

Good quarter; upgrade the stock to BUY !!!

Adjusting for one-time deferred tax liability adjustment for FY22 period, PAT has shown a growth of 32.9% yoy & 9% qoq to INR 640 mn led by strong asset growth and stable credit cost.

Outlook

- As per management, AUMs are likely to grow at 30%+ CAGR over the next 2 years
- Spreads largely will be maintained at the current levels and will not allow to fall beyond 5.25%
- Opex cost will be ~3-3.25%
- Credit cost outlook - ~30-40 bps in FY24e
- Branch expansion plans - It is likely to add 20 branches over the next 2-3 years time

Valuations

Going forward, we expect PAT to grow at 29% CAGR during FY23-25e led by higher asset growth of 30%, which will be despite marginal fall in the spreads as per our calculations. Over the last 6 months, valuations have corrected from 3.6x to 2.6x FY25e. Given the relative better valuations and better visibility on the margins, we re-rate the stock from earlier SELL to **BUY now with revised TP of INR 839**, discounting its FY25e ABV by 3.1x. It is currently trading at 3.1x/2.6x FY24e/FY25e ABV on ROA/ROA of 16%/3.9% in FY25e.

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
NII	2,135	2,960	4,179	5,635	7,282
PAT	1,001	1,861	2,283	2,979	3,788
Net worth	13,805	15,737	18,173	21,152	24,940
Adj BVPS	153	171	197	229	271
EPS (Rs)	11	21	26	34	43
P/ABV (x)	4.6	4.1	3.6	3.1	2.6
P/E (x)	62	33	27	21	16
RoA (%)	2.5	3.9	3.9	3.9	3.9
RoE (%)	8.7	12.6	13.5	15.1	16.4

Source: Company, Dalal & Broacha Research

Rating	TP (Rs)	Up/Dn (%)
BUY	839	18

Market data

Current price	Rs	708
Market Cap (Rs.Bn)	(Rs Bn)	62
Market Cap (US\$ Mn)	(US\$ Mn)	761
Face Value	Rs	2
52 Weeks High/Low	Rs	1,004 / 652
Average Daily Volume	('000)	133
BSE Code		543259

Bloomberg

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	33.5	33.5
Public	66.5	66.5
Total	100.0	100.0

Source: Bloomberg

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Key Financial Highlights

- Adjusting for one-time deferred tax liability adjustment for FY22 period, PAT has shown a growth of 32.9% yoy & 9% qoq to INR 640 mn
- AUM growth was healthy for the quarter at 33.8% yoy and 6.6% qoq to INR 72 bn led by the strong demand
- Disbursements growth too was robust at 35.6% yoy and 11.4% qoq to INR 8.7 bn. For the full year, disbursement grew at sharp rate of 48.4% yoy
- **Spreads declined marginally by 20 bps qoq to 5.5%** - For the quarter, spreads declined marginally by 20 bps on qoq basis to 5.5% which was due to higher repricing of the liabilities. On the assets side, loan yields surged by 30 bps to 13.4% in Q4 from 13.1% in Q3FY23. On the incremental basis, marginal yields stood at 13.5% levels and marginal cost of borrowings was at 8.8%. Also, NBFC has impacted cumulative hike in the lending rates to the tune of ~125 bps (i.e. 25 bps w.e.f Jul 2022, 50 bps w.e.f 1st Dec 2022, 50 bps w.e.f 1st April 2023). Going forward, management expects spreads will be maintained at the current levels of 5.5% and will not allow to fall beyond 5.25%
- **Outlook on the spreads going forward** - As per management, spreads will be maintained at 5.7% levels (reported). Drivers for the spreads going forward are 1) lending rates have been hiked to the tune of ~125 bps in order to combat rise in borrowing cost 2) 20% of the borrowings will get funded by co-lending or direct assignment which will help in liquidity management 3) NHB borrowings will increase in FY24 which is likely to come up in Jul'23 where the interest rate benefit is to the tune of ~1-1.5% 4) credit rating of the organisation has improved which has enabled it to raise funds at 25-30 bps lower costs 5) since largely the repo rates have plateaued, cost of borrowings will stabilise after 2-3 quarters
- **Asset quality maintained** - GNPA/NNPA came down to 1.6%/1.1% in Q4FY23 vs. 1.8%/1.3% in Q3FY23. Also, NPLs improved across all asset buckets. Collection efficiency increased to 99.3% levels in Mar'23 vs. 98.9% in Dec'22. Also, bounce rates improved to 13.6% in Q4 vs. 14.9% in Q3 (14.6% in Apr'23)
- NII growth was healthy at 31.4% yoy to INR 1.1 bn led by strong AUM growth

Concall Highlights

- As per management, AUMs are likely to grow at 30%+ CAGR over the next 2 years
- Spreads largely will be maintained at the current levels and will not allow to fall beyond 5.25%
- Opex cost will be ~3-3.25% in the near future. Management expects the operating leverage benefits to kick in from FY25 period onwards
- Credit cost outlook - ~30-40 bps in FY24e
- Branch expansion plans - It is likely to add 20 branches over the next 2-3 years time
- ROA will be maintained at current levels of 3.8-3.9%; while the levers for the same will be increase in the co-lending/securitisation book and improvement in the cash utilisation
- Share of the co-lending assets will increase to 10% of the AUMs
- ROE of the bank for the first time crossed 14% levels to touch 14.4% mark
- The company has announced its first ever dividend of INR 2.6
- Conversion rate is ~40% of the leads it generates. It usually gets 6000-8000 leads per month, out of which, 3000-4000 leads gets converted into the loans
- BT out rates were high at 6.1% in Q4FY23 which was mainly due to financial year end phenomenon

Quarterly Financials (Q4FY23)

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Interest income	2,047	1,389	47	1,902	7.6
Interest expense	929	538	73	796	16.8
Net interest income	1,118	851	31	1,106	1.1
Net gain on DA	181	158	15	119	52.1
Other Income	86	14	510	35	146.1
Net Income	1,384	1,023	35	1,260	9.9
Operating Expenses	475	364	30	443	7.2
Employee expense	275	229	20	274	0.4
Other expense	200	134	49	169	18.3
PPOP	910	659	38	817	11.3
Provisions	70	27	159	60	16.2
PBT	840	632	33	757	10.9
Tax	200	30	561	170	17.5
One-time tax adjustment					
PAT	640	602	6.4	587	9.0
Loan Book (Rs mn)					
Disbursement s	8690	6410	35.6	7800	11.4
Gross Loan Assets / AUM	71980	53800	33.8	67510	6.6
Asset Quality (%)					
DPD 1+	4.0	5.3	-	4.4	-
DPD 30+/POS	2.7	3.7	-	3.0	-
Gross Stage 3 (GNPAs)	1.6	2.3	-	1.8	-
Net Stage 3 (Net NPAs)	0.9	1.3	-	1.1	-
Spread	5.5	5.6		5.7	
Cost-to-income	34.4	35.7		35.3	

Source: Company, Dalal & Broacha Research

Financials

P&L (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
Interest income	4,301	5,117	7,222	9,954	13,099
Interest expense	2,166	2,157	3,043	4,319	5,817
NII	2,135	2,960	4,179	5,635	7,282
Non-interest income	590	840	734	959	1,211
Net revenues	2,726	3,800	4,913	6,594	8,493
Operating expenses	1,064	1,287	1,746	2,301	3,026
PPOP	1,662	2,513	3,167	4,293	5,467
Provisions	322	250	215	311	402
PBT	1,340	2,263	2,952	3,982	5,064
Tax	339	402	669	1,003	1,276
PAT	1,001	1,861	2,283	2,979	3,788
<i>Growth (yoy)</i>	<i>28.8</i>	<i>85.8</i>	<i>22.7</i>	<i>30.5</i>	<i>27.2</i>
Balance sheet	FY21	FY22	FY23E	FY24E	FY25E
Share capital	175	175	176	176	176
Reserves & surplus	13,631	15,562	17,997	20,976	24,764
Net worth	13,805	15,737	18,173	21,152	24,940
Borrowings	30,537	34,668	48,135	62,613	82,814
Other liability	759	764	1,062	1,389	1,732
Total liabilities	45,101	51,169	67,370	85,154	1,09,487
Fixed assets	167	200	253	312	377
Investments	3,750	-	2,808	2,948	3,096
Loans	33,265	43,049	59,957	77,640	1,00,537
Cash	6,799	6,678	2,984	2,715	3,735
Other assets	1,121	1,242	1,368	1,539	1,742
Total assets	45,101	51,169	67,370	85,154	1,09,487
Ratios	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
NII	32.6	38.6	41.2	34.8	29.2
PPOP	36.2	51.2	26.0	35.5	27.4
PAT	28.8	85.8	22.7	30.5	27.2
Advances	10.4	29.4	39.3	29.5	29.5
Spread (%)					
Yield on Funds	13.6	13.4	14.0	14.2	14.5
Cost of Funds	7.8	6.6	7.3	7.8	8.0
Spread	5.8	6.8	6.7	6.4	6.5
Asset quality (%)					
Gross NPAs	1.8	2.3	1.9	1.7	1.6
Net NPAs	1.2	1.8	1.4	1.2	1.1
Provisions	36.0	24.9	26.4	27.6	28.6
Return ratios (%)					
RoE	8.7	12.6	13.5	15.1	16.4
RoA	2.5	3.9	3.9	3.9	3.9
Cost Ratios (%)					
C/I Ratio	39.0	33.9	35.5	34.9	35.6
Opex / Avg. Assets	2.7	2.7	2.9	3.0	3.1
Per share (Rs)					
EPS	11.5	21.2	25.9	33.8	43.0
BV	158.0	179.6	206.5	240.3	283.4
ABV	153.4	170.9	196.8	229.5	270.5
Valuation (x)					
P/E	61.8	33.3	27.3	20.9	16.4
P/BV	4.5	3.9	3.4	2.9	2.5
P/ABV	4.6	4.1	3.6	3.1	2.6

Source: Dalal & Broacha Research, Company

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