

Shriram City Union Finance

Estimate change



TP change



Rating change



| | |
|-----------------------|------------|
| Bloomberg | SCUF IN |
| Equity Shares (m) | 66 |
| M.Cap.(INRb)/(USD\$b) | 67.2 / 0.9 |
| 52-Week Range (INR) | 1472 / 617 |
| 1, 6, 12 Rel. Per (%) | -2/30/-38 |
| 12M Avg Val (INR M) | 44 |

Financials & Valuations (INR b)

| Y/E March | 2020 | 2021E | 2022E |
|--------------|-------|-------|-------|
| NII | 35.6 | 34.6 | 37.1 |
| PPP | 22.4 | 22.6 | 24.6 |
| PAT | 10.0 | 9.6 | 12.0 |
| EPS (INR) | 152 | 146 | 182 |
| EPS Gr. (%) | 1 | -4 | 25 |
| BV/Sh. (INR) | 1,092 | 1,231 | 1,392 |

Ratios

| | | | |
|---------------|------|------|------|
| NIM (%) | 12.1 | 11.9 | 12.4 |
| C/I ratio (%) | 40.3 | 37.4 | 36.9 |
| RoA (%) | 3.3 | 3.1 | 3.7 |
| RoE (%) | 14.7 | 12.6 | 13.9 |
| Payout (%) | 4.8 | 4.9 | 11.9 |

Valuations

| | | | |
|----------------|-----|-----|-----|
| P/E (x) | 6.7 | 7.0 | 5.6 |
| P/BV (x) | 0.9 | 0.8 | 0.7 |
| Div. Yield (%) | 0.6 | 0.6 | 1.8 |

Shareholding pattern (%)

| As On | Dec-20 | Sep-20 | Dec-19 |
|----------|--------|--------|--------|
| Promoter | 34.6 | 34.6 | 33.9 |
| DII | 3.9 | 35.9 | 5.9 |
| FII | 28.0 | 27.1 | 27.4 |
| Others | 33.5 | 2.5 | 32.8 |

FII Includes depository receipts

CMP: INR1,018

TP: INR1,400 (+38%)

Buy

Strong performance on asset quality; disbursements recover

PAT beat due to lower credit costs

- SCUF posted 3QFY21 PAT of INR2.8b (-6% YoY; 45% beat). While NII stood at INR8.8b (in line), lower-than-expected credit costs (INR1.8b v/s our estimate of INR3b) led to the beat. Total 3QFY21 credit costs include INR5.9b worth of COVID-19 provisions.
- The quarter was characterized by a healthy pickup in disbursements and strong performance on asset quality.

Disbursements double sequentially; AUM up ~4% QoQ

- In 3QFY21, disbursements doubled across most products sequentially and were 6% higher on a YoY basis. As a result, AUM grew 4% QoQ to INR285b.
- As MSME financing has taken a back seat in the past few quarters, its share has declined ~350bp to 54% over the past year. In the HFC segment, loan book grew ~50% YoY to INR31.4b. GNPL ratio increased 20bp QoQ to 2.4% (excluding the impact of the SC order).

Strong performance on asset quality

- Excluding the impact of the SC order on NPL classification, the GS 3 ratio improved 20bp QoQ to 6.5%. The management, however, reversed some provisions in 3QFY21. The total provision buffer declined INR320m QoQ to INR20.9b. SCUF holds 4.2% provisions against Stage 1,2 loans and 53% provisions against Stage 3 loans. Cumulative provisioning of 7.4% of loans is the highest in our NBFC coverage universe.
- Cost of funds has stabilized at 9.1-9.2% over the past two quarters. Calculated yields (on AUM) stands at 19.6% (+30bp QoQ), with spreads at 10.7% (+70bp QoQ). SCUF has ~INR35b liquidity on its Balance Sheet (15% of borrowings).

Key highlights from the concall

- Collection efficiency stood at 98% in 3QFY21 (v/s 96-97% prior to the COVID-19 outbreak). Collections against monthly billing would be 77-78%.
- Stage 2 loans – 3QFY20: 13%, 4QFY20 to 2QFY21: 5%, and 3QFY21: -7%.

Other highlights

- Branch count is down to 930 branches from 947 branches QoQ.
- Tier I ratio stands ~30%. C/ I ratio at 39% is up 300bp sequentially.

Valuation and view

Since the IL&FS crisis, the company has faced issues on the liability front, which has led to muted disbursements and loan book growth. However, the situation is gradually improving. Better availability of debt capital has led to acceleration in disbursements on a YoY basis. In FY22, disbursement should be largely back to normal levels, though, we expect it to be a bit lower in MSME financing. Performance on the asset quality front has exceeded expectations – we now expect run-rate credit costs in FY22E/FY23E. We increase our FY22E/FY23E EPS estimates by 7-10% to factor in stronger growth and normalized credit costs. Maintain Buy with a TP of INR1,400/share (0.9x FY23E BVPS).

Research Analyst: Piran Engineer (Piran.Engineer@MotilalOswal.com) | Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)

Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Divya Maheshwari (Divya.Maheshwari@motilalosal.com)

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Quarterly performance

| Y/E March | FY20 | | | | FY21 | | | | FY20 | FY21 | 3QFY21E | INR m Actual v/s est. (%) |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|---------------------------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | | |
| Interest Income | 14,449 | 14,361 | 14,174 | 13,988 | 13,899 | 13,698 | 13,980 | 14,173 | 56,972 | 55,750 | 13,630 | 2.6 |
| Interest expenses | 5,316 | 5,359 | 5,296 | 5,497 | 5,375 | 5,190 | 5,215 | 5,390 | 21,402 | 21,170 | 5,190 | 0.5 |
| Net Interest Income | 9,134 | 9,002 | 8,877 | 8,490 | 8,525 | 8,508 | 8,765 | 8,783 | 35,570 | 34,580 | 8,440 | 3.8 |
| YoY Growth (%) | -1.3 | -7.8 | -0.6 | -5.3 | -6.7 | -5.5 | -1.3 | 3.4 | -3.6 | -2.8 | -4.9 | |
| Fees and Other Income | 423 | 541 | 525 | 514 | 246 | 293 | 414 | 568 | 1,901 | 1,521 | 450 | -7.9 |
| Net Operating Income | 9,557 | 9,543 | 9,402 | 9,004 | 8,771 | 8,801 | 9,179 | 9,350 | 37,471 | 36,101 | 8,890 | 3.2 |
| YoY Growth (%) | 2.1 | -6.5 | 1.7 | -3.9 | -8.2 | -7.8 | -2.4 | 3.8 | -1.9 | -3.7 | -5.5 | |
| Operating Expenses | 3,783 | 3,799 | 3,675 | 3,861 | 3,105 | 3,182 | 3,577 | 3,624 | 15,084 | 13,488 | 3,313 | 8.0 |
| Operating Profit | 5,774 | 5,744 | 5,727 | 5,143 | 5,666 | 5,619 | 5,602 | 5,726 | 22,387 | 22,613 | 5,577 | 0.5 |
| YoY Growth (%) | 1.6 | -8.0 | 2.3 | -10.4 | -1.9 | -2.2 | -2.2 | 11.3 | -3.8 | 1.0 | -2.6 | |
| Provisions | 1,933 | 1,969 | 1,822 | 3,114 | 3,102 | 2,015 | 1,755 | 2,543 | 8,837 | 9,414 | 3,000 | -41.5 |
| Profit before Tax | 3,841 | 3,775 | 3,905 | 2,029 | 2,564 | 3,604 | 3,847 | 3,183 | 13,550 | 13,199 | 2,577 | 49.3 |
| Tax Provisions | 1,309 | 800 | 937 | 498 | 642 | 1,035 | 1,050 | 836 | 3,545 | 3,564 | 649 | 61.8 |
| Net Profit | 2,532 | 2,975 | 2,968 | 1,531 | 1,923 | 2,569 | 2,797 | 2,347 | 10,005 | 9,635 | 1,928 | 45.1 |
| YoY Growth (%) | 10.3 | 19.3 | 14.7 | -39.1 | -24.1 | -13.7 | -5.7 | 53.3 | 1.2 | -3.7 | -35.0 | |
| Key Operating Parameters (%) | | | | | | | | | | | | |
| Yield on loans (calc.) | 19.3 | 19.1 | 19.1 | 19.1 | 19.3 | 19.6 | 19.9 | 19.8 | 19.7 | 19.6 | | |
| Cost of funds (calc.) | 9.5 | 9.8 | 9.8 | 9.7 | 9.6 | 9.6 | 9.2 | 9.2 | 9.4 | 9.1 | | |
| Spreads | 9.8 | 9.3 | 9.4 | 9.4 | 9.7 | 10.0 | 10.7 | 10.5 | 10.4 | 10.5 | | |
| Cost to Income Ratio | 39.6 | 39.8 | 39.1 | 42.9 | 35.4 | 36.2 | 39.0 | 38.8 | 40.3 | 37.4 | | |
| Credit cost (calc.) | 2.6 | 2.6 | 2.5 | 4.2 | 4.3 | 2.9 | 2.5 | 0.0 | 3.0 | 3.3 | | |
| Tax Rate | 34.1 | 21.2 | 24.0 | 24.6 | 25.0 | 28.7 | 27.3 | 26.3 | 26.2 | 27.0 | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| Disbursements (INR b) | 62.8 | 52.0 | 58.2 | 54.2 | 13.3 | 30.6 | 62.0 | 53.9 | 227.1 | 159.7 | | |
| Growth (%) | -2.1 | -19.6 | 27.0 | -18.1 | -78.9 | -41.1 | 6.5 | -0.5 | -5.7 | -29.7 | | |
| AUM (INR b) | 303.5 | 297.2 | 295.5 | 290.9 | 284.5 | 275.4 | 285.5 | 288.5 | 290.9 | 288.5 | | |
| Growth (%) | 4.5 | 0.5 | 3.1 | -1.7 | -6.3 | -7.4 | -3.4 | -0.8 | -1.7 | -0.8 | | |
| Repayments (INR b) | 55.1 | 58.3 | 60.0 | 58.8 | 19.7 | 39.7 | 51.9 | 50.9 | 232.1 | 162.1 | | |
| Rep. rate (annualized, %) | 74.4 | 76.8 | 80.7 | 79.6 | 27.0 | 55.8 | 75.4 | 71.3 | 78.5 | 55.7 | | |
| Borrowings/AUM ratio (%) | 73.2 | 72.0 | 74.6 | 79.6 | 76.2 | 79.1 | 81.9 | 81.0 | 79.6 | 81.0 | | |
| Asset Quality Parameters (%) | | | | | | | | | | | | |
| Gross Stage 3 (INR b) | 26.5 | 25.2 | 24.6 | 22.6 | 20.5 | 18.2 | 18.3 | | 22.6 | 22.6 | | |
| Gross Stage 3 ratio | 8.9 | 8.7 | 8.5 | 7.9 | 7.3 | 6.7 | 6.5 | | 7.9 | 8.4 | | |
| Net Stage 3 (INR b) | 15.0 | 14.2 | 13.9 | 11.7 | 10.2 | 8.3 | 8.7 | | 11.7 | 10.1 | | |
| Net Stage 3 ratio | 5.4 | 5.3 | 5.1 | 4.4 | 3.9 | 3.3 | 3.3 | | 4.4 | 3.8 | | |
| ECL Stage 3 (INR b) | 11.5 | 10.9 | 10.7 | 11.0 | 10.3 | 9.9 | 9.7 | | 11.0 | 12.6 | | |
| PCR (%) | 43.4 | 43.5 | 43.6 | 48.5 | 50.4 | 54.3 | 52.7 | | 48.5 | 55.5 | | |
| Segmental GS3 ratio (%) | | | | | | | | | | | | |
| SME loans | 9.3 | 9.0 | 8.9 | 8.3 | 7.8 | 7.5 | 7.4 | | | | | |
| Two-wheeler | 9.4 | 9.1 | 8.9 | 8.1 | 6.8 | 5.9 | 5.8 | | | | | |
| Gold loans | 2.3 | 2.8 | 3.4 | 4.4 | 4.4 | 3.5 | 3.0 | | | | | |
| Personal Loans | 11.3 | 10.9 | 11.0 | 11.1 | 11.7 | 10.9 | 10.7 | | | | | |
| Auto loans | 11.78 | 12.1 | 9.1 | 5.4 | 0 | 0.0 | 0.0 | | | | | |
| Return ratios (Cumulative, Rep. %) | | | | | | | | | | | | |
| RoA | 3.4 | 3.8 | 4.0 | 2.0 | 2.5 | 2.9 | 3.1 | | 3.3 | 3.1 | | |
| RoE | 15.4 | 16.7 | 17.1 | 8.6 | 10.5 | 12.1 | 12.9 | | 14.7 | 12.6 | | |
| Others | | | | | | | | | | | | |
| CRAR (%) | 22.62 | 24.4 | 25.3 | 27.7 | 28.8 | 30.1 | 29.6 | | | | | |
| Shriram HFC AUM (INR b) | 19.3 | 18.8 | 21.0 | 23.0 | 23.7 | 27.2 | 31.4 | | | | | |



Highlights from the management commentary

Business updates

- The management expects healthy disbursements in 2W financing in 4QFY21.
- SCUF rolled out Gold Loans in some branches in North India. It will gradually roll it out across India in coming quarters.
- **The company is targeting mid-teen AUM growth in FY22.**
- Its HFC subsidiary would look to raise INR3-4b in capital. It has not yet decided whether SCUF would invest or whether it would bring in a PE investor.
- Around 30% disbursements are to existing customers who have repaid earlier loans. Top-up loans constitute less than 2% of disbursements.

Asset quality

- The management has approved the restructuring of loans worth INR1.5b.
- The company has disbursed INR655m under ECLGS so far.
- The HFC subsidiary has restructured INR500m worth of loans. Collection efficiency stands at 97% on billing and over 100% including arrears.
- **Collection efficiency stood at 98% in 3QFY21 (v/s 96-97% prior to the COVID-19 outbreak). In Dec'20, SCUF collected INR20b against billings of INR20.4b. In 3QFY21, it collected INR61b on billings of INR62b.**
- **Collections against monthly billing would be 77-78%, similar to pre-COVID levels.**
- CE across products is 94-100% (2W stands at 94%).
- **Stage 2 loans – 3QFY20: 13%, 4QFY20 to 2QFY21: 5%, and 3QFY21: -7%. The management said this number should be largely stable give or take 1-2%. Currently, 4%/3% of loans are in the 30-60dpd/60-90dpd bucket.**
- Write-off policy: It is done on a case-by-case basis. SCUF wrote-off INR2.1b in 3QFY21.
- The management expects 2.7-2.8% credit costs going forward.
- It sees personal loan NPLs declining going forward.

Funding

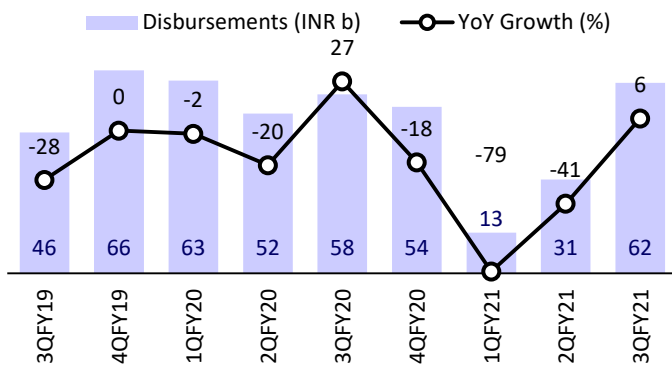
- Average tenure of borrowings raised in 3QFY21 was 36 months.
- Around 4% of fixed deposits are raised online. This feature was introduced in Aug'20.
- The management expect 5-10bp reduction in the cost of funds in 4QFY21. Incremental CoF is 8.8%

Others

- Over 70% of its 2W customers are self-employed.
- The management expects yields to remain stable at 20%.
- Typically, SCUF ends up collecting 15-20% of loans written off in the past.
- HFC loan mix – HL: 63%, home improvement: 4%, CF: 3%, and LAP: 29%. Average ticket size – CF: INR100-120m, HL: INR2-2.2m, and LAP: INR2.5m.
- Around 30% of collections are in cash (v/s 40% prior to the COVID-19 outbreak).

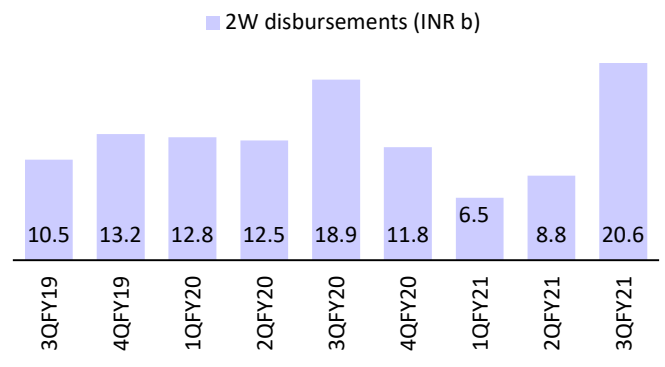
Key exhibits

Exhibit 1: Disbursements recover to YoY levels



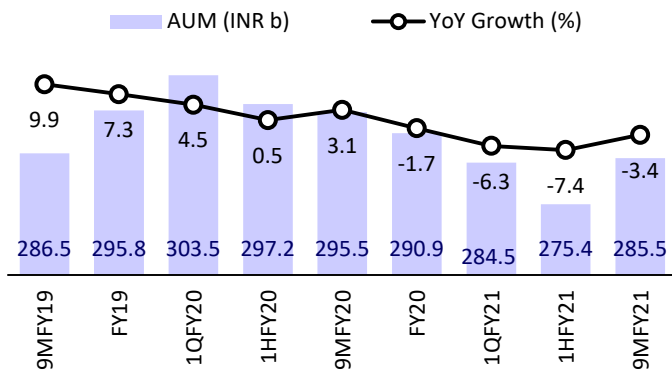
Source: MOFSL, Company

Exhibit 2: 2W disbursements rise due to the festive season



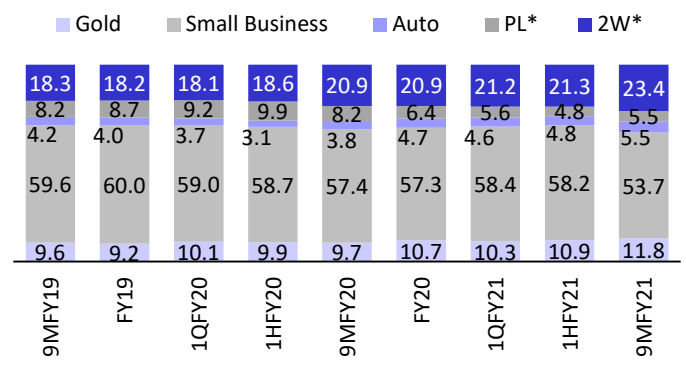
Source: MOFSL, Company

Exhibit 3: AUM down 3% YoY



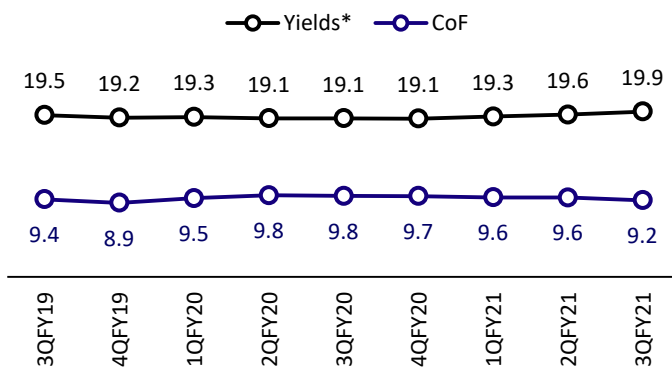
Source: MOFSL, Company

Exhibit 4: Share of SME down ~450bp sequentially (%)



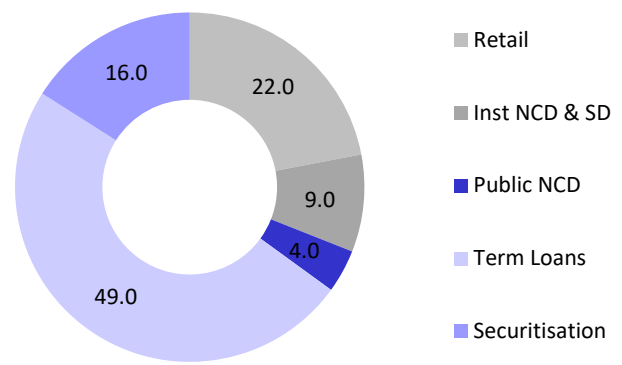
Source: MOFSL, Company, PL : Personal loan, 2W two wheeler

Exhibit 5: Spreads improve ~68bp QoQ (%)



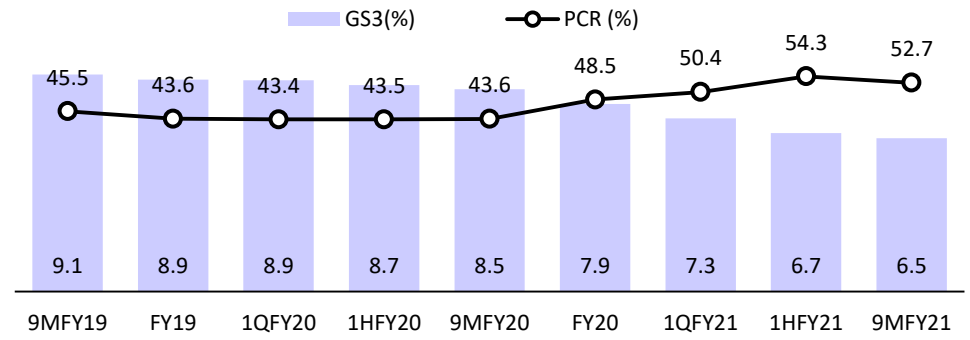
Source: MOFSL, Company,*on AUM

Exhibit 6: Borrowing mix (%)



Source: MOFSL, Company

Exhibit 7: Improving asset quality



Source: MOFSL, Company

Exhibit 8: Improvement in SME/2W asset quality (%)

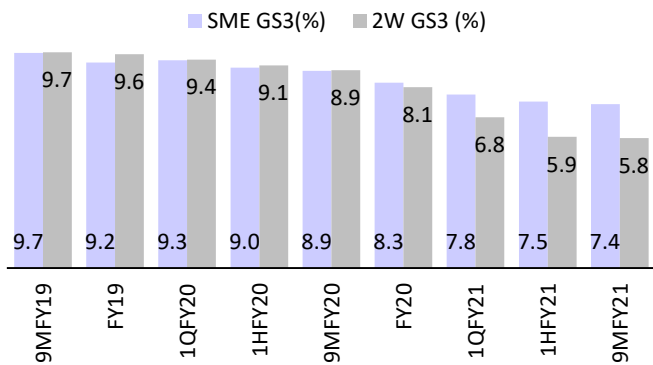


Exhibit 9: Credit cost now at 2.5% of AUM

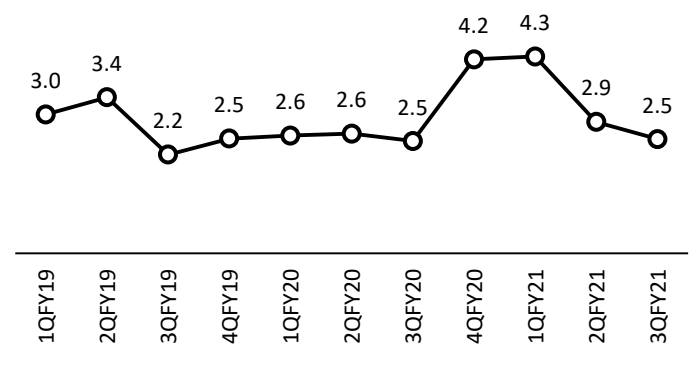
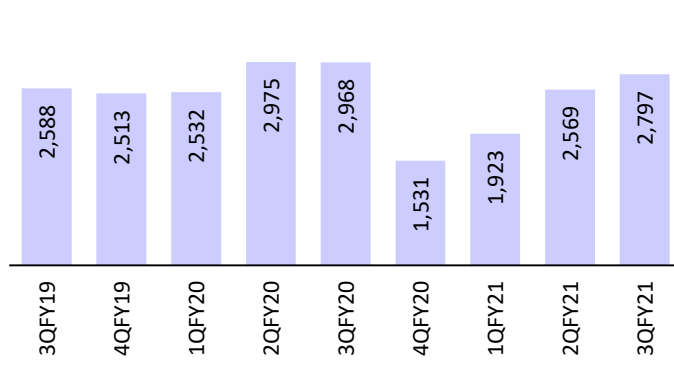
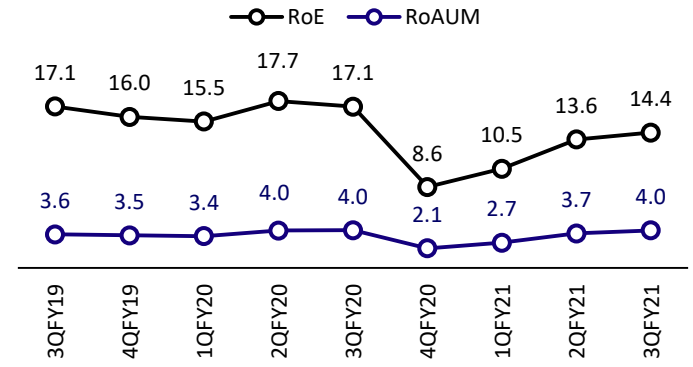


Exhibit 10: Trend in PAT (INR m)



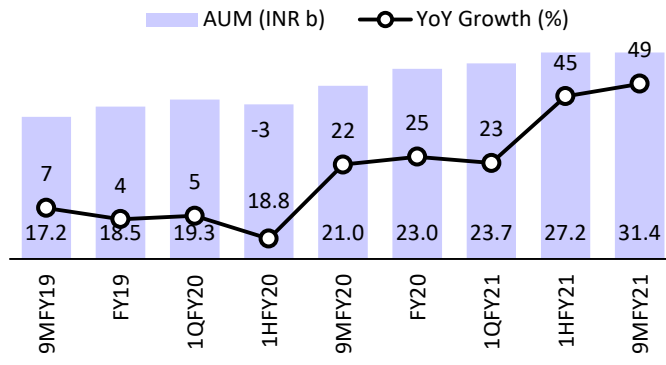
Source: MOFSL, Company

Exhibit 11: Profitability improves due to better topline (%)



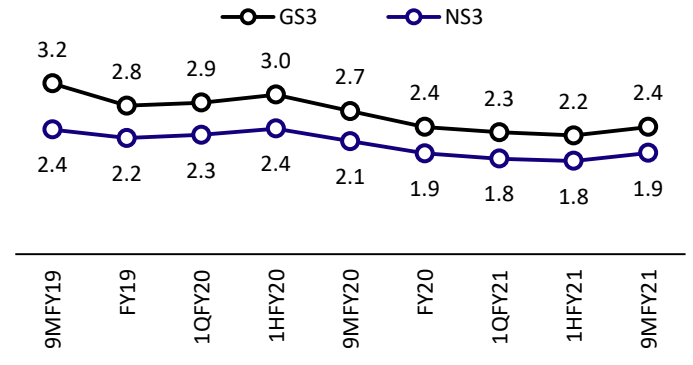
Source: MOFSL, Company

Exhibit 12: AUM growth picks up for HFC subsidiary



Source: MOFSL, Company

Exhibit 13: Asset quality in HFC subsidiary stabilizes (%)



Source: MOFSL, Company

Valuation and view

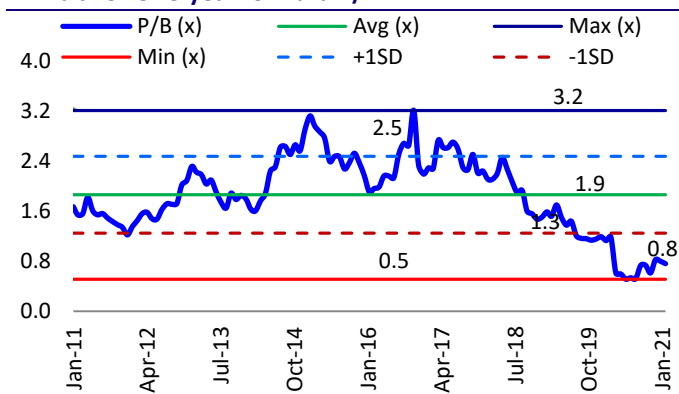
- Over the past two years, SCUF has overhauled its MSME underwriting model. It has standardized its sourcing and underwriting process across regions. This has started to reflect in improving asset quality trends. Over the past two years, the GNPL ratio has declined to 6.5% from 8.5%.
- Since the IL&FS crisis, the company has faced issues on the liability front. It has increased its securitization program to improve funding and kept more liquidity on its Balance Sheet.
- Tightness in liquidity has led to muted disbursements and loan book growth. Total AUM has been rangebound ~INR300b for the past 7-8 quarters. There are early signs of a recovery. **We forecast 7%/13% AUM growth in FY22E/FY23E.**
- Asset quality has been improving over the past few quarters. **Given the encouraging collection efficiency trend and adequate provisioning on the Balance Sheet, we expect credit cost to normalize to 2.7-2.8% in FY22E/FY23E.**
- We increase our FY22E/FY23E EPS estimates by 7-10% to factor in stronger growth and normalized credit costs. Maintain Buy with a TP of INR1,400/share (0.9x FY23E BVPS).

Exhibit 14: Upgrade EPS estimates by 7-10% to factor in higher growth and normalized credit costs

| INR b | Old estimate | | | New estimate | | | Change (%) | | |
|-------------------------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|------------|
| | FY21 | FY22 | FY23 | FY21 | FY22 | FY23 | FY21 | FY22 | FY23 |
| NII | 34.0 | 34.9 | 38.7 | 34.6 | 37.1 | 42.3 | 1.8 | 6.3 | 9.1 |
| Other Income | 1.5 | 1.9 | 2.4 | 1.5 | 1.9 | 2.4 | 0.0 | 0.0 | 0.0 |
| Total Income | 35.5 | 36.8 | 41.1 | 36.1 | 39.0 | 44.6 | 1.7 | 6.0 | 8.6 |
| Operating Expense | 13.1 | 13.7 | 14.7 | 13.5 | 14.4 | 15.7 | 3.3 | 5.2 | 7.0 |
| Operating Profit | 22.4 | 23.1 | 26.4 | 22.6 | 24.6 | 28.9 | 0.8 | 6.4 | 9.4 |
| Provisions | 11.0 | 8.4 | 7.8 | 9.4 | 8.4 | 8.9 | -14.8 | -1.0 | 13.4 |
| PBT | 11.4 | 14.7 | 18.6 | 13.2 | 16.3 | 20.0 | 15.9 | 10.7 | 7.7 |
| Tax | 2.9 | 3.7 | 4.7 | 3.6 | 4.2 | 5.2 | 24.2 | 14.2 | 11.1 |
| PAT | 8.5 | 11.0 | 13.9 | 9.6 | 12.0 | 14.8 | 13.1 | 9.5 | 6.6 |
| Loans | 256 | 267 | 293 | 268 | 287 | 324 | 4.6 | 7.5 | 10.8 |
| Borrowings | 226 | 222 | 234 | 234 | 236 | 256 | 3.4 | 6.2 | 9.4 |
| Margin | 12.0 | 12.4 | 12.9 | 11.9 | 12.4 | 12.9 | | | |
| Credit Cost | 3.9 | 3.0 | 2.6 | 3.3 | 2.8 | 2.7 | | | |
| RoA | 2.8 | 3.6 | 4.3 | 3.1 | 3.7 | 4.3 | | | |
| RoE | 11.2 | 12.9 | 14.5 | 12.6 | 13.9 | 15.1 | | | |

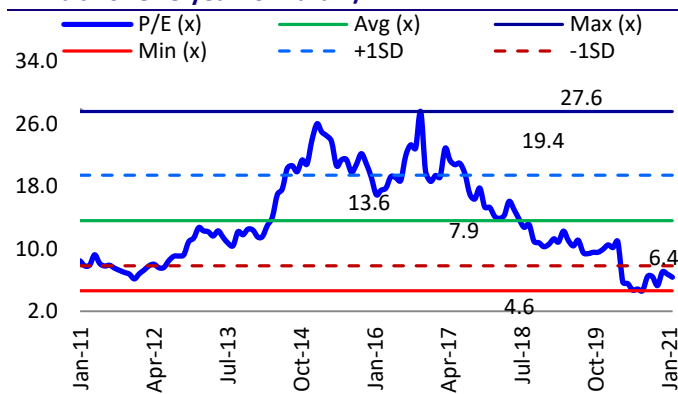
Source: MOFSL, Company

Exhibit 15: One-year forward P/B



Source: MOFSL, Company

Exhibit 16: One-year forward P/E



Source: MOFSL, Company

Valuation matrix

| | Rating | CMP (INR) | M-cap (USD b) | P/E (x) | | | P/BV (x) | | | RoA (%) | | | RoE (%) | | |
|------------------------|---------|--------------|------------------|---------|-------|-------|----------|-------|-------|---------|-------|-------|---------|-------|-------|
| | | | | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| HFCs | | | | | | | | | | | | | | | |
| HDFC* | Buy | 2,378 | 57.2 | 22.8 | 16.8 | 12.1 | 2.6 | 2.0 | 1.5 | 1.8 | 1.9 | 1.9 | 12.5 | 12.6 | 12.9 |
| LICHF | Buy | 396 | 2.7 | 6.6 | 6.1 | 5.8 | 1.0 | 0.9 | 0.8 | 1.3 | 1.3 | 1.3 | 15.8 | 15.1 | 14.1 |
| PNBHOUSI | Neutral | 335 | 0.8 | 5.3 | 4.7 | 3.8 | 0.6 | 0.6 | 0.5 | 1.4 | 1.5 | 1.8 | 12.6 | 12.8 | 14.2 |
| AAVAS | Neutral | 1,808 | 2.0 | 51.1 | 41.6 | 32.6 | 6.0 | 5.2 | 4.5 | 3.3 | 3.4 | 3.8 | 12.4 | 13.4 | 14.8 |
| CANF | Buy | 481 | 0.9 | 13.6 | 13.3 | 11.9 | 2.5 | 2.1 | 1.8 | 2.2 | 2.1 | 2.1 | 19.9 | 17.2 | 16.4 |
| REPCO | Buy | 244 | 0.2 | 5.2 | 4.9 | 4.5 | 0.7 | 0.7 | 0.6 | 2.4 | 2.3 | 2.4 | 15.2 | 14.0 | 13.7 |
| Vehicle Finance | | | | | | | | | | | | | | | |
| SHTF | Buy | 1,292 | 3.5 | 12.7 | 10.5 | 9.0 | 1.5 | 1.3 | 1.2 | 2.2 | 2.5 | 2.7 | 12.9 | 13.4 | 13.8 |
| MMFS | Buy | 155 | 1.4 | 21.3 | 16.7 | 10.8 | 1.2 | 1.2 | 1.1 | 1.2 | 1.4 | 2.0 | 6.7 | 7.2 | 10.5 |
| CIFC | Buy | 397 | 4.6 | 19.6 | 16.3 | 13.1 | 3.4 | 2.8 | 2.4 | 2.4 | 2.7 | 3.1 | 18.6 | 18.8 | 19.6 |
| Diversified | | | | | | | | | | | | | | | |
| BAF | Neutral | 4,736 | 39.6 | 64.7 | 32.2 | 25.4 | 7.8 | 6.4 | 5.2 | 2.6 | 4.8 | 5.0 | 12.8 | 21.9 | 22.7 |
| SCUF | Buy | 1,018 | 0.9 | 7.9 | 6.1 | 4.8 | 0.8 | 0.7 | 0.7 | 2.8 | 3.6 | 4.3 | 11.2 | 12.9 | 14.5 |
| LTFH | Buy | 86 | 2.3 | 18.4 | 8.0 | 5.7 | 1.1 | 1.0 | 0.9 | 0.8 | 1.9 | 2.4 | 6.4 | 13.5 | 16.5 |
| INDOSTAR | Neutral | 328 | 0.5 | 97.8 | 26.8 | 17.9 | 1.0 | 1.0 | 0.9 | 0.4 | 1.4 | 2.3 | 1.3 | 3.8 | 5.4 |
| MASFIN | Buy | 879 | 0.7 | 30.7 | 25.6 | 21.5 | 4.3 | 3.8 | 3.4 | 3.5 | 4.1 | 4.2 | 14.9 | 15.9 | 16.7 |
| Gold Finance | | | | | | | | | | | | | | | |
| MUTH | Buy | 1,106 | 6.1 | 12.5 | 10.6 | 9.0 | 3.1 | 2.5 | 2.1 | 6.6 | 7.0 | 7.2 | 27.3 | 26.2 | 25.0 |
| MGFL | Buy | 156 | 1.8 | 8.0 | 6.5 | 5.6 | 1.8 | 1.5 | 1.2 | 5.3 | 5.9 | 6.1 | 25.5 | 25.3 | 24.1 |
| Wholesale | | | | | | | | | | | | | | | |
| PIEL | Buy | 1,312 | 4.0 | 11.9 | 10.2 | 8.9 | 1.0 | 0.9 | 0.9 | 0.0 | 0.0 | 0.0 | 8.4 | 9.4 | 10.0 |
| ABCAP | Buy | 81 | 2.7 | 9.0 | 8.4 | 5.9 | 0.9 | 0.7 | 0.5 | 1.6 | 1.4 | 1.5 | 10.6 | 8.7 | 8.9 |
| Capital Markets | | | | | | | | | | | | | | | |
| IIFL Wealth | Buy | 1,016 | 1.2 | 26.0 | 20.4 | 16.4 | 2.9 | 2.7 | 2.6 | 21.2 | 21.7 | 22.8 | 11.2 | 13.8 | 16.3 |
| ISEC | Buy | 408 | 1.8 | 13.6 | 13.5 | 12.5 | 8.8 | 7.3 | 6.2 | 0.0 | 0.0 | 0.0 | 71.3 | 59.3 | 53.8 |

Financials and valuations

| Income Statement | | | | | | | | (INR m) |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Interest Income | 37,065 | 43,344 | 50,112 | 54,457 | 54,692 | 54,178 | 56,756 | 62,314 |
| Interest Expense | 13,834 | 15,344 | 16,677 | 19,862 | 21,402 | 21,170 | 21,122 | 21,657 |
| Net Financing income | 23,231 | 28,000 | 33,435 | 34,595 | 33,290 | 33,008 | 35,635 | 40,657 |
| Change (%) | 18.1 | 20.5 | 19.4 | 3.5 | -3.8 | -0.8 | 8.0 | 14.1 |
| Other income | 658 | 452 | 246 | 2,107 | 2,279 | 1,572 | 1,464 | 1,611 |
| Fee and Other Income | 250 | 549 | 658 | 1,249 | 1,901 | 1,521 | 1,901 | 2,377 |
| Total Income | 24,139 | 29,001 | 34,339 | 37,951 | 37,471 | 36,101 | 39,000 | 44,645 |
| Change (%) | 12.6 | 20.1 | 18.4 | 10.5 | -1.3 | -3.7 | 8.0 | 14.5 |
| Employee Cost | 5,132 | 5,503 | 7,035 | 8,379 | 8,477 | 7,459 | 7,982 | 8,780 |
| Other Operating Exp. | 5,362 | 5,857 | 6,588 | 6,548 | 6,607 | 6,028 | 6,393 | 6,950 |
| Operating Income | 13,645 | 17,642 | 20,715 | 23,024 | 22,387 | 22,613 | 24,625 | 28,915 |
| Change (%) | 9.2 | 29.3 | 17.4 | 11.1 | -2.8 | 1.0 | 8.9 | 17.4 |
| Total Provisions | 5,577 | 9,105 | 10,537 | 7,821 | 8,837 | 9,414 | 8,363 | 8,878 |
| % to operating income | 40.9 | 51.6 | 50.9 | 34.0 | 39.5 | 41.6 | 34.0 | 30.7 |
| PBT | 8,068 | 8,536 | 10,178 | 15,203 | 13,550 | 13,199 | 16,262 | 20,036 |
| Tax | 2,771 | 2,976 | 3,531 | 5,314 | 3,545 | 3,564 | 4,228 | 5,209 |
| Tax Rate (%) | 34.3 | 34.9 | 34.7 | 35.0 | 26.2 | 27.0 | 26.0 | 26.0 |
| PAT | 5,298 | 5,561 | 6,647 | 9,889 | 10,005 | 9,635 | 12,034 | 14,827 |
| Change (%) | -5.1 | 5.0 | 19.5 | 48.8 | 1.2 | -3.7 | 24.9 | 23.2 |
| Proposed Dividend | 989 | 989 | 1,187 | 1,188 | 396 | 396 | 1,188 | 1,452 |

| Balance Sheet | | | | | | | | (INR m) |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Capital | 659 | 659 | 660 | 660 | 660 | 660 | 660 | 660 |
| Reserves and Surplus | 44,457 | 49,029 | 54,887 | 63,253 | 71,420 | 80,579 | 91,186 | 1,04,269 |
| Net Worth | 45,136 | 49,688 | 55,563 | 63,930 | 72,096 | 81,256 | 91,863 | 1,04,946 |
| Borrowings | 1,44,084 | 1,80,397 | 2,14,011 | 2,25,707 | 2,31,659 | 2,33,609 | 2,35,760 | 2,56,454 |
| Change (%) | 16.2 | 25.2 | 18.6 | 5.5 | 2.6 | 0.8 | 0.9 | 8.8 |
| Total Liabilities | 1,89,220 | 2,30,085 | 2,69,574 | 2,89,637 | 3,03,754 | 3,14,865 | 3,27,623 | 3,61,400 |
| Investments | 7,923 | 7,131 | 7,355 | 8,662 | 7,341 | 8,076 | 8,883 | 9,771 |
| Change (%) | -19.3 | -10.0 | 3.1 | 17.8 | -15.2 | 10.0 | 10.0 | 10.0 |
| Loans | 1,91,406 | 2,16,487 | 2,57,873 | 2,69,891 | 2,66,125 | 2,68,292 | 2,87,266 | 3,24,354 |
| Change (%) | 19.4 | 13.1 | 19.1 | 4.7 | -1.4 | 0.8 | 7.1 | 12.9 |
| Net Fixed Assets | 849 | 782 | 789 | 808 | 2,292 | 494 | 172 | -149 |
| Net Current Assets | -10,958 | 6,945 | 6,074 | 13,326 | 31,131 | 38,004 | 31,302 | 27,424 |
| Total Assets | 1,89,220 | 2,31,345 | 2,72,091 | 2,92,687 | 3,06,890 | 3,14,865 | 3,27,623 | 3,61,400 |

Financials and valuations

| Ratios | (%) | | | | | | | |
|------------------------------------|-------|-------|-------|-------|------------|------------|------------|------------|
| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Spreads Analysis (%) | | | | | | | | |
| Yield on loans | 20.7 | 21.0 | 20.9 | 20.2 | 19.7 | 19.6 | 19.4 | 19.3 |
| Cost of funds | 10.3 | 9.5 | 8.5 | 9.0 | 9.4 | 9.1 | 9.0 | 8.8 |
| Interest Spread | 10.4 | 11.5 | 12.5 | 11.2 | 10.4 | 10.5 | 10.4 | 10.5 |
| NIMs on AUM | 13.2 | 13.3 | 13.3 | 12.8 | 12.1 | 11.9 | 12.4 | 12.9 |
| Profitability Ratios (%) | | | | | | | | |
| RoE | 12.3 | 11.7 | 12.6 | 16.6 | 14.7 | 12.6 | 13.9 | 15.1 |
| RoA | 3.0 | 2.6 | 2.6 | 3.5 | 3.3 | 3.1 | 3.7 | 4.3 |
| Int. Expended/Int. Earned | 37.3 | 35.4 | 33.3 | 36.5 | 39.1 | 39.1 | 37.2 | 34.8 |
| Other Inc./Net Income | 3.8 | 3.5 | 2.6 | 8.8 | 11.2 | 8.6 | 8.6 | 8.9 |
| Efficiency Ratios (%) | | | | | | | | |
| Op. Exps./Net Income | 43.5 | 39.2 | 39.7 | 39.3 | 40.3 | 37.4 | 36.9 | 35.2 |
| Empl. Cost/Op. Exps. | 48.9 | 48.4 | 51.6 | 56.1 | 56.2 | 55.3 | 55.5 | 55.8 |
| Asset-Liability Profile (%) | | | | | | | | |
| Loans/Borrowings Ratio | 132.8 | 120.0 | 120.5 | 119.6 | 114.9 | 114.8 | 121.8 | 126.5 |
| Leverage | 4.2 | 4.7 | 4.9 | 4.6 | 4.3 | 3.9 | 3.6 | 3.4 |
| Average leverage | 4.1 | 4.4 | 4.8 | 4.7 | 4.4 | 4.1 | 3.7 | 3.5 |
| Valuations | | | | | | | | |
| Book Value (INR) | 685 | 754 | 842 | 969 | 1,092 | 1,231 | 1,392 | 1,590 |
| BV Growth (%) | 10.0 | 10.1 | 11.7 | 15.0 | 12.8 | 12.7 | 13.1 | 14.2 |
| Price-to-BV (x) | | | | | 0.9 | 0.8 | 0.7 | 0.6 |
| EPS (INR) | 80 | 84 | 101 | 150 | 152 | 146 | 182 | 225 |
| EPS Growth (%) | -5.1 | 5.0 | 19.5 | 48.7 | 1.2 | -3.7 | 24.9 | 23.2 |
| Price-to-Earnings (x) | | | | | 6.7 | 7.0 | 5.6 | 4.5 |
| DPS (INR) | 15.0 | 15.0 | 18.0 | 18.0 | 6.0 | 6.0 | 18.0 | 22.0 |
| Dividend Yield (%) | | | | | 0.6 | 0.6 | 1.8 | 2.2 |

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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