25 July 2017

1QFY18 Results Update | Sector: Financials

Mahindra Financial Services

BSE SENSEX	S&P CNX
32,228	9,370

Bloomberg	MMFS
Equity Shares (m)	565.0
M.Cap.(INRb)/(USDb)	225.5 /3.5
52-Week Range (INR)	405 / 244
1, 6, 12 Rel. Per (%)	17/23/10
Avg Val, INRm	-
Free float (%)	-

Financials & Valuations (INR b)

Y/E March	2017	2018E	2019E
NII	33.2	40.0	45.1
PPP	19.3	23.9	26.8
PAT	4.0	7.8	10.0
EPS (INR)	7.1	13.9	17.8
BV/Sh.(INR)	111.8	120.1	130.6
ABV/Sh (INR)	92.0	95.4	104.4
RoA on AUM (%)	1.0	1.7	1.9
RoE (%)	6.5	12.0	14.2
Payout (%)	39.2	41.0	41.0
Valuations			
P/E (x)	56.3	28.8	22.5
P/BV (x)	3.6	3.3	3.1
P/ABV (x)	4.3	4.2	3.8
Div. Yield (%)	0.7	1.2	1.6

CMP: INR399 TP: INR459 (+15%) Buy

Operating performance strong; Strengthening the balance sheet

- Mahindra & Mahindra Financial Services (MMFS) had a strong quarter on the operating front. **Value of assets financed increased 16% YoY in 1QFY18 – the fourth consecutive quarter of 15%+ YoY growth.** This comes after a span of over 12 quarters of sluggish growth, caused by a variety of external factors. Management expects strong growth to sustain or even improve.
- GNPL ratio increased 150bp QoQ, but declined 20bp YoY to 10.5%. **The sequential increase, which is seasonal, is much lower than that witnessed in the past three years.** Asset quality data from the past 10 years suggest that in a good economic cycle, 4Q-to-1Q GNPL increase is ~50-100bp, while in a bad cycle, it goes to as high as 250+bp.
- The company incurred provisioning cost of INR834m, based on its assessment of underlying collateral for NPLs, on which 100% provisioning has been made. **As a result, PCR was largely stable at 60-62%. The sequential PCR decline of a mere 130bp is the lowest in the past 11 years (average decline of 600bp). We view this shoring-up of provisions as a positive sign as it strengthens the balance sheet, despite the negative impact on near-term profitability.**
- **Valuation and view:** The business environment for MMFS seems to be getting better. After several quarters of sluggish disbursement growth, MMFS has finally delivered four consecutive quarters of 15%+ growth. Asset quality data too signal early signs of revival. We like the fact that the company chooses to improve balance sheet quality over near-term profitability. The company's long-term prospects remain strong. As MMFS is highly levered to growth and asset quality, this would have a multiplier effect on the return ratios. We upgrade FY18/19 EPS estimates by 9%/18% and our TP to INR459 (SOTP FY19 based). **Buy.**

Quarterly Performance (INR Million)

Y/E March	FY17				FY18				FY17	FY18
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Operating Income	13,664	14,916	14,904	18,255	15,924	17,261	16,909	20,359	61,739	70,453
Other Income	93	241	130	173	107	200	250	270	636	827
Total income	13,757	15,157	15,035	18,427	16,031	17,461	17,159	20,629	62,375	71,280
YoY Growth (%)	0.5	5.4	6.7	9.1	16.5	15.2	14.1	12.0	5.6	14.3
Interest Expenses	6,910	7,086	7,441	7,137	7,327	7,563	7,777	7,830	28,574	30,497
Net Income	6,847	8,071	7,593	11,290	8,704	9,898	9,382	12,799	33,801	40,782
Operating Expenses	3,260	3,567	3,645	4,037	3,810	4,162	4,252	4,670	14,509	16,893
Operating Profit	3,587	4,504	3,949	7,252	4,894	5,735	5,130	8,129	19,292	23,889
YoY Growth (%)	-22.1	-10.5	-11.2	6.7	36.5	27.3	29.9	12.1	-7.6	23.8
Provisions	2,245	3,042	4,190	3,614	4,258	3,500	2,400	1,634	13,091	11,792
Profit before Tax	1,341	1,462	-241	3,638	636	2,235	2,730	6,495	6,202	12,098
Tax Provisions	472	514	-85	1,298	162	787	961	2,348	2,198	4,258
Net Profit	870	948	-156	2,341	474	1,448	1,769	4,147	4,003	7,840
YoY Growth (%)	-2.2	-35.1	-123.3	-36.8	-45.5	52.8	-1,231.3	77.2	-40.5	95.8
Cost to Income Ratio (%)	47.6	44.2	48.0	35.8	43.8	42.1	45.3	36.5	42.9	41.4
Provisions/Operating Profits (%)	62.6	67.5	106.1	49.8	87.0	61.0	46.8	20.1	67.9	49.4
Tax Rate (%)	35.2	35.2	35.2	35.7	25.5	35.2	35.2	36.2	35.4	35.2

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Exhibit 1: Quarterly performance v/s expectations and deviations for the same

Y/E March	1QFY18A	1QFY18E	Var (%)	Comments
Net Income	**8,704**	**8,628**	**1**	**In-line**
% Change (Y-o-Y)	*27*	*26*		
Operating Expenses	3,810	3,755	1	In-line
Operating Profit	**4,894**	**4,873**	**0**	**In-line**
% Change (Y-o-Y)	*36*	*36*		
Other Provisions	4,258	2,500	70	Higher credit costs to shore up PCR
Profit before Tax	**636**	**2,373**	**-73**	
Tax Provisions	162	835	-81	
Net Profit	**474**	**1,538**	**-69**	**PAT Miss due to higher credit costs**
% Change (Y-o-Y)	*-46*	*77*		

Source: MOSL, Company

Robust farm sentiment bodes well for rural demand

AUM growth remains stable at 14% YoY

- Reported AUM increased 14% YoY (+1% QoQ) to INR476b, driven by 16% YoY rise in value of assets financed. While management refrained from giving guidance, it is bullish on growth prospects for the remainder of the year.
- Growth was broad based across all segment and AUM mix remained largely stable.
- According to management, MMFS has gained share in car financing across all OEMs in the geographies and segments it operates in.

Asset quality performance has been much better than in the past. Provisions on the balance sheet have been shored up

Asset quality trend encouraging

- The collection efficiency of 95% achieved in 1QFY18 is 400-500bp higher than that generally witnessed in the first quarter of any fiscal.
- Consequently, GNPL ratio increased only 150bp sequentially to 10.5%. This is much lower than that witnessed in the past three years. Asset quality data from the past 10 years suggests that in the good economic cycle, the 4Q-to-1Q GNPL increase is ~50-100bp, while in the bad cycle, it goes to as high as 250+ bp.
- The company incurred a provisioning cost of INR834m, based on its assessment of underlying collateral for NPLs on which 100% provisioning has been made.
- The sequential PCR decline of a mere 130bp is the lowest 4Q-to-1Q decline in the past 11 years (average decline – 600bp). We view this strengthening of provisions as a positive sign as it strengthens the balance sheet despite the negative impact on near-term profitability.
- The total number of NPL contracts increased only 3% YoY to 171K.

Margins up 80bp YoY; C/I ratio improves significantly

- While the company enjoyed the benefit of 90bp lower cost of funds YoY, yields have been unchanged. The company has not had to pass on the benefits to borrowers. As a result, NIM on AUM increased 80bp YoY to 7.94%.
- Due to strong NIM expansion, C/I ratio declined 380bp YoY to 43.8% in 1QFY18.

Subsidiaries' performance

- **Mahindra Rural Housing Finance (MRHFL):** While loan book growth remained robust (47% YoY), GNPL ratio inched up 310bp to 12.8%, resulting in subdued profitability in the quarter. Management attributes this to cash flow timing issues for the borrowers. The outstanding loan book is INR52b.
- **Mahindra Insurance Broker (MIBL):** MIBL's total income grew 22% YoY to INR445m, driven by 39% YoY growth in number of policies. Net premium grew 45% YoY to INR3.9b and PAT was at INR134m, up 33% YoY.

Valuations and view

- MMFS has underperformed peers over the last 2 years due to asset quality pressures. While it's reported NPLs are likely to remain at remain high, due to weak rural economy, prolonged economic recovery, and subsequent migration to 90dpd NPL recognition norms, we view this as a cyclical adjustment and not a structural breakdown.
- There are clear signs of a turnaround in the economic cycle. In this business, growth and asset quality improvement move in tandem. With the rural economy improving, growth is expected to pick up and at the same time, credit costs shall decline sharply.
- We upgrade FY18/19 EPS estimates by 9%/18% to factor in better topline. We use SOTP to arrive at a TP of INR459.
- Our estimates do not factor in any capital raise. However, if INR20b capital were raised at current market prices at the end of the fiscal, FY19 BVPS would increase from INR131 to INR154, in our view.

Exhibit 2: Upgrade FY18/19 EPS estimates to factor stronger NII

INR B	Old Est			New Est			% Change		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
NII (incl. Sec. Inc)	38.0	43.4	50.8	40.0	45.1	53.2	5.2	4.1	4.7
Other Income	0.8	1.1	1.4	0.8	1.1	1.4			
Total Income	**38.8**	**44.4**	**52.2**	**40.8**	**46.2**	**54.6**	**5.1**	**4.0**	**4.6**
Operating Expenses	16.7	19.2	22.0	16.9	19.4	22.2	1.1	1.1	1.0
Operating Profits	**22.1**	**25.3**	**30.2**	**23.9**	**26.8**	**32.4**	**8.1**	**6.2**	**7.2**
Provisions	10.3	11.0	13.1	11.8	11.4	12.3	14.8	3.6	-6.2
PBT	**11.8**	**14.3**	**17.1**	**12.1**	**15.4**	**20.1**	**2.4**	**8.1**	**17.4**
Tax	4.2	5.0	6.0	4.3	5.4	7.0	2.4	7.5	16.7
PAT	**7.7**	**9.2**	**11.1**	**7.8**	**10.0**	**13.1**	**2.4**	**8.5**	**17.8**
AUM	**538**	**630**	**744**	**533**	**622**	**733**	**-0.8**	**-1.2**	**-1.5**
Margins	8.1	7.9	7.8	8.6	8.3	8.3	0.5	0.4	0.5
Credit Cost	2.20	2.00	2.00	2.55	2.10	1.90	0.4	0.1	-0.1
RoA on AUM	**1.7**	**1.7**	**1.8**	**1.7**	**1.9**	**2.1**	0.0	0.2	0.3
RoE	**11.4**	**12.8**	**14.2**	**12.0**	**14.2**	**16.8**	**0.6**	**1.3**	**2.6**

Exhibit 3: SOTP analysis

SOTP FY19E Based (INR)	Value (INR b)	Value (USD b)	Value/ Sh. (INR)	% of total	Rationale
Core business	**220**	**3.4**	**390**	**84.9**	**3x June 2019 BV**
Key Ventures					
Mahindra Rural Housing Finance	24	0.4	43	9.3	4x FY19 BV; 20x PE
Mahindra Insurance Brokers	25	0.4	44	9.5	30x FY19 PAT
Total Value of Ventures	**49**	**0.8**	**86**	**18.8**	
Less: 20% holding discount	10	0.2	17	3.8	
Value of Key Ventures	**39**	**0.6**	**69**	**15.1**	
Target Value Post 20% Holding Co Disc	**259**	**4.1**	**459**	**100.0**	
CMP	225	3.5	399		
Upside - %	***15.0***	***15.0***	***15.0***		

Source: Company, MOSL

Key conference call highlights

Business Updates

- In 4Q, demand for repossessed vehicles returned to normalcy.
- Management believes that it could get significant benefits from operating leverage if volumes pick up in FY18. Would not need to add further resources to achieve 25% growth, going forward.
- Growth has come from cars and tractors (some market share gains too). Focus on pre-owned vehicles has also resulted in strong growth.

Asset Quality

- Slippages have clearly declined, according to management.
- Around 138,000 accounts are NPLs (50% Mahindra / 50% non-Mahindra vehicles). Of these, ~40,000 accounts are paying dues.
- Of the 138,000 accounts, 40,000 are carry-forward from FY16, while the rest were added during the year.
- Barring TN and Karnataka, all states that had asset quality issues have shown improvement in terms of asset quality due to better infra cash flows and farm cash flows.
- Accounts under RBI dispensation last quarter – out of 32,000 contracts, 24,000 are completely resolved and 4,000 are partially resolved.
- 103% collection efficiency in 4Q, 117% in March (significantly higher YoY).
- Including the value of repossessed vehicles, GNPL ratio would be 8.1% and NNPL ratio would be 3.2%.

Others

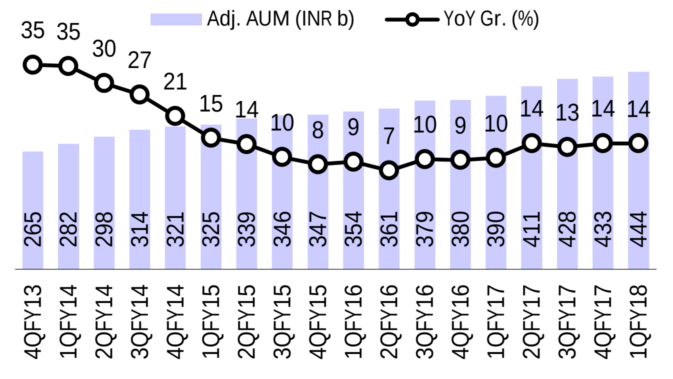
- Targeting RoE of 15-16% for FY18.
- Pre-owned vehicles – 16-21% interest rate. LTV capped at 60-70%. Loan tenure will not be more than the expected residual life of the vehicle.
- Their customer segment does not get impacted by farm loan waivers.

Exhibit 4: Quarterly Snapshot

	FY16				FY17				FY18	Variation (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	QoQ	YoY
Profit and Loss (INR m)											
Net Income	**7,239**	**7,841**	**7,391**	**10,186**	**6,847**	**8,071**	**7,593**	**11,290**	**8,704**	**(23)**	**27**
Operating Expenses	**2,635**	**2,808**	**2,946**	**3,391**	**3,260**	**3,567**	**3,645**	**4,037**	**3,810**	**(6)**	**17**
Employee	1,294	1,384	1,354	1,556	1,675	1,710	1,627	1,797	1,980	10	18
Others	1,341	1,425	1,592	1,836	1,585	1,856	2,018	2,241	1,830	(18)	15
Operating Profits	**4,604**	**5,033**	**4,445**	**6,795**	**3,587**	**4,504**	**3,949**	**7,252**	**4,894**	**(33)**	**36**
Provisions	3,228	2,772	3,406	1,089	2,245	3,042	4,190	3,614	4,258	18	90
PBT	**1,376**	**2,261**	**1,039**	**5,706**	**1,341**	**1,462**	**-241**	**3,638**	**636**	**(83)**	**(53)**
Taxes	486	799	367	2,003	472	514	-85	1,298	162	(88)	(66)
PAT (before EO)	**890**	**1,462**	**672**	**3,703**	**870**	**948**	**-156**	**2,341**	**474**	**(80)**	**(46)**
Asset Quality											
GNPA (INR m)	29,411	35,283	39,851	32,242	44,147	47,481	50,589	41,827	50,142	20	14
NNPA (INR m)	12,767	16,453	17,016	12,351	21,060	22,862	22,074	15,997	19,810	24	(6)
%GNPAs to total assets (%)	8.0	9.4	10.1	8.0	10.7	11.0	11.1	9.0	10.5		
%NNPAs to total assets (%)	3.6	4.6	4.6	3.2	5.4	5.6	5.2	3.6	4.4		
PCR (Calc., %)	56.6	53.4	57.3	61.7	52.3	51.9	56.4	61.8	60.5		
Ratios (%)											
Cost to Income	36.4	35.8	39.9	33.3	47.6	44.2	48.0	35.8	43.8		
Tax Rate	35.3	35.3	35.3	35.1	35.2	35.2	35.2	35.7	25.5		
CAR	18.1	18.2	17.8	17.3	19.5	18.1	17.9	17.6	17.4		
Tier I	*15.3*	*15.5*	*15.0*	*14.6*	*14.3*	*13.2*	*13.3*	*13.2*	*12.9*		
RoA - calculated	1.0	1.6	0.7	3.8	0.9	0.9	-0.1	2.1	0.4		
RoE - calculated	6.2	10.0	4.5	24.5	5.7	6.1	-1.0	14.7	2.9		
Key Details (INR b)											
AUM (Reported)	376	384	403	409	417	439	457	468	476	2	14
AUM (Adjusted)	354	361	379	380	390	411	428	433	444	3	14
On book Loans	341	347	366	367	378	399	419	425	438	3	16
Off book Loans	13	14	14	14	12	12	10	8	6	(26)	(50)
Borrowings	284	291	303	308	312	334	345	355	359	1	15
On book Borrowings	269	276	288	294	299	322	334	347	353	2	18
Off book (Securitization)	14	15	15	14	13	12	10	8	6	(21)	(49)
AUM Mix (%)											
Auto/Utility vehicles	31	31	31	31	31	30	31	30	30		
Tractors	18	18	17	17	17	17	18	17	17		
Cars	23	23	24	24	24	23	24	23	23		
Commercial Vehicles	13	12	12	12	13	13	13	13	13		
Refinance & others	15	16	16	10	9	10	9	9	9		
Value of assets fin mix. (%)											
Auto/Utility vehicles	31	31	31	30	29	28	28	28	28		
Tractors	16	15	16	15	17	17	20	19	21		
Cars	24	23	23	22	22	22	23	22	21		
Commercial Vehicles	10	11	10	11	13	12	11	11	11		
Refinance & others	19	20	20	16	14	15	12	13	14		
Total Borrowing Mix (%)											
Bank Term loans	40	35	33	35	33	30	26	27	24		
Bonds/NCDs	28	32	34	35	39	43	45	43	47		
Securitization	5	5	5	5	4	4	3	2	2		
Fixed deposits	17	17	16	16	15	14	13	12	11		
Commercial Papers	11	10	12	10	8	9	13	12	13		
Other Details											
Branches (Nos.)	1,124	1,158	1,179	1,167	1,172	1,180	1,181	1,182	1,183		
Employees (Nos.)	14,250	14,889	15,580	15,821	15,610	16,549	17,433	17,856	17,659		

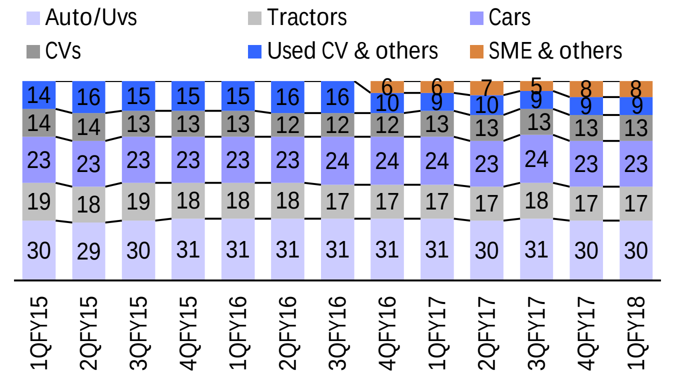
Story in charts

Exhibit 5: AUM growth stable



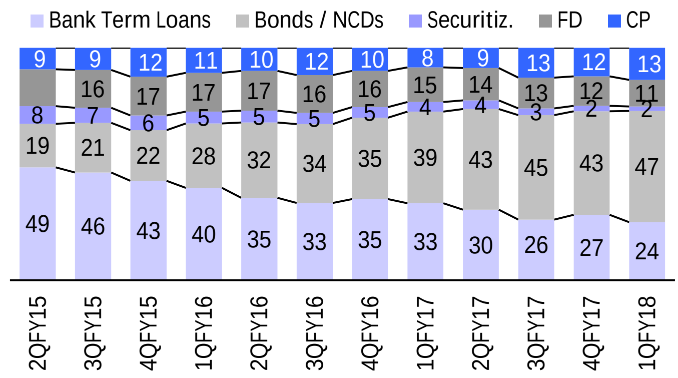
Source: Company, MOSL

Exhibit 6: AUM mix remains largely stable (%)



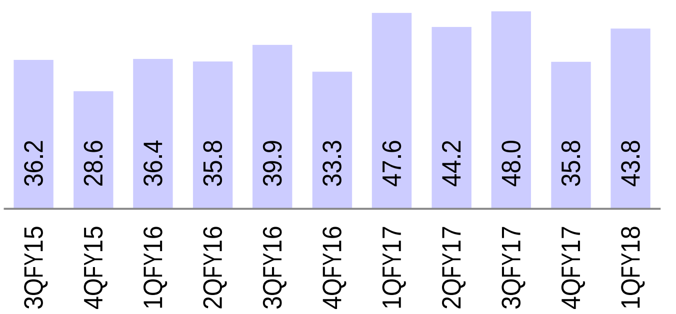
Source: Company, MOSL

Exhibit 7: Borrowing mix largely stable (%)



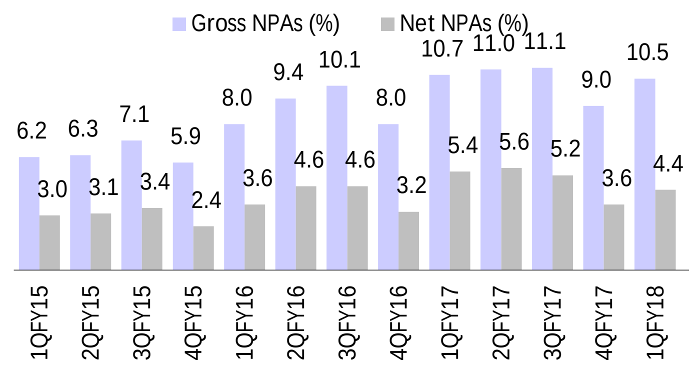
Source: Company, MOSL

Exhibit 8: Cost-to-income ratio decreases YoY (%)



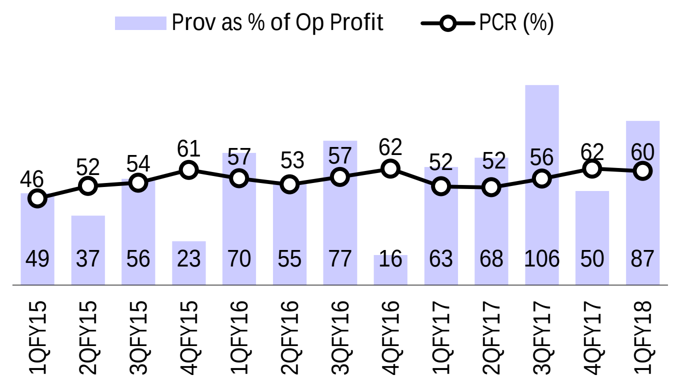
Source: Company, MOSL

Exhibit 9: GNPA increased by 250bp QoQ



Source: Company, MOSL

Exhibit 10: PCR stable sequentially



Source: Company, MOSL

Exhibit 1: Financial: Valuation Matrix

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
ICICIBC*	Buy	304	30.1	15.6	17.9	13.8	11.2	146.6	159.2	1.47	1.26	1.23	1.23	9.4	10.1
HDFCB	Buy	1,739	69.0	68.2	82.1	25.5	21.2	388	451	4.48	3.86	1.84	1.84	18.8	19.6
AXSB	Neutral	545	19.9	23.8	40.3	22.9	13.5	245	278	2.23	1.96	0.87	1.23	10.1	15.4
KMB*	Buy	987	28.2	32.4	41.0	30.4	24.1	232	272	4.25	3.63	1.84	1.99	15.0	16.3
YES	Buy	1,614	11.3	90.7	114.6	17.8	14.1	541	632	2.98	2.55	1.75	1.80	18.0	19.5
IIB	Buy	1,543	14.4	61.9	76.8	24.9	20.1	383	446	4.03	3.46	1.90	1.95	17.3	18.5
IDFC Bk	Neutral	60	3.2	3.5	4.2	17.2	14.5	46	49	1.32	1.23	0.93	0.91	7.9	8.8
FB	Buy	119	3.1	5.5	6.8	21.8	17.5	62	68	1.91	1.76	0.83	0.85	10.2	10.5
DCBB	Neutral	198	0.9	8.4	10.4	23.6	19.0	83	93	2.37	2.13	0.95	0.96	11.4	11.8
JKBK	Neutral	90	0.7	3.8	8.2	23.4	10.9	112	118	0.80	0.76	0.23	0.44	3.5	7.2
SIB	Buy	30	0.6	2.9	3.7	10.3	8.0	28	30	1.07	0.98	0.65	0.74	10.8	12.7
Equitas	Buy	168	0.9	4.8	7.4	34.8	22.6	70	77	2.39	2.18	1.66	2.16	7.1	10.1
RBL	Under Review	530	3.1	18.0	23.7	29.4	22.4	160	180	3.30	2.95	1.34	1.35	13.6	13.9
Private Aggregate															
SBIN (cons)*	Buy	296	39.5	17.9	23.3	14.8	11.2	230	249	1.15	1.05	0.44	0.50	8.7	10.0
PNB	Buy	163	5.3	10.3	14.5	15.9	11.2	187	199	0.87	0.82	0.29	0.37	5.6	7.5
BOI	Neutral	164	2.6	13.7	22.0	12.0	7.5	233	255	0.71	0.64	0.22	0.33	6.1	9.0
BOB	Buy	165	5.9	18.4	22.5	8.9	7.3	162	179	1.02	0.92	0.59	0.66	11.9	13.2
CBK	Neutral	357	3.0	30.1	47.0	11.9	7.6	498	540	0.72	0.66	0.29	0.41	6.2	9.1
UNBK	Neutral	161	1.7	24.6	34.5	6.6	4.7	315	345	0.51	0.47	0.37	0.47	8.1	10.5
OBC	Neutral	157	0.8	17.1	21.4	9.2	7.3	382	404	0.41	0.39	0.22	0.26	4.6	5.4
INBK	Buy	321	2.4	34.4	38.3	9.3	8.4	327	357	0.98	0.90	0.73	0.72	10.9	11.2
Public Aggregate															
Banks Aggregate															
HDFC*	Under Review	1,632	40.0	39.2	44.2	24.5	19.6	228	285	4.22	3.03	1.79	1.82	18.3	17.4
LICHF	Neutral	732	5.8	47.9	53.8	15.3	13.6	252	295	2.91	2.48	1.64	1.63	20.6	19.7
IHFL	Buy	1,199	7.6	86.3	108.4	13.9	11.1	324	368	3.71	3.25	3.28	3.24	28.2	31.3
GRHF	Neutral	462	2.6	9.9	12.1	46.4	38.3	33	40	13.93	11.43	2.43	2.43	33.0	32.8
REPCO	Buy	784	0.8	35.8	42.5	21.9	18.4	214	253	3.66	3.10	2.25	2.21	18.1	18.2
DEWH	Buy	462	2.2	37.7	47.1	12.3	9.8	282	321	1.64	1.44	1.25	1.33	14.1	15.6
Housing Finance															
RECL	Neutral	178	5.6	35.0	40.4	5.1	4.4	196	227	0.91	0.78	3.10	3.12	19.1	19.1
POWF	Neutral	125	5.2	27.2	30.2	4.6	4.1	169	191	0.74	0.65	2.76	2.72	17.0	16.8
Infra Finance															
SHTF	Buy	997	3.4	78.5	98.5	12.7	10.1	564	646	1.77	1.54	2.60	2.91	14.7	16.3
MMFS	Buy	399	3.2	13.6	16.4	29.5	24.4	123	132	3.26	3.02	1.68	1.74	11.4	12.8
BAF	Buy	1,623	13.6	47.6	62.9	34.1	25.8	216	270	7.51	6.01	3.51	3.51	24.3	25.9
CIFC	Buy	1,153	2.7	55.0	66.4	21.0	17.4	322	380	3.59	3.04	2.74	2.78	18.5	18.9
SCUF	Buy	2,322	2.4	132.8	171.2	17.5	13.6	874	1,019	2.66	2.28	3.63	3.96	16.2	18.1
MUTH	Buy	467	2.9	41.0	43.3	11.4	10.8	189	217	2.47	2.15	4.99	4.61	23.2	21.4
SKSM	Neutral	792	1.7	41.3	53.0	19.2	14.9	219	272	3.62	2.92	4.49	4.26	20.9	21.6
Asset Finance															

Financials and valuations

Income Statement (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	36,268	47,079	52,798	56,468	60,545	69,421	78,102	90,772
Interest Expended	16,188	21,880	24,967	26,393	28,574	30,497	34,195	39,039
Net Interest Income	**20,080**	**25,199**	**27,831**	**30,075**	**31,971**	**38,924**	**43,907**	**51,733**
Change (%)	31.3	25.5	10.4	8.1	6.3	21.7	12.8	17.8
Income from Securitisation	2,145	2,137	2,562	2,063	1,194	1,031	1,222	1,482
Other Income	533	314	486	519	636	827	1,075	1,398
Net Income	**22,759**	**27,650**	**30,880**	**32,658**	**33,801**	**40,782**	**46,205**	**54,613**
Change (%)	35.9	21.5	11.7	5.8	3.5	20.7	13.3	18.2
Operating Expenses	7,420	9,134	10,068	11,781	14,509	16,893	19,379	22,235
Operating Income	**15,339**	**18,516**	**20,811**	**20,877**	**19,292**	**23,889**	**26,826**	**32,378**
Change (%)	41.7	20.7	12.4	0.3	-7.6	23.8	12.3	20.7
Provisions and W/Offs	2,833	5,058	8,275	10,495	13,091	11,792	11,395	12,258
PBT	**12,506**	**13,458**	**12,536**	**10,382**	**6,201**	**12,097**	**15,430**	**20,120**
Tax	3,833	4,585	4,219	3,656	2,198	4,258	5,401	7,042
Tax Rate (%)	30.7	34.1	33.7	35.2	35.5	35.2	35.0	35.0
PAT	**8,673**	**8,872**	**8,318**	**6,726**	**4,002**	**7,839**	**10,030**	**13,078**
Change (%)	39.9	2.3	-6.2	-19.1	-40.5	95.9	28.0	30.4
Proposed Dividend (Incl Tax)	2,389	2,522	2,730	2,713	1,610	3,196	4,090	5,333

Balance Sheet (INR Million)

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	1,126	1,127	1,128	1,129	1,130	1,130	1,130	1,130
Reserves & Surplus	43,420	49,815	55,566	59,752	62,069	66,712	72,652	80,397
Net Worth	**44,546**	**50,942**	**56,694**	**60,881**	**63,199**	**67,842**	**73,782**	**81,527**
Borrowings	**188,723**	**239,306**	**262,633**	**294,523**	**346,704**	**401,701**	**480,749**	**581,528**
Change (%)	35.2	26.8	9.7	12.1	17.7	15.9	19.7	21.0
Total Liabilities	**233,269**	**290,249**	**319,327**	**355,404**	**409,903**	**469,543**	**554,531**	**663,056**
Investments	7,315	10,051	10,857	15,351	20,017	22,019	24,221	26,643
Change (%)	45.6	37.4	8.0	41.4	30.4	10.0	10.0	10.0
Loans and Advances	**236,483**	**291,943**	**324,314**	**362,189**	**421,218**	**483,977**	**568,934**	**676,196**
Change (%)	36.3	23.5	11.1	11.7	16.3	14.9	17.6	18.9
Net Fixed Assets	1,068	1,195	1,100	1,135	1,120	1,332	1,525	1,692
Net Current Assets	-11,597	-12,940	-16,944	-23,270	-32,452	-37,785	-40,148	-41,475
Total Assets	**233,269**	**290,248**	**319,326**	**355,404**	**409,903**	**469,543**	**554,531**	**663,056**

E: MOSL Estimates

Financials and valuations

Ratios								(INR Million)
Y/E March	**2013**	**2014**	**2015E**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)								
Yield on Portfolio	17.7	17.8	17.1	16.4	15.4	15.3	14.8	14.5
Cost of Borrowings	9.9	10.2	9.9	9.5	8.9	8.2	7.8	7.4
Interest Spread	7.8	7.5	7.1	6.9	6.4	7.1	7.0	7.2
Net Interest Margin (on AUMs)	9.6	9.3	9.1	8.8	8.1	8.6	8.3	8.3
Profitability Ratios (%)								
RoE	23.4	18.6	15.5	11.4	6.5	12.0	14.2	16.8
RoA (on balance sheet)	4.3	3.4	2.7	2.0	1.0	1.8	2.0	2.1
RoA on AUM	3.9	3.1	2.5	1.9	1.0	1.7	1.9	2.1
Average Leverage (x)	5.4	5.5	5.7	5.7	6.2	6.7	7.2	7.8
Average leverage on AUM (x)	6.1	6.1	6.2	6.1	6.4	6.9	7.5	8.1
Efficiency Ratios (%)								
Int. Expended/Int.Earned	44.6	46.5	47.3	46.7	47.2	43.9	43.8	43.0
Op. Exps./Net Income	32.6	33.0	32.6	36.1	42.9	41.4	41.9	40.7
Empl. Cost/Op. Exps.	30.1	32.6	45.6	47.4	46.9	47.6	47.7	47.8
Secur. Inc./Net Income	9.4	7.7	8.3	6.3	3.5	2.5	2.6	2.7
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	125.3	122.0	123.5	123.0	121.5	120.5	118.3	116.3
Net NPAs to Adv.	1.1	2.0	2.5	3.4	3.8	4.1	3.7	3.1
Valuation								
Book Value (INR)	79.1	90.4	100.5	107.8	111.8	120.1	130.6	144.3
BV Growth (%)	37.7	14.3	11.2	7.3	3.7	7.3	8.8	10.5
Price-BV (x)	**5.0**	**4.4**	**4.0**	**3.7**	**3.6**	**3.3**	**3.1**	**2.8**
Adjusted BV (INR)	75.9	83.2	90.4	92.5	92.0	95.4	104.4	118.1
Price-ABV (x)	**5.3**	**4.8**	**4.4**	**4.3**	**4.3**	**4.2**	**3.8**	**3.4**
OPS (INR)	27.2	32.9	36.9	37.0	34.1	42.3	47.5	57.3
OPS Growth (%)	29.3	20.6	12.3	0.2	-7.7	23.8	12.3	20.7
Price-OP (x)	**14.6**	**12.1**	**10.8**	**10.8**	**11.7**	**9.4**	**8.4**	**7.0**
EPS (INR)	15.7	15.7	14.7	11.9	7.1	13.9	17.8	23.1
EPS Growth (%)	29.8	0.4	-6.3	-19.2	-40.5	95.9	28.0	30.4
Price-Earnings (x)	**25.5**	**25.3**	**27.1**	**33.5**	**56.3**	**28.8**	**22.5**	**17.2**
Dividend	3.6	3.8	4.0	4.0	2.8	4.9	6.2	8.1
Dividend Yield (%)	**0.9**	**1.0**	**1.0**	**1.0**	**0.7**	**1.2**	**1.6**	**2.0**

E: MOSL Estimates

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