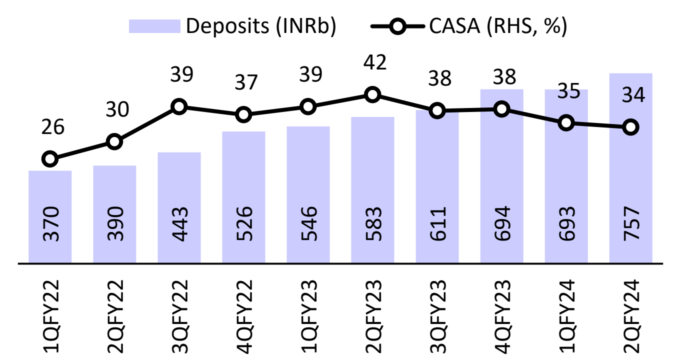
Source: Company, MOFSL

Exhibit 5: Yields on gross advances moderated 10bp QoQ, while cost of funds increased 10bp QoQ



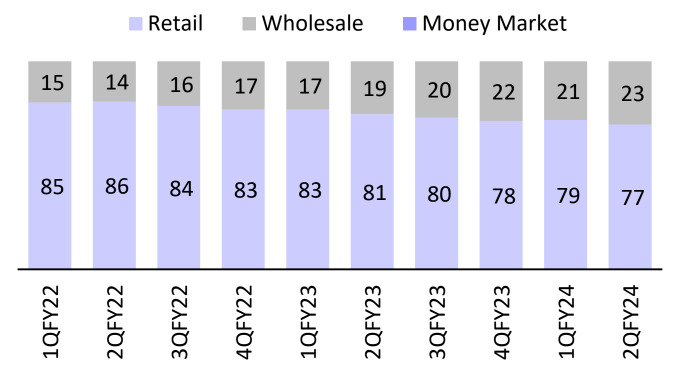
Source: Company, MOFSL

Exhibit 6: Healthy traction in deposit mobilization (~30% YoY); CASA ratio moderated to 33.9%



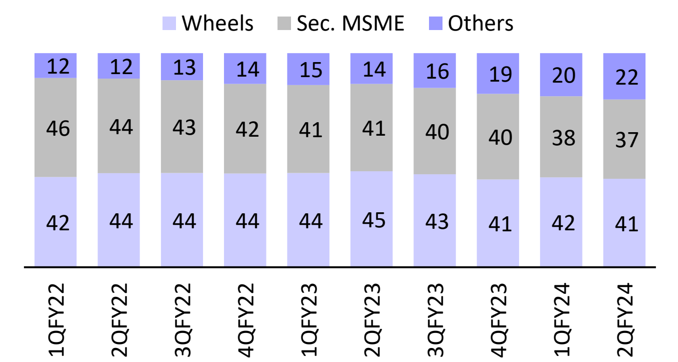
Source: Company, MOFSL

Exhibit 7: Retail mix moderated to ~77%



Source: Company, MOFSL

Exhibit 8: Vehicles and MSME form ~78% of retail loans



Source: Company, MOFSL

Exhibit 9: DuPont Analysis | Expect return ratios to remain healthy

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	11.46	10.56	9.81	10.30	10.82	11.35	11.51
Interest Expense	6.36	5.51	4.45	4.75	5.60	5.84	5.68
Net Interest Income	**5.11**	**5.05**	**5.36**	**5.56**	**5.23**	**5.51**	**5.83**
Core Fee and Secu. Inc	1.43	1.21	1.41	1.35	1.37	1.40	1.42
Non-Interest income	**1.89**	**3.03**	**1.65**	**1.30**	**1.58**	**1.61**	**1.64**
Total Income	**7.00**	**8.08**	**7.01**	**6.85**	**6.81**	**7.12**	**7.48**
Operating Expenses	**3.79**	**3.54**	**4.00**	**4.32**	**4.23**	**4.32**	**4.41**
Employee cost	2.03	2.09	2.29	2.25	2.10	2.07	2.06
Others	1.76	1.45	1.71	2.07	2.14	2.25	2.36
Operating Profits	**3.20**	**4.54**	**3.01**	**2.54**	**2.58**	**2.79**	**3.06**
Core operating Profits	**2.74**	**2.72**	**2.77**	**2.59**	**2.36**	**2.58**	**2.84**
Provisions	**0.76**	**1.43**	**0.60**	**0.19**	**0.35**	**0.37**	**0.38**
NPA	0.17	1.36	0.19	0.31	0.30	0.34	0.34
Others	0.58	0.07	0.40	-0.12	0.05	0.03	0.03
PBT	**2.44**	**3.11**	**2.41**	**2.34**	**2.22**	**2.43**	**2.69**
Tax	0.64	0.61	0.54	0.55	0.52	0.58	0.66
RoA	**1.81**	**2.50**	**1.87**	**1.79**	**1.70**	**1.84**	**2.03**
Leverage (x)	10.0	8.9	8.8	8.8	8.7	9.1	9.4
RoE	**18.0**	**22.3**	**16.6**	**15.8**	**14.8**	**16.8**	**19.0**

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E MARCH	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Interest Income	42,859	49,501	59,217	82,054	1,08,291	1,39,086	1,73,367
Interest Expense	23,769	25,846	26,876	37,801	55,987	71,597	85,483
Net Interest income	**19,089**	**23,654**	**32,341**	**44,253**	**52,304**	**67,489**	**87,884**
Growth (%)	*42.2*	*23.9*	*36.7*	*36.8*	*18.2*	*29.0*	*30.2*
Other Income	7,061	14,209	9,937	10,345	15,827	19,784	24,730
Total Income	**26,150**	**37,864**	**42,278**	**54,597**	**68,131**	**87,273**	**1,12,614**
Growth (%)	*44.9*	*44.8*	*11.7*	*29.1*	*24.8*	*28.1*	*29.0*
Operating Expenses	**14,179**	**16,584**	**24,128**	**34,403**	**42,360**	**53,008**	**66,470**
Growth (%)	*31.0*	*17.0*	*45.5*	*42.6*	*23.1*	*25.1*	*25.4*
Operating Profits	**11,972**	**21,279**	**18,150**	**20,195**	**25,771**	**34,265**	**46,144**
Growth (%)	*65.8*	*77.7*	*-14.7*	*11.3*	*27.6*	*33.0*	*34.7*
Core Operating Profits	**10,246**	**12,737**	**16,721**	**20,638**	**23,624**	**31,590**	**42,814**
Growth (%)	*46.4*	*24.3*	*31.3*	*23.4*	*14.5*	*33.7*	*35.5*
Total Provisions	2,832	6,694	3,610	1,548	3,528	4,514	5,653
% to operating income	*23.7*	*31.5*	*19.9*	*7.7*	*13.7*	*13.2*	*12.3*
PBT	**9,140**	**14,585**	**14,541**	**18,646**	**22,243**	**29,750**	**40,491**
Tax	2,392	2,878	3,242	4,367	5,249	7,140	9,920
Tax Rate (%)	*26.2*	*19.7*	*22.3*	*23.4*	*23.6*	*24.0*	*24.5*
PAT	**6,748**	**11,707**	**11,298**	**14,279**	**16,994**	**22,610**	**30,571**
Growth (%)	*76.8*	*73.5*	*-3.5*	*26.4*	*19.0*	*33.1*	*35.2*
Adj. PAT	**5,962**	**6,002**	**11,298**	**14,279**	**16,994**	**22,610**	**30,571**
Growth (%)	*56.2*	*0.7*	*88.2*	*26.4*	*19.0*	*33.1*	*35.2*

Balance Sheet							
Y/E MARCH	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Equity Share Capital	6,082	6,244	6,298	6,667	6,667	6,667	6,667
Reserves & Surplus	37,164	55,477	68,429	99,332	1,16,326	1,38,936	1,69,507
Equity Networth	**43,247**	**61,721**	**74,727**	**1,05,999**	**1,22,993**	**1,45,603**	**1,76,174**
Deposits	**2,61,639**	**3,59,793**	**5,25,846**	**6,93,650**	**8,55,270**	**10,60,535**	**13,04,458**
Growth (%)	*35%*	*38%*	*46%*	*32%*	*23.3%*	*24.0%*	*23.0%*
Borrowings	1,03,353	70,297	59,908	62,987	76,844	93,749	1,14,374
Other liabilities	12,670	23,071	29,884	35,751	43,259	52,776	63,859
Total Liabilities	**4,21,431**	**5,15,913**	**6,90,778**	**8,98,827**	**10,98,806**	**13,53,104**	**16,59,306**
Current Assets	33,697	47,813	59,285	94,252	97,920	1,00,832	1,03,543
Investments	**1,06,682**	**1,08,154**	**1,53,065**	**2,00,720**	**2,44,879**	**2,98,752**	**3,66,568**
Growth (%)	*49.0*	*1.4*	*41.5*	*31.1*	*22.0*	*22.0*	*22.7*
Loans	**2,69,924**	**3,46,089**	**4,60,953**	**5,84,215**	**7,29,096**	**9,22,175**	**11,53,786**
Growth (%)	*18.3*	*28.2*	*33.2*	*26.7*	*24.8*	*26.5*	*25.1*
Net Fixed Assets	4,480	4,824	6,226	7,401	8,142	8,956	9,851
Other assets	6,648	9,033	11,250	15,573	18,770	22,390	25,556
Total Assets	**4,21,431**	**5,15,913**	**6,90,778**	**9,02,161**	**10,98,806**	**13,53,104**	**16,59,306**
Total Assets (incl. off BS)	**4,60,437**	**5,46,944**	**7,08,135**	**9,09,526**	**11,37,180**	**14,11,966**	**17,46,150**

Asset Quality	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
GNPA (INR m)	4,578	15,028	9,244	9,813	13,790	15,823	19,963
NNPA (INR m)	2,173	7,555	2,308	2,862	3,887	4,268	4,952
GNPA Ratio	1.7	4.3	2.0	1.7	1.9	1.7	1.7
NNPA Ratio	0.8	2.2	0.5	0.5	0.5	0.5	0.4
Slippage Ratio	2.5	4.2	3.6	2.4	2.1	2.0	2.0
Credit Cost	1.0	2.0	0.7	0.3	0.5	0.5	0.5
PCR (Excl Tech. write off)	52.5	49.7	75.0	70.8	71.8	73.0	75.2

E: MOSL Estimates

Financials and valuations

Ratios

Y/E MARCH	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield and Cost Ratios (%)							
Avg. Yield - on IEA	**12.1**	**11.2**	**10.7**	**11.7**	12.2	12.6	12.6
Avg. Yield on loans	12.4	11.5	11.4	12.8	13.4	13.5	13.3
Avg. Cost of funds	7.4	6.5	5.3	5.6	6.6	6.9	6.6
Spreads	**5.0**	**5.0**	**6.1**	**7.2**	6.8	6.6	6.7
NIM (On total assets)	**5.1**	**5.0**	**5.4**	**5.6**	5.2	5.5	5.8
NIM (On IEA)	**5.4**	**5.3**	**5.9**	**6.3**	**5.9**	**6.1**	**6.4**
Capitalization Ratios (%)							
CAR	22.0	23.4	21.0	23.6	21.6	20.1	19.3
Tier I	18.4	21.5	19.7	21.8	20.3	19.2	18.6
Tier II	3.6	1.8	1.3	1.8	1.3	0.9	0.7
Business and Efficiency Ratios (%)							
Loan/Deposit Ratio	103.2	96.2	87.7	84.2	85.2	87.0	88.4
CASA Ratio	14.5	23.0	37.3	38.4	36.7	36.2	36.7
Cost/Assets	3.8	3.5	4.0	4.3	4.2	4.3	4.4
Cost/Total Income	54.2	43.8	57.1	63.0	62.2	60.7	59.0
Cost/Core Income	58.1	56.6	59.1	62.5	64.2	62.7	60.8
Int. Expense/Int. Income	55.5	52.2	45.4	46.1	51.7	51.5	49.3
Fee Income/Total Income	20.4	15.0	20.1	19.8	20.1	19.6	19.0
Non Int. Income/Total Income	27.0	37.5	23.5	18.9	23.2	22.7	22.0
Investment/Deposit Ratio	40.8	30.1	29.1	28.9	28.6	28.2	28.1
Empl. Cost/Total Expense	53.6	59.1	57.2	52.1	49.5	47.9	46.6

Profitability and Valuations	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
RoE	18.0	22.3	16.6	15.8	14.8	16.8	19.0
RoA (On bal Sheet)	1.8	2.5	1.9	1.8	1.7	1.8	2.0
RoRWA	3.0	4.2	3.1	2.9	2.8	3.0	3.2
Book Value (INR)	71.1	98.8	118.7	159.0	184.5	218.4	264.2
Growth (%)	31.4	39.0	20.0	34.0	16.0	18.4	21.0
Price-BV (x)	**9.3**	**6.7**	**5.6**	**4.2**	**3.6**	**3.0**	**2.5**
Adjusted BV (INR)	69.5	92.0	116.7	156.6	181.0	214.6	259.7
Growth (%)	35.4	32.5	26.9	34.2	15.6	18.5	21.0
Price-ABV (x)	**9.6**	**7.2**	**5.7**	**4.2**	**3.7**	**3.1**	**2.6**
EPS (INR)	11.3	19.0	18.0	22.0	25.5	33.9	45.9
Adjusted EPS (INR)	11.3	19.0	18.0	22.0	25.5	33.9	45.9
Growth (%)	71.3	67.9	-5.1	22.3	15.7	33.1	35.2
Price-Earnings (x)	**58.7**	**35.0**	**36.9**	**30.1**	**26.1**	**19.6**	**14.5**

E: MOSL Estimates

NOTES

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NEUTRAL	< - 10 % to 15%
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