

Bajaj Finance

Estimate change

TP change

Rating change



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| | |
|-----------------------|-------------|
| Bloomberg | BAF IN |
| Equity Shares (m) | 600 |
| M.Cap.(INRb)/(USD\$b) | 3583.9 / 48 |
| 52-Week Range (INR) | 6340 / 3009 |
| 1, 6, 12 Rel. Per (%) | -2/14/33 |
| 12M Avg Val (INR M) | 17507 |

Financials & Valuations (INR b)

| Y/E March | 2021 | 2022E | 2023E |
|--------------|-------|-------|-------|
| Net Income | 172.7 | 199.2 | 246.3 |
| PPP | 119.6 | 138.9 | 173.8 |
| PAT | 44.2 | 70.8 | 101.4 |
| EPS (INR) | 73.5 | 117.7 | 168.6 |
| EPS Gr. (%) | -16.3 | 60.2 | 43.3 |
| BV/Sh. (INR) | 606 | 712 | 863 |

Ratios

| | | | |
|---------------|------|------|------|
| NIM (%) | 9.5 | 10.0 | 10.0 |
| C/I ratio (%) | 30.7 | 30.3 | 29.4 |
| RoA (%) | 2.6 | 3.8 | 4.5 |
| RoE (%) | 12.8 | 17.9 | 21.4 |
| Payout (%) | 13.6 | 10.0 | 10.0 |

Valuations

| | | | |
|----------------|------|------|------|
| P/E (x) | 80.8 | 50.5 | 35.2 |
| P/BV (x) | 9.8 | 8.3 | 6.9 |
| Div. Yield (%) | 0.2 | 0.2 | 0.3 |

Shareholding pattern (%)

| As On | Jun-21 | Mar-21 | Jun-20 |
|----------|--------|--------|--------|
| Promoter | 56.0 | 56.1 | 56.2 |
| DII | 9.3 | 9.1 | 10.1 |
| FIIFIIII | 24.2 | 24.2 | 21.5 |
| Others | 10.4 | 10.6 | 12.2 |

FII Includes depository receipts

CMP: INR5,938 TP: INR6,750(+14%)
Buy

Asset quality and growth show transitory pain; return ratios remain high

- Bajaj Finance (BAF)'s 1QFY22 PAT was up 4% YoY / down 26% QoQ to ~INR10b (27% miss). While NII at INR37b (5% miss) was up 12% YoY, opex was largely in-line. Provisions came in at INR17.5b v/s our estimate of INR15b. The company aggressively wrote off ~INR9.2b worth of loans and kept COVID overlay provisions at INR4.8b, leading to high provisions.
- The GNPL ratio increased from 1.8% to 2.96% QoQ. BAF wrote off ~INR9.2b (60bp of AUM). PCR declined to 51% (down ~710bp QoQ) on GS3 and 174bps on GS1&2. BAF utilized COVID-related overlay of INR3.6b in 1QFY22, with the COVID management overlay declining to INR4.8b. Net slippage was high at ~INR30b (2% of AUM) as the company did not restructure a large number of loans in one-time restructuring (OTR) 2.0.
- Barring any new COVID disruption, we expect BAF to deliver ~21% AUM growth in FY22E and a 25% CAGR thereafter. We expect margin improvement with a) lower negative carry as excess liquidity normalizes, b) decline in Cost of Funds from a borrowing mix change, and c) the asset mix shifting toward high-yielding assets. We keep our credit cost for FY22E largely unchanged at 2.6% and marginally increase it for FY23E. We cut our estimate for FY22/FY23 by 11%/5% to factor in lower NII. **We estimate ~4.8% RoA / 23% RoE over the medium term. BAF's return ratios have not only been consistent but are also the highest in our Coverage Universe (ex-gold financiers). Given the strong recovery in Jul'21 and the healthy progress made in the digital transformation program (including wallets/payments), we reiterate Buy, with Target Price of INR6,750 (7x 1HFY24 BV).**

Customer acquisition healthy; AUM growth to revert to pre-COVID levels

- In 1QFY22, BAF acquired ~1.9m new customers and booked 4.63m new loans. Despite the COVID lockdowns, new customer additions are in line with the company guidance of a 7–8m annual addition run-rate of new customers.
- AUM grew 4% QoQ to INR1.59t (15% YoY). The loan mix changed in favor of commercial loans (short-term IPO financing of ~INR30b) with lower disbursements in consumer B2B due to the lockdowns.
- The management is positive about delivering healthy AUM growth in FY22 (quarterly AUM growth similar to pre-COVID levels) – provided there are no new large-scale lockdowns due to another COVID wave.

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Excess liquidity starts to normalize; CoF may see further benefit

- BAF reduced the excess liquidity on its balance sheet to INR108.6b (~8% of borrowing v/s ~12.5% QoQ). Further benefit is expected on cost of funds, led by normalization in the liquidity buffer and a change in the borrowing mix (increased CP proportion). Spreads (calculated) declined ~115bp QoQ to 10.5% on lower yield on AUM (down 120bp QoQ), weighed by higher interest reversals of INR4.6b (INR2.98b QoQ) on stressed loans. Cost of funds (reported) declined ~30bp QoQ to 7.1%.
- The share of bank borrowings declined 100bp to 31%, offset by 100bp gains in the share of deposits (21%). The total deposits book grew ~39% YoY to INR280b, and the share of retail deposits remained stable QoQ at 77%.

Forward flows into GS2/GS3, with RBI OTR pool at INR13b (0.8%)

- **GS3 loans increased ~120bp QoQ to ~3.0%, with PCR of 51%. Write-offs stood at ~INR9.2b.** The non-overdue OTR book stood at INR12.9b. BAF has provision cover of ~18% on the OTR book.
- Non-OTR Stage 2 assets stood at ~INR61b, against which there is an ECL provision of INR14b (23%).
- The average EMI bounce rate in 1QFY22 was approximately 1.08x 4QFY21. The bounce rate for Jul'21 has improved to 0.96x 4QFY21. Jul'21 has been marginally better than even Mar'21.
- The management guided that it would endeavor to deliver GNPA of 1.7–1.8% and NNPA of 0.7–0.8% by Mar'22. This would translate into credit costs of INR42–43b in FY22.

Highlights from management commentary

- The Auto Finance (AF) segment was the most impacted and contributed to the large portion of asset quality deterioration during the quarter. Auto Finance is collateralized lending, wherein the asset can be repossessed. Hence, if there are no more lockdowns, it expects to be able to claw back the asset quality in the AF segment. Even in this segment, the bigger stress is seen in the 3W business (30% of the AF business), which has been more severely impacted.
- Very few requests have been reported under OTR 2.0 thus far. Bounce rates plunged in Jun/Jul'21, resulting in fewer OTR requests under RBI OTR 2.0.

Other highlights

- Core AUM growth in 1QFY22 stood at ~INR41b (excluding INR29.8b of IPO Financing), largely on account of urban and rural B2B businesses dialing down. **In the absence of a third wave, BAF expects the quarterly AUM growth rate for the remainder of the year to be at pre-COVID levels.**
- BAF would apply to the RBI for the Payment Aggregator (PA) and Bharat Billpay Operating Unit (BBPOU) licenses.
- **Consumer App:** This would go live in Oct–Nov'21. **Merchant One App:** Phase 1 would go live in Jan'21. This is the new version of the retail EMI avatar. **Insurance/Investment marketplace:** This would go live by 31st Oct'21.

Valuation and view

Despite the transitory deterioration in asset quality and resultant high credit costs, 1QFY22 was a decent quarter for BAF. Customer acquisitions and new loans booked were healthy even in a pandemic-disrupted quarter. COVID-related disruptions are known unknowns, and the quantum of impact on disbursements / asset quality is difficult to ascertain. In the context of the strong recovery seen in Jul'21, we expect BAF to be able to deliver pre-COVID levels of quarterly run-rate in AUM growth for the remainder of FY22. Provided there is no new COVID wave, we expect BAF to contain credit costs at ~2.6% in FY22. Margins are likely to see a sharp improvement in FY22 on a) lower cost of funds, b) reduced liquidity, and c) a favorable base due to interest reversals. We update our estimates to factor in the underperformance in 1QFY22 and expect BAF to deliver ~4.8% RoA / 23% RoE over the medium term. Given the positive outlook, we maintain our BUY rating with TP of INR6,750 per share (7x 1HFY24E BVPS).

Quarterly performance (INR m)

| Y/E March | FY21 | | | | FY22E | | | | FY21 | FY22 | 1QFY22E | Act V/s Est |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|-------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 57,932 | 57,631 | 57,225 | 60,343 | 59,542 | 62,519 | 66,896 | 70,468 | 2,33,034 | 2,59,425 | 60,947 | -2 |
| Interest expenses | 24,976 | 23,581 | 23,627 | 21,956 | 22,536 | 23,324 | 24,490 | 25,341 | 94,140 | 95,691 | 21,846 | 3 |
| Net Interest Income | 32,956 | 34,050 | 33,598 | 38,388 | 37,007 | 39,195 | 42,405 | 45,126 | 1,38,894 | 1,63,733 | 39,101 | -5 |
| YoY Growth (%) | 10.3 | 8.4 | -7.1 | 2.2 | 12.3 | 15.1 | 26.2 | 17.6 | 2.9 | 17.9 | 18.6 | |
| Other Operating Income | 8,565 | 7,568 | 9,360 | 8,206 | 7,888 | 8,436 | 9,045 | 10,091 | 33,797 | 35,460 | 7,745 | 2 |
| Net Income | 41,521 | 41,618 | 42,958 | 46,594 | 44,895 | 47,631 | 51,450 | 55,218 | 1,72,691 | 1,99,194 | 46,846 | -4 |
| YoY Growth (%) | 12.4 | 4.1 | -5.3 | -0.5 | 8.1 | 14.4 | 19.8 | 18.5 | 2.1 | 15.3 | 12.8 | |
| Operating Expenses | 11,567 | 11,559 | 13,896 | 16,060 | 13,733 | 14,449 | 15,633 | 16,447 | 53,082 | 60,262 | 13,302 | 3 |
| Operating Profit | 29,954 | 30,059 | 29,062 | 30,534 | 31,162 | 33,183 | 35,817 | 38,770 | 1,19,608 | 1,38,932 | 33,544 | -7 |
| YoY Growth (%) | 24.7 | 14.9 | -3.2 | -5.5 | 4.0 | 10.4 | 23.2 | 27.0 | 6.3 | 16.2 | 12.0 | |
| Provisions and Cont. | 16,857 | 17,004 | 13,517 | 12,308 | 17,503 | 12,000 | 9,000 | 4,754 | 59,686 | 43,257 | 15,000 | 17 |
| Profit before Tax | 13,097 | 13,055 | 15,545 | 18,226 | 13,659 | 21,183 | 26,817 | 34,016 | 59,923 | 95,675 | 18,544 | -26 |
| Tax Provisions | 3,474 | 3,406 | 4,085 | 4,760 | 3,634 | 5,496 | 6,961 | 8,785 | 15,724 | 24,875 | 4,810 | -24 |
| Net Profit | 9,623 | 9,649 | 11,460 | 13,466 | 10,025 | 15,687 | 19,856 | 25,231 | 44,198 | 70,799 | 13,734 | -27 |
| YoY Growth (%) | -19.5 | -35.9 | -29.0 | 42.0 | 4.2 | 62.6 | 73.3 | 87.4 | -16.0 | 60.2 | 42.7 | |
| Key Operating Parameters (%) | | | | | | | | | | | | |
| Fees to Net Income Ratio | 20.6 | 18.2 | 21.8 | 17.6 | 17.6 | 17.7 | 17.6 | 18.3 | 19.6 | 17.8 | | |
| Credit Cost | 4.93 | 5.15 | 4.01 | 3.46 | 4.67 | 3.06 | 2.17 | 1.08 | 4.10 | 2.64 | | |
| Cost to Income Ratio | 27.9 | 27.8 | 32.3 | 34.5 | 30.6 | 30.3 | 30.4 | 29.8 | 30.7 | 30.3 | | |
| Tax Rate | 26.5 | 26.1 | 26.3 | 26.1 | 26.6 | 25.9 | 26.0 | 25.8 | 26.2 | 26.0 | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| AUM (INR B) | 1,381 | 1,371 | 1,436 | 1,529 | 1,591 | 1,654 | 1,770 | 1,851 | 1,529 | 1,851 | | |
| Change YoY (%) | 7.1 | 1.1 | -1.1 | 3.9 | 15.2 | 20.7 | 23.3 | 21.0 | 3.9 | 21.0 | | |
| Borrowings (INR B) | 1,211 | 1,249 | 1,242 | 1,316 | 1,333 | 1,395 | 1,493 | 1,561 | 1,316 | 1,561 | | |
| Change YoY (%) | 8.0 | 4.5 | 1.7 | 1.4 | 10.1 | 11.7 | 20.2 | 18.6 | 1.4 | 18.6 | | |
| Loans/Borrowings (%) | 109.3 | 105.5 | 111.1 | 111.4 | 114.9 | 115.0 | 115.0 | 114.9 | 111.4 | 114.9 | | |
| Asset Quality Parameters (%) | | | | | | | | | | | | |
| GS 3 (INR B) | 19.4 | 14.4 | 41.9 | 27.3 | 47.4 | | | | 27.3 | 33.8 | | |
| Gross Stage 3 (% on Assets) | 1.40 | 1.34 | 2.86 | 1.79 | 2.96 | | | | 1.79 | 1.84 | | |
| NS 3 (INR B) | 6.8 | 5.2 | 17.6 | 11.4 | 23.1 | | | | 11.4 | 13.5 | | |
| Net Stage 3 (% on Assets) | 0.50 | 0.56 | 1.22 | 0.75 | 1.46 | | | | 0.77 | 0.74 | | |
| PCR (%) | 64.9 | 64.3 | 58.0 | 58.4 | 51.3 | | | | 58.4 | 60.0 | | |
| Return Ratios (%) | | | | | | | | | | | | |
| ROAA (Rep) | 2.8 | 2.8 | 3.6 | 3.6 | 2.8 | | | | 2.6 | 3.8 | | |
| ROAE (Rep) | 11.6 | 11.6 | 13.2 | 14.8 | 10.8 | | | | 12.8 | 17.9 | | |

Source: MOFSL, Company



Highlights from management commentary

Opening remarks

- BAF was adversely affected by the second wave. The business as well as debt management efficiencies were impacted by strict lockdowns across the country. **However, the business transformation program continued, with Phase 1 on track to go live in Oct'21.**
- Core AUM growth was ~INR41b in 1QFY22 (excluding INR29.8b of IPO Financing), largely on account of urban and rural B2B businesses dialing down. **In the absence of a third wave, BAF expects the quarterly AUM growth rate for the remainder of the year to be at pre-COVID levels.**

Asset quality

- The Auto Finance (AF) segment was the most impacted and contributed to the large portion of asset quality deterioration during the quarter. Auto Finance is collateralized lending, wherein the asset can be repossessed. Hence, if there are no more lockdowns, it expects to be able to claw back the asset quality in the AF segment.
- The repossession (ability) of collateral in auto and mortgage loans led to lower PCR despite rising GNPA.
- Secured assets constituted 74% of NNPA, of which auto finance was INR14.2b and mortgages were INR2.9b.
- Even in the AF segment, the bigger stress is seen in the 3W business (30% of the AF business), which has been more severely impacted by COVID – of the INR115b AF book, the 3W business constitutes INR40b. Customers in this segment were impacted during the first wave as well, but this did not reflect as much due to the moratorium.
- **Write-offs stood at INR9.5b.**
- **It has guided to deliver GNPA of 1.7–1.8% (by end-FY22) and NNPA of 0.7–0.8%. It expects credit costs for FY22 at INR42–43b to deliver the guided GNPA/NNPA.**
- Bounce rate is indicative of default. Even a Stage 3 customer is banked, and a higher bounce rate in NACH data reflects bounce from an S3 customer as well.
- The GS2 increase in rural/urban sales finance is reasonably high. The fundamental difference between sales finance and other segments is that it churns very rapidly.

Bounce rates

- The average EMI bounce rate in 1QFY22 was approximately 1.08x 4QFY21.
- The bounce rate for Jul'21 has improved to 0.96x 4QFY21. Jul'21 looks marginally better than even Mar'21.

OTR

- **The non-OTR book stood at INR12.9b (v/s INR17.4b QoQ).** This was either the result of paydown or movement to Stage 2 / Stage 3. All OTR loans are classified under Stage 2. The company holds an ECL provision of INR2.35b (18.3%) against the OTR book.
- There have been very few requests for OTR thus far. Bounce rates have gone down, resulting in fewer OTR requests under RBI OTR 2.0.

- The majority of OTR assets are in mortgages (INR6.75b) and INR4b is in urban sales finance.

Liquidity and CoF

- It expects a reduction in cost of funds as the liquidity buffer and borrowing basket (the addition of CP in the borrowing mix) are reinstated to pre-COVID levels.

Wallet business

- It launched the Wallet business on 1st Jul'21 and has already on-boarded 320k customers. It expects to on-board over 5m customers for this business in FY22.
- It expects a cash burn of INR75–100 per client in warming up a customer to a wallet account.
- The current focus is not on acquiring new customers. It expects to achieve a 1.6–1.7m customer addition run-rate every month.
- **Full-KYC customers:** For the majority of customers, the wallet is opened at POS (70% at POS and 30% at home). As the customer has completed their full KYC, BAF is able to open a full KYC PPI wallet for the customer.
- Voucher management frame will be the core heft on the wallet prepaid payment instrument (PPI) for BAF. It expects to be able to originate vouchers from merchants and make the merchants participate in its wallet journey.
- The wallet offering is currently targeted largely towards existing customers. With EMI Card / Credit card / UPI / PPI / Rewards as currency (rewards would go live by Jan/Feb) as the payment instruments, BAF is headed towards a **single checkout page strategy. This would create stickiness of the customer.**
- **No institution currently offers a structured reward management framework in India. Customer acquisition is easy. However, the problem lies with customer engagement. As a result, BAF's entire digital transformation strategy is focused on resolving this problem.**
- BAF currently lacks the licenses for high-frequency payment transactions by the customer and aims to eventually offer **full-stack payment services**. In this regard, it would apply to the RBI for the PA and BBPOU licenses.
- The Payments business will be a full-fledged offering of the company. It will roll-out QR-based payment solutions with all 4 instruments viz EMI Card, credit card, UPI and Wallet (PPI); POS QR will also be rolled out subsequently.
- **BAF plans to roll out offline POS as well, but this would take time. It first aims to deliver the consumer app in Oct'21 and the merchant app and QR in Jan'22.**
- **Bajaj Finserv RBL Credit Card already offers the convenience to burn Reward points at the various points of sale.**

E-stores

- E-store mode of customer acquisition is now faring reasonably well. 120k loans were sourced from e-store in 1QFY22. It expects to source 150k accounts every quarter by Oct/Nov'21.
- **Partner One App (Consumer App):** This would go live in Oct/Nov'21.
- **Merchant One App:** Phase 1 would go live in Jan'21. This is the new version of the retail EMI avatar.
- **Insurance/Investment marketplace:** This would go live by 31st Oct'21.

Payments business

- BAF would apply to the RBI for the Payment Aggregator (PA) and Bharat Billpay Operating Unit (BBPOU) licenses.

Fintech play with merchant partnerships

- OEMs such as Samsung are looking forward to increasing their direct customer reach. BAF is working closely with manufacturers to help them reach customers directly. Customers use EMI/credit cards to transact directly on the OEM platform.
- Consumers use the BAF EMI Card as a payment instrument on the Amazon/Flipkart platform. As BAF increases its partnerships with merchants, the adoption of the EMI card would improve further.
- **MakeMyTrip, EaseMyTrip, and professional courses:** On aggregator platforms, the EMI card is used as a payment instrument.

Flexi loans

- No conversion of term loans to flexi loans was seen during the quarter.

Distribution

- It expanded to 125 new locations, including 50 financial inclusion locations. It added 49 new branches across existing locations, including 25 standalone branches for the distribution of gold loans and 24 dedicated branches for FDs.

EMI cards

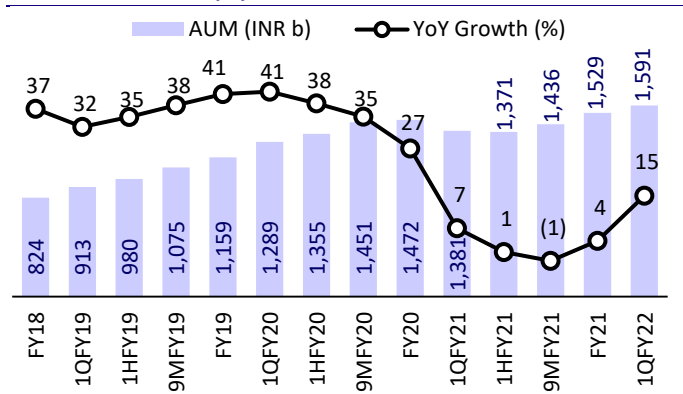
- EMI cards in force: 24MM
- **Retail EMI Cards (REMI) business:** Capped at 50k accounts a month (from earlier 150K accounts a month); ticket size up to INR14–15k (from earlier levels of INR8–9k)

BFSL

- BFSL has started warming up to retail and HNI clients. It had 95,000+ retail and HNI customers as of 30 Jun'21. It acquired 52,500+ customers in 1QFY22.

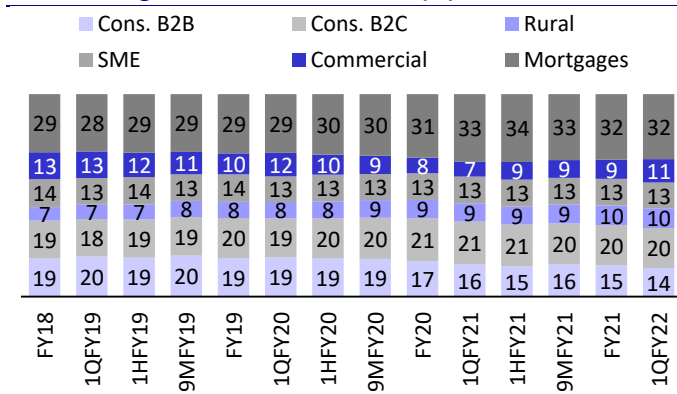
Key exhibits

Exhibit 1: AUM growth impacted by lower business volumes due to lockdowns (%)



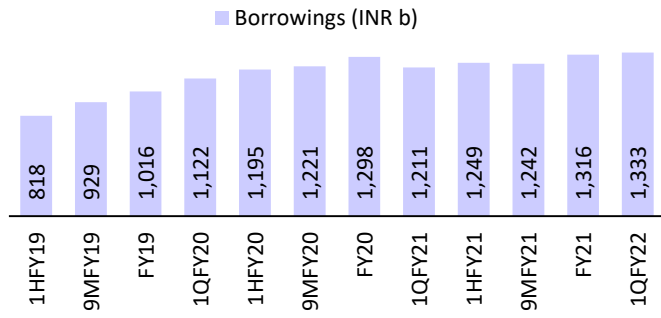
Source: MOFSL, Company

Exhibit 2: Increase in proportion of Commercial in AUM mix, with slowing down of consumer B2B (%)



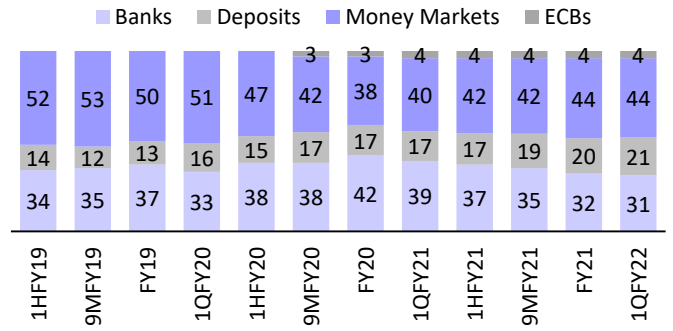
Source: MOFSL, Company

Exhibit 3: Lower incremental cost of borrowings leads to decline in CoF



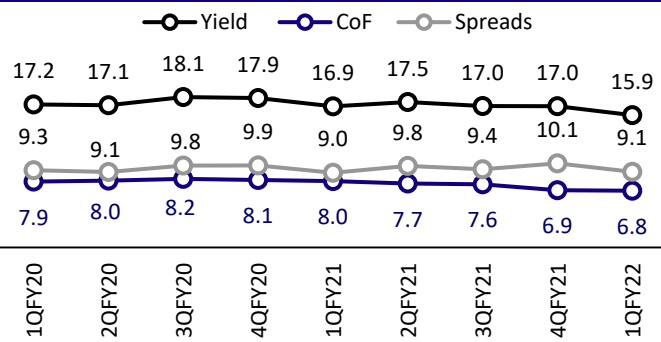
Source: MOFSL, Company

Exhibit 4: Share of deposits in borrowings up 138bp QoQ (%)



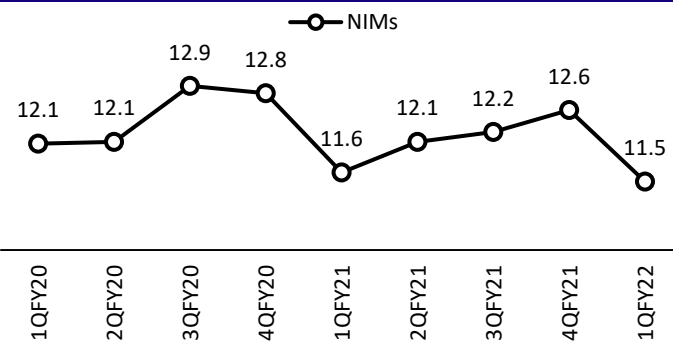
Source: MOFSL, Company

Exhibit 5: Spreads on loans (cal.) down ~100bp QoQ in part due to interest reversals on NPA (%)



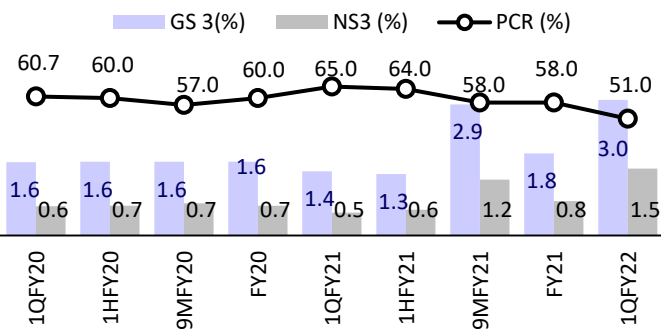
Source: MOFSL, Company

Exhibit 6: Margins (cal.) down 105bps QoQ, although negative carry down sequentially (%)



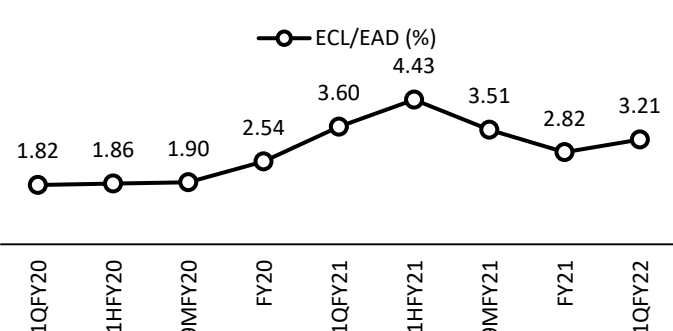
Source: MOFSL, Company

Exhibit 7: Asset quality deterioration leads to PCR decline



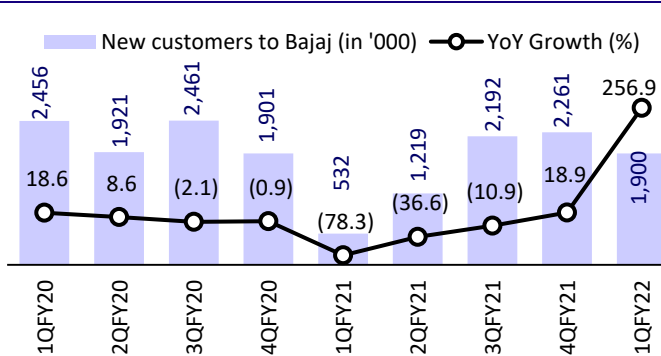
Source: MOFSL, Company; Note: Without SC dispensation, GNPA ratio would be 1.8%

Exhibit 8: Total ECL provisions at ~3.2% of EAD



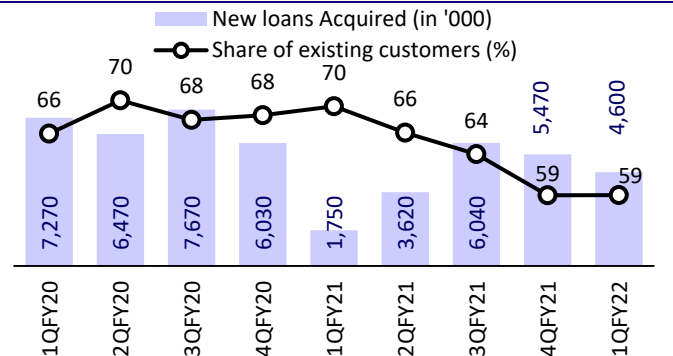
Source: MOFSL, Company

Exhibit 9: Decent new customer additions amid pandemic-disrupted quarter



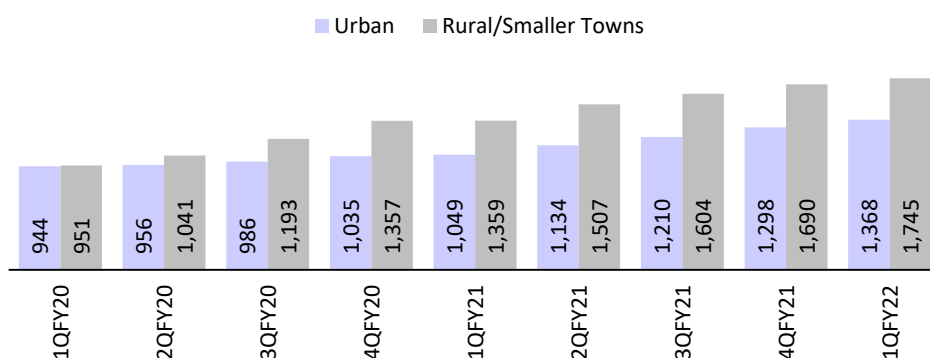
Source: MOFSL, Company

Exhibit 10: Share of existing customers in new loans booked stable at 59%



Source: MOFSL, Company

Exhibit 11: Trend in branch expansions



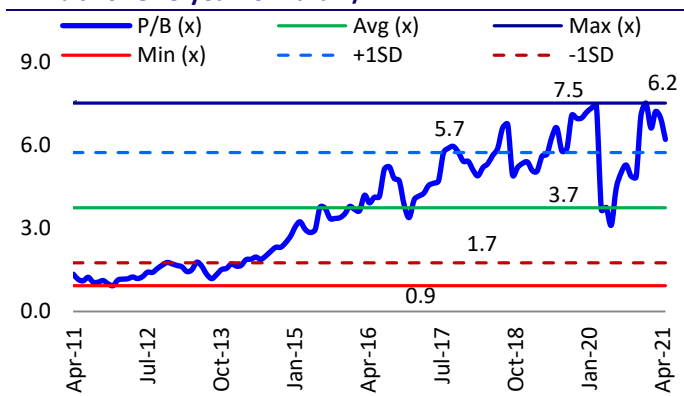
Source: MOFSL, Company

Exhibit 12: 11%/5% cut in our FY22E/FY23E EPS estimate, led by low NII growth and moderately higher credit cost

| INR B | Old Est. | | | New Est. | | | % Change | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| | FY22 | FY23 | FY24 | FY22 | FY23 | FY24 | FY22 | FY23 | FY24 |
| NII | 175.9 | 207.8 | 255.5 | 163.7 | 201.8 | 255.6 | -6.9 | -2.9 | 0.0 |
| Other operating Income | 35.0 | 42.8 | 52.6 | 35.3 | 44.3 | 53.8 | 0.8 | 3.5 | 2.4 |
| Other Income | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.3 | | | |
| Total Income | 211.1 | 250.9 | 308.3 | 199.2 | 246.3 | 309.7 | -5.6 | -1.8 | 0.4 |
| Operating Expenses | 60.3 | 72.5 | 89.0 | 60.3 | 72.5 | 89.0 | 0.0 | 0.0 | 0.0 |
| Operating Profits | 150.8 | 178.3 | 219.3 | 138.9 | 173.8 | 220.6 | -7.9 | -2.5 | 0.6 |
| Provisions | 43.1 | 34.7 | 41.0 | 43.3 | 36.7 | 40.8 | 0.5 | 5.7 | -0.4 |
| PBT | 107.7 | 143.6 | 178.3 | 95.7 | 137.1 | 179.8 | -11.2 | -4.6 | 0.9 |
| Tax | 28.0 | 37.3 | 46.4 | 24.9 | 35.6 | 46.7 | -11.2 | -4.6 | 0.9 |
| PAT | 79.7 | 106.3 | 131.9 | 70.8 | 101.4 | 133.0 | -11.2 | -4.6 | 0.9 |
| Loans | 1,765 | 2,206 | 2,758 | 1,795 | 2,244 | 2,804 | 1.7 | 1.7 | 1.7 |
| Borrowings | 1,536 | 1,886 | 2,331 | 1,561 | 1,918 | 2,370 | 1.7 | 1.7 | 1.7 |
| RoA | 4.3 | 4.7 | 4.8 | 3.8 | 4.5 | 4.8 | | | |
| RoE | 19.9 | 22.0 | 22.3 | 17.9 | 21.4 | 23.0 | | | |

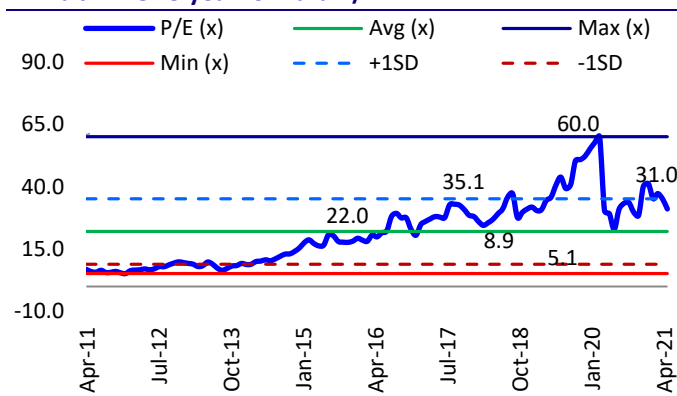
Source: MOFSL, Company

Exhibit 13: One-year forward P/B



Source: MOFSL, Company

Exhibit 14: One-year forward P/E



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 | 259.4 | 327.9 | 416.4 |
| Interest Expended | 29.3 | 38.0 | 46.1 | 66.2 | 94.7 | 94.1 | 95.7 | 126.1 | 160.8 |
| Net Interest Income | 36.2 | 49.0 | 69.7 | 97.3 | 135.0 | 138.9 | 163.7 | 201.8 | 255.6 |
| Change (%) | 37.0 | 35.4 | 42.2 | 39.5 | 38.8 | 2.9 | 17.9 | 23.2 | 26.7 |
| Other Operating Income | 7.5 | 12.7 | 11.6 | 21.4 | 34.0 | 33.6 | 35.3 | 44.3 | 53.8 |
| 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 | 199.2 | 246.3 | 309.7 |
| Change (%) | 39.0 | 40.7 | 31.3 | 45.9 | 42.4 | 2.1 | 15.3 | 23.7 | 25.7 |
| 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 | 138.9 | 173.8 | 220.6 |
| Change (%) | 44.0 | 45.0 | 34.1 | 57.6 | 46.5 | 6.3 | 16.2 | 25.1 | 27.0 |
| Provisions and W/Offs | 5.4 | 8.2 | 10.3 | 15.0 | 39.3 | 59.7 | 43.3 | 36.7 | 40.8 |
| PBT | 19.6 | 28.2 | 38.4 | 61.8 | 73.2 | 59.9 | 95.7 | 137.1 | 179.8 |
| Tax | 6.9 | 9.8 | 13.5 | 21.8 | 20.6 | 15.7 | 24.9 | 35.6 | 46.7 |
| 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 | 70.8 | 101.4 | 133.0 |
| Change (%) | 42.4 | 43.6 | 35.9 | 60.0 | 31.8 | -16.0 | 60.2 | 43.3 | 31.2 |
| Proposed Dividend | 1.6 | 2.5 | 2.8 | 4.3 | 7.3 | 6.0 | 7.1 | 10.1 | 13.3 |

| 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 | 426.9 | 518.2 | 637.9 |
| Net Worth | 74.3 | 90.5 | 158.6 | 197.0 | 324.2 | 364.4 | 428.1 | 519.4 | 639.1 |
| 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 | 426.9 | 518.2 | 637.9 |
| Change (%) | 54.7 | 21.9 | 75.1 | 24.3 | 64.1 | 12.3 | 17.5 | 21.4 | 23.1 |
| Borrowings | 370.2 | 508.9 | 665.6 | 1,015.9 | 1,298.1 | 1,316.5 | 1,561.5 | 1,918.2 | 2,369.7 |
| Change (%) | 38.7 | 37.5 | 30.8 | 52.6 | 27.8 | 1.4 | 18.6 | 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 | 2,029.4 | 2,483.5 | 3,061.8 |
| 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 | 1,794.8 | 2,243.5 | 2,804.4 |
| Change (%) | 40.5 | 28.7 | 41.8 | 42.1 | 25.6 | 3.9 | 21.0 | 25.0 | 25.0 |
| Other assets | 21.1 | 14.1 | 16.6 | 19.2 | 40.5 | 48.0 | 50.6 | 56.0 | 73.5 |
| Total Assets | 469.7 | 619.4 | 848.0 | 1,242.3 | 1,643.9 | 1,715.3 | 2,029.4 | 2,483.5 | 3,061.8 |

E: MOFSL Estimates

Financials and valuations

| Ratios | (%) | | | | | | | | |
|---------------------------------|-------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|
| Y/E MARCH | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022E | 2023E | 2024E |
| Spreads Analysis (%) | | | | | | | | | |
| Yield on Advances | 17.5 | 17.4 | 17.0 | 16.9 | 17.9 | 16.0 | 15.4 | 15.8 | 16.0 |
| Cost of borrowings | 9.2 | 8.7 | 7.9 | 7.9 | 8.2 | 7.2 | 6.7 | 7.3 | 7.5 |
| Interest Spread | 8.3 | 8.7 | 9.1 | 9.0 | 9.7 | 8.8 | 8.7 | 8.5 | 8.5 |
| Net Interest Margin | 9.7 | 9.8 | 10.2 | 10.0 | 10.5 | 9.5 | 10.0 | 10.0 | 10.1 |
| Profitability Ratios (%) | | | | | | | | | |
| Cost/Income | 43.1 | 41.4 | 40.1 | 35.3 | 33.5 | 30.7 | 30.3 | 29.4 | 28.8 |
| 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 | 17.9 | 21.4 | 23.0 |
| RoA | 3.2 | 3.4 | 3.4 | 3.8 | 3.6 | 2.6 | 3.8 | 4.5 | 4.8 |
| Asset Quality (%) | | | | | | | | | |
| GNPA | 5.4 | 9.8 | 11.6 | 18.0 | 23.6 | 27.3 | 33.8 | 41.2 | 50.8 |
| NNPA | 1.2 | 2.6 | 3.5 | 7.3 | 9.4 | 11.4 | 13.5 | 16.5 | 20.3 |
| GNPA % | 1.2 | 1.7 | 1.4 | 1.6 | 1.6 | 1.8 | 1.8 | 1.8 | 1.8 |
| NNPA % | 0.3 | 0.5 | 0.4 | 0.6 | 0.7 | 0.8 | 0.7 | 0.7 | 0.7 |
| PCR % | 77.2 | 74.0 | 69.6 | 59.7 | 60.3 | 58.4 | 60.0 | 60.0 | 60.0 |
| Capitalisation (%) | | | | | | | | | |
| CAR | 19.5 | 19.5 | 24.0 | 20.7 | 25.0 | 28.3 | 25.3 | 24.5 | 24.0 |
| Tier I | 16.1 | 13.3 | 18.4 | 16.3 | 21.3 | 25.1 | 23.0 | 22.7 | 22.6 |
| Tier II | 3.4 | 6.2 | 5.5 | 4.4 | 3.7 | 3.2 | 2.3 | 1.8 | 1.3 |
| Average Leverage on Assets (x) | 6.5 | 6.6 | 5.9 | 5.9 | 5.5 | 4.9 | 4.7 | 4.8 | 4.8 |
| Valuation | | | | | | | | | |
| Book Value (INR) | 138.7 | 165.5 | 275.7 | 341.4 | 540.3 | 605.7 | 711.6 | 863.3 | 1,062.4 |
| Price-BV (x) | | | | | 11.1 | 9.9 | 8.4 | 6.9 | 5.6 |
| EPS (INR) | 23.9 | 33.6 | 43.4 | 69.3 | 87.7 | 73.5 | 117.7 | 168.6 | 221.2 |
| EPS Growth (%) | 33.0 | 40.7 | 29.2 | 59.6 | 26.7 | -16.3 | 60.2 | 43.3 | 31.2 |
| Price-Earnings (x) | | | | | 68.1 | 81.4 | 50.8 | 35.5 | 27.0 |
| Dividend per Share (INR) | 2.5 | 3.6 | 4.0 | 6.0 | 10.0 | 10.0 | 11.8 | 16.9 | 22.1 |
| Dividend Yield (%) | | | | | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 |

| 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 |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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