INSTITUTIONAL RESEARCH

Leveraged Financials

Emerging long-tail risks in unsecured credit

India's heterogenous unsecured retail credit market (US$160bn; 3-year CAGR at ~23%) has been in the headlines ever since the RBI clamped down on select categories of consumer credit. Our discussions with experts suggest that the RBI's note of caution is largely centred on small-ticket personal loans (STPL) (ticket size <INR100k), which account for a high incidence of systemic blind spots, dominant share of incremental disbursements, and elevated early-stage delinquencies, especially across static pools. The RBI's risk-weight measures are likely to increase the hurdle rate for banks and NBFCs towards unsecured consumer loans, resulting in a material growth deceleration. We continue to hold our below-consensus growth forecasts (1-2 percentage points across our coverage universe) and remain conservative on incremental spreads (blended FY24 NIMs at 15-20bps below FY23 levels), considering the impact on incremental asset mix. Our top picks are ICICIBC (TP: INR1,200) and SBIN (TP: INR780) among large banks; and BAF (TP: INR8650) and SBICARD (TP: INR955) among NBFCs.

- **Unsecured credit - a heterogenous asset class:** The unsecured consumer credit market (US$160bn) is heterogenous and encompasses credit cards (US$30bn), salaried personal loans (US$105bn), and self-employed personal loans (US$23bn). Further bucketed by geography (markets), lender type, and ticket size, each cut offers a distinct view of the overall PL.
- **So, where's the froth?** Basis our discussions with lenders and experts, we identify "small-ticket personal loans" (STPL) category (<INR100k ticket size) as the most vulnerable at this stage - we further quarantine the "micro-ticket personal loans" (MTPL) bucket (<INR20k ticket size) for a high incidence of blind spots, major share of disbursements (~85% of originations) and elevated early-stage delinquencies. Our discussions also suggest that over 75% of this exposure resides on NBFC and NBFC-FinTech balance sheets. Banks have an indirect exposure to this segment by virtue of their on-lending exposure to NBFCs and a 10-15% customer overlap.
- **Credit cards - positive rub-off effect:** Despite healthy growth in issuances (5yr CAGR at 18%) and spends (5yr CAGR at 26%), credit card receivables have witnessed slower traction in revolve balances, largely attributable to the proliferation of substitutes (PL). As long-tail PL volumes begin to unwind, we expect a positive rub-off effect on overall receivables although the revolve mix is likely to settle at a lower new normal compared to pre-pandemic levels.
- **FinTech repository - an impending systemic need:** The larger issue with the STPL and MTPL categories is the fact that 60-80% of such credit lines are a blind spot to the entire ecosystem. We argue that the RBI's proposal to set up a FinTech repository is essential to mitigate the systemic "blind spots".
- **Investment implications:** While the demand for unsecured credit has been strong during H1FY24, incremental growth is likely to come under pressure, especially as lenders begin transmitting the higher risk premium into their pricing of personal loans. Further, given the RBI's hawk-eye focus on this segment, we believe that the growth in consumer loans will need to materially decelerate. As tail-end volumes dissipate, we expect the unit economics of fringe players to be severely tested. Our top picks are ICICIBC (TP: INR1,200) and SBIN (TP: INR780) among large banks; and BAF (TP: INR8650) and SBICARD (TP: INR955) among NBFCs.

Banks

Company	CMP (INR)	Reco.	Old TP (INR)	New TP (INR)
AUBANK	801	REDUCE	550	570
AXSB	1,137	BUY	1,150	1,150
BANDHAN	252	ADD	255	270
CUBK	153	BUY	165	170
DCBB	158	ADD	140	160
FB	155	BUY	190	190
ICICIBC	994	BUY	1,190	1,200
IIB	1,643	REDUCE	1,280	1,290
KMB	1,848	ADD	2,180	2,160
KVB	167	ADD	150	175
SBIN	642	BUY	790	780
UJJIVAN	58	BUY	75	70

NBFCs/HFCs

Company	CMP (INR)	Reco.	Old TP (INR)	New TP (INR)
BAF	7,710	BUY	8,650	8,650
SBICARD	772	BUY	965	955
ABCAP	175	ADD	205	190
CIFC	1,257	ADD	1,280	1,280
MMFS	277	ADD	295	295
SHTF	2,172	ADD	2,005	2,005
SUF	3,622	BUY	3,500	3,500
CREDAG	1,729	BUY	1,650	1,650
AAVAS	1,566	ADD	1,830	1,830
APTUS	330	REDUCE	240	240
CANF	780	BUY	908	908
HOMEFIRS	945	ADD	960	960
LICHF	575	REDUCE	435	435
PNBHOUSI	800	ADD	765	765
REPCO	414	ADD	480	480

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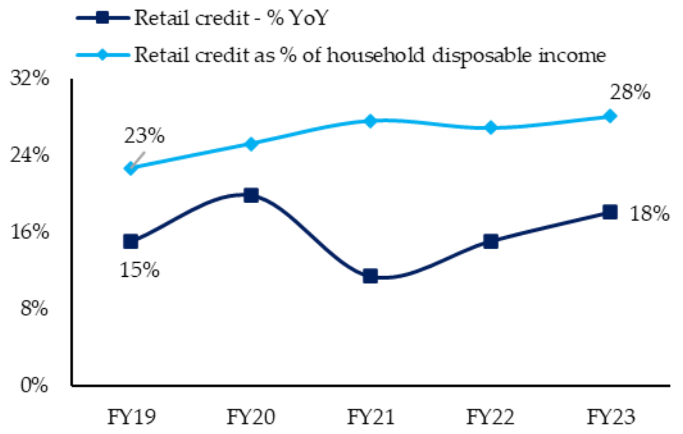
Unsecured credit - sizing up a heterogenous market

The unsecured consumer credit market (US$160bn; 3yr CAGR 23%) is heterogenous and encompasses credit cards (US$30bn), salaried personal loans (US$105bn; ~80% share with banks), and self-employed personal loans (US$23bn; ~50% with banks). Further bucketed by geography (markets), lender type, and ticket size, each cut offers a distinct view of the overall PL landscape. Consumer credit now contributes ~24% of the aggregate retail loans (INR53trn; 30% of total credit).

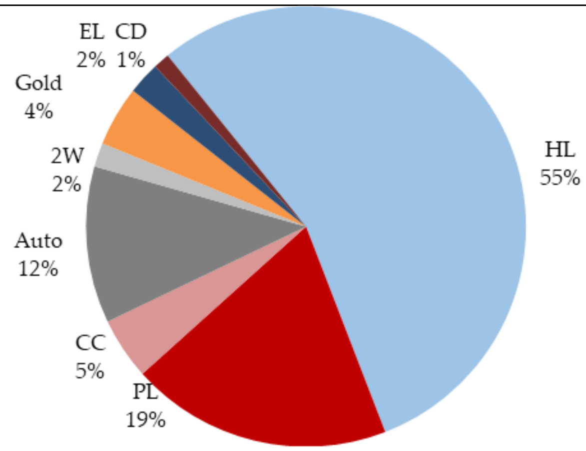
As of Mar-23, the retail credit market (banks + non-banks) was sized at INR53trn, with home loans and personal loans as the two largest sub-segments.

Exhibit 1: Growing retail credit



Source: RBI, MOSPI, CMIE, HSIE Research

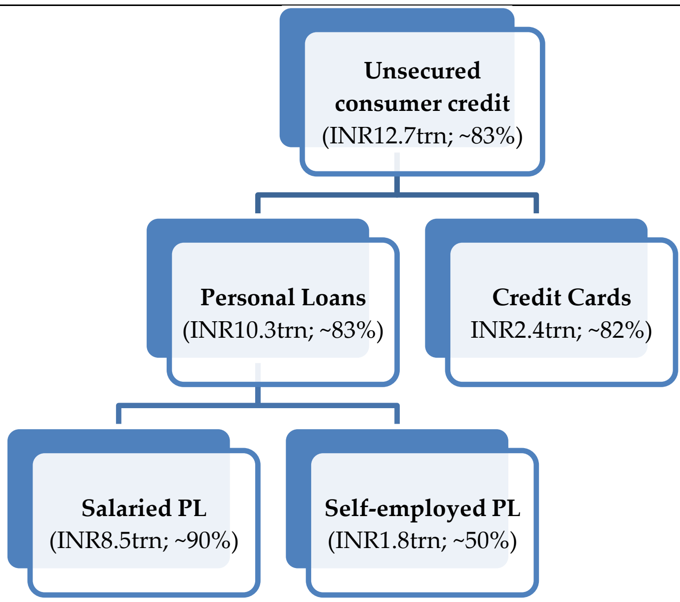
Exhibit 2: India's retail credit market at ~INR 53trn (Mar-23)



Source: CRIF Highmark, Transunion CIBIL, HSIE Research

The Indian unsecured credit market encompasses credit cards, salaried personal loans, and self-employed personal loans.

Exhibit 3: Sizing the unsecured consumer credit market in India (Mar-23)



Source: CRIF Highmark, Transunion CIBIL, Industry, HSIE Research | Note: The numbers in parantheses indicate the loans outstanding and the share of banks in loans outstanding as on Mar-23

Making sense of the RBI's cautious commentary

In mid-November, the RBI announced a clampdown on a few segments of consumer credit ("qualifying loans"), especially unsecured lending by banks and NBFCs. Our discussions with bankers and experts suggest that the RBI's note of caution is targeted at the small-ticket personal loans (STPL) category (ticket size <INR100k), which accounts for a high incidence of systemic blind spots, dominant proportion of incremental originations (~90% of FY23 disbursements by volume and ~15% by value) and elevated early-stage delinquencies, especially across static pools.

The RBI introduced a series of measures to clamp down on select segments of consumer credit ("qualifying loans"), especially unsecured lending by Banks and NBFCs. These measures included a) imposition of higher risk weights for "qualifying loans" of commercial banks and NBFCs by 25 percentage points each b) an identical hike in risk weights for on-lending by banks to NBFCs, and c) tighter credit standards in the form of Board-approved limits for each sub-segment of consumer loans.

Exhibit 4: Increase in risk weights for various asset classes

Risk weights	Earlier	Now
Banks		
Consumer credit	100%	125%
Credit cards	125%	150%
Top-up loans on cars	100%	125%
Banks' exposure to NBFCs	20% - 100%	25pp higher if risk weights < 100%
NBFCs		
Consumer credit	100%	125%
Credit cards	100%	125%

Source: RBI, HSIE Research I Note: Consumer credit excludes Housing loans, Auto loans, loans against gold and education loans

Exhibit 5: Changes in FY24E, FY25E and FY26E forecasts

Banks	FY24E			FY25E			FY26E		
	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)
Banks									
AUBANK	-1.5	-3.2	-3.4	-3.0	-5.7	-6.4	-3.5	-6.3	-7.1
AXSB	-1.1	-4.0	-4.2	-2.9	-6.1	-6.8	-2.4	-5.5	-6.2
BANDHAN	-1.7	-2.3	-3.5	-3.4	-4.3	-6.5	-4.6	-5.9	-8.3
CUBK	-2.7	-2.9	-2.7	-6.7	-7.3	-8.4	-8.0	-5.7	-5.4
DCBB	1.6	3.4	4.5	0.4	0.8	1.2	-3.4	-5.7	-7.6
FB	-3.4	-5.0	-2.7	-3.0	-4.5	-2.3	-2.4	-3.4	-0.2
ICICIBC	-1.7	-2.1	-2.2	-3.2	-4.1	-4.3	-3.4	-4.3	-4.5
IIB	-1.2	-1.5	-1.9	-1.1	-1.3	-1.7	-1.6	-1.9	-2.3
KMB	0.7	0.8	3.9	-1.3	-3.4	2.0	-4.1	-8.1	-4.3
KVB	-0.2	-0.3	-0.3	-0.8	-1.1	-1.5	-1.8	-2.4	-3.0
SBIN	-2.4	-6.9	-2.5	-2.6	-7.6	-6.2	-2.5	-7.9	-6.8
UJJIVAN	-1.1	-4.9	-7.9	-2.8	-5.0	-6.2	-4.1	-6.9	-8.0
Aggregate	**-1.7**	**-4.1**	**-2.2**	**-2.6**	**-5.6**	**-4.7**	**-2.9**	**-6.1**	**-5.5**

Source: HSIE Research

Exhibit 6: Banks coverage universe: Valuation summary

INR	CMP	Avg RoE (FY23-FY26E)	Avg RoA (FY23-FY26E)	EPS CAGR FY23-FY26E	Implied P/BV (x)	TP
AUBANK	801	14.6%	1.6%	18.5%	2.5	570
AXSB#	1,137	14.8%	1.5%	48.8%	1.9	1,150
BANDHAN	252	14.3%	1.7%	25.9%	1.7	270
CUBK	153	12.4%	1.5%	6.8%	1.4	170
DCBB	158	11.1%	1.0%	13.5%	0.9	160
FB	155	14.5%	1.3%	19.0%	1.4	190
ICICIBC#	994	16.9%	2.1%	13.7%	2.8	1,200
IIB	1,643	14.8%	1.8%	15.6%	1.3	1,290
KMB#	1,848	14.1%	2.4%	14.2%	2.7	2,160
KVB	167	15.1%	1.4%	18.3%	1.3	175
SBIN#	642	15.2%	0.9%	7.6%	1.3	780
UJJIVAN	58	26.8%	3.3%	16.1%	1.9	70

Source: Company, HSIE Research | Note: # Valuation multiple adjusted for subsidiaries

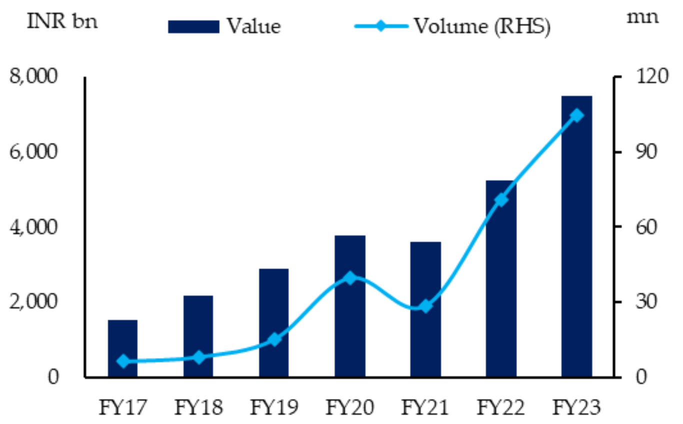
Exhibit 7: NBFCs/HFCs coverage universe: Valuation summary

INR	CMP	Avg RoE (FY23-FY26E)	Avg RoA (FY23-FY26E)	EPS CAGR FY23-FY26E	Implied P/BV (x)	TP
BAF	7,710	22.1%	4.6%	24.2%	5.4	8,650
SBICARD	772	24.7%	5.2%	22.3%	5.6	955
CIFC	1,257	20.3%	2.7%	28.7%	4.6	1,280
MMFS	277	13.7%	2.2%	20.2%	1.8	295
SHTF	2,172	14.6%	3.0%	14.0%	1.5	2,005
SUF	3,622	15.8%	2.9%	17.7%	3.6	3,500
CREDAG	1,729	21.9%	5.0%	36.5%	3.0	1,650
AAVAS	1,566	14.8%	3.3%	20.6%	3.2	1,830
APTUS	330	17.5%	7.1%	20.8%	2.6	240
CANF	780	17.8%	2.0%	16.1%	2.2	908
HOMEFIRST	945	15.3%	3.6%	24.8%	3.4	960
LICHF	575	13.2%	1.3%	18.3%	0.8	435
PNBHOUSING	800	10.5%	1.8%	22.0%	1.2	765
REPCO	414	12.9%	2.6%	13.0%	1.0	480

Source: Company, HSIE Research

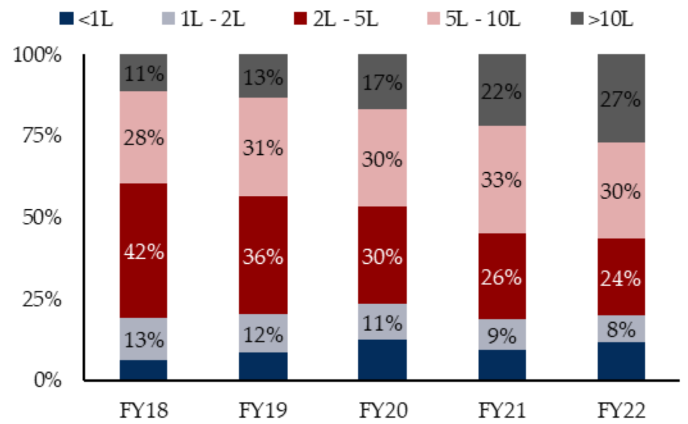
These measures were announced against the backdrop of the RBI flagging caution on the unbridled growth in select pockets of consumer lending and the gradual build-up of risks, especially in select segments of unsecured credit (by demographic, vintage, and ticket size).

Exhibit 8: Unbridled growth in PL disbursements



Source: CRIF Highmark, Transunion CIBIL, Experian, HSIE Research

Exhibit 9: PL disbursals (by value) by ticket size



Source: CRIF Highmark, HSIE Research

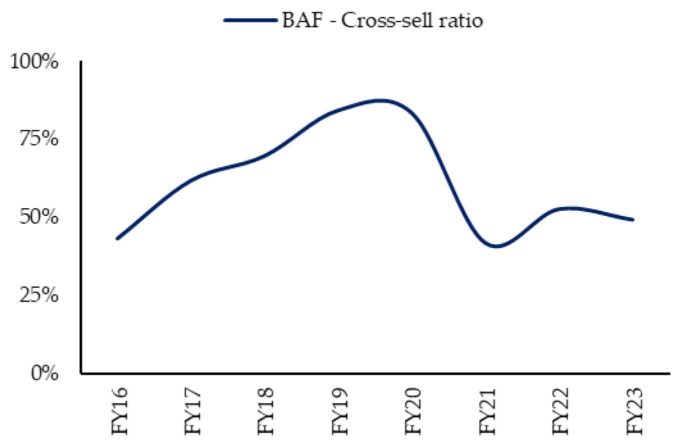
Our analysis suggests that banks and large NBFCs have already achieved meaningful PL penetration (>40%) within their existing salaried customer base as in the case of SBI (just the FY23 disbursements imply a ~40% PL penetration within SBI's eligible salaried and pension customer base) and BAF (cross-sell ratio plateauing at ~40%).

Exhibit 10: SBI - Personal loans (Xpress Credit + PL to pensioners) penetration at ~39%

	Units	FY23
No. of Salaried accounts	mn	18.1
No. of pension accounts	mn	4.3
Total no. of eligible accounts	mn	22.4
No. of PL disbursed	mn	8.7
Penetration %		**39%**

Source: Company, HSIE Research

Exhibit 11: Bajaj Finance - Cross-sell ratio has come off from peak



Source: Company, HSIE Research | Cross-sell ratio = (No. of loans disbursed - no. of new customers acquired)/Average cross-sell franchise

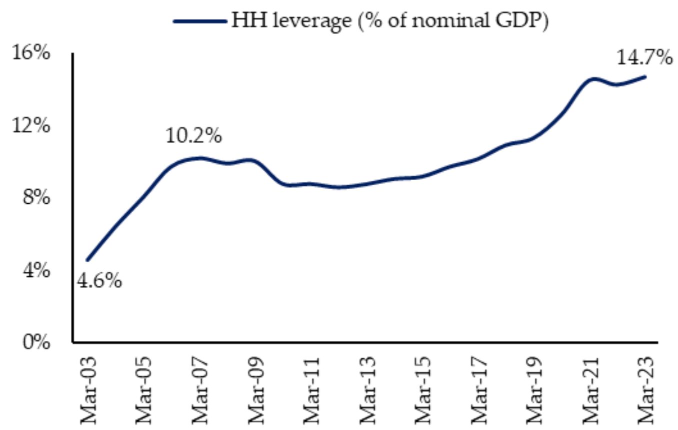
Such higher cross-sell is largely reflecting in a rise in consumer leverage. This build-up in household and individual leverage is now evident in a host of metrics, normalised for nominal GDP trends as well as in the ratio of retail credit (individual borrowings) to retail deposits (individual savings) for the banking system.

Exhibit 12: Retail credit to individual deposits - Banks

	FY19	FY20	FY21	FY22	FY23
RURAL	15%	14%	15%	18%	20%
SEMI-URBAN	27%	27%	28%	32%	35%
URBAN	31%	31%	32%	40%	43%
METROPOLITAN	37%	43%	41%	42%	48%
ALL-INDIA	**30%**	**32%**	**32%**	**36%**	**40%**

Source: RBI, HSIE Research

Exhibit 13: Rising HH leverage (% of nominal GDP)



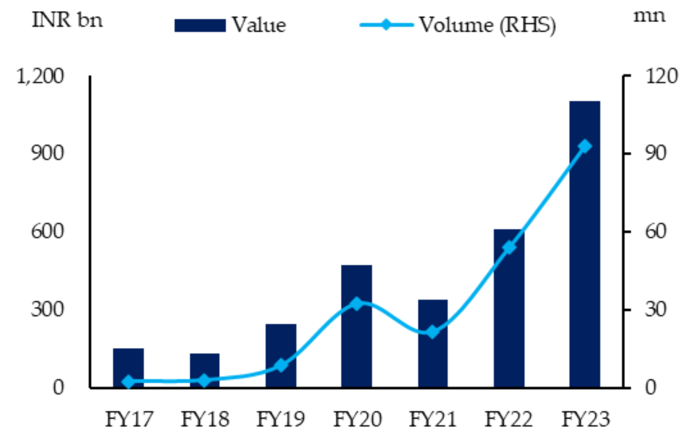
Source: CEIC, HSIE Research

Given that the unsecured credit market is heterogeneous, we believe it is important to distinguish the specific areas that are underpinning the RBI's note of caution. Basis our analysis and ecosystem discussions, we identify the "small-ticket personal loans" (STPL) category (ticket size <INR100k) as the one drawing maximum regulatory attention - we further quarantine the "micro-ticket personal loans" (MTPL) category within STPL (ticket size <INR20k), which accounts for elevated volume growth, high incidence of blind spots, and elevated static-pool early-stage delinquencies.

- **Rising share of STPL:** Small-ticket personal loans (STPL) - loans with ticket-size sub-INR100k - have emerged as the fastest-growing segment within the PL portfolio, contributing to ~90% of FY23 originations by volume and 15% by value. Most of these loans are originated/disbursed by FinTechs, either in the form of BNPL or short-tenor personal loans. Our discussions with bureaus and bankers suggest that the STPL contribution is understated as most of these disbursements, particularly those offered by NBFC-FinTechs, are not even reported during the interest-free period unless they are outstanding at the end of a reporting month.

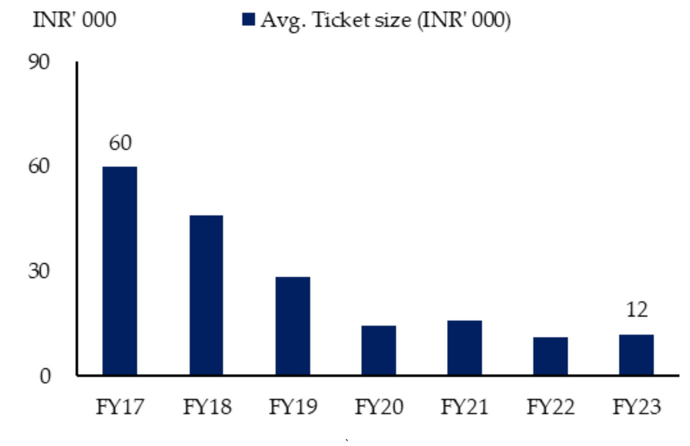
  For instance, if a borrower avails a short-tenor loan from an NBFC FinTech on the 03rd of a month to be contractually repaid in 2 or 3 instalments over 15 days, the facility often goes unreported to the bureaus if the loan is repaid before the end of the month.

Exhibit 14: Steep rise in STPL disbursements (<INR100k)



Source: CRIF Highmark, Experian, HSIE Research

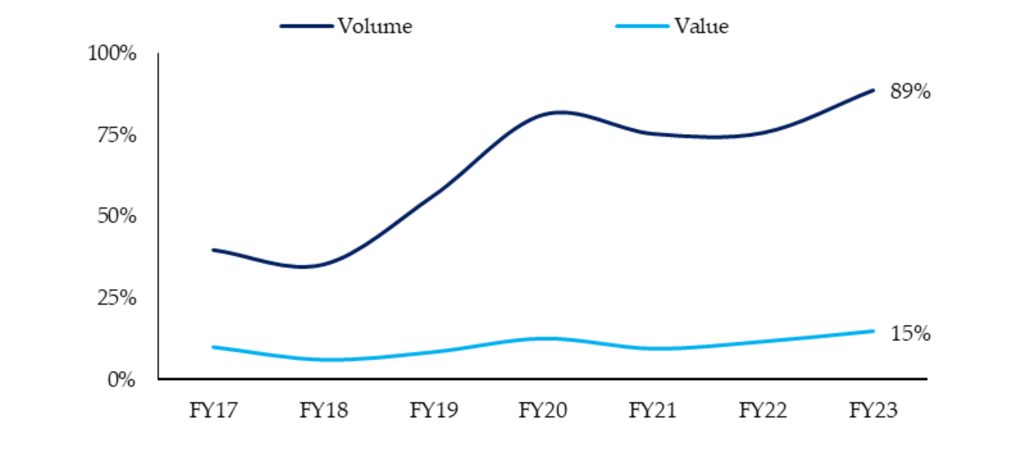
Exhibit 15: STPL - average ticket size trending progressively lower



Source: CRIF Highmark, Experian, HSIE Research

As we highlighted in our Jan-22 publication **FinTech Playbook: BNPL**, many of these FinTechs (pure digital lending apps) who also lend on their own balance sheet and are not registered as NBFCs, are not covered under the CIC Act (Credit Information Companies Act) and hence, did not even report loan defaults to the bureaus. While the RBI's digital lending guidelines have streamlined a few issues across the ecosystem, the data-dark approach masks the build-up of system-wide risks.

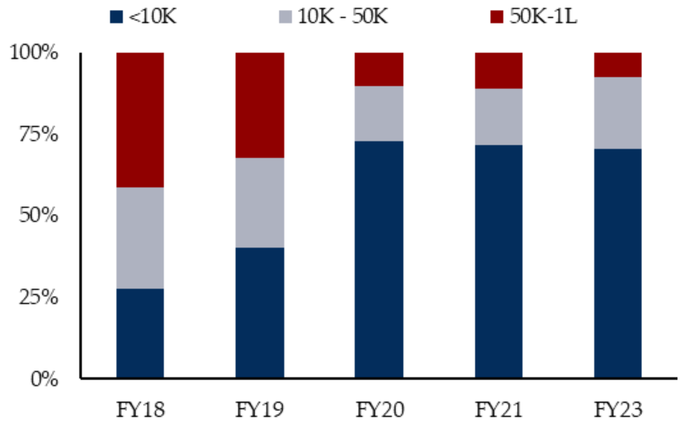
Exhibit 16: STPL (<INR100k) mix within overall PL portfolio - High on volume contribution, low on value



Source: CRIF Highmark, Experian, HSIE Research

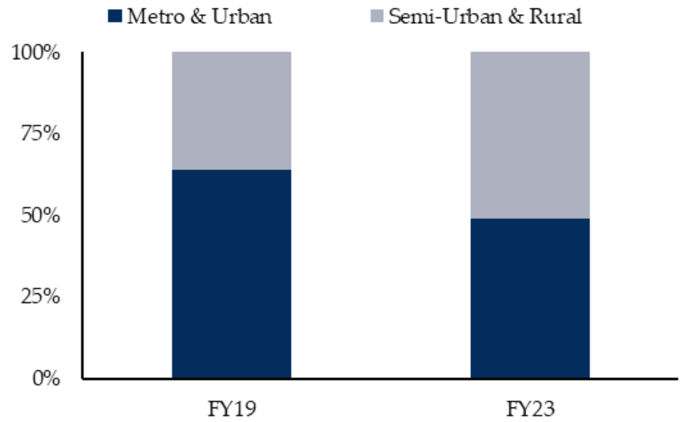
- **Dominated by small NBFCs, smaller ticket sizes, and deeper geographies:** NBFCs, especially NBFC-FinTechs and smaller NBFCs, continue to have a dominant market share in the STPL segment originations.

Exhibit 17: Ticket-size break-up of STPL portfolio (by volume)



Source: CRIF Highmark, Reuters, HSIE Research

Exhibit 18: NBFC-FinTechs moving towards semi-urban/rural geographies (% of consumers)



Source: Transunion CIBIL, HSIE Research

We observe similar trends in NBFCs across our coverage universe that have delivered accelerated growth in their unsecured portfolios over the past couple of years, reflected in a rising mix of unsecured loans within their overall portfolios. For instance, the share of unsecured loans in the NBFC sector has risen to 32% in Sep-23 (up over 700bps from Mar-20 levels), exhibiting a 21% CAGR during the interim. We also see these trends reflecting in the rising mix of unsecured loans reported by NBFCs within our coverage universe such as Aditya Birla Finance, CIFC and Shriram Finance.

Exhibit 19: Unsecured loans as % of AUM

	Consumer credit as % of AUM		Unsecured as % of gross advances	Personal loans as % of total exposure
	Sep-23	**Sep-21**	**Mar-23**	**Mar-23**
BAF (C)	40%	40%	42%	52%
SBICARD	100%	100%	99%	100%
ABFL	21%	7%	36%	31%
CIFC	6%	0%	7%	2%
SHTF	4%	0%	6%	4%
MMFS	3%	1%	6%	2%

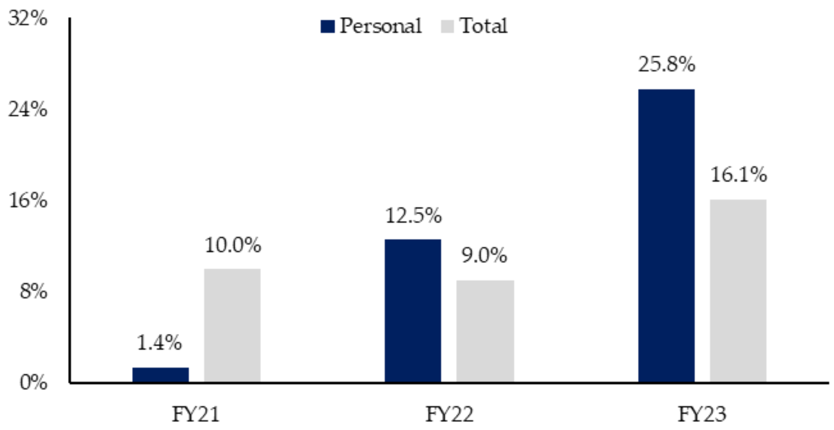
Source: Company, HSIE Research | *Note: Unsecured loans: BAF: Includes B2B (ex Auto), B2C, rural and securities lending; ABFL: Personal & Consumer loans; CIFC: CSEL; SHTF: Personal loans; MMFS: Part of the Others segment*

Exhibit 20: Unsecured loans growing faster than aggregate loans (2-yr CAGR - FY21-23)

2-yr CAGR (FY21-23)	Consumer credit	AUM
BAF (C)	32.0%	31.9%
SBICARD	29.8%	29.8%
ABFL	140.0%	40.0%
CIFC	NA	33.2%
SHTF*	NA	15.8%
MMFS	NA	21.4%

Source: Company, HSIE Research | *Note: CIFC, SHTF and MMFS have started unsecured PL in the last 2 years and hence 2 years CAGR not available | * CAGR from Q3FY22 to Q2FY23*

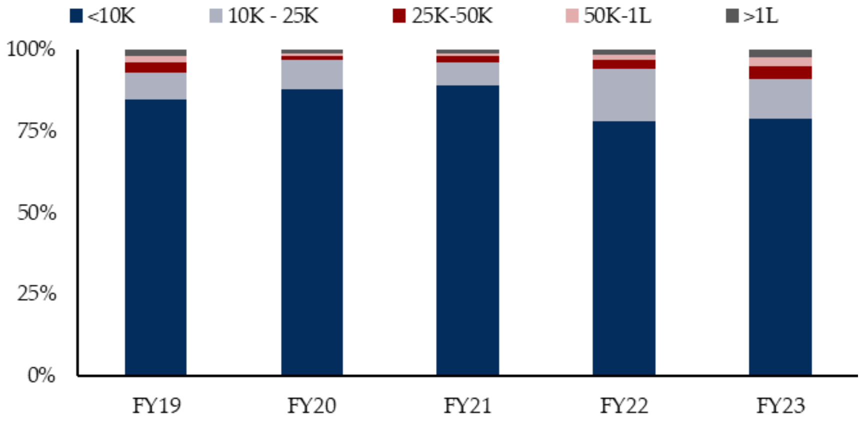
Exhibit 21: NBFC's retail loan growth has been significantly higher than overall loan growth



Source: RBI, HSIE Research

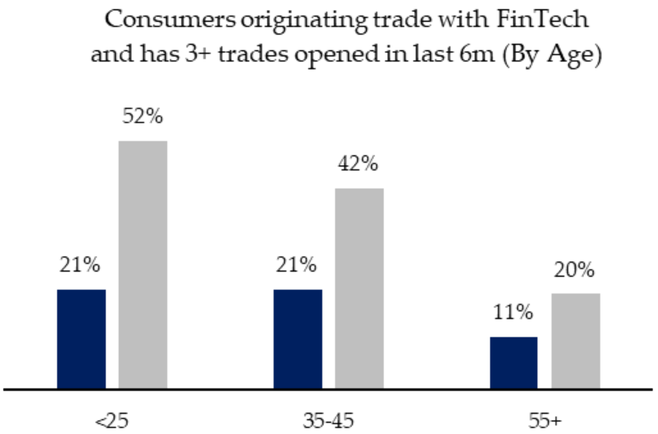
However, our discussion with bureaus and DSAs suggests that a lion's share of the small-ticket personal loans is originated by smaller NBFCs, although some residual exposure could finally reside on the balance sheets of larger NBFCs and banks that have sourcing arrangements with such smaller NBFCs and NBFC-FinTechs.

Exhibit 22: NBFC-FinTechs focused on small-ticket PL (% of origination volumes)



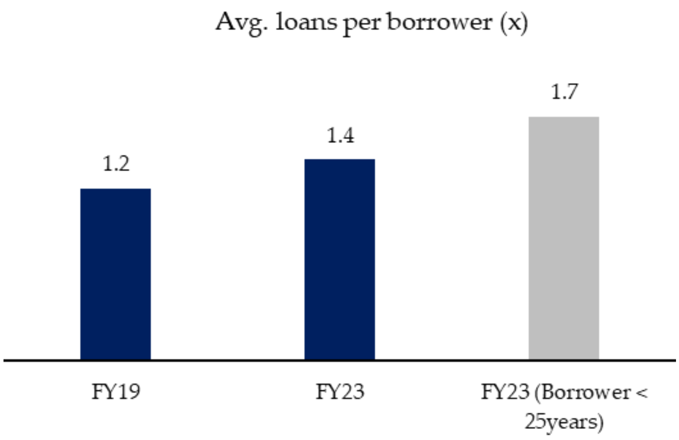
Source: Transunion CIBIL, HSIE Research

Exhibit 23: High borrowing frequency from NBFC-FinTechs (% of consumers)



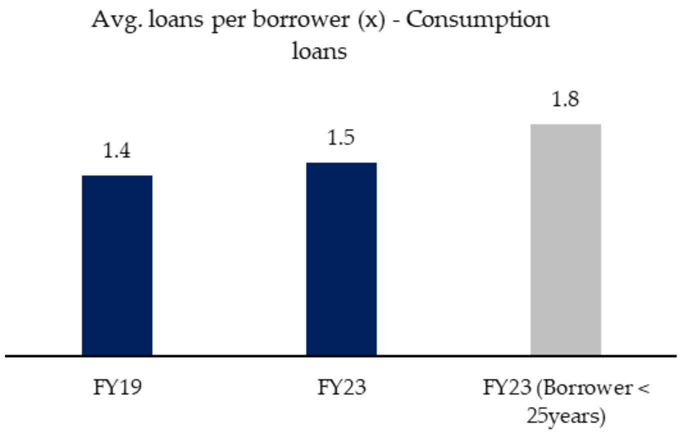
Source: TransUnion CIBIL, HSIE Research

Exhibit 24: Number of loans per borrower (NBFC-FinTechs)



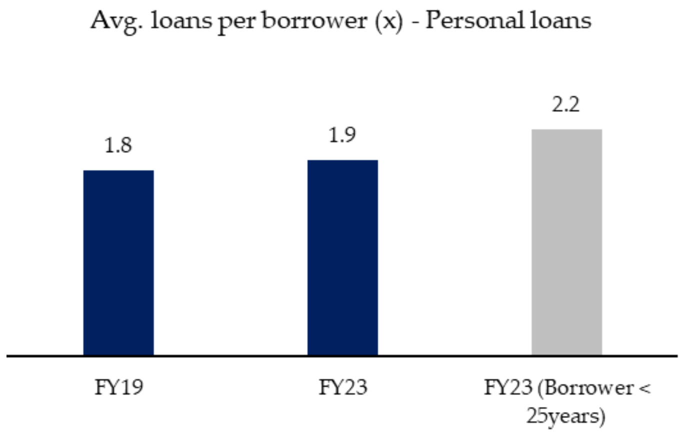
Source: TransUnion CIBIL, HSIE Research

Exhibit 25: Number of consumption loans per borrower from NBFC-FinTechs



Source: TransUnion CIBIL, HSIE Research

Exhibit 26: Number of personal loans per borrower from NBFC-FinTechs



Source: TransUnion CIBIL, HSIE Research

The arrangements with FinTechs usually assume the shape of either an origination model (loan service provider) or the captive NBFC model in terms of own exposure, securitisation, assignment, or co-lending. Our analysis of system-wide public disclosures suggests that banks' exposure to FinTechs' captive NBFC is limited from a direct lending perspective, with very few banks stitching up partnerships with these FinTechs for small-ticket personal loans.

Exhibit 27: Partnership structures between FinTechs and Regulated Entities (REs)

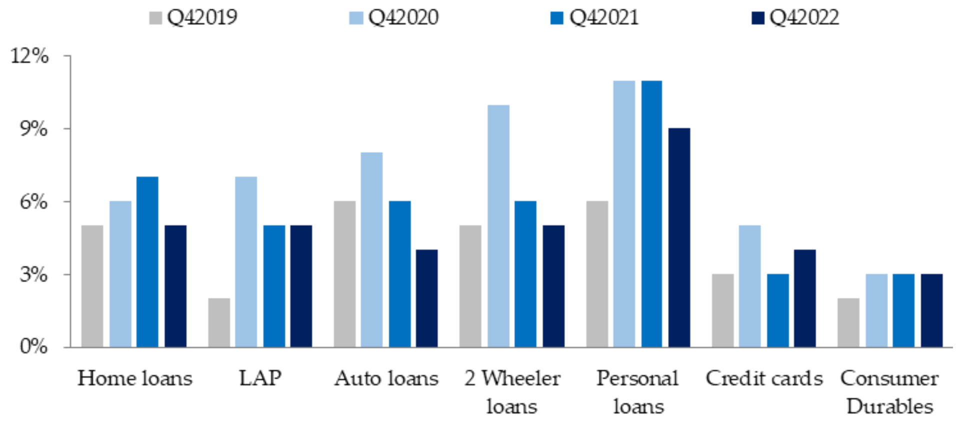
Partnership themes	Proposition	Examples
Serve as a channel to increase customer acquisition	# FinTech act as a marketplace and refer the customers basis the requirements specified by the institutions # Apart from referrals, FinTech and Bank also work on co-lending models	Indian Bank <> Rupeek Bajaj Allianz <> Acko Aditya Birla Capital <> Moneyview
Leverage technology to streamline processes	# Plug-in FinTech APIs/services in overall journey to enable digitization and increase efficiency/speed # Common use cases can be customer onboarding, managing collection/payments, and enhancing the platform services	IDBI Bank <> Vayana Network Mahindra Finance <> Karza Universal Sompo General Insurance <> Zopper
Capitalise on float by serving as a banker to the FinTech and build Brand (only Banks)	# Due to regulatory constraints or backing on Bank's reliability, FinTech deposits funds given by customers to their bank account # FinTech managers customers and their product interaction	Axis Bank <> OPEN Federal Bank <> Jupiter RBL Bank <> RazorPay
Co-creation of product offerings	# Create flagship product dedicated to the customers of the platform and building products/offerings in collaboration with each other # Many global partnerships are to allow FinTech players to enter and operate in new countries	Max Life <> Policybazaar TATA AIA Life <> Toffee ICICI Lombard <> Airtel Payments Bank

Source: Praxis GA, HSIE Research

- **Early delinquencies on the rise**: Our analysis of the large NBFC-FinTechs indicates that their credit costs have largely normalised in FY23. However, our discussions with bureaus suggest a steep rise in system-wide early delinquencies during YTD FY24, especially on static pools, after having bottomed out in FY23.

  Given that a period of high growth in originations usually masks portfolio-level delinquencies, we argue that investors need to explicitly look for disclosures around static pool performance to understand the health of any portfolio. Our discussion with bureaus and experts suggests that lenders are also witnessing steady deterioration in their respective chronic default portfolios ("ever 30dpd+") across product segments.

Exhibit 28: Vintage delinquency by accounts (% of accounts ever 30+ in 6 months)



Source: TransUnion CIBIL, HSIE Research

More importantly, our analysis of the comparative 12-month risk category migration between Sep-20 and Mar-23 suggests an increase in risk profiling, with downgrades (from superior risk profiles) outnumbering upgrades (from inferior risk profiles). For instance, the downgrades from the two most superior risk grades (Prime Plus and Super Prime) are significantly higher in Mar-23 compared to the corresponding trends in Sep-20.

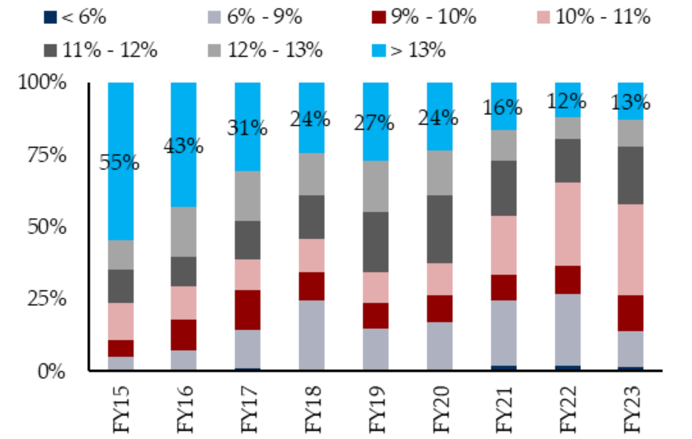
Exhibit 29: Risk category - Transition Matrix

	Risk Categories	Subprime	Near Prime	Prime	Prime Plus	Super Prime	Downgrade	Upgrade
		Risk Tier as of Sep-20						
Risk Tier as of Sep-19	Subprime	61.1	25.9	10.9	1.7	0.4	0.0	38.9
	Near Prime	19.3	33.9	36.2	8.9	1.7	19.3	46.8
	Prime	8.0	17.5	47.9	22.5	4.0	25.6	26.5
	Prime Plus	3.8	9.9	29.5	46.4	10.4	43.2	10.4
	Super Prime	2.3	7.3	17.7	21.2	51.5	48.5	0.0
		Risk Tier as of Mar-23						
Risk Tier as of Mar-22	Subprime	71.0	18.3	8.4	2.0	0.2	0.0	29.0
	Near Prime	21.6	32.1	35.4	10.2	0.7	21.6	46.3
	Prime	8.8	16.8	47.7	24.9	1.8	25.6	26.7
	Prime plus	4.0	9.5	28.9	52.1	5.4	42.5	5.4
	Super prime	2.3	7.9	22.8	27.6	39.4	60.6	0.0

Source: RBI, HSIE Research

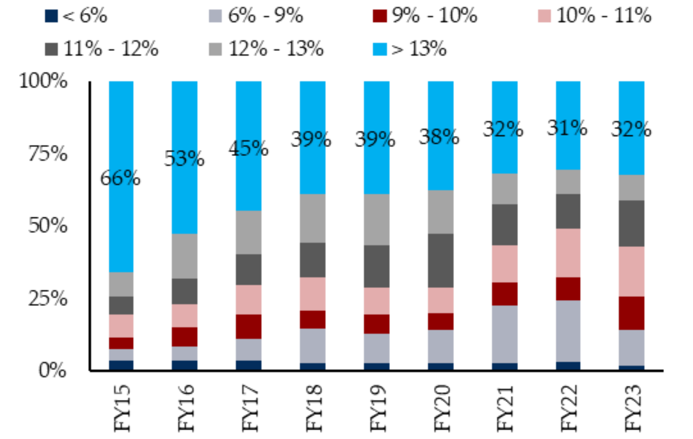
- **Banks' portfolios relatively pristine; carry indirect risk**: Our analysis of system-wide disclosures indicates that banks' PL portfolio is relatively safer, both in terms of pricing and ticket sizes. The share of higher-yielding PLs (portfolio of personal loans yielding >13%) has steadily declined in volume and value terms over the past few years. Higher-yielding PLs have consistently been accounting for one-third of the mix (in volume terms) but only 13% (in value terms), suggesting extremely low-ticket size for a lion's share of such originations.

Exhibit 30: Banks' other personal loans by interest rate (by value)



Source: RBI, HSIE Research

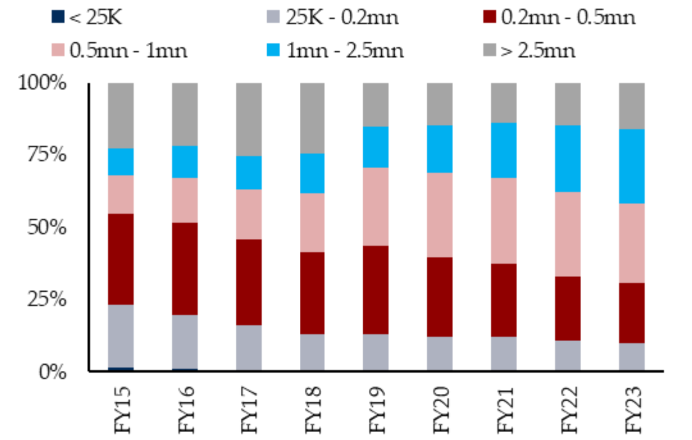
Exhibit 31: Banks' other personal loans by interest rate (by volume)



Source: RBI, HSIE Research

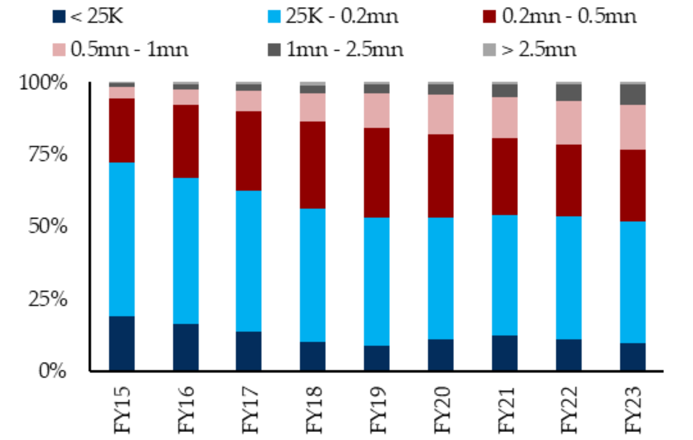
Banks also typically cater to higher ticket-sized personal loans - for instance, loans with an average credit limit of sub-INR200k account for <15% of the overall portfolio mix for banks (by value).

Exhibit 32: Banks' other personal loans by credit limit (by value)



Source: RBI, HSIE Research

Exhibit 33: Banks' other personal loans by credit limit (by volume)



Source: RBI, HSIE Research

The relatively superior asset quality of banks' asset quality in the unsecured portfolio is also evident in the SMA share (share of special mention accounts) of banks' retail advances as of Mar-23, which indicates high early delinquencies (1-30 days past due) on the unsecured portfolio but gradually converging with the performance of secured loans as they get closer to the 90-day threshold. Surprisingly though, across multiple cohorts (lender type and ageing), the unsecured portfolio is superior compared to the secured loan book.

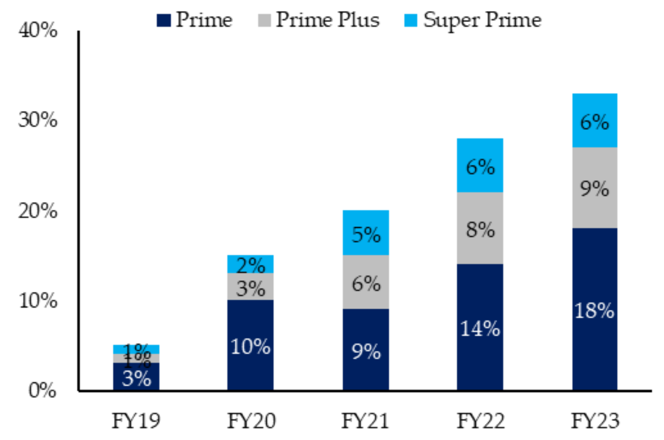
Exhibit 34: SMA share of retail advances - Mar-23

		SMA-0	SMA-1	SMA-2	Total
PSBs (11)	Unsecured retail advances	6.8	2.4	0.7	**9.9**
	Secured retail advances	5.4	2.8	1.0	**9.2**
	Retail advances	**5.7**	**2.7**	**0.9**	**9.3**
PVBs (20)	Unsecured retail advances	2.9	0.8	0.3	**4.0**
	Secured retail advances	3.9	1.1	0.4	**5.4**
	Retail advances	**3.6**	**1.0**	**0.4**	**5.0**
FBs (8)	Unsecured retail advances	1.9	1.5	0.6	**4.0**
	Secured retail advances	1.0	0.5	0.1	**1.6**
	Retail advances	**1.4**	**0.9**	**0.3**	**2.6**
SCBs (39)	Unsecured retail advances	4.6	1.7	0.6	**6.9**
	Secured retail advances	4.7	2.0	0.7	**7.4**
	Retail advances	**4.7**	**1.9**	**0.7**	**7.3**

Source: RBI, HSIE Research | Note: PSBs (Public Sector Banks); PVBs (Private Sector Banks); FBs (Foreign Banks); SCBs (Scheduled Commercial Banks); Number in parenthesis indicate no. of banks in the category

However, with the plateauing potential for cross-sell on their organic customer base, banks are beginning to carry indirect risk, in terms of customer overlap with NBFCs and NBFC-FinTechs as well as through exposure to such NBFCs and NBFC-FinTechs either through direct lending on their balance sheet or through other arrangements (co-lending and assignment).

Exhibit 35: FinTech borrowers not mutually exclusive - rising share of prime consumers choosing FinTechs



Source: TransUnion CIBIL, HSIE Research | Note: CreditVision score ranges: Prime - 731-770; Prime - 771-790; Super Prime - 791-900

Exhibit 36: NBFCs' source of funds - increasing dependence on banks

Source of funds (% of Total)	Mar-20	Mar-21	Mar-22	Mar-23
Net worth	24.2	26.5	29.1	28.5
Total Borrowings	66.4	63.3	60.9	62.3
Total from Banks	23.2	23.3	23.6	25.2
Borrowings from banks	*20.3*	*19.9*	*20.4*	*22*
CPs subscribed by banks	*0.5*	*0.4*	*0.4*	*0.3*
Debentures subscribed by banks	*2.5*	*3*	*2.8*	*2.8*
Others	9.4	10.2	10	9.2
Total	**100**	**100**	**100**	**100**

Source: RBI, HSIE Research

As highlighted earlier, with organic cross-sell ratios approaching 40% in many cases, banks and large NBFCs are running out of growth runway on their PL portfolios and hence exploring partnerships with smaller NBFCs and NBFC-FinTechs for inorganic customer acquisition. Our discussion with experts suggests that there exists a 10-15% potential customer overlap between banks (prime customers) and NBFC-FinTechs and this proportion has been rising with every passing year.

Addressing the systemic blind spots

While the RBI's recent measures on risk weights and narrative around algo-based lending appear to be proactive, we believe that the proliferation of digital lending apps has created multiple blind spots, including for the regulator, which exposes the ecosystem to varying degrees of systemic risk. These "blind spots" are largely centred around small-ticket personal loans (STPL) and micro-ticket personal loans (MTPL), the nature of arrangements between regulated entities and their digital lending partners (including NBFC-FinTechs), the non-uniform reporting lag even by regulated entities and so on. We argue that the RBI's proposal to set up a FinTech repository is essential to streamline aspects such as disclosures, reporting frequency and mitigate the systemic "blind spots".

- **Data-dark credit lines:** As highlighted earlier, the larger issue with STPL and MTPL categories is the fact that a large proportion (60-80%) of such credit lines are not booked as loans during the interest-free period, under-reporting consumer leverage across the economy. As a result, stakeholders (bureaus, other lenders, and the RBI) are data-dark to such exposure, with implications for the underlying accuracy of the build-up in household leverage.

- **Data integrity and uniformity:** Notwithstanding the financial system's massive dependence on bureau data and analytics for risk management, we believe that the underlying bureau data suffers from a data integrity issue. This stems from non-uniform reporting frequency (by regulated entities to bureaus), and lack of standardisation in reporting, which results in bureaus capturing and offering an incomplete perspective. Regulated entities (REs) currently follow varied reporting approaches with significant overlap between self-employed personal loans and business loans.

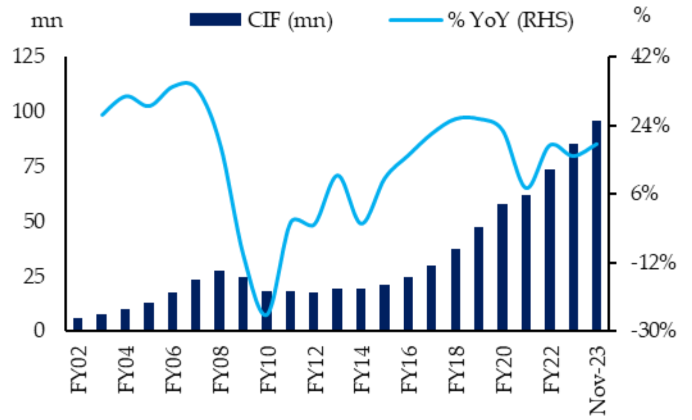
- **Clawback arrangements:** While the RBI has capped the default loss guarantee (commonly known as FLDG), our discussions with experts suggest that larger banks and NBFCs that actively work with LSPs or NBFC-FinTechs have recourse to other elements of clawback either in the shape of higher fee income sharing or loan pool substitution (the inferior cohort is taken off the books of the larger RE and substituted by a better-performing asset pool). Surprisingly, even the rating agencies that rate debt instruments issued by such NBFC-FinTechs, are not privy to these arrangements. We believe this "blind spot" also poses massive systemic risk because stakeholders (including rating agencies) are blindsided by the underlying nature of risks and where such risks might be residing.

Credit Cards - divergent trends

Credit cards, the other large pool of unsecured individual loans, offer dichotomous trends, with strong growth in issuances (18% CAGR during FY18-FY23) and spends (26% CAGR during the same period), but significantly slower growth in end-period receivables (21% YoY), particularly revolving balances, compared to pre-pandemic-levels. This could be attributed to several reasons such as improving awareness about revolve rates, proliferation of personal loans with low turnaround time and a higher stock of savings. As a couple of these variables (savings balances and threat of substitutes) begin to naturally unwind, we expect a positive rub-off effect on overall receivables although the revolve mix is likely to settle at a lower new normal compared to pre-pandemic levels.

- **Growing portfolio; rising penetration:** The credit cards portfolio (cards-in-force or CIF) has grown at a healthy pace over the past few years (18% CAGR during FY18-FY23), resulting in improved system-wide penetration levels. The increasing focus on credit card issuances since 2018 has translated into higher competitive intensity and strong pace of card acquisitions, aided by digitisation processes.

Exhibit 37: Rapid growth in credit card issuances



Source: RBI, HSIE Research

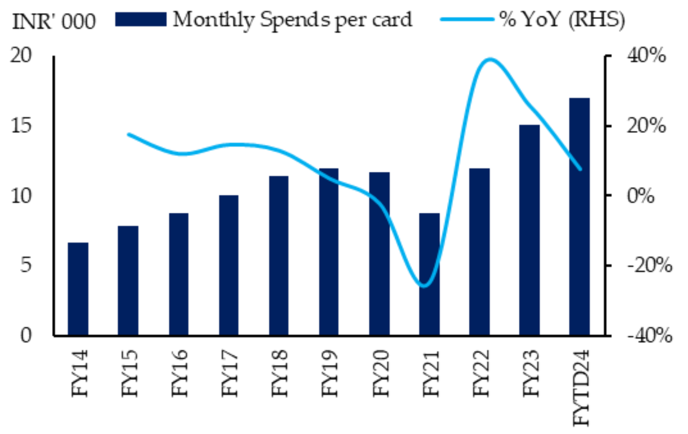
Exhibit 38: Credit cards penetration at ~19%

CIF (Nov-23)	96.0mn
Multiplier (x)	1.7
No. of borrowers	**56.5mn**
Total eligible customer base	293.4mn
Credit cards penetration %	**19.2%**

Source: RBI, NPCI, CMIE, EPFO, Industry, HSIE Research

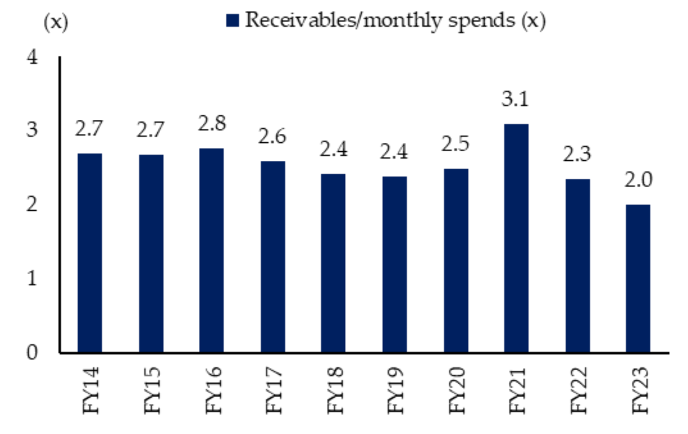
- **Shifting spends pattern; reducing balances:** Credit card unit spends have grown at ~6% CAGR during FY18-FY23 and are well above pre-pandemic levels, driven by addition of new categories, higher consumption, improving acceptance infra, and online spends. Spends are gradually shifting towards online channel with higher ticket sizes. However, the end-period balances have dipped, with reducing revolver balances.

Exhibit 39: Unit spends growing at healthy pace, well above pre-Covid levels



Source: RBI, HSIE Research | FYTD - Apr-Nov'23

Exhibit 40: Lower receivables multiplier implies rising transactor portfolio

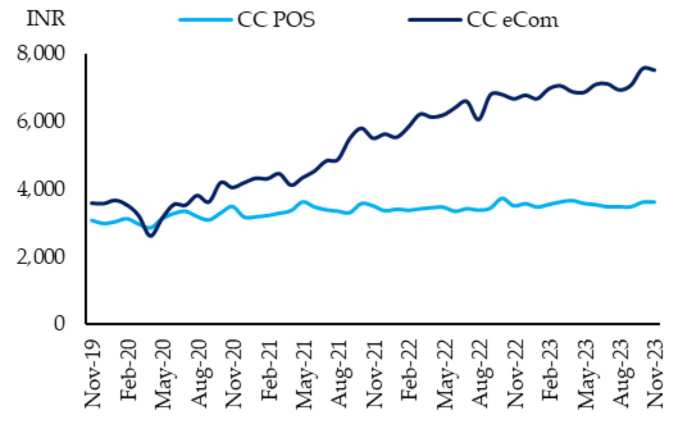


Source: RBI, Company, HSIE Research

Exhibit 41: Rising share of e-com spends on credit cards

Source: RBI, HSIE Research

Exhibit 42: Higher ticket size on e-com spends



Source: RBI, HSIE Research

As we outlined in our Mar-21 publication **FinTech Playbook: P2M Payments**, credit card ownership and spending have traversed beyond metro cities to smaller, non-urban centres as well. This is reflected in the steady decline in the share of metros in issuances (-10 percentage points) as well as overall spending in the past five years.

Exhibit 43: Card issuances shifting towards non-metros

Volume mix - CIF	FY15	FY18	FY21	FY22	FY23
Rural	2%	2%	2%	3%	2%
Semi-Urban	3%	4%	7%	8%	8%
Urban	15%	15%	14%	25%	21%
Metropolitan	80%	78%	77%	64%	68%

Source: RBI, HSIE Research | Note: Data refers only to bank-issuers

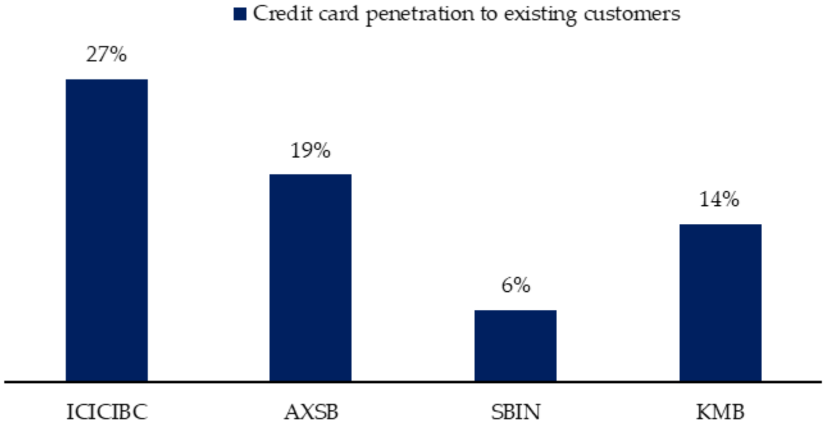
Exhibit 44: Average balances per card

Avg. balance per card (INR' 000)	FY15	FY18	FY21	FY22	FY23
Rural	11.6	18.8	30.7	33.5	32.6
Semi-Urban	21.9	28.5	34.2	32.6	30.9
Urban	23.7	29.9	38.6	28.8	32.4
Metropolitan	21.5	25.7	22.3	24.4	26.1
All India	**21.6**	**26.3**	**25.6**	**26.4**	**28.0**

Source: RBI, HSIE Research | Note: Data refers only to bank-issuers

Interestingly, the non-metro locations have consistently demonstrated higher average card balances compared to the metro centres. It is worth highlighting that higher card balances are synonymous with a lower mix of transactors and, hence, more profitable. However, even in the case of credit cards, the largest issuers, especially the private sector banks, have achieved >20% CC penetration on their existing customer base.

Exhibit 45: Credit card penetration across large issuers in liability customers



Source: RBI, Company, HSIE Research | Note: SBIN - Adjusted for Jan Dhan accounts; KMB - Assuming ~80% customers are ETB

Given the headline CC penetration across the largest franchises, we argue that issuers have to necessarily go deeper in terms of geographies and customer segments to continue scaling the credit card business. While this opens a growth runway, this also throws up concomitant challenges in terms of consumer behaviour, spending intensity, and collections infrastructure. We argue that this approach to building incremental scale in the credit cards business is now becoming earnings-dilutive for large franchises. One of the key investment implications of this trend is the fact that the overall TAM (total addressable market) may not be as large as was earlier envisaged.

Implications for NBFC-FinTechs

Our analysis of over a dozen NBFC-FinTechs suggests that ~50-80% of their AUM is off-book, with residual on their captive NBFC balance sheet. Our analysis of the full-year financial performances of the unlisted NBFC-FinTechs suggests that their profitability has been riding on the back of explosive disbursements growth during FY22-FY23, a lion's share of which was driven by less stringent gating criteria and the long tail of the credit pyramid. As tail-end volumes dissipate in the current environment, we argue that the unit economics could be severely tested.

- **Diversified approach to AUM growth:** Most NBFC-FinTechs are operating either as a BC (originator) for banks/NBFCs, or through the captive NBFC model (own book, co-lending, assignment, securitisation, etc.). Our analysis of over a dozen unlisted NBFC-FinTechs suggests that ~50-80% of their AUM is off-book, with residual on their captive NBFC balance sheet.

Exhibit 46: NBFC-FinTechs - the captive approach

FinTech app	Parent company name	Captive NBFC	Disbursals till date (INR bn)	Consol. PAT (INR mn)		
				FY21	FY22	FY23
KreditBee	Finnov	Krazybee Services	~400	-1,010	-350	910
Fibe	Social Worth Technologies	Earlysalary Services	~180	NA	40	363
Moneyview	WhizDM Innovations	Whizdm Finance	120	-468	177	
Stashfin	Morus Technologies	Akara Capital Advisors	47	-116	-140	270
Slice	Garagepreneurs Internet	Quadrillion Finance		-1,004	-2,537	-4,058
Kissht	ONEmi Technologies	Si Creva Capital Services		-585	626	591
NA	InCred	InCred Finance		22	308	1,210
Lendingkart	Lendingkart Technologies	Lendingkart Finance	160	-284	-2,034	1,200

Source: Company, Rating agencies, HSIE Research

- **Profitability from operating leverage gains likely to be tested:** Our analysis of the financial performance of the unlisted NBFC-FinTechs suggests that the profitability in most of these companies rode on the back of prolific growth in disbursements during FY22-FY23, which sustained in Q1FY24. Although incremental growth has begun waning, the yields on these portfolios are exorbitantly high at ~25-40% (APR), which incorporates high fees on short-tenor loans. Our discussion with experts suggests that a lion's share of the profits was driven by long-tail credit decisions. However, credit costs have remained elevated with cohort-level losses of ~6-8% on average. As volumes, especially at the tail-end, dissipate in the current environment, we argue that unit economics could be at significant risk for many of the NBFC-FinTechs.

Exhibit 47: Key financial metrics of FinTech NBFCs

FY23 (% of period-end assets)	KrazyBee	EarlySalary	Stashfin	Slice	DMI	Incred	Lendingkart
Yield on advances	20%	21%	21%	37%	22%	14%	23%
Cost of funds	13%	7%	8%	21%	7%	9%	14%
NIM	11%	15%	9%	23%	16%	8%	24%
Credit costs	10.3%	7.9%	5.3%	17.1%	5.6%	-0.2%	6.1%
AUM - % YoY	138%	93%	162%	-26%	25%	58%	52%
D/E	0.8	2.7	2.4	1.3	1.0	1.6	2.3
CRAR %	60%	29%	34%	53%	51%	0%	0%
Off-book AUM %	48%	40%	40%	16%	21%	8%	63%

Source: Company, HSIE Research

- **Credit costs back-stop for incumbents beyond FLDGs:** While the regulator has capped the FLDGs in the form of FDs or Bank guarantees up to 5%, our discussion with lenders, rating agencies and experts indicate the arrangements between Banks/NBFCs and FinTechs cover losses beyond the 5% cap. This could be either in the form of higher share of fee/interest income on incremental disbursements, service deficiency charges etc. While these arrangements seem to limit downside risk for the incumbents, there is still significant amount of counterparty risk, with FLDG in the form of FD as the only saviour in the worst-case scenario.

Exhibit 48: Captive NBFCs of leading lending FinTechs turning profitable

FY23 (% of period-end assets)	KrazyBee	EarlySalary	Stashfin	Slice	DMI	Incred	Lendingkart
Interest Income	16%	20%	13%	33%	19%	12%	26%
Interest Expenses	6%	5%	5%	11%	4%	5%	8%
Net interest income	11%	15%	8%	22%	15%	7%	18%
Non-interest income	8%	1%	2%	12%	1%	1%	2%
Total Income	19%	16%	10%	33%	16%	8%	21%
Operating expenses	7%	10%	4%	18%	6%	4%	11%
Pre-provisioning profit	11%	6%	6%	15%	10%	4%	9%
Total Provisions	8%	7%	3%	15%	5%	0%	4%
Profit before Tax	3%	-1%	3%	0%	5%	3%	5%
Tax	1%	0%	1%	0%	1%	1%	1%
RoA	2%	-1%	2%	0%	4%	2%	4%
Avg Assets/Avg Networth	1.8	3.8	3.5	2.4	1.9	2.7	3.9
RoE	4%	-3%	6%	0%	8%	5%	16%

Source: Company, HSIE Research

Exhibit 49: FinTech partnerships of different lenders

Lender	FinTech partners
IDFCFIRST	Amazon, Flipkart, Epifi, Paisabaazar, Bankbazaar, Groww, ETMoney, INDMoney, Paysense, Niro, Moneyview, MakemyTrip, Mobikwik, Ola Postpaid, Flexmoney, Udaan, CRED
DMI FINANCE	Mobikwik, Fibe, Moneyview, Happy Loans, IndiaLends, Finnable, CredRight, KNAB Finance, MoneyTap, MyShubhLife, Slice, Stashfin, Wishfin, Paisabazaar, JitFin, Fisdom
KRAZYBEE	KreditBee
EARLYSALARY	Fibe
INCRED	KreditBee, Fibe, Moneyview, Stashfin, Snapmint, Moneytap, Shubhloans, Mobikwik
ABFL	Fibe, Upwards, Paytm, Byju's, Moneyview, Credenc, FinancePeer, Credit Fair, CreditTap, Arogya Finance, Uno, Grayquest, Propelld, Eduvanz, TechFino, Paisabazaar, Navi, Loantap, HomeCredit, Groww, Loantap, Credilio, Niro
PEL	Fibe, Moneyview, Kissht, Navi, Kuwy, Wishfin, Paytm, Paisabazaar, KreditBee, Indifi, Lendingkart, Paytail, Finnable
POONAWALA	KreditBee, Kissht, Ring, Slice, Smartcoin, Axio (Capital Float)
IIFL	ShopsSe, LoanTap, Nira, WeCredit, CreditMantri, SpiceMoney, Moneyfy, IndiaLends, CapitalNeed
CIFC	KreditBee, Fibe, Moneytap, Navi, Moneyview, Bankbazaar, Paytail, Samsung Finance, Lendingkart
NORTHERN ARC CAPITAL	KreditBee, Fibe, Moneyview, Kissht, Capital Float, Slice, Mintifi, Paysense, Stashfin, TrueBalance, CASHe, Finnable, Fair Money Smartcoin, Chqbook
VIVRITI CAPITAL	KreditBee, Fibe, Moneyview, Finnable, Werize, Flexiloans, Cred, Cashe
MAS	KreditBee, Kissht, LoanTap, i-Loan, Ziploan, Lendingkart
CREDIT SAISON	KreditBee, Fibe, Moneyview, MoneyTap, CRED, Paysense, INDMoney, Navi, Jar, Paisabazaar, Lendingkart, Groww, Capital Now, Wefin, Saarathi, Indialends
AKARA CAPITAL ADVISORS	Stashfin

Source: Company, HSIE Research

- **Case study - DMI Finance:** DMI Finance, promoted by DMI limited, is an NBFC focused largely on consumer lending, through FinTech partnerships as LSPs. The company has shifted from mix of wholesale and consumer lending towards consumer lending (>80% of AUM) in recent years.

  Our analysis of DMI Finance's financial performance suggests strong yields (~25%+) and improving unit economics (RoA of ~4% in FY23). However, as highlighted earlier, credit costs in the consumer segment remains elevated at ~5%.

Exhibit 50: DMI Finance (Standalone) - Key financial metrics

DuPont (% of avg assets)	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
Interest Income	13.2%	13.7%	14.4%	12.8%	12.7%	20.9%
Interest Expenses	4.2%	4.4%	3.4%	3.6%	3.1%	3.9%
Net interest income	9.0%	9.3%	11.0%	9.2%	9.6%	16.9%
Non-interest income	0.7%	1.0%	0.9%	1.4%	2.0%	0.8%
Total Income	**9.7%**	**10.3%**	**11.8%**	**10.6%**	**11.6%**	**17.7%**
Operating expenses	2.1%	4.1%	5.0%	4.7%	4.8%	6.7%
Pre-provisioning profit	**7.6%**	**6.1%**	**6.8%**	**5.9%**	**6.8%**	**11.0%**
Total Provisions	1.1%	2.0%	3.6%	5.3%	5.5%	5.2%
Profit before Tax	6.5%	4.1%	3.2%	0.6%	1.3%	5.7%
Tax	2.3%	1.2%	0.8%	0.2%	0.3%	1.5%
RoA	**4.2%**	**2.9%**	**2.3%**	**0.4%**	**0.9%**	**4.2%**
Avg Assets/Avg Net worth (x)	1.7	1.6	1.8	1.8	1.7	1.9
RoE	**7.1%**	**4.6%**	**4.2%**	**0.7%**	**1.6%**	**8.0%**
Total AUM (INR mn)			53,190	58,680	72,680	90,600
Gross advances mix						
Corporate loans	90%	53%	36%	42%	32%	17%
Consumer loans	10%	47%	64%	58%	68%	83%
Yield on advances	22.6%	21.6%	21.0%	19.8%	18.7%	25.4%
Cost of funds	11.7%	12.9%	8.1%	8.4%	8.1%	8.8%
Spread	10.9%	8.7%	13.0%	11.4%	10.6%	16.6%
NIM	9.9%	10.0%	11.4%	9.7%	10.1%	17.7%
Credit costs	1.8%	3.2%	5.4%	8.4%	8.2%	6.6%
Write-offs		1.5%	2.2%	5.3%	3.4%	5.9%
GS-II	7.8%	5.8%	6.9%	4.0%	2.3%	4.9%
GS-III	2.5%	2.4%	4.0%	3.2%	1.7%	3.3%

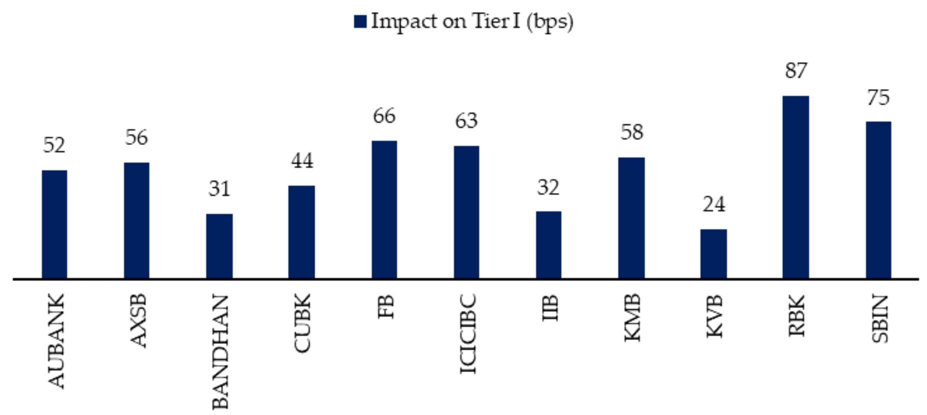
Source: Company, HSIE Research

Implications for banks

For banks in our coverage universe, the higher risk weights on consumer lending and high-grade NBFCs translate to a Tier-1 impact ranging from 24 bps (Karur Vysya Bank) to 87bps (RBL Bank), with negligible impact on DCBB Bank & Ujjivan SFB. We believe that banks will resort to MCLR hikes to partially offset the impact on profitability, subject to competitive pressures. Our analysis suggests an incremental 10-15bps hike in MCLR pricing - to put this in perspective, banks have taken a 5bps hike in the 1yr MCLR between Oct-23 and Nov-23 (the RBI tweaked risk weights during the middle of Nov-23) already.

- **Higher cost of equity = Higher MCLR:** Higher risk weights imply a higher cost of equity that banks and NBFCs will need to carry when they allocate capital for lending incrementally towards "qualifying loans", which will need to be built into incremental loan pricing. Across our coverage universe, the impact on Tier-1 ranges between 24bps (Karur Vysya Bank) and 87bps (RBL Bank), with negligible impact on DCB Bank & Ujjivan SFB. We believe that banks will resort to MCLR hikes to partly offset the impact on profitability, subject to competitive intensity.

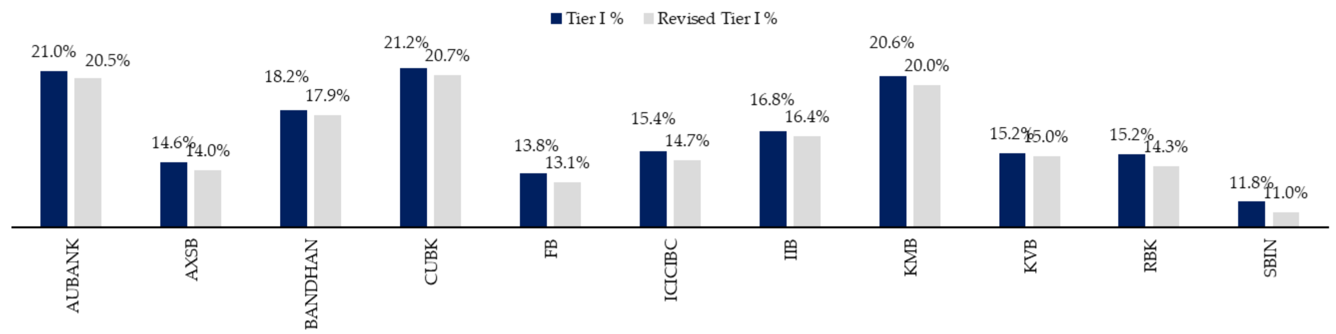
Exhibit 51: Impact of higher risk weights on Tier-I ratio as on Sep-23



Source: Company, HSIE Research | Note: Tier-I ratio for SBIN includes profits for H1FY24

- **Higher MCLR = Higher NIMs; ROEs likely to trend lower:** The higher cost of equity is likely to reflect in higher MCLR pricing, likely to be passed on by banks to NBFCs, which will have a cascading effect on the funding cost for NBFCs. Our calculations suggest that the RBI's measures cumulatively could mean a steep 10-15bps rate hike in MCLR pricing to NBFCs. This could mean higher incremental NIMs but lower ROEs by way of higher capital employed (lower leverage).

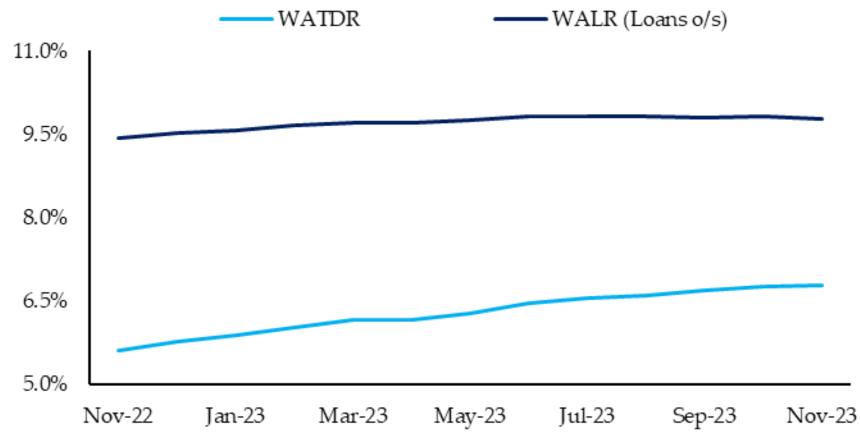
Exhibit 52: Revised Tier-I ratio across coverage universe



Source: Company, HSIE Research | Note: Tier-I ratio for SBIN includes profits for H1FY24

- **Further narrowing spread between lending & deposit rates to hamper growth:** The spread on weighted average lending rate & weighted average term deposit rates has been narrowing over the past 12 months, indicating high competitive pressure. SBI, the largest bank and the price-maker in deposits, raised short-term deposit rates effective 27-Dec-2023 by 50bps. We argue this is likely to exert incremental pressure on NIMs. In turn, banks are likely to undertake MCLR hikes to offset deposit price hikes, thereby causing sharp growth deceleration. We tweak our loan growth estimates to factor in further pressure on margins which would in turn moderate the loan growth. Our loan growth forecasts are 1-2 percentage points lower than consensus for FY24 and FY25.

Exhibit 53: Declining spread on outstanding loans for Banks



Source: RBI, HSIE Research

Exhibit 54: Changes in loan growth forecasts

Banks	Revised			Change (percentage points)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
AUBANK	22.4%	22.2%	22.4%	-1.2%	-0.7%	-0.8%
AXSB	10.2%	13.4%	15.6%	-1.3%	-2.3%	-0.5%
BANDHAN	15.7%	16.7%	16.4%	-1.6%	-1.1%	-0.8%
CUBK	3.2%	9.0%	9.4%	-5.2%	-2.2%	-2.1%
DCBB	15.0%	15.0%	15.1%	-0.4%	-0.8%	-0.9%
FB	16.3%	16.5%	16.7%	-0.6%	-0.3%	-0.2%
ICICIBC	15.1%	15.2%	14.7%	-1.3%	-0.9%	-0.5%
IIB	18.4%	16.4%	16.1%	-0.5%	-0.3%	-0.2%
KMB	15.5%	13.2%	14.9%	-0.6%	-1.6%	-2.7%
KVB	13.9%	13.6%	13.7%	-0.2%	-0.6%	-0.6%
SBIN	12.3%	12.3%	12.9%	-0.6%	-0.8%	-0.4%
UJJIVAN	25.5%	22.1%	21.4%	-1.8%	-1.2%	-0.8%

Source: HSIE Research

Exhibit 55: Changes in FY24E, FY25E and FY26E forecasts

Banks	FY24E			FY25E			FY26E		
	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)
Banks									
AUBANK	-1.5	-3.2	-3.4	-3.0	-5.7	-6.4	-3.5	-6.3	-7.1
AXSB	-1.1	-4.0	-4.2	-2.9	-6.1	-6.8	-2.4	-5.5	-6.2
BANDHAN	-1.7	-2.3	-3.5	-3.4	-4.3	-6.5	-4.6	-5.9	-8.3
CUBK	-2.7	-2.9	-2.7	-6.7	-7.3	-8.4	-8.0	-5.7	-5.4
DCBB	1.6	3.4	4.5	0.4	0.8	1.2	-3.4	-5.7	-7.6
FB	-3.4	-5.0	-2.7	-3.0	-4.5	-2.3	-2.4	-3.4	-0.2
ICICIBC	-1.7	-2.1	-2.2	-3.2	-4.1	-4.3	-3.4	-4.3	-4.5
IIB	-1.2	-1.5	-1.9	-1.1	-1.3	-1.7	-1.6	-1.9	-2.3
KMB	0.7	0.8	3.9	-1.3	-3.4	2.0	-4.1	-8.1	-4.3
KVB	-0.2	-0.3	-0.3	-0.8	-1.1	-1.5	-1.8	-2.4	-3.0
SBIN	-2.4	-6.9	-2.5	-2.6	-7.6	-6.2	-2.5	-7.9	-6.8
UJJIVAN	-1.1	-4.9	-7.9	-2.8	-5.0	-6.2	-4.1	-6.9	-8.0
Aggregate	**-1.7**	**-4.1**	**-2.2**	**-2.6**	**-5.6**	**-4.7**	**-2.9**	**-6.1**	**-5.5**

Source: HSIE Research

Exhibit 56: Revised earnings estimates

INR bn	NII			PPOP			PAT		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
AUBANK	52	60	74	24	30	38	16	19	24
AXSB	485	543	608	352	415	484	230	269	315
BANDHAN	98	114	132	72	88	101	29	35	44
CUBK	22	23	25	18	19	20	10	11	11
DCBB	18	21	23	9	11	13	5	6	7
FB	85	103	119	57	68	82	36	42	51
ICICIBC	694	777	892	549	608	700	368	410	469
IIB	204	228	257	163	184	209	90	102	114
KMB	250	278	304	190	211	239	130	145	163
KVB	36	40	45	25	28	33	14	16	18
SBIN	1,569	1,726	1,938	916	1,055	1,193	571	595	626
UJJIVAN	33	39	45	19	22	26	13	15	17

Source: HSIE Research

Exhibit 57: Banks coverage universe: Valuation summary

INR	CMP	Avg RoE (FY23-FY26E)	Avg RoA (FY23-FY26E)	EPS CAGR FY23-FY26E	Implied P/BV (x)	TP
AUBANK	801	14.6%	1.6%	18.5%	2.5	570
AXSB#	1,137	14.8%	1.5%	48.8%	1.9	1,150
BANDHAN	252	14.3%	1.7%	25.9%	1.7	270
CUBK	153	12.4%	1.5%	6.8%	1.4	170
DCBB	158	11.1%	1.0%	13.5%	0.9	160
FB	155	14.5%	1.3%	19.0%	1.4	190
ICICIBC#	994	16.9%	2.1%	13.7%	2.8	1,200
IIB	1,643	14.8%	1.8%	15.6%	1.3	1,290
KMB#	1,848	14.1%	2.4%	14.2%	2.7	2,160
KVB	167	15.1%	1.4%	18.3%	1.3	175
SBIN#	642	15.2%	0.9%	7.6%	1.3	780
UJJIVAN	58	26.8%	3.3%	16.1%	1.9	70

Source: Company, HSIE Research | Note: # Valuation multiple adjusted for subsidiaries

Implications for NBFCs

For NBFCs within our coverage universe (all rated AA- and above), the higher cost of bank borrowings and higher risk weights on consumer lending are likely to impact capital adequacy, triggering capital calls in a few cases. We believe this will eventually translate into higher costs of borrowing and lower growth for NBFCs in general. For our coverage universe, our growth forecasts for 15 NBFCs/HFCs currently factor in 18.5% AUM CAGR for FY24-FY26.

- **Capital calls averted by recent capital raise, but growth moderation likely:** The higher risk weights for consumer credit are likely to impact the capital adequacy for NBFCs within our coverage universe, resulting in capital calls being triggered in a few cases. NBFCs with higher unsecured consumer credit exposure such as SBICARD, BAF, and ABFL are likely to face the maximum impact among peers under coverage.

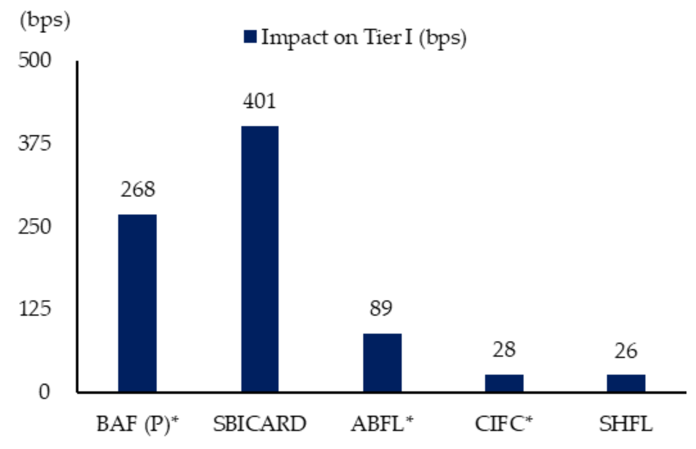
  However, BAF, CIFC and ABCAP have already raised equity capital during FY24 and, hence, are less likely to go for capital raise in the near term. However, the regulator's commentary and the higher cost of capital for this segment is likely to reflect in lower loan growth going ahead.

Exhibit 58: Growth in unsecured loans

	2 yr CAGR		Consumer credit as % of AUM	
	Consumer credit	AUM	Q2FY24	Q2FY22
BAF (C)	32%	32%	40%	40%
SBICARD	30%	30%	100%	100%
ABFL	140%	40%	21%	7%
CIFC	NA	33%	6%	0%
SHTF	NA	29%	4%	0%
MMFS	NA	21%	3%	1%

Source: Company, HSIE Research | *Note: Unsecured loans: BAF: Includes B2B (ex Auto), B2C, rural and securities lending; ABFL: Personal & Consumer loans; CIFC: CSEL; SHTF: Personal loans; MMFS: Assumption from others segment*

Exhibit 59: Impact on Tier I due to revised risk weights



Source: Company, HSIE Research | Note:* Post the capital raise

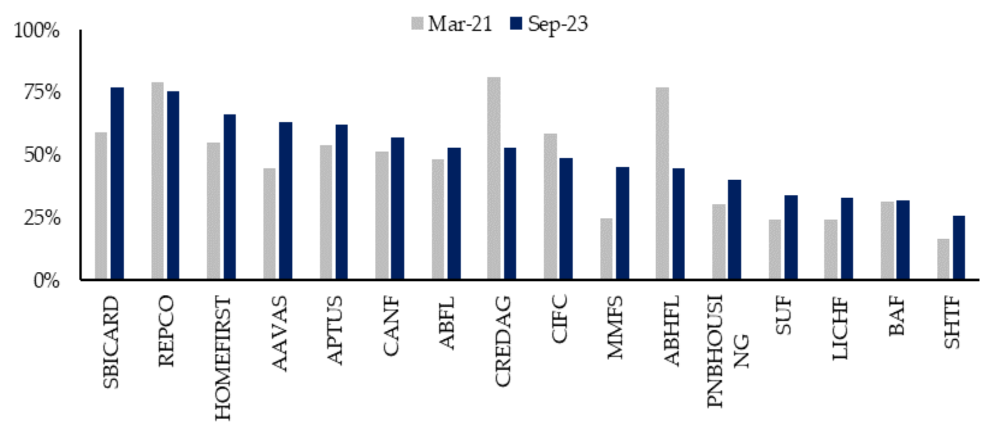
- **Higher cost of funds:** The increase in risk weights for NBFCs' consumer credit exposure as well as banks' exposure to NBFCs (A-rated and above) is likely to be a double whammy for these NBFCs in terms of borrowing costs. All NBFCs within our coverage universe are rated AA- and above and, hence, are likely to witness higher risk spreads in the medium term.

Exhibit 60: Risk weights by ratings for NBFCs

Risk weight	20%	30%	50%	100%	150%
Long-term	**AAA**	**AA**	**A**	**BBB**	**BB & below**
Short-term					
CRISIL	A1+	A1+	A2	A3	A4 & D
India Ratings	A1+	A1+	A2	A3	A4 & D
ICRA	A1+	A1+	A2	A3	A4 & D
CARE	A1+	A1+	A2	A3	A4 & D

Source: RBI, HSIE Research

Exhibit 61: Rising mix of bank borrowings post-pandemic (% of total borrowings)



Source: Company, HSIE Research

- **Calibrated growth ahead:** Our discussions with lenders, FinTechs, bureaus, and rating agencies suggest a near-term growth deceleration in consumer credit, particularly in the STPL segment, given RBI's cautionary stance on this segment. While a few listed players have already communicated de-growth trends in the STPL segment (e.g. Paytm), we expect more lenders to follow suit.

Exhibit 62: NBFCs/HFCs coverage universe: Valuation summary

INR	CMP	Avg RoE (FY23-FY26E)	Avg RoA (FY23-FY26E)	EPS CAGR FY23-FY26E	Implied P/BV (x)	TP
BAF	7,710	22.1%	4.6%	24.2%	5.4	8,650
SBICARD	772	24.7%	5.2%	22.3%	5.6	955
CIFC	1,257	20.3%	2.7%	28.7%	4.6	1,280
MMFS	277	13.7%	2.2%	20.2%	1.8	295
SHTF	2,172	14.6%	3.0%	14.0%	1.5	2,005
SUF	3,622	15.8%	2.9%	17.7%	3.6	3,500
CREDAG	1,729	21.9%	5.0%	36.5%	3.0	1,650
AAVAS	1,566	14.8%	3.3%	20.6%	3.2	1,830
APTUS	330	17.5%	7.1%	20.8%	2.6	240
CANF	780	17.8%	2.0%	16.1%	2.2	908
HOMEFIRST	945	15.3%	3.6%	24.8%	3.4	960
LICHF	575	13.2%	1.3%	18.3%	0.8	435
PNBHOUSING	800	10.5%	1.8%	22.0%	1.2	765
REPCO	414	12.9%	2.6%	13.0%	1.0	480

Source: Company, HSIE Research

Aditya Birla Capital

Lending businesses growth to come under pressure

Aditya Birla Capital's (ABCAP) re-rating during the past year seems to have been driven by the lending businesses - particularly ABFL (contributing to ~60% of SoTP), with its strong growth and reflating profitability. This was driven by a surge in personal & consumer loans (32%/21% of disbursals/AUM in Q2FY24). With the RBI having increased risk weights on unsecured retail credit and on bank borrowings (53% of borrowings), ABFL's growth is likely to come under pressure, going ahead. Given the impending portfolio rebalancing, we expect incremental yield compression and consequent deflation in profitability (RoA). We reduce our FY25/FY26 estimates for ABFL by 6% each and maintain ADD on ABCAP with a reduced SoTP-based TP of INR190.

- **ABFL - riding on the back of FinTech partnerships**: ABFL's personal & consumer loan book has grown at a staggering ~140% CAGR over the past couple of years, accounting for ~30-35% of disbursements. This growth has been driven significantly through FinTech partnerships (>30 FinTech partners for personal & consumer loans and unsecured business loans).
- **Largest FinTech partners guiding for growth moderation:** In the backdrop of higher risk weights on consumer credit and the regulator's concerns on small-ticket personal loans, Paytm, one of the company's largest partners for personal & consumer loans, warned investors about an impending collapse in postpaid (BNPL) disbursements by ~40-50%. We expect similar impact for other FinTech partners as well, reflecting in sharp moderation in loan growth.
- **Earnings profile could witness rebalancing**: The increasing share of personal & consumer loans had led to yield reflation for ABFL over the past couple of years, reflating overall profitability (RoA/RoE of 2.6%/18.4% during Q2FY24). This was partially offset by higher opex (opex to assets at 2%, annualised) and credit costs (1.8% of advances, annualised), compared to pre-Covid levels. With the incremental share of this segment expected to decline over the medium-term, we expect downside risk to overall profitability.
- **Recent fund raise offers comfort on capital; capital allocation to get tricky:** We expect higher risk weights to impact ABFL's Tier I ratio by ~80bps. While ABCAP has already infused INR16bn into ABFL, equity fund raise by ABCAP of INR30bn for its subsidiaries offers comfort on capital adequacy. However, this could pose a capital allocation challenge to other growth businesses such as Life Insurance and Health Insurance.
- **Maintain ADD; ABFL's performance key monitorable**: ABFL's performance has been a key driver in the re-rating of ABCAP. With the business performance expected to come under pressure due to regulatory challenges, ABFL's performance remains a key monitorable.

ABCAP valuation – sum of the parts

	ABCAP Share (%)	ABCAP stake (INR bn)	Value /sh (INR)	Comments
ABFL	100%	288	111	RI-based multiple of 2.0x Sep-25E ABVPS
ABHFL	100%	35	14	RI-based multiple of 1.5x Sep-25E ABVPS
ABSLI	51%	67	26	1.1x Mar-25E Embedded value
ABHI	46%	31	12	Transaction multiple
ABSLAMC	50%	51	20	14.5x Mar-25 NOPLAT + Cash & inv
Others	100%	36	14	
TOTAL		**509**	**196**	
Hold co. disc.			**6**	10% for non-wholly-owned subsidiaries
SOTP			**190**	

Source: Company, HSIE Research

ADD

CMP *(as on 05 Jan 2024)*	**INR 164**
Target Price	**INR 190**
NIFTY	**21,711**

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 205	INR 190
EPS %	FY24E	FY25E
	NA	NA

KEY STOCK DATA	
Bloomberg code	ABCAP IN
No. of Shares (mn)	2,600
MCap (INR bn) / ($ mn)	455/5,565
6m avg traded value (INR mn)	771
52 Week high / low	199/133

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(0.4)	(7.3)	17.0
Relative (%)	(10.1)	(17.3)	(2.3)

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	69.1	69.0
FIs & Local MFs	7.7	8.2
FPIs	11.3	11.3
Public & Others	11.8	11.5
Pledged Shares		

Source: BSE

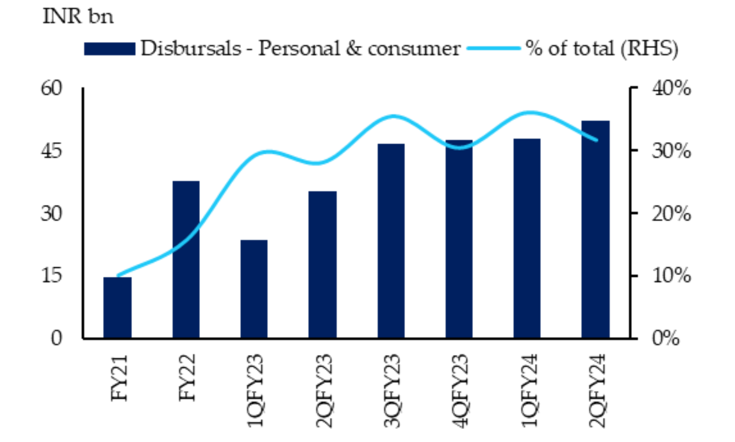
Pledged shares as % of total shares

Krishnan ASV
venkata.krishnan@hdfcsec.com
+91-22-6171-7314

Deepak Shinde
deepak.shinde@hdfcsec.com
+91-22-6171-7323

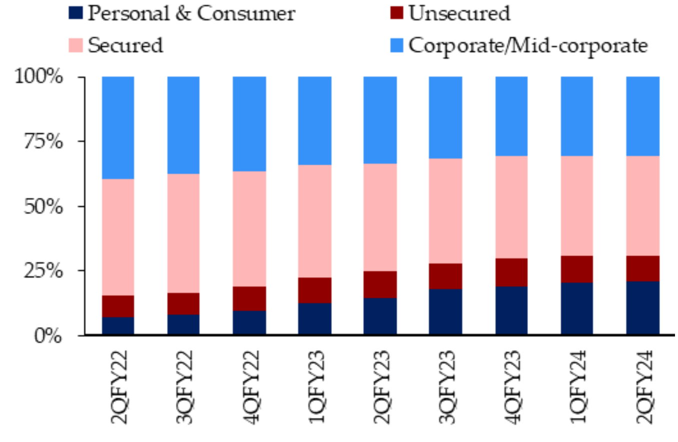
Akshay Badlani
akshay.badlani@hdfcsec.com
+91-22-6171-7325

Exhibit 63: ABFL - Strong contribution of personal & consumer loans segment to disbursements



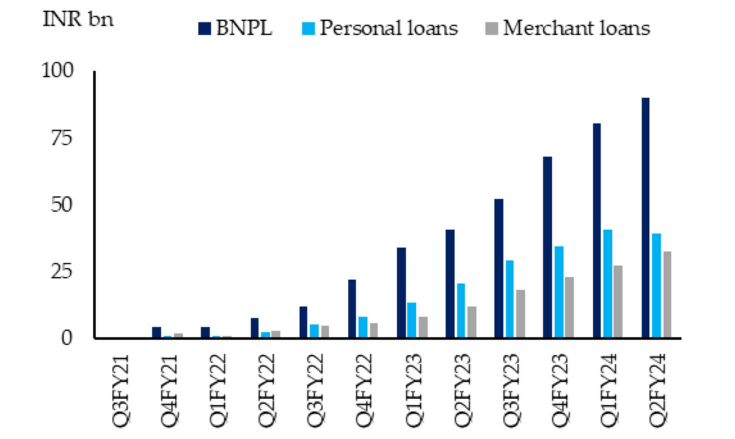
Source: Company, HSIE Research

Exhibit 64: AUM mix - increasing share of personal & consumer loans



Source: Company, HSIE Research

Exhibit 65: Paytm (one of key FinTech partners for ABFL) has seen astronomical growth in loan disbursements



Source: Company, HSIE Research

Exhibit 66: Key FinTech partners for ABFL in various segments

Product Name	Partner Name
Personal Loans	Fibe, Upwards, Paytm, Byju's, Moneyview, Credenc, FinancePeer, Credit Fair, CeditTap, Arogya Finance, Uno, Grayquest, Propelld, Eduvanz, TechFino, Paisabazaar, Navi, Loantap, HomeCredit, Groww, Loantap, Credilio, Niro
Buy Now Pay Later (BNPL)	Paytm, Juspay
Unsecured Business Loans	Paytm, Indifi, Lendingkart
Supply Chain	Finagg, Valor

Source: Company, HSIE Research

Exhibit 67: ABFL's earnings profile

% of average assets	2QFY22 %	2QFY23 %	2QFY24 %	Δ Q2FY24 - Q2FY22 (bps)
Share of Personal & Consumer loans	7%	15%	21%	1,355
Interest income (incl. fee income)	11.8%	12.2%	13.7%	188
Interest expense	5.5%	5.6%	6.8%	124
NII	6.2%	6.6%	6.9%	64
Opex	1.9%	2.1%	2.0%	7
PPoP	4.3%	4.5%	4.9%	57
Provisions	1.2%	1.3%	1.6%	35
PBT	3.1%	3.2%	3.3%	22

Source: Company, HSIE Research

SBI Cards & Payment Services

Potential tailwind in era of incessant headwinds?

Post its IPO, SBICARD has been grappling a host of challenges on the business front - Covid, lower interchange fees, sharp dip in revolve portfolio, impact on overlimit fees, spends with low interchange (such as rental payments), penal charges, etc. Despite these challenges, SBICARD has delivered a healthy RoA of ~5% on the back of its ability to activate multiple revenue pools. The RBI's concerns on unsecured retail credit are unlikely to impact the portfolio growth for SBICARD, as there are sufficient capital buffers, with healthy internal accruals. Further, we argue that the slowdown in FinTech-originated retail credit could have some form of tailwinds for SBICARD. Maintain BUY with revised RI-based TP of INR 955 (implying 24x Sep-25 EPS).

- **Curb on unsecured retail credit - a blessing in disguise?** The RBI's higher risk weights on consumer credit, and caution on small-ticket unsecured loans offers significant tailwinds, in terms of easing of competitive intensity.
- **Capital adequacy hit unlikely to deter portfolio growth**: The higher risk weights are likely to impact SBICARD's Tier I by ~400bps and call for higher capital requirement on incremental assets. However, we see limited impact of additional capital requirement on loan growth. With adjusted Tier-I at ~17%, healthy internal accruals (RoE of ~25%) and strong parentage provide comfort on the capital adequacy front.
- **Revolve rates likely to settle at a lower new normal:** We expect SBICARD's (and the industry's) revolve rate to settle at a new normal, lower than the pre-Covid levels of ~34-35%. While the revolve rates could witness some uptick from current levels (~24%) with customer portfolio optimisation, a slew of structural changes such as easily accessible alternatives (digital personal loans etc.), digitisation driving lower late fees and revolve, increasing consumer awareness, etc., could keep revolve rates lower than pre-Covid levels.
- **Credit costs surprisingly negative; but likely to stabilise:** Despite lower revolve rates, SBICARD's credit costs have been hovering around ~6-6.5% (consistently above management guidance). Our discussions with experts and bureaus suggest that a shift towards an inferior customer profile (Tier III/IV locations, self-employed, lower income, etc.) does not necessarily reflect in higher revolve rates and instead, could manifest in higher credit costs, thereby hurting overall profitability.
- **Growth, profitability outlook remains robust; maintain BUY:** SBICARD continues to deliver a potent combination of ~5% RoA and 25% RoE. While the credit card penetration has improved over the past few years, there is a healthy runway for growth in terms of issuances and spending.

Financial summary

(INR bn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
NII	35.4	38.8	38.4	45.1	54.1	70.2	89.3
PPOP	36.7	39.6	44.3	51.9	63.0	77.9	96.5
PAT	12.4	9.8	16.2	22.6	25.9	32.5	41.3
EPS (INR)	14.9	10.5	17.2	23.9	27.4	34.4	43.7
ROAE (%)	27.9%	16.9%	23.0%	25.7%	23.7%	24.2%	25.0%
ROAA (%)	5.5%	4.0%	5.2%	5.6%	5.0%	5.1%	5.2%
ABVPS (INR)	61.9	64.2	79.9	100	123	152	188
P/ABV (x)	12.5	12.0	9.7	7.7	6.3	5.1	4.1
P/E (x)	51.9	73.7	44.9	32.3	28.2	22.4	17.7

Source: Company, HSIE Research

BUY

CMP *(as on 05 Jan 2024)*	INR 772
Target Price	INR 955
NIFTY	21,711

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 965	INR 955
EPS %	FY24E	FY25E
	-1.4%	-2.6%

KEY STOCK DATA	
Bloomberg code	SBICARD IN
No. of Shares (mn)	951
MCap (INR bn) / ($ mn)	734/8,970
6m avg traded value (INR mn)	1,244
52 Week high / low	933/691

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(2.3)	(7.8)	(1.0)
Relative (%)	(12.1)	(17.8)	(20.4)

SHAREHOLDING PATTERN (%)	Jun-23	Sep-23
Promoters	69.0	68.9
FIs & Local MFs	17.2	17.3
FPIs	9.5	9.1
Public & Others	4.4	4.7
Pledged Shares		0

Source: BSE

Pledged shares as % of total shares

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Akshay Badlani
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Exhibit 68: Changes in estimates

(INR bn)	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
AUM	504	504	0.0%	630	628	-0.3%	767	761	-0.7%
NIM (%)	11.3	11.2	-3 bps	11.6	11.6	-2 bps	11.9	11.9	-2 bps
NII	54.3	54.1	-0.3%	70.5	70.2	-0.4%	90.0	89.3	-0.8%
PPOP	63.3	63.0	-0.4%	78.9	77.9	-1.3%	98.3	96.5	-1.8%
PAT	26.3	25.9	-1.4%	33.4	32.5	-2.6%	42.2	41.3	-2.1%
Adj. BVPS (INR)	124	123	-0.3%	153	152	-0.7%	190	188	-1.0%

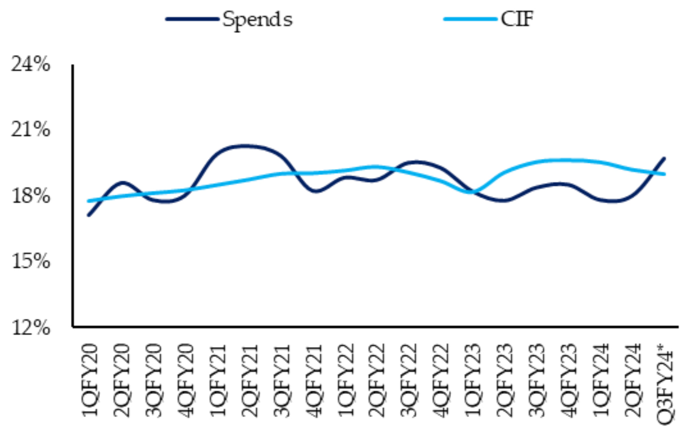
Source: Company, HSIE Research

Exhibit 69: CC penetration in India now at ~19%

CIF (Nov'23) (mn)	96.0
Multiplier (x)	1.7
No. of borrowers (mn)	**56.5**
Total eligible customer base (mn)	293
Penetration %	**19.2%**

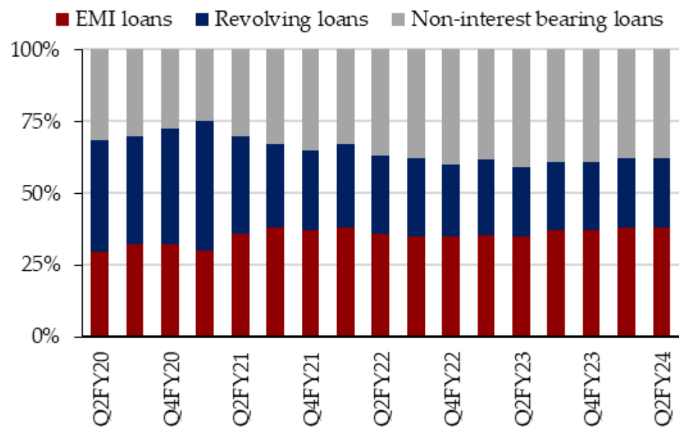
Source: RBI, CMIE, EPFO, HSIE Research

Exhibit 70: SBICARD has maintained steady CIF and spends market share



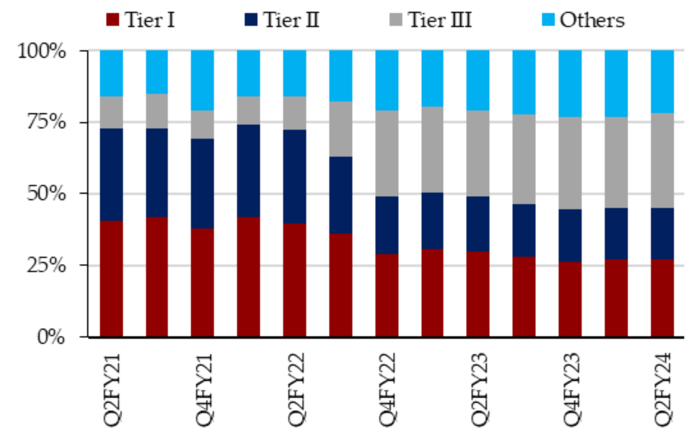
Source: RBI, Company, HSIE Research

Exhibit 71: Share of revolve loans stable at ~24%



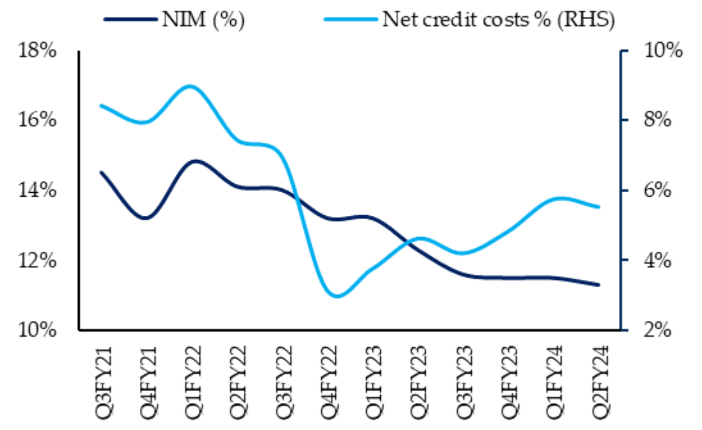
Source: Company, HSIE Research

Exhibit 72: Sourcing mix - shift towards deeper locations



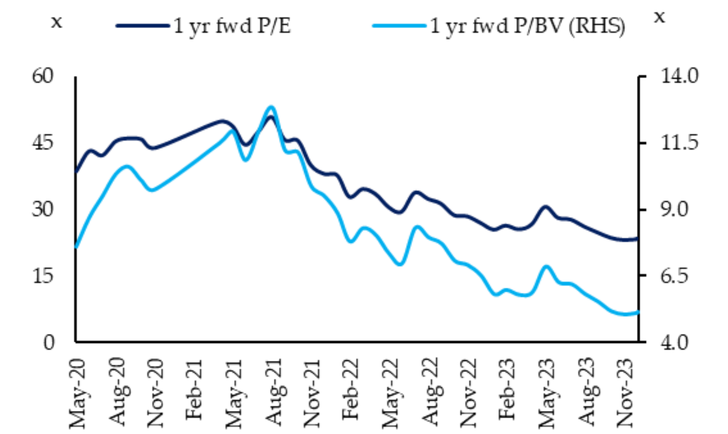
Source: Company, HSIE Research

Exhibit 73: NIMs have come off, while credit costs have remained sticky post the pandemic



Source: Company, HSIE Research

Exhibit 74: Valuations have corrected materially in the past few quarters



Source: Bloomberg, HSIE Research

Financials

Income Statement

(INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest earned	48,413	49,277	48,660	61,530	78,665	101,196	127,350
Interest expended	13,009	10,434	10,273	16,476	24,529	30,966	38,045
Net interest income	**35,404**	**38,843**	**38,387**	**45,053**	**54,136**	**70,230**	**89,304**
Other income	49,110	47,854	64,355	81,327	101,466	124,241	146,856
Total income	84,514	86,697	102,742	126,380	155,602	194,472	236,161
Operating expenditure	47,815	47,079	58,444	74,484	92,599	116,574	139,681
Pre-provisioning operating profit	**36,699**	**39,618**	**44,298**	**51,896**	**63,004**	**77,898**	**96,480**
Non-tax provisions	19,402	26,386	22,558	21,591	28,321	34,404	41,208
Profit before tax	17,296	13,232	21,740	30,306	34,682	43,494	55,272
Tax expenditure	4,848	3,392	5,560	7,721	8,740	10,960	13,929
Profit after tax	**12,448**	**9,840**	**16,179**	**22,585**	**25,942**	**32,533**	**41,344**

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	9,390	9,405	9,432	9,461	9,461	9,461	9,461
Reserves and surplus	44,023	53,615	68,095	88,840	110,891	138,544	173,686
Net worth	53,412	63,020	77,527	98,300	120,351	148,005	183,147
Borrowings	173,649	180,680	232,849	315,311	399,789	497,934	605,477
Other liabilities and provisions	25,966	26,428	36,108	41,844	53,684	67,358	82,576
Total equity and liabilities	**253,028**	**270,129**	**346,484**	**455,456**	**573,824**	**713,296**	**871,200**
Cash and cash equivalents	6,760	7,181	11,064	13,545	26,643	35,768	52,653
Investments	15	9,576	12,972	21,397	26,104	31,847	38,854
Advances	**228,116**	**234,591**	**301,873**	**393,610**	**487,026**	**607,725**	**737,461**
Fixed assets	3,346	3,182	4,537	5,737	6,597	7,587	8,724
Other assets	14,791	15,599	16,039	21,168	27,454	30,370	33,508
Total assets	**253,028**	**270,129**	**346,484**	**455,456**	**573,824**	**713,296**	**871,200**

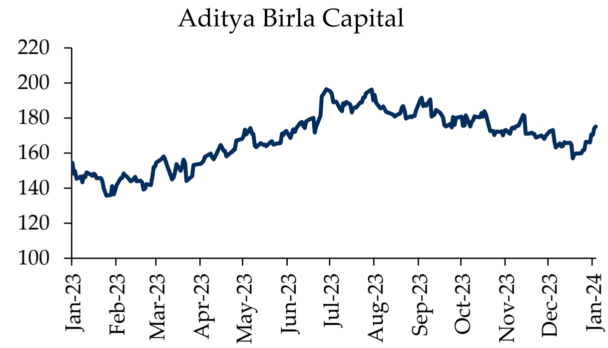
Source: Company, HSIE Research

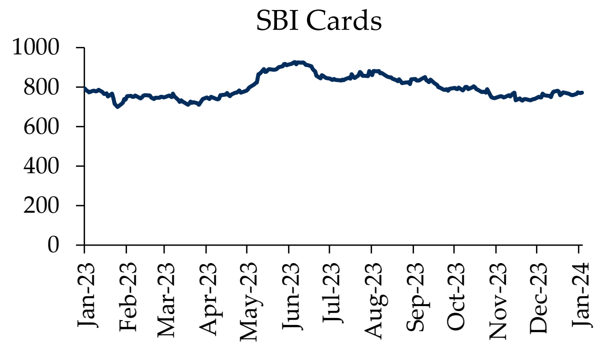
Key Ratios

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
VALUATION RATIOS							
EPS	14.9	10.5	17.2	23.9	27.4	34.4	43.7
Earnings Growth (%)	43.9%	-21.0%	64.4%	39.6%	14.9%	25.4%	27.1%
BVPS (ex reval.)	64	67	82	104	127	156	194
Adj. BVPS (ex reval. & 100% cover)	62	64	80	100	123	152	188
ROAA (%)	5.5%	4.0%	5.2%	5.6%	5.0%	5.1%	5.2%
ROAE (%)	27.9%	16.9%	23.0%	25.7%	23.7%	24.2%	25.0%
P/E (x)	51.9	73.7	44.9	32.3	28.2	22.4	17.7
P/ABV (x)	12.5	12.0	9.7	7.7	6.3	5.1	4.1
P/PPOP (x)	17.6	18.3	16.4	14.1	11.6	9.4	7.6
PROFITABILITY (%)							
Yield on Advances (%)	22.7%	20.0%	17.3%	17.1%	17.3%	17.9%	18.3%
Cost of Funds (%)	8.4%	5.9%	5.0%	6.0%	6.9%	6.9%	6.9%
Core Spread (%)	14.3%	14.1%	12.3%	11.1%	10.4%	11.0%	11.4%
NIM (% of AUM)	16.9%	16.1%	13.4%	12.1%	11.2%	11.6%	11.9%
OPERATING EFFICIENCY							
Cost to average AUM ratio (%)	21.0%	18.0%	19.0%	18.6%	18.0%	18.1%	17.6%
Cost-income ratio (%)	56.6%	54.3%	56.9%	58.9%	59.5%	59.9%	59.1%
BALANCE SHEET STRUCTURE RATIOS							
Loan growth (%)	27.4%	2.8%	28.7%	30.4%	23.7%	24.8%	21.3%
AUM growth (%)	27.4%	2.8%	28.7%	30.4%	23.7%	24.8%	21.3%
Borrowing growth (%)	28.2%	4.0%	28.9%	35.4%	26.8%	24.5%	21.6%
Debt/Equity (x)	3.3	2.9	3.0	3.2	3.3	3.4	3.3
Equity/Assets (%)	21.1%	23.3%	22.4%	21.6%	21.0%	20.7%	21.0%
Equity/Loans (%)	23.4%	26.9%	25.7%	25.0%	24.7%	24.4%	24.8%
Total Capital Adequacy Ratio (CAR) (%)	22.4%	24.8%	23.8%	23.1%	18.5%	18.3%	18.8%
Tier I CAR (%)	17.7%	20.9%	21.0%	20.4%	16.7%	16.9%	17.6%
ASSET QUALITY							
Gross NPL (INR mn)	4,844	12,543	6,934	9,575	10,942	12,639	14,723
Net NPL (INR mn)	1,588	2,776	2,409	3,487	3,611	4,171	4,858
Gross NPL (%)	2.0%	5.0%	2.2%	2.4%	2.2%	2.0%	1.9%
Net NPL (%)	0.7%	1.2%	0.8%	0.9%	0.7%	0.7%	0.7%
Coverage Ratio (%)	67.2%	77.9%	65.3%	63.6%	67.0%	67.0%	67.0%
Provision/Avg. AUM (%)	9.5%	11.4%	8.4%	6.2%	6.4%	6.3%	6.1%
DUPONT ANALYSIS							
Interest earned	21.3%	18.8%	15.8%	15.3%	15.3%	15.7%	16.1%
Interest expended	5.7%	4.0%	3.3%	4.1%	4.8%	4.8%	4.8%
Net interest income	15.6%	14.8%	12.5%	11.2%	10.5%	10.9%	11.3%
Non-interest income	21.6%	18.3%	20.9%	20.3%	19.7%	19.3%	18.5%
Operating expenses	21.0%	17.8%	19.0%	18.6%	18.0%	18.1%	17.6%
Pre-provisioning profit	16.1%	15.4%	14.4%	12.9%	12.2%	12.1%	12.2%
Provisions	8.5%	10.1%	7.32%	5.4%	5.5%	5.3%	5.2%
Tax	2.1%	1.3%	1.8%	1.9%	1.7%	1.7%	1.8%
ROAA	5.5%	4.0%	5.2%	5.6%	5.0%	5.1%	5.2%
Leverage (x)	5.1	4.2	4.4	4.6	4.7	4.8	4.8
ROAE	27.9%	16.9%	23.0%	25.7%	23.7%	24.2%	25.0%

Source: Company, HSIE Research

1 Yr. Price history





Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	>10% Downside return potential

Disclosure:
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