

December 14, 2021

## Event Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

|              | Current    |          | Previous   |          |
|--------------|------------|----------|------------|----------|
|              | FY23E      | FY24E    | FY23E      | FY24E    |
| Rating       | ACCUMULATE |          | ACCUMULATE |          |
| Target Price | 1,532      |          | 1,532      |          |
| NII (Rs.)    | 94,205     | 1,06,503 | 94,205     | 1,06,503 |
| % Chng.      | -          | -        | -          | -        |
| PPoP (Rs.)   | 72,579     | 81,711   | 72,579     | 81,711   |
| % Chng.      | -          | -        | -          | -        |
| EPS (Rs.)    | 137.4      | 154.5    | 137.4      | 154.5    |
| % Chng.      | -          | -        | -          | -        |

### Key Financials - Standalone

| Y/e Mar             | FY21   | FY22E  | FY23E  | FY24E    |
|---------------------|--------|--------|--------|----------|
| Net Int.Inc. (Rs m) | 83,662 | 86,191 | 94,205 | 1,06,503 |
| Growth (%)          | 1.0    | 3.0    | 9.3    | 13.1     |
| Op. Profit (Rs m)   | 63,964 | 65,930 | 72,579 | 81,711   |
| PAT (Rs m)          | 24,873 | 28,052 | 34,766 | 39,104   |
| EPS (Rs.)           | 103.6  | 110.8  | 137.4  | 154.5    |
| Gr. (%)             | (6.0)  | 6.9    | 23.9   | 12.5     |
| DPS (Rs.)           | 18.0   | 15.5   | 15.5   | 15.5     |
| Yield (%)           | 1.3    | 1.1    | 1.1    | 1.1      |
| Margin (%)          | 6.9    | 6.3    | 6.0    | 6.0      |
| RoAE (%)            | 12.6   | 12.2   | 13.3   | 13.1     |
| RoAA (%)            | 2.0    | 2.0    | 2.2    | 2.2      |
| PE (x)              | 13.4   | 12.5   | 10.1   | 9.0      |
| P/BV (x)            | 1.6    | 1.4    | 1.3    | 1.1      |
| P/ABV (x)           | 2.1    | 1.4    | 1.3    | 1.1      |

### Key Data

SRTR.BO | SHTF IN

|                     |                      |
|---------------------|----------------------|
| 52-W High / Low     | Rs.1,696 / Rs.918    |
| Sensex / Nifty      | 58,117 / 17,325      |
| Market Cap          | Rs.374bn / \$ 4,935m |
| Shares Outstanding  | 271m                 |
| 3M Avg. Daily Value | Rs.1960.52m          |

### Shareholding Pattern (%)

|                         |       |
|-------------------------|-------|
| Promoter's              | 25.58 |
| Foreign                 | 53.63 |
| Domestic Institution    | 14.86 |
| Public & Others         | 5.93  |
| Promoter Pledge (Rs bn) | -     |

### Stock Performance (%)

|          | 1M     | 6M     | 12M  |
|----------|--------|--------|------|
| Absolute | (14.7) | (6.3)  | 29.4 |
| Relative | (10.9) | (15.3) | 2.9  |

**Shweta Daptardar**

shwetadaptardar@plindia.com | 91-22-66322245

**Pravin Mule**

pravinmule@plindia.com | 91-22-66322257

## SHTF-SCUF Merger – mixed signals

*The merger of Shriram Capital (SCL) and Shriram City Union Finance (SCUF) into Shriram Transport Finance (SHTF) throws a mixed picture characterized by (a) tad expensive deal for SHTF (swap ratio SHTF:SCUF=1.55:1 v/s expectation of 1:1) (b) inclination largely towards providing exit to PE players (Piramal & TPG: post-merger holdings: 8.4%/2.7% resp) (c) key management changes (Mr Revankar to be VC and Mr Chakravarti MD of merged entity) (d) negligible commonality on product portfolios entailing higher costs & time and (e) challenges w.r.t business synergies, employee, culture and maintaining investor confidence.*

*However, on positive side this merger (a) removes long standing overhang on SHTF stock, alongside streamlining the whole structure (b) gives birth to one of the largest retail NBFCs (with combined: AUM:Rs1520bn, branches: 2796, employees:~50,000, customer base: 6.4mn, CAR: 24%, NPA:7%) (c) provides diversified loan mix with 74% of CV loan share and remainder for MSME, 2W, gold, HF, PL (d) reduces cost of funds (30-50bps) and potential rating upgrade and (e) leverages tech, cross sell & process improvements.*

*We expect the combined entity to report 20%+/11% YoY PAT growth, 13-14% RoE and 2.4-2.5% RoAs with SHTF witnessing ~300bps yields expansion translating into 27/25bps RoA accretion over FY23-24E. While the merger should help SHTF combat business cyclicality to an extent, SCUF benefits too w.r.t funding costs improvement as the Co. now will be eligible for ratings upgrade plus its valuations stand higher. While we closely monitor this merger sail through, the current valuations provide comfort (1.2x PABV Sep-23E) and we reiterate our 'Accumulate' stance on SHTF maintaining price target of Rs1,532.*

**Merger appears tad expensive for SHTF, benefits SCUF too:** SHTF will issue 1.55 shares for every 1 share of SCUF, something higher than anticipated with a swap ratio that offers 13% premium for acquiring SCUF shares. While the merger should help SHTF combat business cyclicality to an extent, yet merged entity would hold 74% vehicle finance portfolio. SCUF benefits w.r.t funding costs improvement, as the Co. now will be eligible for ratings upgrade plus its valuations stand higher too. Besides, the issue would translate into SCL shareholders getting 1 share of SHTF for every 1 share held by SCL in SHTF.

**Lucid Management structure with reduced complexities; Shriram Finance to be amongst top NBFCs:** Shriram Capital Ltd (SCL) and Shriram City Union Finance (SCUF) will merge with Shriram Transport Finance Company (SHTF) as part of restructuring. All the businesses will come under one listed entity and listing of holding company will provide exit to key shareholders like Piramal Enterprise Ltd (PEL) and TPG, who holds 20% in SCL, 9.96% in SCUF besides will hold 8.37% in the merged entity, thus removing overhang on valuations. The new entity will be rechristened into Shriram Finance Ltd (SFL) which will be one of the largest retail non-banking financial company (NBFC) in India with combined AUMs of Rs1520bn, branches at 2796, employees ~50,000, customer base of 6.4mn and CAR: 24%, & NPA:7%).

**Combined business to benefit from the merger:** Merger benefits to play out in nature of (1) AUMs: Creating one of the largest asset financing NBFC with combined AUM of Rs ~1520 bn which can grow at 13% CAGR over FY22E-24E (2) Diversified loan profile with CV business at 59% of AUM (VF constitutes 83% of total AUM), auto/MSME/ others accounting for 17%, 12% and 12% of AUM respectively. (3) Network: Creation of strong distribution network comprising of >3600 branches and ~50,000 employees which will support expansion and aid SCUF to leverage upon SHTF's rich urban-rural mix (50:50) and expand beyond chit fund clientele. (3) Overall healthy CAR at 23.4% post-merger (4) NIMs: SCUF's higher yielding book (20.3% vs SHTF's 14.2%), steady business traction than that of SHTF (cyclical business) and strong pricing power of both entities can enable NIM expansion of ~128bps to 7.5% (current SHTF NIMs: 6.3%) aiding RoA increase by ~25bps.

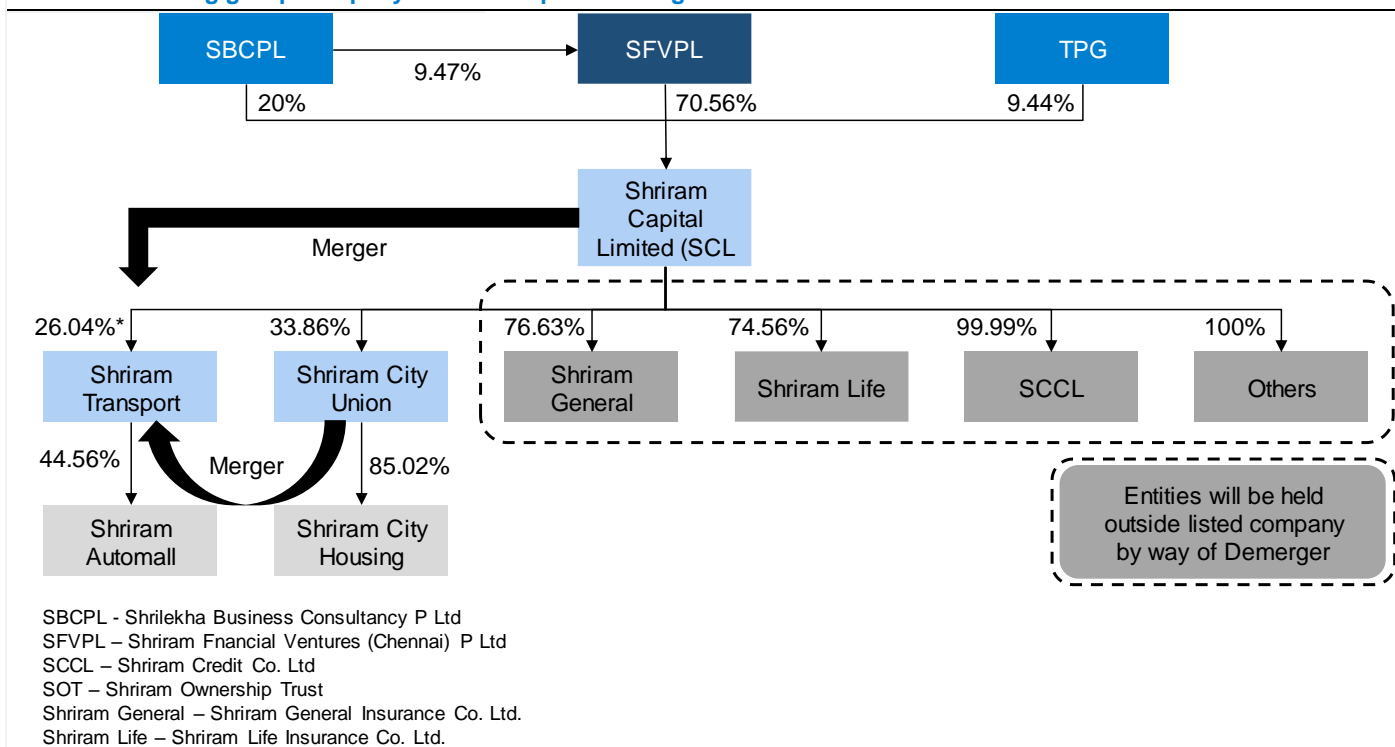
**Expect ratings enrichment for SCUF and combined entity; Reiterate Accumulate for SHTF:** A full-fledged NBFC structure with lucid hierarchy will lower risk. Also, strengthened balance sheet can boost rating agencies' outlook and investor confidence in the Group. Both SHTF and SCUF are trading closer to lower end price band at 1.3x PBV FY24E (SCUF being not rated, consensus estimates considered) although SCUF valuations post-merger stands on higher side. We value SHTF at 1.4x PABV FY24E for a price target of Rs 1,532 reiterating an 'Accumulate' rating. SHTF stands poised to benefit from pent-up led replacement demand in used CV financing space.

## A full drawn NBFC structure:

Shriram Capital Ltd (SCL) and Shriram City Union Finance (SCUF) will merge with Shriram Transport Finance Company (SHTF) as part of restructuring. All the businesses will come under one listed entity and listing of holding company will provide exit to key shareholders like Piramal Enterprise Ltd (PEL) and TPG, who holds 20% in SCL 9.96% in SCUF and will hold 8.37% in the merged entity, thus removing an overhang on valuations.

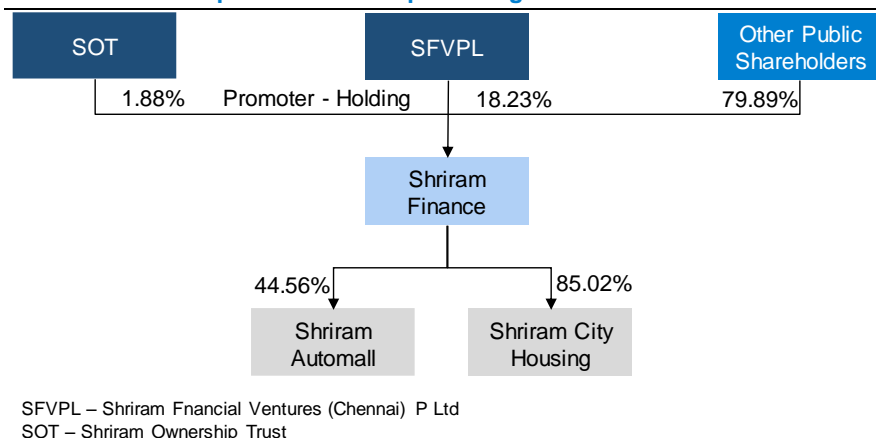
The new entity will be rechristened into Shriram Finance Ltd (SFL) which will be one of the largest retail non-banking financial company (NBFC) in India with combined AUMs of Rs1520bn, branches at 2796, employees ~50,000, customer base of 6.4mn and CAR: 24%, & NPA:7%).

**Exhibit 1: Existing group company Shriram Capital Holding Structure**



Source: Company, PL

**Exhibit 2: New corporate structure post merger**



Source: Company, PL

## A dope into Shriram group holdings history:

(A) Shriram Capital's ownership encompasses Shriram Ownership Trust (29.7%), South Africa-based Sanlam Group (26%), Piramal Group (20%), Shriwell Trust (13.2%) and TPG capital (9.4%).

(B) SHTF's ownership comprises of 26% promoter stake, 54% being held by FII/FPIs, 14.4% by institutional holders (mutual funds & banks) and 6% by public.

(C) TPG has been an investor in Shriram Group since 2006.

(D) In June 2019, Piramal sold its entire stake in SHTF for Rs 23bn.

### Exhibit 3: Key shareholders of SHTF

|   |       |
|---|-------|
| Shriram Capital   | 25.6% |
| LIC of India  | 5.7%  |
| Fidelity Investment Trust Fidelity Series Emerging Markets Opportunities Fund | 4.0%  |
| Sanlam Life Insurance Limited   | 2.8%  |
| Government Pension Fund Global  | 2.3%  |
| J P Morgan Funds  | 2.3%  |
| Wishbone Fund Ltd.  | 1.6%  |
| T. Rowe Price International Value Equity Fund                                 | 1.6%  |
| HDFC Trustee Company Ltd.   | 1.8%  |
| T. Rowe Price International Value Equity Trust                                | 1.3%  |
| Public & Others   | 51.2% |

Source: Company, PL

### Exhibit 4: Historical Institutional Shareholders of SHTF

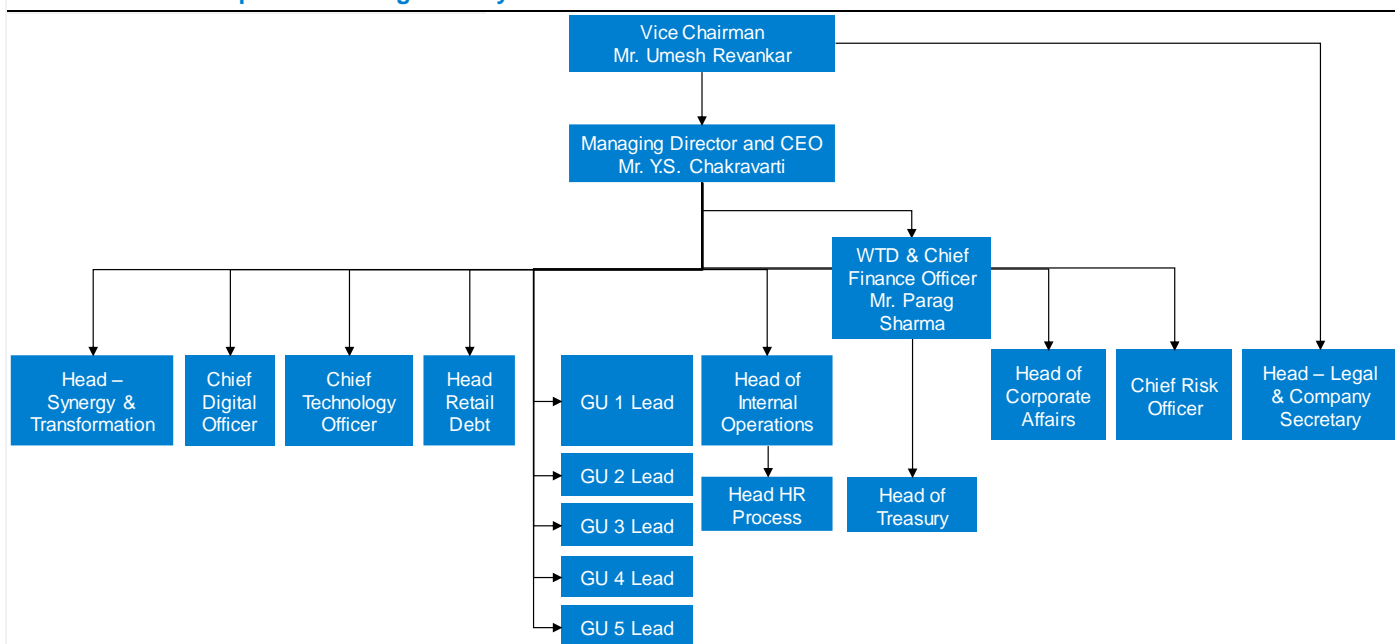
|                                |
|--------------------------------|
| Shriram Capital Limited        |
| Piramal Enterprises Limited    |
| Sanlam Life Insurance Limited  |
| TPG Newbridge                  |
| Abu Dhabi Investment Authority |
| Government Of Singapore        |
| Kuwait Investment Authority    |
| Norges Fund                    |
| Chrys Capital                  |
| Citicorp Finance               |
| Axis Bank                      |

Source: Company, PL

### Exhibit 5: A quick snapshot of key PE holdings into Shriram group companies

|      |   |
|------|---|
| 2011 | TPG acquired 15% in Shriram Capital @ Rs 11.8bn   |
| 2013 | Shriram Capital holds 26% in SHTF; market capital of Rs 271.5bn; Piramal bought 9.9% stake for Rs 16.52bn   |
| 2014 | Piramal invested Rs 2014crs for a 20% stake in Shriram Capital valuing it at Rs 100.7 bn                    |
| 2014 | Shriram Capital holds 33.8% stake in SCUF; market capital of Rs 112.53bn; Piramal bought 9.9% for Rs 7.90bn |

Source: Company, PL

**Exhibit 6: Leadership team of merged entity**


Source: Company, PL

**Exhibit 7: Portfolio Mix**

| Sector                            | Vehicle                          | MSME               | Two Wheeler             | Gold              | Housing         | Personal Loans | Others               |
|-----------------------------------|----------------------------------|--------------------|-------------------------|-------------------|-----------------|----------------|----------------------|
| Products                          | CV, CE, PV, Tractors, Used & New | Enterprise Finance | Two Wheeler, Used & New | Loan against Gold | Home Loan & LAP | Personal Loans | W.Cap loans & Others |
| AUM (~INR Bn) as on 31st Mar 2021 | 1,130                            | 150                | 80                      | 40                | 40              | 20             | 50                   |

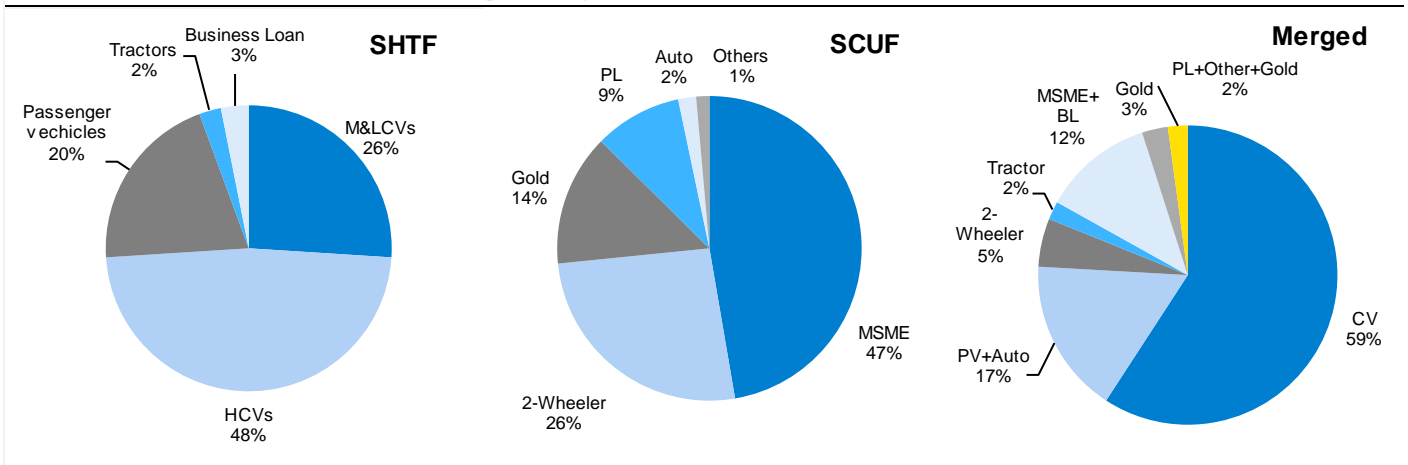
Source: Company, PL

## Merger to benefit the business of combined entity

SHTF-SCUF merged entity will witness improvement on key business parameters such as AUM enhancement, robust borrowings, network broadening, capital release and NIM expansion.

**AUM expansion:** This merger would create one of the largest asset financing NBFC with combined AUM of Rs ~1520 bn, offering a diversified loan profile with CV business at 59% of AUM (VF constitutes 83% of total AUM), auto/MSME/ others accounting for 17%, 12% and 12% of the AUM respectively. We expect the combined book can grow at 13% CAGR over FY22-24E.

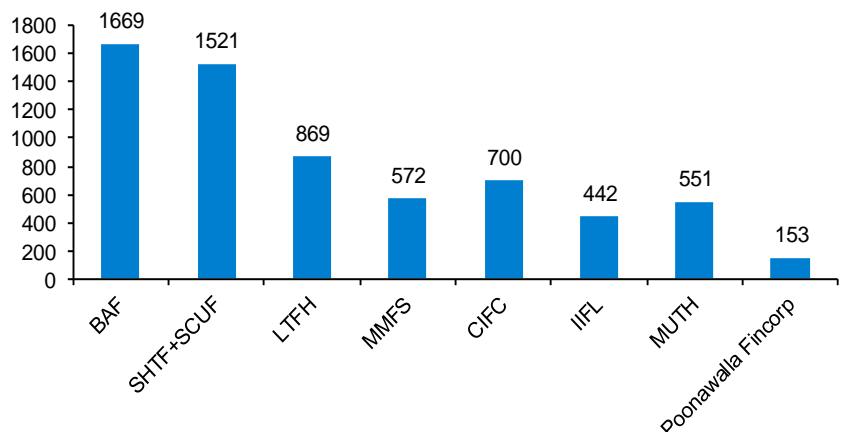
**Exhibit 8: Diversified loan mix for the merged entity**



Source: Company, PL

With combined AUM of Rs 1520bn, the SHTF+SCUF merged book will stand second biggest next to Bajaj Finance.

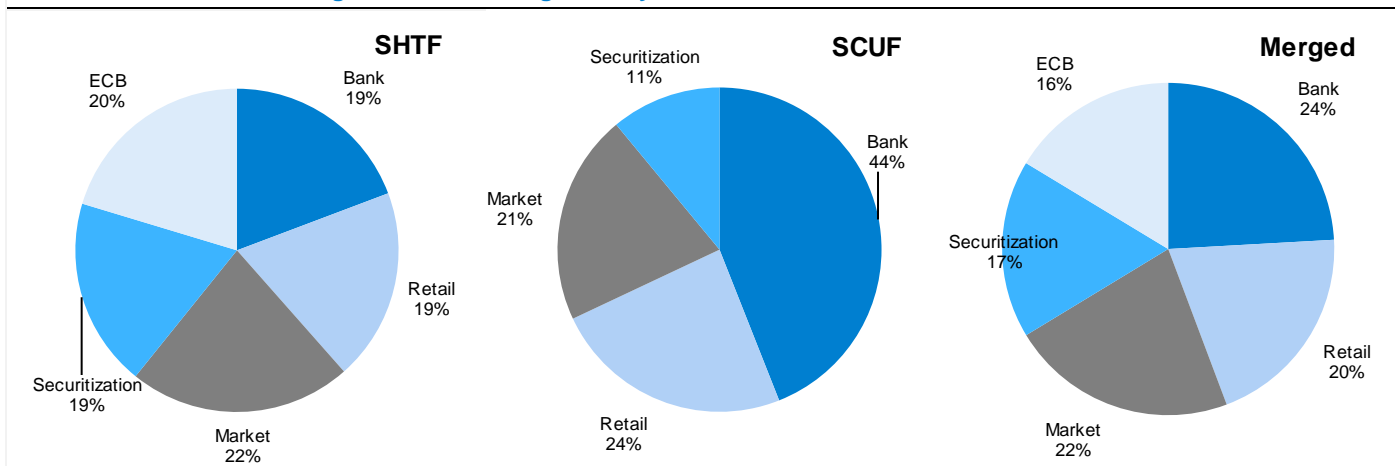
**Exhibit 9: SHTF+SCUF merger to give birth to one largest diversified NBFC**



Source: Company, PL

**Robust borrowings structure:** The combined entity with Rs 1351 bn borrowings will have 1) 24% borrowings emerging from banks, 2) 22% from markets borrowings (NCD and CP's), 3) 20% through retail, 4) 16% through ECB and 5) 17% through securitization. This forms into a solid funding structure, which will benefit SHTF in event of tight liquidity environment.

**Exhibit 10: Robust borrowings mix for the merged entity**



Source: Company, PL

**Increase depth and breadth of distribution:** The merged entity will have a strong distribution network comprising of >3600 branches and ~50,000 employees which will support expansion and aid SCUF to leverage upon SHTF's rich urban-rural mix (50:50) to expand beyond chit fund clientele. However, with no commonality on loan offerings across 2 entities, driving synergies in manpower cost will be a long drawn process.

**Exhibit 11: Distribution network: ~3000 branches & ~50000 headcount**

| Branch network (nos) |       | Employee count (nos) |       |
|----------------------|-------|----------------------|-------|
| SHTF                 | 2634* | SHTF                 | 24160 |
| SCUF                 | 971   | SCUF                 | 25308 |
| Merged               | 3605  | Merged               | 49468 |

Source: Company, PL Note: \* including 809 rural centers

**Exhibit 12: Branch Network**

| Presence                        | Branches    |            |             |
|---------------------------------|-------------|------------|-------------|
|                                 | SHTF        | SCUF       | Total       |
| TN and Pondicherry              | 415         | 258        | 673         |
| TS, AP, OD                      | 222         | 316        | 538         |
| MH, GA, UP, BR and JH           | 386         | 172        | 558         |
| GJ, MP, RJ, DL, PB, HR, HP, J&K | 412         | 122        | 534         |
| KA, KL, CG, WB, North-East*     | 390         | 103        | 493         |
| <b>Pan-India Presence</b>       | <b>1825</b> | <b>971</b> | <b>2796</b> |

Source: Company, PL

Note: \* AP, Nagaland & Mizoram have no branches at present

**Overall healthy CAR of 23.4%, NIM to expand ~128bps:** The bigger benefit would flow in form of capital release resting capital raise speculations in near term. Besides, SCUF's higher yielding book (20.3% vs SHTF's 14.2%) and anticipated steady business traction than that of SHTF (cyclical business) coupled with strong pricing power of both entities should result into NIM expansion of ~128bps to 7.5% (current SHTF NIMs: 6.3%) aiding RoA ~25bps enhancement for combined entity.

### Exhibit 13: Merged entity (SHTF+SCUF): key ratios an overview

|             | SHTF      |           |           |           |           | SCUF     |          |          |          |          | Merged    |           |           |           |           |
|-------------|-----------|-----------|-----------|-----------|-----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|
|             | FY20      | FY21      | FY22E     | FY23E     | FY24E     | FY20     | FY21     | FY22E    | FY23E    | FY24E    | FY20      | FY21      | FY22E     | FY23E     | FY24E     |
| PAT         | 25,018    | 24,873    | 28,052    | 34,766    | 39,104    | 10,005   | 10,109   | 11,613   | 14,176   | 15,243   | 35,024    | 34,982    | 39,665    | 48,942    | 54,347    |
| Networth    | 1,80,052  | 2,15,684  | 2,43,736  | 2,78,502  | 3,17,606  | 72,080   | 81,185   | 89,634   | 1,00,446 | 1,13,312 | 2,52,131  | 2,96,869  | 3,33,370  | 3,78,948  | 4,30,918  |
| Loans       | 10,22,316 | 10,83,030 | 11,69,673 | 13,21,730 | 14,93,555 | 2,66,125 | 2,74,201 | 3,04,782 | 3,46,371 | 3,86,242 | 12,09,843 | 13,36,165 | 14,92,608 | 16,92,167 | 19,17,486 |
| CRAR (%)    | 22.0      | 22.5      | 23.7      | 22.4      | 21.7      | 29.4     | 31.8     | 29.1     | 31.9     | 32.4     | 22.1      | 24.7      | 23.4      | 26.1      | 29.3      |
| Yields      | 14.9      | 14.2      | 14.0      | 14.4      | 14.5      | 21.4     | 20.3     | 20.0     | 20.0     | 20.4     | 17.3      | 16.9      | 17.6      | 18.4      | 18.4      |
| NIMs        | 7.6       | 6.9       | 6.3       | 6.0       | 6.0       | 12.8     | 12.3     | 11.7     | 12.0     | 12.2     | 8.8       | 7.9       | 7.5       | 7.7       | 7.8       |
| Cost/Assets | 1.8       | 1.5       | 1.4       | 1.3       | 1.3       | 2.1      | 1.8      | 1.7      | 1.7      | 1.6      | 6.6       | 5.7       | 5.7       | 6.1       | 6.1       |
| ROE         | 14.8      | 12.6      | 12.2      | 13.3      | 13.1      | 14.7     | 13.2     | 13.4     | 14.6     | 14.3     | 14.8      | 12.7      | 12.6      | 13.7      | 13.4      |
| ROA         | 2.3       | 2.0       | 2.0       | 2.2       | 2.2       | 3.3      | 3.1      | 3.3      | 3.6      | 3.4      | 2.5       | 2.3       | 2.3       | 2.5       | 2.4       |

Source: Company, PL



## Expect confidence boost of rating agencies

A full-fledged NBFC structure with lucid hierarchy will not only boost rating agencies' outlook, but also enhance investor confidence paving way for valuation re-rating. Both SHTF and SCUF are trading closer to lower end of price band at at 1.3x PBV FY24E (SCUF being not rated, consensus estimates considered) although SCUF valuations post-merger stands on higher side. The change in group structure with business re-orientation would strengthen entity's positioning.

**Exhibit 14: SHTF current ratings snapshot**

| Credit Rating Agency | Instruments                               | Ratings                  |
|----------------------|---|--------------------------|
| CARE                 | NCD's                                     | CARE AA+; Stable         |
| CARE                 | Subordinate Debt                          | CARE AA+; Stable         |
| CARE                 | Commercial Paper                          | CARE A1+                 |
| ICRA                 | Fixed Deposit                             | MAA+(Stable); Reaffirmed |
| CRISIL               | Cash Credit & Working Capital Demand Loan | CRISIL AA+/Stable        |
| CRISIL               | Long Term Bank Facility                   | CRISIL AA+/Stable        |
| CRISIL               | Short Term Bank Facility                  | CRISIL A1+               |
| CRISIL               | Bank Guarantee                            | CRISIL A1+               |
| India Ratings        | NCD's                                     | IND AA+/Stable           |
| India Ratings        | Bank loans                                | IND AA+/Stable/IND A1+   |
| India Ratings        | Subordinate Debt                          | IND AA+/Stable           |
| India Ratings        | Short-term debt/commercial paper (CP)     | IND A1+                  |
| India Ratings        | Term deposit                              | IND tAA+/Stable          |
| S&P                  | Issuer Credit Rating                      | BB-/Stable/B             |
| S&P                  | Senior Secured Notes                      | BB                       |
| FITCH                | Long Term Issuer Default Rating           | BB/Stable                |
| FITCH                | Short Term Issuer Default Rating          | B                        |

Source: Company, PL

**Exhibit 15: SCUF current ratings snapshot**

| Credit Rating Agency | Instruments  | Ratings                 |
|----------------------|--|-------------------------|
| India Ratings        | Long-term Issuer Rating                                | IND AA/Stable/IND A1+   |
| India Ratings        | Principal protected market linked debentures (PP-MLDs) | IND PP-MLD AAemr/Stable |
| India Ratings        | Non-convertible debentures (NCDs)                      | IND AA/Stable           |
| India Ratings        | Bank loan  | IND AA/Stable           |
| India Ratings        | Fixed deposit programme                                | IND tAA/Stable          |
| CARE                 | Commercial Paper                                       | CARE A1+                |
| CARE                 | Fixed Deposit  | CARE AA (FD); Stable    |
| CARE                 | Non Convertible Debentures                             | CARE AA; Stable         |
| ICRA                 | Non Convertible Debentures                             | [ICRA]AA (Stable)       |
| ICRA                 | Fixed Deposits   | MAA+ (Stable)           |
| ICRA                 | Commercial Paper                                       | [ICRA]A1+               |
| ICRA                 | Market Linked Debentures                               | PP-MLD[ICRA]AA (Stable) |
| CRISIL               | Non Convertible Debentures                             | CRISIL AA/Stable        |
| CRISIL               | Commercial Paper                                       | CRISIL A1+              |

Source: Company, PL

## Key concall/analyst meet highlights:

- **Merger details:** Shriram Capital (SCL) and SCUF (Shriram City Union Finance) will be merged with SHTF (Shriram Transport Finance). The merged entity Shriram Finance Limited will have an AUM of Rs 1520 bn and customer base of ~6.4mn. The branch network will increase to ~3605 and employee count will be ~50,000. The merger will increase distribution footprints across all products without incurring incremental capex.
- **Cross selling of existing products:** Both the companies will be able to cross sell each other's products. Envisaging the ability to gather data from ~20mn customers and cross sale insurance products. 7 out of 10 SHTF and 5 out of 10 SCUF customers have taken different products from Shriram ecosystem. Management will target mid segment customers with regular income (e.g. taxi drivers, shopkeepers etc). The plan is to roll out all products in all branches in stages. Management aims to get ~2 products per customer by FY24. The merged entity will come out with new products like bill discounting, supply chain and invoice financing gradually.
- **Merger related expenses:** There will be a one-time stamp duty expense of Rs 1900-2000mn. HR integration cost of Rs 600-700mn and branding & advertisement cost of Rs ~200mn. The overall cost of Rs ~3000-4000mn will be incurred. Barring stamp duty expenses, all other expenses will be spread across 2 years.
- **~10% growth in PAT:** The bottom line of merged entity to improve by 8-10% in first year and 12-14% in 2nd year. NIMs of combined entity will be ~8-9%. ~70% of incremental PAT will come from incremental business.
- **Cost of funds benefit of ~30-50bps:** Management highlighted that rating agencies concern was cyclicity in SHTF business and geographic concentration of SCUF business. With the merger, both concerns will recede as it will be a multi-product company with countercycle advantage. All these will help in better credit rating and subsequently reflect in lower cost of funds. Co. will also rationalise excess liquidity and reduce the negative carry.
- **Technological synergies:** The merged entity will benefit from tech platforms as both companies have in house tech platform. In addition, both companies have similar HR practices, this would help to integrate faster without incurring much cost. The digital journey will help to on-board more customers at low cost.
- **Management of merged entity:** Mr Umesh Revankar, the Executive Vice Chairman and CEO of SHTF will be the Vice-Chairman of the merged entity. Mr YS Chakravarti, MD and CEO of SCUF will be the MD and CEO of the merged entity.
- **Shareholding post-merger:** Shriram Finance (merged entity) will hold 85% stake in Shriram Housing Finance and continue to hold 44.56% in Shriram Automall. Post-merger PEL will hold 8.37% and TPG will hold 2.66% in merged entity.
- **Timeline:** Soon the proposal will be sent for regulatory and shareholders' approval. It is expected to take 9-10 months for such approvals.

- **Management commentary on new RBI norms:** Management is working on the impact of new RBI norms and stated the impact will not be high as the co. is upgrading an account only after receiving full payment. Credit cost likely to remain at similar levels.
- **Others:**
  - Shriram capital will be rolled into a merged entity and will not have liability and debt.
  - Co. has sufficient liquidity (6 months' excess liquidity) and does not foresee challenges in terms of borrowings going ahead.
  - Merged entity will continue to pay royalty to Shriram ownership trust as per earlier terms.
  - ~50-60 branches of both the companies will overlap in few geographies. - Rationalisation of branches will not be necessary.
  - Co. will have hub and spoke model where credit teams will be in hub.



## Income Statement (Rs. m)

| Y/e Mar                    | FY21          | FY22E         | FY23E         | FY24E           |
|----------------------------|---------------|---------------|---------------|-----------------|
| Int. Inc. / Opt. Inc.      | 1,74,487      | 1,85,747      | 2,03,197      | 2,29,224        |
| Interest Expenses          | 90,543        | 99,031        | 1,08,446      | 1,22,152        |
| <b>Net interest income</b> | <b>83,662</b> | <b>86,191</b> | <b>94,205</b> | <b>1,06,503</b> |
| Growth(%)                  | 1.0           | 3.0           | 9.3           | 13.1            |
| Non-interest income        | 160           | 201           | 201           | 201             |
| Growth(%)                  | (21.3)        | 26.0          | -             | -               |
| Net operating income       | 83,821        | 86,392        | 94,406        | 1,06,704        |
| <b>Expenditures</b>        |               |               |               |                 |
| Employees                  | 9,063         | 9,452         | 10,775        | 12,284          |
| Other Expenses             | 9,421         | 9,610         | 11,051        | 12,709          |
| Depreciation               | 1,374         | 1,400         | -             | -               |
| Operating Expenses         | 18,484        | 19,062        | 21,827        | 24,993          |
| <b>PPP</b>                 | <b>63,964</b> | <b>65,930</b> | <b>72,579</b> | <b>81,711</b>   |
| Growth(%)                  | 2.6           | 3.1           | 10.1          | 12.6            |
| Provisions                 | 31,184        | 28,442        | 26,119        | 29,454          |
| <b>Profit Before Tax</b>   | <b>32,780</b> | <b>37,488</b> | <b>46,460</b> | <b>52,257</b>   |
| Tax                        | 7,908         | 9,436         | 11,694        | 13,153          |
| Effective Tax rate(%)      | 24.1          | 25.2          | 25.2          | 25.2            |
| <b>PAT</b>                 | <b>24,873</b> | <b>28,052</b> | <b>34,766</b> | <b>39,104</b>   |
| Growth(%)                  | (0.6)         | 12.8          | 23.9          | 12.5            |

## Balance Sheet (Rs. m)

| Y/e Mar                     | FY21             | FY22E            | FY23E            | FY24E            |
|-----------------------------|------------------|------------------|------------------|------------------|
| <b>Source of funds</b>      |                  |                  |                  |                  |
| Equity                      | 2,531            | 2,531            | 2,531            | 2,531            |
| Reserves and Surplus        | 2,13,153         | 2,41,205         | 2,75,972         | 3,15,076         |
| Networth                    | 2,15,684         | 2,43,736         | 2,78,502         | 3,17,606         |
| Growth (%)                  | 19.8             | 13.0             | 14.3             | 14.0             |
| Loan funds                  | 10,61,964        | 11,87,826        | 13,45,796        | 15,31,244        |
| Growth (%)                  | 12.5             | 11.9             | 13.3             | 13.8             |
| Deferred Tax Liability      | -                | -                | -                | -                |
| Other Current Liabilities   | 19,141           | 21,919           | 43,818           | 48,600           |
| Other Liabilities           | -                | -                | -                | -                |
| <b>Total Liabilities</b>    | <b>12,96,789</b> | <b>14,53,481</b> | <b>16,68,116</b> | <b>18,97,450</b> |
| <b>Application of funds</b> |                  |                  |                  |                  |
| Net fixed assets            | 4,373            | 5,023            | 5,773            | 6,636            |
| Advances                    | 10,83,030        | 11,69,673        | 13,21,730        | 14,93,555        |
| Growth (%)                  | 5.9              | 8.0              | 13.0             | 13.0             |
| Investments                 | 31,979           | 44,286           | 51,961           | 61,171           |
| Current Assets              | 1,67,189         | 2,21,665         | 2,60,225         | 3,04,556         |
| <b>Net current assets</b>   | <b>1,48,048</b>  | <b>1,99,747</b>  | <b>2,16,406</b>  | <b>2,55,956</b>  |
| Other Assets                | 10,217           | 12,833           | 28,427           | 31,531           |
| <b>Total Assets</b>         | <b>12,96,789</b> | <b>14,53,480</b> | <b>16,68,116</b> | <b>18,97,449</b> |
| Growth (%)                  | 13.6             | 12.1             | 14.8             | 13.7             |
| <b>Business Mix</b>         |                  |                  |                  |                  |
| AUM                         | 11,72,428        | 12,48,373        | 13,97,304        | 15,91,789        |
| Growth (%)                  | 6.8              | 6.5              | 11.9             | 13.9             |
| On Balance Sheet            | 11,61,916        | 12,37,441        | 13,85,933        | 15,79,964        |
| % of AUM                    | 99.10            | 99.12            | 99.19            | 99.26            |
| Off Balance Sheet           | 10,512           | 10,933           | 11,370           | 11,825           |
| % of AUM                    | 0.90             | 0.88             | 0.81             | 0.74             |

## Profitability &amp; Capital (%)

| Y/e Mar | FY21 | FY22E | FY23E | FY24E |
|---------|------|-------|-------|-------|
| NIM     | 6.9  | 6.3   | 6.0   | 6.0   |
| ROAA    | 2.0  | 2.0   | 2.2   | 2.2   |
| ROAE    | 12.6 | 12.2  | 13.3  | 13.1  |

Source: Company Data, PL Research

## Quarterly Financials (Rs. m)

| Y/e Mar                          | Q3FY21        | Q4FY21        | Q1FY22        | Q2FY22        |
|----------------------------------|---------------|---------------|---------------|---------------|
| Int. Inc. / Operating Inc.       | 43,815        | 44,033        | 44,793        | 45,784        |
| Income from securitization       | -             | -             | -             | -             |
| Interest Expenses                | 22,363        | 22,879        | 24,981        | 24,352        |
| <b>Net Interest Income</b>       | <b>21,452</b> | <b>21,154</b> | <b>19,812</b> | <b>21,432</b> |
| Growth (%)                       | 3.9           | 9.4           | 7.9           | 8.0           |
| Non-Interest Income              | 617           | 946           | 1,722         | 1,244         |
| <b>Net Operating Income</b>      | <b>22,069</b> | <b>22,100</b> | <b>21,534</b> | <b>22,676</b> |
| Growth (%)                       | 1.7           | 9.7           | 14.7          | 8.6           |
| Operating expenditure            | 5,432         | 5,484         | 4,791         | 5,507         |
| <b>PPP</b>                       | <b>16,637</b> | <b>16,617</b> | <b>16,743</b> | <b>17,169</b> |
| Growth (%)                       | -             | -             | -             | -             |
| Provision                        | 6,747         | 7,236         | 14,396        | 6,762         |
| Exchange Gain / (Loss)           | -             | -             | -             | -             |
| Profit before tax                | 9,890         | 9,380         | 2,347         | 10,407        |
| Tax                              | 2,613         | 1,831         | 648           | 2,694         |
| Prov. for deferred tax liability | 1,491         | 1,425         | 1,575         | 1,428         |
| Effective Tax Rate               | 26.4          | 19.5          | 27.6          | 25.9          |
| <b>PAT</b>                       | <b>7,277</b>  | <b>7,549</b>  | <b>1,699</b>  | <b>7,712</b>  |
| Growth                           | (17)          | 238           | (47)          | 13            |
| AUM                              | 11,49,321     | 11,72,428     | 11,93,014     | 12,16,468     |
| YoY growth (%)                   | 5.5           | 6.8           | 6.8           | 7.3           |
| Borrowing                        | 9,62,597      | 10,61,964     | 10,53,170     | 10,85,873     |
| YoY growth (%)                   | 5.2           | 12.5          | 10.6          | 13.2          |

## Key Ratios

| Y/e Mar                  | FY21  | FY22E | FY23E   | FY24E   |
|--------------------------|-------|-------|---------|---------|
| CMP (Rs)                 | 1,384 | 1,384 | 1,384   | 1,384   |
| EPS (Rs)                 | 103.6 | 110.8 | 137.4   | 154.5   |
| Book value (Rs)          | 852.3 | 963.1 | 1,100.5 | 1,255.0 |
| Adj. BV(Rs)              | 662.3 | 963.1 | 1,100.5 | 1,255.0 |
| P/E(x)                   | 13.4  | 12.5  | 10.1    | 9.0     |
| P/BV(x)                  | 1.6   | 1.4   | 1.3     | 1.1     |
| P/ABV(x)                 | 2.1   | 1.4   | 1.3     | 1.1     |
| DPS (Rs)                 | 18.0  | 15.5  | 15.5    | 15.5    |
| Dividend Payout Ratio(%) | 18.3  | 14.0  | 11.3    | 10.0    |
| Dividend Yield(%)        | 1.3   | 1.1   | 1.1     | 1.1     |

## Asset Quality

| Y/e Mar                     | FY21   | FY22E  | FY23E  | FY24E    |
|-----------------------------|--------|--------|--------|----------|
| Gross NPAs(Rs m)            | 82,952 | 87,742 | 94,085 | 1,03,169 |
| Net NPA(Rs m)               | 48,067 | 15,177 | 17,955 | 21,273   |
| Gross NPAs to Gross Adv.(%) | 7.1    | 8.3    | 8.0    | 7.0      |
| Net NPAs to net Adv.(%)     | 4.2    | 1.3    | 1.4    | 1.5      |
| NPA coverage(%)             | 42.1   | 82.7   | 80.9   | 79.4     |

## Du-Pont as a % of AUM

| Y/e Mar                    | FY21 | FY22E | FY23E | FY24E |
|----------------------------|------|-------|-------|-------|
| NII                        | 6.9  | 6.3   | 6.0   | 6.0   |
| NII INCL. Securitization   | 6.9  | 6.3   | 6.1   | 6.0   |
| Total income               | 6.9  | 6.3   | 6.1   | 6.0   |
| Operating Expenses         | 1.6  | 1.5   | 1.4   | 1.4   |
| PPOP                       | 5.3  | 4.8   | 4.7   | 4.6   |
| Total Provisions           | 2.6  | 2.1   | 1.7   | 1.7   |
| RoAA                       | 2.0  | 2.0   | 2.2   | 2.2   |
| Avg. Assets/Avg. net worth | 6.2  | 6.0   | 6.0   | 6.0   |
| RoAE                       | 12.6 | 12.2  | 13.3  | 13.1  |

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


| No. | Date      | Rating     | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|------------|----------|-------------------|
| 1   | 31-Oct-21 | Accumulate | 1,532    | 1,449             |
| 2   | 18-Oct-21 | Accumulate | 1,453    | 1,384             |
| 3   | 5-Oct-21  | Accumulate | 1,453    | 1,335             |
| 4   | 31-Aug-21 | Accumulate | 1,453    | 1,335             |
| 5   | 31-Jul-21 | Accumulate | 1,453    | 1,390             |
| 6   | 6-Jul-21  | Accumulate | 1,445    | 1,371             |
| 7   | 30-Apr-21 | Accumulate | 1,473    | 1,345             |
| 8   | 17-Apr-21 | Accumulate | 1,488    | 1,378             |
| 9   | 6-Apr-21  | Accumulate | 1,488    | 1,421             |
| 10  | 25-Mar-21 | Accumulate | 1,492    | 1,402             |

**Analyst Coverage Universe**

| Sr. No. | Company Name                                | Rating     | TP (Rs) | Share Price (Rs) |
|---------|---|------------|---------|------------------|
| 1       | AAVAS Financiers                            | BUY        | 3,500   | 2,810            |
| 2       | Bajaj Finance                               | BUY        | 9,092   | 7,856            |
| 3       | Cholamandlam Investment and Finance Company | BUY        | 721     | 589              |
| 4       | HDFC  | BUY        | 3,322   | 2,888            |
| 5       | L&T Finance Holdings                        | Reduce     | 80      | 85               |
| 6       | LIC Housing Finance                         | Reduce     | 387     | 409              |
| 7       | Mahindra & Mahindra Financial Services      | Reduce     | 167     | 186              |
| 8       | Manappuram Finance                          | Hold       | 199     | 197              |
| 9       | Muthoot Finance                             | BUY        | 1,939   | 1,659            |
| 10      | SBI Cards and Payment Services              | Accumulate | 1,199   | 1,126            |
| 11      | Shriram Transport Finance                   | Accumulate | 1,532   | 1,449            |

**PL's Recommendation Nomenclature (Absolute Performance)**

|                          |                                   |
|--------------------------|-----------------------------------|
| <b>Buy</b>               | : > 15%                           |
| <b>Accumulate</b>        | : 5% to 15%                       |
| <b>Hold</b>              | : +5% to -5%                      |
| <b>Reduce</b>            | : -5% to -15%                     |
| <b>Sell</b>              | : < -15%                          |
| <b>Not Rated (NR)</b>    | : No specific call on the stock   |
| <b>Under Review (UR)</b> | : Rating likely to change shortly |

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

We/I, Ms. Shweta Daptardar- MBA-Finance, Mr. Pravin Mule- MBA (Finance), Mcom (Accounts) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### **(US Clients)**

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

## **DISCLAIMER**

### **Indian Clients**

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at [www.plindia.com](http://www.plindia.com).

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Ms. Shweta Daptardar- MBA-Finance, Mr. Pravin Mule- MBA (Finance), Mcom (Accounts) Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

### **US Clients**

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

---

**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

**[www.plindia.com](http://www.plindia.com)**