Equity Research

May 3, 2021

BSE Sensex: 48782

ICICI Securities Limited is the author and distributor of this report

INDIA

L&T Finance Holdings

ADD

Maintain

Fortifying position in retail; contingent buffer to cushion credit cost

Rs87

Financials

Q4FY21 result review

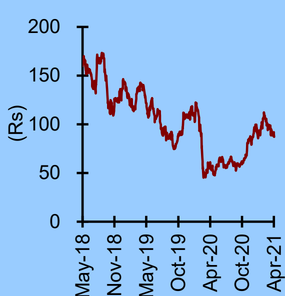
Target price: Rs99

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	63.7	63.6	63.6
Institutional investors	12.1	15.1	16.5
MFs and others	0.4	0.3	0.8
FIs/Insurance	4.5	5.0	5.0
FIIs	11.6	9.8	10.7
Others	24.3	21.3	19.9

Source: CMIE

Price chart



L&T Finance Holdings' (LTFH) Q4FY21 performance was skewed towards its targeted objective of improving the retail mix in overall AUM (43% now). Company further fortified its position in tractor and 2W segments, focused on salaried home loans and heavily pushed MFI lending (to almost 40% of overall disbursements) based on collection-driven strategy. Nevertheless, cautious stance in LAP, real estate lending and modest infra disbursements derailed AUM growth much below expectations. Stage-3 assets looked optically lower, but the decline was attributable to de-focused businesses rather than the operating ones. On a positive note, collection efficiency has reached pre-covid levels across businesses while contingency buffer of 1.1% of AUM will protect against elevated credit cost. Further, improving retail mix (re-energising housing segment with new leadership and launch of new products), leveraging liability strength, and managing stage-3 will aid RoA of 1.7%/2.3% and RoE of 10%/12% by FY22E/FY23E, thereby commanding a multiple of 1.2x FY23E adjusted book. Maintain ADD with a target price of Rs99.

- **Earnings marred by one-off tax adjustments and derailed AUM growth; credit cost settles low:** Adjusting for exceptional items (tax for L&T IDF and stamp duty on merger), LTFH reported PAT of Rs4.3bn (up 47% QoQ and 11% YoY), lower than our expectation of Rs4.7bn. Positively, credit cost came in below estimate at Rs6.5bn (2.7% run-rate against our expectation of >3.75%). However, this was offset by a relatively higher run-down in AUM and revenue trajectory was below expectations. Opex too was higher than estimated - up 24% QoQ / 16% YoY. Exceptional items amounting to Rs1.6bn for Q4 FY21 include: 1) tax for L&T IDF pertaining to earlier years (FY15, FY16, FY17) of Rs730mn pursuant to notification by CBDT; 2) Rs880mn related to stamp duty expense on LTF merger cost.
- **Stage-3 pool settled at <5%; decline largely due to de-focused businesses than the operating ones:** Consolidated stage-3 pool came off QoQ from 5.12% to 4.97% primarily due to decline in stage-3 assets for de-focused businesses (estimated to be down Rs4bn in absolute terms). Otherwise, rural financing gross stage-3 was up QoQ from 3.5% to 4% (up Rs1.8bn in absolute terms) and housing finance gross stage-3 too was up from 1.27% to 1.46% (up Rs1.4bn). In infra financing segment, stage-3 was down Rs2.1bn in absolute terms (but run-down in book made it look higher in percentage terms from 7.92% to 8.09%). LTFH has written-off close to Rs7bn in Q4FY21 primarily towards 2W and MFI segments (Rs19.64bn in FY21, of which Rs6.4bn was in defocused businesses). Incremental stress in MFI due to covid second wave, or farm equipment (contingency on below-normal monsoon) and real estate financing will be key to watch out for in coming quarters. We are building-in stage-3 assets at 4.5/4.6% for FY22E/FY23E.

Market Cap	Rs215bn/US$2.9bn
Reuters/Bloomberg	LTFH.BO/LTFH IN
Shares Outstanding (mn)	2,469.4
52-week Range (Rs)	112/48
Free Float (%)	36.3
FII (%)	10.7
Daily Volume (US$'000)	24,660
Absolute Return 3m (%)	1.2
Absolute Return 12m (%)	42.7
Sensex Return 3m (%)	5.6
Sensex Return 12m (%)	46.3

Year to Mar	FY20	FY21	FY22E	FY23E
NII (Rs bn)	56,145	59,758	61,507	70,668
Net Profit (Rs bn)	15,493	7,296	17,447	24,748
EPS (Rs)	7.7	4.0	7.2	10.2
% Chg YoY	(31.4)	(48.5)	82.3	41.3
P/E (x)	11.3	21.9	12.0	8.5
P/BV (x)	1.2	1.2	1.1	1.0
Net NPA (%)	1.6	1.2	1.2	1.1
BVPS (Rs/Sh)	71.1	72.6	77.9	85.5
RoA (%)	1.5	1.0	1.7	2.3
RoE (%)	11.2	6.1	9.6	12.5

Research Analysts:

Kunal Shah
kunal.shah@icicisecurities.com
+91 22 6637 7572

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6637 7465

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6637 7658

- **Buffer utilisation aided sub-3% credit cost; carries 1.1% additional provisioning overlay on AUM:** LTFH has utilised Rs7.06bn of additional provisions in Q4FY21 and credit cost was contained at 2.7% during the quarter. It is still carrying additional overlay provisions of Rs10.33bn (1.1% of AUM) comprising: 1) Rs7.1bn (Rs10.8bn in Q3FY21) for MFI book (equivalent to 6.2% of standard book), and 2) Rs3.23bn (Rs5.2bn in Q3FY21) on housing portfolio equivalent to 1.40% of standard (2%). Management highlighted that, based on initial assessment, the adverse impact of covid second wave seems adequately captured in this additional buffer. It has invoked restructuring of Rs14.4bn till Dec'20, of which assets worth Rs6bn (0.6% of book) till Q4FY21 were restructured; against this, 10% provisions are held.

- **Collection efficiency similar to pre-covid levels across businesses:** Overall, collections in focused businesses increased 33% YoY during FY21 despite lower collections in Q1FY21. Farm equipment collection efficiency was ahead of industry average at 91% in Q4FY21. Regular collections in 2W segment has reached near pre-covid levels of 98.4%. In MFI segment, the lack of credence has reduced and collection efficiency was steady at ~99% (this will be the new normal now compared to 99.6% earlier). Due to covid resurgence, MFI collection efficiency in April was marginally lower at 98.3%. Collection efficiency for transmission and renewable power segment was similar to pre-covid levels. Escrow collections in real estate projects was up >20% YoY for its financed projects in Q4FY21. Sales of its portfolio projects are 102% of previous-year levels (signs of being sanguine). We believe Q1FY22 collection efficiency would moderate due to activity disruption amidst second wave.

- **Growth led by rural and salaried home loans:** Contrary to our expectations of stable to marginally improving trend, focused AUM was down 5% QoQ and 2% YoY to Rs913bn as housing and infra AUM declined 9-10% QoQ partially offset by rural financing AUM being up 9% YoY / 4% QoQ. Q4FY21 witnessed further uptick in disbursements in rural financing (up 36% YoY and 12% QoQ to Rs60.3bn). LTFH was leader in farm equipment financing (with ~15% market share) registering disbursement growth of 40% YoY in Q4FY21 and 17% in full-year FY21. It also ranked no.3 in 2W financing (11% market share) disbursements growing 14% YoY in Q4FY21. Sharp rise in MFI disbursements to Rs31.8bn constituted almost 40% of incremental disbursements during the quarter. With collection efficiency reaching pre-covid levels, LTFH has reinitiated disbursements to new customers. Salaried home loan disbursements registered a growth of 32% QoQ in Q4FY21 and 41% YoY. Overall disbursements were flat YoY primarily due muted disbursements in infra segment (Rs11.7bn compared to average run-rate of >Rs25bn over the past few quarters). Also, in developer lending, the focus is on project completion by lending only to existing projects; LTFH will start new underwriting in FY22. We expect growth in FY22 to be led by rural segment and salaried home loans while disbursements in infra and real estate financing will tend to be volatile based on its assessment of sell-down (for infra) or project completion (for real estate segment) opportunities.

- **NIMs + fees buoyed by mix shift, sell-down and borrowing cost; business-related opex higher:** NIMs (including fee income) came in higher than expectations at 8.17% in Q4FY21, primarily led by strong growth in high-yielding rural financing segment. Interest on interest reversal of Rs450mn on loans above Rs20mn were offset by credit received of Rs830mn for loans below Rs20mn (as it was not recognised earlier). There was also an element of interest on tax refund that further buoyed interest income. Normalising for this, NIM + fees should have been 7.8%. We expect it on a steady state basis to settle between 6.5-7.0%. Cost of funds has come off 78bps YoY and 17bps QoQ to 7.65%. Company maintains liquid assets (cash, FDs and other liquid investments) to the tune of Rs101bn.

  Fee income has increased by 46% YoY to Rs4.3bn – this is despite lower disbursements in some fee-heavy businesses. It was primarily led by cross-selling engine – in rural, customer attachment ratio is 4.1x (apart from loans, LTFH also sells protection products). Opex too was higher than expectations (up 24% YoY / 16% YoY), but this was for sourcing new business and due to incremental efforts on collections. However, expense delta is lower than revenue delta, which is positive.

- **Merger of operating entities for simpler structure and better governance:** LTFH is looking at simpler and transparent reporting. In the medium term, the mergers will be synergistic – common ALM, borrowing profile, efficient capital allocation. There will be some short-term costs (as benefits are attached to housing finance and IDF license) but, over the medium term, merger is a better option from governance and transparency perspectives.

Q4FY21 earnings call: Key takeaways

Management commentary on business

- Last year had wild swings from quarter to quarter – be it risks, growth, liquidity, interest rates etc. Having seen such year it concentrates on doing things right and getting basics right to deal with short term issues.
- ***Digital capabilities, Analytics led prioritization and resource allocation have helped tremendously.***
- Earnings have come from ***five business strengths – businesses built will last it in good stead over many years to come, collection strength, liability franchise, asset quality and provisioning, Balance sheet strength.***
- Not only maintained but has gained share in 2-wheelers (top 3 financiers – 11% market share from mid-single digit four years back) and farm equipment (number one with 15% market share)

Opportunities over 3-5 years

- ***Try and outperform the market by 1.0-1.5% in 2-wheeler and farm equipment***
- Tractor segment will grow at 5-7%
- 2-wheeler market next 5 years 8-10% growth – finance penetration has increased substantially and will increase further by 15-20% points.
- MFI – industry has grown at good CAGR – need to have infrastructure and network to get deeper to penetrate into new borrower segment.
- Launching new products (SME loans and will pilots) and will do much better in housing segment.
- ***Housing segment growing but success has been limited. Best practices of retail segment will be followed with change in leadership. Concentrates mostly on salaried customers (92% of total disbursements) Earlier It was not executed well. Right to win is real estate contacts of parents, deep ecosystem, direct sourcing of assets.***
- Statement of intent for disbursing in real estate financing was from early indicators but not as dogmatic.

On return metrics and capital allocation

- Leverage has come down to below 5%. Will concentrate on RoA but RoA to RoE conversion will take time.
- 5 years down the line targeted business mix – ***60% retail (from 43%) – growth in existing products, hopeful of working hard on new products (50% should be able to do well), looking for acquisition opportunities in retail etc.***

On merger of operating entities

- ***Regulatory looking at simpler and transparent reporting – watchful and rightly so. Having one company will take away such apprehensions.***

- In medium term, will be useful – maintain one ALM, borrowing profile, capital allocation. There will be some short term cost – but governance and transparency wise its better.

Collection efficiency

- ***Farm equipment collection efficiency is at 91%*** - well ahead of industry average;
- ***Regular collection in 2-wheeler has reached 98.4%*** (similar to pre-Covid levels);
- MFI – lack of credence has reduced and collection efficiency is steady at ~99% (this is new normal compared to 99.6% earlier); MFI collection efficiency in April was 98.3%.
- Collection from transmission and renewable similar to pre-Covid level.
- ***Escrow collections in real estate projects is up >20% YoY for its financed projects***. Sales of its portfolio projects are 102% of previous year level (signs of being sanguine).

Stage-3 came down sub-5%; provisioning coverage raised to 69%

- Gross stage-3 declined QoQ from 5.12% to 4.97% and PCR also increased from 64% to 69%
- 33% YoY increase in collections in focused businesses during FY21, despite lower collections in Q1. Collection Efficiency reached pre-Covid across businesses.
- ***The company has utilised Rs7.06bn of additional provisions in Q4FY21.***
- ***Carrying additional overlay provisions of Rs10.33bn (1.20% on standard book)***
  - It now carries Rs 7.1bn (Rs10.8bn in Q3FY21) of provisions for MFI book equivalent to 6.2% of standard book
  - Carries Rs3.23bn (Rs5.2bn in Q3FY21) of provisions on housing book equivalent to 1.40% of standard (2%)
- Impact of covid phase 2.0 is adequately captured in Rs10bn of additional buffer.
- Close to Rs7bn of write-offs in Q4FY21 (Rs19.64bn in FY21 of which Rs6.4bn was in defocused). This quarter write-offs were more towards 2-wheelers and MFI.
- It has invoked restructuring of Rs 14.4bn till Dec-20 and restructured assets worth Rs6bn (0.6% of book) till Q4FY21; against which 10% provisions are held

On earnings

- L&T Finance Holding (LTFH) reported Q4FY21 PAT of Rs2.67bn. ***Adjusting for exceptional items (we believe its pertaining to stamp duty on merger and other tax adjustments), PAT was Rs4.3bn - up 47% QoQ and 11% YoY***
- ***Exceptional items amounting to Rs1.6bn for Q4 FY21***
  - Tax for L&T IDF pertaining to earlier years (FY15, FY16 & FY17) of Rs730mn pursuant to notification by CBDT. IDF was tax free entity since FY20 – it has tax

assessment where it received notification that it would be tax free from FY18. It is making representation to tax authorities but have made the provisioning.

- Rs880mn related to Stamp duty expense on LTF merger cost

<u>MFI segment</u>

- ***MFI disbursements of Rs31.8bn constituted almost 40% of incremental disbursements in Q4FY21.*** With collection efficiency reaching pre-covid levels, it has re-initiated disbursements to new customers.
- Disbursed Rs30bn as engine approved more cases – 50: 50 repeat and new customers (7.5L customers).
- Have gone slow in Tamil Nadu, West Bengal, Assam.

<u>NIMs + fees buoyed by mix shift, sell-down and borrowing cost; business related opex higher</u>

- NIMs + Fees in FY21 at 8.17% in Q4, led by a strong growth in Rural.
- Cost of funds coming off - Q4FY21 at 7.65% – down 78 bps on YoY basis & 17 bps on QoQ basis
- Maintains liquid assets (cash, FDs and other liquid investments) to the tune of Rs101bn
- Fee income has increased 46% YoY to Rs4.3bn – it is despite lower disbursements in many businesses – cross-selling engine – in rural, customer attachment ratio is 4.1x (apart from loan, sells protection products).
- ***Interest on interest reversal of Rs450mn on loans above Rs20mn were partially offset by credit received of Rs830mn for loan below Rs20mn (as it was not recognised earlier). Interest on tax refund was also there. Normalizing for this NIM + Fees would be 7.8%. It should be between 6.5-7.0%.***
- ***Opex too was higher expectations – up 24% YoY/16% YoY – but if it for sourcing new business and efforts on collections. However, expense delta is lower than revenue delta which is positive.***

Q2FY21 earnings call: Key takeaways

Management commentary on environment

- Few lessons witnessed – anything that it has started preparing for during covid will never help but fundamentals of business like tremendous concentration on data analytics, dealer relationships, ALM management etc. Doing right things from the beginning has helped it sail through the crisis.
- ***Tremendous improvement not only MoM but QoQ as well as YoY.***
- First sector to lead the recovery has been rural sector***. Farm, 2-wheeler, infra – worst is over; real estate – sometime to the dawn; MFI - MoM collection efficiency is improving and will closely evaluate/monitor trends.***

3 key messages from Q2FY21 results

- **Resilient balance sheet** - PCR at 69% protects from downside and will keep making additional provisions (from Rs17bn). MFI collection efficiency it has reached 90% - it has already provided 9.1% on MFI book. Loss of livelihood, break of habit/discipline, political interference remains risk for the segment. In housing, Rs5.2bn cumulative excess provisions created.
- **Liability management** – will reduce excess liquidity that it is maintaining– definite possibility of cost of funds going down and NIMs improving – 17bps QoQ and 30bps YoY improvement in borrowing cost.
- **On markets** - 2 sectors have picked up – farm sector, renewables – in September – best ever September disbursements. Sell downs have been highest Rs41bn – shows market confidence as well as demand.

Collection efficiency

- Collections picked up across businesses (especially in rural and infra) owing to concerted field efforts and gradual unlocking of economy □ currently at ~95% of Q2FY20 levels
- Increase in collections in defocussed book (from Rs1.5bn in Q1FY21 to Rs6bn in Q2FY21)
- ***In farm equipment*** – collection efficiency is 89%
- ***In 2-wheelers*** - Collection efficiency has improved to 86% in Sep'20
- ***In MFI*** - collection efficiency post moratorium at ~90% in Sep'20; 37% customers who have not paid in Sep'20, have paid in Oct'20. MFI loans 8% customers as of September would have not paid even a single instalment since April. However, more than 45% of this would have paid till October 23rd.
- ***Retail home loans*** –bounce rates Pre-Covid was 16% - now it is back in early 20s.
- Project loans will only see restructuring if requests are coming from consortium lenders – else there are zero restructuring requests. In 6 projects, DCCO extension is done due to lack of demand or delay in permission. As indicated in the last quarter, the number would not go beyond 10-12%.
- Stage-2 is close to 2% of the book and is provided to the extent of 39%

- Exit Moratorium at end of August was: MFI 35%, farm 10%, 2-wheeler 20% and HL/LAP – 25%

Keeps building contingency buffer to strengthen balance sheet

- ***Created additional provision (over and above PCR and standard asset provisions) of Rs5.1bn taking cumulative additional provisions to Rs17.6bn (1.95%) on standard book.***
  - Out of this, Rs11bn of provisions are towards Micro Loan book (9.2% of standard MFI book)
  - Additional provisions of Rs5.2bn (1.94% of standard book) are towards Housing book
- Moratorium related risks largely addressed through these additional provisioning

Better than expected recovery in tractors/2-wheelers/renewables; MFI, LAP, real estate goes slow

- The company has witnessed faster than expected recovery in rural business. Best ever monthly disbursements (September) for rural business. While monsoon is very important part of rural pick-up, many other structural factors led to recovery – Indian farmers are resilient to take one bad monsoon.
- ***In farm equipment business:*** Gained market share to become No. 1 for Q2FY21; secured leadership position in major states on back of better collections than the industry
- In tractors – L&T Finance, Kotak, HDFC, Chola, Mahindra Finance are key players. Its market share is 15% (from 14%) as some people have dropped off due to their own challenges or cautious approach. Its best efforts would be to fortify its position and sustain or improve market share. Collection is back and that is important and good for the industry.
- M&M share in overall disbursements is 50% and Sonalika is 18%.
- Reasonably well-entrenched with all OEMs except for one or two players – largely will follow market share of the players.
- ***In MFI business*** - month on month increase in disbursements in line with collections pickup by analyzing customer repayment track record and MC performance post moratorium. New business initiated based on internal collection efficiency thresholds.
- ***In 2-wheelers -*** there is gradual rise in disbursements using analytics based geography and dealer selection; focus on increasing counter share with top dealers; enhanced onfield efforts to restore collection efficiency
- Strong pickup in Infra disbursements (Rs29bn) especially in renewables;
- ***In home loans*** - Pick-up is slowest; some very early green-shoots but don't want to sound overly optimistic.
- No new under-writing but focus on completing the projects
- Salaried home loans have done decently well - 87% of loans to salaried segment, self employed home loan fresh disbursements restricted to CF projects only.

- ***LAP sourcing*** restricted mainly to government backed ECLGS scheme.
- ***In Real estate:*** No fresh sanctions were made in Q2FY21 – continue to be selective going forward; continued support to existing projects to ensure construction is not hampered. Increase in absorption of number of units and new launches in lower/middle income. Category A developers seeing good resumption of activity; sales back to 70-75% of pre-Covid levels (compared to 50% industry sales). Escrow collections are back to pre-Covid levels in September – earlier than expected though don't know if sustainable.
- In Infra – there was always more business to do than it wanted to do – based on collections, it will keep leveraging opportunities available.
- Infra will not rise substantially in proportion, real estate portfolio will come down for sure. In FY22, it estimates book growth in high teens or low single digit.

On NIMs

- Back to lower end of guided range of 6.5-7.0% and will surely go up from here.
- De-recognised interest on interest on all loans below Rs20mn of Rs830mn this quarter based on conservatism
- Interest cost will come down plus negative carry will be lower.

Fee income – improving rural and infra business

- Increase in fee Income, easing of liquidity leading and reduction in cost of borrowing has enabled NIMs+Fees to reach the desired range of 6.5-7.0% - sustainability of the same will be key to watch out for.
- Fee income growth trajectory returned to pre-Covid levels for rural and infra business.
- Target is all operating expenses should come out of fees – strategy and push is towards it – more fee income verticals.
- Operating cost – reduction of 8% YoY; increase of Rs350mn QoQ has decrease in fixed cost of Rs170mn but increase in business origination related fee income of Rs520mn.
- Cross-selling during disbursement is successful but what it needs to do is capture the potential through life of the loans.
- Highest ever quarterly sell down of Rs41bn primarily in road and infra projects.

Liquidity and borrowings

- Maintained additional average quarterly liquid assets of Rs47bn in Q2FY21 which had a negative carry of Rs640mn (as compared to Rs840mn in Q1FY21)
- Reduction in cost of borrowing by 17 bps QoQ; focus on reducing cost of borrowing further through prepayment / renegotiation of terms.
- Will slowly take up CPs – marginal cost of borrowing for Q2FY21 was 7.5%

On capital

- Capital is needed for fortifying the balance sheet and confidence. Else, growth per se will take time to return to normalcy.
- Management is evaluating options of fund raising – what instrument, in what mode, what quantum and at what time.

On balance sheet

- Strengthening the balance sheet: Covid provisions of Rs2.78bn as per RBI guidelines (10%) and Rs3bn of macro prudential provisions were made during the quarter.
- Liquidity: AAA rating, strong franchise and parentage helped the company raise money even in the current market situation. Liquidity buffer stood at Rs168bn.
- Received first tranche from Asian Infrastructure Investment Bank (AIIB); it is AIIB's first loan to any NBFC in India.
- Liquidity buffer will not rise significantly from the current level; negative carry will increase.
- No support from L&T (parent) in funding by way of subscription, but possible in capacity of parentage.

Table 1: Financial snapshot

(Rs mn, year ending Mar 31)

Year to March	Q4FY21	Q3FY21	% change	Q4FY20	% change	FY20	FY21
Income from operations	34,152	35,034	*(2.5)*	33,552	*1.8*	1,31,585	1,31,746
Finance costs	16,091	17,238	*(6.7)*	18,031	*(10.8)*	74,206	71,988
Net interest income	18,060	17,796	*1.5*	15,521	*16.4*	57,378	59,758
Other income	1,720	1,187	*44.9*	720	*139.0*	15,760	9,160
Net revenues	19,781	18,983	*4.2*	16,241	*21.8*	73,138	68,918
Operating expense	3,480	3,290	*5.8*	3,020	*15.2*	19,639	19,802
Employee benefits	2,716	2,577	*5.4*	2,704	*0.4*	10,328	10,094
Dep. & Amor.	223	210	*6.3*	178	*25.7*	1,436	871
Admin. & others	3,139	2,126	*47.6*	2,343	*34.0*	7,875	8,837
Pre-provision profit	13,703	14,070	*(2.6)*	11,017	*24.4*	53,499	49,116
Allowances & write-off	6,520	10,583	*(38.4)*	6,421	*1.6*	25,760	36,357
PBT before excep.	7,182	3,487	*106.0*	4,596	*56.3*	27,739	12,759
Exceptional items	0	0	*NA*	0	*NA*	0	0
PBT	7,182	3,487	*106.0*	4,596	*56.3*	27,739	12,759
Taxes	4,523	609	*642.4*	711	*536.3*	11,665	5,463
Net profit	2,660	2,878	*(7.6)*	3,886	*(31.5)*	17,269	10,122
Pref. dividend paid	0	0	*NA*	0	*NA*	451	362
Net profit (after pref. div.)	2,660	2,878	*(7.6)*	3,886	*(31.5)*	16,818	9,760
Diluted EPS (JNR)	1.2	1.5	*(19.3)*	1.9	*(39.1)*	8.4	4.0
Ratios (%)							
NII / GII	52.9	50.8		46.3		43.6	45.4
Cost - income	17.6	17.3		18.6		26.9	28.7
Tax rate	63.0	17.5		15.5		42.1	42.8
Balance sheet data							
Loan book	9,40,130	10,00,990	*(6.1)*	9,83,840	*(4.4)*	9,83,850	9,40,140
Disbursements	81,060	1,07,730	*(24.8)*	82,140	*(1.3)*	3,70,070	2,83,260
Asset quality							
Gross NPA (Rs mn)	45,040	49,350	*(8.7)*	50,370	*(10.6)*	38,440	37,450
Gross NPAs (%)	5.0	5.1		5.4		4.1	4.1
Net NPA (Rs mn)	13,770	17,910	*(23.1)*	20,780	*(33.7)*	14,460	10,790
Net NPAs (%)	1.6	1.9		2.3		1.6	1.2
Valuation metrics							
Book value per share (INR)						71.7	72.6
Adjusted book value/share (INR)						66.6	69.5
Price / BV (x)						1.1	1.0
Price / Adj book (x)						1.2	1.1
Price / Earnings (x)						12.0	8.5

Source: Company data, I-Sec research

Table 2: Fortifying its position in rural financing; wholesale run-down weigh on overall AUM growth

(Rs mn, year ending Mar 31)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	*YoY (%)*	*QoQ (%)*
Rural	**2,58,450**	**2,65,970**	**2,75,940**	**2,76,620**	**2,74,750**	**2,83,710**	**2,88,270**	**3,00,800**	***8.7***	***4.3***
MFI	1,25,240	1,28,410	1,28,890	1,24,950	1,25,310	1,22,620	1,18,240	1,22,070	*(2.3)*	*3.2*
2W	58,570	60,090	64,230	65,750	63,860	67,080	70,140	71,220	*8.3*	*1.5*
Farm equipment	74,630	77,470	82,400	84,380	84,030	91,910	97,040	1,02,610	*21.6*	*5.7*
Housing	**2,60,330**	**2,69,860**	**2,66,890**	**2,65,840**	**2,69,540**	**2,72,410**	**2,61,740**	**2,36,890**	***(10.9)***	***(9.5)***
HL & LAP	1,08,320	1,11,000	1,14,740	1,16,510	1,17,380	1,17,350	1,13,330	1,07,440	*(7.8)*	*(5.2)*
Real estate finance	1,52,010	1,58,850	1,52,150	1,49,330	1,52,160	1,55,060	1,48,410	1,29,450	*(13.3)*	*(12.8)*
Wholesale	**3,86,230**	**3,94,720**	**3,96,740**	**3,89,090**	**3,92,770**	**3,85,600**	**4,14,560**	**3,75,430**	***(3.5)***	***(9.4)***
Infra finance	3,86,230	3,94,720	3,96,740	3,89,090	3,92,770	3,85,600	4,14,560	3,75,430	*(3.5)*	*(9.4)*
Structured corporate finance	-	-	-	-	-	-	-	-		
Supply chain finance	-	-	-	-	-	-	-	-		
Focus	**9,05,000**	**9,30,550**	**9,39,560**	**9,31,540**	**9,37,060**	**9,41,720**	**9,64,590**	**9,13,120**	***(2.0)***	***(5.3)***
De-focused	94,030	72,030	54,970	52,300	51,730	46,510	36,400	27,020	*(48.3)*	*(25.8)*
Total	**9,99,040**	**10,02,580**	**9,94,530**	**9,83,840**	**9,88,790**	**9,88,230**	**10,00,990**	**9,40,130**	***(4.4)***	***(6.1)***

Source: Company data, I-Sec research

Table 3: Disbursements regaining momentum – MFI constituted 40%; wholesale segment muted

(Rs mn, year ending Mar 31)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Rural	**42,320**	**46,380**	**54,680**	**44,210**	**9,130**	**36,070**	**53,700**	**60,260**	***36.3***	***12.2***
MFI	22,680	28,390	25,610	22,160	70	13,540	20,720	31,810	*43.5*	*53.5*
2W	10,900	11,130	14,950	12,030	3,100	11,020	16,520	13,720	*14.0*	*(16.9)*
Farm equipment	8,740	6,860	13,700	8,900	5,900	10,890	15,540	12,440	*39.8*	*(19.9)*
Housing	**21,230**	**20,320**	**20,240**	**19,020**	**3,160**	**6,140**	**7,620**	**9,140**	***(51.9)***	***19.9***
HL & LAP	8,490	7,940	8,560	7,050	680	4,360	5,100	6,310	*(10.5)*	*23.7*
Real estate finance	12,750	12,380	11,680	11,970	2,480	1,780	2,520	2,830	*(76.4)*	*12.3*
Wholesale	**32,520**	**31,080**	**20,690**	**18,910**	**10,890**	**29,080**	**46,410**	**11,660**	***(38.3)***	***(74.9)***
Infra finance	32,520	31,080	20,690	18,910	10,890	29,080	46,410	11,660	*(38.3)*	*(74.9)*
Structured corporate finance	-	-	-	-	-	-	-	-		
Supply chain finance	-	-	-	-	-	-	-	-		
Focus	**96,080**	**97,790**	**95,610**	**82,140**	**23,180**	**71,290**	**1,07,730**	**81,060**	***(1.3)***	***(24.8)***

Source: Company data, I-Sec research

Table 4: Tax adjustments and modest profitability in wholesale segments drags earnings

(Rs mn, year ending Mar 31)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	*YoY (%)*	*QoQ (%)*
Rural	2,520	3,090	2,900	1,750	1,140	610	1,270	1,890	***8.0***	***48.8***
Housing	2,080	2,440	2,030	1,020	230	1,080	1,210	1,720	*68.6*	*42.1*
Wholesale	2,300	1,960	1,720	1,850	580	860	1,370	990	*(46.5)*	*(27.7)*
Focus	**7,570**	**8,100**	**7,260**	**5,230**	**2,450**	**3,090**	**4,360**	**5,160**	*(1.3)*	*18.3*
De-focused	(1,740)	(1,210)	(920)	(700)	(560)	150	(1,310)	(650)	*(7.1)*	*(50.4)*
Lending	**6,900**	**6,890**	**6,650**	**4,620**	-	-	-	-	*(100.0)*	-
Others	(340)	(5,150)	(430)	(670)	(410)	(360)	(140)	(230)	*(65.7)*	*64.3*
Consol. (Reported)	**5,490**	**1,745**	**5,915**	**3,886**	**1,474**	**2,477**	**2,878**	**2,660**	***(31.5)***	***(7.6)***
Pref. div./pref. cap	-	-	-	-	-	-	-	-		
Consol. (Eq. Shareholders)	**5,490**	**6,470**	**5,910**	**3,860**	**1,480**	**2,880**	**2,910**	**4,280**	***10.9***	***47.1***

Source: Company data, I-Sec research

Table 5: Rural business

(Rs mn, year ending Mar 31)

	Q4FY21	Q4FY20	*YoY (%)*	Q3FY21	*QoQ (%)*
Income statement					
NII	9,290	8,530	*8.9*	9,220	*0.8*
Total Income	10,920	9,470	*15.3*	10,750	*1.6*
Operating Expense	3,480	3,020	*15.2*	3,290	*5.8*
Earnings before credit cost	7,450	6,450	*15.5*	7,450	*-*
PAT	1,890	1,750	*8.0*	1,270	*48.8*
Key ratios (%)	**Q4FY21**	**Q4FY20**	***YoY (bps)***	**Q3FY21**	***QoQ (bps)***
NIMs	12.9	12.4	*51*	12.6	*30*
RoA	2.6	2.5	*11*	1.7	*90*
RoE	16.5	15.1	*131*	10.8	*562*
GNPAs	4.0	3.8	*18*	3.5	*46*
NNPAs	0.8	0.9	*(7)*	0.4	*44*

Source: Company data, I-Sec research

Table 6: Housing business

(Rs mn, year ending Mar 31)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Income statement					
NII	2,850	3,180	*(10.4)*	3,260	*(12.6)*
Total Income	3,270	3,570	*(8.4)*	3,560	*(8.1)*
Operating Expense	720	850	*(15.3)*	810	*(11.1)*
Earnings before credit cost	2,550	2,720	*(6.3)*	2,750	*(7.3)*
PAT	1,720	1,020	*68.6*	1,210	*42.1*
Key ratios (%)		**Q4FY20**	***YoY (bps)***	**Q3FY21**	***QoQ (bps)***
NIMs	4.6	4.8	*(18)*	4.8	*(23)*
RoA	2.4	1.4	*99*	1.5	*82*
RoE	14.9	9.3	*564*	10.9	*407*
GNPAs	1.5	1.0	*49*	1.3	*19*
NNPAs	1.0	0.7	*32*	0.9	*14*

Source: Company data, I-Sec research

Table 7: Wholesale business

(Rs mn, year ending Mar 31)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Income statement					
NII	3,250	2,520	*29.0*	2,760	*17.8*
Total Income	4,440	3,260	*36.2*	3,530	*25.8*
Operating Expense	360	610	*(41.0)*	490	*(26.5)*
Earnings before credit cost	4,090	2,650	*54.3*	3,040	*34.5*
PAT	990	1,850	*(46.5)*	1,370	*(27.7)*
Key ratios (%)	**Q4FY21**	**Q4FY20**	***YoY (bps)***	**Q3FY21**	***QoQ (bps)***
NIMs	3.3	2.5	*75*	2.8	*53*
RoA	0.9	1.8	*(88)*	1.3	*(32)*
RoE	6.0	11.9	*(582)*	8.4	*(233)*
GNPAs	6.0	6.6	*(64)*	5.9	*5*
NNPAs	1.6	2.7	*(104)*	2.0	*(33)*

Source: Company data, I-Sec research

Financial summary

Table 8: Income statement

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E
Interest income	1,31,585	1,31,746	1,32,541	1,47,277
Interest expense	75,440	71,988	71,034	76,609
Net interest income	56,145	59,758	61,507	70,668
Fee & other income	13,160	9,160	10,973	12,423
Net revenues	69,305	68,918	72,481	83,090
Operating expense	19,296	19,802	21,432	23,967
Pre-provision profit	50,009	49,116	51,049	59,124
Provisions	23,046	36,357	27,312	25,453
PBT	26,964	12,759	23,737	33,670
Taxes	11,471	5,463	6,290	8,923
PAT	15,493	7,296	17,447	24,748
Profit share of AMC (MF and PE)	(1)	220	300	300
PAT (incl. AMC)	15,492	7,516	17,747	25,048
Profit share of subs./associates	350	2,606	350	350
Reported PAT	15,842	10,122	18,097	25,398
Preference dividend	451	362	303	263
PAT (after pref. div.)	**15,391**	**9,760**	**17,794**	**25,134**
Diluted number of shares (mn)	1,997	2,460	2,460	2,460
Diluted EPS (Rs)	7.7	4.0	7.2	10.2
DPS (Rs)	1.7	0.9	1.6	2.2
Payout ratio (%)	22.0	22.0	22.0	22.0

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending Mar 31)

	FY20	FY21	FY22E	FY23E
Share capital	20,048	24,694	24,694	24,694
Reserves and surplus	1,22,489	1,54,595	1,67,736	1,86,327
Shareholders' fund	1,42,537	1,79,289	1,92,430	2,11,021
Preference share capital	4,511	3,622	3,029	2,634
Minority interest	2,202	1,972	2,000	2,000
Total borrowings	9,22,326	8,69,891	8,74,252	9,72,483
Long term liabilities & prov.	16,614	15,669	15,748	17,517
Deferred tax liability (net)	-14,652	-16,411	-18,380	-20,586
Sources of funds	**10,73,537**	**10,54,032**	**10,69,079**	**11,85,070**
Total fixed assets	18,701	20,551	22,401	24,251
Non-current investments	32,005	35,206	38,727	42,599
Cash and cash equivalents	82,207	1,03,887	1,02,039	99,034
Sundry debtors	1,108	1,241	1,390	1,556
Loans & advances	9,88,951	9,47,177	9,63,569	10,82,148
Other assets	3,780	4,324	4,958	5,699
Current assets (ex cash)	4,888	5,565	6,348	7,255
Total current liab. & prov.	53,216	58,355	64,005	70,217
Net current assets (ex cash)	-48,329	-52,790	-57,657	-62,962
Uses of funds	**10,73,537**	**10,54,032**	**10,69,079**	**11,85,070**
Loan growth	3.9	(4.1)	1.8	12.3
EA growth	6.7	(2.0)	1.3	10.9
Gross NPA ratio	4.1	4.1	4.5	4.6
Net NPA ratio	1.6	1.2	1.2	1.1
Provision coverage	62.4	71.2	74.0	76.5

Source: Company data, I-Sec research

Table 10: Growth ratios

(%, year ending Mar 31)

	FY20	FY21	FY22E	FY23E
NII growth	9.6	6.4	2.9	14.9
Net revenues growth	10.6	(0.6)	5.2	14.6
Opex growth	23.3	2.6	8.2	11.8
PPoP growth	6.3	(1.8)	3.9	15.8
Provisions growth	36.2	57.8	(24.9)	(6.8)
PAT growth	(31.2)	(36.1)	78.8	40.3

Source: Company data, I-Sec research

Table 11: Operating ratios

(%, year ending Mar 31)

	FY20	FY21	FY22E	FY23E
Yield on advances	13.5	13.5	13.8	14.3
Cost of funds	8.3	7.9	8.0	8.1
Spread	5.2	5.6	5.8	6.2
Net interest margins	5.5	5.7	5.9	6.4
Cost-income	27.8	28.7	29.6	28.8
Tax rate	42.5	42.8	26.5	26.5

Source: Company data, I-Sec research

Table 12: RoE decomposition

(% Year ending Mar 31)

	FY20	FY21	FY22E	FY23E
Net interest income/Assets	5.5	5.7	5.9	6.4
Other Income/Assets	1.3	0.9	1.1	1.1
Net revenues/Assets	6.8	6.6	7.0	7.5
Operating expense/Assets	1.9	1.9	2.1	2.2
Provisions/Assets	2.3	3.5	2.6	2.3
Taxes/Assets	1.1	0.5	0.6	0.8
Total costs/Assets	5.3	5.9	5.3	5.3
ROA	1.5	1.0	1.7	2.3
Equity/Assets	13.4	15.4	17.9	18.3
ROAE	11.2	6.1	9.6	12.5

Source: Company data, I-Sec research

Table 13: Valuation metrics

(Year ending Mar 31)

	FY20	FY21	FY22E	FY23E
Diluted EPS (Rs)	7.7	4.0	7.2	10.2
EPS growth (%)	*(31.4)*	*(48.5)*	*82.3*	*41.3*
Book value per share (Rs)	71.1	72.6	77.9	85.5
Adj. Book value per share (Rs)	66.0	69.5	74.7	82.1
Diluted P/E (x)	11.3	21.9	12.0	8.5
Price/ BV (x)	1.2	1.2	1.1	1.0
Price/ ABV (x)	1.3	1.3	1.2	1.1
Dividend yield (%)	1.9	1.0	1.8	2.6

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION
I/We, *Kunal Shah, CA; Renish Bhuva, CFA (ICFAI); Chintan Shah, CA;* authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.