15 January 2024

Company Update | Sector: Financials - NBFC

PNB Housing Finance

BSE SENSEX	S&P CNX
73,328	22,097

pnb Housing Finance Limited — Ghar Ki Baat

Bloomberg	PNBHOUSI IN
Equity Shares (m)	260
M.Cap.(INRb)/(USDb)	207 / 2.5
52-Week Range (INR)	833 / 383
1, 6, 12 Rel. Per (%)	-4/16/43
12M Avg Val (INR M)	458
Free float (%)	71.9

Financials Snapshot (INR b)

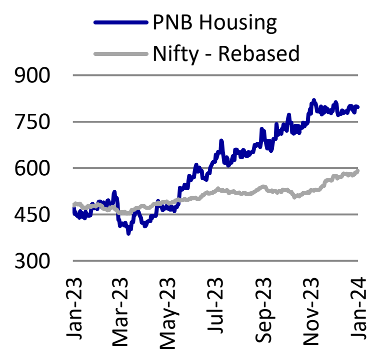
Y/E March	FY24E	FY25E	FY26E
Total Income	26.3	31.0	37.3
PPP	22.6	27.5	34.0
PAT	15.4	19.2	23.9
EPS (INR)	59.2	74.1	92.1
EPS Gr. (%)	-4	25	24
BV (INR)	580	644	723
Ratios			
NIM (%)	4.3	4.4	4.4
C/I ratio (%)	22.6	21.8	21.0
RoAA (%)	2.2	2.4	2.5
RoE (%)	11.8	12.1	13.5
Valuations			
P/E (x)	13.5	10.8	8.7
P/BV (x)	1.4	1.2	1.1
Div. Yield (%)	1.3	1.6	2.0

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	28.1	28.2	32.6
DII	7.7	7.6	3.3
FII	24.8	24.8	23.2
Others	39.5	39.5	40.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR799 | **TP: INR1,025 (+28%)** | **Buy**

Tide has turned, smooth ride ahead

Set to deliver PAT CAGR of 25% over FY24E-FY26E and RoA/RoE of 2.5%/~14% in FY26

- Over the past two years, PNBHF has successfully transformed its business model into retail (both prime and affordable verticals) and has reduced its corporate loan book to ~4% of the AUM mix. In Apr'23, PNBHF completed its rights issue of ~INR25b, which has brought in confidence capital and has strengthened its case for a credit rating upgrade from credit rating agencies (CRAs). India Ratings recently upgraded PNBHF to AA+.
- PNBHF has set up an affordable housing (AH) vertical with exclusive sales, underwriting and collections. It has already crossed 100 AH branches in Nov'23 and plans to scale up to ~160 AH branches by Mar'24. In Dec'23, the AH vertical's loan book surpassed ~INR10b, and we expect it to rise to ~INR70b and form ~8% of retail loans by Mar'26.
- With prime, affordable housing and the corporate segment resuming their growth trajectories, we estimate PNBHF to deliver a CAGR of ~18% in loans over FY24-FY26.
- The NIM expansion is expected to be driven by improvements in yields (through better product mix) and a potential decline in borrowing costs. In FY24, it has received a sanction from the NHB, which lends to HFCs at a rate that is at least 200-220bp lower than that of other borrowing instruments.
- As of Sep'23, retail/corporate GNPA fell to 1.7%/2.9% (vs. 3.4%/30% last year), with total GS3 at 1.8%. With asset quality stress in retail (due to Covid) and corporate (post the IL&FS default) now behind, we expect asset quality to continue to improve and credit costs to remain benign at ~40bp in FY25-FY26.
- PNBHF is our top pick, considering a) visibility of an ~18% CAGR in loans from FY25 onward, b) potential NIM expansion, c) expansion in RoA aided by moderation in credit costs, and d) improvement in RoE as the leverage improves on the balance sheet. We expect PNBHF to deliver a PAT CAGR of ~25% over FY24-26 and RoA/RoE of 2.5%/14% in FY26. We have a BUY rating and a TP of INR1,025 (based on 1.4x FY26E P/BV).

Healthy loan growth to return in Retail while Corporate will be an enabler

- The company has now turned over a new leaf under the leadership of Mr. Girish Kousgi who joined PNBHF in Oct'22. The senior/middle leadership has been also strengthened over the last one year under the new leadership.
- PNBHF was in consolidation mode over FY20-FY23, with its AUM declining or remaining flat every successive year. The retail segment also declined because of the company's inability to compete with peers.
- The retail vertical has been strengthened now with the launch of affordable housing and the expected resumption of loan growth in the corporate segment from FY25. We expect PNBHF to report an AUM CAGR of ~18% over FY24-26E.

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | **Gautam Rawtani** (Gautam.Rawtani@MotilalOswal.com)

Wide distribution network would drive retail loan growth

- For a long time and until 18 months ago, PNBHF was stagnant, with a total branch count of ~100 and predominant focus on prime housing finance. Over the last one year, PNBHF has scaled up to 200 branches (as of Sep'23) and expects to increase its branch network to ~300 (including ~160 Roshni branches) by Mar'24.
- We believe that branch additions and improvements in productivity of new branches will drive healthy growth in retail loans. We expect a CAGR of ~17% in retail loans over FY24-FY26.
- The company's wider physical distribution network and new growth engine of affordable housing will increase its opex structure. We expect the opex-to-average assets ratio to increase to 1.0% by FY26 (FY23/FY24E: 0.8%/0.9%). This will be offset by levers on expansion in NIM and non-interest income.

Improvement in yields and lower CoF to boost NIM

- The affordable housing vertical will contribute ~~8% to the retail loan mix by Mar'26. In addition to the improvement in retail product mix, PNBHF is also working on improving its yield in prime housing by identifying some niche segments, in which the competitive intensity is lower than usual.
- India Ratings recently upgraded PNBHF's credit rating to AA+ (Stable). We expect rating upgrades from other CRAs like CRISIL and CARE in 3-6 months. We expect the company's borrowing costs to decline by ~15-20bp from the credit rating upgrade. Moreover, PNBHF has again started receiving sanctions from NHB in FY24, which will further aid CoB.
- With a decline in borrowing costs and a minor expansion in yields, we expect NIM to expand by ~20bp over the next two years to ~4.4% in FY26E (as % of avg. loans) vs. ~4.3% in FY24E.

Asset quality improvement to continue; aspires to be best-in-class

- After Covid, PNBHF went through asset quality stress in its retail and corporate segments, which made the company ineligible for NHB borrowings. However, through recoveries, ARC sales and write-offs, the company has consistently improved its asset quality, with GS3 at 1.8% as of Sep'23 vs. the peak of 8.2% in Dec'21.
- In 2QFY23, PNBHF resolved a large corporate NPA (~INR7.8b) through an ARC sale and recovered the entire outstanding in cash. The resultant provision write-backs of ~INR2b were largely utilized for effecting write-offs on the stressed portion of the retail book. Corporate GS3 declined to 2.9% (vs. peak of ~37%) and retail GS3 declined to 1.7% (vs. peak of ~4.9%) as of Sep'23.
- PNBHF could take additional write-offs in retail in 2HFY24 to further improve retail asset quality and start FY25 on a clean slate. We expect improvements in GS3 to sustain and model credit costs of ~40bp each in FY25E/FY26E.

Valuation and view: Turning over a new leaf for strong execution

- PNBHF has pivoted from consolidation to growth mode, and we expect it to deliver a healthy CAGR of 18% in AUM and ~25% in PAT over FY24-26, with RoA/RoE of 2.5%/13.5% by FY26.

- The company trades at 1.1x FY26E P/BV, and we believe that risk-reward is favorable for a further re-rating in the valuation multiple as investors gain more confidence in the company's sustained execution in retail (both prime and affordable). PNBHF is our top pick in our NBFC/HFC coverage with a TP of INR1,025 (based on 1.4x FY26E P/BV).
- Key risks: a) inability to drive NIM expansion amid aggressive competitive in mortgages, b) slowdown in economy leading to lower demand for housing and moderation in loan growth, and c) subsequent seasoning in the affordable loan book leading to asset quality deterioration.

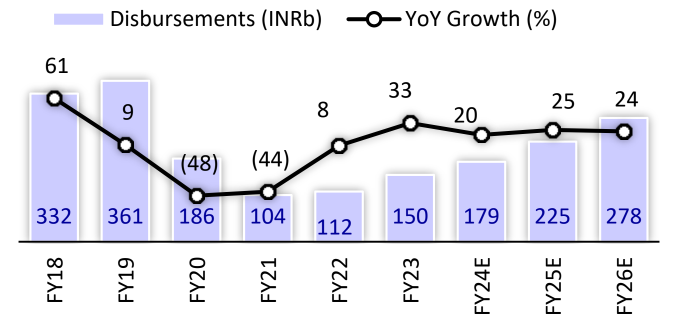
Exhibit 1: Valuation snapshot for MOFSL NBFC Coverage Universe

Val summary	Rating	CMP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Housing Finance															
PNB HF	**Buy**	**799**	**208**	**74.1**	**92.1**	**644**	**723**	**2.4**	**2.5**	**12.1**	**13.5**	**10.8**	**8.7**	**1.2**	**1.1**
LIC HF	Buy	579	316	84.1	92.2	623	695	1.5	1.5	14.3	14.0	6.9	6.3	0.9	0.8
Aavas	Neutral	1,612	124	76.4	95.9	553	649	3.4	3.5	14.8	16.0	21.1	16.8	2.9	2.5
HomeFirst	Buy	965	86	41.6	53.5	275	325	3.6	3.7	16.3	17.9	23.2	18.0	3.5	3.0
CanFin	Neutral	763	102	62.3	73.9	384	453	2.1	2.1	17.6	17.7	12.2	10.3	2.0	1.7
Repco	Neutral	421	27	64.8	71.4	522	590	2.8	2.8	13.2	12.8	6.5	5.9	0.8	0.7
Diversified															
IIFL Finance	Buy	658	251	65.6	81.9	341	418	4.0	4.1	21.1	21.6	10.0	8.0	1.9	1.6
BAF	Buy	7,477	4,627	306.3	389.4	1,510	1,846	4.6	4.7	22.4	23.2	24.4	19.2	5.0	4.0
Poonawalla	Buy	501	381	18.8	26.2	124	145	5.1	5.1	16.2	19.5	26.7	19.1	4.0	3.5
ABCL	Buy	179	465	13.9	17.5	110	125	0.0	0.0	13.5	14.9	12.9	10.3	1.6	1.4
LTFH	Buy	170	413	11.7	15.5	101	111	2.5	2.7	11.9	14.6	14.5	11.0	1.7	1.5
PIEL	Buy	933	222	78.0	106.3	1,376	1,450	1.9	2.1	5.8	7.5	12.0	8.8	0.7	0.6
MAS Financial	Buy	947	48	58.2	71.3	362	429	2.9	3.0	17.3	18.0	16.3	13.3	2.6	2.2
Vehicle Finance															
Cholamandalam	Buy	1,278	1,023	55.4	68.8	286	370	2.7	2.8	21.4	21.2	23.0	18.6	4.5	3.5
MMFS	Buy	283	346	22.2	27.8	156	174	2.2	2.4	14.9	16.8	12.7	10.2	1.8	1.6
Shriram Finance	Buy	2,319	861	222.8	268.5	1,493	1,714	3.2	3.3	15.9	16.7	10.4	8.6	1.6	1.4
Indostar	Buy	204	25	17.6	29.1	255	284	1.8	2.4	7.1	10.8	11.6	7.0	0.8	0.7
Gold Finance															
Muthoot	Neutral	1,454	592	115.0	130.9	695	801	5.2	5.4	17.7	17.5	12.6	11.1	2.1	1.8
Manappuram	Buy	171	146	30.1	35.9	163	194	4.9	4.9	20.1	20.1	5.7	4.8	1.1	0.9
Microfinance															
CreditAccess	Buy	1,673	271	113.3	135.6	527	663	5.6	5.5	24.1	22.8	14.8	12.3	3.2	2.5
Fusion Micro	Buy	655	64	72.1	88.7	358	446	5.6	5.7	22.4	22.1	9.1	7.4	1.8	1.5
Spandana Sphoorty	Buy	1,201	86	92.6	110.9	603	714	4.7	4.4	16.6	16.9	13.0	10.8	2.0	1.7

Source: MOFSL, Company

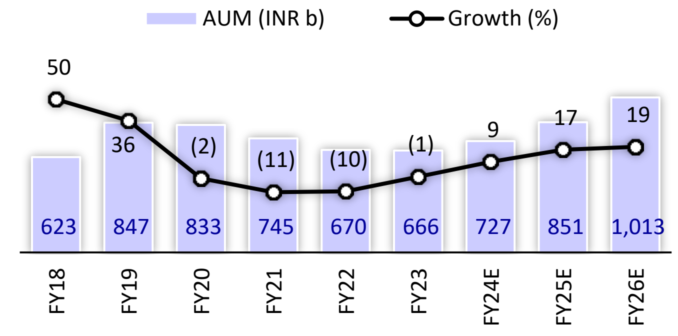
Story in charts

Exhibit 1: Disbursement CAGR of ~25% over FY24-26E…



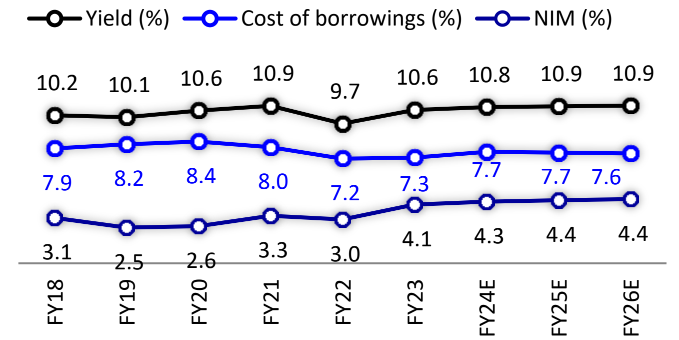
Source: MOFSL, Company

Exhibit 2: …leading to AUM CAGR of ~18% over this period



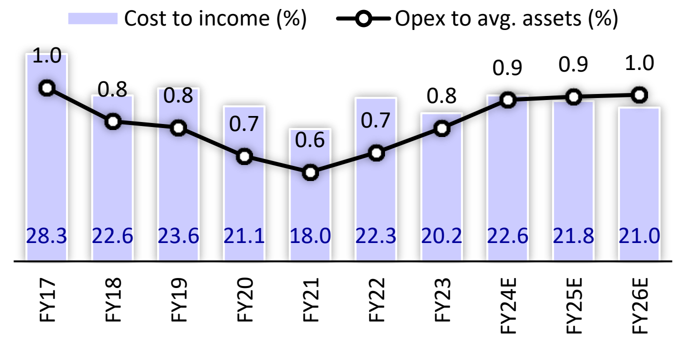
Source: MOFSL, Company

Exhibit 3: Expansion in NIM over FY25-26E



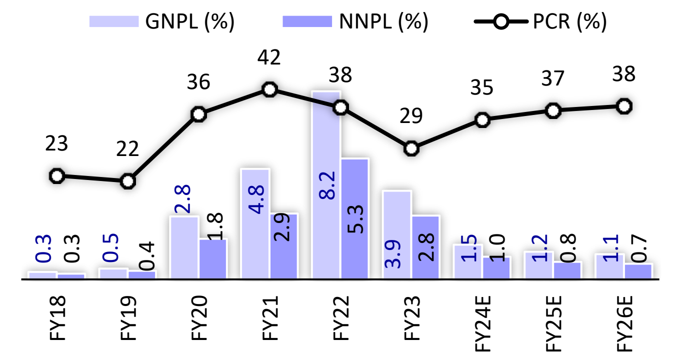
Source: MOFSL, Company

Exhibit 4: Opex to Assets to increase because of opex-intensive affordable housing in the mix



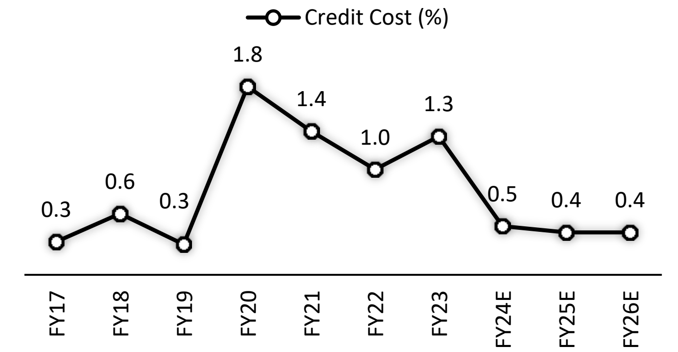
Source: MOFSL, Company

Exhibit 5: Asset quality would continue to improve



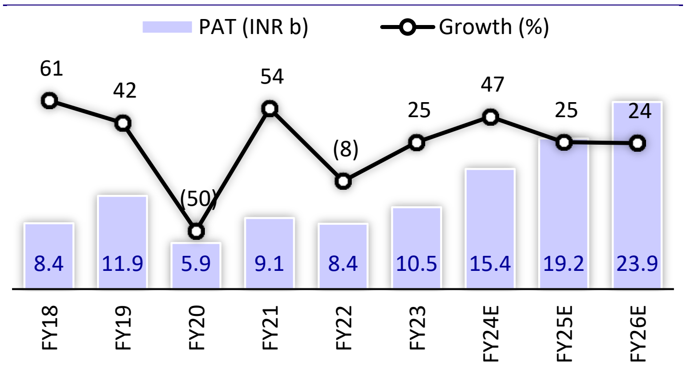
Source: MOFSL, Company

Exhibit 6: Estimate credit costs of ~40bp in FY25-FY26



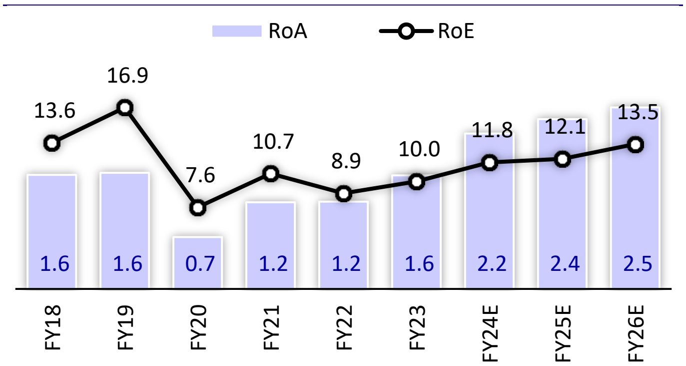
Source: MOFSL, Company

Exhibit 7: PAT CAGR of ~25% over FY24E–26E



Source: MOFSL, Company

Exhibit 8: Primed to deliver RoA/RoE of ~2.5%/~14% in FY26E

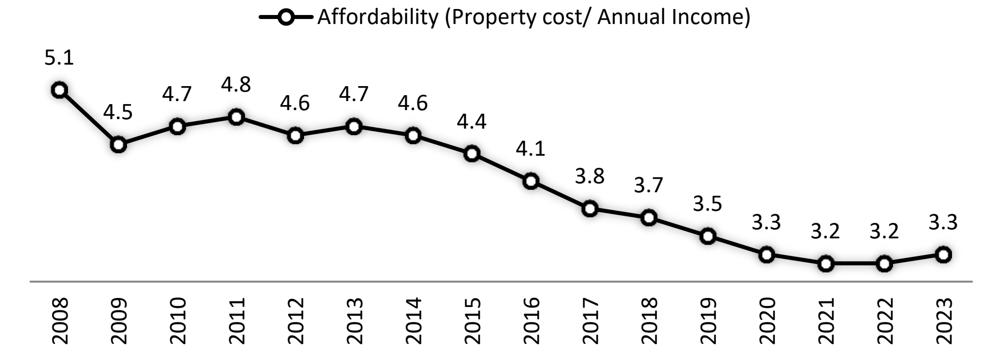


Source: MOFSL, Company

Macro favorable for sustainable growth in mortgages

Over the last 15 years, housing affordability has improved significantly in India, with the affordability index improving to 3.3x in 2023 from 3.7x in 2018. As per the ICRA India Mortgage Finance Market Report, as India's population grows, incomes rise, and household sizes shrink, the Indian housing market could see a demand for 26-27m houses between 2022-2031. Further, the ongoing supply shortage of homes has boosted demand for upgrades and resales. The affordable housing segment is another growth engine that banks and large HFCs can leverage to drive sustainable growth in their loan books.

Exhibit 9: Affordability continues to improve due to rising annual income

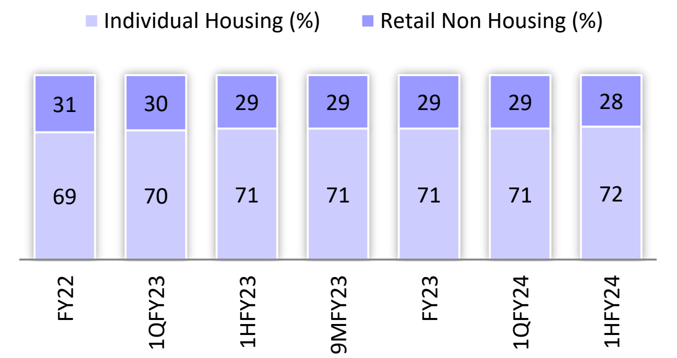


Source: MOFSL, HDFC Ltd Investor Presentation

Multiple pivots to aid retail loan growth

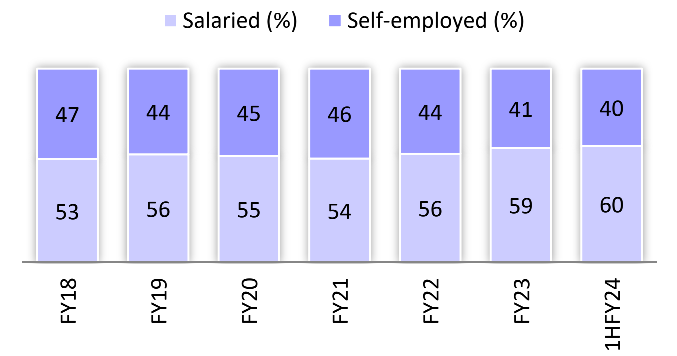
PNBHF caters to salaried (~60% of customer mix) and self-employed customers. It offers individual home loans (72% of retail loans) and other non-housing loans (~28% of retail loans) like loans against property (LAP) and non-residential property loans (NRPL).

Exhibit 10: Gradual improvement in Housing Loans in the Retail Mix



Source: MOFSL, Company

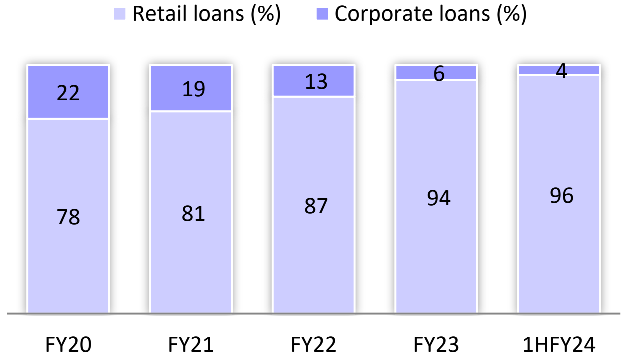
Exhibit 11: Improving proportion of Salaried customers in the mix



Source: MOFSL, Company

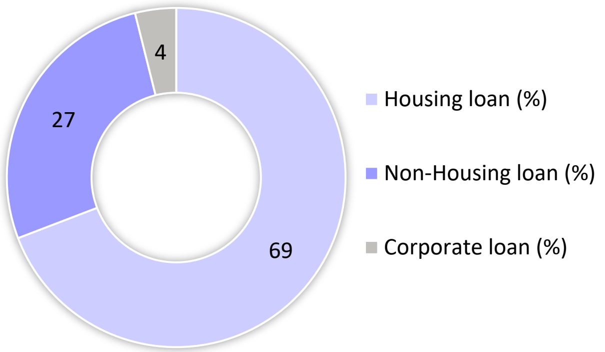
PNBHF has restructured its business model and prioritized the retail segment by reducing corporate loans in the overall loan mix from ~21% in FY20 to ~4% in 1HFY24 through down-selling, recoveries, and ARC sales.

Exhibit 12: PNBHF has rundown the corporate book



Source: MOFSL, Company

Exhibit 13: Corporate accounts for ~4% of PNBHF's AUM mix

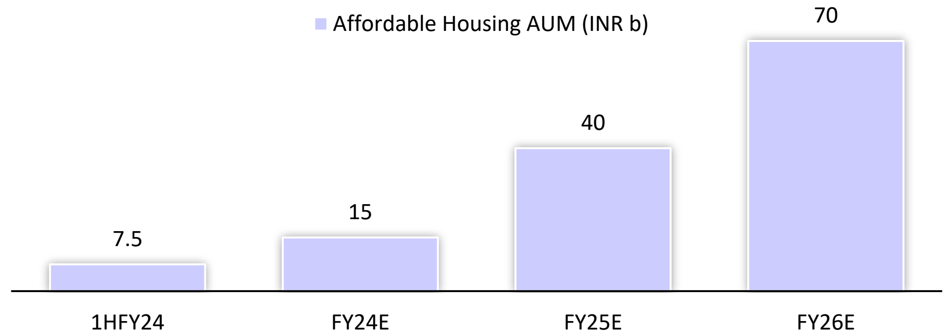


Source: MOFSL, Company; Note: Data as on Sep'23

PNBHF has also built a dedicated affordable housing finance vertical with a separate business head for this segment. This vertical will have its own ***Roshni*** branches with separate teams for sourcing, underwriting, and collections. In 2QFY24, the affordable segment contributed ~9% of the total retail disbursements and the affordable housing AUM stood at ~INR7.5b as of Sep'23. The affordable Housing segment's AUM has crossed ~INR10b and we expect PNBHF to scale up this segment to ~INR15b by Mar'24 and ~INR70b (~8% of retail loans) by Mar'26.

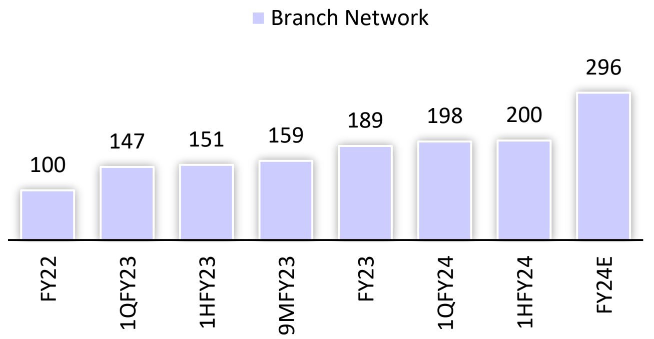
Over the last one year, PNBHF has scaled up to 200 branches (as of Sep'23) and expects to increase its branch network to ~300 (including ~160 affordable housing branches) by Mar'24. Branch additions and gradual improvements in productivity in new branches will drive retail loan growth.

Exhibit 14: Affordable Housing to contribute ~8% of retail loans by FY26E



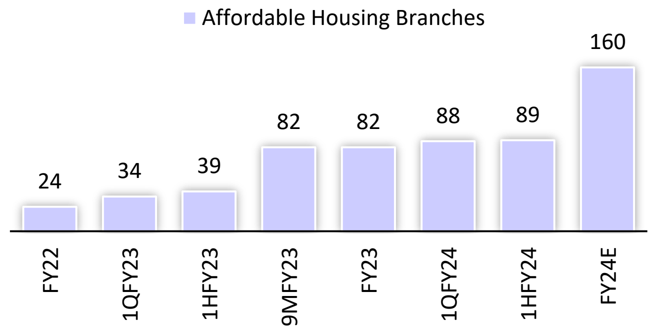
Source: MOFSL Estimates

Exhibit 15: PNBHF aims to scale up its total branch network to ~300 by Mar'24



Source: MOFSL, Company

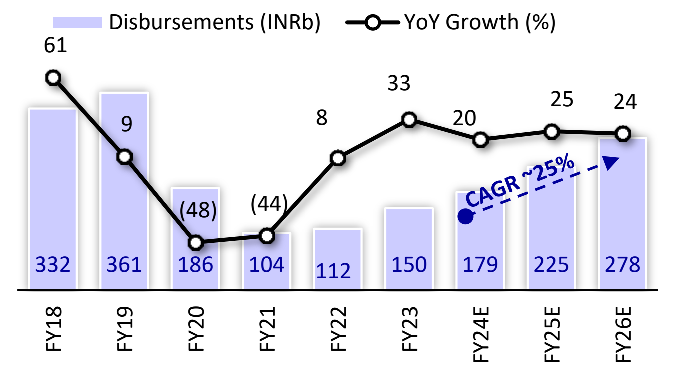
Exhibit 16: Accelerated expansion of PNBHF Roshni branches



Source: MOFSL, Company

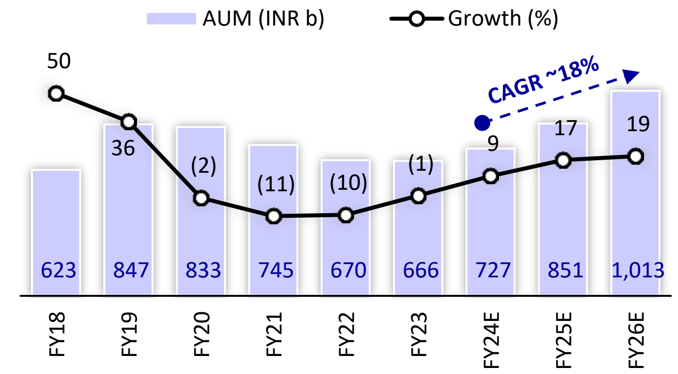
Due to an accelerated run-down in the corporate book and the company's inability to effectively compete in retail lending, the overall loan book of PNBHF remained in consolidation mode over the prior four years. However, with the resumption of growth in prime and affordable housing and the Corporate segment, we expect PNBHF to deliver an AUM CAGR of ~18% over FY24-26.

Exhibit 17: Disbursement CAGR of ~25% over FY24E-26E



Source: MOFSL, Company

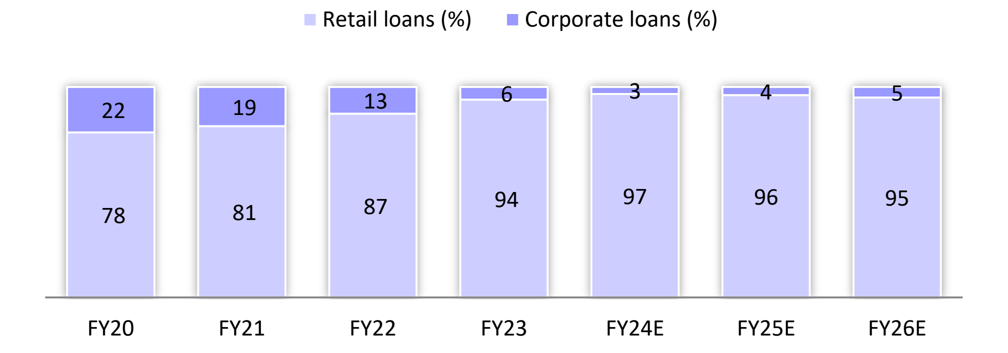
Exhibit 18: Healthy AUM CAGR of ~18% over FY24E-FY26E



Source: MOFSL, Company

Disbursements in the corporate business will restart in the next few quarters with a focus on select locations/projects. The company will focus on Construction Finance with ticket sizes of ~INR1.5b-2.0b and the contribution of Corporate loans in the AUM mix will be <10%.

Exhibit 19: PNBHF has guided for Corporate Mix of <10% at any point of time

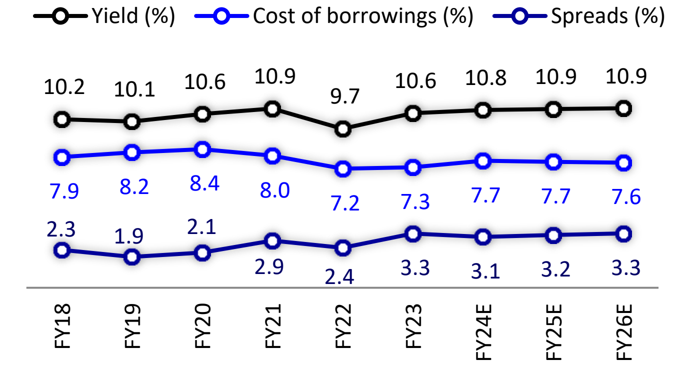


Source: MOFSL, Company

Levers on margin expansion to offset the rise in operating cost ratios

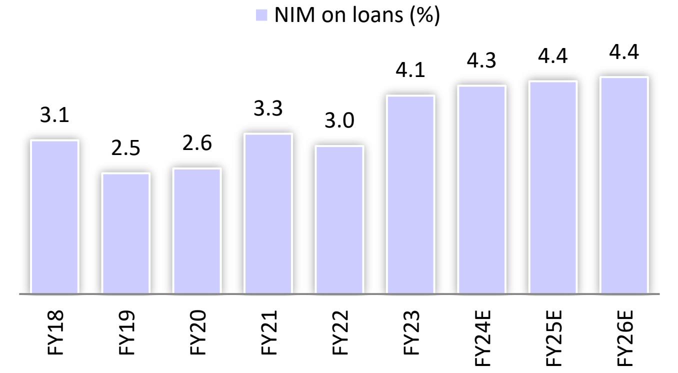
- PNBHF's affordable housing vertical will contribute ~8% to the retail loan mix by Mar'26E. In addition to the improvement in the retail product mix, PNBHF is also working toward improving its yield in prime housing by identifying some niche factors where the competitive intensity is lower than usual.

Exhibit 20: Spreads expected to expand further



Source: MOFSL, Company

Exhibit 21: NIM expansion over FY25E-FY26E to be aided by improvement in yields and decline in CoB



Source: MOFSL, Company

- India Ratings recently upgraded PNBHF's credit rating to AA+ (Stable). We expect other credit rating agencies like CRISIL and CARE to also upgrade PNBHF's credit rating in 3-6 months. A credit rating upgrade will significantly improve the company's access to debt capital markets and lead to favorable negotiations on bank term loan spreads. We expect the credit rating upgrade should reduce the company's borrowing costs by ~15-20bp.
- Moreover, PNBHF has again started receiving sanctions from NHB in FY24, which will further aid CoB.

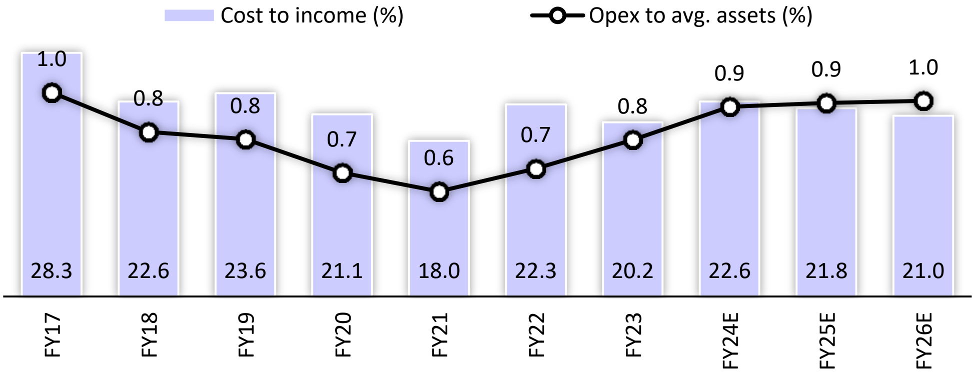
Exhibit 22: INDIA Ratings upgraded PNBHF's credit rating to 'AA+', CRISIL & ICRA have revised the credit rating outlook from 'Stable' to 'Positive'

Rating Agency	Instruments	FY20	FY21	FY22	FY23	Current
CRISIL	Bank Facilities	AA/Stable	AA/Negative	AA/Negative	AA/Stable	AA/Positive
	NCD	AA/Stable	AA/Negative	AA/Negative	AA/Stable	AA/Positive
CARE	Bank Facilities	AA+/Negative	AA/Negative	AA/Negative	AA/Stable	AA/Positive
	NCD	AA+/Negative	AA/Negative	AA/Negative	AA/Stable	AA/Positive
INDIA Ratings	Bank Facilities	N/A	N/A	N/A	N/A	AA+/Stable
	NCD	AA/Stable	AA/Negative	AA/Negative	AA/Stable	AA+/Stable

Source: Company; MOFSL

- With a decline in borrowing costs and a minor expansion in yields, we expect NIM expansion of ~20bp over the next two years to result in NIM (as % of avg. loans) of ~4.4% in FY26E (FY24E: ~4.3%).
- The RBI's move to increase risk weights (RWA) on unsecured consumer credit and term loans from banks to NBFCs will not impact the company's capital adequacy or its weighted average cost of borrowings (CoB). This is because housing loans and bank loans to HFCs have been exempted under this circular.

Exhibit 23: Opex to Assets to increase because of pivot toward affordable housing



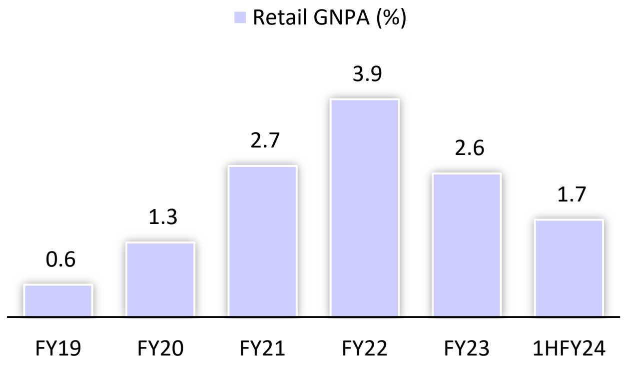
Source: MOFSL, Company

- A wider physical distribution network and the launch of affordable housing will result in a higher opex structure, and we expect the opex-to-average assets to increase to 1.0% by FY26E (FY23/FY24E: 0.8%/0.9%). This will be offset by expansion in NIM and non-interest income.

Asset quality stress now behind; expect improvement momentum to sustain

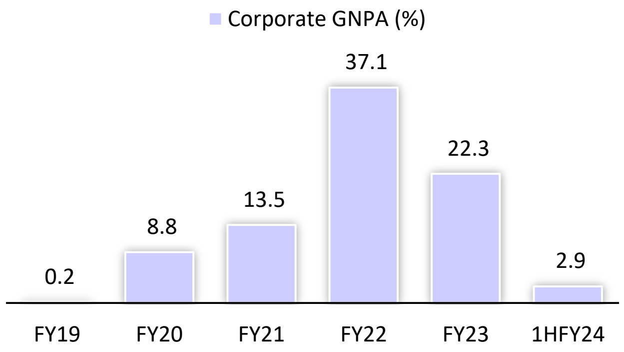
- After Covid, PNBHF went through asset quality stress in its retail and corporate segments, which had made it ineligible for NHB borrowings. However, through recoveries, ARC sales and write-offs, it has improved its asset quality, with GS3 at 1.8% as of Sep'23 vs. the peak of 8.2% in Dec'21.
- PNBHF has made notable enhancements to its collection framework, including the introduction of digital channels to streamline the collection process. PNBHF now has a tiered collection framework, with dedicated teams for X-bucket, pre-NPA, NPA, Recovery and SARFAESI.
- In 2QFY23, PNBHF resolved a large corporate NPA (~INR7.8b) through an ARC sale and recovered the entire outstanding in cash. The resultant provision write-backs of ~INR2b were largely utilized for effecting write-offs on the stressed portion of the retail book. Corporate GS3 declined to 2.9% (vs. peak of ~37%) and Retail GS3 declined to 1.7% (vs. peak of ~4.9%) as of Sep'23.

Exhibit 24: PNBHF used recoveries from Corporate segment to affect write-offs in Retail and improve Retail GNPA (%)



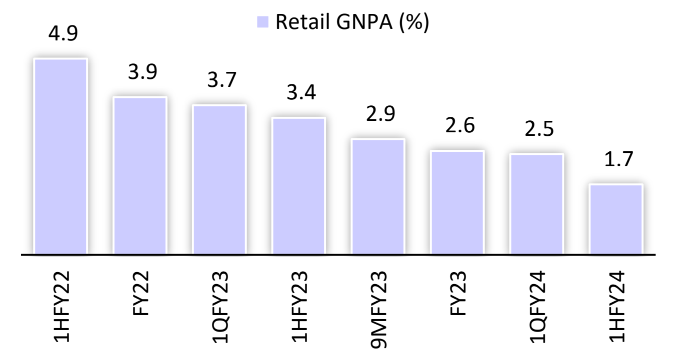
Source: MOFSL, Company

Exhibit 25: Corporate GNPA improved aided by recovery from a large corporate NPA in 2QFY23 (%)



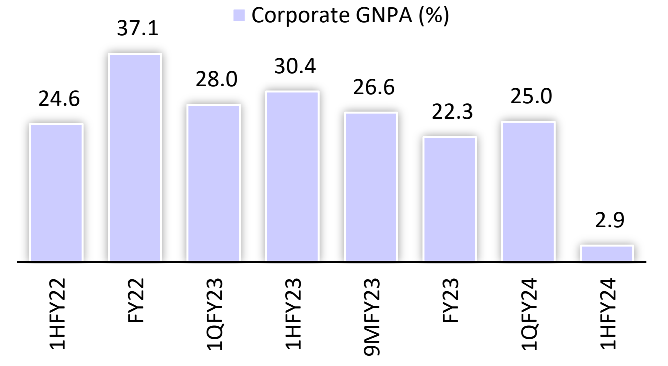
Source: MOFSL, Company

Exhibit 26: Quarterly trend in Retail GNPA (%)



Source: MOFSL, Company

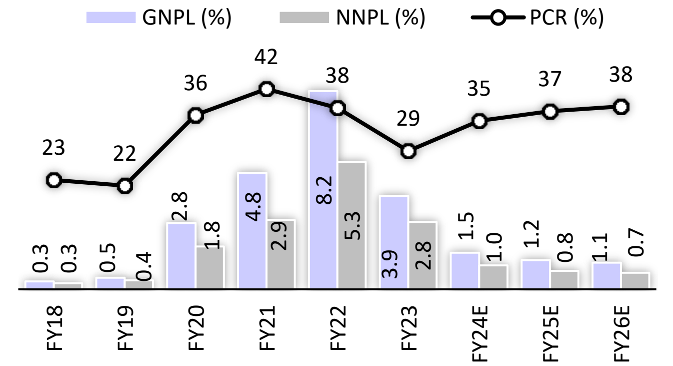
Exhibit 27: Quarterly trend in Corporate GNPA (%)



Source: MOFSL, Company

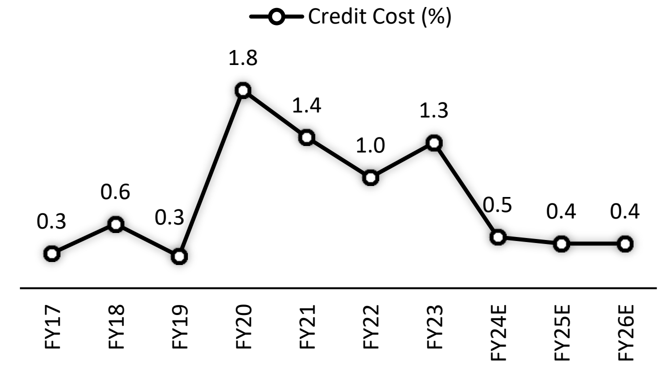
- In the past, PNBHF had taken technical write-offs in its Corporate book. Though difficult to quantify, we expect some recoveries from the written-off pool of loans over FY25-26. Improvements in GS3 should sustain and we model credit costs of ~40bp each in FY25E/FY26E.

Exhibit 28: Asset quality would continue to improve



Source: MOFSL, Company

Exhibit 29: Estimate credit costs of ~40bps in FY25E/FY26E

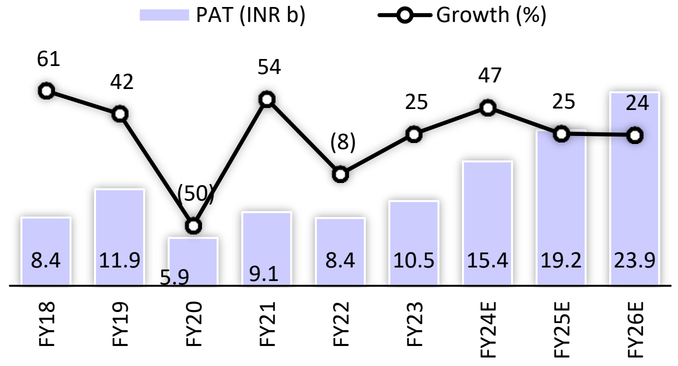


Source: MOFSL, Company

Valuation and view: Turning over a new leaf for sustained execution

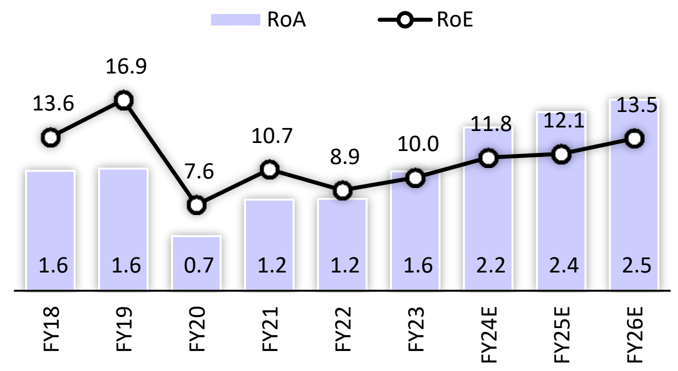
- PNBHF has pivoted from consolidation to growth mode and we expect it to deliver a healthy CAGR of 18% in AUM and ~25% in PAT over FY24E-FY26E with RoA/RoE of ~2.5%/~13.5% by FY26E.

Exhibit 30: PAT CAGR of ~25% over FY24E–26E



Source: MOSL, Company

Exhibit 31: Healthy RoA/RoE of ~2.5%/~13.5% by FY26



Source: MOSL, Company

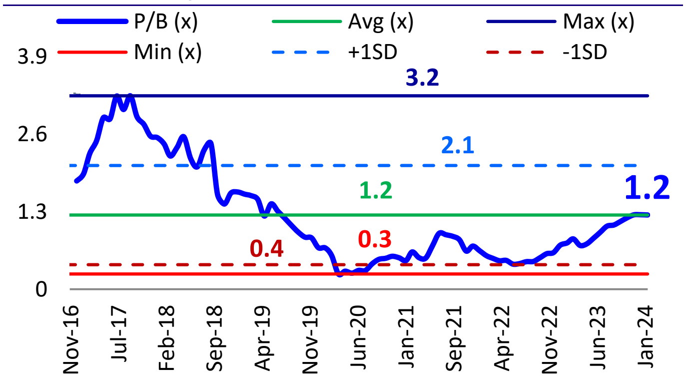
- Under the leadership of the new MD & CEO, Mr. Girish Kousgi, PNBHF has effected few important pivots, which will help the company turn over a new leaf. Notable ones are 1) creating a dedicated affordable housing vertical with its exclusive branch network and a separate hierarchy reporting to CEO, 2) improvement in retail and corporate asset quality, which has again made it eligible for NHB borrowings; and 3) equity raise through a rights issue. These efforts have made a strong case for a credit rating upgrade.
- Moreover, PNBHF has been at the forefront of leveraging technology to improve the customer journey, bring in operating efficiency and bring down the service TAT. PNBHF is upgrading its loan origination system and loan management system. It is also working to automate and digitize the end-to-end journey for customers. The company aims to implement business rule engines (which has proven its efficacy for salaried segment customers) for underwriting self-employed customers. All these factors will reduce TAT and manpower, and improve the bandwidth of employees.
- The company trades at 1.1x FY26E P/BV and we believe that risk-reward is favorable for a further re-rating as investors get more confidence in the company's consistent delivery in retail (both prime and affordable). PNBHF is our top pick in our NBFC/HFC coverage with a TP of INR1,025 (based on 1.4x FY26E P/BV).
- Key risks: a) inability to drive NIM expansion because of an aggressive competitive landscape in mortgages; b) slowdown in economy leading to lower demand for housing and moderation in loan growth; and c) subsequent seasoning in the affordable loan book leading to asset quality deterioration.

Exhibit 32: Raise our FY25/26 EPS by 5%/6% to factor in higher loan growth and non-interest income, minor expansion in NIM and lower credit costs

INR b	Old Est.			New Est.			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
NII	26.2	29.8	35.0	26.3	31.0	37.3	0.2	3.8	6.4
Other Income	2.9	3.9	4.8	2.9	4.2	5.7	0.2	8.5	19.2
Total Income	**29.1**	**33.7**	**39.8**	**29.2**	**35.2**	**43.0**	**0.2**	**4.4**	**8.0**
Operating Expenses	6.6	7.2	7.8	6.6	7.7	9.0	0.0	7.3	16.1
Operating Profits	**22.5**	**26.5**	**32.1**	**22.6**	**27.5**	**34.0**	**0.3**	**3.6**	**6.0**
Provisions	3.0	3.0	3.3	2.8	2.8	3.4	-4.2	-6.0	2.2
PBT	**19.6**	**23.5**	**28.8**	**19.8**	**24.7**	**30.6**	**1.0**	**4.8**	**6.4**
Tax	4.3	5.2	6.3	4.4	5.4	6.7	2.4	4.8	6.4
PAT	**15.3**	**18.3**	**22.5**	**15.4**	**19.2**	**23.9**	**0.6**	**4.8**	**6.4**
Loan book	655	757	885	654	766	911	-0.1	1.2	3.0
NIM (%)	4.3	4.2	4.3	4.3	4.4	4.4			
Spreads (%)	3.1	3.1	3.1	3.1	3.2	3.3			
ROAA (%)	2.2	2.3	2.4	2.2	2.4	2.5			
RoAE (%)	11.7	11.6	12.8	11.8	12.1	13.5			

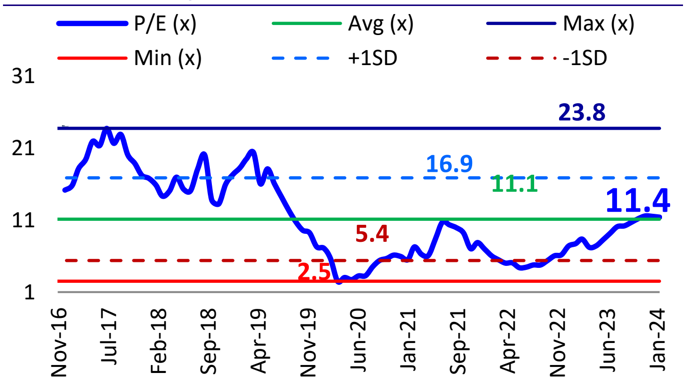
Source: Company, MOFSL

Exhibit 33: One-year forward P/B



Source: MOFSL, Company

Exhibit 34: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	67,929	76,882	71,898	58,220	61,991	69,559	79,452	93,995
Interest Expended	51,664	58,750	50,998	40,645	38,985	43,252	48,485	56,730
Net Interest Income	**16,265**	**18,133**	**20,901**	**17,575**	**23,006**	**26,306**	**30,967**	**37,265**
Change (%)	7.7	11.5	15.3	-15.9	30.9	14.3	17.7	20.3
Other Operating Income	8,904	8,013	4,343	3,787	3,306	2,906	4,210	5,750
Net Income	**25,169**	**26,146**	**25,243**	**21,363**	**26,311**	**29,213**	**35,177**	**43,015**
Change (%)	28.9	3.9	-3.5	-15.4	23.2	11.0	20.4	22.3
Operating Expenses	5,935	5,522	4,554	4,760	5,313	6,607	7,683	9,014
Operating Income	**19,234**	**20,624**	**20,689**	**16,603**	**20,998**	**22,605**	**27,494**	**34,001**
Change (%)	27.3	7.2	0.3	-19.7	26.5	7.7	21.6	23.7
Provisions/write offs	1,890	12,514	8,619	5,764	7,389	2,836	2,841	3,355
PBT	**17,344**	**8,110**	**12,070**	**10,840**	**13,609**	**19,770**	**24,653**	**30,646**
Extraordinary Items	0	0	0	0	0	0	0	0
Reported PBT	**17,344**	**8,110**	**12,070**	**10,840**	**13,609**	**19,770**	**24,653**	**30,646**
Tax	5,429	2,201	2,978	2,475	3,149	4,409	5,424	6,742
Tax Rate (%)	31.3	27.1	24.7	22.8	23.1	22.3	22.0	22.0
DTL on Special Reserve								
Reported PAT	**11,915**	**5,909**	**9,092**	**8,365**	**10,460**	**15,361**	**19,229**	**23,904**
Change (%)	41.7	-50.4	53.9	-8.0	25.0	46.9	25.2	24.3
PAT adjusted for EO	**11,915**	**5,909**	**9,092**	**8,365**	**10,460**	**15,361**	**19,229**	**23,904**
Change (%)	41.7	-50.4	53.9	-8.0	25.0	46.9	25.2	24.3
Proposed Dividend	1,809	0	0	0	0	2,596	3,384	4,183

Balance sheet

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	1,675	1,682	1,683	1,686	1,689	2,595	2,595	2,595
Reserves & Surplus	73,764	78,296	87,548	97,030	1,08,448	1,47,840	1,64,473	1,84,993
Net Worth	**75,439**	**79,978**	**89,230**	**98,716**	**1,10,137**	**1,50,435**	**1,67,069**	**1,87,588**
Borrowings	**7,18,589**	**6,77,351**	**5,93,925**	**5,30,050**	**5,36,211**	**5,85,768**	**6,81,817**	**8,11,071**
Change (%)	33.6	-5.7	-12.3	-10.8	1.2	9.2	16.4	19.0
Other liabilities	44,662	31,969	30,767	28,530	15,795	17,375	18,244	19,156
Total Liabilities	**8,38,690**	**7,89,297**	**7,13,922**	**6,57,296**	**6,62,143**	**7,53,578**	**8,67,129**	**10,17,815**
Loans	**7,42,879**	**6,66,280**	**6,06,447**	**5,53,359**	**5,78,398**	**6,54,489**	**7,66,086**	**9,11,316**
Change (%)	30.0	-10.3	-9.0	-8.8	4.5	13.2	17.1	19.0
Investments	**45,607**	**20,757**	**20,448**	**34,827**	**31,963**	**35,159**	**38,675**	**42,543**
Change (%)	89.0	-54.5	-1.5	70.3	-8.2	10.0	10.0	10.0
Net Fixed Assets	1,083	1,353	1,056	935	839	881	925	971
Other assets	49,122	1,00,906	85,971	68,175	50,943	63,049	61,443	62,986
Total Assets	**8,38,690**	**7,89,297**	**7,13,922**	**6,57,296**	**6,62,143**	**7,53,578**	**8,67,129**	**10,17,815**

E: MOFSL Estimates

Financials and valuations

Ratios								(%)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Spreads Analysis (%)								
Avg yield on loans	10.1	10.6	10.9	9.7	10.6	10.8	10.9	10.9
Avg. cost of funds	8.2	8.4	8.0	7.2	7.3	7.7	7.7	7.6
Interest Spread	1.9	2.1	2.9	2.4	3.0	3.0	3.0	3.1
NIM on loans	2.5	2.6	3.3	3.0	4.1	4.3	4.4	4.4
Profitability Ratios (%)								
RoE	16.9	7.6	10.7	8.9	10.0	11.8	12.1	13.5
RoA	1.6	0.7	1.2	1.2	1.6	2.2	2.4	2.5
Int. Expended/Int.Earned	76.1	76.4	70.9	69.8	62.9	62.2	61.0	60.4
Other Inc./Net Income	35.4	30.6	17.2	17.7	12.6	9.9	12.0	13.4
Asset Quality (INR m)								
Gross NPA	3,549	18,562	29,990	47,062	22,714	9,989	9,334	10,100
GNPA ratio	0.5	2.8	4.8	8.2	3.9	1.5	1.2	1.1
Net NPA	2,784	11,838	17,500	29,312	16,184	6,493	5,881	6,262
NNPA ratio	0.4	1.8	2.9	5.3	2.8	1.0	0.8	0.7
CAR	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0

VALUATION	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (INR)	450	476	530	586	652	580	644	723
BVPS Growth YoY	14.3	5.6	11.5	10.4	11.4	-11.1	11.1	12.3
Price-BV (x)			**1.5**	**1.4**	**1.2**	**1.4**	**1.2**	**1.1**
EPS (INR)	71.1	35.1	54.0	49.6	61.9	59.2	74.1	92.1
EPS Growth YoY	40.9	-50.6	53.8	-8.2	24.9	-4.5	25.2	24.3
Price-Earnings (x)		**22.7**	**14.8**	**16.1**	**12.9**	**13.5**	**10.8**	**8.7**
Dividend per share (INR)	9.0	0.0	0.0	0.0	0.0	10.0	13.0	16.1
Dividend yield (%)			**0.0**	**0.0**	**0.0**	**1.3**	**1.6**	**2.0**

E: MOFSL Estimates

DuPont Analysis

DuPont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	9.2	9.4	9.6	8.5	9.4	9.8	9.8	10.0
Interest Expended	7.0	7.2	6.8	5.9	5.9	6.1	6.0	6.0
Net Interest Income	**2.2**	**2.2**	**2.8**	**2.6**	**3.5**	**3.7**	**3.8**	**4.0**
Other Income	**1.2**	**1.0**	**0.6**	**0.6**	**0.5**	**0.4**	**0.5**	**0.6**
Fees	0.6	0.4	0.2	0.4	0.4	0.3	0.4	0.5
Trading gains and MM	0.6	0.6	0.3	0.2	0.1	0.1	0.1	0.2
Net Income	**3.4**	**3.2**	**3.4**	**3.1**	**4.0**	**4.1**	**4.3**	**4.6**
Operating Expenses	**0.8**	**0.7**	**0.6**	**0.7**	**0.8**	**0.9**	**0.9**	**1.0**
Cost to Income Ratio (%)	23.6	21.1	18.0	22.3	20.2	22.6	21.8	21.0
Employee Expenses	0.4	0.3	0.3	0.3	0.4	0.5	0.5	0.5
Other Expenses	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Operating Profit	**2.6**	**2.5**	**2.8**	**2.4**	**3.2**	**3.2**	**3.4**	**3.6**
Provisions/write offs	0.3	1.5	1.1	0.8	1.1	0.4	0.4	0.4
PBT	**2.4**	**1.0**	**1.6**	**1.6**	**2.1**	**2.8**	**3.0**	**3.3**
Tax	0.7	0.3	0.4	0.4	0.5	0.6	0.7	0.7
Tax Rate (%)	31.3	27.1	24.7	22.8	23.1	22.3	22.0	22.0
Reported PAT	**1.6**	**0.7**	**1.2**	**1.2**	**1.6**	**2.2**	**2.4**	**2.5**
Leverage	10.4	10.5	8.9	7.3	6.3	5.4	5.1	5.3
RoE	**16.9**	**7.6**	**10.7**	**8.9**	**10.0**	**11.8**	**12.1**	**13.5**

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg. No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co. Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore. As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Specific Disclosures

1. MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2. MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3. MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4. MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5. Research Analyst has not served as director/officer/employee in the subject company
6. MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7. MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8. MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9. MOFSL has not received any compensation or other benefits from third party in connection with the research report
10. MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:
- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report or date of the public appearance.
- received compensation/other benefits from the subject company in the past 12 months
- any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.
- Served subject company as its clients during twelve months preceding the date of distribution of the research report.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of Motilal Oswal only.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.