

# L&T Finance Holdings

Estimate change



TP change



Rating change



|                       |             |
|-----------------------|-------------|
| Bloomberg             | LTFH IN     |
| Equity Shares (m)     | 2,469       |
| M.Cap.(INRb)/(USDb)   | 235.9 / 2.9 |
| 52-Week Range (INR)   | 98 / 59     |
| 1, 6, 12 Rel. Per (%) | 6/24/22     |
| 12M Avg Val (INR M)   | 791         |

## Financials & Valuations (INR b)

| Y/E March    | FY23E | FY24E | FY25E |
|--------------|-------|-------|-------|
| Total Income | 67.9  | 69.9  | 77.6  |
| PPP          | 48.5  | 48.1  | 55.4  |
| Adj. PAT     | 16.6  | 20.8  | 24.7  |
| EPS (INR)    | 6.5   | 8.4   | 10.0  |
| EPS Gr. (%)  | 53    | 30    | 19    |
| BV/Sh. (INR) | 86    | 94    | 102   |

## Ratios

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 8.3  | 8.2  | 8.1  |
| C/I ratio (%) | 37.0 | 39.3 | 37.8 |
| RoAA (%)      | 1.5  | 1.9  | 2.0  |
| RoE (%)       | 7.8  | 9.4  | 10.2 |
| Payout (%)    | 13.5 | 13.1 | 13.0 |

## Valuation

|                |      |      |     |
|----------------|------|------|-----|
| P/E (x)        | 14.7 | 11.3 | 9.5 |
| P/BV (x)       | 1.1  | 1.0  | 0.9 |
| Div. Yield (%) | 0.9  | 1.2  | 1.4 |

## Shareholding pattern (%)

| As On    | Sep-22 | Jun-22 | Sep-21 |
|----------|--------|--------|--------|
| Promoter | 66.2   | 66.2   | 63.5   |
| DII      | 5.4    | 5.3    | 6.6    |
| FII      | 6.8    | 6.6    | 8.3    |
| Others   | 21.7   | 21.8   | 21.7   |

FII Includes depository receipts

**CMP: INR95**
**TP: INR120 (+26%)**
**Buy**

## Wholesale running down fast; Retail on a strong footing

### Gain from MF sale utilized for provisions on stressed real-estate book

- LTFH reported a 3QFY23 consolidated PAT of ~INR4.5b (up 47% YoY, 8% beat), driven by a ~40bp QoQ expansion in NIMs (and fee income) which were aided by an improving retail mix.
- LTFH concluded the sale of its MF business with a pre-tax gain of ~INR26.1b. The proceeds were utilized for one-time exceptional provisions of ~INR26.9b to enable accelerated sell-down of the wholesale book. Management has guided that this would adequately cover any downside risks of an accelerated sell-down without any impact on retail profitability.
- We expect the proportion of the retail mix to improve to 85%/93% by FY24/FY25E. We have increased our FY23/FY24 EPS estimates by ~9% each to incorporate higher margins and a moderation in credit costs. Including the sharp run-down in the wholesale book, we model loan growth of 7%/18% in FY24/FY25E. We estimate a PAT CAGR of 33% over FY22-FY25E for a consolidated RoA/RoE of 2%/10.2% in FY25.
- A strong liability franchise, a well-capitalized balance sheet and a keen intent to accelerate the sell-down of the wholesale book position LTFH well to achieve its Lakshya 2026 goals. **LTFH is at a cusp where it can turn over a new leaf from FY24. Maintain our Buy rating with a TP of INR120 (premised on 1.2x Sep'24E consolidated BVPS).**

### Healthy disbursements drive strong retail growth

- Total disbursements grew 33% YoY to ~INR131.6b, driven by 53% YoY growth in retail disbursements to ~INR116b. Retail assets now make up ~64% of the loan mix (PQ: 58%).
- The loan book grew 3% YoY but declined 2% QoQ to INR880b, largely driven by an accelerated reduction in the wholesale portfolio, which declined 24% YoY to INR310b as of Dec'22 (PY: ~INR408b). Retail grew 34% YoY, led by MFI, 2W, tractor and consumer finance.

### Asset quality largely stable; provisioning on wholesale now complete

- Consolidated GS3 increased ~20bp QoQ to 4.2%, while consolidated NS3 declined ~10bp QoQ to 1.7%, driven by a ~5pp increase in PCR to 60%. Retail GS3 improved ~10bp QoQ, while there was a sequential deterioration in wholesale GS3 due to a decline in the wholesale book.
- Management stated that the provisions, which were required to account for the illiquidity discount and to accelerate the rundown of the wholesale book, have now been completed. It is carrying additional provisions (including OTR) of ~INR10.4b (~1.9% of standard assets) over and above the ECL provisions.

### Expansion in margins driven by improvement in retail mix

- NII grew 16% YoY to INR19.3b (8% beat). Retail NIM+Fee improved ~25bp YoY to ~11.4%, while consolidated NIM+Fee improved ~70bp YoY to 8.80% in 3QFY23. We estimate that LTFH could maintain its NIM despite rising borrowing costs and a decline in the wholesale book.
- Yield improvement was driven by the changing portfolio mix toward retail. The company has passed on the entire increase of ~225bp in the repo rate in its MFI business. Home and Infra are other segments that have seen relatively higher transmission of interest rates.
- Spreads (calculated) expanded 90bp QoQ to ~8%, led by a 100bp sequential increase in yields to ~15%, despite a reduction in the proportion of the wholesale book.
- Further, given that the capital gains from the sale of the AMC business have been utilized for macro-prudential provisions (and to improve PCR on the Wholesale Real Estate business), it will be in a better position to monetize and/or further sell down the wholesale segment.

### Key highlights from the management commentary

- LTFH plans to accelerate the reduction in the wholesale book through sell-downs, repayments and prepayments. Management will endeavor to increase the retail mix to ~90% by Mar'24.
- LTFH has guided for a retail CAGR of >25% over the next few years.
- **Guidance for steady-state retail RoA:** Retail NIM of 11%; Opex + Credit Costs of 7%; Pre-Tax RoA of 4% and Post-tax RoA of 3%

### Valuation and view

- LTFH has successfully concluded the sale of its mutual fund business and has started exhibiting strong growth in its Retail loan book, even as it has accelerated the sell-down of the wholesale segment.
- Additional macro-prudential provisions of 1.9% should provide the necessary buffer to protect against any unforeseen asset quality events in the MFI business.
- LTFH has proposed a merger of its subsidiary lending entities, L&T Finance (LTF) and L&T Infra Credit (LTICL), with LTFH. The merger would create a 'single lending entity', which will provide superior operational efficiencies.
- We have increased our FY23/FY24 EPS estimates by ~9% each to factor in higher margins and a moderation in credit costs. **Maintain our Buy rating with a TP of INR120 (premised on 1.2x Sep'24E consolidated BVPS).**

## Quarterly performance

(INR M)

| Y/E March                            | FY22            |               |               |               | FY23E         |               |               |               | FY22          | FY23E         | 3QFY23E       | v/s Est. |
|--------------------------------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------|
|                                      | 1QFY22          | 2QFY22        | 3QFY22        | 4QFY22        | 1QFY23        | 2QFY23        | 3QFY23        | 4QFY23E       |               |               |               |          |
|                                      | Interest Income | 30,083        | 29,028        | 28,744        | 29,188        | 29,466        | 30,862        | 33,216        |               |               |               |          |
| Interest Expenses                    | 15,089          | 14,417        | 14,066        | 13,923        | 14,132        | 14,385        | 15,007        | 15,990        | 57,494        | 59,514        | 15,248        | -2       |
| <b>Net Interest Income</b>           | <b>14,994</b>   | <b>14,611</b> | <b>14,678</b> | <b>15,265</b> | <b>15,334</b> | <b>16,477</b> | <b>18,209</b> | <b>17,924</b> | <b>59,548</b> | <b>67,944</b> | <b>16,849</b> | <b>8</b> |
| Change YoY (%)                       | 13.8            | 4.9           | -7.1          | -5.5          | 2.3           | 12.8          | 24.1          | 17.4          | 0.8           | 14.1          | 14.8          |          |
| Other Operating Income               | 1,318           | 1,490         | 1,964         | 1,281         | 1,318         | 1,090         | 1,109         | 582           | 6,053         | 4,098         | 1,064         | 4        |
| <b>Net Operating Income</b>          | <b>16,313</b>   | <b>16,101</b> | <b>16,642</b> | <b>16,546</b> | <b>16,652</b> | <b>17,567</b> | <b>19,318</b> | <b>18,505</b> | <b>65,601</b> | <b>72,042</b> | <b>17,913</b> | <b>8</b> |
| Change YoY (%)                       | 15.8            | 6.0           | -4.6          | -8.4          | 2.1           | 9.1           | 16.1          | 11.8          | 1.3           | 9.8           | 7.6           |          |
| Other income                         | 614             | 826           | 1,284         | 1,204         | 1,474         | 1,193         | 585           | 1,658         | 3,928         | 4,910         | 1,160         | -50      |
| <b>Total Income</b>                  | <b>16,926</b>   | <b>16,928</b> | <b>17,925</b> | <b>17,749</b> | <b>18,126</b> | <b>18,760</b> | <b>19,903</b> | <b>20,163</b> | <b>69,529</b> | <b>76,952</b> | <b>19,073</b> | <b>4</b> |
| Change YoY (%)                       | 2.9             | 4.5           | -3.8          | -10.3         | 7.1           | 10.8          | 11.0          | 13.6          | -2.2          | 10.7          | 6.4           |          |
| Operating Expenses                   | 5,485           | 5,905         | 6,167         | 6,389         | 6,577         | 6,868         | 7,427         | 7,581         | 23,946        | 28,454        | 7,400         | 0        |
| Change YoY (%)                       | 31.4            | 28.8          | 25.5          | 5.1           | 19.9          | 16.3          | 20.4          | 18.7          | 21.3          | 18.8          | 20.0          |          |
| <b>Operating Profits</b>             | <b>11,441</b>   | <b>11,023</b> | <b>11,759</b> | <b>11,360</b> | <b>11,549</b> | <b>11,891</b> | <b>12,476</b> | <b>12,582</b> | <b>45,582</b> | <b>48,498</b> | <b>11,673</b> | <b>7</b> |
| Change YoY (%)                       | -6.8            | -5.1          | -14.3         | -17.1         | 0.9           | 7.9           | 6.1           | 10.8          | -11.2         | 6.4           | -0.7          |          |
| Provisions                           | 9,062           | 7,830         | 7,418         | 6,524         | 7,989         | 5,765         | 6,417         | 4,991         | 30,833        | 25,163        | 5,690         | 13       |
| <b>Profit before Tax</b>             | <b>2,379</b>    | <b>3,193</b>  | <b>4,341</b>  | <b>4,837</b>  | <b>3,560</b>  | <b>6,126</b>  | <b>6,059</b>  | <b>7,591</b>  | <b>14,750</b> | <b>23,335</b> | <b>5,983</b>  | <b>1</b> |
| Tax Provisions                       | 609             | 963           | 1,261         | 1,423         | 948           | 2,070         | 990           | 2,759         | 4,256         | 6,767         | 1,795         | -45      |
| <b>Profit after tax</b>              | <b>1,770</b>    | <b>2,230</b>  | <b>3,080</b>  | <b>3,414</b>  | <b>2,612</b>  | <b>4,056</b>  | <b>4,528</b>  | <b>4,832</b>  | <b>10,494</b> | <b>16,027</b> | <b>4,188</b>  | <b>8</b> |
| Change YoY (%)                       | 20.1            | -10.0         | 7.0           | 28.3          | 47.5          | 81.9          | 47.0          | 41.6          | 10.6          | 52.7          | 36.0          |          |
| <b>Key Operating Parameters (%)</b>  |                 |               |               |               |               |               |               |               |               |               |               |          |
| Rep. Net Income (% of Avg Assets)    | 7.51            | 3.51          | 3.24          | 8.17          | 8.23          | 2.54          | 2.67          |               |               |               |               |          |
| <b>Rep. Cost of funds (%)</b>        |                 |               |               |               |               |               |               |               |               |               |               |          |
| Cost to Income Ratio                 | 7.64            | 7.53          | 7.47          | 7.34          | 7.27          | 7.33          | 7.54          |               |               |               |               |          |
| Rep Credit Cost                      | 32.4            | 34.9          | 34.4          | 36.0          | 36.3          | 36.6          | 37.3          |               |               |               |               |          |
| Tax Rate                             | 4.01            | 3.51          | 3.24          | 3.00          | 3.63          | 2.54          | 2.67          |               |               |               |               |          |
| Balance Sheet Parameters             | 25.6            | 30.2          | 29.0          | 29.4          | 26.6          | 33.8          | 16.3          |               |               |               |               |          |
| <b>Gross Customer Assets (INR B)</b> |                 |               |               |               |               |               |               |               |               |               |               |          |
| Change YoY (%)                       | 884             | 869           | 856           | 883           | 881           | 901           | 884           |               |               |               |               |          |
| Borrowings (INR B)                   | -10.6           | -12.0         | -14.5         | -6.0          | -0.4          | 3.6           | 3.4           |               |               |               |               |          |
| Change YoY (%)                       | 843             | 845           | 830           | 852           | 818           | 853           | 862           |               |               |               |               |          |
| Customer Assets /Borrowings (%)      | -10.5           | -9.0          | -11.5         | -3.8          | -3.0          | 1.0           | 3.9           |               |               |               |               |          |
| Asset Quality Parameters (%)         | 105             | 103           | 103           | 104           | 108           | 106           | 103           |               |               |               |               |          |
| <b>GS 3 (INR B)</b>                  |                 |               |               |               |               |               |               |               |               |               |               |          |
| Gross Stage 3 (%)                    | 58.0            | 48.0          | 48.7          | 35.4          | 35.6          | 35.9          | 37.2          |               |               |               |               |          |
| NS 3 (INR B)                         | 6.7             | 5.7           | 5.9           | 4.1           | 4.1           | 4.0           | 4.2           |               |               |               |               |          |
| Net Stage 3 (%)                      | 18.8            | 22.8          | 24.2          | 16.8          | 15.9          | 16.2          | 14.9          |               |               |               |               |          |
| PCR (%)                              | 2.3             | 2.8           | 3.0           | 2.0           | 1.9           | 1.9           | 1.7           |               |               |               |               |          |
| Return Ratios (%)                    | 67.6            | 52.4          | 50.3          | 52.6          | 55.3          | 55.0          | 60.1          |               |               |               |               |          |
| <b>ROAA</b>                          |                 |               |               |               |               |               |               |               |               |               |               |          |
| ROAE                                 | 0.7             | 0.9           | 1.3           | 1.3           | 1.0           | 1.6           | 1.7           |               |               |               |               |          |
|                                      | 3.8             | 4.7           | 6.7           | 6.9           | 5.2           | 8.0           | 8.4           |               |               |               |               |          |

E: MOFSL Estimates/ Note: PAT includes PBT from sale of MF business and extraordinary item



## Highlights from management commentary

### Macro commentary

- RABI crop acreage has been strong and, combined with healthy rainfalls, rural demand is expected to improve.
- Cash flows in the hands of farmers will be positive. LTFH hopes for a good season in Rural India in FY24.
- The rural unemployment rate has declined, while the wage rate under the NREGA scheme has improved, providing further impetus to rural growth.

### Asset Quality

- Concerted on-field efforts and improved data analytics have led to higher collection efficiencies for the company.
- Retail loan book NNPAAs stood at 0.73%, with a PCR of 79%.

### Yields and CoF

- Interest rates on MFI loans stand at 24%. The entire ~225bp increase in interest rates has been passed on to customers.
- Quarterly WACC stood at 7.54% (PQ: 7.33%). The increase in WACC was due to an increase in floating rate liabilities and an increase in incremental costs of borrowing.
- CPs contributed ~9% to the liability mix as of Dec'22. Despite rising interest rates, management expects to maintain retail margins at ~11%.

### Guidance - Retail book

- The company is quickly approaching steady-state retail RoA of ~3%.
- Guidance for steady-state retail RoA: Retail NIM of 11%; Opex + Credit Costs of 7%; Pre-Tax RoA of 4%; and Post-tax RoA of 3%
- The CAGR in the retail book for the next few years will be 25%.
- Increased digitization and higher customer retention will aid retail loan book volume growth. Management plans to increase the retail mix to 90% by FY'24.

### Focus on accelerated retailization

- The wholesale book declined to INR310b (INR350-360b including SRs) from INR408b in 3QFY22. LTFH plans to reduce the wholesale book through sell-downs, repayments and prepayments.
- The wholesale book reduction through repayments/pre-payments was ~INR42b and it was ~INR29b through sell-down.
- LTFH received a consideration of INR34.85b and a surplus cash balance of INR7.64b from the sale of its MF business. The total consideration stood at INR42.5b. Post-tax gains stood at INR21.6b. One-time provision of INR26.9b has been created by the company to account for illiquidity discounts considered during the sell-down. The accelerated sell-down of the wholesale book will not affect retail P&L.
- The company will carry excess capital after the accelerated sell-down of the wholesale book. The Board will take a call on a special dividend, which will require regulatory approvals.

**Merger of subsidiaries to form a unified lending entity**

- It has proposed a merger of L&T Finance and L&T Infra Credit with the parent L&T Finance Holdings. This will result in a unified lending entity.

**Rural loans (Micro Finance)**

- The monthly disbursement run rate has reached INR14b and the company expects to sustain the momentum, driven by the launch of new products (rural LAP) and the scale-up of existing products.
- The company has been a pioneer in data-based credit algorithms in MFI lending and this should aid in growing the loan book in a risk-calibrated manner.
- The loan book stands at INR175b, up 46% YoY.

**Farmer finance (including Tractors)**

- The penetration of Sabse Khas Loans and VIP loans stands at 23% as of Dec'22.
- The company is opening new branches to expand geographically. It currently operates 170 branches across 16 states with tie-ups with 2500+ dealers.

**Others**

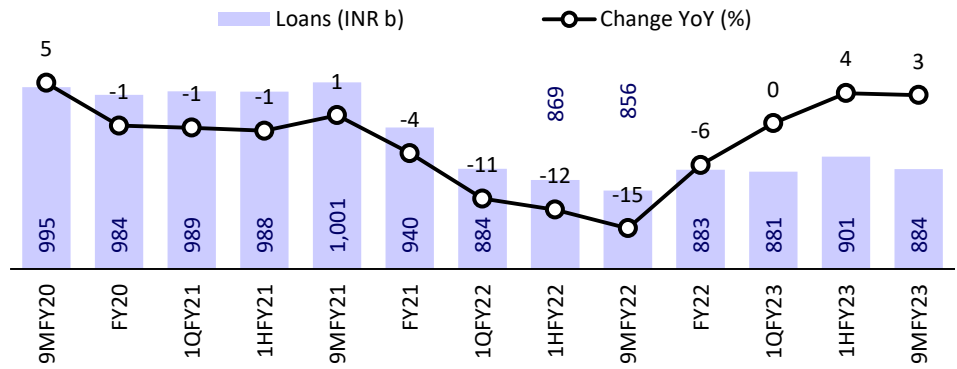
- Higher customer retention with repeat business of >30% offers increased cross-selling opportunities.
- The pilot of SME products launched in 3QFY22 has picked up a steady pace, wherein monthly disbursements have crossed INR2b. The company has also started offering a drop-line overdraft facility to SME customers.
- Disbursements thorough digital aggregator partnerships have crossed INR1b per month, with repeat customers increasing to 44%.
- BT-OUTs have reduced in housing loans and the share of self-employed customers in the disbursement mix has increased to 33%.
- LTFH's market share in some of the retail product segments is as under:

| Segment  | Market share (%) | Ranking |
|----------|------------------|---------|
| Tractors | 15%              | 1       |
| 2W       | 11%              | 4       |
| MFI      | 5.7%             | 4       |

**Key exhibits**

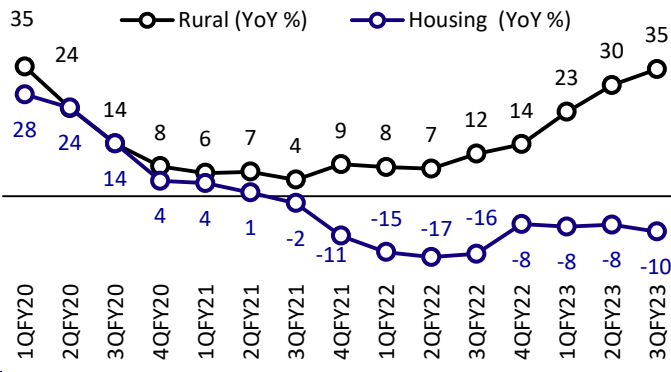
Loan book grew 3% YoY but declined 2% QoQ to ~INR884b

**Exhibit 1: Loan book growth (%)**



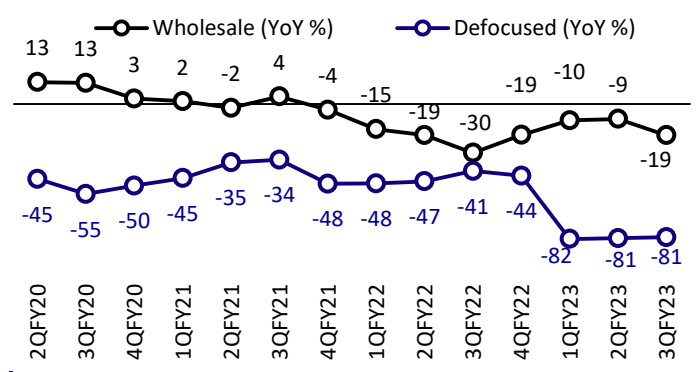
Source: MOFSL, Company

**Exhibit 2: Housing Finance book (including wholesale RE) declined 10% YoY**



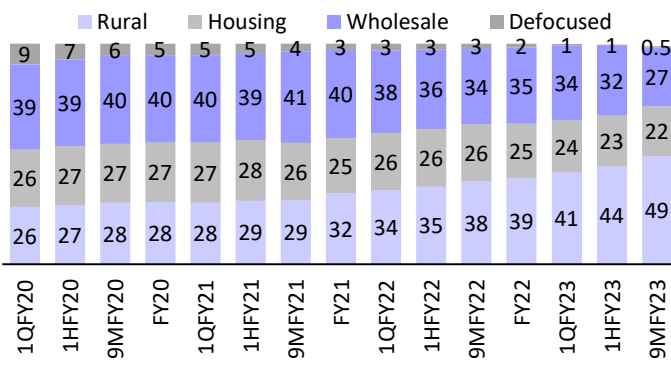
Source: MOFSL, Company

**Exhibit 3: Wholesale book declined 19% YoY**



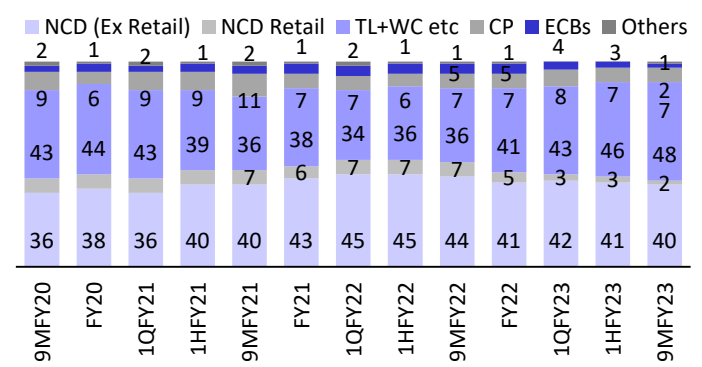
Source: MOFSL, Company

**Exhibit 4: Rural Finance in loan mix continued to improve (up ~500bp sequentially)**



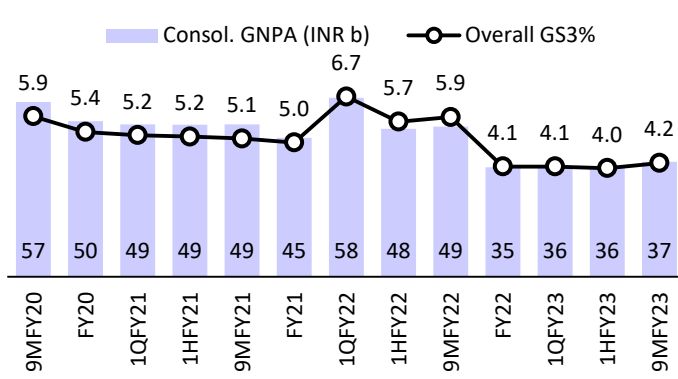
Source: MOFSL, Company

**Exhibit 5: Borrowing mix (%)**



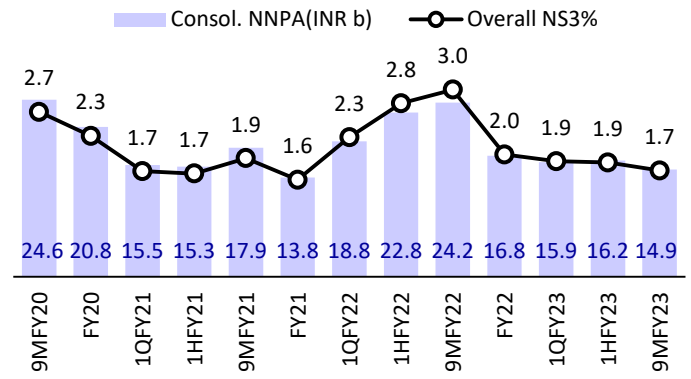
Source: MOFSL, Company

**Exhibit 6: GS3 increased by ~20bp sequentially (%)**



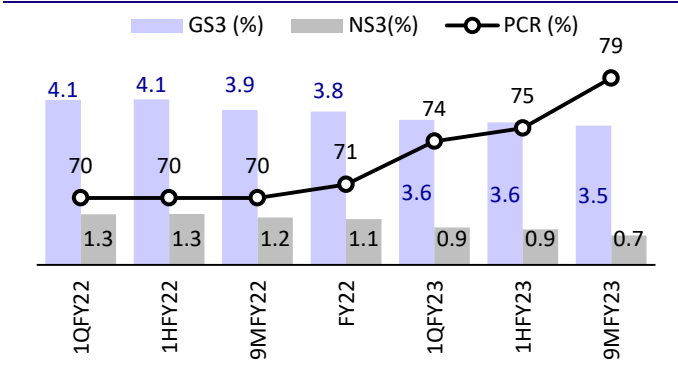
Source: MOFSL, Company

**Exhibit 7: NS3 declined QoQ (%)**



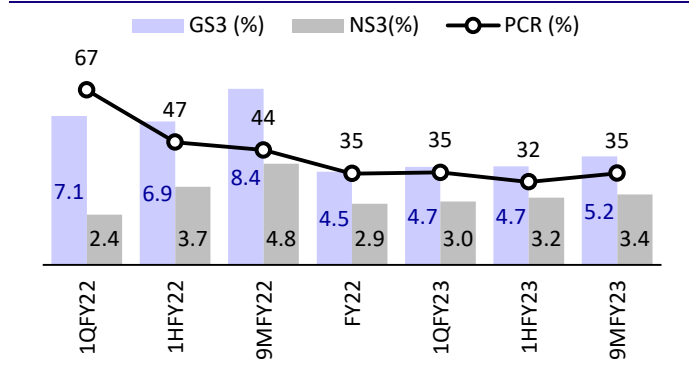
Source: MOFSL, Company

**Exhibit 8: Retail loan book asset quality**



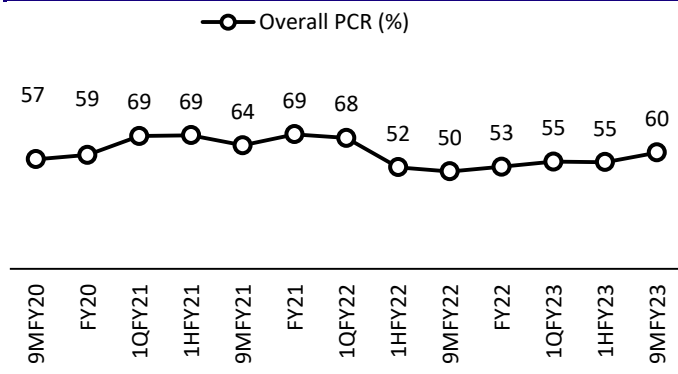
Source: MOFSL, Company, GS3 as on 1QFY23 is 3.5%

**Exhibit 9: Wholesale loan book asset quality**



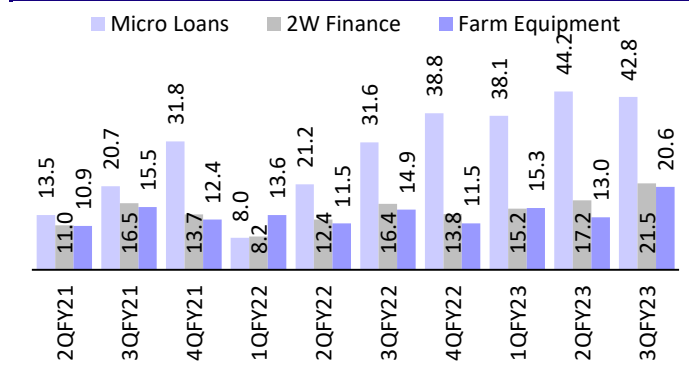
Source: MOFSL, Company, GS3 as on 1QFY23 is 4.5%

**Exhibit 10: Overall PCR increased ~5pp sequentially**



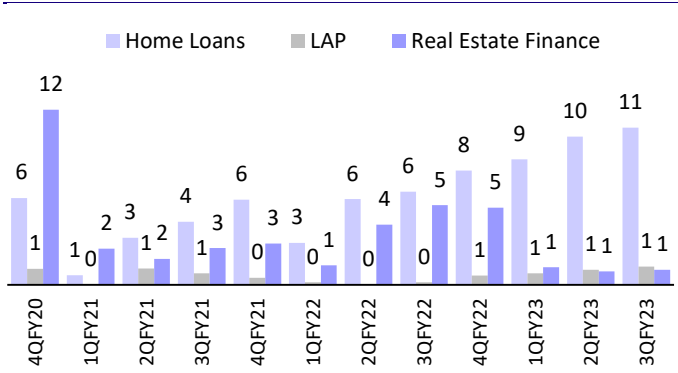
Source: MOFSL, Company

**Exhibit 11: Micro-loan disbursements back to run-rate levels**



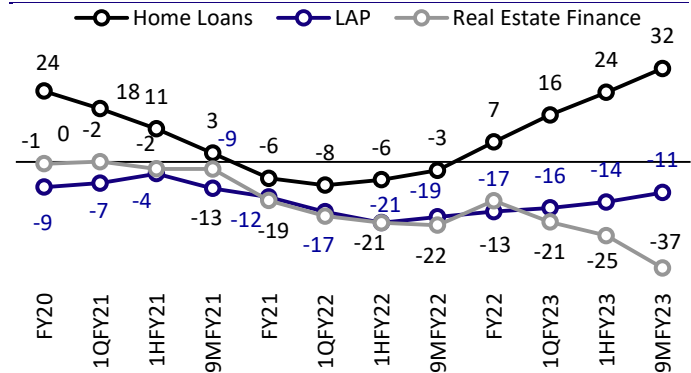
Source: MOFSL, Company

**Exhibit 12: LAP disbursements remain muted but expected to start picking up now (INR b)**



Source: MOFSL, Company

**Exhibit 13: Segmental loan growth in the Housing segment (YoY %)**



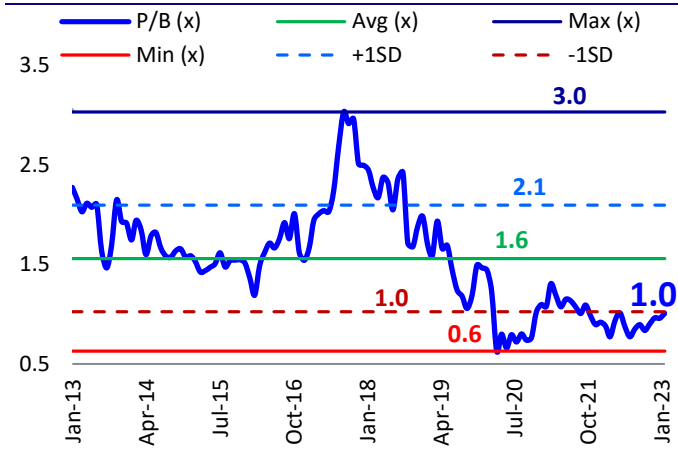
Source: MOFSL, Company

**Exhibit 14: We increase our FY23/FY24E EPS by ~9% each to factor in higher NIM and lower credit costs**

| INR b                    | Old estimates |             | New estimates |             | % change   |            |
|--------------------------|---------------|-------------|---------------|-------------|------------|------------|
|                          | FY23          | FY24        | FY23          | FY24        | FY23       | FY24       |
| <b>Total Income</b>      | <b>74.5</b>   | <b>78.5</b> | <b>77.0</b>   | <b>79.2</b> | <b>3.2</b> | <b>0.8</b> |
| Operating Expenses       | 28.5          | 30.8        | 28.5          | 31.1        | 0.0        | 0.9        |
| <b>Operating Profits</b> | <b>46.1</b>   | <b>47.7</b> | <b>48.5</b>   | <b>48.1</b> | <b>5.2</b> | <b>0.7</b> |
| Provisions               | 24.6          | 21.1        | 25.2          | 19.1        | 2.2        | -9.3       |
| <b>PBT</b>               | <b>21.5</b>   | <b>26.6</b> | <b>23.3</b>   | <b>28.9</b> | <b>8.7</b> | <b>8.6</b> |
| Tax                      | 6.2           | 7.5         | 6.8           | 8.1         | 8.7        | 8.6        |
| <b>PAT</b>               | <b>15.2</b>   | <b>19.2</b> | <b>16.6</b>   | <b>20.8</b> | <b>8.7</b> | <b>8.6</b> |
| Loan book                | 873           | 1,000       | 820           | 880         | -6.1       | -12.0      |
| Borrowings               | 891           | 1,030       | 836           | 880         | -6.1       | -14.6      |

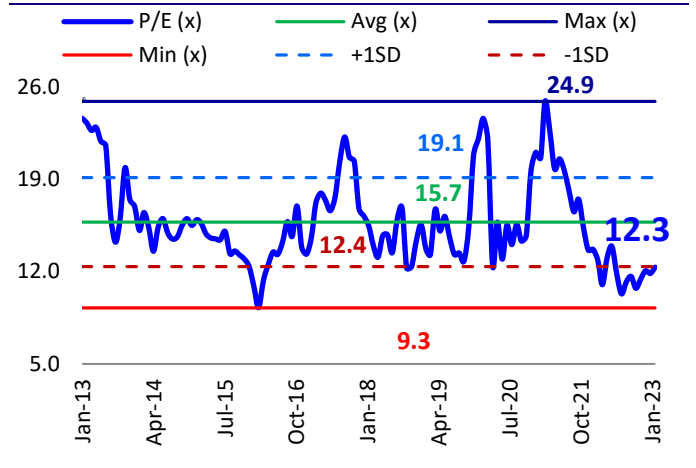
Source: MOFSL, Company

**Exhibit 15: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 16: One-year forward P/E**



Source: MOFSL, Company



## Financials and valuations

| <b>Income statement</b>           |               |               |               |               |               |               |               |               |               |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (INR m)                           |               |               |               |               |               |               |               |               |               |
| Y/E March                         | FY17          | FY18          | FY19          | FY20          | FY21          | FY22          | FY23E         | FY24E         | FY25E         |
| Interest Income                   | 76,614        | 88,692        | 1,16,403      | 1,32,447      | 1,31,049      | 1,17,042      | 1,27,458      | 1,35,105      | 1,52,502      |
| Interest Expended                 | 46,270        | 54,492        | 68,600        | 75,136        | 71,999        | 57,494        | 59,514        | 65,201        | 74,884        |
| <b>Net Interest Income</b>        | <b>30,343</b> | <b>34,200</b> | <b>47,803</b> | <b>57,311</b> | <b>59,049</b> | <b>59,548</b> | <b>67,944</b> | <b>69,903</b> | <b>77,618</b> |
| Change (%)                        | 12.7          | 12.7          | 39.8          | 19.89         | 3.0           | 0.8           | 14.1          | 2.9           | 11.0          |
| Other Operating Income            | 6,792         | 13,435        | 13,494        | 8,594         | 5,732         | 6,053         | 4,098         | 3,127         | 3,832         |
| <b>Net Operating Income</b>       | <b>37,136</b> | <b>47,635</b> | <b>61,297</b> | <b>65,905</b> | <b>64,782</b> | <b>65,601</b> | <b>72,042</b> | <b>73,030</b> | <b>81,450</b> |
| Change (%)                        | 17.3          | 28.3          | 28.7          | 7.5           | -1.7          | 1.3           | 9.8           | 1.4           | 11.5          |
| Other Income                      | 2,314         | 535           | 3,118         | 3,726         | 6,276         | 3,928         | 4,910         | 6,137         | 7,671         |
| <b>Net Income</b>                 | <b>39,450</b> | <b>48,170</b> | <b>64,415</b> | <b>69,632</b> | <b>71,058</b> | <b>69,529</b> | <b>76,952</b> | <b>79,167</b> | <b>89,121</b> |
| Change (%)                        | 17.8          | 22.1          | 33.7          | 8.1           | 2.0           | -2.2          | 10.7          | 2.9           | 12.6          |
| Operating Expenses                | 12,765        | 13,867        | 19,215        | 19,785        | 19,749        | 23,946        | 28,454        | 31,110        | 33,718        |
| <b>Operating Profits</b>          | <b>26,685</b> | <b>34,303</b> | <b>45,200</b> | <b>49,846</b> | <b>51,309</b> | <b>45,582</b> | <b>48,498</b> | <b>48,057</b> | <b>55,403</b> |
| Change (%)                        | 31.0          | 28.5          | 31.8          | 10.3          | 2.9           | -11.2         | 6.4           | -0.9          | 15.3          |
| Provisions/write offs             | 15,899        | 19,845        | 14,681        | 23,046        | 36,357        | 30,833        | 25,163        | 19,119        | 21,101        |
| <b>PBT</b>                        | <b>10,786</b> | <b>14,458</b> | <b>30,520</b> | <b>26,801</b> | <b>14,952</b> | <b>14,750</b> | <b>23,335</b> | <b>28,938</b> | <b>34,303</b> |
| Tax                               | 364           | 1,682         | 8,200         | 9,798         | 5,463         | 4,256         | 6,767         | 8,103         | 9,605         |
| Tax Rate (%)                      | 3.4           | 11.6          | 26.9          | 36.6          | 36.5          | 28.9          | 29.0          | 28.0          | 28.0          |
| <b>PAT before pref dividend</b>   | <b>10,422</b> | <b>12,775</b> | <b>22,320</b> | <b>17,003</b> | <b>9,489</b>  | <b>10,494</b> | <b>16,568</b> | <b>20,836</b> | <b>24,698</b> |
| Change (%)                        | 21.7          | 22.6          | 74.7          | -23.8         | -44.2         | 10.6          | 57.9          | 25.8          | 18.5          |
| Preference Dividend               | 1,244         | 0             | 0             | 0             | 0             | 0             | 0             | 0             | 0             |
| <b>PAT to equity shareholders</b> | <b>9,177</b>  | <b>12,775</b> | <b>22,320</b> | <b>17,003</b> | <b>9,489</b>  | <b>10,494</b> | <b>16,027</b> | <b>20,836</b> | <b>24,698</b> |
| Change (%)                        | 33.1          | 39.2          | 74.7          | -23.8         | -44.2         | 10.6          | 52.7          | 30.0          | 18.5          |
| <b>Proposed Dividend</b>          | <b>1,629</b>  | <b>2,315</b>  | <b>2,319</b>  | <b>2,093</b>  | <b>0</b>      | <b>1,237</b>  | <b>2,164</b>  | <b>2,729</b>  | <b>3,211</b>  |

| <b>Balance sheet</b>     |                 |                 |                  |                  |                  |                  |                  |                  |                  |
|--------------------------|-----------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| (INR m)                  |                 |                 |                  |                  |                  |                  |                  |                  |                  |
| Y/E March                | FY17            | FY18            | FY19             | FY20             | FY21             | FY22             | FY23E            | FY24E            | FY25E            |
| Equity Share Capital     | 17,557          | 19,957          | 19,988           | 20,048           | 24,695           | 24,740           | 24,740           | 24,740           | 24,740           |
| Reserves & Surplus       | 52,178          | 94,111          | 1,14,498         | 1,26,876         | 1,63,038         | 1,74,737         | 1,89,068         | 2,07,174         | 2,28,661         |
| <b>Borrowings</b>        | <b>6,30,852</b> | <b>7,52,483</b> | <b>9,15,070</b>  | <b>9,38,945</b>  | <b>8,85,558</b>  | <b>8,52,012</b>  | <b>8,36,327</b>  | <b>8,79,501</b>  | <b>10,28,372</b> |
| Change (%)               | 19.4            | 19.3            | 21.6             | 2.6              | -5.7             | -3.8             | -1.8             | 5.2              | 16.9             |
| Other liabilities        | 10,870          | 11,220          | 10,995           | 9,577            | 16,427           | 17,533           | 20,680           | 24,456           | 28,987           |
| <b>Total Liabilities</b> | <b>7,11,457</b> | <b>8,77,770</b> | <b>10,60,551</b> | <b>10,95,447</b> | <b>10,89,717</b> | <b>10,69,022</b> | <b>10,70,815</b> | <b>11,35,871</b> | <b>13,10,761</b> |
| <b>Loans</b>             | <b>6,03,087</b> | <b>7,70,883</b> | <b>9,13,246</b>  | <b>9,14,625</b>  | <b>8,70,303</b>  | <b>8,24,694</b>  | <b>8,19,929</b>  | <b>8,79,501</b>  | <b>10,38,759</b> |
| Change (%)               | 6.8             | 27.8            | 18.5             | 0.2              | -4.8             | -5.2             | -0.6             | 7.3              | 18.1             |
| <b>Investments</b>       | <b>65,659</b>   | <b>53,015</b>   | <b>86,408</b>    | <b>59,793</b>    | <b>88,721</b>    | <b>1,19,169</b>  | <b>1,31,086</b>  | <b>1,44,195</b>  | <b>1,58,614</b>  |
| Change (%)               | 84.3            | -19.3           | 63.0             | -30.8            | 48.4             | 34.3             | 10.0             | 10.0             | 10.0             |
| Net Fixed Assets         | 12,369          | 11,701          | 11,660           | 11,621           | 11,621           | 5,306            | 5,572            | 5,850            | 6,143            |
| Other assets             | 30,342          | 42,171          | 49,237           | 1,09,408         | 1,19,071         | 1,19,852         | 1,14,229         | 1,06,325         | 1,07,244         |
| <b>Total Assets</b>      | <b>7,11,457</b> | <b>8,77,770</b> | <b>10,60,551</b> | <b>10,95,447</b> | <b>10,89,717</b> | <b>10,69,022</b> | <b>10,70,815</b> | <b>11,35,871</b> | <b>13,10,761</b> |

E: MOFSL Estimates

## Financials and valuations

| AUM Mix                                     |                 |                 |                 |                 |                 |                 | FY25E (%)       |                 |                  |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| AUM Details                                 | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23E           | FY24E           | FY25E            |
| <b>Asset Under Management</b>               | <b>6,66,500</b> | <b>8,53,540</b> | <b>9,91,220</b> | <b>9,83,850</b> | <b>9,40,140</b> | <b>8,83,400</b> | <b>8,86,409</b> | <b>9,50,812</b> | <b>11,22,983</b> |
| Change (%)                                  |                 | 28.1            | 16.1            | -0.7            | -4.4            | -6.0            | 0.3             | 7.3             | 18.1             |
| Rural                                       | 15.1            | 20.0            | 25.8            | 28.1            | 32.0            | 39.0            | 54.3            | 67.1            | 73.9             |
| Housing                                     | 18.8            | 22.4            | 25.7            | 27.0            | 25.2            | 24.8            | 22.1            | 21.8            | 21.5             |
| Focused - Wholesale                         | 45.5            | 39.8            | 38.0            | 39.5            | 39.9            | 34.5            | 23.2            | 10.8            | 4.6              |
| Defocused - Wholesale                       | 20.6            | 17.9            | 10.5            | 5.3             | 2.9             | 1.7             | 0.4             | 0.2             | 0.1              |
| <b>Ratios</b>                               |                 |                 |                 |                 |                 |                 | <b>(%)</b>      |                 |                  |
| Y/E March                                   | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23E           | FY24E           | FY25E            |
| <b>Spreads Analysis (%)</b>                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Avg. Yield on Loans                         | 13.1            | 12.9            | 13.8            | 14.5            | 14.7            | 13.8            | 15.5            | 15.9            | 15.9             |
| Avg. Cost-Int. Bear. Liab.                  | 8.1             | 7.9             | 8.2             | 8.1             | 7.9             | 6.6             | 7.1             | 7.6             | 7.9              |
| Loan Spreads                                | 5.1             | 5.0             | 5.6             | 6.4             | 6.8             | 7.2             | 8.5             | 8.3             | 8.1              |
| NIM on loans                                | 5.2             | 5.0             | 5.7             | 6.3             | 6.6             | 7.0             | 8.3             | 8.2             | 8.1              |
| <b>Profitability Ratios (%)</b>             |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Int. Expended/Int.Earned                    | 60.4            | 61.4            | 58.9            | 56.7            | 54.9            | 49.1            | 46.7            | 48.3            | 49.1             |
| Other Inc./Net Income                       | 23.1            | 29.0            | 25.8            | 17.7            | 16.9            | 14.4            | 11.7            | 11.7            | 12.9             |
| Op. Exps./Net Income                        | 32.4            | 28.8            | 29.8            | 28.4            | 27.8            | 34.4            | 37.0            | 39.3            | 37.8             |
| Empl. Cost/Op. Exps.                        | 38.7            | 29.5            | 42.9            | 53.7            | 51.0            | 47.5            | 48.8            | 49.1            | 49.4             |
| Provisions/PPoP (%)                         | 59.6            | 57.9            | 32.5            | 46.2            | 70.9            | 67.6            | 51.9            | 39.8            | 38.1             |
| <b>Asset Quality (%)</b>                    |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Gross NPAs                                  | 46,140          | 70,430          | 55,490          | 50,370          | 45,040          | 35,430          | 40,840          | 35,466          | 38,175           |
| Gross NPAs to Adv.                          | 7.5             | 8.6             | 5.9             | 5.3             | 5.0             | 4.2             | 4.8             | 3.9             | 3.6              |
| Net NPAs                                    | 33,160          | 25,540          | 21,740          | 20,780          | 13,770          | 16,780          | 13,164          | 11,635          | 12,406           |
| Net NPAs to Adv.                            | 5.5             | 3.3             | 2.4             | 2.3             | 1.6             | 2.0             | 1.6             | 1.3             | 1.2              |
| PCR (%)                                     | 28.1            | 63.7            | 60.8            | 58.7            | 69.4            | 52.6            | 67.8            | 67.2            | 67.5             |
| ECL/EAD (%)                                 |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| <b>Return ratios and Capitalisation (%)</b> |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| RoE   | 13.0            | 13.9            | 18.0            | 12.1            | 5.7             | 5.4             | 8.0             | 9.3             | 10.2             |
| RoA   | 1.4             | 1.6             | 2.3             | 1.6             | 0.9             | 1.0             | 1.5             | 1.9             | 2.0              |
| CAR   |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Tier I                                      |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Debt to Equity (x)                          | 9.0             | 6.6             | 6.8             | 6.4             | 4.7             | 4.3             | 3.9             | 3.8             | 4.1              |
| Average Assets/Equity (x)                   | 9.5             | 8.6             | 7.8             | 7.7             | 6.5             | 5.6             | 5.2             | 5.0             | 5.0              |
| <b>VALUATION</b>                            |                 |                 |                 |                 |                 |                 |                 |                 |                  |
| Book Value (INR)                            | 39.7            | 57.2            | 67.3            | 73.3            | 76.0            | 80.6            | 86.4            | 93.7            | 102.4            |
| <b>Price-BV (x)</b>                         |                 |                 |                 |                 | <b>1.3</b>      | <b>1.2</b>      | <b>1.1</b>      | <b>1.0</b>      | <b>0.9</b>       |
| Adjusted Book Value (INR)                   | 10.0            | 10.0            | 10.0            | 10.0            | 10.0            | 10.0            | 10.0            | 10.0            | 10.0             |
| <b>Price-BV (x)</b>                         |                 |                 |                 |                 | <b>9.5</b>      | <b>9.5</b>      | <b>9.5</b>      | <b>9.5</b>      | <b>9.5</b>       |
| OPS (INR)                                   | 5.9             | 6.4             | 11.2            | 8.5             | 3.8             | 4.2             | 6.7             | 8.4             | 10.0             |
| EPS Growth YoY                              | 21.5            | 7.8             | 74.4            | -24.1           | -54.7           | 10.4            | 57.9            | 25.8            | 18.5             |
| <b>Price-Earnings (x)</b>                   |                 |                 |                 |                 | <b>24.8</b>     | <b>22.4</b>     | <b>14.2</b>     | <b>11.3</b>     | <b>9.5</b>       |
| EPS (INR)                                   | 5.2             | 6.4             | 11.2            | 8.5             | 3.8             | 4.2             | 6.7             | 8.4             | 10.0             |
| EPS Growth YoY                              | 32.9            | 22.5            | 74.4            | -24.1           | -54.7           | 10.4            | 57.9            | 25.8            | 18.5             |
| <b>Price-Earnings (x)</b>                   |                 |                 |                 |                 | <b>24.8</b>     | <b>22.4</b>     | <b>14.2</b>     | <b>11.3</b>     | <b>9.5</b>       |
| Dividend per share (INR)                    | 0.8             | 1.0             | 1.0             | 0.9             | 0.0             | 0.5             | 0.9             | 1.1             | 1.3              |
| <b>Dividend yield (%)</b>                   |                 |                 |                 |                 | <b>0.0</b>      | <b>0.5</b>      | <b>1.0</b>      | <b>1.2</b>      | <b>1.4</b>       |

E: MOFSL Estimates

| 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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