

Indian Financials

JM Financial BFSI Conference compendium



JM Financial BFSI Conference: We hosted 25 companies over 14-16 Feb'22 at the JM Financial BFSI Conference held in a virtual format this year. Participants comprised banks, NBFCs, MFIs, asset management companies, broking companies and insurance companies.

We also hosted 4 track sessions with notable business leaders from leading BFSI entities covering wide-ranging themes from banking in a post-Covid world to emerging trends in Fintech space. In this report, we present key takeaways from keynotes and meetings.

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Exhibit 1. Track sessions and Corporates in attendance

Day 1	Day 2	Day 3
Track Sessions		
Sumit Maniyar- Founder, Rupeek	Kunal Verma- Co-Founder and CEO, Freo Karthik Raghupathy- Vice President, PhonePe	Priya Sharma- Co-founder, CFO, COO, ZestMoney
Corporate participants		
Bajaj Finserv Care Health Insurance DCB Bank HDFC AMC HDFC Bank Home First Finance ICICI Securities IndusInd Bank One 97 Communications Max Financial Services Piramal Capital & Housing Finance SBI Cards UTI AMC Yes Bank	AU Small Finance Bank Bajaj Finserv Care Health Insurance ICICI Bank ICICI Lombard Max Financial Services Nippon Life India AMC One 97 Communications Piramal Capital & Housing Finance Shriram Transport Finance	Angel Broking Axis Bank Bajaj Finserv CreditAccess Grameen Fino Payments Bank HDFC Life Kotak Mahindra Bank One 97 Communications

The participating corporates clearly exuded optimism on growth and demand recovery. The impact of Covid 3rd wave has been muted and credit growth is expected to reaccelerate as the demand continues to be healthy as visible in disbursements on retail loans across the banking sector and corporate credit is expected to pick up gradually. Overall banks expect earnings trajectory to improve driven by a) strong credit growth, b) better margins and, c) moderation in credit costs. Over the longer term, greater penetration and increased focus on technology should be structural positive trends for the sector. We remain positive on financials as a space with twin tailwinds of improving growth as well as a decline in credit costs in the near term.

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Table of Contents

Key Takeaways of Track Sessions

- 03 Mr. Sumit Maniyar | Founder | Rupeek
- 03 Mr. Kunal Verma | Co-founder and CEO | Freo
- 03 Mr. Karthik Raghupathy | Vice President – Strategy and Business Development | PhonePe
- 04 Ms. Priya Sharma | Co-founder, CFO, COO | ZestMoney

Key Takeaways of Corporate Meetings

- 05 Angel Broking
- 05 AU Small Finance Bank
- 06 Axis Bank
- 06 Bajaj FinServ
- 06 Care Health Insurance
- 07 CreditAccess Grameen
- 07 DCB Bank
- 07 Fino Payments Bank
- 08 HDFC AMC
- 09 HDFC Life
- 09 Home First Finance
- 09 ICICI Bank
- 10 ICICI Lombard
- 10 ICICI Securities
- 11 IndusInd Bank
- 12 Kotak Mahindra Bank
- 13 Max Financial
- 13 Nippon Life India Asset Management
- 14 One 97 Communication
- 14 Piramal Enterprises
- 15 SBI Cards
- 15 Shriram Transport Finance
- 16 UTI AMC

Key Takeaways of Track Sessions:

Mr. Sumit Maniyar | Founder | Rupeek

- Rupeek is trying to disrupt the pricing in gold loans, given it sees large opportunity and huge affinity towards physical assets as a community
- It started as facilitator for banks, now a co-lender with proportionate risk sharing though no FLDG. It has termed product as "gold monetization" to steer away from social stigma against gold pawning
- Rupeek has a tech-driven model with 1 hour TAT for loan originator. Tickets > INR 50,000 with presence in 35 cities. Management expects presence to increase to 100 cities in 12 months
- Rupeek operates at 1/10th opex/aum vs physical competitor
- It has 3000 employees on/off rolls; partnership across large and small banks

Mr. Kunal Verma | Co-founder and CEO | Freo

Imagining the neobank model in a regulated world

- Freo, co-founded by Kunal Verma, is one of India's few credit-led neobanks. The neobank business model has to rest on the right mix of a) customer growth b) repeat behaviour and c) monetization.
- The above are an outcome of crystallization of customer segment and product-market fit. Asset-side business of a neobank has to have right pricing, credit appraisal skills and collection abilities while the liabilities will need to be beyond a pureplay savings account. Access to capital should ensure strength of balance sheet and ability to capitalize on growth opportunities. Regulation of a neobank entails being future ready.
- For neobanks, success factors would be a product hook which will lead to high frequency of transactions and ability to increase transaction value. Monetization will be tested by an early-proof/pricing power and should be reflected in a LTV/CAC ratio (between 5-10x should be a positive outcome).
- Neobanks could be classified into following models:
 - payment-led (e.g. PayTM, Razorpay, Monzo)
 - credit-led (e.g. freo, Tinkoff, Nubank)
 - experience-led (e.g. Jupiter, Simple)
- In a regulated world, neobanks should be ready to accept constraints with respect to a) business model (NIM, Opex, Fees), b) capital c) transparency (compliance, privacy, security)
- Regulations will look to ensure process, reach and scale as well as product coverage.

Mr. Karthik Raghupathy | Vice President – Strategy and Business Development | PhonePe

- PhonePe has razor sharp focus on payments as a business and will build financial services on top of it - which it is rolling out one-by-one:
 - Its payments business is scaling up well wrt revenues. It has built up standalone revenue generating payments business
 - It is the 2nd largest insurance broker after PolicyBazaar
 - It is looking to launch merchant lending (30m merchants base) later this year, pilots are underway. It will start with small tickets rather than doing larger ticket PL
 - It is not interested in doing ecommerce, tickets, and entertainment among others like competitors. It wants to concentrate on payments and financial services
- Mgmt. is not in favour of zero MDR and believes 10bps will be a fair levy. However, in its profitability assumptions, it has not considered UPI will be charged even in P2M scenarios

- Insurance business: Unlike Policy Bazaar (PB), PhonePe does not have "push" business
 - The company's CAC is cheaper, as it gets users from payments business, which is a "fishing point"
 - It is catching up well on 2W and will catch-up on 4W. Life insurance will be challenging and will take sometime
 - It does not want to be a manufacturer for now and would like to establish as a distributor
 - It has enough partners across categories. However, it shows curated list to customers basis they entered inputs. The idea is to not to confuse customers by showing all insurers, so curated approach
- Lending: The company can be manufacturer as well, as it gives skin in the game (around 70:30 - off BS: on BS, globally followed)
 - It will do consumer and merchant lending
 - Merchant lending is lesser risky as merchants are also consumers, so more transactions and data, and also easy point of contact through feet on street
- Asset mgmt. (AMC): The company can be manufacturer in long term
- AA (account aggregator) licence: It allows PhonePe to participate in transformative lending process. AA sits between FIP & FIU. The company is upbeat on it because of its users size (DAU: 60m, MAU: 150m) – exceeding any bank. 80% of its users are from Tier-2 geographies. It has also got KYC usage (KUA) license – only consumer-tech to get i
- PhonePe's customers' data is not accessible to Flipkart
- Payment from merchant's business is subdued because of 0 MDR
- Merchant business is now monetisable through financial services and VAS
- CAC has come down by 50% over the last 2 years and soon pure payments will turn profitable. Upsides on financial services will be built on it because the CAC is very low there, given existing base

Ms. Priya Sharma | Co-founder, CFO, COO | ZestMoney

- India is set to be one of the biggest fintech markets of the world with >100mn online shoppers, one of the highest user base across social media platforms (Twitter, Whatsapp, Facebook) and a credible digital infrastructure (UPI, e-KYC, CIBIL)
- Banks are already lagging with respect to user engagement as measured by average monthly session per user in fintech apps vs banking apps. Digital payments in India have leapfrogged cards led by a wide margin. Credit cards share in overall share of banked population has remained largely steady over the years despite a surge in number of new cards, while UPI growth has accelerated manifolds and has also had a stunting effect on debit card usage/volumes.
- Banks have remained risk-averse with respect to BNPL and this is reflected in the low share of credit cards despite being launched over 2 decades back in India. As a result, BNPL opportunity remains largely untapped with a TAM of >200mn households of which >180mn households being NTC customers. ZestMoney intends to tap into this segment which earns between USD 200-1000 per month.
- ZestMoney believes that growth is set to accelerate riding on UPI as well as greater acceptance of BNPL across ticket sizes. Contrary to popular perception that BNPL is largely restricted to small ticket transactions (<INR 2000), ZestMoney straddles across ticket sizes ranging from INR100-100k and is offered through various models - funded by OEMs or interest borne by customers.

Key Takeaways of corporate meetings:

Angel Broking – ANGELONE IN | Rating: UN-RATED

- Growth momentum expected to continue: Management indicated that current growth is primarily driven by digital and technology. India is an underpenetrated market and they expect this growth trend to continue for next 5-6 years till penetration reaches 13-14%. 75% of Angel's customers are new to the broking industry. Further, 92-93% of the incremental customers coming from Tier 2 and 3 cities.
- New customers come with different ticket sizes ranging from INR 5,000-100,000. Generally, customers start with small amounts and gradually increase it once they get comfortable with the app interface.
- Investment in marketing to continue: Management indicated that it will continue to invest money in marketing to maintain the growth momentum.
- Break-even: Angel's philosophy is to start earning revenue from customers on Day 1 itself. They achieve breakeven within 4-5 months.
- Brokerage Rates: Management believes that the brokerage rates have bottomed out and should remain more or less stable going ahead. Further, they don't see much scope of improvement in margins going ahead.
- Physical branch model: On the Bank-led and Brick-led brokerage houses, management stated that since these brokerages charge high on the execution front, they need to provide something extra like advisory services. Management stated that if only execution is required than digital brokers are the best placed.

AU Small Finance Bank – AUBANK IN | Rating: HOLD | TP: INR 1400

- Management highlighted that things are now looking much more positive as impact of Omicron has been muted. They expect disbursements in 4QFY22 to be strong (in-line with 3QFY22 disbursements)
- On Asset quality: Current level of PCR is more than enough to cover final LGDs if any. Further AU expects 30% of the restructured book to slip and a final haircut of 50% on the slipped book i.e. 15% LGDs on restructured book – which is adequately provided. Also it holds INR 3bn contingency provision buffers
- AU SFB has strong pricing power in the wheels and SBL segment. Further, it has a strong CASA and retail TD base which should aid in maintaining lower cost of funding. However, management expected the current NIMs of 6.3% to be unsustainable and expect NIMs to be in the range of 5.5-5.9% going ahead. Management indicated that 60-65% of loan book is fixed rate (Wheels and SBL).
- While 53% of the credit cards have been issued to new to credit card customers – c.70% of these customers are existing to bank (ETB) customers thus reducing the overall risk. Further, new to bank customers (NTB) are acquired only if they hold an existing credit card from another bank – AU provides higher limits than other bank's exiting limit as a strategy to acquire customer.
- While AU SFB is investing a lot in digital space, they expect unsecured loans to be limited to 2-4% of loan book over the next 3-5 years. The focus on digital is due to a) faster onboarding of liabilities customers while providing a better customer experience, b) credit cards which completes product offering and aid in tapping urban metro customers and c) merchant acquisition – AU has deployed 0.35mn QR codes for new customers (around 85,000 are MSMEs) in 6 months as compared to 0.25mn MSMEs acquired over 10 years in SBL segment

Axis Bank – AXSB IN | Rating: BUY | TP: INR 950

- Management highlighted that impact of Covid 3rd wave has been very minimal
- Capacity utilisation in select sectors is increasing and bank expects it to become broad based going ahead, which in turn should drive private capex
- Further, with capital markets rates starting to rise, bank expects some shifting of credit to banks from capital markets
- Bank feels the Fintechs are here to stay. Incumbent player either need to evolve themselves to solve the problems solved by these Fintechs or have to partner with them
- On opex growth, management stated that they hired people with a view to be future ready i.e. once economy is fully revived they can capitalise on the opportunities
- AXSB has no intention of using the Covid provisions and they will keep it as a structural buffer on balance sheet
- On margins- in the long term NIMs should get up to 3.7-3.8% to achieve the RoE target. Overall yields should go up as domestic loan book grows at a faster pace

Bajaj FinServ – BJFIN IN | Rating: BUY | TP: INR 18,350

- Management continued to see weakness in motor insurance, alongside heightened competitive intensity with any revival only foreseen post 1QFY23 as the semiconductor issue gets resolved.
- The insurer is sharpening focus on health insurance by setting up a SAHI like setup in-house. They have recently hired Mr. Sachin Mahajan who joined them from Star Health to lead the same. In terms of loss ratios, the insurer was ahead of the market in submitting price revisions to IRDA with the result that ~75% of retail health product portfolio has been repriced with the remainder to see repricing over the next two quarters.
- Distribution wise, on the banca channel side, Axis Bank tie up is scaling up well in line with the increased access. On YTD FY22 basis, Axis Bank contribution is 23-24% of top line. Overall, however, agency is still the dominant channel. On web aggregators, the insurer updated that the channel currently contributes ~2-4% of topline, but viewed the commoditised offerings (like 2W, certain types of retail health etc).
- On BAF's strategy on credit cards, the management believes the opportunity warrants that BAF will be present both on a co-branding basis and own cards, if RBI allows the same in the future. Currently, focus is on scaling up Bajaj Pay in terms of driving velocity and engagement.

Care Health Insurance | UN-LISTED

- Care Health Insurance is 4th largest in retail, travel, health and have multichannel sourcing model with focus on digital. All channels are growing and are tech enabled
- It has investment book of INR 30bn, mostly in debt (90% in highest rated or GSec) – no write down in last 10 yrs
- The insurer is profitable for last 3yrs (PAT: INR 1bn in FY21)
- It had claims ratio of 104% in 3QFY22 due to Covid (vs. 60% in 2Q22). YTD: 75% (ex-Covid: c.60%), including IBNR reserves. Expense ratio 37-38% (-100bps YoY) and will be declining due to operating efficiencies. Mgmt. believes claims ratio of c.60% is a good
- Group business expense ratio is less while claims ratio is more. While in retail, claims ratio is low for 2yrs then increases in 3rd yr. For group business, claims ratio of 80% is fine to make decent RoE
- The insurer is implementing price hikes in current quarter
- Its solvency ratio is 168%. 4Q is always healthy, so should solvency ratio should expand further. It does not have plans to raise subordinate debt as of now
- In non-retail, the company is focussing on SME/ MSME health insurance (< 500 lives), which is behaviour wise similar to retail business

CreditAccess Grameen – CREDAG IN | Rating: UN-RATED

- The company's profitability has inched up and is back to earlier run rates driven by stabilizing credit cost and pick up in credit growth. In 3Q22, loan portfolio grew by 18% YoY aided by improving disbursements. Management highlighted that disbursement trend has been strong in Jan'22 as well and see it sustaining
- Borrower base declined by 4% YoY in 3Q22 primarily on account of write offs in the last 12 months. The management expects the customer addition to remain strong at c.90,000-1,00,000 customers/month in the coming months. 48% of the customers added in in 9MFY22 have been from outside company's top 3 states in which they operate in
- GLP growth is expected to be driven by a combination of expanding branch network (200 branches added in last 12 months) and healthy customer addition
- Collection efficiency continues to improve and stood at 96% for CAG and 90% for MMFL in Jan'22. Overall restructuring stands at 1.4% of GLP and has provision coverage of 32%
- NIMs in 3Q22 were impacted by income de-recognition and going forward the management expects the NIM to be in the range of 11.75-12%
- Management highlighted that they plan build a secured book in the retail segment. They expect robust growth in this segment and expect the share of this portfolio to improve from 2% currently to 10-12% by FY24E

DCB Bank – DCBB IN | Rating: HOLD | TP: INR 115

- Management highlighted that they are no major concerns on the ECLGS book. There was a customer perception that this was a grant, the bank has clarified all misconceptions. Agreements are modified such that customer has to repay the base loan+ECLGS amount to release the collateral
- Business model is such that margin will be 365-375bps. Loan mix will move towards HL/LAP, Gold loan, KCC, Tractors. No intent to do corporate loans as of now. Right now NIMs distorted due to excess liquidity and high slippages. But this should stabilize over the next few quarters. Bank's loan mix is such that very rarely a product consumes 100% risk weights
- On capital raise- extremely capital efficient franchise and would not need any capital for next 1 year. Will be able to fund a 15-17% loan growth
- CEO tenure ends on 29th April'22 and application has been filed with RBI and it is being processed and will know the outcome in due time
- Slippages and credit cost are expected to head towards pre-Covid levels in 1-2 qtr (assuming no further disruption due to the pandemic)

Fino Payments Bank – FINOPB IN | Rating: UN-RATED

- Fino converts local kirana shops for mini banking applications and merchant becomes banking bandhu/ agent
- It works on DTP framework: distribution, technology and partnership – asset light scalable and sustainable model
- In credit, it offers gold loans (did INR 1-1.25bn), unsecured loans and merchant loans in tie-up with NBFCs. It does not do FDLG
- In insurance, it has partnerships with IPru Life and Digit Insurance
- It is in process of offering MF (approval pending from RBI) and digital gold
- Most fintech focus on lending and are urban-centric where as Fino's model is of financial inclusion and rural centric
- Fino's competition is payments entities like Paytm and IIB & Yes bank to some extent as they have BC model, however, competition is not there in entirety

- Top-line is expected to grow at 30%+
- Operating leverage has kicked in and will be continued. Cost:
 - Variable cost is 75% of total cost
 - Fixed cost: Manpower makes 15-20% of total cost and tech constitutes 7-8% of total cost. Each of these is likely to grow 10% YoY
- Long term RoE target is 20% vs. c.18% currently

HDFC Asset Management – HDFCAMC IN | Rating: BUY | TP: INR 2,880

- There has been pressure on yields as newer flows are coming at lower yields. This FY so far the gross flows have accounted for 35-40% of the AUM which is significantly higher than the previous FY. Of the company's AUM – direct accounts for 25-30% and there is no dilution in yields here. Asset mix improvement to help counter the pressure on yields
- In the fixed income space- given the prevailing interest rates, the company has seen customers moving from medium to short duration, short to ultrashort and ultrashort to money market or liquid funds -Market share loss- a) emergence of sectoral/thematic funds which account for 7-10% of the industry AUM while for HDFC AMC it is just 2%, have a scope to grow here and have filed for 4-5 such funds and await approval, b) as performance of fund improves we should see flows coming back and this generally happens with a lag
- Diversified funds (multi asset and focused) are currently not large in size and we believe there is a scope to grow in this space
- New NFOs that have happened in last 1-2 months indicate that commission rates have started normalising
- There is pressure on the cost front- currently cost accounts for 13bps of AUM (of which 1bps will be towards ESOPs) and HDFC AMC will try to keep the cost in similar range
- The company is open towards acquisitions and evaluate every deal and will go forward if they believe the deal is value accretive and makes economic sense
- Alternate funds/PMS: HDFCAMC has filed an application with SEBI to launch a category III funds and over a period of time the company plans to build its presence in this space. Plan to launch a product on the category II side in couple of quarters

HDFC Life – HDFCLIFE IN | Rating: BUY | TP: INR 800

- HDFC Life tried to maintain margin though reinsurance prices increased. It is not much concerned about product level margins
 - Mgmt. do not see any hikes in reinsurance pricing in next few months
 - PAR products have lower than avg. company margins
- Over next few years mgmt. expects protection to grow faster than savings and increase in the mix
 - 15-20% growth each in retail protection and credit life
- Product wise avg. age & ATS:
 - Protection: Early 30s & INR 25-35k
 - Savings: Mid to late 30s & INR 60-100k
 - Annuity: 50-early 60s & INR 600-700k
- The insurer retains INR 4mn on sum assured of INR100mn. Risk retention depends on products:
 - Protection: 60-80% risk is reinsured
 - Credit life: 20-40% risk is reinsured

- The insurer has done diversification within savings (par and non-par) would like to keep overall savings at 25-30% of the mix
- More than 90% group protection is credit life, which fairly structural secular growth story

Home First Finance – HOMEFIRS IN | Rating: UN-RATED

- Mgmt. sees good demand and scope in Home Loans (HL) and would like to keep it at 85% of the mix in medium term with gradual increase in LAP (c.8% of mix now) and other products to 15%
- AUM growth is driven by more distribution, more customers and market share gains. It is not dependent on ticket size. Mgmt. is looking to expand in existing 6 states (Andhra Pradesh, Telangana, Karnataka, Kerala, Maharashtra and Gujarat) for next 3 years. These are relatively economically stable and have good demand for affordable housing. Home First may look for expansion in Northern states (e.g. UP) after 3 yrs
- BT out for Home First is lower at c.5% vs. 5-10% for industry because it: i) caters to informal sector, ii) has first time borrowers, 3) offers rates at highly competitive at 11-13%
- Partnership with Union bank: It is an RoE attractive product which is at lower yields (e.g. 9.5%) but spread on co-lending is higher of 250bps on whole loans with 20% of loans on Home First's BS. The HFC does not have FLDG
- Shop Loans: These are for shops (typically at ground floor of service apartments) serving to retail and related to HL behaviour. These have yields of 14-15% (100-200bps more than HL) and asset quality better than HL. Additionally, these have low LTV, high sellability and not much focussed by other players
- Home First passed increased borrowing cost during ILFS. The HFC will not pass small increase in CoB (10-15bps), however will pass partially when increment is meaningful of 25bps or more
- There is no pressure on Home First's NIM (currently at all time best levels of 5-5.5%), given competitive intensity is high in prime and mid segment but not in Home First's segment. When LAP will exceed 10% in the mix in next 2yrs, NIM will improve by 10-15bps
- Currently, bounce rate is at 14% and reducing MoM. However, it would take time to reach to normal levels of 10-11%. Here, 100-200bps of bounce rate is because of digitization as customers later pay by UPI and that mobile no. is not linked with NACH mandate
- The HFC incurs losses of 10-15% on each property in GNPA, however no impact in PnL due to adequate provisions
- GNPA (1.7-1.8%) will normalize when Covid impact will be faded. Here, 100bps is added because of impact of Covid and RBI notification on asset classification in 60-90days bucket. Additionally, there is no impact of rural stress on the HFC as it is largely aligned towards urban

ICICI Bank – ICICIB IN | Rating: BUY | TP: INR 1,010

- On Credit Cards: Proportion of revolvers came down by 20-25% during Covid times, but the bank expects this to normalise in the next few months
- Bank continues to remain positive on the real estate sector – both from supply and demand side. While the mortgage loan growth was driven by regulatory aids during the last year, the bank still remains optimistic on the growth opportunities here
- Business banking: Portfolio has performed well and with abundant liquidity in the system pricing has been competitive. However, with liquidity normalising expect pricing to increase
- NIMs: Still fair amount of liquidity in the bank and enough capital should aid growth going ahead. We are in a rising rate environment wherein large part of bank books are

linked to benchmarks while deposits take time to re-price. This timing difference should keep the NIMs volatile going ahead

- Domestic Loan Book: 30% is fixed, 38% is linked to Repo, around 17% is linked to other benchmarks like Gsec/Tbills and balance to old benchmarks like MCLR
- As of today, not seeing private capex, largely driven by PSU/Govt capex. However, expect private capex to improve going ahead especially in the manufacturing sector driven by PLI schemes
- Don't see private capex in heavy industrials/infra (dominated by Govt/PSUs). But corporate balance sheets are now healthy and should start seeing this capex to a certain extent – however, bank will be a small part because these corporates have other sources of funding
- The bank has 5mn non-ICICI bank customers who use their mobile app driven by convenience and feature rich model

ICICI Lombard – ICICIGI IN | Rating: BUY | TP: INR 1,600

- ICICI Lombard increased health insurance prices in 3QFY21. The company assesses pricing annually and seeks regulator's approval for hike. Price change has some impact on demand
- Price hike is warranted in motor TP as: i) prices have not been changed meaningfully over the years, ii) avg. claims have significantly increased. The insurance industry reached to the regulator for the same, however response is awaited
- Management believes growth should start coming back on retail from 4QFY22
- Steady state indemnity loss ratio (LR): 65-70%; currently it is higher as some of the costs have kept LR elevated. Mgmt. will try to bring it to 65-70%
- Conservatively, the insurer keeps 100% Loss Ratio + expenses as reserves for crop until the completion of crop season. Later, it writes back, depending on the outcome
- The mgmt. is comfortable with LR on Motor OD. In last 2yrs, competitive intensity has heightened as claims were down during Covid waves and pricing got competitive. The insurer has been cautious on pricing. As OD claims are increasing, competitive aggression should come down in next 1-2qrtrs and prices should decline. Industry is operating at COR of 119-120%
- On expenses, the insurer is continuing with higher distribution expenses and as per regulation, expenses are upfronted though revenues will be realised over the years
- The management is looking for inorganic opportunities especially on distribution though nothing specific
- Paytm, Phonepe and other fintech players are the insurer's digital partners now. The company has carved out a division (company within company) for digital insurance

ICICI Securities – ISEC IN | Rating: UN-RATED

- ICICI Securities has been internally seeing market share gains in equities but not externally
- When SEBI norms on margins were implemented, its market share declined during transformation period. However, in last 6 months, its started gaining market share
- Segmented customers: Many customers are looking for advice or products or tools; not everyone is looking for low broking fees
- It has launched new product like BNPL which has no cumbersome documentation journey. Depending on customers, it gives margin starting from c.8.5%, as it raises funds at low rates due to AAA rating
- Its Prime plan provides instant liquidity up to INR 10mn, subject to customer profiles
- Derivatives: Flattish trend in equities. It is investing in derivatives and should see market share gains in 6 months through:

- Competitive pricing: High volume, low pricing. We aligned pricing.
- Better platform: launched app
- Collaboration with 16 fintechs o/w it partnered with 3 and interacting with remaining for tie-ups
- API
- It believes pricing is commoditized, hence focuses on UI/ experience which is a key differentiating factor
- Angel One got a head-start of 3-4 years vs. ICICI Securities. It has a monoline business oriented to capital markets while ICICI Securities has broad-based business wrt insurance and loans
- Both have broadly same no. of customers, however ICICI Securities customers' have comparably larger AUM (INR 5.5trn). ICICI Securities' customers' longevity is more, so better stickiness which provides sustainable revenues
- It is heavily digitizing on distribution side

IndusInd Bank – IIB IN | Rating: BUY | TP: INR 1,325

- Management highlighted that growth momentum is coming back on track for both asset and liability side. Profitability will improve driven by credit cost moderation
- MFI challenges peaked out in 3QFY22 while other businesses showed business as usual (normal levels) slippages. In MFI, most of the losses came from West Bengal and states where lockdowns were extended, hence borrowers were paying intermittently
- Mgmt's focus areas are:
 - Retail deposit mobilization: Capable to grow liabilities at 20%+ through affluent and NRI customers. Affluent customers have INR 600bn with IIB (INR 350bn in deposits and INR 250bn in other products) – mgmt. aims to augment this to INR 1trn in next few years
 - Retail products; IIB sold down 10% corporate book last year and should grow it at slightly higher pace from current levels
 - VF, MFI, and gems & jewellery: These make 45% of book and IIB is in Top-3 in these products. These are at higher yield (600-700bps higher than corporate)
 - Digitization: New products/ initiatives like unsecured loans (Indus Easy Credit launched), Indus EasyWheels for used vehicles – launched for 2W and cars, and will expand it to other products
- Vehicle finance: slippages are coming to normalcy (slightly higher), restructuring pool has come down, VF slippages expected to come down in 4QFY22. The company's policy is -1 vehicle per customer per year. Management expects credit cost in this segment to be c.80-130bps. Given the economy is reviving and demand is picking up, they expect disbursements to improve
- BNPL: IIB has got partners on e-commerce platforms which originate and underwrite, while IIB does risk and revenue sharing. Given the losses are material and these are not attractive risk-reward propositions for now, the bank would not do on its own
- Credit cards: Currently forms c.4% of book and can become 6-7% in few years but will not form 10% or more because: i) IIB has affluent customers credit card customers, so high fees and low interest income, ii) it is comfortable to play unsecured loans through exposure to microfinance, given the underwriting experience
- Home loans (HL): The bank does not underwrite HL but originate for HDFC Ltd. as distributor (disbursed INR 2bn). It will launch HL in 1QFY23 then will scale-up
- They see pretty steep competition in LAP, business banking and MHCV vertical and risk vs. rewards are not in favour. Thus, they have let go business in these segments. While disbursements continue to be strong, growth seems moderate because of balance transfers

- Gold loans (GL): IIB does not do these because: i) GL are operational intensive, ii) separate infra/ branches are needed as stigma attached for borrowers, iii) frauds. If IIB will do GL, it will be through inorganic route
- IIB's cost of deposit (CoD) is 4.6% (100-120bps higher than large banks) though margins are comparable. IIB's avg. MFI yields: 19%
- The lender is focussed on quality of earnings. Outside PCR, it has provided 100% for Voda-Idea and additional INR 6-7bn
- OTR stands at 3.3% of book: VF: ½ of OTR (or INR 36bn), corporate: INR 17bn, MFI: INR 10bn and other retail: INR 10bn
- Fee income: Treasury fees is expected to be weaker given the interest rates, rest of the line items are doing better. The bank expects fee growth to be broadly in line with asset growth. Last quarter, loan processing fees were lower as disbursements in microfinance segment was lower than in a normal situation and management expects loan processing fees to pick up from 4QFY22
- On margins: the bank is confident of maintaining NIMs in the range of 4.15-4.25% in foreseeable future. Margins are expected to be aided by declining cost of deposits and deployment of surplus liquidity
- Guidance: Over the next 3-5 years, IIB is well-poised to grow at high teens driven by retail (retail:corporate will be 60:40). Fees should be stable at 2% of assets. NIM 4.15-4.25%. Big delta will come from provisions which can normalize next 120-150bps on loans (vs. 250-270bps in FY22, 370bps in FY21)/ 100-120bps on assets - after taking into account VF (100-120bps), MFI (150-200bps) and corporate (40-50bps). RoA can be 1.7-2% and RoE in high teens

Kotak Mahindra Bank – KMB IN | Rating: BUY | TP: INR 2,300

- Growth momentum to persist: Management is confident that the Q3FY22 loan growth momentum should continue going ahead. Bank remains positive on demand and quality of new credit. Slippages have been gradually coming down as well as collection from slippages have improved. Management expects mortgage sales momentum to continue going ahead as well
- Bank has bumped up expenses on to push growth for both - liabilities and asset side
- Treasury Loss in Q3FY22: Kotak has only 38% book under HTM when compared to 65-70% for other banks. Thus due to larger AFS/HFT book KMB took a larger hit due to yield movement
- Subsidiaries: Management stated that the bank will prefer to keep 100% ownership of subsidiaries. However, if regulatory changes come in leading to forced dilution of stake, they have a long time to make necessary changes in the structure.
- Branches: Digital has now taken over branches as a way to acquire customers. Most new customers are happy with branches and bank does not expect any big push for new branches going ahead.
- Investment in tech: Bank will continue to invest in technology. Management indicated that while per unit cost of new account opening has come down, number of accounts opened have gone up significantly. Thus, overall cost has not seen much of a change.

Max Financial – MAXF IN | Rating: UN-RATED

- Non par book: Max Financial hedges with FRAs. Mgmt. looks into persistency and keep some operational buffer on notional basis, and hedges remaining portion (i.e. 80%) on monthly basis. 1% shift in yield curve (parallel shift) results in 1% movement in the company's EV
- On pricing: the insurer tries to match HDFC Life and Tata AIA as they are on open architecture unlike IPru Life
- The insurer wants to be overall no. 1 player in online. So far, it is no. 1 in term insurance. In next 5yrs, it would like to be no. 1 in online savings (now have 10-12% mkt share – started few months back). It is investing heavily into this and will launch new savings products. Moreover, it has very good relationship with Policybazaar
- In last few yrs, agency has not performed well, given large part of this was housewives and old age retirees who were impacted by Covid. The insurer has on-boarded BCG for 3yrs
- Mgmt. will hike prices (didn't disclose the quantum) and maintain margins. It is not retaining to the levels its peers are doing. The insurer was retaining c.25% till now, going forward it will be up to 35-40% - which is below regulatory norm of 50%. The higher prices will allay the strain
- Productwise Margins across channels:
 - Protection: Better in proprietary channels
 - Par: Similar across channels
 - Non-par: High in Banca

Nippon Life India Asset Management – NAM IN | Rating: BUY | TP: INR 435

- The company has seen overall market share gains for three consecutive quarters, SIP flows have improved and the fund performance has also been on the right track
- ETFs/ Passives: NAM is the leader in this space and can charge marginally higher than the competitors as their products enjoy higher liquidity
- Equity AUM: They plan to continue to build it through SIPs and the performance of the funds has been improving and have seen positive net flows for the last 3-4 months
- NAM has launched new funds in the past and continues to do so. Launched multi asset fund, passive funds, flexicap (which received strong response (Aug'21) and international funds (Taiwan Fund- 6000 HNIs participated). Recently, launched Silver fund (one of the first to do so) and around 40,000 investors participated
- Management expects both the passive and active segments to grow in tandem. Growth in the passive segment will be driven by HNIs and Institutions while growth in active segment to be driven by retail

ONE97 Communication – PAYTM IN | Rating: SELL | TP: INR 875

- In financial vertical, take rates on postpaid is 3-3.5% (1/4th of this is MDR) and merchant loans is c.4.5%
- In cards, the company make upfront INR 2.5-4k
- It also makes money through interchange on spends
- Paytm Payments bank will complete 5yrs this May then it will apply for SFB licence which will help it to become full-fledged bank liability side
- Insurance business is scaling-up well in auto, health, small ticket
 - The company is in process of acquiring general insurance company (Raheja QBE) and will take few months for regulatory approvals
- BNPL:
 - The company only does partnerships where it gets fair share
 - BNPL business will not be hampered if the company becomes SFB
 - RBI paper is for digital lending (not specifically for BNPL) and should not impact the company as it is originator and collection agent while lender does 100% UW and has 100% risk.
 - The company has 3mn active BNPL customers and is adding 300-400k customers per month. These are just 3-4% of MTU and can become very large

Piramal Enterprises – PIEL IN | Rating: UN-RATED

- Over the next few years, Piramal Enterprises' overall book CAGR will be meaningfully larger than industry though wholesale book CAGR will not be meaningful
 - Going forward, 1/3rd of the book will be wholesale – 1/2 of this will real estate (developer) and remaining will be corporate. In retail book, 1/2 will be affordable while remaining will be SME (20-25%) and other retail including used cars
 - 75-80% of the book will be secured comprising of housing and MSME (housing will be 2x MSME) remaining unsecured like PL, BNPL, digital lending products. Now, large proportion of retail is originating in housing while remaining in NBFC but it may change going forward
- RoA should be high 2s – low 3s
- Structure: Under Piramal Enterprises (PEL), there are 2 financial companies (PHFL Finvest and Piramal Housing) and 1 pharma subsidiary. PHFL will be merged with PEL and PEL will become operating holdco. Pharma subsidiary will get listed in 3QFY23. Post demerger, holdco will have housing as subs
- The company has 60% shareholding in DHFL Pramerica and is in talks with Prudential (other partner) to reshape the company
- The company has hired 2000 people and will hire 2000 more in remaining FY22 – these are mid-level/ managerial level. DHFL book is largely housing with contractual tenor of 9-10yrs and behavioural tenor of 3-4yrs
- There is not much competition in the segment the company is targeting (e.g. the company has housing loan yield: 11.3% while loans to prime customers are starting from 6.5% by peers)
- It has ATS of INR 1.4-1.7mn and does not do large ticket loans – where competition is higher
- It does not need any capital; insurance business has 400% solvency ratio

SBI Cards – SBICARD IN | Rating: UN-RATED

- Almost all customer spends are back to normal. Avg. spends are higher than pre-Covid, even international tourism/ travel are not opened, given during Covid other categories opened up like online medical consultation. Travel spends recovered through Dec'21 though was impacted in Jan'22 due to Omicron
- No threat from competition: In value terms, Buy Now Pay Later (BNPL) makes c.1% of retail disbursements with low ticket size, hence insignificant. Despite it has potential to grow, mgmt. does not see it as a threat as majority of BNPL is new to credit (NTC) and if they perform well, they can add to the top of the funnel for credit card players. Mgmt. also does not see any challenges if NBFCs will be allowed to issue credit cards, given there is huge underpenetration
- 2% of book is under restructuring (o/w majorly was revolvers) as of 3QFY22 which reduced from 9%, as of 3QFY21. Management overlay of INR 1.6bn is kept to be utilised in case of any sharp deterioration in asset quality
- Details on Merchant Discount Rate (MDR) from RBI are awaited. If MDR cap would be reduced then some impact will be absorbed the company while remaining can be managed through multiple levers like rewards point structure, interest free credit period to customers and optimising other value propositions
- The company's risk models were made pre-Covid which could not see challenges due to Covid as a result there was stress, majorly in: i) self-employed, ii) second tier salaried segment. Consequently, the company has made risk models more robust e.g. higher income for eligibility, more documents,
- Every month there is movement from revolver to transactor and vice-versa. Generally, customers with low/ border line CIBIL score are highly revolving. Revolvers are due to customers': i) forgetful nature, ii) short term capital requirement, iii) income is not regular unlike majority of salaried. Revolving behaviour is typically perceivable after 6 months on books. From 9-15 months (avg. 12 months), customers will reach to optimal revolving behaviour
- EMIs are also higher. However, it will take 12 months for revolvers to come at optimal levels and should improve from current proportion
- Tokenization should not have any impact. Visa & Mastercard have implemented on their network. Large businesses have also implemented while most of the small businesses should complete this process by the deadline

Shriram Transport – SHTF IN | Rating: BUY | TP: INR 1,670

- Management updated that COVID19 wave 3 has not had an impact on collections with Jan'22 CE ~100%, similar has been the case with disbursements. Macro factors aiding growth include recovery in infrastructure, real estate, also the higher commodity prices are improving yields for truckers. However, the company feels domestic demand is yet to recover fully.
- In terms of growth, apart from volumes, ticket sizes have also seen an improvement - average used vehicle prices have seen 10-20% price hikes, with utilization levels ~85-90%
- On asset quality, the company is targeting to get GS3 ratio under 7% in three-five quarters; higher digital payment adoption will aid compliance with RBI rule about daily recognition- cash collection share is down to 40-50% from a high of 75% earlier.
- In terms of competitive intensity, the company see new competition mainly coming in the 4-6yr old vehicle category while SHTF's core segment is the 6-10yr old vehicles; hence see no such yield pressure, maintain focus on making atleast 7% NIMs
- Sourcing mix continues to be driven by referrals. In terms of branch addition, the company is looking to update c.500 of 800 odd rural centres into branches over the next five years.

- On the SCUF merger, the company reiterated the synergies will mainly come from higher up/cross selling opportunities since customer type same for both companies.

UTI Asset Management – UTIAM IN | Rating: BUY | TP: INR 1,350

- UTI AMC is on an upward trajectory on equity AUM market share aided by 4 pillars:
 1. **Performance:** UTI AMC is seeing strong traction in equity flows driven by robust equity performance leading to strong flows traction. Even on the fixed income side, market share has started to inch up, as performance has started to improve
 2. **Pricing:** For UTI AMC, only 1 fund (i.e. Flexicap Fund) has assize greater than INR 100bn, while rest all smaller. This gives UTI competitive advantage on pricing (size based TERs) and this enables it to pay higher distribution commission
 3. **Product:** Only 1 gap is remaining in UTI AMC's product portfolio i.e. mutlicap fund. UTI AMC plans to launch a multicap fund in next 2-3 quarters. Management stated that apart from multi-cap fund, new products will be from passive category
 4. **Penetration:** UTI AMC has a pan India presence with 96-97% of the pin codes are covered
- Management reiterated that standalone mutual fund revenue margins will be around 42bps for 4Q22 (-2bps YoY). However, PAT margins will be protected at 21bps aided by opex moderation

Exhibit 2. JMFe BFSI Coverage: Valuation Summary

	Rating	TP (INR)	P/E (x)			P/B (x)			RoE		
			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Private Banks											
Axis Bank	BUY	950	19.4	13.4	11.1	2.2	1.9	1.7	11.6%	15.2%	16.2%
HDFC Bank	BUY	1,950	21.8	17.3	14.5	3.6	3.1	2.7	17.5%	19.2%	19.7%
ICICI Bank	BUY	1,010	22.9	18.0	14.8	3.2	2.8	2.4	14.8%	16.6%	17.6%
KMB	BUY	2,300	45.2	37.5	30.7	5.1	4.5	4.0	11.9%	12.8%	13.7%
IIB	BUY	1,325	14.4	9.5	7.7	1.6	1.4	1.2	11.3%	15.3%	16.6%
DCB	HOLD	115	9.6	5.6	4.5	0.8	0.7	0.6	7.1%	11.4%	12.9%
City Union Bank	HOLD	185	12.6	10.6	8.6	1.6	1.4	1.2	12.2%	13.0%	14.1%
Bandhan Bank	BUY	385	-69.1	15.1	10.9	3.1	2.6	2.1	-4.4%	18.6%	21.3%
PSU Banks											
BOB	BUY	145	7.2	5.7	4.6	0.8	0.7	0.6	10.2%	11.6%	13.1%
SBI	BUY	610	13.3	10.5	9.2	1.8	1.6	1.4	14.1%	15.8%	15.9%
Canara Bank	BUY	300	7.5	5.2	4.2	0.9	0.8	0.7	10.6%	13.5%	14.7%
SFBs											
AU SFB	HOLD	1,400	36.2	27.0	20.8	5.5	4.6	3.8	16.3%	18.5%	20.0%
Equitas SFB	BUY	75	24.0	12.0	8.1	1.6	1.4	1.3	7.2%	12.4%	16.4%
NBFCs											
BAF	BUY	9,000	59.7	39.8	31.1	9.8	8.1	6.6	17.7%	22.3%	23.2%
LTFH	BUY	90	13.5	6.7	7.5	0.9	0.8	0.7	6.7%	12.4%	9.9%
SHTF	BUY	1,670	13.6	10.1	8.1	1.3	1.2	1.1	10.5%	12.3%	13.8%
MMFS	BUY	200	21.7	11.2	8.4	1.0	1.0	0.9	4.9%	8.9%	11.0%
CIFC	BUY	700	27.1	23.6	19.4	4.8	4.1	3.5	19.5%	18.8%	19.4%
HDFC	BUY	3,190	12.8	11.4	10.5	1.6	1.4	1.3	12.6%	13.5%	14.3%
PNBHF	BUY	550	9.4	8.5	6.9	0.8	0.7	0.7	8.7%	8.9%	10.0%
Non Life Insurance											
ICICI Lombard	BUY	1,600	69.5	34.5	29.2	7.2	6.2	5.3	12.5%	20.5%	19.3%
AMCs											
	Rating	TP (INR)	P/E (x)			Price / AUM			PAT / Avg AUM		
			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
HDFC AMC	BUY	2,880	33.9	30.5	26.7	10.5%	9.4%	8.2%	0.33%	0.33%	0.33%
RNAM (cons)	BUY	435	25.4	23.1	20.1	7.0%	6.2%	5.4%	0.30%	0.28%	0.28%
UTI AMC	BUY	1,350	16.8	15.6	13.5	4.6%	3.9%	3.3%	0.31%	0.27%	0.27%
FinTech											
	Rating	TP (INR)	P/E (x)			P/B (x)			RoE		
			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
One 97	SELL	875	NM	NM	NM	4.6	5.7	6.9	-25.2%	-20.4%	-19.2%
Life Insurance											
	Rating	TP (INR)	P/EV (x)			P/B (x)			RoEV		
			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
ICICI Pru	BUY	770	2.2	1.9	1.7	7.9	6.9	5.8	14.5%	15.1%	14.9%
SBI Life	BUY	1,430	2.9	2.5	2.1	9.4	8.0	6.6	18.2%	18.8%	18.6%
HDFC Life	BUY	800	4.0	3.5	3.0	8.3	7.6	6.9	18.9%	17.1%	18.9%

Source: Company, JM Financial

APPENDIX I

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