**BUY** (Maintain)

CMP: **INR 614** Target Price: **INR 725** ▲ 18%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

23 April 2025

India | Equity Research | Results Update

# AU Small Finance Bank

Financials

## Asset quality improved; credit cost to trend downward from hereon

AU SFB's Q4FY25 performance was mixed with sustained growth momentum and benefits from operational efficiency, but elevated credit cost in unsecured portfolios (MFI + credit card + PL). While management highlighted that NIM is likely to remain under pressure (5.8% during Q4FY25), a 25bps savings deposit rate cut in Apr'25, lower interest reversals (improved outlook on asset quality for FY26) and ~70% fixed rate asset book remain key upside risks to NIM guidance. Further, management expects credit cost to moderate to 75–85bps in FY26 vs. 1.3% in FY25, implying better asset quality performance in coming quarters. Maintain **BUY** with an unchanged TP of INR 725, valuing the stock at 2.5x Sep'26E BVPS.

### We see upside risk to NIM outlook

Management highlighted that a 50bps rate repo cut would put pressure on near-term NIM outlook given ~30% floating rate book. However, to pre-empt this, the bank has already cut its SA rate by 25bps in Apr'25 and the same would partially offset the adverse impact. Further, private sector banks have started rationalising their savings deposit rates, but with a large degree of variance – large private banks have cut SA rates by ~25bps; relatively smaller private banks have slashed SA rates between 100–200bps. AU's peak SA rate currently stands at 7% for SA deposits between INR 1mn–250mn and 5% for SA deposit between INR 0.5mn–1mn vs. 2.75–3% for SA balances below INR 1mn for large private sector banks. Total savings deposits stand at ~24% of total deposits, as on Mar'25. ~70% of fixed rate asset and lower interest reversals would help AU sustain asset yields at ~14.8–15% in the near term.

### Q4FY25 financial performance: Asset quality improves, but accelerated provision led to elevated credit cost

AU's Q4FY25 performance is mixed with strong 8% QoQ credit growth, stable cost-income ratio, at 55%, but accelerated provision of INR 1.5bn towards its unsecured loans, which resulted in credit cost increasing to 2.4% vs. 2% QoQ. Fresh slippages moderated to INR 8.9bn vs. INR 9.6bn QoQ, benefiting from seasonality. As a result, GNPL fell to 2.28% vs. 2.31% QoQ and NNPL to 0.74% vs. 0.91% QoQ. PCR improved to 68% vs. 61% QoQ.

### Financial Summary

| Y/E March (INR mn) | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| NII (INR bn) | 68.1 | 80.1 | 95.4 | 118.1 |
| Op. profit (INR bn) | 32.2 | 45.8 | 52.3 | 67.4 |
| Net Profit (INR bn) | 20.1 | 21.1 | 25.7 | 36.9 |
| EPS (INR) | 27.0 | 28.3 | 34.5 | 49.6 |
| EPS % change YoY | 26.0 | 4.8 | 22.0 | 43.7 |
| P/E (x) | 22.8 | 21.7 | 17.8 | 12.4 |
| P/BV (x) | 3.1 | 2.7 | 2.3 | 2.0 |
| GNPA (%) | 1.7 | 2.3 | 2.6 | 2.1 |
| RoA (%) | 1.9 | 1.5 | 1.5 | 1.8 |
| RoE (%) | 15.5 | 13.1 | 13.9 | 17.1 |


**Renish Bhuva**
renish.bhuva@icicisecurities.com
+91 22 6807 7465
**Chintan Shah**
chintan.shah@icicisecurities.com


### Market Data

| | |
|---|---|
| Market Cap (INR) | 457bn |
| Market Cap (USD) | 5,365mn |
| Bloomberg Code | AUBANK IN |
| Reuters Code | AUFI BO |
| 52-week Range (INR) | 755 /478 |
| Free Float (%) | 75.0 |
| ADTV-3M (mn) (USD) | 23.7 |

| Price Performance (%) | 3m | 6m | 12m |
|---|---|---|---|
| Absolute | 1.6 | (3.9) | 1.0 |
| Relative to Sensex | (2.6) | (3.1) | (7.1) |

| ESG Score | 2023 | 2024 | Change |
|---|---|---|---|
| **ESG score** | **80.7** | **79.5** | **(1.2)** |
| Environment | 58.0 | 58.9 | 0.9 |
| Social | 79.1 | 77.9 | (1.2) |
| Governance | 91.9 | 90.7 | (1.2) |

**Note** - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

| Earnings Revisions (%) | FY26E | FY27E |
|---|---|---|
| PAT | (1) | 1 |

### Previous Reports

27-02-2025: Company Update

26-01-2025: Q3FY25 results review

## Accelerated provisions towards unsecured loans resulted in elevated provision; expects sharp improvement in FY26

Total provision during Q4FY25 remained elevated at INR 6.3bn vs. INR 5bn QoQ, of which INR 1.5bn was upfront provision towards its unsecured loans, mainly credit Card and MFI. Calculated credit cost inched up to 2.4% vs. 2% QoQ. Reported credit cost on GLP stands at 1.7% and 1.3% on assets in FY25. Credit cost in credit card remained at 11% and in MFI at 8% during FY25. Credit cost in its retail secured business remained well within manageable levels at 93bps and 45bps in the commercial banking business. Secured retail + commercial banking contributes ~90% to total advances as on Mar'25.

Credit cost in MFI segment stood at annualised 8% in FY25, including the contingency provision of INR 0.17bn that it created in Q1FY25. AU follows an accelerated provision policy, as reflects in its provision of 50% on NPA and 100% in the next 90 days, which is at 180 DPD. It highlighted that incremental stressed asset formation is subsiding, as is evident in non-OD customer collection efficiency improving to 98.7% vs. 98.5% QoQ with Mar'25 CE reaching normal levels of 99.2% (ex-KTK 99.4%). SMA pool too moderated to 3.7% vs. 4.4% QoQ. Hence, it expects credit cost in the MFI segment to likely normalise to 3–3.5% in FY26.

Similarly, course corrective measures in the credit card portfolio, such as – 1) credit policy tightening on various parameters including income-based underwriting, existing customer leverage etc.; 2) detailed portfolio analysis of existing customer base and identification of potential delinquent customers with appropriate pre-emptive actions; 3) stringent daily transaction monitoring to identify and restrict misusing customers and merchants; and 4) blocking of certain misused category of merchants would drive asset quality improvement ahead. It expects credit cost to remain at 7–8% in FY26.

## Fresh slippages moderated sequentially but remained elevated

Fresh slippages moderated marginally to INR 8.9bn vs. INR 9.5bn with slippage ratio at 3.3% (3.8% in Q3FY25) vs. its historical trend of ~2%. Segment-wise GNPL trends suggest that incremental slippages were largely led by the unsecured portfolio such as PL, credit card and MFI. While overall GNPL fell to 2.28% vs. 2.31% QoQ, GNPL in MFI segment increased to 4.4% vs. 4.1% QoQ, credit card to 6.7% vs. 4.4% QoQ and PL to 7.2% vs. 6.3% QoQ. GNPL in the vehicle segment moderated to 2.2% vs. 2.4% QoQ while in SBL remained flat at 3.3% during Q4FY25. It has written-off assets worth INR 3.4bn vs. INR 2.5bn QoQ vs. INR 2.4bn in Q2FY25 vs. INR 1.8bn in Q1FY25.

While the MFI segment is grappling with customer-level over-leveraging challenges, which is leading to higher delinquencies, the inherent portfolio quality remains robust. Some of the portfolio metrics are – 1) no single state contributing more than 12% of AUM with KTK exposure at 12%; 2) limited exposure in Odisha at 2% and 8% in Bihar; 3) 41% unique borrowers; and 4) only 8% of borrowers having more than five lender relationships – would ensure credit cost in MFI staying lower than the industry.

## Growth momentum sustains in secured business; gradual recovery in MFI and credit card business

Advances grew a strong 8% QoQ on a merged basis and management highlighted that growth was broad-based, except in MFI and unsecured loans. Notably, wheels portfolio grew 11% QoQ, mainly driven by the tractor segment and used vehicle (new PV loan growth remained subdued) while SBL grew 6% QoQ. Home loans, business banking, agri SME and NBFC each grew by 6–7% QoQ during Q4FY25. Unsecured loans such as MFI (down 7% QoQ), PL (down 11% QoQ) and credit card (down 17% QoQ) de-railed the growth momentum. However, management highlighted that stress is subsiding in unsecured loans and it sees a gradual recovery in this portfolio in FY26. Overall, it expects 20–25% credit growth in FY26. On a merged basis, the largest segment remains wheels at 29%, followed by MBL at 25%, HL at 9%, MFI at 6%, business banking at 9%, agri banking at 7%, credit card at 2%, NBFC at 4%, REG at 3%, gold loans at 2%, PL at 1% and others at 3%. Total unsecured exposure (MFI + CC + PL) contributed ~10% of the portfolio.

## Deposit growth remained at 27% YoY despite challenging operating environment – reflects its improving liability franchise

Despite the challenging environment with tight liquidity and high competition, the bank reported strong deposit growth of 27%/11% YoY/QoQ during Q4FY25. While its cost of funds for full-year FY25 stood at 7.07% – coming in lower than the initial guidance range of 7.20–7.25%, reflecting an improving liability franchise. While large private banks have already triggered rate transmission, AU would evaluate the environment and then plan to assess any rate cut possibility. In Apr'25, the bank already cut its SA rate by 25bps.

Deposits profile remained stable with retail TD + CASA at 62%, as on Mar'25 with current account (CA) deposits growing by 24% QoQ and saving deposits (SA) by 2% QoQ on a quarterly average basis. CASA ratio moderated to 30%. CD ratio stands at 86% vs. 89% QoQ vs. 92% in Q1FY25. AU commands 0.5% deposit market share as on Mar'25. While competition in the deposits market continued to be intense, in order to manage its asset growth, the bank has strategically adjusted its interest rates in term deposits (up 10bps in peak TD rate bucket) and widened the slabs in savings accounts offering 7.25% interest rate.

Going ahead, management shall continue to drive its deposits growth journey by building a strong individual and retail franchise. In order to do so, the SFB would continue to enhance its liability-side product proposition to acquire new customers and deepen relationships with existing customers. It is strategically planning to accelerate growth in top 20 cities, which contribute ~57% of total deposits in the country. ~75% to 80% of its deposit book is from 400 urban branches, of which 60% are located in top 20 cities. Within these, cities such as Delhi, Bangalore, and Jaipur are doing very well, and it is working on improving productivity in cities such as Mumbai, Chennai, Hyderabad, and Calcutta.

**Key risks:** 1) Stress unfolding to higher-than-anticipated levels; and 2) deceleration in loan growth.

## Q4FY25 earnings call takeaways

**Strategy**

- FY26 – credit growth outlook is improving, favourable policy environment; however, global macro continued to remain challenging. No guidance for FY26 but expect RoA to reach 1.8% by FY27.
- NIM would remain under pressure while it sees credit cost moderating to 75-85bps vs. 1.3% in FY25, which would protect profitability in near-term.
- Not looking to cut SA rates in near-term. On 16 Apr'25, it cut 25bps SA rate.
- In-touch with the regulator for its application towards becoming a universal bank. It expects the decision to come in within CY25.
- Unsecured loans – on a steady state basis, this business should give 4-5% RoA.
- Credit card – strategic level for fee income and customer retention, it would take 1–2 years to completely revive the credit card business in terms of break even.
- Mumbai would be a key region for business while Jaipur shall be more of back-end support.
- Working on AI to improve cross-sell.
- Next capital raising would depend on decision on universal banking license.
- 10% MFI and 5% unsecured loans would be maximum unsecured exposure AU shall have in a steady state manner.
- FY25 – fully PSL compliant and notably across all sub-segments. MFI has contributed ~50% of SMF category PSL requirement.
- Commercial banking and retail secured assets are driving growth and now it plans to scale these portfolios in the south region by leveraging Fincare demographic expertise in south.

**Microfinance – asset quality**

- **Usually whenever a problem comes, in a maximum of 2-3 quarters, difficulty of problems starts easing. Harder part of the problem lasts for first 6 months. Hence, Q4 should be better at the industry level in terms of operating level, though credit cost could come with a lag of 1-2 quarters as per the company's policy.**
- **~16% of portfolio is affected by MFIN 2.0 guidelines (~13% loans has >3 lenders and remainder have total unsecured exposure >INR 200,000).**
- **MFI asset quality has largely peak out and by H2FY26 it expects normalised RoA of 3-4%.**
- **Pursuing de-risking approach in MFI segment as reflet in 100% disbursements under CGTMFU. >70% of MFI book will be under CGMFU by FY26.**
- **Situation in KTK has normalised in terms of collections.**
- **Non-overdue CE at 98.5% in Q3 improved to 98.7% in Q4FY25. Non-OD collection efficiency improved to 99.2% in Mar'25 (99.4% ex-Karnataka).**
- SMA pool moderated to 3.7% vs 4.4% QoQ.
- MFI GNPL increased to 4.4% vs 4.1% QoQ.
- 8% credit cost in FY26. Provisioning coverage on MFI portfolio is ~100%.
- Unique customer base stands at 40.4% portfolio.
- **Credit cost is expected to be elevated during H1FY26 and should see sharp recovery in H2FY26. For full-year FY26, credit cost is likely to remain at 3-3.5%.**
- **Dedicated collection team with introduction of ERO - Early Recovery Officer in Aug'24 to manage 31-90 DPD customers.**

Asset quality

- Q4FY25 witnessed improvement in asset quality across products except unsecured loans.
- Credit card credit cost should normalise to 6-7% and MFI to 3-3.5% in FY26.
- Not seeing any sings of contagion in secured products from unsecured segment.
- 100% provision on unsecured pool resulted in accelerated provision of INR1.5bn in Q4.

Loan growth

- **FY26: 20-25% asset growth guidance.**
- Vehicle portfolio – Q4FY25 is weaker as compared to general Q4 trends but second half of Mar'25 has seen good momentum. Tractor outperformed, used vehicle has also done well. New PV is flat.
- Gold loans
  - o Expertise in this business comes from FinCare SFB
  - o **Working on the strategy and would provide an update on its strategy in the next 1-2 quarters**
- Microfinance – KTK exposure is 13%
  - o Top 3 States contribute around 38%
  - o No state has more than 13% concentration
  - o Top district is 3% of total MFI AUM
  - o 346/349 (99%) districts have GLP concentrations less than 1.5% each

Deposits

- **INR40bn Fincare deposits replaced at lower cost during FY25; adjusted for this, deposit growth would have been 30% vs. reported 27% YoY growth.**
- **Deposit growth stands at 27% vs. 23-24% deposit growth guidance in FY25.**
- **CASA + retail TD stands at 62% and CASA + retail TD + non-callable bulk TD is 78% of total deposits.**
- FY25 CoF stands at 7.07%, 13-18bps lower than the initial guidance of 7.20–7.25%.
- CD ratio stood at 86% as compared to 89%, as on Q3FY25, and 88% as on 1 Apr'24 (proforma merged).

Margins

- **10bps QoQ NIM contraction during Q4FY25 was mainly on account of AUM mix change (5-6bps impact) in favour of secured products.**
- **While 50bps repo rate cut would impact asset yields in near future given ~30% floating rate assets, the bank cut SA rate by 25bps in Apr'25 to offset adverse impact of asset yield.**
- 30bps disbursement yield contraction in Q4FY25 largely due to AUM mix change in favour of secured book.
- Rate cut would be beneficial for AU and lead to reduction in cost of funds but not in the near term.

Cost to income, opex, other income

- It calibrated marketing cost in FY25, Branch expansion and tech expenses were also lower in FY25.
- Expect to close this year with C/I at 57-60%. Some tech and marketing investment is likely.
- Approach is to bring C/I to 55% in the next two years.

## Q3FY25 earnings call takeaways

Economy

- Post October, there was slowdown in economic activity
- In banking system, liquidity continues to remain in deficit and hence remain watchful of the current environment

Strategy

- **Long term strategy won't be dramatically different and it will have a cap on MFI at 10% (currently 7%) and overall cap of unsecured at 15% (currently 11%)**
- In the longer term, most of the delta to reach ~3% RoA would come from lowering of deposit cost
- ***In-touch with the regulator for its application towards becoming Universal Bank***

Microfinance - Asset quality

- **Usually whenever a problem comes, in a maximum of 2-3 quarters, difficulty of problems start easing. Harder part of the problem lasts for first 6 months. Hence, Q4 should be better at the industry level in terms of operating level, though credit cost could come with a lag of 1-2 quarters as per the company's policy.**
- **CE for Dec'24 has surprised the bank and expect this will continue in Q4 as well**
- **Some signs of CE bottoming out with marginal improvement in Q3 vs. Q2**
- **Non overdue CE at 98.5% for Q3 and 98.7% for Dec'24 vs. 99.4% for FY24.** Efficiency is coming from SMA book and NPA book.
- It has already adopted the MFIN guard rail of lender + 2 guard rail which is expected to be implemented from 1st April
- SMA 4.4%
- 5.4% credit cost
- Slippages are expected to be elevated in Q4 as well
- **Credit cost is expected to be elevated for the next 2-3 quarters, due to slippages reported earlier**
- Irrational funding has been completely stopped in MFI industry since the past 2 quarters
- 90% of MFI portfolio would be covered in CGFMU
- Provision policy towards MFI: **50% at 90dpd and another 50% in the next 3 months till it reaches 180dpd**

Asset quality

- ***Credit cost guidance at 150-160bps for FY25***
- ***Not seeing any sings of contagion in secured products from unsecured segment***
- 90% of asset class remains very strong and Fairly confident that secured assets would remain its strongest point
- Expect asset quality to improve further in Q4

<u>Loan growth</u>

- **FY25: 20% asset growth guidance**
- Wheels
  - **Growth for FY25 is expected to be above 25%**
  - 1.1% credit cost YTD annualised
- Mortgage backed loans
  - **20-25% growth expected for FY25**
  - ATS of INR 1.2-1.3mn
  - Book up 4% QoQ
- Gold loans
  - Expertise in this business comes from FinCare SFB
  - **Working on the strategy and will provide an update on its strategy in the next 1-2 quarters**
- Commercial banking
  - **Expected to grow at >30% for FY25**
  - Some challenges seen in Agri commodity linked business
  - Generated INR 110bn of liabilities from this customer base
  - Plan to move this business in Mumbai in the next 1-2 years
- Microfinance
  - Top 3 districts contribute around 6%
  - No state has more than 13% concentration

<u>Gold loan circular:</u>

- **LTV of gold has now been standardised at 75% throughout the loan tenure irrespective of whether it is bank or NBFC as per RBI directive**
- Renewal of gold loan is not possible and loan existing loan needs to be closed earlier and then only new loan can be issued
- 50% of gold loan was getting renewed by existing lenders currently

<u>Deposits</u>

- **FY25: 23-24% deposit growth guidance**
- **75-80% deposit growth is from 400 urban branches of which 60% are located in top 20 cities**
- **Plan to open 70-80 new branches mostly in top cities with a focus on improving deposits penetration**
- Deposit franchise is scaling up well with 15% YTD growth in total deposits
- There was an outflow od 3% from CASA, primarily due to withdrawal from some government accounts which are transactional in nature
- Stable deposits stands at 80% deposits
- CD ratio at 81%, excluding refinance

<u>Margins</u>

- **Interest reversal on NPA had an impact of 4bps**
- Rate cut would be beneficiary for AU and lead to reduction in cost of funds

- Inched up TD rates by 10bps
- **Cost of money is expected to be in the range of 770-780bps**

**Cost to income, opex, other income**

- **Expect to close this year with C/I at 57-58%**
- **Approach is to bring C/I to 55% in the next 2 years**
- Focus has come back strongly on working towards operational efficiency and using lot more digital and productivity
- It is looking to build more digital efficiency
- Insurance fee income has some impact due to changes in IRDA regulations in revenue recognition norms in general insurance and surrender value in life insurance

### Exhibit 1: Q4FY25 result review – P&L statement

| Standalone | Q4FY24 | Q3FY25 | Q4FY25 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| Interest Income | 28,295 | 41,135 | 42,706 | 3.8 | 50.9 |
| Interest Expense | 14,925 | 20,908 | 21,767 | 4.1 | 45.8 |
| **Net Interest Income (NII)** | **13,371** | **20,227** | **20,939** | **3.5** | **56.6** |
| | | | | | |
| Other Income | 5,556 | 6,184 | 7,607 | 23.0 | 36.9 |
| **Total Income** | **18,927** | **26,411** | **28,546** | **8.1** | **50.8** |
| | | | | | |
| Employee Expenses | 5,559 | 7,547 | 8,175 | 8.3 | 47.1 |
| Other Operating Expenses (incl. depreciation) | 6,726 | 6,815 | 7,449 | 9.3 | 10.7 |
| **Total Operating Expenses** | **12,285** | **14,362** | **15,623** | **8.8** | **27.2** |
| | | | | | |
| **Pre-Provisioning Operating Profit (PPoP)** | **6,642** | **12,049** | **12,923** | **7.2** | **94.6** |
| Provisions and write offs | 1,325 | 5,017 | 6,351 | 26.6 | 379.3 |
| Exceptional items | 768 | 0 | 0 | | |
| | | | | | |
| **Profit Before Tax** | **4,549** | **7,032** | **6,571** | **-6.6** | **44.5** |
| Tax Expenses | 841 | 1,748 | 1,535 | -12.2 | 82.5 |
| Tax Rate | 18.5 | 24.9 | 23.4 | -6.0 | 26.3 |
| | | | | | |
| **Profit / (Loss) - Total Operations** | **3,708** | **5,284** | **5,037** | **-4.7** | **35.9** |

Source: Company data, I-Sec research

### Exhibit 2: Q4FY25 result review – balance sheet

| Particulars | Q4FY24 | Q3FY25 | Q4FY25 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| **Shareholders' funds** | **1,25,595** | **1,66,020** | **1,71,663** | **3.5** | **36.5** |
| Borrowings | 54,794 | 99,880 | 1,16,597 | 13.8 | 84.5 |
| Deposits | 8,71,821 | 11,22,600 | 12,42,685 | 2.3 | 40.1 |
| Other Liabilities & Provisions | 42,046 | 41,950 | 47,509 | -2.8 | 20.8 |
| **Total Sources Of Funds** | **10,94,257** | **14,30,450** | **15,78,455** | **3.0** | **41.4** |
| | | | | | |
| Fixed Assets | 8,516 | 9,140 | 9,125 | -0.7 | 13.3 |
| | | | | | |
| Investments | 2,71,334 | 3,36,130 | 3,78,475 | 5.5 | 25.8 |
| | | | | | |
| Cash & Bank | 63,763 | 62,310 | 94,660 | -26.7 | 20.9 |
| Other Assets (Incl Deferred tax Assets) | 19,017 | 27,270 | 25,270 | 0.9 | 54.9 |
| **Loans Outstanding** | **7,31,627** | **9,95,590** | **10,70,925** | **5.0** | **49.2** |
| | | | | | |
| **Total Utilisation Of Funds** | **10,94,257** | **14,30,450** | **15,78,455** | **3.0** | **44.2** |

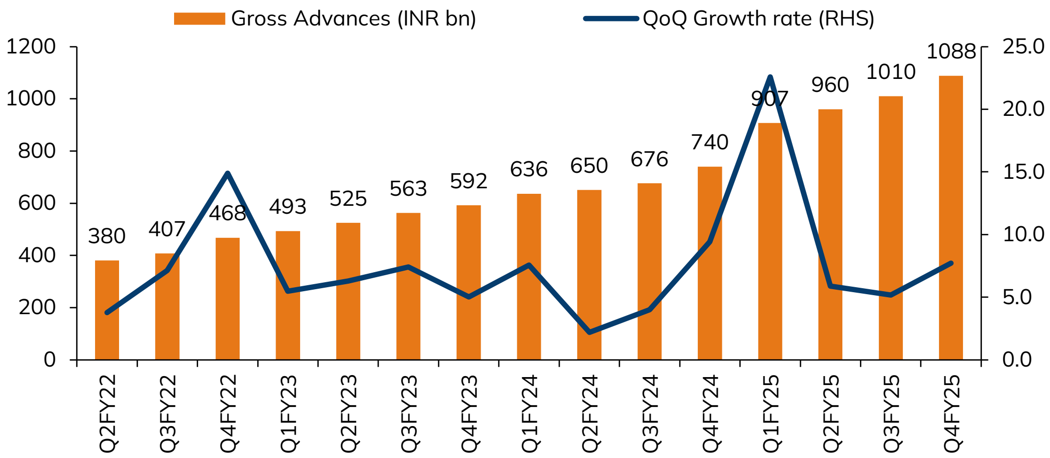
Source: Company data, I-Sec research

### Exhibit 3: Q4FY25 result review – key operating metrics

| | Q4FY24 | Q3FY25 | Q4FY25 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| **Loan AuM** | **7,39,990** | **10,09,890** | **10,87,800** | **7.7** | **47.0** |
| Vehicle FINANCE | 2,24,610 | 2,82,930 | 3,14,280 | 11.1 | 39.9 |
| MSME | 2,05,520 | 2,53,150 | 2,67,650 | 5.7 | 30.2 |
| Other Retail (ex money market) | 1,26,580 | 2,48,860 | 2,62,530 | 5.5 | 107.4 |
| Wholesale | 1,83,280 | 2,24,950 | 2,43,340 | 8.2 | 32.8 |
| **Loan disbursements** | | | | | |
| Yields on loans (%) | 13.2 | 14.4 | 14.4 | 0.0 | 9.1 |
| Cost of funds (%) | 7.0 | 7.1 | 7.1 | 0.7 | 1.9 |
| NIM on interest earning assets(%) | 5.1 | 5.9 | 5.8 | -1.7 | 13.7 |
| **Total deposits (ex CD)** | **8,71,821** | **11,22,600** | **12,42,685** | **2.3** | **42.5** |
| -CASA Ratio (%) | 33.0 | 31.0 | 30.0 | -3.1 | -9.1 |
| **Gross NPA - on gross loans (%)** | **1.7** | **2.3** | **2.3** | 16.7 | 36.5 |
| Net NPA - on gross loans (%) | 0.6 | 0.9 | 0.7 | 21.3 | 34.5 |
| Provision coverage ratio (%) | 67.1 | 60.6 | 67.5 | -2.4 | 0.7 |
| Cost to Income (%) | 64.9 | 54.4 | 54.7 | -4.1 | -15.7 |
| **RoA (%) - annualised** | **1.4** | **1.5** | **1.4** | **-12.9** | **-0.6** |
| **RoE (%) - annualised** | **12.0** | **13.0** | **11.9** | **-10.3** | **-0.8** |
| CRAR (%) | 20.1 | 19.9 | 20.1 | 0.5 | 0.0 |
| **-Tier 1 (%)** | **18.8** | **18.8** | **18.1** | **0.5** | **-3.7** |
| -Tier 2 (%) | 1.3 | 1.1 | 2.0 | 0.0 | 53.8 |
| Branches (including asset centres) | 1,074 | 2,400 | 2,456 | -0.3 | 128.7 |
| Employees | 29,738 | 49,100 | 50,900 | 2.3 | 71.2 |

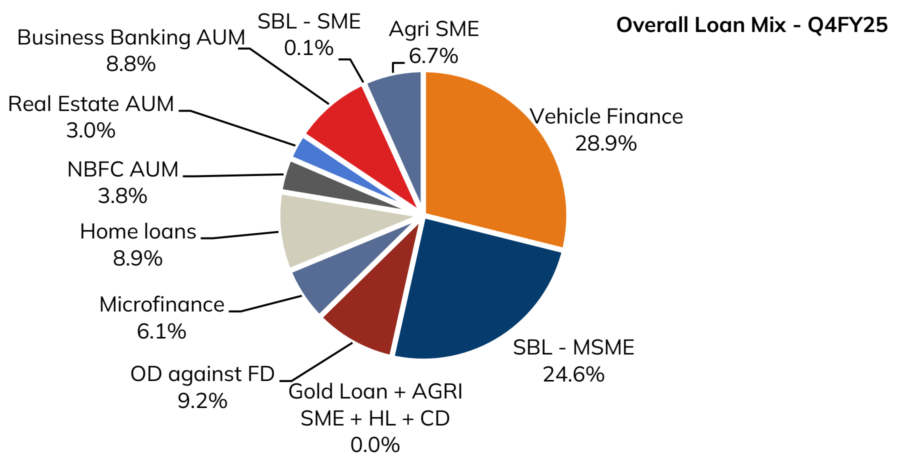
Source: Company data, I-Sec research

### Exhibit 4: Growth momentum sustained despite slowdown in MFI and credit card businesses



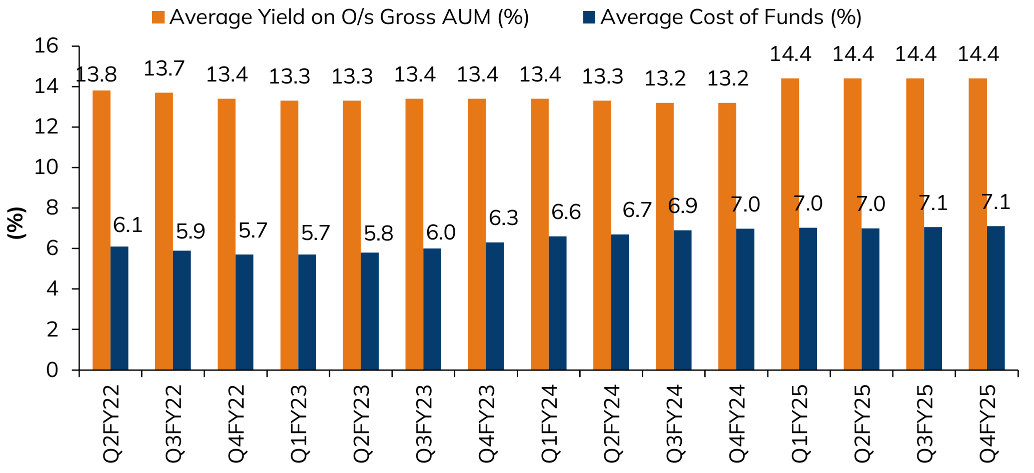

Source: Company data, I-Sec research

### Exhibit 5: Mix dominated by vehicle finance and SBL segments



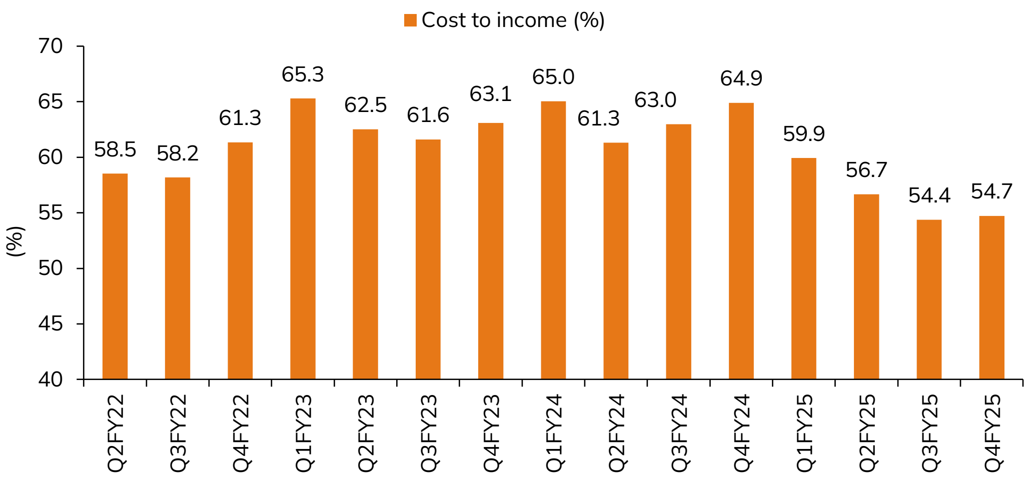

Source: Company data, I-Sec research

### Exhibit 6: Asset yield stabilising around current level of ~14.4%



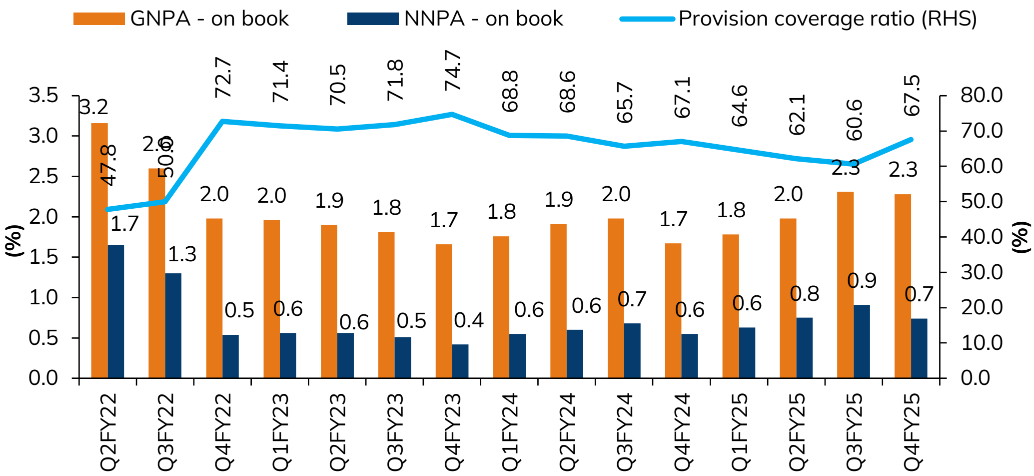

Source: Company data, I-Sec research

### Exhibit 7: C/I ratio remained steady at 54%



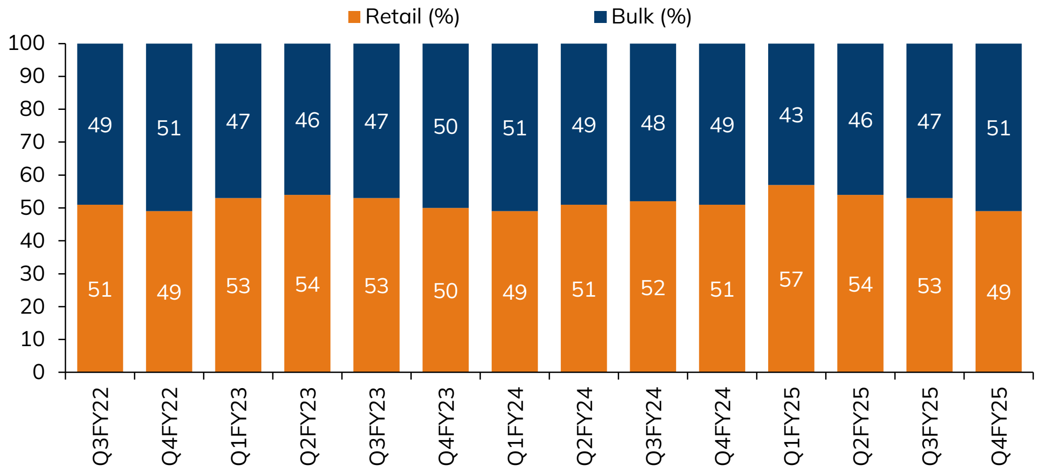

Source: Company data, I-Sec research

### Exhibit 8: Fresh slippages moderated due to seasonality




Source: Company data, I-Sec research

**Exhibit 9: The share Retail TD fell to 49% during Q4FY25**



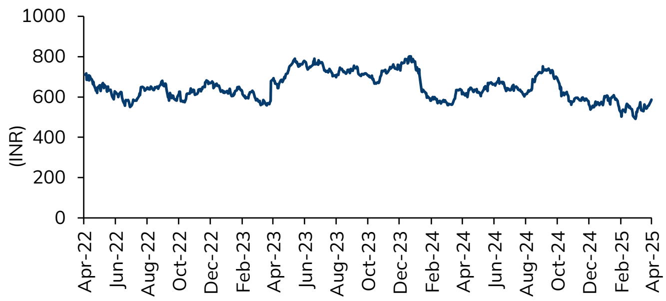

Source: Company data, I-Sec research

**Exhibit 10: Shareholding pattern (%)**

| % | Sep'24 | Dec'24 | Mar'25 |
|---|---|---|---|
| Promoters | 22.9 | 22.9 | 22.9 |
| Institutional investors | 60.7 | 59.8 | 62.5 |
| MFs and other | 15.4 | 17.1 | 20.2 |
| Banks/ FIs | 0.0 | 0.0 | 2.7 |
| Insurance Cos. | 3.3 | 3.3 | 4.1 |
| FIIs | 42.0 | 39.4 | 35.6 |
| Others | 16.4 | 17.3 | 14.6 |

Source: Bloomberg, I-Sec research

**Exhibit 11: Price chart**




Source: Bloomberg, I-Sec research

# Financial Summary

## Exhibit 12: Profit & Loss

(INR mn, year ending March)

| | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Interest income | 1,32,257 | 1,60,637 | 1,94,767 | 2,36,785 |
| Interest expense | (64,206) | (80,521) | (99,382) | (1,18,733) |
| **Net interest income** | **68,051** | **80,116** | **95,384** | **1,18,052** |
| Non interest income | 20,889 | 25,263 | 29,641 | 36,247 |
| **Operating income** | **88,940** | **1,05,379** | **1,25,025** | **1,54,299** |
| Operating expense | (56,710) | (59,572) | (72,677) | (86,853) |
| - Staff expense | (28,977) | (31,478) | (35,306) | (41,384) |
| **Pre-provisions profit** | **32,230** | **45,807** | **52,348** | **67,446** |
| **Core operating profit** | **32,230** | **45,807** | **52,348** | **67,446** |
| Provisions & Contingencies | (6,057) | (17,926) | (18,328) | (18,568) |
| **Pre-tax profit** | **26,172** | **27,881** | **34,020** | **48,878** |
| Tax (current + deferred) | (6,087) | (6,821) | (8,323) | (11,958) |
| **Net Profit** | **20,085** | **21,059** | **25,697** | **36,919** |
| **% Growth** | **40.7** | **4.8** | **22.0** | **43.7** |

Source Company data, I-Sec research

## Exhibit 13: Balance sheet

(INR mn, year ending March)

| | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| Capital | 7,445 | 7,445 | 7,445 | 7,445 |
| Reserve & surplus | 1,42,360 | 1,64,218 | 1,89,914 | 2,26,834 |
| Deposits | 9,77,041 | 12,42,690 | 15,53,363 | 19,41,703 |
| Borrowings | 92,387 | 1,16,600 | 49,580 | 37,187 |
| Other liabilities | 47,697 | 47,510 | 52,261 | 52,261 |
| **Total liabilities** | **12,66,930** | **15,78,463** | **18,52,563** | **22,65,430** |
| Cash and Bank balance | 63,763 | 94,660 | 1,08,735 | 1,35,919 |
| Investments | 3,03,184 | 3,78,480 | 4,19,408 | 5,24,260 |
| Advances | 8,55,207 | 10,70,920 | 12,88,661 | 15,67,917 |
| Fixed assets | 8,516 | 9,120 | 10,488 | 12,061 |
| Other assets | 36,261 | 25,270 | 25,271 | 25,272 |
| **Total assets** | **12,66,930** | **15,78,463** | **18,52,563** | **22,65,430** |
| % Growth | 40.4 | 24.6 | 17.4 | 22.3 |

Source Company data, I-Sec research

## Exhibit 14: Key ratios

(Year ending March)

| | FY24A | FY25A | FY26E | FY27E |
|---|---|---|---|---|
| **No. of shares and per share data** | | | | |
| No. of shares (mn) | 745 | 745 | 745 | 745 |
| Adjusted EPS (Rs) | 27.0 | 28.3 | 34.5 | 49.6 |
| Nominal Book Value per share (Rs) | 201 | 231 | 265 | 315 |
| Adjusted BVPS (Rs) | 197 | 223 | 255 | 305 |
| Subs Value per share (Rs) | - | - | - | - |
| **Valuation ratio** | | | | |
| PER (x) | 22.8 | 21.7 | 17.8 | 12.4 |
| Price/ Nominal Book (x) | 3.1 | 2.7 | 2.3 | 2.0 |
| Price/ Adjusted book (x) | - | - | - | - |
| Dividend Yield (%) | - | - | - | - |
| **Profitability ratio** | | | | |
| Yield on advances (%) | 15.3 | 13.9 | 14.1 | 14.1 |
| Yields on Assets | 12.6 | 11.6 | 11.6 | 11.7 |
| Cost of deposits (%) | 7.7 | 7.3 | 7.1 | 6.8 |
| Cost of funds | 7.0 | 6.6 | 6.7 | 6.6 |
| NIMs (%) | 6.5 | 5.8 | 5.7 | 5.8 |
| Cost/Income (%) | 63.8 | 56.5 | 58.1 | 56.3 |
| **Dupont Analysis (as % of Avg Assets)** | | | | |
| Interest Income | 12.2 | 11.3 | 11.4 | 11.5 |
| Interest expended | (5.9) | (5.7) | (5.8) | (5.8) |
| Net Interest Income | 6.3 | 5.6 | 5.6 | 5.7 |
| Non-interest income | 1.9 | 1.8 | 1.7 | 1.8 |
| **Total Income** | **8.2** | **7.4** | **7.3** | **7.5** |
| Staff costs | (2.7) | (2.2) | (2.1) | (2.0) |
| Non-staff costs | - | - | - | - |
| **Total Cost** | **(5.2)** | **(4.2)** | **(4.2)** | **(4.2)** |
| **PPoP** | **3.0** | **3.2** | **3.1** | **3.3** |
| Non-tax Provisions | (0.6) | (1.3) | (1.1) | (0.9) |
| **PBT** | **2.4** | **2.0** | **2.0** | **2.4** |
| Tax Provisions | (0.6) | (0.5) | (0.5) | (0.6) |
| **ROA (%)** | **1.9** | **1.5** | **1.5** | **1.8** |
| Leverage (x) | 8.5 | 9.2 | 9.4 | 9.7 |
| **ROE (%)** | **15.7** | **13.6** | **14.1** | **17.3** |
| **Asset quality ratios** | | | | |
| Gross NPLs (%) | 1.7 | 2.3 | 2.6 | 2.1 |
| Net NPLs (%) | 0.6 | 0.7 | 0.8 | 0.6 |
| PCR (%) | 67.6 | 68.1 | 70.0 | 70.0 |
| Gross Slippages (% of PY loans) | 2.3 | 3.7 | 3.0 | 2.4 |
| Total provisions/ Avg loans (%) | 0.8 | 1.9 | 1.6 | 1.3 |
| Net NPLs / Networth (%) | 2.7 | 4.6 | 5.1 | 4.2 |
| **Capitalisation ratios** | | | | |
| Core Equity Capital (%) | - | - | - | - |
| Tier I cap.adequacy (%) | 20.5 | 18.1 | 18.1 | 17.6 |
| Total cap.adequacy (%) | 23.3 | 20.1 | 20.9 | 20.3 |

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 and Kadambari_balachandran@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, 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. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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, and 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 and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest 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.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122