Bajaj Finance

BSE Sensex	S&P CNX
52,386	15,690

Stock Info

Bloomberg	BAF IN
Equity Shares (m)	600
M.Cap.(INRb)/(USDb)	3703.6 / 49.6
52-Week Range (INR)	6340 / 3009
1, 6, 12 Rel. Per (%)	7/13/42
12M Avg Val (INR M)	18765
Free float (%)	43.9

Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Income	172.7	211.1	250.9
PPP	119.6	150.8	178.3
PAT	44.2	79.7	106.3
EPS (INR)	73.5	132.5	176.6
EPS Gr. (%)	-16.3	80.4	33.3
BV/Sh. (INR)	606	725	884
Ratios			
NIM (%)	9.5	10.8	10.5
C/I ratio (%)	30.7	28.6	28.9
RoA (%)	2.6	4.3	4.7
RoE (%)	12.8	19.9	22.0
Payout (%)	13.6	10.0	10.0
Valuations			
P/E (x)	83.5	46.3	34.7
P/BV (x)	10.1	8.5	6.9
Div. Yield (%)	0.2	0.2	0.3

CMP: INR6,136 TP: INR6,900 (+12%) Buy

Accelerated business transformation underway!

Fees/Deposits traction strong | Pandemic impacts customer acquisition and asset quality

Bajaj Finance (BAF)'s Annual Report shares a glimpse of the management's two-pronged strategy implemented in FY21: a) conservatism and prudence and b) the acceleration of the business transformation plan. With the various steps taken during the pandemic, BAF is confident of achieving higher volumes, a leaner cost structure, and a strong digital platform offering superior services across the value chain. The focus throughout the year was on (a) capital management (Tier I of 25%+), (b) achieving abundant liquidity (12–13% of borrowings), (c) lowering opex (opex to assets down 70bp), (d) expanding collections and servicing capabilities (costs up 18% YoY), (e) strengthening underwriting, and (f) gaining a sharp perspective on risk mgmt. Furthermore, the management has made the best out of the crisis and accelerated the digitalization process across the board. We believe the near-term stress due to COVID would be transient in nature, and BAF has strong pillars in place to capitalize on recovery. ROEs are likely to be healthy at ~20% despite the pressure on earnings. Reiterate Buy.

Volumes impacted by pandemic

BAF's new customer additions moderated to 6.2m v/s 8.7m a year ago. New loans booked were down 40% YoY to 16.9m. Consumer-facing product categories CD, 2W, 3W, and Lifestyle financing reported declines of 33%, 46%, 58%, and 47% YoY, respectively, to 8.9m, 0.6m, 0.06m, and 0.3m. E-commerce related loans also declined 33% YoY to 1.7m. In FY21, BAF stopped disbursing small-ticket retail financing loans of INR5k/INR10k to reduce pressure on the collection teams; volumes declined to 0.3m v/s 2m a year ago. In 1HFY21, BAF was cautious about cross-selling B2C products; hence, for new originations, the cross-sell ratio declined to ~65% v/s ~70% a year ago. In 2W, its market share in Bajaj Motorcycles declined to 34% v/s 54% a year ago.

Asset quality taking precedence over growth

The overall customer base increased 14% YoY to 48.6m, significantly below the earlier range of 25–30%. In 1HFY21, the management adopted a highly risk-averse stance, with the absence of updated bureau scores and prudence due to the lack of clarity on macros. The management was cautious about sourcing even from existing customers. Of the total EMI card customers, only 37% were financed v/s 50–60% in the last three years. B2C customer AUM declined 3% YoY after growing 50%/36% in FY19/FY20. Overall AUM grew 4% YoY to INR1.53t; however, the unsecured loans share remained stable at ~43% of loans.

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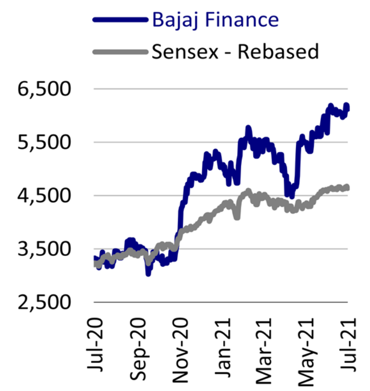
Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	56.1	56.1	56.2
DII	9.1	9.1	10.9
FII	24.2	24.2	21.5
Others	10.6	10.6	11.5

FII Includes depository receipts

Stock Performance (1-year)



Fees – offer strong support to earnings

Despite a significant drop in volumes / new disbursements, fees declined just 5% YoY on a higher base, and their contribution to overall profitability remained high at 1.5% of average assets (down 30bp YoY, but near FY19 levels). Services and administrative fees grew 45% YoY to INR13.2b, with their contribution to overall fees coming in at 54% (v/s 35–40% previously). We believe this may be driven largely by a) conversion fees to hybrid flexi loans, b) the cross-selling of health EMI cards (1.1m sold), and c) penal interest charges (if any). Distribution fees – which declined 45% YoY due to modest co-branded credit card usage (interchange fees) and incremental sourcing – had a significant impact. The no of EMI cards / outstanding cross-sells of credit cards grew at a modest pace of 8%/12% YoY to 23.8m/2.1m.

Sharp focus on operating expenses

BAF focused on a zero-based budgeting framework to streamline processes and eliminate unnecessary cost. While employee expenses were down 2% YoY, other operating expenses declined 30% YoY, led by decline in expenses related to advertisements and promotions (down 50% YoY), travel (down 70% YoY), training, and tele-calling (down 45% YoY), among others. Per the management, some of these expenses are structural in nature and some are transient. Together, these enabled the absorption of enhanced recovery costs (+18% YoY), IT expenses (+8% YoY), and CSR expenses (+34% YoY) in FY21. Recovery cost as a percentage of average AUM increased to 77bp (v/s 73bp in FY20 and 65bp in earlier years). Opex to assets declined 70bp to 3.2%, aiding overall profitability despite the pressure on margins.

Aggressive provisioning and proactive steps to arrest BS deterioration

With a high proportion (43%) of advances being unsecured, the risk of asset quality deterioration was significantly higher for BAF. Apart from regulatory relief – such as EMI, moratorium, and restructuring (INR17.25b; 1.5% of AUM) – the company proactively implemented various measures, such as converting term loans to hybrid flexi loans, beefing up the collection infra, and undertaking aggressive provisioning and write-offs. For FY21, it wrote off INR56b (3.6% of the book), ~INR30b of which were to morat customers. Despite the high write-offs, ECL/EAD improved further to 2.85% (v/s 2.57% in FY20). GS2% increased 230bp, including 150bp from Restructured loans. With the significant stress additions, GS1 (after being in the 96–97% range) declined to ~94%. The company still carries management overlay of INR8.4b.

Significant focus on digital transformation

BAF used crisis as an opportunity to accelerate its digitalization journey. The omni-channel platform the company is targeting is likely to enable the customer to move between online and offline, and vice-versa, more flexibly, in a frictionless manner. It plans to complete the entire transformation process by end-Oct'21. With this transformation, BAF targets significant business velocity, a reduction in opex, and improved customer experience (further details on page 12).

Other highlights

- The granularity of liabilities continues to improve, led by retail deposits.
- The company continues to significantly invest in partnership-led growth and capitalize on the large customer base.
- The rural business is growing at a healthy pace – 11% of AUM currently.
- It is reducing the risk in the B2C business and SME lending.
- The net slippage ratio stands at 4% v/s 2.4% (2.07% ex-lumpy accounts) in FY20 and ~2% in FY18/FY19.

Valuation and view

The severity of the COVID second wave impact on earnings has been much lower v/s the first wave. The management is well-prepared to deal with this and compensate for lost business with the start of the unlocking process. Digital initiatives have been upfronted and are likely to provide significant benefit on the cost and growth fronts. The cross-selling of products to the existing Credit segment customer base of ~39m would be a key growth driver in FY22 as well. BAF's return ratios have not only been consistent but are also the highest in our Coverage Universe (after that of gold financiers). Reiterate Buy, with revised TP of INR6,900 (7x BV 1HFY24).

Improving deposits franchise

Share of deposits continue to rise; granularity improves further

Number of depositors up 38% YoY in FY21

Strong deposits traction

- Overall deposits grew 20% YoY to INR258b; within this, public deposits grew 44% YoY to INR190b.
- The share of deposits in overall borrowings increased to 20% v/s 17% a year ago and 13% in FY19.
- The mix continues to improve, with public deposits accounting for ~73% of overall deposits (v/s 61%/52% in FY20/FY19).
- **The share of >3 years deposits in overall deposits remains healthy at ~65%.**

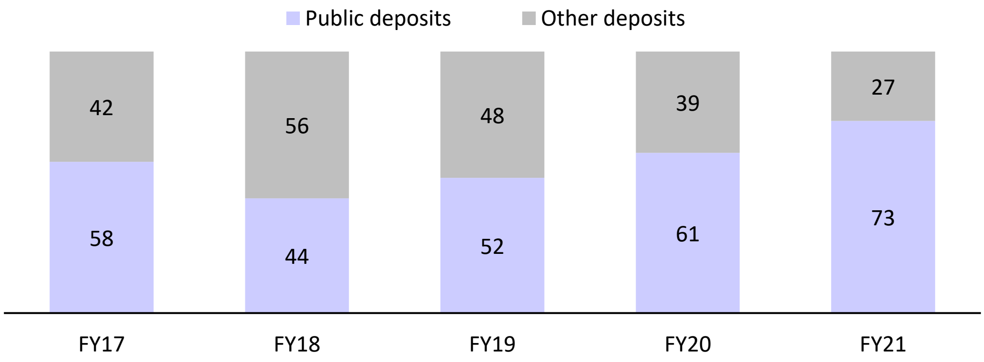
Exhibit 1: Strong growth in volumes and value of deposits

	FY17	FY18	FY19	FY20	FY21
Number of depositors ('000)	**71**	**101**	**190**	**362**	**498**
Growth (%)		42	88	91	38
Total deposits (INR b)	**43**	**78**	**132**	**214**	**258**
Growth (%)		82	69	62	20

Source: MOFSL, Company

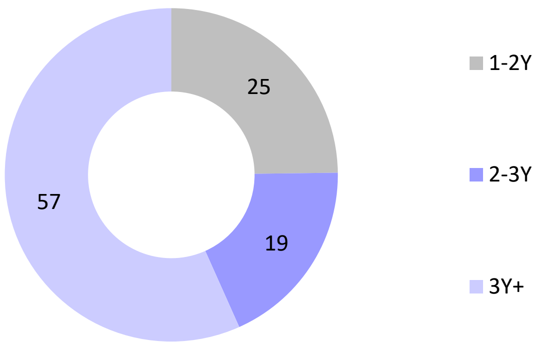
Share of public deposits at 73% of total deposits

Exhibit 2: Mix of public and non-retail deposits (%)



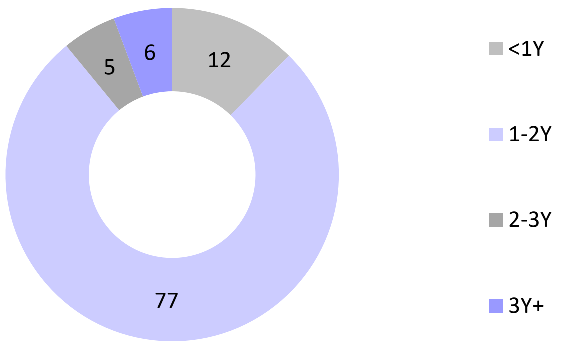
Source: MOFSL, Company

Exhibit 3: Mix of public deposits, by tenure (%)



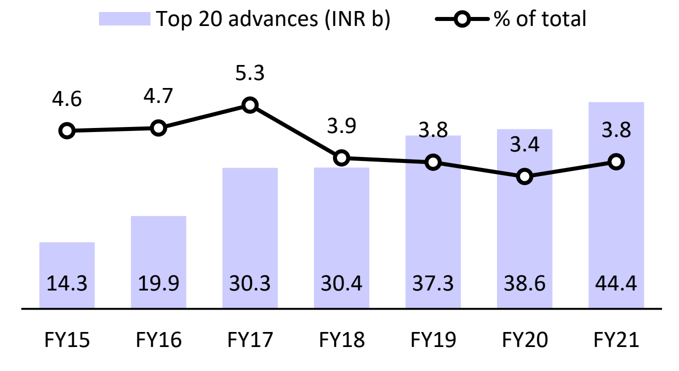
Source: MOFSL, Company; Note: Tenure at the time of origination

Exhibit 4: Mix of non-retail deposits, by tenure (%)



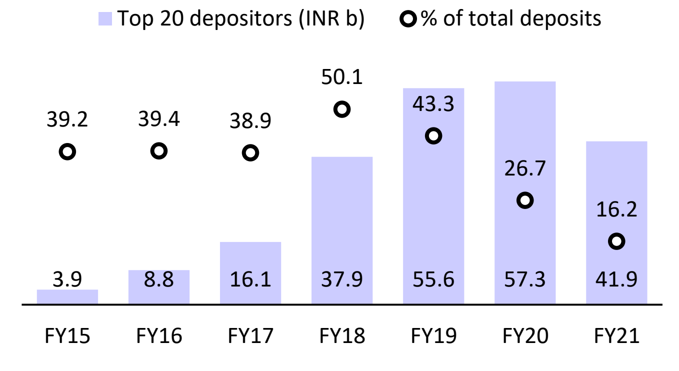
Source: MOFSL, Company; Note: Tenure at the time of origination

Exhibit 5: Exposure (standalone) to Top 20 accounts largely stable



Source: MOFSL, Company

Exhibit 6: Concentration of Top 20 depositors trending downwards



Source: MOFSL, Company

Strengthening business through partnerships

The company implemented various initiatives during the year to strengthen the business through partnerships:

- 1.1m health EMI cards were distributed.
- RBL Bank card sourcing locations increased to 152 (v/s 102 in FY20).
- 0.3m pocket insurance policies were sold.
- It tied up with DBS Bank (India) Ltd. on a co-branded credit card (approval received in Jan'21).
- Digital wallet customers increased to 19.8m (v/s 15m a year ago). Online relationships increased to 74 from 33/19 in FY20/FY19. The total distributor tie-ups stand at 110k, of which 98k is enabled via EMI cards.

Exhibit 7: EMI cards – trends

	FY16	FY17	FY18	FY19	FY20	FY21
No. of EMI Cards (m)	5.60	6.90	12.90	18.50	22.00	23.80
No. of digital wallets (m)			1.30	8.30	15.00	19.80
No. of loans using EMI Cards (m)	1.50	2.50	6.75	11.50	13.60	8.70
Loans disbursed (m)	6.84	10.09	15.32	23.50	27.44	16.88
% of new loans booked	22%	25%	44%	49%	50%	52%

Source: MOFSL, Company

In partnership with the RBL Bank, BAF's Co-Branded Credit Cards business continued to grow robustly in FY21. These cards are now offered across 152 locations in India. The number of cards-in-force stood at over 2.05m (v/s 1.8m YoY).

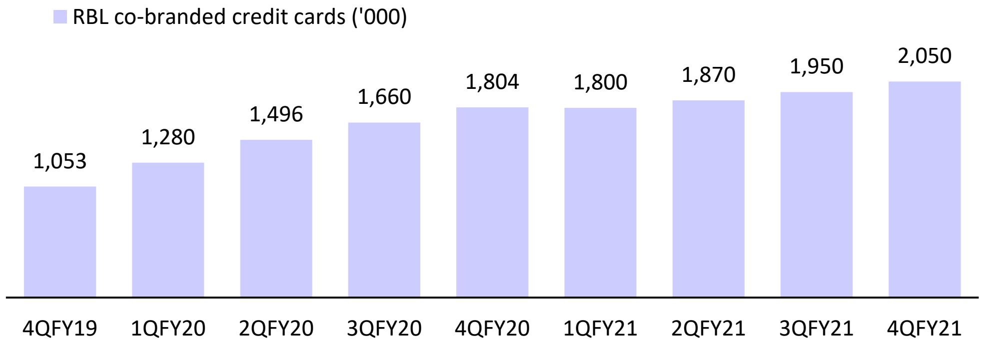
Distribution income accounted for 25% of fees in FY21 v/s 40% in FY19

Exhibit 8: Distribution fees down YoY, but service and admin fees up 46% – aided by fees on conversion to flexi loans and cross-selling of health EMI card

INR m	FY18	FY19	FY20	FY21
Service & admin charges	3,434	5,806	8,996	13,138
Fee on value added products	1,972	3,285	4,137	3,697
Foreclosure income	247	1,052	1,574	1,446
Distribution income	**2,428**	**6,676**	**11,153**	**6,125**
Brokerage income			49	118
Total	**8,082**	**16,819**	**25,910**	**24,524**

Source: MOFSL, Company

Exhibit 9: Momentum in co-branded credit cards briefly stalled by pandemic



Source: MOFSL, Company

Rural business – investing for the future

- The no of locations increased from ~2400 to ~3000, within which rural locations stood at ~1700 (from ~1360 a year ago).
- The company does business in 21 states at the rural level via 10 product offerings. The share of AUM (incl. mortgages) for the rural business to overall AUM saw a healthy increase to ~11% in FY21 from ~10% in FY20 and 8.7% in FY19.
- Gold loans stood at INR22.4b (+44% YoY) and were ~2% (~1.4% in FY20) of standalone AUM.

Improving mix in B2C and SME portfolios

- Within B2C products, the ratio of salaried personal loans (gross earnings >INR0.6m) and normal personal loans remained largely stable at 40:60.
- The focus on professional loans (+10% YoY to INR80b) continues to rise, with its share in SME lending increasing to 40% (v/s 27% in FY18).
- In the Professional Loans category, BAF initiated medical equipment financing in partnership with OEMs and dealers.

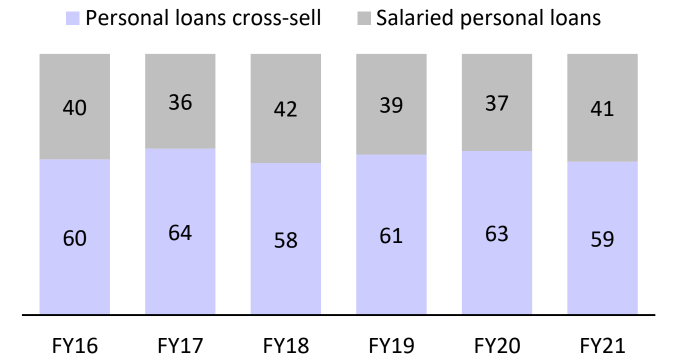
Share of professional loans in SME lending on the rise

Exhibit 10: Breakup of consumer B2C and SME lending

AUM (INR b)	FY16	FY17	FY18	FY19	FY20	FY21
Personal loans cross-sell	38.6	61.6	88.9	138.7	191.7	172.1
Salaried personal loans	26.1	35.0	63.8	86.8	113.4	121.0
Total consumer B2C	**64.7**	**96.6**	**152.7**	**225.5**	**305.1**	**293.1**
Business loans	45.6	59.1	84.3	100.9	119.3	120.4
Professional loans	11.1	17.3	31.1	52.8	73.3	80.2
Total SME lending	**56.8**	**76.4**	**115.4**	**153.8**	**192.6**	**200.6**

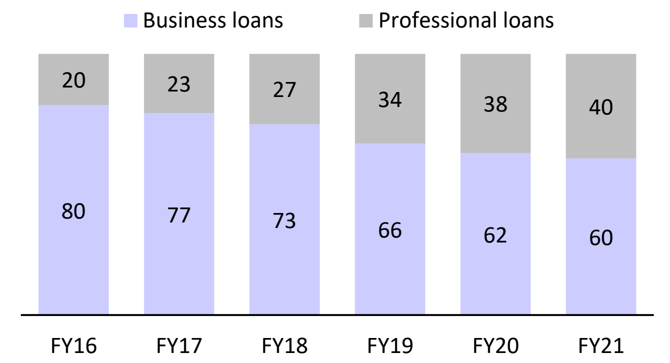
Source: MOFSL, Company

Exhibit 11: AUM mix – consumer B2C lending (%)



Source: MOFSL, Company

Exhibit 12: AUM mix – SME lending (%)



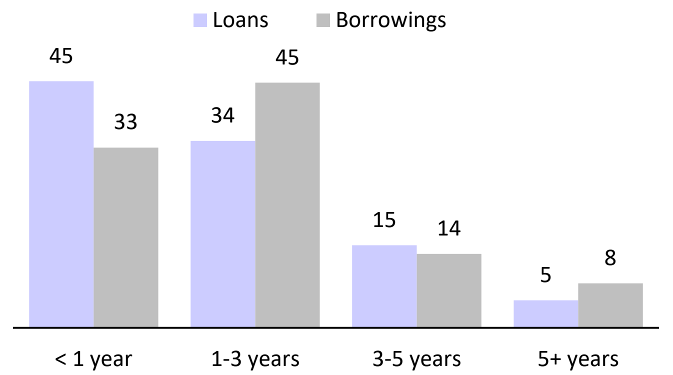
Source: MOFSL, Company

Short loan tenure led to positive ALM

Well-placed on ALM front; BS liquidity still abundant

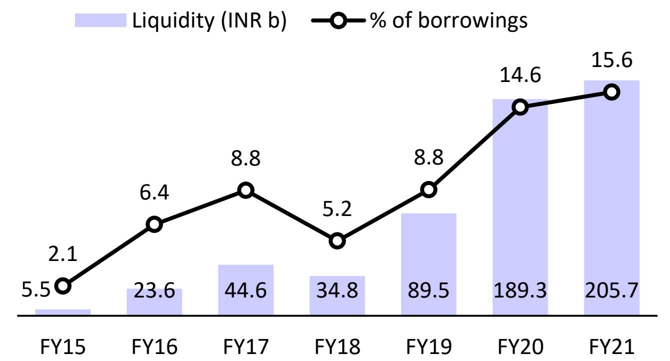
- The bulk of the BAF book has loan tenure of sub-3 years. Only the non-LAS commercial lending and mortgages books have longer tenures. As a result, the company is able to manage its ALM without resorting to very long-term borrowings.
- Short lending tenure aids large EMI inflows, allowing the company to conveniently service its near-term obligations. Against 33% of liabilities (including deposits), due for repayment within the next year, 45% of assets (including investments) would mature / see inflows during the same period.
- BAF has always been very prudent and maintained significantly positive ALM position across buckets, including 1–7 days (+211%), 8–14 days (+199%), and 15–31 days (+216%), despite the RBI allowing a 10%, 10%, 20% negative mismatch, respectively, in these buckets.
- BAF maintained excess liquidity (with consequent negative carry) for all of 1HFY21. The company began to wind this down only in 3QFY21, once the external environment started stabilizing. However, even at end-FY21, it still had a consolidated liquidity surplus of INR165b, representing ~13% of its borrowings (this excess liquidity further declined to INR109b at end-Jun'21).
- Furthermore, BAF maintained LCR of 270%, well above the 50% requirement applicable to NBFCs, with an asset size of >INR50b from Dec'20.

Exhibit 13: Parent entity well-placed on ALM



Source: MOFSL, Company

Exhibit 14: BS liquidity remains elevated in FY21, but plunges in 1QFY22



Source: MOFSL, Company

Forward flow into S3, but higher write-offs restrict GS3 increase to <20bp YoY

Net slippage up 160bp YoY to 4.0%

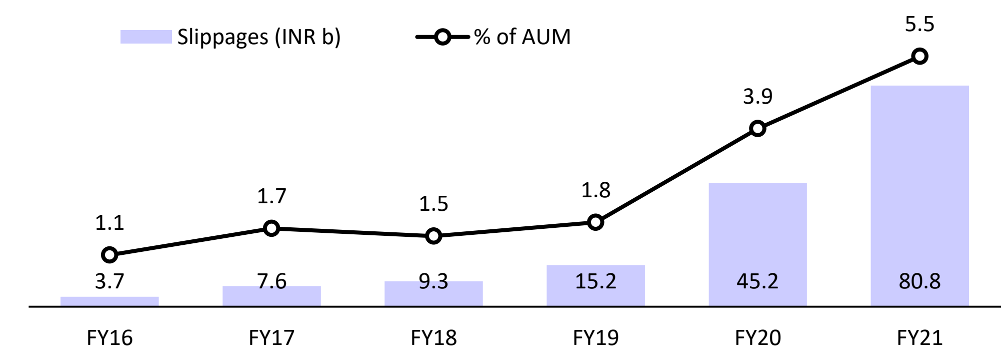
- Slippage jumped 1.8x YoY to INR81b in FY21. This was led by higher stress in auto loans, LAP, and unsecured personal loans as well as some high-ticket slippage.
- Write-offs also increased 2.5x YoY to INR55.5b.

Slippage up 1.8x YoY to INR81b

Asset quality pressure results in heightened slippage…

- Given the pandemic situation and the external environment, there were forward flows from S1 to S2 and S3 and a very insignificant quantum of upgrades.
- Slippage jumped 1.8x YoY to INR81b – as a percentage of opening AUM, it deteriorated to 5.5%. Lumpy slippage such as CCD (INR850m) and Karvy (INR3.2b) was reported in FY20, and INR2.3b was related to IL&FS in FY19.
- Net slippage (slippage less recoveries and upgrades) was INR59b (v/s INR28b a year ago).

Exhibit 15: Slippage spikes in FY21



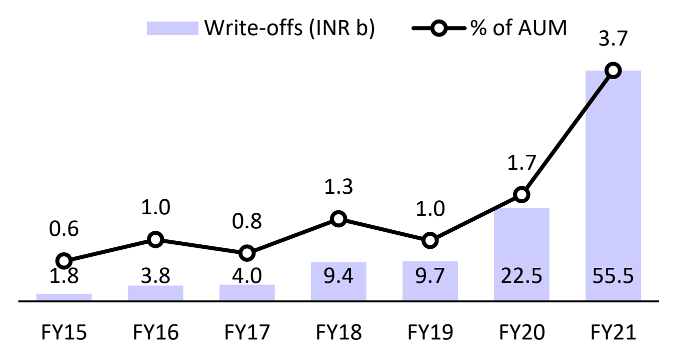
Source: MOFSL, Company

Higher write-offs aid headline GNPAs; PCR edges down ~200bps to 58%, but stays healthy

Write-offs – 3.7% of average AUM in FY21 (v/s 1.7% in FY19)

- Write-offs as a percentage of average AUM increased to 3.7% in FY21 from 1.7% in FY20. In absolute terms, write-offs stood at INR55.5b (v/s INR22.5b).
- There were no sell-downs of NPLs (the value of NPLs sold was INR7.4b in FY20).
- No lumpy accounts were written off during the year.

Exhibit 16: Write-offs elevated despite no lumpy a/c



Source: MOFSL, Company

Exhibit 17: Financial assets sold (other than to ARCs)

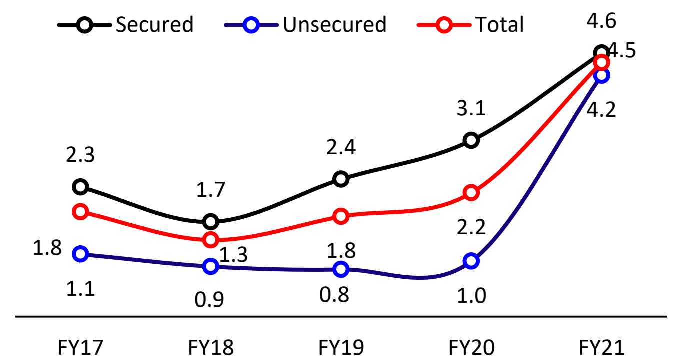
	FY17	FY18	FY19	FY20	FY21
No. of accounts sold ('000)	34	97	101	157	0
Amount outstanding (INR b)	0.91	1.84	2.82	7.38	0
Consideration recvd. (INR b)	0.28	0.2	0.1	0.3	0
- % of outstanding	31%	11%	4%	4%	0%

Source: MOFSL, Company

Deterioration in Stage 2 loans led primarily by unsecured assets

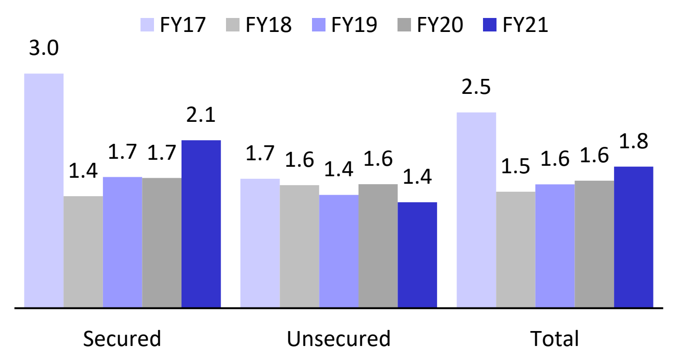
- While Stage 3 loans declined ~20bp to 1.8%, a sharp ~230bp YoY increase was seen in Stage 2 loans to 4.5%. This was primarily led by a 330bp increase in Stage 2 loans of unsecured assets to 4.2%.
- Stage 2 loans were broadly similar (4.2–4.6%) across both secured and unsecured.
- Incremental disbursements (net of any repayments) continued to perform well in FY21, with just ~1.2% flowing into Stage 3. From the opening stock of loans, forward flows from Stage 1 in Stage 2 and Stage 3 were in the proportion of 48:52. Likewise, from Stage 2, 87% of the total outward flows were to Stage 3, while 13% were upgraded to Stage 1. Stage 3 saw very insignificant upgrades to Stage 1/2.

Exhibit 18: Trends in Stage 2 loans (%)



Source: MOFSL, Company

Exhibit 19: Trends in Stage 3 loans (%)

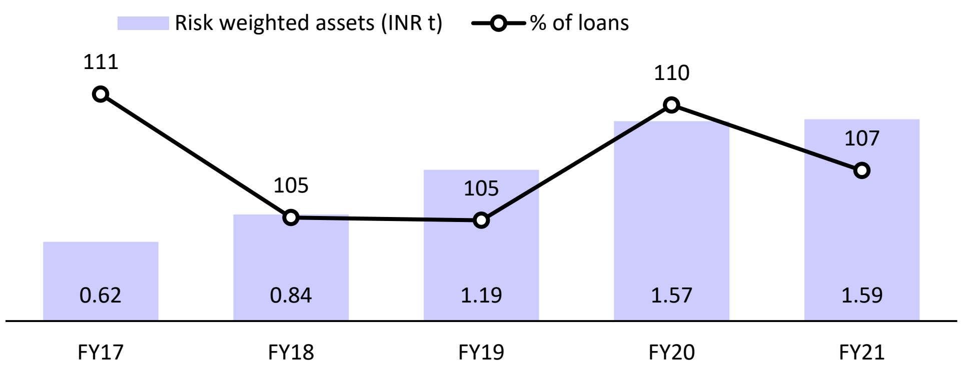


Source: MOFSL, Company

No major deviation in risk weights

- RWA as a percentage of loans declined ~300bp to 107%. This was also a function of BAF's conservatism and (perhaps) the lower incremental proportion of higher risk-weighted unsecured loans.

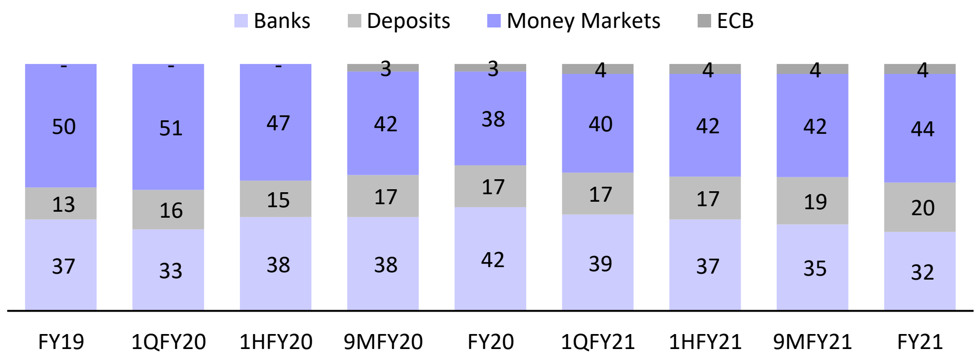
Exhibit 20: Risk density improves



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

Diversifying the liability mix, with improving proportion of deposits and lower cost NCDs/CPs

Exhibit 21: Share of bank borrowings down ~1,000bp in the last year (%)



Source: MOFSL, Company

- On the liability front, the company continued to maintain higher liquidity buffers to counter the reduction in EMI inflows, induced by moratoriums and continued contractual liability for repayments. It was only when market conditions stabilized in the third quarter that BAF started to wind down the excess liquidity buffer. While maintaining higher liquidity buffers, the company also maintained a strong vigil on the cost of borrowings, resulting in 55bp decline v/s FY20.
- BAF exhibited great strength in terms of the stability of its deposits franchise. The proportion of deposits in the consolidated borrowing mix improved to 20% v/s 13% two years ago. ECB borrowings now stand at ~4%, adding a fair share of diversification to the liability mix.
- Despite the liquidity buffer remaining elevated, BAF successfully reduced its FY21 borrowing cost by 55bps v/s FY20. Also, in the latter half of 2HFY21, BAF repaid higher cost bank loans and replaced these with lower cost NCDs and CPs. The lagged benefit from is are expected to accrue in FY22.

Accelerated digitalization transformation

Per management, enterprise technology architecture is being rapidly modernized to address the need for 'consumerization' and manage the scale and agility requirements of BAF. To that end, BAF is re-building its customer-facing mobility app with (i) a refreshed visualization layer; (ii) a payments stack encompassing wallets, UPI, bill pay services, and a single-payment checkout gateway; (iii) customer engagement features, such as in-app programs, rewards, offers, deals, and location-based services; (iv) enhanced service engagement features and information with robust search mechanism; and (v) frictionless loans, investments, and insurance purchase journeys. Data, technology, and analytics are the core pillars of BAF's business transformation strategy. Significant changes are required in operating processes and the core technology stack of the company. These are detailed below.

- BAF is developing five proprietary marketplaces: (i) the 'EMI store', (ii) the 'Insurance Marketplace', (iii) the 'Investment Marketplace', (iv) 'BFL Health', and (v) the 'Broking App' with the help of its group companies. These five apps would provide customers with the option to review, compare, and buy a host of financial products and services across the Electronics, Insurance, Investments, and Health categories.
- BAF is also developing four productivity apps: (i) 'Sales One', (ii) 'Merchant', (iii) 'Collections', and (iv) 'Partner'. These would significantly improve the productivity and efficiencies of employees, channel partners, and the merchant ecosystem.
- Having received approval for running its own wallet business, BAF has developed a wallet application called 'Bajaj Pay'. This would offer an integrated payment solution to its customers, comprising UPI, PPI, EMI card, and credit card products. The company would start offering 'Bajaj Pay' to its customers in the 1QFY22.
- BAF is also developing 'Bajaj Pay' for merchants. This should broaden the scope of its payment solution to approximately 98,300 of its merchants, enabling higher growth and larger market share.
- The company plans to partner with 25+ adjunct app ecosystems, with related product or service offerings, for its customers. These apps would provide adjacency to BAF's core offerings and thus increase customer stickiness.

Measures amid COVID

- It has examined and calibrated the risk profiles of each of the businesses to ensure conservatism in new loan bookings.
- Post the first wave, the company accelerated its business rapidly by focusing on the customers less susceptible to the economic consequences of the pandemic.
- The company suspended INR5k and INR10k temporarily to reduce pressure on the collection team amid the pandemic.
- It took a CGTMSE guarantee of INR63b for B2C, MSME, and 3W financing under GOI's NBFC (CGS – II) scheme.
- It continues to re-pivot its mix towards low-risk assets such as mortgages, and follows the strategy of acquiring and cross-selling to manage its cost and portfolio risk.

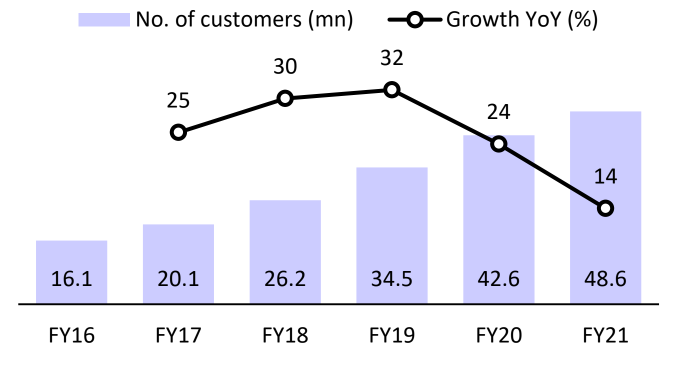
- On average, the company maintained a liquidity surplus of INR177.4b (13.6%) in FY21 and closed at INR164.8b (12.5% of borrowings).
- It offered INR350m in the form of COVID support to 4428 employees.
- Out of the account moratorium, the company wrote off INR25b worth of principal and INR4.8b worth of interest.

Other highlights

- Rahul Bajaj, Founder Chairman, has decided to retire from the Director position. The board has unanimously decided to have him as Chairman Emeritus.
- Cost of funds declined 55bp YoY.
- In the case of the dishonor of bank instrument, digital channels (along with walk-ins), account for ~35% of collection volumes.
- LCR stood at 270% as of FY21 v/s the regulatory requirement of 50%.
- The assigned portfolio outstanding stood at INR62.6b/INR23.3b on a consolidated/standalone basis.
- The SLR ratio stood at 21% v/s the regulatory requirement of 15%.
- The RBI imposed a penalty of INR25m.
- Additional investments include a) INR190m in Series E CCPS of Mobikwik, taking it to INR2.8b (FVOCI) and b) INR1.5b in Bajaj Securities, taking it to INR2.7b (FV through the amortized category). Outstanding investments in housing ventures stood at INR50.3b (FV through the amortized category),
- As of FY21, BAF had MTM loss of INR612m on the RBL investment of INR1.5b (FVOCI).
- It issued ECB of USD175m, in addition to USD575m already issued in FY20. The total approved ECB limit for the company is INR160b.

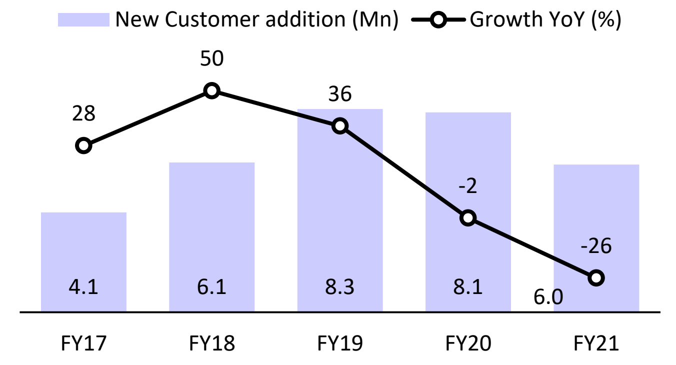
Appendix

Exhibit 22: Outstanding customer base growth moderates in difficult pandemic year…



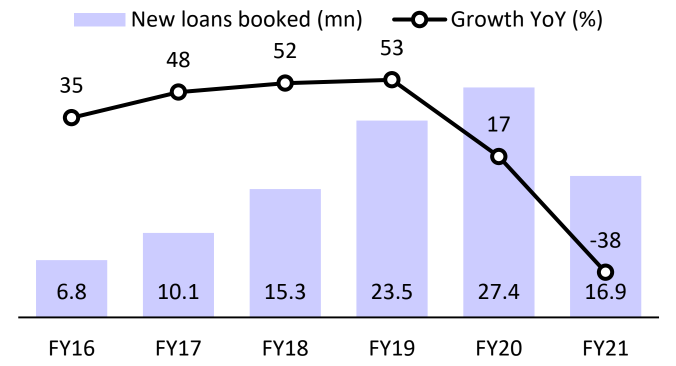
Source: MOFSL, Company

Exhibit 23: …led by moderation in new customer additions



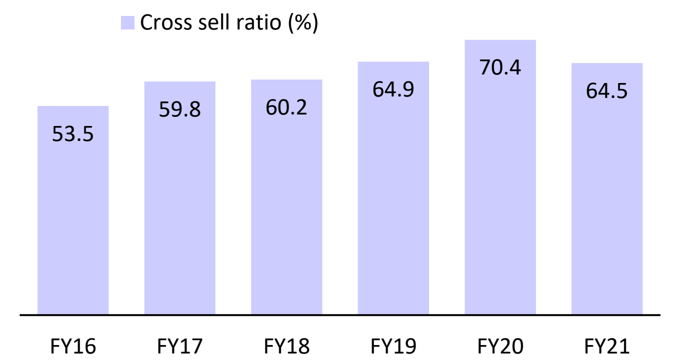
Source: MOFSL, Company

Exhibit 24: Sharp decline in volumes of new loans booked as high proportion of new volumes lost in lockdowns



Source: MOFSL, Company

Exhibit 25: Share of cross-selling falls as BAF exhibits conservatism in new loans to existing customers



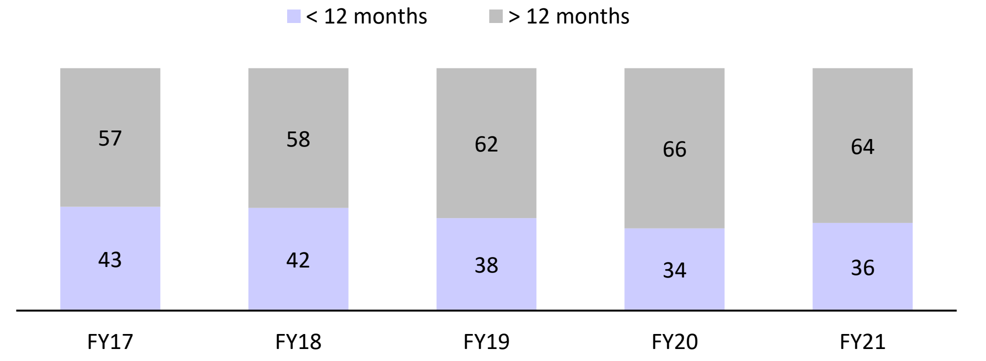
Source: MOFSL, Company

Exhibit 26: 45%/34% YoY decline in 2W/CD financing disbursements

Number of loans booked (Mn)	FY17	FY18	FY19	FY20	FY21
2W loans	0.72	0.68	1.02	1.10	0.61
3W loans	0.05	0.1	0.14	0.19	0.06
CD & digital products	7.2	9.9	12.7	13.40	8.90
Lifestyle	0.24	0.32	0.48	0.54	0.29
E-commerce		0.7	2.11	2.56	1.70
Retail spends (small ticket)		0.71	1.46	1.80	0.34

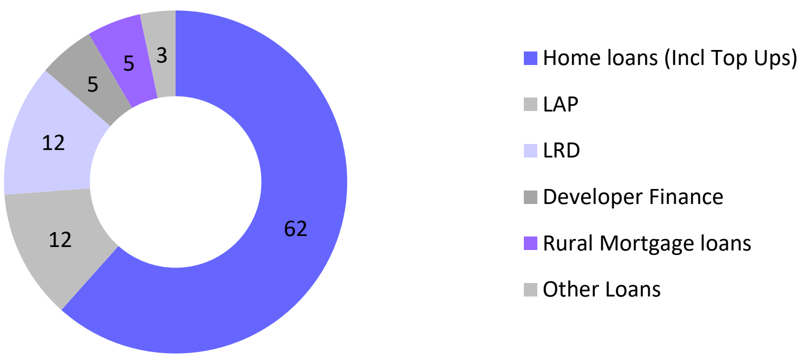
Source: MOFSL, Company

Exhibit 27: Share of longer term loans down ~200b YoY as BAF increases proportion of CPs towards end-FY21



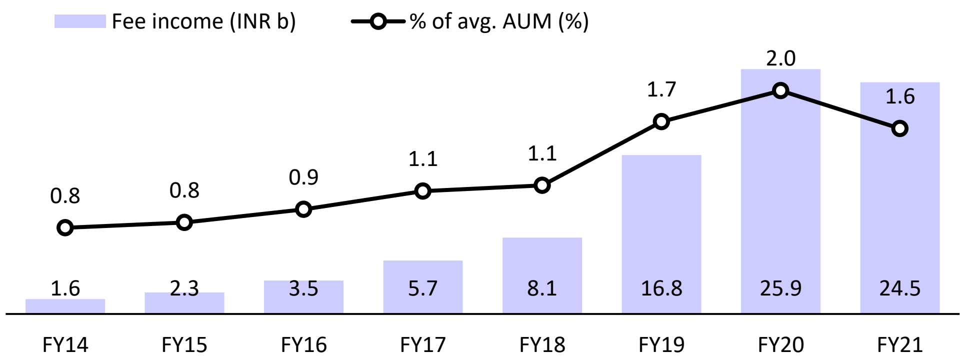
Source: MOFSL, Company

Exhibit 28: Home loans dominate AUM mix of housing subsidiary (%)



Source: MOFSL, Company

Exhibit 29: Despite YoY decline in fee income, led by lower business volumes and distribution income, BAF has many levers for strong and sustainable fee improvement



Source: MOFSL, Company

Financials and valuations

Income Statement									INR b
Y/E MARCH	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Interest Income	65.5	87.1	115.9	163.5	229.7	233.0	272.2	327.6	403.1
Interest Expended	29.3	38.0	46.1	66.2	94.7	94.1	96.3	119.8	147.6
Net Interest Income	**36.2**	**49.0**	**69.7**	**97.3**	**135.0**	**138.9**	**175.9**	**207.8**	**255.5**
Change (%)	37.0	35.4	42.2	39.5	38.8	2.9	26.6	18.2	22.9
Other Operating Income	7.5	12.7	11.6	21.4	34.0	33.6	35.0	42.8	52.6
Other Income	0.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.3
Net Income	**44.1**	**62.0**	**81.4**	**118.8**	**169.1**	**172.7**	**211.1**	**250.9**	**308.3**
Change (%)	39.0	40.7	31.3	45.9	42.4	2.1	22.2	18.9	22.9
Operating Expenses	19.0	25.6	32.7	42.0	56.6	53.1	60.3	72.5	89.0
Operating Profits	**25.1**	**36.4**	**48.7**	**76.8**	**112.5**	**119.6**	**150.8**	**178.3**	**219.3**
Change (%)	44.0	45.0	34.1	57.6	46.5	6.3	26.1	18.3	23.0
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.7	43.1	34.7	41.0
PBT	**19.6**	**28.2**	**38.4**	**61.8**	**73.2**	**59.9**	**107.7**	**143.6**	**178.3**
Tax	6.9	9.8	13.5	21.8	20.6	15.7	28.0	37.3	46.4
Tax Rate (%)	34.9	34.8	35.0	35.3	28.1	26.2	26.0	26.0	26.0
PAT	**12.8**	**18.4**	**25.0**	**39.9**	**52.6**	**44.2**	**79.7**	**106.3**	**131.9**
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.0	80.4	33.3	24.1
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	6.0	8.0	10.6	13.2

Balance Sheet									INR b
Y/E MARCH	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Capital	0.5	1.1	1.2	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	363.2	434.9	530.6	649.3
Net Worth	**74.3**	**90.5**	**158.6**	**197.0**	**324.2**	**364.4**	**436.1**	**531.8**	**650.5**
OCI	0.0	0.0	-0.1	0.0	-0.9	-1.2	-1.2	-1.2	-1.2
Net Worth (Including OCI)	**74.3**	**90.5**	**158.5**	**197.0**	**323.3**	**363.2**	**434.9**	**530.6**	**649.3**
Change (%)	54.7	21.9	75.1	24.3	64.1	12.3	19.8	22.0	22.4
Borrowings	**370.2**	**508.9**	**665.6**	**1,015.9**	**1,298.1**	**1,316.5**	**1,535.7**	**1,886.5**	**2,330.5**
Change (%)	38.7	37.5	30.8	52.6	27.8	1.4	16.7	22.8	23.5
Other liabilities	25.2	19.9	23.9	29.5	22.6	35.6	41.0	47.1	54.2
Total Liabilities	**469.7**	**619.4**	**848.0**	**1,242.3**	**1,643.9**	**1,715.3**	**2,011.6**	**2,464.2**	**3,034.1**
Investments	**10.3**	**41.3**	**31.4**	**86.0**	**175.4**	**184.0**	**184.0**	**184.0**	**184.0**
Change (%)	211.2	299.5	-24.0	173.9	104.0	4.9	0.0	0.0	0.0
Loans	**438.3**	**564.0**	**800.0**	**1,137.1**	**1,428.0**	**1,483.3**	**1,765.1**	**2,206.4**	**2,758.0**
Change (%)	40.5	28.7	41.8	42.1	25.6	3.9	19.0	25.0	25.0
Other assets	21.1	14.1	16.6	19.2	40.5	48.0	62.5	73.8	92.1
Total Assets	**469.7**	**619.4**	**848.0**	**1,242.3**	**1,643.9**	**1,715.3**	**2,011.6**	**2,464.2**	**3,034.1**

E: MOFSL Estimates

Financials and valuations

Ratios									(%)
Y/E MARCH	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021**	**2022E**	**2023E**	**2024E**
Spreads Analysis (%)									
Yield on Advances	17.5	17.4	17.0	16.9	17.9	16.0	16.3	16.0	15.8
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.2	6.8	7.0	7.0
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.8	9.5	9.0	8.8
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.5	10.8	10.5	10.3
Profitability Ratios (%)									
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.7	28.6	28.9	28.9
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.0	47.6	48.3	49.2
RoE	20.9	22.3	20.0	22.5	20.2	12.8	19.9	22.0	22.3
RoA	3.2	3.4	3.4	3.8	3.6	2.6	4.3	4.7	4.8
Asset Quality (%)									
GNPA (INR B)	5.4	9.8	11. 6	18.0	23.6	27.3	35.7	36.4	46.0
NNPA (INR B)	1.3	2.6	3.5	7.3	9.4	11.4	14.3	14.5	18.4
GNPA %	1.2	1.7	1.4	1.6	1.6	1.8	2.0	1.6	1.6
NNPA %	0.3	0.5	0.4	0.6	0.7	0.8	0.8	0.7	0.7
PCR %	77.2	74.0	69.6	59.7	60.3	58.4	60.0	60.0	60.0
Capitalization (%)									
CAR	19.5	19.5	24.0	20.7	25.0	28.3	26.2	25.5	24.8
Tier I	16.1	13.3	18.4	16.3	21.3	25.1	23.9	23.7	23.5
Tier II	3.4	6.2	5.5	4.4	3.7	3.2	2.4	1.8	1.4
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.9	4.7	4.6	4.7

Valuation	2016	2017	2018	2019	2020E	2021	2022E	2023E	2024E
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	605.7	724.9	883.9	1,081.3
Price-BV (x)				18.0	11.4	10.1	8.5	6.9	5.7
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.5	132.5	176.6	219.3
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.3	80.4	33.3	24.1
Price-Earnings (x)				88.6	69.9	83.5	46.3	34.7	28.0
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	10.0	13.3	17.7	22.0
Dividend Yield (%)				0.1	0.2	0.2	0.2	0.3	0.4

E: MOFSL Estimates

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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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