11 October 2024

Company Update | Sector: Financials

Federal Bank

BSE SENSEX	S&P CNX
81,381	24,964

Bloomberg	FB IN
Equity Shares (m)	2448
M.Cap.(INRb)/(USDb)	459.8 / 5.5
52-Week Range (INR)	207 / 137
1, 6, 12 Rel. Per (%)	2/8/2
12M Avg Val (INR M)	2386
Free float (%)	100.0

Financials & Valuation (INR b)

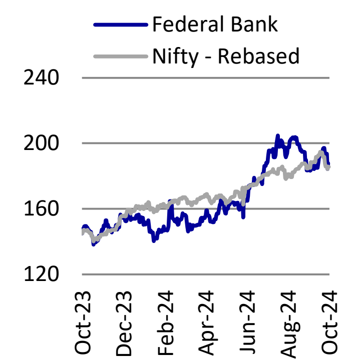
Y/E Mar	FY24	FY25E	FY26E
NII	82.9	96.8	117.5
OP	51.7	61.5	77.1
NP	37.2	41.2	49.8
NIM (%)	3.3	3.2	3.3
EPS (INR)	16.3	16.9	20.5
EPS Gr. (%)	14.5	3.5	20.9
BV/Sh. (INR)	119	134	152
ABV/Sh. (INR)	113	127	143
Ratios			
ROE (%)	14.7	13.4	14.3
ROA (%)	1.3	1.2	1.3
Valuations			
P/E(X)	11.4	11.0	9.1
P/BV (X)	1.6	1.4	1.2

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	0.0	0.0	0.0
DII	44.7	44.9	41.8
FII	29.4	29.3	27.1
Others	25.9	25.8	31.1

FII Includes depository receipts

Stock performance (one-year)



CMP: INR187 TP: INR230 (+23%) Buy

Growth outlook steady; getting future-ready under new leadership

Rising mix of high-yielding products to boost margins

- **Federal Bank (FB) has demonstrated a strong growth trajectory over FY22-24, with 20% CAGR in its loan book and 18% deposit growth. Over FY25-27, we believe the bank is well poised to deliver an 18% loan CAGR, aided by effective risk management and fintech partnerships.**
- **The bank views fintech partnerships as vital for product distribution, tech integration and network expansion to boost customer acquisition in FY25, as it is optimistic about the lifting of regulatory restrictions on card issuance soon.**
- **We reckon that the implementation of LCR draft guidelines in their current form will impact FB's LCR by ~1240bp. However in that scenario, if the bank were to raise required deposits to restore its LCR back to 110% than as per our calculations, FB's RoA and margins would be impacted by 3bp and 8bp, respectively. Please refer our note for more details here.**
- **In Jul'24, FB received the RBI's approval for Mr. KVS Manian as the new MD and CEO beginning Sep'24. With his extensive banking expertise, Mr. Manian is expected to drive strategic changes and drive next leg of growth and profitability for the bank after already delivering robust performance over the last few years.**
- **We estimate FB to achieve RoA/RoE of 1.3%/15.2% by FY27, making its current valuation at 1.2x FY26 BV attractive for long-term growth; thus, we maintain our BUY rating with a TP of INR230 (1.5x FY26E ABV).**

Growth outlook steady; business mix shifting toward high-yielding products

FB achieved a robust 20% YoY credit growth in FY24, with 20% YoY growth in retail loans and significant growth in high-yield segments like credit cards (73% YoY) and microfinance loans (107% YoY). In commercial banking, the bank is enhancing its focus on supply chain growth and high-margin products, which now make up 24.8% of its total portfolio, up from 19.8% in FY22 (excluding business banking, the high-yielding book stands at ~7% vs. 5% in FY22). FB's cautious approach to unsecured loans, compared to larger peers, positions it well to boost the share of high-yield loans and margins. Accordingly, we estimate an 18% loan CAGR during FY25-27.

Robust deposit franchise; LCR ratio remains a concern

FB's deposit growth was aligned with credit growth and stood at 18% YoY in FY24, driven mainly by 24% YoY growth in term deposits. CASA deposits saw modest growth, accounting for ~30.1% of the mix in 2QFY25. Despite the RBI's embargo on its partnership with OneCard, FB's strong fintech collaborations remain vital for enhancing cross-selling opportunities and attracting strategic partners. With a CD ratio of ~83%, the bank is well-positioned for growth, although its LCR at 112.6% raises concerns, especially with potential RBI regulations that could reduce it by ~1240bp. As per our calculation, if the bank raises necessary deposits to achieve a 110% LCR, its RoA and margins would be affected by 3bp and 8bp, respectively.

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Pace of NIM moderation to ease supported by high-yielding mix

FB's NIM contracted to 3.16% in 1QFY25, primarily due to rising funding costs linked to a soft CASA ratio, although the pace of contraction has been slowing. The bank's lower fixed-rate loan portfolio (at 29%) will further add to margin pressure as the interest rate cycle turns. The bank is focusing on increasing high-yielding loans to strengthen margins, which are ~120bp lower than larger peers' margins, while the difference in the cost of funds stands at ~60bp. Despite setbacks from the RBI's embargo on its OneCard partnership, FB's strong fintech collaborations are key to enhancing cross-selling opportunities and boosting profitability.

Cost ratios to improve gradually; estimate C/I ratio of 50% by FY27

Despite minimal branch additions between FY16 and FY22, FB faced high operational expenses due to significant investments in technology, compliance, and rising wage costs. However, from FY23 to 1QFY25, the bank added 146 branches, demonstrating its commitment to growth and digital infrastructure, resulting in a higher C/I ratio of 54.5% in FY24. With ongoing technology investments and branch expansion, the C/I ratio is expected to remain ~54% in FY25 before gradually declining to 50% by FY27.

Strong underwriting enables healthy asset quality; est. credit cost of 30-40bp

FB has maintained strong asset quality, with its GNPA/NNPA ratios improving to 2.1%/0.7% in FY24, driven by controlled slippages and robust recoveries. This success is attributed to strategic customer selection and strong underwriting practices, which remain effective even in co-lending partnerships. Under Mr. Srinivasan's leadership, the bank has enhanced its underwriting standards, leading to a gradual decline in gross slippages, particularly in corporate and SME segments, while maintaining a lower unsecured loan mix. With credit costs estimated to be around 30-40bp, we expect GNPA/NNPA ratios at 1.9%/0.6% by FY27.

Valuation and view

- FB posted a 20% CAGR in its loan book during FY22-24 and improved its RoA to ~1.3% in FY24 from 0.9% in FY22, despite NIM pressure and higher cost ratios.
- In Jul'24, FB received the RBI's approval for **Mr. Manian as the new MD and CEO** starting Sep'24. With his extensive banking expertise, Mr. Manian is expected to drive strategic changes and drive next leg of growth and profitability for the bank after already delivering robust performance over the last few years.
- We estimate FB to achieve RoA of 1.3% and RoE of 15.2% by FY27, driven by improved margins and a continued shift toward higher-yielding products. As revenue growth outpaces cost growth, we expect the C/I ratio to decrease to ~50% by FY27, down from 54.5% in FY24.
- With current valuations at 1.2x FY26 book value presenting an attractive long-term investment opportunity, FB is well-positioned to leverage its strong balance sheet and extensive customer base for sustainable profitability. Supported by new leadership's focus on growth, **we maintain our BUY rating on the stock with a TP of INR230 (1.5x FY26E ABV).**

Business growth robust; est. 18% CAGR in loans

Improving mix of high-yielding products to enable profitable growth

- FB delivered a robust 20% YoY credit growth during FY24, driven by healthy traction across segments. Retail loans grew 20% YoY and the new higher-yielding segment posted robust growth, i.e., 73% YoY growth in credit cards, 52% YoY growth in CV/CE, 40% YoY growth in personal loans, and 107% YoY growth in microfinance loans.
- FB aims to enhance its commercial banking vertical by focusing on supply chain growth and high-yielding segments while upholding high-quality risk management to ensure healthy growth in advances. Thus, the share of higher-margin products in the portfolio mix improved to 24.8% in FY24 from 19.8% in FY22 (excluding business banking, the high-yielding book stands at ~7% vs. 2.4% in FY22).
- FB's relatively calibrated approach to unsecured loans contrasts with larger private peers, which have a double-digit share of unsecured loans (PL+CC). This presents FB an opportunity to improve its share of high-yielding loans, thereby benefitting on margins. We estimate FB to deliver healthy traction in business growth, enabling it to deliver 18% loan CAGR over FY25-27E.

Loan mix

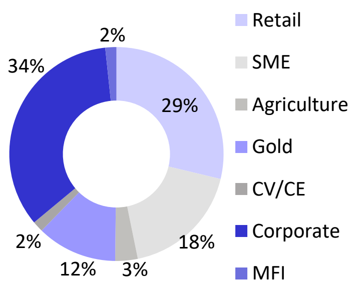
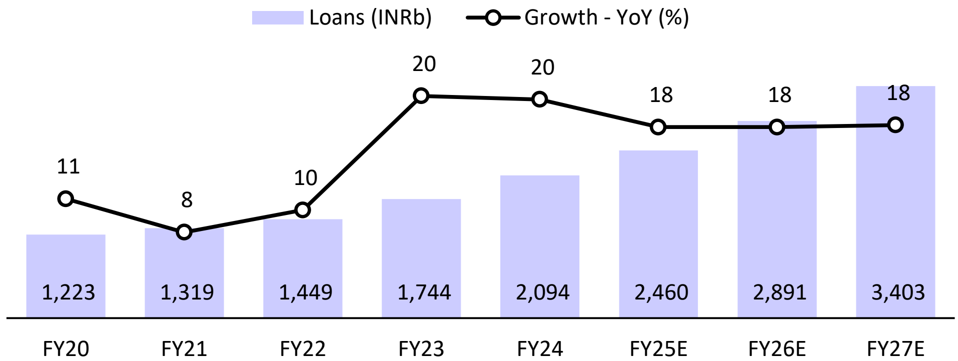


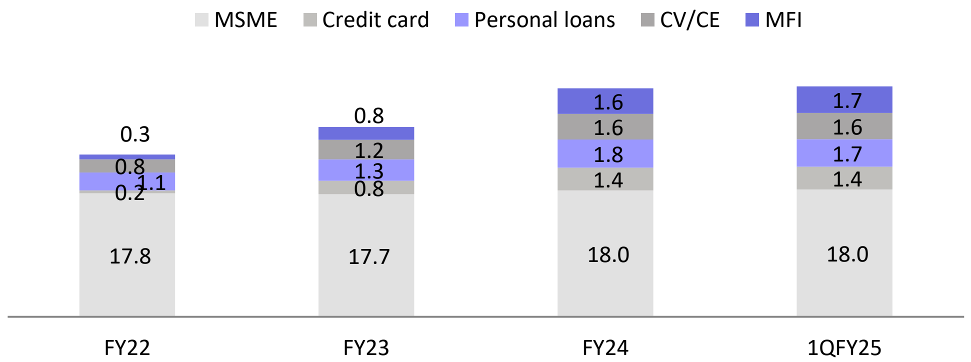
Exhibit 1: Estimate healthy 18% loan CAGR over FY25-27E



Source: MOFSL, Company

Exhibit 2: Share of high-margin products (ex-MSME) rose to 7% in FY24 vs. 2.4% in FY22

FB is increasing its mix in high-yielding segments like CV/CE, MFI, personal loans, and credit cards, which accounted for 7% in FY24; including business banking, it accounted for 24.8%.



Source: MOFSL, Company

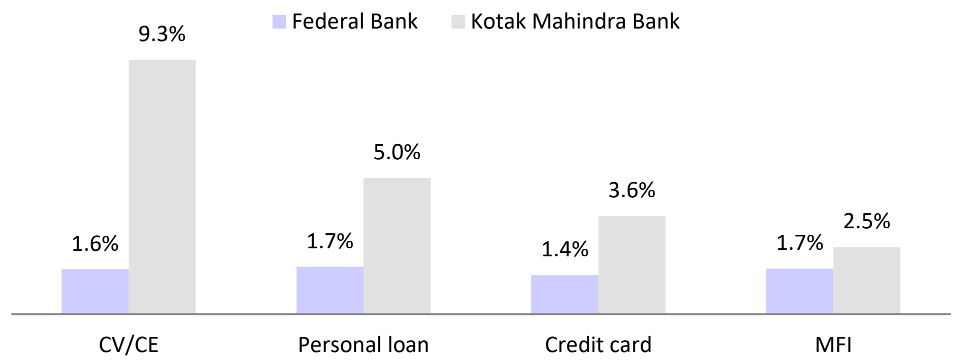
Under Mr. Manian's leadership, KMB has successfully diversified its portfolio with a focus on high-yielding assets.

His valuable experience will now be leveraged at FB to enhance its high-margin portfolio.

FB may also explore inorganic opportunities to accelerate the expansion in focus areas.

Rating profile of corporate assets: A & above increased to 82%, bank expect wholesale mix to change with AAA and AA to witness some contraction.

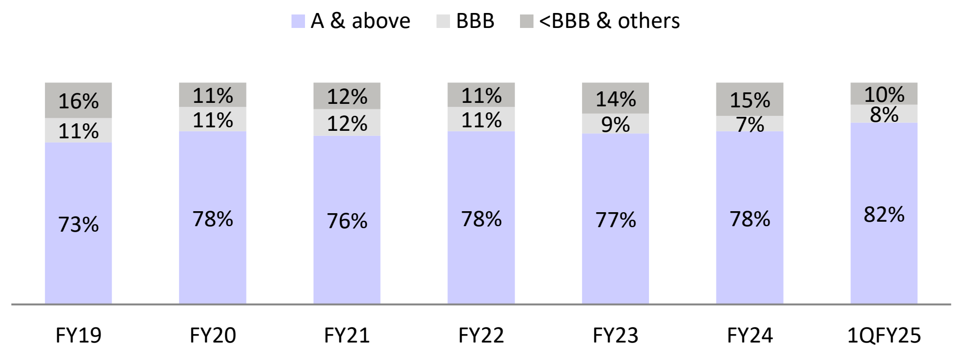
Exhibit 3: Mix of high-yielding segment of FB vs. Kotak bank



KMB's personal includes Personal loan, business loan and consumer durables

Source: MOFSL, Company

Exhibit 4: Rating profile of corporate assets; expect mix of AAA and AA to moderate



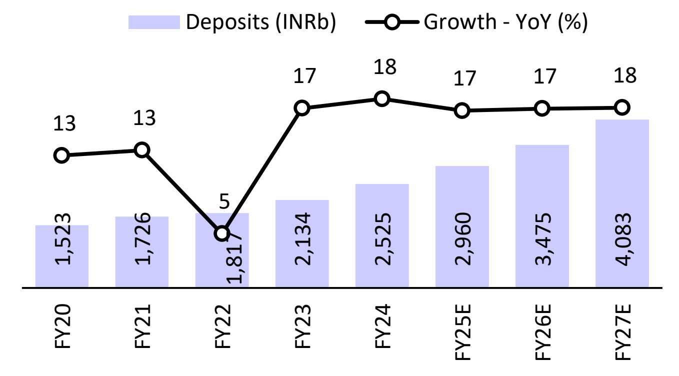
Source: MOFSL, Company

Strengthening deposit growth through granularity and fintech partnerships

Lower LCR ratio remains a concern

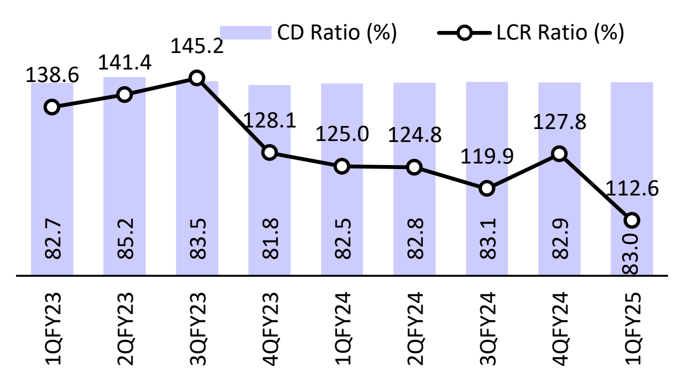
- FB's deposit growth was broadly in line with credit growth at 18% YoY in FY24. This growth was primarily led by TDs, which grew at a faster pace of 24% YoY, while the bank faced challenges in CASA deposit accretion, reporting a modest growth with the mix standing at ~30.1% in 2QFY25. The bank continued to maintain a significant position in NR deposits, which grew by 8.6% YoY in 1QFY25, despite challenges.
- Although the RBI's embargo on its partnership with OneCard poses a setback, FB's strong fintech collaborations are crucial for enhancing cross-selling opportunities, potentially increasing profitability and attracting valuable alliance partners. Despite industry-wide challenges in deposit mobilization, FB's strong deposit granularity and effective fintech partnerships have supported healthy deposit growth, which will enable the bank to deliver robust loan growth over the coming years.
- FB has a CD ratio of ~83% which positions it well to pursue business growth; however, its LCR at 112.6% remains a concern as the RBI has proposed draft norms that mandate an additional 5% run-off factor for deposits linked to mobile and internet banking. We reckon that the implementation of LCR draft guidelines in the current form will impact FB's LCR by ~1240bp.

Exhibit 5: Estimate deposits CAGR at ~18% over FY25-27E



Source: MOFSL, Company

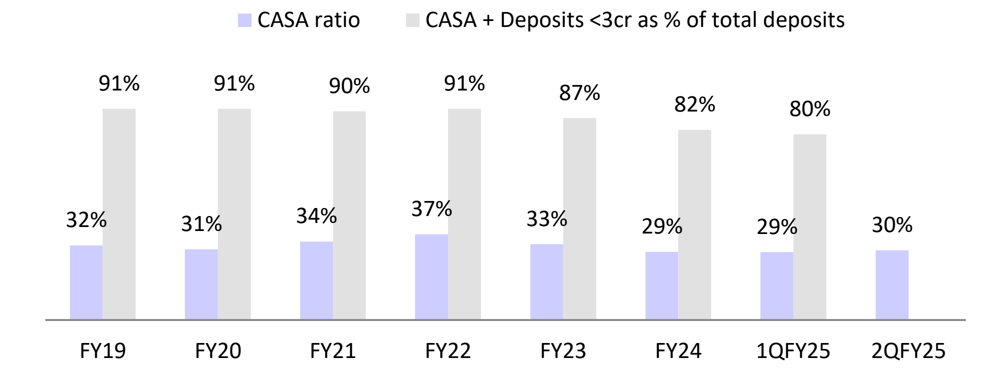
Exhibit 6: CD ratio stable at 83%; LCR moderated to 112.6%



Source: MOFSL, Company

Exhibit 7: CASA ratio at 30% in 2QFY25; estimate CASA mix to improve to 32% by FY27

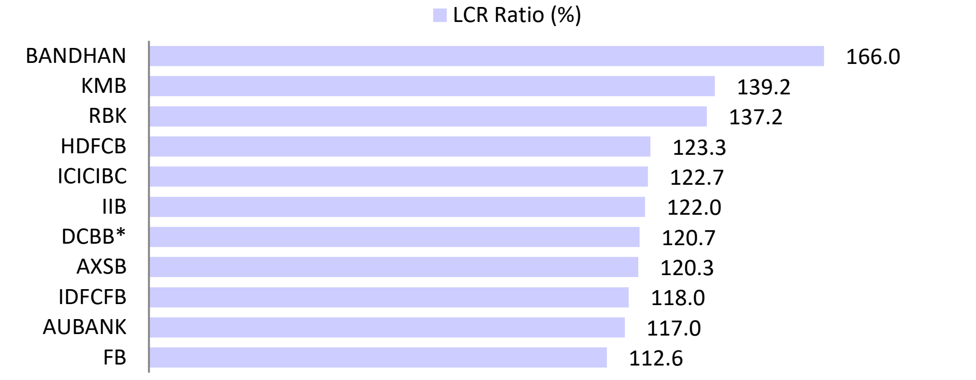
CASA + Deposits <INR30m as % of total deposits moderated to 80% vs. 91% in FY20.



Source: MOFSL, Company

FB's LCR ratio remains lower vs. peers

Exhibit 8: FB's LCR ratio at 112.6% is the lowest among peers



*as on 4QFY24

Source: MOFSL, Company

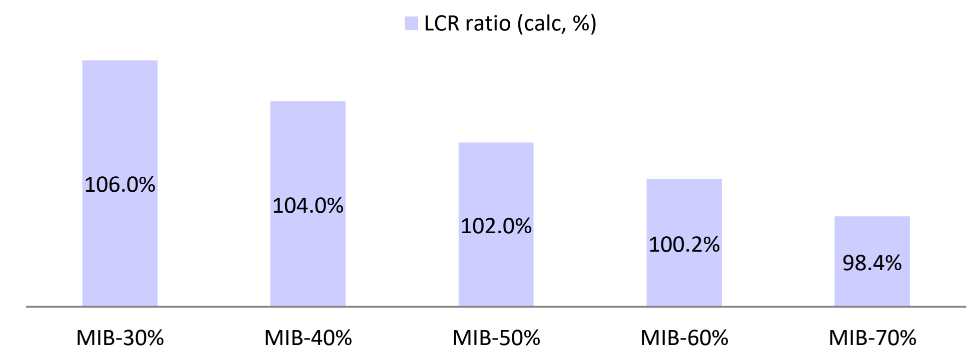
We reckon that the implementation of LCR draft guidelines in the current form will impact FB's LCR by ~1,240bp.

Exhibit 9: We estimate a drop in LCR ratio by 1,240bp if draft guidelines are implemented

Federal Bank (INRb)	Old LCR	New LCR	Drop in LCR
Retail Deposits as per LCR	1,828	1,828	
MIB (60% of retail deposits)- assumed		1,097	
Increase in Outflows (5% of MIB)		55	
Net cash outflow (a)	**443**	**498**	
HQLA (b)	**499**	**499**	
LCR ratio % (b/a)	**112.6**	**100.2**	**--12.40**

Source: MOFSL, Company

Exhibit 10: Following are LCR ratios, If MIB as % of retail deposits assumed as 30-70%



Source: MOFSL, Company

- As per our calculation, FB's RoA and margins will be impacted by 3bp and 8bp, respectively, if the bank were to raise required deposits to improve its LCR to 110%, in case the draft LCR guidelines come into effect in the current form. Please refer Exhibit 11 for details.

We calculate FB's RoA and margins will be impacted by 3bp and 8bp, respectively, if bank were to raise required deposits to improve its LCR to 110%

Exhibit 11: FB's RoA/margins could be impacted by 3bp/7bp, if draft LCR guidelines come into effect

Federal Bank (INRb)	Old	New
LCR (%)	112.6	100.2
Assuming LCR compliance of 106%		
HQLA for LCR of 110% under new methodology	499	548
- Required increase in retail deposits		48.8
-Deposits required adjusted for SLR requirement @18% & CRR@4.5%		63.0
- As % of total retail deposits as per LCR (1QFY25)		3.4%
- As % of total deposits as per BS (1QFY25)		2.3%
Assuming FB raises required retail deposits at 7%		
- Cost of incremental deposits @7%		-4.41
- Parking them in G-Sec @6.8% to raise HQLA levels		4.28
- Negative carry from CRR		-0.19
Net impact		-0.32
NII (FY25)	96.8	96.5
Avg Int earning assets (FY24-25)	3,025	3,088
NIM on basis of Int earning assets (%)	3.20%	3.12%
- Potential impact on margins (%)		**-0.08%**
Average Assets (FY24-25)	3,083	3,146
FY25 PAT	37.2	37.0
RoA (FY25, %)	1.21%	1.18%
% change in RoA, bp		**-3.2**
Earnings (RoA) impact (%)		**-2.6%**

Source: MOFSL, Company

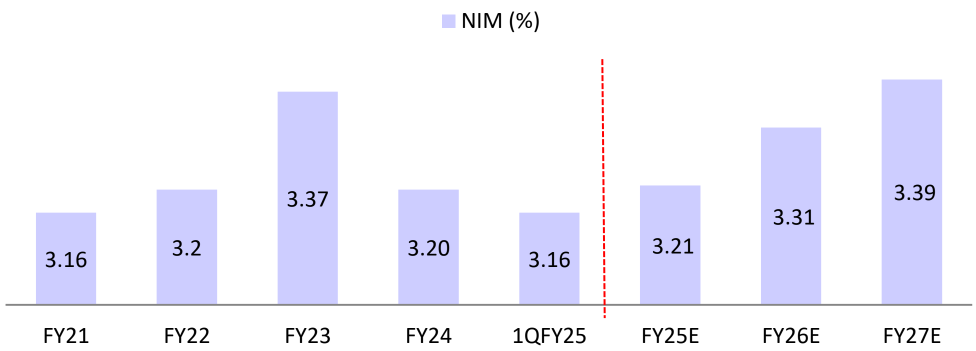
Pace of NIM moderation to ease supported by high-yielding mix

FB lags large private peers in margins by ~120bp vs. CoF disadvantage of ~60bp

- FB's NIM contracted 4bp QoQ to 3.16% in 1QFY25 due to rising funding costs as the CASA mix remained under pressure. However, the pace of contraction in NIMs has been reducing gradually. Also, the bank's lower fixed-rate book at 29% will keep margins in check, particularly as the interest rate cycle turns.
- FB is consciously trying to scale up the mix of high-yielding loans, as its margins are ~120bp lower than those of larger peers, while the difference in the cost of funds stands at ~60bp.
- Despite the setback from the RBI's embargo on its partnership with OneCard, FB's strong fintech collaborations are crucial for enhancing cross-selling opportunities across customer segments, thereby boosting profitability and attracting high-potential alliance partners.

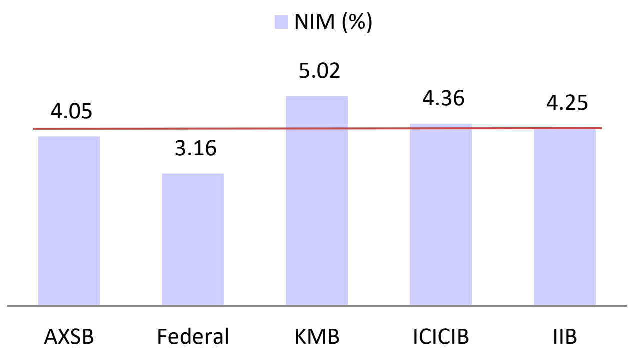
We estimate NIMs to sustain at 3.2% in FY25 as the cost of fund stabilizes.

Exhibit 12: Margin compressed in the past few quarters due to rise in funding cost



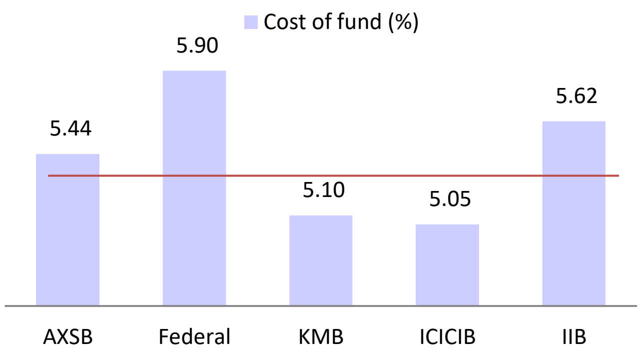
FY25,26,27 are on calculated basis Source: MOFSL, Company

Exhibit 13: NIM is ~120bp lower than avg of large pvt bank…



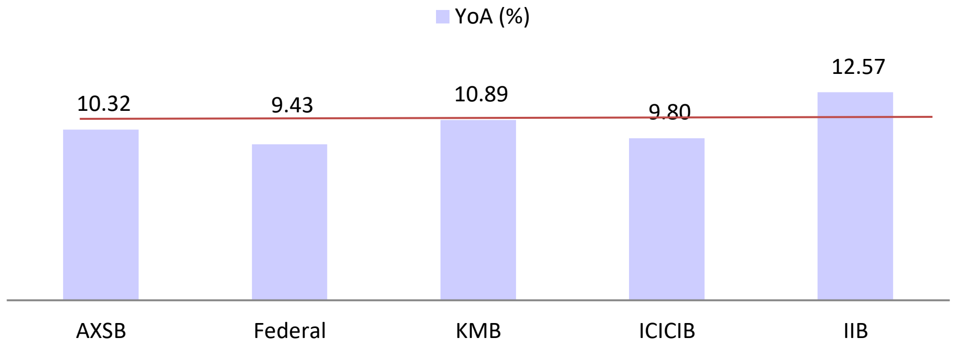
Source: MOFSL, Company

Exhibit 14: … however, the differential in CoF is ~60bp



Source: MOFSL, Company

Exhibit 15: FB's yield on advances is ~140bp lower than the avg of large pvt bank



Source: MOFSL, Company

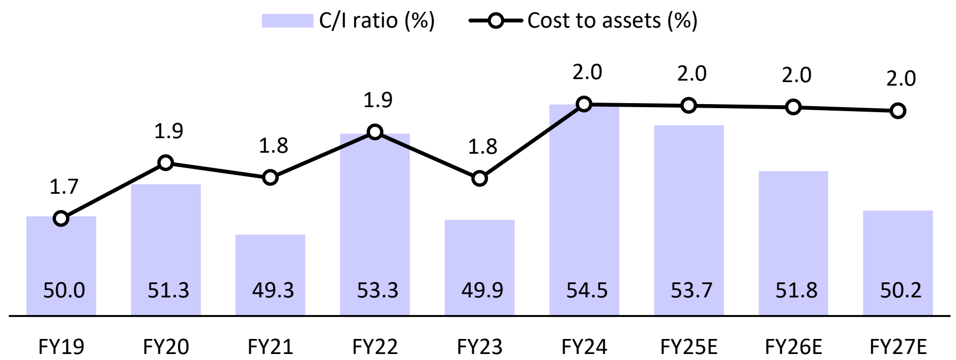
Cost ratios to decline gradually as operating leverage improves

Estimate C/I ratio of ~50% by FY27E

- Despite adding very few branches between FY16 and FY22, FB faced elevated opex due to significant investments in technology, compliance, and rising wage costs. However, we believe there is potential for the bank to optimize its opex, thereby enhancing its overall productivity and benefiting from improved operating leverage. From FY23 to 1QFY25, FB added 146 branches, reflecting its commitment to growth and robust digital infrastructure, leading to a higher C/I ratio of 54.5% in FY24.
- FB's cost per employee has been increasing; however, its employee productivity has been improving, with business per employee increasing to INR304m in FY24 from INR255m in FY22.
- With ongoing investments in technology, expansion in branches and pressure on revenue growth, the C/I ratio is expected to remain around 54% in FY25 before gradually moderating to 50% by FY27.

With continued investment in business, technology and employees, we expect the C/I ratio to sustain at ~54% in FY25 and recover gradually to ~50% by FY27E.

Exhibit 16: Estimate C/I ratio and cost to asset ratio at 50%/2.0% by FY27



Source: MOFSL, Company

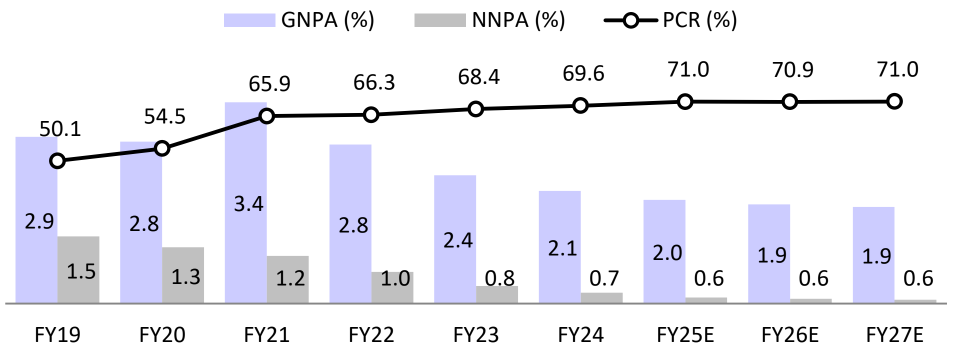
Strong underwriting enables robust asset quality

Estimate credit cost of 30-40bp over FY25-27E

- FB has maintained strong asset quality, with its GNPA/NNPA ratios improving to 2.1%/0.7% in FY24, led by controlled slippages and robust recoveries. This success stems from the bank's strategic customer selection and strong underwriting practices, which remain consistent even in co-lending partnerships. Also, the bank expects recovery of an asset worth INR700m in the coming quarters, which turned NPA last year.
- Under the leadership of Mr. Srinivasan, FB has significantly enhanced its underwriting standards, reflected in the gradual decline of gross slippages, particularly in the corporate and SME segments. The bank's gross slippages are lower compared to larger peers, aided by a reduced unsecured loan mix. This has led to lower incremental stress formation and a benign credit cost of 27bp. With the credit cost expected to be around 30-40bp, we estimate GNPA/NNPA ratios to moderate further to 1.9%/0.6% by FY27.

FB saw an improvement in GNPA/NNPA ratios, aided by healthy recoveries and lower slippages

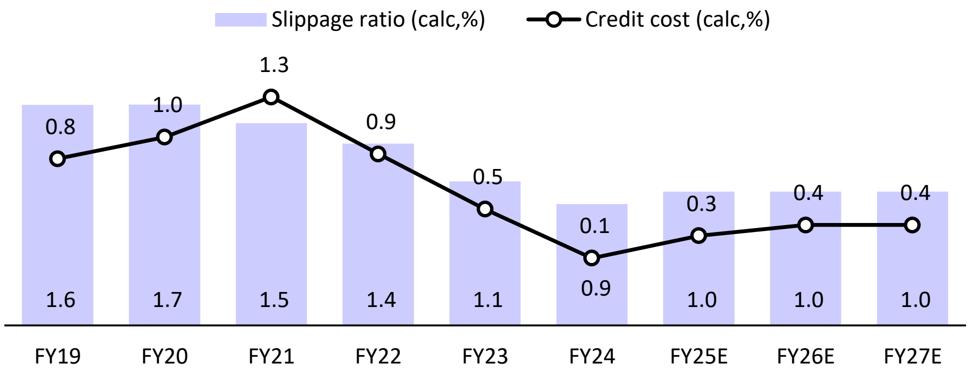
Exhibit 17: Estimate GNPA/NNPA ratios at 1.9%/0.6% by FY27



Source: MOFSL, Company

We estimate credit cost to remain stable at 30-40bp over FY25-27E

Exhibit 18: Estimate credit cost to remain stable at 30-40bp over FY25-27E

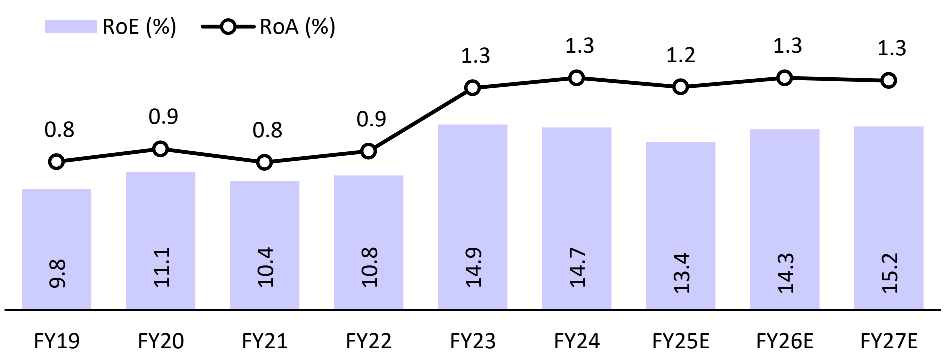


Source: MOFSL, Company

Valuation and view: Maintain BUY with a TP of INR230

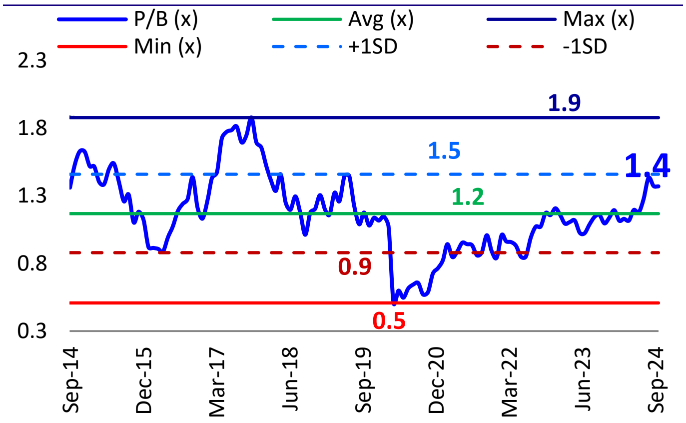
- FB has demonstrated a robust growth trajectory, achieving a 20% CAGR in its loan book during FY22-24 while maintaining a highly granular deposit franchise. Despite facing pressures on NIM and relatively higher cost ratios, FB reported RoA of ~1.3% in FY24 vs. 0.9% in FY22. This was led by strong fee income growth and low credit costs.
- FB views fintech partnerships as vital for product distribution, tech integration and network expansion to boost customer acquisition in FY25, as it is optimistic about the lifting of regulatory restrictions on card issuance soon.
- In Jul'24, it announced the RBI's approval for Mr. Manian to become the new MD and CEO beginning Sept'24. Mr. Manian, who last worked with Kotak Mahindra Bank as Joint MD, has a rich and diverse experience across banking functions. He has extensive expertise in corporate, commercial, and private banking, as well as asset reconstruction.
- **We estimate FB to deliver RoA/RoE of 1.3%/15.2% by FY27, backed by improved NIM and a continued shift in the portfolio mix toward higher-yielding products. Alongside, we expect cost ratios to improve as revenue growth exceeds cost growth, aided by healthy business expansion and continued traction in fee income. We thus estimate the C/I ratio to moderate to ~50% by FY27E from 54.5% in FY24.**
- **We find the current valuation at 1.2x FY26 BV attractive for the long term, as the bank remains a good play on growth and profitability. FB is confident of effectively leveraging its strong balance sheet and wide customer base to achieve sustainable profit-and-loss outcomes. Backed by the new leadership, which remains committed to driving the next leg of growth and profitability, we expect FB to strengthen its position as a credible alternative to larger private sector banks. We reiterate our BUY rating on the stock with a TP of INR230 (1.5x FY26E ABV).**

Exhibit 19: Return ratios to remain steady; estimate FY27E RoA/RoE at 1.3%/15.2%



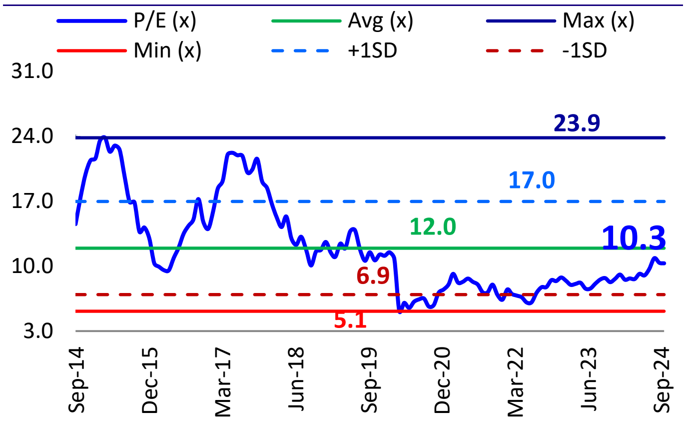
Source: MOFSL, Company

Exhibit 20: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 21: One-year forward P/E ratio



Source: MOFSL, Company

Exhibit 22: DuPont Analysis: Estimate RoE to improve to 15.2% by FY27E as leverage improves

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	7.77	7.20	6.47	6.98	7.80	7.81	7.85	7.89
Interest Expense	5.04	4.31	3.65	3.98	4.89	4.89	4.79	4.73
Net Interest Income	**2.73**	**2.90**	**2.82**	**3.01**	**2.92**	**2.92**	**3.06**	**3.16**
Core Fee Income	0.78	0.70	0.85	0.96	0.99	0.99	1.00	1.01
Trading and others	0.36	0.33	0.14	0.01	0.10	0.10	0.10	0.11
Non-Interest income	**1.14**	**1.03**	**0.99**	0.97	1.08	1.09	1.11	1.12
Total Income	**3.87**	**3.92**	**3.81**	**3.97**	**4.00**	**4.00**	**4.16**	**4.28**
Operating Expenses	**1.99**	**1.93**	**2.03**	**1.98**	**2.18**	**2.15**	**2.16**	**2.15**
-Employee cost	1.04	1.07	1.10	0.90	0.99	0.99	0.99	0.98
-Others	0.94	0.87	0.93	1.08	1.19	1.16	1.17	1.17
Operating Profits	**1.89**	**1.99**	**1.78**	**1.99**	**1.82**	**1.86**	**2.01**	**2.13**
Core Operating Profits	**1.53**	**1.66**	**1.64**	**1.98**	**1.72**	**1.76**	**1.90**	**2.02**
Provisions	0.69	0.87	0.58	0.31	0.07	0.19	0.27	0.32
PBT	**1.20**	**1.12**	**1.20**	**1.68**	**1.75**	**1.67**	**1.74**	**1.80**
Tax	0.29	0.29	0.31	0.43	0.44	0.43	0.44	0.46
RoA	**0.91**	**0.83**	**0.89**	**1.25**	**1.31**	**1.24**	**1.30**	**1.34**
Leverage (x)	12.2	12.5	12.1	11.9	11.2	10.8	11.1	11.3
RoE	**11.1**	**10.4**	**10.8**	**14.9**	**14.7**	**13.4**	**14.3**	**15.2**

Source: MOFSL, Company

Financials and valuations

Income Statement								(INRb)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Interest Income	132.1	137.6	136.6	168.0	221.9	259.1	301.7	354.1
Interest Expense	85.6	82.2	77.0	95.7	138.9	162.3	184.2	212.3
Net Interest Income	**46.5**	**55.3**	**59.6**	**72.3**	**82.9**	**96.8**	**117.5**	**141.7**
-growth (%)	11.3	19.0	7.7	21.3	14.7	16.7	21.4	20.7
Non-Interest Income	19.3	19.6	20.9	23.3	30.8	36.0	42.5	50.2
Total Income	**65.8**	**74.9**	**80.5**	**95.6**	**113.7**	**132.8**	**160.0**	**191.9**
-growth (%)	19.0	13.9	7.5	18.8	18.9	16.8	20.5	19.9
Operating Expenses	33.8	36.9	42.9	47.7	62.0	71.3	82.9	96.4
Pre Provision Profits	**32.0**	**38.0**	**37.6**	**47.9**	**51.7**	**61.5**	**77.1**	**95.5**
-growth (%)	16.0	18.6	-1.1	27.6	7.9	18.9	25.3	23.9
Provisions (excl tax)	11.7	16.6	12.2	7.5	2.0	6.2	10.2	14.5
PBT	**20.3**	**21.4**	**25.4**	**40.4**	**49.8**	**55.3**	**66.9**	**81.0**
Tax	4.9	5.5	6.5	10.3	12.6	14.1	17.1	20.6
Tax Rate (%)	24.1	25.6	25.5	25.6	25.3	25.5	25.5	25.5
PAT	**15.4**	**15.9**	**18.9**	**30.1**	**37.2**	**41.2**	**49.8**	**60.3**
-growth (%)	24.0	3.1	18.8	59.3	23.6	10.7	20.9	21.1

Balance Sheet								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	**4.0**	**4.0**	**4.2**	**4.2**	**4.9**	**4.9**	**4.9**	**4.9**
Equity Share Capital	4.0	4.0	4.2	4.2	4.9	4.9	4.9	4.9
Reserves & Surplus	141.2	157.3	183.7	210.8	286.1	321.2	364.9	419.1
Net Worth	**145.2**	**161.2**	**187.9**	**215.1**	**290.9**	**326.1**	**369.8**	**424.0**
Deposits	**1,522.9**	**1,726.4**	**1,817.0**	**2,133.9**	**2,525.3**	**2,959.7**	**3,474.7**	**4,082.8**
-growth (%)	12.8	13.4	5.2	17.4	18.3	17.2	17.4	17.5
- CASA Dep	**467.7**	**587.1**	**674.7**	**701.2**	**746.5**	**902.7**	**1,108.4**	**1,302.4**
-growth (%)	7.0	25.5	14.9	3.9	6.5	20.9	22.8	17.5
Borrowings	103.7	90.7	153.9	193.2	180.3	166.9	183.6	202.0
Other Liabilities & Prov.	34.6	35.3	50.6	61.3	86.6	97.8	110.5	124.9
Total Liabilities	**1,806.4**	**2,013.7**	**2,209.5**	**2,603.4**	**3,083.1**	**3,550.5**	**4,138.6**	**4,833.7**
Current Assets	125.7	195.9	210.1	176.9	189.6	197.0	217.7	254.9
Investments	358.9	371.9	391.8	489.8	608.6	718.1	847.4	999.9
-growth (%)	12.8	3.6	5.4	25.0	24.2	18.0	18.0	18.0
Loans	**1,222.7**	**1,318.8**	**1,449.3**	**1,744.5**	**2,094.0**	**2,460.5**	**2,891.1**	**3,402.8**
-growth (%)	10.9	7.9	9.9	20.4	20.0	17.5	17.5	17.7
Fixed Assets	4.8	4.9	6.3	9.3	10.2	11.0	11.9	12.8
Other Assets	94.2	122.2	151.9	182.9	180.7	163.9	170.6	163.1
Total Assets	**1,806.4**	**2,013.7**	**2,209.5**	**2,603.4**	**3,083.1**	**3,550.5**	**4,138.6**	**4,833.7**

Asset Quality								
GNPA	35.3	46.0	41.4	41.8	45.3	49.9	56.7	65.5
NNPA	16.1	15.7	13.9	13.2	13.8	14.5	16.5	19.0
Slippages	19.2	19.2	18.8	17.2	17.4	22.8	26.8	31.5
GNPA Ratio (%)	2.8	3.4	2.8	2.4	2.1	2.0	1.9	1.9
NNPA Ratio (%)	1.3	1.2	1.0	0.8	0.7	0.6	0.6	0.6
Slippage Ratio (%)	1.7	1.5	1.4	1.1	0.9	1.0	1.0	1.0
Credit Cost (%)	1.0	1.3	0.9	0.5	0.1	0.3	0.4	0.4
PCR (Excl Tech. write off) (%)	54.5	65.9	66.3	68.4	69.6	71.0	70.9	71.0

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield and Cost Ratios (%)								
Avg. Yield-Earning Assets	**8.5**	**8.0**	**7.4**	**8.0**	**8.8**	**8.6**	**8.5**	**8.5**
Avg. Yield on loans	9.2	8.5	7.8	8.4	9.2	9.1	9.0	9.0
Avg. Yield on Investments	6.6	6.6	6.3	6.5	6.9	7.0	6.9	7.0
Avg. Cost-Int. Bear. Liab.	**5.6**	**4.8**	**4.1**	**4.5**	**5.5**	**5.6**	**5.4**	**5.3**
Avg. Cost of Deposits	5.6	4.8	4.1	4.4	5.5	5.6	5.4	5.4
Avg. Cost of Borrowings	5.1	4.3	3.0	5.5	6.4	5.2	5.2	5.2
Interest Spread	**2.9**	**3.2**	**3.3**	**3.6**	**3.2**	**3.0**	**3.0**	**3.1**
Net Interest Margin	**3.0**	**3.2**	**3.2**	**3.5**	**3.3**	**3.2**	**3.3**	**3.4**
Capitalization Ratios (%)								
CAR	14.4	14.6	15.8	14.8	16.5	15.9	15.0	14.4
Tier I	13.3	13.9	14.4	13.0	14.8	14.4	13.8	13.3
-CET-1	13.3	13.9	14.4	13.0	14.82			
Tier II	1.1	0.8	1.3	1.8	1.6	1.5	1.2	1.0
Business Ratios (%)								
Loans/Deposit Ratio	80.3	76.4	79.8	81.8	82.9	83.1	83.2	83.3
CASA Ratio	30.7	34.0	37.1	32.9	29.6	30.5	31.9	31.9
Cost/Assets	1.9	1.8	1.9	1.8	2.0	2.0	2.0	2.0
Cost/Total Income	51.3	49.3	53.3	49.9	54.5	53.7	51.8	50.2
Cost/Core Income	56.5	53.7	55.4	50.0	55.9	55.0	53.1	51.5
Int. Expense/Int.Income	64.8	59.8	56.4	57.0	62.6	62.6	61.1	60.0
Fee Income/Net Income	20.1	17.8	22.2	24.1	24.7	24.6	24.1	23.7
Non Int. Inc./Net Income	29.4	26.1	25.9	24.4	27.1	27.1	26.6	26.1
Empl. Cost/Op. Exps.	52.5	55.1	54.1	45.6	45.5	46.0	45.8	45.7
Efficiency Ratios (INRm)								
Employee/branch (in nos)	9.9	9.8	9.8	9.8	10.1	10.0	9.9	9.8
Staff cost/employee	1.4	1.6	1.8	1.6	1.9	2.1	2.3	2.5
CASA per branch	370.3	455.5	519.0	511.1	496.3	566.2	655.9	727.1
Deposits per branch	1,205.8	1,339.4	1,397.7	1,555.3	1,679.1	1,856.5	2,056.2	2,279.2
Busi. per Empl.	219.7	241.8	255.4	288.2	303.7	339.3	379.6	425.1
NP per Empl.	1.2	1.3	1.5	2.2	2.4	2.6	3.0	3.4

Valuation

Valuation	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
RoE	11.1	10.4	10.8	14.9	14.7	13.4	14.3	15.2
RoA	0.9	0.8	0.9	1.3	1.3	1.2	1.3	1.3
RoRWA	1.4	1.4	1.5	1.9	1.9	1.8	1.8	1.9
Book Value (INR)	73	81	89	102	119	134	152	174
-growth (%)	9.0	10.9	10.7	13.7	17.6	12.1	13.4	14.7
Price-BV (x)	**2.6**	**2.3**	**2.1**	**1.8**	**1.6**	**1.4**	**1.2**	**1.1**
Adjusted BV (INR)	65	72.7	81.6	94.1	112.8	126.5	143.3	164.2
Price-ABV (x)	**2.9**	**2.6**	**2.3**	**2.0**	**1.6**	**1.5**	**1.3**	**1.1**
EPS (INR)	7.8	8.0	9.2	14.3	16.3	16.9	20.5	24.8
-growth (%)	23.4	2.8	15.6	54.8	14.5	3.5	20.9	21.1
Price-Earnings (x)	**24.0**	**23.3**	**20.2**	**13.0**	**11.4**	**11.0**	**9.1**	**7.5**
Dividend Per Share (INR)	1.7	0.0	0.7	1.8	1.0	2.5	2.5	2.5
Dividend Yield (%)	**0.9**	**0.0**	**0.4**	**1.0**	**0.5**	**1.3**	**1.3**	**1.3**

E: MOFSL Estimates

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
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Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.