

MAHINDRA & MAHINDRA FINANCIAL SERVICES

Growth gaining momentum; asset quality soft

India Equity Research | Banking and Financial Services



Mahindra & Mahindra Financial Services' (MMFS) Q1FY18 PAT of INR474mn was lower than our estimate. The miss was on account of higher credit costs, which included INR834mn of provisions pertaining to loans that were >24 months overdue (reversal of write-back in Q1FY17). GNPA's, in line with historical trend, rose to 10.5% (9.0% in FY17), though management highlighted that collection efficiency in all verticals, except tractors, improved vis-à-vis Q1FY17. Also, management is optimistic on improving rural cash flows, which is likely to spur growth in coming quarters, as the festive season kicks in, compared to the current momentum—disbursements grew >16%, AUM up >14%. Valuations at 3.6x FY19E P/ABV capture near-term cyclical uptick. Hence, maintain 'HOLD'.

Growth momentum sustained; outlook positive

Growth momentum sustained with disbursements jumping >16% YoY driven by tractor loans (up >40% YoY) and pre-buying on GST/BS-IV transition. Consequently, AUM grew >14% YoY to INR476bn. MMFS is optimistic on improving rural cash flows and expects growth momentum to sustain. Given its brand presence and customer relationships, we believe that MMFS will continue to be the first choice of manufacturers looking to penetrate rural markets, leading to sustained growth going forward.

Asset quality soft; underlying trend improving

GNPAs rose to INR50bn (up 14% YoY), but underlying asset quality seems to be improving as the QoQ rise in GNPA's was lower than the historical trend. Despite demonetisation and farm loan waiver announcements, collection efficiency has been trending up—in the 92-95% range in Q1FY18 versus ~86-88% in Q1FY17. Management is confident of structural improvement in asset quality in coming quarters. Despite transition from 120dpd to 90dpd recognition norms during the year, which is likely to keep GNPA's at >10%, provision coverage of 60% (52% in Q1FY17) should keep credit costs under check.

Outlook and valuations: Weak earnings; maintain 'HOLD'

Though we repose faith in MMFS—strong brand, business relationships, geographical depth, product diversification—volatile rural cash flows and earnings vulnerability keep us guarded. Better growth momentum and controlled credit costs can lead to >50% EPS CAGR over FY17-19E (on lower base), leading to RoE of 14% (further curtailed by capital raising). The stock trades at 3.6x FY19E P/ABV, which factors in a fair bit of positive momentum. We maintain 'HOLD/SU' with TP of INR384 (3.5x FY19E P/ABV).

EDELWEISS 4D RATINGS	
Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: MMFS.BO, B: MMFS IN)

CMP	: INR 399
Target Price	: INR 384
52-week range (INR)	: 405 / 244
Share in issue (mn)	: 568.8
M cap (INR bn/USD mn)	: 227 / 3,528
Avg. Daily Vol.BSE/NSE('000)	: 2,494.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	51.9	51.9	51.9
MF's, FI's & BK's	10.4	11.8	11.0
FII's	30.5	30.4	30.4
Others	7.2	5.9	6.7
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	20.8	4.1	4.3
3 months	17.4	7.1	11.0
12 months	24.5	15.4	27.7

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Financials

	(INR mn)							
Year to March	Q1FY18	Q1FY17	Growth %	Q4FY17	Growth %	FY17	FY18E	FY19E
Net revenue	8,704	6,847	27.1	11,290	(22.9)	33,801	39,037	45,883
Net profit	474	870	(45.5)	2,341	(79.8)	4,002	6,503	10,399
Dil. EPS (INR)	0.8	1.5	(45.8)	4.1	(79.9)	7.0	11.4	18.3
Adj. BV (INR)						94.2	93.9	109.7
Price/ Adj book (x)						4.2	4.3	3.6
Price/ Earnings (x)						56.8	34.9	21.8

Mahindra Rural Housing Finance

- Provides loans for home construction, extension, purchase and improvement to customers in rural and semi-urban India with presence across 12 states and 1 Union Territory.
- Disbursements during the quarter were ~INR6bn (up >45% YoY) leading to similar growth in the outstanding loan book to INR52.4bn.
- Asset quality continued to be soft with GNPA's rising to 12.8% (9.7% in FY17). Management attributed this rise to seasonality (self-employed segment) and expects GNPA's to improve going ahead (also supported by improving cash flows).

Mahindra Insurance Brokers

- Undertakes insurance broking in life, non-life and reinsurance businesses.
- Net premium came in at INR3.9bn (up ~45% YoY) leading to ~33% jump in profitability to INR134mn.

Table 1: Key takeaways from Q1FY18 earnings

(INR mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Interest income	15,924	13,664	16.5	18,255	(12.8)	
Interest expense	7,327	6,910	6.0	7,137	2.7	
Net interest income	8,597	6,754	27.3	11,117	(22.7)	Strong NII growth, supported by healthy AUM traction and improved margins
Non-interest income	107	93	15.7	173	(37.9)	
Net revenues	8,704	6,847	27.1	11,290	(22.9)	
Operating expenses	3,810	3,260	16.9	4,037	(5.6)	Controlled opex, benefiting from improvement in productivity
-Staff expense	1,980	1,675	18.2	1,797	10.2	
-Depreciation	111	106	3.9	135	(18.3)	
-Other opex	1,720	1,479	16.3	2,105	(18.3)	
Operating profit	4,894	3,587	36.5	7,252	(32.5)	
Provisions	4,258	2,245	89.6	3,614	17.8	Elevated credit costs, partly due to additional provisions of INR 834mn towards 100% provision cases
Profit before tax	636	1,341	(52.6)	3,638	(82.5)	
Tax expense	162	472	(65.6)	1,298	(87.5)	
Profit after tax	474	870	(45.5)	2,341	(79.8)	Subdued earnings, primarily on back of higher provisions
EPS (INR)	0.8	1.5	(45.8)	4.1	(79.9)	

Source: Company, Edelweiss research

Table 1: Key takeaways from Q1FY18 earnings (Contd...)

(INR mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Key Metrics						
AUM	4,75,757	4,16,622	14.2	4,67,755	1.7	Robust AUM traction, with management guiding for sustained growth on back of low inventory levels, upcoming festive months and settling of regulatory issues
Loan book	4,38,140	3,78,180	15.9	4,25,230	3.0	
Disbursements	76,399	65,639	16.4	83,761	(8.8)	Strong disbursement growth, contributed from all geographies and products (mainly tractors - up >40% YoY)
GNPA	50,142	44,147	13.6	41,827	19.9	Higher collection efficiency (~95%) led to better-than-historical Q1 performance on asset quality
NNPA	19,810	21,060	(5.9)	15,997	23.8	
GNPA (%)	10.5	10.7		9.0		On moving to 90dpd norms during FY18, management aims to maintain NPAs at current levels
NNPA (%)	4.4	5.4		3.6		Improving provision coverage (~60%) fed into lower NNPA's
Cost/income (calc., %)	43.8	47.6		35.8		Investments in technology to benefit cost/income ratio going forward

Source: Company, Edelweiss research

Table 2: Strong disbursement growth of ~16% YoY, feeding into healthy AUM traction (up >14% YoY)

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
AUM (INR bn)	375.5	384.3	402.8	409.3	416.6	438.5	457.1	467.8	475.8
Q-o-Q growth (%)	1.8	2.3	4.8	1.6	1.8	5.3	4.2	2.3	1.7
Y-o-Y growth (%)	9.6	7.7	10.4	11.0	10.9	14.1	13.5	14.3	14.2
Disbursement (INR bn)	60.6	58.7	79.7	68.1	65.6	75.4	91.8	83.8	76.4
Q-o-Q growth (%)	(3.9)	(3.2)	35.9	(14.6)	(3.6)	14.9	21.6	(8.7)	(8.8)
Y-o-Y growth (%)	9.4	1.5	18.8	8.1	8.4	28.6	15.1	23.0	16.4
On-book/AUM (%)	96.2	96.2	96.3	96.6	97.0	97.2	97.7	98.2	98.6
Off-book/AUM (%)	3.8	3.8	3.7	3.4	3.0	2.8	2.3	1.8	1.4

Table 3: Disbursement growth contributed from all products (mainly, tractors - up >40% YoY)

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Auto/Utility vehicles	31.0	31.0	31.0	30.0	29.0	28.0	28.0	28.0	28.0
Tractors	16.0	15.0	16.0	15.0	17.0	17.0	20.0	17.0	21.0
Cars	24.0	23.0	23.0	22.0	22.0	22.0	23.0	22.0	21.0
Commercial vehicles and Construction equipments	10.0	11.0	10.0	11.0	13.0	12.0	11.0	12.0	11.0
Others	19.0	20.0	20.0	22.0	19.0	21.0	18.0	21.0	19.0
Disbursements (INR bn)	60.6	58.7	79.7	68.1	65.6	75.4	91.8	83.8	76.4

Source: Company

Table 4: Robust AUM traction, with optimistic management outlook going forward

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Auto/Utility vehicles	31.0	31.0	31.0	31.0	31.0	30.0	31.0	30.0	30.0
Tractors	18.0	18.0	17.0	17.0	17.0	17.0	18.0	17.0	17.0
Cars	23.0	23.0	24.0	24.0	24.0	23.0	24.0	23.0	23.0
Commercial vehicles and Construction equipments	13.0	12.0	12.0	12.0	13.0	13.0	13.0	13.0	13.0
Others	15.0	16.0	16.0	16.0	15.0	17.0	14.0	17.0	17.0
AUM (INR bn)	375.5	384.3	402.8	409.3	416.6	438.5	457.1	467.8	475.8

Table 5: Borrowing profile - Instrument-wise

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Bonds/NCDs	27.8	32.4	33.9	34.9	39.5	43.4	44.9	46.2	49.4
Bank Loans	39.6	35.5	33.3	35.1	33.1	30.3	26.1	27.3	24.3
Securitisation/Assignment	5.1	5.1	4.9	4.6	4.0	3.7	3.0	2.3	1.8
Fixed Deposits	16.7	17.1	16.2	15.5	15.0	14.0	13.2	12.3	11.2
CP, ICD	10.8	9.9	11.7	9.9	8.4	8.6	12.8	11.9	13.3
Total borrowing (INR bn)	283.9	291.0	303.3	308.5	312.0	333.9	344.6	354.9	359.0

Table 6: Borrowing profile - Investor-wise

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Banks	45.2	42.5	40.6	42.0	40.3	45.9	43.2	46.1	39.8
Mutual Fund	15.7	18.4	21.6	18.9	18.6	20.8	24.1	21.2	25.0
Insurance & Pension Funds	17.2	16.9	16.7	18.0	21.6	8.4	8.2	7.8	13.3
FIs & Corporates	5.1	5.1	4.9	4.6	4.0	11.3	11.5	12.1	10.0
Others	16.7	17.1	16.2	16.5	15.5	13.7	13.0	12.8	11.9
Total borrowings (INR bn)	283.9	291.0	303.3	308.5	312.0	333.9	344.6	354.9	359.0

Table 7: NIMs at 7.3%, benefiting from funding cost advantage

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Yields	14.6	15.0	14.2	16.5	13.2	14.0	13.3	15.8	13.5
Cost of funds	9.1	9.1	9.0	8.8	8.9	8.8	8.8	8.2	8.2
NIM	7.7	8.1	7.4	9.9	6.5	7.3	6.7	9.6	7.3

Table 8: Better collection efficiency (~95%) restricts seasonal rise in GNPA's

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Gross NPA (INR bn)	29.4	35.3	39.9	32.2	44.1	47.5	50.6	41.8	50.1
Gross NPA to total assets (%)	8.0	9.4	10.1	8.0	10.7	11.0	11.1	9.0	10.5
Net NPA (INR bn)	12.8	16.5	17.0	12.4	21.1	22.9	22.1	16.0	19.8
Net NPA to Total Assets (%)	3.6	4.6	4.6	3.2	5.4	5.6	5.2	3.6	4.4
Coverage ratio (%)	56.6	53.4	57.3	61.7	52.3	51.9	56.4	61.8	60.5

Table 9: Healthy tier-1 ratio at 12.9%

(%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Capital adequacy	18.1	18.2	17.8	17.3	19.5	18.1	17.9	17.2	17.4
Tier I	15.3	15.5	15.0	14.6	14.3	13.2	13.3	12.8	12.9
Tier II	2.7	2.7	2.8	2.7	5.2	4.9	4.6	4.4	4.5
Book Value (INR)	101.3	104.0	105.2	107.0	108.2	109.9	109.7	113.9	114.8

Source: Company

Financial snapshot
(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Operating income	15,924	13,664	16.5	18,255	(12.8)	61,765	71,100	82,699
Interest exp	7,327	6,910	6.0	7,137	2.7	28,574	32,724	37,526
Other income	107	93	15.7	173	(37.9)	610	660	710
Net revenues	8,704	6,847	27.1	11,290	(22.9)	33,801	39,037	45,883
Staff costs	1,980	1,675	18.2	1,797	10.2	6,809	8,029	9,622
Depreciation	111	106	3.9	135	(18.3)	460	533	611
Other expenses	1,720	1,479	16.3	2,105	(18.3)	7,240	8,236	9,459
Operating expenses	3,810	3,260	16.9	4,037	(5.6)	14,509	16,798	19,692
Pre prov profit	4,894	3,587	36.5	7,252	(32.5)	19,292	22,238	26,191
Provisions	4,258	2,245	89.6	3,614	17.8	13,091	12,430	10,506
Profit before tax	636	1,341	(52.6)	3,638	(82.5)	6,201	9,809	15,684
Provision for taxes	162	472	(65.6)	1,298	(87.5)	2,198	3,305	5,286
PAT	474	870	(45.5)	2,341	(79.8)	4,002	6,503	10,399
Diluted EPS (INR)	0.8	1.5	(45.8)	4.1	(79.9)	7.0	11.4	18.3

Ratios

Cost/income (%)	43.8	47.6		35.8		42.9	43.0	42.9
Provisions / PPP	87.0	62.6		49.8		67.9	55.9	40.1
Tax rate (%)	25.5	35.2		35.7		35.5	33.7	33.7

Asset quality

Gross NPA	50,142	44,147	13.6	41,827	19.9	41,827	53,307	54,228
Gross NPA (%)	10.5	10.7		9.0		9.0	10.5	9.3
Net NPA	19,810	21,060	(5.9)	15,997	23.8	15,997	21,323	18,980
Net NPA (%)	4.4	5.4		3.6		3.6	4.2	3.1
Coverage ratio (%)	60.5	52.3		61.8		61.8	60.0	65.0

Valuation metrics

B/V per share (INR)						113.9	120.1	133.0
Adj book value / share						94.2	93.9	109.7
Price/ Book (x)						3.5	3.3	3.0
Price/ Adj. book (x)						4.2	4.3	3.6
Price/ Earnings						56.8	34.9	21.8

Q1FY18 Earnings Concall Key Takeaways

Management commentary

- **Management believes that it is a bounce back of rural story, given positive sentiments and the fact that cash flows have held up well**
 - Q3 and Q4 could be an infrastructure story in some states, mainly in states where there are impending election in coming years
- **Growth is expected to remain strong given low dealership inventory levels, festive months (Sep, Oct) and settling of regulatory issues**
 - Excluding impact of inventory clearing prior to GST implementation, normalized growth was 13-14%
 - Growth in disbursements was contributed from all geographies and products
- Management is betting on using the analytics piece to drive growth going forward
 - Investment in technology will see productivity move up during the year

Asset quality

- **During Q1FY18, the company made additional provisions of ~INR834mn towards 100% provision cases which were 24 months overdue**
 - This is to compensate for the lower provisions last year wherein MMFS used the estimated realizable value method
 - Additionally, the company also made 10% provisions on loans where part installments were made, which led to higher provisions
 - Consequently, provision coverage has improved to ~60% levels
- In contract to historical trend wherein GNPA's rise by 30-35% during Q1, GNPA's increase in Q1FY18 was restricted to 14%
 - **Collection efficiency (~95%) is 4-5% higher than normally seen in 1st quarter of any year**
 - Contracts under NPAs stood at 171,776 (vs. 138,357 in Q4FY17)
 - Contracts below and above the 12 month (12m) bucket will be roughly equal in terms of value
 - In terms of number, contracts below 12m would be roughly ~70,000-80,000, with remaining above the 12m bucket
- **Every vertical, except tractors, has shown improvement in NPA recovery as compared to Q1FY17**
 - **In the case of tractors, states of Maharashtra and Madhya Pradesh saw some stress due to transactional pressure**
 - Customers in these 2 states were affected by lack of disbursements by cooperative banks who could not participate in demonetisation
- **On moving to 90dpd recognition norms during the year, management aims to retain NPAs at current levels**

- In comparison to 120dpd norms, transition towards 90dpd norms will increase NPAs by ~300bps

- **Management aims to restrict credit losses in the range of 2-2.2%**
- **Going forward, repossession would not be the solution for tackling NPAs**
 - Consequently, disposal losses will not be a repeat story going ahead
 - Repossessed assets (out of NPAs) stood at 12,730 (vs. 13,185 in Q4FY17)
- Of the total NPA provisions of INR30.3bn, income reversal was to the tune of INR7.3bn

Other highlights

- Lower income reversal and funding cost benefits have led to improved margins
 - Given AAA rating, fall in market rates will continue to benefit borrowing costs
- **Housing finance book is expected to grow at 30-40% going forward**
 - Given high margins (~10-12%), rural RoAs in this space is in the range of 5-6%
- MMFS will look at raising growth capital going forward

Q4FY17 Earnings Concall Key Takeaways

With respect to asset quality

- **Total accounts in NPA ~1,38,000, of which ~40,000 accounts were in NPAs even as of Mar-16 and ~4,000 from disbursements during last 12m**
 - These accounts are mainly in the states of Maharashtra, Madhya Pradesh, Uttar Pradesh, Bihar, Karnataka, Tamil Nadu and West Bengal
 - Share of Mahindra and non-Mahindra business in these accounts is 50:50
- **Of the accounts on which RBI dispensation was sought, ~2/3rd has been recovered and rest has slipped into NPAs**
 - Out of a total of 32,000 accounts, 24,000 have been fully resolved, 4,000 have been partly resolved and 4,000 have seen no movement
- Improvement in NPAs (9% vs. 11% in Q3FY17) was on account of:
 - **Improvement in collection efficiency:** 103% during Q4FY17 (117% in March).
 - Recovery has been pretty swift post demonetisation, with collections during Mar-17 better than that during Mar last year
 - **Re-possession of vehicles on NPA accounts** (~12,000 vehicles in stock)
 - If impact included, GNPA/NNPAs would have been 8.1%/3.2%, respectively
 - **Lower incremental NPAs**
- Provisions were higher owing to:
 - Reversal of credit benefit taken during Q1FY17 (~INR1.15bn)
 - Provision on a/cs on which RBI dispensation was sought during Q3FY17
 - Loss on sale of re-possessed assets

Other highlights

- Management believes that sentiments have turned positive after impact of demonetisation
 - Barring Karnataka and to some extent Tamil Nadu, most states have seen recovery
- **Focus would be on achieving RoE of 14-16% during FY18**
 - Lower provisions going ahead and recovery of earlier provisions may provide ~1% benefit
- Pre-owned vehicles could form ~12-15% of book going ahead
 - Rates usually vary between 17-18%, and can go upto 21%
- Mix of Mahindra and non-Mahindra business on book basis is 45:55

Company Description

MMFS, a subsidiary of M&M with ~52% promoter ownership, is a leading NBFC offering a range of financial services in rural and semi-urban areas. The company finances purchase of utility vehicles, tractors, cars, commercial vehicles, used vehicles as well as construction equipment. It has a strong network of 1,183 branches spread across 27 states and 4 union territories in India. Collection executives also use GPRS-enabled handheld devices, which help the company locate payments. In the backdrop of strong customer relationships, the company is also engaged in other businesses as follows:

- Providing loans for buying and renovating homes in rural India through Mahindra Rural Housing Finance. The business started operations in 2008.
- Offering insurance solutions to retail customers as well as corporations through Mahindra Insurance Brokers.

It has been in operation since 1993, initially financing M&M dealers for tractor purchases and then into retail tractor financing. In 2002, it started financing non-M&M vehicles as well.

Investment Theme

Unpleasant GNPA surprises in recent past had resulted in volatile earnings. It is perplexing to evaluate a stock wherein earnings trajectory has been weak with a series of downgrades during a down cycle, but it still retains premium valuations. MMFS' consequent vulnerability keeps us guarded; moreover, valuations at 3.6x FY19E P/ABV capture near-term cyclical uptick. Hence, maintain 'HOLD'.

Key Risks

MMFS's business model is directly linked to demand for underlying auto segments - hence earnings will be subject to the seasonality and cyclicity of the same. >40% of MMFS's loan book is accounted for by M&M vehicles. This dependency links its performance to that of M&M. Hence, weak performance by the latter's models can affect disbursements.

Along with the rising footprint of banks in rural areas, expansion of other NBFCs like Shriram City Union Finance, Tata Finance, Sundaram Finance, Bajaj Finance, and Kotak Prime is a cause of concern for the company due to their aggressive growth strategies.

Adverse regulatory developments and slowdown in rural economy are other vectors to look out for.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Borrowings growth (%)	8.6	14.0	12.0	13.0
Bank's base rate (%)	9.5	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assump. (%)				
Yield on advances	16.2	15.8	16.0	15.9
Cost of funds	9.7	9.3	9.1	8.9
Net interest margins	9.7	9.1	9.2	9.4
Employee cost growth	21.7	21.8	17.9	19.8
Other opex growth	14.3	25.2	13.8	14.8
Tax rate (%)	35.2	35.5	33.7	33.7
Balance sheet assumption (%)				
Disbursement growth	7.8	18.5	17.3	19.1
Repayment/prepay. rate	202.7	12.6	20.4	19.1
Gross NPLs	8.0	9.0	10.5	9.3
Net NPLs	3.2	3.6	4.2	3.2
Prov Cov	61.7	61.8	60.0	65.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	58,091	61,765	71,100	82,699
Interest expended	26,393	28,574	32,724	37,526
Net interest income	31,698	33,191	38,376	45,173
- Fee & forex income	960	610	660	710
Net revenues	32,658	33,801	39,037	45,883
Operating expense	11,781	14,509	16,798	19,692
- Employee exp	5,588	6,809	8,029	9,622
- Depn /amortisation	409	460	533	611
- Other opex	5,784	7,240	8,236	9,459
Preprovision profit	20,877	19,292	22,238	26,191
Provisions	10,495	13,091	12,430	10,506
Profit Before Tax	10,382	6,201	9,809	15,684
Less: Provision for Tax	3,656	2,198	3,305	5,286
Profit After Tax	6,726	4,002	6,503	10,399
Reported Profit	6,726	4,002	6,503	10,399
Shares o /s (mn)	569	569	569	569
Basic EPS (INR)	11.8	7.0	11.4	18.3
Diluted shares o/s (mn)	569	569	569	569
Adj. Diluted EPS (INR)	11.8	7.0	11.4	18.3
Dividend per share (DPS)	4.0	1.8	2.9	4.6
Dividend Payout Ratio(%)	39.8	29.3	29.3	29.3

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	5.8	3.5	15.5	17.5
NII growth	5.6	4.7	15.6	17.7
Opex growth	17.0	23.2	15.8	17.2
PPP growth	0.3	(7.6)	15.3	17.8
Provisions growth	26.8	24.7	(5.1)	(15.5)
Adjusted Profit	(19.1)	(40.5)	62.5	59.9

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on advances	16.2	15.8	16.0	15.9
Cost of funds	9.7	9.3	9.1	8.9
Net interest margins	9.7	9.1	9.2	9.4
Spread	7.3	7.0	7.3	7.6
Cost-income	36.1	42.9	43.0	42.9
Tax rate	35.2	35.5	33.7	33.7

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,129	1,130	1,130	1,130	
Reserves & Surplus	59,751	63,642	67,184	74,541	
Shareholders' funds	60,881	64,772	68,314	75,671	
Short term borrowings	92,538	112,600	121,207	143,920	
Long term borrowings	215,922	262,733	282,817	335,813	
Total Borrowings	308,460	375,333	404,024	479,733	
Long Term Liabilities	9,093	8,264	10,146	11,843	
Def. Tax Liability (net)	(5,853)	(7,316)	(8,085)	(9,314)	
Sources of funds	372,581	441,054	474,398	557,933	
Gross Block	2,898	3,498	4,098	4,698	
Net Block	1,082	1,068	1,240	1,230	
Capital work in progress	5	5	5	5	
Intangible Assets	48	47	55	55	
Total Fixed Assets	1,135	1,120	1,301	1,290	
Non current investments	10,009	12,446	12,626	12,806	
Cash and Equivalents	9,524	12,222	13,017	13,989	
Loans & Advances	356,359	392,455	459,914	545,113	
Current assets (ex cash)	7,368	13,301	8,035	9,174	
Other assets	24,560	42,566	20,088	22,935	
Trade payable	6,923	6,291	7,724	9,016	
Other Current Liab	29,451	26,765	32,859	38,357	
Total Current Liab	36,373	33,057	40,583	47,373	
Net Curr Assets-ex cash	(29,006)	(19,756)	(32,547)	(38,200)	
Uses of funds	372,581	441,054	474,398	557,933	
BVPS (INR)	107.0	113.9	120.1	133.0	

RoE decomposition (%)		FY16	FY17	FY18E	FY19E
Year to March					
Net int. income/assets	9.7	9.1	9.2	9.4	
Net revenues/assets	10.0	9.3	9.4	9.5	
Operating expense/assets	(3.6)	(4.0)	(4.0)	(4.1)	
Provisions/assets	(3.2)	(3.6)	(3.0)	(2.2)	
Taxes/assets	(1.1)	(0.6)	(0.8)	(1.1)	
Total costs/assets	(8.0)	(8.2)	(7.8)	(7.4)	
ROA	2.1	1.1	1.6	2.2	
Equity/assets	18.0	17.3	16.0	14.9	
ROAE (%)	11.4	6.4	9.8	14.4	

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)	11.8	7.0	11.4	18.3	
Y-o-Y growth (%)	(19.1)	(40.5)	62.5	59.9	
BV per share (INR)	107.0	113.9	120.1	133.0	
Adj. BV per share (INR)	91.8	94.2	93.9	109.7	
Diluted P/E (x)	33.8	56.8	34.9	21.8	
P/B (x)	3.7	3.5	3.3	3.0	
Price/ Adj. BV (x)	4.3	4.2	4.3	3.6	
Dividend Yield (%)	1.0	0.4	0.7	1.1	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Mahindra & Mahindra Financial Services	3,528	34.9	21.8	3.3	3.0	9.8	14.4
Dewan Housing Finance	2,252	13.0	11.3	1.7	1.5	13.8	14.5
Indiabulls Housing Finance	7,894	14.8	12.3	3.9	3.4	27.3	29.3
LIC Housing Finance	5,738	17.0	15.4	2.9	2.5	19.6	18.9
Manappuram General Finance	1,413	10.9	9.4	2.5	2.2	24.9	24.9
Muthoot Finance	2,891	13.4	11.9	2.5	2.1	19.7	19.4
Power Finance Corp	5,113	4.8	4.7	0.8	0.7	17.8	16.1
Reliance Capital	2,551	13.3	10.7	1.0	0.9	7.4	8.6
Repco Home Finance	762	22.7	18.8	3.7	3.1	17.5	18.0
Rural Electrification Corporation	5,452	5.9	5.5	0.9	0.8	16.6	15.9
Shriram City Union Finance	2,357	17.9	12.6	2.6	2.2	15.7	19.3
Shriram Transport Finance	3,517	13.4	8.8	1.8	1.5	14.2	18.8
Median	-	13.4	11.6	2.5	2.2	17.1	18.4
AVERAGE	-	15.2	11.9	2.3	2.0	17.0	18.2

Source: Edelweiss research

Additional Data

Directors Data

Dhananjay Mungale	Chairman	Ramesh Iyer	Vice Chairman & Managing Director
V. Ravi	Executive Director & CFO	Piyush Mankad	Director
Rama Bijapurkar	Director	V. S. Parthasarathy	Director
C. B. Bhavé	Director	Anish Shah	Director
M. G. Bhidé	Director		

Auditors - B. K. Khare & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
SBI Funds Management	3.50	Franklin Resources	3.03
UTI Asset Management	2.59	Temasek Holdings	2.49
J.P. Morgan Chase & Co.	2.16	BlackRock	2.12
FIL	1.76	Vanguard Group	1.70
Valiant Mauritius Partners	1.19	Amansa Capital	1.09

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
04 Nov 2016	Rama Bijapurkar	Sell	16169.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	HOLD	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SU	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings

Criteria

Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
24-Jul-17	IndiaBulls Housing Finance	Business as usual; <i>Result Update</i>	1,157	Buy
24-Jul-17	HDFC Bank	Core strong, one-off rise in asset quality ; <i>Result Update</i>	1,735	Buy
22-Jul-17	Dewan Housing Finance	Growth gaining momentum; costs under control; <i>Result Update</i>	459	Buy

Distribution of Ratings / Market Cap

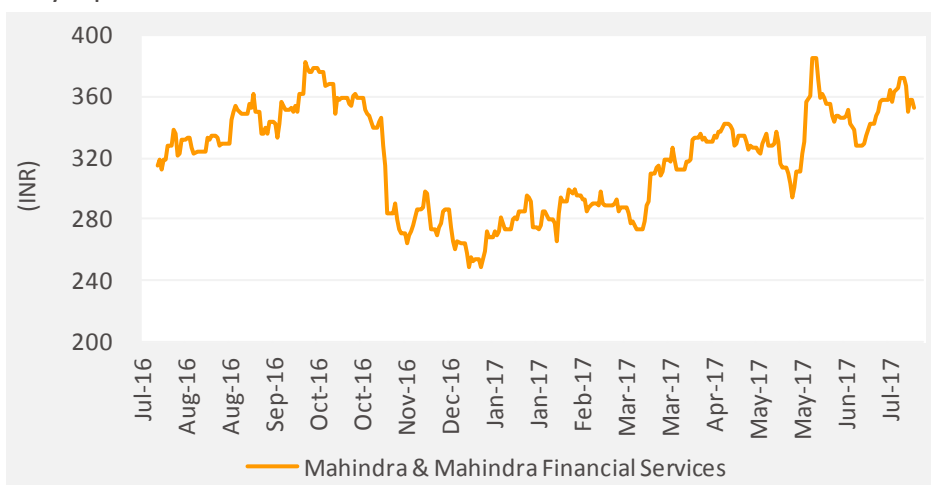
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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