

# AU Small Finance Bank

**BSE SENSEX** 72,748  
**S&P CNX** 22,056

**CMP: INR570**

**TP: INR720 (+26%)**

**Buy**



## Stock Info

	AUBANK IN
Bloomberg	AUBANK IN
Equity Shares (m)	667
M.Cap.(INRb)/(USDb)	381.3 / 4.6
52-Week Range (INR)	813 / 548
1, 6, 12 Rel. Per (%)	-2/-31/-32
12M Avg Val (INR M)	1637
Free float (%)	74.5

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	44.3	52.1	79.3
PPoP	20.2	25.3	37.4
PAT	14.3	15.5	20.8
NIM (%)	5.6	5.3	6.1
EPS (INR)	22.0	23.2	29.5
EPS Gr. (%)	22.3	5.4	27.2
BV/Sh. (INR)	164	182	226
ABV/Sh. (INR)	162	177	220

## Ratios

RoE (%)	15.5	13.4	14.4
RoA (%)	1.8	1.6	1.6

## Valuations

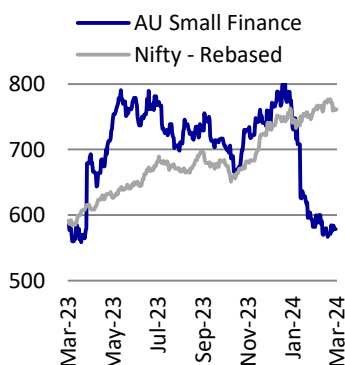
P/E(X)	26.0	24.6	19.4
P/BV (X)	3.5	3.1	2.5
P/ABV (X)	3.5	3.2	2.6

## Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	25.5	25.5	25.6
DII	20.8	19.6	20.6
FII	41.1	41.7	39.6
Others	12.6	13.6	14.2

FII Includes depository receipts

## Stock Performance (1-year)



## Laying strong foundation of a forever bank

### Guides for FY27 RoA of 1.8%

We attended AUBANK's analyst meet, wherein the management provided the outlook of the merged entity as the bank aspires to increase the size of its balance sheet to ~INR2t over the next three years. The merger with Fincare SFB will enable AUBANK to achieve sustainable growth, while stronger return ratios for Fincare will boost profitability, particularly as operating leverage improves. After the merger, the bank is expected to expand into new geographical areas and product segments, with robust growth in high-yielding Wheels, MFI, Gold and SBL segments. Moreover, since Fincare is a rural-focused SFB with 85% of its advances qualifying under the priority sector, the merger will enable AUBANK to not only meet its PSL target but also generate PSLC income in the long run. We believe that the bank's execution capability will play an important role in maintaining robust growth and asset quality while delivering healthy RoA. We are optimistic about smooth execution, given the management's execution prowess and track record over the past couple of decades. We reiterate BUY on the stock with a TP of INR720 (2.7x FY26E BV).

### Loan growth to sustain at healthy ~25% CAGR after merger

As a franchise, AUBANK has not only experienced rapid growth but also upheld high asset quality standards. The merger with Fincare is anticipated to boost the bank's loan portfolio by ~16%. The bank has projected a robust CAGR of 25% for the combined entity, which should increase the size of its balance sheet to over INR1.5t by FY25E. This growth will be driven by strong performance in both new and existing product lines. The loan portfolio is expected to surpass INR1t by FY25E, fueled by 30% YoY growth in high-yielding segments. AUBANK anticipates steady growth of ~20% in VF and SBL, while the commercial, home loans, and MFI segments are poised to grow at a faster pace of around 30% annually.

### Liability growth steady with focus on retail deposits

Despite elevated competition, the bank views the merger as an opportunity to expand into new geographic areas and leverage Fincare's touchpoints, gaining access to untapped customer segments. This will aid growth in CASA deposits while maintaining sustainable costs. We are confident that the bank will increase its deposits by leveraging its brand, customer positioning, digital strategy, and leadership in its operating regions. The bank expects the merged entity to clock deposit growth of 23-25%, with retail deposits providing significant support. After the merger, we estimate a ~25% CAGR in deposits.

### Business mix to diversify; new product lines to open up growth avenues

The distinct asset compositions of AUBANK (focused on Wheels, SBL, Housing, and Commercial) and Fincare SFB (emphasizing MFI, SBL, and Gold) complement each other, filling the gaps in their respective product offerings. This expanded product suite not only provides avenues for growth but also enhances the merged entity's leadership position in the SFB sector. Following the merger, the bank's

overall business mix is expected to be more diversified, with the concentration on Wheels reducing to 27.4% from 32% and the new segments MFI/Gold accounting for 7.5%/1.6% of the combined loan book. AUBANK aims to maintain the MFI mix below 10%. The merger not only opens up opportunities for expansion into new geographical areas and product segments but also addresses Priority Sector Lending (PSL) requirements, including a more stringent Small and Marginal Farmer (SMF) segment, via high-yielding products like MFI, SBL, and Gold Loan.

#### **Strengthening its footing with strong pan-India presence**

Through the merger, AUBANK aims to more than double its touchpoints to 2,352. Additionally, the bank plans to continue adding more touchpoints by the end of FY24. AUBANK currently lacks significant presence in the southern region and sees the merger as an opportunity to enhance its geographical diversification, leveraging Fincare's established presence in the south region. The acquisition will expand the bank's reach to nine states from the current four, with each state hosting over 100 touchpoints.

#### **Cost ratios to stay elevated; operating leverage to improve gradually**

AUBANK focuses on sustainable growth through technology utilization, process optimization, and branch network expansion. The anticipated cost of the merger is INR3b, with ~INR2-2.25b expected to be realized within 6-9 months after the merger and the remaining spread over the subsequent two years. Consequently, cost ratios are projected to remain elevated at 63-64% in FY25E. The merger is estimated to bolster revenue growth by capitalizing on cross-selling opportunities, generating robust distribution income, and potentially benefiting from the AD-1 license. Additionally, an expected turnaround in the rate cycle and a gradual reduction in funding costs should contribute to margin improvement, enabling a gradual reduction in cost ratios from FY26 onward.

#### **Elevated funding costs to remain a drag on near-term margins**

The bank has been transitioning toward high-quality products with lower yields. The proportion of fixed-rate assets in the bank's portfolio has decreased from 75% in FY22 to 62% currently. Going forward, the bank anticipates that the incremental cost of funds will stay high, which will remain a drag on margins. Despite an increase in funding costs, AUBANK has seen a decrease in lending yields, primarily due to changes in its business mix, although disbursement yields across segments have risen steadily. AUBANK expects to sustain NIMs at 5.5% over FY24; NIMs are likely to remain relatively stable in FY25E despite the merger.

#### **Estimate GNPA/NNPA ratios at ~2.0%/0.7% in FY26**

AUBANK consistently maintains strict underwriting standards and employs internal origination and effective collections to ensure high asset quality. Despite facing challenges in asset quality, particularly in the cards segment in 3QFY24 due to faster normalization in delinquency rates, the bank has a strong track record of maintaining healthy asset quality. Fincare has shown improvement in asset quality, with NNPA decreasing to 0.77% in 3QFY24 by implementing measures like state-level capping at 15% and district-level capping at 2% to mitigate concentration risk. The MFI segment is expected to see a change in policy mix, while the non-MFI

segment is likely to mirror AUBANK's trends. Overall, stable asset quality ratios are anticipated for the merged entity, with GNPA sustaining at ~2%.

### All eyes on merger integration

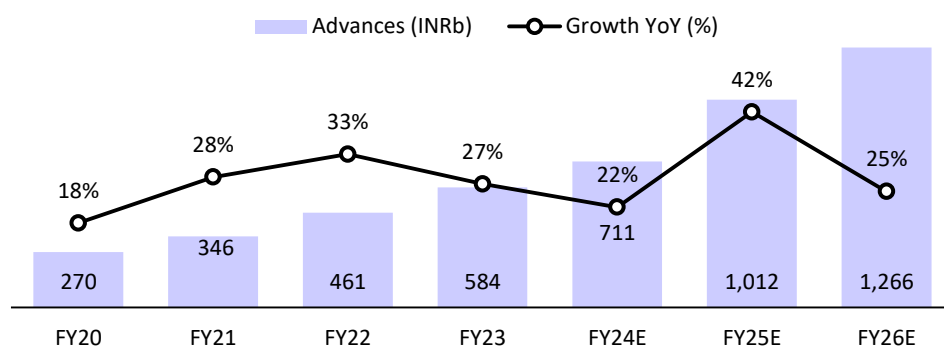
The integration process between the two SFBs will be carefully monitored. Attrition is seen as a critical factor to watch out for, and attention will be given to adequately compensating current Fincare employees through retention bonuses to address concerns. The merging of two distinct cultures, especially the regional differences between North and South employees, is another area of focus. Challenges might arise in integrating HR and technology, as AUBANK operates on Oracle while Fincare uses FIS. Nevertheless, the bank has ruled out any extreme outcomes and expects a smooth transition. It is essential for the bank to prioritize a strategy that emphasizes strong asset quality, considering the need to establish provisioning buffers.

### Valuation and view: RoA to remain suppressed in near term; maintain BUY

- AUBANK has historically reported healthy RoA; however, it has compressed over FY24, primarily due to a decline in margins and a rise in credit costs.
- While the merger with Fincare is EPS, BV, and RoA accretive, aided by stronger return ratios in MFI, Gold, and SBL portfolios, the competition for liabilities and integration costs will largely offset any near-term benefits.
- However, we believe that RoA should gradually improve toward 1.7% by FY26E as the bank benefits from operating synergies and as the moderation in funding costs improves margins. The bank has guided FY27 RoA of 1.8% as it continues to make investments in building a forever bank in the first 10 years of its operations.
- By strategically incorporating ~7.5% of the rural-focused MFI portfolio into its loan book, the merger helps AUBANK diversify its lending portfolio while boosting overall yields. Moreover, Fincare's robust presence in southern India augments AUBANK's geographical footprint.
- We believe that the bank's execution capability will play an important role in maintaining robust growth and asset quality metrics while delivering healthy RoA. We are optimistic about smooth execution, given the management's execution prowess and track record over the past couple of decades. **We reiterate our BUY rating on the stock with a TP of INR720 (2.7x FY26E BV).**

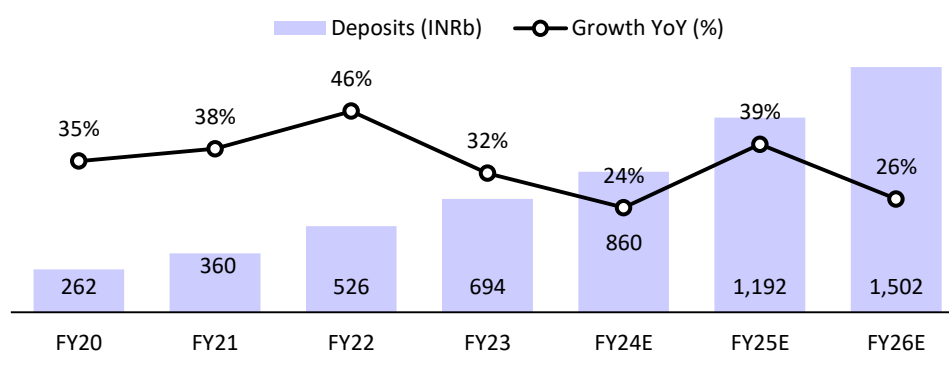
**Exhibit 1: Estimate merged entity loan book to surpass ~INR1t in FY25**

We estimate loan/deposit portfolio to register a healthy ~25% CAGR after the merger



Source: Company, MOFSL

**Exhibit 2: Estimate deposits to reach ~INR1.2t by end-FY25**



Source: Company, MOFSL

**Exhibit 3: AUBANK: Post-merger loan mix**

	AUBANK	Fincare SFB	Proforma merged
<b>Loan mix, INRm</b>			
Wheels	2,03,750	-	2,03,750
SBL	1,92,310	19,922	2,12,232
Commercial assets	1,63,860	-	1,63,860
Home loan	53,060	14,968	68,028
Microfinance	-	56,816	56,816
Gold loans	-	10,963	10,963
Others	63,260	2,741	66,001
<b>Gross advances</b>	<b>6,76,240</b>	<b>1,05,410</b>	<b>7,81,650</b>

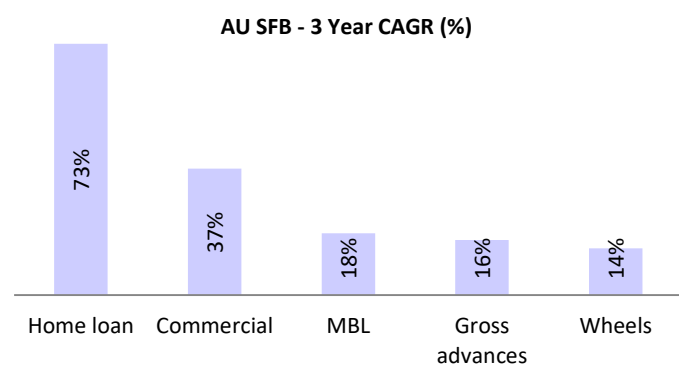
Source: MOFSL, Company

**Exhibit 4: AUBANK: Composition of loan book after merger**

	AUBANK	Fincare SFB	Proforma merged
<b>Loan mix</b>			
Wheels	30.1%	0.0%	26.1%
SBL	28.4%	18.9%	27.2%
Commercial assets	24.2%	0.0%	21.0%
Home loan	7.8%	14.2%	8.7%
Microfinance	0.0%	53.9%	7.3%
Gold loans	0.0%	10.4%	1.4%
Others	9.4%	2.6%	8.4%
<b>Gross advances</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

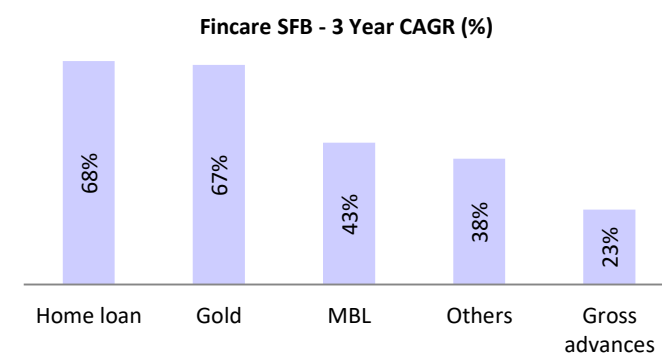
Source: MOFSL, Company

**Exhibit 5: AUBANK's loan growth is driven by Home and Commercial Loans**

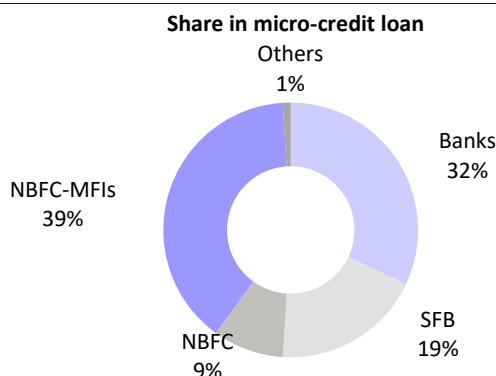


Data as on FY23, Source: Company, MOFSL

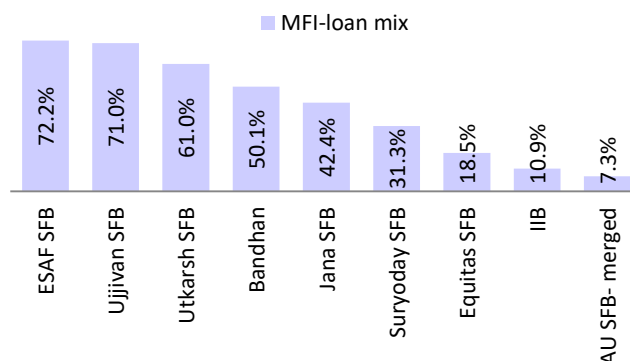
**Exhibit 6: For Fincare, growth is driven by Housing, Gold, and SBL loans**



Data as on FY23, Source: Company, MOFSL

**Exhibit 7: Banks and SFBs constitute 51% of total outstanding MFI loans as of Sep'23**

Source: Company, MOFSL

**Exhibit 8: MFI loan mix across banks as of 3QFY24: AUBANK to make an entry into the MFI segment after merger**

Source: Company, MOFSL

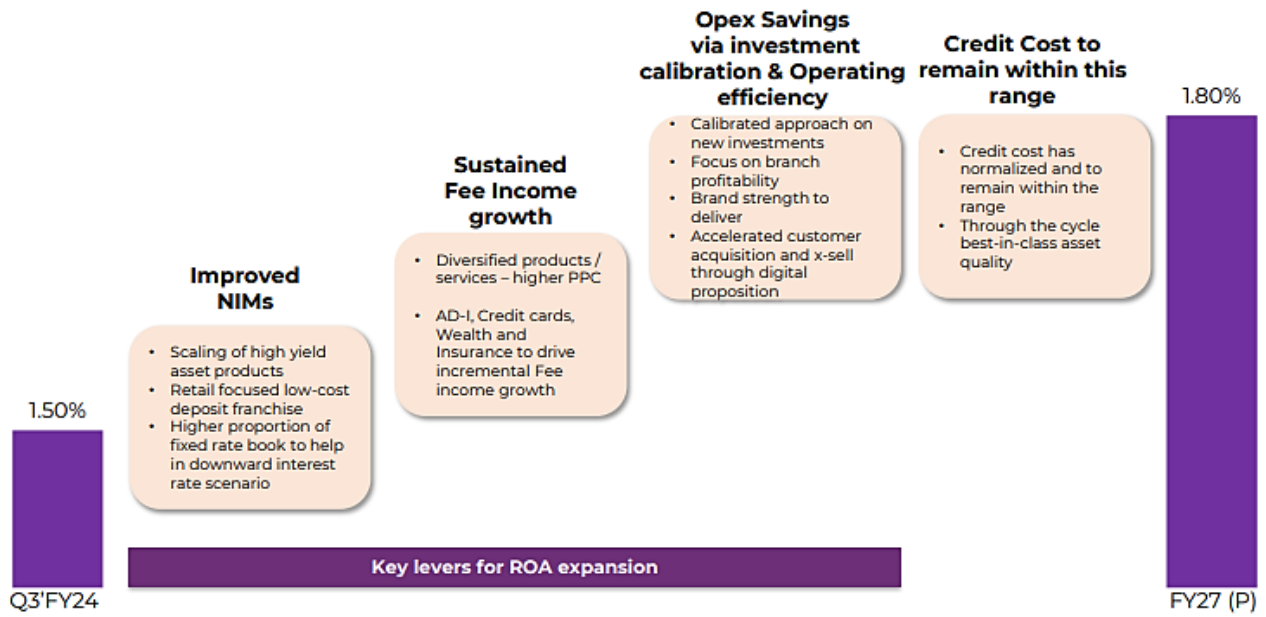
**Exhibit 9: Pro-forma merged financials for AUBANK and Fincare SFB**

9MFY24 (INRm)	AUBANK	Fincare SFB	Pro-forma	% change for AUBANK
<b>Profit &amp; Loss</b>				
Interest income from Loans	77,252	19,208	96,460	25%
Interest Expense	39,051	7,337	46,388	
<b>Net Interest Income</b>	<b>38,201</b>	<b>11,871</b>	<b>50,072</b>	<b>31%</b>
Non-Interest Income	11,903	2,399	14,302	
<b>Total Income</b>	<b>50,103</b>	<b>14,271</b>	<b>64,374</b>	
Operating Expenses	31,595	8,875	40,470	
<b>Pre Provision Profits</b>	<b>18,508</b>	<b>5,396</b>	<b>23,904</b>	<b>29%</b>
Provisions	3,062	1343.8	4,406	
<b>PBT</b>	<b>15,446</b>	<b>4,052</b>	<b>19,498</b>	<b>26%</b>
Tax	3,806	973.6	4,780	
<b>PAT</b>	<b>11,640</b>	<b>3,078</b>	<b>14,718</b>	<b>26%</b>
<b>Balance Sheet (1HFY24 for Fincare SFB)</b>				
Cash and balances with RBI and bank	51,550	8,240	59,790	
Loans	6,67,400	1,04,695	7,72,095	16%
Investments	2,67,140	29,364	2,96,504	
<b>Interest Earnings Assets</b>	<b>9,86,090</b>	<b>1,42,299</b>	<b>11,28,389</b>	
Networth	1,21,670	15,390	1,37,060	13%
Deposits	8,01,200	94,532	8,95,732	12%
Borrowings	54,140	33,355	87,495	
<b>Interest Bearing Liabilities</b>	<b>9,77,010</b>	<b>1,43,277</b>	<b>11,20,287</b>	
CASA Dep	2,64,460	14,652	2,79,112	
Total Assets	10,11,760	1,47,776	11,59,536	15%
<b>Asset Quality</b>				
GNPA	13,397	2,142	15,539	
NNPA	4,562	870	5,432	
GNPA Ratio	1.98	1.87	2.0	
NNPA Ratio	0.68	0.77	0.7	
PCR	65.9%	59.4%	65.0%	
<b>Key Ratios (1HFY24 for Fincare SFB)</b>				
NIM	5.60%	10.90%		
CoF	6.74%	7.36%		
CASA ratio	33.0%	15.5%	31.2%	
Cost-income ratio	63.1%	62.2%	62.9%	
<b>Others</b>				
Touchpoints	1,049	1,292	2,341	
Employees	28,900	14,867	43,767	

\* Proforma number includes primary capital Infusion of INR7b

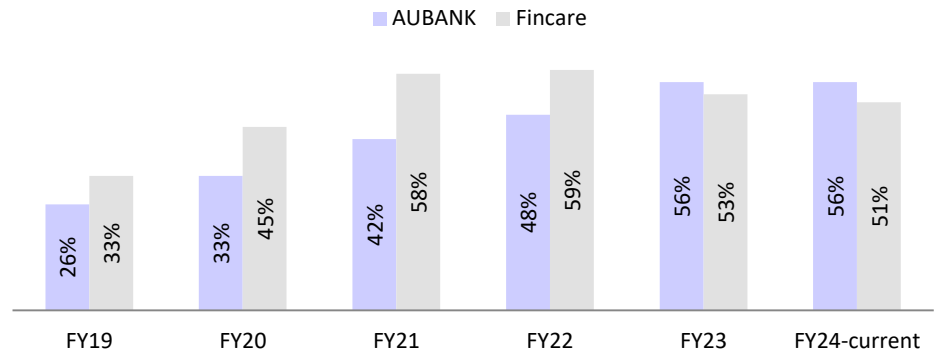
Source: MOFSL, Company

**Exhibit 10: Prioritizing portfolio mix; returns from investments to reach back to 1.8% RoA by FY27E**



Source: MOFSL, Company

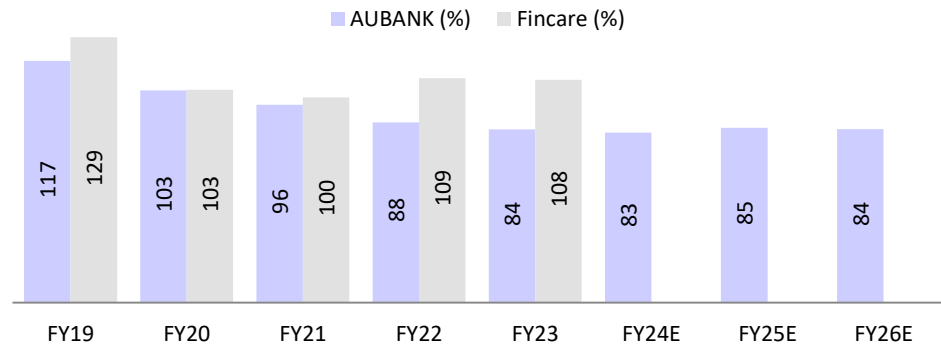
**Exhibit 11: Retail deposit mix for Fincare SFB has moderated in recent years, but remains broadly comparable to AUBANK**



Source: LCR disclosure of AUBANK and Fincare

**Exhibit 12: Estimate CD ratio to remain at 84-85% range over FY25/26E**

CD ratio of Fincare stands higher at ~108% in FY23. AUBANK’s CD ratio is thus expected to remain in 84-85% range after merger.



Source: Company, MOFSL

**Exhibit 13: Merged entity to have wider coverage and deeper geographic presence**

Touchpoints	AU Bank	Fincare	Pro-forma merged
North	17%	7%	12%
West	64%	20%	40%
South	2%	49%	28%
East	1%	16%	9%
Central	15%	8%	11%
<b>Total</b>	<b>1,042</b>	<b>1,292</b>	<b>2,334</b>

Source: Company, MOFSL

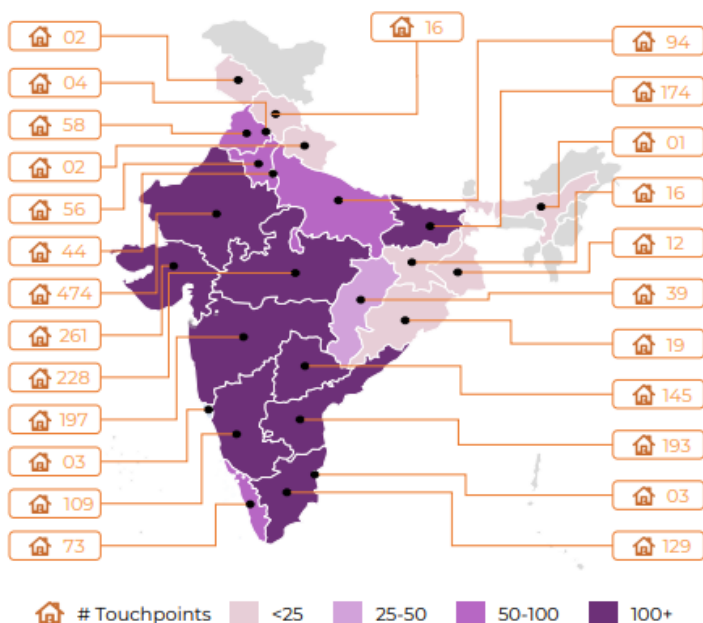
Merged entity to have presence in nine states with more than 100 touchpoints in each state

**Exhibit 14: Touchpoints to improve across 10 states vs. four that AUBANK currently has**

States	AU Bank	Fincare	Pro-forma
Rajasthan	401	72	473
Gujarat	151	108	259
Madhya Pradesh	139	85	224
Maharashtra	115	82	197
Andhra Pradesh	1	192	193
Bihar	1	167	168
Telangana	6	140	146
Tamil Nadu	4	121	125
Karnataka	9	102	111
Uttar Pradesh	19	74	93

Source: Company, MOFSL

**Exhibit 15: Distribution to reach pan-India after merger**



- Merger with Fincare to more than double the total touchpoints to 2,352 in 25 States and UTs
  - 9 States with >100 touchpoints
  - 4 States with 50-100 touchpoints
- Significant opportunity to expand deposit and asset franchise in South India

Touchpoints	AU	Fincare	Total
Deposit Branches	554*	138	692
Asset Center / Micro Banking Units	230	771	1,001
BCs	265	394	659
<b>Total</b>	<b>1,049</b>	<b>1,303</b>	<b>2,352</b>

\* including 78 unbanked branches

Source: MOFSL, Company

## Key takeaways from session with the top management

### AUBANK

- The AUBANK-Fincare merger received the fastest merger approval in the history of bank mergers.
- AUBANK has INR801b of deposits and reported a 50% CAGR during FY18-Dec'23. Advances stood at INR676b with a 32% CAGR during FY18-Dec'23.
- Weighted average RoA/RoE of the bank stood at 1.7%/14.4% in 9MFY24. It reported a 27% CAGR in PAT during FY18-Dec'23.
- The bank has total 28,904 employees and has ~2.6m customers; 70% of active liability base is registered on the bank's app.
- The bank has shifted its base to Mumbai early in its banking journey; ~75% of business is led from Mumbai. Some initiatives of the bank have led to higher costs but helped in building a sustainable bank.
- In last one year, the bank got license for AD-1 business, merger approval and approval for a third tenure of its MD & CEO and ED for three years
- Earlier this year, the bank has developed Swadesh banking, which is focused on SMF lending.
- The portfolio mix is toward higher credit quality but lower-yield products. ~75% of bank's loan book was fixed in FY22, which led to spread compression (now reduced to ~62%).
- Higher-than-expected liquidity tightening; interest rate stayed higher for longer period vs. bank's assumptions.
- The incremental CoF is expected to remain at ~7.7% going forward, but the disbursement yield is expected to move toward 15% from 13.5% in 9MFY24.
- High-yielding book is ~70%, which includes wheels, MBL, REG, NBFC and PL.
- **Credit cost in different mix:** Wheels- 0.63%, MBL- 0.47%, Housing- 0.24%, Credit card- 4.84%, commercial banking- 0.06% in 9MFY24.
- Credit cost in commercial banking is expected to normalize at 25bp going forward.
- Credit cost of AUBANK was 0.56% without contingency provision and 0.43% with contingency provision for 9MFY24.
- The bank has 830k live credit cards, 470k digital saving account, and 1,100k QR+ merchant app.
- Productivity has increased and the bank has started seeing fee income from investment; however, NIM compression has taken away any C/I benefits.
- The balance sheet grew by 25%, but NII grew by 19% in 9MFY24.
- RoA stood at 1.6% in 9MFY24 and is expected to moderate further in 4QFY24.
- Cost of fund will continue to reprice in FY25 and is expected to be higher by 40-45bp vs. FY24.
- Fincare merger to help maintain FY25 RoA in line with FY24 levels.



### Credit card

- Average monthly card issuance stands at ~45k and monthly average spending is ~INR13.86b. New issuance of cards is ~399k and total CIF stood at 831k as of 9MFY24.
- GNPA/NNPA ratios stood at 1.93%/0.35% in credit card in 9MFY24. Credit penetration is happening in tier 2 and tier 3 cities.
- The bank's spending per card is 20k and PA, i.e. at least one transaction in calendar month, is 60%. Online spending share stands at 60% currently.
- About 68% of the bank's credit card customers are salaried employees and 84% are existing customers.
- About 68% of customers come from urban areas and 70% of them are super CAT A/ CAT A/ Government employees.
- Average credit card limit utilization is ~19%, which is in line with industry levels.
- The bank has done calibrations to its underwriting engine, which is past 12 months basis its learnings, which has shown signs of significant reduction in delinquency trends.
- AUBANK's CIF market share is ~0.85% and spending share is ~0.99%.

### Retail assets

- Wheels book:
  - AUM stood at INR270b and the average ticket size was INR280k, with healthy yield of 13.9%. NPA stood at 2.05% in 9MFY24.
  - Top 5 manufacturers (Maruti, Mahindra, Hyundai, etc.) account for 76% of the book.
  - **Vintage-wise NPA trends:** 0-12 months: 0.2%, 13-24 months: 1.8%, 25-36 months: 4.03.
  - FY23 book is behaving in line with pre-Covid level book.
- MBL book:
  - AUM stood at INR208.5b with yield at ~14.9% and average ticket size of INR1m with average LTV at 46%. NPA stood at 2.96% in 9MFY24.
  - **Loan ticket size-wise distribution:** 25% - up to 10 lac, 34% ->25 lacs, 24% ->15 to 25 lac.
  - SMA stood at 19.04% in Dec'23 and current account book is 78%.
  - **Vintage-wise NPA trends:** 0-12 months: 0.16%, 13-24 months: 1.22%, 25-36 months: 3.09%
- Home loan book:
  - AUM stood at INR54.5b and average ticket size of INR1.2m with yield of 11.6%.
  - GNPA stood at 0.55%, SMA at 5.56% and current account is 93.89%.
  - 94% of book has been built after Covid.
  - **Vintage-wise NPA trends:** 0-12 months: 0.02%, 12-24 months: 0.35%, 24-36 months: 1.02%
  - 74% of the book has less than 24 months of vintage. The portfolio is yet to mature.

### Commercial banking

- ~INR163b commercial banking book is divided among four business verticals: business banking, agri banking, NBFC lending and real estate group.
- Transaction banking with these customers has yielded ~INR9b current account book and has lower credit cost and GNPA of 0.4%.
- Fee income is 1.64% in business banking and 0.82% in agri banking.
- Trade income on NFB limits, which is 62% of FB limits in business banking and 14% of FB limits in agri banking.
- PSL is 82% in business banking and 94% in agri book. ~88% book of BB and Agri is PSL and working capital book is 70%.
- Agri ancillary constitutes 87% of agriculture portfolio. MSME and agri portfolios constitute 88% of BB & Agri book.
- NPA at ~0.4%, SMA at ~1.52% and Current book at 98.08% in Dec'23.

### Way forward to 2027

- **Pro forma merged numbers:** The balance sheet at INR1.17t, Net worth at INR144.9b, Deposits at INR898.5b, AUM at INR895.3b with 2352 touchpoints and 10.5m customers.
- Deposit CAGR is expected to be ~23-25% with focus on retail and individual deposits.
- PCR in TWO to be ~65-70%; asset quality to remain within range.
- Unsecured book is expected to be ~15-20% with MFI book capped at 10% of AUM (incl. securitization).
- The bank aims to achieve RoA of 1.8% by FY27.
- Annual credit cost on MFI book to be taken ~2.5-3% every year.
- Increasing mix of high-yield, high-RoA portfolio assets to be ~72-75% and low-yielding low-RoA book to be 22-25%.
- Asset book growth will be in line with deposits growth, with higher growth from business with higher RoA.
- Wheels business is expected to report a CAGR of 25%, 20-22% CAGR for MBL book and 28-32% CAGR for Fincare book by FY27.
- No significant new investment envisaged till 2027; Platform buildout is largely complete and incremental expenses will only be variable in nature.
- In AD-1 business, some WIP capex is scheduled for FY25 and variable expense linked cost to have impact on opex but expected to break-even in Year 1.
- Credit card acquisition is expected to moderate to reduce upfront impact of acquisition costs.
- Currently 25% of liability branches are profitable (excl unbanked branches).
- The bank expects to grow current account deposits by 100-150bp by Mar'27.
- Expects to add 80-100 branches during FY26-FY27 and no additional branch planned in FY25.
- Buildout of higher balances from existing branches – INR400-500m per branch per year addition from urban branches.
- The bank will endeavour to make 65%+ of bank's branches live as on Dec'23 and profitable by FY27.
- It will leverage commercial banking and AD-1 opportunity; AD-1 will focus on Exim.

- IRP (Ivy, Royale and Platinum) customers are 75% of new savings customers sourced in 9MFY24 by branches and contribute 72% of overall savings balances of branch banking.
- Credit quality cyclicity of MFI business will be managed via initiatives like keeping MFI business at 10% of AUM over the next three years.
- Levers for RoA expansion: Improved NIMs assuming rate cut to start from 2HFY24, sustained fee income growth, opex savings via investment calibration and operating efficiency. Credit cost has normalized and is expected to remain within this range.

### Fincare SFB

- Fincare has one of the highest number of banking outlets among SFB across 20 states and three UTs.
- It has ~20.2% yield on advances with a growing secured share.
- ~860k customers were added in 9MFY24, with 1,303 touchpoints and 42% outlets in south India.
- NIMs stood at 10.9% and RoA/RoE at 2.9%/27.8% in 9MFY24, with a ~42% share of secured GLP.
- Out of INR97.3b total deposits, retail deposits account for 80%. ~98% of term deposits have a tenor of >6m as on Dec'23.
- Normalised GNPA/NNPA ratios stood at ~1.9%/0.8% and credit cost stood at 1.5% with a full mix of 56% unsecured portfolio in 9MFY24.
- Yield on advances stood at 20.2%, whereas cost of funds stood at 7.5% in 9MFY24. The bank has average RoE of 14.3% for last six years.
- Small business loan:
  - ~17.1% of total portfolio with average ticket size of 0.8m and average tenor of 8.3yrs.
  - Portfolio ROI stood at 18.7% as on 9mFY24. NTB acquisition is ~ 99%.
  - GNPA/NNPA stands at 2.0%/1.0% with PCR of 50.7% and Credit cost at 1.3%.
  - Gross Loan Portfolio stood at INR22.9b with LTV at 31%.
- Affordable housing:
  - ~14.5% of total portfolio with average ticket size of 1.07m and average tenor of 11.3 years.
  - Portfolio ROI stood at 13.7% as on 9MFY24. NTB acquisition is ~ 99%.
  - GNPA/NNPA stood at 0.8%/0.4% with PCR of 45.1% and credit cost at 0.8%.
  - Gross loan portfolio stood at INR19.3b with LTV at 36%.
- Microfinance:
  - Portfolio rate of interest stood at 25.1% in 9MFY24 vs. 24.5% in FY23.
  - ~57.5% of total portfolio with average ticket size of ~42k and average tenor of 2 years.
  - GNPA/NNPA stood at 1.3%/0.4% with PCR of 72.3% and credit cost at 1.4%.
  - Average customer exposure is ~INR26k. All customers have their own saving accounts and debit cards. ~910k customers with DBT linkage to savings accounts.
  - ~0.86m customers onboarded in 9mFY24 (60-70% MoM).
  - Top two districts have concentration of 3% and 1.5%; the rest all have less than 1.5% concentration. Top 3 states' concentration is 36.5%.

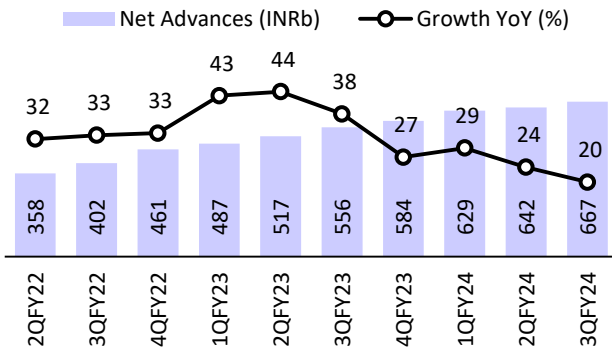
- Gold loans:
- Portfolio ROI stood at 16.9% as of 9MFY24. NTB acquisition is ~ 36.6%.
- GNPA/NNPA ratios Stood at 3.2%/2.3% with PCR of 28.4% and credit cost at 1.2%.
- Gross loan portfolio stood at INR11.7b with LTV at 73%.

### Investment thesis

- AUBANK is one of the fastest-growing franchises, with gross advances of INR676b and deposits of INR801b.
- Best-in-class asset quality with GNPA % on AUM at 1.8% and GNPA % on gross advances at 2.0%.
- The bank has a consistent track record of an average RoA of 1.7% while investing in the franchise.
- AUBANK is expected to see ~25% growth in deposits. It has passed on 40bp of interest rate in wheels business (focus is on RoA).
- The bank will focus more on higher-yielding assets such as wheels, SBL, MFI, Gold, NBFC and REG business. The push is more on the rate rather than yields.
- AUBANK will issue 71m shares. Fincare Holdings has infused ~INR7b in Fincare SFB.
- MFI policy for provisioning needs to be changed; the rest of the products have the same provisioning policy as that of Fincare and, therefore, not much cost will be incurred.
- ~INR3b will be total integration tech cost; ~INR2-2.5b will come in next 6-9 months.
- ~2.5%-3% of provisions will be MFI provisions and will be taken from FY25 onward.
- The CD ratio for Fincare has gone up to ~110-115% due to borrowing from SIDBI and NABARD. Excluding those borrowings, the CD ratio will be at ~90%; after the merger, it will have a similar CD ratio.
- RoA is expected to be at ~1.8% by FY27 and the bank will focus on new product lines with RoA of >3%. AUBANK will also focus on improving productivity of existing branches and expects a gradual improvement in operating leverage.

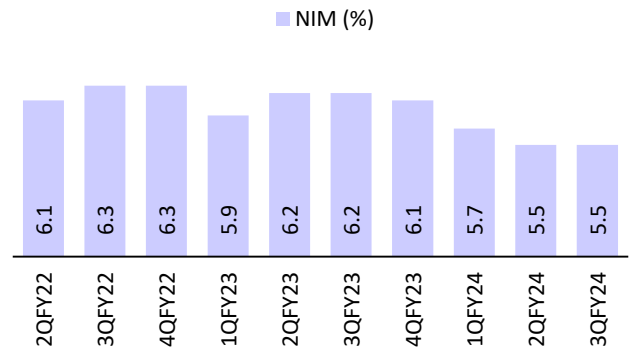
Story in charts

Exhibit 16: Net advances grew 20% YoY to INR667b



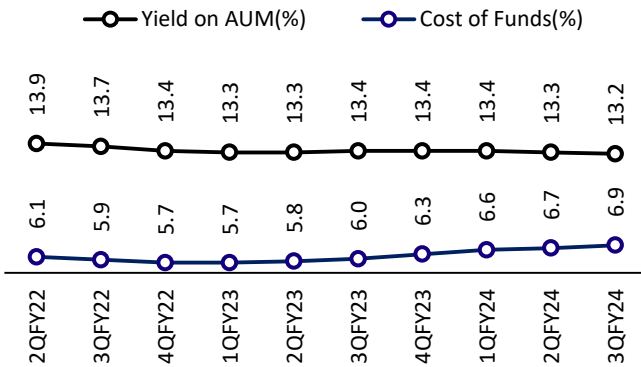
Source: Company, MOFSL

Exhibit 17: Margins remained stable at 5.5% in 3QFY24



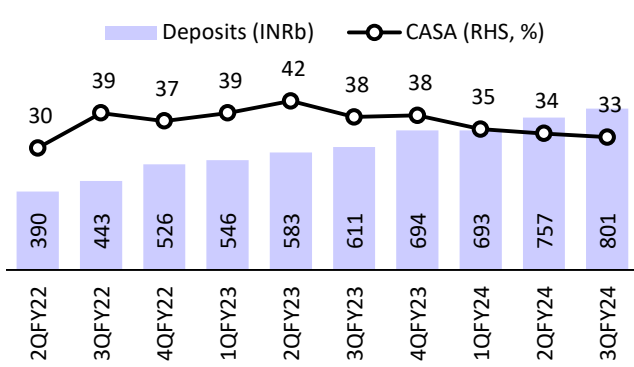
Source: Company, MOFSL

Exhibit 18: Yields on gross advances moderated 10bp QoQ, while CoF increased 20bp QoQ



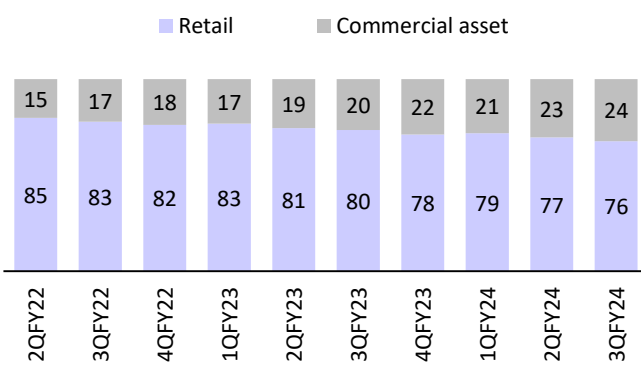
Source: Company, MOFSL

Exhibit 19: Healthy traction in deposit mobilization; CASA ratio moderated to 33%



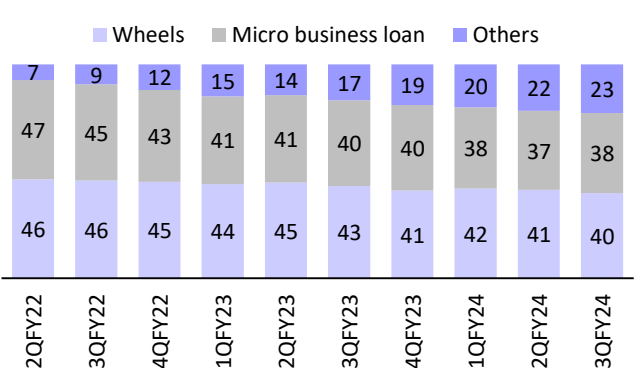
Source: Company, MOFSL

Exhibit 20: Retail mix moderated to ~76%



Source: Company, MOFSL

Exhibit 21: Vehicles and MSME form ~78% of retail loans



Source: Company, MOFSL

## Valuation and View

- AUBANK has historically reported healthy RoA; however, it has compressed in FY24, primarily due to a decline in margins and a rise in credit costs.
- While the merger with Fincare is EPS, BV, and RoA accretive, aided by stronger return ratios in MFI, Gold, and SBL portfolios, the competition for liabilities and integration costs will largely offset any near-term benefits.
- However, we believe that RoA should gradually improve toward 1.7% by FY26E as the bank benefits from operating synergies and as the moderation in funding costs improves margins. The bank has guided FY27 RoA of 1.8% as it continues to make investments in building a forever bank in the first 10 years of its operations.
- By strategically incorporating ~7.5% of the rural-focused MFI portfolio into its loan book, the merger helps AUBANK diversify its lending portfolio while boosting overall yields. Moreover, Fincare's robust presence in southern India augments AUBANK's geographical footprint.
- We believe that the bank's execution capability will play an important role in maintaining robust growth and asset quality metrics while delivering healthy RoA. We are optimistic about smooth execution, given the management's execution prowess and track record over the past couple of decades. **We reiterate our BUY rating on the stock with a TP of INR720 (2.7x FY26E BV).**

### Exhibit 22: Fincare SFB: DuPont Analysis

Y/E March	FY19	FY20	FY21	FY22	FY23
Interest Income	18.78	18.96	16.59	15.35	14.93
Interest Expense	7.11	8.00	7.29	6.04	5.59
<b>Net Interest Income</b>	<b>11.67</b>	<b>10.96</b>	<b>9.29</b>	<b>9.32</b>	<b>9.33</b>
<b>Non-Interest income</b>	<b>2.16</b>	<b>2.58</b>	<b>1.67</b>	<b>2.08</b>	<b>1.94</b>
<b>Total Income</b>	<b>13.83</b>	<b>13.54</b>	<b>10.96</b>	<b>11.39</b>	<b>11.27</b>
<b>Operating Expenses</b>	<b>8.66</b>	<b>6.95</b>	<b>5.72</b>	<b>6.34</b>	<b>6.98</b>
Employee cost	18.65	13.46	13.00	14.62	15.35
<b>Operating Profits</b>	<b>5.17</b>	<b>6.59</b>	<b>5.24</b>	<b>5.06</b>	<b>4.29</b>
<b>Provisions</b>	<b>1.74</b>	<b>3.00</b>	<b>3.30</b>	<b>5.00</b>	<b>3.18</b>
NPA	2.33	1.15	8.47	1.25	2.14
<b>PBT</b>	<b>3.42</b>	<b>3.59</b>	<b>1.94</b>	<b>0.06</b>	<b>1.11</b>
Tax	0.26	1.05	0.44	-0.03	0.23
<b>RoA</b>	<b>3.16</b>	<b>2.54</b>	<b>1.50</b>	<b>0.09</b>	<b>0.89</b>
Leverage (x)	6.4	7.2	7.8	8.5	9.3
<b>RoE</b>	<b>20.3</b>	<b>18.3</b>	<b>11.8</b>	<b>0.8</b>	<b>8.2</b>

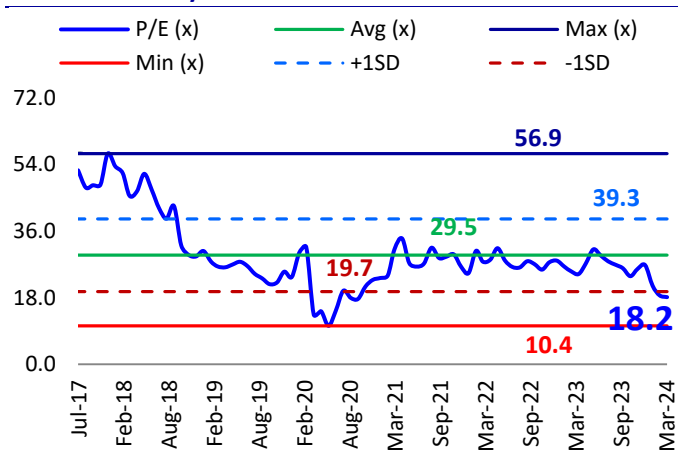
Source: MOFSL, Company

**Exhibit 23: AUBANK: DuPont Analysis – Estimate return ratios to improve gradually**

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	11.46	11.46	10.56	9.81	10.30	11.00	12.56	12.26
Interest Expense	6.24	6.36	5.51	4.45	4.75	5.74	6.25	6.17
<b>Net Interest Income</b>	<b>5.22</b>	<b>5.11</b>	<b>5.05</b>	<b>5.36</b>	<b>5.56</b>	<b>5.26</b>	<b>6.31</b>	<b>6.09</b>
Core Fee Income	1.71	1.43	1.21	1.41	1.35	1.45	1.65	1.61
<b>Non-Interest income</b>	<b>1.80</b>	<b>1.89</b>	<b>3.03</b>	<b>1.65</b>	<b>1.30</b>	<b>1.67</b>	<b>1.87</b>	<b>1.83</b>
<b>Total Income</b>	<b>7.01</b>	<b>7.00</b>	<b>8.08</b>	<b>7.01</b>	<b>6.85</b>	<b>6.93</b>	<b>8.18</b>	<b>7.92</b>
<b>Operating Expenses</b>	<b>4.21</b>	<b>3.79</b>	<b>3.54</b>	<b>4.00</b>	<b>4.32</b>	<b>4.39</b>	<b>5.26</b>	<b>4.89</b>
Employee cost	2.34	2.03	2.09	2.29	2.25	2.14	2.48	2.30
Others	1.87	1.76	1.45	1.71	2.07	2.26	2.78	2.59
<b>Operating Profits</b>	<b>2.81</b>	<b>3.20</b>	<b>4.54</b>	<b>3.01</b>	<b>2.54</b>	<b>2.54</b>	<b>2.91</b>	<b>3.03</b>
<b>Core operating Profits</b>	<b>2.72</b>	<b>2.74</b>	<b>2.72</b>	<b>2.77</b>	<b>2.59</b>	<b>2.32</b>	<b>2.69</b>	<b>2.81</b>
<b>Provisions</b>	<b>0.55</b>	<b>0.76</b>	<b>1.43</b>	<b>0.60</b>	<b>0.19</b>	<b>0.48</b>	<b>0.76</b>	<b>0.77</b>
NPA	0.29	0.17	1.36	0.19	0.31	0.43	0.71	0.74
<b>PBT</b>	<b>2.25</b>	<b>2.44</b>	<b>3.11</b>	<b>2.41</b>	<b>2.34</b>	<b>2.06</b>	<b>2.15</b>	<b>2.26</b>
Tax	0.77	0.64	0.61	0.54	0.55	0.51	0.53	0.55
<b>RoA</b>	<b>1.48</b>	<b>1.81</b>	<b>2.50</b>	<b>1.87</b>	<b>1.79</b>	<b>1.56</b>	<b>1.62</b>	<b>1.71</b>
Leverage (x)	9.5	10.0	8.9	8.8	8.7	8.6	9.3	9.8
<b>RoE</b>	<b>14.0</b>	<b>18.0</b>	<b>22.3</b>	<b>16.6</b>	<b>15.5</b>	<b>13.4</b>	<b>15.1</b>	<b>16.8</b>

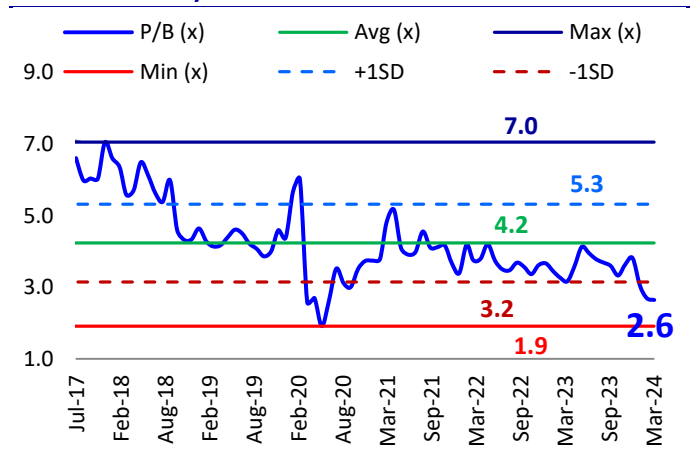
Source: MOFSL, Company

**Exhibit 24: One-year forward PE: AUBANK**



Source: Company, MOFSL

**Exhibit 25: One-year forward PB: AUBANK**



Source: Company, MOFSL

## Fincare SFB: Summary financials

Income Statement					(INR m)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23
Interest Income	6,052	10,703	12,510	14,486	17,441
Interest Expense	2,292	4,515	5,501	5,698	6,537
<b>Net Interest income</b>	<b>3,760</b>	<b>6,188</b>	<b>7,010</b>	<b>8,788</b>	<b>10,904</b>
<i>Growth (%)</i>	93.0	64.6	13.3	25.4	24.1
Other Income	697	1,455	1,257	1,962	2,267
<b>Total Income</b>	<b>4,457</b>	<b>7,642</b>	<b>8,267</b>	<b>10,750</b>	<b>13,171</b>
<i>Growth (%)</i>	92.7	71.5	8.2	30.0	22.5
<b>Operating Expenses</b>	<b>2,792</b>	<b>3,920</b>	<b>4,314</b>	<b>5,977</b>	<b>8,158</b>
<i>Growth (%)</i>	62.7	40.4	10.1	38.5	36.5
<b>Operating Profits</b>	<b>1,665</b>	<b>3,722</b>	<b>3,952</b>	<b>4,773</b>	<b>5,014</b>
<i>Growth (%)</i>	178.8	123.6	6.2	20.8	5.0
Provisions	562	1,695	2,488	4,715	3,714
<b>PBT</b>	<b>1,103</b>	<b>2,027</b>	<b>1,464</b>	<b>57</b>	<b>1,300</b>
Tax	83	593	333	-31	263
<i>Tax Rate (%)</i>	7.5	29.2	22.7	-54.3	20.3
<b>PAT</b>	<b>1,020</b>	<b>1,435</b>	<b>1,131</b>	<b>89</b>	<b>1,036</b>
<i>Growth (%)</i>	-204.5	40.7	-21.1	-92.2	1,068.4

Balance Sheet					(INR m)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23
Equity Share Capital	564	636	636	2,208	2,208
Reserves & Surplus	6,096	8,402	9,543	9,811	10,929
<b>Equity Networth</b>	<b>6,660</b>	<b>9,038</b>	<b>10,179</b>	<b>12,019</b>	<b>13,137</b>
<b>Deposits</b>	<b>21,432</b>	<b>46,539</b>	<b>53,185</b>	<b>64,556</b>	<b>80,332</b>
<i>Growth (%)</i>	159%	117%	14%	21%	24%
Borrowings	11,831	13,682	14,004	29,435	27,840
Other liabilities	1,795	1,904	2,302	3,000	3,368
<b>Total Liabilities</b>	<b>41,717</b>	<b>71,163</b>	<b>79,671</b>	<b>1,09,010</b>	<b>1,24,677</b>
Current Assets	5,216	10,829	11,556	12,360	7,722
<b>Investments</b>	<b>7,009</b>	<b>10,070</b>	<b>12,794</b>	<b>21,516</b>	<b>25,228</b>
<i>Growth (%)</i>	157.0	43.7	27.1	68.2	17.3
<b>Loans</b>	<b>27,647</b>	<b>48,156</b>	<b>53,011</b>	<b>70,370</b>	<b>87,024</b>
<i>Growth (%)</i>	69.7	74.2	10.1	32.7	23.7
Net Fixed Assets	331	404	362	423	563
Other assets	1,515	1,705	1,948	4,341	4,139
<b>Total Assets</b>	<b>41,717</b>	<b>71,163</b>	<b>79,671</b>	<b>1,09,010</b>	<b>1,24,677</b>

Asset Quality					
	FY19	FY20	FY21	FY22	FY23
GNPA (INR m)	359	447	3,536	5,732	2,885
NNPA (INR m)	95	198	1,484	2,498	1,130
GNPA Ratio	1.3	0.9	6.4	7.8	3.3
NNPA Ratio	0.3	0.4	2.8	3.6	1.3
PCR (Excl Tech. write off)	73.5	55.8	58.0	56.4	60.8



## Fincare SFB: Summary financials

### Ratios

Y/E MARCH	FY19	FY20	FY21	FY22	FY23
<b>Yield and Cost Ratios (%)</b>					
<b>Avg. Yield - on IEA</b>			<b>17.6</b>	<b>18.2</b>	<b>17.2</b>
Avg. Cost of funds	9.3	9.0	8.7	7.4	6.9
<b>Spreads</b>			<b>8.9</b>	<b>10.8</b>	<b>10.2</b>
<b>NIM (On total assets)</b>	<b>10.8</b>	<b>10.2</b>	<b>9.9</b>	<b>11.1</b>	<b>10.7</b>

### Capitalization Ratios (%)

CAR	23.6	29.3	29.6	22.3	20.0
<i>Tier I</i>	21.5	23.5	18.6	19.5	18.6
<i>Tier II</i>	2.1	5.8	10.9	2.8	1.4

### Business and Efficiency Ratios (%)

Loan/Deposit Ratio	129.0	103.5	99.7	109.0	108.3
CASA Ratio	10.4	11.9	23.8	36.3	33.1
Cost/Assets	8.7	6.9	5.7	6.3	7.0
Cost/Total Income	62.6	51.3	52.2	55.6	61.9
Int. Expense/Int. Income	37.9	42.2	44.0	39.3	37.5
Fee Income/Total Income	15.3	18.9	15.1	18.0	17.7
Non Int. Income/Total Income	15.6	19.0	15.2	18.2	17.2
Investment/Deposit Ratio	32.7	21.6	24.1	33.3	31.4
Empl. Cost/Total Expense	64.7	66.3	67.0	68.9	69.7

## AUBANK: Financials and valuations

Income Statement								(INR m)
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	29,488	42,859	49,501	59,217	82,054	1,08,982	1,60,895	2,06,319
Interest Expense	16,064	23,769	25,846	26,876	37,801	56,910	81,596	1,05,095
<b>Net Interest income</b>	<b>13,425</b>	<b>19,089</b>	<b>23,654</b>	<b>32,341</b>	<b>44,253</b>	<b>52,072</b>	<b>79,299</b>	<b>1,01,224</b>
Growth (%)	42.7	42.2	23.9	36.7	36.8	17.7	52.3	27.6
Other Income	4,620	7,061	14,209	9,937	10,345	16,551	24,165	30,931
<b>Total Income</b>	<b>18,045</b>	<b>26,150</b>	<b>37,864</b>	<b>42,278</b>	<b>54,597</b>	<b>68,624</b>	<b>1,03,464</b>	<b>1,32,155</b>
Growth (%)	35.8	44.9	44.8	11.7	29.1	25.7	50.8	27.7
<b>Operating Expenses</b>	<b>10,826</b>	<b>14,179</b>	<b>16,584</b>	<b>24,128</b>	<b>34,403</b>	<b>43,370</b>	<b>66,047</b>	<b>80,815</b>
Growth (%)	43.8	31.0	17.0	45.5	42.6	26.1	52.3	22.4
<b>Operating Profits</b>	<b>7,219</b>	<b>11,972</b>	<b>21,279</b>	<b>18,150</b>	<b>20,195</b>	<b>25,253</b>	<b>37,417</b>	<b>51,340</b>
Growth (%)	25.3	65.8	77.7	-14.7	11.3	25.0	48.2	37.2
<b>Core Operating Profits</b>	<b>6,998</b>	<b>10,246</b>	<b>12,737</b>	<b>16,721</b>	<b>20,638</b>	<b>23,116</b>	<b>34,586</b>	<b>47,611</b>
Growth (%)	30.1	46.4	24.3	31.3	23.4	12.0	49.6	37.7
Total Provisions	1,418	2,832	6,694	3,610	1,548	4,719	9,822	13,496
% to operating income	19.6	23.7	31.5	19.9	7.7	18.7	26.3	26.3
<b>PBT</b>	<b>5,801</b>	<b>9,140</b>	<b>14,585</b>	<b>14,541</b>	<b>18,646</b>	<b>20,534</b>	<b>27,595</b>	<b>37,844</b>
Tax	1,984	2,392	2,878	3,242	4,367	5,031	6,761	9,272
Tax Rate (%)	34.2	26.2	19.7	22.3	23.4	24.5	24.5	24.5
<b>PAT</b>	<b>3,818</b>	<b>6,748</b>	<b>11,707</b>	<b>11,298</b>	<b>14,279</b>	<b>15,503</b>	<b>20,834</b>	<b>28,573</b>
Growth (%)	30.7	76.8	73.5	-3.5	26.4	8.6	34.4	37.1
<b>Adj. PAT</b>	<b>3,818</b>	<b>5,962</b>	<b>6,002</b>	<b>11,298</b>	<b>14,279</b>	<b>15,503</b>	<b>20,834</b>	<b>28,573</b>
Growth (%)	30.7	56.2	0.7	88.2	26.4	8.6	34.4	37.1
<b>Balance Sheet</b>								
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	5,847	6,082	6,244	6,298	6,667	6,687	7,425	7,425
Reserves & Surplus	25,782	37,164	55,477	68,429	1,02,666	1,14,835	1,60,199	1,88,771
<b>Equity Networkh</b>	<b>31,629</b>	<b>43,247</b>	<b>61,721</b>	<b>74,727</b>	<b>1,09,333</b>	<b>1,21,523</b>	<b>1,67,624</b>	<b>1,96,196</b>
<b>Deposits</b>	<b>1,94,224</b>	<b>2,61,639</b>	<b>3,59,793</b>	<b>5,25,846</b>	<b>6,93,650</b>	<b>8,60,126</b>	<b>11,91,759</b>	<b>15,01,616</b>
Growth (%)	145%	35%	38%	46%	32%	24.0%	38.6%	26.0%
Borrowings	86,134	1,03,353	70,297	59,908	62,987	56,688	1,05,191	1,22,022
Other liabilities	14,241	12,670	23,071	29,884	35,751	40,757	54,158	63,906
<b>Total Liabilities</b>	<b>3,26,228</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>6,90,778</b>	<b>9,02,161</b>	<b>10,79,533</b>	<b>15,19,172</b>	<b>18,84,180</b>
Current Assets	17,402	33,697	47,813	59,285	94,252	56,014	70,312	77,343
<b>Investments</b>	<b>71,617</b>	<b>1,06,682</b>	<b>1,08,154</b>	<b>1,53,065</b>	<b>2,00,720</b>	<b>2,87,030</b>	<b>4,02,398</b>	<b>5,02,998</b>
Growth (%)	134.8	49.0	1.4	41.5	31.1	43.0	40.2	25.0
<b>Loans</b>	<b>2,28,187</b>	<b>2,69,924</b>	<b>3,46,089</b>	<b>4,60,953</b>	<b>5,84,215</b>	<b>7,11,133</b>	<b>10,12,245</b>	<b>12,66,277</b>
Growth (%)	71.4	18.3	28.2	33.2	26.7	21.7	42.3	25.1
Net Fixed Assets	4,470	4,480	4,824	6,226	7,401	8,512	10,248	11,785
Other assets	4,552	6,648	9,033	11,250	15,573	16,845	23,969	25,777
<b>Total Assets</b>	<b>3,26,228</b>	<b>4,21,431</b>	<b>5,15,913</b>	<b>6,90,778</b>	<b>9,02,161</b>	<b>10,79,533</b>	<b>15,19,172</b>	<b>18,84,180</b>
<b>Total Assets (incl. off BS)</b>	<b>3,40,501</b>	<b>4,60,437</b>	<b>5,46,944</b>	<b>7,08,135</b>	<b>9,09,526</b>	<b>11,76,506</b>	<b>16,29,944</b>	<b>20,10,656</b>
<b>Asset Quality</b>								
Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (INR m)	4,701	4,578	15,028	9,244	9,813	14,092	19,819	25,212
NNPA (INR m)	2,945	2,173	7,555	2,308	2,862	4,882	6,915	8,353
GNPA Ratio	2.1	1.7	4.3	2.0	1.7	2.0	2.0	2.0
NNPA Ratio	1.3	0.8	2.2	0.5	0.5	0.7	0.7	0.7
Slippage Ratio	2.5	2.5	4.2	3.6	2.4	2.1	2.3	2.3
Credit Cost	0.6	1.0	2.0	0.7	0.3	0.7	1.1	1.1
PCR (Excl Tech. write off)	37.4	52.5	49.7	75.0	70.8	65.4	65.1	66.9

E: MOFSL Estimates

## AUBANK: Financials and valuations

### Ratios

Y/E MARCH	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield - on IEA</b>	<b>12.1</b>	<b>12.1</b>	<b>11.2</b>	<b>10.7</b>	<b>11.7</b>	12.2	13.3	12.9
Avg. Yield on loans	11.7	12.4	11.5	11.4	12.8	13.0	14.0	13.7
Avg. Cost of funds	7.4	7.4	6.5	5.3	5.6	6.8	7.4	7.2
<b>Spreads</b>	<b>4.3</b>	<b>5.0</b>	<b>5.0</b>	<b>6.1</b>	<b>7.2</b>	6.1	6.6	6.5
<b>NIM (On total assets)</b>	<b>5.2</b>	<b>5.1</b>	<b>5.0</b>	<b>5.4</b>	<b>5.6</b>	5.3	6.1	5.9
<b>NIM (On IEA)</b>	<b>5.5</b>	<b>5.4</b>	<b>5.3</b>	<b>5.9</b>	<b>6.3</b>	<b>5.8</b>	<b>6.5</b>	<b>6.3</b>

### Capitalization Ratios (%)

CAR	19.3	22.0	23.4	21.0	23.6	21.9	20.4	18.7
Tier I	16.0	18.4	21.5	19.7	21.8	20.5	19.6	18.1
Tier II	3.4	3.6	1.8	1.3	1.8	1.3	0.8	0.6

### Business and Efficiency Ratios (%)

Loan/Deposit Ratio	117.5	103.2	96.2	87.7	84.2	82.7	84.9	84.3
CASA Ratio	18.5	14.5	23.0	37.3	38.4	32.0	30.5	31.3
Cost/Assets	4.2	3.8	3.5	4.0	4.3	4.4	5.1	4.7
Cost/Total Income	60.0	54.2	43.8	57.1	63.0	63.2	63.8	61.2
Cost/Core Income	60.7	58.1	56.6	59.1	62.5	65.2	65.6	62.9
Int. Expense/Int. Income	54.5	55.5	52.2	45.4	46.1	52.2	50.7	50.9
Fee Income/Total Income	24.4	20.4	15.0	20.1	19.8	21.0	20.6	20.6
Non Int. Income/Total Income	25.6	27.0	37.5	23.5	18.9	24.1	23.4	23.4
Investment/Deposit Ratio	36.9	40.8	30.1	29.1	28.9	33.4	33.8	33.5
Empl. Cost/Total Expense	55.5	53.6	59.1	57.2	52.1	48.8	47.4	47.3

### Profitability and Valuations

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
RoE	14.0	18.0	22.3	16.6	15.5	13.4	14.4	15.7
RoA (On bal Sheet)	1.5	1.8	2.5	1.9	1.8	1.6	1.6	1.7
RoRWA	2.0	3.0	4.2	3.1	2.9	2.6	2.4	2.6
Book Value (INR)	54.1	71.1	98.8	118.7	164.0	181.7	225.7	264.2
Growth (%)	35.5	31.4	39.0	20.0	38.2	10.8	24.2	17.0
<b>Price-BV (x)</b>	<b>10.6</b>	<b>8.0</b>	<b>5.8</b>	<b>4.8</b>	<b>3.5</b>	<b>3.1</b>	<b>2.5</b>	<b>2.2</b>
Adjusted BV (INR)	51.3	69.5	92.0	116.7	161.6	177.3	219.8	256.9
Growth (%)	34.5	35.4	32.5	26.9	38.5	9.7	24.0	16.9
<b>Price-ABV (x)</b>	<b>11.1</b>	<b>8.2</b>	<b>6.2</b>	<b>4.9</b>	<b>3.5</b>	<b>3.2</b>	<b>2.6</b>	<b>2.2</b>
EPS (INR)	6.6	11.3	19.0	18.0	22.0	23.2	29.5	38.5
Adjusted EPS (INR)	6.6	11.3	19.0	18.0	22.0	23.2	29.5	38.5
Growth (%)	28.9	71.3	67.9	-5.1	22.3	5.4	27.2	30.3
<b>Price-Earnings (x)</b>	<b>86.6</b>	<b>50.6</b>	<b>30.1</b>	<b>31.7</b>	<b>26.0</b>	<b>24.6</b>	<b>19.4</b>	<b>14.9</b>

E: MOFSL Estimates

NOTES

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](http://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](http://www.nseindia.com), [www.bseindia.com](http://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") (UEN 201129401Z), which is a holder of a capital markets services license and an exempt financial adviser in Singapore. This report is distributed solely to persons who (a) qualify as "institutional investors" as defined in section 4A(1)(c) of the Securities and Futures Act of Singapore ("SFA") or (b) are considered "accredited investors" as defined in section 2(1) of the Financial Advisers Regulations of Singapore read with section 4A(1)(a) of the SFA. Accordingly, if a recipient is neither an "institutional investor" nor an "accredited investor", they must immediately discontinue any use of this Report and inform MOCMSPL.

In respect of any matter arising from or in connection with the research you could contact the following representatives of MOCMSPL. In case of grievances for any of the services rendered by MOCMSPL write to [grievances@motilaloswal.com](mailto:grievances@motilaloswal.com).

Nainesh

Email: [nainesh.raiani@motilaloswal.com](mailto:nainesh.raiani@motilaloswal.com)

Contact: (+65) 8328 0276

Rajani

#### 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.