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India | Equity Research | Company Update

Bajaj Finance

Financial Services

Targeting 3.2-3.5% credit market share, ~25% PAT CAGR and 20-22% RoE by FY29

Bajaj Finance (BAF) has unveiled its Long-Range Strategy (LRS) 2025-2029 in which it targets – a) total credit market share of 3-3.25% by FY28 and 3.2-3.5% by FY29 from 2.1% as on Sep'24, b) strong customer franchise of 130-140mn by FY28 and 190-210mn by FY29 from 92.1mn on Sep'24, c) cross-sell franchise of 80-90mn by FY28 and 115-125mn by FY29 from 5.7mn on Sep'24 and d) improve RoE to 20-22% by FY28-29 from 19.4% during H1FY25. Its strategic priority under BFL 3.0 is to become the lowest cost financial service provider to 200mn customer franchise by FY29 with thrust on using AI across businesses and functions. Maintain **BUY** with TP of INR 8,500, valuing the standalone business at 4.7x FY26E BVPS and INR 1,450 towards housing subsidiaries.

Unveils BFL 3.0 – FINAI company

BFL, in its past 17 years of journey, has built a strong diversified, sustainable and scalable financial institution as reflected in steady credit market share gain to 2% by FY24 from 0.10% in FY08, product lines expanding to 26 by FY24 from 4 in FY08, >100x increase in AUM / customer base during FY08-24 and RoE expanding to 22% by FY24 from 2% in FY08. BFL relies on Long-Range Strategy (LRS) which is 5-year rolling strategy framework with 12-24 months execution roadmap. It unveils LRS FY24-29 in which it targets to be a tech-led leading financial services company and a viable payments player in India with 200mn consumers, credit market share of 3-4% by FY29, 4-5% of retail credit market share by FY29, 1% of payments GMV and deliver steady 20-22% RoE over FY24-29.

Under BFL 1.0 (FY08-16), it focuses on expanding product offerings and adopted cloud, data, analytics and decision systems ahead of the competition. Under BFL 2.0 (FY17-24), it focuses on digitisation and expanding reach via digital footprints. Now under BFL 3.0 – a FIN-AI company, it would focus on an AI-first approach across all its businesses and processes to remain ahead-of-the-curve and become the lowest cost financial service provider in India. It is currently implementing 29 GenAI use cases across 25 work streams, which may save INR 1.5bn annually in FY26.

Strategic priorities under BFL 3.0 include – a) acquire 100mn new customers by FY29, b) attain market leadership in personal loans, gold loans, MFI and 2-W, and c) MSME to drive incremental AUM growth.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	2,01,866	2,69,393	3,26,018	4,05,730
PAT (INR mn)	1,02,998	1,37,439	1,53,004	1,88,649
EPS (INR)	170.4	222.4	247.6	305.3
% Chg YoY	62.0	30.5	11.3	23.3
P/E (x)	30.1	23.0	20.7	16.8
P/BV (x)	6.0	4.4	3.7	3.1
Gross Stage - 3 (%)	1.2	1.1	1.1	1.2
Dividend Yield (%)	-	-	-	-
RoA (%)	5.4	5.4	4.9	5.2
RoE (%)	22.0	22.3	19.5	20.3

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Market Data

Market Cap (INR)	4,293bn
Market Cap (USD)	50,602mn
Bloomberg Code	BAF IN Equity
Reuters Code	BJFN.BO
52-week Range (INR)	7,830 /6,188
Free Float (%)	45.0
ADTV-3M (mn) (USD)	100.6

Price Performance (%)	3m	6m	12m
Absolute	(4.2)	(2.2)	(5.1)
Relative to Sensex	(3.7)	(8.7)	(21.8)

ESG Score	2022	2023	Change
ESG score	75.8	76.1	0.3
Environment	52.9	55.8	2.9
Social	76.8	77.7	0.9
Governance	80.6	79.7	-0.9

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
PAT	-	-

Previous Reports

01-12-2024: [Company Update](#)

23-10-2024: [Q2FY25 results review](#)

Aims to deliver ~25% PAT CAGR over FY24-29

With its omni-channel presence, wide range of product offerings and low cost, Bajaj Finance plans to scale its customer franchise to 190-210mn by FY29 (92.1mn in Sep'24) and cross-sell franchise to 115-125mn by FY29 (57.7mn in Sep'24), implying steady cross-sell ratio at >60%. Further, its thrust on using AI across businesses and processes would ensure it sustaining product-per-customer at 6-7 over FY24-29 vs 6.15 currently. Similarly, cost savings due to extensive use of AI could improve AUM per cross-sell franchise to INR 80,000-85,000 by FY29 from INR 64,800 in Sep'24 and PAT per cross-sell franchise to improve to INR 3,800-4,000 by FY29 from INR 1,374 in H1FY25. This implies PAT CAGR of ~25% over FY24-29. Management expects to deliver 20-22% AUM CAGR over FY24-29.

AI-first approach across businesses and processes

Management highlighted that under BFL 3.0, its strategic focus remains on extensive use of technology and AI across businesses and processes. It has laid down 20 strategic priorities under its AI drive which include – a) conversational AI for sell and cross-sell, b) interactive multi-modal AI assistant and conversation AI for business journey to improve customer engagement, c) AI-led underwriting, and d) AI enabled loan origination system, AI enabled sales, DMS and dealer management - interactive reports, summary and help desk for better productivity. Overall, it expects accelerated penetration of its mobile application with net installs reaching 150-170mn by FY29 from 61.7mn as on Sep'24. Similarly, traffic (visitors) on web will increase to 3,500-4,500mn by FY29 from 277mn as on Sep'24.

Key risks: 1) Credit cost above company guidance; and 2) AUM growth below company guidance.

Exhibit 1: Long-Range Strategy's (LRS) likely outcome over FY28-29 vs current

Long-Range Strategy (LRS) Outcomes					CAGR (%)	
Sr. No.	Basic Construct	6MFY25	LRS FY28	LRS FY29	6MFY25-FY28	6MFY25-FY29
1	Customer Franchise (mn)	92.1	130-140	190-210	12	19
2	Cross-sell Franchise (mn)	57.7	80-90	115-125	12	18
3	India payments GMV	0.27%	1.25-1.5%	0.4-0.5%		
4	Share of total credit	2.11%	3-3.25%	3.2-3.5%		
5	Share of retail credit	2.67%	3.8-4.0%	3.8-4.2%		
6	Location Presence	4,245	5,200-5,500	5,200-5,500	7	5
7	App - Net installs (mn)	61.7	120-150	150-170	25	24
8	Web - Visitors (mn)	277	1,500-1,800	3,500-4,500	67	81
9	Return on Equity	19.40%	20-22%	20-22%		
10	AUM per cross sell franchise (INR)	64.8K	90-95K	80-85K	11	6
11	PAT per cross sell franchise (INR)	1,374	3.8-3.9K	3.8-4.0K	34	26
12	Product Per Customer (PPC)	6.15	6-7	6-7		

Source: Company data, I-Sec research

Note: Please note that average is considered of future periods for CAGR calculation.

Exhibit 2: SoTP-based valuation

SoTP	FY26E NW (INR bn)	Multiple (x)	Value (INR bn)	Value per share (INR)
Bajaj Finance (standalone)	935	4.7	4,360	7,050
Bajaj Housing (subsidiary) (post hold co discount)	183	6.2	1,132	1,450
SoTP				8,500

Note: Bajaj Housing per share value is after 20% holding company discount

Source: Company data, I-Sec research

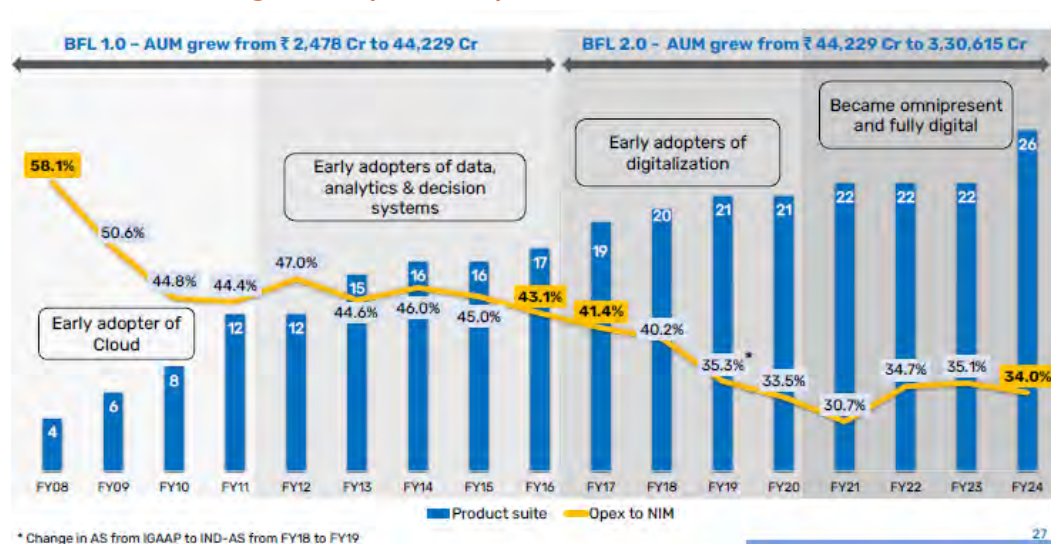
Exhibit 3: - BAF's 17-year long successful business journey reflects in steady increase in credit market share and RoE; >100x growth in AUM / customers over FY08-24

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	X times
#Products lines	4	6	8	12	12	15	16	16	17	19	20	21	21	22	22	22	26	
#Locations	116	87	79	79	82	91	184	393	590	856	1,332	1,830	2,392	2,988	3,504	3,733	4,145	36x
#Loans (MM)	1.0	0.6	0.9	1.6	2.2	2.8	3.4	4.9	6.8	10.1	15.3	23.5	27.4	16.9	24.7	29.6	36.2	37x
#Customers (MM)	0.8	1.2	1.9	3.0	4.7	6.7	9.3	12.9	16.1	20.1	26.2	34.5	42.6	48.6	57.6	69.1	83.6	104x
AUM	2,478	2,539	4,032	7,573	13,107	17,517	24,061	32,410	44,229	60,196	82,422	1,15,888	1,47,153	152,947	1,97,452	2,47,379	3,30,615	133x
NII	332	435	715	1,035	1,426	1,904	2,500	3,170	4,406	6,186	8,143	11,877	16,913	17,269	21,894	28,846	36,258	109x
Expenses	193	220	320	460	670	850	1,151	1,428	1,898	2,564	3,270	4,197	5,662	5,308	7,587	10,130	12,325	64x
Loan Losses	109	164	261	205	154	182	258	385	543	804	1,030	1,501	3,929	5,969	4,803	3,190	4,631	42x
Profit before tax	30	51	134	370	602	872	1,091	1,357	1,965	2,818	3,843	6,179	7,322	5,992	9,504	15,528	19,310	644x
Opex to NII	58.1%	50.6%	44.8%	44.4%	47.0%	44.6%	46.0%	45.0%	43.1%	41.4%	40.2%	35.3%	33.5%	30.7%	34.7%	35.1%	34.0%	
Return on equity	2.0%	3.2%	8%	19.7%	24.0%	21.9%	19.5%	20.4%	20.9%	21.6%	20.1%	22.5%	20.2%	12.8%	17.4%	23.5%	22.1%	
Net NPA	7%	5.50%	2.20%	0.80%	0.12%	0.19%	0.28%	0.45%	0.28%	0.44%	0.43%	0.63%	0.65%	0.75%	0.68%	0.34%	0.37%	
CRAR	40.7%	38.4%	25.9%	20.0%	17.5%	21.9%	19.1%	18.0%	19.5%	20.3%	24.7%	20.7%	25.0%	28.3%	27.2%	25.0%	22.5%	
#Employees ('000)	1.7	2.0	2.3	1.7	2.2	3.1	4.0	5.1	7.4	11.5	15.3	20.2	27.0	28.5	35.4	43.1	53.7	32x
Market share*	0.10%	0.09%	0.12%	0.19%	0.28%	0.30%	0.36%	0.44%	0.55%	0.72%	0.88%	1.10%	1.33%	1.29%	1.56%	1.70%	2.00%	
Profit ranking	722	528	379	207	154	127	110	96	70	57	53	37	27	38	40	23	21	

* % of total credit

Source: Company data, I-Sec research

Exhibit 4: BAF has grown exponentially in both BFL 1.0 and BFL 2.0



Source: Company data, I-Sec research

Exhibit 5: Going ahead, BFL 3.0 journey would be a FINAI driven growth

FIN (12)	Acquire Customers (1) Next 100 MM customers – Strategic partnerships, organic acquisition and Bajaj Prime
	Next Frontier of Growth (1) MSME – The next big growth engine
	Build Market Leadership – Amongst top 3 (4) PL – 50K to 50 lacs Gold Loan MFI Two Wheeler
	Optimize (2) Auto Loans – Scale with low credit cost A viable Payments business
	New Products (2) Green Financing – Solar & EV Corporate Leasing – Multi-product distribution
	Risk Management (2) Back to basics Operational Risk Management
AI (20)	AI for Revenue (2) Conversational AI for sell – 3X conversion rate Conversational AI for Cross sell – 3X conversion rate
	AI to Reduce cost (6) FTE productivity – 1.5X Field, 2X HQ PSF productivity – 15% increase Reduce sales Contact center Reduce DMS contact center Ops & Service co-pilot & auto-pilot Technology co-pilot & auto-pilot
	AI for Design & Engagement (3) Conversation driven search Interactive multi-modal AI assistant Conversational AI in business journey
	AI for Risk (2) Data 3.0 – Unstructured to structured data Augmented Risk Intelligence for B2B (Responsible and explainable AI)
	AI for Credit (1) Underwriting AI co-pilot – Image, note summary, screening & validation
	AI for Productivity (3) AI enabled Loan Origination System AI enabled engagement and training AI enabled Sales, DMS & Dealer Management – Interactive reports, summary and help desk
	AI for Controllership (3) Operations & Service QA co-pilot & auto-pilot Audit – co-pilot & auto-pilot Technology & Platform compliance co-pilot & auto-pilot

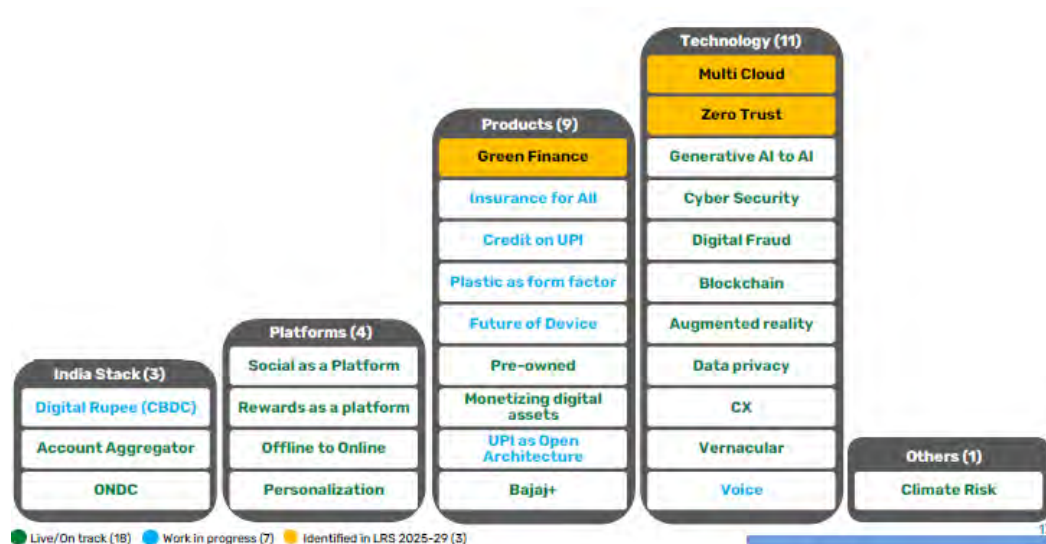
Source: Company data, I-Sec research

Exhibit 6: Out of 35 strategies of LRS 2024-28, 28 are already live/on track, while remaining 7 are in WIP stage

Product (9) (4) (5)		Horizontal (15) (14) (1)			Platforms (7) (6) (1)	Geography (2) (2)	Subsidiaries (2) (2)
Commercial Vehicle Live	Assured Buyback on New Car 15% Penetration	Know everyone NTB 13% to 8.7%	Zero Identity Mismatch Live	Zero Liquidity Drag Reduced from 5bps to 1bps	Consumer App 6.25 MM downloads 76% 90D retention	All products in all locations 15+ products in 817 locations	12-15% of retail mortgages 7% contribution
Corporate Leasing Auto 27+ Corporates Onboarded	Industrial Equipment Finance Live	Zero Paper EKYC 81% UPI Mandate 47%	Zero Cost Branch walk-in 0.98% Service DIY 82%	Zero Paid Traffic 23% to 12%	1 Bn organic Hits & No SEM 500 MM in FY25	Win UP, Bihar & North-East Mostly Done 773 Locations	50-60% of broking accounts 47% contribution
Postpaid WIP	Co-lending Paused	Zero Hold 12% to 10%	Zero Bug Reduction in defect density by 30%	CDP Live ₹55+ Cr Saved	Investment Marketplace 2.0 35K SIP		
Bajaj+ (EV) WIP	Embedded Insurance WIP	Gen AI enabled Ops & Service 600+ HC Reduction	Integrated UAT Go live Jan'25	DMS - Scalable, Resilient & Profitable Digital - 51 to 53	Social - Marketing Followers FY25 4 MM		
	Bharat Mortgages Live	DMS 0 Complaints 18% Lower	Zero Downtime WIP	Tech - Low Bandwidth On Track	Social - Commerce Live		
					Bajaj Prime Live		
					Insurance Marketplace 2.0 WIP		

● Live/ On track (28)
 ● Work in progress (7)

Source: Company data, I-Sec research

Exhibit 7: Out of 28 megatrends, 18 are already live/on track, 7 are in WIP stage and 3 are newly identified in LRS 2025-29


Note: Megatrends are powerful, transformative forces that could change the economy, business and society. They are structural shifts that are longer term in nature and generally have irreversible consequences for businesses. They can change the status quo of a business in the medium to long term.

Source: Company data, I-Sec research

Exhibit 8: BAF's response to changing business dynamics in LRS

Megatrends	Definition	LRS Plan
① Green Finance	India's green initiatives target net-zero emissions by 2070, 45% emission reduction by 2045, creating a ₹ 35 lakh Cr opportunity by 2030.	Start with financing of solar and EV products to retail and MSME customers in Q4 FY25. Targeting ₹ 2K Cr of green finance in FY26.
② Zero Trust	Security framework that operates on the principle of "trust but always verify".	Invest deep and implement critical security policies in next 12 to 18 months. Deliver comprehensive zero trust initiatives by FY26.
③ Multi Cloud	Deploy a multi cloud orchestration strategy to make applications cloud agnostic and enhance resilience.	Implement phase 1 covering top 40 of 94 applications in next 18 months.

Source: Company data, I-Sec research

Exhibit 9: BAF's basic construct

- 1 - Ambition
- 2 - Strategy
- 3 - Approach
- 4 - Philosophy
- 5 - Market share
- 6 - Profit share
- 7 - Customer share
- 8 -Technology and AI-first

Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	54.7	54.7	54.7
Institutional investors	35.0	34.6	34.6
MFs and others	9.6	9.2	9.5
FIs/Banks	0.0	0.4	1.0
Insurance	3.6	3.9	4.3
FIIIs	21.9	21.1	21.1
Others	10.3	10.7	9.4

Source: Bloomberg

Exhibit 11: Price chart


Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Interest Income	2,94,719	4,07,828	5,04,375	6,08,027
Interest Expenses	(92,852)	(1,38,434)	(1,78,357)	(2,02,297)
Net Interest Income (NII)	2,01,866	2,69,393	3,26,018	4,05,730
Other Income	62,155	72,630	70,887	81,528
Total Income (net of interest expenses)	2,64,021	3,42,024	3,96,905	4,87,258
Employee benefit expenses	(45,637)	(58,495)	(76,879)	(91,479)
Depreciation and amortization	(4,438)	(6,291)	(6,870)	(8,514)
Fee and commission expenses	(19,344)	(19,591)	(23,936)	(29,664)
Other operating expenses	(25,021)	(30,396)	(35,346)	(41,557)
Total Operating Expense	(94,440)	(1,14,773)	(1,43,032)	(1,71,213)
Pre Provisioning Profits (PPoP)	1,69,581	2,27,251	2,53,873	3,16,045
Provisions and write offs	(30,665)	(45,722)	(47,518)	(61,616)
Profit before tax (PBT)	1,38,916	1,81,529	2,06,356	2,54,430
Total tax expenses	(35,918)	(44,090)	(53,352)	(65,781)
Profit after tax (PAT)	1,02,998	1,37,439	1,53,004	1,88,649

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Share capital	1,209	1,236	1,236	1,236
Reserves & surplus	5,13,722	7,18,869	8,48,976	10,09,392
Shareholders' funds	5,14,931	7,20,105	8,50,212	10,10,628
Borrowings	16,16,846	22,03,787	24,00,958	29,22,647
Provisions & Other Liabilities	33,470	42,253	46,478	51,126
Total Liabilities and Stakeholder's Equity	21,65,248	29,66,145	32,97,648	39,84,401
Cash and balance with RBI	33,195	94,323	46,204	47,544
Fixed assets	22,264	31,025	34,128	37,540
Loans	17,90,971	24,33,344	30,21,724	37,27,890
Investments	2,87,379	3,71,534	1,56,082	1,27,965
Deferred tax assets (net)	9,190	9,267	10,194	11,213
Other Assets	22,249	26,652	29,317	32,249
Total Assets	21,65,248	29,66,145	32,97,648	39,84,401

Source Company data, I-Sec research

Exhibit 14: Key Ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
AUM and Disbursements (INR mn)				
AUM	18,09,990	24,48,260	30,47,608	37,63,223
On-book Loans	18,09,990	24,48,260	30,47,608	37,63,223
Growth (%):				
Total AUM (%)	23.3	35.3	24.5	23.5
Loan book (on balance sheet) (%)	23.3	35.3	24.5	23.5
Total Assets (%)	28.9	37.0	11.2	20.8
Net Interest Income (NII) (%)	28.0	33.5	21.0	24.5
Non-interest income (%)	40.9	6.7	(6.6)	13.4
Total Income (net of interest expenses) (%)	30.1	29.5	16.0	22.8
Operating Expenses (%)	33.2	21.5	24.6	19.7
Employee Cost (%)	41.6	28.2	31.4	19.0
Non-Employee Cost (%)	43.2	21.5	16.3	17.6
Pre provisioning operating profits (PPoP) (%)	28.4	34.0	11.7	24.5
Provisions (%)	(33.7)	49.1	3.9	29.7
PBT (%)	61.9	30.7	13.7	23.3
PAT (%)	62.3	33.4	11.3	23.3
EPS (%)	62.0	30.5	11.3	23.3
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	12.5	12.8	12.0	12.0
NIM on IEA (%)	12.1	12.3	11.6	11.8
NIM on AUM (%)	12.3	12.7	11.9	11.9
Yield on loan assets (%)	18.2	19.3	18.5	18.0
Yield on IEA (%)	17.6	18.6	17.9	17.6
Yield on AUM (%)	18.0	19.2	18.4	17.9
Cost of borrowings (%)	6.5	7.2	7.7	7.6
Interest Spreads (%)	11.7	12.1	10.7	10.4
Operating efficiencies				
Non-interest income as % of total income	56.6	56.1	56.7	58.8
Cost to income ratio	35.8	33.6	36.0	35.1
Op.costs/avg assets (%)	4.9	4.5	4.6	4.7
Op.costs/avg AUM (%)	5.8	5.4	5.2	5.0
No of employees (estimate) (x)	40,369	47,482	53,733	60,318
No of branches (x)	3,733	4,139	4,480	4,810
Salaries as % of non-interest costs (%)	48.3	51.0	53.7	53.4
NII /employee (INR mn)	5.0	5.7	6.1	6.7
AUM/employee (INR mn)	44.8	51.6	56.7	62.4
AUM/ branch (INR mn)	484.9	591.5	680.3	782.3
Capital Structure				
Average gearing ratio (x)	3.1	3.1	2.8	2.9
Leverage (x)	4.2	4.1	3.9	3.9
CAR (%)	25.0	24.3	25.9	25.7
Tier 1 CAR (%)	23.2	24.3	25.9	25.7
Tier 2 CAR (%)	1.8	-	-	-
RWA (estimate) - INR mn	19,88,901	27,83,893	30,78,539	36,99,740
RWA as a % of loan assets	111.1	114.4	101.9	99.2

Source Company data, I-Sec research

	FY23A	FY24A	FY25E	FY26E
Asset quality and provisioning				
GNPA (%)	1.2	1.1	1.1	1.2
NNPA (%)	0.4	0.5	0.5	0.5
GNPA (INR mn)	21,755	26,000	33,905	43,768
NNPA (INR mn)	7,866	11,262	14,410	18,164
Coverage ratio (%)	63.8	56.7	57.5	58.5
Credit Costs as a % of avg AUM (bps)	187	215	173	181
Credit Costs as a % of avg on book loans (bps)	187	215	173	181
Return ratios				
RoAA (%)	5.4	5.4	4.9	5.2
RoAE (%)	22.0	22.3	19.5	20.3
ROAAUM (%)	6.3	6.5	5.6	5.5
Valuation Ratios				
No of shares	604	618	618	618
No of shares (fully diluted)	604	618	618	618
EPS (INR)	170.4	222.4	247.6	305.3
EPS fully diluted (INR)	170.4	222.4	247.6	305.3
Price to Earnings (x)	30.1	23.0	20.7	16.8
Price to Earnings (fully diluted) (x)	30.1	23.0	20.7	16.8
Book Value (fully diluted)	852	1,165	1,376	1,635
Adjusted book value	842	1,152	1,358	1,613
Price to Book	6.0	4.4	3.7	3.1
Price to Adjusted Book	6.1	4.5	3.8	3.2
DPS (INR)	-	-	-	-
Dividend yield (%)	-	-	-	-

Source Company data, I-Sec research

Exhibit 15: Key Metrics

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
DuPont Analysis				
Average Assets (INR mn)	19,22,704	25,65,696	31,31,896	36,41,024
Average Loans (INR mn)	16,16,867	21,12,158	27,27,534	33,74,807
Average Equity (INR mn)	4,67,745	6,17,518	7,85,158	9,30,420
Interest earned (%)	15.3	15.9	16.1	16.7
Interest expended (%)	4.8	5.4	5.7	5.6
Gross Interest Spread (%)	10.5	10.5	10.4	11.1
Credit cost (%)	1.6	1.8	1.5	1.7
Net Interest Spread (%)	8.9	8.7	8.9	9.5
Operating cost (%)	3.9	3.7	3.8	3.9
Lending spread (%)	5.0	5.0	5.1	5.6
Non interest income (%)	3.1	2.5	1.9	1.9
Operating Spread (%)	8.1	7.5	7.0	7.4
Tax rate (%)	25.9	24.3	25.9	25.9
ROAA (%)	5.4	5.4	4.9	5.2
Effective leverage (AA/ AE)	4.1	4.2	4.0	3.9
RoAE (%)	22.0	22.3	19.5	20.3

Source Company data, I-Sec research

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