MOTILAL OSWAL FINANCIAL SERVICES

5 February 2024

3QFY24 Results Update | Sector: Financials

# LIC Housing Finance

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

| | |
|---|---|
| Bloomberg | LICHF IN |
| Equity Shares (m) | 550 |
| M.Cap.(INRb)/(USDb) | 352.3 / 4.2 |
| 52-Week Range (INR) | 642 / 315 |
| 1, 6, 12 Rel. Per (%) | 11/39/38 |
| 12M Avg Val (INR M) | 1149 |

**Financials & Valuations (INR b)**

| Y/E March | FY24E | FY25E | FY26E |
|---|---|---|---|
| NII | 84.7 | 81.7 | 86.8 |
| PPP | 76.1 | 72.3 | 76.7 |
| PAT | 48.6 | 48.0 | 51.8 |
| EPS (INR) | 88.4 | 87.3 | 94.1 |
| EPS Gr. (%) | 68.3 | -1.3 | 7.9 |
| BV/Sh (INR) | 559 | 621 | 688 |
| **Ratios** | | | |
| NIM (%) | 3.1 | 2.8 | 2.7 |
| C/I ratio (%) | 12.1 | 13.6 | 13.7 |
| RoAA (%) | 1.7 | 1.6 | 1.6 |
| RoE (%) | 16.8 | 14.8 | 14.4 |
| Payout (%) | 14.7 | 14.9 | 14.9 |
| **Valuations** | | | |
| P/E (x) | 7.2 | 7.2 | 6.7 |
| P/BV (x) | 1.1 | 1.0 | 0.9 |
| Div. Yield (%) | 2.1 | 2.1 | 2.2 |

**Shareholding pattern (%)**

| As On | Dec-23 | Sep-23 | Dec-22 |
|---|---|---|---|
| Promoter | 45.2 | 45.2 | 45.2 |
| DII | 21.8 | 21.8 | 22.9 |
| FII | 21.6 | 21.0 | 19.1 |
| Others | 11.4 | 12.6 | 12.7 |

FII Includes depository receipts

**CMP: INR632 TP: INR755 (+20%) Buy**

## Stable margins, loan growth remains moderate

### Earnings beat aided by largely stable NIM and controlled opex

- LICHF's PAT jumped 142% YoY to ~INR11.6b (~6% beat) in 3QFY24 and 9MFY24 PAT surged 115% YoY to ~INR36.7b. PAT growth was driven by a largely stable NIM and controlled opex.
- NII at ~INR21b (7% beat) rose ~31% YoY. PPoP at ~INR18.8b (9% beat) grew ~39% YoY but declined 1% QoQ. The cost-income ratio remained stable QoQ at ~12% (vs. ~18% in 3QFY23).
- NIM contracted ~5bp QoQ to ~3% in 3QFY24. As of 9MFY24, reported yields and CoF stood at ~10% and ~7.7%, respectively, leading to spreads of ~2.3% (1HFY24: 2.4%). The management has guided for NIM of 2.8%-3% in 4QFY24, which might moderate further in FY25. We model NIM of 3.0%/2.75%/2.65% in FY24/FY25/FY26.
- To factor in higher NIM (vs. earlier expectations) and lower opex, we increase our FY24/FY25 EPS estimates by ~8%/4%. We model a CAGR of 8%/21% in advances/PAT over FY23-26 and RoA/RoE of 1.6%/14% in FY26.
- The moderation in yields was driven by repricing for customer retention. High competitive intensity can lead to a contraction in NIM in FY25. While we hope for the volatility in ECL provisioning to subside, there are upside risks from provision reversals on stressed wholesale asset resolutions in the year ahead. Risk-reward is favorable at 0.9x FY26 P/BV. We reiterate our **BUY rating with a TP of INR755 (premised on 1.1x FY26E P/BV).**

## Highlights from the management commentary

- LICHF has finalized its ARC policies and an ARC committee has been formed in its central office. The company has also appointed a consultant who will help it evaluate ARC proposals and take it forward. On the pilot basis, LICHF will take 10 stressed accounts to ARCs in FY24. Next year, it might take an even bigger loan pool to ARCs, depending on the outcome of the pilot.
- It has guided for credit costs of ~50-55bp in FY24 and lower in FY25.

## Valuation and View

- LICHF has strong moats in retail mortgages and on the liability side. It has demonstrated its ability to transmit higher borrowing costs to customers. We model credit costs of ~60bp for FY24 (vs. guidance of 50-55bp).
- LICHF's valuation of 0.9x FY26E P/BV reflects the volatility in LICHF's NIM trajectory, asset quality, write-offs, and ECL provisioning. We estimate RoA/RoE of 1.6%/14.4% in FY26 and reiterate our **BUY** rating on the stock with a TP of INR755 (based on 1.1x FY26E BVPS).
- **Key downside risks:** a) elongated period of weak loan growth because of muted demand or high competitive intensity; and b) volatility in NIM profile and ECL provisioning.

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## Quarterly Performance (INR M)

| Y/E March | FY23 | | | | FY24E | | | | FY23 | FY24E | 3QFY24E | Act. v/s est. (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 52,502 | 50,493 | 58,387 | 63,780 | 67,037 | 67,066 | 67,437 | 67,982 | 2,25,162 | 2,69,522 | 67,268 | 0 |
| Interest Expenses | 36,400 | 38,864 | 42,328 | 43,877 | 44,942 | 46,000 | 46,465 | 47,410 | 1,61,860 | 1,84,818 | 47,610 | -2 |
| **Net Interest Income** | **16,102** | **11,629** | **16,059** | **19,903** | **22,094** | **21,066** | **20,972** | **20,571** | **63,303** | **84,704** | **19,657** | 7 |
| YoY Growth (%) | 26.3 | -0.4 | 10.4 | 21.5 | 37.2 | 81.2 | 30.6 | 3.4 | 14.4 | 33.8 | 22.4 | 37 |
| Fees and other income | 407 | 427 | 374 | 371 | 429 | 521 | 488 | 506 | 1,580 | 1,943 | 522 | -7 |
| **Net Income** | **16,509** | **12,056** | **16,432** | **20,274** | **22,523** | **21,587** | **21,460** | **21,077** | **64,882** | **86,647** | **20,180** | 6 |
| YoY Growth (%) | 26.1 | -0.3 | 7.8 | 15.4 | 36.4 | 79.1 | 30.6 | 4.0 | 11.9 | 33.5 | 22.8 | 34 |
| Operating Expenses | 2,029 | 2,610 | 2,876 | 2,759 | 2,425 | 2,595 | 2,615 | 2,893 | 9,883 | 10,527 | 2,933 | -11 |
| **Operating Profit** | **14,481** | **9,447** | **13,557** | **17,515** | **20,098** | **18,993** | **18,845** | **18,184** | **55,000** | **76,120** | **17,247** | 9 |
| YoY Growth (%) | 40.9 | -0.4 | 2.9 | 16.2 | 38.8 | 101.1 | 39.0 | 3.8 | 14.6 | 38.4 | 27.2 | 43 |
| Provisions and Cont. | 3,077 | 5,658 | 7,627 | 3,068 | 3,608 | 4,192 | 4,358 | 3,901 | 19,430 | 16,059 | 3,750 | 16 |
| **Profit before Tax** | **11,404** | **3,789** | **5,930** | **14,448** | **16,490** | **14,801** | **14,487** | **14,283** | **35,570** | **60,061** | **13,497** | 7 |
| Tax Provisions | 2,149 | 739 | 1,127 | 2,645 | 3,253 | 2,920 | 2,858 | 2,380 | 6,660 | 11,412 | 2,524 | 13 |
| **Net Profit** | **9,255** | **3,050** | **4,803** | **11,803** | **13,237** | **11,881** | **11,629** | **11,903** | **28,910** | **48,649** | **10,973** | 6 |
| YoY Growth (%) | 503.2 | 23.0 | -37.4 | 5.5 | 43.0 | 289.6 | 142.1 | 0.8 | 26.4 | 68.3 | 128.5 | |
| **Key Operating Parameters (%)** | | | | | | | | | | | | |
| Yield on loans (Cal) | 8.29 | 7.80 | 8.80 | 9.39 | 9.72 | 9.68 | 9.65 | 9.60 | 8.78 | 9.9 | | |
| Cost of funds (Cal) | 6.47 | 6.78 | 7.15 | 7.24 | 7.40 | 7.59 | 7.61 | 7.67 | 6.91 | 7.5 | | |
| Spreads (Cal) | 1.81 | 1.02 | 1.65 | 2.15 | 2.33 | 2.09 | 2.04 | 1.93 | 1.87 | 2.4 | | |
| Margins (Cal) | 2.54 | 1.80 | 2.42 | 2.93 | 3.21 | 3.04 | 3.00 | 2.90 | 2.40 | 3.0 | | |
| Credit Cost (Cal) | 0.49 | 0.87 | 1.15 | 0.45 | 0.52 | 0.60 | 0.62 | 0.55 | 0.76 | 0.6 | | |
| Cost to Income Ratio | 12.3 | 21.6 | 17.5 | 13.6 | 10.8 | 12.0 | 12.2 | 13.7 | 15.2 | 12.1 | | |
| Tax Rate | 18.8 | 19.5 | 19.0 | 18.3 | 19.7 | 19.7 | 19.7 | 16.7 | 18.7 | 19.0 | | |
| **Balance Sheet Parameters** | | | | | | | | | | | | |
| Loans (INR B) | 2,557 | 2,623 | 2,684 | 2,750 | 2,764 | 2,780 | 2,812 | 2,854 | 2,678 | 2765 | | |
| Change YoY (%) | 10.0 | 10.4 | 10.3 | 9.5 | 8.1 | 6.0 | 4.8 | 3.8 | 9.2 | 3.3 | | |
| Indiv. Disb. (INR B) | 149 | 164 | 157 | 145 | 106 | 142 | 148 | 159 | 614 | 556 | | |
| Change YoY (%) | 77.0 | 3.9 | -10.3 | -23.4 | -28.8 | -13.1 | -5.5 | 10.1 | 1.5 | -9.5 | | |
| Borrowings (INR B) | 2,260 | 2,329 | 2,404 | 2,447 | 2,414 | 2,436 | 2,451 | 2,497 | 2,448 | 2497 | | |
| Change YoY (%) | 9.5 | 11.4 | 11.4 | 9.3 | 6.8 | 4.6 | 2.0 | 2.1 | 9.4 | 2.0 | | |
| Loans/Borrowings (%) | 113.2 | 112.6 | 111.7 | 112.4 | 114.5 | 114.1 | 114.7 | 114.3 | 109.4 | 110.7 | | |
| **Asset Quality Parameters** | | | | | | | | | | | | |
| GS 3 (INR B) | 126.8 | 128.5 | 127.5 | 120.2 | 137.1 | 120.4 | 119.8 | | 120.2 | 116.0 | | |
| Gross Stage 3 (% on Assets) | 5.0 | 4.9 | 4.8 | 4.4 | 5.0 | 4.3 | 4.3 | | 4.4 | 4.1 | | |
| NS 3 (INR B) | 75.6 | 72.3 | 62.6 | 66.4 | 79.2 | 70.8 | 61.6 | | 66.4 | 50.7 | | |
| Net Stage 3 (% on Assets) | 3.0 | 2.8 | 2.4 | 2.5 | 2.9 | 2.6 | 2.2 | | 2.5 | 1.8 | | |
| PCR (%) | 40.4 | 43.7 | 50.9 | 44.8 | 42.3 | 41.2 | 48.6 | | 44.8 | 56.3 | | |
| ECL (%) | 2.40 | 2.49 | 2.71 | 2.63 | 2.75 | 2.34 | 2.45 | | 2.63 | | | |
| **Loan Mix (%)** | | | | | | | | | | | | |
| Home loans | 82.0 | 82.6 | 83.1 | 83.2 | 83.2 | 84.4 | 84.9 | | 83.2 | | | |
| LAP | 13.2 | 12.9 | 12.9 | 12.5 | 12.3 | 12.1 | 12.1 | | 12.5 | | | |
| Non Individual loans | 4.8 | 4.5 | 4.0 | 4.3 | 4.3 | 3.5 | 3.0 | | 4.3 | | | |
| **Borrowing Mix (%)** | | | | | | | | | | | | |
| Banks | 33.0 | 34.0 | 33.9 | 34.0 | 31.0 | 33.0 | 35.0 | | 34.0 | | | |
| NCD | 51.0 | 52.0 | 51.9 | 50.0 | 54.0 | 53.0 | 52.0 | | 50.0 | | | |
| Sub Debt | 1.0 | 1.0 | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | | 1.0 | | | |
| Deposits | 8.0 | 7.0 | 5.9 | 5.0 | 5.0 | 5.0 | 4.0 | | 5.0 | | | |
| NHB | 4.0 | 4.0 | 3.6 | 5.0 | 5.0 | 4.0 | 4.0 | | 5.0 | | | |
| CP | 3.0 | 2.0 | 3.9 | 5.0 | 4.0 | 4.0 | 4.0 | | 5.0 | | | |

E: MOFSL Estimates

## Persistent weakness in disbursement and loan growth

- Disbursements in individual home loans declined ~5% YoY, while non-housing individual/commercial disbursements declined 7% YoY. Builder/project loan disbursements declined ~12% YoY. Total disbursements declined ~6% YoY.
- Overall loan book grew ~5% YoY/1% QoQ. Home loans grew ~7% YoY, while developer loan book declined ~22% YoY.
- The management shared that the technological upgrades and organizational restructuring initiatives took some time to stabilize, which impacted disbursements in 9MFY24. It expects FY24 to be a year of consolidation for LICHF and expects the company to embark on a strong loan growth trajectory in FY25. We model a CAGR of ~8% in advances over FY23-FY26E.

## Minor improvement in asset quality; provisions made towards AIF

- GS3/NS3 improved by ~5bp/~35bp QoQ to ~4.25%/~2.25%. Improvement in NS3 was driven by the increase in PCR on S3 loans by ~7pp QoQ to ~49%.
- Stage 2 + 3 assets (30+ dpd) declined ~60bp QoQ to 8.8% (vs. 9.4% in 2QFY24).
- Credit costs stood at ~INR4.4b (our est. of INR3.8b), translating into annualized credit costs of ~60bp (vs. ~115bp YoY). This included additional provisions of ~INR500m related to AIF investments because of the RBI circular on AIF.
- The management expects lower volatility in credit costs/provisions. The board has asked the company to improve its S3 PCR to ~50% by Mar'24. We model credit costs of ~60bp/45bp/40bp in FY24E/FY25E/FY26E.

CONFERENCE CALL

## Highlights from the management commentary

### Macro outlook

- Liquidity in the market was tight in Jan'24, so short-term yields remained elevated.
- Yields will continue to stabilize due to the government's lower borrowing program.
- Recent Budget announcements for incentivizing affordable housing in rural/urban areas will strengthen demand for home loans over the next several years.

### Business update

- 3QFY24 NIM stood at 3% (vs. 2.4% in 3QFY23 and 3.04% in 2QFY24).
- It has made some significant changes in the organizational structured in 1Q/2Q. Few clusters have crossed ~75% of the annual business targets.
- Sanctions in the wholesale segment inched up, though disbursements were still muted.
- No write-offs were taken during the quarter.
- Major changes on the technological front as well as the organizational level; Did organizational restructuring - opened 44 new cluster offices and made them the centers of the company (earlier 24 such offices). This was done with the intent of improving the TAT through decentralization.
- Launching an affordable housing product to meet high demand.

### Guidance

- Guided for NIM of 2.8%-3.0% in 4QFY24. However, NIM might moderate in FY25 in case of a declining interest rate cycle.
- Guided for credit costs of ~50-55bp in FY24 and expects the credit costs to trend lower next year.
- Mortgage demand is good and no signiifcant downtrend; both the initiatives (tech upgradation and organization restructuring) take some time to stabilize; QoQ it has been growing and confident that 4Q disbursements will be much better

### Disbursements

- Disbursements stood at ~INR45b in Oct'23, INR47b in Nov'23, INR57b in Dec'23 and ~INR46.5b in Jan'24.

### Asset Quality

- Guided for the improvement in the asset quality to sustain.
- Credit costs/Provisions should stabilize and the Board has asked the company to improve its S3 PCR to ~50% by Mar'24.
- A large wholesale account (~INR4.5b) slipped from Stage 2 to Stage 3 (excluding this account there was a reduction of ~INR4b in Stage 3).
- Making good progress on resolution of stressed developer accounts.
- LICHF has finalized its ARC policies and an ARC committee has been formed in its central office. The company has also appointed a consultant who will help it evaluate ARC proposals and take it forward. On the pilot basis, LICHF will take 10 large stressed accounts to ARCs this fiscal year. Next year, it might take an even bigger loan pool to ARCs, depending on the outcome of the pilot.

- Only those accounts that are fully provided for will be pursued for ARC. Provision reversals will happen when accounts get resolved through the ARC route.
- Earlier, LICHF maintained higher PCR on some accounts in Stage 1 because of the curing period. Now that those accounts have been closed or repaid, it has reduced the PCR on Stage 1 loans.
- Total ~230-240 builder loans in the Developer segment. Out of this, ~40-50 accounts (~INR20b) are in Stage 3. Developer NPAs are the highest in Mumbai, Bangalore and NCR.
- 40-50 developer loans are in the NPA pool. LICHF is taking legal recourse - Many big developer accounts are negotiating and trying to come to a closure. LICHF is open to one-time settlements (OTS) to resolve these accounts. Expecting some resolutions to come through from IBC and NCLT. Expects 10-12 (worth ~INR1-1.5b) developer accounts to be resolved/regularized within the next 2-3 months.
- All loans have come out of the OTR window and the moratorium period is over. Whichever restructured loans had to slip into Stage 3 have already slipped into Stage 3.
- Segmental GNPA: Individual Home Loans at 1.71%, Non-Housing Commercial (including project loans) at 40.75% and Non-Housing individual at 6.5%

### Developer Loans

- No attempts on LICHF's side to rundown the developer book. Not going to be aggressive in developer loans so as to not repeat the mistakes it made in the past.
- LICHF has already given ~INR45b of sanctions in the developer book but will remain measured.
- A huge rate war in the Developer segment and some peers are giving developer loans at ~8.75%, which essentially suggests that the pricing is not right.

### Liabilities

- In Jan'24, it did 10-yr NCDs at ~7.82%, while in Feb'24, it expects to borrow 10-yr NCD at ~7.7% (post Budget).
- All floating home loans are linked to internal PLR. ~50% of the liabilities are fixed and NIM might see compression in a declining interest environment.

### Others

- No plans of raising equity capital or issuing any bonus shares.
- Technical transformation and organization restructuring are settled now and will no longer be excuses for lower disbursements going ahead.
- Incremental yields for LICHF (including all products) stood at ~9.6%.

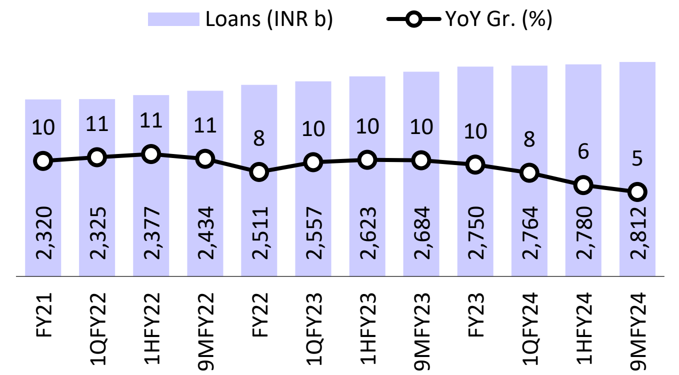
**Exhibit 1: Product-wise split of Stage 3**

| Stage 3 (%) | 4QFY22 | 1QFY23 | 2QFY23 | 3QFY23 | 4QFY23 | 1QFY24 | 2QFY24 | 3QFY24 |
|---|---|---|---|---|---|---|---|---|
| Individual home loans (IHL) | 1.7 | 1.9 | 1.7 | 1.6 | 1.6 | 2.2 | 1.8 | 1.71 |
| Non-housing commercial (NHC) | 18.0 | 11.5 | 22.4 | 22.5 | 22.0 | 24.0 | 35.5* | 40.75* |
| Non-housing individual (NHI) | 8.1 | 8.1 | 6.9 | 6.7 | 6.6 | 7.8 | 7.13 | 6.5 |
| Project loans | 31.8 | 35 | 42.2 | 45.6 | 40.0 | 42.1 | | |

*Including Project loans

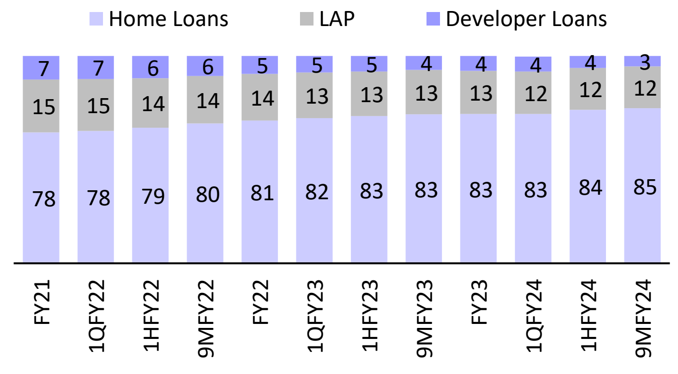
## Story in charts

**Exhibit 2: Loan book grew 5% YoY**



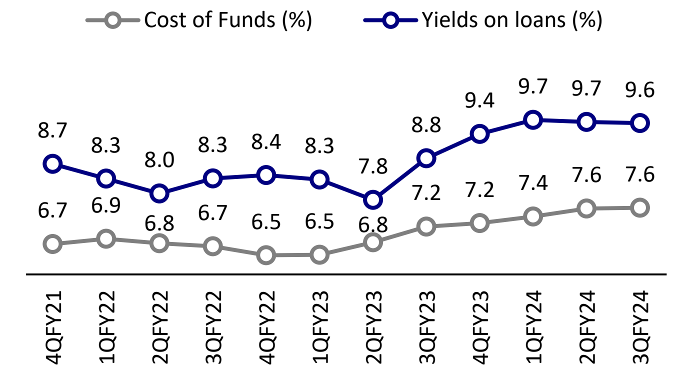

Source: MOFSL, Company

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



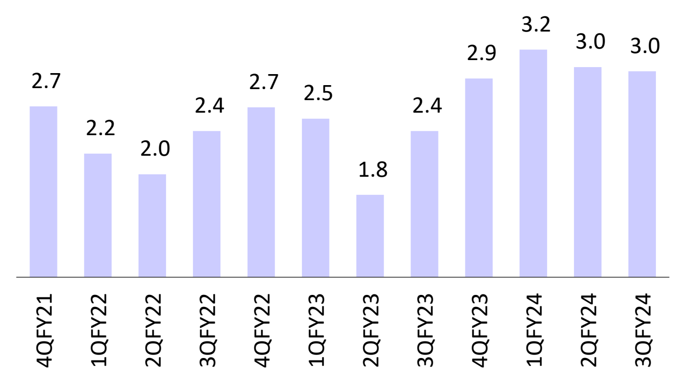

Source: MOFSL, Company

**Exhibit 4: Calculated spreads declined ~5bp QoQ**



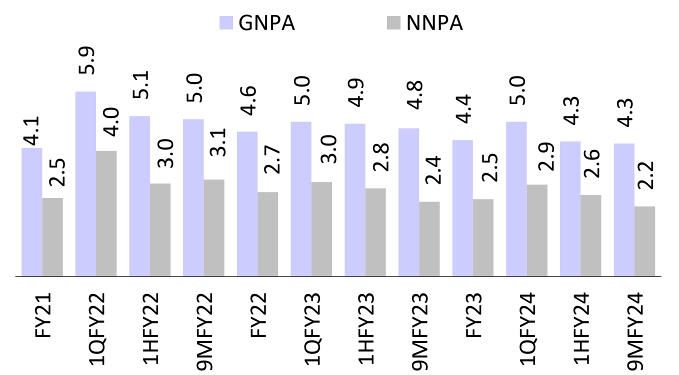

Source: MOFSL, Company

**Exhibit 5: NIMs declined ~5bp QoQ (%)**



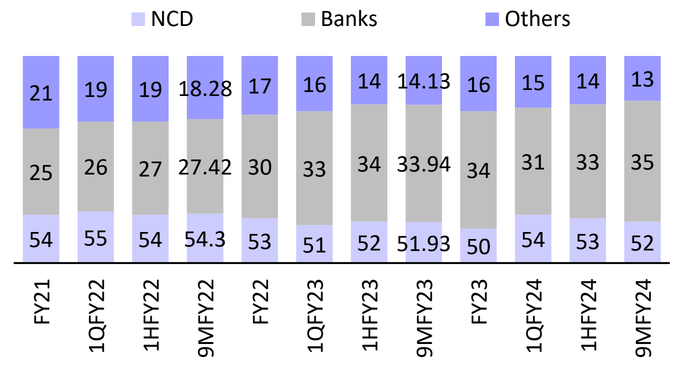

Source: MOFSL, Company

**Exhibit 6: GS3 improved QoQ (%)**




Source: MOFSL, Company

**Exhibit 7: Share of bank borrowings rose ~2pp QoQ (%)**



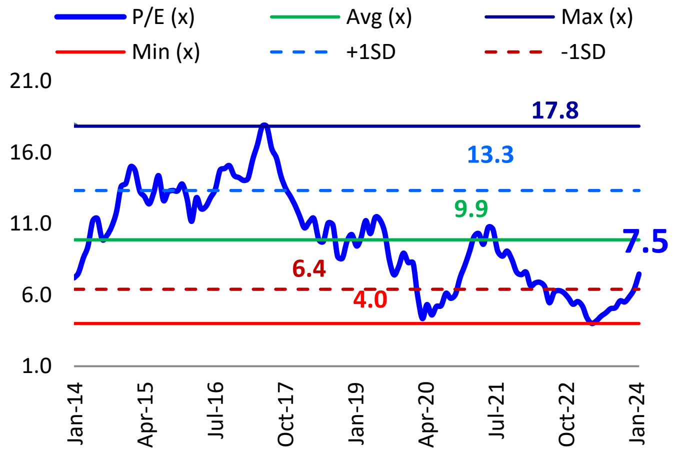

Source: MOFSL, Company

**Exhibit 8: Increase our FY24/FY25 EPS by ~8%/4% to factor in higher NIM and lower opex**

| INR B | Old Est. | | | New Est. | | | % Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 | FY24 | FY25 | FY26 |
| NII | 80.8 | 81.4 | 87.3 | 84.7 | 81.7 | 86.8 | 4.9 | 0.3 | -0.5 |
| Other Income | 2.0 | 2.1 | 2.3 | 1.9 | 2.0 | 2.1 | -1.0 | -5.4 | -9.7 |
| **Net Income** | **82.7** | **83.6** | **89.6** | **86.6** | **83.7** | **88.9** | **4.7** | **0.2** | **-0.8** |
| Operating Expenses | 12.1 | 12.9 | 13.7 | 10.5 | 11.4 | 12.2 | -12.8 | -11.5 | -10.6 |
| **Operating Profits** | **70.7** | **70.7** | **76.0** | **76.1** | **72.3** | **76.7** | **7.7** | **2.3** | **1.0** |
| Provisions | 14.8 | 13.6 | 13.3 | 16.1 | 13.0 | 12.7 | 8.2 | -4.1 | -4.3 |
| **PBT** | **55.8** | **57.1** | **62.7** | **60.1** | **59.3** | **64.0** | **7.6** | **3.8** | **2.1** |
| Tax | 10.6 | 10.9 | 11.9 | 11.4 | 11.3 | 12.2 | | | |
| **PAT** | **45.2** | **46.3** | **50.7** | **48.6** | **48.0** | **51.8** | **7.6** | **3.8** | **2.1** |
| Loans | 2,871 | 3,158 | 3,497 | 2,765 | 3,019 | 3,352 | -3.7 | -4.4 | -4.1 |
| Borrowings | 2,606 | 2,852 | 3,157 | 2,497 | 2,714 | 3,000 | -4.2 | -4.8 | -5.0 |
| **Spreads (%)** | **2.25** | **1.98** | **1.88** | **2.43** | **2.07** | **1.93** | | | |
| **RoAA (%)** | **1.6** | **1.5** | **1.5** | **1.7** | **1.6** | **1.6** | | | |
| **RoAE (%)** | **15.7** | **14.3** | **14.0** | **16.8** | **14.8** | **14.4** | | | |

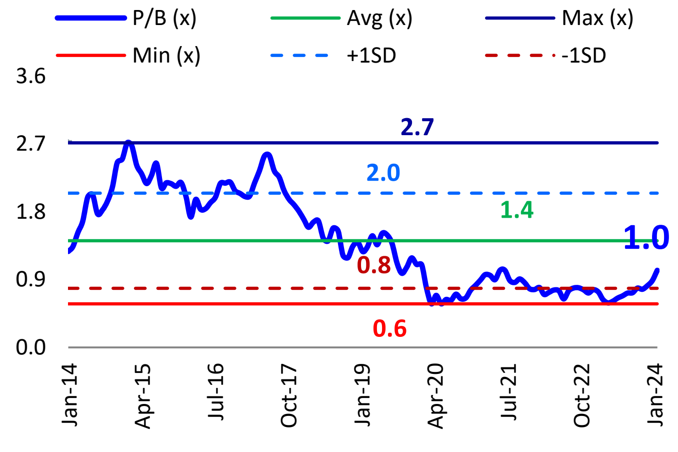
Source: MOFSL, Company

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




Source: MOFSL, Company

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




Source: MOFSL, Company

# Financials and valuations

**Income Statement** (INR M)

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|
| Interest Income | 1,46,662 | 1,71,628 | 1,96,054 | 1,96,971 | 1,96,885 | 2,25,162 | 2,69,522 | 2,79,722 | 3,06,269 |
| Interest Expense | 1,11,439 | 1,28,915 | 1,47,839 | 1,44,526 | 1,41,537 | 1,61,860 | 1,84,818 | 1,98,024 | 2,19,428 |
| **Net Interest Income** | **35,223** | **42,713** | **48,215** | **52,445** | **55,348** | **63,303** | **84,704** | **81,698** | **86,841** |
| Change (%) | -3.4 | 21.3 | 12.9 | 8.8 | 5.5 | 14.4 | 33.8 | -3.5 | 6.3 |
| Fee Income | 356 | 348 | 394 | 788 | 982 | 448 | 1,830 | 1,900 | 1,950 |
| Other Income | 1,388 | 1,669 | 250 | 718 | 1,664 | 1,132 | 113 | 119 | 125 |
| **Net Income** | **36,968** | **44,730** | **48,859** | **53,951** | **57,994** | **64,882** | **86,647** | **83,717** | **88,916** |
| Change (%) | -4.0 | 21.0 | 9.2 | 10.4 | 7.5 | 11.9 | 33.5 | -3.4 | 6.2 |
| Operating Expenses | 4,396 | 4,754 | 6,167 | 7,015 | 9,994 | 9,883 | 10,527 | 11,411 | 12,203 |
| **Operating Profits** | **32,572** | **39,976** | **42,692** | **46,936** | **48,000** | **55,000** | **76,120** | **72,306** | **76,713** |
| Change (%) | 0.6 | 22.7 | 6.8 | 9.9 | 2.3 | 14.6 | 38.4 | -5.0 | 6.1 |
| Provisions/write offs | 4,917 | 6,181 | 10,002 | 13,450 | 20,218 | 19,430 | 16,059 | 13,015 | 12,742 |
| **PBT** | **27,655** | **33,796** | **32,690** | **33,486** | **27,782** | **35,570** | **60,061** | **59,292** | **63,971** |
| Tax | 7,630 | 9,486 | 8,672 | 6,142 | 4,909 | 6,660 | 11,412 | 11,265 | 12,154 |
| Tax Rate (%) | 27.6 | 28.1 | 26.5 | 18.3 | 17.7 | 18.7 | 19.0 | 19.0 | 19.0 |
| **PAT** | **20,025** | **24,310** | **24,018** | **27,343** | **22,873** | **28,910** | **48,649** | **48,026** | **51,816** |
| Change (%) | 3.7 | 21.4 | -1.2 | 13.8 | -16.3 | 26.4 | 68.3 | -1.3 | 7.9 |
| **Adjusted PAT** | **20,025** | **24,310** | **24,018** | **27,343** | **22,873** | **28,910** | **48,649** | **48,026** | **51,816** |
| Change (%) | 3.7 | 21.4 | -1.2 | 13.8 | -16.3 | 26.4 | 68.3 | -1.3 | 7.9 |
| **Proposed Dividend** | **3,998** | **4,471** | **4,040** | **4,292** | **4,678** | **4,678** | **7,151** | **7,156** | **7,721** |

**Balance Sheet**

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|
| Capital | 1,010 | 1,010 | 1,010 | 1,010 | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 |
| Reserves & Surplus | 1,41,402 | 1,61,583 | 1,80,921 | 2,04,203 | 2,45,618 | 2,69,903 | 3,06,722 | 3,40,441 | 3,77,380 |
| **Net Worth** | **1,42,412** | **1,62,593** | **1,81,931** | **2,05,213** | **2,46,718** | **2,71,003** | **3,07,823** | **3,41,542** | **3,78,481** |
| **Borrowings** | **14,53,099** | **17,06,670** | **19,13,317** | **20,78,615** | **22,36,582** | **24,47,742** | **24,97,221** | **27,13,934** | **30,00,326** |
| Change (%) | 15.0 | 17.5 | 12.1 | 8.6 | 7.6 | 9.4 | 2.0 | 8.7 | 10.6 |
| Other liabilities | 1,15,387 | 1,36,572 | 72,808 | 72,505 | 62,375 | 65,374 | 71,912 | 79,103 | 87,013 |
| **Total Liabilities** | **17,10,898** | **20,05,835** | **21,68,056** | **23,56,333** | **25,45,675** | **27,84,120** | **28,76,955** | **31,34,579** | **34,65,821** |
| Investments | 19,722 | 35,951 | 54,964 | 46,357 | 61,986 | 69,764 | 62,788 | 56,509 | 50,858 |
| Change (%) | -41.5 | 82.3 | 52.9 | -15.7 | 33.7 | 12.5 | -10.0 | -10.0 | -10.0 |
| **Loans** | **16,61,623** | **19,29,927** | **20,79,880** | **22,81,143** | **24,52,963** | **26,78,348** | **27,65,472** | **30,18,837** | **33,52,320** |
| Change (%) | 14.8 | 16.1 | 7.8 | 9.7 | 7.5 | 9.2 | 3.3 | 9.2 | 11.0 |
| Net Fixed Assets | 971 | 1,359 | 2,544 | 2,469 | 2,876 | 3,570 | 4,105 | 4,721 | 5,429 |
| Other assets | 28,582 | 38,598 | 30,669 | 26,364 | 27,849 | 32,439 | 44,591 | 54,513 | 57,214 |
| **Total Assets** | **17,10,898** | **20,05,835** | **21,68,056** | **23,56,333** | **25,45,675** | **27,84,120** | **28,76,955** | **31,34,579** | **34,65,821** |

E: MOFSL Estimates

# Financials and valuations

## Ratios

| Y/E March | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|
| **Spreads Analysis (%)** | | | | | | | | | |
| Yield on loans | 9.4 | 9.6 | 9.8 | 9.0 | 8.3 | 8.8 | 9.9 | 9.7 | 9.6 |
| Cost of funds | 8.2 | 8.2 | 8.2 | 7.2 | 6.6 | 6.9 | 7.5 | 7.6 | 7.7 |
| Spreads Analysis (%) | 1.2 | 1.4 | 1.6 | 1.8 | 1.76 | 1.87 | 2.43 | 2.07 | 1.93 |
| **Margins** | **2.3** | **2.4** | **2.4** | **2.4** | **2.3** | **2.5** | **3.1** | **2.8** | **2.7** |
| | | | | | | | | | |
| **Profitability Ratios (%)** | | | | | | | | | |
| Adj RoAE | 14.9 | 15.9 | 13.9 | 14.1 | 10.1 | 11.2 | 16.8 | 14.8 | 14.4 |
| Adj RoAA | 1.2 | 1.3 | 1.2 | 1.2 | 0.9 | 1.1 | 1.7 | 1.6 | 1.6 |
| Int. Expended/Int.Earned | 76.0 | 75.1 | 75.4 | 73.4 | 71.9 | 71.9 | 68.6 | 70.8 | 71.6 |
| Other Inc./Net Income | 3.8 | 3.7 | 0.5 | 1.3 | 2.9 | 1.7 | 0.1 | 0.1 | 0.1 |
| | | | | | | | | | |
| **Efficiency Ratios (%)** | | | | | | | | | |
| Fees/Operating income | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 | 0.2 | 0.7 | 0.7 | 0.6 |
| Op. Exps./Net Income | 11.9 | 10.6 | 12.6 | 13.0 | 17.2 | 15.2 | 12.1 | 13.6 | 13.7 |
| Empl. Cost/Op. Exps. | 50.8 | 52.1 | 48.5 | 41.8 | 56.4 | 47.9 | 53.5 | 54.3 | 54.8 |
| | | | | | | | | | |
| **Asset-Liability Profile (%)** | | | | | | | | | |
| Loans/Borrowings Ratio | 114.4 | 113.1 | 108.7 | 109.7 | 109.7 | 109.4 | 110.7 | 111.2 | 111.7 |
| Debt/Equity (x) | 10.2 | 10.5 | 10.5 | 10.1 | 9.1 | 9.0 | 8.1 | 7.9 | 7.9 |
| Gross NPAs (Rs m) | 13,036 | 30,754 | 59,594 | 95,585 | 1,16,520 | 1,20,196 | 116,324 | 113,305 | 109,953 |
| Gross NPAs to Adv. | 0.8 | 1.6 | 2.8 | 4.1 | 4.7 | 4.4 | 4.1 | 3.7 | 3.2 |
| Net NPAs (Rs m) | 7,117 | 15,514 | 33,474 | 57,414 | 66,314 | 66,383 | 57,181 | 53,351 | 48,141 |
| Net NPAs to Adv. | 0.4 | 0.8 | 1.6 | 2.5 | 2.7 | 2.5 | 2.1 | 1.8 | 1.4 |

| Valuation | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|---|
| Book Value (INR) | 282 | 322 | 360 | 406 | 448 | 492 | 559 | 621 | 688 |
| Growth (%) | 12.9 | 14.2 | 11.9 | 12.8 | 10.3 | 9.8 | 13.6 | 11.0 | 10.8 |
| **Price-BV (x)** | **2.2** | **2.0** | **1.8** | **1.6** | **1.4** | **1.3** | **1.1** | **1.0** | **0.9** |
| Adjusted BV (INR) | 278.2 | 313.7 | 342.4 | 375.7 | 415.7 | 459.8 | 534.4 | 600.0 | 670.4 |
| **Price-ABV (x)** | **2.2** | **2.0** | **1.8** | **1.6** | **1.4** | **1.3** | **1.1** | **1.0** | **0.9** |
| EPS (INR) | 39.7 | 48.1 | 47.6 | 54.2 | 41.6 | 52.5 | 88.4 | 87.3 | 94.1 |
| Growth (%) | 3.7 | 21.4 | -1.2 | 13.8 | -23.3 | 26.4 | 68.3 | -1.3 | 7.9 |
| **Price-Earnings (x)** | **15.9** | **13.1** | **13.3** | **11.7** | **15.2** | **12.0** | **7.2** | **7.2** | **6.7** |
| Dividend Per Share | 6.8 | 7.6 | 8.0 | 8.5 | 8.5 | 8.5 | 13.0 | 13.0 | 14.0 |
| **Dividend Yield (%)** | **1.1** | **1.2** | **1.3** | **1.3** | **1.3** | **1.3** | **2.1** | **2.1** | **2.2** |

E: MOFSL Estimates

# N O T E S

| 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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