

**REDUCE** AU Small Finance Bank

## Asset quality deteriorates further

BFSI - Banks ▶ Result Update ▶ January 28, 2024

TARGET PRICE (Rs): 625

Despite stable NIMs due to increased interest income on securitization and higher fees including cards, AU SFB reported 14% miss on earnings with PAT at Rs3.8bn (Emkay est.: Rs4.4bn) as provisions accelerated to Rs1.6bn due to rising stress in its VF and now even seasoning card portfolio. Fresh slippages were elevated at 2.9% of loans (Rs4bn) due to which GNPA ratio jumped 7bps QoQ to 2% for the third quarter in a row, indicating rising stress. The bank expects credit card book to break-even in FY25, but we believe rising asset-quality stress in cards for seasoned players like SBIC, RBL and so on indicates that stress could remain elevated for AU SFB as well. Separately, the bank has counter-intuitively cut down its specific PCR to 66% amid rising stress.

We believe the merger with Fincare prima-facie could be EPS/BVPS/RoA positive, but we reckon managing HR/tech integration and MFI portfolio management will be an arduous task. Separately, we believe rising asset-quality stress in the bank's card portfolio and VF portfolio could keep provisions elevated. Thus, we cut our earnings estimates by 7-10%. Factoring in RoA/RoE moderation, rising asset-quality risk, likely merger drag, and potential delay in the universal banking license, we cut our TP further to Rs625/share (earlier Rs650), valuing the bank at 2.8x Dec-25E ABV. We maintain our REDUCE rating.

## AU Small Finance Bank: Financial Snapshot (Standalone)

| Y/E March (Rs mn)    | FY22   | FY23   | FY24E  | FY25E  | FY26E  |
|----------------------|--------|--------|--------|--------|--------|
| Net profit           | 11,298 | 14,279 | 15,727 | 17,875 | 20,658 |
| Loan growth (%)      | 33.2   | 26.7   | 22.8   | 24.3   | 22.0   |
| NII growth (%)       | 36.7   | 36.8   | 17.6   | 19.6   | 19.4   |
| NIM (%)              | 5.2    | 5.4    | 5.1    | 5.1    | 5.0    |
| PPOP growth (%)      | (14.7) | 11.3   | 26.4   | 26.0   | 22.0   |
| Adj. EPS (Rs)        | 18.0   | 22.0   | 23.6   | 26.7   | 30.9   |
| Adj. EPS growth (%)  | (5.1)  | 22.3   | 6.9    | 13.5   | 15.6   |
| Adj. BV (INR)        | 116.6  | 166.0  | 181.5  | 204.0  | 229.9  |
| Adj. BVPS growth (%) | 25.8   | 42.4   | 9.3    | 12.4   | 12.7   |
| RoA (%)              | 1.9    | 1.8    | 1.6    | 1.5    | 1.4    |
| RoE (%)              | 16.4   | 15.4   | 13.4   | 13.5   | 13.7   |
| P/E (x)              | 39.3   | 32.1   | 30.1   | 26.5   | 22.9   |
| P/ABV (x)            | 6.1    | 4.3    | 3.9    | 3.5    | 3.1    |

Source: Company, Emkay Research

## Growth moderates further and so do the margins

AU SFB took a cautious call to limit its lending growth amid rising asset-quality risk, reflecting relatively moderate credit growth at 20% YoY/4% QoQ. Wheels book (40% portfolio share) declined QoQ, while the bank continues to report strong growth in mortgages, as planned, to increase the share of the secured book. However, deposit growth remained robust at 31% YoY/6% QoQ, led by strong growth in savings and TDs, leading to a moderation in LDR to 83%. The bank also securitized loans worth Rs27.4bn to release cost pressure, which helped the bank limit margin contraction by 6bps QoQ to 5.5%. The bank expects growth to normalize from Q4, but we believe margin pressure could continue on account of rising funding costs and asset-quality deterioration.

## Asset-quality woes continue for the third quarter in a row

Fresh slippages were elevated at Rs4bn, leading to 2.9% of loans, which resulted in a jump in GNPA ratio to 2% (up 7bps) for the third quarter in a row. Management attributes higher NPA formation to rising stress in the wheels portfolio, while the seasoning card portfolio has added to the stress (Rs0.4bn write-off), though it claims it is still BAU-level stress. However, we believe stress in the credit card business is on the rise, even for seasoned players like SBIC, RBL and so on and should remain so for AU SFB. Separately, the bank has counter-intuitively cut down its specific PCR to 66% amid rising stress, which we believe the bank will need to shore up and, thus, should keep LLP elevated.

## Retain REDUCE

We believe the merger with Fincare prima-facie could be EPS/BVPS/RoA positive, but we reckon that managing HR/tech integration and MFI portfolio management will be an arduous task, more so given the deal was concluded without the management buy-in. Separately, we believe rising asset-quality stress in AU SFB's card portfolio and VF portfolio could keep provisions elevated. Thus, we cut our earnings estimates by 7-10%. Factoring in RoA/RoE moderation, rising asset-quality risk, likely merger drag, and potential delay in Universal banking license, we cut our TP further to Rs625/share (earlier Rs650/share), valuing the bank at 2.8x its Dec-25E ABV. We retain our REDUCE rating on the stock.

|                       |        |
|-----------------------|--------|
| Target Price – 12M    | Jan-24 |
| Change in TP (%)      | (3.8)  |
| Current Reco.         | REDUCE |
| Previous Reco.        | REDUCE |
| Upside/(Downside) (%) | (11.7) |
| CMP (25-Jan-24) (Rs)  | 707.9  |

| Stock Data                  | Ticker    |
|-----------------------------|-----------|
| 52-week High (Rs)           | 813       |
| 52-week Low (Rs)            | 548       |
| Shares outstanding (mn)     | 668.8     |
| Market-cap (Rs bn)          | 473       |
| Market-cap (USD mn)         | 5,696     |
| Net-debt, FY24E (Rs mn)     | NA        |
| ADTV-3M (mn shares)         | 2         |
| ADTV-3M (Rs mn)             | 1,676.6   |
| ADTV-3M (USD mn)            | 20.2      |
| Free float (%)              | 72.0      |
| Nifty-50                    | 21,353    |
| INR/USD                     | 83.1      |
| <b>Shareholding, Sep-23</b> |           |
| Promoters (%)               | 25.5      |
| FPIs/MFs (%)                | 41.7/19.6 |

## Price Performance

| (%)           | 1M    | 3M     | 12M   |
|---------------|-------|--------|-------|
| Absolute      | (7.5) | 0.2    | 14.9  |
| Rel. to Nifty | (7.5) | (10.2) | (3.7) |

## 1-Year share price trend (Rs)



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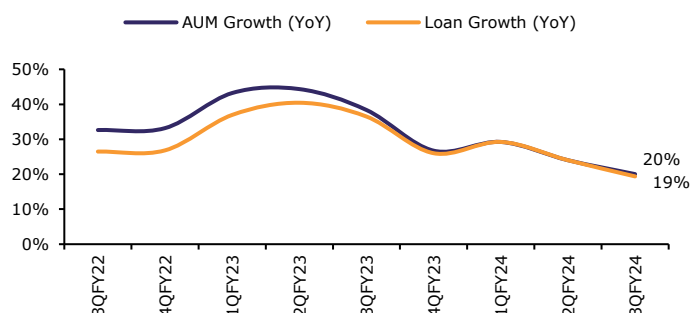
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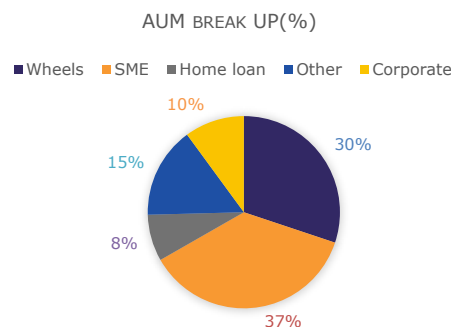
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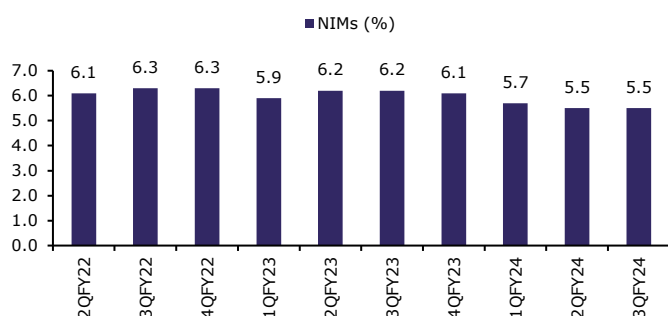
## Story in Charts

**Exhibit 1: Credit growth moderates due to higher securitization**


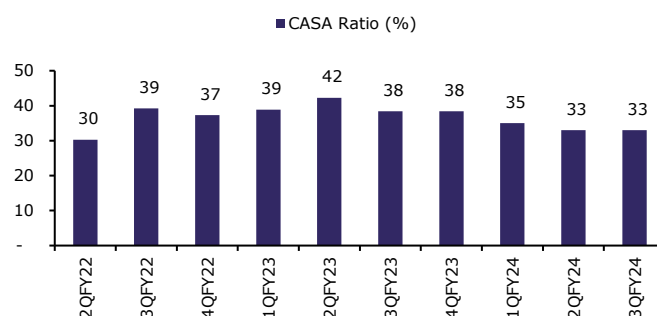
Source: Company, Emkay Research

**Exhibit 2: AUM mix dominated by Wheels and SBL, but could change post the merger**


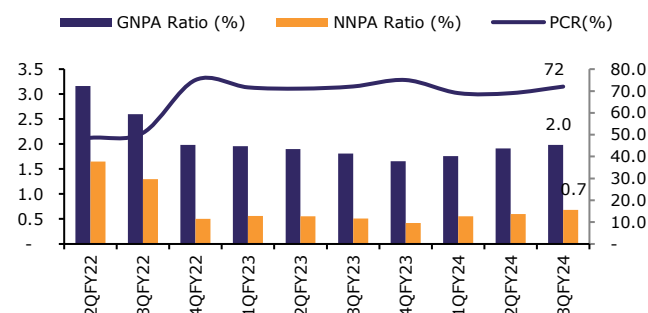
Source: Company, Emkay Research

**Exhibit 3: Rising CoFs exert pressure on NIMs**


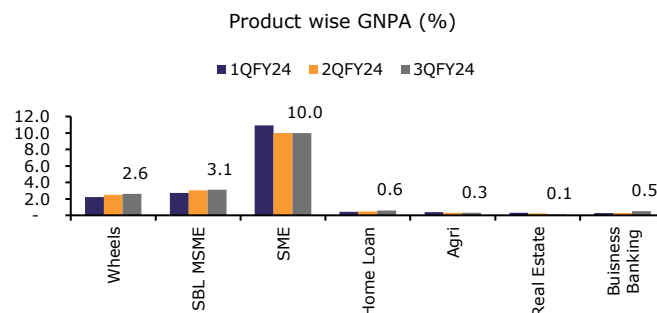
Source: Company, Emkay Research

**Exhibit 4: CASA slips further owing to strong growth in TD**


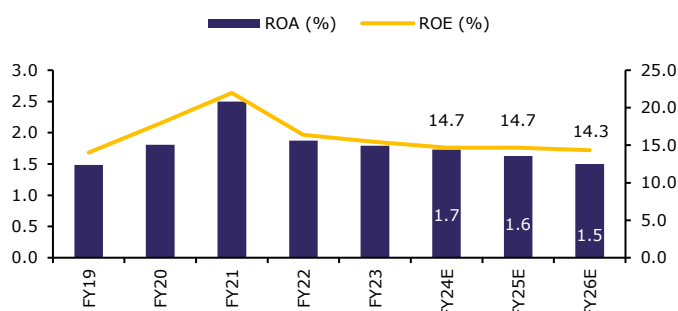
Source: Company, Emkay Research

**Exhibit 5: Higher slippages led to increased GNPA/NNPA**


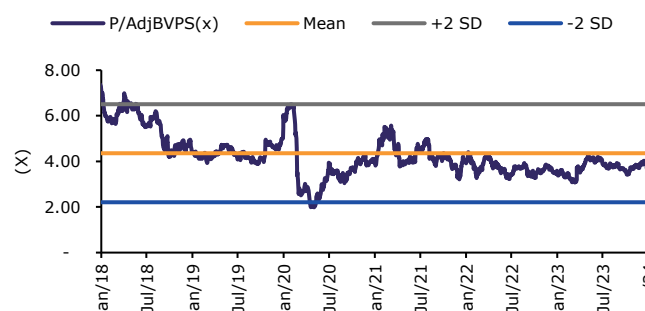
Source: Company, Emkay Research

**Exhibit 6: Wheels and SBL MSME segments saw increased GNPA**


Source: Company, Emkay Research

**Exhibit 7: Higher LLP, rising asset-quality risk, and likely merger drag to weigh on return ratios**


Source: Company, Emkay Research

**Exhibit 8: The stock trades at 2.8x one-year forward P/ABV**


Source: Company, Emkay Research

## Exhibit 9: Actuals vs. Estimates (Q3FY24)

| Rs mn      | Actuals | Estimates |           | Variation |           | Comments   |
|------------|---------|-----------|-----------|-----------|-----------|--|
|            |         | Emkay     | Consensus | Emkay     | Consensus |  |
| Net income | 17,746  | 16,756    | 15,000    | 6%        | 18%       | Higher NII and other income led to the beat                            |
| PPOP       | 6,571   | 6,425     | 5,645     | 2%        | 16%       | Higher net income partially offset by higher opex led to a slight beat |
| PAT        | 3,752   | 4,376     | 3,857     | -14%      | -3%       | Higher provisions led to a miss  |

Source: Company, Emkay Research

## Exhibit 10: Quarterly Summary

| Rs mn                         | 3QFY23       | 4QFY23       | 1QFY24       | 2QFY24       | 3QFY24       | YoY (%)       | QoQ (%)     | FY23          | FY24E         | YoY (%)       |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|-------------|---------------|---------------|---------------|
| Interest Earned               | 21,181       | 22,749       | 24,583       | 25,311       | 27,358       | 29            | 8           | 82,054        | 105,273       | 28            |
| Interest Exp.                 | 9,653        | 10,616       | 12,121       | 12,821       | 14,109       | 46            | 10          | 37,801        | 53,731        | 42            |
| Net Interest Income           | 11,527       | 12,132       | 12,462       | 12,490       | 13,249       | 15            | 6           | 44,253        | 51,542        | 16            |
| <b>Global NIMs (reported)</b> | <b>6.20</b>  | <b>6.10</b>  | <b>5.70</b>  | <b>5.50</b>  | <b>5.50</b>  | <b>-70bps</b> | <b>0bps</b> | <b>5.43</b>   | <b>5.03</b>   | <b>-41bps</b> |
| Non-interest Income           | 2,949        | 3,331        | 3,151        | 4,255        | 4,497        | 52            | 6           | 10,345        | 15,123        | 46            |
| Operating Expenses            | 8,919        | 9,753        | 10,153       | 10,267       | 11,175       | 25            | 9           | 34,403        | 41,599        | 21            |
| Pre-Provisioning Profit       | 5,557        | 5,709        | 5,460        | 6,477        | 6,571        | 18            | 1           | 20,195        | 25,066        | 24            |
| Provision & Contingencies     | 326          | 409          | 330          | 1,143        | 1,589        | 387           | 39          | 1,548         | 2,427         | 57            |
| PBT                           | 5,231        | 5,300        | 5,131        | 5,334        | 4,981        | -5            | -7          | 18,646        | 22,639        | 21            |
| Income Tax Expense (Gain)     | 1,302        | 1,054        | 1,262        | 1,315        | 1,229        | -6            | -7          | 4,367         | 5,320         | 22            |
| <b>Net Profit/(Loss)</b>      | <b>3,928</b> | <b>4,246</b> | <b>3,869</b> | <b>4,018</b> | <b>3,752</b> | <b>-4</b>     | <b>-7</b>   | <b>14,279</b> | <b>17,319</b> | <b>21</b>     |
| Gross NPA (%)                 | 1.81         | 1.66         | 1.76         | 1.91         | 1.98         | 17bps         | 7bps        | 1.66          | 1.78          | 12bps         |
| Net NPA (%)                   | 0.51         | 0.42         | 0.55         | 0.60         | 0.68         | 17bps         | 8bps        | 0.49          | 0.54          | 5bps          |
| Deposits (Rs bn)              | 611          | 694          | 693          | 757          | 801          | 31            | 6           | 694           | 882           | 27            |
| Net Advances (Rs bn)          | 556          | 584          | 629          | 642          | 667          | 20            | 4           | 584           | 723           | 24            |

Source: Company, Emkay Research

## Exhibit 11: Revision in Estimates

| Y/E March (Rs mn) | FY24E   |         |        | FY25E   |         |        | FY26E   |         |        |
|-------------------|---------|---------|--------|---------|---------|--------|---------|---------|--------|
|                   | Earlier | Revised | Change | Earlier | Revised | Change | Earlier | Revised | Change |
| Net income        | 66,968  | 66,665  | -0.5%  | 83,804  | 84,002  | 0.2%   | 103,174 | 101,701 | -1.4%  |
| PPOP              | 24,994  | 25,066  | 0.3%   | 32,852  | 33,972  | 3.4%   | 41,583  | 41,607  | 0.1%   |
| PAT               | 17,319  | 17,319  | 0.0%   | 19,865  | 19,865  | 0.0%   | 22,196  | 22,196  | 0.0%   |
| EPS (Rs)          | 26.0    | 26.0    | 0.0%   | 29.8    | 29.8    | 0.0%   | 33.3    | 33.3    | 0.0%   |
| BV (Rs)           | 189.1   | 189.1   | 0.0%   | 216.9   | 216.9   | 0.0%   | 247.7   | 247.7   | 0.0%   |

Source: Emkay Research

## Exhibit 12: Exhibit 13: Key Assumptions

| (%)            | FY23A | FY24E | FY25E | FY26E |
|----------------|-------|-------|-------|-------|
| AUM Growth     | 26.0  | 25.0  | 23.0  | 22.0  |
| Deposit Growth | 35.8  | 27.1  | 24.4  | 22.9  |
| NIM            | 5.4   | 5.0   | 5.0   | 5.0   |
| GNPA           | 1.7   | 1.8   | 2.0   | 2.2   |
| Credit Cost    | 0.5   | 0.6   | 1.0   | 1.2   |

Source: Emkay Research

## Exhibit 13: Key Ratios and Trends

|  | 3QFY22         | 4QFY22         | 1QFY23         | 2QFY23         | 3QFY23         | 4QFY23         | 1QFY24         | 2QFY24         | 3QFY24         |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Loans (Rs mn)</b>                       | <b>420,230</b> | <b>478,310</b> | <b>501,790</b> | <b>533,835</b> | <b>573,629</b> | <b>602,731</b> | <b>648,533</b> | <b>662,022</b> | <b>684,793</b> |
| Growth YoY (%)                             | 26.5           | 26.8           | 37.0           | 40.4           | 36.5           | 26.0           | 29.2           | 24.0           | 19.4           |
| Growth QoQ (%)                             | 10.6           | 13.8           | 4.9            | 6.4            | 7.5            | 5.1            | 7.6            | 2.1            | 3.4            |
| <b>Composition (%)</b>                     |                |                |                |                |                |                |                |                |                |
| Corporate                                  | 15             | 17             | 17             | 18             | 19             | 21             | 21             | 22             | 24             |
| Retail and Treasury                        | 85             | 83             | 83             | 82             | 81             | 79             | 79             | 78             | 76             |
| <b>Liability Profile</b>                   |                |                |                |                |                |                |                |                |                |
| <b>Deposits (Rs mn)</b>                    | <b>442,780</b> | <b>525,846</b> | <b>546,310</b> | <b>583,354</b> | <b>611,010</b> | <b>693,650</b> | <b>693,150</b> | <b>757,429</b> | <b>801,200</b> |
| Growth YoY (%)                             | 49.0           | 46.2           | 47.6           | 49.4           | 38.0           | 31.9           | 26.9           | 29.8           | 31.1           |
| Growth QoQ (%)                             | 13.4           | 18.8           | 3.9            | 6.8            | 4.7            | 13.5           | (0.1)          | 9.3            | 5.8            |
| CASA (%)                                   |                |                |                |                |                |                |                |                |                |
| CA (%)                                     | 39.2           | 37.3           | 38.8           | 42.3           | 38.4           | 38.4           | 35.0           | 33.0           | 33.0           |
| SA (%)                                     | 4.0            | 4.9            | 4.0            | 4.9            | 4.6            | 5.3            | 4.7            | 5.4            | 5.0            |
| No. of Branches                            | 35.2           | 32.4           | 34.8           | 37.4           | 33.8           | 33.1           | 30.4           | 27.6           | 28.0           |
| NIM (%)                                    | 830            | 863            | 953            | 980            | 1,015          | 1,027          | 1,038          | 1,042          | 1,049          |
| <b>Asset Quality</b>                       | <b>6.3</b>     | <b>6.3</b>     | <b>5.9</b>     | <b>6.2</b>     | <b>6.2</b>     | <b>6.1</b>     | <b>5.7</b>     | <b>5.5</b>     | <b>5.5</b>     |
| GNPA (%)                                   |                |                |                |                |                |                |                |                |                |
| NNPA (%)                                   | 2.6            | 2.0            | 2.0            | 1.9            | 1.8            | 1.7            | 1.8            | 1.9            | 2.0            |
| PCR (%)                                    | 1.3            | 0.5            | 0.6            | 0.6            | 0.5            | 0.4            | 0.6            | 0.6            | 0.7            |
| Slippages (Rs mn)                          | 50.8           | 75.0           | 71.7           | 71.1           | 72.1           | 75.0           | 69.0           | 69.0           | 72.0           |
| Slippages – Annualized (%)                 | 2,490          | 1,950          | 2,530          | 2,620          | 2,310          | 1,910          | 3,170          | 3,490          | 4,030          |
| <b>CAR (%)</b>                             | <b>3.0</b>     | <b>2.1</b>     | <b>2.8</b>     | <b>2.8</b>     | <b>2.2</b>     | <b>1.6</b>     | <b>2.5</b>     | <b>2.6</b>     | <b>2.8</b>     |
| <b>Tier I (%)</b>                          | <b>19.5</b>    | <b>21.0</b>    | <b>19.4</b>    | <b>23.4</b>    | <b>22.0</b>    | <b>23.6</b>    | <b>21.5</b>    | <b>22.4</b>    | <b>20.8</b>    |
| <b>ROE Decomposition (on total assets)</b> | <b>18.2</b>    | <b>19.7</b>    | <b>18.4</b>    | <b>21.3</b>    | <b>20.0</b>    | <b>21.8</b>    | <b>20.7</b>    | <b>21.0</b>    | <b>19.1</b>    |
| NII (%)                                    |                |                |                |                |                |                |                |                |                |
| Other Income (Ex. Treasury; %)             | 5.9            | 5.9            | 5.6            | 5.8            | 5.8            | 5.7            | 5.5            | 5.3            | 5.4            |
| Opex (%)                                   | 1.9            | 2.0            | 1.2            | 1.3            | 1.5            | 1.6            | 1.3            | 1.8            | 1.8            |
| PPOP (%)                                   | 4.6            | 4.8            | 4.2            | 4.5            | 4.5            | 4.6            | 4.5            | 4.4            | 4.5            |
| Provisioning Cost (%)                      | 3.3            | 3.0            | 2.3            | 2.7            | 2.8            | 2.7            | 2.4            | 2.8            | 2.7            |
| PBT (%)                                    | 0.4            | 0.6            | 0.2            | 0.2            | 0.2            | 0.2            | 0.1            | 0.5            | 0.6            |
| Tax (%)                                    | 2.9            | 2.4            | 2.0            | 2.4            | 2.6            | 2.5            | 2.3            | 2.3            | 2.0            |
| <b>ROA (%)</b>                             | <b>0.7</b>     | <b>0.3</b>     | <b>0.5</b>     | <b>0.6</b>     | <b>0.7</b>     | <b>0.5</b>     | <b>0.6</b>     | <b>0.6</b>     | <b>0.5</b>     |
| <b>ROE (%)</b>                             | <b>2.16</b>    | <b>2.17</b>    | <b>1.53</b>    | <b>1.84</b>    | <b>1.98</b>    | <b>1.99</b>    | <b>1.70</b>    | <b>1.71</b>    | <b>1.52</b>    |

Source: Company, Emkay Research

AU Small Finance Bank: Standalone Financials and Valuations

| Profit and Loss            |        |        |         |         |         |
|----------------------------|--------|--------|---------|---------|---------|
| Y/E March (Rs mn)          | FY22   | FY23   | FY24E   | FY25E   | FY26E   |
| Interest Income            | 59,217 | 82,054 | 105,639 | 126,611 | 150,423 |
| Interest Expense           | 26,876 | 37,801 | 53,579  | 64,334  | 76,096  |
| Net interest income        | 32,341 | 44,253 | 52,060  | 62,276  | 74,328  |
| NII growth (%)             | 36.7   | 36.8   | 17.6    | 19.6    | 19.4    |
| Other income               | 9,937  | 10,345 | 16,856  | 23,156  | 28,981  |
| Total Income               | 42,278 | 54,597 | 68,917  | 85,432  | 103,308 |
| Operating expenses         | 24,128 | 34,403 | 43,381  | 53,257  | 64,056  |
| PPOP                       | 18,150 | 20,195 | 25,535  | 32,175  | 39,252  |
| PPOP growth (%)            | (14.7) | 11.3   | 26.4    | 26.0    | 22.0    |
| Core PPOP                  | 16,721 | 20,638 | 25,335  | 30,675  | 37,252  |
| Provisions & contingencies | 3,610  | 1,548  | 4,842   | 8,655   | 12,071  |
| PBT                        | 14,541 | 18,646 | 20,693  | 23,520  | 27,181  |
| Extraordinary items        | 0      | 0      | 0       | 0       | 0       |
| Tax expense                | 3,242  | 4,367  | 4,966   | 5,645   | 6,523   |
| Minority interest          | 0      | 0      | 0       | 0       | 0       |
| Income from JV/Associates  | 0      | 0      | 0       | 0       | 0       |
| Reported PAT               | 11,298 | 14,279 | 15,727  | 17,875  | 20,658  |
| PAT growth (%)             | (3.5)  | 26.4   | 10.1    | 13.7    | 15.6    |
| Adjusted PAT               | 11,298 | 14,279 | 15,727  | 17,875  | 20,658  |
| Diluted EPS (Rs)           | 17.8   | 21.8   | 23.3    | 26.5    | 30.6    |
| Diluted EPS growth (%)     | (5.7)  | 22.3   | 7.0     | 13.5    | 15.6    |
| DPS (Rs)                   | 0.5    | 1.0    | 1.5     | 2.0     | 2.5     |
| Dividend payout (%)        | 2.8    | 4.7    | 6.4     | 7.5     | 8.1     |
| Effective tax rate (%)     | 22.3   | 23.4   | 24.0    | 24.0    | 24.0    |
| Net interest margins (%)   | 5.6    | 5.7    | 5.4     | 5.4     | 5.3     |
| Cost-income ratio (%)      | 57.1   | 63.0   | 62.9    | 62.3    | 62.0    |
| Shares outstanding (mn)    | 314.9  | 666.7  | 668.8   | 668.8   | 668.8   |

Source: Company, Emkay Research

| Balance Sheet              |         |         |           |           |           |
|----------------------------|---------|---------|-----------|-----------|-----------|
| Y/E Mar (Rs mn)            | FY22    | FY23    | FY24E     | FY25E     | FY26E     |
| Share capital              | 3,149   | 6,667   | 6,688     | 6,688     | 6,688     |
| Reserves & surplus         | 71,991  | 103,106 | 117,829   | 134,367   | 153,353   |
| Net worth                  | 75,140  | 109,773 | 124,517   | 141,055   | 160,041   |
| Deposits                   | 525,846 | 693,650 | 876,510   | 1,089,932 | 1,354,532 |
| Borrowings                 | 59,908  | 52,987  | 55,039    | 50,783    | 47,540    |
| Interest-bearing liab.     | 585,754 | 746,636 | 931,549   | 1,140,715 | 1,402,073 |
| Other liabilities & prov.  | 29,884  | 45,751  | 19,854    | 37,309    | 28,348    |
| Total liabilities & equity | 690,778 | 902,161 | 1,075,920 | 1,319,079 | 1,590,461 |
| Net advances               | 460,953 | 584,215 | 717,491   | 891,707   | 1,087,883 |
| Investments                | 153,065 | 200,720 | 272,329   | 321,362   | 371,881   |
| Cash, other balances       | 59,285  | 94,252  | 55,893    | 68,443    | 84,124    |
| Interest earning assets    | 673,303 | 879,187 | 1,045,713 | 1,281,512 | 1,543,888 |
| Fixed assets               | 6,226   | 7,401   | 9,622     | 12,508    | 16,261    |
| Other assets               | 11,250  | 15,573  | 20,584    | 25,059    | 30,311    |
| Total assets               | 690,778 | 902,161 | 1,075,920 | 1,319,079 | 1,590,461 |
| BVPS (Rs)                  | 119.8   | 169.3   | 186.5     | 210.9     | 239.3     |
| Adj. BVPS (INR)            | 116.6   | 166.0   | 181.5     | 204.0     | 229.9     |
| Gross advances             | 410,725 | 529,527 | 659,490   | 816,949   | 1,006,762 |
| Credit to deposit (%)      | 87.7    | 84.2    | 81.9      | 81.8      | 80.3      |
| CASA ratio (%)             | 38.4    | 38.4    | 30.8      | 27.7      | 27.8      |
| Cost of deposits (%)       | 5.1     | 5.5     | 6.4       | 6.2       | 6.0       |
| Loans-to-Assets (%)        | 66.7    | 64.8    | 66.7      | 67.6      | 68.4      |
| Net advances growth (%)    | 33.2    | 26.7    | 22.8      | 24.3      | 22.0      |
| Deposit growth (%)         | 46.2    | 31.9    | 26.4      | 24.3      | 24.3      |
| Book value growth (%)      | 17.7    | 41.3    | 10.1      | 13.1      | 13.5      |

Source: Company, Emkay Research

| Asset Quality and Other Metrics |          |          |          |          |          |
|---------------------------------|----------|----------|----------|----------|----------|
| Y/E Mar (Rs mn)                 | FY22     | FY23     | FY24E    | FY25E    | FY26E    |
| Asset quality                   |          |          |          |          |          |
| Gross NPLs                      | 9,243.8  | 9,813.1  | 14,745.9 | 20,537.4 | 27,939.4 |
| Net NPLs                        | 2,718.5  | 2,861.6  | 4,423.8  | 6,161.2  | 8,381.8  |
| GNPA ratio (%)                  | 2.0      | 1.7      | 2.0      | 2.3      | 2.5      |
| NNPA ratio (%)                  | 0.6      | 0.5      | 0.6      | 0.7      | 0.8      |
| Provision coverage (%)          | 70.6     | 70.8     | 70.0     | 70.0     | 70.0     |
| Gross slippages                 | 14,421.2 | 12,398.8 | 14,947.7 | 19,305.0 | 24,673.6 |
| Gross slippage ratio (%)        | 3.0      | 2.1      | 2.0      | 2.1      | 2.2      |
| LLP ratio (%)                   | 0.5      | 0.5      | 0.9      | 1.2      | 1.3      |
| NNPA to net worth (%)           | 3.5      | 2.5      | 3.5      | 4.2      | 5.1      |
| Capital adequacy                |          |          |          |          |          |
| Total CAR (%)                   | 21.0     | 23.7     | 21.9     | 20.5     | 19.5     |
| Tier-1 (%)                      | 19.7     | 21.9     | 20.5     | 19.0     | 17.9     |
| CET-1 (%)                       | 19.7     | 21.9     | 20.5     | 19.0     | 17.9     |
| RWA-to-Total Assets (%)         | 52.7     | 53.2     | 55.0     | 55.0     | 55.0     |
| Miscellaneous                   |          |          |          |          |          |
| Total income growth (%)         | 8.5      | 33.6     | 32.6     | 22.3     | 19.8     |
| Opex growth (%)                 | 45.5     | 42.6     | 26.1     | 22.8     | 20.3     |
| Core PPOP growth (%)            | 31.3     | 23.4     | 22.8     | 21.1     | 21.4     |
| PPOP margin (%)                 | 26.2     | 21.9     | 20.8     | 21.5     | 21.9     |
| PAT/PPOP (%)                    | 62.2     | 70.7     | 61.6     | 55.6     | 52.6     |
| LLP-to-Core PPOP (%)            | 21.6     | 7.5      | 19.1     | 28.2     | 32.4     |
| Yield on advances (%)           | 12.4     | 13.2     | 13.1     | 13.0     | 12.7     |
| Cost of funds (%)               | 5.3      | 5.6      | 6.4      | 6.2      | 6.0      |

Source: Company, Emkay Research

| Valuations and K Ratios |        |        |        |        |        |
|-------------------------|--------|--------|--------|--------|--------|
| Y/E Mar                 | FY22   | FY23   | FY24E  | FY25E  | FY26E  |
| P/E (x)                 | 39.3   | 32.1   | 30.1   | 26.5   | 22.9   |
| P/B (x)                 | 5.9    | 4.2    | 3.8    | 3.4    | 3.0    |
| P/ABV (x)               | 6.1    | 4.3    | 3.9    | 3.5    | 3.1    |
| P/PPOP (x)              | 12.3   | 23.4   | 18.5   | 14.7   | 12.1   |
| Dividend yield (%)      | 0.1    | 0.1    | 0.2    | 0.3    | 0.4    |
| DuPont-RoE split (%)    |        |        |        |        |        |
| NII/avg assets          | 5.4    | 5.6    | 5.3    | 5.2    | 5.1    |
| Other income            | 1.6    | 1.3    | 1.7    | 1.9    | 2.0    |
| Fee income              | 1.4    | 1.4    | 1.7    | 1.8    | 1.9    |
| Opex                    | 4.0    | 4.3    | 4.4    | 4.4    | 4.4    |
| PPOP                    | 3.0    | 2.5    | 2.6    | 2.7    | 2.7    |
| Core PPOP               | 2.8    | 2.6    | 2.6    | 2.6    | 2.6    |
| Provisions              | 0.6    | 0.2    | 0.5    | 0.7    | 0.8    |
| Tax expense             | 0.5    | 0.5    | 0.5    | 0.5    | 0.4    |
| RoA (%)                 | 1.9    | 1.8    | 1.6    | 1.5    | 1.4    |
| Leverage ratio (x)      | 8.8    | 8.6    | 8.4    | 9.0    | 9.7    |
| RoE (%)                 | 16.4   | 15.4   | 13.4   | 13.5   | 13.7   |
| Quarterly data          |        |        |        |        |        |
| Rs mn, Y/E Mar          | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
| NII                     | 11,527 | 12,132 | 12,462 | 13,249 | 13,249 |
| NIM (%)                 | 6.2    | 6.1    | 5.7    | 5.5    | 5.5    |
| PPOP                    | 5,557  | 5,709  | 5,460  | 6,571  | 6,571  |
| PAT                     | 3,928  | 4,246  | 3,869  | 3,752  | 3,752  |
| EPS (Rs)                | 5.90   | 6.37   | 5.80   | 5.63   | 5.63   |

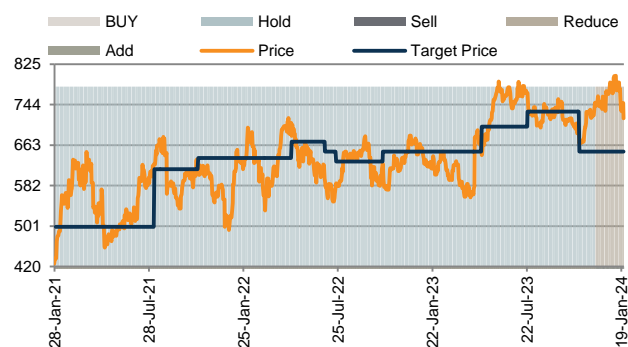
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

| Date      | Closing Price (INR) | TP (INR) | Rating | Analyst    |
|-----------|---------------------|----------|--------|------------|
| 30-Nov-23 | 741                 | 650      | Reduce | Anand Dama |
| 06-Nov-23 | 674                 | 650      | Hold   | Anand Dama |
| 30-Oct-23 | 666                 | 650      | Hold   | Anand Dama |
| 23-Jul-23 | 767                 | 730      | Hold   | Anand Dama |
| 26-Apr-23 | 643                 | 700      | Hold   | Anand Dama |
| 09-Mar-23 | 624                 | 650      | Hold   | Anand Dama |
| 20-Jan-23 | 616                 | 650      | Hold   | Anand Dama |
| 19-Oct-22 | 626                 | 650      | Hold   | Anand Dama |
| 21-Jul-22 | 587                 | 630      | Hold   | Anand Dama |
| 30-Jun-22 | 592                 | 650      | Hold   | Anand Dama |
| 27-Apr-22 | 681                 | 670      | Hold   | Anand Dama |
| 11-Feb-22 | 660                 | 638      | Hold   | Anand Dama |
| 29-Jan-22 | 636                 | 638      | Hold   | Anand Dama |
| 04-Jan-22 | 548                 | 638      | Hold   | Anand Dama |
| 30-Oct-21 | 608                 | 638      | Hold   | Anand Dama |
| 31-Aug-21 | 565                 | 615      | Hold   | Anand Dama |
| 07-Aug-21 | 624                 | 615      | Hold   | Anand Dama |
| 01-May-21 | 502                 | 500      | Hold   | Anand Dama |
| 30-Apr-21 | 502                 | 500      | Hold   | Anand Dama |
| 09-Mar-21 | 616                 | 500      | Hold   | Anand Dama |
| 30-Jan-21 | 436                 | 500      | Hold   | Anand Dama |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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| <b>SELL</b>   | <15% downside                                 |

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