

# Punjab National Bank

Estimate change



TP change



Rating change



**CMP: INR122**

**TP: INR130 (+6%)**

**Neutral**

## Earnings traction remains healthy

### Asset quality continues to improve; guides 1% RoA by end-FY25

- Punjab National Bank (PNB) reported a 4QFY24 PAT of INR30.1b (5% beat), led by controlled provisions and robust other income. Opex was elevated and led to a 10% miss on PPop.
- NII grew 9% YoY to INR104b (in line), while NIM contracted 5bp QoQ to 3.1% (3.25% domestic).
- Loan book grew 12% YoY (2% QoQ) to INR9.3t, led by a healthy traction in retail loans (3.9% QoQ growth). The C/D ratio remained low at 68%, thus generating a lever to accelerate advances, unlike other banks. The CASA ratio moderated 103bp QoQ to 41.4% during the quarter.
- Slippages increased marginally to INR22b (1.1% annualized), while healthy recovery and upgrades enabled an overall decline in GNPA/NNPA ratios to 5.73%/0.73%. PCR improved 254bp QoQ to 88% in 4QFY24.
- We raise our EPS estimates by 7%/5% for FY25/FY26, factoring in lower provisions, healthy other income, and steady margins. We estimate an RoA/RoE of 0.8%/12.8% in FY25 and 1.0%/14.5% in FY26. **Reiterate Neutral with a revised TP of INR130 (premised on 1.1x FY26E ABV).**

### C/D ratio moderates to 68%, PCR improves further to 88%

- PNB reported a PAT of INR30.1b (+160% YoY, 5% beat) amid lower provisions (59% YoY decline, 44% lower than MOFSLe). NII grew 9% YoY (1% QoQ), while NIMs declined marginally by 5bp QoQ to 3.1%.
- Other income jumped 24% YoY (up 59% QoQ, 20% beat) to INR42.5b, supported by both healthy fee income and treasury gains of INR8.6b in 4QFY24 (vs. a loss of INR7.9b in 3QFY24).
- Opex increased 16% YoY (19% higher than MOFSLe) as PNB allocated for AS-15 wage-related provisions. As a result, the C/I ratio inched up to 56% (vs. 52% in 3Q). PPop, thus, grew 9% YoY to INR64.1b (10% miss on MOFSLe) in 4Q. PNB guides a normalized run-rate of INR35-36b of wage expenses going forward, while other opex growth is likely to increase by 5-7%.
- Loan book grew by a healthy 12.5% YoY (2% QoQ) to INR9.3t, amid healthy traction in Retail, and Agri and a relatively slower growth in Corporate. However, MSME saw a decline. Retail growth has been healthy at 3.9% QoQ. PNB guided for a healthy traction in RAM, targeting its share at 60% (vs. 55% in 4Q).
- Deposits grew faster than advances at 7% YoY (3.5% QoQ) to INR13.7t, led by healthy traction in TDs as well as international deposits at 23% YoY/6.2% QoQ. The CASA ratio thus moderated to 41.4% from 42.5% in 3QFY24.
- On the asset quality front, slippages increased 23% QoQ to INR22b (1.1% annualized). GNPA/NNPA improved 51bp/23bp QoQ to 5.73%/0.7%. PCR rose 254bp QoQ to 87.9%.
- SMA-2 (above INR50m) inched up by a modest 7% QoQ to INR14.3b and stood at 15bp of domestic loans.

Bloomberg	PNB IN
Equity Shares (m)	11011
M.Cap.(INRb)/(USD\$b)	1345 / 16.1
52-Week Range (INR)	143 / 48
1, 6, 12 Rel. Per (%)	-5/48/123
12M Avg Val (INR M)	5580

### Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
NII	400.8	427.6	471.4
OP	249.3	284.3	321.0
NP	82.4	133.2	171.8
NIM (%)	2.8	2.8	2.8
EPS (INR)	7.5	12.1	15.6
EPS Gr. (%)	228.8	61.6	28.9
BV/Sh. (INR)	92	104	118
ABV/Sh. (INR)	84	96	110

### Ratios

RoE (%)	8.7	12.8	14.5
RoA (%)	0.5	0.8	1.0

### Valuations

P/E(X)	16.3	10.1	7.8
P/BV (X)	1.3	1.2	1.0
P/ABV (X)	1.4	1.3	1.1

### Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	73.2	73.2	73.2
DII	12.4	13.8	13.5
FII	4.8	3.1	1.7
Others	9.7	10.0	11.6

FII Includes depository receipts

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Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Highlights from the management commentary**

- INR23.96b has been set aside for wage provisions, with the bank anticipating INR35-36b in wage provisions going forward.
- NIM guidance stood at 2.9-3.0%, though the bank will aim for better NII improvement in every quarter.
- Slippages break-up: Agri – INR8,040m, MSME - INR6,660m, Retail – INR4,220b, Others - INR1,870m, and increase in existing slippages - INR1,280m.
- Credit growth guidance stands at 11-12%; credit growth was higher than the guidance in all previous quarters. The bank will revise growth guidance as and when visibility improves.

**Valuation and view: Reiterate Neutral with a revised TP of INR130**

PNB reported a mixed quarter as PAT beat was driven by a sharp decline in provisions, while PPop missed our estimates due to higher opex. NII growth stood in line even as NIM contracted slightly. 4Q witnessed relatively slower growth, but management aims to improve its share in the RAM portfolio, which will support margins. Asset quality continues to see a sharp improvement as recoveries and w-off continue to be healthy. PCR thus improved further to 88%, while asset quality ratios also improved. SMA overdue (with loans over INR50m) remains under control at 0.15% of domestic loans, while the bank continues to guide robust recoveries at 2x of slippages. PNB expects the credit cost and slippages to be contained at <1% and projects RoA at 1% by 4QFY25. We raise our EPS estimates by 7%/5% for FY25/FY26, factoring in lower provisions, healthy other income, and steady margins. We estimate an RoA/ RoE of 0.8%/12.8% in FY25 and 1.0%/14.5% in FY26. **Reiterate Neutral with a revised TP of INR130 (premised on 1.1x FY26E ABV).**

**Quarterly performance****(INR b)**

Y/E March	FY23				FY24				FY23	FY24	FY24	V/s our Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	4QE	4QE		
<b>Net Interest Income</b>	<b>75.4</b>	<b>82.7</b>	<b>91.8</b>	<b>95.0</b>	<b>95.0</b>	<b>99.2</b>	<b>102.9</b>	<b>103.6</b>	<b>344.9</b>	<b>400.8</b>	<b>104.5</b>	<b>-1%</b>
% Change (YoY)	4.3	30.2	17.6	30.0	26.0	20.0	12.1	9.1	20.2	16.2	10.1	
Other Income	25.4	28.5	33.4	34.2	34.3	30.3	26.7	42.5	121.4	133.8	35.5	20%
<b>Total Income</b>	<b>100.8</b>	<b>111.2</b>	<b>125.2</b>	<b>129.2</b>	<b>129.4</b>	<b>129.5</b>	<b>129.7</b>	<b>146.1</b>	<b>466.3</b>	<b>534.7</b>	<b>140.1</b>	<b>4%</b>
Operating Expenses	47.0	55.5	68.0	70.5	69.7	67.3	66.4	82.0	241.1	285.4	69.1	19%
<b>Operating Profit</b>	<b>53.8</b>	<b>55.7</b>	<b>57.2</b>	<b>58.7</b>	<b>59.7</b>	<b>62.2</b>	<b>63.3</b>	<b>64.2</b>	<b>225.3</b>	<b>249.3</b>	<b>71.0</b>	<b>-10%</b>
% Change (YoY)	-15.9	38.4	12.6	11.4	10.9	11.7	10.8	9.4	8.5	10.7	21.0	
Provisions	47.9	49.1	47.1	38.3	39.7	34.4	27.4	15.9	182.4	117.4	28.2	-44%
<b>Profit before Tax</b>	<b>5.9</b>	<b>6.6</b>	<b>10.0</b>	<b>20.4</b>	<b>20.0</b>	<b>27.7</b>	<b>35.9</b>	<b>48.3</b>	<b>42.9</b>	<b>131.9</b>	<b>42.8</b>	<b>13%</b>
Tax	2.8	2.5	3.7	8.8	7.5	10.2	13.7	18.2	17.8	49.5	14.2	28%
<b>Net Profit</b>	<b>3.1</b>	<b>4.1</b>	<b>6.3</b>	<b>11.6</b>	<b>12.6</b>	<b>17.6</b>	<b>22.2</b>	<b>30.1</b>	<b>25.1</b>	<b>82.4</b>	<b>28.6</b>	<b>5%</b>
% Change (YoY)	-69.9	-62.8	-44.2	474.9	307.0	327.0	253.5	159.8	-27.5	228.8	146.5	
<b>Operating Parameters</b>												
Deposits	11,367	11,935	12,104	12,812	12,979	13,099	13,235	13,697	12,812	13,697	13,703	
Loans	7,426	7,734	8,004	8,308	8,637	8,899	9,164	9,344	8,308	9,344	9,339	
Deposit Growth (%)	3.6	7.0	7.4	11.8	14.2	9.8	9.3	6.9	11.8	6.9	7.0	
Loan Growth (%)	12.3	14.9	15.5	14.1	16.3	15.1	14.5	12.5	14.1	12.5	12.4	
<b>Asset Quality</b>												
Gross NPA (%)	11.3	10.5	9.8	8.7	7.7	7.0	6.2	5.7	8.7	5.8	5.8	
Net NPA (%)	4.3	3.8	3.3	2.7	2.0	1.5	1.0	0.7	2.8	1.0	0.8	
PCR (%)	64.8	66.3	68.5	70.8	75.8	80.0	85.4	87.9	69.6	84.3	86.3	
RoA (%)	0.1	0.1	0.2	0.3					0.2	0.5		
RoE (%)	2.0	2.6	3.9	7.1					2.8	8.7		
CASA (%)	46.3	44.9	43.7						42.0	41.5		
Margins (%)	2.8	3.0	3.2	3.2					2.6	2.8		

E: MOFSL Estimates

## Quarterly snapshot

	FY23				FY24				Change (%)		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	YoY	QoQ	
<b>Profit and Loss, INR b</b>											
Net Interest Income	75.4	82.7	91.8	95.0	95.0	99.2	102.9	103.6	9	1	
Other Income	25.4	28.5	33.4	34.2	34.3	30.3	26.7	42.5	24	59	
Trading profits	-8.4	0.0	-1.1	-2.0	4.2	2.1	-7.9	8.6	-539	-209	
<b>Total Income</b>	<b>100.8</b>	<b>111.2</b>	<b>125.2</b>	<b>129.2</b>	<b>129.4</b>	<b>129.5</b>	<b>129.7</b>	<b>146.1</b>	<b>13</b>	<b>13</b>	
Operating Expenses	47.0	55.5	68.0	70.5	69.7	67.3	66.4	82.0	16	23	
Employee	25.5	32.3	44.6	45.7	44.9	42.0	41.7	56.3	23	35	
Others	21.5	23.2	23.4	24.8	24.8	25.3	24.7	25.7	3	4	
<b>Operating Profits</b>	<b>53.8</b>	<b>55.7</b>	<b>57.2</b>	<b>58.7</b>	<b>59.7</b>	<b>62.2</b>	<b>63.3</b>	<b>64.2</b>	<b>9</b>	<b>1</b>	
<b>Core Operating Profits</b>	<b>62.2</b>	<b>55.7</b>	<b>58.2</b>	<b>60.6</b>	<b>55.5</b>	<b>60.1</b>	<b>71.2</b>	<b>55.6</b>	<b>-8</b>	<b>-22</b>	
Provisions	47.9	49.1	47.1	38.3	39.7	34.4	27.4	15.9	-59	-42	
Others	-1.7	9.2	9.4	4.8	-0.9	5.4	6.8	-3.3	-169	-149	
<b>PBT</b>	<b>5.9</b>	<b>6.6</b>	<b>10.0</b>	<b>20.4</b>	<b>20.0</b>	<b>27.7</b>	<b>35.9</b>	<b>48.3</b>	<b>137</b>	<b>34</b>	
Taxes	2.8	2.5	3.7	8.8	7.5	10.2	13.7	18.2	107	33	
<b>PAT</b>	<b>3.1</b>	<b>4.1</b>	<b>6.3</b>	<b>11.6</b>	<b>12.6</b>	<b>17.6</b>	<b>22.2</b>	<b>30.1</b>	<b>160</b>	<b>35</b>	
<b>Balance Sheet, INR b</b>											
Deposits	11,367	11,935	12,104	12,812	12,979	13,099	13,235	13,697	7	3	
Loans	7,426	7,734	8,004	8,308	8,637	8,899	9,164	9,344	12	2	
<b>Loan Mix (%)</b>											
Retail	19.0	19.5	21.9	23.3	23.2	24.1	23.0	23.6	35	59	
Agri	17.3	17.6	16.8	16.7	16.5	16.2	16.6	16.8	6	22	
Corporate	47.4	46.5	46.1	44.7	45.3	44.4	44.9	44.8	12	-12	
MSME	16.2	16.3	15.2	15.3	15.0	15.3	15.5	14.8	-54	-70	
<b>Asset Quality, INR b</b>											
GNPA	902	870	836	773	709	656	604	563	-27	-7	
NNPA	317	293	264	226	171	131	88	68	-70	-23	
Slippages	65	60	41	40	24	18	18	22	-45	23	
<b>Ratios</b>											
		FY23				FY24				Change (bps)	
<b>Asset Quality Ratios (%)</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>YoY</b>	<b>QoQ</b>	
GNPA	11.3	10.5	9.8	8.7	7.7	7.0	6.2	5.7	-301	-51	
NNPA	4.3	3.8	3.3	2.7	2.0	1.5	1.0	0.7	-199	-23	
PCR (Cal.)	64.8	66.3	68.5	70.8	75.8	80.0	85.4	87.9	1,714	254	
PCR (Incl. TWO)	83.0	84.0	85.2	86.9	89.8	91.9	94.3	95.4	849	111	
Credit Cost	2.7	2.7	2.5	1.9	2.0	1.7	1.3	0.9	-97	-39	
<b>Capitalisation Ratios (%)</b>											
Tier-1	12.1	12.2	12.2	12.7	12.3	12.0	11.7	13.2	48	144	
- CET 1	10.9	10.9	10.8	11.2	10.9	10.2	9.9	11.0	-18	118	
CAR	14.8	14.7	15.2	15.5	15.5	15.1	14.6	16.0	47	134	
LCR	165.1	164.1	158.0	162.3	159.5	149.3	136.9	0.0	-16,229	-13,685	
<b>Business Ratios (%)</b>											
CASA	46.3	44.9	43.7	43.0	41.9	42.2	42.5	41.4	-156	-103	
Loan/Deposit	65.3	64.8	66.1	64.8	66.5	67.9	69.2	68.2	337	-102	
Fees to Total Income	33.5	25.6	27.5	28.0	23.3	21.8	26.7	23.2	-478	-348	
Cost to Core Income	43.1	49.9	53.9	53.8	55.7	52.8	48.2	59.6	580	1,134	
Tax Rate	47.6	37.8	37.3	43.1	37.3	36.7	38.1	37.6	-544	-47	
<b>Profitability Ratios (%)</b>											
Yield on loans	6.5	6.9	7.2	7.9	8.1	8.2	8.5	8.4	54	-1	
Yield On Investments	6.4	6.5	6.6	6.8	6.7	6.9	6.8	6.8	-2	2	
Yield on Funds	5.7	5.8	6.2	6.5	6.7	6.9	7.1	7.2	66	6	
Cost of Deposits	3.8	3.9	4.2	4.5	4.7	4.9	5.0	5.1	59	13	
Cost of Funds	3.4	3.4	3.7	3.9	4.2	4.3	4.4	4.5	62	10	
Margins	2.8	3.0	3.2	3.2	3.1	3.1	3.2	3.1	-14	-5	
<b>Other Details</b>											
Branches	10,058	10,038	10,049	10,076	10,080	10,092	10,108	10,136	60	28	
ATM	13,219	12,966	12,957	12,898	12,820	12,645	12,455	12,131	-767	-324	



## Highlights from the management commentary

### Opening Remarks

- This quarter was one of the best quarters of the bank. And PNB has delivered better than what was previously guided.
- Gross deposits stood at INR13.68t with growth of 6.9% YoY. Advances grew INR9.34t growing at 12.5%.
- CASA guidance is 42% for FY25, current CASA stands at 41.44%.
- RAM is 55.18% of the total overall advances; management aims to bring RAM to 60% in the next 2-3 years.
- Net profit for 4Q was INR30.1b with growth of 159% YoY. Profit for 4QFY24 was greater than FY23 profit.
- GNPA and NNPA have reduced and below the earlier guidance and the bank has well achieved this guidance.
- Bank guides the FY25 slippages ratio to be <1%.
- CAR has improved to 15.97%, on account of better profitability and capital raising.
- Presently, NIM stands at 3.25%, while the Global NIM for FY24 is recorded at 3.10%. The NIM guidance remains at 2.9-3.0%, with the bank striving for enhanced NII improvement in each subsequent quarter.
- PNB has been able to contain slippages as well as the credit costs. The bank expects the reversal of NPA provisions in the coming quarter.
- Book Break-up: MCLR – 35%, Repo – 40%, EBLR – 10%, and base rate at 2%
- CAR – 15.97%, CET – 11.04%. PNB is not in immediate need of capital, the bank has the Board approval for INR75b for capital raise through QIP.
- Management hopes to recover approx. INR30-32b from the NCLT in FY25.

### Yields, costs, and margins

- Current NIM stands at 3.25% and the bank expects 2.9-3.0% margin in FY25. PNB aspires an absolute number for NII from hereon.
- The cost of deposits is increasing due to tight liquidity conditions and increase in the deposits rate.
- 95% of the deposits has already repriced towards the new rates. 5% of the repricing is still left as it is in the long tenure.

### Advances and deposits

- Credit growth guidance stands at 11-12%; credit growth was higher than the guidance in all previous quarters. The bank will revise growth guidance as and when visibility improves.
- C/D has reduced in 4Q, it was 69.05% and will improve to 73-75%. Management is comfortable with the C/D ratio and has an excess SLR of INR1t.
- It has a higher deposit growth than advances; as a result, the C/D ratio reduced.
- PNB has INR1t of excess SLR and it has other levers to deposit this money.
- The bank remains opportunistic to corporate growth.
- Demand in the RAM segment is strong at 55% and PNB aims to increase this to 60%. Capex is visible in the private sector, with significant demand from steel, cement, and roadway industries.
- PNB is partnering with IREDA, REC, and another company in terms of project financing, the bank leverages their expertise.
- The bank is maintaining its market share in the current account segment, boosted by the launch of a corporate mobile app. It opened 0.286m current accounts in FY24 compared to 0.2m accounts in FY23.

### Asset quality

- Slippages break-up: Agri – INR8,040m, MSME - INR6,660m, Retail – INR4,220b, Others - INR1,870m, and increase in existing slippages - INR1,280m.
- Slippages have not increased in agri and there may be some volatility in the agri segment amid seasonality.
- PNB has admitted 805 accounts in the NCLT, amounting to INR1.03t, of which INR1.02t is already admitted and 24 accounts are still to be admitted. An amount of INR33.06b of recovery have already been made.
- There is consistent reduction in slippages and there is no stress visible.
- The bank has recoveries target of 2X of the slippages. Bank expects INR180b of recovery guidance.
- Written-off pool stood at INR900b, while GNPA was at INR560b.
- Credit costs were 1.26% in 4Q, and 1.4% for FY24 vs. 2.03% for FY23. The bank guides for credit cost of <1%.
- PNB has been able to contain slippages as well as the credit costs. The bank expects the reversal of NPA provisions in the coming quarter.
- There is no stress as visible in the Punjab side in terms of MFI.

### Opex related

- The bank has allocated INR23.96b for AS-15 provisions, attributed to the new arrangements for leave encashment at increased salaries, a decrease in Gsec rates leading to heightened pension obligations, and increased pension requirements.
- INR23.96b has been set aside for wage provisions, with the bank anticipating INR35-36b in wage provisions going forward.
- Employee costs amounted to INR56.3b, including INR23.96b for AS-15 provisions, while other operating expenses are expected to grow by 5-7%.
- Discussions with tax consultants are underway for transitioning towards the new tax regime, while the bank continues to benefit from certain provisions of the old tax regime.

### The RBI guidelines on investment

- The bank will have INR50b of accretion in the AFS reserve due to the new investment guidelines.

### The RBI circular on project finance

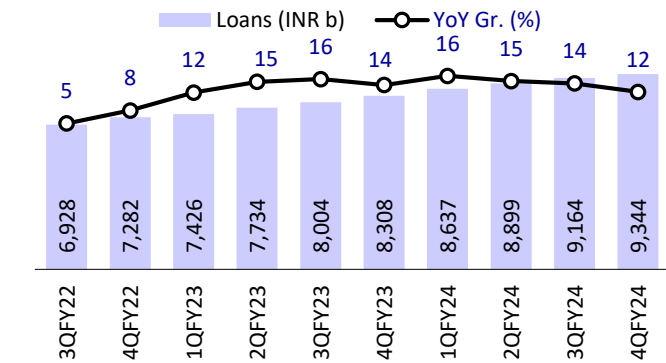
- These are draft guidelines currently under consultation with both borrowers and the bank.
- Regulators are aiming to instill discipline in response to any rise in risk.
- The bank aims to attain clarity from the regulator.
- With a robust balance sheet and adequate provisioning, the bank is in a healthy position.
- The bank awaits the final guidelines and commits to passing on any pricing adjustments necessitated by increased provisions.

### Guidance

- NIMs stands at 3.25%, NIM global is 3.10% for FY24. NIM guidance stood at 2.9-3.0%, though the bank will aim for better NII improvement in every quarter.
- The bank guides for credit cost of <1%.
- FY25 slippages ratio will be <1%.
- CASA ratio guidance is 42% for FY25.
- Credit growth guidance is 11-12% for FY25
- Bank guides for RoA of 1% as the exit-RoA for FY25.

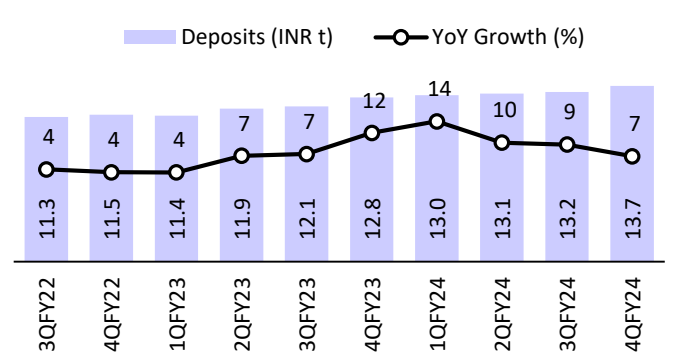
## Story in charts

**Exhibit 1: Loan book grew 12% YoY in 4QFY24**



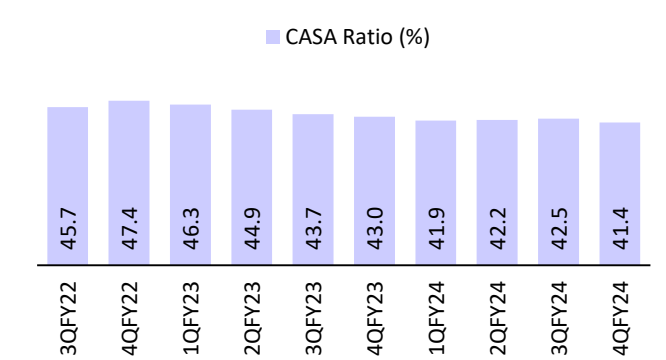
Source: MOFSL, Company

**Exhibit 2: Deposits grew 7% YoY (3.5% QoQ)**



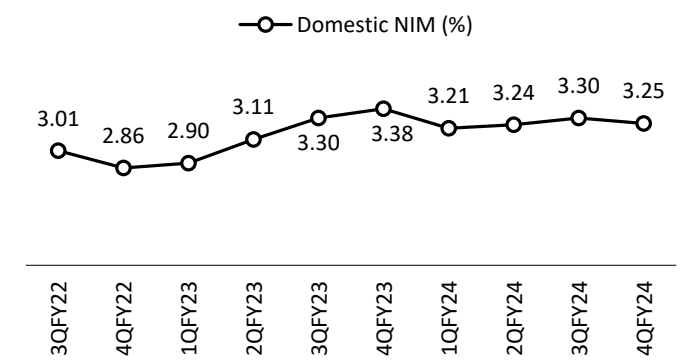
Source: MOFSL, Company

**Exhibit 3: CASA ratio moderated 103bp QoQ to 41.4%**



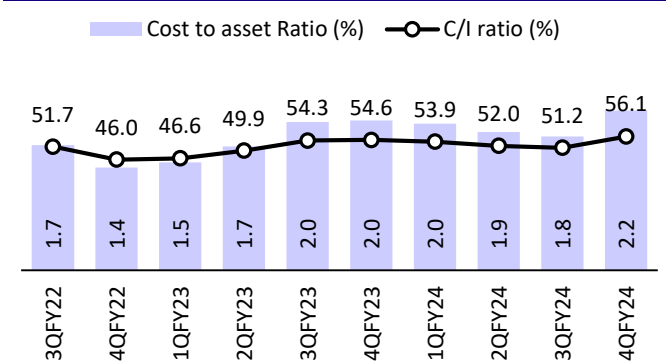
Source: MOFSL, Company

**Exhibit 4: Domestic NIM moderated 5bp QoQ to 3.25%**



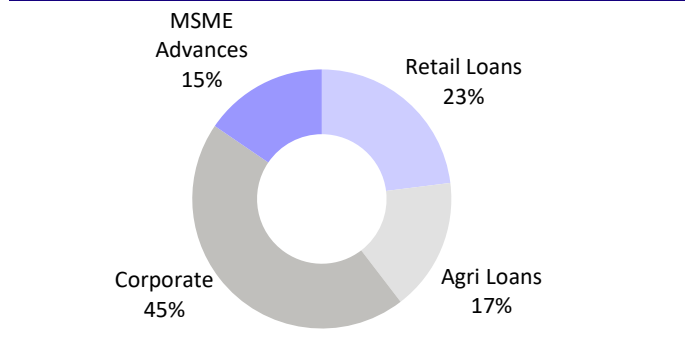
Source: MOFSL, Company

**Exhibit 5: C/I ratio stood at 56% in 4QFY24**



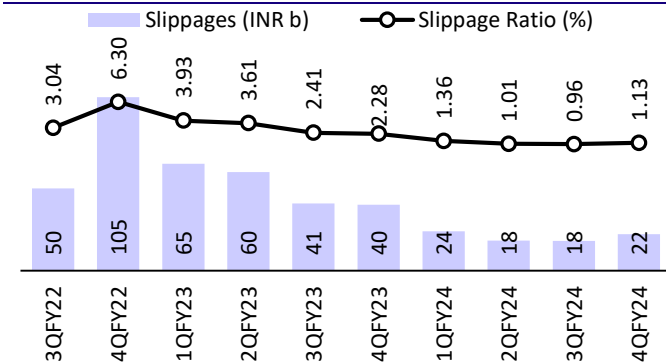
Source: MOFSL, Company

**Exhibit 6: O/s loan mix: RAM constituted 55% of total loans**



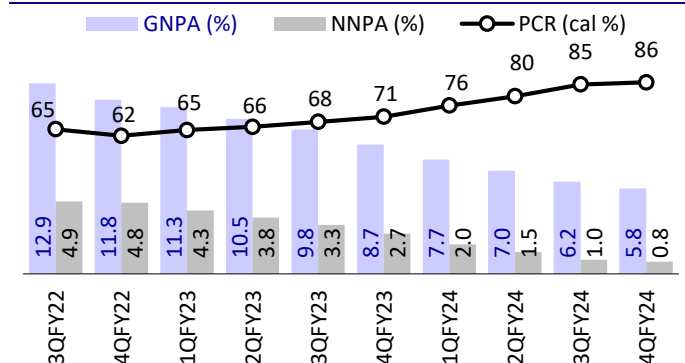
Source: MOFSL, Company

**Exhibit 7: Slippages stood at (INR22b) in 4QFY24**



Source: MOFSL, Company

**Exhibit 8: GNPA/NNPA ratios improved 51bp/23bp QoQ to 5.7%/0.7% in 4QFY24**



Source: MOFSL, Company

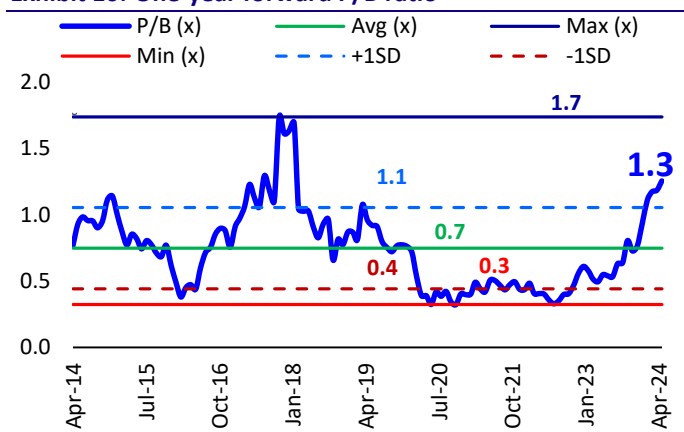
**Valuation and view: Reiterate Neutral with a TP of INR130**

- PNB reported a mixed quarter as PAT beat was driven by a sharp decline in provisions, while PPOP missed our estimates due to higher opex. NII growth stood in line even as NIM contracted slightly.
- 4Q witnessed relatively slower growth, but management aims to improve its share in the RAM portfolio, which will support margins.
- Asset quality continues to see a sharp improvement as recoveries and w-off continue to be healthy. PCR thus improved further to 88%, while asset quality ratios also improved. SMA overdue (with loans over INR50m) remains under control at 0.15% of domestic loans, while the bank continues to guide robust recoveries at 2x of slippages. PNB expects the credit cost and slippages to be contained at <1% and projects RoA at 1% by 4QFY25.
- We raise our EPS estimates by 7%/5% for FY25/FY26, factoring in lower provisions, healthy other income, and steady margins. We estimate an RoA/ RoE of 0.8%/12.8% in FY25 and 1.0%/14.5% in FY26. **Reiterate Neutral with a revised TP of INR130 (premised on 1.1x FY26E ABV).**

**Exhibit 9: We increase our FY25/FY26 earnings estimates by 7%/5%**

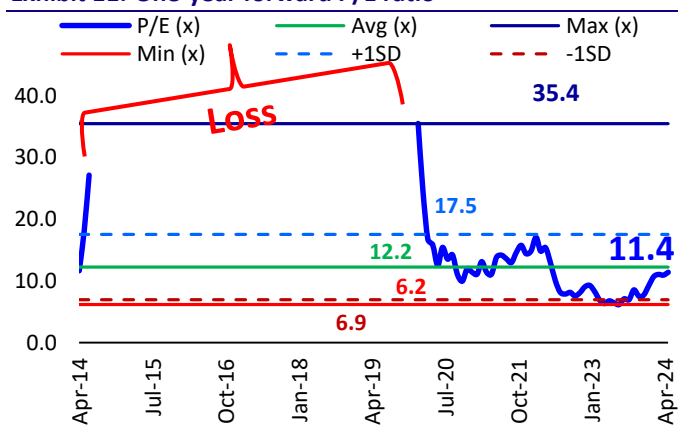
INR B	Old Est.		Rev. Est.		Chg. (%)/bps	
	FY25	FY26	FY25	FY26	FY25	FY26
<b>Net Interest Inc</b>	<b>437.8</b>	<b>475.1</b>	<b>427.6</b>	<b>471.4</b>	<b>-2.3</b>	<b>-0.8</b>
Other Income	143.4	162.0	149.9	166.4	4.5	2.7
<b>Total Income</b>	<b>581.2</b>	<b>637.2</b>	<b>577.5</b>	<b>637.8</b>	<b>-0.6</b>	<b>0.1</b>
Operating Exp	300.4	327.3	293.2	316.9	-2.4	-3.2
<b>Operating Profit</b>	<b>280.8</b>	<b>309.8</b>	<b>284.3</b>	<b>321.0</b>	<b>1.3</b>	<b>3.6</b>
Provisions	96.9	89.3	94.0	90.4	-3.0	1.2
<b>PBT</b>	<b>183.8</b>	<b>220.5</b>	<b>190.4</b>	<b>230.6</b>	<b>3.5</b>	<b>4.6</b>
Tax	58.8	56.2	57.1	58.8	-2.9	4.6
<b>PAT</b>	<b>125.0</b>	<b>164.3</b>	<b>133.2</b>	<b>171.8</b>	<b>6.6</b>	<b>4.6</b>
Credit Cost (%)	0.9	0.8	0.9	0.8	-2	2
<b>RoA (%)</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>	<b>1.0</b>	<b>5</b>	<b>4</b>
<b>RoE (%)</b>	<b>11.8</b>	<b>13.8</b>	<b>12.8</b>	<b>14.5</b>	<b>100</b>	<b>75</b>
EPS	11.4	14.9	12.1	15.6	6.6	4.6
<b>BV</b>	<b>104.8</b>	<b>118.8</b>	<b>103.6</b>	<b>118.2</b>	<b>-1.2</b>	<b>-0.5</b>
ABV	96.1	110.4	96.1	109.8	0.0	-0.5

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



Source: MOFSL, Company

**Exhibit 11: One-year forward P/E ratio**



Source: MOFSL, Company

**Exhibit 12: DuPont Analysis – Return ratios to improve gradually**

<b>Annual DuPont</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>
Interest Income	7.73	5.81	6.13	7.07	7.24	7.12
Interest Expense	4.81	3.59	3.65	4.42	4.62	4.49
<b>Net Interest Income</b>	<b>2.92</b>	<b>2.23</b>	<b>2.48</b>	<b>2.65</b>	<b>2.61</b>	<b>2.63</b>
<b>Other Income</b>	<b>1.14</b>	<b>0.96</b>	<b>0.87</b>	<b>0.89</b>	<b>0.92</b>	<b>0.93</b>
<b>Total Income</b>	<b>4.06</b>	<b>3.19</b>	<b>3.36</b>	<b>3.54</b>	<b>3.53</b>	<b>3.56</b>
<b>Operating Expenses</b>	<b>1.94</b>	<b>1.57</b>	<b>1.74</b>	<b>1.89</b>	<b>1.79</b>	<b>1.77</b>
Employees	1.16	0.92	1.07	1.22	1.09	1.07
Others	0.78	0.65	0.67	0.66	0.71	0.70
<b>Operating Profits</b>	<b>2.12</b>	<b>1.61</b>	<b>1.62</b>	<b>1.65</b>	<b>1.74</b>	<b>1.79</b>
<b>Core operating Profits</b>	<b>1.78</b>	<b>1.38</b>	<b>1.70</b>	<b>1.74</b>	<b>1.84</b>	<b>1.90</b>
<b>Provisions</b>	<b>1.79</b>	<b>1.28</b>	<b>1.31</b>	<b>0.78</b>	<b>0.57</b>	<b>0.50</b>
<b>PBT</b>	<b>0.33</b>	<b>0.34</b>	<b>0.31</b>	<b>0.87</b>	<b>1.16</b>	<b>1.29</b>
Tax	0.14	0.07	0.13	0.33	0.35	0.33
<b>RoA</b>	<b>0.19</b>	<b>0.27</b>	<b>0.18</b>	<b>0.55</b>	<b>0.81</b>	<b>0.96</b>
Leverage (x)	13.64	13.81	14.21	14.65	14.52	14.13
<b>RoE</b>	<b>2.64</b>	<b>3.71</b>	<b>2.57</b>	<b>7.99</b>	<b>11.83</b>	<b>13.55</b>



## Financials and valuations

<b>Income Statement</b>							(INR b)
<b>Y/E March</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	
Interest Income	808.2	748.8	851.4	1,069.0	1,183.3	1,276.1	
Interest Expense	502.7	461.9	506.5	668.2	755.7	804.6	
<b>Net Interest Income</b>	<b>305.5</b>	<b>286.9</b>	<b>344.9</b>	<b>400.8</b>	<b>427.6</b>	<b>471.4</b>	
Growth (%)	75.2	-6.1	20.2	16.2	6.7	10.3	
Non-Interest Income	119.2	123.2	121.4	133.8	149.9	166.4	
<b>Total Income</b>	<b>424.7</b>	<b>410.1</b>	<b>466.3</b>	<b>534.7</b>	<b>577.5</b>	<b>637.8</b>	
Growth (%)	59.0	-3.4	13.7	14.7	8.0	10.5	
Operating Expenses	203.1	202.5	241.1	285.4	293.2	316.9	
<b>Pre Provision Profits</b>	<b>221.6</b>	<b>207.6</b>	<b>225.3</b>	<b>249.3</b>	<b>284.3</b>	<b>321.0</b>	
Growth (%)	50.3	-6.3	8.5	10.7	14.0	12.9	
<b>Core PPOp</b>	<b>186.3</b>	<b>178.3</b>	<b>236.7</b>	<b>263.0</b>	<b>300.7</b>	<b>340.6</b>	
Growth (%)	42.1	-4.3	32.8	11.1	14.4	13.3	
Provisions (excl tax)	186.8	164.5	182.4	117.4	94.0	90.4	
<b>PBT</b>	<b>34.8</b>	<b>43.2</b>	<b>42.9</b>	<b>131.9</b>	<b>190.4</b>	<b>230.6</b>	
Tax	14.6	8.6	17.8	49.5	57.1	58.8	
Tax Rate (%)	41.9	19.9	41.5	37.5	30.0	25.5	
<b>PAT</b>	<b>20.2</b>	<b>34.6</b>	<b>25.1</b>	<b>82.4</b>	<b>133.2</b>	<b>171.8</b>	
Growth (%)	501.3	71.0	-27.5	228.8	61.6	28.9	
<b>Balance Sheet</b>							
<b>Y/E March</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	
<b>Share Capital</b>	<b>21</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>	
Equity Share Capital	21.0	22.0	22.0	22.0	22.0	22.0	
Preference Share Capital	0	0	0	0	0	0	
Reserves & Surplus	888.4	932.8	976.5	1,042.7	1,165.0	1,325.7	
<b>Net Worth</b>	<b>909.4</b>	<b>954.9</b>	<b>998.6</b>	<b>1,064.8</b>	<b>1,187.0</b>	<b>1,347.8</b>	
<b>Deposits</b>	<b>11,063.3</b>	<b>11,462.2</b>	<b>12,811.6</b>	<b>13,697.1</b>	<b>14,861.4</b>	<b>16,243.5</b>	
Growth (%)	57.2	3.6	11.8	6.9	8.5	9.3	
<b>of which CASA Dep</b>	<b>4,927.8</b>	<b>5,336.5</b>	<b>5,380.2</b>	<b>5,684.3</b>	<b>6,093.2</b>	<b>6,806.0</b>	
Growth (%)	62.9	8.3	0.8	5.7	7.2	11.7	
Borrowings	428.4	456.8	512.9	504.3	631.8	678.3	
Other Liabilities & Prov.	205.2	274.2	295.2	352.2	405.0	465.7	
<b>Total Liabilities</b>	<b>12,606.3</b>	<b>13,148.1</b>	<b>14,618.3</b>	<b>15,618.4</b>	<b>17,085.2</b>	<b>18,735.3</b>	
Current Assets	1,113.5	1,326.5	1,551.1	1,291.0	1,285.9	1,319.9	
<b>Investments</b>	<b>3,929.8</b>	<b>3,721.7</b>	<b>3,960.0</b>	<b>4,203.2</b>	<b>4,480.6</b>	<b>4,807.7</b>	
Growth (%)	63.4	-5.3	6.4	6.1	6.6	7.3	
<b>Loans</b>	<b>6,742.3</b>	<b>7,281.9</b>	<b>8,308.3</b>	<b>9,344.3</b>	<b>10,484.3</b>	<b>11,711.0</b>	
Growth (%)	42.9	8.0	14.1	12.5	12.2	11.7	
Fixed Assets	110.2	106.7	120.5	123.2	133.0	141.0	
Other Assets	710.5	711.3	678.4	656.6	701.3	755.7	
<b>Total Assets</b>	<b>12,606.3</b>	<b>13,148.1</b>	<b>14,618.3</b>	<b>15,618.4</b>	<b>17,085.2</b>	<b>18,735.3</b>	
<b>Asset Quality</b>							
<b>Y/E March</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	
GNPA	1,044.2	924.5	773.3	572.6	459.9	421.0	
NNPA	393.0	355.9	235.0	68.2	52.8	62.4	
Slippages	289.4	247.4	160.3	77.7	99.1	122.1	
GNPA Ratio	14.1	11.8	8.7	5.8	4.2	3.5	
NNPA Ratio	5.8	4.9	2.8	0.7	0.5	0.5	
Slippage Ratio	4.2	3.5	2.1	0.9	1.0	1.1	
Credit Cost	2.72	2.35	2.34	1.33	0.90	0.77	
PCR (Excl Tech. write off)	62.4	61.5	69.6	88.1	88.5	85.2	

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Yield and Cost Ratios (%)</b>						
<b>Avg. Yield- on Earning Assets</b>	<b>6.9</b>	<b>6.2</b>	<b>6.5</b>	<b>7.5</b>	<b>7.6</b>	<b>7.5</b>
Avg. Yield on loans	7.8	6.9	7.4	8.6	8.6	8.4
Avg. Yield on Investments	6.6	6.3	6.7	6.9	6.9	6.9
<b>Avg. Cost of Int. Bear. Liab.</b>	<b>4.4</b>	<b>3.9</b>	<b>4.0</b>	<b>4.9</b>	<b>5.1</b>	<b>5.0</b>
Avg. Cost of Deposits	4.3	3.8	3.9	4.9	5.0	4.9
<b>Interest Spread</b>	<b>2.5</b>	<b>2.3</b>	<b>2.5</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
<b>Net Interest Margin</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>
<b>Capitalisation Ratios (%)</b>						
CAR	14.3	14.6	14.6	16.9	15.8	15.2
CET-1	10.6	10.6	11.2			
Tier I	11.5	11.8	11.8	13.9	13.1	12.8
Tier II	2.8	2.8	2.8	3.0	2.6	2.4
<b>Business and Efficiency Ratios (%)</b>						
Loans/Deposit Ratio	60.9	63.5	64.8	68.2	70.5	72.1
CASA Ratio	44.5	46.6	42.0	41.5	41.0	41.9
Cost/Assets	1.6	1.5	1.6	1.8	1.7	1.7
Cost/Total Income	47.8	49.4	51.7	53.4	50.8	49.7
Cost/Core income	52.2	53.2	2.0	2.0	1.7	1.6
Int. Expense/Int.Income	62.2	61.7	59.5	62.5	63.9	63.1
Fee Income/Total Income	19.8	22.9	28.5	27.6	28.8	29.2
Non Int. Inc./Total Income	28.1	30.0	26.0	25.0	26.0	26.1
Empl. Cost/Total Expense	60.0	58.5	61.4	64.8	60.5	60.5
CASA per branch (INR m)	457.6	528.5	534.0	553.1	581.2	636.5
Deposits per branch (INR m)	1,027.3	1,135.1	1,271.5	1,332.7	1,417.7	1,519.1
Business per Employee (INR m)	174.9	181.7	202.8	217.0	234.0	253.0
Profit per Employee (INR m)	0.2	0.3	0.2	0.8	1.2	1.6
<b>Valuation ratios</b>						
RoE	2.9	4.0	2.8	8.7	12.8	14.5
RoA	0.2	0.3	0.2	0.5	0.8	1.0
RoRWA	0.4	0.6	0.4	1.2	1.9	2.3
Book Value (INR)	83	83	86	92	104	118
Growth (%)	-6.4	0.2	3.9	7.0	12.0	14.1
<b>Price-BV (x)</b>	<b>1.5</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>	<b>1.2</b>	<b>1.0</b>
Adjusted BV (INR)	53	57	68	84	96	110
<b>Price-ABV (x)</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>	<b>1.4</b>	<b>1.3</b>	<b>1.1</b>
EPS (INR)	1.9	3.2	2.3	7.5	12.1	15.6
<b>Price-Earnings (x)</b>	<b>63.2</b>	<b>37.9</b>	<b>53.6</b>	<b>16.3</b>	<b>10.1</b>	<b>7.8</b>
Dividend Per Share (INR)	0.0	0.6	0.7	0.8	1.0	1.0
<b>Dividend Yield (%)</b>	<b>0.0</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>

E: MOFSL Estimates

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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

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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