Equity Research
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BSE Sensex: 48879

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Q3FY21 result review and TP revision

Financials

Target price: Rs2,205

Earnings revision

(%)	FY21E	FY22E
PAT	↑ 2.1	↑ 0.3

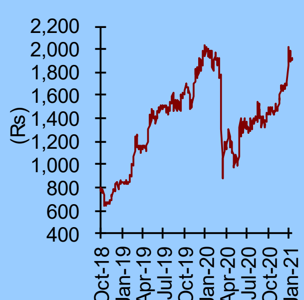
Target price revision
Rs2,205 from Rs1,650

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	53.5	50.2	50.2
Institutional investors	37.5	40.4	40.4
MFs and others	4.4	4.0	3.8
Banks & FIs	5.9	4.6	4.1
Insurance Cos.	1.4	2.5	0.0
FPI	24.5	28.0	32.5
Others	9.1	9.5	9.4

Source: CMIE

Price chart



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INDIA

ICICI Securities

Aavas Financiers

BUY
Maintained

Quality intact; premium to sustain

Rs1,857

Aavas Financiers' (Aavas) asset quality performance reinforces resilience with stage-3 assets (including standstill accounts) at 1%, sub-50bps provisioning for 9MFY21 (75bps in Q3FY21), collection efficiency at 98.8% (December), 1+ dpd pool at 8.2% and zero restructuring. AUM growth of 23% YoY (5% QoQ), sequential uptick (of >10bps) in spreads, cost containment (5-6% rise in opex) supported core operating earnings further buoyed by securitisation income of Rs405mn. Consistency and resilience during challenging times, coupled with stable operating metrics and well-contained stress, enhances visibility towards 3.7-3.8% RoAs and 13-15% RoAs by FY22/23. Aavas trades at 4.6x FY23E P/BV – not inexpensive, but premium is likely to expand with greater confidence emerging. Maintain BUY with a revised target price of Rs2,205 (earlier: Rs1,650) now assigning 5.5x multiple to FY23E book. Key risks: 1) stress unfolding higher than anticipated levels; 2) rising competition can weigh on yields.

- **Best-in-class asset quality metrics in challenging times:** In Q2FY21, it highlighted 1+dpd was contained at better levels of 6.2% (much earlier than anticipated) and expectedly rose to 8.2% in Q3FY21. This was on account of customers missing second or third installments. However, it is seeing collection efficiency improvement (98.8% in December) and 1+ dpd should normalise to ~5%. Slips from 1+dpd into delinquency bucket, pushed stage-3 assets higher - came in at 1% (0.47% in Q2FY21) and for FY21/22 we expect it to range between 1.2-1.5%.
- **Credit cost risks set aside:** Critically evaluating the customer profile across risk categories, it made further Rs43mn of Covid provisioning taking cumulative buffer to Rs190mn (22bps of advances). Including this, too, credit cost was contained sub-50 bps in 9MFY21. We are building in 0.6%/0.2% credit cost for FY21/22E.
- **Filtering self-employed into positive list; disbursements skewed towards salaried:** Compared to earlier approach of drawing a negative list, now it is filtering self-employed customers into a positive list and lending is limited only to this category. Consequently, disbursements are more skewed towards salaried customers. During Q3FY21, we saw a shift in mix by almost 420bps in favour of salaried customers to 39% of which 2.0-2.5% was disbursement-led and 1.5% due to customer reclassification (based on occupation of primary earnings member rather than applicant). Overall disbursement momentum was intact - flat YoY (up 15% QoQ), this is despite cautious stance in LAP/self-employed (down 6% YoY). Also, it resorted to securitisation of Rs2.4bn and off-book AUM rose to 23% of AUM (compared to average of 20%). We believe 20-25% is feasible and more realistic over FY21/22/23.
- **Core spreads further improved to 5.7%:** Average borrowing cost further declined (22bps) to 7.68% against the portfolio yields of 13.4%. Higher yield on securitised portfolio led to recognising a gain of Rs405mn that led to earnings beat. We expect NIMs to be sustained at 6.8-7.2% for FY21/22/23E.

Market Cap	Rs146bn/US$2bn
Reuters/Bloomberg	AVAS.BO/AAVAS IN
Shares Outstanding (mn)	78.4
52-week Range (Rs)	2022/875
Free Float (%)	49.8
FII (%)	32.5
Daily Volume (US$'000)	3,337
Absolute Return 3m (%)	25.5
Absolute Return 12m (%)	(4.5)
Sensex Return 3m (%)	20.7
Sensex Return 12m (%)	20.4

Year to Mar	FY20	FY21E	FY22E	FY23E
NII (Rs mn)	5,131	6,141	7,379	8,889
Net Income (Rs mn)	2,490	2,774	3,537	4,331
EPS (fully diluted) (Rs)	31.3	34.9	44.5	54.5
% Chg YoY	41.5	11.4	27.4	22.5
P/E (x)	59.3	53.2	41.8	34.1
P/BV (x)	7.0	6.2	5.4	4.6
Net NPA (%)	0.3	1.1	0.8	0.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
RoA (%)	3.7	3.3	3.7	3.8
RoE (%)	12.7	12.4	13.8	14.6

Table 1: Q3FY21 result review

(Rs mn, year-end March 31)

	Q3FY20	Q2FY21	Q3FY21	% YoY	% QoQ
Income statement					
Interest income	2,301	2,622	2,992	30.0	14.1
Interest expenses	949	1,144	1,169	23.1	2.2
Net interest income	**1,352**	**1,479**	**1,823**	**34.8**	**23.3**
Non-interest Income	92	82	109	17.4	32.8
Total Income (net of interest expenses)	**1,445**	**1,560**	**1,932**	**33.7**	**23.8**
Employee expenses	389	430	431	10.9	0.3
Depreciation and amortisation	54	51	53	(1.0)	3.7
Fees and Commission expenses	15	18	22	51.0	25.7
Other operating expenses	170	135	159	(6.7)	17.1
Total Operating Expense	**627**	**634**	**665**	**6.0**	**4.9**
Pre-provisioning profit (PPoP)	**818**	**927**	**1,267**	**54.9**	**36.7**
Provisions and write offs	13	81	162	1,105.6	100.6
PBT	**804**	**846**	**1,105**	**37.4**	**30.6**
Tax expenses	125	184	249	99.0	35.1
PAT	**679**	**662**	**856**	**26.1**	**29.4**
EPS (Rs)	**8.7**	**8.5**	**10.9**	**25.8**	**29.2**
Balance Sheet					
Share capital	783	784	784	0.1	0.0
Reserves & surplus	19,573	21,431	22,313	14.0	4.1
Shareholders' funds	**20,356**	**22,215**	**23,097**	**13.5**	**4.0**
Borrowings	**45,587**	**60,262**	**64,364**	**41.2**	**6.8**
Deferred tax liabilities (net)	380	250	286	(24.6)	14.7
Other Liabilities and provisions	2,009	1,943	2,608	29.8	34.2
Total Liabilities and SHE	**68,331**	**84,669**	**90,802**	**32.9**	**7.2**
Fixed assets	302	295	281	(7.1)	(4.8)
Loans	**56,246**	**66,873**	**69,697**	**23.9**	**4.2**
Cash & bank balances	9,204	15,055	18,046	96.1	19.9
Investments	45	45	45	0.0	0.0
Other Assets	2,534	2,401	2,733	7.9	13.8
Total Assets	**68,331**	**84,669**	**90,802**	**32.9**	**7.2**
Key ratios					
AUM (Rs mn)	**71,951**	**83,669**	**88,226**	**22.6**	**5.4**
-Home Loans (Rs mn)	53,172	61,497	64,758	21.8	5.3
-Other mortgage loans (Rs mn)	18,779	22,172	23,468	25.0	5.8
Disbursements (Rs mn)	**7,531**	**6,666**	**7,645**	**1.5**	**14.7**
-Home Loans (Rs mn)	5,302	5,057	5,540	4.5	9.5
-Other mortgage loans (Rs mn)	2,229	1,609	2,105	-5.6	30.9
AUM/branch (Rs mn)	294	323	335	14.2	3.8
Yields (%) [Reported-YTD]	13.7	13.5	13.4	*-32 bps*	*-10 bps*
Borrowing costs (%) [Reported-YTD]	8.7	7.9	7.7	*-100 bps*	*-23 bps*
Spreads (%)	5.1	5.6	5.7	*68 bps*	*12 bps*
NIM (%) [Reported-YTD]	**8.7**	**6.8**	**7.4**	***-124 bps***	***60 bps***
Op cost as % of avg assets	**3.8**	**3.1**	**3.0**	***-76 bps***	***-5 bps***
Cost to income (%)	43.4	40.6	34.4	*-898 bps*	*-620 bps*
1+ dpd (%)	3.4	6.2	8.2	*482 bps*	*201 bps*
GNPL (% of on-book loans)	**0.57**	**0.47**	**1.00**	***43 bps***	***53 bps***
NNPL (% of on-book loans)	**0.46**	**0.32**	**0.72**	***26 bps***	***40 bps***
Provision coverage ratio (%)	**19.3**	**31.9**	**28.0**	***870 bps***	***-392 bps***
Credit cost as a % of avg AUM [annualised]	0.08	0.40	0.75	*67 bps*	*35 bps*

Source: Company data, I-Sec research

Aavas Financiers Q3FY21 Earnings Conference Call Takeaways

On asset quality

- 1+dpd is 8.2% (compared to 6.2% in September) – certain customers missed their second/third instalments. However, across buckets collection efficiency is showing improvement and 1+ dpd bucket should normalize to 5-6%.
- 30-90 dpd bucket was 3.8% as of December; during September, this was negligible as 5 months were under moratorium and not receivable.
- There were almost 5,800 accounts that have not paid EMIs is September. Now it is down to 2,000 accounts by December.
- Stage-3 is 1% - largely in line with earlier expectations – it included 0.59% of assets that are still standstill as per Supreme Court order. In terms of region, Maharashtra is also above 1% in terms of GNPLs.
- It created specific provisions of Rs100mn on the stage-3 assets. It has also increased provisioning by 5bps on stage-1/2 pool, thereby creating provision of Rs42mn towards this pool.
- Encouraging trend reflected in collection efficiency – 98.8% in December from 95% in September – very near to pre-Covid levels.

Disbursements and profile of customers

- The company continues to grow consistently in calibrated manner. Continued improvement in economic activity has led to getting back to normal disbursements.
- Change in proportion in portfolio mix towards salaried segment was primarily due to:
    - 1.0-1.5% due to reclassification of occupation of primary earnings member rather than applicants.
    - 2.0-2.5% was due to higher disbursements in favour of salaried and cautious approach towards self-employed (by filtering into positive list)

On assignment and off-book AUMs

- In 9MFY21 – assigned Rs3.9bn and reported gains of Rs405mn on securitized pool as the portfolio was relatively higher yields
- It generally assigns 15-20% of disbursements/AUMs and should continue as a trend.
- Incrementally borrowed Rs9.36bn at 7.04% for 144 months – and average borrowing cost is 7.68% with average tenor of 131 months

Other highlights

- Currently, there are 118395 live accounts – almost 28% YoY growth
- Opened 18 new branches to take retail network to 263 branches
- Employee count: 3,545 – rise of 14% YoY
- Spreads improved 12bps QoQ to 5.74% as 10bps decline in yields (to 13.42%) was more than offset by 22bps funding cost advantage (at 7.68%) in a quarter.

Aavas Financiers Q2FY21 Earnings Conference Call Takeaways

On restructuring

- ***There is no request received for restructuring from customers, but company has the board approved policy in place towards the same***

On collection efficiency

- ***Collection efficiency at ~95% while in normal times, it is in the range of 96-97%***
- In August, total moratorium was 10% in August and it has reduced to 3.5% in September

On credit cost

- Additional ECL provisions of 56.8mn during Q2FY21. This has been arrived by categorization of high, medium. Low and risk-based profiling of customers.
- ***Overall provision is sufficient enough for 2% NPA but management believes that NPA would be in the range of 0.6-0.9%***

On asset quality

- Stage 3 at 0.47% (inclusive of loan accounts which are under standstill as per SC interim order) and Net Stage 3 at 0.2%
- ***For September - Stage 1 is 99%, Stage 2 is 0.6% (0.7% in Q1FY21), and Stage 3 is 0.47%***
- ***6.2% 1+dpd has been reached much early than anticipated.*** 50% have already paid in October
- ***Whatever is 1 dpd plus - generally of this 10-20% translated into GNPLs – more than that provisioned in the balance sheet.***

***On* disbursements**

- Rs 6.66bn disbursements during the quarter (up 3% YoY)
- ***Usually incremental disbursements mix is 70% towards home loan & 30% is other mortgage. But for H1FY21, the mix was 75:25 considering cautious stance due to covid disruption***
- Total top-up during the quarter was less than 1% of total disbursements
- Usually Rs 400-500mn is repayments/part-payments/foreclosure on a quarterly basis
- Sourcing 9,000-10,000 files every month - Now again sourcing similar to pre-Covid levels showing normalcy in its area of operations.

On Opex

- ***Management states that on a YoY basis, opex to assets should reduce by 40bps each year for the next 2-3 years***
- Opex has reduced from 3.8% in H1FY20 to 2.6% of assets in H1FY21

On margins & yield

- ***Decided to reduce aavas financial lending rates by 10 bps from 1st Jan 2021***
- Spreads were maintained at 5.62%
- Average borrowing cost at 7.9% as against portfolio yield at 13.52%
- Zero exposure to CP
- Cost effective long term financing

On liquidity and borrowings

- Continue to maintain zero exposure towards commercial papers
- In the past 10 years, company has not resorted to commercial papers and doesn't wish to do in future as well since its average cost of borrowing currently is also relatively lower at 7.9%
- ***Rating upgrade by ICRA during the quarter***

On return ratios

- ***Endeavour to maintain RoA of 2.5%***

On employees & employee cost

- Invest in future growth in H2FY21 and keeps sufficient bench strength
- ***As a philosophy, ratio is one employee in support for every two employees in business***
- 3,500 employees of which ~2100-2200 are in business while rest are in support
- Added 50 new employees in the collection team to support collection efforts in H1FY21
- 80 people technology team and 15 people data analytics team

On Risk underwriting

- Earlier there was a negative list, while now there is only a positive list. Company will lend only to client under positive list.

On digitization

- 100% leads through mobile app; collection and data dashboard generated online
- Implemented 100% CRM
- 99% repayments are digital
- 80% customer need addressed through app and no need to come to branches
- Using data analytics, it gets some sense which borrower might go in for foreclosure or balance transfer and start engaging with customers through central team. Hence balance transfer has come down in normal circumstances

Aavas: Q1FY21 earnings call: Key Takeaways

- ***82% customers who have paid all installments till June tells the story behind such excellent delivery on asset quality and 1+dpd down to 1.5%.***
- Of course, there are still ***those 7.7% of customers (as on June) who haven't paid a single installment and could be vulnerable.***
- Aavas feels it has good visibility (basis its engagement with the customers) and that it has made adequate COVID provisions to tide over the uncertainity.

Opening Remarks

- Company delivered AUM growth of 25% YoY and **PAT growth of 33% YoY as per IGAAP accounting**
- GS3 was stable QoQ at 0.46%
- Company extended the moratorium to all eligible borrowers until Aug 31, 2020 but it continues to engage with its customers

Asset Quality and provisioning

- Aavas made COVID provisions of Rs46.2mn in Q1FY21 and total ECL provisions stood at Rs268.7mn and 1+dpd stood at 1.5%
- GNPA in Home Loans: 0.52% and GNPA in other mortgages: 0.28%
- No guidance on credit costs for FY21 but reiterated that they have adequately provided for the COVID-led economic dislocation.

Moratorium and collection efficiency

- Moratorium as on June-20 by **customer profile**: Salaried: 13.3% | Self-employed: 20.2%
- Moratorium as on June-20 by **product segment**: Home Loans: 17% | Other mortgages: 20.3%
- Exposure under moratorium for 4 months: March to June: 3.7%
- Exposure under moratorium for 3 months: April to June:7.7%
- As of June, there are ~82% customers who have no dues in their account. For those customers who have paid only part-installments, they are still considered under moratorium.
- **Profile of Aavas customers who are under moratorium (and those who have not paid installments for the last three/four months:**
  - Cash and carry business and essential services: 36.62%
  - Traders: 5%
  - Fabrication: 7%
  - Doctors/Engineers/Professionals: 2.41%
  - Rental income: 2.4%
  - Hospitality segment: 2.99%

- **Exposure under moratorium for 3 months: April to June: 7.7% (25% salaried and 75% self-employed)** | Out of these customers, they have been able to collect installments from ~40% of them in Q2FY21 till date.
- FOIR for salaried customers is 50%. For Aavas salaried customers, the job losses are very minimal. There are some salaried customers who have seen pay cuts and the others have taken moratorium for preservation of cash.
- **June collection efficiency** stood at ~89%-90% [We are assuming this also includes collections of past dues] (improved from ~76% collection efficiency that was reported in April). Collection efficiency has improved by 8%-10% in July over the levels of June.

Restructuring scheme of the RBI

- Aavas is of the view that it will not need to restructure any loan accounts. They have good visibility because they have been in touch with their customers.

AUM growth and disbursements

- Disbursements reduced by 68% YoY to Rs2130mn. Out of this, Rs1489bn was towards Home Loans and another Rs643mn towards other mortgage loans. **Within other mortgage loans, it disbursed Rs315mn in the form of top-up loans (Q4FY20: Rs650mn, Q3FY20: Rs550mn and Q1FY20: Rs960mn). This suggests that while top-up loans were ~25% of the other mortgage loan disbursements in Q3/Q4FY20, it formed ~50% of the "other mortgage loans" disbursements in Q1FY21. This could also suggest that Aavas preferred not to disburse as many LAP loans in Q1FY21.**
- For fresh disbursements in Q1FY21, other mortgage loan ticket size has dropped to Rs0.41mn because of the higher number of top-up loans in the mix.
- July disbursements were better than in the month of June.

Branch expansion plans

- Aavas added one branch in Q1FY21. It is planning to add another 6-7 branches in Q2FY21 and remaining 20-25 branches in H2FY21. Of course, this is the plan now and subject to change based on how the entire COVID situation evolves.

Borrowings and Liquidity

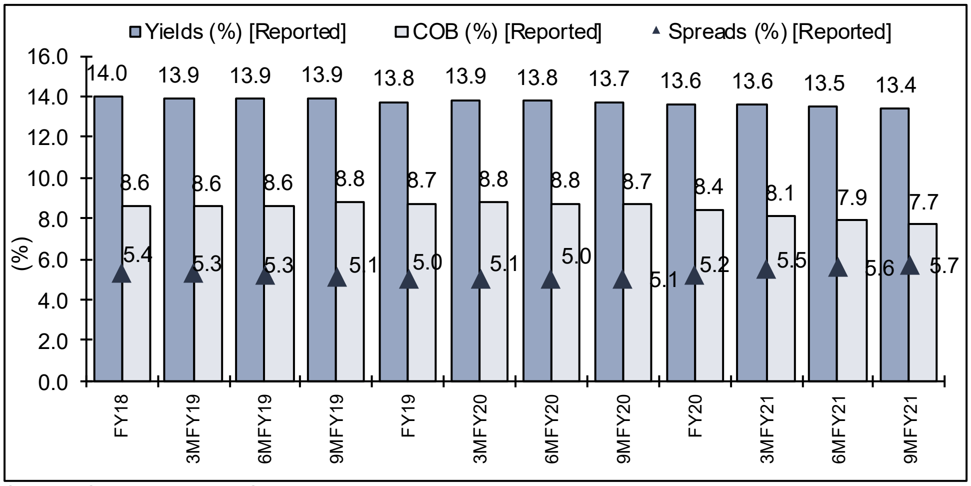
- Aavas raised Rs7160mn in Q1FY21 at a blended cost of 6.03% and tenure of 43 months
- Average cost of borrowings in Q1FY21 stood at 8.1%. Zero exposure to CPs as a prudent borrowing practice.
- Liquidity was comfortable at Rs23.6bn which included Rs15bn of cash and cash equivalents, Rs1.3bn of un-availed CC limits, Rs4bn of sanctions from NHB and Rs3.3bn of sanctions from banks
- GOI had provided Rs100bn to NHB under a special liquidity scheme to benefit the HFCs. Aavas was first among the HFCs to get a disbursement of Rs3.66bn at 4.95%. In addition to this, it was also able to raise ~Rs1.5bn of NCDs from the market.Reported AUM includes capitalized interest of Rs440mn in Q1FY21

- Board has advised Aavas to maintain similar levels of liquidity for the next two quarters. Post this, they will be looking to bring down the level of liquid investments on the balance sheet.
- Assignment is one of the funding instruments for Aavas. If Aavas is able to raise money at a cheaper rate vis-a-vis securitization, then it might prefer not to do these securitization transactions. However, this would also entail that the direct assignment income (which is up-fronted in the P&L under IND-AS) will be lower.

Others

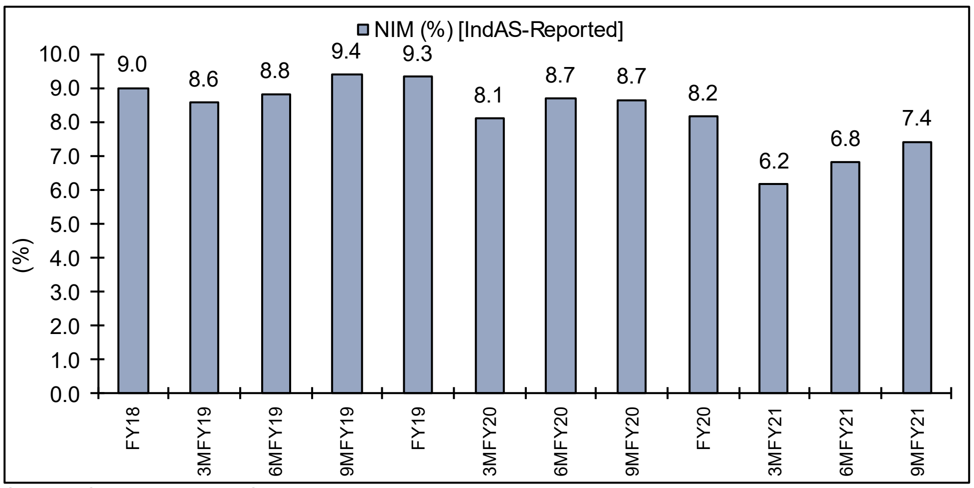
- For full year, the blended tax-rate should be in the range of 20%-21%. This is lower than the corporate tax rate of ~25% because of the tax-exemption that a HFC gets under section 45 IC of the RBI Act. Mortgage lenders will have to create a reserve fund and transfer at least 20% of its net profit every year before any dividend is declared.
- There were 107,300 live accounts suggesting a growth of 27% YoY
- There were 14 new branches which were added in the last 12 months
- 100-150bps difference of loan yields between the salaried and self-employed customer segment.
- Salaried customer mix: Within salaried, ~35%-40% are government-salaried and the remaining ~60% are in the private sector.

Chart 1: Spreads sustaining at a superior level



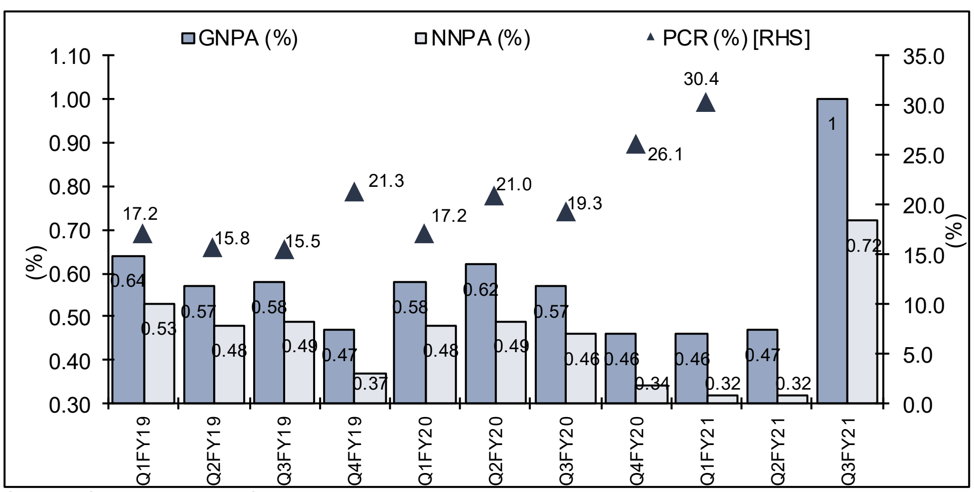
Source: Company data, I-Sec research

Chart 2: NIMs improved largely on account of lower funding cost



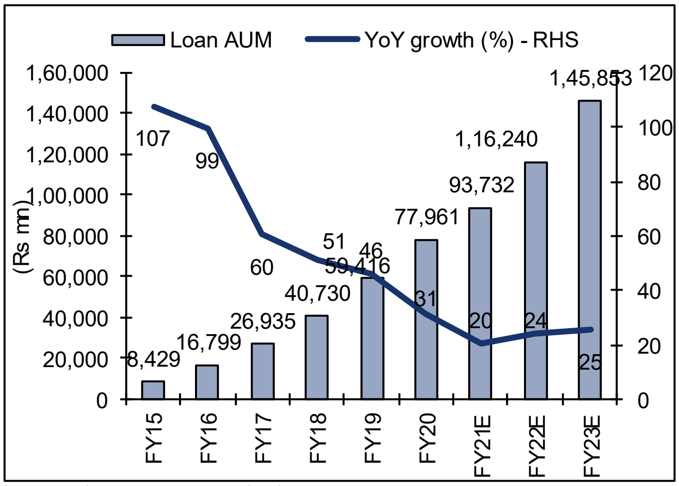
Source: Company data, I-Sec research

Chart 3: Pristine asset quality even in challenging environment



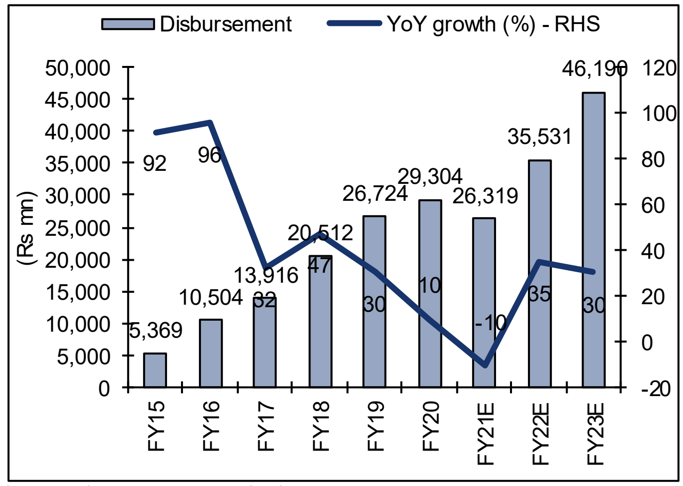
Source: Company data, I-Sec research

Chart 4: AUM growth going strong upwards of 20%



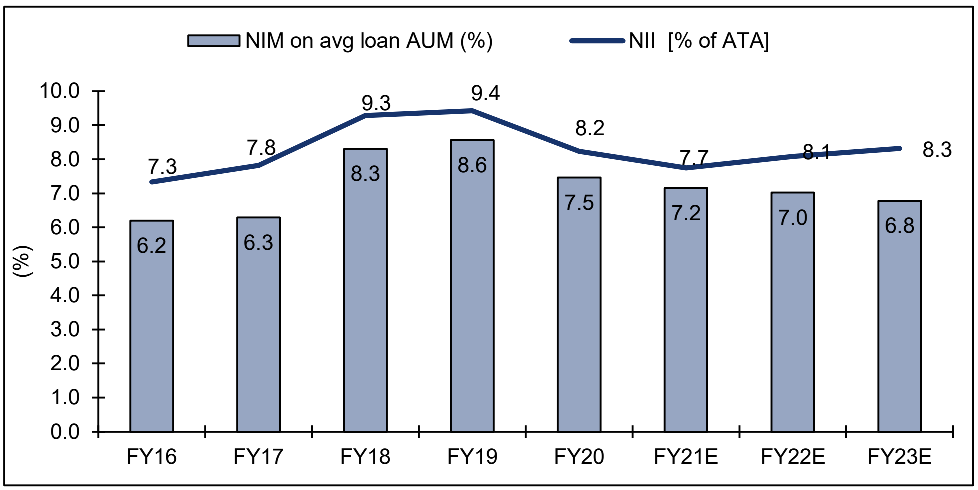
Source: Company data, I-SEC research

Chart 5: Disbursements to pick momentum now on



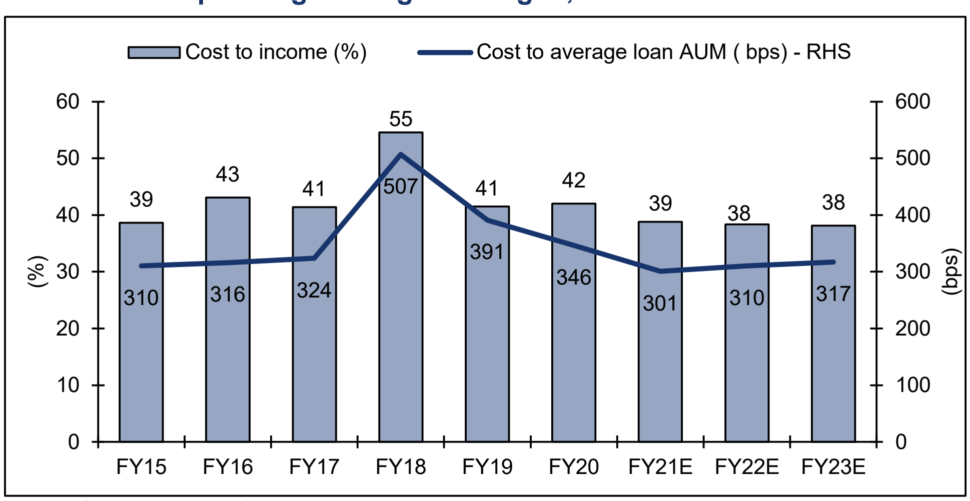
Source: Company data, I-SEC research

Chart 6: Portfolio mix to moderate NIMs on loan AUM



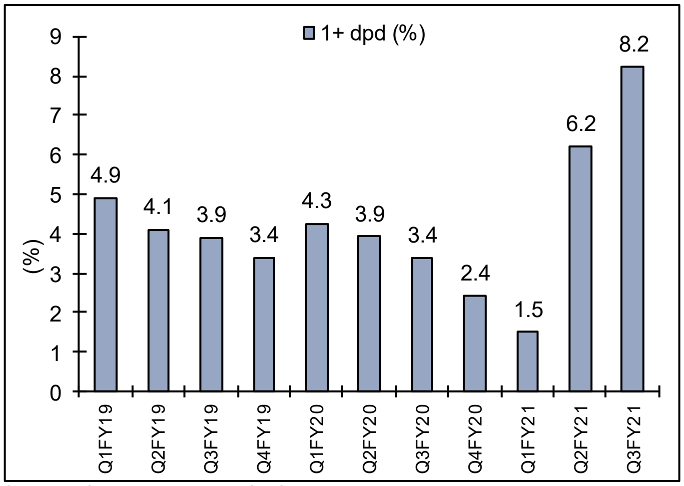
Source: Company data, I-Sec research

Chart 7: With operating leverage kicking in, cost ratios to settle sub-40%



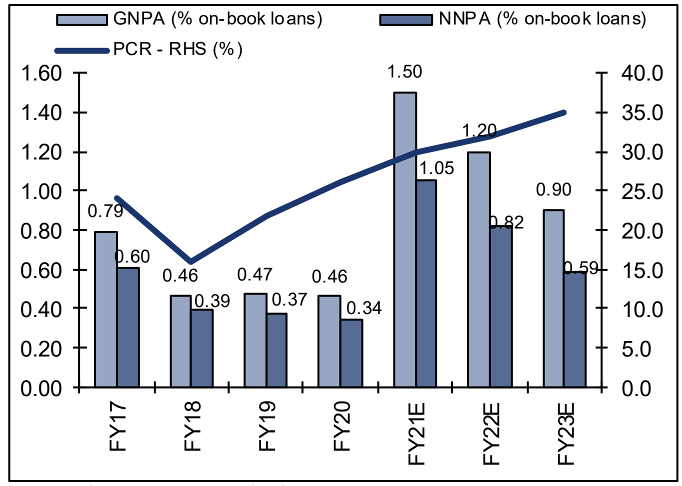
Source: Company data, I-Sec research

Chart 8: 1+ dpd pool rises to 8.2%; improvement seen across all buckets post December



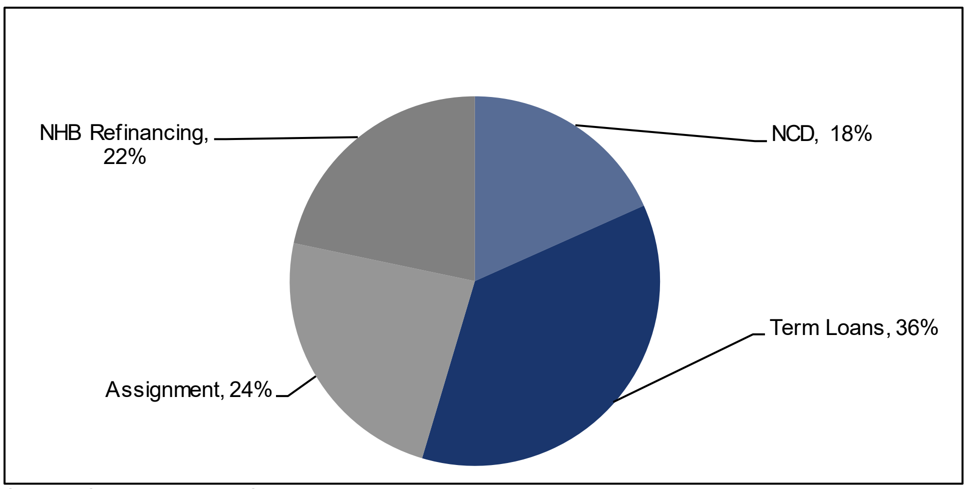
Source: Company data, I-SEC research

Chart 9: Flow from 1+ dpd pool to lead to higher GNPLs



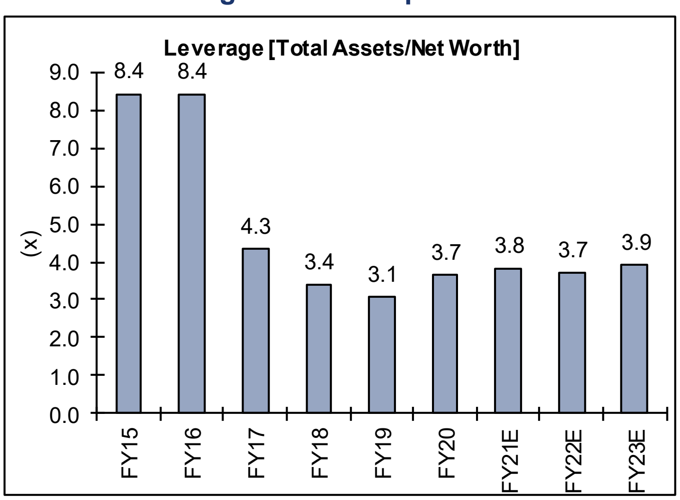
Source: Company data, I-SEC research

Chart 9: Share of low cost NHB refinancing increase in borrowings mix



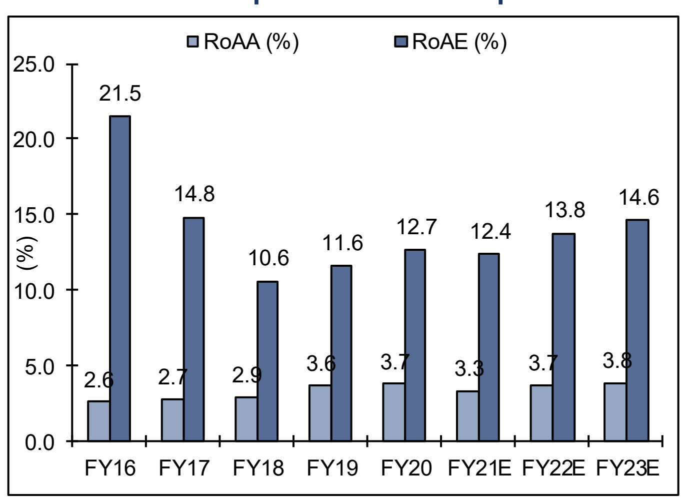
Source: Company data, I-Sec research

Chart 10: Leverage will build up in due course…



Source: Company data, I-SEC research

Chart 11: ...with superior RoA & RoE profile



Source: Company data, I-SEC research

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	6,839	8,692	10,826	12,714	15,154
Interest Expenses	2,554	3,561	4,685	5,336	6,265
Net Interest Income (NII)	**4,286**	**5,131**	**6,141**	**7,379**	**8,889**
Non-Interest Income	270	341	364	435	517
Total Income (net of interest expenses)	**4,556**	**5,472**	**6,505**	**7,814**	**9,407**
Employee benefit expenses	1,172	1,474	1,621	1,865	2,144
Depreciation and amortization	97	196	225	259	298
Other operating expenses	621	630	676	875	1,144
Total Operating Expense	**1,890**	**2,300**	**2,523**	**2,999**	**3,586**
Pre Provisioning Profits (PPoP)	**2,666**	**3,172**	**3,982**	**4,815**	**5,821**
Provisions and write offs	89	153	471	222	196
Profit before tax (PBT)	**2,577**	**3,018**	**3,511**	**4,594**	**5,624**
Total tax expenses	818	529	737	1,057	1,294
Profit after tax (PAT)	**1,759**	**2,490**	**2,774**	**3,537**	**4,331**

Source: Company data, I-Sec research
Note: FY18 onwards numbers are as per Ind-AS

Table 3: Balance sheet

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Share capital	781	783	790	794	795
Reserves & surplus	17,589	20,196	23,066	26,700	31,058
Shareholders' funds	**18,370**	**20,979**	**23,856**	**27,494**	**31,853**
Borrowings	36,533	53,520	65,081	71,733	88,916
Provisions	44	83	99	119	143
Deferred tax liabilities (net)	427	317	320	323	326
Other Liabilities	894	1,681	1,938	2,371	2,976
Total Liabilities and SHE	**56,268**	**76,580**	**91,294**	**1,02,040**	**1,24,213**
Fixed assets	229	319	351	421	505
Loans	**47,245**	**61,808**	**71,236**	**87,180**	**1,09,390**
Cash & bank balances	6,791	11,967	16,000	10,000	9,000
Investments	45	45	45	45	45
Other Assets	1,958	2,441	3,662	4,394	5,273
Total Assets	**56,268**	**76,580**	**91,294**	**1,02,040**	**1,24,213**

Source: Company data, I-Sec research
Note: FY18 onward numbers are as per Ind-AS

Table 4: Key metrics

(Year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
AUM and Disbursements (in Rs mn)					
AUM	59,416	77,961	93,732	1,16,240	1,45,853
On-book Loans	47,245	61,808	71,236	87,180	1,09,390
Off-book Loans	12,171	16,153	22,496	29,060	36,463
Disbursements	26,724	29,304	26,319	35,531	46,190
Growth (%):					
AUM	45.9	31.2	20.2	24.0	25.5
Disbursements	30.3	9.7	-10.2	35.0	30.0
Loan book (on balance sheet)	41.7	30.8	15.3	22.4	25.5
Total Assets	39.3	36.1	19.2	11.8	21.7
Interest Income	44.2	27.1	24.6	17.4	19.2
Interest Expenses	32.3	39.4	31.6	13.9	17.4
Net Interest Income (NII)	52.4	19.7	19.7	20.2	20.5
Non-interest income	34.3	26.1	6.7	19.7	18.9
Total Income (net of interest expenses)	51.2	20.1	18.9	20.1	20.4
Total Non-Interest Expenses	14.9	21.7	9.7	18.9	19.6
Pre provisioning operating profits (PPoP)	94.7	19.0	25.5	20.9	20.9
PAT	89.0	41.5	11.4	27.5	22.4
EPS	48.7	34.0	10.8	26.9	22.3
Yields, interest costs and spreads (%)					
NIM on avg. loan AUM	8.6	7.5	7.2	7.0	6.8
NIM on ATA	9.4	8.2	7.7	8.1	8.3
Yield on interest-earning assets	12.1	12.3	12.4	12.6	12.8
Yield on on-book loans	14.7	14.4	14.2	13.8	13.8
Average cost of funds	8.0	7.9	7.9	7.8	7.8
Interest Spread on loan assets [on-book]	6.7	6.5	6.3	6.0	6.0
Operating efficiencies					
Non-interest income as % of Total income	5.9	6.2	5.6	5.6	5.5
Cost to income ratio (%)	41.5	42.0	38.8	38.4	38.1
Op. costs/avg AUM (%)	3.8	3.3	2.9	2.9	2.7
No of employees	3,187	4,581	4,481	4,681	4,881
Average annual salary (Rs '000)	368	322	362	398	439
Salaries as % of non-int. costs (%)	62.0	64.1	64.3	62.2	59.8
AUM/employee(Rs mn)	19	17	21	25	30
AUM/asset branch(Rs mn)	283	312	335	387	486
Capital Structure					
Debt-Equity ratio	2.0	2.6	2.7	2.6	2.8
Leverage [AUM/Net Worth] (x)	3.2	3.7	3.9	4.2	4.6
Leverage [Assets/Net Worth] (x)	3.1	3.7	3.8	3.7	3.9
Tier 1 CAR (%)	65.4	53.7	51.5	47.1	43.5
Tier 2 CAR (%)	3.1	2.2	1.9	1.6	1.6
CAR (%)	68.5	55.9	53.4	48.7	45.1
Tier I Capital	18,370	20,979	23,856	27,494	31,853
Tier II Capital	871	849	880	935	1,173
Total RWA	28,111	38,939	46,304	58,411	73,291
Asset quality and provisioning					
GNPL (Rs mn)	223	284	1,069	1,046	985
GNPL (%)	0.47	0.46	1.50	1.20	0.90
NNPL (Rs mn)	174	210	748	711	640
NNPL (%)	0.37	0.34	1.05	0.82	0.59
Coverage ratio (%)	21.8	26.0	30.0	32.0	35.0
Credit costs as % of average AUM (bps)	18	22	55	21	15
Return ratios					
RoAAUM (%)	3.5	3.6	3.2	3.4	3.3
RoA (%)	3.6	3.7	3.3	3.7	3.8
RoAE (%)	11.6	12.7	12.4	13.8	14.6
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0

	FY19	FY20	FY21E	FY22E	FY23E
No. of shares (mn)	78.1	78.5	79.0	79.4	79.5
No. of shares - fully diluted (mn)	79.5	79.5	79.5	79.5	79.5
ESOPs outstanding	1.4	0.9	0.5	0.2	0.0
EPS (Rs)	22.5	31.7	35.1	44.6	54.5
EPS fully diluted (Rs)	22.1	31.3	34.9	44.5	54.5
Price to Earnings (x)	82.5	58.6	52.9	41.7	34.1
Price to Earnings (fully diluted) (Rs)	83.9	59.3	53.2	41.8	34.1
BVPS (fully diluted) (Rs)	231.2	264.0	300.2	345.7	400.8
Adjusted BVPS (fully diluted) (Rs)	229.5	262.1	293.2	339.0	394.9
Price to Book (x)	8.0	7.0	6.2	5.4	4.6
Price to Adjusted Book (x)	8.1	7.1	6.3	5.5	4.7
DPS	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company data, I-Sec research

Table 5: DuPont analysis (on average assets)

(Rs mn, year ending Mar 31)

	FY19	FY20	FY21E	FY22E	FY23E
Interest earned	14.2	13.1	12.9	13.2	13.4
Interest expended	5.3	5.4	5.6	5.5	5.5
Gross Interest Spread	**8.9**	**7.7**	**7.3**	**7.6**	**7.9**
Credit cost	0.2	0.2	0.6	0.2	0.2
Net Interest Spread	**8.7**	**7.5**	**6.8**	**7.4**	**7.7**
Operating cost	3.9	3.5	3.0	3.1	3.2
Lending spread	**4.8**	**4.0**	**3.7**	**4.3**	**4.5**
Non-interest income	0.6	0.5	0.4	0.5	0.5
Final Spread	**5.3**	**4.5**	**4.2**	**4.8**	**5.0**
Tax rate (%)	31.7	17.5	21.0	23.0	23.0
RoA	**3.6**	**3.7**	**3.3**	**3.7**	**3.8**
Effective leverage (AA/ AE)	3.2	3.4	3.7	3.8	3.8
RoAE	**11.6**	**12.7**	**12.4**	**13.8**	**14.6**

Source: Company data, I-Sec research

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