MOTILAL OSWAL

19 March 2019

Update | Sector: Financials

Axis Bank

BSE SENSEX	S&P CNX
38,363	11,532

Stock Info

Bloomberg	AXSB IN
Equity Shares (m)	2,570
M.Cap.(INRb)/(USDb)	1956.7 / 28.4
52-Week Range (INR)	763 / 478
1, 6, 12 Rel. Per (%)	4/22/30
12M Avg Val (INR M)	6141
Free float (%)	77.0

Financials Snapshot (INR b)

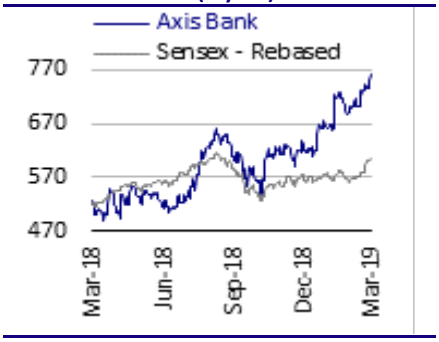
Y/E March	FY19E	FY20E	FY21E
NII	215.5	254.8	305.3
OP	184.9	228.4	282.6
NP	48.0	103.4	136.4
NIM (%)	3.1	3.1	3.1
EPS (INR)	18.5	39.6	52.2
EPS Gr. (%)	NM	113.5	32.0
BV/Sh. (INR)	266.2	301.2	347.7
ABV/Sh. (INR)	228.4	270.5	322.0
RoE (%)	7.2	13.9	16.1
RoA (%)	0.6	1.2	1.3
Valuations			
P/E(X)	41.0	19.2	14.6
P/BV (X)	2.9	2.5	2.2
P/ABV (X)	3.3	2.8	2.4

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	23.1	25.0	26.7
DII	19.0	14.8	13.8
FII	48.7	51.7	50.5
Others	9.3	8.5	9.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR761 TP: INR875 (+15%) Buy

Focused execution to drive RoE improvement

Takeaways from the Analyst Meet

We met Axis Bank's (AXSB) entire top management team along with its MD & CEO, Mr. Amitabh Chaudhry, and CFO, Mr. Jairam Sridharan, at its maiden Sell-Side Analyst Day. High on the discussion list was the progress and growth potential of AXSB's different businesses, key organizational changes and several initiatives to achieve sustainable RoE of ~18%. Key takeaways:

Deposit growth a challenge; Risk Adjusted Return a key for loan growth

Deposit growth has been a bigger challenge for AXSB than asset growth. The focus is now on growing the proportion of overall retail deposits (including term deposits). Corporate loan growth will be a function of Risk Adjusted Return and if the return criteria are met, then AXSB does not plan to impose any upper limit on growth. But, it will be cautious on infrastructure finance and will stay away from green-field projects.

Increase in retail asset mix to be more calibrated

The share of retail assets has increased to 49% v/s 40% five years ago. Incrementally, the bank is looking to grow both its retail and wholesale side of the balance sheet, and has guided for calibrated increase in retail asset mix.

Product, Underwriting and Operations to become separate functions

AXSB plans to make Product, Underwriting and Operations a separate function in both Wholesale and Retail business from 1st Apr'19. This will prevent any inherent conflict of interest and help maintain better asset quality trend across cycles. The bank has recently hired a new compliance officer to bridge differences with the regulator.

Insurance manufacturing on the cards; Regulatory clarity awaited

Axis Bank wishes to enter into manufacturing of the life insurance business; however, it is awaiting clarity from the RBI on the structuring of a life insurance company. Depending upon the RBI guidelines and existing market opportunity, the bank will look at acquiring stake in a life insurance company.

Corporate fee growth stable; Cautious on growing Guarantee Business

The decline in corporate fees appears to be over and the bank expects gradual recovery in fee growth. However, AXSB will exercise caution in growing the international/guarantee business, which will cap the recovery in fee intensity to historical levels. The mix of fees has changed in favor of retail, where in the card business contributes 24% to the total fees v/s 9% in FY14, while corporate fees have declined from 32% to 17%.

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Network expansion to continue; Aim to scale up subsidiaries

AXSB will continue to invest in branches to maintain its lead over peers, but the form and format will keep changing as the digitalization process accelerates. The bank aims to scale up its subsidiaries/developing businesses before focusing on profitability, though it will not pursue opportunities if better returns are not on the horizon. Eventually, the bank aims to be ranked amongst the top-5 across business segments without listing any of its subsidiaries in the near- to medium -term.

AXSB well capitalized; no plans to raise capital over next 12 months

AXSB is well capitalized with CET-1 of 11.77%, which will further improve by 48bp, post the conversion of outstanding warrants. In the last decade for an average 18% growth, the bank consumed ~47bp of CET-1 every year. AXSB indicated that its CET-1 threshold is ~11%, and thus, is not looking to raise any capital for the next twelve months.

Focus on delivering 18% ROE on a consistent and sustainable basis

Management mentioned that while product and process are largely in place, the lack of consistency and inadequate execution was an issue in the past. The bank is now focused on disciplined execution to achieve its medium-term goal of sustainable 18% RoE, which includes one medium-term capital raise.

- **What led to the fall in ROAs?** AXSB's RoA has declined sharply from historical levels led by (a) 50bp decline in NIMs, (b) 50bp decline in fees to average assets, and (c) 110bp increase in credit cost.
- **In order of importance, credit cost, margin, opex and fees are the key RoE drivers:** AXSB expects credit cost, margins, opex, and fees to be the key RoE drivers in order of importance. The increase in high-yielding retail assets, mix shifting from corporate to mid-corporate and reduction in NNPA will be the key margin drivers. On opex, the bank expects cost-assets to moderate by 15-20bp as retail share in the business mix has reached optimum levels. Direct sourcing and increased usage of digital channels will help maintain better cost control in retail lending and cards acquisition.

Valuation and view

AXSB has delivered a strong performance with multi-quarter high earnings. With a capable management team in place and an improving credit cost/margins outlook, we believe the bank is likely to see earnings accelerate in the coming years. AXSB has already increased PCR to 75%, which should curb incremental provisioning requirement. We, thus, expect RoA/RoE to improve to 1.3%/16.1% by FY21. We revise our target price to INR875 (2.6x FY21E ABV for the bank + INR47 per share for subsidiaries) and reiterate a **Buy rating**.

Key takeaways from the management meet

Wholesale Risk and Credit Underwriting – Mr. Cyril Anand & Mr. Deepak Maheshwari

- AXSB suggested that the worst is now behind in terms of NPL formation, and the key matrix to watch is the BB and below pool, which currently stands at ~INR78b (1.6% of loans). Credit cost should move lower towards the long-term average.
- AXSB continues to monitor the SME pool due to GST and the NBFC crisis as there might be some spillover here. However, the bank expects credit cost to stabilize below its long-term average.
- The bank aims to reduce exposure to project loans and is focusing more on transaction and working capital finance.
- Credit filters are continually being tightened; 'Early Warning Signals' need to be sharpened across products. Rating models have also been refined and improved over the past few years.
- Diversify and reduce concentration — no industry will exceed 6% of total exposure and the limit can get breached only with the board approval; the bank is planning to create a separate mid-market function from Apr'19, which will help improve growth while closely focusing on credit quality.
- Independent credit function will operate with full accountability which will be independent of business and income targets.
- AXSB has a higher share in the government business v/s its outstanding market share. Government business currently contributes 15% to SA deposits where the bank pays an interest rate of 6% for balances above INR1b.
- Refinancing will be a strong part of the incremental business. Corporates are looking to reduce the number of relations in this segment from 14-16 to 4-5.
- Transaction banking fees will grow in double-digits, while corporate credit fee will begin to make positive contribution to growth.
- The proportion of sanctions in 'A-' and above category in large-and mid-corporate book will remain >90% (94% in 9MFY19). 67% of the portfolio has been rated 'A' or better in Mar'17. Currently this stands at ~82%. BBB assets stand at 14% of the book with flow to BB tapering down.
- **Real estate exposure:** AXSB has INR160b of Real Estate exposure — INR100b is commercial and INR50b residential. Of this, 30% is under construction. The commercial exposure largely relates to LRD, especially in metros and is with mainly Tier-1 developers. The exposure to the luxury segment is minuscule and the bank is more focused on the affordable and mid-market segment.
- **NBFC exposure:** AXSB has INR270b of exposure to NBFCs of which 40% is towards AAA entities. The bank does not have much exposure to NBFCs, who are currently finding it difficult to raise funds.
- **Telecom sector:** The bank does not foresee any material risk from the telecom sector; small price hikes can significantly improve cash flows of the telecom operators.

Wholesale Banking – Rajiv Anand

- The wholesale banking coverage will be divided into large and mid-corporate segment so as to have focused segmental coverage.
- The bank is focused on increasing the transaction banking business and non-credit linked fees share of business.

- International business share in overall business will continue to decline. It currently forms 18% of overall corporate book.
- The bank is incrementally focusing on mid-market group (INR2.5b-INR10b exposure) hence share of A- and above will moderate slightly.
- AXSB has 22% market share in government business amongst private banks while the same stands at 6%/7% in CA/SA segments respectively.
- Debt capital markets had 29% MS in 9MFY19 up from 24%/20% in FY18/17.
- Payment will be the core to the business. With higher CMS throughput CA flows will strengthen.
- RAROC in SME business (INR100m-INR2.5b) is 1.3x of normal corporate banking business. 50% of the SME business has sole banking relationships.
- SME also will become a key focus area and growth will be a function of RAROC while focus on term loans will reduce further.
- Corporate banking fee will continue to recover and de-growth in corporate credit fee is largely behind. The guarantee business though cannot be completely shunned given the size but bank will be selective in growing this business.

Retail deposit franchise – Mr. Ravi Narayanan

- Management believes that garnering deposits is soon translating into a challenge for all banks with focus on CASA and retail term deposits. In the SA business, the bank is not looking at rate shopping – as it is transactional in nature.
- The bank has increased focus on improving branch productivity, both in urban & metro locations and on reducing the size of branches to improve cost ratios.
- The bank will continue to invest in branches as sourcing of even high-end relationships start from the branch level, and maintaining relationships and support also happens mainly from branches.
- Products per customer is increasing, however, product penetration is still low in few key business segments like Mutual funds, Insurance & Broking.
- Digitalization has helped in reducing branch cost, especially employee cost. The reduction in branch size has also helped save on rental cost.

Retail lending – Mr. Jagdeep Mallareddy

- The bank has shifted focus towards high-yielding products, which forms ~37% of the retail business v/s 29% in FY13.
- Around ~15% of the incremental business in auto loans is coming from used-vehicles.
- The average ticket size in personal loans has increased to INR0.31m v/s INR0.27m earlier.
- In home loans, ~66% of the home loan demand is coming from ready-to-move in flats. Further, ~66% of the demand for home loans is for ticket size <INR3m. The average Loan-to-Value (LTV) in home loans is at 62% (steady over FY13-FY19).
- Average Fixed Obligation to Income Ratio (FOIR) is at 47-48% over FY13-FY19.
- The cost of customer acquisition has declined in the last few years, mainly due to improved digital infrastructure and acquisition through internal customers.
- In terms of customer sourcing channels, around 50% is sourced through branches, 33% through the proprietary sales force and the rest through third party. Overall, 85% of customers sourced are internal customers.

- The bank will start focusing on the consumer durables business aggressively. In LAP, the competitive intensity has slowed down. In autos, the used-car business is a growing opportunity, as the segment is moving from unorganized to organized market.
- The bank had earlier moved to daily NPL recognition norms v/s monthly stamping. On monthly norms (91dpd), the account would get upgraded even if one installment is paid whereas in daily stamping, it has to be fully settled.
- **Risks in retail business:** Watchful of real estate prices, job losses, household debt to GDP. Overall risks are much lower than long-term average across retail products, barring farm loans where the risks have increased.

Cards and Retail Payments — Mr. Sanjeev Moghe

- Transaction through cards is rising, resulting in higher CASA balance. Also, credit card penetration has improved to 19-20% v/s 15% in FY16.
- Credit card market share has increased to 12%. Customers typically use plastic 6-8 times in a month.
- Card fee income contribution has increased to ~25%.
- Revolve rate is in a comfortable range, placed well within the system. Large part of the credit card customer is new to credit.
- The bank has total saving accounts customer base of 22.5m v/s 18.1m in FY16.
- In terms of risk profiling of customers, the non-bank customer risk is 1.5x of the existing customer.
- Annual fee, delinquency related fees, interchange fees are the key fee items. Delinquency related fees show the vulnerability in the card business; however, it is much smaller in proportion to AXSB.

Business Analytics: Mr. Balaji N

- The business intelligence unit has 300 employees, which includes Business Analysts, Reporting Analysts, Data Scientists and Data Engineers in the ratio of 57%, 24%, 8% and 11%, respectively.
- The business intelligence unit helps in understanding customer behavior and lowering operational risk.
- Most credit cards' issuance and almost ~33% of the total lending is sourced through database analytics.
- Around 34% of the total savings account customers have at least one lending product (v/s 24% in Apr'17).

Wealth Management – Mr. Satheesh Krishnamurthy

- AXSB launched Burgundy – its flagship wealth management product in 2014. The bank today has an AUM base of USD19b.
- The total AUM, fees, number of customers and touch points have grown at a CAGR of 45%/55%/36%/15%, respectively, over FY14-FY18. Cost-income ratio for best players in the industry is ~50%; Axis is well below that.
- AXSB is the fourth largest wealth manager in the country with an employee base of 500.
- Wealth management universe — 1.1m families have >USD100k personal assets to invest.
- HNI wealth pool in India is over USD1tn (total wealth of all Indians is ~USD3tn).
- Number of customers is growing at 12-15% CAGR; wealth wallet is expanding. MF industry AUM should cross USD50t over the next five years.

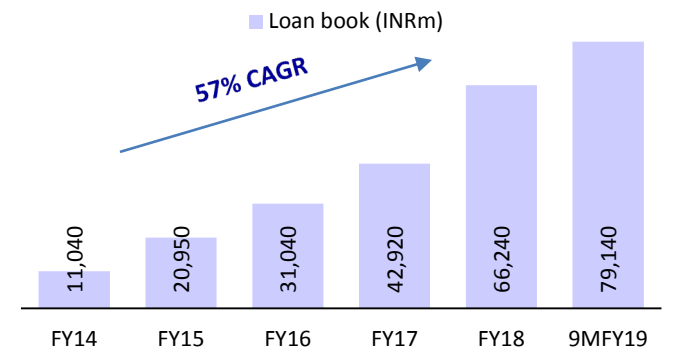
Subsidiaries gaining scale; to make healthy contribution to overall profitability

Loan book grew at a CAGR of 57% while PAT grew at a CAGR of 58% over FY14-18

Axis Finance: Bipin Saraf, MD & CEO

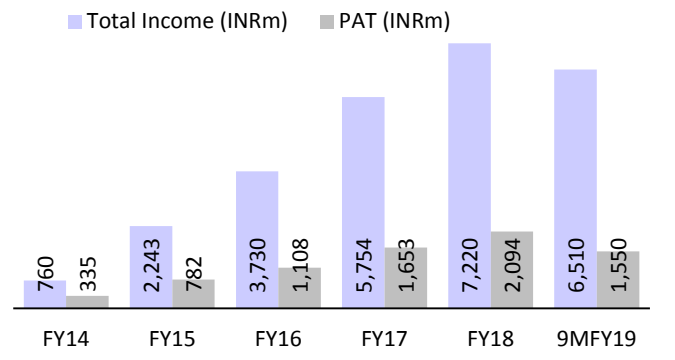
- Axis Finance Ltd is engaged in providing loan against shares, structured corporate loans, margin funding /IPO financing and real estate loans.
- The company is AAA rated and has a total loan book of INR85b (Wholesale: Retail mix at 83%:17%).
- The company has one of the lowest cost-income ratios in the industry.
- It has only one NPA, while return ratios remained healthy with RoE at 21.6% and RoA at 3.5% for FY18.
- It will be focusing on retail growth- new products CDs, affordable housing and Collateral loans.
- 80% of assets have received OC (Ready-to-move in projects)
- The real estate portfolio is mainly centered around the Mumbai Metropolitan Region, Bangalore, Hyderabad, Pune, while it has negligible exposure in the National Capital Region.

Exhibit 1: Loan book grew at a CAGR of 57% over FY14-18…



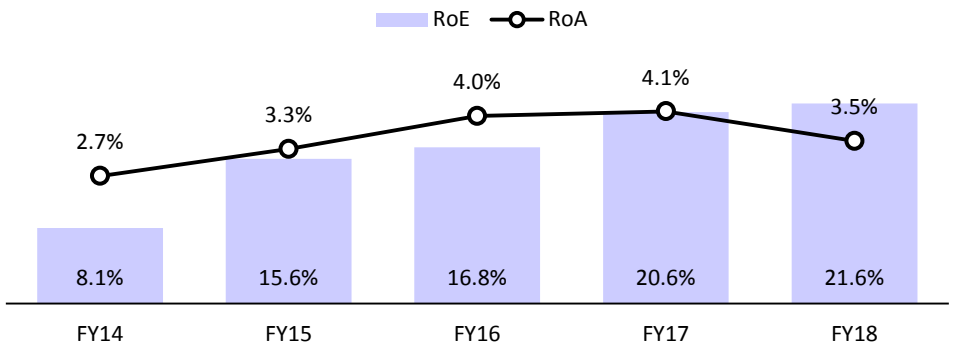
Source: MOFSL, Company

Exhibit 2: …while Total income/PAT grew at CAGR of 76%/58% over FY14-18



Source: MOFSL, Company

Exhibit 3: RoA/RoE remain at healthy levels

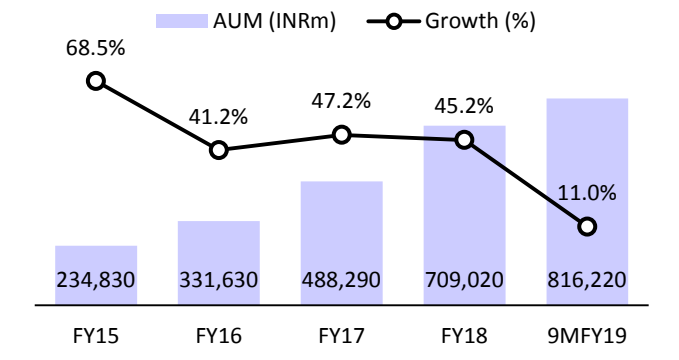


Source: MOFSL, Company

Axis AMC, Axis Capital, Axis Direct, A. TReDS & FreeCharge

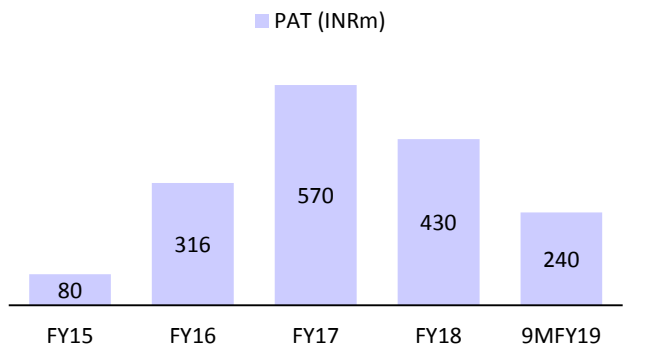
- Axis AMC is the ninth largest AMC in India by AUM.
- Around 62% of total AUM is into equity and hybrid products. Initially, 85% of the equity business was sourced via banks v/s 30% currently.
- It has a market share of 4.5% in customer folios (3.7m) v/s 1.5% in FY14.
- The key focus areas going forward will be (a) building scale, (b) enhancing AIF/PMS products, (c) leveraging foreign partner platform, and (d) diversifying distribution channels.
- It aspires to be among the top-5 AMCs in net inflows over the next 3-4 years.
- **Axis Capital** has maintained its leadership in equity and equity-linked deals over the last decade.
- It has built capabilities to do large block deals.
- It provides investment services for existing relationships (L&T and Mindtree).
- **Axis Direct** is the third largest in the broking business with ~2m customers.
- 25% is Axis Broking and the rest is non-broking business.
- Around 65% of the total trade volumes happen through mobile penetration.
- **A. TReDS** is an online 3-part ecosystem facilitating interaction between MSMEs, their buyers and financiers.
- Companies having INR5b+ will have to mandatorily do factoring via TREDs.
- INR25b+ has been disbursed by discounting 0.1m invoices.
- **Freecharge** — 70m downloads and 8m active users on monthly basis.
- Cross-sell opportunity is immense though not sure when it will break-even; biggest proposition is customer acquisition at a lower cost.

Exhibit 4: AUM grew at a CAGR of 45% over FY15-18 and stood at INR816.2b as at 9MFY19…



Source: MOFSL, Company

Exhibit 5: …while PAT grew at CAGR of 75% over a similar period



Source: MOFSL, Company

Exhibit 6: Axis AMC has improved its market share to 3.4% in the MF industry

Average AUM - Market Share (%)	FY15	FY16	FY17	FY18	9MFY19
ICICI Prudential Mutual Fund	12.2%	12.7%	13.4%	13.2%	13.1%
HDFC Mutual Fund	13.4%	13.1%	13.1%	12.9%	13.2%
Aditya Birla Sun Life Mutual Fund	9.8%	10.1%	10.5%	10.7%	10.5%
SBI Mutual Fund	6.7%	7.2%	8.4%	9.1%	10.3%
Reliance Mutual Fund	11.5%	11.7%	11.5%	11.0%	10.2%
UTI Mutual Fund	7.9%	7.8%	7.7%	7.0%	6.7%
Kotak Mahindra Mutual Fund	3.5%	4.2%	4.7%	5.3%	5.6%
Franklin Templeton Mutual Fund	5.6%	5.6%	4.6%	4.6%	4.6%
DSP Black Rock Mutual Fund	3.4%	2.9%	3.3%	3.8%	3.7%
Axis Mutual Fund	2.2%	2.5%	3.0%	3.3%	3.4%

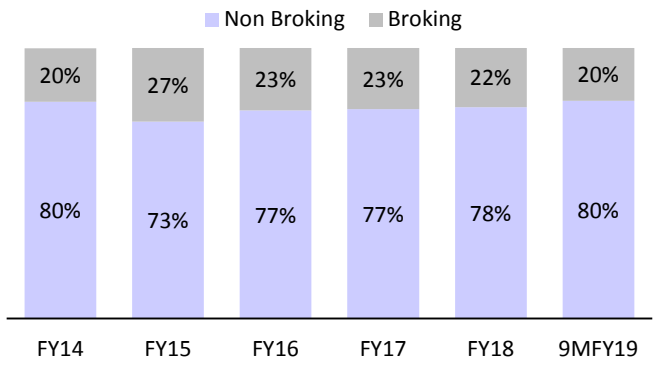
Source: MOFSL, Company

Exhibit 7: Total income grew at 32% CAGR over FY14-18

	FY14	FY15	FY16	FY17	FY18	9MFY19
Total Income (INRm)	3,145	4,549	5,619	7,561	9,505	7,690
PAT (INRm)	122	441	357	515	604	NA

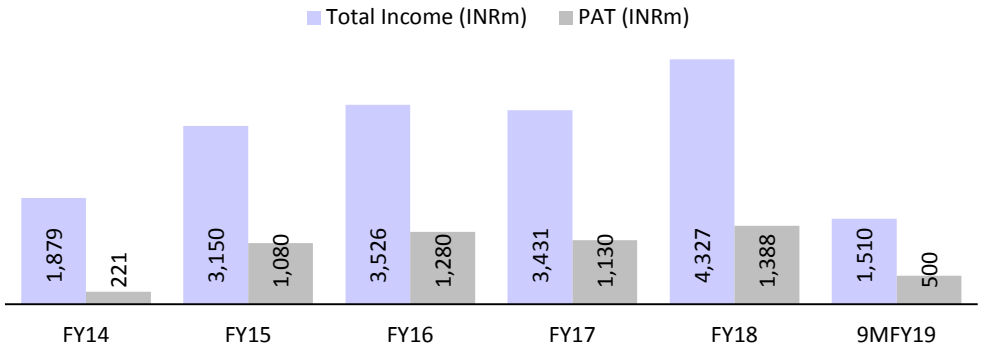
Source: MOFSL, Company

Exhibit 8: ~80% of the income comes from the non-broking business



Source: MOFSL, Company

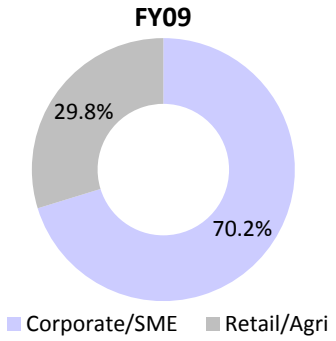
Exhibit 9: Axis Capital's healthy performance; 9MFY19 performance impacted due to muted activity and volatility in the capital markets



Source: MOFSL, Company

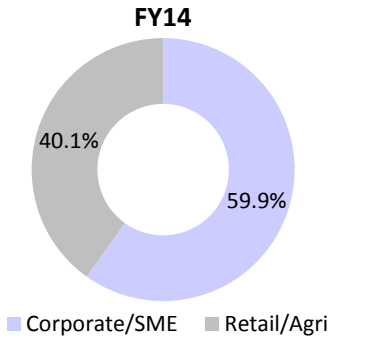
Story in Charts

Exhibit 10: Corporate/SME constituted ~70% of the total loan mix in FY09…



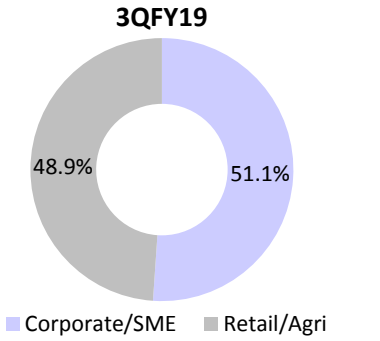
Source: MOFSL, Company

Exhibit 11: …which declined gradually to ~60% in FY14…



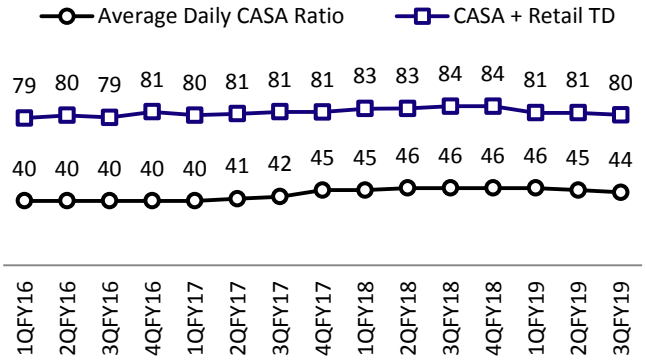
Source: MOFSL, Company

Exhibit 12: …while retail/SME mix increased to ~49% in 3QFY19



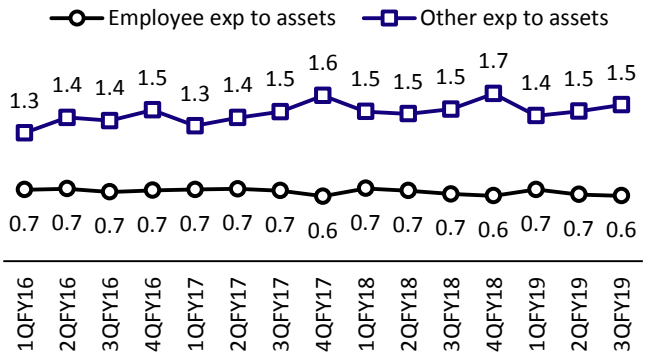
Source: MOFSL, Company

Exhibit 13: CASA + Retail TD constitutes ~80% of the total deposits, enabling stronger control over cost of funds



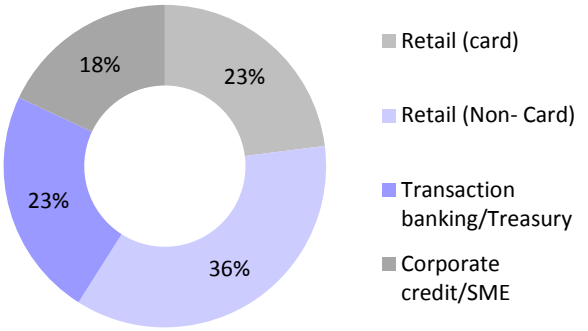
Source: Company, MOFSL

Exhibit 14: Cost to average assets stable over recent years



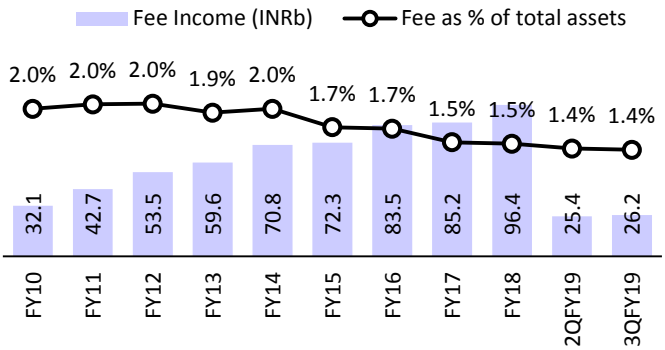
Source: Company, MOFSL

Exhibit 15: 82% of the total fee income is now driven by retail/transaction banking



Source: Company, MOFSL

Exhibit 16: Total fee income constitutes ~1.4% of average assets



Source: Company, MOFSL

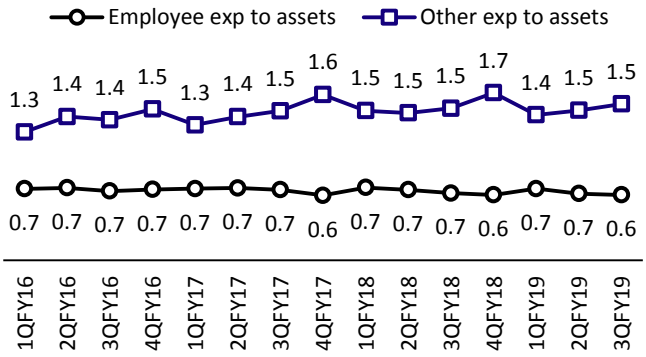
AXSB has ~46% market share in the forex cards business

Exhibit 17: Currently, AXSB is the fourth largest issuer in terms of outstanding credit cards

Market Share (%)	FY13	FY14	FY15	FY16	FY17	FY18	Nov'18
HDFCB	33.6%	26.8%	28.3%	29.7%	28.6%	28.5%	27.9%
SBIN	13.2%	14.9%	15.0%	14.8%	15.3%	16.7%	16.9%
ICICIBC	14.7%	16.6%	15.8%	14.9%	14.3%	13.3%	13.5%
AXSB	5.6%	7.2%	8.2%	9.8%	11.2%	12.0%	12.1%
CITIBANK	12.1%	12.6%	11.4%	9.8%	8.5%	7.1%	6.2%

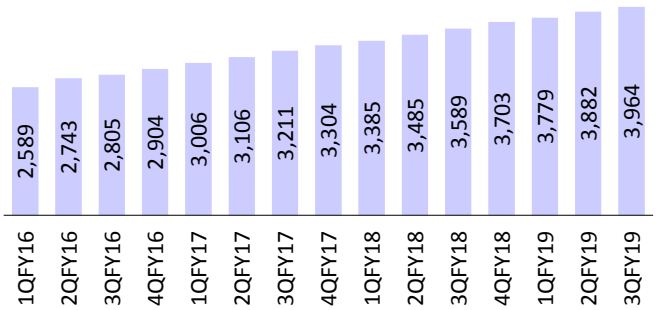
Source: Company, MOFSL

Exhibit 18: Cost to average assets stable over recent years…



Source: Company, MOFSL

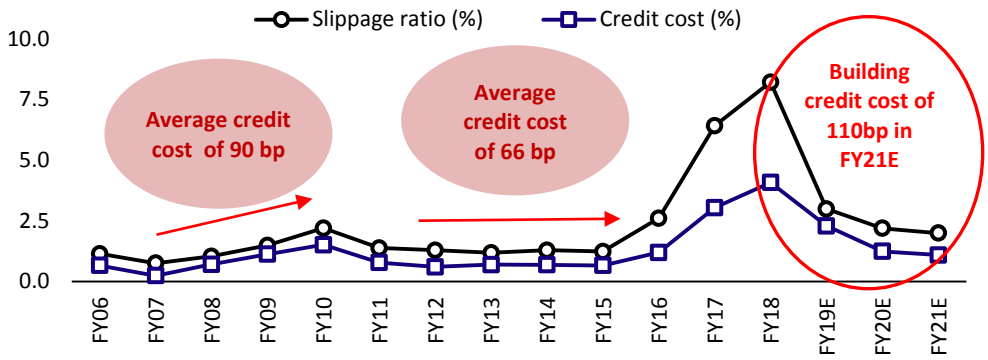
Exhibit 19: …while branch expansion will continue



Source: Company, MOFSL

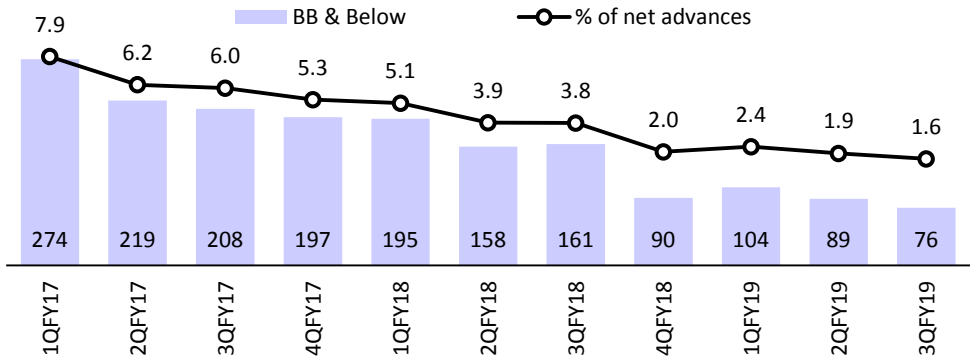
Expect slippage to decline to less than 2% by FY21E

Exhibit 20: Slippages and credit costs are expected to revert to normalized levels



Source: MOFSL, Company

Exhibit 21: Proportion of BB and below rated assets declined to 1.6%



Valuation and view

- With the base effect playing out in 2HFY19, loan growth is likely to revert to healthy levels. Tier 1 ratio at ~13% should provide enough capital for growth.
- We expect its balance sheet clean-up to conclude by FY19 and earnings to return to normalcy, while warrant conversion should provide additional capital to support growth thereafter. The bank has made significant investments to ride the next growth cycle (post near-term asset quality challenges), with strong capitalization and expansion of its liability franchise (3,964 branches).
- **Valuation and view:** AXSB has delivered a strong performance with multi-quarter high earnings. With a capable management team in place and an improving credit cost/margins outlook, we believe the bank is likely to deliver earnings acceleration in the coming years. AXSB has already increased PCR to 75%, which will curb incremental provisioning requirement. We, thus, expect RoA/RoE to improve to 1.3%/16.1% by FY21. We revise our target price to INR875 (2.6x FY21E ABV for the bank + INR47 per share for subsidiaries) and reiterate a **Buy rating**.

Exhibit 22: SOTP-based valuation

Name	Stake	Total Value (INR)	Value per Share	% of total value	Rationale
Axis Bank	**100**	**21,25,822**	**827**	**94.6**	❖ **2.6x P/ABV FY21E**
Axis Finance	100	57,875	23	2.6	❖ 3.5x Net worth FY21E
Axis Capital	100	33,236	13	1.5	❖ 20x PAT FY21E
Axis Securities	100	24,304	9	1.1	❖ 20x PAT FY21E
Axis Mutual Fund	75	36,756	14	1.6	❖ 4% AUM FY21E
Total Value of Subs		**1,52,170**	**59**	**6.8**	
Less: 20% holding disc		30,434	12	1.4	
Value of Subs (Post Holding Disc)		**1,21,736**	**47**	**5.4**	
Target Price		**22,47,558**	**875**		

Source: MOFSL, Company

Exhibit 23: DuPont — Return ratios to improve FY20E onwards

Y/E MARCH	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	8.42	7.09	7.16	8.33	8.68	8.47	8.40	8.18	7.81	7.08	7.32	7.48	7.52
Interest Expense	5.56	4.04	4.06	5.29	5.59	5.16	5.03	4.82	4.63	4.20	4.44	4.58	4.61
NII	**2.87**	**3.05**	**3.10**	**3.04**	**3.09**	**3.30**	**3.37**	**3.36**	**3.17**	**2.88**	**2.88**	**2.90**	**2.92**
Fee income	1.90	1.78	1.79	1.79	1.76	1.65	1.60	1.50	1.38	1.49	1.58	1.61	1.63
Trading & others	0.35	0.62	0.40	0.26	0.33	0.39	0.38	0.37	0.67	0.21	0.12	0.10	0.08
Other income	**2.25**	**2.40**	**2.19**	**2.05**	**2.09**	**2.05**	**1.98**	**1.87**	**2.05**	**1.70**	**1.70**	**1.71**	**1.71**
Total Income	**4.77**	**4.83**	**4.89**	**4.82**	**5.18**	**5.35**	**5.35**	**5.23**	**5.22**	**4.58**	**4.58**	**4.61**	**4.62**
Operating Exp.	**2.22**	**2.26**	**2.26**	**2.27**	**2.21**	**2.18**	**2.18**	**2.02**	**2.14**	**2.16**	**2.11**	**2.01**	**1.92**
Employee cost	0.78	0.76	0.76	0.79	0.76	0.72	0.74	0.67	0.68	0.67	0.63	0.60	0.57
Others	1.45	1.49	1.50	1.49	1.45	1.46	1.44	1.34	1.46	1.50	1.48	1.41	1.35
Operating Profit	**2.90**	**3.19**	**3.03**	**2.81**	**2.97**	**3.17**	**3.17**	**3.22**	**3.08**	**2.41**	**2.47**	**2.60**	**2.70**
Core PPoP	**2.55**	**2.57**	**2.63**	**2.55**	**2.64**	**2.77**	**2.79**	**2.84**	**2.41**	**2.21**	**2.35**	**2.50**	**2.62**
Provisions	**0.73**	**0.85**	**0.60**	**0.43**	**0.56**	**0.58**	**0.55**	**0.74**	**2.12**	**2.39**	**1.53**	**0.84**	**0.75**
NPA	0.70	0.86	0.54	0.42	0.47	0.49	0.50	0.82	1.96	2.57	1.46	0.79	0.70
Others	0.03	-0.01	0.07	0.02	0.09	0.09	0.05	-0.08	0.16	-0.17	0.07	0.05	0.05
PBT	**2.16**	**2.35**	**2.43**	**2.38**	**2.41**	**2.58**	**2.62**	**2.47**	**0.96**	**0.02**	**0.94**	**1.76**	**1.94**
Tax	0.75	0.81	0.83	0.77	0.76	0.87	0.88	0.83	0.31	-0.02	0.30	0.58	0.64
RoA	**1.41**	**1.53**	**1.60**	**1.61**	**1.65**	**1.72**	**1.74**	**1.64**	**0.64**	**0.04**	**0.64**	**1.18**	**1.30**
Leverage (x)	13.6	12.5	12.1	12.6	11.2	10.1	10.2	10.4	10.8	10.8	11.2	11.9	12.4
RoE	**19.1**	**19.2**	**19.3**	**20.3**	**18.5**	**17.4**	**17.8**	**17.1**	**6.9**	**0.5**	**7.2**	**13.9**	**16.1**

Source: MOFSL, Company

Financials and Valuations

Income Statement (INRb)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Interest Income	354.8	409.9	445.4	457.8	547.7	657.7	787.7
Interest Expense	212.5	241.6	264.5	271.6	332.1	402.9	482.4
Net Interest Income	**142.2**	**168.3**	**180.9**	**186.2**	**215.5**	**254.8**	**305.3**
Growth (%)	19.0	18.3	7.5	2.9	15.8	18.2	19.8
Non-Interest Income	83.7	93.7	116.9	109.7	127.2	150.1	178.6
Total Income	**225.9**	**262.0**	**297.8**	**295.8**	**342.8**	**404.9**	**483.9**
Growth (%)	16.7	16.0	13.7	(0.7)	15.9	18.1	19.5
Operating Expenses	92.0	101.0	122.0	139.9	157.9	176.5	201.4
Pre Provision Profits	**133.9**	**161.0**	**175.8**	**155.9**	**184.9**	**228.4**	**282.6**
Growth (%)	16.8	20.3	9.2	(11.3)	18.5	23.6	23.7
Core PPP	**122.2**	**149.2**	**142.3**	**142.7**	**175.6**	**219.6**	**274.2**
Growth (%)	11.7	22.1	(4.7)	0.3	23.1	25.1	24.9
Provisions (excl. tax)	23.3	37.1	121.2	154.7	114.3	74.1	78.9
PBT	**110.6**	**123.9**	**54.7**	**1.2**	**70.6**	**154.3**	**203.6**
Tax	37.0	41.7	17.9	(1.5)	22.6	50.9	67.2
Tax Rate (%)	33.5	33.6	32.7	(126.8)	32.0	33.0	33.0
PAT	**73.6**	**82.2**	**36.8**	**2.8**	**48.0**	**103.4**	**136.4**
Growth (%)	18.3	11.8	(55.3)	(92.5)	1,641.2	115.3	32.0

Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	5	5	5	5	5	5	5
Reserves & Surplus	442	513	539	629	690	782	903
Net Worth	**447**	**518**	**544**	**634**	**695**	**787**	**908**
Deposits	**3,224**	**3,580**	**4,144**	**4,536**	**5,398**	**6,532**	**7,903**
Growth (%)	14.8	11.0	15.8	9.5	19.0	21.0	21.0
of which CASA Dep.	**1,444**	**1,694**	**2,131**	**2,439**	**2,521**	**3,142**	**3,928**
Growth (%)	14.2	17.3	25.7	14.5	3.4	24.6	25.0
Borrowings	798	1,086	1,050	1,480	1,620	1,824	2,115
Other Liabilities & Prov.	151	215	277	262	328	394	480
Total Liabilities	**4,619**	**5,398**	**6,015**	**6,913**	**8,042**	**9,537**	**11,407**
Current Assets	361	333	503	435	625	744	892
Investments	**1,176**	**1,315**	**1,288**	**1,539**	**1,770**	**2,053**	**2,381**
Growth (%)	3.5	11.9	-2.1	19.5	15.0	16.0	16.0
Loans	**2,811**	**3,388**	**3,731**	**4,397**	**5,100**	**6,069**	**7,343**
Growth (%)	22.2	20.5	10.1	17.8	16.0	19.0	21.0
Fixed Assets	25	35	37	40	43	46	51
Other Assets	247	327	456	504	505	625	740
Total Assets	**4,619**	**5,398**	**6,015**	**6,913**	**8,042**	**9,537**	**11,407**

Asset Quality	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
GNPA	41.1	60.9	212.8	342.5	289.7	238.7	234.9
NNPA	13.2	25.2	86.3	165.9	110.5	82.7	62.9
GNPA Ratio	1.4	1.8	5.5	7.8	5.68	3.93	3.20
NNPA Ratio	0.5	0.7	2.3	3.8	2.17	1.36	0.86
Slippage Ratio	1.2	2.6	6.4	8.2	3.0	2.2	1.9
Credit Cost	0.7	1.2	3.1	4.1	2.3	1.3	1.1
PCR (Excl. Tech. write off)	68.0	58.6	59.5	51.6	61.8	65.4	73.2

Financials and Valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Yield and Cost Ratios (%)							
Avg. Yield-Earning Assets	**9.2**	**9.1**	**8.9**	**7.7**	**7.9**	**8.0**	**8.1**
Avg. Yield on loans	10.1	9.7	9.3	8.4	8.9	9.2	9.2
Avg. Yield on Investments	7.3	7.5	7.4	7.2	7.3	7.4	7.4
Avg. Cost-Int. Bear. Liab.	**5.8**	**5.6**	**5.4**	**4.8**	**5.1**	**5.2**	**5.3**
Avg. Cost of Deposits	5.7	5.4	5.1	4.4	4.6	4.9	4.8
Avg. Cost of Borrowings	6.3	6.3	6.7	6.3	6.6	6.5	6.8
Interest Spread	**3.4**	**3.6**	**3.5**	**2.9**	**2.8**	**2.8**	**2.8**
Net Interest Margin	**3.7**	**3.8**	**3.6**	**3.1**	**3.1**	**3.1**	**3.1**
Capitalisation Ratios (%)							
CAR	15.1	15.3	15.0	16.6	15.8	15.1	14.4
Tier I	12.1	12.5	11.9	13.0	12.4	11.9	11.5
Tier II	3.0	2.8	3.1	3.5	3.4	3.2	2.9
Business and Efficiency Ratios (%)							
Loans/Deposit Ratio	87.2	94.6	90.0	96.9	94.5	92.9	92.9
CASA Ratio	44.8	47.3	51.4	53.8	46.7	48.1	49.7
Cost/Avg. Assets	2.2	2.0	2.1	2.2	2.1	2.0	1.9
Cost/Total Income	40.7	38.5	41.0	47.3	46.1	43.6	41.6
Cost/Core Income	42.9	40.1	45.8	49.5	47.3	44.6	42.3
Int. Expense/Int. Income	59.9	58.9	59.4	59.3	60.6	61.3	61.2
Fee Income/Total Income	30.0	27.0	25.0	27.8	28.7	29.2	29.4
Non Int. Inc./Total Income	37.0	35.8	39.3	37.1	37.1	37.1	36.9
Investment/Deposit Ratio	36.5	36.7	31.1	33.9	32.8	31.4	30.1
Profitability Ratios and Valuation							
RoE	17.8	16.8	6.8	0.5	7.2	13.9	16.1
RoA	1.7	1.7	0.7	0.0	0.6	1.2	1.3
RoRWA	2.1	2.0	0.8	0.1	0.8	1.5	1.7
Book Value (INR)	188.5	223.1	232.8	247.2	266.2	301.2	347.7
Growth (%)	15.8	18.4	4.4	6.2	7.7	13.1	15.4
Price-BV (x)	**4.0**	**3.4**	**3.3**	**3.1**	**2.9**	**2.5**	**2.2**
Adjusted BV (INR)	180.6	211.2	200.6	193.8	228.4	270.5	322.0
Price-ABV (x)	**4.2**	**3.6**	**3.8**	**3.9**	**3.3**	**2.8**	**2.4**
EPS (INR)	31.2	34.6	15.4	1.1	18.5	39.6	52.2
Growth (%)	17.6	11.0	-55.5	-92.8	NM	113.5	32.0
Price-Earnings (x)	**24.4**	**22.0**	**49.4**	**NM**	**41.0**	**19.2**	**14.6**
Dividend Per Share (INR)	4.6	5.0	5.0	5.5	3.9	4.6	5.8
Dividend Yield (%)	**0.6**	**0.7**	**0.7**	**0.7**	**0.5**	**0.6**	**0.8**

Source: Company, MOFSL

NOTES

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Investment Rating	**Expected return (over 12-month)**
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