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# VALUATION MULTIPLE SERIES INDUSTRY FOCUS - PUBLIC SECTOR BANKS 1<sup>ST</sup> EDITION

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# Methodology for Estimating Valuation Multiples

This Report's goal is to explain how the business valuation, financial performance, and corresponding valuation multiples for companies operating in the banking industry have changed over time.

The market bases its future growth projections & prospects, business valuation, and associated valuation multiples for enterprises on past financial performance.

The Indian banking industry has been on an upward trajectory aided by strong economic growth, rising disposable income, increasing consumerism and easier access to credit. Access to banking system has also improved over the years due to persistent effort from the government to promote introduction of financial services in unbanked regions. Digital mode of payment has grown by leaps and bounds over the last few years. As a result, conventional paper-based instruments such as cheques and demand drafts now constitute a minor share in both volume and value of payments. In the recent period, technological innovations have led to marked improvements in efficiency, productivity, quality, inclusion and competitiveness in extension of financial services, especially in the area of digital lending.

Source: Indian Brand Equity Foundation (IBEF)

We have identified Public Sector Banks (PSBs) as the key sector, with value creation flowing to and from related sectors, that has a significant influence on the overall Gross Domestic Output of India. Further, we have identified 8 banks ("Representative Banks") that fairly represent the technical dynamics of the public banking industry.

As a part of this research, we have derived net profit margin (PAT Margin) for Representative Banks in Public Banking Industry. Along with various other multiples:- Enterprise Value to Sales, P/E Ratio, P/B Ratio, etc.

# This Report is providing the information of the Representative Companies, namely:



State Bank of India was established in 1806, in Kolkata, India. Three years later, it acquired its banking charter and was re-designed as Bank of Bengal in 1809. SBI is the largest Indian Bank with 1/4th market share, serves over 48 crore customers through its vast network of over 22,405 branches and 65,627 ATMs. Bank provides a wide range of products and services to its customers. It's services include personal banking, rural banking, international banking, SME banking, corporate banking and government banking. The bank has a strong global presence with branches spread across 29 countries including USA, UK, Hong Kong, Australia, Singapore, UAE etc.



Bank of Baroda was established in 1908. The bank, along with 13 other major commercial banks of India, was nationalised in 1969, by the Government of India and has been designated as a public sector undertaking (PSU). It has a diverse network of 8,200 domestic branches spread across rural, urban, semi urban and metro along with 9,764 ATMs. It provides personal banking, corporate banking, rural banking, international banking, investment and wealth management and government banking services. The Bank has 93 overseas branches across 17 countries with presence in global financial centres such as New York, London, Dubai, Singapore and Australia.



Punjab National Bank was established in 1894, by a group of visionaries led by Lala Lajpat Rai. In 1969, as part of the nationalization of banks in India, the Government of India acquired a majority stake in Punjab National Bank. It boasts a strong network of 10,076 branches spread across rural, urban, semi urban and metro and 12,896 ATMs in India. Punjab National Bank provides personal banking, corporate banking, international banking and capital services. The bank operates 1 overseas branch in Dubai and has presence in six countries through subsidiaries and joint ventures.





Union Bank of India was established in 1919, by a group of prominent industrialists and businessmen including Sir Sorabji Pochkhanawala. In 1969, as part of the nationalization of banks in India, Union Bank of India became a public sector bank. The bank has strong domestic presence with 8,577 branches and 10,835 ATMs spread across rural, urban, semi urban and metro. It provides personal banking, corporate banking and international banking. Union Bank has a moderate presence overseas with 3 branches in Hong Kong, Dubai and Sydney. It also operates in London and Kuala Lumpur through subsidiaries and joint ventures.



Canara Bank was established in 1906 by Mr. Ammembal Subba Rao Pai, a philanthropist and businessman. In 1969, as part of the nationalization of banks in India, Canara Bank became a public sector bank. The bank has robust pan-India presence with a branch network of 9,706 and 12,130 ATMs across rural, urban, semi urban and metro. The bank offers personal banking, corporate banking, investment and wealth management and international banking services to its customers. Canara Bank has presence overseas and operates through 3 branches, viz., London, New York and Dubai.



Indian Bank was established in 1907, by a group of businessmen led by Mr. V. Krishnaswamy Iyer. In 1969, as part of the nationalization of banks in India, Indian Bank became a public sector bank. The bank comprises of a network of 5,787 and a substantial 4,929 ATMs branches spread across rural, urban, semi urban and metro. It provides personal banking, corporate banking, and international banking. Indian Bank has modest presence overseas with operations spanning 2 countries through 3 branches and an IFSC branch in GIFT City.



**बैंक ऑफ महाराष्ट्र**  
**Bank of Maharashtra**  
भारत सरकार का उद्यम

Bank of Maharashtra was established in 1935 with the objective of serving the financial needs of the people in the state of Maharashtra. In 1969, as part of the nationalization of banks in India, Bank of Maharashtra became a public sector bank. The bank has a network of 2,203 branches and 2,330 ATMs spread across rural, urban, semi urban and metro. The bank provides personal banking, corporate banking, government banking, international banking and treasury services to its customers.



Bank of India was established in 1906, by a group of prominent businessmen led by Sir Sassoon J. David. In 1969, as part of the nationalization of banks in India, Bank of India became a public sector bank. The bank has a network of 5,135 branches and 8,228 ATMs spread across rural, urban, semi urban and metro. It provides personal banking, corporate banking, treasury and international banking services to its customers. The bank has global presence with operations in 15 countries through 21 overseas branches.



# Financial Performance of Representative Companies

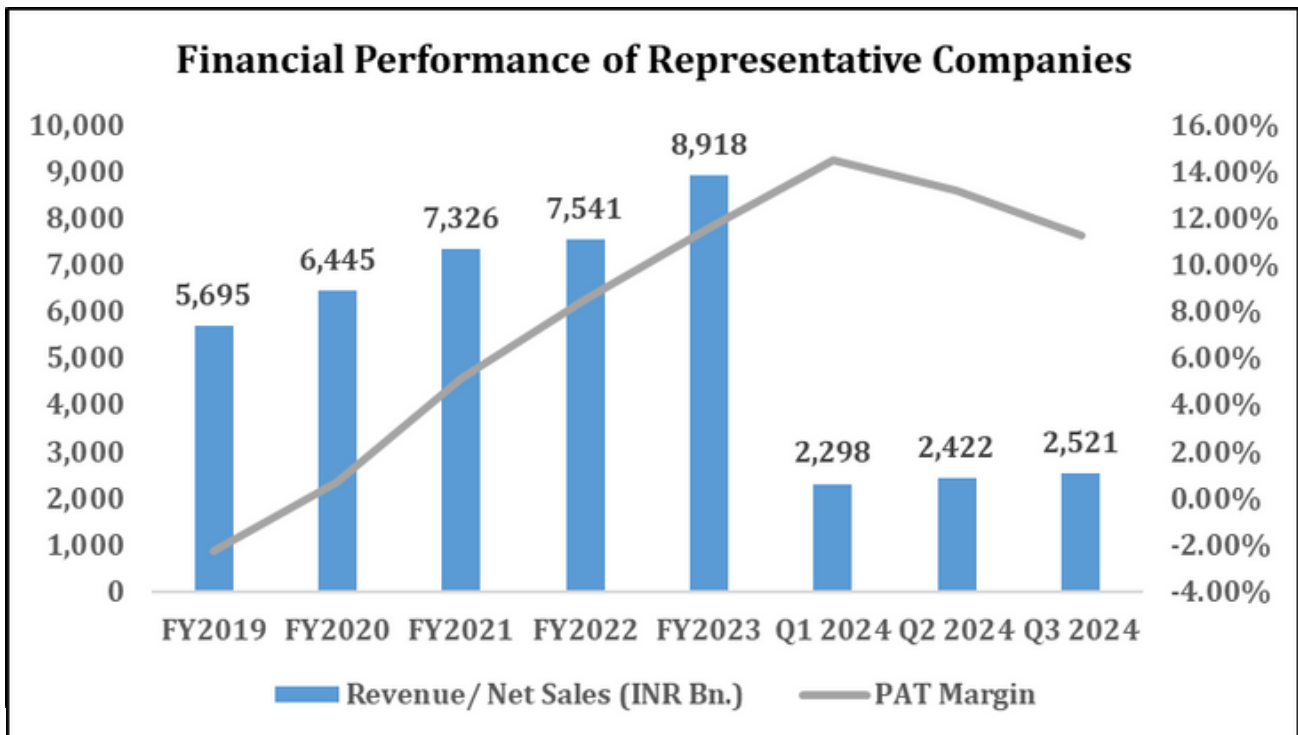
## Revenue

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold.

## PAT Margin

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non operating expenses, interest and taxes.

PAT Margin = PAT/Revenue.

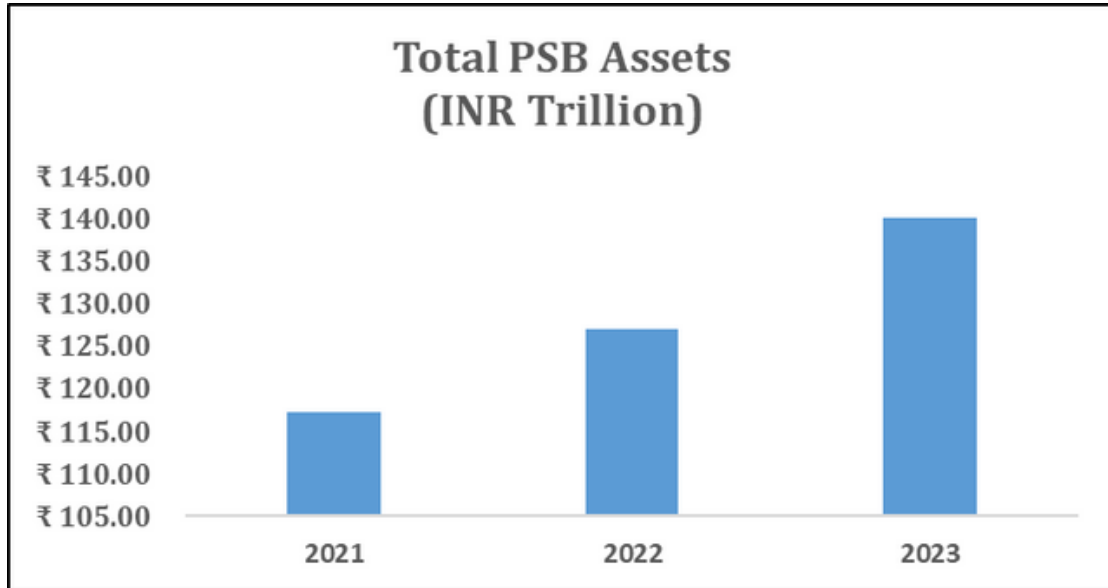


The Public Sector Banks have grown at a steady rate over the last 5 years with revenue growing at a CAGR of 14.65% from FY19 to FY23.

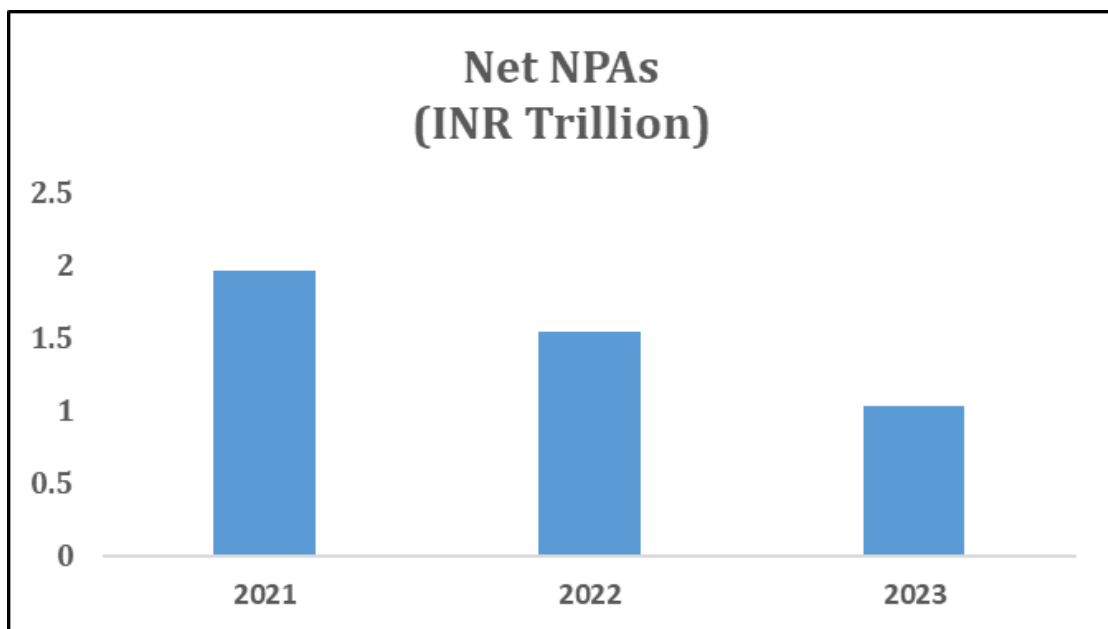
- The revenue numbers have been growing steadily from INR 5,695 billion to INR 7,326 billion in FY19 and FY21, respectively. Further it increases to INR 8,918 billion in FY23.
- The PAT margins increased drastically from -2.6% to 5.12% in FY19 and FY21 respectively. Further it rises to the levels of 5.12% and 11.60% in FY22 and FY23, respectively.
- Revenue has grown at 9.68% from INR 2,232 billion to INR 2,521 billion in Q1 FY24 and Q3 FY24, respectively.
- PAT margin has declined to 11.27% from 14.52% in Q3 FY24 from Q1 FY24, respectively.
- Margins have been constantly declining due to slow rate of growth in deposits and higher rate of credit growth leading to higher cost of funds for the banks.



# Robust Asset Growth And Falling NPAs



- Total assets of public sector banking industry grew from INR 117.29 trillion in FY21 to INR 140.15 trillion in FY23.
- The sector registered a CAGR of 9.74% from FY21 to FY23.



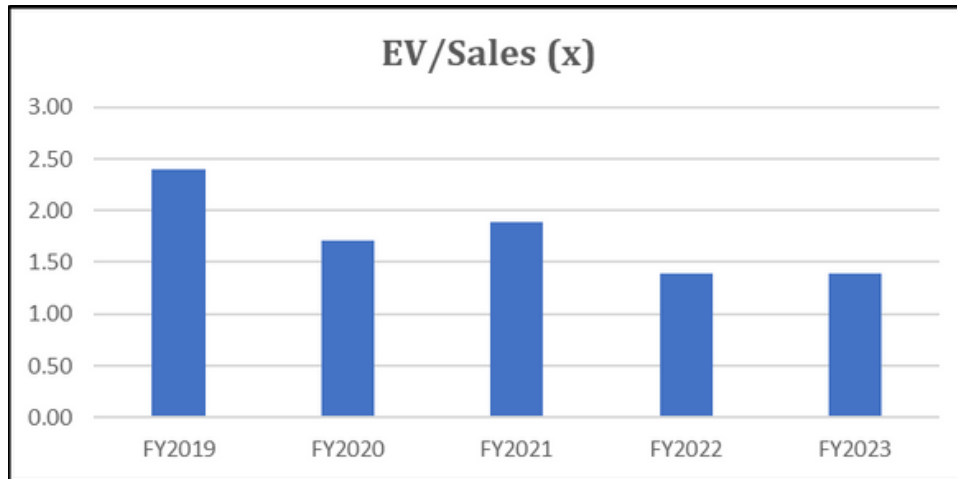
- Non Performing Assets of the public sector banks have been on a downhill since FY21.
- Net NPAs have declined from INR 1.96 trillion in FY21 to INR 1.02 trillion in FY23.



# Multiples: Public Banks

## EV/Sales

Enterprise value-to-sales (EV/sales) is financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.

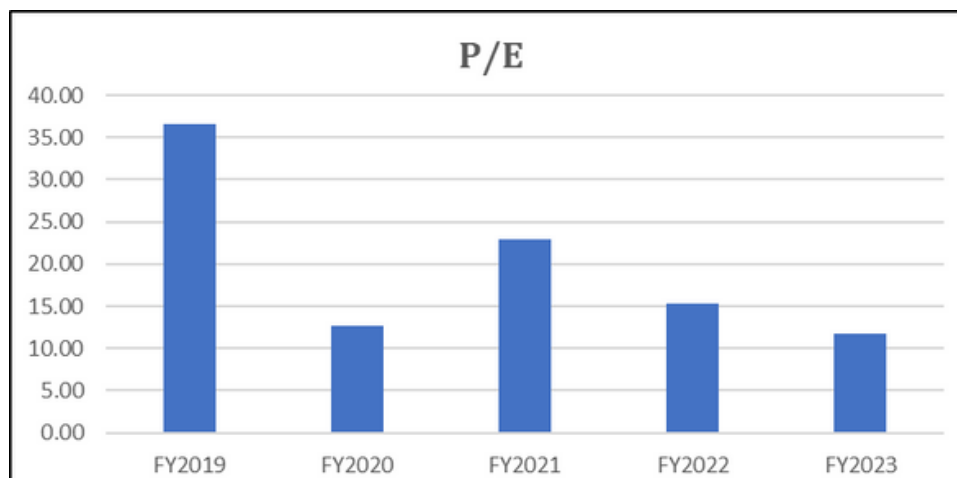


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
<b>EV/Sales (x)</b>	<b>2.39</b>	<b>1.71</b>	<b>1.89</b>	<b>1.4</b>	<b>1.39</b>

EV/Sales falls from 2.39x to 1.71x in FY19 and FY20 respectively, post which it starts to recover swiftly to 1.89x in FY21, further it falls to 1.4x in FY22 and remains constant at 1.39x in FY23.

## P/E

Price to earnings ratio measures the company's current share price relative to its earnings per share. P/E ratios are used to determine the relative value of a company's shares.

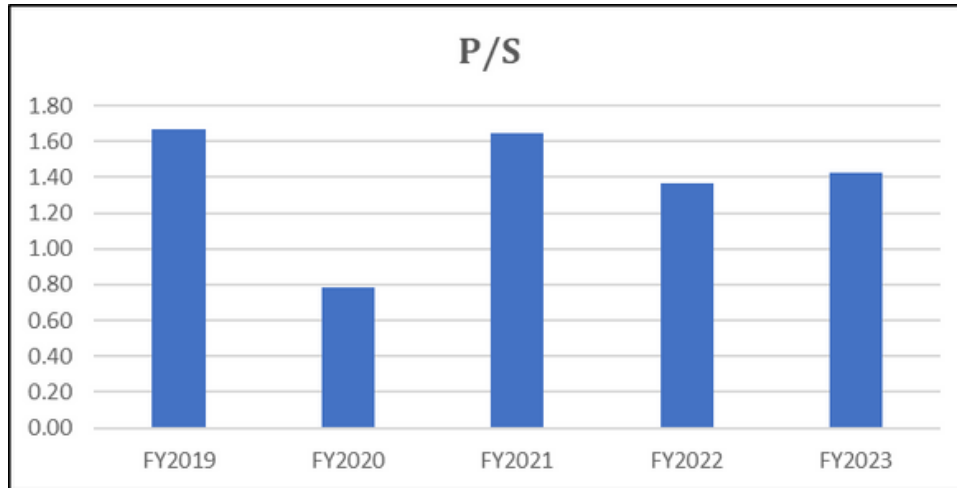


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
<b>P/E (x)</b>	<b>36.64</b>	<b>12.63</b>	<b>22.89</b>	<b>15.24</b>	<b>11.8</b>

P/E begins to fall from 36.64x to 12.63x in FY19 to FY20 respectively. Further it starts to recover and registers a multiple of 22.89x in FY21. Further, it falls and reaches 15.24x in FY22 and then falls to 11.8x in FY23.

### P/S

P/S ratio shows a company's market capitalization divided by the company's sales for the previous 12 months. It is a measure of the value investors are receiving from a company's stock by indicating how much equity is required to generate \$1 of revenue.

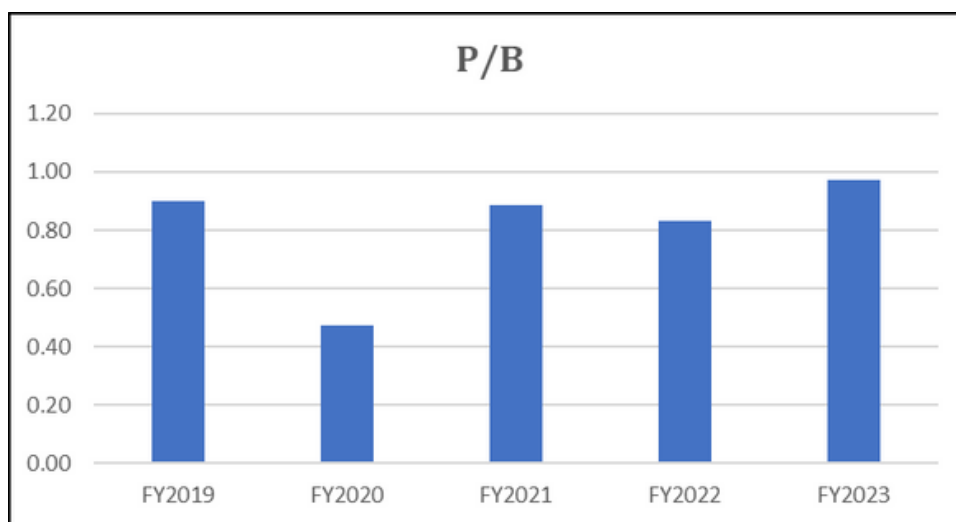


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
<b>P/S (x)</b>	<b>1.67</b>	<b>0.79</b>	<b>1.64</b>	<b>1.36</b>	<b>1.43</b>

P/S falls from 1.67x to 0.79x in FY19 and FY20 respectively, further it shows a positive trend and registers its highest P/S(x) at 1.64x in FY22 respectively, after which it increases to 1.43x in FY23.

### P/B

Price to book ratio compares a firm's market capitalization to its book value and is usually used to locate undervalued companies. This multiple is calculated by dividing the company's current stock price per share by its book value per share.



Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
<b>P/B (x)</b>	<b>0.9</b>	<b>0.47</b>	<b>0.89</b>	<b>0.83</b>	<b>0.97</b>

P/B rises from 0.9x to 0.47x in FY19 and FY20, respectively. Further, it rises to 0.89x in FY21 before falling to 0.83x in FY22, post which it registers a multiple of 0.97x in FY23.

# About RNM Capital Advisors

RNM Capital Advisors (“RNM”), erstwhile known as RNM & Associates, is an associate firm of RN Marwah & Co. LLP, Chartered Accountants.

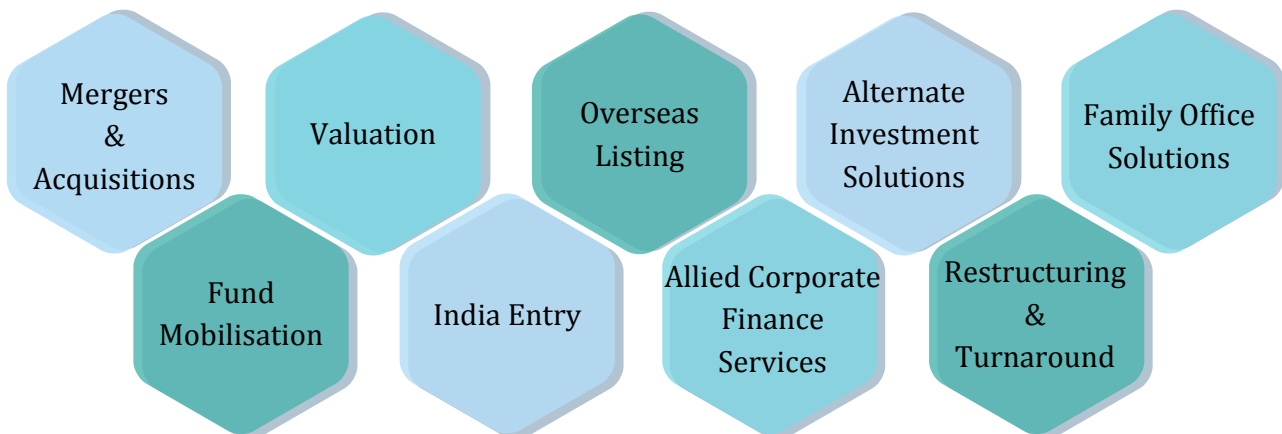
Established in year 2009, RNM is a mid-market focused boutique investment banking firm with head office in Janpath, Connaught Place, New Delhi. RNM Capital also operates from its branch office in Bangalore and Gurugram.

RNM provides advisory services to its leading clients across sectors and geographies in area of mergers & acquisitions, joint ventures/ collaborations, fund mobilization, restructuring & turnaround, valuations, due diligence, India entry, other allied corporate finance matters, family office solutions and alternate investment solutions. RNM boasts strong direct access to Promoters of Indian Corporates across sectors.

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## Our Services



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