

# Union Bank of India

Estimate change



TP change



Rating change



Bloomberg	UNBK IN
Equity Shares (m)	7634
M.Cap.(INRb)/(USDb)	1084 / 13
52-Week Range (INR)	163 / 68
1, 6, 12 Rel. Per (%)	-3/23/81
12M Avg Val (INR M)	2696

## Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	365.7	386.5	429.5
OP	282.1	299.4	335.6
NP	136.5	158.6	180.5
NIM (%)	2.9	2.8	2.8
EPS (INR)	18.9	20.8	23.7
EPS Gr. (%)	52.9	10.1	13.8
BV/Sh. (INR)	123	139	159
ABV/Sh. (INR)	112	130	149
RoE (%)	16.7	16.3	16.3
RoA (%)	1.0	1.1	1.1

## Valuations

P/E(X)	7.5	6.8	6.0
P/BV (X)	1.2	1.0	0.9
P/ABV (X)	1.3	1.1	1.0

## Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	74.8	77.0	83.5
DII	12.6	12.3	8.3
FII	6.8	4.0	1.7
Others	5.9	6.8	6.6

**CMP: INR142**

**TP: INR165 (+16%)**

**Buy**

**One-off opex dents earnings; guides for RoA of >1%**

## Asset quality ratio improves

- Union Bank of India (UNBK) reported 19% YoY growth in PAT at INR33b (14% miss) in 4QFY24 as opex increased 13.7% YoY to INR76b (24% higher than MOFSLe).
- NII grew 14.4% YoY to INR94.4b (in line). NIMs stood broadly stable, with a 1bp QoQ increase to 3.09%.
- Loan book grew 14% YoY/1% QoQ. Deposits grew 9.3% YoY/4.2% QoQ. The CD ratio, thus, moderated 224bp QoQ to 71.3%.
- Asset quality ratios improved slightly, with GNPA/NNPA ratios declining by 7bp/5bp YoY to 4.76% /1.03%. However, slippages increased during the quarter to INR33b from INR26.8b in 3QFY24.
- We cut our FY25/FY26 EPS estimates by 2.1-2.2% and estimate RoA/RoE of 1.1%/16.3% by FY26. **Retain BUY with a revised TP of INR165.**

## Loan growth moderates; margins broadly stable at 3.09%

- UNBK reported 19% YoY growth in PAT at INR33b (14% miss) due to higher opex (mostly wage related). For FY24, PAT rose 62% YoY to INR136.5b.
- NII grew 14.4% YoY to INR94.4b (in line). NIMs were broadly stable, with a 1bp QoQ increase to 3.09% (above the management's guidance of 3%).
- Other income grew 24.7% QoQ (20% beat) as treasury gains remained healthy at INR7.8b, besides an income tax refund of INR4.97b. Total income, thus, increased by 4.6% YoY to INR141.4b.
- Operating expenses grew 13.7% YoY to INR76b (24% higher than our estimate). Thus, PPop declined 4.3% YoY to INR65b (10% miss). The C/I ratio thus increased to 53.8%.
- Advances saw a moderate growth sequentially at 14% YoY/1% QoQ to INR8.7t. Retail book grew 11% YoY (2.3% QoQ) and commercial book grew 15% YoY (0.7% QoQ). Deposits grew 9.3% YoY (4.2% QoQ), with CASA deposits increasing 4.1% YoY, leading to 20bp QoQ moderation in the domestic CASA ratio to 34.2%.
- 4Q slippages rose to INR33b vs. INR26.8b in 3Q. GNPA/NNPA ratios improved 7bp/5bp YoY to 4.76% /1.03%. PCR rose 76bps QoQ to 79.1%.
- SMA book remained under control at ~INR32.4b due to a decline in SMA-0 bucket. Restructured loans declined to 1.5% of loans.

## Highlights from the management commentary

- Employee cost has gone up as the bank has made pension/gratuity provisions amounting to ~INR13b during the quarter. Wage provisions stood at INR1.63b, which impacted the operating profits in 4QFY24.
- The bank guides for >1% of RoA with NIMs of 2.8-3%. The bank aims to surpass its RoA guidance.
- Employee expenses are expected to rise by INR 3.3b per quarter, with a projected HR cost escalation of 6-7% YoY. Consequently, the ongoing monthly staff expenses are estimated to range around INR11.5-12b.

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

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**Valuation and view**

UNBK reported a mixed quarter characterized by healthy revenue growth and lower-than-expected provisions; however, higher opex led to a miss in earnings. NIMs remained broadly stable and above the guided range. Continued improvements in the CD ratio and residual re-pricing of MCLR loans will support NIMs; the management has guided for the NIM range of 2.8-3%. Slippages increased, while recoveries and upgrades declined sequentially. However, controlled SMA book and a consistent decline in restructured assets (1.5%) provide a healthy outlook for asset quality. We cut our FY25/FY26 EPS estimates by ~2% and estimate RoA/RoE of 1.1%/16.3% by FY26. **We reiterate our BUY rating with a revised TP of INR165 (premised on 1x FY26E ABV).**

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

	FY23				FY24E				FY23	FY24	FY24E V/S our	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
<b>Net Interest Income</b>	<b>75.8</b>	<b>83.1</b>	<b>86.3</b>	<b>82.5</b>	<b>88.4</b>	<b>91.3</b>	<b>91.7</b>	<b>94.4</b>	<b>327.7</b>	<b>365.7</b>	<b>94.4</b>	<b>0%</b>
% Change (YoY)	8.1	21.6	20.3	21.9	16.6	9.9	6.3	14.4	17.9	11.6	14.4	
Other Income	28.2	32.8	32.7	52.7	39.0	37.0	37.7	47.1	146.3	160.8	39.2	20%
<b>Total Income</b>	<b>104.0</b>	<b>115.8</b>	<b>119.0</b>	<b>135.2</b>	<b>127.4</b>	<b>128.2</b>	<b>129.4</b>	<b>141.4</b>	<b>474.0</b>	<b>526.5</b>	<b>133.6</b>	<b>6%</b>
Operating Expenses	49.5	50.0	52.8	67.0	55.6	56.0	56.6	76.1	219.3	244.4	61.3	24%
<b>Operating Profit</b>	<b>54.5</b>	<b>65.8</b>	<b>66.2</b>	<b>68.2</b>	<b>71.8</b>	<b>72.2</b>	<b>72.8</b>	<b>65.3</b>	<b>254.7</b>	<b>282.1</b>	<b>72.3</b>	<b>-10%</b>
% Change (YoY)	5.1	8.3	29.8	23.6	31.8	9.8	9.9	-4.3	16.4	10.8	5.9	
Provisions	32.8	40.8	30.4	29.4	20.1	17.7	17.5	12.6	133.3	67.8	18.6	-32%
<b>Profit before Tax</b>	<b>21.7</b>	<b>25.0</b>	<b>35.8</b>	<b>38.9</b>	<b>51.7</b>	<b>54.5</b>	<b>55.3</b>	<b>52.7</b>	<b>121.4</b>	<b>214.3</b>	<b>53.7</b>	<b>-2%</b>
Tax	6.1	6.5	13.4	11.1	19.4	19.4	19.4	19.6	37.0	77.8	15.0	31%
<b>Net Profit</b>	<b>15.6</b>	<b>18.5</b>	<b>22.4</b>	<b>27.8</b>	<b>32.4</b>	<b>35.1</b>	<b>35.9</b>	<b>33.1</b>	<b>84.3</b>	<b>136.5</b>	<b>38.7</b>	<b>-14%</b>
% Change (YoY)	32.0	21.1	106.8	93.3	107.7	90.0	59.9	19.0	61.2	61.8	39.1	
<b>Operating Parameters</b>												
Deposit (INR b)	9,928	10,433	10,650	11,177	11,281	11,376	11,725	12,215	11,177	12,215	12,215	
Loan (INR b)	6,764	7,275	7,564	7,618	7,705	8,036	8,621	8,708	7,618	8,708	8,731	
Deposit Growth (%)	9.3	14.1	13.6	8.3	13.6	9.0	10.1	9.3	8.3	9.3	9.3	
Loan Growth (%)	15.7	25.2	22.6	15.3	13.9	10.5	14.0	14.3	15.3	14.3	14.6	
<b>Asset Quality</b>												
Gross NPA (%)	10.2	8.5	7.9	7.5	7.3	6.4	4.8	4.8	7.5	4.8	4.6	
Net NPA (%)	3.3	2.6	2.1	1.7	1.6	1.3	1.1	1.0	1.8	1.0	1.0	
PCR (%)	69.9	70.6	74.6	78.8	79.8	80.7	78.4	79.1	78.1	79.1	79.0	

E:MOFSL Estimates

## Quarterly snapshot

INR b	FY23				FY24				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Profit and Loss</b>										
<b>Interest Income</b>	<b>181.7</b>	<b>196.8</b>	<b>208.8</b>	<b>220.0</b>	<b>234.8</b>	<b>245.9</b>	<b>253.6</b>	<b>263.5</b>	<b>20</b>	<b>4</b>
Loans	122.6	138.1	150.3	156.6	166.4	175.0	183.8	194.5	24	6
Investment	52.5	53.1	53.5	54.5	55.8	56.2	56.6	56.1	3	-1
<b>Interest Expenses</b>	<b>105.9</b>	<b>113.8</b>	<b>122.5</b>	<b>137.5</b>	<b>146.4</b>	<b>154.6</b>	<b>161.9</b>	<b>169.1</b>	<b>23</b>	<b>4</b>
<b>Net Interest Income</b>	<b>75.8</b>	<b>83.1</b>	<b>86.3</b>	<b>82.5</b>	<b>88.4</b>	<b>91.3</b>	<b>91.7</b>	<b>94.4</b>	<b>14</b>	<b>3</b>
<b>Other Income</b>	<b>28.2</b>	<b>32.8</b>	<b>32.7</b>	<b>52.7</b>	<b>39.0</b>	<b>37.0</b>	<b>37.7</b>	<b>47.1</b>	<b>-11</b>	<b>25</b>
Trading profits	1.7	3.0	4.7	6.1	7.8	6.8	6.1	7.8	29	28
<b>Total Income</b>	<b>104.0</b>	<b>115.8</b>	<b>119.0</b>	<b>135.2</b>	<b>127.4</b>	<b>128.2</b>	<b>129.4</b>	<b>141.4</b>	<b>5</b>	<b>9</b>
<b>Operating Expenses</b>	<b>49.5</b>	<b>50.0</b>	<b>52.8</b>	<b>67.0</b>	<b>55.6</b>	<b>56.0</b>	<b>56.6</b>	<b>76.1</b>	<b>14</b>	<b>34</b>
Employee	26.5	27.5	28.5	41.4	31.8	30.9	32.8	48.3	17	47
Others	23.0	22.6	24.3	25.5	23.8	25.2	23.9	27.8	9	17
<b>Operating Profits</b>	<b>54.5</b>	<b>65.8</b>	<b>66.2</b>	<b>68.2</b>	<b>71.8</b>	<b>72.2</b>	<b>72.8</b>	<b>65.3</b>	<b>-4</b>	<b>-10</b>
<b>Core Operating Profits</b>	<b>52.8</b>	<b>62.8</b>	<b>61.5</b>	<b>62.2</b>	<b>64.0</b>	<b>65.4</b>	<b>66.7</b>	<b>57.5</b>	<b>-7</b>	<b>-14</b>
Provisions	32.8	40.8	30.4	29.4	20.1	17.7	17.5	12.6	-57	-28
<b>PBT</b>	<b>21.7</b>	<b>25.0</b>	<b>35.8</b>	<b>38.9</b>	<b>51.7</b>	<b>54.5</b>	<b>55.3</b>	<b>52.7</b>	<b>36</b>	<b>-5</b>
Taxes	6.1	6.5	13.4	11.1	19.4	19.4	19.4	19.6	78	1
<b>PAT</b>	<b>15.6</b>	<b>18.5</b>	<b>22.4</b>	<b>27.8</b>	<b>32.4</b>	<b>35.1</b>	<b>35.9</b>	<b>33.1</b>	<b>19</b>	<b>-8</b>
<b>Balance Sheet</b>										
Deposits (INR b)	9,928	10,433	10,650	11,177	11,281	11,376	11,725	12,215	9	4
Loans (INR b)	6,764	7,275	7,564	7,618	7,705	8,036	8,621	8,708	14	1
<b>Loan mix (INR b)</b>										
Retail	1,394.1	1,467.2	1,540.4	1,597.0	1,623.7	1,682.6	1,734.5	1,774.9	11	2
Agri	1,355.0	1,438.7	1,506.5	1,519.9	1,536.2	1,655.1	1,775.8	1,838.3	21	4
MSME	1,146.7	1,105.8	1,237.4	1,250.2	1,277.5	1,338.2	1,367.5	1,357.5	9	-1
Large Corporate & others	3,203.2	3,513.0	3,545.8	3,485.9	3,497.2	3,538.5	3,789.2	3,765.6	8	-1
<b>Loan mix (%)</b>										
Retail	19.6	19.5	19.7	20.3	20.5	20.5	20.0	20.3	-2	30
Agri	19.1	19.1	19.2	19.4	19.4	20.1	20.5	21.0	169	55
MSME	16.2	14.7	15.8	15.9	16.1	16.3	15.8	15.5	-38	-24
Large Corporate & others	45.1	46.7	45.3	44.4	44.1	43.1	43.7	43.1	-129	-62
<b>Asset Quality</b>										
GNPA (INR b)	745.0	653.9	637.7	609.9	601.0	540.1	432.6	431.0	-29	0
NNPA (INR b)	223.9	191.9	162.0	129.3	121.4	104.2	93.5	89.9	-30	-4
<b>Ratios (%)</b>										
<b>Asset Quality Ratios</b>										
GNPA	10.2	8.5	7.9	7.5	7.3	6.4	4.8	4.8	-277	-7
NNPA	3.3	2.6	2.1	1.7	1.6	1.3	1.1	1.0	-67	-5
PCR	84.8	86.6	88.5	90.3	90.9	92.0	92.5	92.7	235	15
Credit Cost	2.0	1.5	1.2	1.8	1.0	0.0	0.0	0.7	-103	74
<b>Business Ratios</b>										
Other Income/Total Income	27.1	28.3	27.5	39.0	30.6	28.8	29.2	33.3	-569	412
Cost to Income	47.6	43.2	44.4	49.5	43.7	43.7	43.8	53.8	428	1,004
Cost to Asset	1.8	1.8	1.8	2.2	1.8	1.8	1.8	2.3	11	53
Tax Rate	28.1	26.1	37.4	28.4	37.5	35.6	35.1	37.2	NM	214
CASA	36.2	35.6	35.3	35.6	34.6	34.7	34.4	34.2	-142	-20
Loan/Deposit	68.1	69.7	71.0	68.2	68.3	70.6	73.5	71.3	312	-224
<b>Capitalisation Ratios (%)</b>										
Tier-1	12.1	12.3	12.3	13.9	13.9	14.6	13.1	15.0	108	193
Tier-2	2.3	2.2	2.2	2.1	2.1	2.1	2.0	2.0	-15	1
CAR	14.4	14.5	14.5	16.0	16.0	16.7	15.0	17.0	93	194
RWA / Total Assets	49.6	50.0	49.5	46.9	48.3	48.5	51.0	49.7	283	-125
<b>Profitability Ratios</b>										
Yield on Loans	7.1	7.7	7.8	8.0	8.4	8.8	8.8	8.9	84	12
Cost of Deposits	4.0	4.2	4.3	4.8	5.0	5.2	5.3	5.4	61	15
Margins	3.0	3.2	3.2	3.0	3.1	3.2	3.1	3.1	11	1
<b>Other Details</b>										
Branches	8,729	8,729	8,710	8,580	8,561	8,521	8,479	8,466	-114	-13
ATMs	11,154	11,092	10,953	10,835	10,195	10,013	9,889	8,982	-1,853	-907



## Highlights from the management commentary

### Opening remarks

- The Indian economy continues to exhibit resilience, driven by robust demand and sustainable expansion.
- The bank has adhered to all previously provided guidance for FY24.
- GNPA stood at 4.76%, surpassing the GNPA guidance of 6%.
- Both advances and deposits witnessed strong growth, with advances increasing by 14% YoY and deposits by 9% YoY. The CD ratio was 71%.
- The ratio of RAM loans to corporate loans in the bank's portfolio stands at 55:45.
- The bank's CAR is robust at 16.97%, with Tier 1 capital at 15%. The bank recently bolstered its capital reserves through two tranches.
- In FY24, RoA remained robust at 1.03%, accompanied by RoE of 15.58%.
- Operating profit declined due to increased expenses related to wage revisions and pension obligations, totaling INR13.3b.
- The bank successfully raised INR80b through the QIP route in the previous fiscal year.
- Strengthening its digital capabilities facilitated profitable growth across various business segments for the bank.
- The bank has introduced new initiatives targeting CASA and RUSU sectors, identifying growth opportunities to drive traction.
- The bank is optimistic about leveraging upcoming opportunities.
- The bank places significant emphasis on compliance and regulatory adherence, prioritizing regulated perspectives.

### Opex

- Employee cost has gone up in 4Q as the bank has made wage-related INR13.3b in 4Q (pension and gratuity obligations). Wage provisions stood at INR1.63b, which impacted the operating profit in 4Q.
- Moving forward, employee expenses are expected to increase by INR3.3b per quarter, with a projected HR cost escalation of 6-7% YoY. Consequently, the ongoing monthly staff expenses are estimated to range around INR11.5-12b.

### Advances and deposits

- In personal loans, including CC, there was a marginal growth of 3%. CC declined 2%. There was no increase in slippages in this segment.
- In terms of borrowings, the bank has excess SLR, and will keep the CD ratio within the tolerable limit. INR65-70k of excess SLR, which can be utilized for credit requirement and keeping the CD ratio in line.
- Retail growth may come under pressure due to higher inflation. The corporate side is seeing healthy traction after 10 years. The bank is looking at the higher traction in private sector capex, like telecom, roadways, travel and tourism. The bank aims to improve loan growth in this sector.

### Yield, cost, margins and tax

- NIM at 4Q-end was 3.1%, while the guidance is 2.8-3%. The lower guidance is due to exposure on the corporate front.

- NIMs will depend on the liquidity and are expected to be under pressure in May'24. The bank will review the liquidity position, post which it will revise the NIM guidance.
- Interest on IT refund has increased sharply and the bank is looking at additional INR5b of interest on IT refund.
- The repo increase was 250bp, but the bank passed on only 155bp. The bank has room for MCLR repricing, but it will look at the liquidity before the residual repricing.
- The bank aims to recover INR30b in dummy interest, with INR8b recovered in 4Q.
- The bank has higher tax rates. It has already migrated to new tax rates. There was a write-back of DTA in FY24, as a result the tax rates are higher. The effective tax rate will be 25-28% in FY25.

#### **Impact of RBI guidelines on project finance**

- RBI guidelines on provisions will not have a major impact; however, the bank is still calculating the specific impact.
- Of the total corporate exposure of INR4.07t, 28% is related to project loans and of this 28%, 68% is related to the projects that have been completed and the only the remaining 32% is subject to the provisioning requirement. Hence, the bank believes that the impact will be minimal. However, the bank is in touch with the regulator to get feedback and is calculating the impact.
- The bank will be closely monitoring the developments in corporate and will try to pass on the rates. The bank had also passed on the rate when risk weights were increased.

#### **Digital initiatives and investments**

- UNBK continues to invest in IT capabilities – INR5b in in FY22, INR6.5b in FY23 and INR11.5b in FY24. It aims to invest INR14b in FY25.
- The bank is creating its own digital platform and is making 11-12 journeys on the digital side.
- The bank has also invested in analytics. It will continue to invest in IT infra. The bank aims to generate the majority of business through the digital platform. These investments will benefit the C/I ratio by 3-5% in the coming years; will come at a lag.
- INR10b/INR15b/INR25b of the indexation will happen due to the inclusion in the bond index. The bank will try to improve fee income and trading income.
- UNBK has raised capital in recent months, which will be used for capex. The bank will look at building its digital portfolio. It has seen an increase in establishment expenses and the addition of 200-250 branches will also need capital.

#### **Asset quality**

- In the fourth quarter, there was an uptick in slippages, although they stayed within the guided range. Slippages in the MSME and agriculture sectors were notably higher, with agricultural slippages showing a seasonal trend. MSME

slippages are within normal parameters, and the bank is actively monitoring them closely.

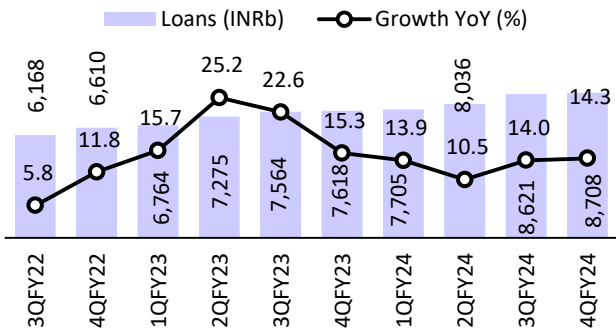
- The bank has more concentration in UP, Maharashtra, Karnataka and Telangana. 4Q slippages were higher in agri. As per RBI guidelines, once the repayment is done, the bank can again lend to these customers. Hence, agri slippages will be converted into advances and thus can again grow in this sector.
- The food processing industry is classified as agri or MSME. Rice and Food processing is classified as the agri segment.
- The bank targets recoveries of INR19.9b from the NARCL. The bank expects a good number of recoveries from the accounts.
- NPA in PL book is <1.5% and there is no visible trend in PL slippages. The book is small at INR130b and there were no major slippages from this account.
- UNBK has seen INR40b of recovery from w-off accounts and recovered interest to the tune of INR30b (dummy interest), totaling INR70b. The recovery from TWO will be INR40b and the total recovery target is INR160b.
- Slippages are higher in 4Q, but during the current year slippages were INR110b. The bank is confident of maintaining the credit cost at the current level and should be lower than 1%.

#### **Guidance for FY25**

- RoA guidance stands at >1% for FY25.
- Loans growth will be 11-13% YoY and Deposits at 9-11% YoY.
- The bank will look at 55% share in the Retail book and 45% as corporate going forward. The bank expects RAM growth to be healthy at 11-13%.
- Slippages will be below INR115b, while recoveries will be INR160b.
- Guidance for GNPA stands at less than 4%.
- The bank guides for >1% of RoA, with NIMs to be at 2.8-3%. The bank aims to surpass the RoA guidance.

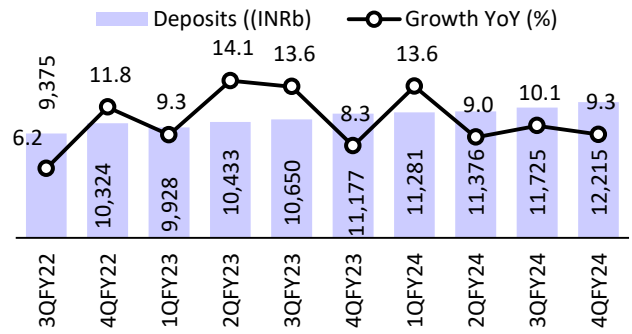
## Story in charts

**Exhibit 1: Loan book grew 14.3% YoY (1% QoQ) to INR 8.7t**



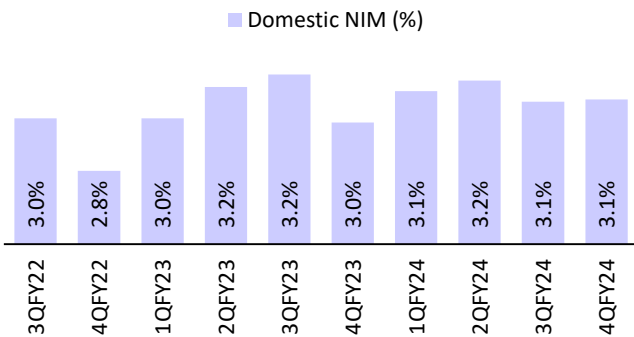
Source: MOFSL, Company

**Exhibit 2: Deposits grew 9.3% YoY to INR12t**



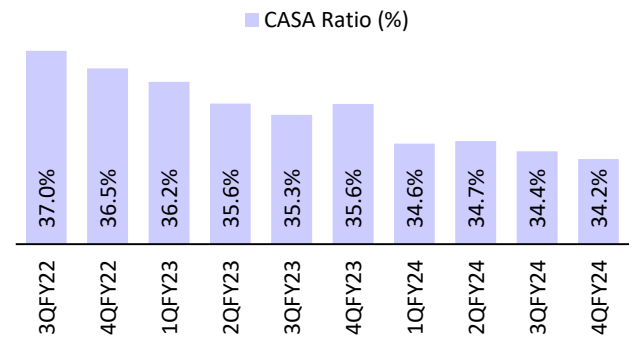
Source: MOFSL, Company

**Exhibit 3: NIMs remained broadly stable at 3.09%**



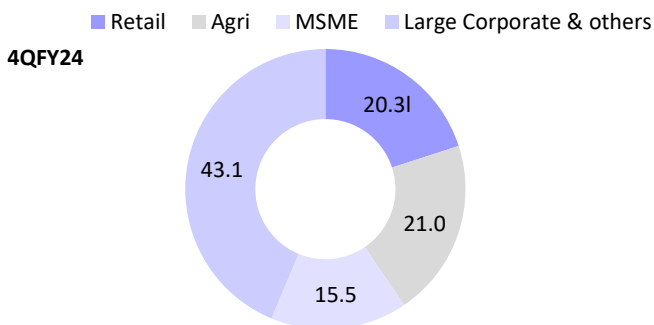
Source: MOFSL, Company

**Exhibit 4: CASA ratio moderated slightly to 34.2% in 4QFY24**



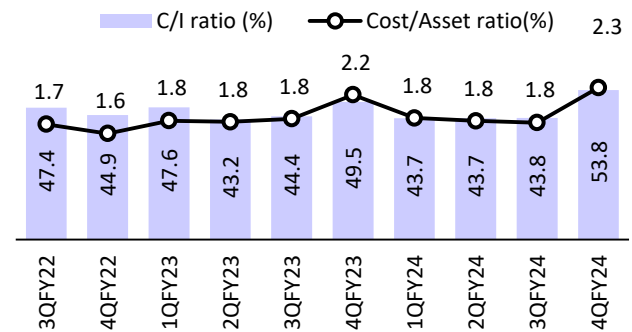
Source: MOFSL, Company

**Exhibit 5: Loan mix as a % of domestic advances**



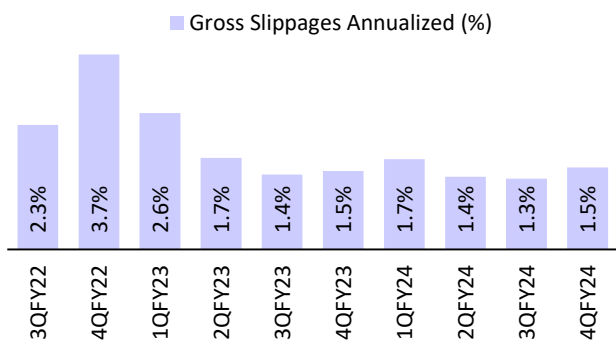
Source: MOFSL, Company

**Exhibit 6: C/I ratio increased to 53.8% vs. 43.8% in 3QFY24**



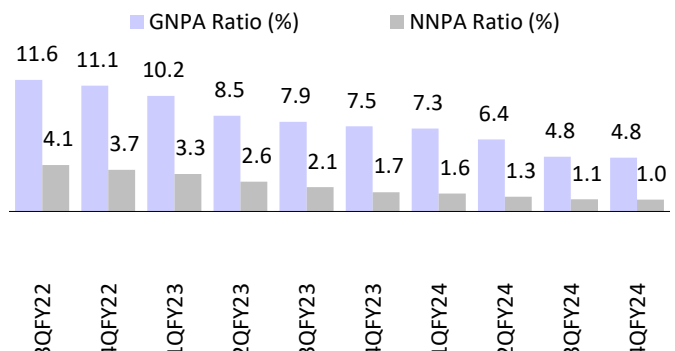
Source: MOFSL, Company

**Exhibit 7: Slippages increased to 1.5% in 4QFY24**



Source: MOFSL, Company

**Exhibit 8: GNPA/NNPA ratios improved 7bp/5bp QoQ**



Source: MOFSL, Company



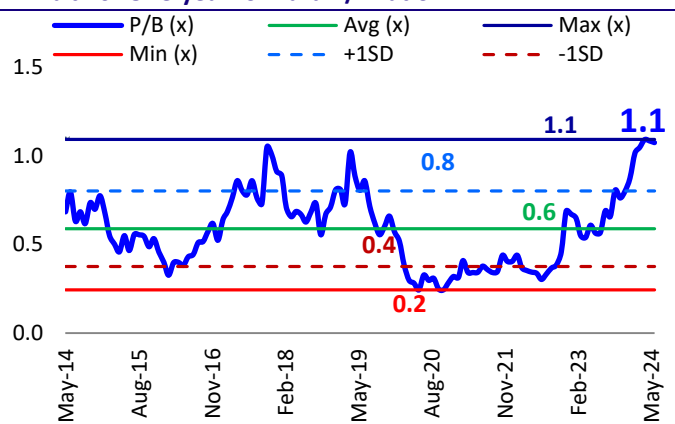
**Valuation and view: Maintain BUY with TP of INR165**

- UNBK reported a mixed quarter characterized by healthy revenue growth and lower-than-expected provisions; however, higher opex led to a miss in earnings. NIMs remained broadly stable and above the guided range. Continued improvements in the CD ratio and residual re-pricing of MCLR loans will support NIMs; the management has guided for the NIM range of 2.8-3%.
- Slippages increased, while recoveries and upgrades declined. However, controlled SMA book and a consistent decline in restructured assets (1.5%) provide a healthy outlook for asset quality.
- We cut our FY25/FY26 EPS estimates by ~2% and estimate RoA/RoE of 1.1%/16.3% by FY26. **We reiterate our BUY rating with a revised TP of INR165 (premised on 1x FY26E ABV).**

**Exhibit 9: Change in Estimates**

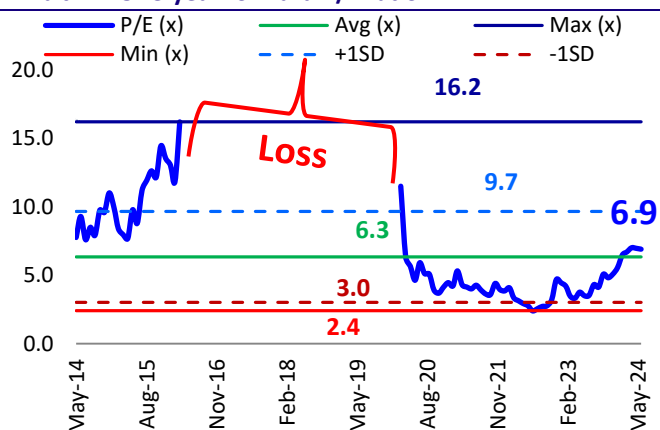
INR B	Old Est		Rev Est		Change %/bps	
	FY25	FY26	FY25	FY26	FY25	FY26
<b>Net Interest Income</b>	<b>388.7</b>	<b>428.7</b>	<b>386.5</b>	<b>429.5</b>	<b>-0.6</b>	<b>0.2</b>
Other Income	169.7	186.7	175.3	192.8	3.3	3.3
<b>Total Income</b>	<b>558.5</b>	<b>615.4</b>	<b>561.8</b>	<b>622.3</b>	<b>0.6</b>	<b>1.1</b>
Operating Expenses	249.5	275.9	262.5	286.7	5.2	3.9
<b>Operating Profits</b>	<b>309.0</b>	<b>339.5</b>	<b>299.4</b>	<b>335.6</b>	<b>-3.1</b>	<b>-1.2</b>
Provisions	86.9	91.9	82.1	91.6	-5.6	-0.3
<b>PBT</b>	<b>222.1</b>	<b>247.6</b>	<b>217.3</b>	<b>244.0</b>	<b>-2.2</b>	<b>-1.5</b>
Tax	60.0	63.2	58.7	63.4	-2.2	0.4
<b>PAT</b>	<b>162.1</b>	<b>184.5</b>	<b>158.6</b>	<b>180.5</b>	<b>-2.2</b>	<b>-2.1</b>
Loans	9,778	10,952	9,753	10,923	-0.3	-0.3
Deposits	13,158	14,408	13,327	14,566	1.3	1.1
Margins (%)	2.80	2.81	2.78	2.82	-2	1
<b>RoA (%)</b>	<b>1.1</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>-3</b>	<b>-3</b>
<b>RoE (%)</b>	<b>17.1</b>	<b>17.0</b>	<b>16.3</b>	<b>16.3</b>	<b>-75</b>	<b>-69</b>
<b>BV</b>	<b>141</b>	<b>160</b>	<b>139</b>	<b>159</b>	<b>-0.8</b>	<b>-1.2</b>
ABV	131	150	130	149	-0.9	-0.6
EPS	22	25	21	24	-5.0	-5.0

**Exhibit 10: One-year forward P/B ratio**



Source: MOFSL, Company

**Exhibit 11: One-year forward P/E ratio**



Source: MOFSL, Company



**Exhibit 12: DuPont Analysis**

<b>Y/E MARCH (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Interest Income	7.13	6.57	6.01	6.54	7.47	7.43	7.36
Interest Expense	4.94	4.21	3.55	3.89	4.73	4.78	4.67
<b>Net Interest Income</b>	<b>2.19</b>	<b>2.36</b>	<b>2.46</b>	<b>2.65</b>	<b>2.74</b>	<b>2.65</b>	<b>2.68</b>
<b>Non-Interest Income</b>	<b>1.01</b>	<b>1.12</b>	<b>1.11</b>	<b>1.19</b>	<b>1.20</b>	<b>1.20</b>	<b>1.20</b>
<b>Total Income</b>	<b>3.20</b>	<b>3.48</b>	<b>3.57</b>	<b>3.84</b>	<b>3.94</b>	<b>3.85</b>	<b>3.89</b>
<b>Operating Expenses</b>	<b>1.44</b>	<b>1.60</b>	<b>1.63</b>	<b>1.78</b>	<b>1.83</b>	<b>1.80</b>	<b>1.79</b>
Employees	0.64	0.89	0.90	1.00	1.08	1.04	1.04
Others	0.80	0.71	0.74	0.77	0.75	0.75	0.75
<b>Operating Profits</b>	<b>1.76</b>	<b>1.88</b>	<b>1.94</b>	<b>2.06</b>	<b>2.11</b>	<b>2.05</b>	<b>2.10</b>
<b>Core Operating Profits</b>	<b>1.48</b>	<b>1.49</b>	<b>1.64</b>	<b>1.98</b>	<b>2.01</b>	<b>1.94</b>	<b>1.98</b>
<b>Provisions</b>	<b>2.53</b>	<b>1.65</b>	<b>1.18</b>	<b>1.08</b>	<b>0.51</b>	<b>0.56</b>	<b>0.57</b>
<b>PBT</b>	<b>(0.77)</b>	<b>0.23</b>	<b>0.76</b>	<b>0.98</b>	<b>1.60</b>	<b>1.49</b>	<b>1.52</b>
Tax	(0.22)	(0.05)	0.30	0.30	0.58	0.40	0.40
<b>RoA</b>	<b>(0.55)</b>	<b>0.28</b>	<b>0.46</b>	<b>0.68</b>	<b>1.02</b>	<b>1.09</b>	<b>1.13</b>
Leverage (x)	19.04	18.28	18.02	17.88	16.39	15.01	14.43
<b>RoE</b>	<b>(10.56)</b>	<b>5.08</b>	<b>8.34</b>	<b>12.22</b>	<b>16.74</b>	<b>16.31</b>	<b>16.27</b>

## Financials and valuations

Income Statement							(INRb)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Interest Income	372.3	687.7	679.4	807.4	997.8	1,083.9	1,177.6	
Interest Expense	257.9	440.8	401.6	479.8	632.1	697.4	748.1	
<b>Net Interest Income</b>	<b>114.4</b>	<b>246.9</b>	<b>277.9</b>	<b>327.7</b>	<b>365.7</b>	<b>386.5</b>	<b>429.5</b>	
Growth (%)	12.0	115.9	12.5	17.9	11.6	5.7	11.1	
Non-Interest Income	52.6	117.4	125.2	146.3	160.8	175.3	192.8	
<b>Total Income</b>	<b>167.0</b>	<b>364.3</b>	<b>403.1</b>	<b>474.0</b>	<b>526.5</b>	<b>561.8</b>	<b>622.3</b>	
Growth (%)	13.7	118.2	10.6	17.6	11.1	6.7	10.8	
Operating Expenses	75.2	167.7	184.4	219.3	244.4	262.5	286.7	
<b>Pre Provision Profits</b>	<b>91.8</b>	<b>196.7</b>	<b>218.7</b>	<b>254.7</b>	<b>282.1</b>	<b>299.4</b>	<b>335.6</b>	
Growth (%)	22.1	114.2	11.2	16.4	10.8	6.1	12.1	
<b>Core PPOP</b>	<b>77.2</b>	<b>156.1</b>	<b>185.7</b>	<b>243.8</b>	<b>269.0</b>	<b>283.7</b>	<b>316.6</b>	
Growth (%)	11.1	102.2	19.0	31.3	10.3	5.4	11.6	
Provisions	132.1	172.7	132.9	133.3	67.8	82.1	91.6	
<b>PBT</b>	<b>-40.3</b>	<b>24.0</b>	<b>85.8</b>	<b>121.4</b>	<b>214.3</b>	<b>217.3</b>	<b>244.0</b>	
Tax	-11.3	-5.1	33.5	37.0	77.8	58.7	63.4	
Tax Rate (%)	28.1	-21.1	39.0	30.5	36.3	27.0	26.0	
<b>PAT</b>	<b>-29.0</b>	<b>29.1</b>	<b>52.3</b>	<b>84.3</b>	<b>136.5</b>	<b>158.6</b>	<b>180.5</b>	
Growth (%)	-1.7	-200.3	80.0	61.2	61.8	16.2	13.8	

### Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	34.2	64.1	68.3	68.3	76.3	76.3	76.3
Reserves & Surplus	303.6	580.7	637.4	715.0	893.4	1,021.4	1,167.6
<b>Net Worth</b>	<b>337.9</b>	<b>644.8</b>	<b>705.8</b>	<b>783.3</b>	<b>969.7</b>	<b>1,097.8</b>	<b>1,244.0</b>
<b>Deposits</b>	<b>4,506.7</b>	<b>9,238.1</b>	<b>10,323.9</b>	<b>11,177.2</b>	<b>12,215.3</b>	<b>13,326.9</b>	<b>14,566.3</b>
Growth (%)	8.4	105.0	11.8	8.3	9.3	9.1	9.3
- CASA Dep	<b>1,603.7</b>	<b>3,355.9</b>	<b>3,771.9</b>	<b>3,940.6</b>	<b>4,101.3</b>	<b>4,531.1</b>	<b>4,996.2</b>
Growth (%)	6.8	109.3	12.4	4.5	4.1	10.5	10.3
Borrowings	524.9	518.4	511.8	431.4	269.5	330.6	342.6
Other Liabilities & Prov.	137.4	315.9	334.4	415.6	465.1	520.9	583.4
<b>Total Liabilities</b>	<b>5,506.8</b>	<b>10,717.1</b>	<b>11,875.9</b>	<b>12,807.5</b>	<b>13,919.6</b>	<b>15,276.2</b>	<b>16,736.3</b>
Current Assets	551.1	844.1	1,195.0	1,121.5	1,193.0	1,215.5	1,237.4
<b>Investments</b>	<b>1,524.1</b>	<b>3,315.1</b>	<b>3,485.1</b>	<b>3,393.0</b>	<b>3,379.0</b>	<b>3,581.8</b>	<b>3,796.7</b>
Growth (%)	20.9	117.5	5.1	-2.6	-0.4	6.0	6.0
<b>Loans</b>	<b>3,150.5</b>	<b>5,909.8</b>	<b>6,610.0</b>	<b>7,618.5</b>	<b>8,707.8</b>	<b>9,752.7</b>	<b>10,923.0</b>
Growth (%)	6.1	87.6	11.8	15.3	14.3	12.0	12.0
Fixed Assets	47.6	73.4	71.9	88.3	92.2	96.8	101.7
Other Assets	233.5	574.6	513.9	586.3	547.5	629.4	677.5
<b>Total Assets</b>	<b>5,506.8</b>	<b>10,717.1</b>	<b>11,875.9</b>	<b>12,807.5</b>	<b>13,919.6</b>	<b>15,276.2</b>	<b>16,736.3</b>

### Asset Quality

GNPA	490.9	897.9	795.9	609.9	431.0	380.4	356.7
NNPA	173.0	279.4	249.3	133.6	89.9	82.8	75.1
Slippages	149.1	174.4	228.8	125.2	118.8	147.7	155.1
GNPA Ratio	14.15	13.75	11.12	7.53	4.76	3.79	3.18
NNPA Ratio	5.49	4.73	3.77	1.75	1.03	0.85	0.69
Slippage Ratio	5.02	2.93	3.65	1.76	1.46	1.60	1.50
Credit Cost	4.32	2.90	2.12	1.87	0.83	0.85	0.85
PCR (Excl Tech. write off)	64.7	68.9	68.7	78.1	79.1	78.2	79.0

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Yield and Cost Ratios (%)</b>							
<b>Avg. Yield-Earning Assets</b>	<b>7.5</b>	<b>7.0</b>	<b>6.4</b>	<b>6.9</b>	<b>7.9</b>	<b>7.8</b>	<b>7.7</b>
Avg. Yield on loans	8.2	7.7	7.2	8.0	8.8	8.8	8.6
Avg. Yield on Investments	7.7	6.8	5.9	6.3	6.7	6.8	6.9
<b>Avg. Cost-Int. Bear. Liab.</b>	<b>5.4</b>	<b>4.6</b>	<b>3.9</b>	<b>4.3</b>	<b>5.2</b>	<b>5.3</b>	<b>5.2</b>
Avg. Cost of Deposits	5.5	4.6	3.8	4.1	5.2	5.3	5.2
<b>Interest Spread</b>	<b>2.2</b>	<b>2.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
<b>Net Interest Margin</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>

### Capitalisation Ratios (%)

CAR	12.7	12.6	14.5	16.0	16.7	17.0	17.0
Tier I	10.7	10.4	12.2	13.9	14.8	15.3	15.5
Tier II	2.0	2.2	2.3	2.1	1.9	1.7	1.5

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	69.9	64.0	64.0	68.2	71.3	73.2	75.0
CASA Ratio	35.6	36.3	36.5	35.3	33.6	34.0	34.3
Cost/Assets	1.4	1.6	1.6	1.7	1.8	1.7	1.7
Cost/Total Income	45.0	46.0	45.7	46.3	46.4	46.7	46.1
Cost/ Core Income	-0.5	-0.4	-0.6	-2.1	-1.9	-1.7	-1.6
Int. Expense/Int.Income	69.3	64.1	59.1	59.4	63.3	64.3	63.5
Fee Income/Total Income	22.7	21.1	22.9	28.6	28.1	28.4	27.9
Non Int. Inc.Total Income	31.5	32.2	31.1	30.9	30.5	31.2	31.0
Empl. Cost/Total Expense	44.7	55.4	54.9	56.5	58.8	58.1	57.9
CASA per branch (INR m)	374.4	360.3	425.1	459.4	473.4	517.9	565.4
Deposits per branch (INR m)	1,052.0	991.7	1,163.5	1,303.2	1,410.1	1,523.2	1,648.3
Business per Employee (INR m)	205.7	193.7	225.2	248.6	271.4	296.4	324.1
Profit per Employee (INR m)	-0.8	0.4	0.7	1.1	1.8	2.0	2.3
Investment/Deposit Ratio	33.8	35.9	33.8	30.4	27.7	26.9	26.1

### Profitability Ratios and Valuation

RoE	-10.6	5.1	8.3	12.2	16.7	16.3	16.3
RoA	-0.6	0.3	0.5	0.7	1.0	1.1	1.1
RoRWA	-1.0	0.5	1.0	1.4	2.1	2.2	2.3
Book Value (INR)	94	96	99	110	123	139	159
Growth (%)	-34.7	3.0	3.1	10.3	11.8	13.7	13.7
Price-BV (x)	1.5	1.5	1.4	1.3	1.2	1.0	0.9
Adjusted BV (INR)	55	63	72	94	112	130	149
Price-ABV (x)	2.6	2.2	2.0	1.5	1.3	1.1	1.0
EPS (INR)	-11.2	4.5	7.9	12.3	18.9	20.8	23.7
Growth (%)	-44.4	-140.6	74.2	56.1	52.9	10.1	13.8
Price-Earnings (x)	-12.7	31.3	18.0	11.5	7.5	6.8	6.0
Dividend Per Share (INR)	0.0	0.0	1.9	3.0	3.4	4.0	4.5
Dividend Yield (%)	0.0	0.0	1.3	2.1	2.4	2.8	3.2

E: MOFSL Estimates

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

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.

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