



VANTAGEPOINT

Our Focus Makes All The Difference

Dear Investor,

The Q2FY22 earnings season was largely positive for the BFSI universe of listed businesses in India. The season also saw listings of some first-time businesses in the following areas:

- Insuretech : PB Fintech
- Payments : PayTM and Fino Payments Bank

The new listings have expanded the investible universe for investors and have added to diversification within the BFSI universe which is still dominated by large cap lenders.

A few of our portfolio companies showed some remarkable developments which we have tried to highlight in this note.

ICICI Bank: This bank continues to surprise its shareholders and such surprises have reflected in the stock outperforming its peers consistently for the past 5 years. The table alongside highlights the positive gaps this stock has created with its formidable peers such as Kotak Bank and HDFC Bank in periods up to 5 years. The next milestone is to bridge the negative gap that still holds in the ten-year bucket.

The bank reported a multi - year high Net Interest Margin (NIM) of 4% this quarter with the domestic NIM at 4.09% (Exhibit 2).

Exhibit 1: Stock Performance of leading banks

	1 Year	3 Years	5 Years	10 Years
HDFC Bank	4%	13%	20%	21%
ICICI Bank	52%	27%	25%	19%
SBI	92%	18%	13%	11%
Kotak Mahindra Bank	4%	19%	21%	24%
Axis Bank	8%	2%	7%	13%

As on 26 November 2021. Source: Bloomberg

■ Best performing stock in the list for the respective period.

■ Worst performing stock in the list for the respective period.

Exhibit 2: Yield, cost, and margin

	FY2021	Q2-2021	H1-2021	Q1-2022	Q2-2022	H1-2022
Yield on total interest-earning assets	7.49	7.47	7.70	7.25	7.26	7.25
- Yield on advances	8.76	8.88	9.09	8.26	8.34	8.30
Cost of Funds	4.25	4.35	4.48	3.82	3.71	3.76
- Cost of deposits	4.12	4.22	4.37	3.65	3.53	3.59
Net interest margin	3.69	3.57	3.63	3.89	4.00	3.94
- Domestic	3.84	3.72	3.81	3.99	4.09	4.04
- Overseas	0.34	0.26	0.29	0.27	0.26	0.26

Source: ICICI Bank Q2FY22 Earnings Presentation

Exhibit 3: PAT of key subsidiaries and associates

Profit after tax (Rs. billion)	FY2021	Q2-2021	Q1-2022	Q2-2022
ICICI Prudential Life Insurance	9.60	3.03	-1.86	4.45
ICICI Lombard General Insurance	14.73	4.16	1.94	4.46
ICICI Prudential Asset Management	12.45	2.82	3.80	3.83
ICICI Securities (Consolidated)	10.68	2.78	3.11	3.51
ICICI Securities Primary Dealership	5.70	0.26	1.24	1.61
ICICI Home Finance	0.22	0.02	0.17	0.46
ICICI Venture	0.04	-0.08	0.01	-0.09
ICICI Bank UK (USD million)	14.80	4.90	2.90	2.00
ICICI Bank Canada (CAD million)	20.00	5.10	5.00	8.40

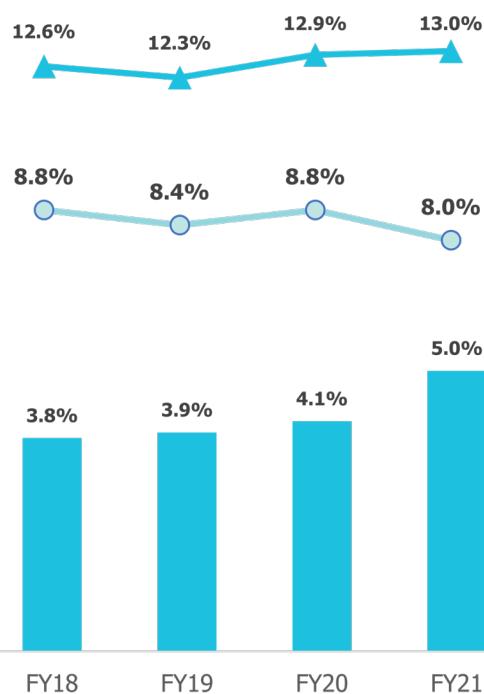
Source: ICICI Bank Q2FY22 Earnings Presentation

This came on the back of one of the lowest costs of deposits in the Indian banking system at 3.53% which speaks highly of the robustness of the bank's liability franchise. The other notable feature is the power of the bank's market leading subsidiaries, in particular the two insurers, AMC and Securities (Exhibit 3). Their contribution in the "sum of parts" evaluation of the consolidated stock stands at around 25%.

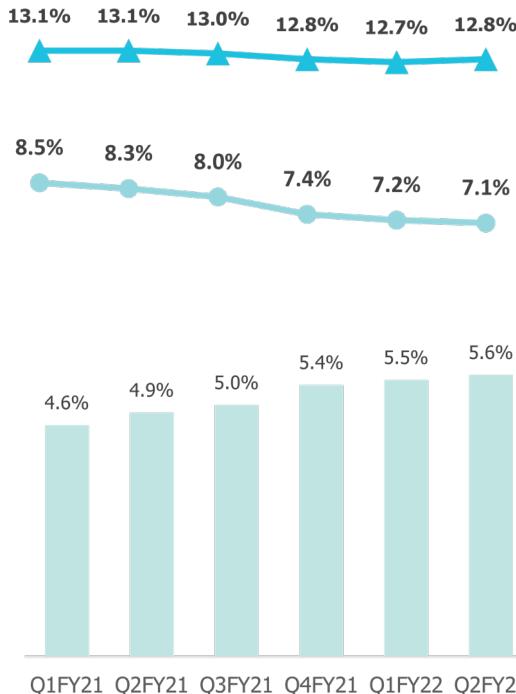
Home First: This is a new stock that we have added to our portfolio. Home First has been operating in lending to the self - employed and "informal salary" segments of the rapidly growing affordable housing business. The stock got listed in February 2021 and has been consistently improving its net interest spreads (Exhibit 4). These spreads have grown from 4.6% to 5.6% in six quarters.

Exhibit 4: Net Interest Spread Movement

LAST 4 YEARS



LAST 6 QUARTERS



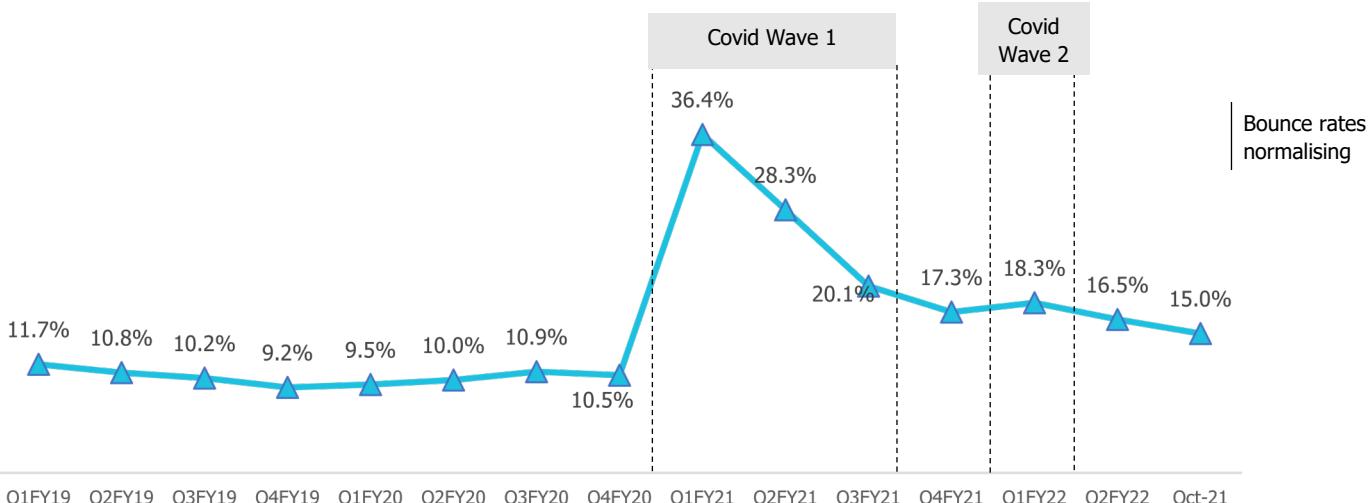
Continued Improvement in Cost of Borrowing

Incremental yield
For Q2FY22 stood at
13.2%

Marginal COB
For Q2FY22 stood at
7.9%

Source: Home First Q2FY22 Earnings Presentation

Exhibit 5: Bounce Rate: On the day of EMI Presentation



Bounce rates normalising

Source: Home First Q2FY22 Earnings Presentation

During the Covid waves the credit costs in affordable housing have compared well with the unsecured microfinance businesses and have bounced back strongly though they haven't yet normalized to the pre-Covid levels. Exhibit 5 shows how the repayment bounce rates have begun normalizing in the first two quarters of FY22. This stock joins the other affordable housing company Aavas Financiers which we have been holding in our portfolio since February '20. **We believe the residential housing opportunity is one of the most compelling investment themes in India for the next several years.**

PB Fintech: This is another new stock added to the portfolio. The company runs an online marketplace for insurance and credit products. It is important, however, to note that the business does not assume any underwriting or credit risk in the process.

Before deciding on the investment, we studied a similar business model of a company by the name of Goosehead in the US. That company has expanded its platform very impressively and the stock has delivered an absolute return of 794% since listing in April 2018.

PB Fintech provides a structural growth opportunity in the rapidly transforming digital economy and its leading vertical, Poilcybazaar, is a compelling platform that prospective buyers of insurance products visit to compare various life, health and other general insurance products.

One of the important metrics to evaluate is the repeat business. Exhibit 6 highlights that the customers who bought health insurance on their platform in FY14 have given them 5.9x of business till FY21 and the same metric in the motor insurance category is 3.4x (Exhibit 7).

Exhibit 6: Health insurance premium by cohorts

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Total
FY14	1.0x	0.7x	5.9x						
FY15		1.0x	0.6x	0.7x	0.7x	0.7x	0.6x	0.7x	5.0x
FY16			1.0x	0.7x	0.7x	0.7x	0.7x	0.7x	4.5x
FY17				1.0x	0.7x	0.7x	0.7x	0.7x	3.8x
FY18					1.0x	0.6x	0.7x	0.8x	3.1x
FY19						1.0x	0.6x	0.7x	2.2x
FY20							1.0x	0.6x	1.6x
FY21								1.0x	1.0x

Exhibit 7: Motor insurance premium by cohorts

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Total
FY14	1.0x	0.5x	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x	3.4x
FY15		1.0x	0.5x	0.4x	0.4x	0.4x	0.3x	0.3x	3.4x
FY16			1.0x	0.6x	0.5x	0.4x	0.4x	0.3x	3.2x
FY17				1.0x	0.6x	0.5x	0.4x	0.3x	2.8x
FY18					1.0x	0.5x	0.4x	0.4x	2.3x
FY19						1.0x	0.6x	0.4x	2.3x
FY20							1.0x	0.6x	1.4x
FY21								1.0x	1.0x

Source: PB Fintech Q2FY22 Earnings Presentation

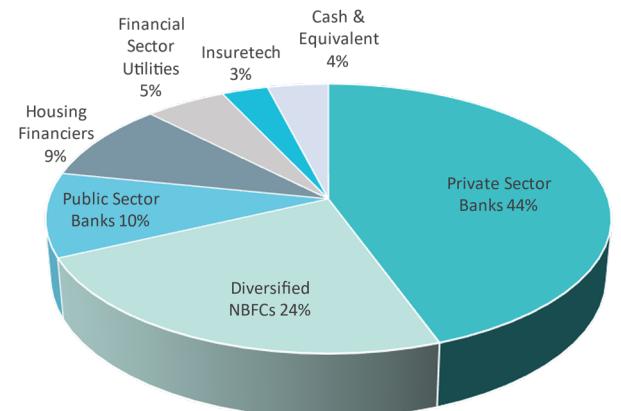
Portfolio and Market Outlook

Our latest investment portfolio has become better diversified with the inclusion of a Fintech business. In addition, Exhibit 8 shows how, out of 13 businesses in the portfolio, we now have 2 that are capturing the significant opportunity of affordable housing, 1 that is a market leader in consumption financing and 1 that offers a financial utility platform for mutual funds and is a market leader in that space.

Our selection of banks in the portfolio represents the best few that India has to offer from a wide range of private sector, state owned and small finance banks. These 6 banks out of 36 listed banks in India are best placed to take advantage of the cyclical upturn that India is set to experience in the coming quarters.

Since these 6 also happen to be the strongest banks in the country in their respective ownership categories, we believe that they will also be able to protect the downside the best in case the pandemic were to surface once again in form of any new variants.

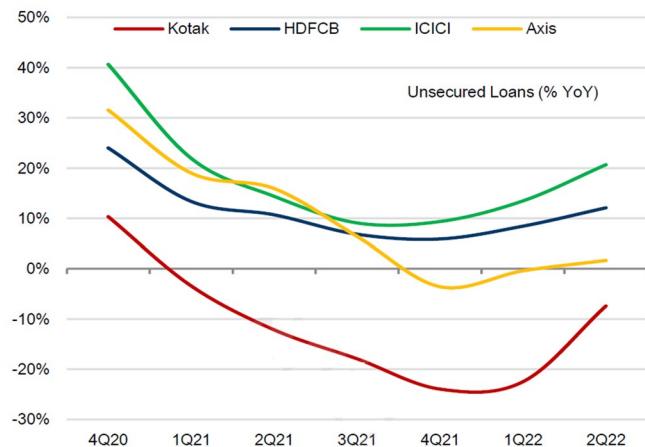
**Exhibit 8: Trivantage Capital Resurgent Financials Strategy
A Well-Diversified Portfolio**



As on 26 November 2021

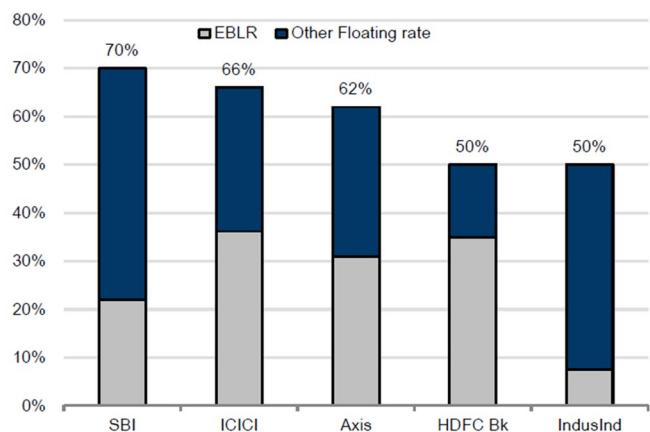
Exhibit 9 shows how the risk appetite is increasing for some of the largest banks in the high-margin unsecured lending to retail borrowers. Whilst ICICI Bank and HDFC Bank were earlier than most in showcasing higher credit growth rates, even a normally cautious bank such as Kotak has shown a strong comeback in Q2 FY22.

Exhibit 9: Risk appetite is returning at banks



Source: Credit Suisse, November 2021

Exhibit 10: Component of floating rate loans at leading banks



Source: Credit Suisse, November 2021

One of the important monetary policy changes that we expect towards the end of FY22 / beginning of FY23 is the change in interest rate stance by many global central banks including RBI. This will be a logical step to counter the inflationary threats facing the world economy.

Exhibit 10 shows the component of floating rate loans for some of the large banks in India. SBI and ICICI lead the chart with nearly 70 percent of the loans as floating which are benchmarked to one or the other market linked rates. These banks are therefore better placed to benefit from the rising interest rates as the loan book starts getting repriced much earlier than the deposit rates.

Overall, we stay very confident of our portfolio choices that comprise some of the strongest names in the Indian financial sector. Any scare in the markets that leads to a sudden correction could be an opportunity to add to this portfolio keeping an 18-to-24-month investment horizon in mind.

We wish you the very best of health and happiness in the months to come.

Yours Sincerely,

Nikhil Johri
Founder & Chief Investment Officer

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