

# Federal Bank

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	FB IN
Equity Shares (m)	2120
M.Cap.(INRb)/(USD\$)	364.2 / 4.4
52-Week Range (INR)	159 / 121
1, 6, 12 Rel. Per (%)	-7/3/-16
12M Avg Val (INR M)	1890

## Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
NII	72.3	83.1	101.4
OP	47.9	54.7	68.2
NP	30.1	37.9	44.7
NIM (%)	3.5	3.3	3.4
EPS (INR)	14.3	16.7	18.5
EPS Gr. (%)	54.8	17.2	10.3
BV/Sh. (INR)	102	119	135
ABV/Sh. (INR)	94	112	127

## Ratios

ROE (%)	14.9	15.1	14.5
ROA (%)	1.3	1.3	1.3

## Valuations

P/E(X)	10.5	9.0	8.1
P/BV (X)	1.5	1.3	1.1
P/ABV (X)	1.6	1.3	1.2

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	44.2	45.7	41.9
FII	30.1	27.8	28.6
Others	25.7	31.1	29.6

FII Includes depository receipts

**CMP: INR150**
**TP: INR175 (+17%)**
**Buy**

## In-line earnings; lower provisions drive earnings beat

### Guides for CD ratio of ~80% by CY24 end

- FB reported a mixed quarter as net earnings beat our estimate by 6% driven by lower provisions and healthy other income (FedFina stake sale gains) but slippages increased while NIMs compressed 3bp QoQ.
- Advances growth was healthy at 18% YoY/3.3% QoQ, led by robust growth in retail and commercial banking. Deposits grew 19% YoY/2.9% QoQ, aided by continued traction in term deposits. Thus, the CASA ratio moderated 54bp QoQ to 30.6%.
- Slippages increased to INR4.8b, due to higher slippages in the corporate segment. GNPA/NNPA ratios were broadly stable at 2.3%/0.6%. Restructured book declined ~15bp QoQ to 1.1%.
- FB reported RoA/RoE of 1.4%/14.8% in 3QFY24. We fine-tune our estimates following the 3Q results and expect FB to deliver RoA/RoE of 1.3%/14.5% in FY25. **We reiterate our BUY rating on the stock.**

### Business growth steady; NIM contracts 3bp QoQ to 3.19%

- FB reported net earnings of INR10.1b (up 25% YoY, 6% beat), driven by lower provisions and healthy other income. NII stood at INR21.2b (in line), while NIM contracted 3bp QoQ to 3.19%. Over 9mFY24, PAT grew 33.5% YoY to INR28b vs INR21b over 9mFY23.
- Other income grew 18% QoQ to INR8.6b (6% beat), driven by healthy business activity and ~INR0.9b gains from the FedFina stake sale. Treasury gains stood at INR2.2b in 3QFY24 vs. INR0.7b in 2QFY24.
- Opex rose 27% YoY (up 6% QoQ), largely due to an increase in employee-related expenses and wage provisions. PPOP growth stood at 8.5% YoY (Core PPOP declined 5% YoY).
- On the business front, advances growth was healthy at 18% YoY/3.3% QoQ at INR1.99t, led by healthy growth in retail and agriculture. Retail grew 5% QoQ, while Agriculture growth was robust at 6% QoQ. Deposits grew 19% YoY (up 2.9% QoQ), driven by faster growth in TDs. As a result, the CASA ratio declined 54bp QoQ to 30.6%.
- Slippages increased to INR4.8b however healthy reductions led to GNPA/NNPA ratios remaining stable at 2.3%/0.6%, respectively. Specific PCR stood at 72%. Restructured loans declined to INR22b (1.1% of loans).

### Highlights from the management commentary

- FB aims for a C/D ratio of 80% and 18% growth in its advances portfolio.
- The focus remains on delivering RoA of ~1.4%.
- For succession planning, the board has already started the process. The bank will submit candidate names to the RBI in the coming months and is open to considering external candidates as well.
- The yield on advances was stagnant despite the bank moving to high-yielding segments. FB expects yields to move upward going forward as the mix of high-yielding segments improves.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

FB reported a broadly in-line performance, with healthy business growth and slight weakness in asset quality and margins. However, in-line NII growth, controlled provisions, and higher treasury income drove the earnings beat. NIMs contracted marginally to 3.19%. The management expects margins to remain under pressure as the cost of deposits is expected to increase while bank also brings down the CD ratio towards ~80%. We broadly maintain our estimates as controlled credit costs and healthy other income will keep earnings robust. We estimate FB to deliver RoA/RoE of 1.3%/14.5% in FY25. **We reiterate our BUY rating on the stock with a TP of INR175 (1.2x Sep'25E ABV).**

**Quarterly performance****(INR b)**

	FY23				FY24E				FY23	FY24E	FY24E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Est
<b>Net Interest Income</b>	<b>16.0</b>	<b>17.6</b>	<b>19.6</b>	<b>19.1</b>	<b>19.2</b>	<b>20.6</b>	<b>21.2</b>	<b>22.1</b>	<b>72.3</b>	<b>83.1</b>	<b>21.6</b>	<b>-1.5</b>
% Change (YoY)	13.1	19.1	27.1	25.2	19.6	16.7	8.5	15.9	21.3	14.9	10.2	
Other Income	4.5	6.1	5.3	7.3	7.3	7.3	8.6	7.7	23.3	30.9	8.2	5.7
<b>Total Income</b>	<b>20.6</b>	<b>23.7</b>	<b>24.9</b>	<b>26.4</b>	<b>26.5</b>	<b>27.9</b>	<b>29.9</b>	<b>29.8</b>	<b>95.6</b>	<b>114.0</b>	<b>29.7</b>	<b>0.5</b>
Operating Expenses	10.8	11.6	12.2	13.1	13.5	14.6	15.5	15.7	47.7	59.3	15.8	-1.9
<b>Operating Profit</b>	<b>9.7</b>	<b>12.1</b>	<b>12.7</b>	<b>13.3</b>	<b>13.0</b>	<b>13.2</b>	<b>14.4</b>	<b>14.1</b>	<b>47.9</b>	<b>54.7</b>	<b>13.9</b>	<b>3.2</b>
% Change (YoY)	-14.1	32.9	39.4	67.2	33.8	9.3	12.8	5.4	27.6	14.1	9.3	
Provisions	1.7	2.7	2.0	1.2	1.6	0.4	0.9	0.9	7.5	3.9	1.7	-47.3
<b>Profit before Tax</b>	<b>8.1</b>	<b>9.4</b>	<b>10.8</b>	<b>12.2</b>	<b>11.5</b>	<b>12.8</b>	<b>13.5</b>	<b>13.1</b>	<b>40.4</b>	<b>50.9</b>	<b>12.2</b>	<b>10.3</b>
Tax	2.1	2.4	2.7	3.2	2.9	3.3	3.4	3.3	10.3	12.9	2.7	23.6
<b>Net Profit</b>	<b>6.0</b>	<b>7.0</b>	<b>8.0</b>	<b>9.0</b>	<b>8.5</b>	<b>9.5</b>	<b>10.1</b>	<b>9.8</b>	<b>30.1</b>	<b>37.9</b>	<b>9.5</b>	<b>6.5</b>
% Change (YoY)	63.5	52.9	54.0	67.0	42.1	35.5	25.3	8.5	59.3	26.0	17.7	
<b>Operating Parameters</b>												
Deposit (INR b)	1,834	1,891	2,014	2,134	2,225	2,329	2,396	2,512	2,134	2,512	2,396	
Loan (INR b)	1,517	1,612	1,682	1,744	1,835	1,928	1,992	2,076	1,744	2,076	1,993	
Deposit Growth (%)	8.2	10.0	14.8	17.4	21.3	23.1	19.0	17.7	17.4	17.7	19.0	
Loan Growth (%)	16.9	20.0	19.5	20.4	21.0	19.6	18.4	19.0	20.4	19.0	18.5	
<b>Asset Quality</b>												
Gross NPA (%)	2.7	2.5	2.4	2.4	2.4	2.3	2.3	2.1	2.4	2.1	2.2	
Net NPA (%)	0.9	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.8	0.6	0.6	
PCR (%)	65.8	68.7	70.4	71.2	71.3	72.3	72.3	71.5	68.4	71.5	71.4	

E: MOFSL Estimates

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## Quarterly snapshot

INRm	FY23				FY24			Change (%)	
Profit and Loss	1Q	2Q	3Q	4Q	1Q	2Q	3Q	YoY	QoQ
<b>Interest Income</b>	<b>36,289</b>	<b>40,208</b>	<b>44,333</b>	<b>47,207</b>	<b>50,245</b>	<b>54,553</b>	<b>57,301</b>	<b>29</b>	<b>5</b>
Advances	28,868	32,227	35,849	37,974	40,396	43,555	45,976	28	6
Investment	6,295	6,674	7,207	7,780	8,149	8,940	9,502	32	6
Others	1,126	1,307	1,277	1,453	1,701	2,058	1,823	43	-11
<b>Interest Expenses</b>	<b>20,244</b>	<b>22,590</b>	<b>24,767</b>	<b>28,115</b>	<b>31,059</b>	<b>33,989</b>	<b>36,067</b>	<b>46</b>	<b>6</b>
<b>Net Interest Income</b>	<b>16,045</b>	<b>17,618</b>	<b>19,565</b>	<b>19,093</b>	<b>19,186</b>	<b>20,564</b>	<b>21,234</b>	<b>8.5</b>	<b>3.3</b>
<b>Other Income</b>	<b>4,526</b>	<b>6,095</b>	<b>5,340</b>	<b>7,339</b>	<b>7,324</b>	<b>7,304</b>	<b>8,626</b>	<b>61.5</b>	<b>18.1</b>
Trading profits	120	700	-90	1,920	1,970	700	2,210	-2,555.6	215.7
Forex Income	630	940	800	260	300	820	590	-26.3	-28.0
Other Non-interest inc.	3,776	4,455	4,630	5,159	5,054	5,784	5,826	25.8	0.7
<b>Total Income</b>	<b>20,571</b>	<b>23,714</b>	<b>24,905</b>	<b>26,432</b>	<b>26,510</b>	<b>27,868</b>	<b>29,859</b>	<b>19.9</b>	<b>7.1</b>
<b>Operating Expenses</b>	<b>10,838</b>	<b>11,591</b>	<b>12,163</b>	<b>13,086</b>	<b>13,487</b>	<b>14,624</b>	<b>15,486</b>	<b>27.3</b>	<b>5.9</b>
Employee	4,993	5,156	5,608	5,972	6,167	6,263	6,932	23.6	10.7
Others	5,844	6,435	6,555	7,114	7,319	8,361	8,554	30.5	2.3
<b>Operating Profits</b>	<b>9,734</b>	<b>12,122</b>	<b>12,742</b>	<b>13,346</b>	<b>13,024</b>	<b>13,245</b>	<b>14,373</b>	<b>12.8</b>	<b>8.5</b>
<b>Core Operating Profits</b>	<b>9,614</b>	<b>11,422</b>	<b>12,832</b>	<b>11,426</b>	<b>11,054</b>	<b>12,545</b>	<b>12,163</b>	<b>-5.2</b>	<b>-3.0</b>
<b>Provisions</b>	<b>1,667</b>	<b>2,679</b>	<b>1,987</b>	<b>1,167</b>	<b>1,556</b>	<b>439</b>	<b>912</b>	<b>-54.1</b>	<b>107.8</b>
NPA provisions	1,500	2,050	1,567	796	1,820	610	1,510	-3.6	147.5
<b>PBT</b>	<b>8,067</b>	<b>9,444</b>	<b>10,755</b>	<b>12,179</b>	<b>11,468</b>	<b>12,806</b>	<b>13,461</b>	<b>25.2</b>	<b>5.1</b>
Taxes	2,060	2,407	2,719	3,153	2,930	3,267	3,394	24.8	3.9
<b>PAT</b>	<b>6,007</b>	<b>7,037</b>	<b>8,036</b>	<b>9,026</b>	<b>8,537</b>	<b>9,538</b>	<b>10,067</b>	<b>25.3</b>	<b>5.5</b>
<b>Balance sheet (INR b)</b>									
<b>Deposits</b>	<b>1,834</b>	<b>1,891</b>	<b>2,014</b>	<b>2,134</b>	<b>2,225</b>	<b>2,329</b>	<b>2,396</b>	<b>19.0</b>	<b>2.9</b>
<b>CASA Deposits</b>	<b>675</b>	<b>689</b>	<b>690</b>	<b>697</b>	<b>709</b>	<b>726</b>	<b>734</b>	<b>6.4</b>	<b>1.1</b>
% of overall Deposits	36.8	36.4	34.2	32.7	31.9	31.2	30.6	-361.0	-54.0
Investments	412	436	463	490	519	552	574	24.0	4.0
<b>Advances</b>	<b>1,517</b>	<b>1,612</b>	<b>1,682</b>	<b>1,744</b>	<b>1,835</b>	<b>1,928</b>	<b>1,992</b>	<b>18.4</b>	<b>3.3</b>
Retail	499	525	539	542	585	620	650	20.6	4.9
<b>Total Assets</b>	<b>2,254</b>	<b>2,371</b>	<b>2,505</b>	<b>2,603</b>	<b>2,742</b>	<b>2,874</b>	<b>2,962</b>	<b>18.3</b>	<b>3.1</b>
<b>Asset Quality (INR m)</b>									
GNPA	41,553	40,311	41,479	41,838	44,348	44,361	46,288	11.6	4.3
NNPA	14,203	12,624	12,286	12,050	12,746	12,298	12,844	4.5	4.4
Slippages	4,630	3,900	4,120	4,540	5,010	3,730	4,960	20.4	33.0
<b>Ratios</b>									
	FY23				FY24			Change (bp)	
<b>Asset Quality Ratios (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>3Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>YoY</b>	<b>QoQ</b>
GNPA	2.7	2.5	2.4	2.4	2.4	2.3	2.3	-14	3
NNPA	0.9	0.8	0.7	0.7	0.7	0.6	0.6	-9	0
PCR (Calculated)	66	69	70	71	71	72	72	187	-2
Slippage Ratio	1.3	1.1	1.0	1.0	1.2	0.8	1.1	10	24
Credit Cost	0.4	0.6	0.4	0.2	0.4	0.1	0.3	-8	19
<b>Business Ratios (%)</b>									
Fees to Total Income	18.4	18.8	18.6	19.5	19.1	20.8	19.5	92.0	-124.5
Cost to Core Income	54.7	52.5	50.3	54.0	55.6	55.5	57.2	695.9	172.8
Tax Rate	25.5	25.5	25.3	25.9	25.6	25.5	25.2	-7.1	-30.4
Loan/Deposit	82.7	85.2	83.5	81.8	82.5	82.8	83.1	-36.3	33.5
CAR	14.6	13.8	13.4	14.8	14.3	15.5	15.0	167.0	-48.0
Tier I	13.3	12.6	12.1	13.0	12.5	13.8	13.5	135.0	-31.0
<b>Profitability Ratios (%)</b>									
Yield on loans	7.9	8.3	8.8	9.1	9.2	9.4	9.4	59	2
Yield On Investments	6.4	6.6	6.9	7.1	7.0	7.2	7.3	45	9
Yield on Funds	7.8	8.2	8.8	9.0	9.2	9.5	9.5	69	2
Cost of Funds	4.1	4.5	4.7	5.2	5.4	5.6	5.8	109	17
Cost of Deposits	4.2	4.4	4.6	5.1	5.3	5.5	5.7	116	21
NIM	3.2	3.3	3.5	3.3	3.2	3.2	3.2	-30	3
RoA	1.1	1.2	1.3	1.5	1.3	1.4	1.4	6	3
RoE	12.7	14.4	15.9	17.5	15.7	15.7	14.8	-111	-92
<b>Others</b>									
Branches	1,291	1,305	1,333	1,355	1,366	1,389	1,418	8,500	2,900
ATMs	1,860	1,876	1,896	1,916	1,920	1,937	1,962	6,600	2,500



## Highlights from the management commentary

### Balance sheet

- FB added 65 branches in 9MFY24; added 30 in 3QFY24.
- In terms of the cost of deposits, the bank expects a challenging environment. Retail deposits still stand strong. The bank is confident about its business growth trajectory.
- FB expects challenges, like AIF and higher wage provisions, to stay in 4QFY24.
- The regulator is looking to push banks to moderate their C/D ratio to a comfortable level of 80% and FB expects to achieve this target by CY24 end by rebalancing its business mix.
- The bank is aiming for a C/D ratio of 80% and 18% in its advances portfolio.
- It expects the cost of deposits to remain high as liquidity conditions remain tighter and so does the competition.
- The bank's co-lending business is starting out, and it has done some work in the MFI space. The bank's underwriting through partners is of the same standard as the bank.
- The increase in risk weight (RWA) in 3Q was due to a regulatory change.
- FB has not revised anything in unsecured loans. While it has only tightened the filters, it expects to sustain 40-50% growth in unsecured. The unsecured segment has been scaled up to 4.5% of the overall book. In credit cards, out of 100 spending transactions, 30 are EMI and 30 are revolver, while the remaining 40 are transactors. Hence, better growth in unsecured does not necessarily translate into better NIMs.
- In 3QFY24, INR450b of IBPC was done, and the bank is looking at IBPC in terms of funding mobilization. FB wants to leverage on the PSL front, and as a result it had done higher IBPC in 3Q.
- The cost of NBFC has gone up and the bank has repriced its existing book. The cost of deposits increased by about 30-35bp. Many NBFCs are qualifying for PSL.
- Partnerships on the liability side is filtering out, but the bank does not expect any impact on fee income.
- In NRE deposits, the behavior has changed and the bank is changing its strategy to gain the share. The bank will continue to grow and will invest in branches.
- PL loans are pre-approved based on the CIBIL score. FB does not do open-market sourcing in PL and credit cards.

### P&L

- Credit cost was slightly higher but still lower than the previous guidance.
- Along with NIMs, the bank wants to focus on RoA and RoE as it aims to deliver RoA of ~1.4%. The bank has doubled its RoA in the last five years.
- FB had planned 15% of wage provisions and pension; some part of the pension provision will be carried out in future quarters. The bank has fully provided for the wage provisions.
- The yield on advances is stagnant despite the bank moving to higher-yielding segments. FB expects yields to move upward going forward as the mix of higher-yielding segments improves.
- Other income has been higher amid gains from the FedFina stake sale.

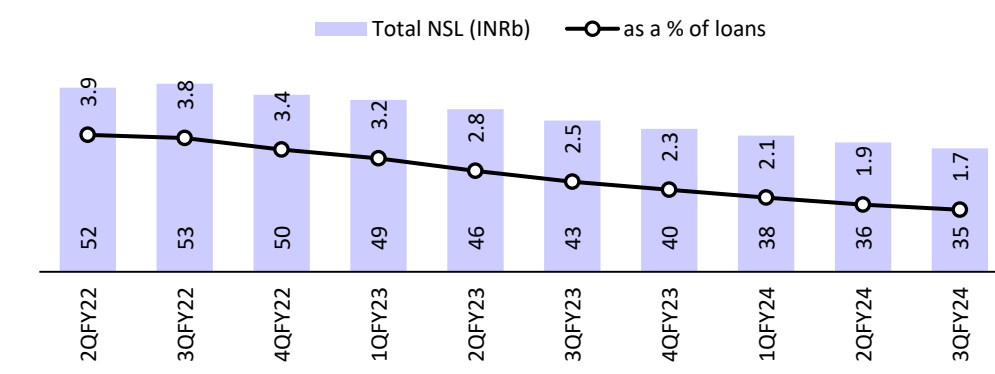
- FB had INR11.2b of standard provisions reversal in 3Q. It has reviewed the restructured provisions on the RF-1 part. The bank has 20% of the provisions in the restructured book.
- CRAR should be 16.15%, including 3Q profits.
- FB has some products in the pipeline aimed at improving the ease of payments; the products will be launched in two weeks.

### Asset Quality & Others

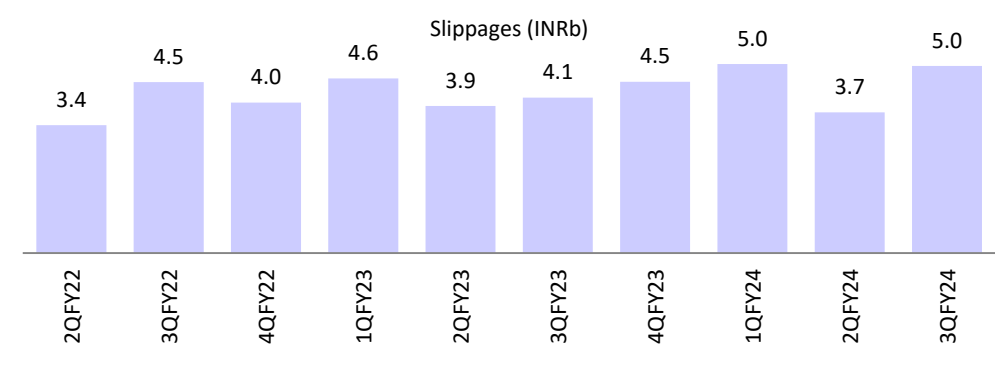
- One account of INR7.8b has slipped in 3Q and will be upgraded in 4Q; the account had some challenges, which have now been resolved.
- Retail slippages are only a tad higher; the retail book is also growing at a healthy pace.
- The recovery from the ADAG group is expected in 4Q. The exposure for NBFC is about INR10b and other is INR18b.
- For succession planning, the board has already started the process. The bank will submit candidate names to the RBI in the coming months and is open to considering external candidates as well.

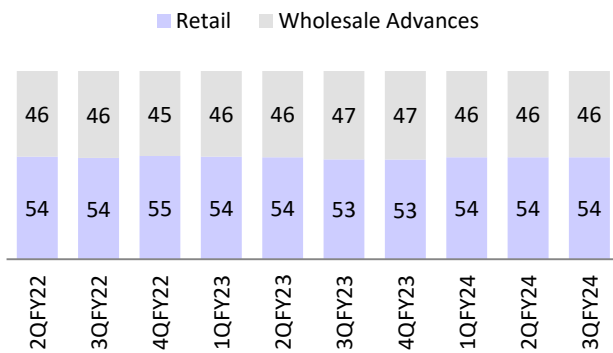
Restructured assets stood at INR22b (1.1% of loans)

**Exhibit 1: Net stressed loans moderated to 1.7% of loans**

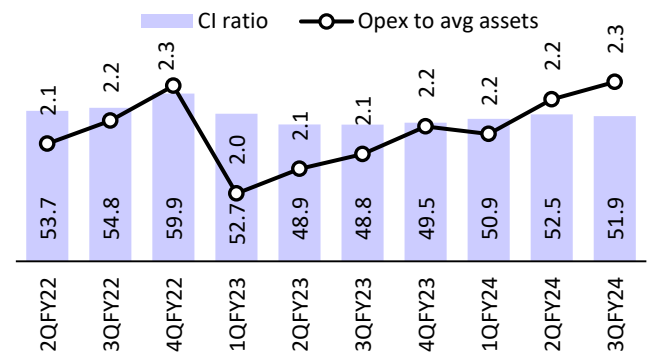


**Exhibit 2: Slippages came in at INR5.0b (including an increase in the balance of existing NPAs) due to increase in corporate slippages in 3QFY24**

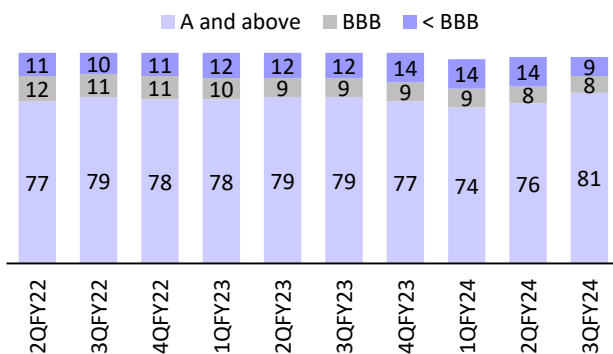


**Exhibit 3: Retail book stood at ~54% of total loans**

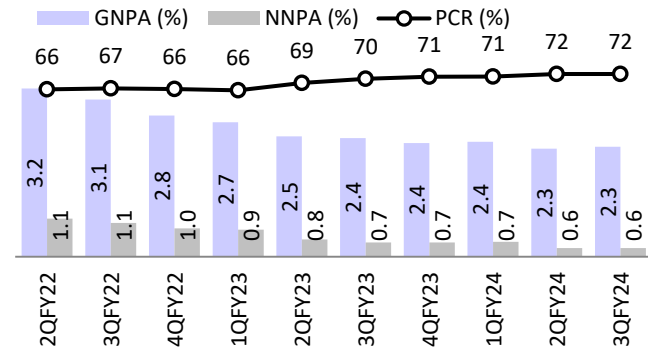
Sources: MOFSL, Company

**Exhibit 4: C/I ratio stood at ~51.9% in 3QFY24**

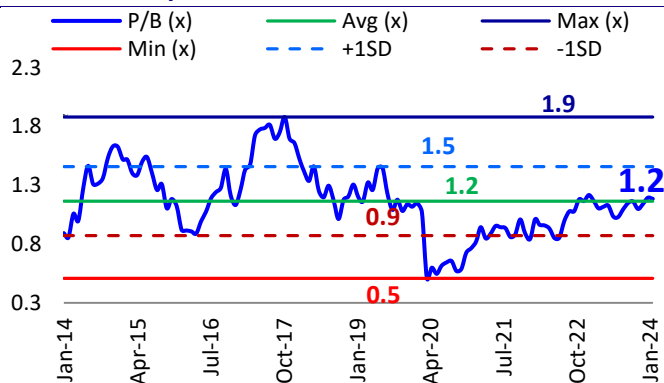
Sources: MOFSL, Company

**Exhibit 5: Share of A and above book increased to 81%**

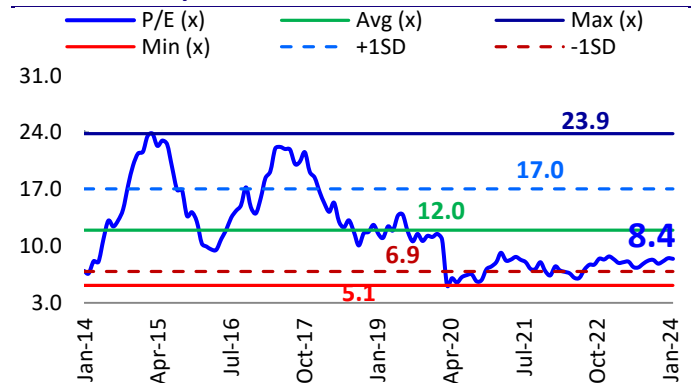
Sources: MOFSL, Company

**Exhibit 6: GNPA/NNPA ratios flat QoQ at 2.3%/0.6%;  
Calculated PCR at ~72%**

Sources: MOFSL, Company

**Exhibit 7: One-year forward P/B ratio**

Sources: MOFSL, Company

**Exhibit 8: One-year forward P/E ratio**

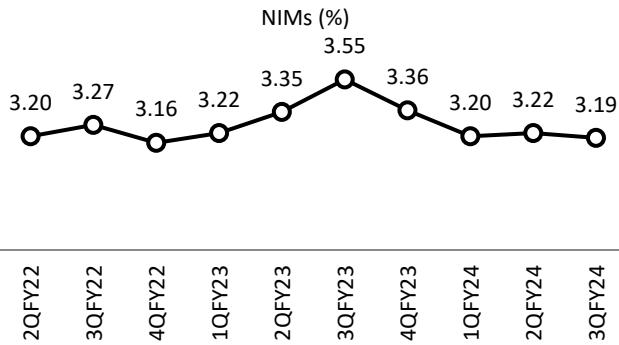
Sources: MOFSL, Company

**Exhibit 9: DuPont Analysis: Expect return ratios to improve gradually**

<b>Y/E March</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Interest Income	7.67	7.77	7.20	6.47	6.98	7.54	7.65	7.59
Interest Expense	4.87	5.04	4.31	3.65	3.98	4.62	4.62	4.57
<b>Net Interest Income</b>	<b>2.81</b>	<b>2.73</b>	<b>2.90</b>	<b>2.82</b>	<b>3.01</b>	<b>2.93</b>	<b>3.03</b>	<b>3.02</b>
Core Fee Income	0.75	0.78	0.70	0.85	0.96	1.08	1.08	1.09
Trading and others	0.15	0.36	0.33	0.14	0.01	0.01	0.01	0.01
<b>Non-Interest income</b>	<b>0.91</b>	<b>1.14</b>	<b>1.03</b>	<b>0.99</b>	0.97	1.09	1.09	1.10
<b>Total Income</b>	<b>3.71</b>	<b>3.87</b>	<b>3.92</b>	<b>3.81</b>	<b>3.97</b>	<b>4.02</b>	<b>4.12</b>	<b>4.13</b>
<b>Operating Expenses</b>	<b>1.86</b>	<b>1.99</b>	<b>1.93</b>	<b>2.03</b>	<b>1.98</b>	<b>2.09</b>	<b>2.08</b>	<b>2.06</b>
Employee cost	0.93	1.04	1.07	1.10	0.90	0.96	0.95	0.93
Others	0.93	0.94	0.87	0.93	1.08	1.13	1.13	1.13
<b>Operating Profits</b>	<b>1.86</b>	<b>1.89</b>	<b>1.99</b>	<b>1.78</b>	<b>1.99</b>	<b>1.93</b>	<b>2.04</b>	<b>2.07</b>
<b>Core Operating Profits</b>	<b>1.70</b>	<b>1.53</b>	<b>1.66</b>	<b>1.64</b>	<b>1.98</b>	<b>1.92</b>	<b>2.03</b>	<b>2.05</b>
Provisions	0.58	0.69	0.87	0.58	0.47	0.14	0.25	0.27
<b>PBT</b>	<b>1.28</b>	<b>1.20</b>	<b>1.12</b>	<b>1.20</b>	<b>1.52</b>	<b>1.79</b>	<b>1.79</b>	<b>1.79</b>
Tax	0.45	0.29	0.29	0.31	0.27	0.46	0.46	0.46
<b>RoA</b>	<b>0.84</b>	<b>0.91</b>	<b>0.83</b>	<b>0.89</b>	<b>1.25</b>	<b>1.34</b>	<b>1.34</b>	<b>1.34</b>
Leverage (x)	11.7	12.2	12.5	12.1	11.9	11.3	10.9	11.2
<b>RoE</b>	<b>9.8</b>	<b>11.1</b>	<b>10.4</b>	<b>10.8</b>	<b>14.9</b>	<b>15.1</b>	<b>14.5</b>	<b>15.0</b>

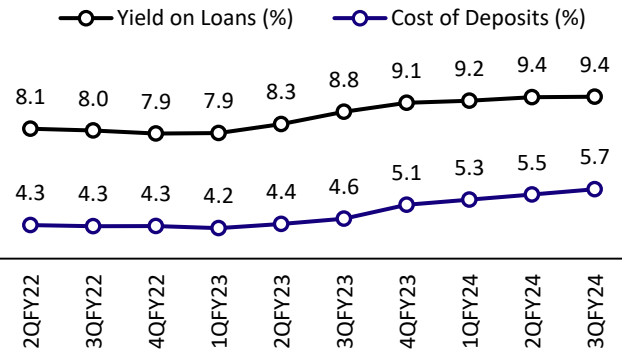
## Story in charts

**Exhibit 10: NIMs contracted 3bp QoQ to 3.19% in 3QFY24**



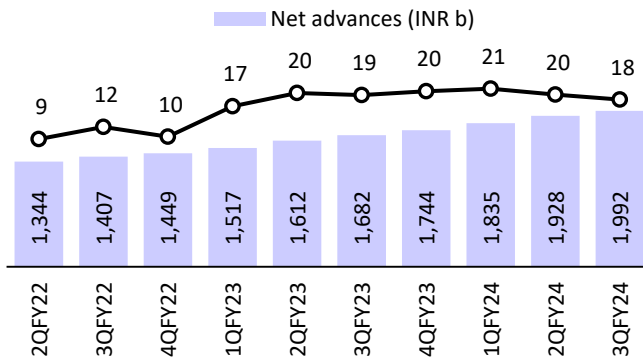
\*NIM till 1QFY23 was reported on gross earning assets Sources: MOFSL, Company

**Exhibit 11: YoA up 2bp QoQ; CoD up 21bp QoQ**



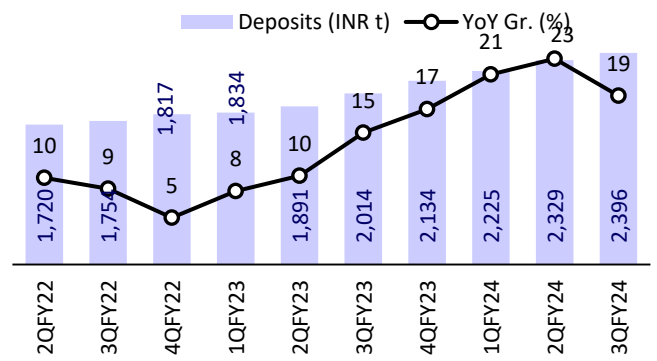
Sources: MOFSL, Company

**Exhibit 12: Loan book grew 18% YoY to INR1.99t**



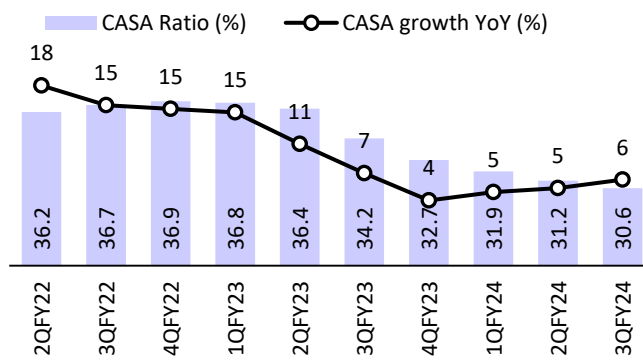
Sources: MOFSL, Company

**Exhibit 13: Deposits grew ~19% YoY and ~2.9% QoQ**



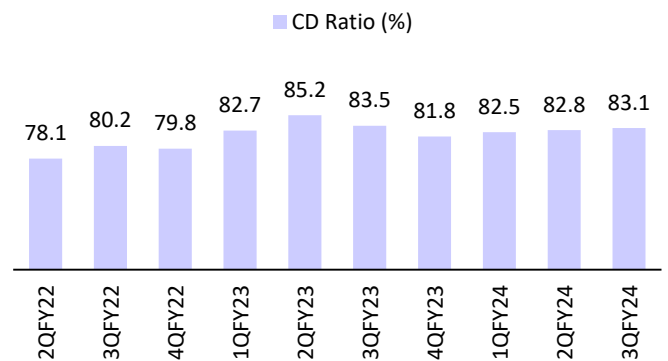
Sources: MOFSL, Company

**Exhibit 14: CASA ratio moderated ~54bp QoQ to 30.6%**



Sources: MOFSL, Company

**Exhibit 15: CD Ratio stood at 83.1% in 3QFY24**



Sources: MOFSL, Company



## Financials and valuations

Income Statement						(INRm)		
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,14,190	1,32,108	1,37,579	1,36,608	1,68,036	2,14,108	2,55,831	2,98,648
Interest Expense	72,427	85,618	82,242	76,988	95,715	1,31,000	1,54,431	1,79,650
<b>Net Interest Income</b>	<b>41,763</b>	<b>46,489</b>	<b>55,337</b>	<b>59,620</b>	<b>72,322</b>	<b>83,109</b>	<b>1,01,401</b>	<b>1,18,998</b>
Growth (%)	16.6	11.3	19.0	7.7	21.3	14.9	22.0	17.4
Non-Interest Income	13,510	19,314	19,587	20,891	23,300	30,927	36,494	43,428
<b>Total Income</b>	<b>55,274</b>	<b>65,803</b>	<b>74,924</b>	<b>80,510</b>	<b>95,622</b>	<b>1,14,035</b>	<b>1,37,895</b>	<b>1,62,425</b>
Growth (%)	16.6	19.0	13.9	7.5	18.8	19.3	20.9	17.8
Operating Expenses	27,643	33,756	36,917	42,932	47,678	59,324	69,683	81,114
<b>Pre Provision Profits</b>	<b>27,631</b>	<b>32,047</b>	<b>38,007</b>	<b>37,579</b>	<b>47,944</b>	<b>54,712</b>	<b>68,211</b>	<b>81,312</b>
Growth (%)	20.6	16.0	18.6	-1.1	27.6	14.1	24.7	19.2
<b>Core PPP</b>	<b>25,347</b>	<b>25,969</b>	<b>31,781</b>	<b>34,550</b>	<b>47,647</b>	<b>54,355</b>	<b>67,783</b>	<b>80,798</b>
Growth (%)	23.5	2.5	22.4	8.7	37.9	14.1	24.7	19.2
Provisions (excl tax)	8,559	11,722	16,634	12,218	11,375	3,854	8,261	10,786
<b>PBT</b>	<b>19,073</b>	<b>20,325</b>	<b>21,373</b>	<b>25,361</b>	<b>36,569</b>	<b>50,858</b>	<b>59,951</b>	<b>70,525</b>
Tax	6,634	4,898	5,470	6,463	6,463	12,918	15,287	17,984
Tax Rate (%)	34.8	24.1	25.6	25.5	17.7	25.4	25.5	25.5
<b>PAT</b>	<b>12,439</b>	<b>15,428</b>	<b>15,903</b>	<b>18,898</b>	<b>30,106</b>	<b>37,940</b>	<b>44,663</b>	<b>52,541</b>
Growth (%)	41.5	24.0	3.1	18.8	59.3	26.0	17.7	17.6

### Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	3,970	3,985	3,992	4,205	4,232	4,839	4,839	4,839
Reserves & Surplus	1,28,760	1,41,191	1,57,252	1,83,733	2,10,830	2,83,616	3,22,231	3,68,724
<b>Net Worth</b>	<b>1,32,730</b>	<b>1,45,176</b>	<b>1,61,245</b>	<b>1,87,938</b>	<b>2,15,062</b>	<b>2,88,454</b>	<b>3,27,069</b>	<b>3,73,562</b>
<b>Deposits</b>	<b>13,49,543</b>	<b>15,22,901</b>	<b>17,26,445</b>	<b>18,17,006</b>	<b>21,33,860</b>	<b>25,11,554</b>	<b>29,73,680</b>	<b>35,20,837</b>
Growth (%)	20.5	12.8	13.4	5.2	17.4	17.7	18.4	18.4
<b>- CASA Dep</b>	<b>4,37,314</b>	<b>4,67,743</b>	<b>5,87,126</b>	<b>6,74,710</b>	<b>7,01,204</b>	<b>7,76,070</b>	<b>9,33,735</b>	<b>11,23,147</b>
Growth (%)	16.0	7.0	25.5	14.9	3.9	10.7	20.3	20.3
Borrowings	77,813	1,03,724	90,685	1,53,931	1,93,193	2,08,648	2,39,946	2,78,337
Other Liabilities & Prov.	33,313	34,579	35,299	50,588	61,303	64,368	72,736	82,191
<b>Total Liabilities</b>	<b>15,93,400</b>	<b>18,06,380</b>	<b>20,13,674</b>	<b>22,09,463</b>	<b>26,03,418</b>	<b>30,73,024</b>	<b>36,13,430</b>	<b>42,54,927</b>
Current Assets	1,00,668	1,25,746	1,95,914	2,10,103	1,76,887	1,71,373	1,92,818	2,20,352
<b>Investments</b>	<b>3,18,245</b>	<b>3,58,927</b>	<b>3,71,862</b>	<b>3,91,795</b>	<b>4,89,833</b>	<b>5,87,800</b>	<b>6,93,604</b>	<b>8,18,453</b>
Growth (%)	3.4	12.8	3.6	5.4	25.0	20.0	18.0	18.0
<b>Loans</b>	<b>11,02,230</b>	<b>12,22,679</b>	<b>13,18,786</b>	<b>14,49,283</b>	<b>17,44,469</b>	<b>20,75,918</b>	<b>24,49,583</b>	<b>28,90,508</b>
Growth (%)	19.9	10.9	7.9	9.9	20.4	19.0	18.0	18.0
Fixed Assets	4,720	4,800	4,911	6,339	9,340	10,087	10,894	11,765
Other Assets	67,537	94,229	1,22,201	1,51,942	1,82,889	2,27,846	2,66,531	3,13,848
<b>Total Assets</b>	<b>15,93,400</b>	<b>18,06,380</b>	<b>20,13,674</b>	<b>22,09,463</b>	<b>26,03,418</b>	<b>30,73,024</b>	<b>36,13,430</b>	<b>42,54,927</b>

### Asset Quality

GNPA (INR m)	32,607	35,308	46,024	41,367	41,838	44,441	49,333	57,984
NNPA (INR m)	16,262	16,072	15,693	13,926	13,233	12,684	14,237	17,220
Slippages (INR m)	16,680	19,188	19,219	18,808	17,191	21,012	24,890	29,371
GNPA Ratio	2.9	2.8	3.4	2.8	2.4	2.1	2.0	2.0
NNPA Ratio	1.5	1.3	1.2	1.0	0.8	0.6	0.6	0.6
Slippage Ratio	1.6	1.7	1.5	1.4	1.1	1.1	1.1	1.1
Credit Cost	0.8	1.0	1.3	0.9	0.7	0.2	0.3	0.4
PCR (Excl Tech. write off)	50.1	54.5	65.9	66.3	68.4	71.5	71.1	70.3

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield-Earning Assets</b>	<b>8.4</b>	<b>8.5</b>	<b>8.0</b>	<b>7.4</b>	<b>8.0</b>	<b>8.5</b>	<b>8.5</b>	<b>8.5</b>
Avg. Yield on loans	9.0	9.2	8.5	7.8	8.4	9.0	9.1	9.0
Avg. Yield on Investments	6.6	6.6	6.6	6.3	6.5	7.1	7.1	7.0
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.4</b>	<b>5.6</b>	<b>4.8</b>	<b>4.1</b>	<b>4.5</b>	<b>5.2</b>	<b>5.2</b>	<b>5.1</b>
Avg. Cost of Deposits	5.5	5.6	4.8	4.1	4.4	5.2	5.2	5.1
Avg. Cost of Borrowings	5.2	5.1	4.3	3.0	5.5	5.4	5.2	5.2
<b>Interest Spread</b>	<b>2.9</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.6</b>	<b>3.3</b>	<b>3.3</b>	<b>3.3</b>
<b>Net Interest Margin</b>	<b>3.1</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>	<b>3.5</b>	<b>3.3</b>	<b>3.4</b>	<b>3.4</b>

### Capitalization Ratios (%)

CAR	14.4	14.4	14.6	15.8	14.8	15.8	14.9	14.2
Tier I	13.7	13.3	13.9	14.4	13.0	14.3	13.7	13.2
Tier II	0.8	1.1	0.8	1.3	1.8	1.4	1.2	0.9
CET-1	13.4	13.3	13.9	14.4	13.0			

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	81.7	80.3	76.4	79.8	81.8	82.7	82.4	82.1
CASA Ratio	32.4	30.7	34.0	37.1	32.9	30.9	31.4	31.9
Cost/Assets	1.7	1.9	1.8	1.9	1.8	1.9	1.9	1.9
Cost/Total Income	50.0	51.3	49.3	53.3	49.9	52.0	50.5	49.9
Cost/Core Income	52.2	56.5	53.7	55.4	50.0	52.2	50.7	50.1
Int. Expense/Int. Income	63.4	64.8	59.8	56.4	57.0	61.2	60.4	60.2
Fee Income/Net Income	20.3	20.1	17.8	22.2	24.1	26.8	26.2	26.4
Non Int. Inc./Net Income	24.4	29.4	26.1	25.9	24.4	27.1	26.5	26.7
Empl. Cost/Op. Exps.	49.8	52.5	55.1	54.1	45.6	46.2	45.6	45.0
Busi. per Empl. (INR m)	187.6	229.0	241.8	255.4	288.2	324.7	365.5	411.6
NP per Empl. (INR lac)	10.5	12.9	1.3	1.5	2.2	2.7	3.0	3.4
Investment/Deposit Ratio	23.6	23.6	21.5	21.6	23.0	23.4	23.3	23.2
G-Sec/Investment Ratio	85.9	88.7	88.4	89.1	86.6	86.6	86.6	86.6

### Valuation

RoE	9.8	11.1	10.4	10.8	14.9	15.1	14.5	15.0
RoA	0.8	0.9	0.8	0.9	1.3	1.3	1.3	1.3
RoRWA	1.3	1.4	1.4	1.5	1.9	2.0	1.9	1.9
Book Value (INR)	67	73	81	89	102	119	135	154
Growth (%)	8.0	9.0	10.9	10.7	13.7	17.3	13.4	14.2
Price-BV (x)	<b>2.2</b>	<b>2.1</b>	<b>1.9</b>	<b>1.7</b>	<b>1.5</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>
Adjusted BV (INR)	59	65	73	82	94	112	127	145
Price-ABV (x)	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>
EPS (INR)	6.3	7.8	8.0	9.2	14.3	16.7	18.5	21.7
Growth (%)	32.2	23.4	2.8	15.6	54.8	17.2	10.3	17.6
Price-Earnings (x)	<b>23.9</b>	<b>19.3</b>	<b>18.8</b>	<b>16.3</b>	<b>10.5</b>	<b>9.0</b>	<b>8.1</b>	<b>6.9</b>
Dividend Per Share (INR)	1.2	1.7	0.7	1.8	7.1	1.9	2.5	2.5
Dividend Yield (%)	<b>0.8</b>	<b>1.1</b>	<b>0.5</b>	<b>1.2</b>	<b>4.7</b>	<b>1.2</b>	<b>1.7</b>	<b>1.7</b>

E: MOFSL Estimates

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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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