

# LIC Housing Finance

Estimate change



TP change



Rating change



**CMP: INR558**

**TP: INR690 (+24%)**

**Buy**

## Disbursements weak but asset quality continues to improve

### PPoP in line, PAT beat due to provision write-backs; NIM stable QoQ

- LICHF's 3QFY25 PAT grew ~23% YoY to ~INR14.3b (~12% beat). NII declined ~5% YoY to ~INR20b (in line).
- Opex was high and grew ~36% YoY to INR3.6b (~11% higher than MOFSLe) and the cost-to-income ratio rose ~2pp YoY to ~17% (PY: ~12% and PQ: ~15%). Employee expenses were higher since LICHF had a one-off item of ~INR300m from prior-period gratuity adjustments. PPoP at ~INR17.5b (in line) declined ~7% YoY.
- Reported yields (YTD) declined ~4bp QoQ to ~9.73%, while CoF (YTD) rose ~5bp to ~7.8%, leading to spreads of ~1.95% (1HFY25: 2.05%). NIM was broadly stable QoQ at ~2.7%.
- Management guided for individual home loan (IHL) growth of ~9% in FY25, with double-digit growth in total loan book in FY26, aided by its foray into affordable housing finance. The company expects credit costs to remain relatively low in 4QFY25, with a steady-state credit cost guidance of ~20bp. Management also shared that ~4-5 project loans are in advanced stages of resolution and is optimistic about resolving ~1-2 cases by 4Q end.
- The company has implemented a ~10bp PLR hike from Jan'25, which is expected to enhance yields and support NIMs. Additionally, its foray into the affordable housing segment is set to drive long-term growth, with management projecting a ~15bp-20bp expansion in NIMs over the next three years, depending on the product mix. We estimate NIM of 2.7%/2.8% in FY26/FY27.
- We raise our FY25E EPS estimates by ~4% to factor in lower credit costs. We estimate a CAGR of ~8% each in advances/PAT over FY24-27 and RoA/RoE of 1.7%/14% by FY27.
- The company is looking to diversify its product mix by increasing the proportion of affordable housing, non-housing loans and the self-employed customer mix. Risk-reward is favorable at 0.7x FY27E P/BV. Reiterate **BUY with a TP of INR690 (premised on 0.9x Sep'26E P/BV)**.

### Disbursements weak; loan book up ~6% YoY

- Loan disbursements in IHL declined ~5% YoY, while non-housing individual/commercial disbursements rose 16% YoY. Builder/project loan disbursements grew ~160% YoY.
- Total disbursements rose ~2% YoY but declined ~6% QoQ to ~INR155b. Disbursements were lower by ~INR7b-8b because of losses in business from Bangalore (eKhata issues) and Hyderabad (Project Hydra). Both these states together account for ~35% of LICHF's loan book. Management shared that issues have been resolved in Hyderabad and it expects normalcy in Bangalore by Feb/Mar'25.
- Overall loan book grew ~6.4% YoY and ~1.5% QoQ. Home loans grew ~7% YoY, while developer loan book declined ~40% YoY. We estimate total loan growth of ~7% YoY in FY25.

|                       |             |
|-----------------------|-------------|
| Bloomberg             | LICHF IN    |
| Equity Shares (m)     | 550         |
| M.Cap.(INRb)/(USDdb)  | 306.7 / 3.5 |
| 52-Week Range (INR)   | 827 / 530   |
| 1, 6, 12 Rel. Per (%) | -6/-20/-19  |
| 12M Avg Val (INR M)   | 1678        |

### Financials & Valuations (INR b)

| Y/E March   | FY25E | FY26E | FY27E |
|-------------|-------|-------|-------|
| NII         | 80.2  | 84.0  | 96.3  |
| PPP         | 70.0  | 73.0  | 84.0  |
| PAT         | 53.2  | 52.4  | 59.3  |
| EPS (INR)   | 96.7  | 95.1  | 107.7 |
| EPS Gr. (%) | 11.6  | -1.6  | 13.2  |
| BV/Sh (INR) | 648   | 723   | 810   |

### Ratios

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 2.8  | 2.7  | 2.8  |
| C/I ratio (%) | 15.9 | 16.3 | 15.8 |
| RoAA (%)      | 1.8  | 1.6  | 1.7  |
| RoE (%)       | 15.9 | 13.9 | 14.1 |
| Payout (%)    | 10.4 | 10.5 | 10.3 |

### Valuations

|                |     |     |     |
|----------------|-----|-----|-----|
| P/E (x)        | 5.8 | 5.9 | 5.2 |
| P/BV (x)       | 0.9 | 0.8 | 0.7 |
| Div. Yield (%) | 1.8 | 1.8 | 2.0 |

### Shareholding pattern (%)

| As On    | Dec-24 | Sep-24 | Dec-23 |
|----------|--------|--------|--------|
| Promoter | 45.2   | 45.2   | 45.2   |
| DII      | 21.5   | 20.5   | 21.8   |
| FII      | 21.2   | 22.0   | 21.6   |
| Others   | 12.1   | 12.3   | 11.4   |

FII Includes depository receipts

**Asset quality improves; GNPA improves ~30bp QoQ**

- GS3/NS3 improved ~30bp/10bp to ~2.75%/1.45%. Stage 1 PCR was largely stable at ~18bp (PQ: ~19bp), Stage 2 PCR increased to ~4.7% (PQ: ~4.3%) and Stage 3 PCR declined to ~47.5% (PQ: ~49.3%).
- Stage 2 + 3 assets (30+ dpd) declined ~15bp QoQ to 6.75% (vs. ~6.9% in 2QFY25). ECL/EAD declined ~20bp QoQ to ~1.7% (vs. 1.9% as of 1HFY25).
- Credit costs net of recoveries resulted in write-backs of ~INR440m, translating into annualized credit costs of -6bp (PY: ~60bp and PQ: 10bp). It included a provision reversal from the sale of a stressed corporate loan to an ARC for a cash consideration of INR2.5b. Further, the company has also built management overlays in this quarter. We model credit costs of ~12bp/25bp/30bp in FY25/FY26/FY27.

**Highlights from the management commentary**

- LICHF has launched a product in the affordable housing segment in 3QFY25. It will price the product ~250-300bp higher than Prime HL. While the company needs to develop the necessary infrastructure, the affordable housing product, though slightly riskier, is expected to be margin-accretive. In the next 2-3 years, LICHF aims to grow its affordable loan book to ~INR250b.
- LICHF is getting better incremental disbursement yields (since it implemented minor yield changes across CIBIL buckets) but yields are declining primarily because of the change in the loan mix.
- The company is confident of some more project loan resolution and confident of further improvement in asset quality in 4QFY25.

**Valuation and View**

- LICHF reported muted loan growth and disbursement growth during the quarter primarily due to the loss of business volumes in Bangalore and Hyderabad. Meanwhile, NIMs remained broadly stable sequentially, while asset quality saw a healthy improvement. The company reported provision write-backs during the quarter, leading to a beat on earnings.
- LICHF has strong moats in retail mortgages and on the liability side. It has demonstrated its ability to transmit higher borrowing costs to customers. The company is making substantial efforts for a recovery in its project loans portfolio and anticipates more account resolutions moving forward.
- LICHF's valuation of ~0.7x FY27E P/BV reflects the inability of the franchise to deliver stronger loan growth. We estimate RoA/RoE of 1.7%/14% in FY27 and maintain BUY rating with a TP of INR690 (based on 0.9x Sep'26E BV).
- **Key downside risks:** a) an elongated period of weak loan growth because of muted demand or high competitive intensity; and b) volatility in the NIM profile and ECL provisioning.

## Quarterly Performance

(INR M)

| Y/E March                           | FY24          |               |               |               | FY25E         |               |               |               | FY24          | FY25E         | 3QFY25E       | Act. v/s est. (%) |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
|                                     | 1Q            | 2Q            | 3Q            | 4Q            | 1Q            | 2Q            | 3Q            | 4QE           |               |               |               |                   |
| Interest Income                     | 67,037        | 67,066        | 67,437        | 68,875        | 67,391        | 68,534        | 69,516        | 71,318        | 2,70,416      | 2,76,760      | 69,974        | -1                |
| Interest Expenses                   | 44,942        | 46,000        | 46,465        | 46,499        | 47,501        | 48,796        | 49,515        | 50,728        | 1,83,907      | 1,96,539      | 50,016        | -1                |
| <b>Net Interest Income</b>          | <b>22,094</b> | <b>21,066</b> | <b>20,972</b> | <b>22,376</b> | <b>19,891</b> | <b>19,739</b> | <b>20,001</b> | <b>20,591</b> | <b>86,509</b> | <b>80,221</b> | <b>19,958</b> | 0                 |
| YoY Growth (%)                      | 37.2          | 81.2          | 30.6          | 12.4          | -10.0         | -6.3          | -4.6          | -8.0          | 36.7          | -7.3          | -4.8          |                   |
| Fees and other income               | 429           | 521           | 488           | 493           | 446           | 784           | 1,057         | 745           | 1,931         | 3,032         | 683           | 55                |
| <b>Net Income</b>                   | <b>22,523</b> | <b>21,587</b> | <b>21,460</b> | <b>22,869</b> | <b>20,337</b> | <b>20,522</b> | <b>21,059</b> | <b>21,336</b> | <b>88,440</b> | <b>83,254</b> | <b>20,641</b> | 2                 |
| YoY Growth (%)                      | 36.4          | 79.1          | 30.6          | 12.8          | -9.7          | -4.9          | -1.9          | -6.7          | 36.3          | -5.9          | -3.8          |                   |
| Operating Expenses                  | 2,425         | 2,595         | 2,615         | 3,829         | 2,621         | 3,105         | 3,564         | 3,941         | 11,463        | 13,232        | 3,198         | 11                |
| <b>Operating Profit</b>             | <b>20,098</b> | <b>18,993</b> | <b>18,845</b> | <b>19,041</b> | <b>17,715</b> | <b>17,417</b> | <b>17,495</b> | <b>17,395</b> | <b>76,976</b> | <b>70,022</b> | <b>17,442</b> | 0                 |
| YoY Growth (%)                      | 38.8          | 101.1         | 39.0          | 8.7           | -11.9         | -8.3          | -7.2          | -8.6          | 40.0          | -9.0          | -7.4          |                   |
| Provisions and Cont.                | 3,608         | 4,192         | 4,358         | 4,279         | 1,431         | 773           | -440          | 2,010         | 16,437        | 3,774         | 1,469         | -130              |
| <b>Profit before Tax</b>            | <b>16,490</b> | <b>14,801</b> | <b>14,487</b> | <b>14,762</b> | <b>16,285</b> | <b>16,644</b> | <b>17,934</b> | <b>15,385</b> | <b>60,539</b> | <b>66,247</b> | <b>15,973</b> | 12                |
| Tax Provisions                      | 3,253         | 2,920         | 2,858         | 3,854         | 3,282         | 3,355         | 3,615         | 2,799         | 12,885        | 13,051        | 3,147         | 15                |
| <b>Net Profit</b>                   | <b>13,237</b> | <b>11,881</b> | <b>11,629</b> | <b>10,908</b> | <b>13,002</b> | <b>13,289</b> | <b>14,320</b> | <b>12,586</b> | <b>47,654</b> | <b>53,197</b> | <b>12,826</b> | 12                |
| YoY Growth (%)                      | 43            | 290           | 142           | -8            | -2            | 12            | 23            | 15            | 65            | 12            | 10            |                   |
| <b>Key Operating Parameters (%)</b> |               |               |               |               |               |               |               |               |               |               |               |                   |
| Yield on loans (Cal)                | 9.72          | 9.68          | 9.65          | 9.70          | 9.37          | 9.40          | 9.37          |               | 9.9           | 9.5           |               |                   |
| Cost of funds (Cal)                 | 7.40          | 7.59          | 7.61          | 7.47          | 7.50          | 7.64          | 7.62          |               | 7.4           | 7.6           |               |                   |
| Spreads (Cal)                       | 2.33          | 2.09          | 2.04          | 2.23          | 1.87          | 1.76          | 1.75          |               | 2.5           | 2.0           |               |                   |
| Margins (Cal)                       | 3.21          | 3.04          | 3.00          | 3.15          | 2.76          | 2.71          | 2.69          |               | 3.1           | 2.7           |               |                   |
| Credit Cost (Cal)                   | 0.52          | 0.60          | 0.62          | 0.60          | 0.20          | 0.11          | -0.06         |               | 0.6           | 0.1           |               |                   |
| Cost to Income Ratio                | 10.8          | 12.0          | 12.2          | 16.7          | 12.9          | 15.1          | 16.9          |               | 13.0          | 15.9          |               |                   |
| Tax Rate                            | 19.7          | 19.7          | 19.7          | 26.1          | 20.2          | 20.2          | 20.2          |               | 21.3          | 19.7          |               |                   |
| <b>Balance Sheet Parameters</b>     |               |               |               |               |               |               |               |               |               |               |               |                   |
| Loans (INR B)                       | 2,764         | 2,780         | 2,812         | 2,868         | 2,887         | 2,946         | 2,991         |               | 2806          | 3001          |               |                   |
| Change YoY (%)                      | 8.1           | 6.0           | 4.8           | 4.3           | 4.4           | 6.0           | 6.4           |               | 4.8           | 6.9           |               |                   |
| Indiv. Disb. (INR B)                | 106           | 142           | 148           | 167           | 124           | 151           | 145           |               | 564           | 592           |               |                   |
| Change YoY (%)                      | -28.8         | -13.1         | -5.5          | 15.6          | 16.9          | 6.0           | -2.1          |               | -8.2          | 5.0           |               |                   |
| Borrowings (INR B)                  | 2,414         | 2,436         | 2,451         | 2,530         | 2,537         | 2,574         | 2,626         |               | 2525          | 2678          |               |                   |
| Change YoY (%)                      | 6.8           | 4.6           | 2.0           | 3.4           | 5.1           | 5.7           | 7.1           |               | 3.2           | 6.1           |               |                   |
| Loans/Borrowings (%)                | 114.5         | 114.1         | 114.7         | 113.4         | 113.8         | 114.4         | 113.9         |               | 111.1         | 112.1         |               |                   |
| <b>Asset Quality Parameters</b>     |               |               |               |               |               |               |               |               |               |               |               |                   |
| GS 3 (INR B)                        | 137.1         | 120.4         | 119.8         | 94.9          | 95.3          | 90.1          | 82.3          |               | 94.9          | 84.4          |               |                   |
| Gross Stage 3 (% on Assets)         | 5.0           | 4.33          | 4.26          | 3.3           | 3.30          | 3.06          | 2.75          |               | 3.3           | 2.8           |               |                   |
| NS 3 (INR B)                        | 79.2          | 70.8          | 61.6          | 46.2          | 48.0          | 45.7          | 43.2          |               | 46.2          | 51.8          |               |                   |
| Net Stage 3 (% on Assets)           | 2.9           | 2.61          | 2.25          | 1.6           | 1.69          | 1.58          | 1.47          |               | 1.6           | 1.7           |               |                   |
| PCR (%)                             | 42.3          | 41.2          | 48.6          | 51.4          | 49.6          | 49.3          | 47.5          |               | 51.4          | 38.7          |               |                   |
| ECL (%)                             | 2.75          | 2.34          | 2.45          | 2.19          | 1.96          | 1.85          | 1.66          |               |               |               |               |                   |
| <b>Loan Mix (%)</b>                 |               |               |               |               |               |               |               |               |               |               |               |                   |
| Home loans                          | 83.2          | 84.4          | 84.9          | 85.1          | 85.3          | 85.2          | 85.1          |               |               |               |               |                   |
| LAP                                 | 12.3          | 12.1          | 12.1          | 12.8          | 12.7          | 12.9          | 13.2          |               |               |               |               |                   |
| Non Individual loans                | 4.3           | 3.5           | 3.0           | 2.1           | 2.0           | 1.9           | 1.7           |               |               |               |               |                   |
| <b>Borrowing Mix (%)</b>            |               |               |               |               |               |               |               |               |               |               |               |                   |
| Banks                               | 31.0          | 33.0          | 35.0          | 34.0          | 34.0          | 34.0          | 33.0          |               |               |               |               |                   |
| NCD                                 | 54.0          | 53.0          | 52.0          | 52.0          | 54.0          | 54.0          | 54.0          |               |               |               |               |                   |
| Sub Debt                            | 1.0           | 1.0           | 1.0           | 1.0           | 1.0           | 1.0           | 1.0           |               |               |               |               |                   |
| Deposits                            | 5.0           | 5.0           | 4.0           | 4.0           | 3.0           | 3.0           | 3.0           |               |               |               |               |                   |
| NHB                                 | 5.0           | 4.0           | 4.0           | 4.0           | 4.0           | 4.0           | 5.0           |               |               |               |               |                   |
| CP                                  | 4.0           | 4.0           | 4.0           | 5.0           | 4.0           | 4.0           | 4.0           |               |               |               |               |                   |

E: MOFSL Estimates



## Highlights from the management commentary

### Guidance

- LICHF is confident about some more resolutions and further improvement in Stage 3 in 4QFY25.
- It has guided for IHL growth of 9% in FY25. The company hopes for double-digit loan growth in FY26, aided by its foray into affordable housing.
- In the next 2-3 years, LICHF aims to grow its affordable loan book to ~INR250b.
- Credit costs will be fairly low in 4QFY25 and FY25. LICHF has guided for credit costs of ~20bp on a steady-state basis.

### Macro outlook

- To ease out liquidity in the system, the RBI has taken various steps, including open market operations (OMO).
- The income tax cut will increase the purchasing power of customers.

### Performance update

- Loan book stood at INR2.99t, up 6% YoY. IHL grew 7%, accounting for 85% of its loan mix.
- Bangalore and Hyderabad were impacted by external issues, which led to lower disbursements by INR7-8b. Issues in Hyderabad were resolved in De'24 and it expects Bangalore issues to be resolved in Feb'25/Mar'25.
- PAT stood at INR14.3b, up 23% YoY.
- GS3 stood at 2.75%. Total provisions stood at INR49.74b; Stage 3 PCR of 47.5%.
- Incremental CoF stood at 7.75%.
- LICHF has taken a PLR hike of ~10bp, effective in 4Q.

### Loan growth

- Two of its major centers - Bangalore and Hyderabad - were impacted by external issues. Both of them together account for ~35% of the company's loan book. Disbursements were impacted by INR7-8b.
- Business is picking up in Hyderabad. In Bangalore, it has a lot of sanctions, but unless the properties are registered, they cannot translate into disbursements. There has been a slight improvement in Jan'25 and it expects Bangalore to improve in Feb'25/Mar'25.

### Liabilities

- For LICHF, ~55% of its liabilities are floating and ~20% will be reset during the next 12 months.
- It is likely to see an improvement in the short-term rates in Feb'25. LICHF may cut rates without impacting the margins.

### Asset quality

- LICHF sold a big stressed account. The outstanding principal was INR5.1b and the company received a cash consideration of INR2.5b.
- Stage 3 stood at 2.75%; it has guided that asset quality will only improve.

- The company had a provision write-back of ~INR2.5b from the resolution of a corporate account to an ARC. LICHF had effected management overlays of ~INR1.5b-1.6b in addition to the ECL requirement.
- LICHF has created a management overlay and fully provided on some of the accounts.

### Yields

- LICHF is getting better incremental disbursement yields (since it implemented minor yield changes across CIBIL buckets), but yields are declining primarily because of the change in the loan mix.
- Higher-yielding accounts were repaid. Recoveries from NPA accounts have stabilized.

### Project loans

- Lumpy cases are at various stages of resolution and some cases will be put up to ARCs on an all cash-basis.
- There are 4-5 project loans that are in advanced stages of resolution. Optimistic that at least 1-2 cases will be resolved in 4Q. The focus is on large-ticket project loans. Some of them are at quite advanced stages of resolution.

### Opex

- LICHF had higher employee expenses pertaining to the gratuity provision. There was a one-off impact of INR300m in the cost line.

### Affordable housing

- Launched a product in the affordable housing segment in 3QFY25. LICHF will price it 250-300bp higher than IHL rates. It has to build the infrastructure. Affordable housing is slightly risky but definitely margin-accretive.
- LICHF is not vacating the prime segment. Growth in the affordable segment will not come at the cost of the prime segment. Affordable business will be developed over a period of 2.5-3.0 years. It will be a new vertical and completely different infrastructural set-up.
- In the next FY, LICHF will be looking to set up separate teams for marketing, credit appraisal, collections and recovery for its affordable business.
- It does not expect any significant operating expenses since the company will adopt a low-opex model in affordable housing.
- LICHF will offer competitive lending rates in affordable housing. For LICHF, its affordable product starts at ~11% (compared to ~12.5-13.0% offered by HFCs). LICHF has a wide reach and it will set up a separate vertical for affordable housing.
- None of the affordable HFCs have a pan-India presence and a scale/reach that LICHF has. Initially, affordable housing will largely be focused on Tier 3, Tier 4 and beyond.

### Levers for NIM improvement

- One of the margin levers will be its foray into the affordable housing segment.
- LICHF has implemented a ~10bp PLR hike from Jan'25, which will aid yields and NIMs.

- It expects a turnaround in its project loan portfolio, which is a better-yielding segment compared to the other segments.
- NIM will depend on the product mix and improvement in NIM of 15-20bp over the next three years, if the company is able to execute well in affordable housing.

#### Others

- The Budget proposal for allowing tax exemption on a second self-occupied property will help the industry and LICHF.
- The prime segment in IHL is a competitive segment. In the developer segment, top developers are looking for finance at rates between 8.5-8.7%, which are almost at par with those in IHL.
- LICHF is not looking for any acquisitions and nothing is being discussed as of now. If there is an opportunity, the company will present it to the board in its March strategy meeting.
- LICHF is not increasing its deposits since banks are already in a deposit war. It has not increased the deposit rates at all. LICHF is restricted by IRDAI to borrow from the parent LIC.
- It will significantly enhance the fee contribution (across all product categories) in the revenue pool.

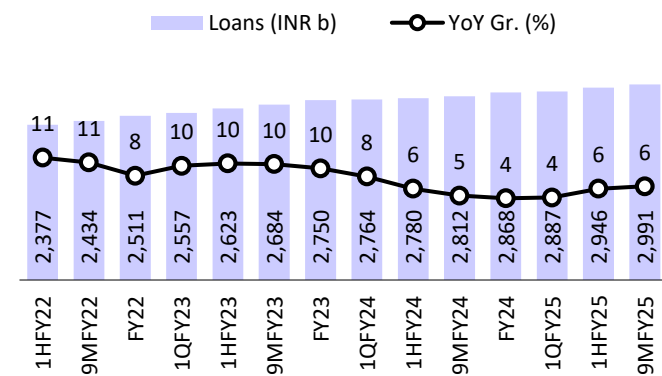
#### Exhibit 1: Segment-wise split of Stage 3

|                              | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 | 4QFY24 | 1QFY25 | 2QFY25 | 3QFY25 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Individual home loans (IHL)  | 1.60%  | 2.20%  | 1.2%   | 1.7%   | 1.5%   | 1.4%   | 1.3%   | 1.2%   |
| Non-housing individual (NHI) | 6.6%   | 7.8%   | 7.1%   | 6.5%   | 5.5%   | 5.4%   | 5.0 %  | 4.6 %  |
| Non-housing commercial (NHC) | 22.0%  | 24.0%  | 35.5%* | 40.8%* |        |        |        |        |
| Project loans                | 42.2%  | 45.6%  | 40.0%  | 42.1%  | 30.7%* | 33.1%* | 30.1%* | 27%*   |

\*Including Project loans

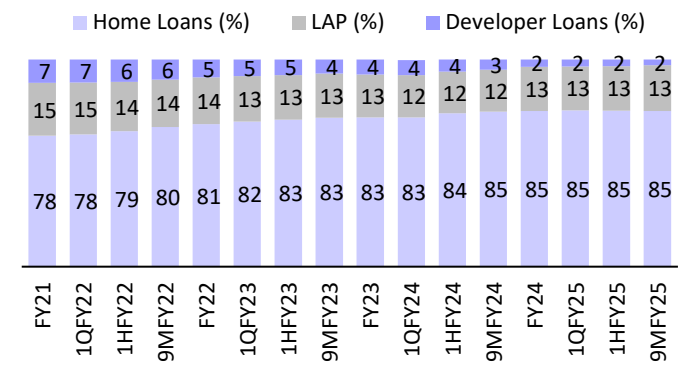
## Story in charts

**Exhibit 2: Loan book grew 6% YoY**



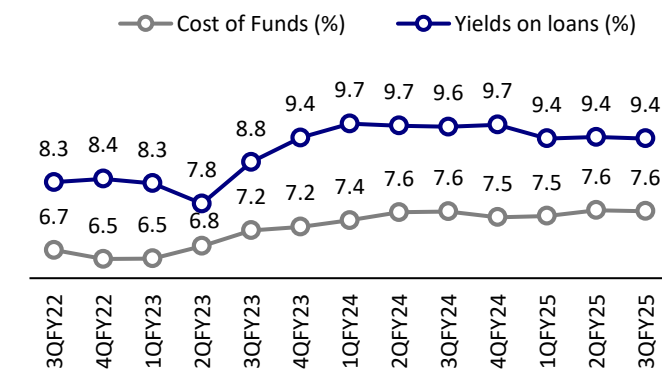
Source: MOFSL, Company

**Exhibit 3: Loan mix stable QoQ (%)**



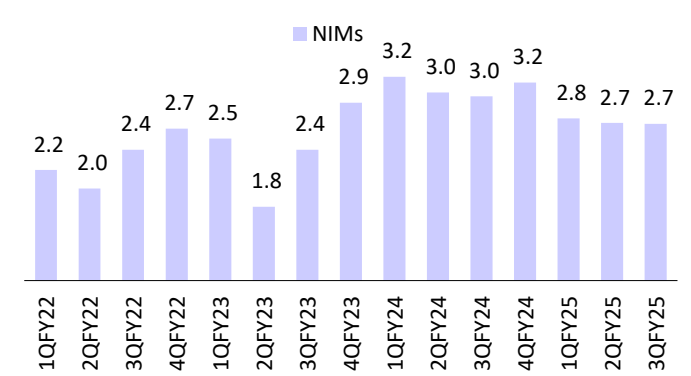
Source: MOFSL, Company

**Exhibit 4: Calculated yields declined ~3bp QoQ**



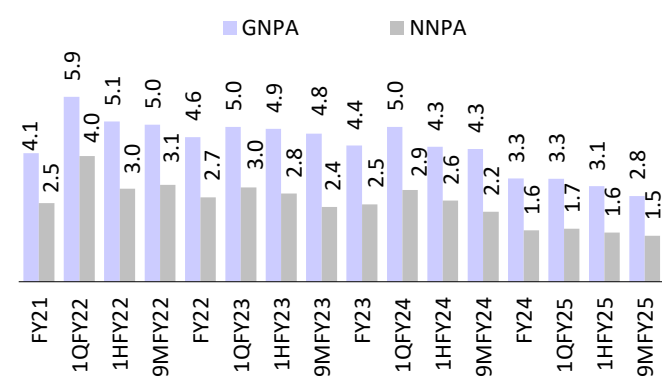
Source: MOFSL, Company

**Exhibit 5: NIM was largely stable QoQ (%)**



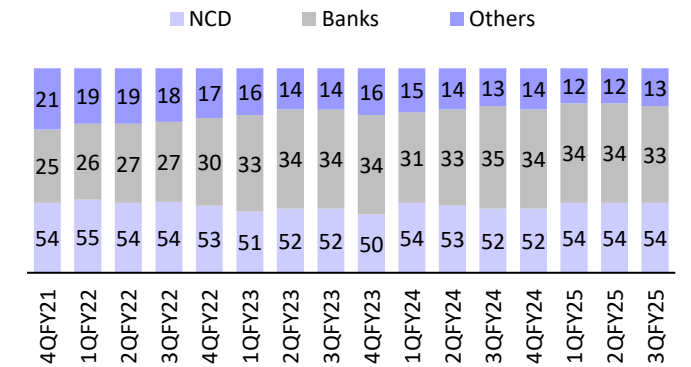
Source: MOFSL, Company

**Exhibit 6: GS3 improved ~30bp QoQ to ~2.75%**



Source: MOFSL, Company

**Exhibit 7: Share of bank borrowings declined QoQ (%)**

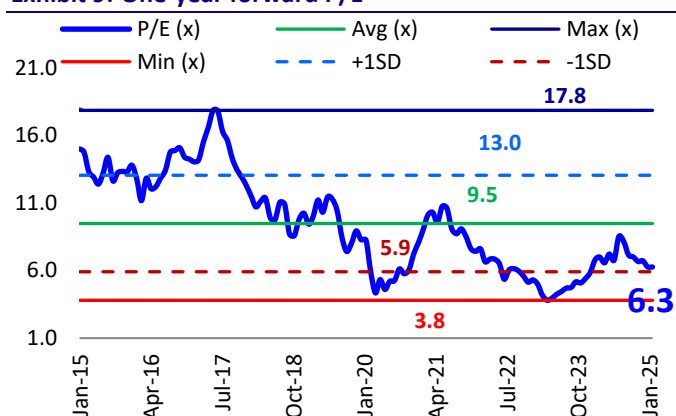


Source: MOFSL, Company

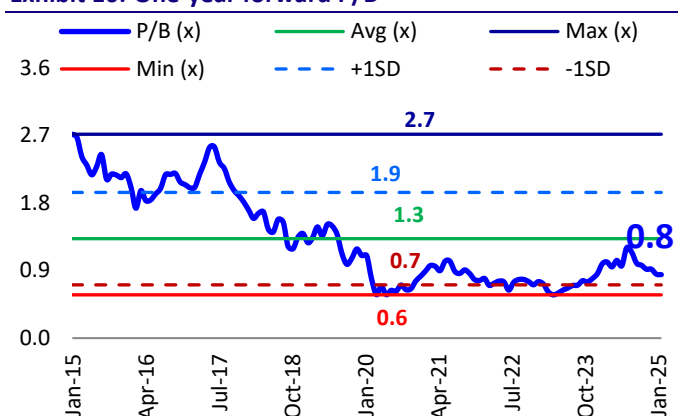
**Exhibit 8: We keep our FY26 estimates largely unchanged and raise our FY27 estimates by ~4% to factor in better NIM and fee income and some moderation in credit costs**

| INR B                    | Old Est.    |             |             | New Est.    |             |             | % Change   |             |            |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|------------|
|                          | FY25        | FY26        | FY27        | FY25        | FY26        | FY27        | FY25       | FY26        | FY27       |
| NII                      | 80.2        | 86.7        | 93.8        | 80.2        | 84.0        | 96.3        | 0.1        | -3.1        | 2.7        |
| Other Income             | 2.3         | 2.5         | 2.7         | 3.0         | 3.2         | 3.5         | 29.4       | 28.3        | 27.2       |
| <b>Net Income</b>        | <b>82.5</b> | <b>89.2</b> | <b>96.5</b> | <b>83.3</b> | <b>87.3</b> | <b>99.8</b> | <b>0.9</b> | <b>-2.2</b> | <b>3.4</b> |
| Operating Expenses       | 12.6        | 13.9        | 15.1        | 13.2        | 14.3        | 15.8        | 5.0        | 2.7         | 4.6        |
| <b>Operating Profits</b> | <b>69.9</b> | <b>75.3</b> | <b>81.5</b> | <b>70.0</b> | <b>73.0</b> | <b>84.0</b> | <b>0.1</b> | <b>-3.1</b> | <b>3.2</b> |
| Provisions               | 6.1         | 9.5         | 10.4        | 3.8         | 7.8         | 10.2        | -38.3      | -17.7       | -2.2       |
| <b>PBT</b>               | <b>63.8</b> | <b>65.8</b> | <b>71.0</b> | <b>66.2</b> | <b>65.2</b> | <b>73.8</b> | <b>3.8</b> | <b>-1.0</b> | <b>4.0</b> |
| Tax                      | 12.6        | 13.0        | 14.0        | 13.1        | 12.8        | 14.5        |            |             |            |
| <b>PAT</b>               | <b>51.2</b> | <b>52.9</b> | <b>57.0</b> | <b>53.2</b> | <b>52.4</b> | <b>59.3</b> | <b>3.8</b> | <b>-1.0</b> | <b>4.0</b> |
| Loans                    | 3,024       | 3,306       | 3,651       | 3,001       | 3,249       | 3,554       | -0.8       | -1.7        | -2.7       |
| Borrowings               | 2,701       | 2,946       | 3,249       | 2,678       | 2,888       | 3,150       | -0.8       | -2.0        | -3.0       |
| <b>Spreads (%)</b>       | <b>1.97</b> | <b>1.95</b> | <b>1.92</b> | <b>1.98</b> | <b>1.88</b> | <b>2.02</b> |            |             |            |
| <b>RoAA (%)</b>          | <b>1.7</b>  | <b>1.6</b>  | <b>1.6</b>  | <b>1.8</b>  | <b>1.6</b>  | <b>1.7</b>  |            |             |            |
| <b>RoAE (%)</b>          | <b>15.3</b> | <b>14.1</b> | <b>13.6</b> | <b>15.9</b> | <b>13.9</b> | <b>14.1</b> |            |             |            |

**Exhibit 9: One-year forward P/E**



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



## Financials and valuations

| Income Statement           |               |               |               |               |               |               |               |               | (INR M)       |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March                  | FY19          | FY20          | FY21          | FY22          | FY23          | FY24          | FY25E         | FY26E         | FY27E         |
| Interest Income            | 1,71,628      | 1,96,054      | 1,96,971      | 1,96,885      | 2,25,162      | 2,70,416      | 2,76,760      | 2,89,137      | 3,14,329      |
| Interest Expense           | 1,28,915      | 1,47,839      | 1,44,526      | 1,41,537      | 1,61,860      | 1,83,907      | 1,96,539      | 2,05,100      | 2,17,982      |
| <b>Net Interest Income</b> | <b>42,713</b> | <b>48,215</b> | <b>52,445</b> | <b>55,348</b> | <b>63,303</b> | <b>86,509</b> | <b>80,221</b> | <b>84,037</b> | <b>96,347</b> |
| Change (%)                 | 21.3          | 12.9          | 8.8           | 5.5           | 14.4          | 36.7          | -7.3          | 4.8           | 14.6          |
| Fee Income                 | 348           | 394           | 788           | 982           | 448           | 491           | 585           | 667           | 758           |
| Other Income               | 1,669         | 250           | 718           | 1,664         | 1,132         | 1,440         | 2,447         | 2,570         | 2,698         |
| <b>Net Income</b>          | <b>44,730</b> | <b>48,859</b> | <b>53,951</b> | <b>57,994</b> | <b>64,882</b> | <b>88,440</b> | <b>83,254</b> | <b>87,273</b> | <b>99,803</b> |
| Change (%)                 | 21.0          | 9.2           | 10.4          | 7.5           | 11.9          | 36.3          | -5.9          | 4.8           | 14.4          |
| Operating Expenses         | 4,754         | 6,167         | 7,015         | 9,994         | 9,883         | 11,463        | 13,232        | 14,260        | 15,773        |
| <b>Operating Profits</b>   | <b>39,976</b> | <b>42,692</b> | <b>46,936</b> | <b>48,000</b> | <b>55,000</b> | <b>76,976</b> | <b>70,022</b> | <b>73,014</b> | <b>84,030</b> |
| Change (%)                 | 22.7          | 6.8           | 9.9           | 2.3           | 14.6          | 40.0          | -9.0          | 4.3           | 15.1          |
| Provisions/write offs      | 6,181         | 10,002        | 13,450        | 20,218        | 19,430        | 16,437        | 3,774         | 7,813         | 10,204        |
| <b>PBT</b>                 | <b>33,796</b> | <b>32,690</b> | <b>33,486</b> | <b>27,782</b> | <b>35,570</b> | <b>60,539</b> | <b>66,247</b> | <b>65,201</b> | <b>73,826</b> |
| Tax                        | 9,486         | 8,672         | 6,142         | 4,909         | 6,660         | 12,885        | 13,051        | 12,845        | 14,544        |
| Tax Rate (%)               | 28.1          | 26.5          | 18.3          | 17.7          | 18.7          | 21.3          | 19.7          | 19.7          | 19.7          |
| <b>PAT</b>                 | <b>24,310</b> | <b>24,018</b> | <b>27,343</b> | <b>22,873</b> | <b>28,910</b> | <b>47,654</b> | <b>53,197</b> | <b>52,357</b> | <b>59,282</b> |
| Change (%)                 | 21.4          | -1.2          | 13.8          | -16.3         | 26.4          | 64.8          | 11.6          | -1.6          | 13.2          |
| <b>Adjusted PAT</b>        | <b>24,310</b> | <b>24,018</b> | <b>27,343</b> | <b>22,873</b> | <b>28,910</b> | <b>47,654</b> | <b>53,197</b> | <b>52,357</b> | <b>59,282</b> |
| Change (%)                 | 21.4          | -1.2          | 13.8          | -16.3         | 26.4          | 64.8          | 11.6          | -1.6          | 13.2          |
| <b>Proposed Dividend</b>   | <b>4,471</b>  | <b>4,040</b>  | <b>4,292</b>  | <b>4,678</b>  | <b>4,678</b>  | <b>4,954</b>  | <b>5,506</b>  | <b>5,503</b>  | <b>6,124</b>  |

| Balance Sheet      |           |           |           |           |           |           |           |           |           |
|--------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Y/E March          | FY19      | FY20      | FY21      | FY22      | FY23      | FY24      | FY25E     | FY26E     | FY27E     |
| Capital            | 1,010     | 1,010     | 1,010     | 1,101     | 1,101     | 1,101     | 1,101     | 1,101     | 1,101     |
| Reserves & Surplus | 1,61,583  | 1,80,921  | 2,04,203  | 2,45,618  | 2,69,903  | 3,12,846  | 3,55,583  | 3,96,931  | 4,44,586  |
| Net Worth          | 1,62,593  | 1,81,931  | 2,05,213  | 2,46,718  | 2,71,003  | 3,13,946  | 3,56,684  | 3,98,032  | 4,45,687  |
| Borrowings         | 17,06,670 | 19,13,317 | 20,78,615 | 22,36,582 | 24,47,742 | 25,24,968 | 26,77,909 | 28,87,911 | 31,50,372 |
| Change (%)         | 17.5      | 12.1      | 8.6       | 7.6       | 9.4       | 3.2       | 6.1       | 7.8       | 9.1       |
| Other liabilities  | 1,36,572  | 72,808    | 72,505    | 62,375    | 65,374    | 73,132    | 80,445    | 88,490    | 97,339    |
| Total Liabilities  | 20,05,835 | 21,68,056 | 23,56,333 | 25,45,675 | 27,84,120 | 29,12,046 | 31,15,038 | 33,74,433 | 36,93,398 |
| Investments        | 35,951    | 54,964    | 46,357    | 61,986    | 69,764    | 62,770    | 65,909    | 69,204    | 72,664    |
| Change (%)         | 82.3      | 52.9      | -15.7     | 33.7      | 12.5      | -10.0     | 5.0       | 5.0       | 5.0       |
| Loans              | 19,29,927 | 20,79,880 | 22,81,143 | 24,52,963 | 26,78,348 | 28,05,898 | 30,00,795 | 32,49,225 | 35,53,720 |
| Change (%)         | 16.1      | 7.8       | 9.7       | 7.5       | 9.2       | 4.8       | 6.9       | 8.3       | 9.4       |
| Net Fixed Assets   | 1,359     | 2,544     | 2,469     | 2,876     | 3,570     | 3,609     | 4,150     | 4,772     | 5,488     |
| Other assets       | 38,598    | 30,669    | 26,364    | 27,849    | 32,439    | 39,770    | 44,185    | 51,231    | 61,526    |
| Total Assets       | 20,05,835 | 21,68,056 | 23,56,333 | 25,45,675 | 27,84,120 | 29,12,046 | 31,15,038 | 33,74,433 | 36,93,398 |

E: MOFSL Estimates

## Financials and valuations

### Ratios

| Y/E March                          | FY19       | FY20       | FY21       | FY22       | FY23       | FY24       | FY25E      | FY26E      | FY27E      |
|------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| <b>Spreads Analysis (%)</b>        |            |            |            |            |            |            |            |            |            |
| Yield on loans                     | 9.6        | 9.8        | 9.0        | 8.3        | 8.8        | 9.9        | 9.5        | 9.3        | 9.2        |
| Cost of funds                      | 8.2        | 8.2        | 7.2        | 6.6        | 6.9        | 7.4        | 7.6        | 7.4        | 7.2        |
| Spreads Analysis (%)               | 1.4        | 1.6        | 1.8        | 1.76       | 1.87       | 2.46       | 1.98       | 1.88       | 2.02       |
| <b>Margins</b>                     | <b>2.4</b> | <b>2.4</b> | <b>2.4</b> | <b>2.3</b> | <b>2.5</b> | <b>3.2</b> | <b>2.8</b> | <b>2.7</b> | <b>2.8</b> |
| <b>Profitability Ratios (%)</b>    |            |            |            |            |            |            |            |            |            |
| Adj RoAE                           | 15.9       | 13.9       | 14.1       | 10.1       | 11.2       | 16.3       | 15.9       | 13.9       | 14.1       |
| Adj RoAA                           | 1.3        | 1.2        | 1.2        | 0.9        | 1.1        | 1.7        | 1.8        | 1.6        | 1.7        |
| Int. Expended/Int.Earned           | 75.1       | 75.4       | 73.4       | 71.9       | 71.9       | 68.0       | 71.0       | 70.9       | 69.3       |
| Other Inc./Net Income              | 3.7        | 0.5        | 1.3        | 2.9        | 1.7        | 1.6        | 2.9        | 2.9        | 2.7        |
| <b>Efficiency Ratios (%)</b>       |            |            |            |            |            |            |            |            |            |
| Fees/Operating income              | 0.2        | 0.2        | 0.4        | 0.5        | 0.2        | 0.2        | 0.2        | 0.2        | 0.2        |
| Op. Exps./Net Income               | 10.6       | 12.6       | 13.0       | 17.2       | 15.2       | 13.0       | 15.9       | 16.3       | 15.8       |
| Empl. Cost/Op. Exps.               | 52.1       | 48.5       | 41.8       | 56.4       | 47.9       | 53.2       | 54.2       | 54.4       | 55.6       |
| <b>Asset-Liability Profile (%)</b> |            |            |            |            |            |            |            |            |            |
| Loans/Borrowings Ratio             | 113.1      | 108.7      | 109.7      | 109.7      | 109.4      | 111.1      | 112.1      | 112.5      | 112.8      |
| Debt/Equity (x)                    | 10.5       | 10.5       | 10.1       | 9.1        | 9.0        | 8.0        | 7.5        | 7.3        | 7.1        |
| Gross NPAs (Rs m)                  | 30,754     | 59,594     | 95,585     | 1,16,520   | 1,20,196   | 94,945     | 84,443     | 76,320     | 67,435     |
| Gross NPAs to Adv.                 | 1.6        | 2.8        | 4.1        | 4.7        | 4.4        | 3.3        | 2.8        | 2.3        | 1.9        |
| Net NPAs (Rs m)                    | 15,514     | 33,474     | 57,414     | 66,314     | 66,383     | 46,178     | 51,794     | 51,892     | 34,490     |
| Net NPAs to Adv.                   | 0.8        | 1.6        | 2.5        | 2.7        | 2.5        | 1.6        | 1.7        | 1.6        | 1.0        |

| Valuation                 | FY19        | FY20        | FY21        | FY22        | FY23        | FY24       | FY25E      | FY26E      | FY27E      |
|---------------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|
| Book Value (INR)          | 322         | 360         | 406         | 448         | 492         | 570        | 648        | 723        | 810        |
| Growth (%)                | 14.2        | 11.9        | 12.8        | 10.3        | 9.8         | 15.8       | 13.6       | 11.6       | 12.0       |
| <b>Price-BV (x)</b>       | <b>1.7</b>  | <b>1.5</b>  | <b>1.4</b>  | <b>1.2</b>  | <b>1.1</b>  | <b>1.0</b> | <b>0.9</b> | <b>0.8</b> | <b>0.7</b> |
| Adjusted BV (INR)         | 313.7       | 342.4       | 375.7       | 415.7       | 459.8       | 547.7      | 622.6      | 697.7      | 792.8      |
| <b>Price-ABV (x)</b>      | <b>1.7</b>  | <b>1.5</b>  | <b>1.4</b>  | <b>1.2</b>  | <b>1.1</b>  | <b>1.0</b> | <b>0.9</b> | <b>0.8</b> | <b>0.7</b> |
| OPS (INR)                 | 79.2        | 84.5        | 93.0        | 87.2        | 99.9        | 139.9      | 127.2      | 132.7      | 152.7      |
| Growth (%)                | 22.7        | 6.8         | 9.9         | -6.2        | 14.6        | 40.0       | -9.0       | 4.3        | 15.1       |
| Price-OP (x)              | 7.0         | 6.6         | 6.0         | 6.4         | 5.6         | 4.0        | 4.4        | 4.2        | 3.7        |
| EPS (INR)                 | 48.1        | 47.6        | 54.2        | 41.6        | 52.5        | 86.6       | 96.7       | 95.1       | 107.7      |
| Growth (%)                | 21.4        | -1.2        | 13.8        | -23.3       | 26.4        | 64.8       | 11.6       | -1.6       | 13.2       |
| <b>Price-Earnings (x)</b> | <b>11.6</b> | <b>11.7</b> | <b>10.3</b> | <b>13.4</b> | <b>10.6</b> | <b>6.4</b> | <b>5.8</b> | <b>5.9</b> | <b>5.2</b> |
| Adj. EPS (INR)            | 48.1        | 47.6        | 54.2        | 41.6        | 52.5        | 86.6       | 96.7       | 95.1       | 107.7      |
| Growth (%)                | 21.4        | -1.2        | 13.8        | -23.3       | 26.4        | 64.8       | 11.6       | -1.6       | 13.2       |
| <b>Price-Earnings (x)</b> | <b>11.6</b> | <b>11.7</b> | <b>10.3</b> | <b>13.4</b> | <b>10.6</b> | <b>6.4</b> | <b>5.8</b> | <b>5.9</b> | <b>5.2</b> |
| Dividend Per Share        | 7.6         | 8.0         | 8.5         | 8.5         | 8.5         | 9.0        | 10.0       | 10.0       | 11.1       |
| <b>Dividend Yield (%)</b> | <b>1.4</b>  | <b>1.4</b>  | <b>1.5</b>  | <b>1.5</b>  | <b>1.5</b>  | <b>1.6</b> | <b>1.8</b> | <b>1.8</b> | <b>2.0</b> |

E: MOFSL Estimates

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| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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