MOTILAL OSWAL

7 July 2020

Annual Report Update | Sector: Financials - NBFC

# Bajaj Finance

| BSE SENSEX | S&P CNX |
|---|---|
| 36,675 | 10,800 |



**Stock Info**

| | |
|---|---|
| Bloomberg | BAF IN |
| Equity Shares (m) | 600 |
| M.Cap.(INRb)/(USDb) | 2012 / 26.9 |
| 52-Week Range (INR) | 4923 / 1783 |
| 1, 6, 12 Rel. Per (%) | 33/-6/-3 |
| 12M Avg Val (INR M) | 13256 |
| Free float (%) | 43.8 |

**Financials Snapshot (INR b)**

| Y/E March | 2020 | 2021E | 2022E |
|---|---|---|---|
| Net Income | 169.1 | 171.2 | 207.8 |
| PPP | 112.5 | 120.7 | 148.7 |
| PAT | 52.6 | 45.4 | 70.5 |
| EPS (INR) | 87.7 | 75.7 | 117.5 |
| EPS Gr. (%) | 26.7 | -13.7 | 55.2 |
| BV/Sh. (INR) | 540 | 608 | 714 |
| **Ratios** | | | |
| NIM (%) | 10.5 | 9.6 | 10.1 |
| C/I ratio (%) | 33.5 | 29.5 | 28.4 |
| RoA (%) | 3.6 | 2.6 | 3.5 |
| RoE (%) | 20.2 | 13.2 | 17.8 |
| Payout (%) | 13.8 | 10.0 | 10.0 |
| **Valuations** | | | |
| P/E (x) | 38.2 | 44.3 | 28.5 |
| P/BV (x) | 6.2 | 5.5 | 4.7 |
| Div. Yield (%) | 0.3 | 0.2 | 0.4 |

**CMP: INR3,353 TP: INR3,000 (-11%) Neutral**

## Strong performance on fees and deposits

**Softness in customer addition | Marginal deterioration in asset quality**

- **Bajaj Finance's (BAF) FY20 Annual Report highlights the year as a mixed bag. The company witnessed strong loan growth performance, improved granularity of deposits and its growth, and expanded RoA led by strong fee income growth. On the other hand, asset quality weakened slightly with high net slippages (excl. lumpy accounts) ratio (+30bp YoY to 2.07%) and increase in write-offs (+70bp YoY to 1.7%). GNPL / PCR remained stable at 1.6%/60% YoY.**
- **BAF delivered healthy NII/PPoP/PAT growth of 39%/46%/32% in the year. Credit cost increased from 1.6% to 3.1% due to Covid-19 related provisions (2.5% ex-COVID related provisions) and write-offs of some large accounts.**
- **On the business front, BAF saw sharp moderation in new customer addition of +6% YoY to 8.7m, which is concerning. Overall, number of loans distributed declined from 50% YoY levels over the past three fiscals to 17% YoY in FY20. Customer base growth slowed down from 30% YoY levels earlier to 24% in FY20. Cross-selling for new origination increased from 65% in FY19 to ~70% in FY20.**
- **BAF has done well on two fronts – deposits and fee income. Deposit growth was in line with prior years at 60%+. Importantly, granular public deposit base grew 90%+ YoY with near doubling of depositors to 362k. Fee income grew 54% YoY to INR26b, driven by all categories, especially distribution income. Fees to assets improved to 2.0% from 1.7% in FY19 and 1.1% in FY18, driving RoA expansion.**
- **In line with current macros and the evolving pandemic situation, we expect share of rural business (9% of AUM) to rise sharply in FY21. A high share of BAF's business comes from metro cities; post the initial pent-up demand, we are yet to see signs of growth sustaining.**
- **Improvement in the moratorium rate from 27% in April to 16% in June is a key positive – though we await details on bounce rate. In our recent note, we have upgraded EPS estimates by ~15% for FY21/FY22E driven by lower credit costs and better growth expectation. We maintain a Neutral rating with a revised TP of INR3,000 (4.2x FY22E BV).**

## CD/2W business sees sharp moderation in volumes

After delivering robust 44% YoY growth in consumer B2B disbursements (by volume) in FY19, growth slowed down to 9% YoY in FY20. **This was driven by 6%/8% YoY growth in CD/2W disbursement volumes while growth in other segments remained healthy.** The EMI Card continues to gain strong traction – 50% of loans were availed on the EMI Card in FY20 compared to 25% three years ago. This is in line with the rise in cross-selling for new loans' generation.

## Initial signs of stress emerging on asset quality

Slippages in FY20 jumped 3x YoY to INR45b driven by higher stress in 2W/LAP as well as some high-ticket slippages. **Excluding the lumpy accounts, the net slippage ratio increased 30bp YoY to 2.07%.** Write-offs also increased 1.3x YoY to INR22b – led by some one-off large ticket write-offs. **Excluding these one-offs, write-offs nearly doubled YoY.** The write-offs include sale of NPLs during

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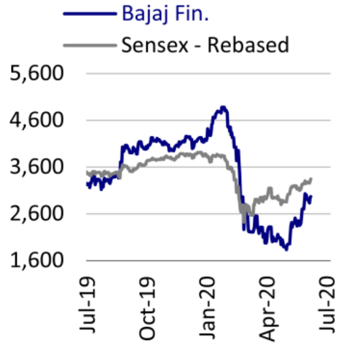
**Shareholding pattern (%)**

| As On | Mar-20 | Dec-19 | Mar-19 |
|---|---|---|---|
| Promoter | 56.2 | 56.2 | 55.2 |
| DII | 10.9 | 10.5 | 8.5 |
| FII | 21.5 | 22.5 | 20.9 |
| Others | 11.5 | 10.9 | 15.5 |

FII Includes depository receipts

**Stock Performance (1-year)**




the year, which too more than doubled to INR7.4b. Regarding the moratorium, INR60b (i.e. 16% of the total moratorium book as at Apr'20) came from SMA accounts. The company made INR4b provisions against these loans.

## New initiatives across products, technology and business segments

BAF undertook several new initiatives as well as expanded pilot projects initiated earlier. These include a) entry into the brokerage segment with a new subsidiary (Bajaj Financial Securities), b) facial recognition technology introduced in the corporate office as well as 180 branches (pilot started in select consumer durable stores), c) introduction of a 'Health EMI Card' to cover medical expenses via no-cost EMIs (already covered 20% of 0.54m customer base of lifestyle product) and d) introduction of 'Flexi Personal Loans'. The gold loan book, which started in FY19, nearly doubled to INR16b.

## Recovery cost as % of AUM largely stable

Despite asset quality pressures experienced by the company, BAF has maintained stable recovery costs per unit. **Recovery expenses as % of AUM has been largely stable at 65-75bp over the past 5 years.** Overall recovery expenses amounted to INR9.6b. Interestingly, this accounted for ~30% of non-employee operating expenses in FY20 (up from ~20% three years back).

## Increasing investments in various businesses

The company invested INR15b in its housing finance subsidiary (started in FY18) and INR1b in the securities brokerage subsidiary (started in FY20). Both investments have been put into Fair Value (FV) through Amortization category. In addition, it invested INR1.5b in RBL Bank, which experienced MTM loss of INR920m. BAF also invested INR373m into Mobikwik via CCPS (overall investment has increased to INR2.6b). Since both these investment have been put in FVOCI (Fair Value through Other Comprehensive Income), MTM impact on the same would reflect in OCI.

## Looking at overseas market to diversify liabilities

For the first time, BAF has raised money via External Commercial Borrowings (ECBs) in FY20 – it raised USD575m in the first tranche amounting to 3% of total borrowings.  The company already has an approval for USD1.5b MTN program but is yet to mobilize resources for this route. In FY20, its share of capital market borrowings declined from 50% to 38%, led by rise in bank borrowings/Deposits/ECBs by 5%/4%/3%.

## Valuation and view

BAF delivered another year of stellar performance in FY20. Given the current liquidity risks, the company focused on long-term borrowings and increased liquidity on the balance sheet (14% of borrowings). It also nearly doubled its public deposit base with tenure of most deposits at over 3 years. While we expect some slowdown in fee income traction for FY21, the long-term story remains intact. Pressure on fees is likely to be compensated by sharp reduction in operating expenses in our view. The lower moratorium rate in June as compared to April is a key positive – hence, we reduced our credit cost estimates by 50/25bp to 3.9/3.1% for FY21/FY22. In our recent note, we have increased our EPS estimates by ~15%. Maintain **Neutral** with a TP of INR3,000 (4.2x FY22E BV).

# A formidable franchise

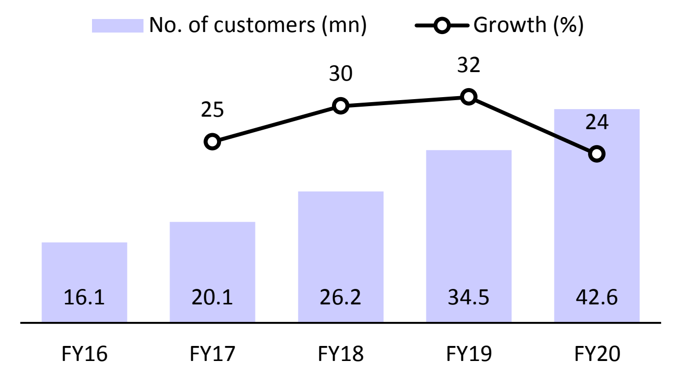
**Moderation in new customer addition a bit concerning**

Growth in new loans booked was down from 50% run-rate earlier to 17% YoY in FY20.

## Slowdown in new loans disbursed…

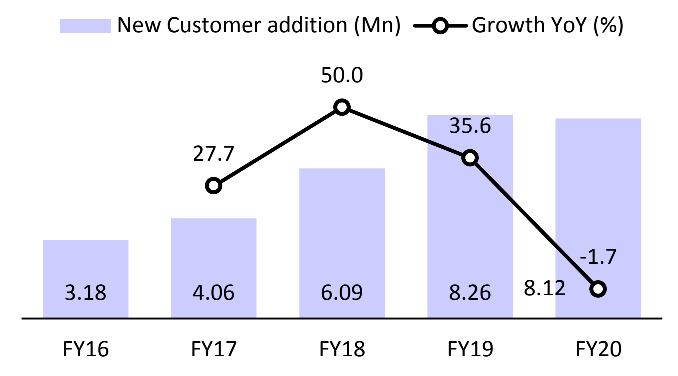
- On the business front, we witnessed sharp moderation in new customer addition (+6% YoY to 8.7m), which is a concern.
- Overall, number of loans distributed declined from 50% YoY levels over the past three fiscals to 17% YoY in FY20. Number of loans distributed via cross-selling grew 26% YoY v/s ~60% during FY17-19.
- Customer base growth declined to 24% YoY v/s 30%+ over the last 2 years. Cross-selling for new origination increased from 65% a year ago to ~70% in FY20.

**Exhibit 1: Outstanding customer base growth seeing moderation…**



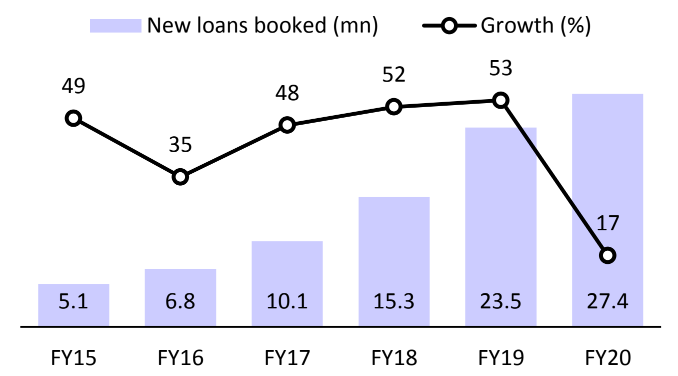

Source: MOFSL, Company

**Exhibit 2: …led by moderation in new customer addition**



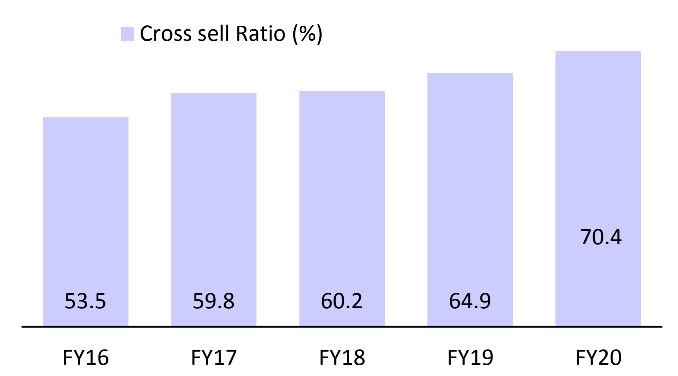

Source: MOFSL, Company

**Exhibit 3: Sharp decline in volume of new loans booked**




Source: MOFSL, Company

**Exhibit 4: Share of cross-sell improves sharply**




Source: MOFSL, Company

## 2W/CD financing witnessing higher moderation in volumes

- After delivering robust 44% YoY growth in consumer B2B disbursements (by volume) in FY19, growth slowed down to 9% YoY in FY20.
- The company took a cautious stance toward 2W/CD financing, and thus, the number of loans disbursed grew just 8%/6% YoY.
- However, other products like Lifestyle financing/E-commerce/small-ticket retail spends witnessed healthy growth of 13%/22%/23% YoY.
- Importantly, BAF’s new initiative of Health EMI Card (pre-approved loan of up to INR0.4m) has shown healthy traction with customer base of 108k in the first year of launch. This customer base forms 20% of Lifestyle financing currently.

**Exhibit 5: 8%/6% YoY growth in 2W/CD financing disbursements**

| Number of loans booked (Mn) | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| 2W loans | 0.72 | 0.68 | 1.02 | 1.10 |
| 3W loans | 0.05 | 0.10 | 0.14 | 0.19 |
| CD & digital products | 7.20 | 9.90 | 12.70 | 13.40 |
| Lifestyle | 0.24 | 0.32 | 0.48 | 0.54 |
| of which HealthCare | | | | 0.11 |
| Ecommerce | | 0.70 | 2.11 | 2.56 |
| Retail spends (small ticket) | | 0.71 | 1.46 | 1.80 |

Source: MOFSL, Company

Number of EMI Cards in force increased 19% YoY to 22m in FY20.

## EMI Card traction improving

- The EMI Card continues to gain strong traction – **50% new loans were disbursed through the EMI Card in FY20 v/s 25% three years ago.** This is in line with the rise in cross-selling for new loan generation (up to 70% now v/s 65% a year ago).
- Traction for the EMI Card remains healthy – ~52% customers have an EMI Card (largely stable YoY).

**Exhibit 6: EMI Card – trends**

| | FY16 | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|---|
| No. of EMI Cards | 5.6 | 6.9 | 12.9 | 18.5 | 22.0 |
| No. of digital wallets | | | | | 15.0 |
| No. of loans using EMI Cards | 1.5 | 2.5 | 6.8 | 11.5 | 13.6 |
| Loans disbursed | 6.8 | 10.1 | 15.3 | 23.5 | 27.4 |
| % of new loans booked | 22% | 25% | 44% | 49% | 50% |

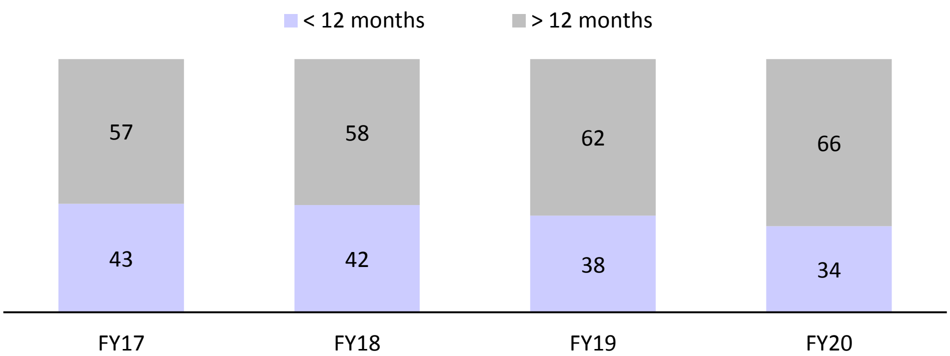
Source: MOFSL, Company

Share of short-term loans was down 900bp to 34% over FY16-20.

## Share of short-term loans declining

- **We note that the share of short-term loans (< 12 months' maturity) has been consistently declining over the past 4 years – from 43% in FY17 to 34% in FY20.**
- We attribute this to two factors – (a) increasing share of mortgage loans, and (b) lockdown in the last week of Mar'20 (resulted in potential loss in disbursements of INR40b).
- However, the phenomenon appears positive for BAF in FY21 as loan book run-down will now be lower than it was in the past.

**Exhibit 7: Share of longer-term loans rising (%)**



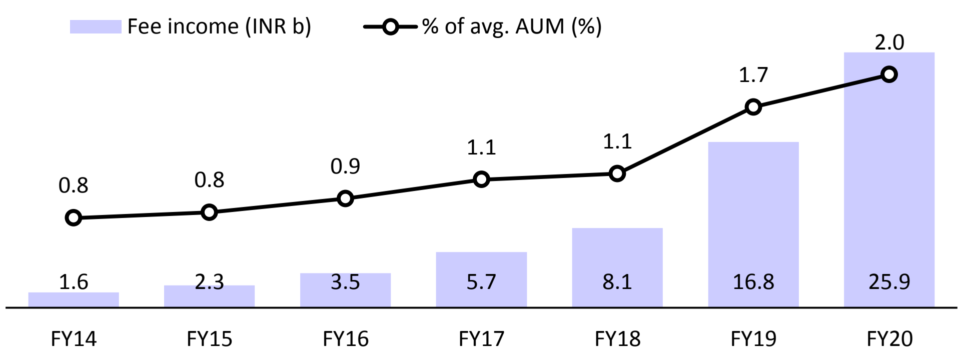

Source: MOFSL, Company; Note: Residual tenure as on Mar 31

## Strong fee income traction

**A key profitability driver**

- After doubling in FY19, fee and commission income grew 54% YoY to INR26b in FY20, driven by all categories, especially distribution income.
- Fees to assets has improved to 2.0% from 1.7% a year ago and 1.1% in FY18. Fees' contribution to operating profits increased to ~23% in FY20 v/s ~17% in FY18.

**Exhibit 8: Strong fee income traction**




Source: MOFSL, Company

Distribution fees were up 67% YoY to INR11b in FY20.

### RBL Bank tie-up drives strong fee income growth

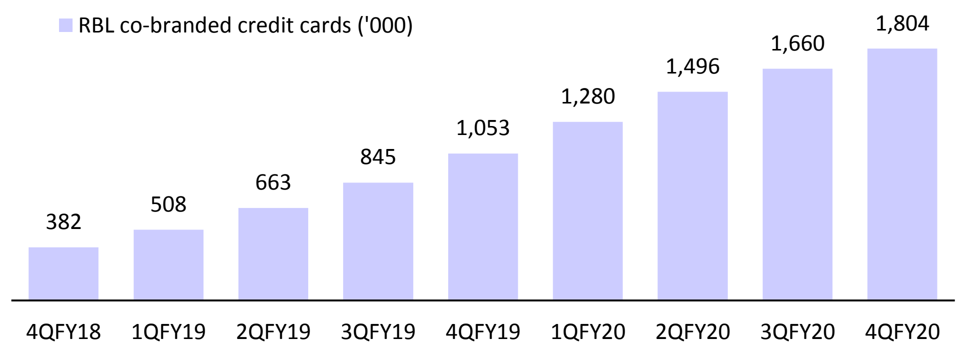
- **One factor within fees that really stands out is distribution fees – it has gone up almost 5x over the past 2 years to INR11b – which we believe is due to the large contribution from the tie-up with RBL Bank.** Distribution income now accounts for 43% of fees, up from 30% in FY18.
- Note that the number of RBL Bank co-branded cards in force grew ~80% YoY to 1.8m.

**Exhibit 9: Sharp growth in distribution fees**

| INR m | FY18 | FY19 | FY20 |
|---|---|---|---|
| Service & admin charges | 3,434 | 5,806 | 8,996 |
| Fee on value added products | 1,972 | 3,285 | 4,137 |
| Foreclosure income | 247 | 1,052 | 1,574 |
| **Distribution income** | **2,428** | **6,676** | **11,153** |
| Brokerage income | | | 49 |
| **Total** | **8,082** | **16,819** | **25,910** |

Source: MOFSL, Company

**Exhibit 10: Trend in co-branded credit cards rising**




Source: MOFSL, Company

# Improving deposit franchise

**Dependence on corporate deposits reducing**

Number of depositors grew 90% YoY in FY20.

## Strong deposit traction

- BAF has done extremely well on the deposit front – total deposits grew 62% YoY to INR214b, driven by 90% YoY growth in public deposits. These now account for 61% of total deposits, up from 44% two years ago.
- **Note that 75% of public deposits have tenure of 3+ years.**

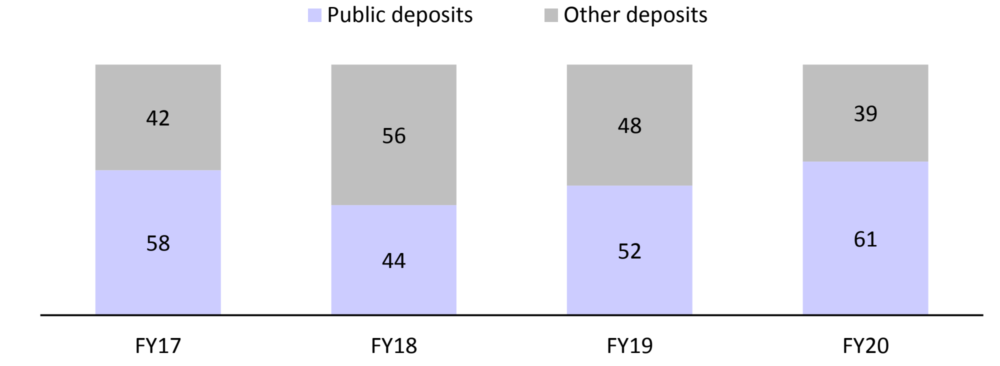
**Exhibit 11: Strong growth in volume and value of deposits**

| | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| **Number of depositors ('000)** | **71** | **101** | **190** | **362** |
| Growth (%) | | 43 | 88 | 90 |
| **Total deposits (INR b)** | **43** | **78** | **132** | **214** |
| Growth (%) | | 82 | 69 | 62 |

Source: MOFSL, Company

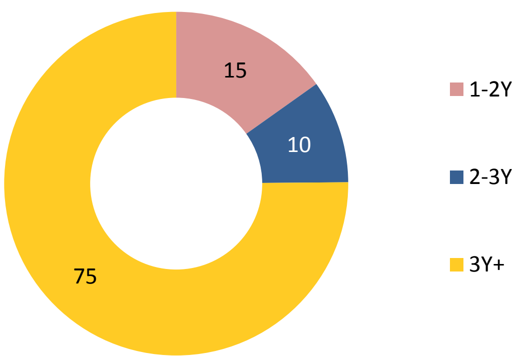
Share of public deposits at 61% of total deposits

**Exhibit 12: Mix between public and non-retail deposits (%)**



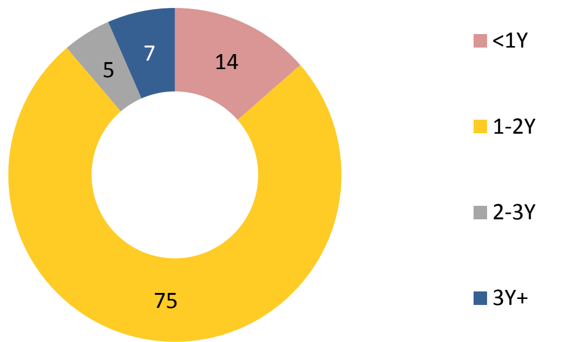

Source: MOFSL, Company

**Exhibit 13: Mix of public deposits by tenure (%)**




Source: MOFSL, Company; Note: Tenure at the time of origination

**Exhibit 14: Mix of other deposits by tenure (%)**

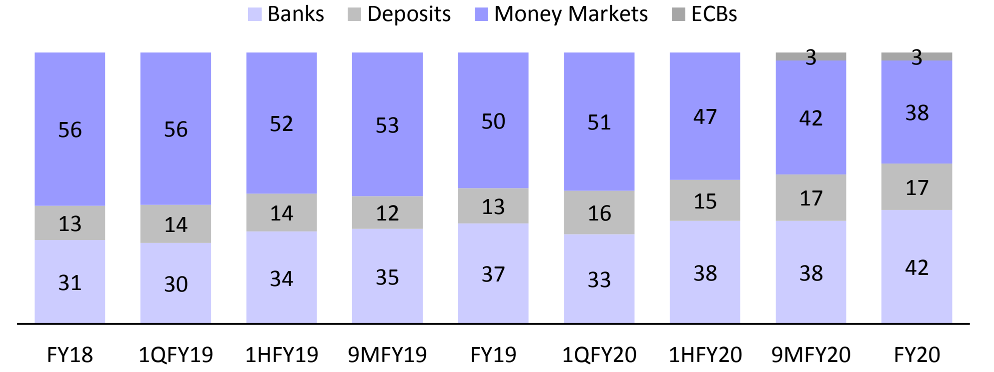



Source: MOFSL, Company; Note: Tenure at the time of origination

## Raised USD575m via ECBs

- In FY20, BAF established a secured Euro Medium Term Note (MTN) Program for USD1.5b on the Singapore Stock Exchange. This would enable it to issue foreign currency denominated bonds in the international markets. It raised ECBs of USD575m (i.e. INR41b), which amounts to 3% of total borrowings.
- Overall, share of capital market borrowings in FY20 declined from 50% to 38%, led by rise in bank borrowings/Deposits/ECBs by 5%/4%/3% YoY.

Exhibit 15: Share of capital markets borrowings down ~1,200bp over the last 1 year (%)



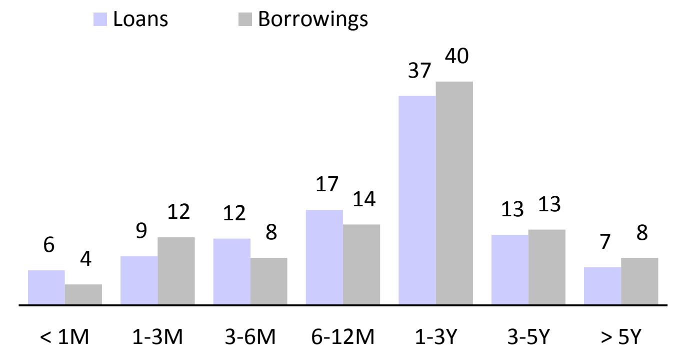

Source: MOFSL, Company

Short loan tenor leads to positive ALM

## Well-placed on the ALM front; Liquidity on the BS abundant

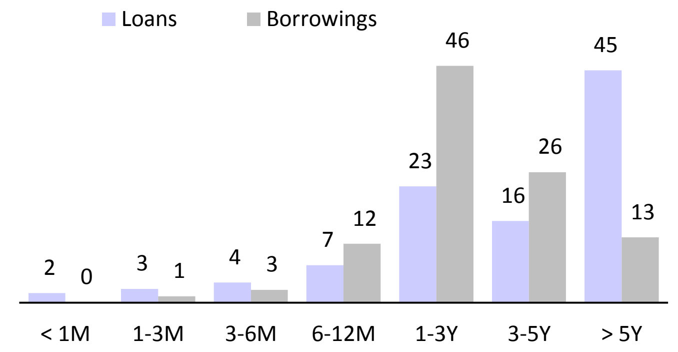
- Bulk of BAF's book has a loan tenor of sub-3 years. Only the non-LAS commercial lending and mortgages books have a longer tenure. As a result, the company is able to manage its ALM without resorting to very long term borrowings.
- Even in the HFC subsidiary, the company has managed ALM in the short-tenor bucket. It also maintain liquidity equivalent to 11% of borrowings on the BS.
- In addition, BAF increased liquidity on the BS to 12% of borrowings in FY20.

Exhibit 16: Parent entity well placed on ALM



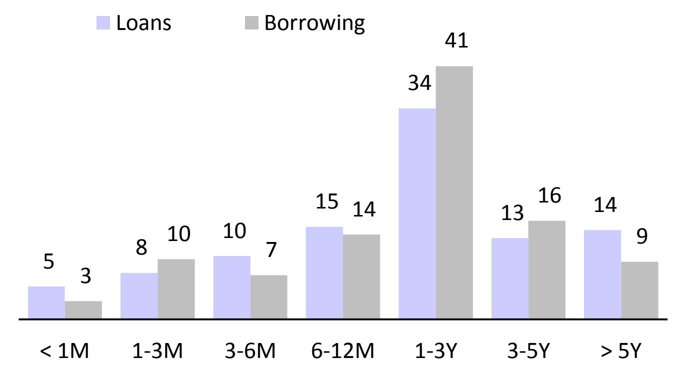

Source: MOFSL, Company

Exhibit 17: HFC subsidiary has positive ALM in the sub-1 year bucket



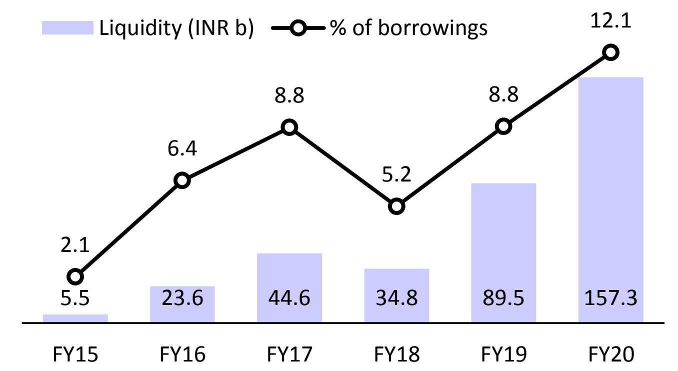

Source: MOFSL, Company

Exhibit 18: Consolidated ALM; ~23/20% loan/borrowings maturing by Sept 2020




Source: MOFSL, Company

Exhibit 19: Liquidity on the balance sheet increased meaningfully YoY




Source: MOFSL, Company

## Stress on asset quality emerging

**Net slippage ratio (Excl. lumpy accounts) up 30bp YoY to 2.1%**

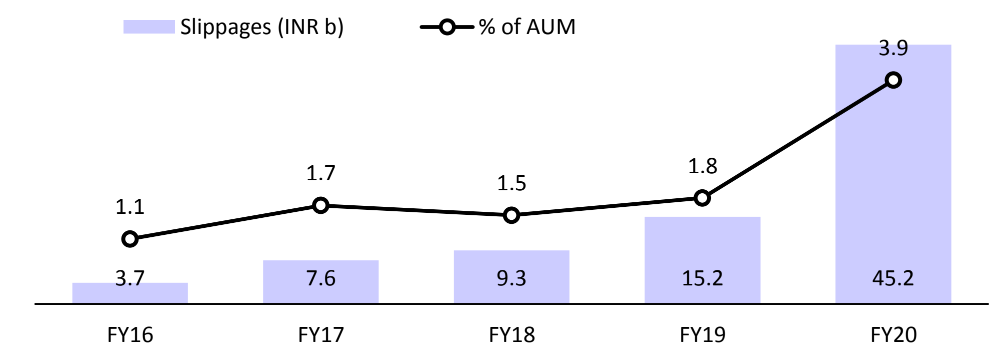
- Slippages in FY20 jumped 3x YoY to INR45b. This was led by higher stress in 2W and LAP as well as some high-ticket slippages.
- Write-offs also increased 1.3x YoY to INR22b, led by some one-off large ticket write-offs. Excluding these one-offs, write-offs nearly doubled YoY. The write-offs include sale of NPLs done during the year, which more than doubled to INR7.4b.
- BAF also disclosed the quantum of SMA and overdue accounts that have been granted moratorium – these loans amounted to INR60b i.e. 16% of the total moratorium book as at Apr'20. The company made INR4b provisions against these loans.

Slippages up 3x YoY to INR45b

### Asset quality pressure resulting in heightened slippages…

- Slippages jumped 3x YoY to INR45b – as % of opening AUM, it doubled to 4% YoY. In our view, slippages include lumpy accounts like CCD (INR850m) and Karvy (INR3.2b). Note that FY19 also had an element of lumpy slippages of INR2.3b related to IL&FS. Excluding lumpy slippages in both years, gross slippages stood at ~3.2x (INR41.2b v/s INR12.9b in FY19).
- Net slippages (slippages less recoveries and upgrades) were INR28b (v/s INR16b a year ago). CCD slipped and was subsequently recovered during the year.

**Exhibit 20: Slippages spiked in FY20**



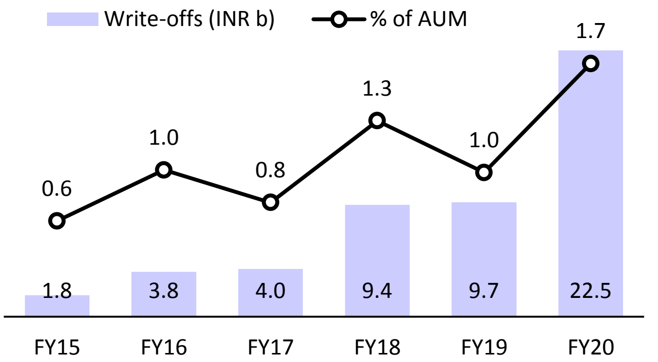

Source: MOFSL, Company

### Higher write-offs helped headline GNPAs; PCR stable at 60% – a positive

Write-offs – 1.7% of average AUM in FY20 (v/s 1.0% in FY19).

- Write-offs as % of average AUM increased from 1% in FY19 to 1.7% in FY20. In absolute terms write offs stood at INR22.5b vs INR9.6b
- The elevated write-offs were also due to higher sell-downs of NPLs – the value of NPLs sold also increased 2.5x to INR7.4b. Sell-down during the year includes accounts written-off worth INR4.3b (v/s INR2.1b a year ago). Consideration received for sold accounts (incl. written-off accounts) was INR296m (INR96m) v/s INR103m (INR37m) in FY19.
- Large accounts like Karvy and IL&FS was the key reason for spike in the written-off accounts. These accounts together amounted to INR5.9b for BAF.
- Even excluding lumpy accounts, write-offs are higher by 70%+ during the year in absolute terms.

**Exhibit 21: Lumpy A/cs contribute one-fourth of write-offs**




Source: MOFSL, Company

**Exhibit 22: Financial assets sold (other than to ARCs)**

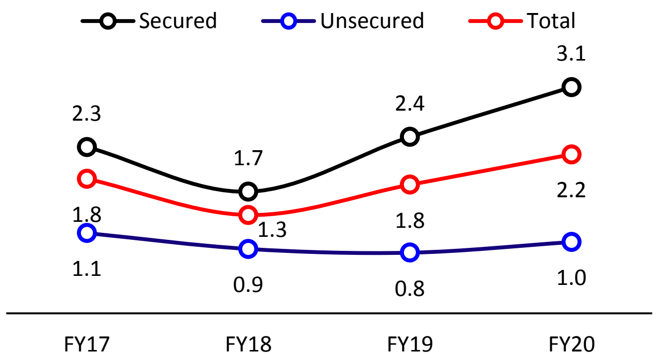
| | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|
| No. of accounts sold ('000) | 34 | 97 | 101 | 157 |
| Amount outstanding (INR b) | 0.91 | 1.84 | 2.82 | 7.38 |
| Consideration recvd (INR b) | 0.28 | 0.20 | 0.10 | 0.30 |
| - % of outstanding | 31% | 11% | 4% | 4% |

Source: MOFSL, Company

## Slight deterioration in Stage 2 loans led by secured assets

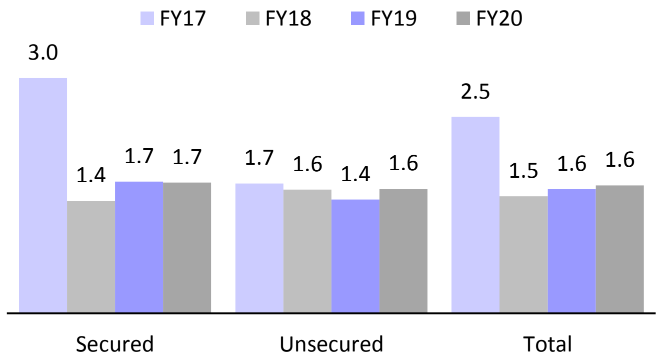
- While Stage 3 loans were stable at 1.6%, there was 40bp YoY increase in Stage 2 loans to 2.2%. This was primarily led by 70bp increase in Stage 2 loans of secured assets to 3.1%.
- On the other hand, Stage 3 loans were largely similar across product segments.

**Exhibit 23: Stage 2 loans trend (%)**




Source: MOFSL, Company

**Exhibit 24: Stage 3 loans trend (%)**




Source: MOFSL, Company

INR60b of SMA loans under moratorium.

## 16% of moratorium loans are SMA accounts

- Of BAF's INR380b book under moratorium, INR60b are SMA (Special Mention Account) loans. This translates to 16% of moratorium loans as of April, 2020.
- While we do not have data on the quantum of loans in the 0-30dpd bucket, our guesstimate is that most SMA accounts have opted for a moratorium

**Exhibit 25: SMA categories where moratorium was extended**

| Bucket | Exposure | Provisions | PCR (%) |
|---|---|---|---|
| SMA-0 | 9,938 | 50 | 1 |
| Overdue - Standard | 48,162 | 3,396 | 7 |
| Overdue - Others | 1,403 | 547 | 39 |
| **Total** | **59,503** | **3,994** | **47** |

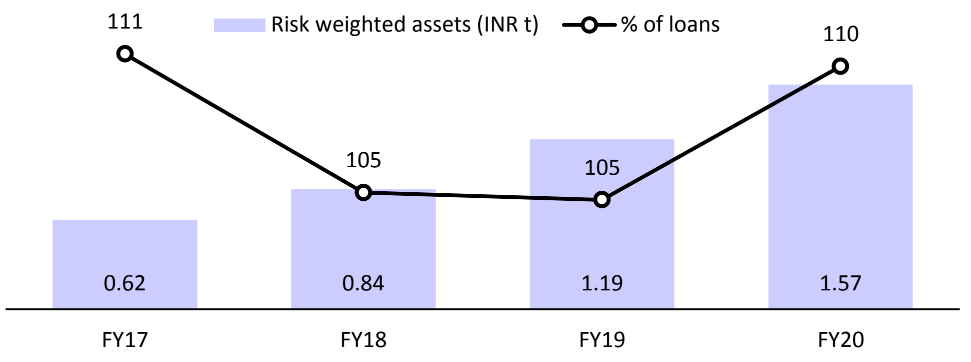
Source: MOFSL, Company

Risk-weighted assets stand at 110% of total loans.

## Risk-weighted assets rising

- Consolidated risk-weighted assets (RWA) increased 32% YoY to INR1.57t as compared to 27% YoY increase in AUM. As a result, RWA as % of loans increased 500bp YoY to 110%.
- This is surprising considering the fact that the share of mortgages (which generally carries lower-risk weights) increased from 29% to 31% in FY20. We await clarity from management on the same.

**Exhibit 26: Risk-weighted assets % rises**




Note: For consolidated RWA we have added reported RWA Parent and Housing finance subsidiary; Source: MOFSL, Company

## Cost-cutting – the mantra for FY21

- In response to the COVID-19 pandemic, BAF's Chairman's note stated, "*BAF's clear focus will be on capital preservation, balance sheet protection, conservative liquidity management, opex management and strengthening collections*."
- It was interesting to note the Chairman's note alluding significantly to cost control. Given the current environment, BAF is looking to cut fixed costs. This not only would help the company offset some revenue pressure but also aid in keeping opex low whenever revenues bounce back.

## Other highlights

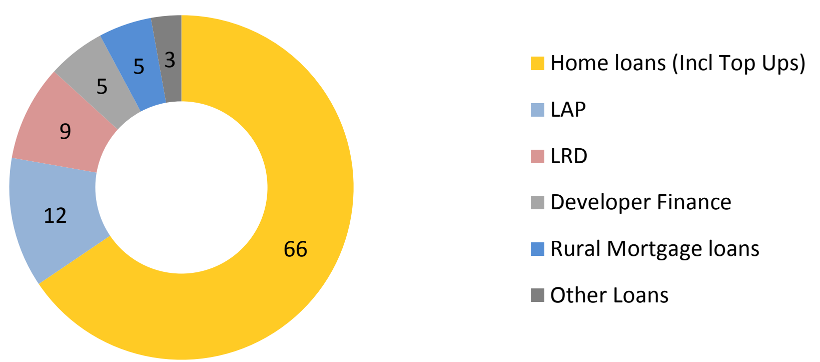
- Mr. Rajeev Jain has been reappointed as MD for tenure of 5 years from 1st Apr'20.
- Foreign institutional limit has been fixed at 49% with shareholders' approval.
- Consolidated liquidity buffer of INR157b as at Mar'20 (11%+ of AUM).
- During the year, BAF took guarantee cover for portfolios worth INR36b under the Credit Guarantee Fund Scheme for NBFCs (CGS-II) from Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), which is governed by the SIDBI.
- At the standalone level, the company has decided not to sell down loans. Henceforth, entire loans from Fair Value through OCI would be changed to amortized cost category. Till date, BAF has assigned INR106b (nothing in FY20); outstanding as at FY20 stood at INR26.9b.
- Provisioning cost for FY20 includes contingency provision of INR9b related to COVID-19. Of this, INR8.5b is related to the standalone business and INR0.5b for the housing finance business. INR4.83b accelerated charge is toward identifying two large accounts.

- Requirement of provision as per IRAC norms stands at INR7.1b on standalone basis v/s the company carrying INR36.3b as per Ind-AS, and hence, BAF is comfortably placed.
- Within commercial lending, BAF has fully exited warehouse receipt financing.
- BAF started 31 exclusive deposit taking branches in 3 major cities.
- Digital wallet distributed INR5,000-10,000 ticket size loans to 0.66m customers.
- INR1b worth of land bought during the year.
- INR14.54b (v/s INR3.93b) worth of portfolio assigned to the housing finance subsidiary from the parent's balance sheet.

## Key points on housing finance subsidiary

- AUM grew 86% YoY to INR327b.
- GNPA/NNPA negligible at 8bp/5bp; CAR at 25.15% with Tier I of 24.5%.
- INR15b equity infused by the parent. Total investment till date INR50.5b.

**Exhibit 27: Home loans dominate AUM mix of BAF's subsidiary (%)**




Source: MOFSL, Company,FY20

# Appendix

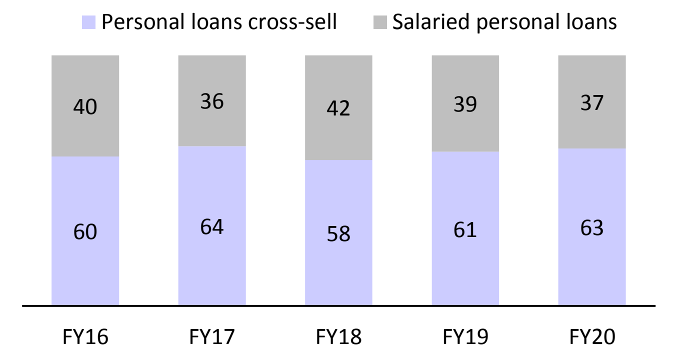
Share of professional loans in SME lending rising.

**Exhibit 28: Break-up of consumer B2C and SME lending**

| AUM (INR b) | FY16 | FY17 | FY18 | FY19 | FY20 |
|---|---|---|---|---|---|
| Personal loans cross-sell | 39 | 62 | 89 | 139 | 192 |
| Salaried personal loans | 26 | 35 | 64 | 87 | 113 |
| **Total consumer B2C** | **65** | **97** | **153** | **226** | **305** |
| Business loans | 46 | 59 | 84 | 101 | 119 |
| Professional loans | 11 | 17 | 31 | 53 | 73 |
| **Total SME lending** | **57** | **76** | **115** | **154** | **193** |

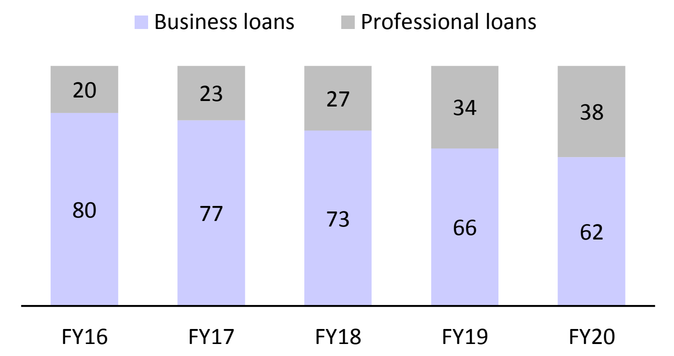
Source: MOFSL, Company

**Exhibit 29: AUM mix – Consumer B2C lending (%)**



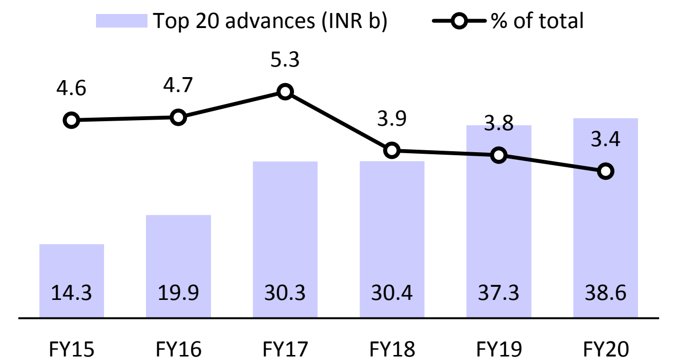

Source: MOFSL, Company

**Exhibit 30: AUM mix – SME lending (%)**



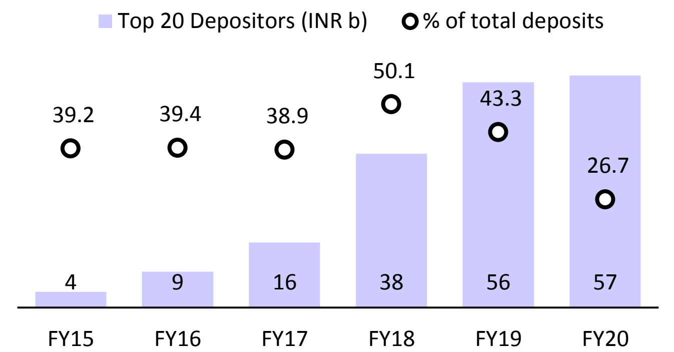

Source: MOFSL, Company

**Exhibit 31: Exposure (standalone) to top-20 accounts largely stable**




Source: MOFSL, Company

**Exhibit 32: Concentration of Top-20 depositors on downward trend**




Source: MOFSL, Company

# Valuation matrix

| | Rating | CMP | Mcap | P/E (x) | | P/BV (x) | | RoA (%) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (INR) | (USDb) | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| **HFCs** | | | | | | | | | | | |
| HDFC* | Buy | 1,887 | 42.9 | 19.0 | 14.9 | 2.0 | 1.6 | 1.7 | 1.7 | 11.8 | 11.6 |
| LICHF | Buy | 278 | 1.9 | 6.8 | 6.0 | 0.7 | 0.7 | 1.0 | 1.1 | 11.0 | 11.5 |
| PNBHF | Neutral | 214 | 0.5 | 14.4 | 4.5 | 0.4 | 0.4 | 0.3 | 1.0 | 3.1 | 9.3 |
| REPCO | Buy | 131 | 0.1 | 2.9 | 2.7 | 0.4 | 0.3 | 2.3 | 2.4 | 14.4 | 13.6 |
| **Vehicle fin.** | | | | | | | | | | | |
| SHTF | Buy | 723 | 2.1 | 10.9 | 6.1 | 0.8 | 0.8 | 1.4 | 2.4 | 8.1 | 13.0 |
| MMFS | Buy | 204 | 1.5 | 25.6 | 14.2 | 1.1 | 1.0 | 0.7 | 1.2 | 4.2 | 7.2 |
| CIFC | Buy | 213 | 2.2 | 16.8 | 13.1 | 2.0 | 1.7 | 1.6 | 2.0 | 12.3 | 14.1 |
| **Diversified** | | | | | | | | | | | |
| BAF | Neutral | 3,353 | 23.9 | 44.3 | 28.5 | 5.5 | 4.7 | 2.6 | 3.5 | 13.2 | 17.8 |
| SCUF | Buy | 677 | 0.6 | 6.8 | 6.0 | 0.6 | 0.5 | 2.1 | 2.4 | 8.7 | 9.2 |
| LTFH | Buy | 71 | 1.9 | 10.2 | 7.5 | 0.9 | 0.8 | 1.2 | 1.6 | 9.3 | 11.7 |
| MUTH | Neutral | 1,104 | 6.1 | 12.9 | 11.0 | 3.1 | 2.5 | 6.4 | 6.6 | 26.6 | 25.4 |
| MAS | Buy | 688 | 0.5 | 22.3 | 18.6 | 3.4 | 3.0 | 3.7 | 4.0 | 16.0 | 16.9 |

*Note: *HDFC price and BV adjusted for stake in subsidiaries*

# Financials and valuations

| Income Statement | | | | | | | | INR b |
|---|---|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021E** | **2022E** | **2023E** |
| Interest Income | 65.5 | 87.1 | 115.9 | 163.5 | 229.7 | 255.8 | 300.9 | 358.3 |
| Interest Expended | 29.3 | 38.0 | 46.1 | 66.2 | 94.7 | 110.1 | 125.3 | 149.2 |
| **Net Interest Income** | **36.2** | **49.0** | **69.7** | **97.3** | **135.0** | **145.7** | **175.6** | **209.1** |
| Change (%) | 37.0 | 35.4 | 42.2 | 39.5 | 38.8 | 7.9 | 20.5 | 19.1 |
| Other Operating Income | 7.5 | 12.7 | 11.6 | 21.4 | 34.0 | 25.3 | 32.0 | 41.0 |
| Other Income | 0.4 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| **Net Income** | **44.1** | **62.0** | **81.4** | **118.8** | **169.1** | **171.2** | **207.8** | **250.2** |
| Change (%) | 39.0 | 40.7 | 31.3 | 45.9 | 42.4 | 1.2 | 21.4 | 20.4 |
| Operating Expenses | 19.0 | 25.6 | 32.7 | 42.0 | 56.6 | 50.5 | 59.1 | 69.2 |
| **Operating Profits** | **25.1** | **36.4** | **48.7** | **76.8** | **112.5** | **120.7** | **148.7** | **181.0** |
| Change (%) | 44.0 | 45.0 | 34.1 | 57.6 | 46.5 | 7.2 | 23.2 | 21.8 |
| Provisions and W/Offs | 5.4 | 8.2 | 10.3 | 15.0 | 39.3 | 60.1 | 54.7 | 61.7 |
| **PBT** | **19.6** | **28.2** | **38.4** | **61.8** | **73.2** | **60.6** | **94.0** | **119.4** |
| Tax | 6.9 | 9.8 | 13.5 | 21.8 | 20.6 | 15.1 | 23.5 | 29.8 |
| Tax Rate (%) | 34.9 | 34.8 | 35.0 | 35.3 | 28.1 | 25.0 | 25.0 | 25.0 |
| **PAT** | **12.8** | **18.4** | **25.0** | **39.9** | **52.6** | **45.4** | **70.5** | **89.5** |
| Change (%) | 42.4 | 43.6 | 35.9 | 60.0 | 31.8 | -13.7 | 55.2 | 27.0 |
| Proposed Dividend | 1.6 | 2.5 | 2.8 | 4.3 | 7.3 | 4.5 | 7.0 | 9.0 |

| Balance Sheet | | | | | | | | INR b |
|---|---|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021E** | **2022E** | **2023E** |
| Capital | 0.5 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Reserves & Surplus (Ex OCI) | 73.7 | 89.4 | 157.4 | 195.8 | 323.0 | 363.8 | 427.2 | 507.8 |
| **Net Worth** | **74.3** | **90.5** | **158.6** | **197.0** | **324.2** | **365.0** | **428.4** | **509.0** |
| OCI | 0.0 | 0.0 | -0.1 | 0.0 | -0.9 | -0.9 | -0.9 | -0.9 |
| **Net Worth (Including OCI)** | **74.3** | **90.5** | **158.5** | **197.0** | **323.3** | **364.2** | **427.6** | **508.1** |
| Change (%) | 54.7 | 21.9 | 75.1 | 24.3 | 64.1 | 12.6 | 17.4 | 18.8 |
| **Borrowings** | **370.2** | **508.9** | **665.6** | **1,015.9** | **1,298.1** | **1,455.4** | **1,717.4** | **2,060.9** |
| Change (%) | 38.7 | 37.5 | 30.8 | 52.6 | 27.8 | 12.1 | 18.0 | 20.0 |
| Other liabilities | 25.2 | 19.9 | 23.9 | 29.5 | 22.6 | 26.0 | 29.9 | 34.3 |
| **Total Liabilities** | **469.7** | **619.4** | **848.0** | **1,242.3** | **1,643.9** | **1,845.5** | **2,174.8** | **2,603.3** |
| **Investments** | **10.3** | **41.3** | **31.4** | **86.0** | **175.4** | **201.8** | **232.0** | **266.8** |
| Change (%) | 211.2 | 299.5 | -24.0 | 173.9 | 104.0 | 15.0 | 15.0 | 15.0 |
| **Loans** | **438.3** | **564.0** | **800.0** | **1,137.1** | **1,428.0** | **1,599.3** | **1,887.2** | **2,264.7** |
| Change (%) | 40.5 | 28.7 | 41.8 | 42.1 | 25.6 | 12.0 | 18.0 | 20.0 |
| Other assets | 21.1 | 14.1 | 16.6 | 19.2 | 40.5 | 44.4 | 55.6 | 71.8 |
| **Total Assets** | **469.7** | **619.4** | **848.0** | **1,242.3** | **1,643.9** | **1,845.5** | **2,174.8** | **2,603.3** |

E: MOFSL Estimates

# Financials and valuations

| Ratios | | | | | | | | (%) |
|---|---|---|---|---|---|---|---|---|
| **Y/E MARCH** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021E** | **2022E** | **2023E** |
| **Spreads Analysis (%)** | | | | | | | | |
| Yield on Advances | 17.5 | 17.4 | 17.0 | 16.9 | 17.9 | 16.4 | 16.8 | 16.8 |
| Cost of borrowings | 9.2 | 8.7 | 7.9 | 7.9 | 8.2 | 8.0 | 7.9 | 7.9 |
| Interest Spread | 8.3 | 8.7 | 9.1 | 9.0 | 9.7 | 8.4 | 8.9 | 8.9 |
| Net Interest Margin | 9.7 | 9.8 | 10.2 | 10.0 | 10.5 | 9.6 | 10.1 | 10.1 |
| | | | | | | | | |
| **Profitability Ratios (%)** | | | | | | | | |
| Cost/Income | 43.1 | 41.4 | 40.1 | 35.3 | 33.5 | 29.5 | 28.4 | 27.7 |
| Empl. Cost/Op. Exps. | 33.2 | 36.3 | 43.9 | 46.2 | 45.0 | 45.4 | 44.6 | 43.8 |
| RoE | 20.9 | 22.3 | 20.0 | 22.5 | 20.2 | 13.2 | 17.8 | 19.1 |
| RoA | 3.2 | 3.4 | 3.4 | 3.8 | 3.6 | 2.6 | 3.5 | 3.7 |
| | | | | | | | | |
| **Asset Quality (%)** | | | | | | | | |
| GNPA | 5.4 | 9.8 | 11.6 | 18.0 | 23.6 | 43.5 | 36.6 | 48.8 |
| NNPA | 1.2 | 2.6 | 3.5 | 7.3 | 9.4 | 17.4 | 14.6 | 19.5 |
| GNPA % | 1.2 | 1.7 | 1.4 | 1.6 | 1.6 | 2.7 | 1.9 | 2.1 |
| NNPA % | 0.3 | 0.5 | 0.4 | 0.6 | 0.7 | 1.1 | 0.8 | 0.9 |
| PCR % | 77.2 | 74.0 | 69.6 | 59.7 | 60.3 | 60.0 | 60.0 | 60.0 |
| | | | | | | | | |
| **Capitalisation (%)** | | | | | | | | |
| CAR | 19.5 | 19.5 | 24.0 | 20.7 | 25.0 | 24.7 | 24.4 | 23.9 |
| Tier I | 16.1 | 13.3 | 18.4 | 16.3 | 21.3 | 21.6 | 21.8 | 21.9 |
| Tier II | 3.4 | 6.2 | 5.5 | 4.4 | 3.7 | 3.2 | 2.5 | 2.0 |
| Average Leverage on Assets (x) | 6.5 | 6.6 | 5.9 | 5.9 | 5.5 | 5.1 | 5.1 | 5.1 |

| **Valuation** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021E** | **2022E** | **2023E** |
|---|---|---|---|---|---|---|---|---|
| Book Value (INR) | 138.7 | 165.5 | 275.7 | 341.4 | 540.3 | 608.4 | 714.1 | 848.4 |
| **Price-BV (x)** | | | | | **6.2** | **5.5** | **4.7** | **4.0** |
| EPS (INR) | 23.9 | 33.6 | 43.4 | 69.3 | 87.7 | 75.7 | 117.5 | 149.2 |
| EPS Growth (%) | 33.0 | 40.7 | 29.2 | 59.6 | 26.7 | -13.7 | 55.2 | 27.0 |
| **Price-Earnings (x)** | | | | | **38.2** | **44.3** | **28.5** | **22.5** |
| Dividend per Share (INR) | 2.5 | 3.6 | 4.0 | 6.0 | 10.0 | 7.9 | 11.7 | 14.9 |
| **Dividend Yield (%)** | | | | | **0.3** | **0.2** | **0.4** | **0.5** |

E: MOFSL Estimates

# NOTES

| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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