Bank of Maharashtra

15 March 2024

Arguably the best within the PSU banking system

MANAGEMENT MEET TAKEAWAYS

Sector: Banks	**Rating: NR**
CMP: Rs 59	**Target Price: NA**

Stock Info

Sensex/Nifty	72,643 / 22,023
Bloomberg	BOMH IN
Equity shares	7081mn
52-wk High/Low	Rs 70/ 23
Face value	Rs 10
M-Cap	Rs 421bn/ USD 5bn
3-m Avg value	USD 33mn

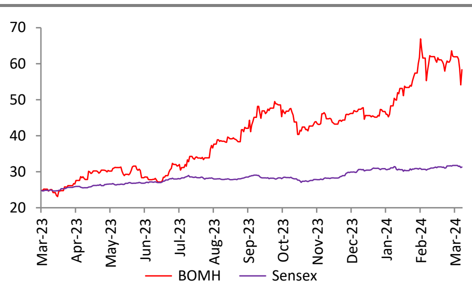
Financial Snapshot (Rs bn)

Y/E March	FY21	FY22	FY23
NII	49	60	77
PPP	40	48	61
PAT	6	12	26
EPS (Rs)	0.84	1.71	3.87
EPS Gr. (%)	25.7	104.0	126.0
BV/Sh (Rs)	17	18	21
Adj. BV/Sh (Rs)	14	17	21
Ratios			
NIM (%)	2.9	3.0	3.2
C/I ratio (%)	47.4	44.3	39.1
RoA (%)	0.3	0.5	1.1
RoE (%)	4.8	8.9	17.6
Valuations			
P/E (x)	70.3	34.5	15.3
P/BV (x)	3.5	3.2	2.8
P/Adj. BV	4.3	3.5	2.9
Div. Yield (%)	-	0.8	2.2

Shareholding pattern (%)

	Jun'23	Sep'23	Dec'23
Promoter	86.5	86.5	86.5
–Pledged	0	0	0
FII	0.7	0.6	0.5
DII	6.4	5.2	4.7
Others	6.4	7.8	8.4

Stock Performance



Manjith Nair
manjithnair@systematixgroup.in
+91 22 6704 8065

Pashmi Chheda
pashmichheda@systematixgroup.in
+91 22 6704 8063

Nirali Chheda
niralichheda@systematixgroup.in
+91 22 6704 8019

We recently concluded a domestic NDR with the senior management team of Bank of Maharashtra. Management remained enthused about the growth prospects for the bank and guided towards maintaining its current trajectory of superior operating performance. Assessment (refer Exhibit 1&2) of the PSU banking sector reveals that BoMH ranks first amongst the peer banks in 23 out of 26 parameters. BOMH share's outperformance over BANKNIFTY (by 105%) and PSU bank index (by 41%), during TTM, reflects its improved operational performance. In our view, continuity of policy at a macro level coupled with the bank's superior liability franchise and clean balance sheet sets up the stage for ~ 40% earnings growth and RoA of ~1.5%+ over FY25.

Key takeaways from the investor interactions were –

1. **Set on path to becoming a Rs5Tn business mid-sized bank:** As of 3QFY24, BOMH has a 1.3% market share of system deposits and 1.2% of system advances. It does a total business of Rs4.3Tn and is guiding for 18-20% yoy growth in advances and ~15% yoy growth in deposits. At the current run-rate, it is set to cross the Rs5Tn business benchmark over the next year. At that scale of business, BOMH would be a mid-size PSU bank with top quartile operational performance.

2. **RoA guidance of c.1.4-1.5% in FY24/FY25 (3Q24 RoA: 1.5%; 9MFY24 RoA: 1.4%).** Drivers of RoA would be: (i) continued growth momentum with NIMs +/- 10bps of current levels (ii) lower provisioning run-rate due to NNPAs at 0.22% and non-NPA provisions of ~0.95% of std. advances (iii) carry forward losses of ~Rs80bn resulting in nil current tax liabilities for FY25.

3. **Management reiterated advances growth guidance** of 18-20% in FY24/FY25. **Deposit growth guidance** is 15% yoy in FY24 (15-16% growth since FY21). With respect to the gold loan portfolio buyout from NBFCs, the bank has done relevant due diligence and collection efficiency remains intact with Nil NPAs as on date.

4. **Near term NIMs expected to be around 3.7-3.9% vs 3.9% in 9MFY24**. Tailwinds to NIM from **(i)** management continues to focus on improving the mix of higher yielding assets. This is reflected in higher RAM share (+400bps YTD to 61%), higher share of other retail loans (+114bps YTD), higher share of Agri ancillary within Agri (+300bps YTD), improved mix of micro industries within MSME (+300bps YTD) and higher share of AA rated corporates within corporate book (+400bps YTD) **(ii)** bank is not aggressively sourcing long term bulk deposits (max. rates < 8%p.a) as it has excess SLR of Rs. 120bn, C-D ratio of 77% and LCR at 142%. **(iii)** re-finance from SIDBI at rates < 5.5% and 10bps MCLR hike done in 4Q so far. Headwinds to NIM from **(i)** two more quarters of deposit back-book repricing remaining and 25bps increase in incremental deposit costs.

5. **Other income to be supported by recoveries from the TWO pool** (o/s of Rs 196bn). While trading profits are likely to be impacted post the implementation of the new investment guidelines, effective April'24, it is also likely to reduce P&L volatility in the longer term. To manage the initial fallout from this transition, the bank has set aside a provision of Rs 1bn.

Investors are advised to refer disclosures made at the end of the research report.

6. **CIR to remain supported by provision writebacks, productivity benefits and ramp up of new branches.** The bank has excess provisions (Rs 1bn) on wage hikes as it has been providing at the rate of 20-22% vs the negotiated salary hike rate of 17%. It expects to write back part of this excess provision, post the ratification of the bill. Management continues to see productivity benefits from the ramp up of new branches and the digital transformation initiatives.

7. **Provision requirement to normalize** on buildup of contingency provisions towards ECL transition. Based on the current draft of RBI's norms towards transitioning to an ECL framework, management anticipates provisioning requirement of c. Rs25bn. As of 3QFY24, NNPA for the bank was 0.22% with contingent non-NPA provision buffer of c. Rs16bn (or 0.95% of std. advances). Considering the extant contingency buffer, the run-rate of additional provisions is expected to come down from the current quarterly trend of Rs2.5bn to Rs1-1.5bn (assuming a two-year period before transition to ECL framework).

8. The bank shifted to the new tax regime in the assessment year 2021-22. Given the outstanding carry forward losses of Rs. 80bn, management expects no tax liability for FY25 and minimal amount for FY26. This will aid the bank to achieve **earnings growth of ~40% yoy and RoA of ~1.5%+, in FY25, in our view.**

Valuation: The bank currently trades at a trailing P/B of 2.2x vs last 5-year average of 1x. That said, the RoA has also improved from -3% in FY19 to 1.4% in 9MFY24 (3QFY24: 1.5%) and is expected to remain near current levels.

Exhibit 1: Comparison of key parameters (domestic) of BOMH vs PSU banks – Dec'2023

Total Business			
	(Rs, bn)	yoy %	CD Ratio
BOMH	4,344	18.9	76.8
IOB	4,689	13.8	77.7
SBI	75,982	13.5	66.3
CBI	6,174	11.5	63.6
PNB	22,196	10.8	73.1
Canara	20,683	10.0	77.3
UCO	4,012	9.9	62.4
UBI	20,210	9.5	75.1
BOB	19,295	9.4	80.8
BOI	10,741	9.2	79.3
Indian	11,038	9.0	75.4
PJSB	2,019	7.8	70.6

Total Deposit		
	(Rs, bn)	yoy %
BOMH	2,457	17.9
SBI	45,679	12.8
CBI	3,777	9.5
PNB	12,893	9.1
UBI	11,543	8.5
PJSB	1,184	8.1
Canara	11,668	8.1
Indian	6,294	8.0
IOB	2,708	7.9
BOI	5,991	7.6
BOB	10,674	6.3
UCO	2,470	5.1

Gross Advances		
	(Rs, bn)	yoy %
IOB	1,981	23.1
BOMH	1,887	20.2
UCO	1,542	18.7
CBI	2,396	14.7
SBI	30,303	14.5
BOB	8,621	13.4
PNB	9,303	13.3
Canara	9,015	12.6
Indian	4,744	12.0
BOI	4,750	11.3
UBI	8,667	10.7
PJSB	836	7.5

CASA			
	(Rs, bn)	yoy %	CASA %
BOMH	1,233	12.7	50.2
CBI	1,845	4.8	49.0
BOI	2,613	5.9	43.9
IOB	1,185	5.5	43.8
PNB	5,475	6.0	42.5
SBI	18,813	4.5	41.2
Indian	2,589	7.7	41.1
BOB	4,343	4.0	40.7
UCO	929	4.1	37.6
UBI	3,971	5.6	34.4
PJSB	388	6.4	32.8
Canara	3,693	5.1	31.7

Current Deposit		
	(Rs, bn)	yoy %
BOMH	280	30.0
IOB	199	26.0
Indian	333	12.8
Canara	452	10.5
SBI	2,495	9.6
PJSB	46	9.0
PNB	686	6.3
UBI	708	5.4
CBI	175	4.8
UCO	96	2.8
BOB	646	-0.9
BOI	NA	NA

Savings Deposit		
	(Rs, bn)	yoy %
BOMH	954	8.5
Indian	2,256	7.0
PJSB	342	6.0
PNB	4,789	6.0
UBI	3,263	5.7
BOB	3,698	4.9
CBI	1,671	4.8
Canara	3,240	4.3
UCO	833	4.3
SBI	16,318	3.7
IOB	985	2.1
BOI	NA	NA

RAM		
Bank	(Rs, bn)	yoy %
BOMH	1,151	27.3
IOB	1,376	19.7
UCO	937	17.7
SBI	20,062	16.5
BOB	4,695	16.3
PNB	5,123	15.7
CBI	1,604	15.3
Canara	5,304	14.6
UBI	4,878	13.9
BOI	2,624	13.6
Indian	2,968	13.0
PJSB	430	11.8

Retail Advances		
Bank	(Rs, bn)	yoy %
BOMH	491	21.9
BOB	2,129	20.8
PNB	2,142	19.0
UCO	382	18.0
PJSB	153	15.5
BOI	1,054	15.4
SBI	12,963	15.3
IOB	466	14.2
CBI	688	14.1
Indian	993	14.0
UBI	1,734	12.6
Canara	1,536	12.1

Agriculture Advances		
Bank	(Rs, bn)	yoy %
BOMH	266	35.3
Canara	2,425	19.3
IOB	503	19.0
SBI	2,917	18.1
UBI	1,776	17.9
Indian	1,144	16.0
BOI	803	14.2
UCO	234	13.2
BOB	1,342	12.6
PNB	1,541	11.5
CBI	447	9.9
PJSB	120	6.1

MSME Advances		
Bank	(Rs, bn)	yoy %
BOMH	394	29.1
IOB	406	27.9
CBI	470	23.1
UCO	322	20.8
SBI	4,181	19.2
PNB	1,440	15.4
BOB	1,224	13.1
PJSB	157	12.8
BOI	766	10.6
UBI	1,367	10.5
Canara	1,343	9.5
Indian	832	7.0

GNPA		
Bank	(Rs, bn)	%
BOMH	39	2.0
SBI	867	2.4
BOB	323	3.1
UCO	69	3.9
IOB	84	3.9
Canara	417	4.4
Indian	228	4.5
CBI	108	4.5
UBI	433	4.8
BOI	302	5.4
PJSB	48	5.7
PNB	604	6.2

NNPA		
Bank	(Rs, bn)	%
BOMH	4	0.2
Indian	26	0.5
IOB	13	0.6
SBI	224	0.6
BOB	72	0.7
PNB	88	1.0
UCO	17	1.0
UBI	94	1.1
CBI	30	1.3
Canara	122	1.3
BOI	76	1.4
PJSB	14	1.8

PCR	
Bank	%
BOM	98.4
IOB	96.9
Indian	95.9
UCO	95.2
PNB	94.3
CBI	93.7
BOB	93.4
UBI	92.5
SBI	91.5
BOI	90.0
Canara	89.0
PJSB	88.2

NII		
Bank	(Rs, bn)	yoy %
BOMH	25	24.6
PNB	103	12.1
Canara	94	9.5
UBI	92	6.3
Indian	58	6.0
IOB	24	5.6
SBI	398	4.6
CBI	31	2.7
BOB	111	2.6
UCO	20	1.8
BOI	55	-2.0
PJSB	7	-8.2

Operating profit		
Bank	(Rs, bn)	yoy %
BOMH	20	27.3
IOB	18	15.6
PNB	63	10.8
UBI	73	10.0
CBI	19	6.9
Indian	41	1.0
Canara	68	-2.1
BOB	70	-14.8
UCO	11	-17.4
BOI	30	-18.0
SBI	203	-19.4
PJSB	3	-19.5

Net profit		
Bank	(Rs, bn)	yoy %
PNB	22	253.4
BOI	19	62.0
UBI	36	60.0
CBI	7	56.8
Indian	21	52.0
BOMH	10	33.6
IOB	7	30.2
Canara	37	26.9
BOB	46	18.8
UCO	5	-23.0
SBI	92	-35.5
PJSB	1	-69.4

*Source: Company, Systematix Institutional Research *wherever domestic figures are not available, global figures are taken*

Exhibit 2: Comparison of key parameters (domestic) of BOMH vs PSU banks – Dec'2023

PPoP to total Income	
Bank	**%**
BOMH	34.4
Indian	25.5
UBI	25.0
IOB	23.9
BOB	22.3
PNB	21.1
CBI	21.1
Canara	21.1
BOI	18.3
UCO	17.5
SBI	17.2
PJSB	9.7

Net Profit to Total Income	
Bank	**%**
BOMH	17.7
BOB	14.6
Indian	13.2
UBI	12.3
BOI	11.4
Canara	11.3
IOB	9.7
CBI	7.9
UCO	7.8
SBI	7.8
PNB	7.4
PJSB	4.0

YoA	
Bank	**%**
BOMH	9.0
BOB	9.0
CBI	8.9
PJSB	8.9
SBI	8.9
IOB	8.9
UCO	8.8
Indian	8.8
UBI	8.8
Canara	8.6
PNB	8.5
BOI	8.4

CoD	
Bank	**%**
BOMH	4.4
BOI	4.6
CBI	4.7
SBI	4.8
IOB	4.8
UCO	4.9
PNB	4.9
Indian	5.0
BOB	5.0
UBI	5.3
Canara	5.4
PJSB	5.6

YoI	
Bank	**%**
BOB	7.0
SBI	7.0
Canara	6.9
PJSB	6.8
Indian	6.8
PNB	6.8
UBI	6.7
BOI	6.7
BOMH	6.6
UCO	6.5
IOB	6.4
CBI	6.4

NIM	
Bank	**%**
BOMH	4.0
Indian	3.5
SBI	3.3
PNB	3.3
CBI	3.3
BOB	3.2
BOI	3.2
IOB	3.1
UBI	3.1
Canara	3.0
UCO	3.0
PJSB	2.5

Cost to Income	
Bank	**%**
BOMH	36.0
UBI	43.8
Indian	46.9
BOB	49.6
Canara	50.4
PNB	51.2
IOB	51.4
BOI	54.9
CBI	56.9
SBI	60.3
UCO	60.7
PJSB	74.8

CRAR	
Bank	**%**
BOMH	16.9
IOB	16.8
PJSB	16.1
BOI	16.1
UCO	16.0
Canara	15.8
Indian	15.6
UBI	15.0
CBI	14.7
BoB	14.7
PNB	14.6
SBI	13.1

RoA	
Bank	**%**
BOMH	1.6
BOB	1.2
Indian	1.1
UBI	1.1
Canara	1.0
IOB	0.9
BOI	0.8
CBI	0.7
UCO	0.7
SBI	0.6
PNB	0.6
PJSB	0.3

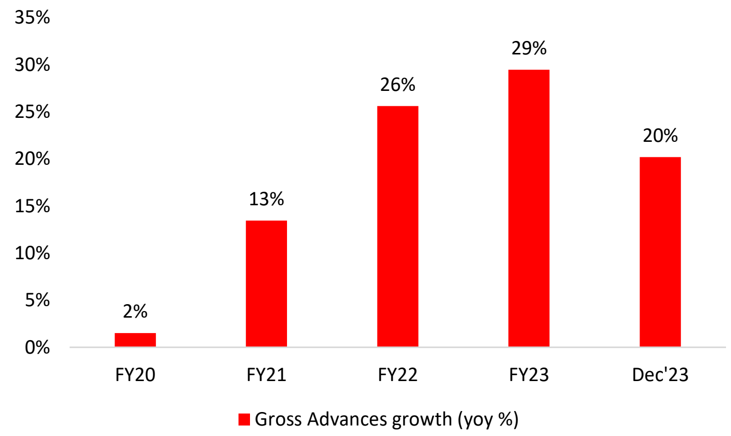
RoE	
Bank	**%**
BOMH	24.5
Canara	21.1
Indian	19.9
BOB	19.9
SBI	19.5
IOB	17.7
UBI	17.3
BOI	15.0
UCO	13.1
PNB	12.5
PJSB	6.2
CBI	2.7

*Source: Company, Systematix Institutional Research *wherever domestic figures are not available, global figures are taken*

Focus on improving high yielding advances mix

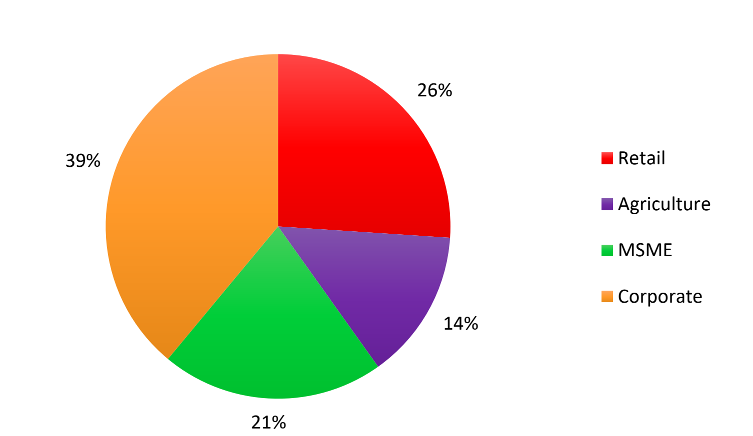
Loan book of BOMH increased at 21% yoy in 3QFY24 vs. FY19-Dec'23 CAGR of 16% reflecting the strong underlying growth momentum within the segments that the bank operates in. As of Dec'23, the bank's loan portfolio mix consists of RAM (61%) and Corporate (39%). The RAM portfolio is well diversified between Retail (26%), Agri (14%) and MSME (21%). **Retail portfolio** is mainly dominated by Housing loans (57%), Vehicle and education loans at 4-5% each and balance 33% share is of other loans which mainly consist of gold loans, LAP, staff loans, and Personal loans. In the **home loan** segments, it offers competitive rates starting at 8.35% (with no processing fees) as compared to key players like HDFCB (8.5% onwards + processing fees) and SBI (8.6% onwards). **The personal loans** (c.Rs25bn, 1.3% of total advances) are mainly given to the bank's salaried customers and government employees where the lending is backed by salary and pension. Within **Gold loans**, (2.4% of gross advances), the bank has a small pool of portfolio purchased from NBFCs on which it has done due diligence on the gold collateral and collection efficiency is intact with the portfolio having Nil NPA as of date. Within **Corporate loans**, the average ticket size (ATS) for mid-corporates is Rs. 100-500mn and large corporates is Rs. 5bn. The bank's calibrated approach to growth has resulted in the book degrowing by -2% YTD (+11% yoy). The share of corporate loans has reduced to 39% in 3QFY24 vs 43% in FY23. However, it alluded to seeing green shoots in corporate credit demand.

Exhibit 3: FY19-Dec'23 Gross advances CAGR of 16%



Source: Company, Systematix Institutional Research

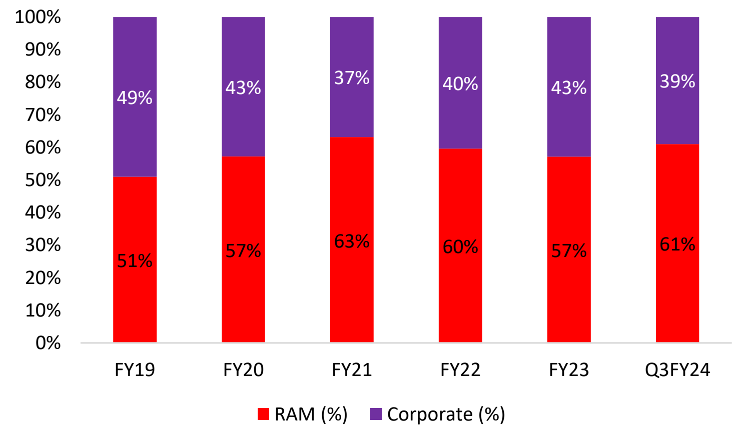
Exhibit 4: Loan mix consists of RAM (61%) and Corporate (39%)



Source: Company, Systematix Institutional Research

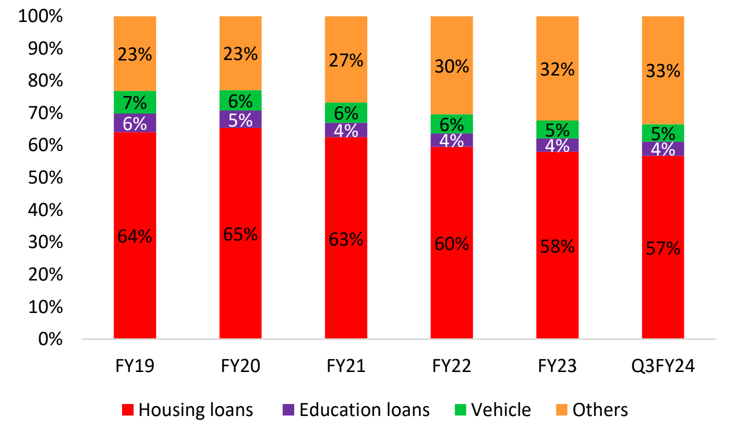
The management reiterated its focus on improving the proportion of higher yielding assets. As of Dec'23, **RAM** segment increased to 61% of advances vs 57% as of Mar'23. **Retail share** increased by +125bps YTD due to faster growth in higher yielding other retail loans (mix increased to 33.5%, +114bps YTD) like gold loans and unsecured personal loans. Within **Agri**, the management has shifted its focus to agri infra and agri allied segments away from the riskier MKCC portfolio. Share of agri ancillary within agri increased to 43% as of 3QFY24 vs 40%/32% in FY23/FY22. Within **MSME**, the bank is focusing on higher yielding micro industries segment the mix of which has increased to 66% in 3QFY24 (vs 63% in FY23).

Exhibit 5: Credit growth led by increasing share of RAM



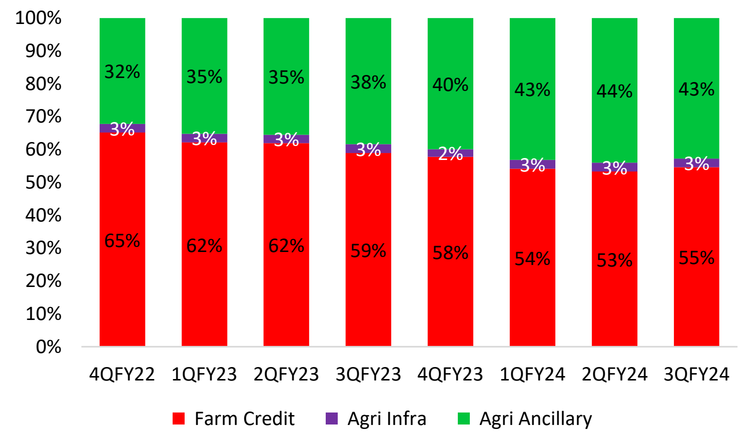
Source: Company, Systematix Institutional Research

Exhibit 6: Retail growth led by increasing share of higher yielding other retail loans



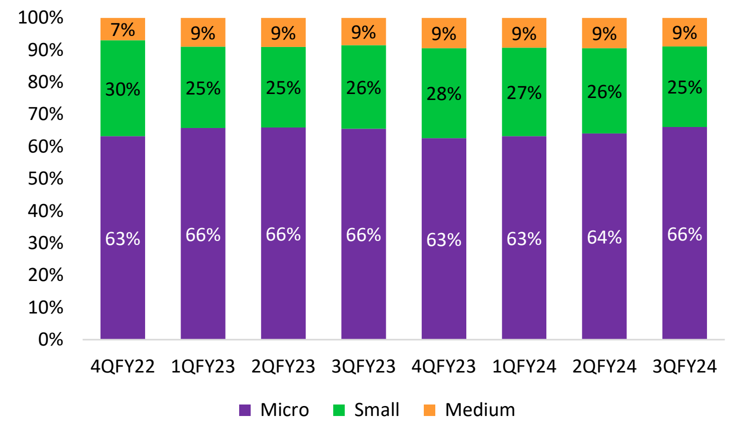
Source: Company, Systematix Institutional Research

Exhibit 7: Increasing mix of Agri Ancillary within Agri portfolio



Source: Company, Systematix Institutional Research

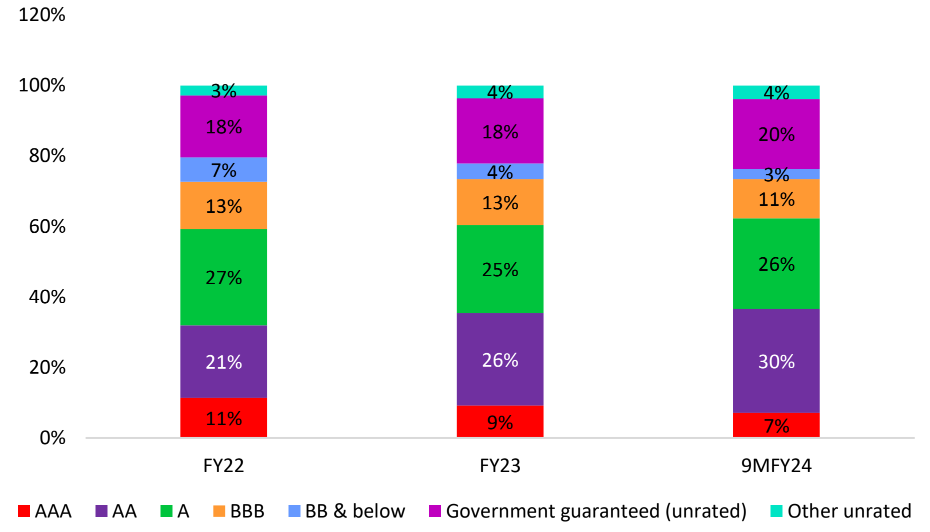
Exhibit 8: Improving mix of higher yielding micro industries MSME



Source: Company, Systematix Institutional Research

In the corporate segment, it has adopted a calibrated approach to growth and is focusing on increasing the profitability of this book. As a result, the share of AA rated corporates has increased to 30% as of Dec’23 vs 26% Mar’23 while (i) the share of lower quality BBB and below rated corporates has reduced to 14% as of Dec’23 vs 17% as of Mar’23 (ii) share of low yielding AAA rated corporates, has reduced to 7% vs 9% as of Dec’23. The bank has passed on the cost of higher risk weights to their NBFC clients. To safeguard against credit risks (i) The bank is careful in terms of onboarding new corporates below BBB rated and (ii) it has limits on state-wise exposure and ATS. Yields (c.8.5-9.5%) on the corporate book are higher than the retail book (c.8.25%-8.5%) due to presence of higher proportion of housing loans in the retail book.

Exhibit 9: Shift of exposure from lower yielding AAA and lower quality BBB to AA rated



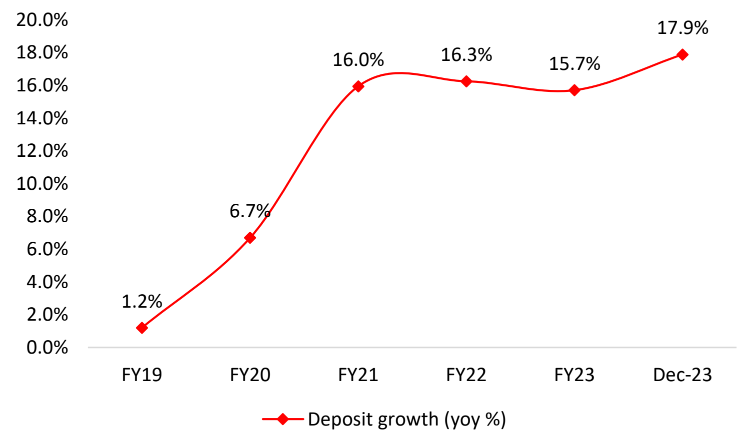
Source: Company, Systematix Institutional Research

The bank continues to guide advances growth of 18-20% in FY24 and beyond. While YTD growth remains only 8% (+21% yoy), management is confident of achieving full year implied 4Q growth target of 10-11% given (i) 4Q remains seasonally strong (ii) IBPCs sold in the past few quarters are likely to come back on its books.

CASA ratio remains the highest amongst the PSU banks

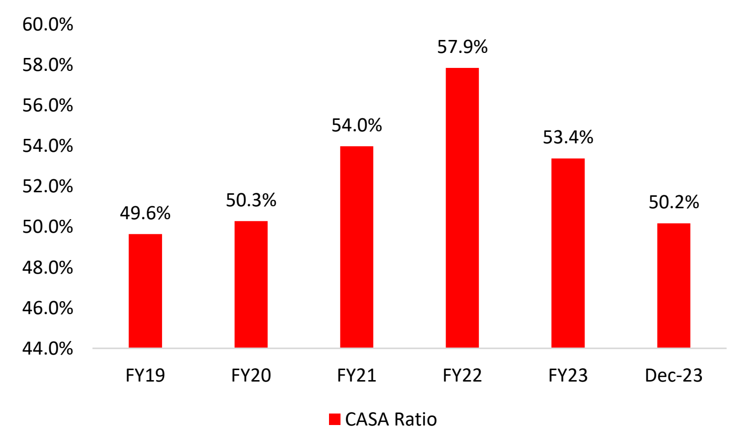
BOMH has an outstanding deposit base of Rs. 2.5trn which have grown by 15-16% since FY21 (5% YTD, 18% yoy) and outstanding CASA ratio of 50% (SA: 77% and CA: 23%) which is one of the highest amongst key PSU peers. Tie ups with key government institutions like BMC and MHADA also gives steady access to a low-cost CASA base. Digital initiatives in the recent years have led the bank to build further new tie-ups by being able to provide software support to government institutions and corporates to integrate their back-ends with the bank. The bank guided for deposit growth of 15% in FY24.

Exhibit 10: Deposit growth of 15-16% since FY21 (FY24 guidance: 15%)



Source: Company, Systematix Institutional Research

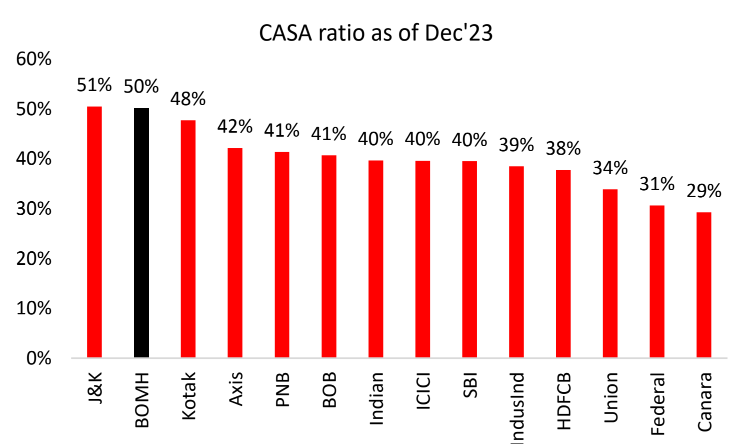
Exhibit 11: Healthy share of low-cost CASA driving low cost of funds



Source: Company, Systematix Institutional Research

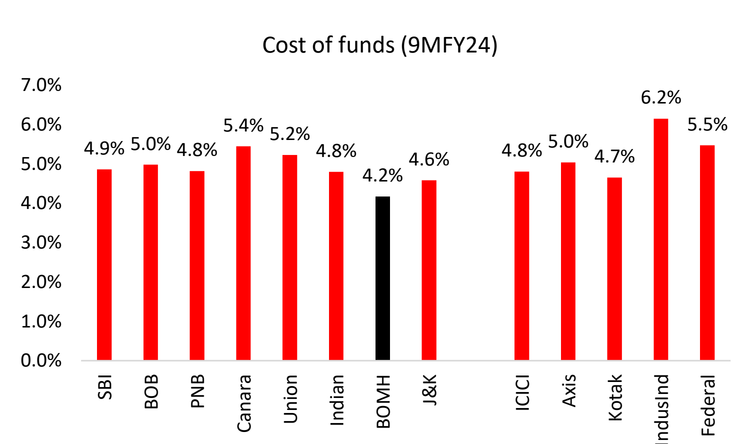
It offers SA rates of 2.75% on par with the largest PSU lender SBI (2.7%) and much lower than the largest private lender HDFC bank (3% for < Rs.5mn balance). This has resulted in the bank having the lowest cost of funds (3Q: 4.3%) as compared to PSU/Pvt peers.

Exhibit 12: One of the highest CASA ratios amongst peers….



Source: Company, Systematix Institutional Research

Exhibit 13: …driving lowest cost of funds amongst peers

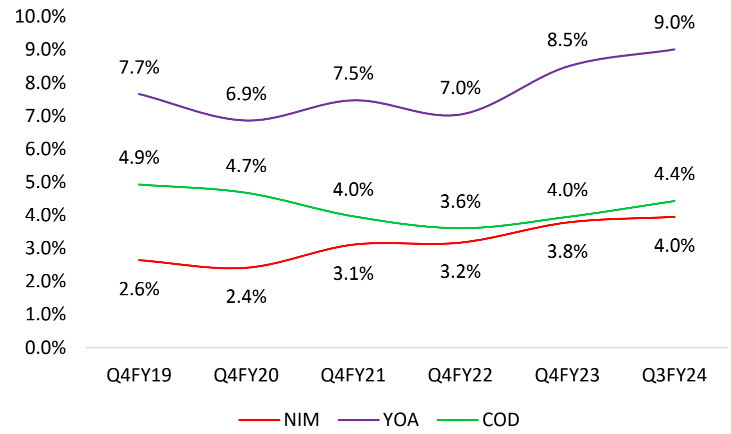


Source: Company, Systematix Institutional Research

Near term NIMs to around 3.7%-3.9% vs 3.9% in 9MFY24

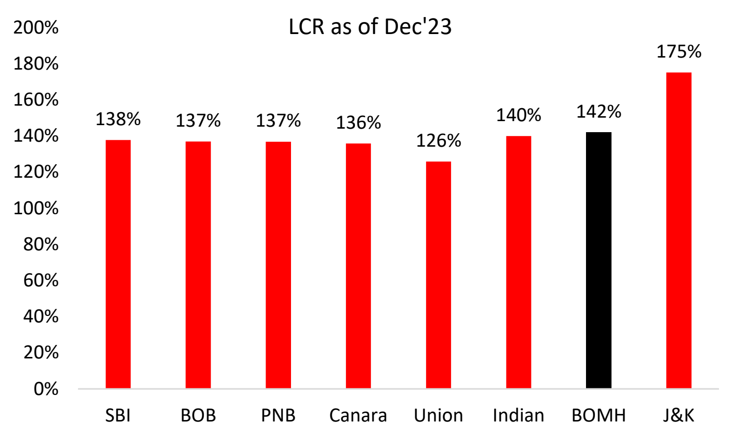
Tailwinds to NIM from (i) improving mix of higher yielding assets. (ii) bank is not aggressively sourcing long term bulk deposits (max. rates < 8%p.a) as it has excess SLR of Rs. 120bn, C-D ratio of 77% and LCR at 142%. It is instead opting for bulk deposits with tenure upto 1 year (with rates <7%). About 20% of the bulk deposits are from government institutions (iii) re-finance from SIDBI at rates < 5.5% and 10bps MCLR hike done in 4Q so far. Headwinds to NIM from (i) two more quarters of deposit back-book repricing remaining and (ii) 25bps increase in incremental deposit costs.

Exhibit 14: Margin expansion supported by higher yields and utilization of surplus liquidity



Source: Company, Systematix Institutional Research

Exhibit 15: However, LCR at 142% is well above regulatory threshold of 100% and higher than most key peers



Source: Company, Systematix Institutional Research

Other income to be supported by recoveries from the TWO pool

The bank's investment mix consists of 75% as Held to Maturity (HTM) and 25% as Available for Sale (AFS). With respect to the new investment guidelines starting 1-Apr'24, the management highlighted that:

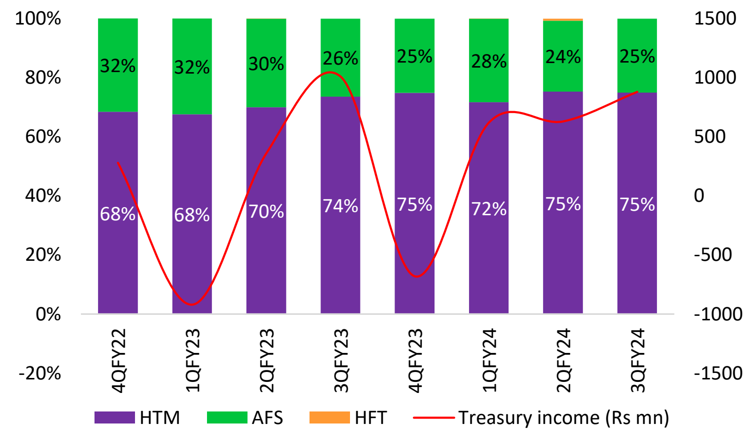
1) Trading profit may get impacted as banks will no longer be allowed to shift the book between HTM and AFS which was a key driver of gains in last 2 quarters for many PSU banks.

2) P&L volatility is likely to reduce given MTM gains on the AFS book will directly be booked under AFS reserve and not flow through the P&L.

3) In 3QFY24, the bank has set aside Rs1bn of provision to manage fallout from transition to new regulation.

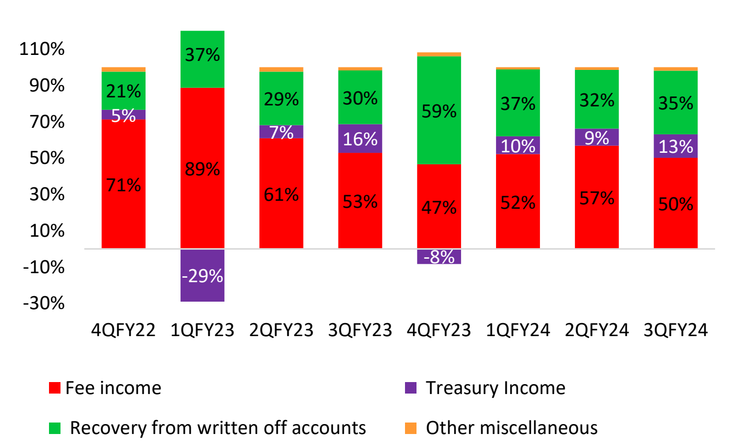
Further, given the outstanding TWO pool of Rs. 196bn, other income will be supported by recoveries from written off accounts with 9MFY24 run rate of Rs 6.85bn vs Rs 9.4bn in FY23.

Exhibit 16: New investment guidelines to impact inter-category movement while reducing P&L volatility.



Source: Company, Systematix Institutional Research

Exhibit 17: Recoveries from written off accounts to aid other Income

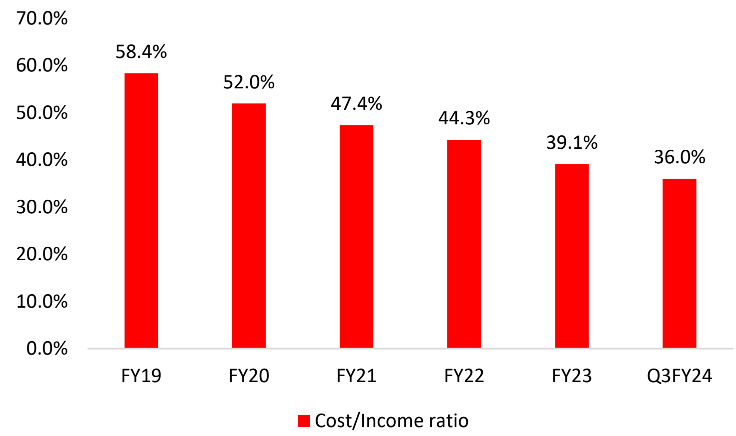


Source: Company, Systematix Institutional Research

CIR to remain supported by provision writebacks, productivity benefits and ramp up of new branches.

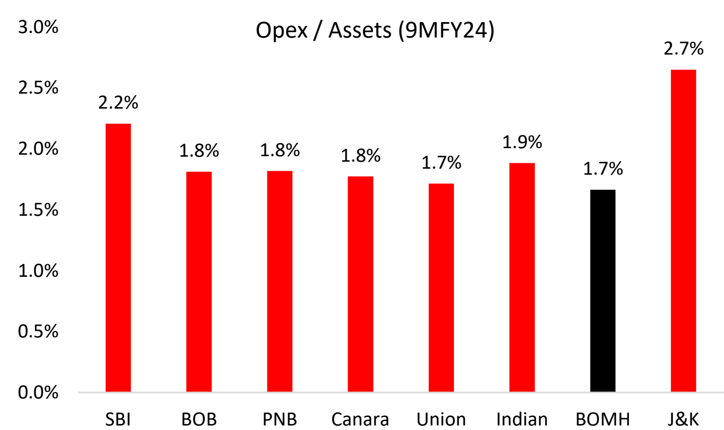
BOMH's opex to asset ratio at 1.6% is lowest amongst PSU peers and its CIR has declined by 200bps YTD. This is despite providing for wage hikes at the rate of 20-22% vs 17% negotiated hike. This has resulted in the bank having excess wage provision to the tune of Rs.1bn (c.15% of employee costs per quarter), some of which it expects to write-back post the ratification of the bill. Further, it has hired BCG to drive digital transformation initiatives. Digital costs are likely to increase, partly offset by productivity benefits on the back of this. The bank has added 273 branches in the last 4 quarters and is expected to add >200 branches in FY25 also. Ramp up of the newly opened branches (11% of branches have been opened in last 12 months) is also likely to drive further cost savings.

Exhibit 18: CIR declined 200bps YTD despite wage hikes….



Source: Company, Systematix Institutional Research

Exhibit 19: …with opex/assets remaining lowest amongst peers



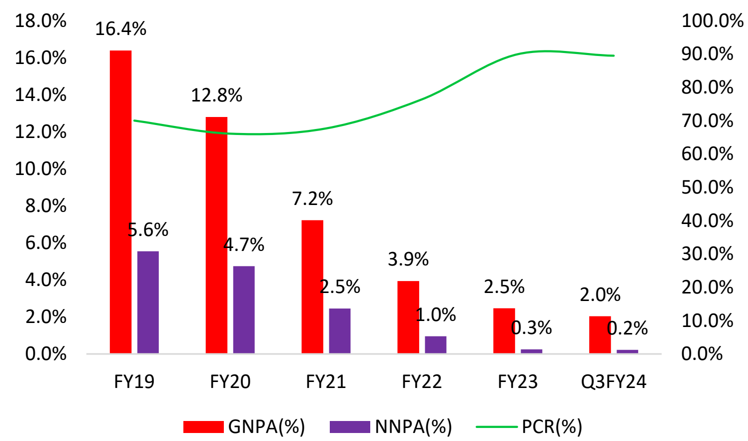
Source: Company, Systematix Institutional Research

Provision requirement to normalize on buildup of contingency provisions.

BOMH's GNPA/NNPA has significantly declined from 16.4%/5.6%, as of Mar'19, to 2%/0.22%, as of Dec 2023. This was mainly on account of lower incremental slippages, stable recoveries, and higher write-offs. As of Dec'23, GNPAs for large corporates stood at 0.2% (-40bps YTD), agriculture at 9.1% (-90bps YTD). Likewise, the GNPA for retail and MSME reduced to 0.4% (-24bps YTD) and 2.7% (-110bps YTD) respectively. To safeguard against credit risks (i) The bank is cautious on boarding new corporates below BBB rated and (ii) it has limits on state-wise exposure and ATS.

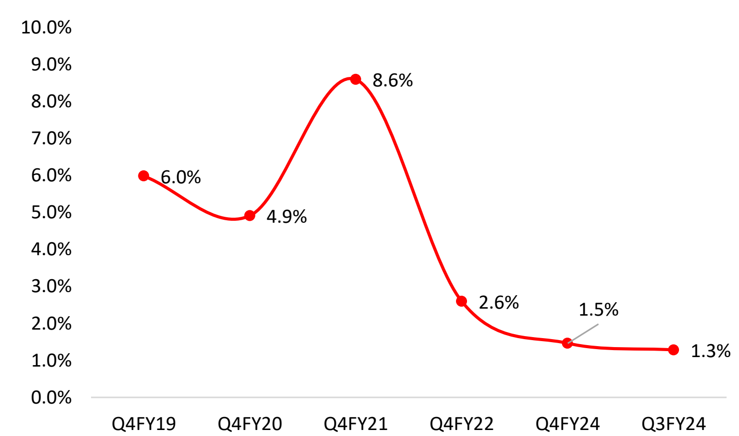
Key asset quality metrics viz. GNPA (2%), NNPA (0.22%), PCR (90%) are the best amongst the peer PSU banks. That said, its 9MFY24 credit costs at 1.3% remain elevated as compared to peers as the bank was providing more than the IRAC requirements in order to increase its PCR and also to build-up contingent buffer for ECL transition. 9MFY24 provisions of Rs 27bn consists of 20% of IRAC provisions and 80% of non-NPA excess provisions. Credit costs as per IRAC norms are less than 0.5% (vs 1.3% 9MFY24). Going forward, the bank remains confident of reducing provisions as (i) PCR has reached 90% and (ii) the bank has now built contingent provision buffer of about Rs 16bn. Management anticipates as total requirement of Rs25bn for the ECL transition. This implies incremental buffer creation to the tune of only Rs 1-1.5bn per quarter vs about Rs 2-3bn taken in last 3 quarters each. This is adequate to build a contingency buffer, over two years, of c. Rs25bn.

Exhibit 20: Significant improvement in asset quality……



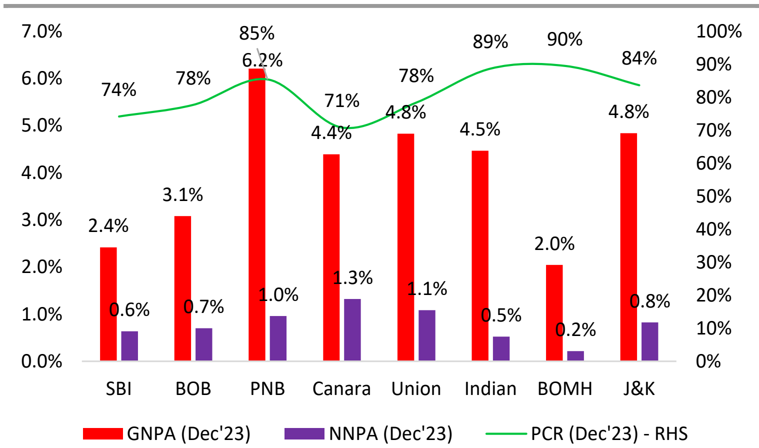
Source: Company, Systematix Institutional Research

Exhibit 21: …. on the back of lower slippages



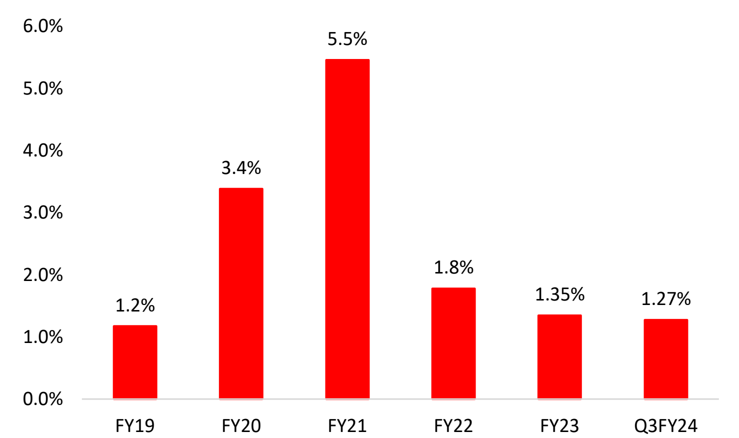
Source: Company, Systematix Institutional Research

Exhibit 22: GNPA/NNPA lowest amongst peers



Source: Company, Systematix Institutional Research

Exhibit 23: Aggregate provisioning requirement to decline.

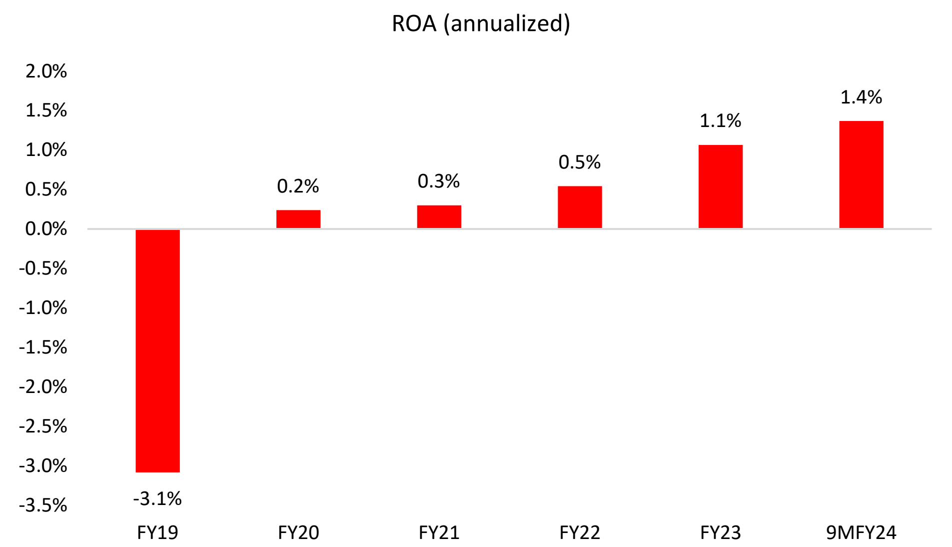


Source: Company, Systematix Institutional Research

RoA to remain broadly stable around 1.4-1.5%

The bank has shifted to the new tax regime in assessment year 21-22. Given the outstanding carry forward losses of Rs. 80bn, it sees no tax liability for FY25 and minimal for FY26. Additional non-NPA provision run-rate is also expected to reduce to Rs 1-1.5bn per quarter vs current run-rate of Rs2.5bn. Thus, FY25 earnings is expected to get a fillip from lower provisioning run rate and negligible taxes. Based on the points discussed thus far, management continued to guide for RoA of 1.4%-1.5% vs 9M RoA of 1.4% and 3QFY24 RoA of 1.5%.

Exhibit 24: RoA to remain between 1.4-1.5%



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY20	FY21	FY22	FY23	9MFY24
Interest Income	115	119	130	159	150
Interest Expenses	72	70	70	82	78
Net Interest Income	**43**	**49**	**60**	**77**	**72**
Change (%)	14.6	14.5	23.4	28.1	30.3
Commission, Ex. & Br. Inc.	9	10	12	13	10
Add: Other income	8	16	14	10	9
Net Income	**59**	**75**	**87**	**100**	**92**
Change (%)	12.3	26.9	15.6	15.2	31.4
Operating Expenses	31	36	38	39	34
PPOP	**28**	**40**	**48**	**61**	**58**
Change (%)	29.6	39.1	22.4	25.8	36.6
Provisions	25	30	29	27	27
PBT	**4**	**10**	**20**	**34**	**31**
Tax	-	4	8	8	3
Tax Rate (%)	-	42.3	41.3	24.5	8.2
PAT	**4**	**6**	**12**	**26**	**28**
Change (%)	-108.1	41.6	109.3	126.0	61.0
Proposed Dividend	-	-	3	9	NA

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY20	FY21	FY22	FY23	9MFY24
Capital	58	66	67	67	71
Reserves & Surplus	49	56	72	89	124
Net Worth	**108**	**121**	**139**	**156**	**194**
Change (%)	87.4	12.8	14.4	12.4	24.6*
Deposits	**1,501**	**1,740**	**2,023**	**2,341**	**2,457**
Change (%)	6.7	16.0	16.3	15.7	17.9
CASA Ratio (%)	50.3	54.0	57.9	53.4	50.2
Borrowings	**37**	**42**	**77**	**108**	**73**
Other Liabilities	44	63	67	72	69
Total Liabilities	**1,689**	**1,967**	**2,306**	**2,677**	**2,794**
Change (%)	2.6	16.5	17.3	16.1	12.8
Investments	577	681	686	689	667
Cash & Bank balance	104	129	199	185	187
Loans	**869**	**1,024**	**1,312**	**1,712**	**1,852**
Change (%)	5.1	17.9	28.1	30.5	21.0
Fixed Assets	17	17	22	22	21
Other Assets	121	115	87	69	66
Total Assets	**1,689**	**1,967**	**2,306**	**2,677**	**2,794**

Source: Company, Systematix Institutional Research.

** Raised Rs 10bn in 1QFY24 via QIP*

Dupont

YE: Mar (%)	FY20	FY21	FY22	FY23	9MFY24
Interest Income	6.9	6.5	6.1	6.4	7.3
Interest Expended	4.3	3.8	3.3	3.3	3.8
Net Interest Income	**2.6**	**2.7**	**2.8**	**3.1**	**3.5**
Commission, Ex. & Br. Inc.	0.5	0.6	0.6	0.5	0.5
Treasury Income	0.5	0.9	0.7	0.4	0.5
Total Net income	**3.6**	**4.1**	**4.1**	**4.0**	**4.5**
Operating Expenses	1.8	2.0	1.8	1.6	1.7
PPOP	**1.7**	**2.2**	**2.3**	**2.4**	**2.8**
Provisions	1.5	1.6	1.4	1.1	1.3
PBT	**0.2**	**0.5**	**0.9**	**1.4**	**1.5**
Tax	0.0	0.2	0.4	0.3	0.1
PAT	**0.2**	**0.3**	**0.5**	**1.0**	**1.4**
Leverage	20.2	16.0	16.4	16.9	15.6
RoE	**4.7**	**4.8**	**8.9**	**17.6**	**21.6**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22	FY23	9MFY24
Spreads Analysis (%)					
Yield on Advances	7.6	7.6	7.0	7.6	8.7
Yield on Earning Assets	7.5	7.0	6.5	6.6	7.6
Cost of Deposits	4.6	4.0	3.4	3.3	4.1
Cost of Funds	4.7	4.2	3.6	3.6	4.2
NIM	2.8	2.9	3.0	3.2	3.6
Profitability Ratios (%)					
Cost/Income	52.0	47.4	44.3	39.1	37.1
PPOP / Avg. assets	1.7	2.2	2.3	2.4	2.8
RoE	4.7	4.8	8.9	17.6	21.6
RoA	0.2	0.3	0.5	1.1	1.4
Asset Quality (%)					
GNPA (Rs bn)	122	78	53	43	39
NNPA (Rs bn)	41	25	13	4	4
GNPA	12.8	7.2	3.9	2.5	2.0
NNPA	4.7	2.5	1.0	0.3	0.2
PCR	66.1	67.7	76.4	90.0	89.5
Capitalisation (%)					
CAR	13.5	14.5	16.5	18.1	16.9
Tier I	10.7	11.0	12.4	14.2	12.9
Tier II	2.9	3.5	4.1	3.9	3.9
Average Leverage on Assets (x)	17.8	17.9	18.7	18.9	15.6
Valuations					
Book Value (Rs)	16.3	16.7	18.3	21.0	25.4
Adj. Book Value (Rs)	11.7	13.8	16.9	20.5	25.0
Price-BV (x)	3.6	3.5	3.2	2.8	2.3
Price-Adj. BV (x)	5.0	4.3	3.5	2.9	2.4
EPS (Rs)	0.7	0.8	1.7	3.9	5.3
EPS Growth (%)	-103.8	25.7	104.0	126.0	53.1
Price-Earnings (x)	88.4	70.3	34.5	15.3	11.0
Dividend (Rs)	-	-	0.5	1.3	NA
Dividend Yield (%)	-	-	0.8	2.2	NA

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	**Managing Director**	**+91-22-6704 8001**	**nikhil@systematixgroup.in**

Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Abhishek Mathur	FMCG	+91-22-6704 8059	abhishekmathur@systematixgroup.in
Ashish Poddar	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Manjith Nair	Banking, Insurance	+91-22-6704 8065	manjithnair@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Sameer Pardikar	IT & ITES	+91-22-6704 8041	sameerpardikar@systematixgroup.in
Sudeep Anand	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Devanshi Kamdar	IT & ITES	+91-22-6704 8098	devanshikamdar@systematixgroup.in
Hinal Kothari	Metals & Mining	+91-22-6704 8076	hinalkothari@systematixgroup.in
Jennisa Popat	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8066	jennisapopat@systematixgroup.in
Kalash Jain	Midcaps	+91-22-6704 8038	kalashjain@systematixgroup.in
Krisha Zaveri	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8023	krishazaveri@systematixgroup.in
Mahek Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8040	mahekshah@systematixgroup.in
Nirali Chheda	Banking, Insurance	+91-22-6704 8019	niralichheda@systematixgroup.in
Pashmi Chheda	Banking, Insurance	+91-22-6704 8063	pashmichheda@systematixgroup.in
Pranay Shah	Consumer Durables, EMS, Building Materials, Small-Mid Caps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Pravin Mule	NBFCs & Diversified Financials	+91-22-6704 8034	pravinmule@systematixgroup.in
Prathmesh Kamath	Oil & Gas, Logistics, Cement, Wagons	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Ronak Dhruv	NBFCs & Diversified Financials	+91-22-6704 8045	ronakdhruv@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Swati Saboo	Midcaps	+91-22-6704 8043	swatisaboo@systematixgroup.in
Vivek Mane	Pharmaceuticals and Healthcare	+91-22-6704 8046	vivekmane@systematixgroup.in
Yogeeta Rathod	Midcaps	+91-22-6704 8081	yogeetarathod@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Jignesh Desai	Sales	+91-22-6704 8068	jigneshdesai@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shreya Chaudhary	Sales	+91-22-6704 8033	shreyachaudhary@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Chintan Shah	Sales	+91-22-6704 8061	chintanshah@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Mrunal Pawar	Vice President & Head Corporate Access	+91-22-6704 8088	mrunalpawar@systematixgroup.in
Darsha Hiwrale	Associate Corporate Access	+91-22-6704 8083	darshahiwrale@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in

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Systematix Shares and Stocks (India) Limited:
Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in
Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in
Details of Email id grievance redressal cell : grievance@systematixgroup.in
Details of Registration : CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 12034600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | AMFI : ARN - 64917