

Federal Bank

| | |
|-----------------|---|
| Estimate change | ↔ |
| TP change | ↔ |
| Rating change | ↔ |

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| | |
|-----------------------|-------------|
| Bloomberg | FB IN |
| Equity Shares (m) | 2,103 |
| M.Cap.(INRb)/(USD\$) | 207.8 / 2.6 |
| 52-Week Range (INR) | 108 / 78 |
| 1, 6, 12 Rel. Per (%) | 9/11/11 |
| 12M Avg Val (INR M) | 1602 |

Financials & Valuations (INR b)

| Y/E Mar | FY22 | FY23E | FY24E |
|---------------|------|-------|-------|
| NII | 59.6 | 67.7 | 83.2 |
| OP | 37.6 | 42.5 | 53.9 |
| NP | 18.9 | 24.3 | 30.2 |
| NIM (%) | 3.2 | 3.3 | 3.5 |
| EPS (INR) | 9.2 | 11.6 | 14.4 |
| EPS Gr. (%) | 15.6 | 25.5 | 24.3 |
| BV/Sh. (INR) | 89.4 | 99.4 | 111.8 |
| ABV/Sh. (INR) | 81.6 | 91.1 | 102.8 |

Ratios

| | | | |
|---------|------|------|------|
| ROE (%) | 10.8 | 12.3 | 13.6 |
| ROA (%) | 0.9 | 1.0 | 1.1 |

Valuations

| | | | |
|-----------|------|-----|-----|
| P/E(X) | 10.7 | 8.5 | 6.9 |
| P/BV (X) | 1.1 | 1.0 | 0.9 |
| P/ABV (X) | 1.2 | 1.1 | 1.0 |

Shareholding pattern (%)

| As On | Jun-22 | Mar-22 | Jun-21 |
|----------|--------|--------|--------|
| Promoter | 0.0 | 0.0 | 0.0 |
| DII | 41.8 | 42.7 | 43.3 |
| FII | 26.0 | 27.0 | 25.1 |
| Others | 32.2 | 30.3 | 31.6 |

FII Includes depository receipts

CMP: INR99
TP: INR130 (+32%)
Buy

Steady quarter; loan growth gaining traction

On track to deliver improved return ratios

- FB reported a steady 1QFY23, with a PAT of INR6b (up 64% YoY and 19% beat). Margin improved by 6bp QoQ to 3.22%.
- Gross advances grew by 16.3% YoY, led by a broad-based pickup across all business segments. SME grew the fastest at 20% YoY, followed by Agri/Corporate/Retail at 19%/15%/14%. CASA ratio was steady QoQ ~36.8%.
- Slippages (including an increase in the balance of existing NPAs) stood at INR4.6b (~1.2% of loans), led by a 137% QoQ rise in the Retail segment. GNPA/NNPA ratio moderated slightly to 2.7%/0.94%. PCR stood stable at ~66%, while restructured loans improved by 22bp QoQ to ~2.2%.
- We expect FB to deliver a RoA/RoE of 1.1%/13.6% in FY24. We **maintain our Buy rating**.

Broad-based growth in advances; margin improves 6bp QoQ to 3.22%

- FB reported a net profit of ~INR6b (up 64% YoY; 19% beat), led by a 74% YoY decline in provisions to INR1.7b.
- NII grew by ~13% YoY to INR16b (up 5% QoQ, in line), aided by a 6bp QoQ improvement in NIM to 3.22%. Core fee income grew 77% YoY (down 2% QoQ), led by healthy business activity, while treasury income declined by 97% YoY.
- OPEX grew by ~16% YoY, while C/I ratio improved to 52.7% v/s 59.9% in 4QFY22. PPOP fell by ~14% YoY due to a muted performance in treasury income, though core PPOP grew 30% YoY.
- On the business front, gross advances grew 16.3% YoY and 4.6% QoQ to INR1.54t, led by a broad-based pick-up across segments. Its Corporate portfolio grew 6% QoQ, while the Retail, SME, and Agri each rose 4% QoQ. Deposits grew 8.2%, led by CASA growth of ~15% YoY. The CASA ratio increased to 36.8% (flat QoQ), while Retail deposits stood at 94%.
- GNPA/NNPA moderated by 11bp/2bp QoQ to 2.7%/0.94% in 1QFY23. This was supported by a healthy recovery and upgrades, even as slippages stood at INR4.6b (~1.2% of loans). PCR ratio stood largely stable ~66%. Restructured loans declined to ~INR33.7b (~2.2%).

Highlights from the management commentary

- The management expects loans to grow in the mid- to high-teens in FY23.
- **Loan mix:** EBLR/MCLR-linked and fixed rate book stands at 48%/28% and 26%, respectively.
- NIM is expected to improve by 5-7bp to 3.25-3.27%.
- Asset quality remains strong, helping limit credit cost to 50bp.

Valuation and view

FB reported a healthy 1QFY23, with net earnings supported by lower provisions. NII growth was boosted by a slight expansion in margin. Business growth is gaining traction, while the liability franchise remains strong, with the Retail deposit mix ~94% and CASA ratio ~36.8%. Headline asset quality ratio saw a marginal improvement, led by healthy recoveries and upgrades. We marginally raise our FY23/FY24 earnings estimate by 3%/4% and expect a RoA/RoE of 1.1%/13.6% in FY24. We maintain our Buy rating with a TP of INR130 per share (1.3x FY24E ABV).

Quarterly performance**(INR m)**

| | FY22 | | | | FY23E | | | | FY22 | FY23E | FY23E | V/s our |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | 1QE | Est |
| Net Interest Income | 14.2 | 14.8 | 15.4 | 15.3 | 16.0 | 16.6 | 17.3 | 17.8 | 59.6 | 67.7 | 15.7 | 2.1 |
| % Change (YoY) | 9.4 | 7.2 | 7.1 | 7.4 | 13.1 | 12.1 | 12.1 | 16.6 | 7.7 | 13.5 | 10.8 | |
| Other Income | 6.5 | 4.9 | 4.8 | 4.7 | 4.5 | 4.7 | 5.0 | 5.4 | 20.9 | 19.6 | 4.1 | 9.2 |
| Total Income | 20.7 | 19.7 | 20.2 | 19.9 | 20.6 | 21.3 | 22.3 | 23.2 | 80.5 | 87.3 | 19.9 | 3.6 |
| Operating Expenses | 9.3 | 10.6 | 11.1 | 11.9 | 10.8 | 11.0 | 11.3 | 11.6 | 42.9 | 44.8 | 10.7 | 0.9 |
| Operating Profit | 11.3 | 9.1 | 9.1 | 8.0 | 9.7 | 10.3 | 11.0 | 11.5 | 37.6 | 42.5 | 9.1 | 6.6 |
| % Change (YoY) | 21.5 | -3.6 | -4.4 | -11.0 | -14.1 | 12.6 | 20.1 | 44.5 | -1.1 | 13.1 | -12.0 | |
| Provisions | 6.4 | 2.9 | 2.1 | 0.8 | 1.7 | 2.3 | 2.7 | 3.2 | 12.2 | 9.9 | 2.3 | -28.9 |
| Profit before Tax | 4.9 | 6.2 | 7.0 | 7.2 | 8.1 | 8.0 | 8.3 | 8.3 | 25.4 | 32.7 | 6.8 | 18.9 |
| Tax | 1.3 | 1.6 | 1.8 | 1.8 | 2.1 | 2.0 | 2.1 | 2.1 | 6.5 | 8.3 | 1.7 | 19.1 |
| Net Profit | 3.7 | 4.6 | 5.2 | 5.4 | 6.0 | 6.0 | 6.2 | 6.2 | 18.9 | 24.3 | 5.1 | 18.9 |
| % Change (YoY) | -8.4 | 49.6 | 29.1 | 13.1 | 63.5 | 29.6 | 18.1 | 14.8 | 18.8 | 28.8 | 37.6 | |
| Operating Parameters | | | | | | | | | | | | |
| Deposit (INR b) | 1,694 | 1,720 | 1,754 | 1,817 | 1,834 | 1,888 | 1,959 | 2,053 | 1,817 | 2,053 | 1,834 | 0.0 |
| Loan (INR b) | 1,298 | 1,344 | 1,407 | 1,449 | 1,517 | 1,560 | 1,614 | 1,696 | 1,449 | 1,696 | 1,514 | 0.2 |
| Deposit Growth (%) | 9.3 | 9.7 | 8.5 | 5.2 | 8.2 | 9.8 | 11.7 | 13.0 | 5.2 | 13.0 | 8.2 | 0.0 |
| Loan Growth (%) | 7.0 | 9.4 | 12.1 | 9.9 | 16.9 | 16.1 | 14.7 | 17.0 | 9.9 | 17.0 | 16.7 | 0.2 |
| Asset Quality | | | | | | | | | | | | |
| Gross NPA (%) | 3.5 | 3.2 | 3.1 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.8 | 2.4 | 2.7 | 0.0 |
| Net NPA (%) | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 | 1.0 | 0.8 | 0.9 | 0.0 |
| PCR (%) | 65.7 | 66.2 | 66.6 | 66.3 | 65.8 | 66.8 | 67.2 | 65.2 | 66.3 | 65.2 | 66.5 | -0.7 |

E: MOFSL estimates

Quarterly snapshot

| | FY21 | | | | FY22 | | | | FY23 | Change (%) | |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|--------|
| INR m | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | YoY | QoQ |
| Profit & Loss | | | | | | | | | | | |
| Net Interest Income | 12,964 | 13,799 | 14,370 | 14,204 | 14,184 | 14,794 | 15,389 | 15,252 | 16,045 | 13 | 5 |
| Other Income | 4,884 | 4,494 | 4,754 | 4,775 | 6,483 | 4,917 | 4,842 | 4,650 | 4,526 | -30 | -3 |
| Trading profit | 3,040 | 1,620 | 1,190 | 1,150 | 3,940 | 1,190 | 720 | 120 | 120 | -97 | 0 |
| Forex Income | 240 | 320 | 450 | 400 | 410 | 500 | 500 | 680 | 630 | 54 | -7 |
| Other Non-interest inc. | 1,484 | 2,554 | 3,114 | 3,225 | 2,133 | 3,227 | 3,622 | 3,850 | 3,776 | 77 | -2 |
| Total Income | 17,848 | 18,292 | 19,124 | 18,979 | 20,667 | 19,711 | 20,231 | 19,902 | 20,571 | 0 | 3 |
| Operating Expenses | 8,524 | 8,827 | 9,560 | 10,007 | 9,334 | 10,590 | 11,088 | 11,920 | 10,838 | 16 | -9 |
| Employee | 4,959 | 4,875 | 5,256 | 5,252 | 5,283 | 5,719 | 5,831 | 6,373 | 4,993 | -5 | -22 |
| Others | 3,566 | 3,952 | 4,303 | 4,754 | 4,051 | 4,871 | 5,257 | 5,548 | 5,844 | 44 | 5 |
| Operating Profit | 9,324 | 9,466 | 9,564 | 8,973 | 11,333 | 9,121 | 9,143 | 7,982 | 9,734 | -14 | 22 |
| Core Operating Profit | 6,284 | 7,846 | 8,374 | 7,823 | 7,393 | 7,931 | 8,423 | 7,862 | 9,614 | 30 | 22 |
| Provisions | 3,946 | 5,321 | 4,142 | 2,545 | 6,399 | 2,926 | 2,140 | 752 | 1,667 | -74 | 122 |
| NPA provisions | 2,560 | 1,690 | 3,890 | 7,010 | 4,590 | -650 | 750 | 950 | 1,500 | -67 | 58 |
| PBT | 5,378 | 4,145 | 5,423 | 6,428 | 4,934 | 6,195 | 7,003 | 7,230 | 8,067 | 64 | 12 |
| Taxes | 1,370 | 1,069 | 1,382 | 1,650 | 1,261 | 1,592 | 1,786 | 1,824 | 2,060 | 63 | 13 |
| PAT | 4,008 | 3,076 | 4,041 | 4,778 | 3,673 | 4,603 | 5,217 | 5,405 | 6,007 | 64 | 11 |
| Balance Sheet (INR b) | | | | | | | | | | | |
| Deposits | 1,549 | 1,567 | 1,617 | 1,726 | 1,694 | 1,720 | 1,754 | 1,817 | 1,834 | 8 | 1 |
| CASA Deposits | 496 | 528 | 557 | 584 | 590 | 622 | 643 | 671 | 675 | 15 | 1 |
| As a percentage of overall Deposits | 32.0 | 33.7 | 34.5 | 33.8 | 34.8 | 36.2 | 36.7 | 36.9 | 36.8 | 203 | -10 |
| Retail Deposits | 1,419 | 1,458 | 1,493 | 1,560 | 1,571 | 1,612 | 1,643 | 1,716 | 1,724 | 10 | 0 |
| As a percentage of overall Deposits | 91.6 | 93.0 | 92.3 | 90.3 | 92.7 | 93.7 | 93.7 | 94.4 | 94.0 | 128 | -42 |
| Investments | 347 | 363 | 344 | 372 | 374 | 370 | 375 | 392 | 412 | 10 | 5 |
| Advances | 1,213 | 1,229 | 1,255 | 1,319 | 1,298 | 1,344 | 1,407 | 1,449 | 1,517 | 17 | 5 |
| Retail | 379 | 396 | 422 | 449 | 436 | 443 | 457 | 479 | 499 | 14 | 4 |
| Total Assets | 1,858 | 1,890 | 1,968 | 2,014 | 2,000 | 2,069 | 2,088 | 2,209 | 2,254 | 13 | 2 |
| Asset Quality (INR m) | | | | | | | | | | | |
| GNPA | 36,556 | 35,522 | 34,702 | 46,024 | 46,493 | 44,458 | 44,013 | 41,367 | 41,553 | -11 | 0 |
| NNPA | 14,775 | 12,181 | 7,572 | 15,693 | 15,932 | 15,024 | 14,712 | 13,926 | 14,203 | -11 | 2 |
| Slippages | 1,930 | 100 | 340 | 16,850 | 6,890 | 3,390 | 4,530 | 3,990 | 4,630 | -33 | 16 |
| Ratios | FY21 | | | | FY22 | | | | FY23 | Change (bp) | |
| Asset Quality Ratios (%) | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | YoY | QoQ |
| GNPA | 3.0 | 2.8 | 2.7 | 3.4 | 3.5 | 3.2 | 3.1 | 2.8 | 2.7 | -81 | -11 |
| NNPA | 1.2 | 1.0 | 0.6 | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 | -29 | -2 |
| PCR (Calculated) | 60 | 66 | 78 | 66 | 66 | 66 | 67 | 66 | 66 | 9 | -51 |
| Slippage Ratio | 0.6 | 0.0 | 0.1 | 5.1 | 2.1 | 1.0 | 1.3 | 1.1 | 1.2 | -90 | 12 |
| Credit Cost | 0.8 | 0.6 | 1.3 | 2.2 | 1.4 | -0.2 | 0.2 | 0.3 | 0.4 | -100 | 14 |
| Business Ratios (%) | | | | | | | | | | | |
| Fees to Total Income | 8.3 | 14.0 | 16.3 | 17.0 | 10.3 | 16.4 | 17.9 | 19.3 | 18.4 | 803.8 | -98.8 |
| Cost to Core Income | 59.0 | 54.0 | 54.7 | 57.4 | 57.2 | 58.8 | 58.3 | 62.4 | 54.7 | -252.8 | -772.6 |
| Tax Rate | 25.5 | 25.8 | 25.5 | 25.7 | 25.6 | 25.7 | 25.5 | 25.2 | 25.5 | -1.2 | 30.8 |
| Loan/Deposit | 78.3 | 78.4 | 77.6 | 76.4 | 76.6 | 78.1 | 80.2 | 79.8 | 82.7 | 612.4 | 296.8 |
| CAR | 14.2 | 14.6 | 14.3 | 14.6 | 14.6 | 15.0 | 14.4 | 15.8 | 14.6 | -7.0 | -120.0 |
| Tier I | 13.0 | 13.3 | 13.0 | 13.9 | 13.9 | 14.1 | 13.5 | 14.4 | 13.3 | -56.0 | -112.0 |
| Profitability Ratios (%) | | | | | | | | | | | |
| Yield on loans | 9.0 | 8.9 | 8.7 | 8.4 | 8.2 | 8.1 | 8.0 | 7.9 | 7.9 | -21 | 2 |
| Yield On Investments | 6.9 | 6.7 | 6.5 | 6.4 | 6.3 | 6.3 | 6.2 | 6.2 | 6.3 | -7 | 8 |
| Yield on Funds | 8.2 | 8.1 | 7.9 | 7.5 | 7.5 | 7.4 | 7.5 | 7.5 | 7.5 | 9 | 8 |
| Cost of Funds | 5.2 | 5.0 | 4.6 | 4.3 | 4.3 | 4.2 | 4.1 | 4.0 | 4.1 | -27 | 9 |
| Cost of Deposits | 5.4 | 5.1 | 4.9 | 4.7 | 4.5 | 4.3 | 4.3 | 4.3 | 4.2 | -25 | -8 |
| NIM | 3.1 | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 | 3.3 | 3.2 | 3.2 | 7 | 6 |
| RoA | 0.9 | 0.7 | 0.8 | 1.0 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 | 34 | 7 |
| RoE | 10.9 | 8.1 | 10.4 | 12.2 | 9.0 | 10.7 | 11.6 | 11.9 | 12.7 | 367 | 77 |
| Others | | | | | | | | | | | |
| Branches | 1,263 | 1,271 | 1,272 | 1,272 | 1,272 | 1,272 | 1,274 | 1,282 | 1,291 | 1,900 | 900 |
| ATMs | 1,936 | 1,941 | 1,948 | 1,957 | 1,953 | 1,874 | 1,882 | 1,885 | 1,860 | -9,300 | -2,500 |



Highlights from the management commentary

Asset quality related

- Asset quality will remain strong going forward.
- Slippages were high due to the restructured Retail book. Since a large part of this is secured, the management is not excessively worried.
- Of the fresh slippages of INR4.4b, INR1.1b came from restructured accounts.
- Overall slippages in FY21/FY22 were INR18b each. The management expects similar slippages in FY23.
- Of its total moratorium book, ~43% accounts have emerged from this pool. In 4QFY22, loans worth INR10b exited this pool. The management expects loans worth INR7b/INR3b/INR3b to emerge from this pool in 2Q/3Q/4QFY23.
- ECLGS book stands at INR40b.

Balance Sheet related

- From a growth perspective, 1QFY23 is usually a sluggish quarter. However, this year bucked that trend, and growth was quite broad-based.
- The management is targeting mid- to high-teen credit growth in FY23.
- The CV and Credit Card segment is performing well, and Personal loans should see a pick up. The management expects to disburse Personal loans worth INR1b on a monthly basis and end FY23 with a total Personal loan pool of INR23-24b.
- The bank has a high share of floating rate loans, with EBLR/MCLR-linked loans at 48%/28% and fixed rate loans at 26%.
- The management has been quite aggressive in partnering with FinTechs, which will drive business growth.
- The dip in Tier I ratio is a result of robust credit growth, increase in its exposure to borrowers with loans of more than INR100b from the market, and commencement of new credit lines.
- The management will look to raise capital only if the Tier I ratio slips below 13%.
- The bank is on track to meet its RoA target of 1.1% in FY23.
- FB added only 20 branches over the last five years. It now wants to build smaller branches in locations where it does not have a strong presence. It aims to add 200-250 such branches over the next three years.

P&L related

- FB's operating performance in FY23 should be on expected lines or even better, barring its treasury performance.
- While margin saw a marginal expansion to 3.22%, the management expects to end FY23 in the 3.25-3.27% range.
- The hike in the lending rate occurred in two tranches and the increase in yield does not truly reflect it.
- The savings deposit book is linked to the repo rate. The management said is not obliged to pass on the entire hike to depositors as it has the discretion of changing the spread.
- FB has raised its SA interest rate by ~25bp after the RBI's repo rate hike.
- Its treasury performance was affected in 1QFY23 due to rising yields. However, this was offset by lower provisions for employee cost.
- No transfer of investments was undertaken to HTM from AFS. The management said its investments in HTM do not require any M2M adjustment.
- Employee cost should be in the INR25-26b range in FY23.
- The management expects credit cost of 50bp in FY23.
- Pricing on Gold loans was attractive in 1QFY23 to attract borrowers.

COVID-related restructuring stood at INR33.7b (2.2% of loans)

Exhibit 1: Net stressed loans moderates to 3.1% of loans

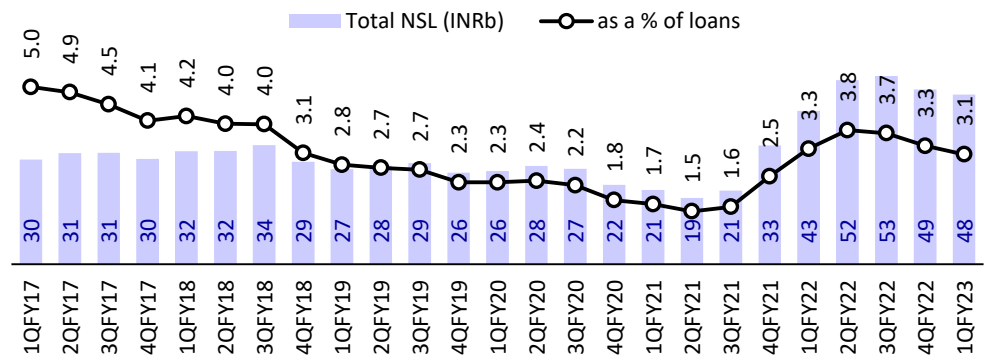
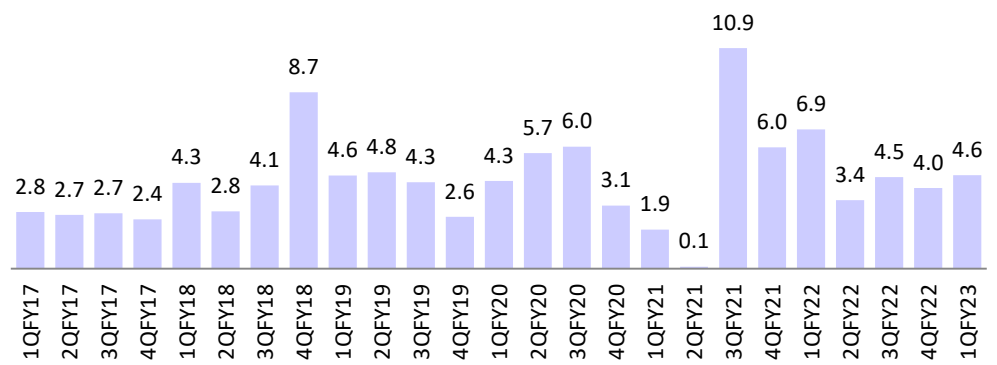
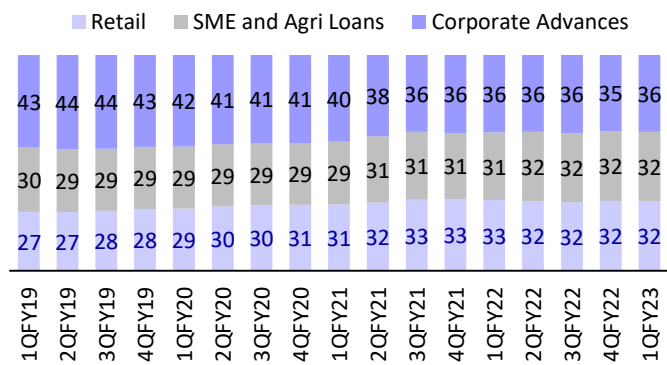


Exhibit 2: Slippages rise to INR4.6b (including an increase in the balance of existing NPAs) due to a jump in Retail and Business Banking



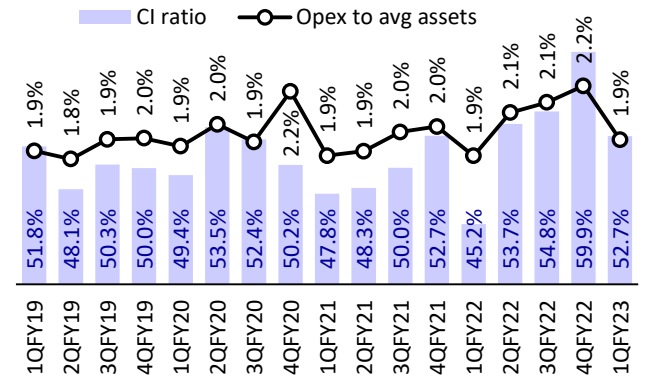
*On a pro forma basis for 3QFY21

Exhibit 3: Corporate book ~36% of total loans



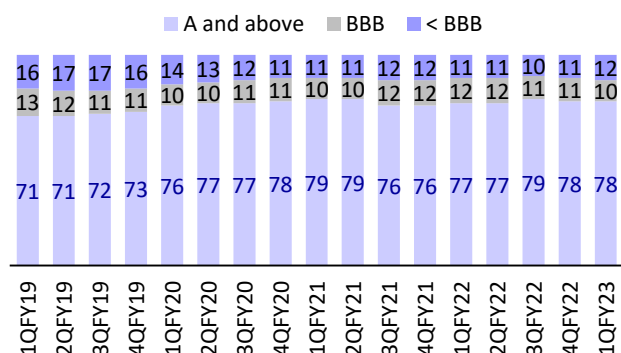
Source: MOFSL, Company

Exhibit 4: C/I ratio improves to ~53% in 1QFY23



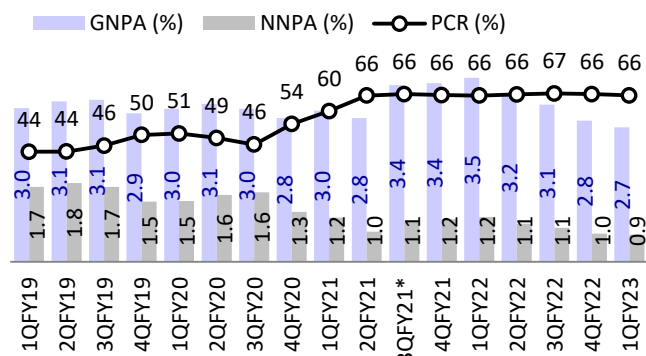
Source: MOFSL, Company

Exhibit 5: Share of A and above book stands at 78%



Source: MOFSL, Company

Exhibit 6: GNPA/NNPA ratio moderates by 11bp/2bp QoQ to 2.7%/0.94%; PCR stable ~66%



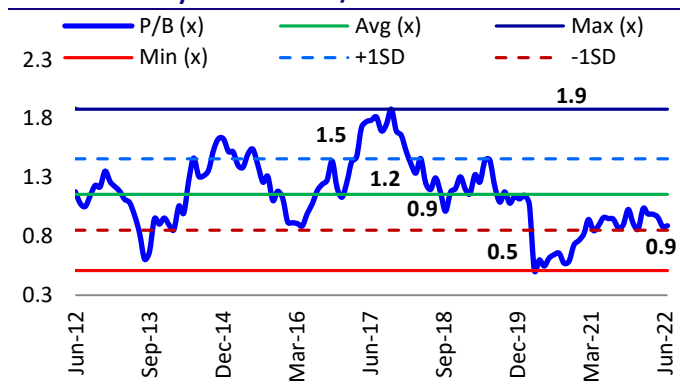
*On a pro forma basis for 3QFY21

Source: MOFSL, Company

Valuation and view

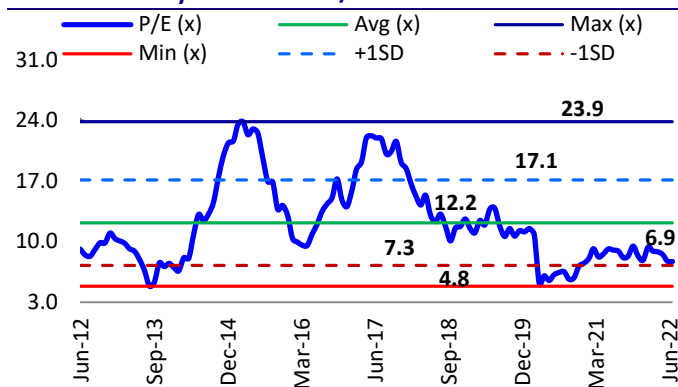
- Restructuring book stands ~2.2% of loans; asset quality improves marginally:** FB reported total net stressed loans (NNPA + standard restructured + net SRs) ~3.1% of total loans, within which COVID-related restructuring book stands ~INR33.7b. Asset quality ratios improved marginally, led by healthy recoveries and upgrades. However, increased slippages, especially in Retail, remain a concern. Collection efficiency was stable ~95% in 1QFY23. While we remain watchful of asset quality, particularly from the Retail/SME/Agri segment and stress from a high restructuring book, we expect credit costs to moderate. We expect slippage/credit cost/PCR of ~1.3%/~0.7%/~67% in FY24.
- Strong liability franchise:** CASA and Retail TD (less than INR20m) constitutes ~92% of total deposits. FB has a lower cost of funds advantage v/s other mid-sized Banks. This, along with a focus on cross-selling liability products to Corporate clients to garner salary accounts and a pickup in loan growth, will support margin. We estimate margin to increase to 3.5% in FY24.
- Lending to better rated corporates; broad-based pickup in advances:** The management is taking a cautious approach towards building its loan mix to higher-rated Corporates and secured Retail loans. The share of 'A and above' rated loans has risen to 78% in 1QFY23 as compared to 73% in FY19, while the mix of Retail loans has improved to ~32% in 1QFY23 (from 28.4% in FY19). We expect loan growth to remain healthy, resulting in a further improvement in its overall operating performance.
- Maintain Buy with a TP of INR130/share:** FB reported a healthy 1QFY23, with net earnings supported by lower provisions. NII growth was boosted by a slight expansion in margin. Business growth is gaining traction, while the liability franchise remains strong, with the Retail deposit mix ~94% and CASA ratio ~36.8%. Headline asset quality ratio saw a marginal improvement, led by healthy recoveries and upgrades. We marginally raise our FY23/FY24 earnings estimate by 3%/4% and expect a RoA/RoE of 1.1%/13.6% in FY24. **We maintain our Buy rating with a TP of INR130 per share (1.3x FY24E ABV).**

Exhibit 7: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 8: One-year forward P/E ratio



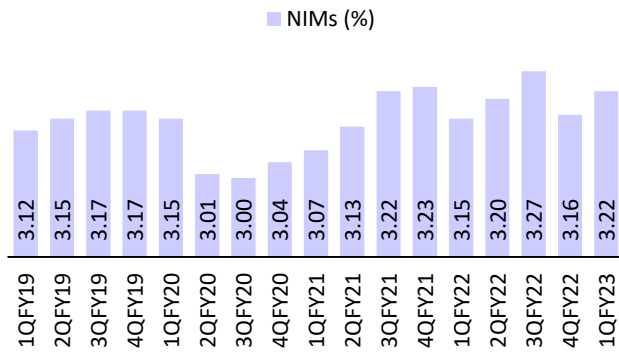
Source: MOFSL, Company

Exhibit 9: DuPont Analysis: Expect return ratios to improve gradually

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income | 8.41 | 7.70 | 7.67 | 7.77 | 7.20 | 6.47 | 6.97 | 7.28 |
| Interest Expense | 5.45 | 4.87 | 4.87 | 5.04 | 4.31 | 3.65 | 4.08 | 4.15 |
| Net Interest Income | 2.96 | 2.83 | 2.81 | 2.73 | 2.90 | 2.82 | 2.88 | 3.13 |
| Core Fee Income | 0.70 | 0.73 | 0.75 | 0.78 | 0.70 | 0.85 | 0.77 | 0.78 |
| Trading and others | 0.35 | 0.19 | 0.15 | 0.36 | 0.33 | 0.14 | 0.06 | 0.07 |
| Non-Interest income | 1.05 | 0.92 | 0.91 | 1.14 | 1.03 | 0.99 | 0.84 | 0.85 |
| Total Income | 4.01 | 3.74 | 3.71 | 3.87 | 3.92 | 3.81 | 3.72 | 3.98 |
| Operating Expenses | 2.14 | 1.94 | 1.86 | 1.99 | 1.93 | 2.03 | 1.91 | 1.95 |
| Employee cost | 1.13 | 0.98 | 0.93 | 1.04 | 1.07 | 1.10 | 1.00 | 1.01 |
| Others | 1.01 | 0.95 | 0.93 | 0.94 | 0.87 | 0.93 | 0.91 | 0.94 |
| Operating Profit | 1.87 | 1.81 | 1.86 | 1.89 | 1.99 | 1.78 | 1.81 | 2.03 |
| Core Operating Profit | 1.51 | 1.62 | 1.70 | 1.53 | 1.66 | 1.64 | 1.75 | 1.96 |
| Provisions | 0.60 | 0.75 | 0.58 | 0.69 | 0.87 | 0.58 | 0.42 | 0.50 |
| PBT | 1.27 | 1.06 | 1.28 | 1.20 | 1.12 | 1.20 | 1.39 | 1.53 |
| Tax | 0.46 | 0.37 | 0.45 | 0.29 | 0.29 | 0.31 | 0.36 | 0.39 |
| RoA | 0.81 | 0.69 | 0.84 | 0.91 | 0.83 | 0.89 | 1.04 | 1.14 |
| Leverage (x) | 12.1 | 12.0 | 11.7 | 12.2 | 12.5 | 12.1 | 11.8 | 12.0 |
| RoE | 9.8 | 8.3 | 9.8 | 11.1 | 10.4 | 10.8 | 12.3 | 13.6 |

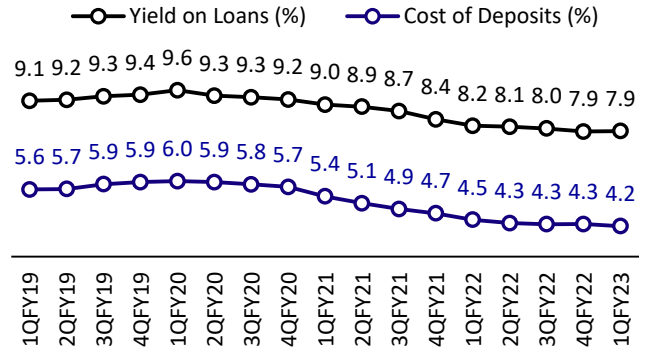
Story in charts

Exhibit 10: NIM improves by 6bp QoQ to 3.22%



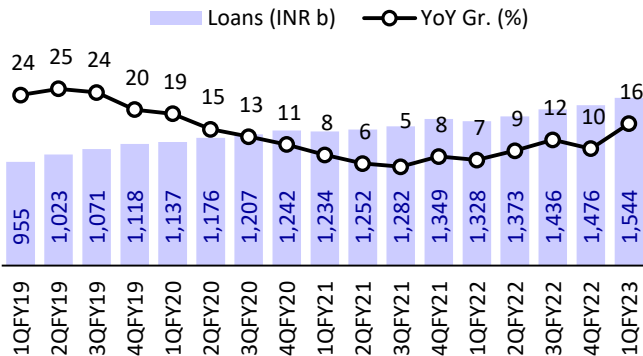
Source: MOFSL, Company

Exhibit 11: Marginal improvement in yield and CoD



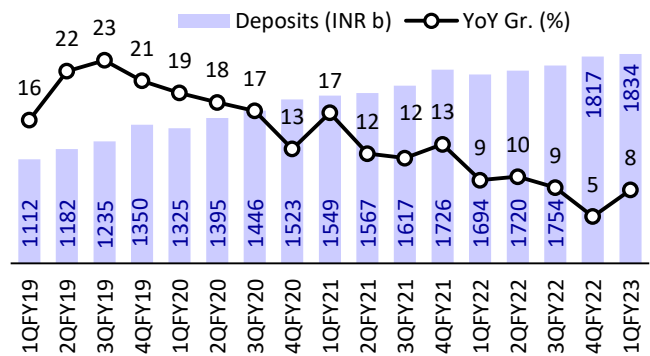
Source: MOFSL, Company

Exhibit 12: Loan book grew 16% YoY and 4.6% QoQ



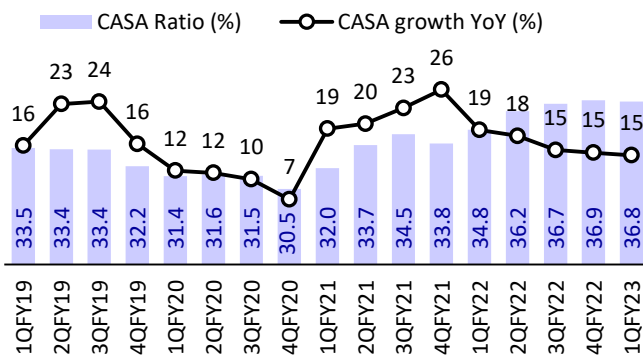
Source: MOFSL, Company

Exhibit 13: Deposit growth increases to ~8% YoY



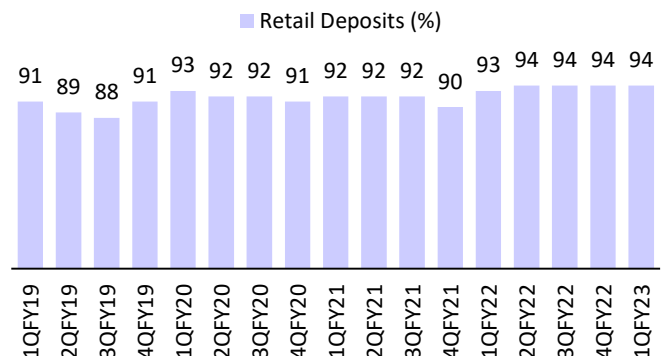
Source: MOFSL, Company

Exhibit 14: CASA deposits up ~15% YoY



Source: MOFSL, Company

Exhibit 15: Proportion of Retail deposits strong at 94%



Source: MOFSL, Company

Financials and valuations

| Income Statement | | | | | | (INR m) | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Interest Income | 97,529 | 1,14,190 | 1,32,108 | 1,37,579 | 1,36,608 | 1,63,439 | 1,93,550 |
| Interest Expense | 61,701 | 72,427 | 85,618 | 82,242 | 76,988 | 95,771 | 1,10,305 |
| Net Interest Income | 35,828 | 41,763 | 46,489 | 55,337 | 59,620 | 67,668 | 83,245 |
| Growth (%) | 17.4 | 16.6 | 11.3 | 19.0 | 7.7 | 13.5 | 23.0 |
| Non-Interest Income | 11,591 | 13,510 | 19,314 | 19,587 | 20,891 | 19,637 | 22,583 |
| Total Income | 47,419 | 55,274 | 65,803 | 74,924 | 80,510 | 87,306 | 1,05,829 |
| Growth (%) | 14.7 | 16.6 | 19.0 | 13.9 | 7.5 | 8.4 | 21.2 |
| Operating Expenses | 24,509 | 27,643 | 33,756 | 36,917 | 42,932 | 44,786 | 51,886 |
| Pre-Provision Profit | 22,910 | 27,631 | 32,047 | 38,007 | 37,579 | 42,520 | 53,942 |
| Growth (%) | 19.0 | 20.6 | 16.0 | 18.6 | -1.1 | 13.1 | 26.9 |
| Core PPP | 20,521 | 25,347 | 25,969 | 31,781 | 34,550 | 41,006 | 52,125 |
| Growth (%) | 27.0 | 23.5 | 2.5 | 22.4 | 8.7 | 18.7 | 27.1 |
| Provisions (excl. tax) | 9,472 | 8,559 | 11,722 | 16,634 | 12,218 | 9,852 | 13,348 |
| PBT | 13,439 | 19,073 | 20,325 | 21,373 | 25,361 | 32,668 | 40,594 |
| Tax | 4,650 | 6,634 | 4,898 | 5,470 | 6,463 | 8,330 | 10,351 |
| Tax Rate (%) | 34.6 | 34.8 | 24.1 | 25.6 | 25.5 | 25.5 | 25.5 |
| PAT | 8,789 | 12,439 | 15,428 | 15,903 | 18,898 | 24,338 | 30,243 |
| Growth (%) | 5.8 | 41.5 | 24.0 | 3.1 | 18.8 | 28.8 | 24.3 |

| Balance Sheet | | | | | | | |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
| Equity Share Capital | 3,944 | 3,970 | 3,985 | 3,992 | 4,205 | 4,205 | 4,205 |
| Reserves and Surplus | 1,18,158 | 1,28,760 | 1,41,191 | 1,57,252 | 1,83,733 | 2,04,917 | 2,30,955 |
| Net Worth | 1,22,102 | 1,32,730 | 1,45,176 | 1,61,245 | 1,87,938 | 2,09,122 | 2,35,160 |
| Deposits | 11,19,925 | 13,49,543 | 15,22,901 | 17,26,445 | 18,17,006 | 20,53,217 | 23,61,199 |
| Growth (%) | 14.7 | 20.5 | 12.8 | 13.4 | 5.2 | 13.0 | 15.0 |
| of which CASA Dep. | 3,76,867 | 4,37,314 | 4,67,743 | 5,87,126 | 6,74,710 | 7,63,797 | 8,87,811 |
| Growth (%) | 17.6 | 16.0 | 7.0 | 25.5 | 14.9 | 13.2 | 16.2 |
| Borrowings | 1,15,335 | 77,813 | 1,03,724 | 90,685 | 1,53,931 | 1,66,634 | 1,83,297 |
| Other Liabilities and Prov. | 25,777 | 33,313 | 34,579 | 35,299 | 50,588 | 53,117 | 57,366 |
| Total Liabilities | 13,83,140 | 15,93,400 | 18,06,380 | 20,13,674 | 22,09,463 | 24,82,089 | 28,37,022 |
| Current Assets | 92,034 | 1,00,668 | 1,25,746 | 1,95,914 | 2,10,103 | 1,66,489 | 1,60,303 |
| Investments | 3,07,811 | 3,18,245 | 3,58,927 | 3,71,862 | 3,91,795 | 4,46,646 | 5,00,243 |
| Growth (%) | 9.2 | 3.4 | 12.8 | 3.6 | 5.4 | 14.0 | 12.0 |
| Loans | 9,19,575 | 11,02,230 | 12,22,679 | 13,18,786 | 14,49,283 | 16,95,661 | 19,83,924 |
| Growth (%) | 25.4 | 19.9 | 10.9 | 7.9 | 9.9 | 17.0 | 17.0 |
| Fixed Assets | 4,574 | 4,720 | 4,800 | 4,911 | 6,339 | 6,656 | 6,989 |
| Other Assets | 59,146 | 67,537 | 94,229 | 1,22,201 | 1,51,942 | 1,66,637 | 1,85,562 |
| Total Assets | 13,83,140 | 15,93,400 | 18,06,380 | 20,13,674 | 22,09,463 | 24,82,089 | 28,37,022 |

| Asset Quality | | | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|
| GNPA (INR m) | 27,956 | 32,607 | 35,308 | 46,024 | 41,367 | 41,126 | 45,303 |
| NNPA (INR m) | 15,520 | 16,262 | 16,072 | 15,693 | 13,926 | 14,324 | 15,024 |
| GNPA Ratio | 3.0 | 2.9 | 2.8 | 3.4 | 2.8 | 2.4 | 2.2 |
| NNPA Ratio | 1.7 | 1.5 | 1.3 | 1.2 | 1.0 | 0.8 | 0.8 |
| Slippage Ratio | 2.7 | 1.6 | 1.7 | 1.5 | 1.4 | 1.3 | 1.3 |
| Credit Cost | 1.1 | 0.8 | 1.0 | 1.3 | 0.9 | 0.6 | 0.7 |
| PCR (Excl. Tech. write-off) | 44.5 | 50.1 | 54.5 | 65.9 | 66.3 | 65.2 | 66.8 |

Financials and valuations

Ratios

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|--------------------------------------|------------|------------|------------|------------|-------------|------------|-------------|
| Yield and Cost Ratios (%) | | | | | | | |
| Avg. Yield to Earning Assets | 8.4 | 8.4 | 8.5 | 8.0 | 7.3 | 7.8 | 8.1 |
| Avg. Yield on loans | 9.1 | 9.0 | 9.2 | 8.5 | 7.8 | 8.3 | 8.5 |
| Avg. Yield on Investments | 6.6 | 6.6 | 6.6 | 6.6 | 6.3 | 6.6 | 6.8 |
| Avg. Cost to Int. Bear. Liab. | 5.4 | 5.4 | 5.6 | 4.8 | 4.1 | 4.6 | 4.6 |
| Avg. Cost of Deposits | 5.5 | 5.5 | 5.6 | 4.8 | 4.1 | 4.6 | 4.6 |
| Avg. Cost of Borrowings | 5.1 | 5.2 | 5.1 | 4.3 | 3.0 | 4.5 | 4.8 |
| Interest Spread | 3.0 | 2.9 | 2.9 | 3.2 | 3.2 | 3.3 | 3.5 |
| Net Interest Margin | 3.1 | 3.1 | 3.0 | 3.2 | 3.18 | 3.3 | 3.49 |

Capitalization Ratios (%)

| | | | | | | | |
|---------|------|------|------|------|------|------|------|
| CAR | 14.9 | 14.4 | 14.4 | 14.6 | 15.8 | 14.8 | 14.0 |
| Tier I | 14.4 | 13.7 | 13.3 | 13.9 | 14.4 | 13.7 | 13.1 |
| Tier II | 0.5 | 0.8 | 1.1 | 0.8 | 1.3 | 1.1 | 0.9 |

Business and Efficiency Ratios (%)

| | | | | | | | |
|--------------------------------|------|------|------|------|------|------|------|
| Loans/Deposit Ratio | 82.1 | 81.7 | 80.3 | 76.4 | 79.8 | 82.6 | 84.0 |
| CASA Ratio | 33.7 | 32.4 | 30.7 | 34.0 | 37.1 | 37.2 | 37.6 |
| Cost/Assets ratio | 1.8 | 1.7 | 1.9 | 1.8 | 1.9 | 1.8 | 1.8 |
| Cost/Total Income ratio | 51.7 | 50.0 | 51.3 | 49.3 | 53.3 | 51.3 | 49.0 |
| Cost/Core Income ratio | 54.4 | 52.2 | 56.5 | 53.7 | 55.4 | 52.2 | 49.9 |
| Int. Expense/Int. Income ratio | 63.3 | 63.4 | 64.8 | 59.8 | 56.4 | 58.6 | 57.0 |
| Fee Income/Net Income ratio | 19.4 | 20.3 | 20.1 | 17.8 | 22.2 | 20.8 | 19.6 |
| Non-Int. Inc./Net Income ratio | 24.4 | 24.4 | 29.4 | 26.1 | 25.9 | 22.5 | 21.3 |
| Empl. Cost/Op. Exps. ratio | 50.7 | 49.8 | 52.5 | 55.1 | 54.1 | 52.3 | 51.9 |
| Investment/Deposit Ratio | 27.5 | 23.6 | 23.6 | 21.5 | 21.6 | 21.8 | 21.2 |

Valuation

| | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| RoE | 8.3 | 9.8 | 11.1 | 10.4 | 10.8 | 12.3 | 13.6 |
| RoA | 0.7 | 0.8 | 0.9 | 0.8 | 0.9 | 1.0 | 1.1 |
| RoRWA | 1.0 | 1.3 | 1.4 | 1.4 | 1.5 | 1.7 | 1.8 |
| Book Value (INR) | 61.9 | 66.9 | 72.8 | 80.8 | 89.4 | 99.4 | 111.8 |
| Growth (%) | 21.9 | 8.0 | 9.0 | 10.9 | 10.7 | 11.3 | 12.5 |
| Price-to-BV (x) | 1.6 | 1.5 | 1.4 | 1.2 | 1.1 | 1.0 | 0.9 |
| Adjusted BV (INR) | 54.4 | 59.1 | 64.9 | 72.7 | 81.6 | 91.1 | 102.8 |
| Price-to-ABV (x) | 1.8 | 1.7 | 1.5 | 1.4 | 1.2 | 1.1 | 1.0 |
| EPS (INR) | 4.8 | 6.3 | 7.8 | 8.0 | 9.2 | 11.6 | 14.4 |
| Growth (%) | -1.3 | 32.2 | 23.4 | 2.8 | 15.6 | 25.5 | 24.3 |
| Price-to-Earnings (x) | 20.8 | 15.7 | 12.7 | 12.4 | 10.7 | 8.5 | 6.9 |

| 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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