Equity Research
May 16, 2021
BSE Sensex: 48733

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Q4FY21 results review and earnings revision

Financials

Target price Rs171

Earnings revision

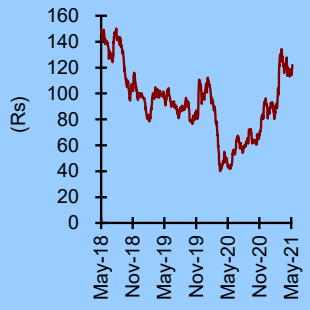
(%)	FY22E	FY23E
PAT	↑ 5	-

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	70.5	70.5	70.7
Institutional investors	14.6	14.9	15.0
MFs and others	1.6	1.4	1.4
Banks/FIs	0.1	0.1	0.1
Insurance Cos.	2.5	2.5	2.5
FIIs	10.4	10.9	11.0
Others	14.9	14.6	14.3

Source: BSE

Price chart



Research Analysts:

Kunal Shah
kunal.shah@icicisecurities.com
+91 22 6637 7572

Ansuman Deb
ansuman.deb@icicisecurities.com
+91 22 6637 7312

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6637 7465

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6637 7658

Ravin Kurwa
ravin.kurwa@icicisecurities.com
+91 22 2277 7653

INDIA

ICICI Securities

Aditya Birla Capital

BUY
Maintain

Operating performance gathers momentum; company poised for RoE improvement

Rs121

Aditya Birla Capital reported consolidated PAT of Rs3.75bn in Q4FY21 (up 2.6x YoY and 30% QoQ) – ahead of our expectations. Q4FY21 earnings showed the company's ability to structurally pave the growth path while simultaneously undergoing granularisation, retailisation and diversification within business segments. In the lending business, there was a 7% QoQ portfolio growth (after consolidation phase), improvement in NIM (~6%) and uptick in RoA/RoE profile (2.2%/12.5%). Growth in HFC business was skewed towards the affordable segment. Operating performance of the life insurance business gathered momentum in line with industry trends. Health insurance losses too narrowed to Rs2bn in FY21 (Q4FY21 combined ratio at 107%). Further investment in franchise, cross-sell and leveraging digital, will aid it improve RoE profile. Maintain BUY.

- **Aditya Birla Finance (ABFL) – rebound in NIMs and surge in RoA/RoE:** Disbursements more than doubled YoY (up 53% QoQ) helping ABFL move out of the consolidation phase. Share of retail+SME+HNI in the overall book inched up to 56% -- getting closer to the target of 65% by FY24E. Core NIM improved QoQ from 5.04% to 5.54%. With resolution of a further Rs1.75bn of corporate assets in Q4FY21, stage-3 assets declined QoQ to 2.68% (*vs* 3.07% in Q3FY21). Rebound in NIM to ~6%, cost to income at 32%, and controlled credit cost at 1.22%, aided sharp boost to RoA to 2.2% (*vs* 1.7% in Q3FY21) and RoE to 12.5% (*vs* 9.5% in Q3FY21).
- **Aditya Birla Housing (ABHL) – skewed towards affordable housing:** Disbursements picked momentum (up 47% YoY / 36% QoQ) with 52% skewed towards affordable housing. The rising mix of the higher yielding affordable housing to 27% (18% in FY20), supported margin expansion – up 17bps QoQ and 77bps YoY to 3.85%. Collection efficiency deteriorated to 95.2% in Mar'21. Stage-3 assets came off marginally to 1.83% (from 1.9%) and ABHL has restructured 4% of loans (56% classified in stage-1). With an improving NIM profile and controlled credit cost at 0.8%, the company reported RoA of 1.2% and RoE of 10%.
- **Life insurance APE and net VNB grew 17% YoY/75% in FY21.** Performance in H2FY21 gathered momentum in line with industry trend and protection growth / net VNB margin in Q4FYF21 was 23%/ 19.4% YoY. Performance metrics such as opex ratio (19.2% in FY21), persistency (13th/61st month at 84%/15%) and VNB margin (16% in FY21) continued to show positive momentum. We expect APE to clock 17% CAGR between FY21-FY23E with VNB/EV reaching Rs4.8/80bn by FY23E. Health insurance narrowed losses to Rs2bn in FY21 with Q4FY21 combined ratio at 107%. The rising severity of covid/non-covid claims remains a temporary overhang.

Market Cap	Rs293bn/US$4bn
Reuters/Bloomberg	ADTB.BO/ABCAP IN
Shares Outstanding (mn)	2,415.3
52-week Range (Rs)	134/42
Free Float (%)	29.5
FII (%)	11.0
Daily Volume (US$'000)	7,255
Absolute Return 3m (%)	36.9
Absolute Return 12m (%)	172.2
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	58.3

Year to Mar	FY20	FY21P	FY22E	FY23E
Revenue (Rs mn)	1,80,280	2,04,873	2,21,724	2,59,290
PBT (Rs mn)	16,870	19,732	26,054	32,781
PAT (Rs mn)	9,200	11,270	15,671	19,790
Net Worth (Rs mn)	1,25,758	1,37,426	1,53,097	1,72,887
EPS (Rs)	3.8	4.7	6.5	8.2
Book Value (Rs)	52.1	56.9	63.4	71.6
P/E (x)	31.9	26.0	18.7	14.8
P/BV (x)	2.3	2.1	1.9	1.7
RoA (%)	0.8	0.9	1.2	1.3
RoE (%)	8.3	8.6	10.8	12.1

Aditya Birla Finance (ABFL)

Incremental disbursements targeted towards retail/SME and building granularity

In line with its stated strategy, incremental disbursements in Q4FY21 were targeted towards select growth segments of retail and SME. Disbursements at Rs65.7bn more than doubled YoY and were up 53% QoQ led by 80% QoQ growth in retail and 55% in SME segment. Proportion of retail+SME+HNI in overall disbursements was almost 64% and thereby its share in overall book inched up to 56% -- getting closer to its targeted level of 65% by FY24E. Robust disbursement momentum helped it register 7% QoQ growth in the loanbook to Rs487bn and move out of consolidation phase to a marginal 3% YoY growth phase for FY21.

Company is further investing in distribution franchise; it added 41 new branches in FY21 taking the total to 94 branches. Further, it plans to add 125 more lean branches in tier II/III locations over the next 12-18 months. We believe a diversified loan mix, strong funding benefit, robust customer leverage, and extensive distribution and digital adoption will help ABFL clock >13-15% AUM CAGR over FY21-FY23E.

Sharp rebound in NIMs to ~6%

Core NIMs improved QoQ from 5.04% to 5.54% as yields improved 20bps with the rising proportion of retail + SME in overall portfolio mix and repricing across the portfolio. New business is sourced at a yield of 12.9%, almost 100bps higher than the portfolio yield of 11.85%. Also, strong parentage and diversified liability profile helped ABFL effectively optimise the borrowing cost – down 30bps QoQ to 7.21%. This, coupled with 25bps QoQ rise in fee income/assets, supported overall NIMs at 5.98% (compared to 5.2% in Q3FY21 and 5% in Q4FY20).

Activity levels and investments keep cost to assets elevated

Company has been investing in stepping up its distribution franchise (branches, agents, etc.) and building a technology platform. In addition to this, robust disbursement growth and related origination costs led to 13% QoQ rise in opex and cost to income continued around 32%. Though ABFL exited Q4FY21 with opex to assets of 1.9%, with management focus on technology and cross-sell, there should be definite improvement in cost ratios. We believe 30% cost to income and 1.6-1.7% cost to assets should support operating profit upwards of 3.5%.

Stage-3 assets at 2.7%; restructuring at 2.3%

With resolution of a further Rs1.75bn of corporate assets in Q4FY21 (over and above the Rs5.5bn in 9MFY21), stage-3 assets declined QoQ to 2.68% (from 3.07% in Q3FY21 and 3.61% in Q4FY20). This quarter there was some increase in unsecured retail to Rs2.3bn (from Rs1.7bn). The restructured pool has risen to 2.3% of advances (from 1.5%) and more than 50% of the restructured pool is classified in stage-2. Company also indicated that stage-2 assets for FY21 settled at 6.8%. On the overall stress pool, it is carrying a provisioning buffer of 1.5% (including 26bps of covid buffer). Credit cost in Q4FY21 and H2FY21 was contained at 1.2-1.3% (along the guided lines).

RoA touched 2.2% and RoE 12.5%

Rebound in NIMs to ~6%, cost to income at 32% and controlled credit cost at 1.22% aided sharp boost to RoA profile to 2.2% (from 1.7% in Q3FY21) and RoE to 12.5% (from 9.5% in Q3FY21). Group will stay put on its strategic priorities and – with further franchise investment, cross-sell/up-sell and leveraging digital, data and analytics – it can make a further respectable mark in the RoE profile. Given mid-teens growth momentum, capital requirement in the interim will be limited.

Outlook for NBFC business

We believe strong focus on retail and SME (scaling it up to 65%), investing in distribution franchise (adding 125 lean branches in tier-2/3 cities), robust customer leverage and group synergies, will help it clock 13-15% AUM CAGR. This, coupled with improvement in NIMs, reduction in cost to income, and contained credit cost will aid garner RoA/RoE of 1.9%/11.4% and 2.1%/12.4% by FY22E/FY23E respectively.

Table 1: Incremental disbursements targeted towards retail + SME

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Portfolio mix (%)								
Large/Mid Corporate	236	223	217	213	208	197	198	197
SME	134	133	128	128	125	129	129	141
Retail	74	78	86	88	87	91	95	113
Promoter/HNIs	57	49	48	41	39	38	34	36
Total	**502**	**484**	**479**	**471**	**459**	**455**	**457**	**487**
Portfolio mix (%)								
Large/Mid Corporate	47%	46%	45%	45%	45%	43%	43%	40%
SME	27%	28%	27%	27%	27%	28%	28%	29%
Retail	15%	16%	18%	19%	19%	20%	21%	23%
Promoter/HNIs	11%	10%	10%	9%	8%	8%	8%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data, I-Sec research

Table 2: Lending book after consolidation moves to marginal growth phase

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Aditya Birla Finance								
Lending book (Rs bn)	502	484	479	471	459	457	457	487
YoY % Change	*13%*	*1%*	*-3%*	*-9%*	*-8%*	*-5%*	*-5%*	*3%*

Source: Company data, I-Sec research

Table 3: Portfolio mix change and optimising borrowing cost supports NIMs

Yields & Margins (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Average yield	12.4	12.3	12.3	12.1	11.6	11.8	11.5	11.9
Cost of borrowings	8.2	8.4	8.2	8.1	8.0	7.7	7.5	7.2
Net Interest Margin	5.4	5.1	5.2	5.0	4.8	5.3	5.2	6.0
Cost to Income ratio	28%	31%	31%	36%	31%	31%	32%	32%

Source: Company data, I-Sec research

Table 4: Corporate resolutions aid improvement in asset quality

Asset quality (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
GNPA (Rs mn)	8,479	8,948	12,980	16,970	16,550	15,760	14,040	13,050
NNPA (Rs mn)	5,218	5,998	9,220	11,310	10,170	8,740	8,630	7,150
GNPA	1.69%	1.85%	2.72%	3.62%	3.61%	3.46%	3.07%	2.68%
NNPA	1.04%	1.24%	1.95%	2.40%	2.21%	1.92%	1.89%	1.47%
Coverage	38%	33%	28%	34%	39%	45%	38%	45%

Source: Company data, I-Sec research

Aditya Birla Housing (ABHL)

Disbursements skewed towards affordable housing; focus on granularity…

Disbursements picked momentum – rising 47% YoY and 36% QoQ to Rs11.3bn with 52% skewed towards affordable housing. This helped increase the proportion of affordable housing to 27% (24% in Q3FY21 and 18% in FY20). Further, ~26% of ABHL's affordable housing portfolio is backed by the Indian Mortgage Guarantee Corporation and ~47% of the portfolio is eligible for PMAY subsidy. However, with reduced focus on prime home loans (proportion down by almost 10pps YoY and 3pps QoQ to 44%), the housing finance AUM was flat QoQ (down 2% YoY).

The approach in housing finance business is to increase retailisation, achieve greater granularity (lowering the average ticket size further to Rs2.6mn – down 16% YoY) and scale down construction finance exposure.

…and higher margin profile

The rising mix of higher yielding affordable housing and informal segments coupled with consistent reduction in borrowing cost has led a large part of margin expansion – up 17bps QoQ and 77bps YoY to 3.85%. New business is sourced at a yield of 11.4%, almost 100bps higher than the portfolio yield of 10.4%.

Tapping growth in smaller cities

ABHL has demonstrated sound execution capabilities by stepping up its distribution franchise (with presence across 74 branches pan-India and has 2,700-plus channel partners). It is now focused on widening its reach outside metros and tapping growth in smaller cities/towns following the hub and spoke model. It has added 21 new locations in FY21 in tier-3/4 cities and is augmenting the frontline capabilities. Currently, non-metro loanbook mix is 49% of the overall loanbook and is expected to scale up further much beyond 50%.

Stage-3 at 1.83%; restructuring at 4%; collection efficiency 95.2%

Collection efficiency has slightly deteriorated from 96.3% in Dec'20 to 95.2% in Mar'21. Stage-3 assets came off marginally to 1.83% (from 1.9%) and the company has restructured 4% of loans (56% classified in stage-1). On this stress pool, it is carrying a provisioning buffer of 1.2% (including 35bps of covid buffer).

RoA at 1.2% and RoE at 10%

With an improving NIM profile at 3.85%, cost to income at 39% and controlled credit cost at 0.8%, ABHL reported an RoA profile of 1.2% (for Q4FY21 as well as FY21) and RoE of 10% (from 9.5% in Q3FY21). It will leverage on opportunities in affordable housing segment and high yielding informal segment to drive growth in the range of 18-20% and NIMs upwards of 4%. With operating leverage benefit expected to play out (cost to income reducing to <30%), housing finance business will have potential to generate RoA/RoE of 1.4%/12.0% and 1.6%/14.0% by FY22/23E, respectively.

Table 5: Focus on granularity and affordable housing

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Portfolio mix (%)								
Home Loan	56%	55%	54%	53%	53%	50%	47%	45%
Loan against Property	23%	24%	24%	24%	27%	28%	25%	24%
Construction Finance	7%	6%	5%	5%	4%	4%	4%	4%
Affordable Housing	14%	16%	17%	19%	16%	18%	24%	27%
Total	**100%**	**101%**	**100%**	**101%**	**100%**	**100%**	**100%**	**100%**

Source: Company data, I-Sec research

Table 6: Lending book stable since the past few quarters

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Aditya Birla Housing Finance Lending book (Rs bn)	118	121	122	121	121	121	119	119
YoY % Change	*29%*	*22%*	*13%*	*6%*	*3%*	*0%*	*-3%*	*-2%*

Source: Company data, I-Sec research

Table 7: Margins rise, led by funding cost benefit

Yields & Margins (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Average yield	10.5	10.4	10.4	10.3	10.4	10.3	10.3	10.2
Cost of borrowings	8.5	8.4	8.4	8.2	8.0	7.9	7.6	7.4
Net Interest Margin	3.1	3.0	3.0	3.1	3.3	3.3	3.7	3.9

Source: Company data, I-Sec research

Table 8: Asset quality largely stable, coverage up QoQ as well as YoY

Asset quality (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
GNPA (Rs mn)	793	1,027	1,268	1,464	1,456	1,503	1,353	2,170
NNPA (Rs mn)	556	749	890	992	983	945	890	1,380
GNPA	0.67%	0.85%	1.04%	1.21%	1.20%	1.24%	1.89%	1.82%
NNPA	0.47%	0.62%	0.73%	0.82%	0.81%	0.78%	1.26%	1.16%
Coverage	30%	27%	30%	32%	33%	37%	33%	36%

Source: Company data, I-Sec research

Aditya Birla Sun Life Insurance

Overall APE grew 17% YoY and Net VNB grew 75% YoY in FY21.

Individual APE improves in H2FY21 in line with industry trends: Aditya Life reported individual first year premium of Rs3.3bn / Rs4.6bn / Rs5.5bn / Rs7.4bn in Q1/Q2/Q3/Q4FY21.On similar lines, group first year premium stood at Rs5.9bn / Rs6.2bn / Rs6.8bn / Rs5.96bn. FY21 individual / group first year premium stood at Rs21bn / Rs25bn, up 15% / 34% YoY. Overall first year premium grew 25%**.** Renewal premium rose 20% YoY in FY21 to Rs52bn. Persistency for 13m/25m/61m improved 100bps / 500bps / 200bps to 84% / 73% / 51%.

Net VNB continued to improve on account of growth in premium and improvement in mix: Net VNB came in at Rs(-)0.17bn / Rs0.13bn / Rs0.80bn / Rs2.19bn in Q1/H1/9M/FY21**.** On similar lines, net VNB margin improved from (-)5% in Q1FY21 to 1.6% in H1FY21, 5.9% in 9MFY21, and 10.6% in FY21. Q4FY21 VNB improved to 19.4% from 11% in Q4FY20.

Non-par mix improved in FY21; individual protection reported strong growth in Q4FY21: Individual protection grew 23% YoY in Q4FY21. However, protection mix remained at 6% in FY21. On FY21 basis, non-par mix improved from 42% in FY20 to 53% in FY21, while par mix declined from 20% to 11% and ULIP mix shrunk from 32% to 30%.

Good performance on cost front: Cost ratio (including commission) improved 240bps to 19.2% in FY21. Overall cost ratio improved from 23.5% / 22.5% / 23.1% / 23% / 23.7% / 21.6% / 19.2% in FY15 / FY16 / FY17 / FY18 / FY19 / FY20 / FY21.

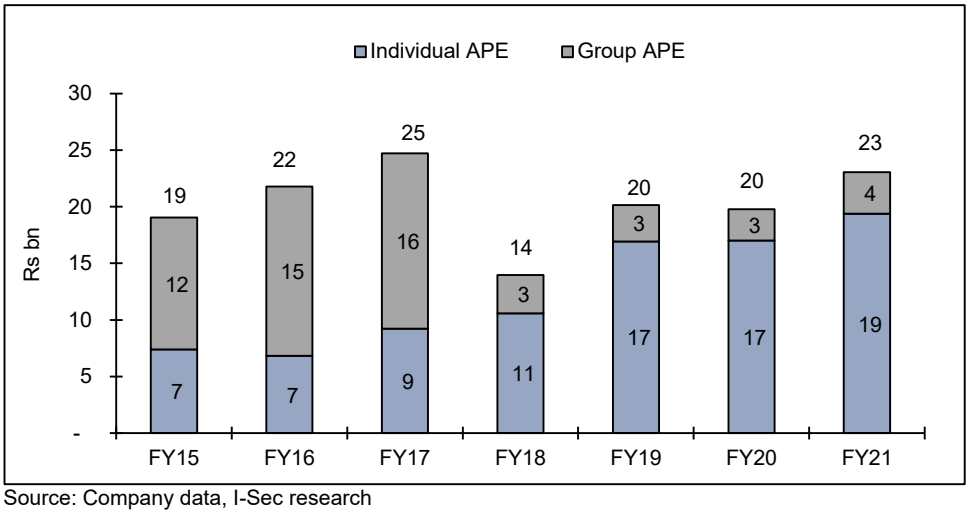
Embedded value stood at Rs64bn: EV rose 24% YoY driven by economic variance of Rs5.4bn, unwind of profit Rs4bn (unwind rate stood at 8.5%) and net VNB of Rs2bn. ROEV stood at 13.7**%**.

Table 9: Performance overview of FY21 vs. FY20

	FY20	FY21	% change
Ind FYP (Rs mn)	18040	20760	15%
Group FYP (Rs mn)	18540	24880	34%
Renewal Premium (Rs mn)	43530	52120	20%
Gross Premium (Rs mn)	80110	97760	22%
Cost ratio	FY20	FY21	
Comm to gross premium	6%	5%	
Opex to gross premium	16%	14%	
Total Cost ratio	22%	19%	
Product Mix	FY20	FY21	Chg in bps
ULIP	32	30	-200
Par	20	11	-900
Non-par	42	53	1100
Protection	6	6	0
	FY20	FY21	Chg in bps
13m	83	84	100
25m	68	73	500
61m	49	51	200
EV (Rs bn)		FY21	
Op		51.9	
VNB		2.19	
Unwind @7.5%		4.41	
Economic variance		5.41	
Op and Assumption changes		0.52	
Embedded value		64.43	

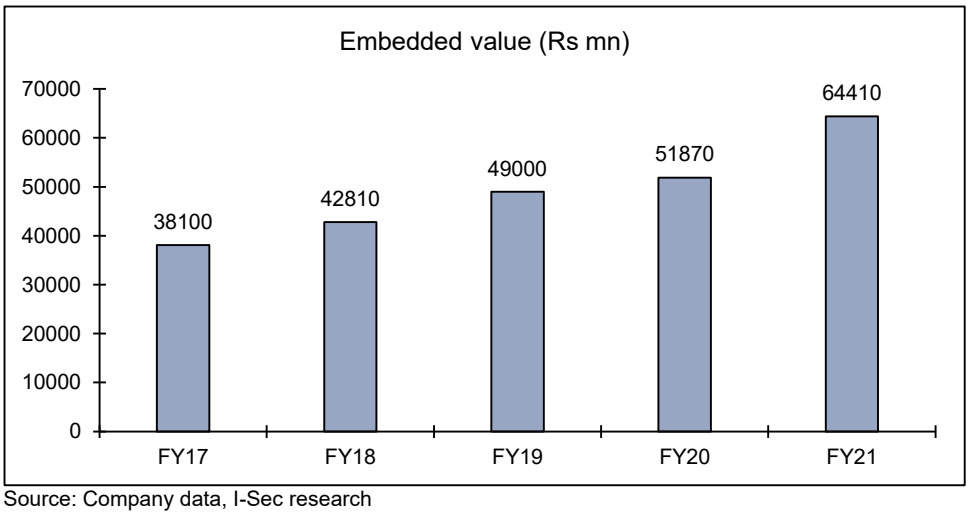
Source: Company data, I-Sec research

Chart 1: APE trend over the past few years



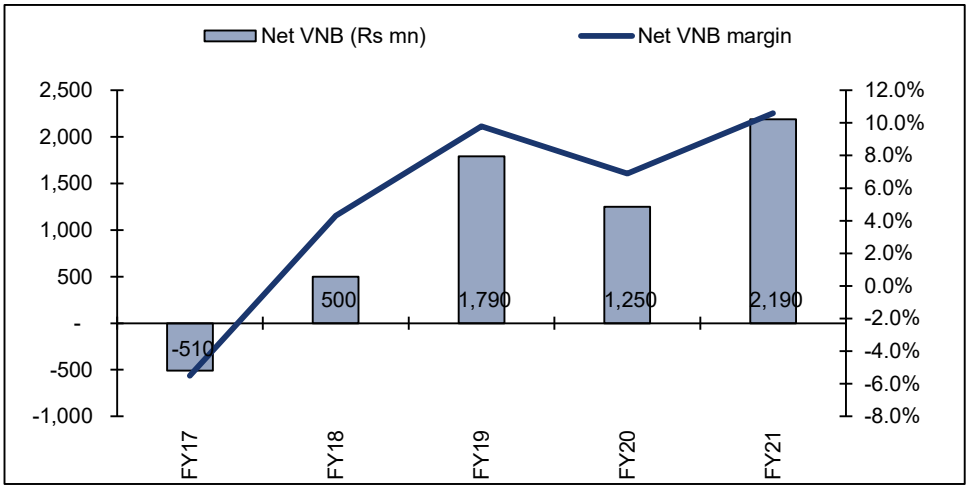
Source: Company data, I-Sec research

Chart 2: Embedded value improving consistently YoY



Source: Company data, I-Sec research

Chart 3: Net VNB margin climbs after a dip in FY20



Source: Company data, I-Sec research

Table 10: EV walk over the coming years

(Rs bn)	**FY20**	**FY21**	**FY22**	**FY23**
APE	18	21	24.5	28.2
VNB Margin (Net)	6.90	10.60	12.0	17.0
VNB	1.25	2.2	2.9	4.8
EV		**FY21**	**FY22**	**FY23**
Op		51.9	64.4	70.0
VNB		2.2	2.9	4.8
Unwind @7.5%		4.4	5.2	5.6
Economic variance		5.41	-2.5	0
Embedded value		64.4	70.0	80.4

Source: Company, I-Sec research

Aditya Birla Health (ABHL)

Strong performance in health segment: Gross written premium witnessed robust growth of 49% with retail mix of 72% (being a SAHI, ABHL has room to increase its retail mix). Claims ratio improved from 59% in FY20 to 51% in FY21. Combined ratio improved from 134% in FY20 to 120% in FY21. Q4FY21 combined ratio was 107%. Banca mix (retail GWP) remained steady at 64%.

Rising claims can impact profitability: Our channel checks suggest there has been an increase in severity of covid as well non-covid claims.

Table 11: Performance overview of FY21 vs. FY20

(Rs mn)	FY20	FY21	YoY growth
GWP	8,720	13,010	49.2%
Retail	6,300	9,400	49.2%
Group	2,420	3,610	49.2%
Revenue	8,030	12,140	51.2%
PBT	-2,460	-1,990	NM
			Chg in bps
Claims ratio (%)	59	51	-800
COR (%)	134	120	-1400

Source: Company, I-Sec research

Other highlights

ABHL is optimising its portfolio with rationalisation of loss-making businesses (other businesses' PBT was up 83% YoY to Rs1.3bn). Company exited FY21 with cost savings Rs3bn.

Leveraging digital technology and analytics

The group is poised to: 1) leverage voice technologies for customer convenience (industry's first contact centre on cloud, implemented 20 audio visual voice bots, etc.); 2) build digital assets for distribution partners (advisor portal, video co-browsing, etc.); 3) technologies for differentiated customer experience (omni channel orchestration, speech analytics); 4) leverage analytics and advanced AI/ML models (customer retention, advisor activation, etc).

Financial summary (consolidated)

Table 12: Consolidated Revenue and PAT over the past eight quarters

(Rs mn, year ending Mar 31)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Consolidated Revenue	36,270	39,759	43,257	48,449	40,346	45,891	50,260	55,868
Consolidated PAT (post-MI)	2,511	2,558	2,505	1,537	1,984	2,643	2,887	3,752

Source: Company, I-Sec research

Table 13: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Consolidated revenues	1,28,410	1,65,700	1,80,280	2,04,873	2,21,724	2,59,290
Consolidated PBT	14,380	17,970	16,870	19,732	26,054	32,781
Consolidated PAT (post MI)	6,930	8,710	9,200	11,270	15,671	19,790

Source: Company, I-Sec research

Table 14: Balance sheet

(Rs mn, year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
Share Capital	22,010	22,014	24,138	24,153	24,153	24,153
Reserves & Surplus	64,544	73,110	1,01,620	1,13,273	1,28,944	1,48,734
Net Worth	**86,555**	**95,124**	**1,25,758**	**1,37,426**	**1,53,097**	**1,72,887**
Borrowings	4,44,725	5,63,242	5,55,836	5,26,750	6,21,865	7,13,055
Other liabilities	4,09,411	4,38,554	4,56,096	5,78,788	6,64,970	7,62,746
Total Liabilities	**9,40,690**	**10,96,920**	**11,37,690**	**12,42,963**	**14,39,932**	**16,48,687**
Cash & Bank	10,901	10,860	31,273	28,112	78,006	1,19,763
Loans & Advances	5,10,862	6,18,883	5,84,375	5,97,256	6,89,676	7,97,038
Investments	3,92,828	4,33,197	4,77,331	2,94,290	3,23,719	3,56,091
Other Assets	26,098	33,981	44,712	3,23,306	3,48,531	3,75,796
Total Assets	**9,40,690**	**10,96,920**	**11,37,690**	**12,42,963**	**14,39,932**	**16,48,687**

Source: Company, I-Sec research

Table 15: Key ratios

(Year ending Mar 31)

	FY18	FY19	FY20	FY21P	FY22E	FY23E
EPS	3.1	4.0	3.8	4.7	6.5	8.2
Book Value	48.2	43.2	52.1	56.9	63.4	71.6
P/E (x)	38.6	30.7	31.9	26.0	18.7	14.8
P/BV (x)	2.5	2.8	2.3	2.1	1.9	1.7
RoA (%)	0.7	0.9	0.8	0.9	1.2	1.3
RoE (%)	8.0	9.6	8.3	8.6	10.8	12.1

Source: Company, I-Sec research

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