Asset quality improved; Better MFI portfolio

Summary
IndusInd’s MFI portfolio which was key concern area reported improvement in credit growth (up 5% YoY) along with better asset quality (GNPA 2.9% vs 3.4% QoQ). Further, credit growth remains strong at 18% YoY; Deposit growth improved to 15% YoY vs 13% YoY (Q1FY23). Management guided for credit growth of 20% for FY23. Asset quality improved as GNPA stood at 2.11% vs 2.35% QoQ led by lower slippages. Restructured book declined to 1.5% vs 2.1% QoQ. NII grew by 18% YoY (up 4.3% QoQ); NIMs improved by 17bps YoY. PAT grew by 60% YoY due to decline in provisions (down 33% YoY). Bank maintains overall provision of Rs26.5bn as standard contingent provisions. We revised estimates slightly upwards and maintained ‘BUY’ rating with a TP of Rs1,450 (Rs1,260) at P/ABV of 1.8x FY24E (earlier 1.6x) with better clarity on MFI book.

Key Highlights and Investment Rationale
- **Strong Credit growth**: Credit growth remains strong at 18% YoY backed by corporate book growth (23% YoY) with fresh lending picked up. Retail book now stands at 53% of the total loans with addition of Business Banking and MFI portfolio to it. Deposits grew by 15% YoY led by 15% YoY growth in CASA.
- **Asset quality improved; 1.5% restructured book**: GNPA at 2.11% vs 2.35% QoQ; NNPA at 0.61% vs 0.67% QoQ with stable PCR at 72%. Bank restructured book stands at 1.5% of book (vs 2.1% Q1FY23). Bank maintains 3% loan related provisions which provided cushion from adverse impact on P&L.
- **NIMs improved**: NIMs improved to 4.24% (4.07% YoY) led by rise in yields (up 12bps QoQ). Cost to Income ratio inch ed slightly (50bps) QoQ to 43.9% due to higher operating expenses (up 5% QoQ).
- **Outlook**: Continuation of business strategy under the new CEO has resulted in navigating through asset quality concerns better. Bank’s focus back to sustainable growth trajectory (PC 5 strategy) should result in re-rating.
Conference Call Highlights

Asset Quality:
- Gross Slippages reduced by 30% QoQ in Q2FY23 led by reduction in both standard as well as restructured slippages by 25% and 37% QoQ.
- Restructured book reduced by 1,277 Crs from 2.1% in Q1FY23 to 1.5% in Q2FY23.
- Loans related provisions stood at around 3% of loans with SMA1 and SMA2 book at 15 bps and 43 bps respectively.
- Gross Slippages in micro finance portfolio reduced to 435 Crs in Q2FY23 vs. 560 Crs in Q1FY23.
- Contingent Provisions during Q2FY23 stood at 2,653 Crs (1% of loans) around with total provisions being around 140% of the Gross NPA.

Asset Performances:
- Vehicle Finance portfolio reached highest every qtrly disbursement for Q2FY23 and stood at 10,664 Crs, growing by around 6% QoQ and 24% YoY.
- Current Account grew by around 8,900 Crs which more than half of the same comings towards the qtr. end (around 5,000 Crs of dividend mandate).
- Saving Account deposit reduced QoQ primarily due to introduction of centralized treasury settlement system in budgetary account.
- Affordable Housing book is around 1,600-1,900 Crs and the bank expects to grow the book to around 5,000 Crs. The book comes with a yield of around 11%.
- Expecting advances to grow by around 20% in FY23 and NIM to be in range of 4.15 and 4.25%
- Expecting branch count to increase to 2,500 by FY23 (2,320 in Q2FY23) and around 3,500 over next 3 year.
- Expecting Affluent and NRI book to witness strong growth and double over next 12-24 months and thereby contributing around 25,000-30,000 Crs towards the liability.
## Exhibit 1: Quarterly Snapshot

<table>
<thead>
<tr>
<th>Year-end: March</th>
<th>Q2FY23</th>
<th>Q2FY22</th>
<th>Q1FY23</th>
<th>YoY (%)</th>
<th>QoQ (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>87,080</td>
<td>76,504</td>
<td>81,818</td>
<td>13.8</td>
<td>6.4</td>
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<tr>
<td>Interest Expenses</td>
<td>44,060</td>
<td>39,920</td>
<td>40,565</td>
<td>10.4</td>
<td>8.6</td>
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<tr>
<td><strong>Net Interest Income</strong></td>
<td><strong>43,021</strong></td>
<td><strong>36,584</strong></td>
<td><strong>41,253</strong></td>
<td><strong>17.6</strong></td>
<td><strong>4.3</strong></td>
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<tr>
<td><strong>NIM (%)</strong></td>
<td>4.2</td>
<td>4.1</td>
<td>4.2</td>
<td>17 bps</td>
<td>3 bps</td>
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<td>Non-Interest Income</td>
<td>20,108</td>
<td>18,408</td>
<td>19,287</td>
<td>9.2</td>
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<td>Operating Income</td>
<td>63,129</td>
<td>54,992</td>
<td>60,540</td>
<td>14.8</td>
<td>4.3</td>
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<td>Staff Cost</td>
<td>7,347</td>
<td>6,016</td>
<td>6,604</td>
<td>22.1</td>
<td>11.3</td>
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<td>Other Op Exp</td>
<td>20,585</td>
<td>17,195</td>
<td>19,999</td>
<td>19.7</td>
<td>2.9</td>
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<td>Total Operating Expenses</td>
<td>27,932</td>
<td>23,211</td>
<td>26,603</td>
<td>20.3</td>
<td>5.0</td>
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<td><strong>Cost to Income (%)</strong></td>
<td>44.2</td>
<td>42.2</td>
<td>43.9</td>
<td>204 bps</td>
<td>30 bps</td>
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<td>Operating Profit</td>
<td>35,197</td>
<td>31,781</td>
<td>33,937</td>
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<td>Provisions</td>
<td>11,411</td>
<td>17,070</td>
<td>12,510</td>
<td>(33.2)</td>
<td>(8.8)</td>
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<td>PBT</td>
<td>23,786</td>
<td>14,711</td>
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<td><strong>-effective tax rate</strong></td>
<td>24.9</td>
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<td>25.2</td>
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<td>-29 bps</td>
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<td>PAT</td>
<td>17,867</td>
<td>11,135</td>
<td>16,033</td>
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<td>EPS (Rs)</td>
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<td>14.4</td>
<td>20.7</td>
<td>60.2</td>
<td>11.4</td>
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<td>BV (Rs)</td>
<td>651.5</td>
<td>582.7</td>
<td>641.4</td>
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<td>Deposits</td>
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<td>30,27,190</td>
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<td>4.4</td>
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<td>Advances</td>
<td>26,01,288</td>
<td>22,08,076</td>
<td>24,79,600</td>
<td>17.8</td>
<td>4.9</td>
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</table>

*Source: Company; IDBI Capital Research*
Exhibit 2: ROE Decomposition

<table>
<thead>
<tr>
<th>(%)</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
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<tbody>
<tr>
<td>NII</td>
<td>4.1</td>
<td>4.0</td>
<td>3.9</td>
<td>4.1</td>
<td>4.1</td>
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<td>Fees</td>
<td>2.2</td>
<td>1.5</td>
<td>1.8</td>
<td>1.7</td>
<td>1.8</td>
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<tr>
<td>Other Income</td>
<td>0.2</td>
<td>0.4</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
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<tr>
<td>Net Revenue</td>
<td>6.5</td>
<td>6.0</td>
<td>5.9</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td>Op.Exp</td>
<td>2.8</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
<td>2.6</td>
</tr>
<tr>
<td>Op.Profit</td>
<td>3.7</td>
<td>3.5</td>
<td>3.4</td>
<td>3.3</td>
<td>3.4</td>
</tr>
<tr>
<td>Provisions</td>
<td>1.6</td>
<td>2.4</td>
<td>1.7</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>PBT</td>
<td>2.1</td>
<td>1.1</td>
<td>1.6</td>
<td>2.3</td>
<td>2.4</td>
</tr>
<tr>
<td>Tax</td>
<td>0.6</td>
<td>0.3</td>
<td>0.4</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>PAT</td>
<td>1.5</td>
<td>0.8</td>
<td>1.2</td>
<td>1.7</td>
<td>1.8</td>
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<tr>
<td>Leverage (x)</td>
<td>9.5</td>
<td>8.6</td>
<td>8.4</td>
<td>8.3</td>
<td>8.1</td>
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<td>ROE</td>
<td>14.4</td>
<td>7.3</td>
<td>10.1</td>
<td>14.2</td>
<td>14.5</td>
</tr>
</tbody>
</table>

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV

1 yr fwd P/BV -SD 1.4 Avg 2.3 +SD 3.3

Source: Company; IDBI Capital Research
Exhibit 4: Advances growth continued to show strong growth momentum

Source: Company; IDBI Capital Research

Exhibit 5: Slippage ratio declined on a sequential basis

Source: Company; IDBI Capital Research
IndusInd Bank | Q2FY23 Result Review

Exhibit 6: Net Interest margin continued to witness uptrend

![Chart showing NIMs (%) from Q1FY22 to Q2FY23](chart)

Source: Company; IDBI Capital Research

Exhibit 7: Asset quality improved on a sequential basis

![Chart showing Gross NPA, Net NPA, and Provision coverage from Q1FY22 to Q2FY23](chart)

Source: Company; IDBI Capital Research
Exhibit 8: Deposits growth witnessed up tick during the qtr

Source: Company; IDBI Capital Research

Exhibit 9: Return on Assets continued to trend upward

Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio at its highest levels

Source: Company; IDBI Capital Research
Exhibit 11: Cost of Deposits increased sequentially

Exhibit 12: Yield on Advance increased sequentially

Exhibit 13: Return on Equity gaining strength on a sequential basis

Exhibit 14: Credit Cost at lowest levels and expects to be in the range of 120-150 bps for FY23
Exhibit 15: Cost to Assets also inched up

Exhibit 16: CAR remains comfortable

Source: Company; IDBI Capital Research

Source: Company; IDBI Capital Research
## Financial Summary

### Profit & Loss Account

<table>
<thead>
<tr>
<th>Year-end: March</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net interest income</strong></td>
<td><strong>88,462</strong></td>
<td><strong>1,20,587</strong></td>
<td><strong>1,35,279</strong></td>
<td><strong>1,50,008</strong></td>
<td><strong>1,74,935</strong></td>
<td><strong>1,98,025</strong></td>
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<tr>
<td>Change (yoy, %)</td>
<td><strong>36%</strong></td>
<td><strong>12%</strong></td>
<td><strong>11%</strong></td>
<td><strong>17%</strong></td>
<td><strong>13%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Fees</strong></td>
<td><strong>55,328</strong></td>
<td><strong>64,073</strong></td>
<td><strong>50,710</strong></td>
<td><strong>68,049</strong></td>
<td><strong>72,959</strong></td>
<td><strong>84,906</strong></td>
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<tr>
<td><strong>Other Income</strong></td>
<td><strong>1,140</strong></td>
<td><strong>5,440</strong></td>
<td><strong>14,876</strong></td>
<td><strong>5,921</strong></td>
<td><strong>6,028</strong></td>
<td><strong>6,522</strong></td>
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<tr>
<td><strong>Net Revenue</strong></td>
<td><strong>1,44,929</strong></td>
<td><strong>1,90,100</strong></td>
<td><strong>2,00,865</strong></td>
<td><strong>2,23,979</strong></td>
<td><strong>2,53,922</strong></td>
<td><strong>2,89,454</strong></td>
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<tr>
<td><strong>Operating expenses</strong></td>
<td><strong>64,047</strong></td>
<td><strong>82,373</strong></td>
<td><strong>83,598</strong></td>
<td><strong>95,593</strong></td>
<td><strong>1,13,199</strong></td>
<td><strong>1,24,857</strong></td>
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<tr>
<td><strong>Employee expenses</strong></td>
<td><strong>18,535</strong></td>
<td><strong>22,085</strong></td>
<td><strong>22,135</strong></td>
<td><strong>24,883</strong></td>
<td><strong>31,611</strong></td>
<td><strong>33,886</strong></td>
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<td><strong>Other expenses</strong></td>
<td><strong>45,512</strong></td>
<td><strong>60,288</strong></td>
<td><strong>61,463</strong></td>
<td><strong>70,709</strong></td>
<td><strong>81,588</strong></td>
<td><strong>90,971</strong></td>
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<tr>
<td><strong>Pre-Provision Profit</strong></td>
<td><strong>80,882</strong></td>
<td><strong>1,07,727</strong></td>
<td><strong>1,17,267</strong></td>
<td><strong>1,28,386</strong></td>
<td><strong>1,40,723</strong></td>
<td><strong>1,64,596</strong></td>
</tr>
<tr>
<td>Change (yoy, %)</td>
<td><strong>33%</strong></td>
<td><strong>9%</strong></td>
<td><strong>9%</strong></td>
<td><strong>10%</strong></td>
<td><strong>17%</strong></td>
<td></td>
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<tr>
<td><strong>Provision</strong></td>
<td><strong>31,077</strong></td>
<td><strong>46,521</strong></td>
<td><strong>79,425</strong></td>
<td><strong>66,650</strong></td>
<td><strong>43,292</strong></td>
<td><strong>50,569</strong></td>
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<td><strong>PBT</strong></td>
<td><strong>49,805</strong></td>
<td><strong>61,206</strong></td>
<td><strong>37,841</strong></td>
<td><strong>61,736</strong></td>
<td><strong>97,430</strong></td>
<td><strong>1,14,027</strong></td>
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<td><strong>Taxes</strong></td>
<td><strong>16,795</strong></td>
<td><strong>17,027</strong></td>
<td><strong>9,478</strong></td>
<td><strong>15,625</strong></td>
<td><strong>24,523</strong></td>
<td><strong>28,701</strong></td>
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<tr>
<td>Effective tax rate (%)</td>
<td><strong>34%</strong></td>
<td><strong>28%</strong></td>
<td><strong>25%</strong></td>
<td><strong>25%</strong></td>
<td><strong>25%</strong></td>
<td><strong>25%</strong></td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td><strong>33,010</strong></td>
<td><strong>44,179</strong></td>
<td><strong>28,364</strong></td>
<td><strong>46,111</strong></td>
<td><strong>72,907</strong></td>
<td><strong>85,327</strong></td>
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<td>Change (yoy, %)</td>
<td><strong>34%</strong></td>
<td><strong>-36%</strong></td>
<td><strong>63%</strong></td>
<td><strong>58%</strong></td>
<td><strong>17%</strong></td>
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<tr>
<td><strong>EPS</strong></td>
<td><strong>54.8</strong></td>
<td><strong>63.7</strong></td>
<td><strong>36.7</strong></td>
<td><strong>59.5</strong></td>
<td><strong>94.1</strong></td>
<td><strong>110.1</strong></td>
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<td>Return on Equity (%)</td>
<td><strong>13.1</strong></td>
<td><strong>14.4</strong></td>
<td><strong>7.3</strong></td>
<td><strong>10.1</strong></td>
<td><strong>14.2</strong></td>
<td><strong>14.5</strong></td>
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<tr>
<td>Return on Assets (%)</td>
<td><strong>1.3</strong></td>
<td><strong>1.5</strong></td>
<td><strong>0.8</strong></td>
<td><strong>1.2</strong></td>
<td><strong>1.7</strong></td>
<td><strong>1.8</strong></td>
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</table>
## Balance Sheet

<table>
<thead>
<tr>
<th>Year-end: March</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23E</th>
<th>FY24E</th>
</tr>
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<tbody>
<tr>
<td>Capital</td>
<td>6,027</td>
<td>6,935</td>
<td>7,734</td>
<td>7,747</td>
<td>7,747</td>
<td>7,747</td>
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<td>Reserves</td>
<td>2,60,832</td>
<td>3,40,130</td>
<td>4,25,920</td>
<td>4,69,225</td>
<td>5,42,133</td>
<td>6,20,875</td>
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<td><strong>Networth</strong></td>
<td>2,66,859</td>
<td>3,47,065</td>
<td>4,33,654</td>
<td>4,76,972</td>
<td>5,49,879</td>
<td>6,28,621</td>
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<td>Deposits</td>
<td>19,48,680</td>
<td>20,20,398</td>
<td>25,62,050</td>
<td>29,36,813</td>
<td>34,10,136</td>
<td>39,17,881</td>
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<td>Current deposits</td>
<td>2,95,845</td>
<td>2,84,400</td>
<td>3,60,601</td>
<td>3,68,389</td>
<td>5,11,520</td>
<td>5,87,682</td>
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<td>Saving deposits</td>
<td>5,44,857</td>
<td>5,31,298</td>
<td>7,10,654</td>
<td>8,88,256</td>
<td>9,20,737</td>
<td>10,57,828</td>
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<td>Term deposit</td>
<td>11,07,978</td>
<td>12,04,700</td>
<td>14,90,794</td>
<td>16,80,168</td>
<td>19,77,879</td>
<td>22,72,371</td>
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<td>Borrowings</td>
<td>4,73,210</td>
<td>6,07,535</td>
<td>5,13,228</td>
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<td>Other liabilities</td>
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<td>1,17,061</td>
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<tr>
<td><strong>Total Liab. &amp; Equity</strong></td>
<td>27,78,193</td>
<td>30,70,575</td>
<td>36,29,727</td>
<td>40,19,746</td>
<td>44,87,415</td>
<td>50,59,843</td>
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<td>Cash</td>
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<td>1,60,036</td>
<td>5,63,272</td>
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<td>5,76,577</td>
<td>6,62,894</td>
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<td>Advances</td>
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<td>21,25,954</td>
<td>23,90,515</td>
<td>28,20,808</td>
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<td>7,97,385</td>
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<td>Fixed Assets</td>
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<td>18,094</td>
<td>18,487</td>
<td>19,781</td>
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<td>Other Assets</td>
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<td>2,25,461</td>
<td>2,18,291</td>
<td>2,72,864</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>27,78,193</td>
<td>30,70,575</td>
<td>36,29,727</td>
<td>40,19,746</td>
<td>44,87,415</td>
<td>50,59,843</td>
</tr>
</tbody>
</table>
## Financial Ratios (%)

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Source: Company; IDBI Capital Research
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Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

Key to Ratings Stocks:
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IDBI Capital Markets & Securities Ltd.
Equity Research Desk
6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com
Compliance Officer: Christina D’souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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