

India

**Overweight** (no change)

**Highlighted Companies**

**RBL Bank**

**ADD, TP Rs260, Rs207 close**

Legacy asset quality concerns addressed & credit costs are set to materially moderate in FY26F. The key concern is the timing of capital raising, but with CET-1 at 14% the bank will not be in a hurry. The valuation is attractive at 0.7x FY27 BV. Initiate coverage on the stock with a target price of Rs260 (26% upside).

**AU Small Finance Bank**

**ADD, TP Rs820, Rs720 close**

Well-placed in a repo rate downcycle, given a higher share of fixed-rate loan book along with the potential to post strong loan growth. We expect earnings CAGR at ~25% over FY25-27F, led by strong core PPOp growth and credit cost normalization (from 2HFY26F). The valuation at 2.2x FY27F BV is attractive for a sustainable RoE of 16.5%. Initiate coverage with a target price of Rs820 (14% upside).

**Kotak Bank**

**ADD, TP Rs2410, Rs2040 close**

It is a bank with a strong underwriting framework and the potential to post superior growth vs. large private peers. It can therefore command superior multiples. We believe the valuation discount to ICICI Bank can narrow (despite the difference in RoE) if the bank continues to post 2-3ppt better volume growth. The current valuation at 2x FY27F BV is not cheap but has scope to rerate. We initiate coverage on the stock with a target price of Rs2,410 (18% upside).

**Summary Valuation Metrics**

P/E (x)	Mar25-A	Mar26-F	Mar27-F
RBL Bank	18	10	6
AU Small Finance Bank	25	22	17
Kotak Bank	13	14	12
P/BV (x)	Mar25-A	Mar26-F	Mar27-F
RBL Bank	0.8	0.75	0.6
AU Small Finance Bank	3.1	2.5	2.2
Kotak Bank	1.7	1.6	1.4
Dividend Yield	Mar25-A	Mar26-F	Mar27-F
RBL Bank	0.5%	1.0%	1.7%
AU Small Finance Bank	0.1%	0.2%	0.3%
Kotak Bank	0.2%	0.1%	0.2%

**Research Analyst(s)**



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# Banks

## Time to evaluate a risk-on situation

- We believe select mid-size banks can generate better alpha (vs. peer banks), as they can potentially surprise on asset quality and/or growth outcomes.
- 4QFY25 witnessed improving signs of asset quality across unsecured retail segments. CE improved across MFI players & PL/CC stress has stabilized.
- Large private banks rallied on easing liquidity & faster deposit rate cuts. Uncertainty on extent of repo cuts & growth will cap rerating in the near term.

### Improving signs of asset quality across unsecured retail segments

4QFY25 witnessed an improving trend in asset quality indicators. The collection efficiency (CE) trend in the microfinance or MFI segment improved during the quarter for most players. Large private banks also showed a plateauing trend for unsecured segments (particularly personal loans & credit cards). They also indicated that stress levels are likely to normalize over the next few quarters (i.e. 1HFY26F). Moreover, they have been witnessing healthy asset quality outcomes on new disbursements over the past few quarters. Most MFI players have already strengthened their underwriting mechanisms as per the MFIN guardrails 2.0 and have witnessed improving X-bucket CE in Apr/May 2025 as well. These initial signs point to a structurally improving asset quality situation over the next few quarters coupled with an easy liquidity environment. Though credit costs will remain elevated (owing to ageing provision and the impact of MFI guardrails 2.0), we believe that delinquencies should moderate during 1HFY26F and should see a normalized trend from 2HFY26F.

### Asset quality/growth plays in mid-sized banks can generate alpha

Over the past few months, large private banks have rallied because of easing concerns over systemic liquidity and deposit rate cuts (which were much better than expected on savings accounts as well as term deposits). The uncertainty now remains on the quantum of repo rate cuts and volume growth outcomes. We believe both these concerns will remain an overhang and cap a material rerating over the near- to medium-term (except for Axis Bank). Meanwhile, we believe select mid-sized private banks can generate better alpha as they continue to trade at reasonable valuations and can surprise on the asset quality front and/or with strong growth outcome. Moreover, amid a repo rate downcycle, a few mid-sized banks are positioned favourably due to their balance sheet construct having a higher share of wholesale funds (which reprices faster) and a significant proportion of fixed-rate loans. Margin progression for these banks will be relatively better than peer banks. With this context, we prefer RBL Bank as a pure asset quality play while AU Small Finance Bank is a strong compounder and Kotak Mahindra Bank's valuation is not cheap but can outperform if it continues to post superior volume growth than large private peers. We assign a HOLD rating to Federal Bank, given its rich valuation, and believe that its transformative initiatives are steps in the right direction, but execution is key.

### Overall, we continue to prefer private banks over SOE banks

We believe that impending repo rate cuts will further deteriorate core profitability at SOE banks. Large private banks are better placed to manage margins in this repo rate downcycle vs. SOE banks, given a) relatively better starting point of margins, b) ability to drive the mix shift towards higher-yielding products, c) lagged repo rate transmission on linked loans, and d) the benefit of savings deposit rate cut of 25bp taken so far vs. limited savings account or SA rate cuts seen at SOE banks. Among large private banks, we have an ADD rating on Axis Bank, HDFC Bank and ICICI Bank. We believe HDFC Bank can outperform ICICI Bank over the next few years with broadly similar earnings growth trajectory and healthy deposit growth delivery. Among SOE banks, we would prefer stocks with healthy on-balance sheet liquidity and levers to offset margin compression at reasonable valuations. We have an ADD rating on Punjab National Bank (PNB) & Canara Bank. State Bank of India (SBI) & Bank of Baroda (BoB) are quality franchises among SOE banks, but their valuations made us to assign a HOLD rating to them.

**Figure 1: Mid-sized private banks – valuations**

Company Name	Rating	Current Price (Rs)	Target Price (Rs)	Upside/Downside	Core P/BV (x)			RoA		RoE	
					FY26F	FY27F	FY26F	FY27F	FY26F	FY27F	
Kotak Mahindra Bank	ADD	2,040	2,410	18%	2.0	1.8	1.9%	2.0%	12%	12%	
AU SFB	ADD	720	820	14%	2.8	2.3	1.5%	1.7%	13%	14%	
RBL Bank	ADD	207	260	26%	0.8	0.7	0.8%	1.2%	8%	12%	
Federal Bank	HOLD	207	220	6%	1.3	1.2	1.0%	1.1%	11%	12%	

NOTE: PRICE UPDATED AS OF 5 JUN 2025, SOURCE: INCRED RESEARCH

### Select asset quality/growth plays in mid-sized banks can generate alpha over the near- to medium-term

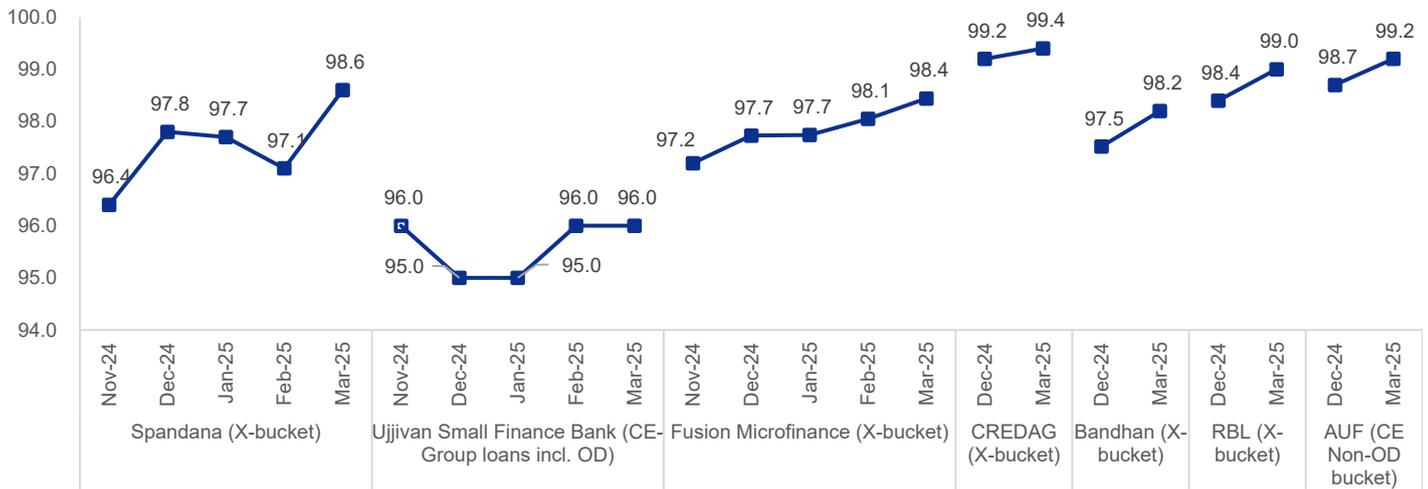
We believe that select mid-sized banks can generate relatively better returns vs. large private peers/SOE banks over the near- to medium-term.

**Improving asset quality situation will remain a key catalyst to drive a re-rating.** Early indicators point towards improving trends such as a broad-based improvement in collection efficiency during 4QFY25 and favourable qualitative commentary as well as large private banks (especially on credit cards and personal loan segments).

**Moreover, balance sheets of mid-sized banks are favourably aligned to the repo rate cut cycle** with a higher share of fixed-rate loan book as well as a higher share of wholesale funds (which tend to get repriced faster). This, along with lower interest reversals (during FY26 vs. FY25 – as slippage moderates), will drive a relatively better margin performance vs. large private/SOE banks.

Credit costs will materially moderate for mid-sized banks from 2HFY26F and aid overall earnings growth. Inflection in earnings, coupled with strong growth potential and reasonable valuations, provide comfort on mid-sized banks to perform relatively better vs. large private/SOE banks.

**Figure 2: Collection efficiency across MFI players– improving trend witnessed across MFI players**



SOURCE: INCRED RESEARCH

**Figure 3: Large financial entities have pointed to improving trend in unsecured loans**

**Comments on asset quality trends in personal loan and credit card portfolio during QE-Mar-25**

HDFC Bank	Personal loans - Management noted that 75-80% of the portfolio is skewed towards salaried customers (mostly salary accounts with HDFC Bank or with other banks) and the remaining towards non-salaried customers (open market-sourced). The bank remains comfortable with asset quality of the overall personal loan portfolio and haven't experienced stress so far. Moreover, the comfort on the asset quality front is across several segmental cuts.
ICICI Bank	Personal loans and credit cards - Management noted that it had tightened certain risk filters a few quarters ago, which had an impact on volume growth. Currently, it remains comfortable with the underwriting standards and is not overly cautious to grow the unsecured book.
Axis Bank	Personal loans and credit cards - Management noted that certain proactive measures / interventions (such as regular portfolio monitoring and early warning triggers) have led to delinquencies within acceptable thresholds for new cohorts. Overall, the bank sees stabilization in credit cards portfolio while personal loan portfolio may take couple of more quarters to show improvement (given vintage personal loan portfolio is yet to mature).
SBI Cards	Credit cards - Management noted that it has witnessed an improving trend in flow rates, delinquency as well as Stage-2 assets' percentage has come down. All the performance metrics regarding asset quality have shown an improving trend in 4QFY25 vs. 3QFY25. Moreover, it noted that improvement in asset quality is owing to steps taken five-to-six quarters ago to strengthen new acquisitions, underwriting and portfolio management framework.

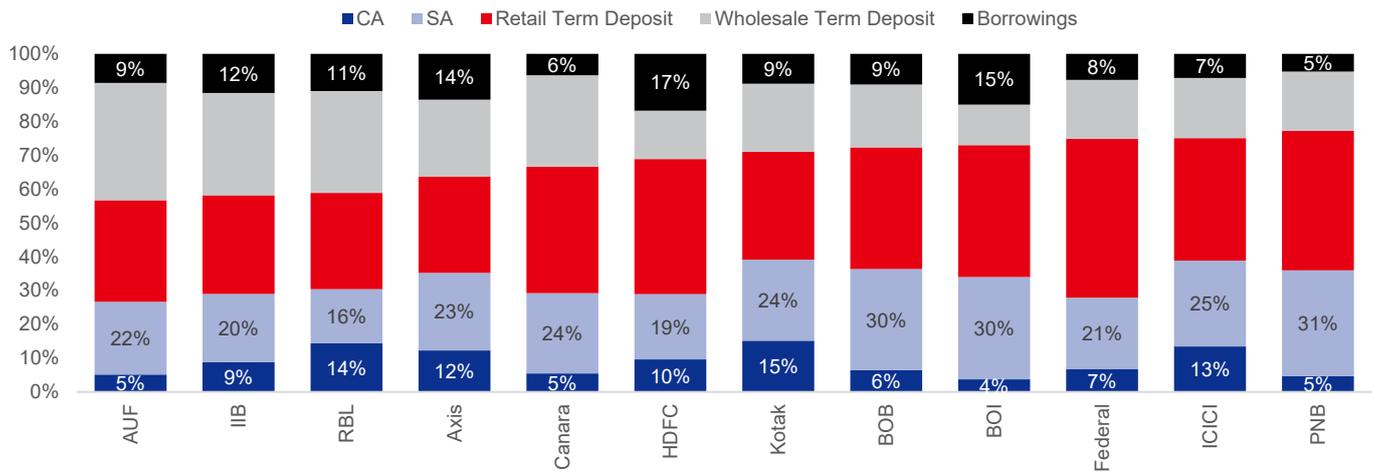
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: HDFC Bank's disbursement yield – it appears the bank has started to gain market share in the personal loans segment**

HDBK: Mean Yields	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	QoQ	YoY
LAP	9.17%	9.64%	9.55%	9.66%	9.51%	-0.15%	0.34%
Autos (Old)	13.67%	13.54%	13.45%	13.92%	13.75%	-0.17%	0.08%
CVs (Incl. Used)	9.98%	10.13%	10.14%	10.24%	10.10%	-0.14%	0.12%
2W	19.03%	19.34%	19.33%	20.74%	21.42%	0.68%	2.39%
Personal	11.37%	11.52%	11.47%	11.47%	11.84%	0.37%	0.47%
Business	16.83%	16.95%	16.86%	16.86%	16.71%	-0.15%	-0.12%

SOURCE: COMPANY DATA, INCRED RESEARCH.

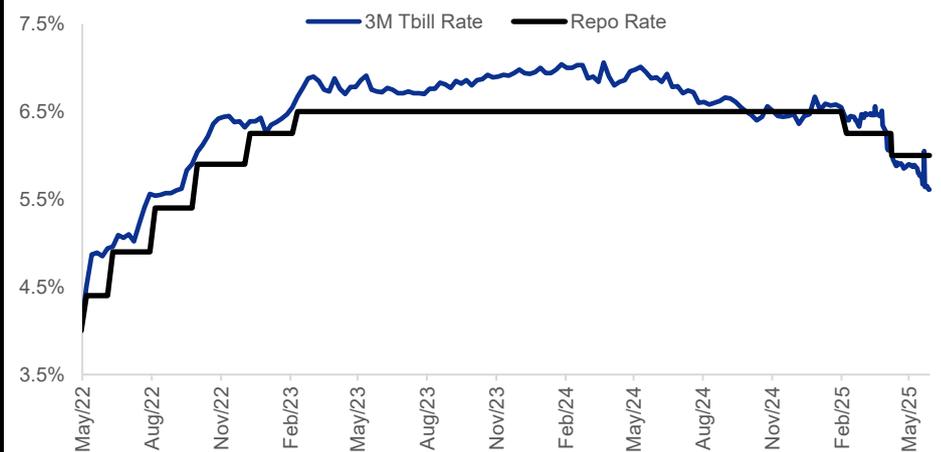
**Figure 5: India banks' funding mix - banks with a higher share of wholesale funds will witness faster repricing in a repo downcycle**



SOURCE: INCRED RESEARCH.

NOTE: FOR SOE BANKS, WE HAVE CONSIDERED DOMESTIC DEPOSITS

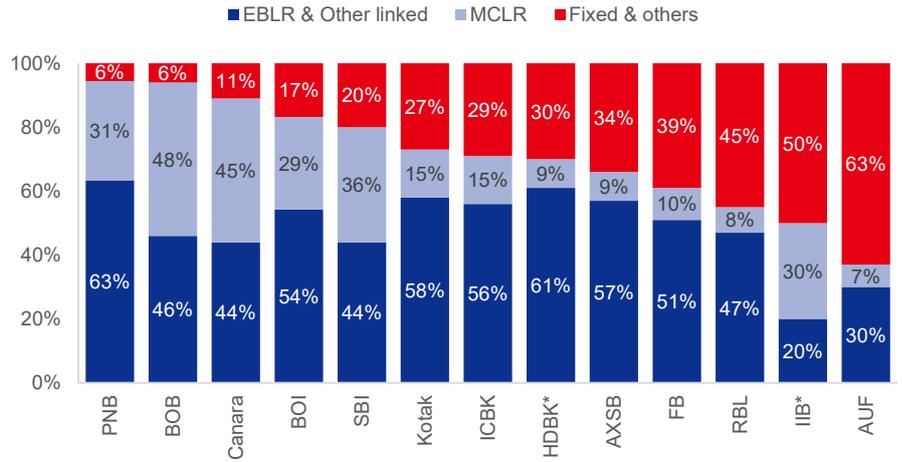
**Figure 6: Repo rate vs. 3M T-bill rate – short-term money market rates have declined sharply over the past few months**



NOTE: RATES UPDATED AS ON 3 JUN 2024

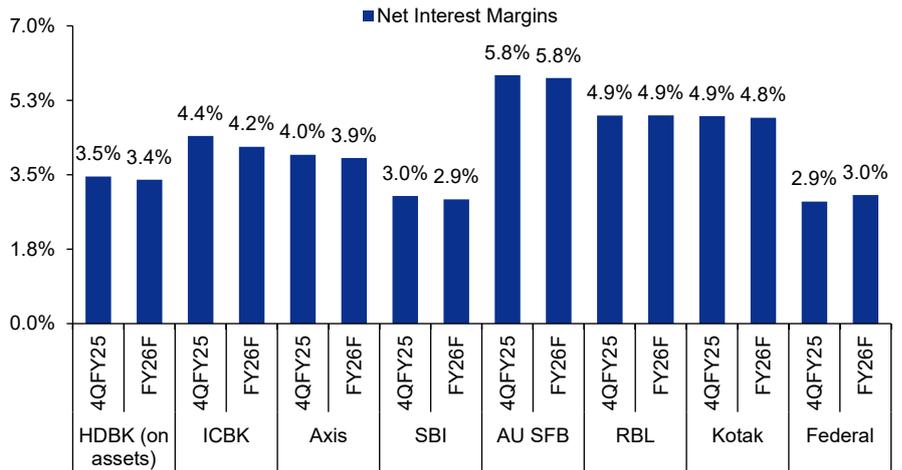
SOURCE: INCRED RESEARCH

**Figure 7: India banks' loan mix by rate type; banks with a higher share of fixed-rate loans to witness relatively better margin performance in a repo rate downcycle**



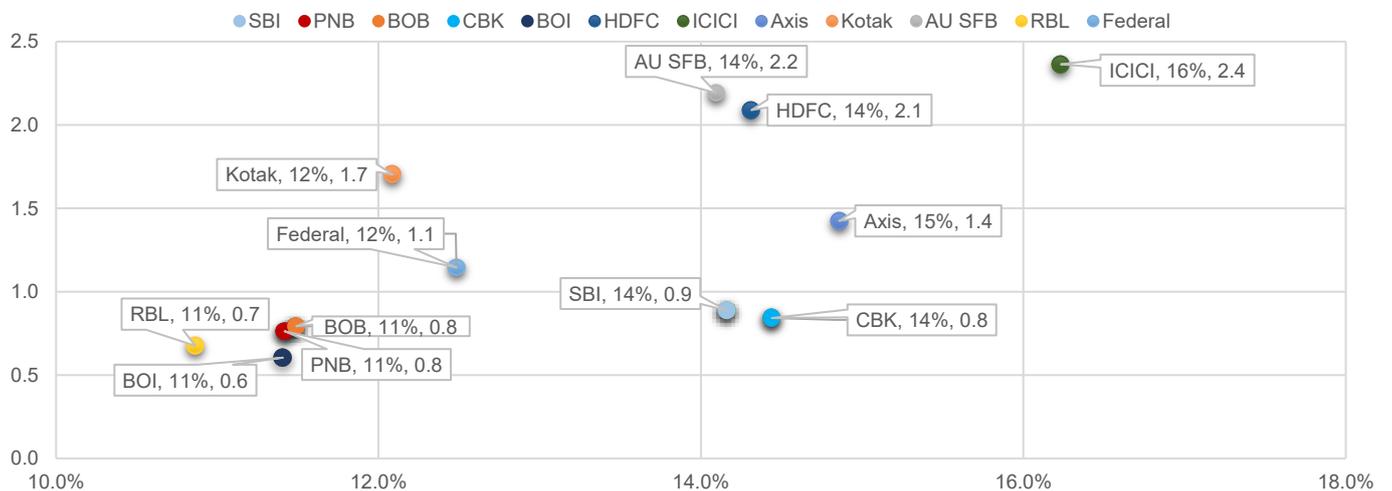
NOTE: \*BASED ON INTERNAL ASSUMPTIONS.  
SOURCE: INCRD RESEARCH, COMPANY REPORTS

**Figure 8: Margin progression – mid-sized banks are relatively better placed on margin progression over the next one year**



SOURCE: INCRD RESEARCH

**Figure 9: Core P/BV in FY27F vs. avg. RoE in FY26F-27F**



NOTE: PRICES UPDATED AS ON 5 JUN 2025  
SOURCE: INCRD RESEARCH

### Large private banks rallied over the past three months as system liquidity improved and deposit rate cuts were faster than expected; in the near term, uncertainty over volume growth outcomes and extent of repo cuts will cap material rerating

Large private banks, particularly ICICI Bank and HDFC Bank have rallied ~15-16% over the past three months (and ~30% over the past one year). This is partly attributable to improving systemic liquidity situation and much faster-than-expected cuts in deposit rates (term deposits as well as savings deposits). Valuations have rerated for these banks and there is limited scope for a further rerating in the near term, given the uncertainty over the extent of repo rate cuts as well as growth outcomes.

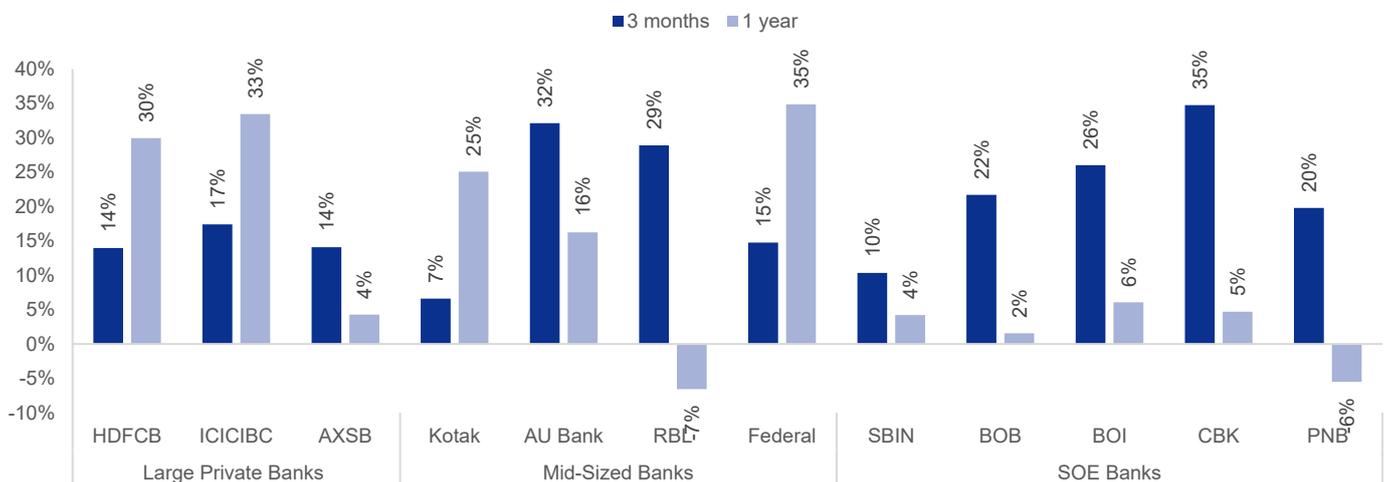
System volume growth has also been subdued, with the loan growth trailing at ~10% YoY as of 16 May 2025 vs. 11% in FY25 (16% in FY24) and deposit growth trailing at 10% YoY, as of mid-May 2025 as well as Mar 2025 (was 13% YoY in FY24). Moreover, the excess liquidity situation has moderated across banks (see Fig. 21), which makes deposit growth imperative for them to post loan growth. On the other hand, mid-sized private banks' price performance has been relatively weaker than large private peers over the past one year and valuations have also derated. This was primarily owing to deteriorating asset quality in unsecured segments (i.e. personal loans, credit cards and MFI businesses), and idiosyncratic risks in select cases.

Figure 10: Stock price performance

As on 05-June-25	1M	3M	6M	12M
<b>Large Private Banks</b>				
HDFCB	1%	15%	5%	26%
AXSB	0%	12%	-2%	-2%
ICICIBC	2%	20%	9%	31%
<b>Mid-Sized Banks</b>				
IndusInd	-3%	-14%	-19%	-46%
Kotak	-2%	5%	15%	19%
AU Bank	7%	32%	23%	8%
Federal	11%	15%	-3%	25%
RBL Bank	5%	26%	18%	-15%
<b>SOE Banks</b>				
SBIN	4%	10%	-7%	2%
BOB	12%	22%	-5%	-4%
BOI	14%	28%	5%	6%
CBK	26%	37%	6%	1%
PNB	15%	20%	-1%	-11%

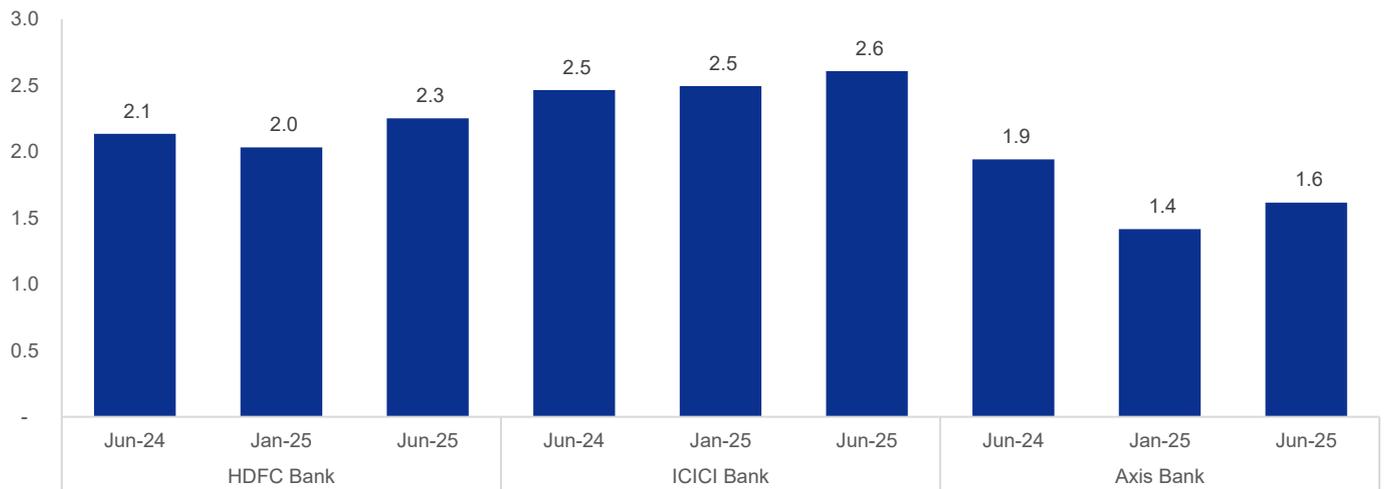
NOTE: PRICE UPDATED AS OF 5 JUN 2025  
SOURCE: INCRED RESEARCH

Figure 11: India banks' stock performance - 3 months vs. 1 year (%) – large private banks did well in the past year vs. mid-sized banks and SOE banks



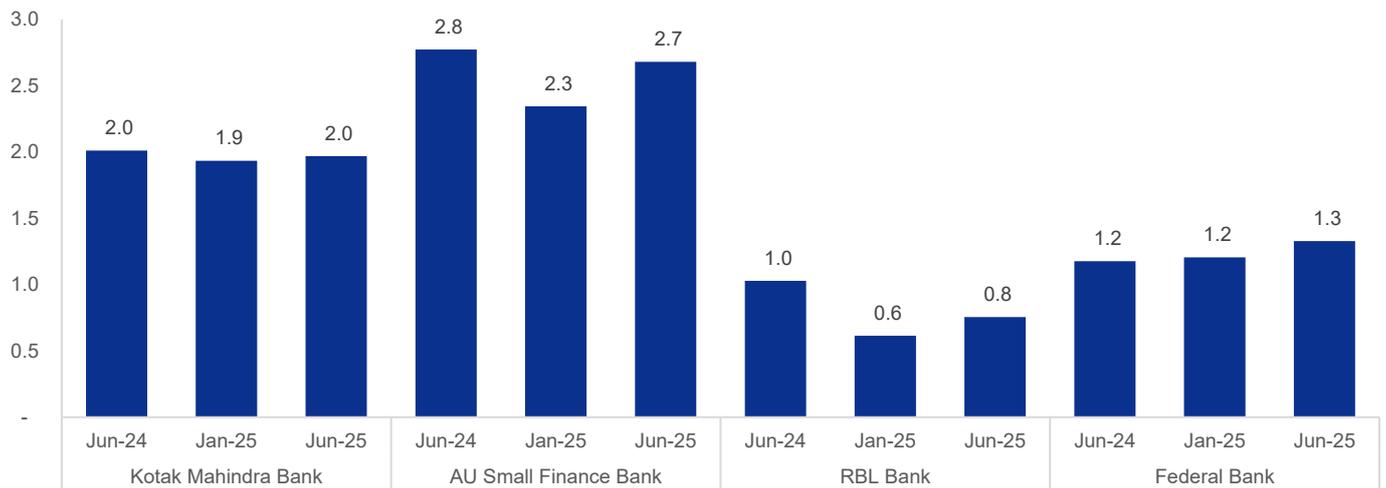
NOTE: PRICES UPDATED AS ON 5 JUN 2025  
SOURCE: INCRED RESEARCH

**Figure 12: Large private banks' one-year forward core price-to-BV (x) – these banks have rerated over the past one year**



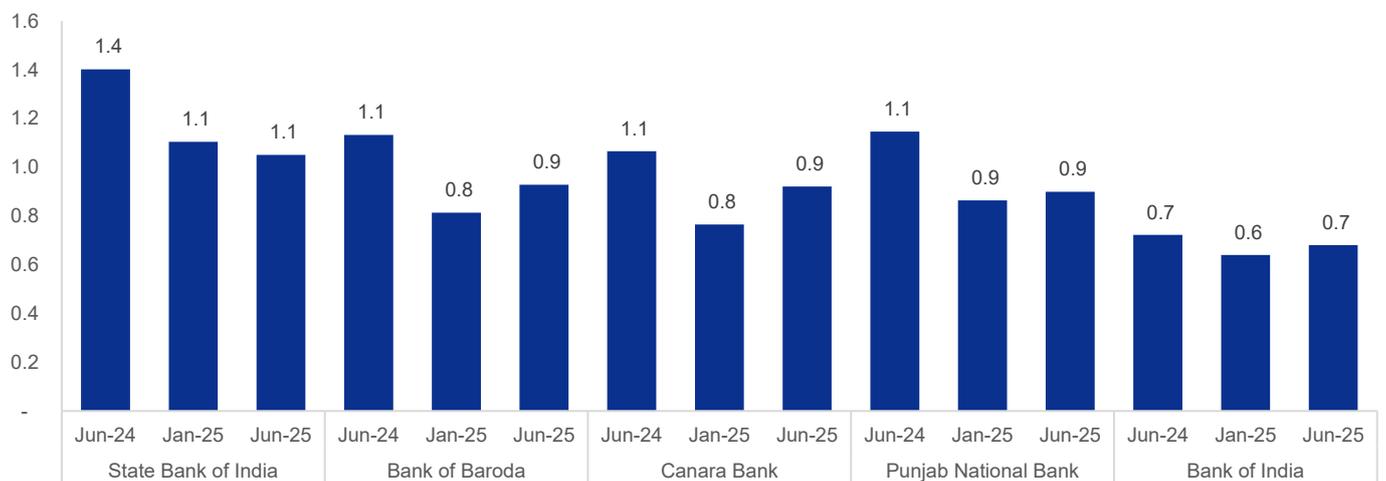
NOTE: PRICE UPDATED AS ON 5 JUN 2025  
SOURCE: INCRED RESEARCH

**Figure 13: Mid-sized private banks' one-year forward core P/BV (x) – these banks still have room to rerate (except Federal Bank)**



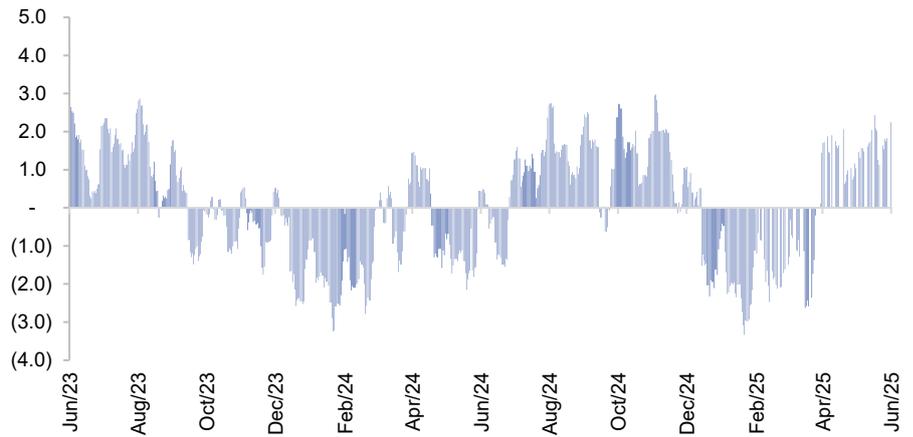
NOTE: PRICE UPDATED AS OF 5 JUN 2025  
SOURCE: INCRED RESEARCH

**Figure 14: SOE banks' one-year forward core P/BV (x) – valuations have corrected owing to weak core performance**



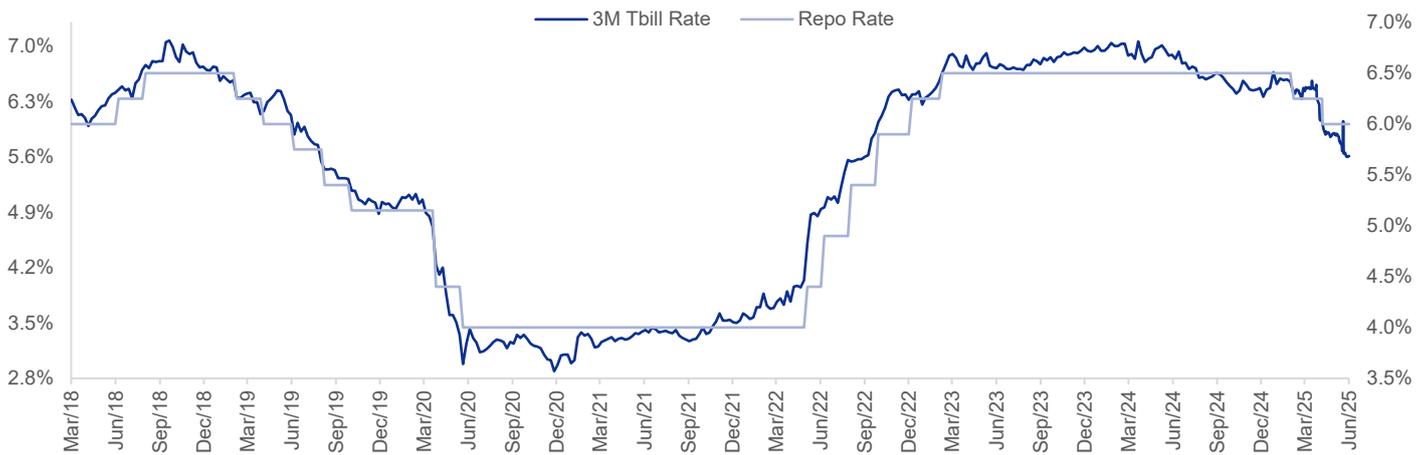
NOTE: PRICES UPDATED AS ON 5 JUN 2025  
SOURCE: INCRED RESEARCH

Figure 15: Net system liquidity (in Rs tr) improved over the past few months



NOTE: PRICE UPDATED AS ON 3 JUN 2025  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Repo rate vs. T-bill rate – improving system liquidity led to a sharper decline in short-term rates, which partly is also owing to expected repo rate cuts



NOTE: PRICE UPDATED AS ON 4 JUN 2025  
SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 17: Term deposit (TD) rate cuts were much faster than expected - since Mar 2025, large banks have cut TD rates by 40-50bp

Peak Term deposit rates 1Y-3Y bucket		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	YoY-for QE-Mar	QoQ-for QE-Mar	Jan-25 to May-25	During May-25
Large Private Banks	HDBK	7.10%	7.20%	7.20%	7.15%	7.25%	7.25%	7.35%	7.35%	7.35%	7.35%	7.35%	7.05%	6.85%	0.10%	0.00%	-0.50%	-0.20%
	ICBK	7.10%	7.10%	7.10%	7.10%	7.20%	7.20%	7.25%	7.25%	7.25%	7.25%	7.25%	7.05%	6.85%	0.05%	0.00%	-0.40%	-0.20%
	Axis	7.26%	7.10%	7.10%	7.10%	7.20%	7.20%	7.20%	7.25%	7.25%	7.25%	7.25%	7.05%	6.85%	0.05%	0.00%	-0.40%	-0.20%
Mid-Sized Private Banks	Kotak	7.20%	7.20%	7.20%	7.25%	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%	7.15%	6.95%	0.00%	0.00%	-0.45%	-0.20%
	Federal	7.25%	7.25%	7.30%	7.50%	7.50%	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.30%	7.15%	0.00%	0.10%	-0.35%	-0.15%
	IndusInd	7.75%	7.75%	7.50%	7.50%	7.75%	7.99%	7.75%	7.75%	7.99%	7.75%	7.75%	7.75%	7.50%	0.00%	0.00%	-0.49%	-0.25%
	RBL	7.80%	7.80%	7.80%	8.00%	8.10%	8.00%	8.10%	8.10%	8.00%	8.00%	8.00%	7.75%	7.75%	-0.10%	-0.10%	-0.25%	0.00%
	AUF	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.10%	8.10%	8.00%	7.75%	7.75%	0.00%	0.00%	-0.35%	0.00%
	IDFC	7.75%	7.75%	7.50%	7.75%	7.75%	7.90%	7.75%	7.75%	7.90%	7.90%	7.90%	7.50%	7.15%	0.15%	0.15%	-0.75%	-0.35%
	Bandhan	8.00%	8.00%	7.85%	7.85%	7.85%	7.85%	8.00%	8.05%	8.05%	8.05%	8.05%	8.05%	7.75%	0.20%	0.00%	-0.30%	-0.30%
Equitas	8.20%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.25%	8.25%	8.25%	8.25%	8.05%	8.05%	-0.25%	0.00%	-0.20%	0.00%	
SOE Banks	SBI	7.00%	7.10%	7.10%	7.10%	7.10%	7.10%	7.25%	7.25%	7.25%	7.25%	7.25%	7.05%	6.85%	0.15%	0.00%	-0.40%	-0.20%
	BOB	7.05%	7.25%	7.25%	7.25%	7.25%	7.25%	7.30%	7.30%	7.30%	7.30%	7.30%	7.15%	7.10%	0.05%	0.00%	-0.20%	-0.05%
	PNB	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.10%	7.00%	0.00%	0.00%	-0.25%	-0.10%
	Canara	7.15%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.30%	7.30%	7.30%	7.25%	7.00%	0.05%	0.05%	-0.30%	-0.25%
	BOI	7.05%	7.00%	7.25%	7.25%	7.25%	7.30%	7.25%	7.30%	7.30%	7.30%	7.30%	7.05%	7.05%	0.05%	0.00%	-0.25%	0.00%

NOTE: RATES UPDATED AS ON 30 MAY 2025  
SOURCE: INCRED RESEARCH

Figure 18: India banks' savings deposit card rates – large private banks cut SA rates during mid-Apr 2025

Effective Date>	SBI		HDBK		ICBK		Axis		Kotak			IndusInd	
	Current	Old	Current	Old	Current	Old	Current	Old	Old	Current	Old	Current	
<0.1m	2.70%	3.00%	2.75%	3.00%	2.75%	3.00%	2.75%	3.00%	3.50%	3.00%	2.75%	3.00%	3.00%
>0.1m to <1m	2.70%	3.00%	2.75%	3.00%	2.75%	3.00%	2.75%	3.00%	3.50%	3.00%	2.75%	3.5-5.0%	3.0-4.0%
>1m to <5m	2.70%	3.00%	2.75%	3.00%	2.75%	3.00%	2.75%	3.00%	3.50%	3.00%	2.75%	7.00%	5.0-6.0%
>5m to <10m	2.70%	3.50%	3.25%	3.50%	3.25%	3.50%	3.25%	3.50%	4.00%	3.50%	3.25%	7.00%	7.00%
>10m to <50m	2.70%	3.50%	3.25%	3.50%	3.25%	3.50%	3.25%	3.50%	4.00%	3.50%	3.25%	7.00%	7.00%
>50m to <100m	2.70%	3.50%	3.25%	3.50%	3.25%	3.50%	3.25%	3.50%	4.00%	3.50%	3.25%	7.00%	7.00%
>100m	3.00%	3.50%	3.25%	3.50%	3.25%	3.50%	3.25%	3.50%	4.00%	3.50%	3.25%	7.00%	7.00%

NOTE: RATES UPDATED AS ON 30 MAY 2025  
SOURCE: INCRD RESEARCH

Figure 19: India banks' savings account (SA) deposit card rates – mid-sized banks & select SOE banks also trimmed SA card rates

Effective Date>	Federal		AUF		RBL		IDFC First			BOB	Canara		PNB	BOI	
	Old	Current	Old	Revised	Old	Revised	Old	Old	Current	Current	Old	Current	Current	Old	Current
<0.1m	3.00%	2.75%	3.00%	3.00%	3.25%	3.25%	3.00%	3.00%	3.00%	2.70%	2.90%	2.70%	2.75%	2.90%	2.75%
>0.1m to <1m	3.00%	2.75%	3.0-5.0%	3.0-5.0%	4.5-5.5%	3.5-5.0%	3.0-5.0%	3.0-7.0%	3.0-7.0%	2.70%	2.90%	2.70%	2.75%	2.90%	2.75%
>1m to <5m	3.00%	2.75%	7.25%	7.00%	6.5-7.5%	6.5-7.0%	7.25%	7.00%	7.00%	2.70%	2.90%	2.70%	2.75%	2.90%	2.75%
>5m to <10m	3.75%	3.50%	7.25%	7.00%	7.50%	7.00%	7.25%	7.00%	7.00%	2.70%	2.90%	2.70%	2.75%	2.90%	2.75%
>10m to <50m	3.75-4%	3.75-4.0%	7.25%	7.00%	6.5-7.5%	6.5-7.0%	7.25%	7.00%	7.00%	2.70%	2.90%	2.70%	2.75%	2.90%	2.75%
>50m to <100m	5.50%	5.25%	7.25%	7.00%	6.25-6.5%	6.0-6.5%	7.25%	7.00%	7.00%	2.70%	2.95%	2.75%	2.75%	2.90%	2.75%
>100m	5.5-7%	5.5-7.0%	7.25%	7.00%	6.0-6.25%	6.0-6.25%	7.25%	6.0-7.0%	6.0-6.5%	2.75-3.05%	3.05-4.0%	2.8%-4.0%	2.75-3.0%	2.9%-3.1%	75%-3.1%

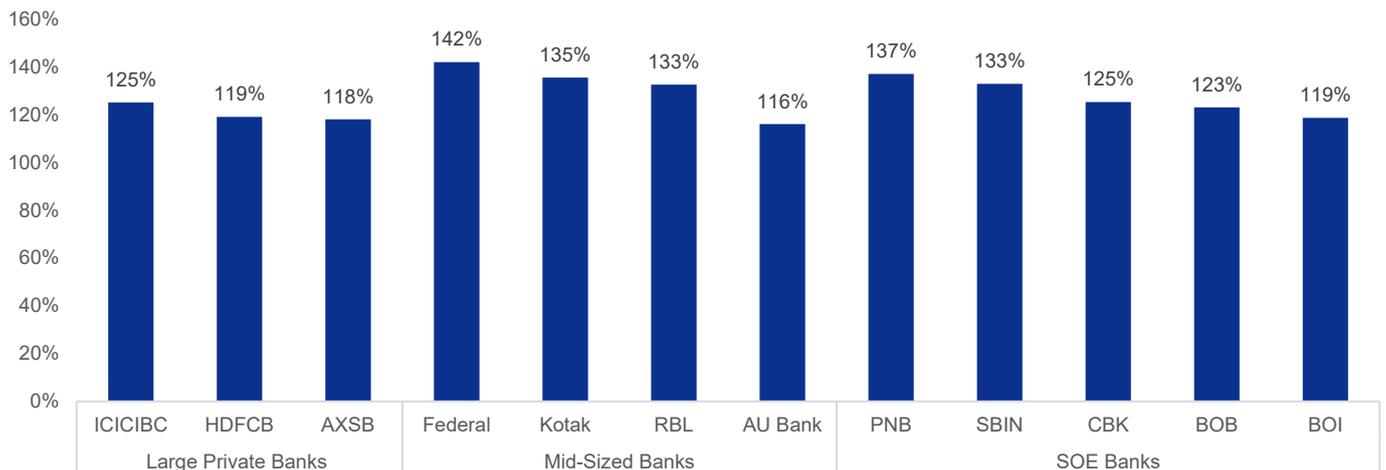
NOTE: PRICE UPDATED AS ON 30 MAY 2025  
SOURCE: INCRD RESEARCH

Figure 20: System credit/deposit growth continues to remain subdued



SOURCE: INCRD RESEARCH, COMPANY REPORTS

Figure 21: India banks' avg. liquidity ratio for most banks is closer to mean acceptable level of ~115% to 120% (in 4QFY25)



SOURCE: INCRD RESEARCH

## Our picks in mid-sized private banks

Select mid-sized private banks can generate better alpha as they continue to trade at reasonable valuations and can surprise on the asset quality front and/or growth outcomes, in our view. Within mid-sized banks, we prefer RBL Bank as a pure asset quality play, AU Small Finance Bank is a strong compounder while Kotak Mahindra Bank's valuation is not cheap but can outperform (basis our excess capital methodology to value the bank differently than street) if the bank continues to post 2-3ppt better volume growth than large private peers. We assign a HOLD rating to Federal Bank, given that it is trading at rich valuation and believe that its transformative initiatives are steps in the right direction, but execution is key.

RBL Bank (ADD) has addressed legacy asset quality concerns (with ~100% provided on MFI NPA exposure and 75% on MFI SMA book) and credit costs are set to materially moderate by ~130bp in FY26F. The key concern is timing of capital raising but with CET-1 at 14%, the bank will not be in a hurry. The valuation is attractive at 0.7x FY27F BV. We initiate coverage on the stock with a target price of Rs260 (26% upside).

AU Small Finance Bank (ADD) is well-placed in a repo rate downcycle, given the higher share of fixed-rate loan book along with the potential to post strong loan growth (~20% over FY25-FY27). We expect earnings CAGR at ~25% over FY25-27F, led by core PPOP at ~20% CAGR and credit cost normalization (from 2HFY26F). The valuation at 2.2x FY27F BV is attractive for a sustainable RoE of 16.5%. We initiate coverage on the stock with a target price of Rs820 (14% upside).

Kotak Mahindra Bank (ADD) has a strong underwriting framework and the potential to post superior growth vs. large private peers and can therefore command superior multiples. We believe the valuation discount to ICICI Bank can narrow (despite the difference in RoE) if the bank continues to post 2-3ppt better volume growth. The valuation at 2x FY27F BV is not cheap but has scope to rerate on the basis of our excess capital methodology to value the stock (see Fig. 1 in the bank-specific section). We initiate coverage on the stock with a target price of Rs2,410 (18% upside).

Federal Bank (HOLD) is taking steps in the right direction. Given the pedigree of its top management, the bank will be able to navigate this journey well. However, the valuation is not cheap at 1.1x FY27F BV as the repo rate cut cycle is yet to fully play out and elevated cost ratios will also impact profitability in the near- to medium-term. We value the core banking business at 1.2x FY27F BV and assign subsidiaries' value (at Rs15/share) to arrive at target price of Rs220 (6% upside). We initiate coverage on the stock with a target price of Rs220 (6% upside).

Figure 22: InCred's banking sector coverage universe

	Rating	CMP (Rs)	Target Price	% Up/Down-side	P/E			EPS g	P/BV			ROA			ROE		
					F25	F26F	F27F	(F27/F25)	F25	F26F	F27F	F25	F26F	F27F	F25	F26F	F27F
<b>Large Private Banks</b>																	
HDFC Bank*	ADD	1,950	2,200	13%	19.0	17.8	15.3	12%	2.6	2.3	2.1	1.8%	1.8%	1.8%	14%	14%	14%
ICICI Bank*	ADD	1,455	1,650	13%	18.1	17.7	14.9	10%	3.2	2.7	2.4	2.4%	2.2%	2.2%	18%	16%	16%
AXIS Bank*	ADD	1,159	1,430	23%	12.7	12.3	10.2	12%	1.9	1.6	1.4	1.7%	1.6%	1.7%	16%	14%	15%
<b>Mid-Sized Banks</b>																	
Kotak Mahindra Bank	ADD	2,040	2,410	18%	14.9	17.0	14.5	1%	2.2	1.9	1.7	2.5%	1.9%	2.0%	15%	12%	12%
Indusind Bank	Hold	803	840	5%	23.7	15.6	9.6	57%	1.0	0.9	0.8	0.5%	0.7%	1.0%	4%	6%	9%
Federal Bank	Hold	207	220	6%	11.6	12.6	9.6	10%	1.4	1.3	1.1	1.2%	1.0%	1.1%	13%	11%	12%
RBL Bank	ADD	207	260	26%	18.1	10.2	6.0	74%	0.8	0.8	0.7	0.5%	0.8%	1.2%	5%	8%	12%
AU Small Finance Bank	ADD	720	820	14%	25.1	21.9	16.7	23%	3.1	2.5	2.2	1.5%	1.5%	1.7%	13%	13%	14%
<b>SOE Banks</b>																	
SBI*	Hold	806	875	9%	6.5	7.4	6.3	1%	1.1	1.0	0.9	1.1%	0.9%	0.9%	17%	14%	14%
BOB	Hold	251	240	-4%	6.6	7.9	7.2	-4%	0.9	0.9	0.8	1.2%	0.9%	0.9%	16%	11%	11%
Canara Bank	ADD	116	110	-6%	6.0	7.3	6.0	0%	1.1	1.0	0.8	1.1%	0.8%	0.9%	18%	13%	14%
Punjab National Bank	ADD	109	107	-2%	6.7	8.0	7.0	-2%	0.9	0.8	0.8	1.0%	0.8%	0.8%	15%	11%	11%
BOI	Hold	124	115	-8%	6.1	6.8	5.6	5%	0.7	0.7	0.6	0.9%	0.8%	0.8%	13%	10%	11%

\*HDFC Bank, ICICI Bank, Axis Bank, Kotak Bank, SBI - we have adjusted Subs value to arrive at core multiples  
Source: Reuters, Company Data, InCred research estimates. Prices as of 5th June 2025

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**India**
**ADD** (Initiating coverage)

Consensus ratings*:	Buy 14 Hold 2 Sell 5
Current price:	Rs207
Target price:	Rs260
Previous target:	NA
Up/downside:	25.6%
InCred Research / Consensus:	24.1%
Reuters:	RATB.BO
Bloomberg:	RBK IN
Market cap:	US\$1,468m Rs125,945m
Average daily turnover:	US\$22.1m Rs1896.2m
Current shares o/s:	259.8m
Free float:	100.0%

\*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	4.9	27.3	(15.1)
Relative (%)	3.9	16.2	(21.7)

Major shareholders	% held
Quant MF	6.7
British International Investment Plc	3.8
Mahindra & Mahindra Limited	3.5

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# RBL Bank

## A pure asset quality play

- Legacy asset quality concerns addressed, with 100% coverage on MFI NPAs and 75% on MFI SMA book. Credit costs to materially moderate in FY26F.
- A key concern is the timing of capital raising. With CET-1 at 14.1%, we believe the bank will not be in a hurry to raise capital in the near- to medium-term.
- The valuation is attractive at 0.7x FY27F BV. We assign a multiple of 0.8x to arrive at a TP of Rs260 (26% upside). Initiate coverage with an ADD rating.

### Addresses asset quality concerns; credit cost moderation in sight

RBL Bank front-loaded provisioning by providing 100% on MFI stress exposure and 75% on MFI SMA book. During FY25, the bank witnessed elevated slippage in MFI (~19%) and credit card portfolio (~10%). Cumulatively, these segments accounted for ~80% of full-year credit costs of ~335bp, in our view. The net NPA ratio is now at just 0.3%. Overall collection efficiency in the MFI space has also improved and stress in the credit card portfolio is easing. For FY26F, our calculations point to a material ~130bp reduction in credit costs during the year, assuming net slippage at 8% for the MFI segment and 6% for credit cards.

### Margin to structurally moderate as mix shifts to secured advances

Over the past few years, the bank has been shifting its loan mix aggressively towards the secured retail segment, away from unsecured (i.e. credit cards and microfinance) and the corporate segment. As a result, the share of corporate loans has declined to 27% in FY25 from 35% in FY23 and the share of unsecured segment moderated to 28% from 32% in FY23. The bank remains focused on unsecured business but expects strong growth in secured retail segments to lift overall loan growth in the next few years. With the continued mix shift towards secured retail, we expect the margin to remain under pressure. We expect FY26F margin at 4.9%, steady vs. 4QFY25 exit (lower by 23bp over FY25), as the margin impact owing to a shift in the loan mix & repo rate cuts is offset by repricing of wholesale funds (RBL Bank has a higher share) & lower slippage-related interest reversal (vs. FY25).

### Current valuation at 0.7x FY27 BV appears attractive for 12-13% RoE

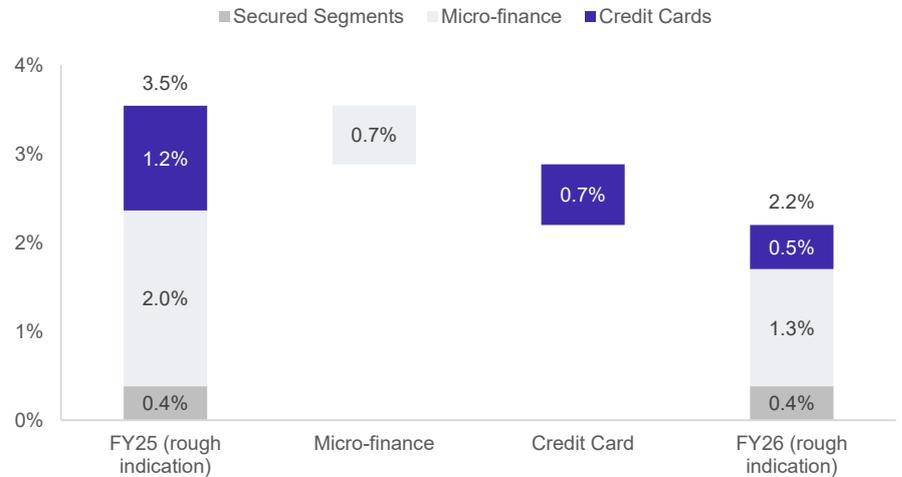
We believe RBL Bank has the potential to rerate amid signs of improving asset quality in MFI as well as credit card segments (~28% of loans). Post management change (during Jun 2022), the bank has granularized and derisked the balance sheet (by focusing on retail deposits and shifting the advances mix towards the secured segment). The key concern now is the timing of capital raising. We note that the bank benefited on CET-1 in 4QFY25 post relaxation by the central bank on MFI risk weights. With the CET-1 ratio now at 14.1%, the bank is unlikely to be in a hurry to raise capital in the near- to medium-term. We expect RoA to improve to 0.8%/1.1% over FY26/27F, from 0.5% in FY25. RoE to improve to ~8/12% over FY26/27F, from ~5% in FY25. We assign a multiple of 0.8x on FY27F BV and arrive at a target price of Rs260 (implying 25% upside). We initiate coverage on the stock with an ADD rating. Downside risks: Lower-than-expected margin/loan growth, worsening asset quality, and capital raising in the near term.

### Financial Summary

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	60,429	64,630	68,256	81,752	95,011
Total Non-Interest Income (Rsm)	30,429	38,062	40,655	46,397	53,229
Operating Revenue (Rsm)	90,858	102,692	108,911	128,149	148,240
Total Provision Charges (Rsm)	(17,785)	(29,587)	(18,984)	(18,123)	(21,295)
Net Profit (Rsm)	11,679	6,954	12,326	21,050	25,289
Core EPS (Rs)	19.4	11.4	20.3	34.6	41.6
Core EPS Growth	31%	(41%)	77%	71%	20%
FD Core P/E (x)	10.7	18.1	10.2	6.0	5.0
DPS (Rs)	1.5	1.2	2.1	3.5	4.2
Dividend Yield	0.73%	0.56%	1.00%	1.71%	2.05%
BVPS (Rs)	245	257	275	306	343
P/BV (x)	0.8	0.8	0.8	0.7	0.6
ROE	8.2%	4.6%	7.6%	11.9%	12.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 23: MFI and credit card segments to drive material credit cost moderation in FY26**



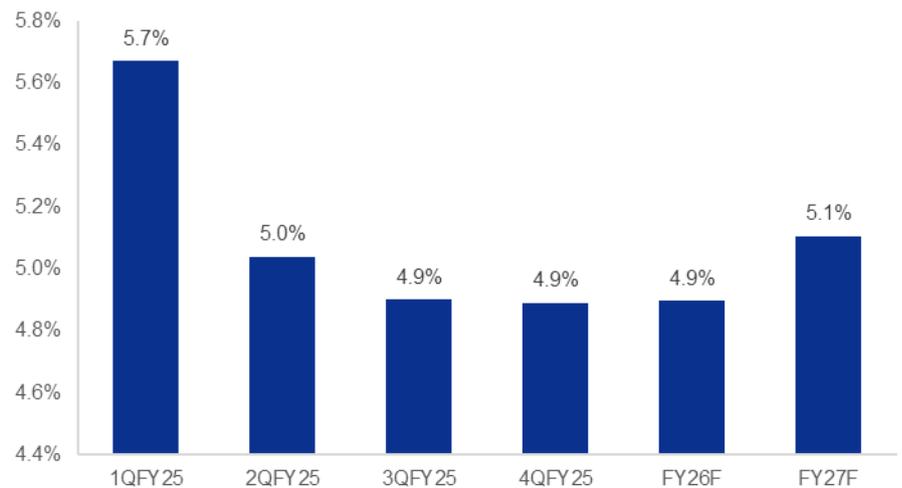
NOTE: THE WATERFALL CHART IS A ROUGH APPROXIMATION BASIS THE AVAILABILITY OF THE DATA TO GAUGE THE DELTA IMPROVEMENT IN CREDIT COST FROM MFI AND CREDIT CARD SEGMENTS. REPORTED CREDIT COST WAS 335 BPS FOR FY25 AND WE ESTIMATE 190BPS DURING FY26. SOURCE: INCRED RESEARCH.

**Figure 24: Segmental credit cost split (rough indication) – credit costs can potentially moderate by ~130bp in FY26**

Rs Mn	Advances (FY25)	% of Loans	FY25 (rough indication)				FY26 (rough indication)			
			Net Slippage	PCR	Credit cost (segment)	Credit cost (Overall)	Net Slippage	PCR	Credit cost (segment)	Credit cost (Overall)
Secured Segments	664,890	72%	0.8%	70%	0.5%	0.4%	0.8%	69%	0.5%	0.4%
Unsecured Segment	261,300	28%	11.2%	100%	11.2%	3.2%	6.4%	100%	6.4%	1.8%
--Credit Cards	203,780	22%	9%	100%	9.0%	2.0%	6%	100%	6.0%	1.3%
--Microfinance	57,520	6%	19%	100%	19.0%	1.2%	8%	100%	8.0%	0.5%
<b>Total Loans</b>	<b>926,190</b>	<b>100%</b>	<b>3.7%</b>	<b>77.6%</b>	<b>3.5%</b>	<b>3.5%</b>	<b>2.4%</b>	<b>77.6%</b>	<b>2.2%</b>	<b>2.2%</b>
<b>Reported Credit cost</b>						<b>3.4%</b>				<b>2.0%</b>

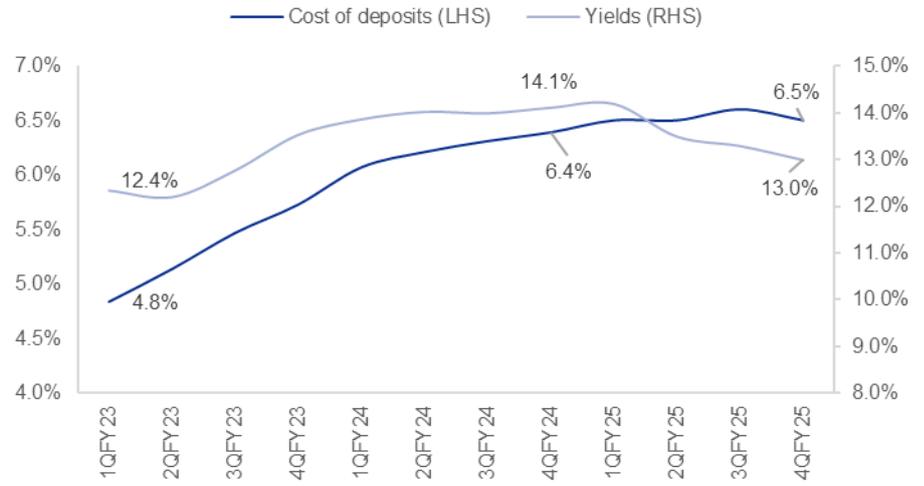
NOTE: THE EXHIBIT IS A ROUGH APPROXIMATION BASIS THE AVAILABILITY OF THE DATA TO GAUGE THE DELTA IMPROVEMENT IN CREDIT COST FROM MFI AND CREDIT CARD SEGMENTS. REPORTED CREDIT COST WAS 335 BPS FOR FY25 AND WE ESTIMATE 190BPS DURING FY26. SOURCE: INCRED RESEARCH. SOURCE:

**Figure 25: RBL Bank – Margin will remain under pressure owing to continued mix shift towards the retail secured segment**



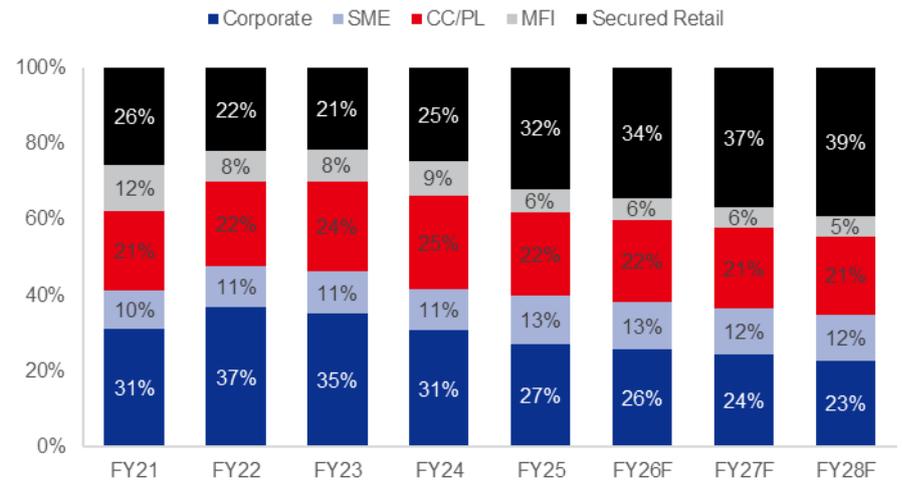
SOURCE: INCRED RESEARCH. COMPANY DATA

**Figure 26: RBL Bank - loan yield vs. cost of deposits (%); the sharp decline in loans yields is owing to the mix shifting towards secured segments, lower disbursals in unsecured and slippage-related interest reversals over the past few quarters**



SOURCE: INCRED RESEARCH

**Figure 27: RBL Bank – mix shifting towards secured retail has been aggressive during FY23-FY25 and will continue over the next few years**



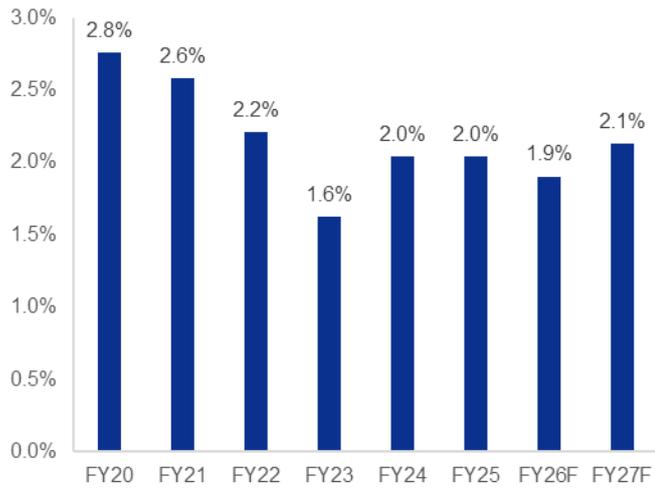
SOURCE: INCRED RESEARCH

**Figure 28: Funding mix – RBL Bank has a relatively higher share of wholesale funds, which will reprice faster in a repo rate downcycle, thereby aiding margin**



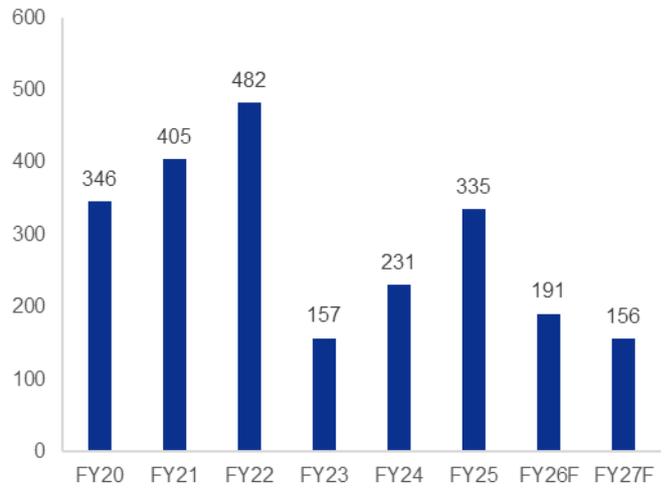
SOURCE: INCRED RESEARCH

Figure 29: RBL Bank - core PPOP (as a % of avg. assets)



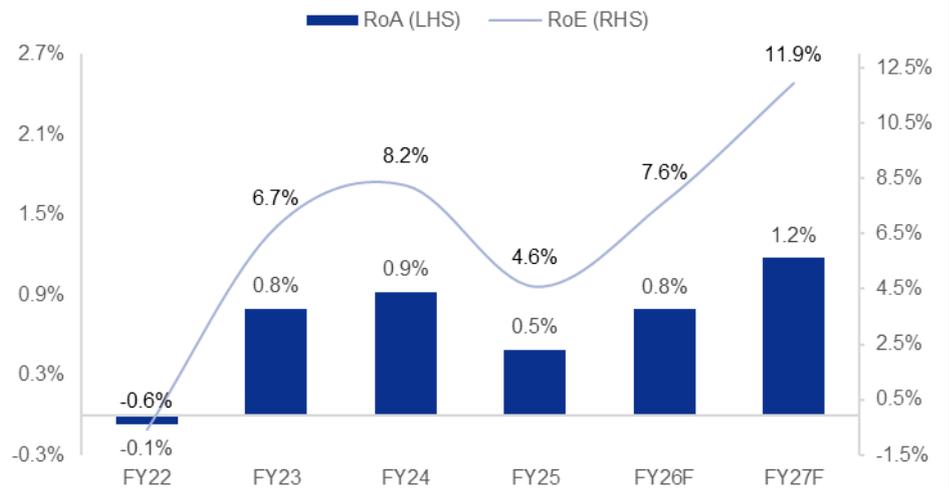
SOURCE: INCRED RESEARCH

Figure 30: RBL Bank - credit costs (as a % of avg. loans)



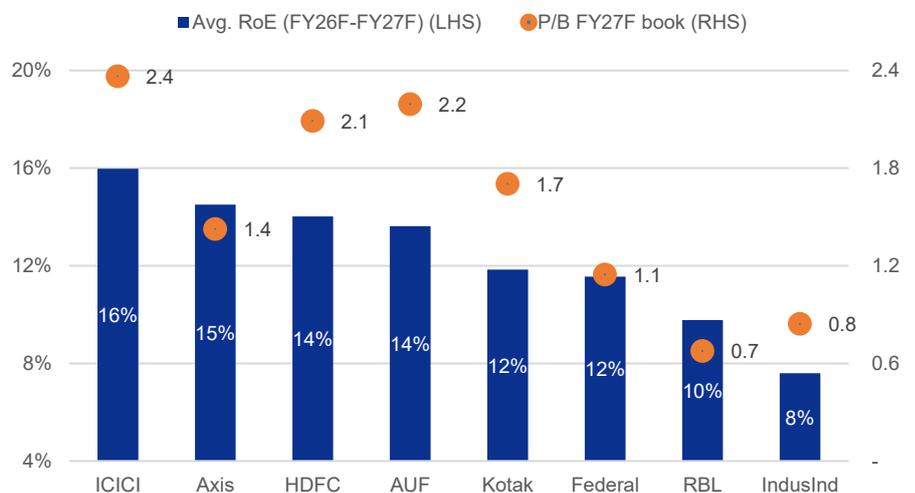
SOURCE: INCRED RESEARCH

Figure 31: RBL Bank's RoA and RoE progression



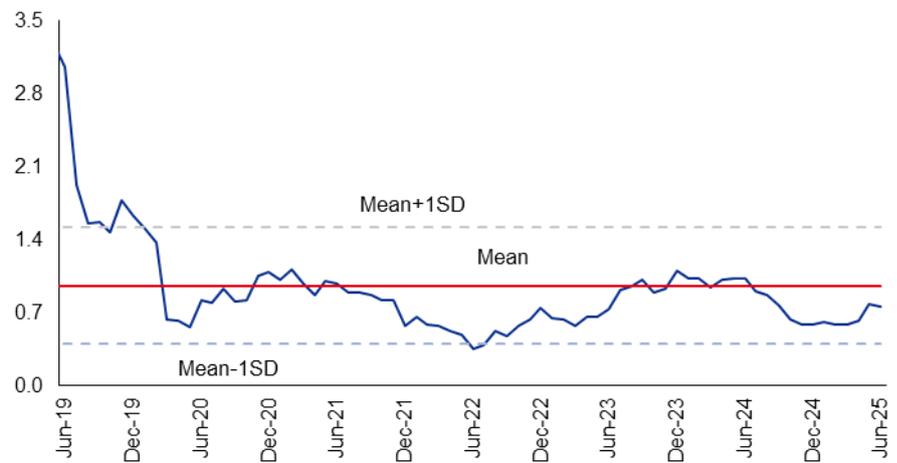
SOURCE: INCRED RESEARCH

Figure 32: Comparison of RoE vs. price-to-BV across banks



SOURCE: INCRED RESEARCH

Figure 33: RBL Bank's core P/BV (one-year forward)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: DuPont analysis of RBL Bank

DuPont Analysis (as % of Avg. Assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26F	FY27F	FY28F
<b>Net Interest Income</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>2.7%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>2.9%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>3.0%</b>
Core Fee	0.5%	0.5%	0.5%	0.6%	0.5%	0.6%	0.7%	0.8%	0.9%	0.9%	1.0%	1.1%
<b>Core Revenue</b>	<b>3.5%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.1%</b>
Opex	2.1%	1.9%	1.9%	2.0%	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%	2.2%	2.2%
--Staff Expense	1.1%	1.0%	0.9%	1.0%	1.1%	1.1%	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%
--Other Opex	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
<b>Core PPop</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.9%</b>
Credit Cost (Provisions Less Invest.)	0.6%	0.6%	0.5%	0.7%	0.9%	0.6%	0.3%	0.1%	0.2%	0.3%	0.3%	0.4%
Recovery from w/off Accounts	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Credit Costs</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.4%</b>
<b>Operating Profit</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.6%</b>
Other Income/Expenses	0.4%	0.2%	0.3%	0.5%	0.4%	0.3%	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%
--Net Treasury Gains	0.3%	0.1%	0.1%	0.3%	0.3%	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
----Capital Gains	0.3%	0.2%	0.2%	0.4%	0.3%	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
----Provision for Investment	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
--Other Income	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%
<b>Profit Before Tax (Before Exceptional Items)</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.7%</b>
Exceptionals/Minority Int./Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>PBT</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.7%</b>
Tax	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%
<b>RoA</b>	<b>0.8%</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.0%</b>	<b>1.1%</b>	<b>1.3%</b>
Leverage (x)	12	12	12	12	12	12	12	11	11	11	11	11
<b>RoE</b>	<b>9.8%</b>	<b>8.3%</b>	<b>9.8%</b>	<b>11.0%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>14.9%</b>	<b>14.7%</b>	<b>13.0%</b>	<b>10.6%</b>	<b>12.5%</b>	<b>14.5%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 35: InCred estimates vs. Bloomberg consensus estimates

Rs bn	InCred Estimates				Bloomberg Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
<b>Net Interest Income</b>	<b>65</b>	<b>68</b>	<b>82</b>	<b>95</b>	<b>70</b>	<b>81</b>	<b>95</b>	<b>-2%</b>	<b>1%</b>	<b>0%</b>
--Growth YoY	7%	6%	20%	16%	8%	16%	17%			
<b>Non-Interest Income</b>	<b>38</b>	<b>41</b>	<b>46</b>	<b>53</b>	<b>41</b>	<b>47</b>	<b>52</b>	<b>-2%</b>	<b>-2%</b>	<b>3%</b>
--Growth YoY	25%	7%	14%	15%	9%	14%	9%			
<b>Total Income</b>	<b>103</b>	<b>109</b>	<b>128</b>	<b>148</b>	<b>111</b>	<b>128</b>	<b>146</b>	<b>-2%</b>	<b>0%</b>	<b>1%</b>
--Growth YoY	13%	6%	18%	16%	9%	16%	14%			
<b>Opex</b>	<b>66</b>	<b>73</b>	<b>82</b>	<b>93</b>	<b>73</b>	<b>82</b>	<b>90</b>	<b>0%</b>	<b>0%</b>	<b>3%</b>
--Growth YoY	10%	11%	11%	14%	7%	12%	11%			
<b>PPOP</b>	<b>36</b>	<b>35</b>	<b>46</b>	<b>55</b>	<b>38</b>	<b>46</b>	<b>55</b>	<b>-7%</b>	<b>1%</b>	<b>0%</b>
--Growth YoY	20%	-2%	30%	19%	5%	21%	20%			
<b>Provision</b>	<b>30</b>	<b>19</b>	<b>18</b>	<b>21</b>	<b>22</b>	<b>24</b>	<b>27</b>	<b>-15%</b>	<b>-25%</b>	<b>-20%</b>
--as % of avg. loans	335	191	156	156	227	209	199			
PBT	7	16	28	34	16	22	28	6%	28%	19%
Tax	0	4	7	9	4	5	8	-10%	-35%	-1%
<b>PAT</b>	<b>7</b>	<b>12</b>	<b>21</b>	<b>25</b>	<b>12</b>	<b>17</b>	<b>20</b>	<b>5%</b>	<b>22%</b>	<b>27%</b>
--Growth YoY	-40%	77%	71%	20%	70%	47%	15%			
<b>Advances</b>	<b>926</b>	<b>1,065</b>	<b>1,252</b>	<b>1,471</b>	<b>1,064</b>	<b>1,235</b>	<b>1,445</b>	<b>0%</b>	<b>1%</b>	<b>2%</b>
--Growth YoY	10%	15%	18%	18%	16%	16%	17%			
<b>Deposits</b>	<b>1,109</b>	<b>1,276</b>	<b>1,480</b>	<b>1,717</b>	<b>1,264</b>	<b>1,460</b>	<b>1,694</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>
--Growth YoY	7%	15%	16%	16%	14%	15%	16%			
<b>Book Value</b>	<b>257</b>	<b>275</b>	<b>306</b>	<b>343</b>	<b>264</b>	<b>285</b>	<b>325</b>	<b>4%</b>	<b>7%</b>	<b>6%</b>
--Growth YoY	5%	7%	11%	12%	2%	8%	14%			
<b>EPS</b>	<b>11</b>	<b>20</b>	<b>35</b>	<b>42</b>	<b>20</b>	<b>28</b>	<b>36</b>	<b>4%</b>	<b>22%</b>	<b>16%</b>
--Growth YoY	-41%	77%	71%	20%	71%	45%	27%			

SOURCES: INCRED RESEARCH, COMPANY REPORTS

### Valuation methodology

We have valued RBL Bank using the justified P/BV methodology. We have assumed a sustainable RoE of 13.5% and the cost of equity at 14.1%. We have used a risk-free rate of 6.75%, a beta of 1.35x, and a market risk premium of 5.5%. Our terminal growth assumption is 10%. Our target multiple of 0.8x on FY27F BV led us to a target price of Rs260 (26% upside from the CMP).

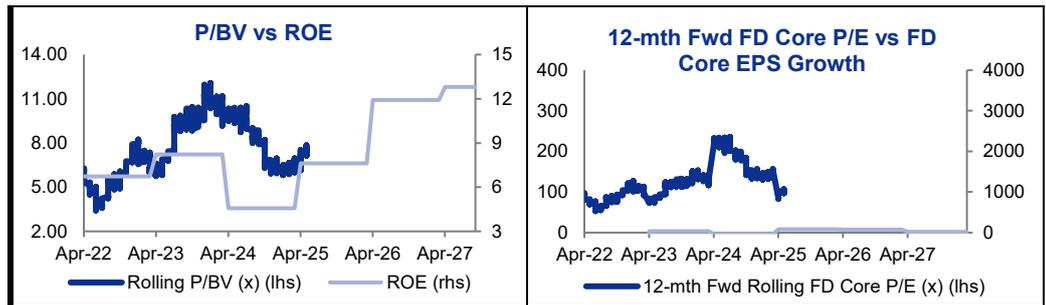
Figure 36: Valuation summary

RBL Bank	
Book value per share, Mar-2027F	306
RoE, 12 months ending Mar-2027F	11.9%
Sustainable RoE	13.5%
CoE	14.1%
- Risk-free rate	6.75%
- Beta	1.35
- Market risk premium	5.5%
Growth	10%
Target multiple	0.8
<b>Value of bank (Rs)</b>	<b>260</b>

SOURCE: INCRED RESEARCH



BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	60,429	64,630	68,256	81,752	95,011
<b>Total Non-Interest Income</b>	<b>30,429</b>	<b>38,062</b>	<b>40,655</b>	<b>46,397</b>	<b>53,229</b>
Operating Revenue	90,858	102,692	108,911	128,149	148,240
<b>Total Non-Interest Expenses</b>	<b>(60,550)</b>	<b>(66,424)</b>	<b>(73,456)</b>	<b>(81,896)</b>	<b>(93,150)</b>
Pre-provision Operating Profit	30,308	36,268	35,455	46,253	55,090
<b>Total Provision Charges</b>	<b>(17,785)</b>	<b>(29,587)</b>	<b>(18,984)</b>	<b>(18,123)</b>	<b>(21,295)</b>
Operating Profit After Provisions	12,523	6,681	16,472	28,130	33,796
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	12,523	6,681	16,472	28,130	33,796
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	12,523	6,681	16,472	28,130	33,796
<b>Exceptional Items</b>					
Pre-tax Profit	12,523	6,681	16,472	28,130	33,796
Taxation	(844)	272	(4,146)	(7,080)	(8,506)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	11,679	6,954	12,326	21,050	25,289
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	11,679	6,954	12,326	21,050	25,289
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	81.9%	82.4%	83.5%	84.1%	85.1%
Avg Liquid Assets/Avg Assets	92.6%	93.0%	93.7%	94.0%	94.2%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>110.8%</b>	<b>111.3%</b>	<b>110.1%</b>	<b>110.1%</b>	<b>110.2%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>2.31%</b>	<b>3.35%</b>	<b>1.91%</b>	<b>1.56%</b>	<b>1.56%</b>
<b>Provision Charge/Avg Assets</b>	<b>1.40%</b>	<b>2.08%</b>	<b>1.21%</b>	<b>1.01%</b>	<b>1.04%</b>
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
<b>Total Gross Loans</b>	<b>839,869</b>	<b>926,183</b>	<b>1,065,110</b>	<b>1,251,504</b>	<b>1,470,518</b>
Liquid Assets & Invst. (Current)	295,759	321,648	353,129	381,655	412,221
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,135,628	1,247,830	1,418,240	1,633,159	1,882,738
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,135,628	1,247,830	1,418,240	1,633,159	1,882,738
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>97,623</b>	<b>88,238</b>	<b>97,062</b>	<b>106,768</b>	<b>117,445</b>
<b>Total Non-Interest Earning Assets</b>	<b>104,529</b>	<b>93,829</b>	<b>102,932</b>	<b>112,932</b>	<b>123,917</b>
Cash And Marketable Securities	144,166	125,596	143,744	165,830	191,358
<b>Long-term Investments</b>					
Total Assets	1,384,322	1,467,255	1,664,915	1,911,920	2,198,013
Customer Interest-Bearing Liabilities	1,034,936	1,109,435	1,275,851	1,479,987	1,716,785
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,170,177	1,246,774	1,426,923	1,646,166	1,899,582
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	59,581	64,413	70,855	79,711	89,675
Total Liabilities	1,229,758	1,311,187	1,497,777	1,725,878	1,989,257
Shareholders Equity	147,964	156,068	167,138	186,043	208,756
<b>Minority Interests</b>					
Total Equity	147,964	156,068	167,138	186,043	208,756

<b>Key Ratios</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Total Income Growth	20.9%	7.0%	5.6%	19.8%	16.2%
Operating Profit Growth	37.6%	19.7%	(2.2%)	30.5%	19.1%
Pretax Profit Growth	6%	(47%)	147%	71%	20%
Net Interest To Total Income	66.5%	62.9%	62.7%	63.8%	64.1%
Cost Of Funds	5.91%	6.27%	6.28%	6.21%	6.28%
Return On Interest Earning Assets	11.7%	11.8%	11.4%	11.6%	11.7%
Net Interest Spread	5.75%	5.51%	5.14%	5.40%	5.46%
Net Interest Margin (Avg Deposits)	6.42%	6.03%	5.72%	5.93%	5.94%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	59%	82%	54%	39%	39%
Interest Return On Average Assets	4.75%	4.53%	4.36%	4.57%	4.62%
Effective Tax Rate	6.7%		25.2%	25.2%	25.2%
Net Dividend Payout Ratio	15.0%	10.2%	10.2%	10.2%	10.2%
Return On Average Assets	0.92%	0.49%	0.79%	1.18%	1.23%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**I India**
**ADD** (Initiating coverage)

Consensus ratings*:	Buy 22	Hold 5	Sell 5
Current price:	Rs720		
Target price:	Rs820		
Previous target:	NA		
Up/downside:	13.9%		
EIP Research / Consensus:	16.8%		
Reuters:			
Bloomberg:	AUBANK IN		
Market cap:	US\$6,251m		
	Rs536,307m		
Average daily turnover:	US\$28.5m		
	Rs2441.6m		
Current shares o/s:	819.7m		
Free float:	77.1%		

\*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	7.2	30.2	9.0
Relative (%)	6.1	18.8	0.5

Major shareholders	% held
Sanjay Agarwal	15.7
HDFC MF	5.7
Camas	3.6

# AU Small Finance Bank

## A play on growth & credit cost normalization

- AU SFB well-placed in a repo downcycle, given its higher share in fixed-rate loans along with high potential for loan growth, being in a niche segment (FY25-27F ~20% CAGR).
- We expect earnings CAGR of ~25% over FY25-27F led by core PPOp at ~20% CAGR over the same period and credit cost normalization likely from 2HFY26F.
- The stock looks attractive at 2.2x FY27F BV for a 17% sustainable RoE. Improving asset quality to drive a further rerating. Initiate coverage with an ADD & a TP of Rs820.

### Stock has derated materially; well-placed in a repo rate downcycle

The AU Small Finance Bank (AU SFB) stock has derated materially over the past few years, mainly owing to margin pressure in a repo rate upcycle, acquisition of Fincare SFB and asset quality problem in unsecured segments (microfinance & credit cards). The merger has strategic advantages, i.e. enhanced distribution reach & safeguards in respect of future priority sector lending or PSL needs. However, the street grew skeptical with the MFI exposure, which was followed by systemic MFI asset quality issues. In a repo rate downcycle, AU SFB is relatively well-placed with a higher share of fixed-rate loans (~60%).

### Strong loan growth potential, given its niche customer segment

AU Small Finance Bank (AU SFB), which has a small market share (~0.6%), operates in a niche segment serving the unbanked/underserved mainly in rural and semi-urban regions, especially in its core segments (i.e. wheels, small business loans & affordable housing). The bank competes against NBFCs in certain core segments and has a funding cost edge (Fig. 6) along with strong underwriting standards. We expect overall growth at ~20% in the next few years, mainly led by secured loan segments, while the growth in unsecured segments will be lower during FY25-27F (particularly owing to MFI). Deposit growth is unlikely to be a challenge, given the fact that it offers healthy deposit card rates (Fig. 5).

### Core PPOp CAGR at ~20% – better placed currently vs. peers

We expect AU SFB to post healthy core PPOp growth, led by strong fee income & some operating leverage, even as margin moderates owing to the mix shifting to lower-yielding segments. Core fees to be aided by the scale in credit card distribution and forex business.

### Asset quality normalization to aid 25% earnings CAGR, drive rerating

AU SFB has taken corrective action in credit card underwriting and the stress has peaked out. Collection efficiency in the MFI business has improved while credit costs will continue to remain elevated for the next few quarters. We expect credit costs to normalize from 2HFY26F, thereby aiding PAT growth.

### Stock appears attractive at 2.2x for sustainable RoE of 16-17%

AU SFB has posted RoA of 1.5% & RoE of ~13% in FY25. We expect RoA/RoE to improve to 1.7%/~14-15%, respectively, by FY27F as the asset quality normalizes. We assign a P/BV multiple of 2.5x on FY27F BV to arrive at our target price of Rs820 (a 14% upside). Assign an ADD rating. Downside risks: Lower-than-expected growth/margin, worsening asset quality trend, and higher-than-expected opex growth.

## Research Analyst(s)


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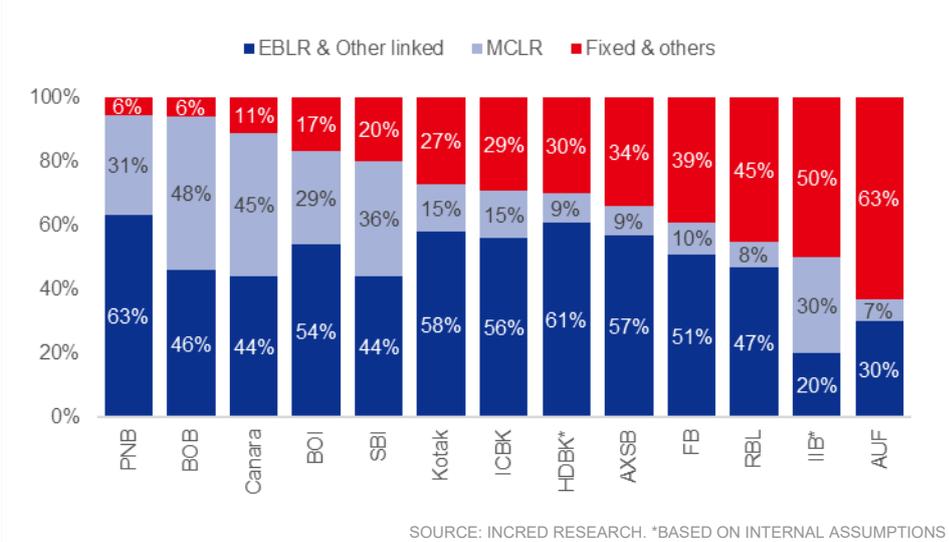
E rishabh.jogani@incredresearch.com

### Financial Summary

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	51,571	80,116	93,375	115,793	138,389
Total Non-Interest Income (Rsm)	17,459	25,263	28,815	35,211	43,081
Operating Revenue (Rsm)	69,030	105,379	122,190	151,005	181,469
Total Provision Charges (Rsm)	(4,307)	(17,926)	(18,539)	(19,613)	(19,724)
Net Profit (Rsm)	16,195	21,059	24,703	34,277	43,366
Core EPS (Rs)	24.3	28.6	32.9	43.1	54.6
Core EPS Growth	17%	17%	10%	39%	27%
FD Core P/E (x)	29.7	25.1	21.9	16.7	13.2
DPS (Rs)	1.08	1.00	1.45	2.01	2.55
Dividend Yield	0.15%	0.14%	0.20%	0.28%	0.35%
BVPS (Rs)	188	231	287	329	381
P/BV (x)	3.8	3.1	2.5	2.2	1.9
ROE	13.8%	13.1%	13.1%	14.1%	15.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 38: AU SFB is well-placed in a repo rate downcycle, given its higher share of fixed-rate loans**



**Figure 39: Margin moderation from here on will be led by the mix shifting towards lower-yielding portfolio (primarily mortgage-backed loans) and a lower share of unsecured loans; we have built in margin assumptions factoring in a cumulative 50bp repo rate cut**

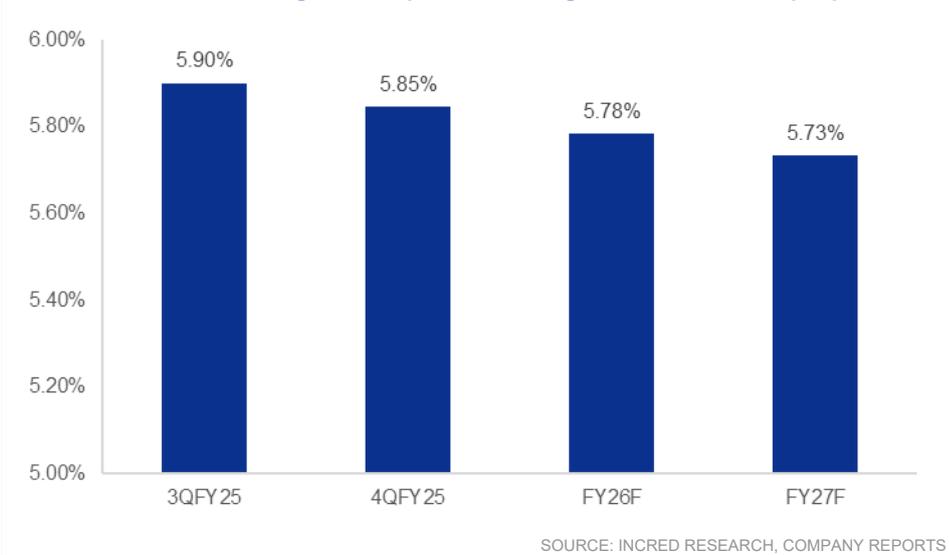
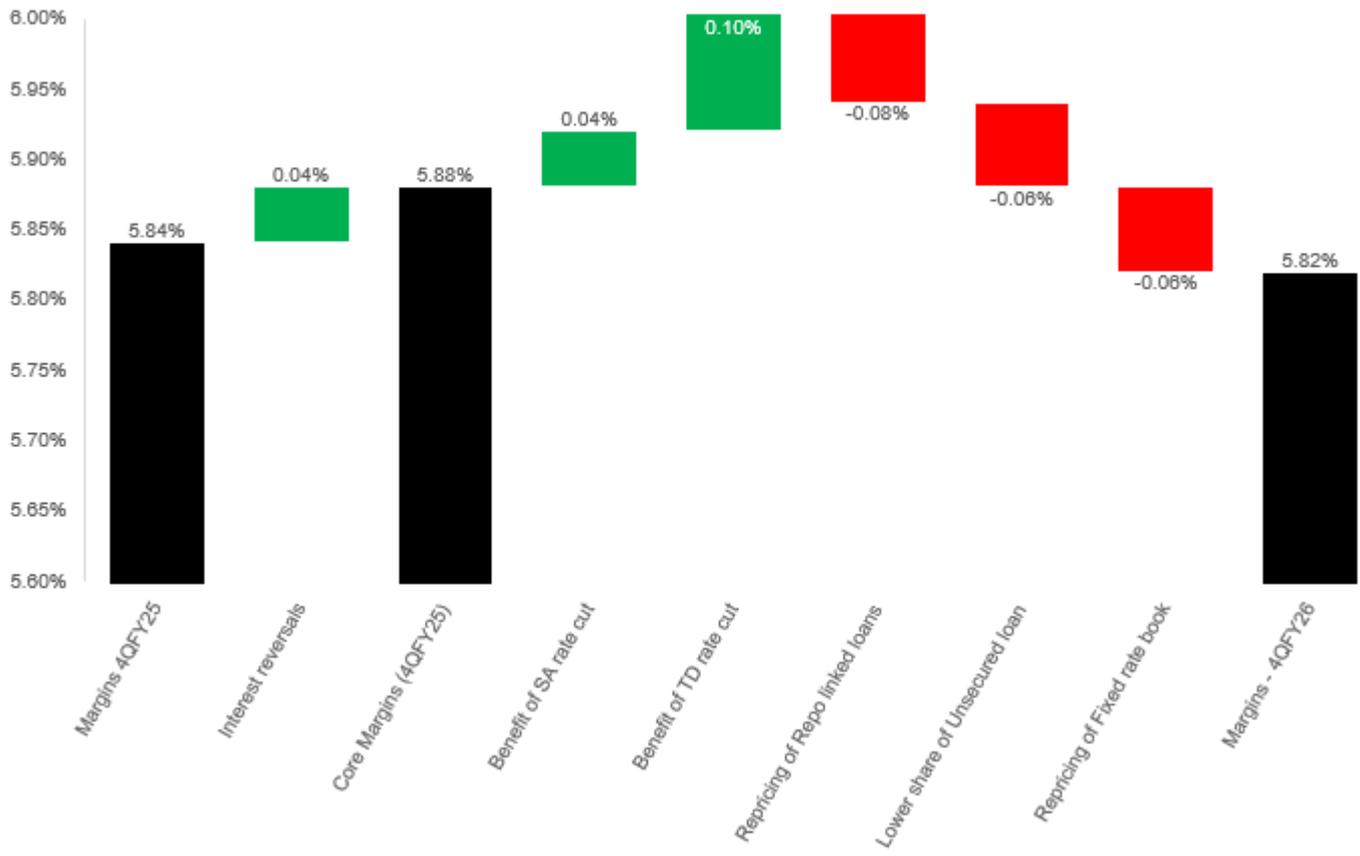


Figure 40: AU SFB’s margin waterfall – benefits on deposit repricing will be more than offset by a lower share of unsecured loans, downward repricing of repo-linked loans and fixed-rate loan book (particularly mortgage-backed loans)



SOURCE: INCRED RESEARCH

Figure 41: Evolution of its loan book along with yields over the next few years

Gross Loan Book	FY25 (Rs bn)	Loan Mix (%)			Growth - YoY (%)		Yields (%)		
		FY25	FY26F	FY27F	FY26F	FY27F	FY25	FY26F	FY27F
----Wheels	314	28%	30%	31%	25%	25%	14.6%	14.6%	14.5%
----MBL	381	34%	34%	34%	19%	19%	15.2%	15.0%	15.0%
----Gold	19	2%	2%	2%	30%	30%	15.8%	15.7%	15.5%
--Secured	714	65%	66%	67%	22%	22%	15.0%	14.8%	14.8%
----MFI	66	6%	6%	5%	10%	15%	25.4%	24.9%	24.7%
----Credit Card	25	2%	2%	2%	10%	20%	16.8%	16.8%	16.8%
----PL	8	1%	1%	1%	10%	15%	17.8%	17.7%	17.6%
--Unsecured	99	9%	8%	8%	10%	16%	22.5%	22.3%	22.1%
Retail	813	74%	74%	75%	21%	22%	16.0%	15.7%	15.6%
Wholesale	291	26%	26%	25%	17%	17%	11.1%	10.8%	10.7%
Gross Loans	1,105	100%	100%	100%	20%	20%	14.7%	14.4%	14.3%

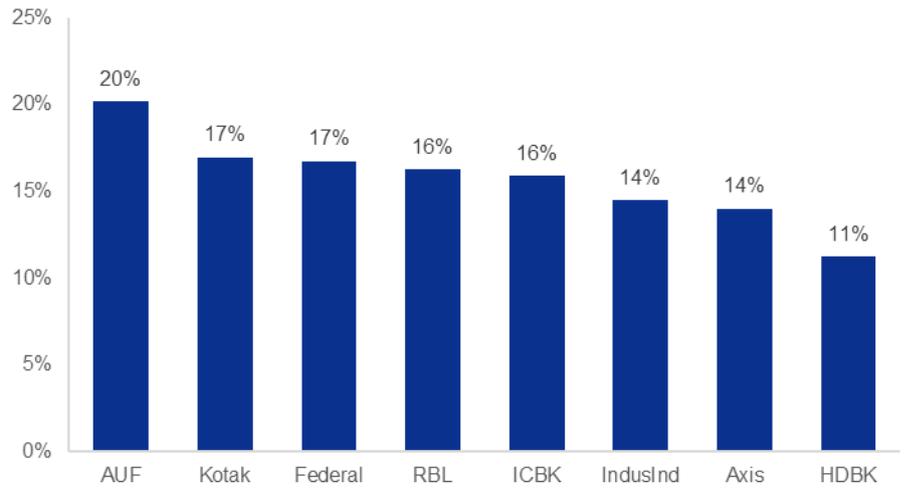
SOURCE: INCRED RESEARCH

Figure 42: Evolution of funding mix and cost of funds over the next few years

Funds	FY25 (Rs bn)	Funds Mix (%)			Growth - YoY (%)		Cost of Funds (%)		
		FY25	FY26F	FY27F	FY26F	FY27F	FY25	FY26F	FY27F
--CA	70	5%	5%	5%	18%	20%	0.0%	0.0%	0.0%
--SA	293	22%	21%	21%	20%	20%	5.9%	5.7%	5.7%
CASA	363	27%	26%	26%	20%	20%	4.8%	4.6%	4.6%
TD	880	65%	67%	67%	26%	23%	7.9%	7.7%	7.5%
Deposits	1,243	92%	93%	93%	24%	22%	7.0%	6.8%	6.7%
Borrowings	105	8%	7%	7%	14%	14%	7.7%	7.3%	7.3%
Total Funds	1,348	100%	100%	100%	23%	21%	7.0%	6.9%	6.7%

SOURCE: INCRED RESEARCH

**Figure 43: AU SFB has the potential to deliver higher loan growth (FY25-FY27 two-year CAGR) vs. peers over the next few years**



SOURCE: INCRED RESEARCH

**Figure 44: AU SFB offers the highest SA deposit rates vs. peers – this will help strong deposit growth**

Effective Date	HDBK	ICBK	Axis	Kotak	IndusInd	Federal	RBL	AUF	SBI	BOB	Canara	PNB	BOI	Yes
	12-Apr-25	17-Apr-25	15-Apr-25	25-Apr-25	17-Apr-25	16-Apr-25	01-May-25	16-Apr-25	15-Oct-22	27-Feb-24	24-May-25	04-Apr-22	23-Sep-22	22-Apr-25
<0.1m	2.75%	2.75%	2.75%	2.75%	3.00%	2.75%	3.25%	3.00%	2.70%	2.70%	2.70%	2.70%	2.75%	3.00%
>0.1m to <1m	2.75%	2.75%	2.75%	2.75%	3.0-4.0%	2.75%	3.5-5.0%	3.0-5.0%	2.70%	2.70%	2.70%	2.70%	2.75%	3.00%
>1m to <5m	2.75%	2.75%	2.75%	2.75%	5.0-6.0%	2.75%	6.5-7.0%	7.00%	2.70%	2.70%	2.70%	2.75%	2.75%	3.5-4.0%
>5m to <10m	3.25%	3.25%	3.25%	3.25%	7.00%	3.50%	7.00%	7.00%	2.70%	2.70%	2.70%	2.75%	2.75%	5.00%
>10m to <50m	3.25%	3.25%	3.25%	3.25%	7.00%	3.75-4.0%	6.5-7.0%	7.00%	2.70%	2.70%	2.70%	2.75%	2.75%	5.00%
>50m to <100m	3.25%	3.25%	3.25%	3.25%	7.00%	5.25%	6.0-6.5%	7.00%	2.70%	2.70%	2.75%	2.75%	2.75%	5.00%
>100m	3.25%	3.25%	3.25%	3.25%	7.00%	5.5-7.0%	6.0-6.25%	7.00%	3.00%	2.75-3.05%	2.8-4.0%	2.75-3.0%	2.75-3.1%	5.00%

NOTE: RATES UPDATED AS ON 30 MAY 2025

SOURCE: INCRED RESEARCH

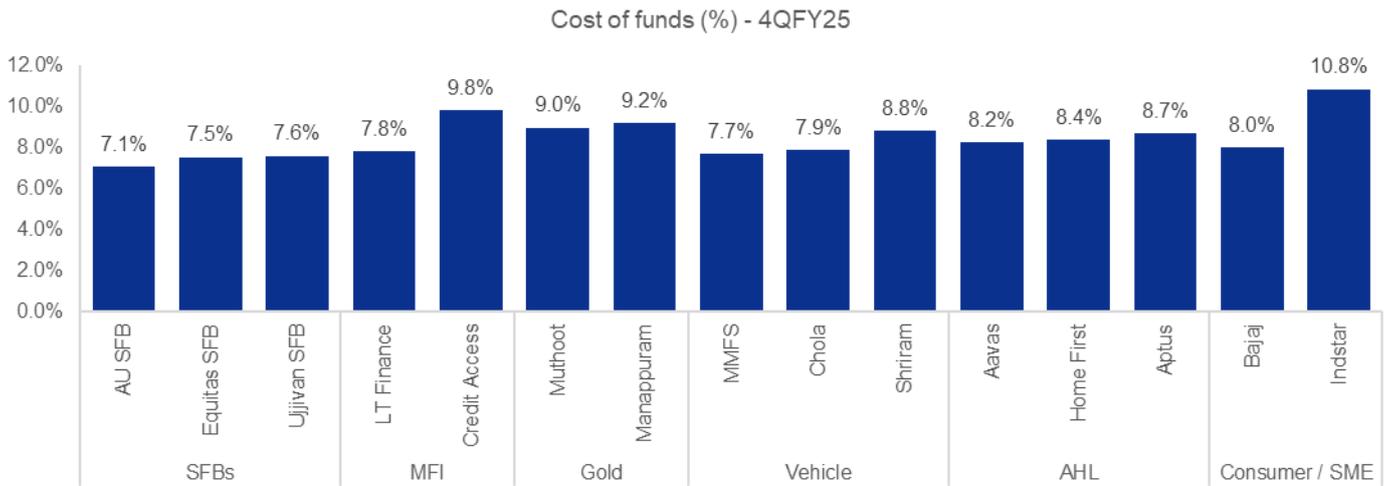
**Figure 45: AU SFB continues to offer higher card rates on term deposits as well**

Peak Term deposit rates 1Y-3Y bucket		Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	YoY-for QE-Mar	QoQ-for QE-Mar	Jan-25 to May-25	During May-25
Large Private Banks	HDBK	7.10%	7.20%	7.20%	7.15%	7.25%	7.25%	7.35%	7.35%	7.35%	7.35%	7.35%	7.05%	6.85%	0.10%	0.00%	-0.50%	-0.20%
	ICBK	7.10%	7.10%	7.10%	7.10%	7.20%	7.20%	7.25%	7.25%	7.25%	7.25%	7.25%	7.05%	6.85%	0.05%	0.00%	-0.40%	-0.20%
	Axis	7.26%	7.10%	7.10%	7.10%	7.20%	7.20%	7.20%	7.25%	7.25%	7.25%	7.25%	7.05%	7.05%	0.05%	0.00%	-0.20%	0.00%
Mid-Sized Private Banks	Kotak	7.20%	7.20%	7.20%	7.25%	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%	7.40%	7.15%	7.10%	0.00%	0.00%	-0.30%	-0.05%
	Federal	7.25%	7.25%	7.30%	7.50%	7.50%	7.40%	7.40%	7.40%	7.50%	7.50%	7.50%	7.30%	7.15%	0.00%	0.10%	-0.35%	-0.15%
	IndusInd	7.75%	7.75%	7.50%	7.50%	7.75%	7.99%	7.75%	7.75%	7.99%	7.75%	7.75%	7.75%	7.50%	0.00%	0.00%	-0.49%	-0.25%
	RBL	7.80%	7.80%	7.80%	8.00%	8.10%	8.00%	8.10%	8.10%	8.00%	8.00%	8.00%	7.75%	7.75%	-0.10%	-0.10%	-0.25%	0.00%
	AUF	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.10%	8.10%	8.00%	7.75%	7.75%	0.00%	0.00%	-0.35%	0.00%
	IDFC	7.75%	7.75%	7.50%	7.75%	7.75%	7.90%	7.75%	7.75%	7.90%	7.90%	7.90%	7.50%	7.15%	0.15%	0.15%	-0.75%	-0.35%
SOE Banks	Bandhan	8.00%	8.00%	7.85%	7.85%	7.85%	7.85%	8.00%	8.05%	8.05%	8.05%	8.05%	8.05%	7.75%	0.20%	0.00%	-0.30%	-0.30%
	Equitas	8.20%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.25%	8.25%	8.25%	8.25%	8.05%	8.05%	-0.25%	0.00%	-0.20%	0.00%
	SBI	7.00%	7.10%	7.10%	7.10%	7.10%	7.10%	7.25%	7.25%	7.25%	7.25%	7.25%	7.05%	6.85%	0.15%	0.00%	-0.40%	-0.20%
	BOB	7.05%	7.25%	7.25%	7.25%	7.25%	7.25%	7.30%	7.30%	7.30%	7.30%	7.30%	7.15%	7.10%	0.05%	0.00%	-0.20%	-0.05%
SOE Banks	PNB	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.10%	7.00%	0.00%	0.00%	-0.25%	-0.10%
	Canara	7.15%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.30%	7.30%	7.30%	7.25%	7.00%	0.05%	0.05%	-0.30%	-0.25%
	BOI	7.05%	7.00%	7.25%	7.25%	7.25%	7.30%	7.25%	7.30%	7.30%	7.30%	7.30%	7.05%	7.05%	0.05%	0.00%	-0.25%	0.00%

NOTE: RATES UPDATED AS ON 30 MAY 2025

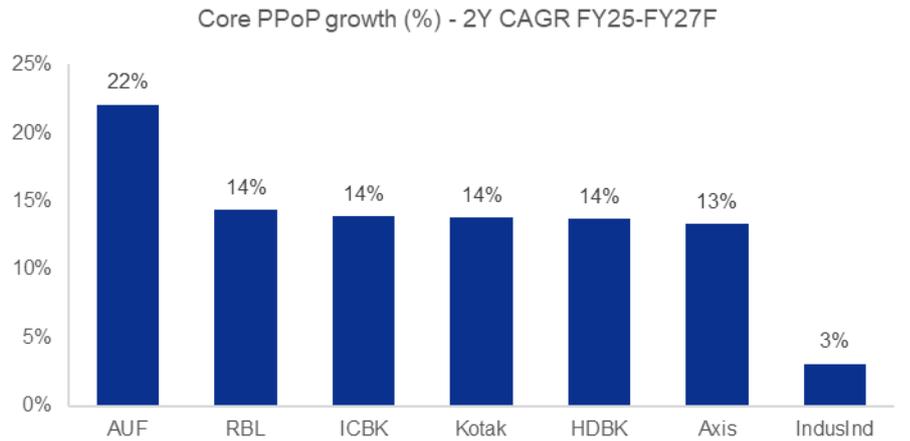
SOURCE: INCRED RESEARCH

Figure 46: AU SFB has funding cost edge vs. NBFCs in most core segments



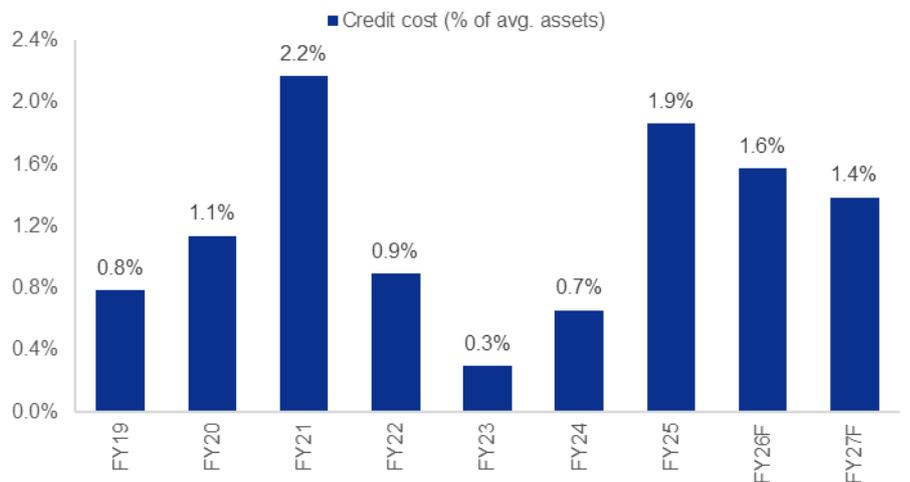
SOURCE: INCRED RESEARCH

Figure 47: AU SFB to post relatively better core PPOp CAGR vs. peers



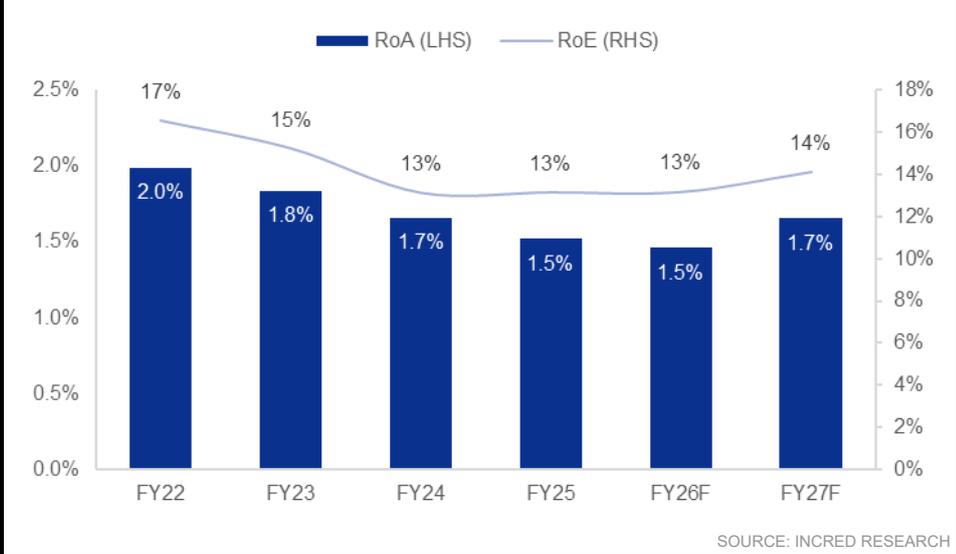
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 48: Credit costs should inflect from 2HFY26F



SOURCE: INCRED RESEARCH

**Figure 49: We expect AU SFB to deliver RoA/ RoE of 1.7%/14%, respectively, over the next few years**



**Figure 50: We expect AU SFB to outperform on earnings growth over the next few years led by strong core PPOP growth and moderation in credit costs**

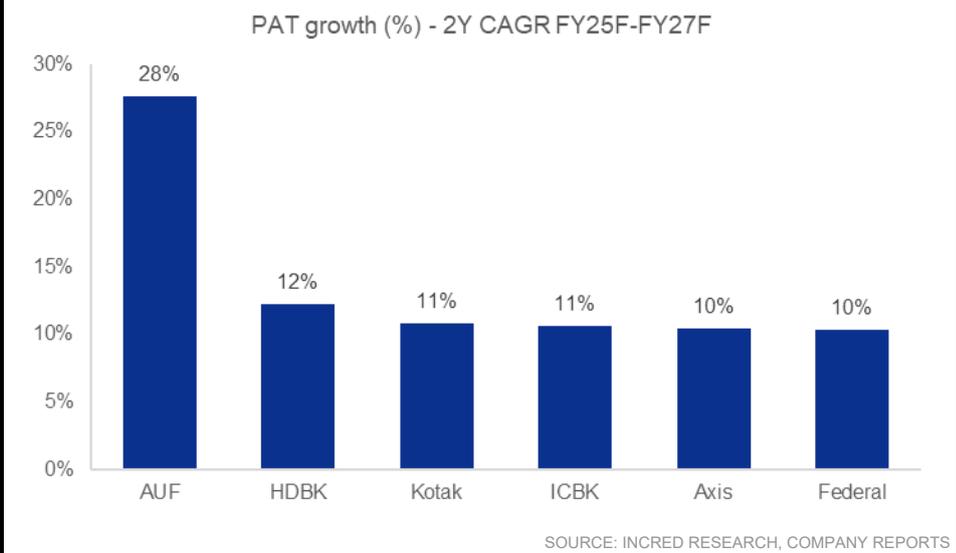
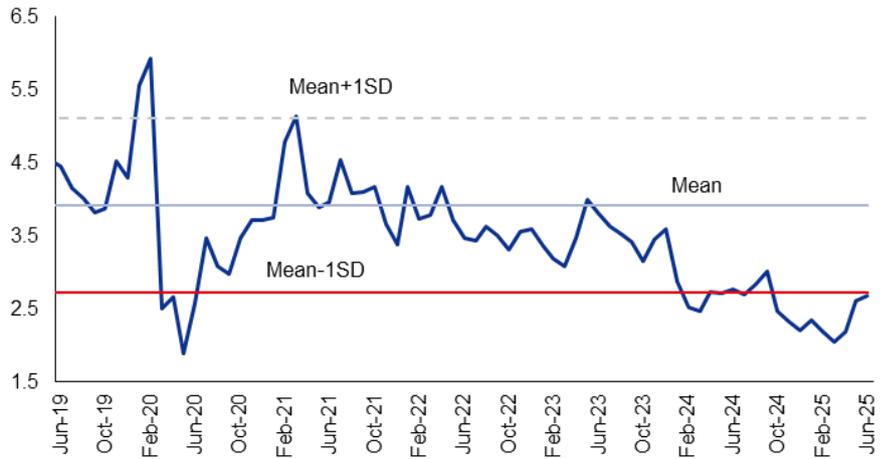


Figure 51: AU SFB's P/BV (one-year forward)



SOURCE: INCRED RESEARCH

Figure 52: DuPont analysis of AU Small Finance Bank

DuPont analysis (as % of avg. assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26F	FY27F	FY28F	Sus RoA
<b>Net Interest Income</b>	<b>9.8%</b>	<b>6.6%</b>	<b>5.2%</b>	<b>5.1%</b>	<b>5.0%</b>	<b>5.4%</b>	<b>5.6%</b>	<b>5.2%</b>	<b>6.2%</b>	<b>5.3%</b>	<b>5.3%</b>	<b>5.3%</b>	<b>5.3%</b>
Core Fee	1.7%	2.2%	1.5%	1.4%	1.2%	1.4%	1.4%	1.7%	1.8%	1.6%	1.6%	1.6%	1.7%
<b>Core Revenue</b>	<b>11.5%</b>	<b>8.7%</b>	<b>6.8%</b>	<b>6.5%</b>	<b>6.3%</b>	<b>6.8%</b>	<b>6.9%</b>	<b>6.9%</b>	<b>7.9%</b>	<b>6.9%</b>	<b>6.9%</b>	<b>6.9%</b>	<b>7.0%</b>
Opex	4.4%	5.3%	4.2%	3.8%	3.5%	4.0%	4.3%	4.4%	4.6%	4.0%	3.9%	3.9%	3.8%
--Staff Expenses	2.4%	3.0%	2.3%	2.0%	2.1%	2.3%	2.3%	2.1%	2.4%	2.0%	2.0%	1.9%	1.8%
--Other Opex	2.0%	2.3%	1.9%	1.8%	1.4%	1.7%	2.1%	2.3%	2.2%	1.9%	2.0%	2.0%	2.0%
<b>Core PPOp</b>	<b>7.1%</b>	<b>3.5%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.5%</b>	<b>3.3%</b>	<b>2.9%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>3.2%</b>
Credit Cost (Provisions Less Invest.)	1.2%	0.9%	0.6%	0.8%	1.4%	0.6%	0.2%	0.4%	1.4%	1.1%	0.9%	0.7%	0.8%
Recovery From w/off Accounts	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Credit Costs</b>	<b>1.2%</b>	<b>0.9%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>1.4%</b>	<b>0.6%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>1.4%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>0.8%</b>
<b>Operating Profit</b>	<b>5.9%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>1.9%</b>	<b>1.3%</b>	<b>2.2%</b>	<b>2.4%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.7%</b>	<b>2.0%</b>	<b>2.2%</b>	<b>2.4%</b>
Other Income/Expenses	0.0%	0.6%	0.2%	0.3%	0.4%	0.2%	-0.1%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
--Net Treasury Gains	0.1%	0.3%	0.1%	0.2%	0.4%	0.2%	-0.1%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
----Capital Gains	0.1%	0.3%	0.1%	0.2%	0.4%	0.2%	-0.1%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%
----Provision for Investment	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
--Other Income	-0.1%	0.3%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Profit Before Tax (Before Exceptional Items)</b>	<b>5.9%</b>	<b>3.1%</b>	<b>2.3%</b>	<b>2.2%</b>	<b>1.7%</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.5%</b>
Exceptional Items/Minority Interest/Others	8.4%	0.0%	0.0%	0.2%	1.4%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>PBT</b>	<b>14.2%</b>	<b>3.1%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>3.1%</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.0%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.5%</b>
Tax	4.0%	1.1%	0.8%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%	0.6%	0.6%
<b>RoA</b>	<b>10.2%</b>	<b>2.0%</b>	<b>1.5%</b>	<b>1.8%</b>	<b>2.5%</b>	<b>1.9%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.8%</b>
Leverage (x)	5.4	6.7	9.5	9.9	8.8	8.8	8.6	8.5	9.0	8.9	8.9	9.5	9.0
<b>RoE</b>	<b>55.0%</b>	<b>13.7%</b>	<b>14.0%</b>	<b>18.1%</b>	<b>22.0%</b>	<b>16.4%</b>	<b>15.4%</b>	<b>13.1%</b>	<b>14.5%</b>	<b>11.6%</b>	<b>13.8%</b>	<b>15.7%</b>	<b>16.5%</b>

SOURCE: INCRED RESEARCH

Figure 53: InCred estimates vs. Bloomberg consensus estimates

Rs bn	InCred Estimates				Bloomberg Estimates				Change	
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Net Interest Income	80	93	116	139	97	120	144	-4%	-4%	-3%
--Growth YoY	55%	16%	24%	21%	21%	24%	20%			
Non-Interest Income	25	29	35	43	29	36	42	-2%	-1%	2%
--Growth YoY	45%	14%	22%	22%	16%	21%	19%			
Total Income	105	122	151	182	126	156	186	-3%	-3%	-2%
--Growth YoY	53%	16%	24%	21%	20%	24%	20%			
Opex	60	71	86	104	74	90	108	-5%	-5%	-4%
--Growth YoY	36%	19%	21%	21%	20%	22%	19%			
PPOP	46	51	65	79	54	67	81	-5%	-2%	-3%
--Growth YoY	82%	12%	28%	21%	17%	24%	22%			
Provision	18	19	20	20	17	20	24	9%	4%	-18%
--as a % of avg. loans	199	157	144	116	144	137	137			
PBT	28	33	45	59	37	47	57	-12%	-5%	3%
Tax	7	8	11	15	10	12	14	18%	9%	-4%
PAT	21	24	34	44	27	35	43	-10%	-4%	3%
--Growth YoY	30%	16%	38%	31%	31%	28%	24%			
Advances	1,071	1,288	1,547	1,857	1,289	1,578	1,920	0%	-2%	-3%
--Growth YoY	46%	20%	20%	20%	20%	22%	22%			
Deposits	1,243	1,541	1,911	2,369	1,514	1,870	2,306	2%	2%	3%
--Growth YoY	43%	24%	24%	24%	22%	23%	23%			
Book Value	231	286	327	381	263	309	363	9%	6%	5%
--Growth YoY	23%	24%	14%	16%	14%	17%	18%			
EPS	29	32	42	56	36	47	59	-10%	-11%	-6%
--Growth YoY	24%	13%	30%	31%	29%	30%	25%			

SOURCE: INCRED RESEARCH

## Valuation methodology

We have valued AU Small Finance Bank using the justified P/BV methodology. We have assumed a sustainable RoE of 16.5% and the cost of equity at 13.2%. We have used a risk-free rate of 6.75%, a beta of 1.18x, and a market risk premium of 5.5%. Our terminal growth assumption is 11%. Our target multiple of 2.5x on FY27F BV led us to a target price of Rs820 (a 14% upside from the CMP).

**Figure 54: Valuation summary**

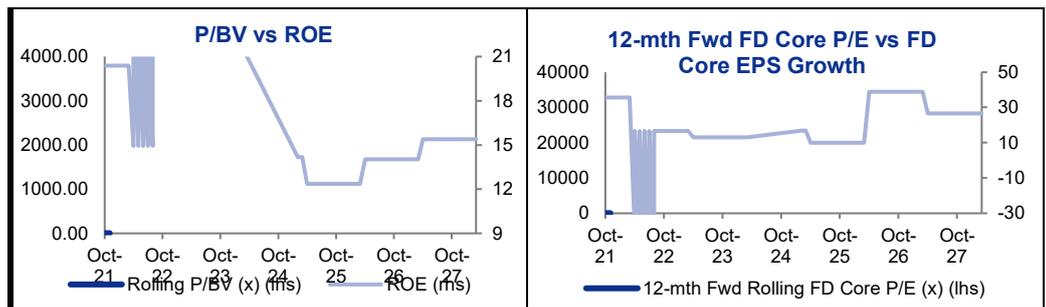
AUF SFB (Rs)	
Book value per share, Mar-2027F	329
RoE, 12 months ending Mar-2027F	14.1%
Sustainable RoE	16.5%
CoE	13.2%
---Risk-free rate	6.75%
--Beta	1.18
--Market risk premium	5.5%
G	11.0%
Target multiple	2.5x
Value of bank	<b>820</b>

SOURCE: INCRED RESEARCH

**Figure 55: Financial summary**

AU Small Finance Bank					Per Share Data and Valuations				
Profit and Loss Statement					Ratio Analysis				
Rs Bn (Year end-March)	FY25	FY26F	FY27F	FY28F	Year end-March	FY25	FY26F	FY27F	FY28F
Interest Income	160,637	192,165	232,940	279,108	EPS	28.67	32.90	43.14	54.58
Interest Expense	80,521	98,790	117,146	140,719	Book Value	231	287	329	381
<b>Net Interest Income (Incl. Securitization)</b>	<b>80,116</b>	<b>93,375</b>	<b>115,793</b>	<b>138,389</b>	Core PPOP	59	68	81	97
---Fee Income	22,900	28,099	34,493	42,358	DPS	1.0	1.5	2.0	2.5
---Capital Gains	2,350	700	700	700					
---Miscellaneous Inc.	13	16	19	23					
Total Non Interest Income	25,263	28,815	35,211	43,081	<b>Valuations</b>				
<b>Total Operating Income</b>	<b>105,379</b>	<b>122,190</b>	<b>151,005</b>	<b>181,469</b>	P/E	25.1	21.9	16.7	13.2
---Employee Exp	31,478	36,199	42,534	49,978	P/BV	3.1	2.5	2.2	1.9
---Other Expenses	28,095	34,427	43,033	53,792	P/Core PPOP	12.2	10.6	8.8	7.4
Total Operating Expenses	59,572	70,626	85,567	103,769	Dividend Yield	0.1%	0.2%	0.3%	0.4%
<b>Operating Profit</b>	<b>45,807</b>	<b>51,564</b>	<b>65,437</b>	<b>77,700</b>					
Total provisions	17,926	18,539	19,613	19,724	<b>Year end-March</b>	<b>FY25</b>	<b>FY26F</b>	<b>FY27F</b>	<b>FY28F</b>
<b>Profit Before Tax</b>	<b>27,881</b>	<b>33,025</b>	<b>45,825</b>	<b>57,976</b>	<b>Margins</b>				
Provision for Tax	6,821	8,322	11,548	14,610	Net Interest Margin (NIM)	5.9%	5.8%	5.8%	5.8%
<b>Net Profit</b>	<b>21,059</b>	<b>24,703</b>	<b>34,277</b>	<b>43,366</b>	Average yield on assets	11.9%	11.6%	11.5%	11.4%
<b>Net Profit (Reported)</b>	<b>21,059</b>	<b>24,703</b>	<b>34,277</b>	<b>43,366</b>	Cost of earning assets	6.0%	6.0%	5.8%	5.8%
					<b>Growth Ratios</b>				
<b>Balance Sheet Data</b>					Net Interest Income	55%	17%	24%	20%
<b>Rs Bn (YE March)</b>	<b>FY25</b>	<b>FY26F</b>	<b>FY27F</b>	<b>FY28F</b>	Non Interest Income	45%	14%	22%	22%
Shareholders' equity	171,663	227,882	261,006	302,771	Operating expenses	36%	19%	21%	21%
Deposits	1,242,685	1,540,930	1,879,935	2,293,520	Core Operating Profit				
Borrowings	116,599	132,589	150,977	172,124	Net Profit	30%	17%	39%	27%
Other Liabilities & Prov.	47,509	54,636	62,831	72,256	EPS	18%	15%	31%	27%
<b>Total Liabilities</b>	<b>1,578,457</b>	<b>1,956,037</b>	<b>2,354,748</b>	<b>2,840,671</b>	Book Value	23%	24%	15%	30%
					Deposits	43%	24%	22%	22%
Cash & Balances with RBI	94,664	92,056	111,715	135,629	Advances	46%	20%	20%	20%
Investments	378,475	537,349	652,027	797,676	Total Assets	44%	24%	20%	21%
Advances	1,070,925	1,287,536	1,546,548	1,856,791	Gross AUM	43%	22%	20%	19%
<b>Total Assets</b>	<b>1,578,457</b>	<b>1,956,037</b>	<b>2,354,748</b>	<b>2,840,671</b>					
<b>Gross AUM</b>	<b>1,171,989</b>	<b>1,433,643</b>	<b>1,719,880</b>	<b>2,047,067</b>	<b>Profitability Ratios</b>				
					Return On Equity	13.1%	13.1%	14.1%	15.5%
Earning Assets, ex off-BS AUM	1,544,064	1,916,941	2,310,290	2,790,096	Return on Assets, including off-BS AUM	1.5%	1.4%	1.6%	1.6%
Average IEA, ex off-BS AUM	1,316,523	1,654,917	2,028,234	2,447,067					
					<b>Efficiency Ratios</b>				
<b>Asset Quality</b>					Cost Income Ratio	57%	58%	57%	57%
Credit Cost (bps)	171	144	126	106	Expenses/Avg Assets, including off-BS AUM	4.1%	3.9%	3.9%	3.9%
Gross NPL	24,470	44,806	64,143	87,377					
Net NPL	7,913	15,600	22,429	34,472	<b>Capital Adequacy</b>				
Reserve Coverage	16,557	29,206	41,713	52,904	CET 1 Ratio	18.1%	19.5%	18.6%	17.9%
Gross NPL Ratio	2.3%	3.4%	4.0%	4.6%	Tier 1 Ratio	18.1%	19.5%	18.6%	17.9%
Net NPL Ratio	0.7%	1.2%	1.5%	1.9%	Capital Adequacy Ratio	20.1%	21.1%	19.9%	19.0%
Coverage Ratio	68%	65%	65%	61%					

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	51,571	80,116	93,375	115,793	138,389
<b>Total Non-Interest Income</b>	<b>17,459</b>	<b>25,263</b>	<b>28,815</b>	<b>35,211</b>	<b>43,081</b>
Operating Revenue	69,030	105,379	122,190	151,005	181,469
<b>Total Non-Interest Expenses</b>	<b>(43,880)</b>	<b>(59,572)</b>	<b>(70,626)</b>	<b>(85,567)</b>	<b>(103,769)</b>
Pre-provision Operating Profit	25,150	45,807	51,564	65,437	77,700
<b>Total Provision Charges</b>	<b>(4,307)</b>	<b>(17,926)</b>	<b>(18,539)</b>	<b>(19,613)</b>	<b>(19,724)</b>
Operating Profit After Provisions	20,842	27,881	33,025	45,825	57,976
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	20,842	27,881	33,025	45,825	57,976
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	20,842	27,881	33,025	45,825	57,976
<b>Exceptional Items</b>					
Pre-tax Profit	20,842	27,881	33,025	45,825	57,976
Taxation	(4,647)	(6,821)	(8,322)	(11,548)	(14,610)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	16,195	21,059	24,703	34,277	43,366
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	16,195	21,059	24,703	34,277	43,366
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	84.1%	85.2%	84.7%	82.8%	81.5%
Avg Liquid Assets/Avg Assets	97.5%	97.7%	97.9%	98.1%	98.2%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>108.8%</b>	<b>106.5%</b>	<b>105.7%</b>	<b>105.1%</b>	<b>105.1%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>0.65%</b>	<b>1.99%</b>	<b>1.57%</b>	<b>1.38%</b>	<b>1.16%</b>
<b>Provision Charge/Avg Assets</b>	<b>0.43%</b>	<b>1.34%</b>	<b>1.05%</b>	<b>0.91%</b>	<b>0.76%</b>
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
<b>Total Gross Loans</b>	<b>731,627</b>	<b>1,070,925</b>	<b>1,287,536</b>	<b>1,546,548</b>	<b>1,856,791</b>
Liquid Assets & Invst. (Current)	271,334	378,475	537,349	652,027	797,676
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,002,960	1,449,400	1,824,885	2,198,575	2,654,467
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,002,960	1,449,400	1,824,885	2,198,575	2,654,467
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>19,017</b>	<b>25,268</b>	<b>29,059</b>	<b>33,417</b>	<b>38,430</b>
<b>Total Non-Interest Earning Assets</b>	<b>27,533</b>	<b>34,393</b>	<b>39,096</b>	<b>44,458</b>	<b>50,575</b>
Cash And Marketable Securities	63,763	94,664	92,056	111,715	135,629
<b>Long-term Investments</b>					
Total Assets	1,094,257	1,578,457	1,956,037	2,354,749	2,840,671
Customer Interest-Bearing Liabilities	871,821	1,242,686	1,540,930	1,879,935	2,293,520
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	916,615	1,349,285	1,663,519	2,020,912	2,455,644
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	42,047	47,509	54,636	62,831	72,256
Total Liabilities	958,661	1,396,794	1,718,155	2,083,743	2,527,900
Shareholders Equity	125,595	171,663	227,882	261,006	302,771
<b>Minority Interests</b>					
Total Equity	125,595	171,663	227,882	261,006	302,771

<b>Key Ratios</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Total Income Growth	17.8%	55.4%	16.5%	24.0%	19.5%
Operating Profit Growth	27.5%	82.1%	12.6%	26.9%	18.7%
Pretax Profit Growth	15%	34%	18%	39%	27%
Net Interest To Total Income	74.7%	76.0%	76.4%	76.7%	76.3%
Cost Of Funds	6.49%	7.11%	6.56%	6.36%	6.29%
Return On Interest Earning Assets	11.8%	13.1%	11.7%	11.6%	11.5%
Net Interest Spread	5.32%	5.99%	5.18%	5.22%	5.22%
Net Interest Margin (Avg Deposits)	6.59%	7.58%	6.71%	6.77%	6.63%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	17%	39%	36%	30%	25%
Interest Return On Average Assets	5.17%	6.00%	5.28%	5.37%	5.33%
Effective Tax Rate	22.3%	24.5%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	4.4%	4.7%	4.7%	4.7%	4.7%
Return On Average Assets	1.62%	1.58%	1.40%	1.59%	1.67%

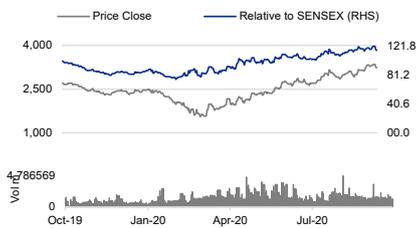
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**India**
**ADD** (Initiating coverage)

Consensus ratings\*: Buy 27 Hold 11 Sell 5

Current price:	Rs2,040
Target price:	Rs2,410
Previous target:	NA
Up/downside:	18.1%
EIP Research / Consensus:	3.6%
Reuters:	
Bloomberg:	KMB IN
Market cap:	US\$47,273m Rs4,055,886m
Average daily turnover:	US\$100.2m Rs8592.9m
Current shares o/s:	1,400.4m
Free float:	74.3%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.6)	6.2	17.6
Relative (%)	(2.6)	(3.1)	8.4

Major shareholders	% held
Uday Kotak	25.7
LIC	7.4
SBI MF	5.6

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# Kotak Bank

## A play on growth potential

- The bank has a strong underwriting framework & the potential to post superior growth vs. large private peers and can therefore command a better multiple.
- We believe the valuation discount to ICICI Bank can narrow (despite the difference in RoE) if KMB continues to deliver relatively better volume growth.
- The valuation at 2x FY27F BV is not cheap but has scope to rerate. Initiate coverage with an ADD rating and a TP of Rs2,410 (2.2x F27 BV; 18% upside).

### Potential to deliver better growth than large private peers

Kotak Mahindra Bank or KMB has delivered volume CAGR of 19% pre-811 ban (during FY21-24) vs. ICICI Bank's 17% and Axis Bank's 16%. It has the potential to deliver better volume growth than large private peers, given its small market share (~2%) and strong tech-enabled distribution channel. Deposit growth will be key, and it can garner healthy flows, helped by ActivMoney. We build in a loan CAGR of 17% and deposit growth of ~16% over FY25-27F.

### Margin performance will be in line with large private peers in FY26F

KMB's balance sheet is not favourably placed in a repo rate downcycle, with a higher share of repo-linked loans and a higher share of low-cost funds (incl. equity). However, the SA rate cut of 75bp so far (vs. 25bp for peers) positions the bank well to deliver margin progression broadly in line with peers. So far, the margin correction through the year has been ~40bp from 4QFY24 (vs. ~10bp that of ICICI Bank/Axis Bank). Most of the margin decline for KMB was owing to build-up of excess liquidity and a lower share of unsecured loans (lower MFI disbursements as well as credit card embargo). Credit card embargo stands lifted and the asset quality environment is now becoming favourable for unsecured loans (esp. personal loans & credit cards). Consequently, we expect the bank to improve its mix towards mid-teen vs. 10.5% currently. This, along with acceleration in growth (given that LCR is strong at 135%), would help KMB to offset margin pressure over the next few years.

### Asset quality to hold up well & we have built in steady credit costs

KMB delivered reasonably well on slippage at 1.7% vs. 1.9%-2% for ICICI Bank/Axis Bank in FY25. The share of unsecured loans at 10.5% is lower than that of large private peers (13-14% for Axis Bank/ICICI Bank/HDFC Bank). The provisioning coverage ratio is healthy at 78% & the net NPA ratio is low at 0.3%. We expect a steady credit cost outcome (~70bp).

### KMB can command a growth premium vs. peers despite lower RoE

The valuation derated in the past cycle and we expect some growth premium to come back. KMB traded at a premium of 15-20% to HDFC Bank during FY18-21. It's now trading at ~25% discount to ICICI Bank (this can reduce). We value the core bank at 2.2x FY27F BV (18x core P/E) for ~13% RoE. We assign subsidiaries' value at Rs810/share to arrive at a target price of Rs2,410 (18% upside). We assign an ADD rating to KMB. We believe that as per the excess capital method (refer Fig.1), the stock trades at a reasonable valuation and has room to rerate. We assign an ADD rating to KMB. Key downside risks are slower-than-expected volume growth, higher credit costs and weak margin.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	259,932	282,078	312,915	365,294	425,145
Total Non-Interest Income (Rsm)	102,731	115,525	128,978	148,574	171,599
Operating Revenue (Rsm)	362,663	397,603	441,892	513,868	596,744
Total Provision Charges (Rsm)	(15,737)	(29,424)	(33,730)	(37,533)	(43,903)
Net Profit (Rsm)	137,816	164,499	143,986	168,443	194,744
Core EPS (Rs)	69	83	72	85	98
Core EPS Growth	26%	20%	-12%	17%	16%
FD Core P/E (x)	22.3	18.3	17.3	14.6	12.4
DPS (Rs)	2.00	2.50	2.19	2.56	2.96
Dividend Yield	0.10%	0.12%	0.11%	0.13%	0.15%
BVPS (Rs)	487	590	660	742	838
P/BV (x)	2.0	2.5	2.2	2.6	3.0
ROE	15.3%	12.8%	11.6%	12.1%	12.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 56: Proforma valuation (based on excess capital methodology)**

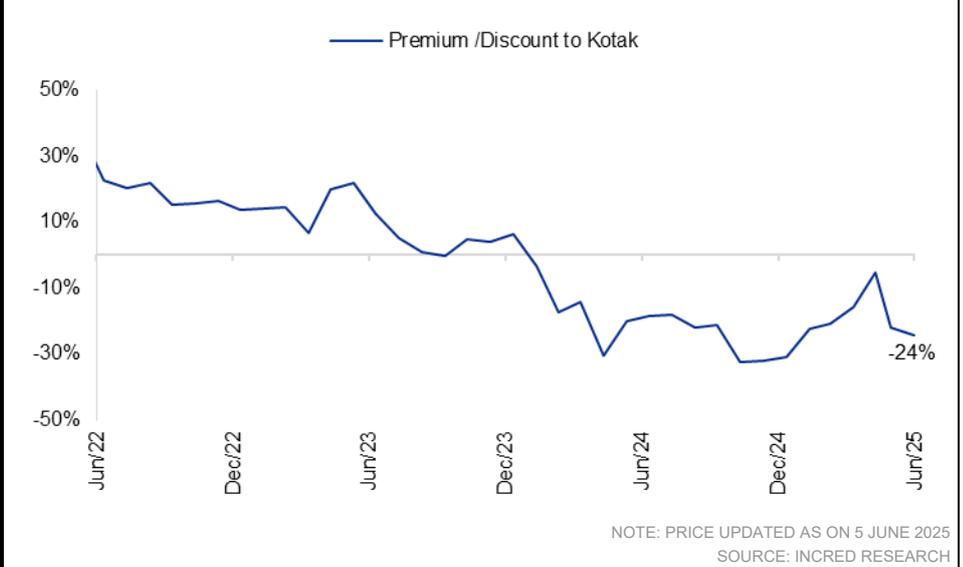
Excess Capital Working	Rsm	Comments
RWA - FY25	4,968,917	
Assumed CET-1 Ratio	15.0%	<< optimum capital
Current CET-1 Ratio	21.1%	
Implied excess capital	303,104	
Cost of funds at 6%	18,186	<< Reported cost of funds is 5.09% for 4QFY25.
AIEA - FY25	5,717,866	
Free funds benefit in margins	0.32%	
Free funds (net of tax)	0.24%	
RoA - FY27F	2.0%	
Sustainable RoA	2.1%	
(-) Free funds benefit in margins	-0.2%	
Adj. RoA	1.9%	
Leverage (x)	8.9	<< Leverage assuming 15% CET-1
Adj. Sus RoE	16.5%	
CoE	12.5%	
Terminal growth	10.0%	
Adj. P/B multiple	2.6	
Target P/B multiple	2.6	
FY27F Network	1,475,507	<< Includes AFS reserves
FY27F required capital	1,065,198	
FY27F excess capital	410,309	<< Includes AFS reserves
FY27F RWA	7,101,323	
Target Network	2,817,450	
----per share	1,417	
PV of excess capital	364,638	0.9 << excess capital discounted at CoE
----per share	183	
Total Network	3,182,087	
----per share	1,601	
No. of Shares	1,988	
Value of Kotak Parent	1,601	
Value of Kotak Subsidiary	810	
Implied Target Price	2,410	
Current stock price	2,040	
--upside/(downside)	18%	

**Implied current core P/B multiple basis excess capital methodology**

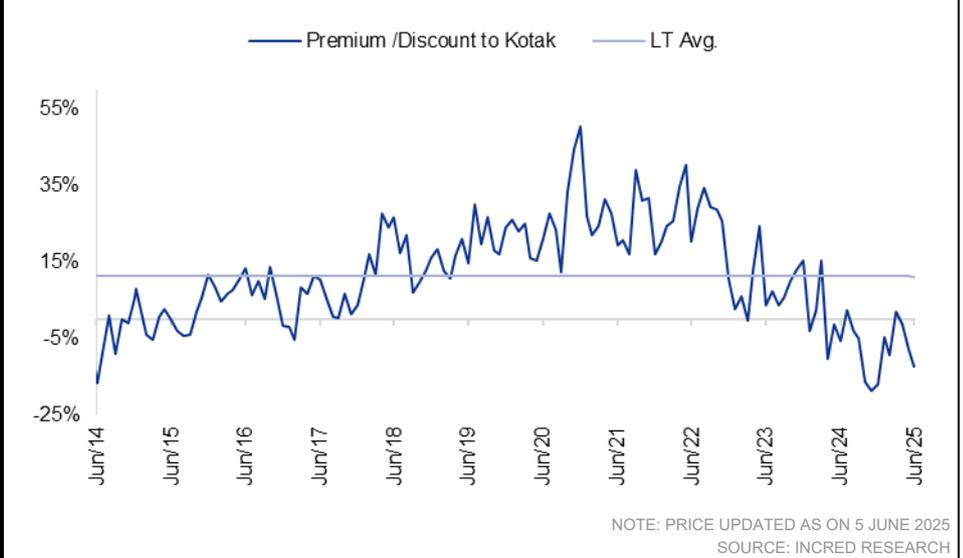
<b>Kotak's Market Cap</b>	<b>4,055,321</b>	
Less: Subs. Value	1,609,718	
<b>Implied Market Cap of Kotak Bank</b>	<b>2,445,603</b>	
Less: Excess Capital	364,638	
<b>Adj. Bank M.Cap (for excess capital)</b>	<b>2,080,965</b>	
---Implied Core P/BV on FY27	2.0	

SOURCE: INCRED RESEARCH

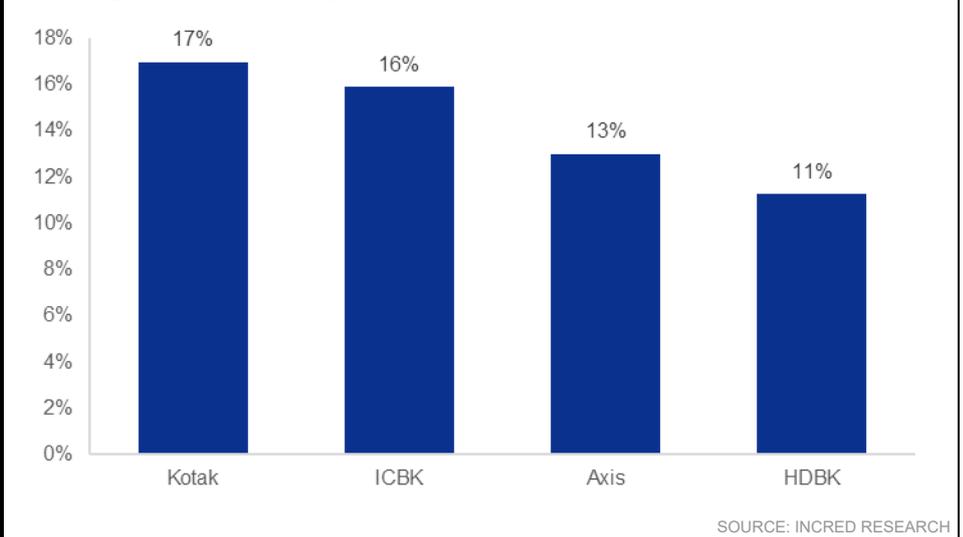
**Figure 57: Premium/discount of KMB over ICICI Bank - core P/BV, one-year forward (%)**



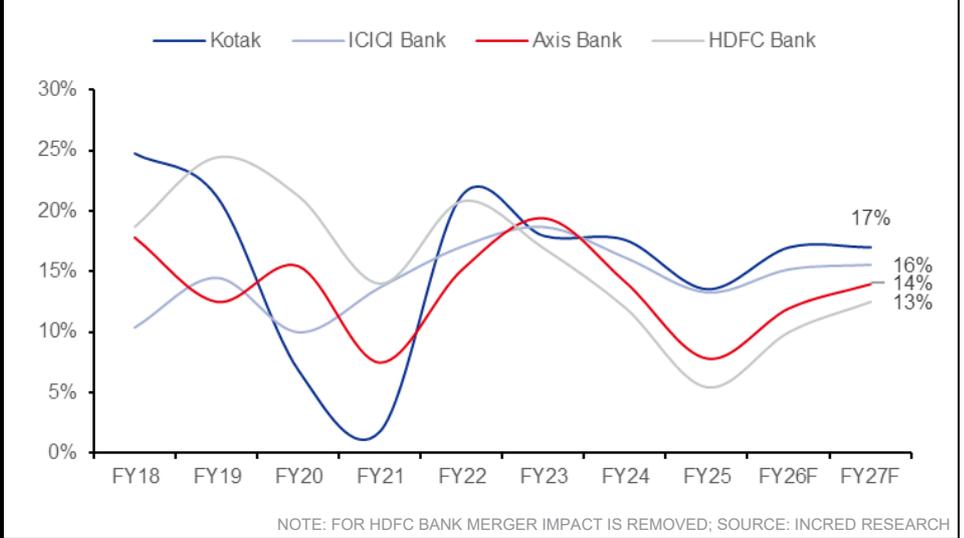
**Figure 58: Premium/discount of Kotak Mahindra Bank over HDFC Bank - core P/BV (%)**



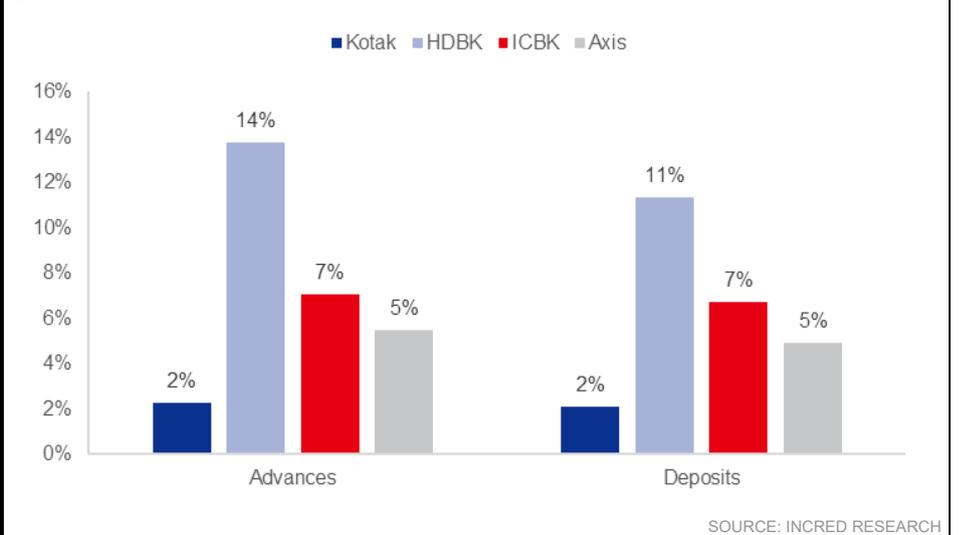
**Figure 59: Loan growth over FY25F-27F – Kotak Mahindra Bank can potentially deliver superior growth than peer large private banks**



**Figure 60: Loan growth (YoY) – historically, Kotak Mahindra Bank has posted superior growth**



**Figure 61: Market share – Kotak Mahindra Bank’s market share is relatively small vs. peers; with its strong tech-enabled distribution reach, the bank has the potential to garner market share at a faster clip**



**Figure 62: Kotak Mahindra Bank – share of ActivMoney (i.e. TD sweep) has increased to 11%, from 6-7% a couple of years ago; the duration of these deposits is low (<180 days) and can benefit margin by faster repricing in a repo rate downcycle**

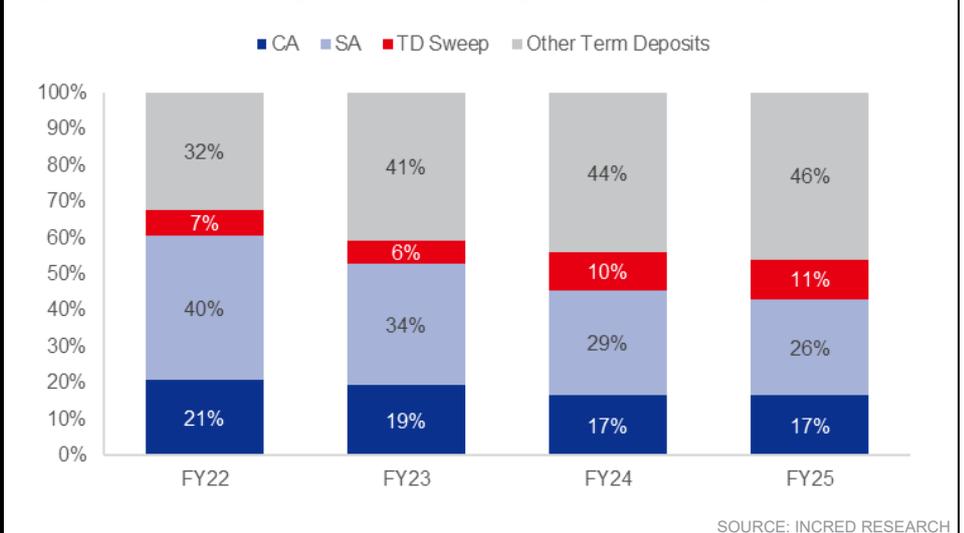
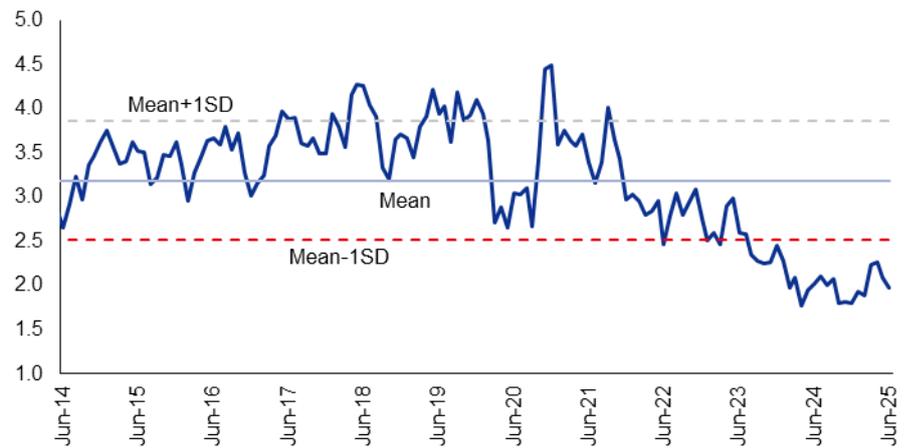
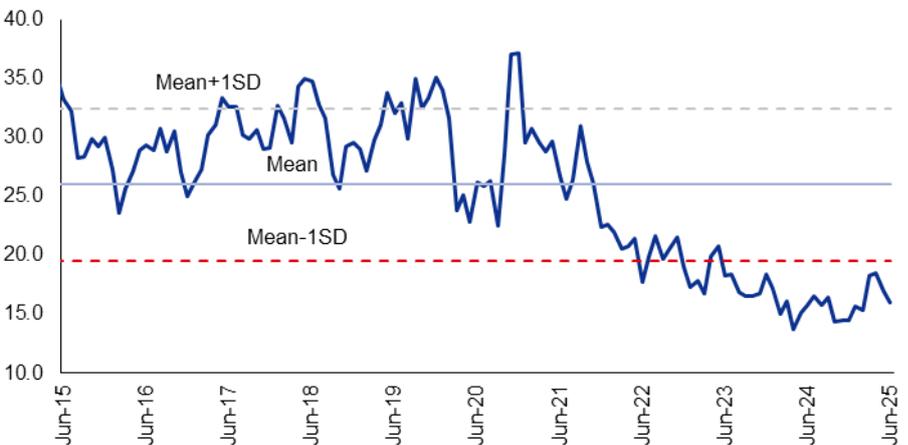


Figure 63: Kotak Mahindra Bank's core P/BV (one-year forward)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 64: Kotak Mahindra Bank's core P/E (one-year forward)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 65: DuPont analysis of Kotak Mahindra Bank

DuPont analysis (as % of avg. assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25F	FY26F	FY27F	FY28F	Sustainable RoE
<b>Net Interest Income</b>	<b>4.0%</b>	<b>4.0%</b>	<b>3.9%</b>	<b>4.0%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>4.4%</b>	<b>4.2%</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.40%</b>
Core Fee	1.3%	1.4%	1.5%	1.4%	1.2%	1.4%	1.5%	1.6%	1.5%	1.5%	1.5%	1.6%	1.60%
<b>Core Revenue</b>	<b>5.3%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>5.4%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>6.3%</b>	<b>5.8%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>5.9%</b>	<b>6.00%</b>
Opex	2.8%	2.7%	2.6%	2.6%	2.3%	2.6%	3.0%	3.1%	2.9%	2.9%	2.9%	3.0%	2.90%
--Staff Expenses	1.3%	1.2%	1.1%	1.2%	1.0%	1.1%	1.2%	1.3%	1.2%	1.2%	1.2%	1.2%	1.20%
--Other Opex	1.4%	1.5%	1.5%	1.5%	1.3%	1.5%	1.8%	1.8%	1.7%	1.7%	1.7%	1.8%	1.70%
<b>Core PPOp</b>	<b>2.5%</b>	<b>2.7%</b>	<b>2.8%</b>	<b>2.8%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>3.2%</b>	<b>3.3%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.9%</b>	<b>2.9%</b>	<b>3.10%</b>
Credit Cost (Provisions Less Invest.)	0.3%	0.3%	0.3%	0.6%	0.7%	0.2%	0.1%	0.3%	0.4%	0.5%	0.4%	0.4%	0.50%
Recovery From w/off Accounts	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.00%
<b>Net Credit Costs</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.6%</b>	<b>0.6%</b>	<b>0.2%</b>	<b>0.0%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.50%</b>
<b>Operating Profit</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>2.2%</b>	<b>2.4%</b>	<b>2.7%</b>	<b>3.1%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.60%</b>
Other Income/Expenses	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.3%	0.3%	0.2%	0.2%	0.2%	0.20%
--Net Treasury Gains	0.15%	0.01%	0.03%	0.12%	-0.04%	-0.21%	-0.21%	-0.12%	0.03%	0.04%	0.04%	0.03%	0.05%
----Capital Gains	0.22%	0.09%	0.02%	0.14%	-0.05%	-0.23%	-0.21%	-0.10%	0.04%	0.04%	0.04%	0.03%	0.05%
----Provision for Investment	-0.07%	-0.08%	0.00%	-0.03%	0.01%	0.02%	0.00%	-0.01%	-0.01%	0.00%	0.00%	0.00%	0.00%
--Other Income	0.06%	0.07%	0.05%	0.00%	0.18%	0.27%	0.21%	0.38%	0.27%	0.19%	0.16%	0.14%	0.15%
<b>Profit Before Tax (Before Exceptional Items)</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.3%</b>	<b>2.8%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.80%</b>
Exceptionals/Minority Interest/Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.00%
<b>PBT</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.3%</b>	<b>3.2%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.6%</b>	<b>2.80%</b>
Tax	0.9%	0.9%	0.9%	0.6%	0.6%	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.70%
<b>RoA</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>2.4%</b>	<b>2.5%</b>	<b>2.5%</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>2.10%</b>
Leverage (x)	8	7	7	7	7	6	6	6	6	6	6	6	6
<b>RoE</b>	<b>13.2%</b>	<b>12.5%</b>	<b>12.1%</b>	<b>12.9%</b>	<b>12.4%</b>	<b>12.6%</b>	<b>14.0%</b>	<b>15.3%</b>	<b>15.4%</b>	<b>11.6%</b>	<b>12.1%</b>	<b>12.4%</b>	<b>12.6%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 66: InCred estimates vs. Bloomberg consensus estimates

Rs bn	InCred Estimates				Bloomberg Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
<b>Net Interest Income</b>	<b>282</b>	<b>313</b>	<b>365</b>	<b>425</b>	<b>317</b>	<b>365</b>	<b>415</b>	<b>-1%</b>	<b>0%</b>	<b>3%</b>
--Growth YoY	9%	11%	17%	16%	13%	15%	14%			
<b>Non-Interest Income</b>	<b>116</b>	<b>129</b>	<b>149</b>	<b>172</b>	<b>133</b>	<b>153</b>	<b>177</b>	<b>-3%</b>	<b>-3%</b>	<b>-3%</b>
--Growth YoY	12%	12%	15%	15%	15%	15%	16%			
<b>Total Income</b>	<b>398</b>	<b>442</b>	<b>514</b>	<b>597</b>	<b>450</b>	<b>518</b>	<b>592</b>	<b>-2%</b>	<b>-1%</b>	<b>1%</b>
--Growth YoY	10%	11%	16%	16%	13%	15%	14%			
<b>Opex</b>	<b>188</b>	<b>216</b>	<b>251</b>	<b>292</b>	<b>224</b>	<b>257</b>	<b>305</b>	<b>-4%</b>	<b>-2%</b>	<b>-4%</b>
--Growth YoY	12%	15%	16%	16%	20%	15%	19%			
<b>PPOP</b>	<b>210</b>	<b>226</b>	<b>263</b>	<b>304</b>	<b>235</b>	<b>272</b>	<b>315</b>	<b>-4%</b>	<b>-3%</b>	<b>-3%</b>
--Growth YoY	7%	8%	16%	16%	12%	16%	16%			
<b>Provision</b>	<b>29</b>	<b>34</b>	<b>38</b>	<b>44</b>	<b>30</b>	<b>35</b>	<b>48</b>	<b>12%</b>	<b>7%</b>	<b>-9%</b>
--as % of avg. loans	73	73	69	69	61	66	78			
PBT	181	192	225	260	205	237	267	-6%	-5%	-3%
Tax	43	49	57	66	50	58	66	4%	3%	1%
<b>PAT</b>	<b>137</b>	<b>144</b>	<b>168</b>	<b>195</b>	<b>156</b>	<b>180</b>	<b>207</b>	<b>-8%</b>	<b>-7%</b>	<b>-6%</b>
--Growth YoY	0%	5%	17%	16%	13%	16%	15%			
<b>Advances</b>	<b>4,269</b>	<b>4,994</b>	<b>5,841</b>	<b>6,833</b>	<b>4,946</b>	<b>5,738</b>	<b>6,647</b>	<b>1%</b>	<b>2%</b>	<b>3%</b>
--Growth YoY	14%	17%	17%	17%	16%	16%	16%			
<b>Deposits</b>	<b>4,991</b>	<b>5,789</b>	<b>6,715</b>	<b>7,790</b>	<b>5,777</b>	<b>6,685</b>	<b>7,759</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
--Growth YoY	11%	16%	16%	16%	16%	16%	16%			
<b>Book Value</b>	<b>590</b>	<b>660</b>	<b>742</b>	<b>838</b>	<b>658</b>	<b>744</b>	<b>841</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
--Growth YoY	21%	12%	13%	13%	12%	13%	13%			
<b>EPS</b>	<b>83</b>	<b>72</b>	<b>85</b>	<b>98</b>	<b>78</b>	<b>91</b>	<b>102</b>	<b>-7%</b>	<b>-7%</b>	<b>-4%</b>
--Growth YoY	20%	-12%	17%	16%	-5%	16%	13%			

SOURCE: INCRED RESEARCH, BLOOMBERG

## Financial estimates

We expect NII growth to be at a 14% CAGR over FY25-27F. Core fee growth to remain healthy (at 18% CAGR over FY25-27F) as the bank steps up disbursements in unsecured segments (post-lifting of the ban and MFI asset quality normalization). Operating expenses growth will remain elevated (at a 16% CAGR over FY25-27F) as the bank continues to invest in technology and branch expansion. Overall, we expect core PPOP growth at a 14% CAGR over FY25-27F. We cautiously build steady credit costs at ~70bp over FY26F-27F. We expect RoA of 1.9-2% and RoE of 12-13% in FY26F-27F, mainly led by lower leverage, given that the bank holds excess capital (with CET-1 at ~21%).

## Valuation methodology

We have valued the parent bank using the justified P/BV methodology. We have assumed a sustainable RoE of ~16% and the cost of equity at 12.5%. We have used a risk-free rate of 6.75%, a beta of 1.05x, and a market risk premium of 5.5%. Our terminal growth assumption is 10%. Our target multiple of 2.2x on FY27F BV led us to a standalone price of Rs1,600 and after adding Rs810/share for subsidiaries (post holding company discount of 20%), we arrived at a target price of Rs2,410 (18% upside from the CMP).

**Figure 67: Kotak Mahindra Bank - Valuation summary (standalone)**

Kotak Bank	
Book value per share, Mar-2027F (Rs)	722
RoE, 12 months ending Mar-2027F	12.1%
Sustainable RoE	15.6%
CoE	12.5%
---Risk-free rate	6.75%
--Beta	1.05
--Market risk premium	5.5%
G	10.0%
Target multiple	2.2x
<b>Value of bank (Rs)</b>	<b>1,600</b>

SOURCE: INCRED RESEARCH

**Figure 68: Kotak Life - Valuation summary**

Kotak Life	
<b>Rs m</b>	
Embedded value, FY25	176,120
Expected EV growth (FY25-F27F CAGR)	15.0%
Embedded value (Mar-2027F)	232,919
<b>P/EV multiple</b>	<b>2.0x</b>
<b>Fair value</b>	<b>475,154</b>
KMB's stake	100%
Value attributable	475,154
<b>Value per share (Rs)</b>	<b>240</b>

SOURCE: INCRED RESEARCH

**Figure 69: Kotak Securities - Valuation summary**

Kotak Securities	
<b>Rs m</b>	
PAT (12 months ending Mar-2027F)	21,209
F24-12 months ending Mar-2027F CAGR	13%
Target P/E multiple	25.0x
Fair value (Mar-2027F)	530,227
<b>Per share value (Rs)</b>	<b>267</b>

SOURCE: INCRED RESEARCH

**Figure 70: Kotak Mahindra Capital – Valuation summary**

Kotak Mahindra Capital	
<b>Rs m</b>	
PAT (12 months ending Mar-2027F)	4,812
F25-12 months ending Mar-2027F CAGR	44%
Multiple	20.0x
Fair value	96,249
<b>Per share value (Rs)</b>	<b>48</b>

SOURCE: INCRED RESEARCH

**Figure 71: Kotak Prime – Valuation Summary**

**Kotak Prime**

BVPS (Mar-2027F) (Rs)	84
Implied target P/BV	2.0x
<b>Per share value (Rs)</b>	<b>170</b>

SOURCE: INCRED RESEARCH

**Figure 72: Kotak AMC – Valuation summary**

**Kotak AMC**

<b>Rs m</b>	
PAT (12 months ending Mar-2027F)	13,566
F24-12 months ending Mar-2027F CAGR	18%
Target P/E	30.0x
Value, Rs m	406,988
% stake	100%
Value attributable	406,988
<b>Value per share (Rs)</b>	<b>205</b>

SOURCE: INCRED RESEARCH

**Figure 73: Kotak Investment Advisors – Valuation summary**

**Kotak Inv Advisors (Pvt Equity)**

<b>Rs Mn</b>	
AUM (Mar-2027F)	694,325
F24-Mar-2027F CAGR	20%
As % of AUM	5.0%
Value	34,716
<b>Value per share (Rs)</b>	<b>17</b>

SOURCE: INCRED RESEARCH

**Figure 74: International subsidiaries – Valuation summary**

**International Subs (Offshore Funds)**

<b>Rs Mn</b>	<b>Base Case</b>
AUM (Mar-2027F)	885,358
FY24-27F CAGR	20%
As % of AUM	5.0%
Value	44,268
<b>Value per share (Rs)</b>	<b>22</b>

SOURCE: INCRED RESEARCH

**Figure 75: KM Investments**

**KM Investments**

Target P/BV	1.5
BVPS - Mar-2027F	27
<b>Value per share (Rs)</b>	<b>40</b>

SOURCE: INCRED RESEARCH

**Figure 76: Kotak Mahindra Bank – SOTP valuation**

**Kotak -- Sum-of-the-parts valuation (Rs)**

Kotak Mahindra Bank	1,600
<b>Subsidiaries</b>	
Kotak Securities	267
Kotak Mahindra Capital	48
Kotak Life Insurance	240
Kotak Prime	170
Kotak AMC	205
Private Equity	17
KM International Subs	22
KM Investments	40
<b>Sum of Subsidiaries</b>	<b>1,010</b>
(-) Holding co. discount - 20%	-202
<b>Value of subsidiaries / associate cos post holding company discount</b>	<b>810</b>
<b>Fair value</b>	<b>2,410</b>

SOURCE: INCRED RESEARCH

Figure 77: Financial summary

Kotak Mahindra Bank					Per Share Data and Valuations				
Profit and Loss Statement					Per Share Data and Valuations				
Rs m (Year-ended March)	FY25	FY26F	FY27F	FY28F	Rs m (Year-ended March)	FY25	FY26F	FY27F	FY28F
<b>Kotak Bank (Parent)</b>					<b>Valuations</b>				
Interest Income	527,857	602,447	693,374	804,039	EPS (Parent)	83	72	85	98
Interest Expense	245,780	289,532	328,080	378,894	EPS (Consol)	111	118	140	164
<b>Net Interest Income</b>	<b>282,078</b>	<b>312,915</b>	<b>365,294</b>	<b>425,145</b>	Book Value (Parent)	590	660	742	838
<b>Non Interest Income</b>	<b>115,525</b>	<b>128,978</b>	<b>148,574</b>	<b>171,599</b>	Book Value (Consol)	792	907	1045	1206
<b>Operating Income</b>	<b>397,603</b>	<b>441,892</b>	<b>513,868</b>	<b>596,744</b>	Core PPOP/Share (Parent)	95	105	124	145
---Employee Expenses	78,806	90,627	104,221	119,855	DPS	2.5	2.2	2.6	3.0
---Other Expenses	108,731	125,040	146,922	172,634	<b>Profitability Ratios (Parent)</b>				
Total Operating Expenses	187,537	215,668	251,144	292,488	P/E (Consol)	18.3	17.3	14.6	12.4
<b>Operating Profit</b>	<b>210,066</b>	<b>226,225</b>	<b>262,724</b>	<b>304,256</b>	P/BV (Consol)	2.6	2.2	2.0	1.7
Total provisions	29,424	33,730	37,533	43,903	Dividend Yield	0.1%	0.1%	0.1%	0.1%
---Loan Loss Provisions	29,044	33,730	37,533	43,903	PE (Core)	12.5	14.2	12.2	10.5
---Other Provisions	380	-	-	-	Price to Book (Core)	1.7	1.6	1.4	1.2
<b>Profit Before Tax</b>	<b>180,642</b>	<b>192,495</b>	<b>225,191</b>	<b>260,353</b>	Core Price to Core PPOP	10.8	9.8	8.3	7.1
Provision for Tax	43,443	48,509	56,748	65,609	<b>Profitability Ratios (Consol)</b>				
<b>Profit After Tax</b>	<b>164,499</b>	<b>143,986</b>	<b>168,443</b>	<b>194,744</b>	Return on Assets	2.7%	2.4%	2.5%	2.5%
<b>Group Net Profit</b>	<b>221,260</b>	<b>234,381</b>	<b>277,924</b>	<b>326,575</b>	Return on Equity	15.4%	13.9%	14.3%	14.6%
<b>Balance Sheet Data</b>					<b>Growth Ratios (Parent)</b>				
Rs mn (YE March)	FY25	FY26F	FY27F	FY28F	Core Operating Profit	7%	10%	18%	17%
<b>Kotak Bank (Parent)</b>					Net Profit	19%	-12%	17%	16%
Share holders equity	1,172,399	1,311,415	1,475,507	1,665,161	Advances	14%	17%	17%	17%
Deposits	4,990,551	5,789,040	6,715,286	7,789,732	Deposits	11%	16%	16%	16%
Borrowings	484,428	532,870	586,157	644,773	Total Assets	16%	15%	15%	15%
Other Liabilities & Provisions	288,864	332,194	382,023	439,326	EPS (Parent)	20%	-12%	17%	16%
<b>Total Liabilities</b>	<b>6,936,242</b>	<b>7,965,518</b>	<b>9,158,973</b>	<b>10,538,992</b>	EPS (Consol)	21%	6%	19%	18%
Cash & Balances with RBI	416,992	481,497	556,101	642,399	<b>Segment Wise Earnings (Rs mn)</b>				
Balances with Banks	240,800	294,980	361,350	442,654	Kotak Bank	164,499	143,986	168,443	194,744
Investments	1,819,075	1,972,737	2,139,676	2,316,073	Kotak Prime	12,923	16,057	19,964	24,836
Advances	4,269,092	4,993,657	5,841,197	6,832,584	Kotak Mahindra Capital (I-banking)	3,600	4,162	4,812	5,566
Fixed Assets	23,589	25,947	28,542	31,396	Kotak Securities (Broking)	16,553	18,456	21,209	24,272
Other Assets	166,695	196,700	232,106	273,886	Kotak Old Mutual Life Insurance	21,052	27,083	33,766	41,210
<b>Total Assets</b>	<b>6,936,242</b>	<b>7,965,518</b>	<b>9,158,973</b>	<b>10,538,992</b>	International Subs	1,824	2,165	2,580	3,087
Earning Assets	6,745,958	7,742,870	8,898,324	10,233,710	Kotak Asset Management	11,177	12,930	15,403	18,375
<b>Asset Quality (Bank Parent)</b>					Kotak Investment Advisors	(13)	181	438	771
Credit Costs / Advances (bps)	72	73	69	69	Kotak Mahindra Investments	5,561	6,600	7,844	9,334
Gross NPL	61,335	78,412	93,393	110,916	<b>Kotak Mahindra Bank (Consol)</b>	<b>221,260</b>	<b>234,381</b>	<b>277,924</b>	<b>326,575</b>
Net NPL	19,680	24,372	26,788	29,615	SOURCE: INCRED RESEARCH, COMPANY REPORTS				
Gross NPL Ratio	1.4%	1.6%	1.6%	1.6%					
Net NPL Ratio	0.5%	0.5%	0.5%	0.4%					
Coverage Ratio	68%	69%	71%	73%					
<b>Capital Ratios (Bank Standalone)</b>									
CET 1 Ratio	21.1%	20.3%	19.7%	19.1%					
Tier 1 Ratio	21.1%	20.3%	19.7%	19.1%					
Capital Adequacy Ratio	22.4%	21.6%	21.0%	20.4%					

**BY THE NUMBERS**

<b>Profit &amp; Loss</b>					
<b>(Rsm)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Net Interest Income	259,932	282,078	312,915	365,294	425,145
<b>Total Non-Interest Income</b>	<b>102,731</b>	<b>115,525</b>	<b>128,978</b>	<b>148,574</b>	<b>171,599</b>
Operating Revenue	362,663	397,603	441,892	513,868	596,744
<b>Total Non-Interest Expenses</b>	<b>(166,788)</b>	<b>(187,537)</b>	<b>(215,668)</b>	<b>(251,144)</b>	<b>(292,488)</b>
Pre-provision Operating Profit	195,874	210,066	226,225	262,724	304,256
<b>Total Provision Charges</b>	<b>(15,737)</b>	<b>(29,424)</b>	<b>(33,730)</b>	<b>(37,533)</b>	<b>(43,903)</b>
Operating Profit After Provisions	180,137	180,642	192,495	225,191	260,353
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	180,137	180,642	192,495	225,191	260,353
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	180,137	180,642	192,495	225,191	260,353
<b>Exceptional Items</b>					
Pre-tax Profit	180,137	180,642	192,495	225,191	260,353
Taxation	(42,321)	(43,443)	(48,509)	(56,748)	(65,609)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	137,816	137,199	143,986	168,443	194,744
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	137,816	137,199	143,986	168,443	194,744
Recurring Net Profit					

<b>Balance Sheet Employment</b>					
<b>(Rsm)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	85.7%	84.7%	85.9%	86.6%	87.4%
Avg Liquid Assets/Avg Assets	97.1%	97.3%	97.2%	97.2%	97.1%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>108.8%</b>	<b>110.4%</b>	<b>111.0%</b>	<b>111.3%</b>	<b>111.7%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>0.45%</b>	<b>0.73%</b>	<b>0.73%</b>	<b>0.69%</b>	<b>0.69%</b>
<b>Provision Charge/Avg Assets</b>	<b>0.29%</b>	<b>0.45%</b>	<b>0.45%</b>	<b>0.44%</b>	<b>0.45%</b>
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
<b>Total Gross Loans</b>	<b>3,760,753</b>	<b>4,269,092</b>	<b>4,993,657</b>	<b>5,841,197</b>	<b>6,832,585</b>
Liquid Assets & Invst. (Current)	1,554,038	1,819,075	1,972,737	2,139,676	2,316,073
Other Int. Earning Assets					
Total Gross Int. Earning Assets	5,314,791	6,088,167	6,966,394	7,980,873	9,148,658
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	5,314,791	6,088,167	6,966,394	7,980,873	9,148,658
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>139,343</b>	<b>166,695</b>	<b>196,700</b>	<b>232,106</b>	<b>273,886</b>
<b>Total Non-Interest Earning Assets</b>	<b>160,896</b>	<b>190,284</b>	<b>222,648</b>	<b>260,649</b>	<b>305,282</b>
Cash And Marketable Securities	527,884	657,792	776,476	917,451	1,085,053
<b>Long-term Investments</b>					
Total Assets	6,003,571	6,936,242	7,965,518	9,158,973	10,538,992
Customer Interest-Bearing Liabilities	4,489,538	4,990,552	5,789,040	6,715,286	7,789,732
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	4,773,219	5,474,979	6,321,910	7,301,443	8,434,505
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	263,165	288,864	332,194	382,023	439,326
Total Liabilities	5,036,383	5,763,843	6,654,104	7,683,466	8,873,831
Shareholders Equity	967,188	1,172,399	1,311,415	1,475,507	1,665,161
<b>Minority Interests</b>					
Total Equity	967,188	1,172,399	1,311,415	1,475,507	1,665,161

<b>Key Ratios</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Total Income Growth	20.6%	8.5%	10.9%	16.7%	16.4%
Operating Profit Growth	31.9%	7.2%	7.7%	16.1%	15.8%
Pretax Profit Growth	25%		7%	17%	16%
Net Interest To Total Income	71.7%	70.9%	70.8%	71.1%	71.2%
Cost Of Funds	4.59%	4.80%	4.91%	4.82%	4.82%
Return On Interest Earning Assets	9.4%	9.3%	9.2%	9.3%	9.4%
Net Interest Spread	4.83%	4.46%	4.32%	4.46%	4.57%
Net Interest Margin (Avg Deposits)	6.40%	5.95%	5.81%	5.84%	5.86%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	8%	14%	15%	14%	14%
Interest Return On Average Assets	4.77%	4.36%	4.20%	4.27%	4.32%
Effective Tax Rate	23.5%	24.0%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	2.9%	3.6%	3.0%	3.0%	3.0%
Return On Average Assets	2.53%	2.12%	1.93%	1.97%	1.98%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**India**
**HOLD** (Initiating coverage)

Consensus ratings\*: Buy 35 Hold 7 Sell 1

Current price:	Rs207
Target price:	Rs220
Previous target:	NA
Up/downside:	6.3%
EIP Research / Consensus:	-2.4%
Reuters:	FED.NS
Bloomberg:	FB IN
Market cap:	US\$5,926m Rs508,469m
Average daily turnover:	US\$19.6m Rs1685.5m
Current shares o/s:	205.4m
Free float:	100.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.6	13.9	25.8
Relative (%)	9.5	4.0	16.0

Major shareholders	% held
HDFC MF	7.1
IFC	3.9
LIC	3.6

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# Federal Bank

## Takes steps in the right direction

- Transformation initiatives are steps in the right direction. Given the pedigree of the top management, the bank will be able to navigate this journey well.
- However, valuation is not cheap as the repo rate cut cycle is yet to fully play out & elevated cost ratios will also hit profitability in the near- to medium-term.
- We value the core bank at 1.2x FY27 BV and assign arms' value (Rs15/share) to arrive at a TP of Rs220 (6% upside). Initiate coverage with a HOLD rating.

### Transformation steps in the right direction – execution will be key

The new MD & CEO of Federal Bank, Mr. KVS Manian, erstwhile Joint MD at Kotak Mahindra Bank, has articulated a strategy to become a ~1.5% to 1.6% RoA bank by FY28F vs. 1.2% in FY25. Management plans to achieve this through an improvement in the liability franchise, shifting the loan mix towards mid-yielding assets with a relatively better risk-reward skew and focus on fee income streams (in trade, forex, CMS, affluent banking products etc.). However, some of the RoA gains from the said initiatives will be offset by structurally higher credit costs. We believe that given the pedigree of the incumbent MD & CEO and management team, the bank will be able to navigate the journey quite well.

### Repo rate cut cycle and higher cost ratios to remain a key overhang

Federal Bank has a lower pricing power (vs. large private banks) in its traditional segments (both on deposits as well as loans) and is therefore shifting focus towards mid-yielding products/customer segment. Also, recent initiatives such as shifting auto loans to fixed rate (from floating rate) and underwriting new repo loans on T+90 reset will help margin in the medium to long term as the book builds up. Moreover, initiatives towards transformation will keep costs elevated in the near- to medium-term. Credit costs will gradually normalize to ~50bp level vs. 35bp in FY25. From the exit margin in 4QFY25 of 3.12%, we build in margin moderation of ~10bp in FY26F and material improvement over FY27F/28F to 3.2%/3.3%, respectively, as we give some benefit of improvement in CASA ratio. We also build healthy core fee growth of a 25% CAGR over FY25-27F & a reasonable opex growth of 15% YoY over the same period. We expect core PPOp CAGR at 20% over FY25-27F.

### Risk-reward appears balanced at valuation of 1.3x 1-yr fwd core P/BV

At the current valuation, the stock appears fairly priced for ~13-14% RoE over FY27F-28F. We believe it reasonably captures some of the transformation initiatives too. The stock's performance could be volatile in the near term, given that the repo rate cut cycle is yet to fully play out and cost ratios could be elevated owing to transformation initiatives. Also, the street will be watchful of its transformation progress. We have valued the core bank at 1.2x FY27F BV and assigned the arms' value (Rs15/share) to arrive at a target price of Rs220 (6% upside). Initiate coverage with a HOLD rating. Upside risks: Stronger-than-expected growth and margin progression. Downside risks: Higher costs, slower-than-expected volume growth, higher credit costs, and weak margin outcome.

**Financial Summary**

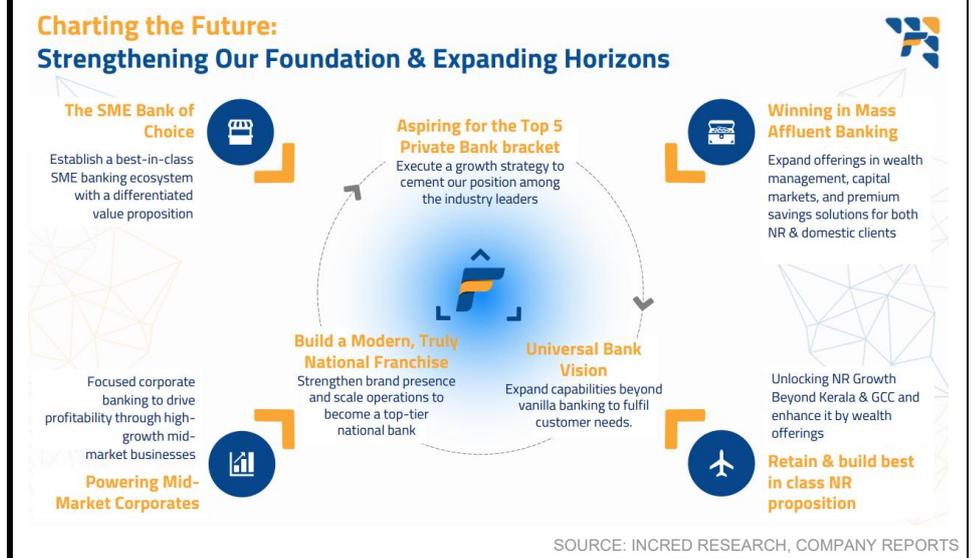
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	82,935	94,680	102,812	123,993	148,506
Total Non-Interest Income (Rsm)	30,793	38,013	42,703	51,911	65,584
Operating Revenue (Rsm)	113,728	132,692	145,514	175,904	214,090
Total Provision Charges (Rsm)	(1,961)	(7,331)	(12,926)	(15,188)	(17,846)
Net Profit (Rsm)	37,206	40,519	37,516	49,306	65,245
Core EPS (Rs)	16.1	16.6	15.3	20.1	26.6
Core EPS Growth	24%	9%	(7%)	31%	32%
FD Core P/E (x)	12.8	12.5	13.6	10.3	7.8
DPS (Rs)	1.00	1.20	1.20	1.15	1.51
Dividend Yield	0.48%	0.58%	0.58%	0.55%	0.73%
BVPS (Rs)	119.5	136.1	151.4	170.3	195.4
P/BV (x)	1.7	1.5	1.4	1.2	1.1
ROE	14.7%	13.0%	10.6%	12.5%	14.5%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 78: Federal Bank looks to establish itself as a SME bank of choice and aspires for the top five private bank bracket**



**Figure 79: Federal Bank aims to improve its share of low-cost deposits by 6ppt to 36% by FY28F, mainly led by improvement in the share of current account deposits**

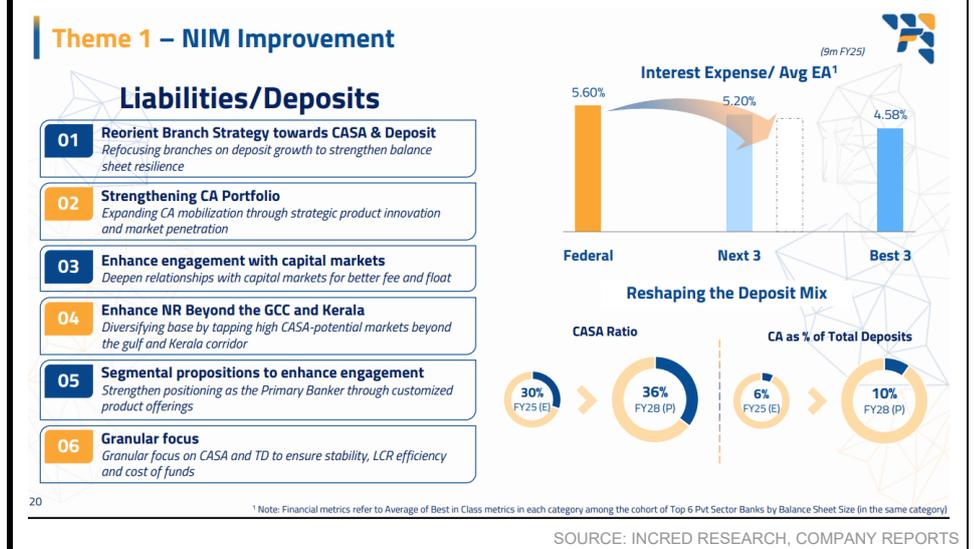


Figure 80: Federal Bank aims to scale up mid-yielding segments to ~34% by FY28F, from 31% in FY25; the share of high-yielding & very high-yielding segments to improve to ~8%, from 5% in FY25

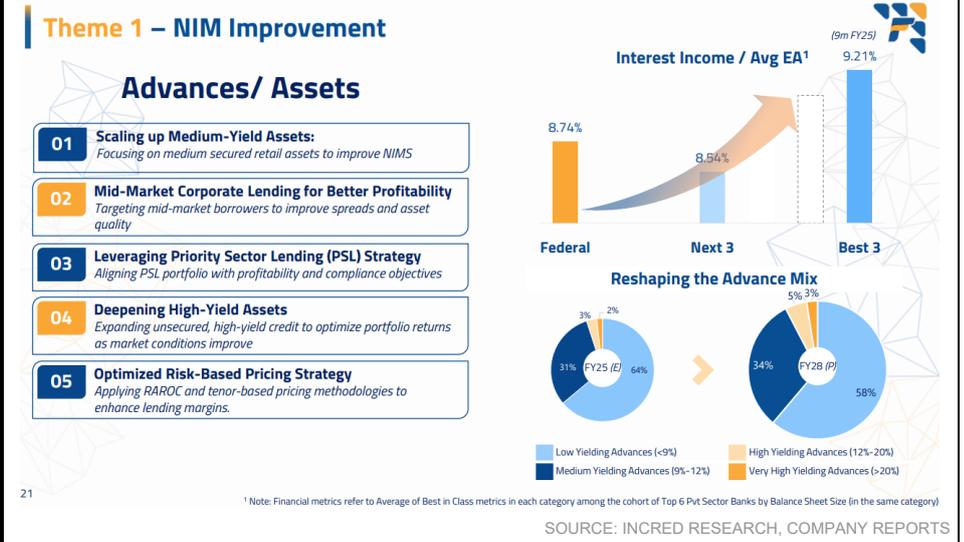


Figure 81: Federal Bank also plans to improve the fee income-to-assets ratio through product co-origination, cross-selling and focusing on servicing wealthy non-resident, MSME and mid-market segments



Figure 82: Federal Bank plans to expand its branch network to ~2,000 by FY28F

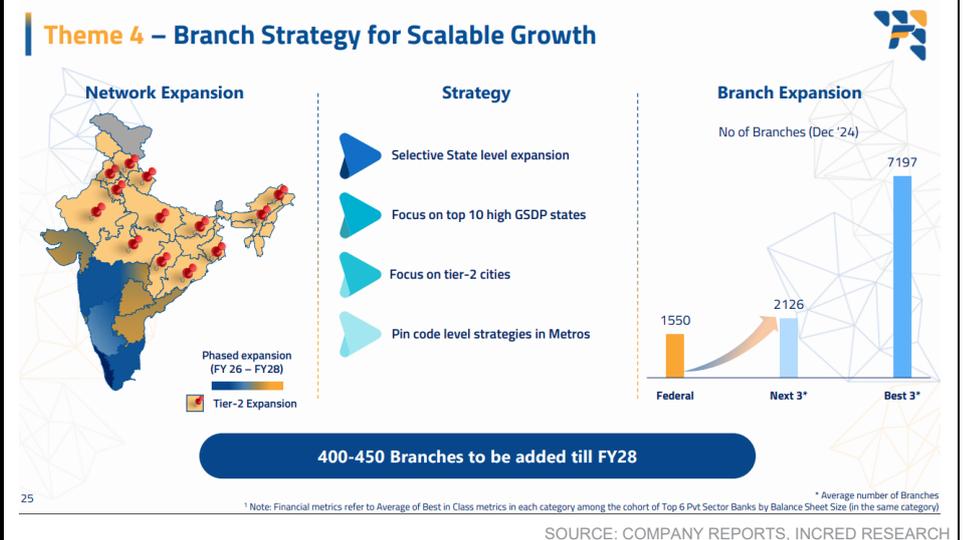


Figure 83: Federal Bank's cost optimization over the medium- to long-term will be aided by enhanced productivity and leveraging technology advancements.

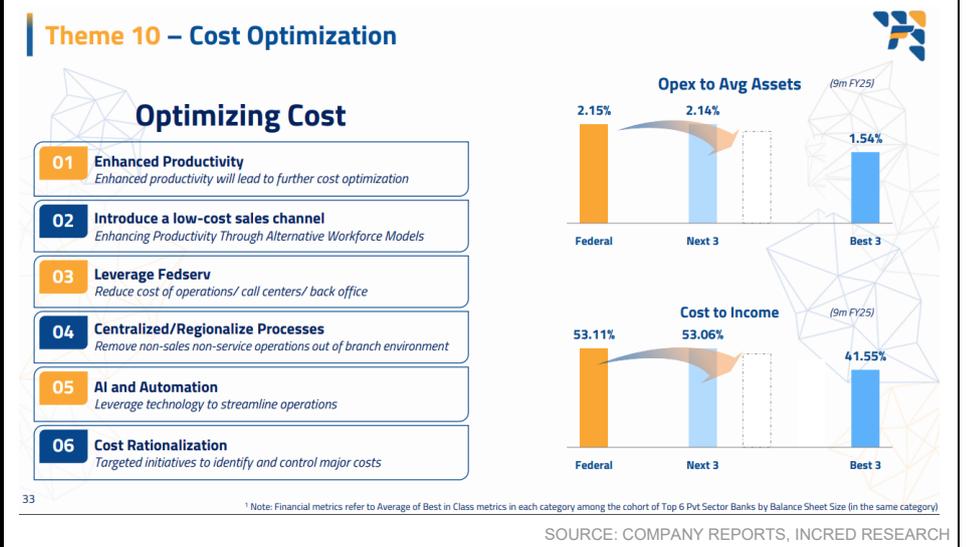


Figure 84: Federal Bank – a combination of these transformative initiatives will help deliver ~1.5-1.6% RoA by FY28F.

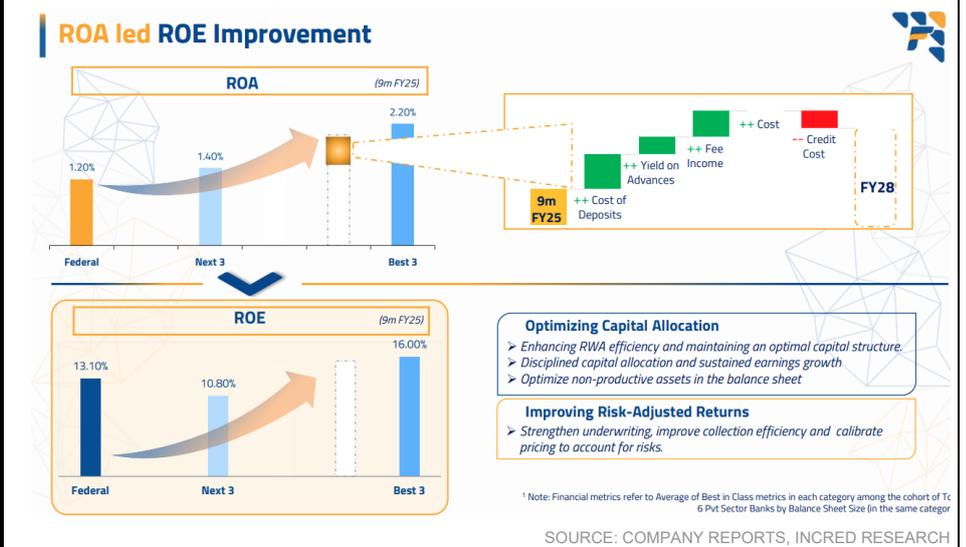
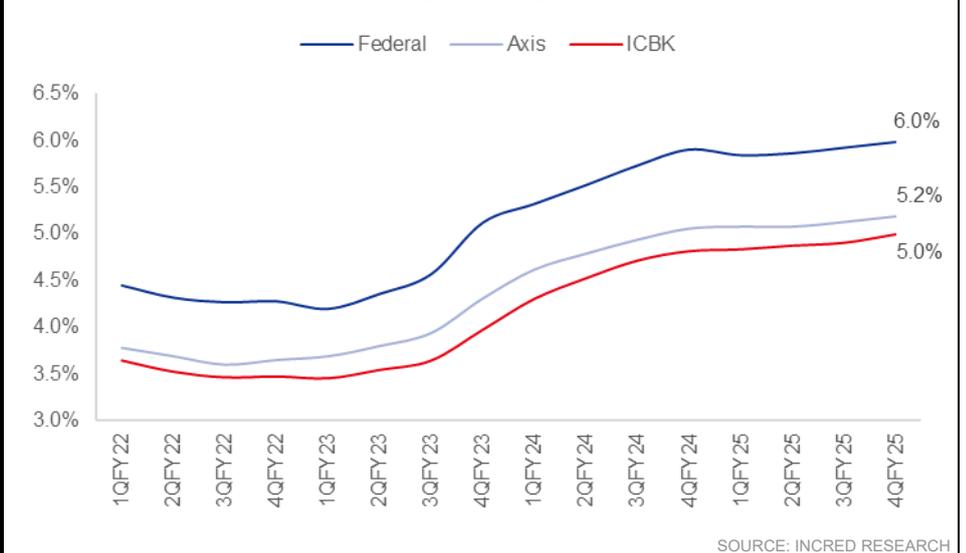
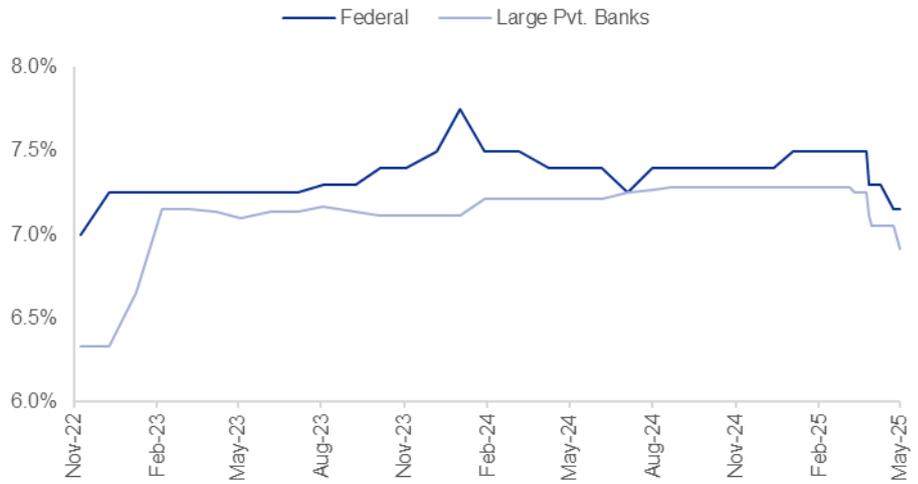


Figure 85: Cost of deposits – Federal Bank's initiative towards improving the share of low-cost deposits will help narrow its gap vs. large private banks

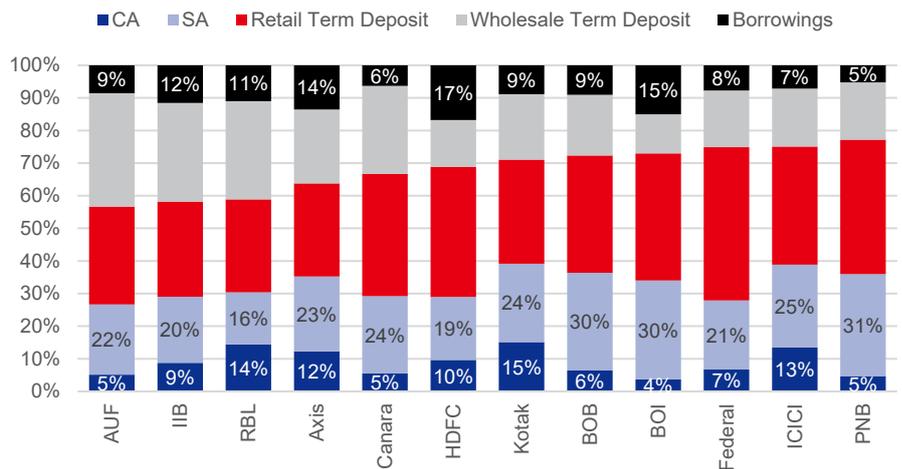


**Figure 86: Peak 1–3-year term deposit rates - Federal Bank continues to pay higher compared to large private banks**



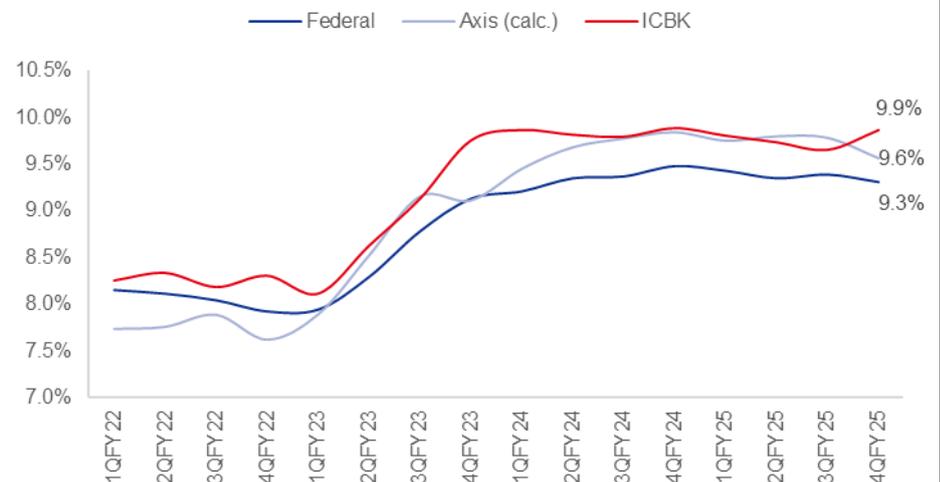
SOURCE: INCRED RESEARCH, COMPANY DATA

**Figure 87: Funding mix – Federal Bank has scope to improve CASA ratio vs. large private banks**



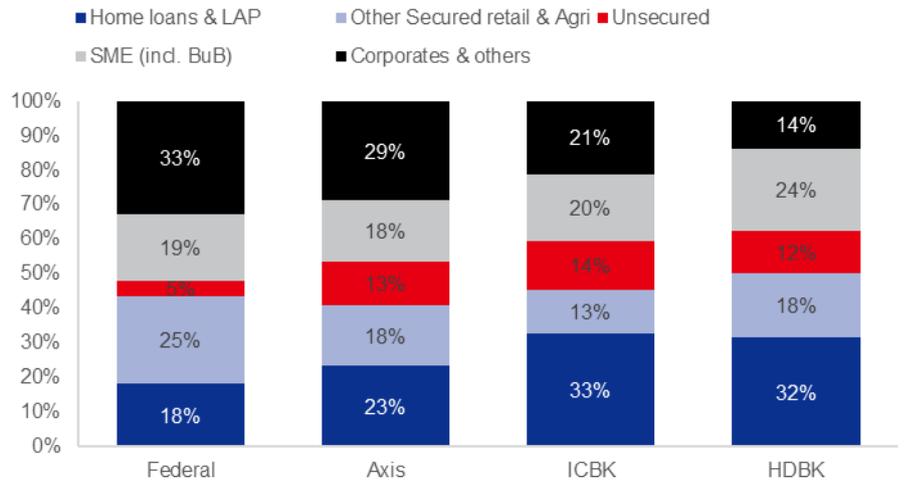
SOURCE: INCRED RESEARCH, COMPANY DATA

**Figure 88: Loan yields – focusing on mid-yielding secured segments is the right approach towards improving yields vs. large private peers**



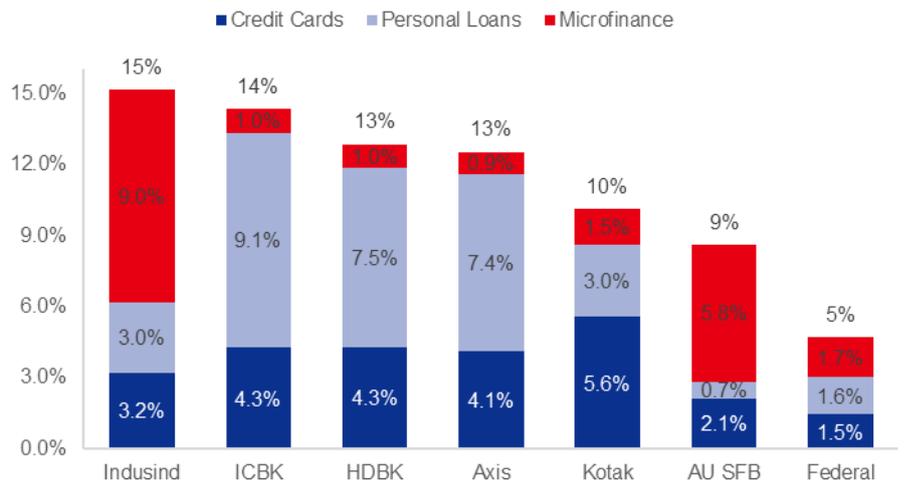
SOURCE: INCRED RESEARCH, COMPANY DATA

**Figure 89: Loan mix comparison – there is scope to improve the share of unsecured loans (%), which remains much lower than that of large private banks**



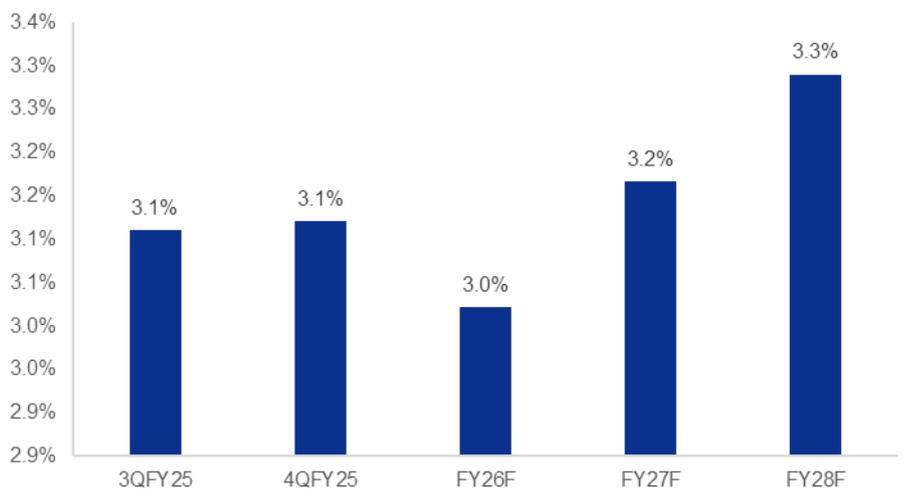
SOURCE: INCRED RESEARCH, COMPANY DATA

**Figure 90: India banks: Share of unsecured loans across players**



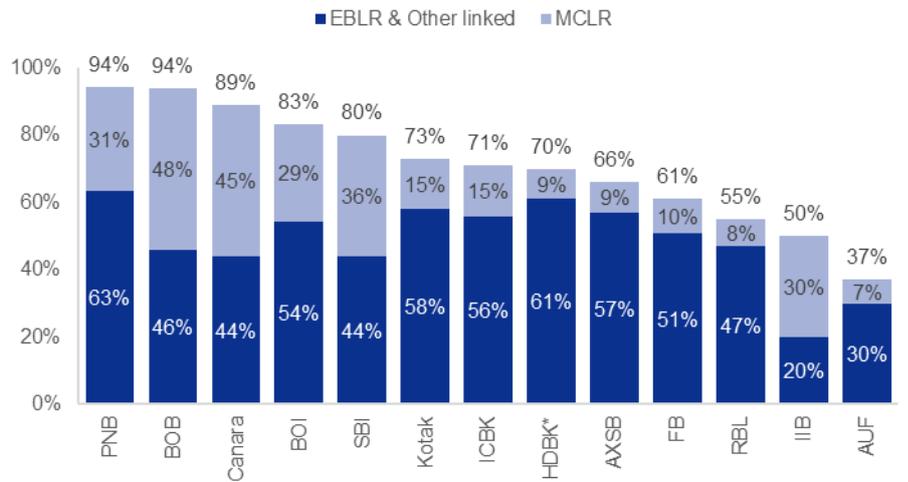
SOURCE: INCRED RESEARCH

**Figure 91: Federal Bank’s margin progression – we have built in some benefits of improving low-cost deposit franchise and the mix shifting towards mid-yielding segments**



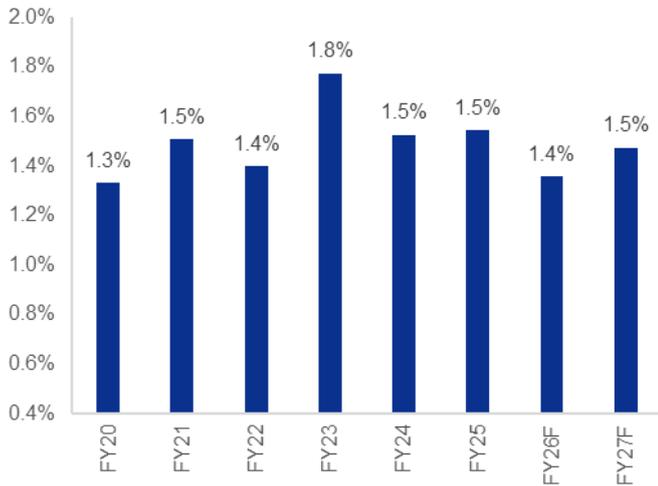
SOURCE: INCRED RESEARCH

Figure 92: Loan mix by rate type



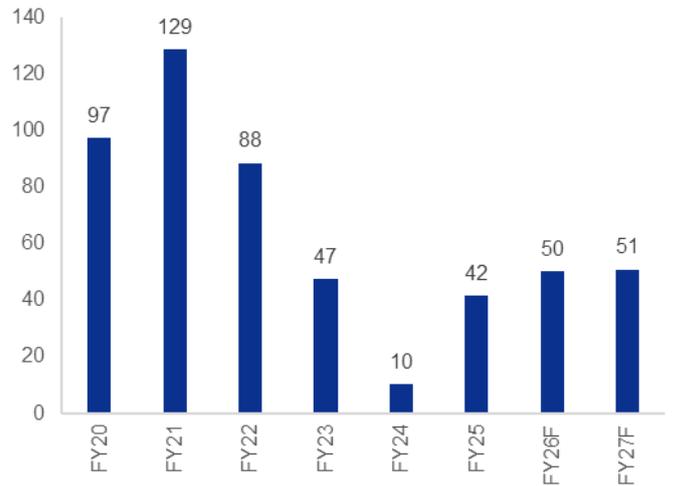
SOURCE: INCRED RESEARCH

Figure 93: Federal Bank - core PPOP to avg. assets (%)



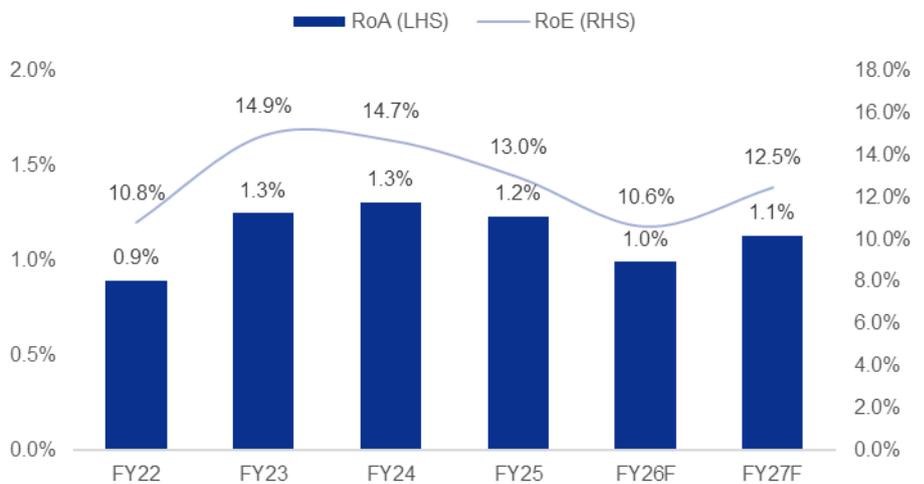
SOURCE: INCRED RESEARCH

Figure 94: Federal Bank - credit costs (% of avg. loans)



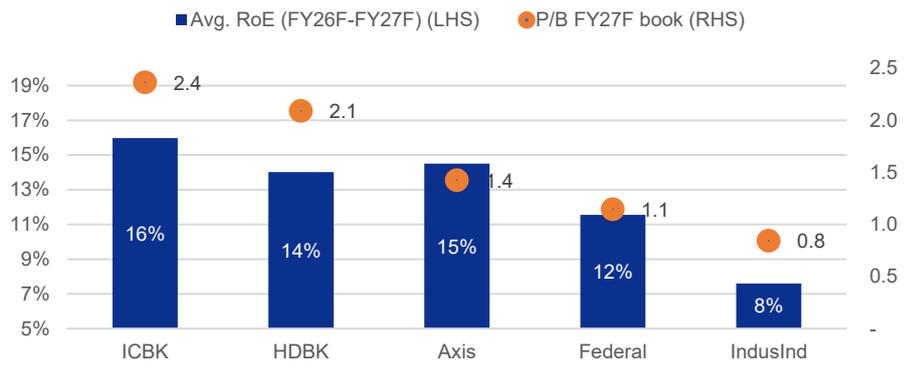
SOURCE: INCRED RESEARCH

Figure 95: Federal Bank – RoA and RoE progression



SOURCE: INCRED RESEARCH

Figure 96: Comparison of RoE vs. price-to-BV across banks



SOURCES: INCRED RESEARCH

Figure 97: Federal Bank - DuPont analysis

Dupont Analysis (as % of Avg. Assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26F	FY27F	FY28F
<b>Net Interest Income</b>	2.9%	2.8%	2.8%	2.7%	2.9%	2.8%	3.0%	2.9%	2.9%	2.7%	2.8%	3.0%
Core Fee	0.5%	0.5%	0.5%	0.6%	0.5%	0.6%	0.7%	0.8%	0.9%	0.9%	1.0%	1.1%
<b>Core Revenue</b>	<b>3.5%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>3.8%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.1%</b>
Opex	2.1%	1.9%	1.9%	2.0%	1.9%	2.0%	2.0%	2.2%	2.2%	2.2%	2.2%	2.2%
--Staff Expenses	1.1%	1.0%	0.9%	1.0%	1.1%	1.1%	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%
--Other Opex	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	1.1%	1.2%	1.2%	1.2%	1.2%	1.2%
<b>Core PPOp</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.8%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.9%</b>
Credit Cost (Provisions less Invest.)	0.6%	0.6%	0.5%	0.7%	0.9%	0.6%	0.3%	0.1%	0.2%	0.3%	0.3%	0.4%
Recovery from w/off Accounts	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Credit Costs</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.4%</b>
<b>Operating Profit</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.0%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.5%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.6%</b>
Other Income/Expenses	0.4%	0.2%	0.3%	0.5%	0.4%	0.3%	0.1%	0.3%	0.3%	0.2%	0.2%	0.2%
--Net Treasury Gains	0.3%	0.1%	0.1%	0.3%	0.3%	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
----Capital Gains	0.3%	0.2%	0.2%	0.4%	0.3%	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
----Provision for Investment	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
--Other Income	0.1%	0.1%	0.2%	0.2%	0.1%	0.2%	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%
<b>Profit before Tax (Before Exceptional Items)</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.7%</b>
Exceptionals/Minority Int./Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>PBT</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.7%</b>
Tax	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%
<b>RoA</b>	<b>0.8%</b>	<b>0.7%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>1.3%</b>	<b>1.3%</b>	<b>1.2%</b>	<b>1.0%</b>	<b>1.1%</b>	<b>1.3%</b>
Leverage (x)	12	12	12	12	12	12	12	11	11	11	11	11
<b>RoE</b>	<b>9.8%</b>	<b>8.3%</b>	<b>9.8%</b>	<b>11.0%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>14.9%</b>	<b>14.7%</b>	<b>13.0%</b>	<b>10.6%</b>	<b>12.5%</b>	<b>14.5%</b>

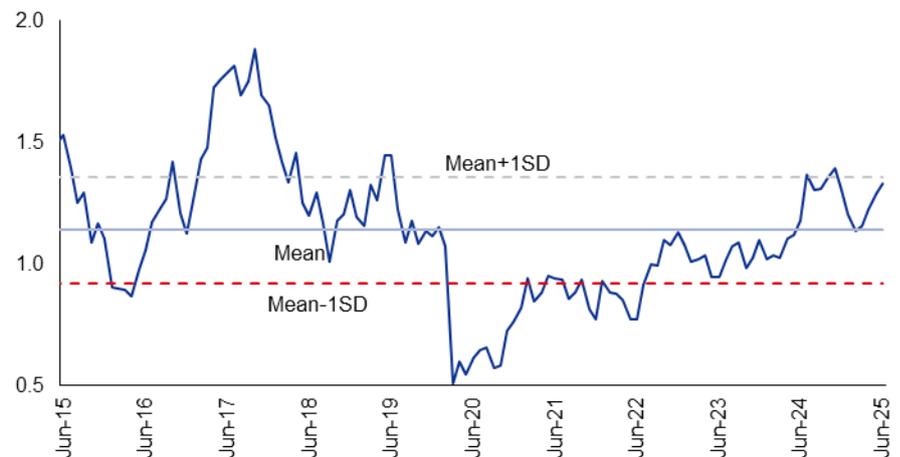
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 98: InCred estimates vs. Bloomberg consensus estimates

Rs bn	InCred Estimates				Bloomberg Estimates			Change		
	FY25	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
<b>Net Interest Income</b>	<b>95</b>	<b>103</b>	<b>124</b>	<b>149</b>	<b>107</b>	<b>125</b>	<b>144</b>	<b>-4%</b>	<b>0%</b>	<b>3%</b>
--Growth YoY	14%	9%	21%	20%	13%	16%	15%			
<b>Non-Interest Income</b>	<b>38</b>	<b>43</b>	<b>52</b>	<b>66</b>	<b>44</b>	<b>51</b>	<b>60</b>	<b>-2%</b>	<b>3%</b>	<b>10%</b>
--Growth YoY	23%	12%	22%	26%	15%	16%	18%			
<b>Total Income</b>	<b>133</b>	<b>146</b>	<b>176</b>	<b>214</b>	<b>151</b>	<b>175</b>	<b>203</b>	<b>-4%</b>	<b>0%</b>	<b>5%</b>
--Growth YoY	17%	10%	21%	22%	14%	16%	16%			
<b>Opex</b>	<b>72</b>	<b>82</b>	<b>95</b>	<b>109</b>	<b>83</b>	<b>92</b>	<b>104</b>	<b>-1%</b>	<b>3%</b>	<b>5%</b>
--Growth YoY	16%	15%	15%	15%	12%	10%	13%			
<b>PPOP</b>	<b>61</b>	<b>63</b>	<b>81</b>	<b>105</b>	<b>69</b>	<b>83</b>	<b>100</b>	<b>-8%</b>	<b>-3%</b>	<b>5%</b>
--Growth YoY	18%	3%	29%	30%	13%	21%	19%			
<b>Provision</b>	<b>7</b>	<b>13</b>	<b>15</b>	<b>18</b>	<b>10</b>	<b>13</b>	<b>17</b>	<b>26%</b>	<b>18%</b>	<b>4%</b>
--as % of avg. loans	33	51	51	51	40	44	51			
PBT	54	50	66	87	59	71	83	-14%	-7%	6%
Tax	13	13	17	22	15	18	21	19%	7%	-6%
<b>PAT</b>	<b>41</b>	<b>38</b>	<b>49</b>	<b>65</b>	<b>45</b>	<b>53</b>	<b>61</b>	<b>-16%</b>	<b>-7%</b>	<b>7%</b>
--Growth YoY	9%	-7%	31%	32%	10%	19%	16%			
<b>Advances</b>	<b>2,348</b>	<b>2,759</b>	<b>3,242</b>	<b>3,810</b>	<b>2,721</b>	<b>3,147</b>	<b>3,612</b>	<b>1%</b>	<b>3%</b>	<b>5%</b>
--Growth YoY	12%	18%	18%	18%	16%	16%	15%			
<b>Deposits</b>	<b>2,836</b>	<b>3,290</b>	<b>3,817</b>	<b>4,427</b>	<b>3,239</b>	<b>3,747</b>	<b>4,337</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
--Growth YoY	12%	16%	16%	16%	14%	16%	16%			
<b>Book Value</b>	<b>136</b>	<b>151</b>	<b>170</b>	<b>195</b>	<b>148</b>	<b>167</b>	<b>190</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>
--Growth YoY	14%	11%	13%	15%	10%	12%	14%			
<b>EPS</b>	<b>17</b>	<b>15</b>	<b>20</b>	<b>27</b>	<b>18</b>	<b>21</b>	<b>25</b>	<b>-16%</b>	<b>-7%</b>	<b>7%</b>
--Growth YoY	3%	-8%	31%	32%	11%	18%	15%			

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 99: Federal Bank's core P/BV (one-year forward)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Valuation methodology

We have valued Federal Bank using the justified P/BV methodology. We have assumed a sustainable RoE of ~14% and the cost of equity at 13.1%. We have used a risk-free rate of 6.75%, a beta of 1.15x, and a market risk premium of 5.5%. Our terminal growth assumption is 10%. Our target multiple of 1.2x on FY27F BV led us to a target price of Rs220 (a 6% upside from the CMP).

Figure 100: Standalone valuation

Banking Business	
Core BVPS Mar-2027F (Rs)	168
Sustainable RoE	13.8%
CoE	13.1%
---Risk-free rate	6.75%
--Beta	1.15x
--Market risk premium	5.5%
Terminal growth rate	10%
Target multiple	1.2x
<b>Value per share (Rs)</b>	<b>204</b>

SOURCE: INCRED RESEARCH

Figure 101: Fedbank Financial Services valuation

Fedbank Financial Services	
Current market cap (Rs m)	33,883
% shareholding	61.7%
Value attributable (Rs m)	20,889
<b>Per share (Rs)</b>	<b>9</b>

SOURCE: INCRED RESEARCH

Figure 102: Ageas Federal Life Insurance valuation

Ageas Federal Life Insurance	
Embedded value (Mar-2027F), Rs m	35,431
Multiple	1.5x
Value (Rs m)	53,147
% Shareholding	26.0%
Value Attributable (Rs m)	13,818
<b>Per share (Rs)</b>	<b>6</b>

SOURCE: INCRED RESEARCH

Figure 103: Federal Bank SOTP valuation

Federal: Sum-of-the-parts valuation	
<b>Rs</b>	
Banking Business	204
<b>Subsidiaries</b>	
Fedbank Financial Services	9
Ageas Federal Life Insurance	6
<b>Value of subsidiaries</b>	<b>15</b>
<b>Fair value</b>	<b>220</b>

SOURCE: INCRED RESEARCH

Figure 104: Financial Summary

Federal Bank

Profit and Loss Statement

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Interest Income	263,652	290,212	334,288	384,260
Interest Expense	168,973	187,400	210,295	235,754
<b>Net Interest Income</b>	<b>94,680</b>	<b>102,812</b>	<b>123,993</b>	<b>148,506</b>
---Fee Income	27,970	34,963	43,703	56,814
---Capital Gains	2,650	2,000	2,000	2,000
---Miscellaneous Inc.	5,443	3,400	3,400	3,400
<b>Total Non Interest Income</b>	<b>38,013</b>	<b>42,703</b>	<b>51,911</b>	<b>65,584</b>
<b>Total Operating Income</b>	<b>132,692</b>	<b>145,514</b>	<b>175,904</b>	<b>214,090</b>
---Employee Exp	30,827	35,451	40,769	46,884
---Other Expenses	40,854	46,982	54,030	62,134
Total Operating Expenses	71,681	82,433	94,798	109,018
<b>Operating Profit</b>	<b>61,011</b>	<b>63,081</b>	<b>81,106</b>	<b>105,072</b>
---Prov. For Investment Dep.	-150	0	0	0
---Loan Loss Provisions	8,030	11,488	13,498	15,861
Total provisions	7,331	12,926	15,188	17,846
<b>Profit Before Tax</b>	<b>53,681</b>	<b>50,155</b>	<b>65,917</b>	<b>87,225</b>
Provision for Tax	13,162	12,639	16,611	21,981
<b>Net Profit</b>	<b>40,519</b>	<b>37,516</b>	<b>49,306</b>	<b>65,245</b>

Balance Sheet Data

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
Shareholders' equity	334,206	371,722	418,214	479,761
Deposits	2,836,475	3,290,311	3,816,760	4,427,442
Borrowings	237,263	266,921	293,613	322,974
Other Liabilities & Prov.	82,104	123,156	135,472	149,019
<b>Total Liabilities</b>	<b>3,490,048</b>	<b>4,052,109</b>	<b>4,664,059</b>	<b>5,379,196</b>
Cash & Balances w ith RBI	203,544	235,561	272,191	314,575
Balances w ith Banks	105,048	128,578	157,493	192,452
Investments	662,456	756,899	795,851	838,092
Advances	2,348,364	2,759,328	3,242,210	3,809,597
Fixed Assets	14,783	15,891	17,083	18,365
Other Assets	155,853	155,853	179,231	206,115
<b>Total Assets</b>	<b>3,490,048</b>	<b>4,052,109</b>	<b>4,664,059</b>	<b>5,379,196</b>
Earning Assets	3,319,412	3,880,365	4,467,745	5,154,716
Average Interest Earning Assets	3,105,835	3,599,889	4,174,055	4,811,231
Average Loans	2,221,199	2,553,846	3,000,769	3,525,903
Avg Equity / Avg Assets (%)	9.5%	9.4%	9.1%	8.9%
<b>Asset Quality</b>	<b>FY25</b>	<b>FY26F</b>	<b>FY27F</b>	<b>FY28F</b>
Credit costs (bps)	34	51	51	51
Gross NPL	43,755	58,755	76,755	94,755
Net NPL	10,404	15,916	23,418	28,557
Reserve Coverage	33,352	42,840	53,338	66,198
Gross NPL Ratio	1.8%	2.1%	2.3%	2.4%
Net NPL Ratio	0.4%	0.6%	0.7%	0.7%
Coverage Ratio	76%	73%	69%	70%

Per Share Data and Valuations

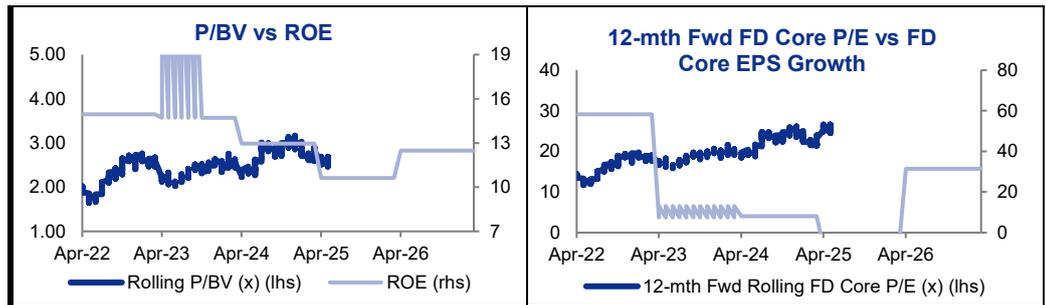
Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
EPS	16.6	15.3	20.1	26.6
Book Value	136.1	151.4	170.3	195.4
Book Value (Core)	133.9	148.6	167.6	192.6
Core Op. Profit	20.8	22.5	29.7	39.2
DPS	1.2	1.1	1.5	2.0
<b>Valuations</b>				
PE	12.5	13.6	10.3	7.8
PE (Core)	11.6	12.6	9.6	7.2
Price to Book	1.5	1.4	1.2	1.1
Price to Book (Core)	1.4	1.3	1.1	1.0
Price to Core PPOP	9.9	9.2	7.0	5.3
Core Price to Core PPOP	9.2	8.5	6.5	4.9
Dividend Yield	0.6%	0.6%	0.7%	1.0%

Ratio Analysis

Rs M (Year-end March)	FY25	FY26F	FY27F	FY28F
<b>Spread Analysis</b>				
Average yield on assets	8.5%	8.1%	8.0%	8.0%
Cost of earning assets	5.4%	5.2%	5.0%	4.9%
Net Interest Margin (Reported)	3.13%	3.02%	3.17%	3.29%
<b>Growth Ratios</b>				
Net Interest Income	14%	9%	21%	20%
Non Interest Income	23%	12%	22%	26%
Operating expenses	16%	15%	15%	15%
Core PPOP	18%	9%	32%	32%
Operating Profit	18%	3%	29%	30%
Net Profit	9%	-7%	31%	32%
EPS	3%	-8%	31%	32%
Deposits	12%	16%	16%	16%
Advances	12%	18%	18%	18%
Total Assets	13%	16%	15%	15%
<b>Profitability Ratios</b>				
Return On Equity	13.0%	10.6%	12.5%	14.5%
Return On Equity (Core)	13.2%	10.8%	12.7%	14.8%
Return on Assets	1.2%	1.0%	1.1%	1.3%
Core PPOP/Avg Loans	2.3%	2.2%	2.4%	2.7%
<b>Efficiency Ratios</b>				
Cost Income Ratio	54.0%	56.6%	53.9%	50.9%
Expenses/Avg Assets	2.2%	2.2%	2.2%	2.2%
<b>Capital Ratios</b>				
CET 1 Ratio	15.0%	14.4%	14.1%	14.1%
Tier 1 Ratio	15.0%	14.4%	14.1%	14.1%
Tier 2 Ratio	1.4%	1.3%	1.3%	1.3%
Capital Adequacy Ratio	16.4%	15.7%	15.4%	15.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Net Interest Income	72,322	82,935	94,680	102,812	123,993
<b>Total Non-Interest Income</b>	<b>23,300</b>	<b>30,793</b>	<b>38,013</b>	<b>42,703</b>	<b>51,911</b>
Operating Revenue	95,622	113,728	132,692	145,514	175,904
<b>Total Non-Interest Expenses</b>	<b>(47,678)</b>	<b>(61,983)</b>	<b>(71,681)</b>	<b>(82,433)</b>	<b>(94,798)</b>
Pre-provision Operating Profit	47,944	51,745	61,011	63,081	81,106
<b>Total Provision Charges</b>	<b>(7,499)</b>	<b>(1,961)</b>	<b>(7,331)</b>	<b>(12,926)</b>	<b>(15,188)</b>
Operating Profit After Provisions	40,445	49,784	53,681	50,155	65,917
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	40,445	49,784	53,681	50,155	65,917
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	40,445	49,784	53,681	50,155	65,917
<b>Exceptional Items</b>					
Pre-tax Profit	40,445	49,784	53,681	50,155	65,917
Taxation	(10,339)	(12,578)	(13,162)	(12,639)	(16,611)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	30,106	37,206	40,519	37,516	49,306
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	30,106	37,206	40,519	37,516	49,306
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits	80.8%	82.4%	82.9%	83.4%	84.4%
Avg Liquid Assets/Avg Assets	92.7%	93.3%	94.5%	95.5%	95.8%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>109.5%</b>	<b>107.4%</b>	<b>108.7%</b>	<b>110.3%</b>	<b>110.5%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>	<b>0.47%</b>	<b>0.10%</b>	<b>0.33%</b>	<b>0.51%</b>	<b>0.51%</b>
<b>Provision Charge/Avg Assets</b>	<b>0.31%</b>	<b>0.07%</b>	<b>0.22%</b>	<b>0.34%</b>	<b>0.35%</b>
Total Write Offs/Average Assets					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>1,744,469</b>	<b>2,094,033</b>	<b>2,348,364</b>	<b>2,759,328</b>	<b>3,242,210</b>
Liquid Assets & Invst. (Current)	489,834	608,595	662,456	756,899	795,851
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,234,302	2,702,629	3,010,820	3,516,226	4,038,061
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	2,234,302	2,702,629	3,010,820	3,516,226	4,038,061
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>182,890</b>	<b>180,660</b>	<b>155,853</b>	<b>155,853</b>	<b>179,231</b>
<b>Total Non-Interest Earning Assets</b>	<b>192,229</b>	<b>190,860</b>	<b>170,636</b>	<b>171,744</b>	<b>196,314</b>
Cash And Marketable Securities	176,887	189,629	308,592	364,139	429,684
<b>Long-term Investments</b>					
Total Assets	2,603,418	3,083,118	3,490,048	4,052,110	4,664,060
Customer Interest-Bearing Liabilities	2,133,861	2,525,340	2,836,475	3,290,311	3,816,760
Bank Deposits					
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	2,327,053	2,705,604	3,073,738	3,557,232	4,110,373
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	61,303	86,570	82,104	123,156	135,472
Total Liabilities	2,388,356	2,792,174	3,155,842	3,680,388	4,245,845
Shareholders Equity	215,062	290,944	334,206	371,722	418,214
<b>Minority Interests</b>					
Total Equity	215,062	290,944	334,206	371,722	418,214

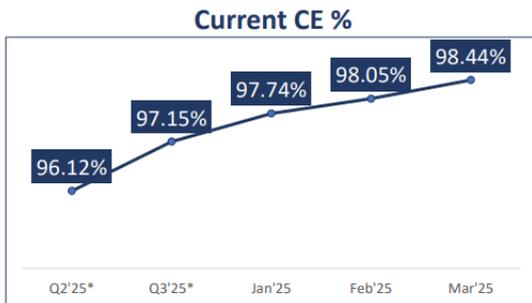
<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	21.3%	14.7%	14.2%	8.6%	20.6%
Operating Profit Growth	27.6%	7.9%	17.9%	3.4%	28.6%
Pretax Profit Growth	59%	23%	8%	(7%)	31%
Net Interest To Total Income	75.6%	72.9%	71.4%	70.7%	70.5%
Cost Of Funds	4.45%	5.52%	5.85%	5.65%	5.49%
Return On Interest Earning Assets	8.2%	9.0%	9.2%	8.9%	8.9%
Net Interest Spread	3.79%	3.47%	3.38%	3.24%	3.36%
Net Interest Margin (Avg Deposits)	3.66%	3.56%	3.53%	3.36%	3.49%
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	16%	4%	12%	20%	19%
Interest Return On Average Assets	3.01%	2.92%	2.88%	2.73%	2.85%
Effective Tax Rate	25.6%	25.3%	24.5%	25.2%	25.2%
Net Dividend Payout Ratio	7.0%	7.4%	7.2%	7.5%	7.5%
Return On Average Assets	1.25%	1.31%	1.23%	0.99%	1.13%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

# Compendium of asset quality performance across MFI players

Figure 105: Fusion Microfinance – trend in collection efficiency

## Sustained Improvement in Current Collections



\*Average monthly Col. Eff. in Q2, Q3 FY25

Top 5 State	Dec'24	Jan'25	Feb'25	Mar'25	POS%
Uttar Pradesh	98.16%	98.26%	98.56%	98.80%	24%
Bihar	97.18%	97.15%	97.87%	98.11%	19%
Odisha	96.56%	96.67%	97.10%	97.94%	11%
MP	98.05%	97.84%	97.96%	98.39%	10%
Tamil Nadu	97.54%	96.83%	97.86%	98.07%	6%
<b>All India</b>	<b>97.73%</b>	<b>97.74%</b>	<b>98.05%</b>	<b>98.44%</b>	<b>100%</b>

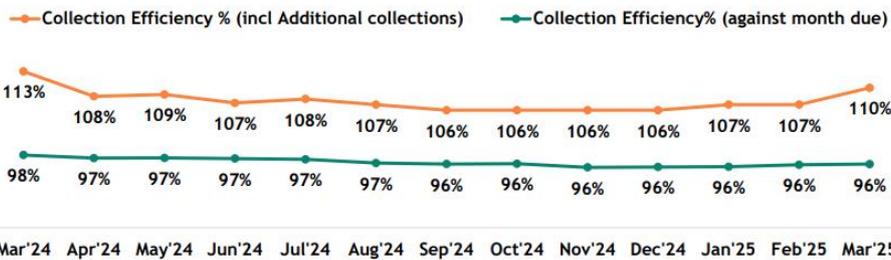
% flow	Q2'25	Q3'25	Q4'25
Current to >PAR 0	2.98%	1.80%	0.57%

- ✦ Current bucket CE increased by ~230 bps from Q2'25 to Mar'25
- ✦ Current bucket flow rate improved from 2.98% to 0.57% from Q2'25 to Q4'25

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 106: Ujjivan Small Finance Bank – trend in collection efficiency

## HEALTHY COLLECTIONS DESPITE STRESS



Note: Collection efficiency - collections for the period against dues for the period. It does not include arrears

### Cashless MB collections



Q4FY24 Q1FY25 Q2FY25 Q3FY25 Q4FY25

### Well calibrated collections team.... (Nos)



- Digital Repayment through SI, NACH, Hello Ujjivan, BBPS 37% as of Mar'25
- Cashless collection through Electronic Collection Retail Points through partners is 3% as of Mar'25
- Enhanced customer convenience to align with evolving needs by providing flexible modes of repayments not limited to centre meeting

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SOURCE: INCRED RESEARCH, COMPANY REPORTS

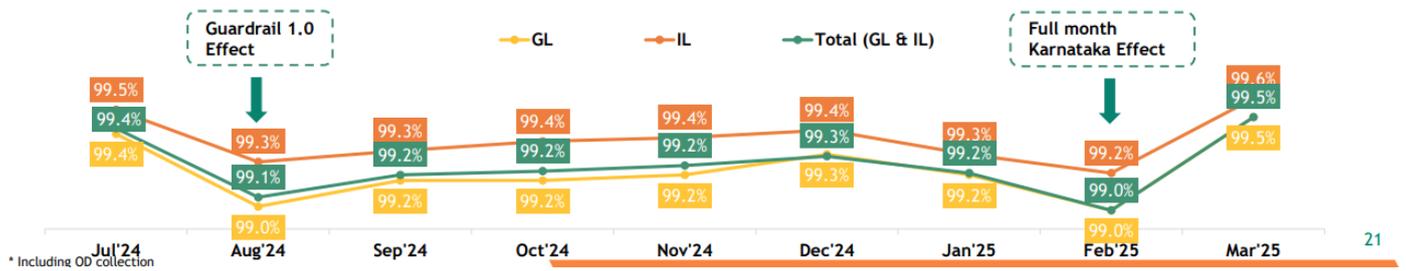
Figure 107: Ujjivan Small Finance Bank – trend in collection efficiency



## COLLECTION EFFICIENCY

Verticals	Jan'25					Feb'25					Mar'25				
	Due	Coll. Eff.	CE %	Add. Coll.	CE % (incl. Add. Coll)	Due	Coll. Eff.	CE %	Add. Coll.	CE % (incl. Add. Coll)	Due	Coll. Eff.	CE %	Add. Coll.	CE % (incl. Add. Coll)
Group Loans	1,228.4	1,166.9	95%	106.2	104%	1,182.6	1,131.0	96%	90.6	103%	1,175.7	1,124.8	96%	105.9	105%
Individual Loans	368.2	354.4	96%	38.7	107%	367.0	354.6	97%	36.4	107%	374.2	362.0	97%	40.8	108%
Housing	92.3	90.4	98%	49.0	151%	96.3	94.2	98%	44.4	144%	100.0	98.4	98%	53.4	152%
MSME	23.9	21.7	91%	17.2	163%	24.6	22.3	91%	18.5	166%	25.4	23.4	92%	25.5	193%
FIG Lending	229.1	229.1	100%	0.0	100%	163.0	163.0	100%	0.0	100%	172.5	172.5	100%	25.2	115%
Others	23.4	22.5	96%	1.9	104%	24.6	23.5	95%	1.9	103%	26.2	25.1	96%	2.4	105%
<b>Total</b>	<b>1,965.4</b>	<b>1,885.0</b>	<b>96%</b>	<b>213.1</b>	<b>107%</b>	<b>1,858.2</b>	<b>1,788.6</b>	<b>96%</b>	<b>191.8</b>	<b>107%</b>	<b>1,873.9</b>	<b>1,806.1</b>	<b>96%</b>	<b>253.2</b>	<b>110%</b>

NDA Collection Efficiency for GL & IL inching towards normalcy....



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 108: Bandhan Bank – trend in collection efficiency

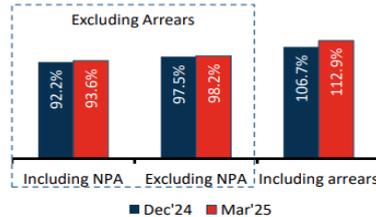


## EEB Collection Efficiency

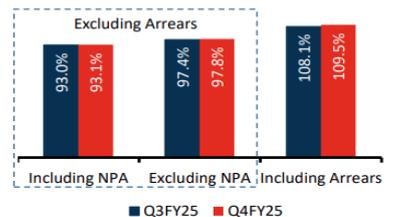
### Top states

States	For Dec'24	For Mar'25	For Q3FY25	For Q4FY25
West Bengal	98.8%	98.7%	98.8%	98.7%
Assam	99.3%	99.5%	99.2%	99.4%
Rest of India	96.4%	97.6%	96.3%	97.0%
<b>Total</b>	<b>97.5%</b>	<b>98.2%</b>	<b>97.4%</b>	<b>97.8%</b>

### Collection Efficiency for the Month



### Collection Efficiency for the Quarter



### Customer Paying Profile

Category	For the month of Dec'24		For the month of Mar'25	
	Share of customers	Share of receivables	Share of customers	Share of receivables
Full Paying	94.9%	95.5%	96.5%	96.6%
Partial Paying	3.9%	3.0%	2.2%	2.4%
Non-Paying	1.2%	1.5%	1.3%	1.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Top States and Paying profile excludes NPA, EEB = Group Loan and Small Business and Agri Loans

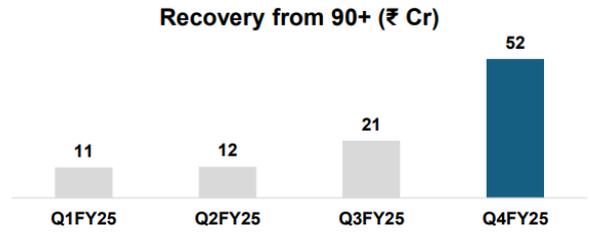
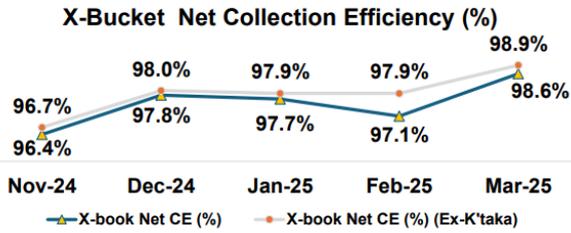
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SOURCE: INCRED RESEARCH, COMPANY REPORTS

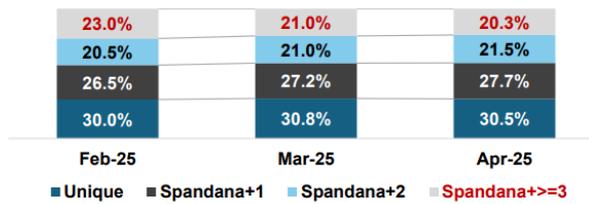
Figure 109: Spandana Spoorthy Financial – trend in collection efficiency



## Spandana seeing improvements in lead indicators



Lender Overlap\* - +≥3 lenders reduced to 20.3% from ~23% in 3 months



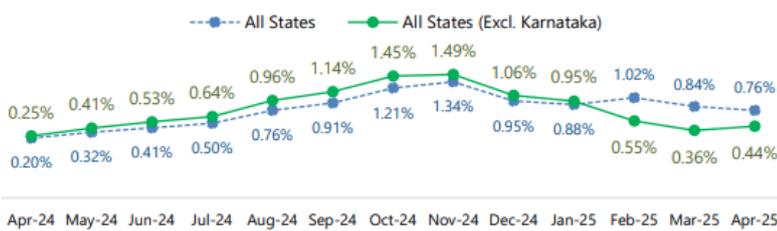
\* Based on Credit bureau data as of respective months

Figure 110: Credit Access Grameen – trend in collection efficiency

## Near-To-Normalised PAR Accretion In All States Excl. Karnataka



### Monthly PAR 15+ Accretion/AUM Rate



### Strong Trend Towards Near-Normalcy

- PAR 15+ by MOB (Month on Book) trend indicating near-normal incremental credit cost
- PAR buckets roll forward rates are trending towards near normal levels
- Sustained new borrower additions, with higher new-to-credit proportion
- Sustained disbursements and growth in Q4
- Strong employee retention
- Improved ground-level situation
- Improved centre meeting attendance
- Overall visible improvements in the business environment

### Consistent Trend Towards Normalisation

- Strong control on employee attrition at 30.5% in Q4 FY25, with employee base increasing from 19,333 in Dec-24 to 20,970 in Mar-25
- Continued collections in PAR buckets, with ~40% of borrowers in PAR 1-60 and 10% of borrowers in PAR 60+ making partial payments
- Temporary increase in PAR 15+ accretion rate in Apr-25 due to holidays and festivities
- **Overall PAR 0+ accretion (excl. Karnataka) has improved in May-25 (0.12% up to 11<sup>th</sup> May)**

Figure 111: Credit Access Grameen – trend in collection efficiency (1)

### Sustained Reversal In PAR Accretion Rate (1/2)



#### Karnataka – Monthly PAR Accretion/AUM Rate

Delinquency trend in Karnataka expected to normalise by end of Q1 FY26



#### Maharashtra – Monthly PAR 15+ Accretion/AUM Rate



#### Tamil Nadu – Monthly PAR 15+ Accretion/AUM Rate



www.creditaccessgrameen.in

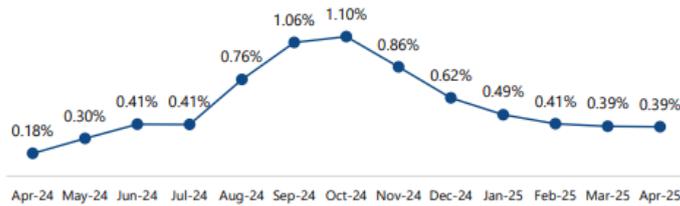
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 112: Credit Access Grameen – trend in collection efficiency (2)

### Sustained Reversal In PAR Accretion Rate (2/2)



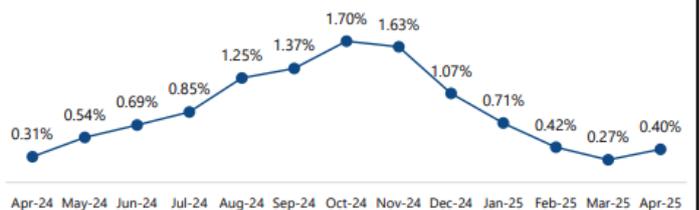
#### Madhya Pradesh – Monthly PAR 15+ Accretion/AUM Rate



#### Bihar & UP – Monthly PAR 15+ Accretion/AUM Rate



#### Other States – Monthly PAR 15+ Accretion/AUM Rate

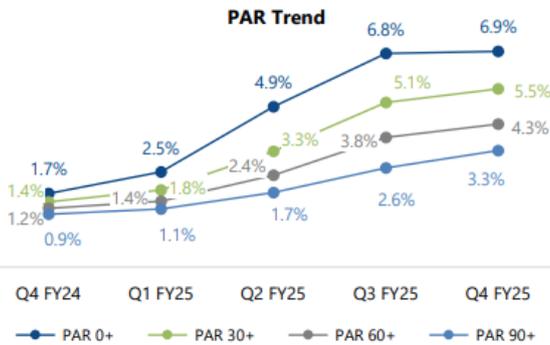


www.creditaccessgrameen.in

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 113: Credit Access Grameen – trend in collection efficiency (3)

### Sustained PAR Reduction, Offset By Elevated Delinquencies in Karnataka



Top 5 States	% GLP	Dec-24		Mar-25	
		PAR 0+	PAR 90+	PAR 0+	PAR 90+
Karnataka	31.1%	4.3%	1.2%	8.7%	2.4%
Maharashtra	21.5%	5.0%	2.3%	3.3%	2.1%
Tamil Nadu	19.0%	8.9%	3.2%	8.1%	4.5%
Madhya Pradesh	8.0%	5.3%	2.4%	3.8%	2.1%
Bihar	4.8%	14.8%	5.3%	12.2%	7.3%
Others	15.6%	10.1%	4.5%	7.0%	4.4%
<b>Total</b>	<b>100%</b>	<b>6.8%</b>	<b>2.6%</b>	<b>6.9%</b>	<b>3.3%</b>
<b>Total (Excl. Karnataka)</b>	<b>68.9%</b>	<b>8.0%</b>	<b>3.3%</b>	<b>6.1%</b>	<b>3.7%</b>

- Stabilizing asset quality led by declining PAR trend across all states, offset by elevated delinquencies in Karnataka
- Around 5% new PAR 0+ accretion in Karnataka in Q4 FY25, primarily due to the impact of Karnataka ordinance. Delinquency trend is expected to normalise by end of Q1 FY26
- MFIN guardrails to help achieve sectoral stability and strengthened credit discipline
- Above normal monsoon forecast to improve agriculture productivity and contribute to higher rural incomes in FY26

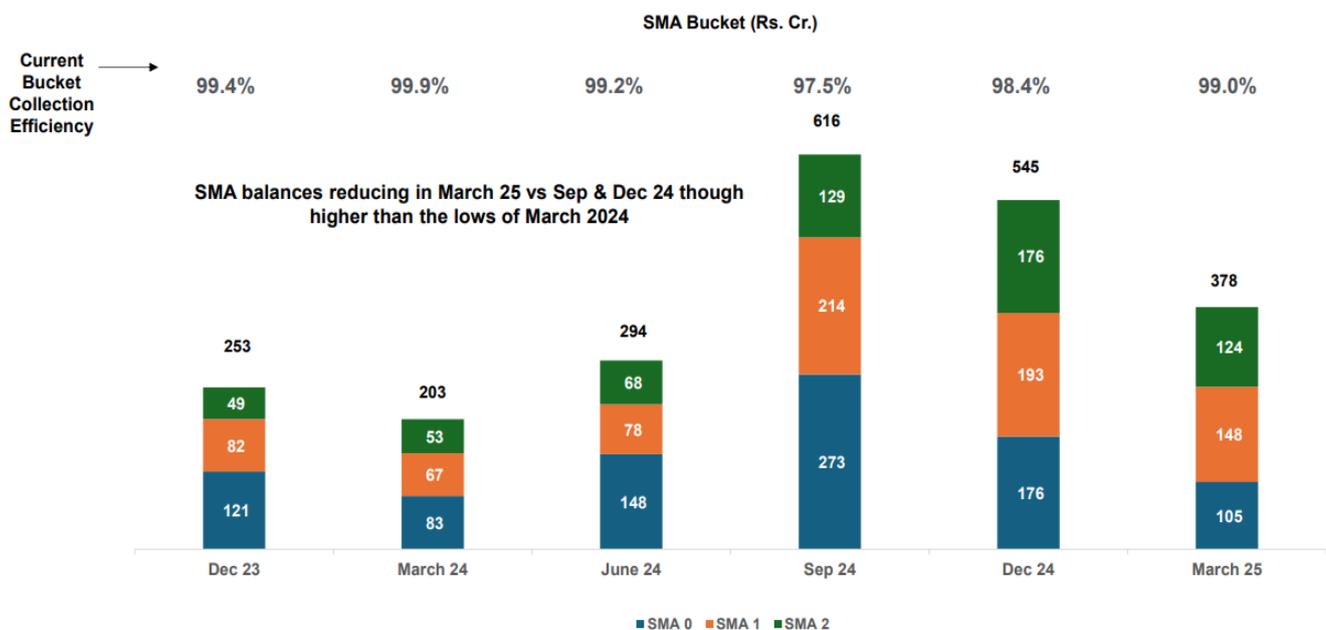
www.creditaccessgrameen.in



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 114: RBL Bank – trend in collection efficiency

### Collection Efficiency & SMA Bucket



SMA balances reducing in March 25 vs Sep & Dec 24 though higher than the lows of March 2024

apno ka bank | RBL Bank

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.