

# IDFC First Bank

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

|                       |             |
|-----------------------|-------------|
| Bloomberg             | IDFCFB IN   |
| Equity Shares (m)     | 6,219       |
| M.Cap.(INRb)/(USDb)   | 356.5 / 4.3 |
| 52-Week Range (INR)   | 58 / 29     |
| 1, 6, 12 Rel. Per (%) | 13/38/18    |
| 12M Avg Val (INR M)   | 1598        |

## Financials & Valuations (INR b)

| Y/E March         | FY22  | FY23E | FY24E |
|-------------------|-------|-------|-------|
| NII               | 97.1  | 124.4 | 155.6 |
| OP                | 32.8  | 46.4  | 65.1  |
| NP                | 1.5   | 22.5  | 31.3  |
| NIM (%)           | 6.1   | 6.5   | 6.6   |
| EPS (INR)         | 0.2   | 3.6   | 5.0   |
| EPS Gr (%)        | -71.6 | NM    | 39.0  |
| ABV/Sh (INR)      | 33.8  | 37.4  | 42.4  |
| Cons. BV/Sh (INR) | 30.5  | 34.8  | 39.8  |

## Ratios

|         |     |      |      |
|---------|-----|------|------|
| RoE (%) | 0.7 | 10.2 | 12.6 |
| RoA (%) | 0.1 | 1.1  | 1.2  |

## Valuations

|           |     |      |      |
|-----------|-----|------|------|
| P/E (x)   | NM  | 15.8 | 11.4 |
| P/BV (x)  | 1.7 | 1.5  | 1.4  |
| P/ABV (x) | 1.9 | 1.6  | 1.4  |

\*Adjusted for Investment in subsidiaries

## Shareholding pattern (%)

| As On    | Jun-22 | Mar-22 | Dec-21 |
|----------|--------|--------|--------|
| Promoter | 36.5   | 36.5   | 36.5   |
| DII      | 14.4   | 13.8   | 16.1   |
| FII      | 11.0   | 13.5   | 15.1   |
| Others   | 38.1   | 36.2   | 32.2   |

FII Includes depository receipts

**CMP: INR57**
**TP: INR70 (+22%)**
**Buy**

## Earnings momentum remains strong; RoA improves

### Healthy momentum in deposits; operating leverage in-play

- IDFC First Bank (IDFCF) reported an all-round strong operating performance with a 266% YoY jump in PAT to INR5.6b. This was led by a significant improvement in all key metrics such as higher NII, robust retail deposit growth, and lower cost ratios.
- Business growth sustained robust momentum as loan book grew 32% YoY, led by 42% YoY growth in retail loans while wholesale book further declined 2% QoQ. The momentum witnessed in deposits is encouraging with a growth of 37% YoY/8.9% QoQ. CASA deposits grew 37% YoY/12% QoQ. Thus, CASA ratio was strong at 51%.
- IDFCF is entering a phase of strong loan growth as the drag from wholesale book moderates. This will be aided by a strong growth in profitability due to replacement of high-cost borrowings, better cost trends, and controlled credit costs. We estimate IDFCF to deliver FY24E RoA/RoE of 1.2%/12.6%, respectively. We reiterate our **Buy** rating on the stock.

### Solid quarter; benefits of a clean cycle ahead of us

- IDFCF reported a whopping 266% YoY growth in PAT to INR5.6b in 2QFY23. This was aided by healthy NII growth, strong fee income, and controlled provisions. For 1HFY23, PAT was INR10.3b vs. a loss of INR4.8b last year.
- NII increased 32% YoY, driven by a combination of strong loan growth of 32% YoY/2% QoQ along with 9bp QoQ expansion in NIM to 5.98%. The bank is confident of maintaining margins at this level as it seeks to utilize the benefits of lower CoF by migrating to safer customer segments.
- Other income rose 36% YoY with strong growth in core fee income, supported by higher treasury profits.
- Opex grew 23% YoY lower than topline growth of 33% YoY as the bank is enjoying the benefits of operating leverage. Within opex, employee cost grew 45% YoY, while non-employee expense saw a moderate increase of 15% YoY. PPOp rose 69% YoY to INR11.7b.
- On the business front, advances grew 32% YoY/2% QoQ, led by 42%/34% YoY growth in Retail/Commercial finance. The wholesale book declined 2% QoQ. Within retail, growth was led by housing, vehicle finance, and cards (low base). Share of retail & commercial finance increased to 75% of the mix.
- IDFCF delivered a surprise on the liability front with deposit growth of 37% YoY /9% QoQ. CASA deposits grew 37% YoY/12% QoQ. Thus, CASA ratio was strong at 51%. The bank is confident of maintaining this traction in deposits despite strong competitive intensity.

- Headline asset quality ratio continues to improve as GNPA/NNPA ratio contracted 18bp/21bp QoQ to 3.18%/1.09%, respectively. PCR ratio increased ~430bp to 66.3%. While corporate (non-infra) book is well provided for with PCR of 98%, trends in retail has reverted to long-term mean of GNPA of 2%. Further, SMA book in retail declined to 1.0% in 2QFY23.

#### Highlights from the management commentary

- IDFCF has guided for 25% YoY growth in loans and 50% YoY rise in core PPop in FY23
- The bank is also confident of maintaining margins in the range of 5.8-6.0%
- Credit cost trend is much lower than its initial guidance of 1.5%. Thus, it is confident of beating this number.

#### Valuation and view

- IDFCFB is entering a phase of strong loan growth as the drag from wholesale book moderates and we estimate loans to report 24% CAGR over FY22-24E. The bank has scaled up its retail deposits (CASA/retail TD) at a robust 73% CAGR over FY19-22 with a solid CASA mix of 51%. It has invested well in digital capabilities, branch and product expansion and has presence across retail products. Cost ratios are elevated but will moderate as scale benefits come into effect, while retirement of high-cost borrowings will aid NII growth. We estimate 41% CAGR in PPop over FY22-24E, while controlled credit costs will drive 364% CAGR in PAT over the same period. We thus estimate RoA/RoE to reach 1.2%/12.6% by FY24E, respectively. We reiterate our Buy rating **and a TP of INR70 (1.5x FY24E ABV).**

#### Quarterly performance (INR b)

|                             | FY22        |             |             |             | FY23E       |             |             |             | FY22         | FY23E        |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
|                             | 1Q          | 2Q          | 3Q          | 4Q          | 1Q          | 2Q          | 3QE         | 4QE         |              |              |
| <b>Net Interest Income</b>  | <b>21.8</b> | <b>22.7</b> | <b>25.8</b> | <b>26.7</b> | <b>27.5</b> | <b>30.0</b> | <b>32.1</b> | <b>34.8</b> | <b>97.1</b>  | <b>124.4</b> |
| % Change (Y-o-Y)            | 25.3        | 27.4        | 36.3        | 36.2        | 25.9        | 32.1        | 24.4        | 30.2        | 31.5         | 28.1         |
| Other Income                | 8.4         | 7.8         | 7.7         | 8.3         | 8.6         | 10.6        | 10.7        | 11.1        | 32.2         | 40.9         |
| <b>Total Income</b>         | <b>30.3</b> | <b>30.5</b> | <b>33.5</b> | <b>35.0</b> | <b>36.1</b> | <b>40.6</b> | <b>42.8</b> | <b>45.8</b> | <b>129.3</b> | <b>165.3</b> |
| Operating Expenses          | 20.3        | 23.6        | 25.8        | 26.7        | 26.6        | 28.9        | 30.6        | 32.8        | 96.4         | 118.9        |
| <b>Operating Profit</b>     | <b>9.9</b>  | <b>6.9</b>  | <b>7.7</b>  | <b>8.3</b>  | <b>9.4</b>  | <b>11.7</b> | <b>12.2</b> | <b>13.1</b> | <b>32.8</b>  | <b>46.4</b>  |
| % Change (Y-o-Y)            | 11.6        | -13.4       | 2.3         | 32.7        | -5.1        | 68.7        | 58.7        | 58.0        | 31.4         | 41.3         |
| Provisions                  | 18.7        | 4.7         | 3.9         | 3.7         | 3.1         | 4.2         | 4.4         | 4.6         | 31.1         | 16.3         |
| <b>Profit before Tax</b>    | <b>-8.8</b> | <b>2.2</b>  | <b>3.8</b>  | <b>4.6</b>  | <b>6.4</b>  | <b>7.4</b>  | <b>7.8</b>  | <b>8.4</b>  | <b>1.8</b>   | <b>30.1</b>  |
| Tax                         | -2.5        | 0.7         | 1.0         | 1.1         | 1.6         | 1.9         | 2.0         | 2.1         | 0.3          | 7.6          |
| <b>Net Profit</b>           | <b>-6.3</b> | <b>1.5</b>  | <b>2.8</b>  | <b>3.4</b>  | <b>4.7</b>  | <b>5.6</b>  | <b>5.9</b>  | <b>6.3</b>  | <b>1.5</b>   | <b>22.5</b>  |
| % Change (Y-o-Y)            | -773.5      | 50.5        | 117.1       | 168.2       | -175.3      | 266.1       | 108.6       | 84.9        | -67.8        | 1,446.7      |
| <b>Operating Parameters</b> |             |             |             |             |             |             |             |             |              |              |
| Deposit Growth (%)          | 30.8        | 19.0        | 10.0        | 19.1        | 24.1        | 36.8        | 40.0        | 27.0        | 19.1         | 27.0         |
| Loan Growth (%)             | 10.9        | 13.6        | 9.6         | 17.2        | 22.0        | 31.8        | 21.9        | 24.0        | 17.2         | 24.0         |
| Deposit (INR b)             | 913         | 902         | 928         | 1,056       | 1,133       | 1,234       | 1,299       | 1,342       | 1,056        | 1,342        |
| Loan (INR b)                | 1,086       | 1,023       | 1,164       | 1,179       | 1,326       | 1,348       | 1,419       | 1,461       | 1,179        | 1,461        |
| <b>Asset Quality</b>        |             |             |             |             |             |             |             |             |              |              |
| Gross NPA (%)               | 4.6         | 4.3         | 4.0         | 3.7         | 3.4         | 3.2         | 3.1         | 3.0         | 3.8          | 3.0          |
| Net NPA (%)                 | 2.3         | 2.1         | 1.7         | 1.5         | 1.3         | 1.1         | 1.0         | 0.9         | 1.5          | 0.9          |
| PCR (%)                     | 50.9        | 52.1        | 57.1        | 59.5        | 62.0        | 66.3        | 67.7        | 69.6        | 59.5         | 69.6         |

Sources: MOFSL, Company reports

## Quarterly snapshot (INR b)

|                                | FY21   |        |        |        | FY22   |        |        |        | FY23   |        | Change (%)  |      |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|------|
|                                | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | YoY         | QoQ  |
| <b>Profit and Loss (INR m)</b> |        |        |        |        |        |        |        |        |        |        |             |      |
| Net Interest Income            | 17,438 | 17,839 | 18,923 | 19,603 | 21,848 | 22,722 | 25,800 | 26,692 | 27,511 | 30,022 | 32          | 9    |
| Other Income                   | 4,849  | 6,260  | 8,510  | 8,183  | 8,425  | 7,797  | 7,686  | 8,312  | 8,557  | 10,613 | 36          | 24   |
| Total Income                   | 22,286 | 24,099 | 27,433 | 27,786 | 30,273 | 30,519 | 33,486 | 35,005 | 36,068 | 40,635 | 33          | 13   |
| Operating Expenses             | 13,370 | 16,101 | 19,906 | 21,556 | 20,323 | 23,593 | 25,789 | 26,740 | 26,630 | 28,948 | 23          | 9    |
| Employee                       | 4,432  | 4,887  | 5,255  | 5,196  | 5,544  | 6,358  | 7,217  | 7,846  | 8,302  | 9,186  | 44          | 11   |
| Others                         | 8,938  | 11,214 | 14,651 | 16,360 | 14,779 | 17,235 | 18,571 | 18,893 | 18,328 | 19,762 | 15          | 8    |
| Operating Profits              | 8,916  | 7,998  | 7,527  | 6,230  | 9,949  | 6,926  | 7,697  | 8,265  | 9,438  | 11,687 | 69          | 24   |
| Core Operating Profits         | 5,546  | 4,648  | 4,837  | 4,050  | 6,019  | 5,706  | 7,447  | 8,355  | 9,878  | 10,527 | 84          | 7    |
| Provisions                     | 7,641  | 6,740  | 5,740  | 5,799  | 18,723 | 4,749  | 3,919  | 3,695  | 3,080  | 4,242  | -11         | 38   |
| PBT                            | 1,275  | 1,258  | 1,787  | 431    | -8,774 | 2,176  | 3,779  | 4,571  | 6,358  | 7,445  | 242         | 17   |
| Taxes                          | 340    | 250    | 492    | -847   | -2,473 | 659    | 968    | 1,143  | 1,615  | 1,890  | 187         | 17   |
| PAT                            | 935    | 1,008  | 1,295  | 1,278  | -6,300 | 1,517  | 2,811  | 3,427  | 4,743  | 5,556  | 266         | 17   |
| <b>Balance Sheet (INR B)</b>   |        |        |        |        |        |        |        |        |        |        |             |      |
| Loans                          | 979    | 900    | 1,063  | 1,006  | 1,086  | 1,023  | 1,164  | 1,179  | 1,326  | 1,348  | 32          | 2    |
| Investments                    | 359    | 453    | 330    | 454    | 414    | 418    | 316    | 461    | 471    | 506    | 21          | 7    |
| Deposits                       | 698    | 758    | 843    | 887    | 913    | 902    | 928    | 1,056  | 1,133  | 1,234  | 37          | 9    |
| CASA Deposits                  | 235    | 302    | 406    | 459    | 464    | 463    | 479    | 512    | 567    | 633    | 37          | 12   |
| Borrowings                     | 524    | 477    | 408    | 458    | 484    | 526    | 508    | 530    | 557    | 566    | 8           | 2    |
| Total Assets                   | 1,506  | 1,527  | 1,557  | 1,631  | 1,690  | 1,725  | 1,742  | 1,902  | 2,006  | 2,128  | 23          | 6    |
| <b>Asset Quality</b>           |        |        |        |        |        |        |        |        |        |        |             |      |
| GNPA                           | 17,417 | 14,861 | 12,892 | 43,030 | 46,671 | 44,855 | 44,569 | 44,691 | 43,548 | 43,962 | -2          | 1    |
| NNPA                           | 4,366  | 3,910  | 3,206  | 18,833 | 22,932 | 21,503 | 19,140 | 18,081 | 16,538 | 14,800 | -31         | -11  |
| <b>Funded Credit Mix (%)</b>   |        |        |        |        |        |        |        |        |        |        |             |      |
| Retail                         | 53.9   | 56.0   | 53.4   | 55.8   | 56.8   | 58.7   | 61.8   | 63.8   | 65.8   | 66.4   | 13          | 1    |
| Commercial Finance             | 0.0    | 0.0    | 8.2    | 8.6    | 8.3    | 8.5    | 8.6    | 7.9    | 7.8    | 9.1    | 7           | 17   |
| Wholesale                      | 36.5   | 34.6   | 38.4   | 35.6   | 34.9   | 32.8   | 29.6   | 28.3   | 26.4   | 24.6   | -25         | -7   |
| PSL Buyouta                    | 7.4    | 7.2    | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA          | NA   |
| Stressed Assets                | 2.3    | 2.2    | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA     | NA          | NA   |
| <b>Ratios (%)</b>              |        |        |        |        |        |        |        |        |        |        |             |      |
| Asset quality ratios           | FY21   |        |        |        | FY22   |        |        |        | FY23   |        | Change (bp) |      |
|                                | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | YoY         | QoQ  |
| GNPA                           | 2.0    | 1.6    | 1.3    | 4.2    | 4.6    | 4.3    | 4.0    | 3.7    | 3.4    | 3.2    | -109        | -18  |
| NNPA                           | 0.5    | 0.4    | 0.3    | 1.9    | 2.3    | 2.1    | 1.7    | 1.5    | 1.3    | 1.1    | -100        | -21  |
| PCR (Calculated)               | 74.9   | 73.7   | 75.1   | 56.2   | 50.9   | 52.1   | 57.1   | 59.5   | 62.0   | 66.3   | 1,427       | 431  |
| Credit Cost                    | 3.0    | 3.1    | 2.2    | 2.5    | 7.3    | 2.0    | 1.4    | 1.4    | 1.0    | 1.4    | -54         | 41   |
| <b>Business ratios</b>         |        |        |        |        |        |        |        |        |        |        |             |      |
| CASA (Reported)                | 33.7   | 40.4   | 48.3   | 51.8   | 50.9   | 51.3   | 51.6   | 48.4   | 50.0   | 51.3   | 0           | 124  |
| Loan/Deposit                   | 140.3  | 118.7  | 126.1  | 113.4  | 119.0  | 113.3  | 125.5  | 111.6  | 116.9  | 109.2  | -415        | -777 |
| Non Int. to Total Income       | 21.8   | 26.0   | 31.0   | 29.5   | 27.8   | 25.5   | 23.0   | 23.7   | 23.7   | 26.1   | 57          | 239  |
| Cost to Income                 | 60.0   | 66.8   | 72.6   | 77.6   | 67.1   | 77.3   | 77.0   | 76.4   | 73.8   | 71.2   | -607        | -259 |
| Tax Rate                       | 26.7   | 19.9   | 27.5   | -196.4 | 28.2   | 30.3   | 25.6   | 25.0   | 25.4   | 25.4   | -490        | -2   |
| CAR                            | 15.0   | 14.7   | 14.3   | 13.8   | 15.6   | 15.6   | 15.4   | 16.7   | 15.8   | 15.4   | -25         | -42  |
| Tier I                         | 14.6   | 14.3   | 13.8   | 13.3   | 14.9   | 14.9   | 14.8   | 14.9   | 14.0   | 13.7   | -118        | -34  |
| <b>Preprofitability ratios</b> |        |        |        |        |        |        |        |        |        |        |             |      |
| YoA                            | 12.1   | 14.1   | 12.3   | 13.8   | 12.9   | 14.2   | 12.9   | 14.0   | 13.8   | 15.5   | 135         | 171  |
| YoI                            | 7.3    | 5.8    | 8.7    | 6.0    | 7.3    | 5.5    | 8.5    | 5.4    | 5.9    | 6.9    | 147         | 103  |
| YoF                            | 11.0   | 11.2   | 11.6   | 11.5   | 11.5   | 11.7   | 12.3   | 11.8   | 11.9   | 13.3   | 154         | 134  |
| CoF                            | 6.7    | 6.5    | 6.8    | 6.3    | 5.8    | 5.5    | 5.5    | 5.1    | 5.6    | 6.1    | 62          | 49   |
| RoA                            | 0.2    | 0.3    | 0.3    | 0.3    | -1.5   | 0.4    | 0.6    | 0.8    | 1.0    | 1.1    | 72          | 10   |
| Margins                        | 4.9    | 4.9    | 5.0    | 5.1    | 5.5    | 5.8    | 6.2    | 6.3    | 5.9    | 6.0    | 15          | 9    |
| <b>Other Details</b>           |        |        |        |        |        |        |        |        |        |        |             |      |
| Branches                       | 503    | 523    | 576    | 596    | 601    | 599    | 599    | 641    | 651    | 670    | 71          | 19   |

Sources: MOFSL, company reports



## Highlights from the management commentary

### Balance Sheet and P&L

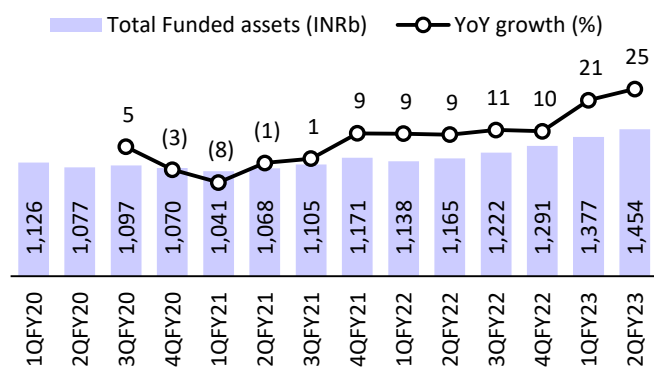
- Credit growth remains stable and strong. The bank is in a position to fund loan growth from its deposit growth
- The bank has grown at 25% YoY after three years of muted growth
- The bank has guided for 25% YoY growth in loans and 50% YoY rise in core PPoP in FY23
- Of the total loan book, 22% is linked to EBLR, 15% MCLR, and the balance is fixed. Increased rates will be passed on next month and will have a positive impact on NIM.
- The bank is confident of maintaining its momentum in CASA deposits to pay off legacy liabilities and fund incremental growth
- It is confident of maintaining margins in the range of 5.8-6.0%
- Increase in opex was to support additional business volumes. As the bank gains from operating leverage, C/I ratio should trend downwards.
- Scale and operating leverage are critical RoA drivers
- The bank has advanced the guidance of double-digit RoE that was earlier guided for 4QFY23
- Incremental RoE of retail lending at 20% is creating a strong impression on the overall profitability of the bank
- The bank continues to invest in a robust tech platform to improve customer experience

### Asset quality

- Historical track record of keeping NPAs low in retail lending is backed by deep underwriting capabilities.
- Credit score of onboarding customers is strong with 85% having a score of more than 700
- The share of NTB customers has also reduced and indicates a safer borrowing profile
- The cheque bounce rate is also at an all-time low
- SMA 1 and 2 book is low and quite comfortable
- Credit cost trend is much lower than the guidance of 1.5%. The bank is confident of beating this number.
- PCR on wholesale book is >90%
- Restructured book has also moderated to 1.0% in 2QFY23 vs. 1.3% as a % of total funded assets

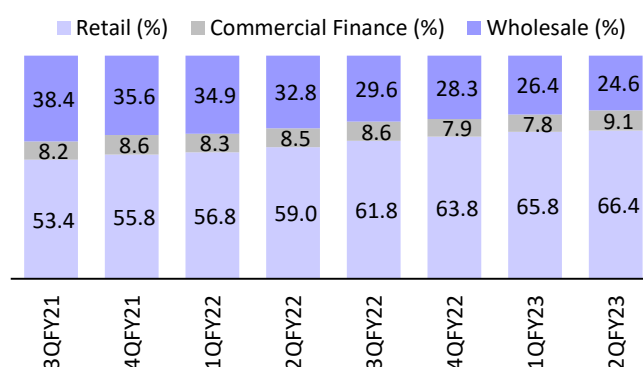
## Key exhibits

**Exhibit 1: Total funded assets grew 25% YoY in 2QFY23, driven by strong performance in retail**



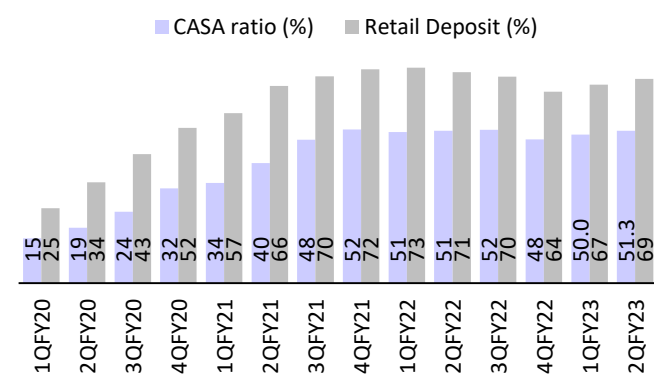
Sources: MOFSL, company reports

**Exhibit 2: Retail & Commercial Finance now form 75% of business mix**



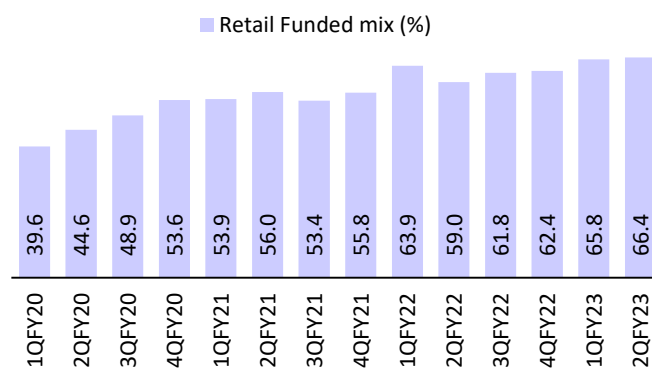
Sources: MOFSL, company reports

**Exhibit 3: Strong traction in CASA deposits led to an improvement of 130bp QoQ in CASA ratio to 51.3%**



Sources: MOFSL, company reports

**Exhibit 4: Proportion of retail funded assets improved to 66.4% as of 2QFY23**



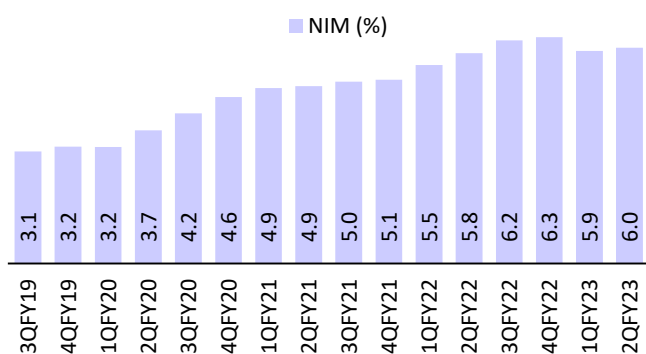
Sources: MOFSL, company reports

**Valuation and view**

- **Robust liability franchise:** IDFCF continues to witness strong growth in Retail deposits and has succeeded in building a robust liability franchise over the past three years, led by attractive customer service levels, higher interest rates, a strong brand, and transparent products and services. In 2QFY23, the bank delivered a surprise on the liability front with deposit growth of 37% YoY/9% QoQ. CASA deposits grew 37% YoY/12% QoQ. Thus, CASA ratio was strong at 51%. The bank is confident of maintaining this traction in deposits despite strong competitive intensity.
- **Asset quality improved** 28bp/21bp QoQ moderating GNPA/NNPA ratio to 3.18%/1.09%, respectively. PCR ratio increased ~550bp to 77.6% and should keep credit cost in check. While corporate (non-infra) book is well provided for with PCR of 98%, trends in retail has reverted to long-term mean of GNPA of 2%. Further, SMA book in retail declined to 1.0% in 2QFY23. We estimate a credit cost of 1.4%/1.5% in FY23E/FY24E.
- **Reiterate Buy with a TP of INR70:** IDFCFB is entering a phase of strong loan growth as the drag from wholesale book moderates and we estimate loans to report 24% CAGR over FY22-24E. The bank has scaled up retail deposits (CASA/retail TD) at a robust 73% CAGR over FY19-22 with solid CASA mix of 51%. It has invested well in digital capabilities, branch and product expansion and has presence across retail products. Cost ratios are elevated but will moderate as scale benefits come into effect, while retirement of high-cost borrowings will aid NII growth. We estimate 41% CAGR in PPOP over FY22-24E, while controlled credit costs will drive 364% CAGR in PAT over the same period. We thus estimate RoA/RoE to reach 1.2%/12.6% by FY24, respectively. We reiterate our **Buy rating and a TP of INR70 (1.5x FY24E ABV).**

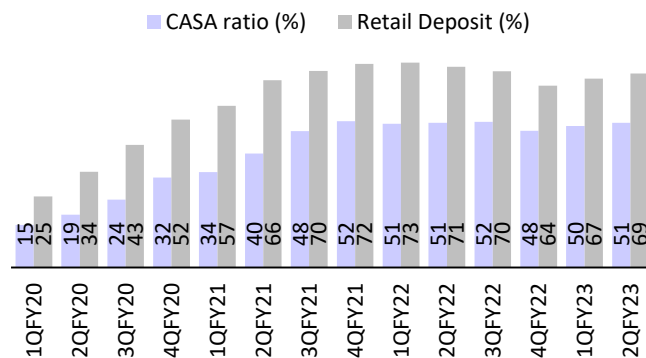
## Story in charts

**Exhibit 5: NIM expanded 9bp QoQ to 5.98%**



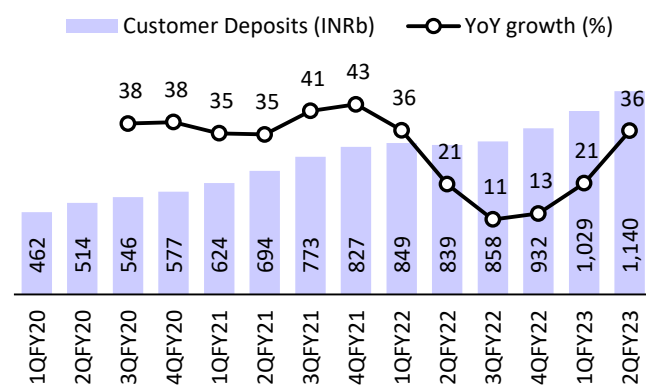
Sources: MOFSL, company reports

**Exhibit 6: CASA ratio improved 130bp QoQ to 51.3%**



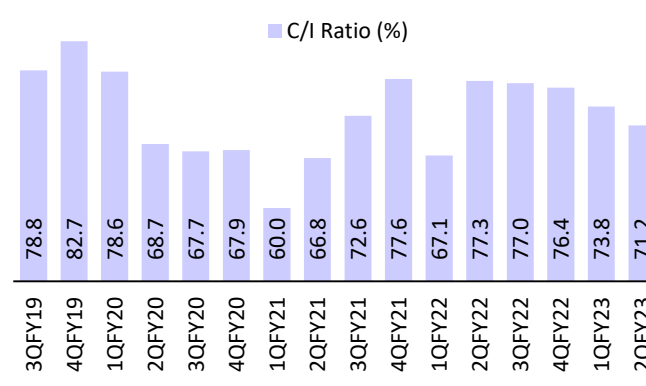
Sources: MOFSL, company reports

**Exhibit 7: Customer deposits grew 36% YoY to INR1,140b as of 2QFY23**



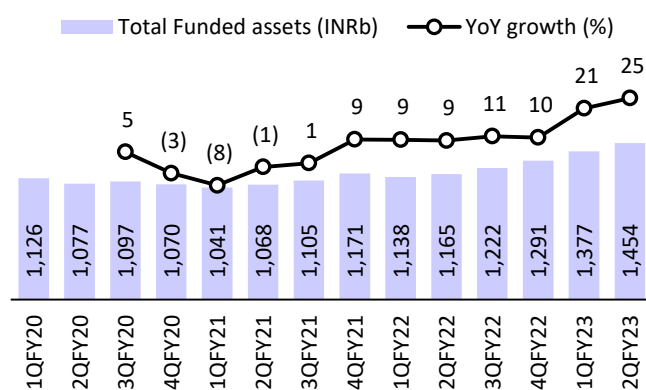
Sources: MOFSL, company reports

**Exhibit 8: Cost to income ratio improved to 71.2% in 2QFY23**



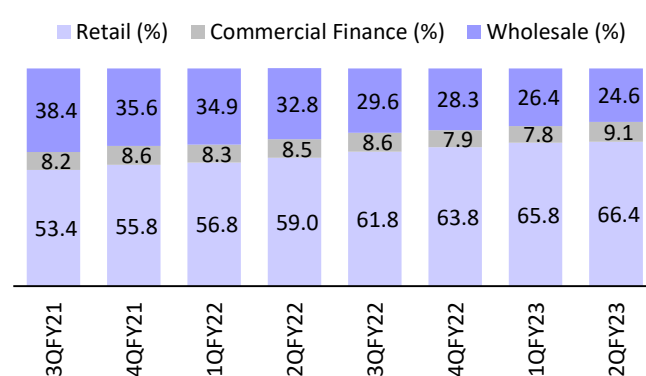
Sources: MOFSL, company reports

**Exhibit 9: Total funded assets grew 25% YoY in 2QFY23**



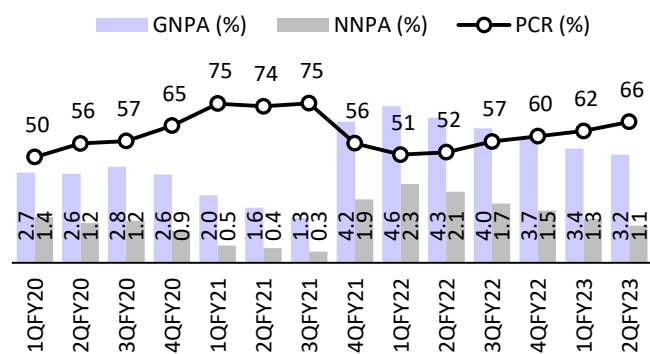
Sources: MOFSL, company reports

**Exhibit 10: Retail & Commercial Finance now form 75% of business mix**



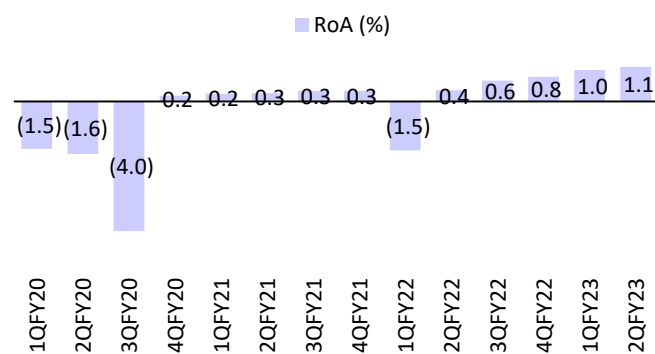
Sources: MOFSL, company reports

**Exhibit 11: GNPA/NNPA ratio moderated 18bp/21bp QoQ to 3.2%/1.08% as of Sep'22; PCR stood healthy at ~66%**



Sources: MOFSL, company reports

**Exhibit 12: RoA trajectory improves further with 1.1% (annualized) for 2QFY23**



Sources: MOFSL, company reports

**Exhibit 13: DuPont Analysis – Return ratios to pick up further, led by pick up in NII, lower cost, and controlled provisions**

| Y/E MARCH                    | FY18       | FY19         | FY20         | FY21       | FY22       | FY23E       | FY24E       |
|------------------------------|------------|--------------|--------------|------------|------------|-------------|-------------|
| Interest Income              | 7.5        | 8.1          | 10.3         | 10.2       | 9.7        | 10.5        | 11.1        |
| Interest Expense             | 6.0        | 6.0          | 6.5          | 5.5        | 4.2        | 4.6         | 4.9         |
| <b>Net Interest Income</b>   | <b>1.5</b> | <b>2.2</b>   | <b>3.8</b>   | <b>4.7</b> | <b>5.5</b> | <b>5.9</b>  | <b>6.2</b>  |
| Fee income                   | 0.6        | 0.6          | 0.8          | 1.0        | 1.5        | 1.7         | 1.8         |
| Trading and others           | 0.3        | 0.0          | 0.2          | 0.4        | 0.3        | 0.2         | 0.2         |
| <b>Non Interest income</b>   | <b>0.9</b> | <b>0.6</b>   | <b>1.1</b>   | <b>1.4</b> | <b>1.8</b> | <b>2.0</b>  | <b>2.0</b>  |
| <b>Total Income</b>          | <b>2.4</b> | <b>2.8</b>   | <b>4.9</b>   | <b>6.1</b> | <b>7.3</b> | <b>7.9</b>  | <b>8.2</b>  |
| <b>Operating Expenses</b>    | <b>1.4</b> | <b>4.0</b>   | <b>3.7</b>   | <b>4.5</b> | <b>5.5</b> | <b>5.7</b>  | <b>5.6</b>  |
| Employee cost                | 0.6        | 0.8          | 1.0          | 1.3        | 1.5        | 1.8         | 1.8         |
| Others                       | 0.8        | 3.2          | 2.7          | 3.3        | 3.9        | 3.9         | 3.8         |
| <b>Operating Profit</b>      | <b>1.1</b> | <b>-1.2</b>  | <b>1.2</b>   | <b>1.6</b> | <b>1.9</b> | <b>2.2</b>  | <b>2.6</b>  |
| <b>Core Operating Profit</b> | <b>0.7</b> | <b>-1.3</b>  | <b>1.0</b>   | <b>1.2</b> | <b>1.5</b> | <b>2.0</b>  | <b>2.4</b>  |
| <b>Provisions</b>            | <b>0.2</b> | <b>1.0</b>   | <b>2.7</b>   | <b>1.3</b> | <b>1.8</b> | <b>0.8</b>  | <b>0.9</b>  |
| NPA                          | -0.5       | -0.1         | 0.3          | 0.6        | 0.1        | 0.9         | 1.0         |
| Others                       | 0.7        | 1.1          | 2.4          | 0.7        | 1.6        | -0.1        | 0.0         |
| <b>PBT</b>                   | <b>0.9</b> | <b>-2.2</b>  | <b>-1.5</b>  | <b>0.3</b> | <b>0.1</b> | <b>1.4</b>  | <b>1.7</b>  |
| Tax                          | 0.1        | -0.9         | 0.3          | 0.0        | 0.0        | 0.4         | 0.4         |
| <b>RoA</b>                   | <b>0.7</b> | <b>-1.3</b>  | <b>-1.8</b>  | <b>0.3</b> | <b>0.1</b> | <b>1.1</b>  | <b>1.2</b>  |
| Leverage (x)                 | 8.0        | 8.8          | 9.4          | 9.4        | 9.1        | 9.5         | 10.1        |
| <b>RoE</b>                   | <b>5.7</b> | <b>-11.6</b> | <b>-17.1</b> | <b>2.7</b> | <b>0.7</b> | <b>10.2</b> | <b>12.6</b> |



## Financials and valuations

| Income Statement             |               |                |                |               |                 | (INR m)         |                 |
|------------------------------|---------------|----------------|----------------|---------------|-----------------|-----------------|-----------------|
| Y/E March                    | FY18          | FY19           | FY20           | FY21          | FY22            | FY23E           | FY24E           |
| Interest Income              | 89,300        | 1,19,482       | 1,63,076       | 1,59,679      | 1,71,727        | 2,20,450        | 2,78,610        |
| Interest Expense             | 71,319        | 87,491         | 1,02,320       | 85,876        | 74,665          | 96,073          | 1,23,009        |
| <b>Net Interest Income</b>   | <b>17,981</b> | <b>31,991</b>  | <b>60,756</b>  | <b>73,803</b> | <b>97,062</b>   | <b>1,24,378</b> | <b>1,55,601</b> |
| Growth (%)                   | -10.9         | 77.9           | 89.9           | 21.5          | 31.5            | 28.1            | 25.1            |
| Non Interest Income          | 11,179        | 8,521          | 17,222         | 22,113        | 32,220          | 40,920          | 51,150          |
| <b>Total Income</b>          | <b>29,160</b> | <b>40,512</b>  | <b>77,977</b>  | <b>95,916</b> | <b>1,29,282</b> | <b>1,65,297</b> | <b>2,06,751</b> |
| Growth (%)                   | -3.8          | 38.9           | 92.5           | 23.0          | 34.8            | 27.9            | 25.1            |
| Operating Expenses           | 16,526        | 58,867         | 58,610         | 70,933        | 96,444          | 1,18,899        | 1,41,628        |
| <b>Pre Provision Profits</b> | <b>12,634</b> | <b>-18,356</b> | <b>19,367</b>  | <b>24,983</b> | <b>32,837</b>   | <b>46,398</b>   | <b>65,123</b>   |
| Growth (%)                   | -27.9         | -245.3         | -205.5         | 29.0          | 31.4            | 41.3            | 40.4            |
| <b>Core PPP</b>              | <b>8,685</b>  | <b>-18,681</b> | <b>15,463</b>  | <b>19,014</b> | <b>27,374</b>   | <b>41,208</b>   | <b>60,192</b>   |
| Growth (%)                   | -26.9         | -315.1         | -182.8         | 23.0          | 44.0            | 50.5            | 46.1            |
| Provisions (excl tax)        | 2,361         | 14,596         | 43,153         | 20,225        | 31,086          | 16,317          | 23,320          |
| <b>PBT</b>                   | <b>10,273</b> | <b>-32,952</b> | <b>-23,785</b> | <b>4,758</b>  | <b>1,752</b>    | <b>30,081</b>   | <b>41,803</b>   |
| Tax                          | 1,680         | -13,510        | 4,857          | 235           | 297             | 7,580           | 10,534          |
| Tax Rate (%)                 | 16.4          | 41.0           | -20.4          | 4.9           | 16.9            | 25.2            | 25.2            |
| <b>PAT</b>                   | <b>8,593</b>  | <b>-19,442</b> | <b>-28,642</b> | <b>4,523</b>  | <b>1,455</b>    | <b>22,501</b>   | <b>31,269</b>   |
| Growth (%)                   | -15.7         | -326.3         | 47.3           | -115.8        | -67.8           | 1,446.7         | 39.0            |

### Balance Sheet

| Y/E March                 | FY18             | FY19             | FY20             | FY21             | FY22             | FY23E            | FY24E            |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Equity Share Capital      | 34,041           | 47,817           | 48,099           | 56,758           | 62,177           | 62,177           | 62,177           |
| Reserves & Surplus        | 1,18,525         | 1,33,776         | 1,05,327         | 1,21,320         | 1,47,697         | 1,70,197         | 2,01,466         |
| <b>Net Worth</b>          | <b>1,52,565</b>  | <b>1,81,593</b>  | <b>1,53,426</b>  | <b>1,78,079</b>  | <b>2,09,874</b>  | <b>2,32,374</b>  | <b>2,63,643</b>  |
| Of which Equity Network   | 1,52,565         | 1,81,593         | 1,53,426         | 1,78,079         | 2,09,874         | 2,32,374         | 2,63,643         |
| <b>Deposits</b>           | <b>4,81,982</b>  | <b>7,04,790</b>  | <b>6,51,080</b>  | <b>8,86,884</b>  | <b>10,56,344</b> | <b>13,41,556</b> | <b>16,90,361</b> |
| Growth (%)                | 19.9             | 46.2             | -7.6             | 36.2             | 19.1             | 27.0             | 26.0             |
| <b>of which CASA Dep</b>  | <b>57,096</b>    | <b>91,139</b>    | <b>2,09,397</b>  | <b>4,58,961</b>  | <b>5,11,704</b>  | <b>6,73,461</b>  | <b>8,35,038</b>  |
| Growth (%)                | 172.6            | 59.6             | 129.8            | 119.2            | 11.5             | 31.6             | 24.0             |
| Borrowings                | 5,72,871         | 6,99,834         | 5,73,972         | 4,57,861         | 5,29,626         | 5,95,702         | 6,76,112         |
| Other Liabilities & Prov. | 57,784           | 85,632           | 1,13,526         | 1,08,615         | 1,05,812         | 1,11,102         | 1,16,657         |
| <b>Total Liabilities</b>  | <b>12,65,202</b> | <b>16,71,849</b> | <b>14,92,004</b> | <b>16,31,439</b> | <b>19,01,655</b> | <b>22,80,735</b> | <b>27,46,773</b> |
| Current Assets            | 48,918           | 95,668           | 41,908           | 58,279           | 1,57,579         | 1,64,667         | 1,79,852         |
| <b>Investments</b>        | <b>6,12,015</b>  | <b>5,84,754</b>  | <b>4,54,046</b>  | <b>4,54,117</b>  | <b>4,61,448</b>  | <b>5,49,124</b>  | <b>6,58,948</b>  |
| Growth (%)                | 21.3             | -4.5             | -22.4            | 0.0              | 1.6              | 19.0             | 20.0             |
| <b>Loans</b>              | <b>5,21,649</b>  | <b>8,63,023</b>  | <b>8,55,954</b>  | <b>10,05,501</b> | <b>11,78,578</b> | <b>14,61,437</b> | <b>18,12,182</b> |
| Growth (%)                | 5.6              | 65.4             | -0.8             | 17.5             | 17.2             | 24.0             | 24.0             |
| Fixed Assets              | 7,841            | 9,502            | 10,377           | 12,664           | 13,612           | 14,613           | 15,630           |
| Other Assets              | 74,778           | 1,18,902         | 1,29,719         | 1,00,877         | 90,598           | 90,894           | 80,162           |
| <b>Total Assets</b>       | <b>12,65,202</b> | <b>16,71,849</b> | <b>14,92,004</b> | <b>16,31,439</b> | <b>19,01,816</b> | <b>22,80,735</b> | <b>27,46,773</b> |

| Asset Quality              | FY18   | FY19   | FY20   | FY21   | FY22   | FY23E  | FY24E  |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|
| GNPA (INR m)               | 17,791 | 21,360 | 22,796 | 43,026 | 44,686 | 44,192 | 49,840 |
| NNPA (INR m)               | 8,912  | 11,066 | 8,086  | 18,826 | 18,076 | 13,442 | 13,286 |
| GNPA Ratio                 | 3.41   | 2.48   | 2.66   | 4.28   | 3.79   | 3.02   | 2.75   |
| NNPA Ratio                 | 1.71   | 1.28   | 0.94   | 1.87   | 1.53   | 0.92   | 0.73   |
| Slippage Ratio             | 2.5    | 3.4    | 3.1    | 6.0    | 6.9    | 2.4    | 2.1    |
| Credit Cost                | -0.5   | 2.1    | 5.0    | 2.2    | 2.8    | 1.4    | 1.5    |
| PCR (Excl Tech. write off) | 49.9   | 48.2   | 64.5   | 56.2   | 59.5   | 69.6   | 73.3   |

## Financials and valuations

| Y/E March                                 | FY18        | FY19         | FY20        | FY21        | FY22         | FY23E       | FY24E       |
|---|-------------|--------------|-------------|-------------|--------------|-------------|-------------|
| <b>Yield and Cost Ratios (%)</b>          |             |              |             |             |              |             |             |
| <b>Avg. Yield-Earning Assets</b>          | <b>8.0</b>  | <b>8.8</b>   | <b>11.3</b> | <b>11.1</b> | <b>10.4</b>  | <b>11.1</b> | <b>11.5</b> |
| Avg. Yield on loans                       | 9.3         | 11.3         | 14.0        | 13.6        | 13.0         | 13.9        | 14.2        |
| Avg. Yield on Investments                 | 7.3         | 6.6          | 7.6         | 6.8         | 5.8          | 6.6         | 7.0         |
| <b>Avg. Cost-Int. Bear. Liab.</b>         | <b>7.3</b>  | <b>7.1</b>   | <b>7.8</b>  | <b>6.7</b>  | <b>5.1</b>   | <b>5.5</b>  | <b>5.7</b>  |
| Avg. Cost of Deposits                     | 6.0         | 6.6          | 7.0         | 6.2         | 4.4          | 5.1         | 5.3         |
| <b>Interest Spread</b>                    | <b>3.3</b>  | <b>4.7</b>   | <b>7.1</b>  | <b>7.4</b>  | <b>8.6</b>   | <b>8.8</b>  | <b>8.9</b>  |
| <b>Net Interest Margin</b>                | <b>1.7</b>  | <b>2.4</b>   | <b>4.3</b>  | <b>5.3</b>  | <b>6.1</b>   | <b>6.5</b>  | <b>6.6</b>  |
| <b>Capitalisation Ratios (%)</b>          |             |              |             |             |              |             |             |
| CAR                                       | 18.0        | 15.5         | 13.4        | 13.8        | 16.7         | 15.0        | 13.7        |
| Tier I                                    | 17.7        | 15.3         | 13.3        | 13.3        | 14.9         | 13.5        | 12.5        |
| Tier II                                   | 0.3         | 0.2          | 0.1         | 0.5         | 1.9          | 1.5         | 1.2         |
| <b>Business and Efficiency Ratios (%)</b> |             |              |             |             |              |             |             |
| Loans/Deposit Ratio                       | 108.2       | 122.5        | 131.5       | 113.4       | 111.6        | 108.9       | 107.2       |
| CASA Ratio                                | 11.8        | 12.9         | 32.2        | 51.7        | 48.4         | 50.2        | 49.4        |
| Cost/Assets                               | 1.3         | 3.5          | 3.9         | 4.3         | 5.1          | 5.2         | 5.2         |
| Cost/Total Income                         | 56.7        | 145.3        | 75.2        | 74.0        | 74.6         | 71.9        | 68.5        |
| Cost/Core Income                          | 65.6        | 146.5        | 79.1        | 78.9        | 77.9         | 74.3        | 70.2        |
| Int. Expense/Int.Income                   | 79.9        | 73.2         | 62.7        | 53.8        | 43.5         | 43.6        | 44.2        |
| Fee Income/Total Income                   | 24.8        | 20.2         | 17.1        | 16.8        | 20.7         | 21.6        | 22.4        |
| Non Int. Inc./Total Income                | 38.3        | 21.0         | 22.1        | 23.1        | 24.9         | 24.8        | 24.7        |
| Empl. Cost/Total Expense                  | 40.9        | 19.0         | 26.1        | 27.9        | 28.0         | 31.3        | 32.3        |
| Investment/Deposit Ratio                  | 127.0       | 83.0         | 69.7        | 51.2        | 43.7         | 40.9        | 39.0        |
| <b>Profitability Ratios and Valuation</b> |             |              |             |             |              |             |             |
| RoE                                       | 5.7         | -11.6        | -17.1       | 2.7         | 0.7          | 10.2        | 12.6        |
| RoA                                       | 0.7         | -1.3         | -1.8        | 0.3         | 0.1          | 1.1         | 1.2         |
| RoRWA                                     | 1.0         | -2.0         | -2.6        | 0.4         | 0.1          | 1.5         | 1.7         |
| Book Value (INR)                          | 44.8        | 38.0         | 31.9        | 31.4        | 33.8         | 37.4        | 42.4        |
| Growth (%)                                | 3.8         | -15.3        | -16.0       | -1.6        | 7.6          | 10.7        | 13.5        |
| <b>Price-BV (x)</b>                       | <b>1.3</b>  | <b>1.5</b>   | <b>1.8</b>  | <b>1.8</b>  | <b>1.7</b>   | <b>1.5</b>  | <b>1.4</b>  |
| Adjusted BV (INR)                         | 41.3        | 35.2         | 29.7        | 27.6        | 30.5         | 34.8        | 39.8        |
| <b>Price-ABV (x)</b>                      | <b>1.4</b>  | <b>1.6</b>   | <b>1.9</b>  | <b>2.1</b>  | <b>1.9</b>   | <b>1.6</b>  | <b>1.4</b>  |
| EPS (INR)                                 | 2.5         | -4.8         | -6.0        | 0.9         | 0.2          | 3.6         | 5.0         |
| Growth (%)                                | -15.9       | -288.0       | 25.7        | -114.4      | -71.6        | 1,379.3     | 39.0        |
| <b>Price-Earnings (x)</b>                 | <b>22.7</b> | <b>-12.1</b> | <b>-9.6</b> | <b>66.4</b> | <b>234.2</b> | <b>15.8</b> | <b>11.4</b> |

**Explanation of Investment Rating**

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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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