

# Punjab National Bank

Estimate change



TP change



Rating change



Bloomberg	PNB IN
Equity Shares (m)	11011
M.Cap.(INRb)/(USDb)	542.4 / 6.6
52-Week Range (INR)	62 / 28
1, 6, 12 Rel. Per (%)	-2/8/54
12M Avg Val (INR M)	3181

## Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	344.9	389.9	419.8
OP	225.3	258.5	286.4
NP	25.1	68.6	95.5
NIM (%)	2.6	2.7	2.7
EPS (INR)	2.3	6.2	8.7
EPS Gr. (%)	-29.2	173.7	39.1
BV/Sh. (INR)	87	90	98
ABV/Sh. (INR)	69	75	85

## Ratios

RoE (%)	2.6	6.8	8.9
RoA (%)	0.2	0.5	0.6

## Valuations

P/E(X)	21.5	7.9	5.7
P/BV (X)	0.6	0.5	0.5
P/ABV (X)	0.7	0.7	0.6

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	73.2	73.2	73.2
DII	13.5	13.0	11.6
FII	1.7	1.7	1.4
Others	11.6	12.2	13.9

FII Includes depository receipts

**CMP: INR48**

**TP: INR55 (+12%)**

**Neutral**

## Mixed quarter; Elevated opex drags down earnings

### Asset quality improves

- PNB reported a mixed quarter, with an 8% miss in PAT and in-line growth in NII. PAT of INR11.5b was affected by high opex. NII grew 30% YoY to INR94.9b as domestic margin expanded 8bp QoQ to 3.4%. The bank also benefitted from interest on the IT refund of INR8.7b.
- The loan book grew 14% YoY to INR8.3t (in line), driven by healthy traction in retail loans. Deposits grew 12% YoY to INR12.8t (4% beat), led by 7.4% QoQ growth in term deposits.
- Slippages moderated to INR39.9b (2.2% annualized). GNPA/NNPA ratios thus improved by 102bp/58bp QoQ to 8.7%/2.7%. PCR increased 233bp QoQ to 70.8%.
- Total SMA overdue (>INR50m) too moderated to 0.01% of domestic loans.
- We increase our earnings estimates by 5%/9% for FY24/25 to factor in low provisions, and project RoA/RoE of 0.6%/8.9% by FY25E. Maintain Neutral.

### SMA book moderated to 0.01% of domestic loans; PCR improves to 70.8%

- PNB reported a PAT of INR11.5b (est. INR12.6b), hit by high opex (9% beat). NII grew 30% YoY to INR94.9b (in line) in 4QFY23, led by loan growth of 4% QoQ and 8bp QoQ expansion in domestic margin to 3.4%. For FY23, NII grew 20% YoY to INR344b, while PAT declined 28% YoY to INR25b.
- Other income grew 40% YoY to INR34.2b, led by higher recoveries and FX income even as the bank reported a treasury loss of INR1.9b in 4QFY23 v/s a gain of INR0.1b in 4QFY22. Opex jumped 57% YoY due to a surge in employee expenses as the bank made AS-15 related provisions for wage revision. Thus, the C/I ratio increased to 54.6% (v/s 54.3% in 3QFY23). As a result, PPOp grew 11% YoY to INR58.6b (7% miss). For FY23, PPOp grew 8.5% YoY to INR225b.
- The loan book grew 14% YoY (+3.8% QoQ) to INR8.3t, fueled by healthy traction in the retail segment (up 10% QoQ). MSME/Agri grew 3%/4% QoQ, while the corporate portfolio stood largely flat. Within Retail, Personal loans grew 13.5% QoQ, while Vehicle/Housing rose 28.5%/1.9% QoQ in 4QFY23.
- Deposits grew 12% YoY (+6% QoQ) to INR12.8t, led by 7.4% QoQ growth in term deposits. CASA deposits increased by 4.2% QoQ. Thus, the CASA ratio moderated to 43% from 43.7% in 3QFY23.
- On the asset quality front, slippages moderated 2% QoQ to INR39.9b (2.2% annualized), along with healthy recoveries and upgrades. As a result, GNPA/NNPA ratios improved 102bp/58bp QoQ to 8.7%/2.7%. PCR increased 233bp QoQ to 70.8%.
- SMA-2 (above INR50m) book moderated 95% QoQ to INR0.82b and stands at 0.01% of domestic loans.

**Highlights from management commentary**

- In FY24, PNB expects loan growth of ~12-13% v/s earlier guidance of 13-14%, and global NIM to remain around 2.9-3% in FY24.
- GNPA/NNPA ratios are likely to be <7%/<2% by FY24, with credit cost expected to be 1.52% in FY24.
- The bank has provided ROA guidance of 0.5%-0.6% in FY24.

**Valuation and view**

PNB reported a mixed quarter as high opex dented earnings. NII growth, however, came in healthy, with margin expanding 8bp QoQ. Headline asset quality continued to improve, aided by lower slippages and healthy recoveries. PCR improved further to 70.8%. SMA overdue (with loans over INR50m) too moderated to 0.01% of domestic loans. We increase our earnings estimates by 5%/9% for FY24/25 to factor in lower provisions, and project RoA/RoE of 0.6%/8.9% by FY25E. Maintain Neutral with a TP of INR55 (0.7x Sep'24E ABV).

**Quarterly Performance****(INR b)**

Y/E March	FY22				FY23				FY23	FY24	FY23E	V/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	Est
<b>Net Interest Income</b>	<b>72.3</b>	<b>63.5</b>	<b>78.0</b>	<b>73.0</b>	<b>75.4</b>	<b>82.7</b>	<b>91.8</b>	<b>95.0</b>	<b>344.9</b>	<b>389.9</b>	<b>96.0</b>	<b>-1%</b>
% Change (YoY)	6.7	-24.9	-6.5	5.3	4.3	30.2	17.6	30.0	20.2	13.0	31.4	
Other Income	38.9	32.8	27.0	24.5	25.4	28.5	33.4	34.2	121.4	136.0	31.7	8%
<b>Total Income</b>	<b>111.2</b>	<b>96.3</b>	<b>105.0</b>	<b>97.5</b>	<b>100.8</b>	<b>111.2</b>	<b>125.2</b>	<b>129.2</b>	<b>466.3</b>	<b>525.8</b>	<b>127.7</b>	<b>1%</b>
Operating Expenses	47.2	56.1	54.3	44.9	47.0	55.5	68.0	70.5	241.1	267.3	64.5	9%
<b>Operating Profit</b>	<b>64.0</b>	<b>40.2</b>	<b>50.8</b>	<b>52.6</b>	<b>53.8</b>	<b>55.7</b>	<b>57.2</b>	<b>58.7</b>	<b>225.3</b>	<b>258.5</b>	<b>63.1</b>	<b>-7%</b>
% Change (YoY)	21.2	-27.1	-17.2	-6.6	-15.9	38.4	12.6	11.4	8.5	14.8	19.9	
Other Provisions	49.8	32.6	33.5	48.5	47.9	49.1	47.1	38.3	182.4	152.9	42.8	-11%
<b>Profit before Tax</b>	<b>14.2</b>	<b>7.6</b>	<b>17.2</b>	<b>4.1</b>	<b>5.9</b>	<b>6.6</b>	<b>10.0</b>	<b>20.4</b>	<b>42.9</b>	<b>105.6</b>	<b>20.3</b>	<b>0%</b>
Tax	4.0	-3.5	6.0	2.1	2.8	2.5	3.7	8.8	17.8	37.0	7.7	14%
<b>Net Profit</b>	<b>10.2</b>	<b>11.1</b>	<b>11.3</b>	<b>2.0</b>	<b>3.1</b>	<b>4.1</b>	<b>6.3</b>	<b>11.6</b>	<b>25.1</b>	<b>68.6</b>	<b>12.6</b>	<b>-8%</b>
% Change (YoY)	231.8	78.0	122.7	-65.6	-69.9	-62.8	-44.2	474.9	-27.5	173.7	527.6	
<b>Operating Parameters</b>												
Deposits	10,976	11,154	11,273	11,462	11,367	11,935	12,104	12,812	12,812	13,837	12,322	4%
Loans	6,613	6,732	6,928	7,282	7,426	7,734	8,004	8,308	8,308	9,222	8,228	1%
Deposit Growth (%)	2.1	4.3	4.2	3.6	3.6	7.0	7.4	11.8	11.8	8.0	7.5	427
Loan Growth (%)	0.8	3.2	4.9	8.0	12.3	14.9	15.5	14.1	14.1	11.0	13.0	110
<b>Asset Quality</b>												
Gross NPA (%)	14.3	13.6	12.9	11.8	11.3	10.5	9.8	8.7	8.7	6.7	9.2	(48)
Net NPA (%)	5.8	5.5	4.9	4.8	4.3	3.8	3.3	2.7	2.7	1.9	3.2	(46)
PCR (%)	62.9	63.2	65.2	62.2	64.8	66.3	68.5	70.8	70.8	72.7	67.6	314
RoA (%)	0.3	0.3	0.3	0.1	0.1	0.1	0.2	0.3	0.2	0.5		
RoE (%)	7.1	7.3	7.3	1.4	2.0	2.6	3.9	7.1	2.6	6.8		
CASA (%)	45.2	45.4	45.7	47.4	46.3	44.9	43.7		45.3	45.6		
Margins (%)	2.7	2.4	2.9	2.8	2.8	3.0	3.2	3.2	2.6	2.7		

E: MOFSL Estimates

## Quarterly snapshot

	FY21				FY22				FY23				Change (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
<b>Profit and Loss, INRb</b>														
Net Interest Income	67.8	84.5	83.5	69.4	72.3	63.5	78.0	73.0	75.4	82.7	91.8	95.0	30	3
Other Income	36.5	22.7	26.8	37.4	38.9	32.8	27.0	24.5	25.4	28.5	33.4	34.2	40	2
Total Income	104.4	107.3	110.3	106.8	111.2	96.3	105.0	97.5	100.8	111.2	125.2	129.2	32	3
Operating Expenses	51.6	52.1	49.0	50.5	47.2	56.1	54.3	44.9	47.0	55.5	68.0	70.5	57	4
Employee	33.1	32.4	29.3	27.0	29.6	34.2	33.1	21.6	25.5	32.3	44.6	45.7	112	2
Others	18.5	19.7	19.7	23.5	17.7	22.0	21.2	23.3	21.5	23.2	23.4	24.8	6	6
Operating Profits	52.8	55.2	61.3	56.3	64.0	40.2	50.8	52.6	53.8	55.7	57.2	58.7	11	3
Core Operating Profits	39.6	48.7	51.5	46.6	49.8	31.4	44.5	52.5	62.2	55.7	58.2	60.6	15	4
Provisions	46.9	45.4	51.8	46.9	49.8	32.6	33.5	48.5	47.9	49.1	47.1	38.3	-21	-19
Others	5.9	3.2	20.2	-10.9	12.0	8.6	-3.1	1.9	-1.7	9.2	9.4	4.8	152	-49
PBT	5.9	9.8	9.6	9.5	14.2	7.6	17.2	4.1	5.9	6.6	10.0	20.4	393	103
Taxes	2.9	3.6	4.5	3.6	4.0	-3.5	6.0	2.1	2.8	2.5	3.7	8.8	314	135
PAT	3.1	6.2	5.1	5.9	10.2	11.1	11.3	2.0	3.1	4.1	6.3	11.6	475	84
<b>Balance Sheet, INRb</b>														
Deposits	10,749	10,697	10,822	11,063	10,976	11,154	11,273	11,462	11,367	11,935	12,104	12,812	12	6
Loans	6,562	6,527	6,605	6,742	6,613	6,732	6,928	7,282	7,426	7,734	8,004	8,308	14	4
<b>Asset Quality, INRb</b>														
GNPA	1,018	963	945	1,044	1,041	1,003	973	924	902	870	836	773	-16	-7
NNPA	353	309	266	386	386	369	339	349	317	293	264	226	-35	-14
Slippages	25	23	12	242	102	91	50	105	65	60	41	40	-62	-2
<b>Ratios</b>														
	FY21				FY22				FY23				Change (bp)	
Asset Quality Ratios (%)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ
GNPA	14.1	13.4	13.0	14.1	14.3	13.6	12.9	11.8	11.3	10.5	9.8	8.7	-304	-102
NNPA	5.4	4.8	4.0	5.7	5.8	5.5	4.9	4.8	4.3	3.8	3.3	2.7	-208	-58
PCR (Cal.)	65.3	67.9	71.8	63.1	62.9	63.2	65.2	62.2	64.8	66.3	68.5	70.8	855	233
PCR (Incl. TWO)	80.8	83.0	85.2	80.1	80.3	80.8	81.9	81.6	83.0	84.0	85.2	86.9	530	173
Credit Cost	3.3	2.8	1.9	3.2	3.0	2.0	2.2	2.6	2.7	2.7	2.5	1.9	-74	-67
<b>Business Ratios (%)</b>														
Fees to Total Income	22.3	15.1	15.4	25.9	22.2	24.9	19.8	25.0	33.5	25.6	27.5	28.0	299	46
Cost to Core Income	56.6	51.7	48.7	52.0	48.7	64.1	54.9	46.1	43.1	49.9	53.9	53.8	770	-10
Tax Rate	48.1	36.6	47.2	38.2	28.0	-45.5	34.6	51.2	47.6	37.8	37.3	43.1	-814	582
CASA	43.5	44.1	44.7	45.5	45.2	45.4	45.7	47.4	46.3	44.9	43.7	43.0	-443	-72
Loan/Deposit	61.0	61.0	61.0	60.9	60.2	60.4	61.5	63.5	65.3	64.8	66.1	64.8	132	-128
<b>Profitability Ratios (%)</b>														
Yield on loans	7.6	8.1	7.7	6.8	6.9	6.5	7.1	6.6	6.5	6.9	7.2	7.9	126	67
Yield On Investments	6.5	6.6	6.3	6.5	6.3	6.2	6.2	6.4	6.4	6.5	6.6	6.8	39	22
Yield on Funds	6.2	6.4	6.1	5.7	5.6	5.4	5.7	5.6	5.7	5.8	6.2	6.5	87	29
Cost of Deposits	4.9	4.5	4.2	4.2	4.1	4.0	3.9	3.9	3.8	3.9	4.2	4.5	60	35
Cost of Funds	4.2	3.8	3.6	3.6	3.5	3.5	3.4	3.4	3.4	3.4	3.7	3.9	47	24
Margins	2.5	3.2	3.1	2.7	2.7	2.4	2.9	2.8	2.8	3.0	3.2	3.2	48	8
<b>Other Details</b>														
Branches	10,930	10,932	10,925	10,769	10,641	10,528	10,264	10,098	10,058	10,038	10,049	10,076	-22	27
ATM	13,856	13,878	13,914	13,781	13,690	13,506	13,400	13,350	13,219	12,966	12,957	12,898	-452	-59



## Highlights of management commentary

### Operating environment and business

- Gross business increased by 12%; savings accounts grew by 2.72%.
- The CASA ratio declined 72bp QoQ due to movement of funds from CASA to TD due to a high difference in interest rates. PNB maintains its CASA ratio guidance of 43-44%.
- The RAM portfolio forms 55.3% of total loans in 4QFY23 v/s the target of 55% provided in 3QFY23.
- The bank expects NIM to remain around 2.9%-3% in FY24.
- There is a rise in employee costs due to INR12.4b in AS 15 provisions, out of which INR2.7b for wage revision and the remaining for the impact of this wage revision on outstanding pension and gratuity amounts.
- PNB has fully provided for government guaranteed SR.
- NDTL growth stood at 7% YoY.
- Modified duration for AFS and HFT book stands at 2.53 years v/s 2.73 in 3QFY23
- LCR ratio stands at ~150%-160%.
- The bank expects 12-13% loan growth in FY24.
- Interest on the income tax refund stood at INR8.7b for 4QFY23.
- The bank has provided ROA guidance of 0.5-0.6% in FY24.
- Advances mix: 85.2% floating, 35% MCLR and 10% TBLR.
- One-time restructuring book stands at OTR1- 31.7b and OTR2-77.6b.
- PNB expects the loan repricing to take place immediately and deposit repricing to take place on a later date.

### Asset quality

- GNPA/NNPA ratios stood at 8.7%/2.7% v/s 3QFY23 guidance of 9%/3%.
- GNPA/NNPA ratios are likely to be at <7%/<2% by FY24.
- RAM breakup: Agri (INR31cr), MSME (INR38cr), Retail (INR1cr)
- PNB feels comfortable about its SMA book: SMA 0 at INR526b, SMA 1 at INR172b and SMA 2 at INR8.5b.
- Credit cost stood at 1.72% and is expected to be at 1.52% in FY24.
- The bank had total recovery of INR290b in FY23 v/s INR320b guidance.
- PNB expects recovery of INR220b in FY24.
- There has been an increase of 100bp in CRAR.
- The bank estimates to recover INR500cr in 1Q and INR1,300cr in 2Q of FY24 from the NCLT.
- PNB exceeded (103%) its disbursement target of PMMY for FY23.

**Exhibit 1: DuPont Analysis: Earnings to improve but still away from normalized trends**

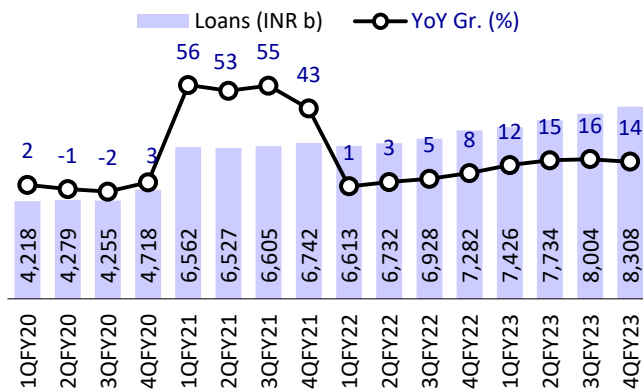
Annual DuPont	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	6.81	6.46	6.66	6.70	7.73	5.81	6.13	6.75	6.80
Interest Expense	4.65	4.45	4.43	4.53	4.81	3.59	3.65	4.18	4.24
<b>Net Interest Income</b>	<b>2.16</b>	<b>2.01</b>	<b>2.23</b>	<b>2.17</b>	<b>2.92</b>	<b>2.23</b>	<b>2.48</b>	<b>2.57</b>	<b>2.57</b>
Fee income	0.91	0.76	0.82	0.95	0.80	0.73	0.77	0.78	0.78
Trading and others	0.38	0.44	0.14	0.20	0.34	0.23	0.11	0.12	0.13
<b>Other Income</b>	<b>1.29</b>	<b>1.20</b>	<b>0.96</b>	<b>1.16</b>	<b>1.14</b>	<b>0.96</b>	<b>0.87</b>	<b>0.90</b>	<b>0.91</b>
<b>Total Income</b>	<b>3.45</b>	<b>3.20</b>	<b>3.18</b>	<b>3.33</b>	<b>4.06</b>	<b>3.19</b>	<b>3.36</b>	<b>3.47</b>	<b>3.47</b>
<b>Operating Expenses</b>	<b>1.35</b>	<b>1.82</b>	<b>1.50</b>	<b>1.49</b>	<b>1.94</b>	<b>1.57</b>	<b>1.74</b>	<b>1.76</b>	<b>1.72</b>
Employees	0.78	1.23	0.90	0.87	1.16	0.92	1.02	1.04	1.04
Others	0.57	0.58	0.59	0.62	0.78	0.65	0.72	0.73	0.69
<b>Operating Profits</b>	<b>2.10</b>	<b>1.39</b>	<b>1.69</b>	<b>1.84</b>	<b>2.12</b>	<b>1.61</b>	<b>1.62</b>	<b>1.71</b>	<b>1.75</b>
<b>Core operating Profits</b>	<b>1.72</b>	<b>0.95</b>	<b>1.55</b>	<b>1.63</b>	<b>1.78</b>	<b>1.38</b>	<b>1.52</b>	<b>1.59</b>	<b>1.62</b>
<b>Provisions</b>	<b>1.81</b>	<b>4.02</b>	<b>3.68</b>	<b>1.74</b>	<b>1.79</b>	<b>1.28</b>	<b>1.31</b>	<b>1.01</b>	<b>0.92</b>
NPA	1.83	3.29	3.17	1.80	1.63	1.10	1.32	0.98	0.89
Others	-0.02	0.73	0.51	-0.06	0.15	0.18	-0.01	0.03	0.03
<b>PBT</b>	<b>0.29</b>	<b>-2.63</b>	<b>-1.99</b>	<b>0.09</b>	<b>0.33</b>	<b>0.34</b>	<b>0.31</b>	<b>0.70</b>	<b>0.83</b>
Tax	0.10	-0.98	-0.70	0.05	0.14	0.07	0.13	0.24	0.25
<b>RoA</b>	<b>0.19</b>	<b>-1.65</b>	<b>-1.29</b>	<b>0.04</b>	<b>0.19</b>	<b>0.27</b>	<b>0.18</b>	<b>0.45</b>	<b>0.58</b>
Leverage (x)	18.9	17.9	17.9	15.0	13.6	13.8	14.2	14.9	15.2
<b>RoE</b>	<b>3.6</b>	<b>-29.6</b>	<b>-23.2</b>	<b>0.6</b>	<b>2.6</b>	<b>3.7</b>	<b>2.6</b>	<b>6.8</b>	<b>8.9</b>

**Exhibit 2: We increase PAT estimates for FY23E to factor in lower provisions**

INR B	Old Est.			Rev. Est.			Chg. (%) /bps		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
<b>Net Interest Inc</b>	<b>345.9</b>	<b>392.9</b>	<b>419.5</b>	<b>344.9</b>	<b>389.9</b>	<b>419.8</b>	<b>-0.3</b>	<b>-0.8</b>	<b>0.1</b>
Other Income	118.9	130.8	146.5	121.4	136.0	148.2	2.1	4.0	1.2
<b>Total Income</b>	<b>464.8</b>	<b>523.7</b>	<b>565.9</b>	<b>466.3</b>	<b>525.8</b>	<b>568.1</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>
Operating Exp	235.0	249.3	267.6	241.1	267.3	281.6	2.6	7.2	5.3
<b>Operating Profit</b>	<b>229.8</b>	<b>274.4</b>	<b>298.4</b>	<b>225.3</b>	<b>258.5</b>	<b>286.4</b>	<b>-2.0</b>	<b>-5.8</b>	<b>-4.0</b>
Provisions	186.9	173.7	169.8	182.4	152.9	150.1	-2.4	-12.0	-11.6
<b>PBT</b>	<b>42.8</b>	<b>100.6</b>	<b>128.6</b>	<b>42.9</b>	<b>105.6</b>	<b>136.4</b>	<b>0.1</b>	<b>4.9</b>	<b>6.1</b>
Tax	16.7	35.2	41.1	17.8	37.0	40.9	6.6	4.9	-0.6
<b>PAT</b>	<b>26.1</b>	<b>65.4</b>	<b>87.4</b>	<b>25.1</b>	<b>68.6</b>	<b>95.5</b>	<b>-4.1</b>	<b>4.9</b>	<b>9.2</b>
Credit Cost (%)	2.4	2.0	1.7	2.4	1.7	1.5	0	-25	-20
<b>RoA (%)</b>	<b>0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.2</b>	<b>0.5</b>	<b>0.6</b>	<b>-1</b>	<b>1</b>	<b>4</b>
<b>RoE (%)</b>	<b>2.7</b>	<b>6.5</b>	<b>8.2</b>	<b>2.6</b>	<b>6.8</b>	<b>8.9</b>	<b>-14</b>	<b>23</b>	<b>70</b>
EPS	2.4	5.9	7.9	2.3	6.2	8.7	-4.1	4.9	9.2
<b>BV</b>	<b>85.0</b>	<b>90.1</b>	<b>97.1</b>	<b>87.2</b>	<b>90.3</b>	<b>98.0</b>	<b>2.6</b>	<b>0.2</b>	<b>1.0</b>
ABV	64.8	72.5	80.7	69.2	75.2	84.6	6.8	3.8	4.8

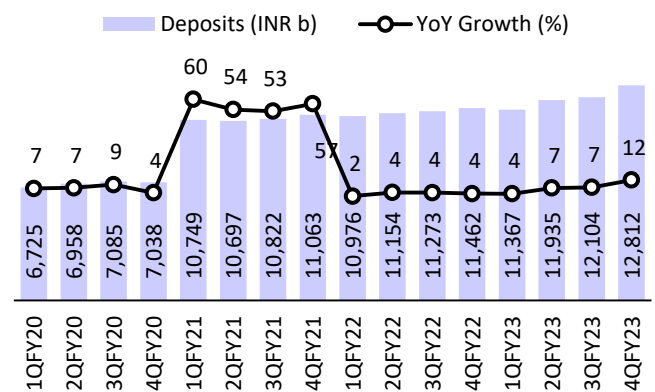
## Story in charts

**Exhibit 3: Loan growth picking up; grew 14% YoY in 4QFY23**



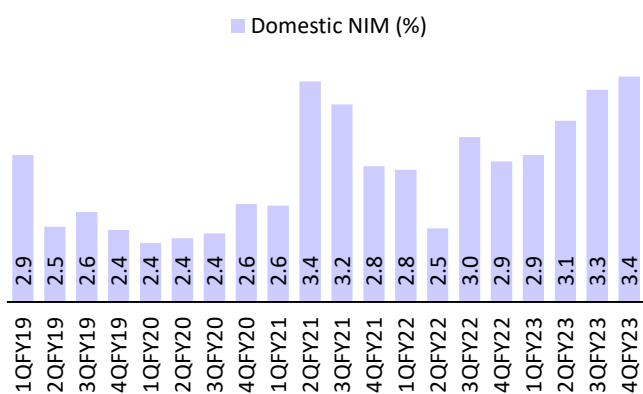
Merged numbers from 1QFY21 onwards Source: MOFSL, Company

**Exhibit 4: Deposits grew 12% YoY/5.8% QoQ**



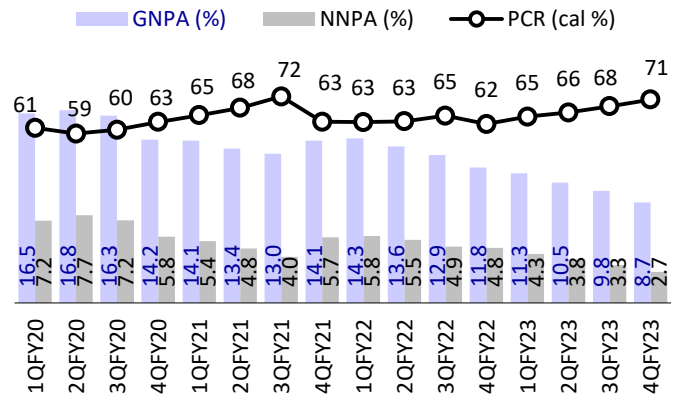
Merged numbers from 1QFY21 onwards Source: MOFSL, Company

**Exhibit 5: Domestic NIM improves by 8bp QoQ to 3.4%**



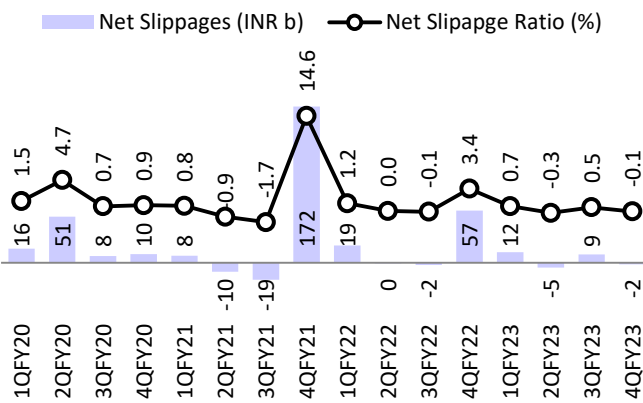
Source: MOFSL, Company

**Exhibit 6: GNPA/NNPA ratios improved to 8.7%/2.7%**



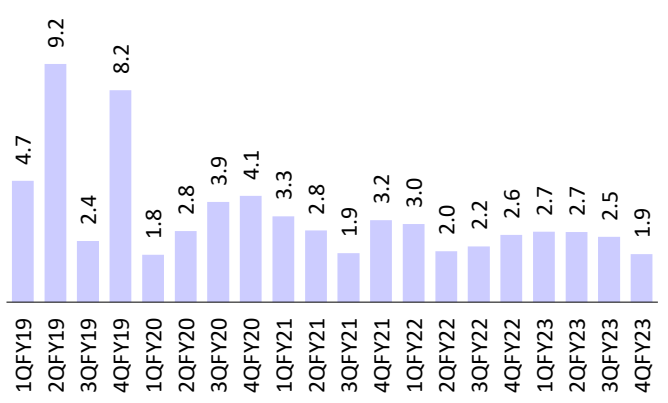
Source: MOFSL, Company

**Exhibit 7: Net slippages moderated in 4QFY23**



Source: MOFSL, Company

**Exhibit 8: Annualized credit cost moderates to ~1.9%**



Source: MOFSL, Company

## Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	4,79,958	5,13,102	5,38,000	8,08,184	7,48,795	8,51,441	10,23,360	11,12,524
Interest Expense	3,30,734	3,41,539	3,63,622	5,02,728	4,61,851	5,06,525	6,33,507	6,92,696
<b>Net Interest Income</b>	<b>1,49,224</b>	<b>1,71,563</b>	<b>1,74,378</b>	<b>3,05,456</b>	<b>2,86,945</b>	<b>3,44,916</b>	<b>3,89,854</b>	<b>4,19,828</b>
Growth (%)	-0.5	15.0	1.6	75.2	-6.1	20.2	13.0	7.7
Non-Interest Income	88,809	73,774	92,741	1,19,223	1,23,200	1,21,425	1,35,996	1,48,236
<b>Total Income</b>	<b>2,38,033</b>	<b>2,45,337</b>	<b>2,67,119</b>	<b>4,24,679</b>	<b>4,10,144</b>	<b>4,66,342</b>	<b>5,25,850</b>	<b>5,68,064</b>
Growth (%)	-0.6	3.1	8.9	59.0	-3.4	13.7	12.8	8.0
Operating Expenses	1,35,091	1,15,385	1,19,734	2,03,087	2,02,526	2,41,054	2,67,331	2,81,646
<b>Pre Provision Profits</b>	<b>1,02,942</b>	<b>1,29,952</b>	<b>1,47,385</b>	<b>2,21,592</b>	<b>2,07,618</b>	<b>2,25,288</b>	<b>2,58,519</b>	<b>2,86,418</b>
Growth (%)	-29.3	26.2	13.4	50.3	-6.3	8.5	14.8	10.8
<b>Core PPoP</b>	<b>70,376</b>	<b>1,19,026</b>	<b>1,31,069</b>	<b>1,86,302</b>	<b>1,78,267</b>	<b>2,10,612</b>	<b>2,40,909</b>	<b>2,65,285</b>
Growth (%)	-29.8	69.1	10.1	42.1	-4.3	18.1	14.4	10.1
Provisions (excl tax)	2,98,738	2,83,410	1,39,996	1,86,798	1,64,454	1,82,405	1,52,939	1,50,055
<b>PBT</b>	<b>-1,95,796</b>	<b>-1,53,458</b>	<b>7,390</b>	<b>34,794</b>	<b>43,164</b>	<b>42,883</b>	<b>1,05,580</b>	<b>1,36,363</b>
Tax	-72,968	-53,703	4,028	14,578	8,594	17,811	36,953	40,909
Tax Rate (%)	37.3	35.0	54.5	41.9	19.9	41.5	35.0	30.0
<b>PAT</b>	<b>-1,22,828</b>	<b>-99,755</b>	<b>3,362</b>	<b>20,216</b>	<b>34,570</b>	<b>25,072</b>	<b>68,627</b>	<b>95,454</b>

### Balance Sheet

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5,521	9,208	13,475	20,955	22,022	22,022	22,022	22,022
Reserves & Surplus	4,05,222	4,38,663	6,10,100	8,88,418	9,32,847	9,76,535	10,11,131	10,95,574
<b>Net Worth</b>	<b>4,10,743</b>	<b>4,47,871</b>	<b>6,23,575</b>	<b>9,09,373</b>	<b>9,54,869</b>	<b>9,98,557</b>	<b>10,33,153</b>	<b>11,17,596</b>
<b>Deposits</b>	<b>64,22,262</b>	<b>67,60,301</b>	<b>70,38,463</b>	<b>1,10,63,325</b>	<b>1,14,62,184</b>	<b>1,28,11,631</b>	<b>1,38,36,561</b>	<b>1,50,12,669</b>
Growth (%)	3.3	5.3	4.1	57.2	3.6	11.8	8.0	8.5
<b>of which CASA Dep</b>	<b>26,32,473</b>	<b>28,50,405</b>	<b>30,24,746</b>	<b>49,27,830</b>	<b>53,36,542</b>	<b>58,03,669</b>	<b>63,09,472</b>	<b>67,85,726</b>
Growth (%)	1.2	8.3	6.1	62.9	8.3	8.8	8.7	7.5
Borrowings	6,08,507	3,93,259	5,02,254	4,28,403	4,56,814	5,12,917	4,98,965	5,25,712
Other Liabilities & Prov.	2,16,789	1,48,063	1,42,367	2,05,225	2,74,183	2,95,209	3,24,730	3,57,203
<b>Total Liabilities</b>	<b>76,58,301</b>	<b>77,49,495</b>	<b>83,06,659</b>	<b>1,26,06,326</b>	<b>1,31,48,050</b>	<b>1,46,18,314</b>	<b>1,56,93,409</b>	<b>1,70,13,179</b>
Current Assets	9,54,620	7,52,880	7,59,930	11,13,497	13,26,468	15,51,088	13,61,875	13,20,762
<b>Investments</b>	<b>20,03,060</b>	<b>20,21,282</b>	<b>24,04,656</b>	<b>39,29,833</b>	<b>37,21,678</b>	<b>39,59,967</b>	<b>42,37,165</b>	<b>45,33,766</b>
Growth (%)	7.3	0.9	19.0	63.4	-5.3	6.4	7.0	7.0
<b>Loans</b>	<b>43,37,347</b>	<b>45,82,492</b>	<b>47,18,277</b>	<b>67,42,301</b>	<b>72,81,857</b>	<b>83,08,340</b>	<b>92,22,257</b>	<b>1,02,36,705</b>
Growth (%)	3.4	5.7	3.0	42.9	8.0	14.1	11.0	11.0
Fixed Assets	63,493	62,248	72,391	1,10,209	1,06,736	1,20,511	1,32,562	1,39,190
Other Assets	2,99,781	3,30,591	3,51,404	7,10,487	7,11,312	6,78,408	7,39,550	7,82,755
<b>Total Assets</b>	<b>76,58,301</b>	<b>77,49,495</b>	<b>83,06,659</b>	<b>1,26,06,326</b>	<b>1,31,48,050</b>	<b>1,46,18,314</b>	<b>1,56,93,409</b>	<b>1,70,13,179</b>

Asset Quality	FY18	FY18	FY20	FY21	FY22	FY23	FY24E	FY25E
GNPA (INR m)	8,66,210	7,84,736	7,34,797	10,44,234	9,24,480	7,73,277	6,48,037	5,60,740
NNPA (INR m)	4,90,092	3,03,538	2,76,362	3,92,956	3,55,914	2,25,850	1,77,034	1,45,006
GNPA Ratio	18.38	15.50	14.19	14.12	11.78	8.74	6.69	5.26
NNPA Ratio	11.30	6.62	5.86	5.83	4.89	2.72	1.92	1.42
Slippage Ratio	10.38	4.46	4.46	4.22	3.53	2.80	2.10	2.10
Credit Cost	5.73	6.35	3.01	2.72	2.35	2.35	1.70	1.50
PCR (Excl Tech. write off)	43.4	61.3	62.4	62.4	61.5	70.8	72.7	74.1

E: MOFSL Estimates



## Financials and valuations

### Ratios

Y/E March	FY18	FY18	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Yield and Cost Ratios (%)</b>								
<b>Avg. Yield- on Earning Assets</b>	<b>6.7</b>	<b>7.0</b>	<b>7.1</b>	<b>6.9</b>	<b>6.2</b>	<b>6.5</b>	<b>7.1</b>	<b>7.2</b>
Avg. Yield on loans	7.5	7.9	7.7	7.8	6.9	7.7	8.1	8.0
Avg. Yield on Investments	7.5	7.3	7.1	6.6	6.3	6.6	6.9	7.0
<b>Avg. Cost of Int. Bear. Liab.</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>	<b>4.4</b>	<b>3.9</b>	<b>4.0</b>	<b>4.6</b>	<b>4.6</b>
Avg. Cost of Deposits	4.8	4.9	5.0	4.3	3.8	4.2	4.5	4.6
<b>Interest Spread</b>	<b>1.9</b>	<b>2.2</b>	<b>2.1</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>
<b>Net Interest Margin</b>	<b>2.1</b>	<b>2.4</b>	<b>2.3</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>

### Capitalisation Ratios (%)

CAR	9.8	10.1	14.1	14.3	14.6	15.5	15.1	14.6
Tier I	7.7	7.9	11.9	11.5	11.8	12.7	12.8	12.6
Tier II	2.1	2.3	2.2	2.8	2.8	2.8	2.3	2.1

### Business and Efficiency Ratios (%)

Loans/Deposit Ratio	67.5	67.8	67.0	60.9	63.5	64.8	66.7	68.2
CASA Ratio	41.0	42.2	43.0	44.5	46.6	45.3	45.6	45.2
Cost/Assets	1.8	1.5	1.4	1.6	1.5	1.6	1.7	1.7
Cost/Total Income	56.8	47.0	44.8	47.8	49.4	51.7	50.8	49.6
Cost/Core income	65.7	49.2	47.7	52.2	53.2	53.4	52.6	51.5
Int. Expense/Int.Income	68.9	66.6	67.6	62.2	61.7	59.5	61.9	62.3
Fee Income/Total Income	23.6	25.6	28.6	19.8	22.9	22.9	22.5	22.4
Non Int. Inc./Total Income	37.3	30.1	34.7	28.1	30.0	26.0	25.9	26.1
Empl. Cost/Total Expense	67.9	60.3	58.1	60.0	58.5	58.7	58.7	60.2
Busi. per Empl. (INR m)								
NP per Empl. (INR lac)								
Investment/Deposit Ratio	31.2	29.9	34.2	35.5	32.5	30.9	30.6	30.2
G-Sec/Investment Ratio	75.9	79.8	84.7	87.8	87.3	87.3	87.3	87.3

### Valuation ratios

RoE	-29.5	-23.2	0.6	2.3	3.7	2.6	6.8	8.9
RoA	-1.7	-1.3	0.0	0.2	0.3	0.2	0.5	0.6
RoRWA	-2.7	-2.3	0.1	0.4	0.6	0.4	1.0	1.2
Book Value (INR)	141	93	89	83	83	87	90	98
Growth (%)	-24.8	-34.3	-4.7	-6.4	0.2	4.8	3.6	8.5
<b>Price-BV (x)</b>	<b>0.3</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
Adjusted BV (INR)	6	40	55	53	57	69	75	85
<b>Price-ABV (x)</b>	<b>7.9</b>	<b>1.2</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>
EPS (INR)	-50.25	-27.09	0.59	1.93	3.22	2.3	6.2	8.7
Growth (%)	NM	NM	-102.2	225.5	66.8	-29.2	173.7	39.1
<b>Price-Earnings (x)</b>	<b>-1.0</b>	<b>-1.8</b>	<b>82.7</b>	<b>25.4</b>	<b>15.2</b>	<b>21.5</b>	<b>7.9</b>	<b>5.7</b>
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.6	0.6	0.8	1.0
<b>Dividend Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>1.2</b>	<b>1.6</b>	<b>2.0</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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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