

Mahindra & Mahindra Financial

BSE SENSEX

55,398

S&P CNX

16,521

CMP: INR205
TP: INR235 (+15%)
Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2022 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	252.3 / 3.2
52-Week Range (INR)	209 / 128
1, 6, 12 Rel. Per (%)	16/35/27
12M Avg Val (INR M)	1006
Free float (%)	47.8

Financials Snapshot (INR b)

Y/E March	FY22	FY23E	FY24E
NII	55.4	57.2	63.2
PPP	37.3	37.3	41.6
PAT	9.9	14.5	16.1
EPS (INR)	8.0	11.7	13.0
EPS Gr. (%)	195	46	11
BV/Sh.(INR)	123	131	139

Ratios

NIM (%)	8.6	8.3	8.1
C/I ratio (%)	35.6	37.7	37.2
RoA (%)	1.3	1.8	1.8
RoE (%)	6.6	9.2	9.6
Payout (%)	44.9	34.0	35.0

Valuations

P/E (x)	25.5	17.4	15.7
P/BV (x)	1.7	1.6	1.5
Div. Yield (%)	1.8	2.0	2.2

Strengthening its core to drive efficiencies and reap rewards

Expect volatility in profitability and credit costs to decline meaningfully

Mahindra Finance (MMFS) has demonstrated utmost seriousness in overcoming its weaknesses that led to a lot of volatility in its reported margins, asset quality and credit costs. MMFS has also embarked on a few other strategic initiatives, which will help it: a) improve productivity, bring efficiencies and reduce the operating cost ratios, b) target the affluent rural and semi-urban (RUSU) customer segment with relevant lifecycle products, and c) leverage analytics and business intelligence to mitigate various risks and improve both business volumes as well as collections. We believe that MMFS will benefit from its parent Mahindra & Mahindra (M&M)'s strong recovery in auto volumes. We model an AUM/ PAT CAGR of 13%/27% over FY22-FY24E for an RoA/RoE of 1.8%/9.6% in FY24E, respectively. We recently included MMFS in our model portfolio. We retain our BUY rating on the stock with a TP of INR235 (premised on 1.7x FY24E P/BV). Key risk to our call: potential volatility in asset quality and credit costs after the implementation of the RBI NPA circular from Oct'22 onwards.

Better volumes from M&M can support loan growth of MMFS

Wholesale volumes of M&M during Apr-Jun'22 surpassed our estimate, with a healthy improvement in UVs (including Pickups), even though the tractor volumes were slightly subdued. We estimate MM's Automotive segment to deliver ~40% growth in volumes in FY23. The contribution of M&M's assets to MMFS' AUM stood at 46% in Mar'22 (up from 43% in Mar'19). We expect MMFS to benefit from the projected higher volumes of M&M, particularly in the UV segment, which has always been the former's strength.

Vision 2025 could appear aspirational but it is a step in the right direction

Vision 2025 articulated its ambitious goals of improvements in AUM, asset quality, NIM, cost ratios, and RoA. While the growth targets (doubling AUM in 3-4 years) appear aggressive, it will keep pushing the management team to deliver a much improved performance. What is even better is that the parent is now taking a more prominent and explicit interest in MMFS' performance.

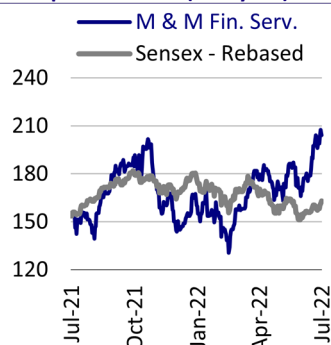
Multiple recent initiatives have the potential to transform this franchise

To translate its Vision 2025 ambitions into reality, MMFS has introduced multiple initiatives and formulated goals to firmly secure some of the articulated targets. These include: a) scaling newer growth engines; b) changing customer segment mix; c) product diversifications; d) collection war-rooms and legal efforts; e) leveraging AI/ML models by hiring quality tech and data science teams; and f) empowering employees with the latest technology to improve productivity and drive process optimization.

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	52.2	52.2	52.2
DII	18.0	16.2	16.5
FII	17.8	18.1	18.2
Others	12.1	13.6	13.1

FII Includes depository receipts

Stock performance (one-year)**Healthy monsoons can lead to recovery in the fortunes of rural India**

Monsoons, this year, which were in deficit until 5th Jul'22 have swiftly recovered and India had a 13% surplus as on 17th Jul'22. In the backdrop of expected healthy monsoons, the farm cash flows can improve leading to rural recovery and resulting in higher volumes. After a lull in FY21 disbursement, followed by the second Covid wave in India, MMFS has now pressed the accelerator on disbursements. Rural recovery will aid disbursement volumes, which combined with the increase in ticket sizes of vehicles can help MMFS deliver healthy disbursement/AUM CAGR of 25%/13% over FY22-FY24E, respectively.

MMFS is relatively less susceptible in a rising interest rate environment

Around 75% of its liabilities are at a fixed rate, while almost all of its AUM is at a fixed rate. While MMFS will be relatively less susceptible on the borrowing side, it will have limited headroom to pass on the higher cost of borrowings to its customers, leading to a compression in spreads in FY23E. We model in a NIM compression of ~30bp/20bp to 8.3%/8.1% in FY23E/FY24E, respectively.

Healthy and well-diversified liability franchise will keep MMFS in a good stead

MMFS has a credit rating of AAA from India Ratings and CARE while it has an AA+/Stable rating from CRISIL. A big enabler underlying this credit rating is the strong parentage of M&M, which we believe is now taking a very prominent and explicit interest in the performance of MMFS. The company has maintained a liquidity buffer of greater than three months all through and has a very healthy ALM profile with a positive mismatch across all the buckets/tenures.

Asset quality and credit costs volatile in the past but likely to offer more stability going ahead

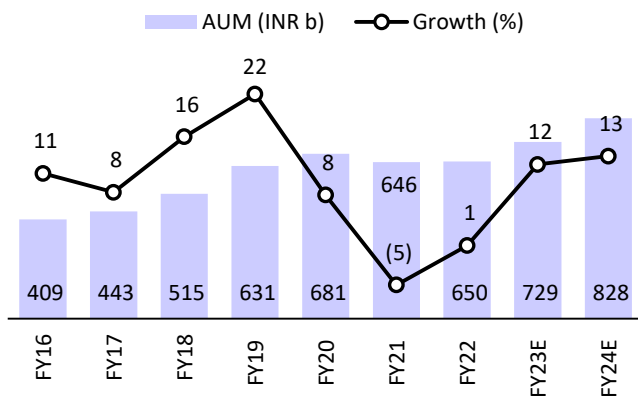
During the second Covid wave, the stress build-up was more pronounced for MMFS relative to its peers such as CIFC and SHTF. MMFS did, however, end up reversing all ECL provisions of ~INR25b that it made in 1QFY22 for the next three quarters. But this came along with associated equivalent write-offs of ~INR25b in FY22. Under Vision 2025, MMFS endeavors to deliver a stable asset quality, with GS3 below 6% across the credit and economic cycles. Stability in credit costs, however, is even more desirable. We believe that MMFS is already taking steps in that direction and we model credit costs of ~2.6% in FY23-FY24E (v/s 3.7%/5.6%/3.1% in FY22/FY21/FY20, respectively).

Poised for growth; a strategic transformation on the cards – Maintain BUY

Though still in nascent stages, both the small ticket lending business (Digi Finco) and the vehicle leasing and subscription business (Quiklyz) hold a lot of promise for MMFS. The company has managed to maintain its leadership position in the Tractor and Mahindra UV financing segments, which has always been its strength. While understandably, the company has exhibited volatile operating performance and weak asset quality in the past, we believe that the various strategic initiatives undertaken by the management, if executed correctly, have the potential to script a credible transformation. Strong liability franchise and deep moats in rural/semi-urban customer segment position MMFS well to reap rewards of the hard work that is going into evolving this franchise. **We maintain our BUY rating on the stock with a TP of INR235 (premised on 1.7x FY24E P/BV).**

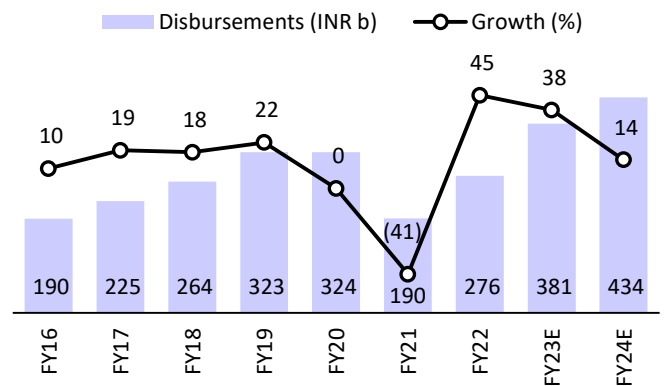
Story in charts

Exhibit 1: AUM growth expected to pick momentum...



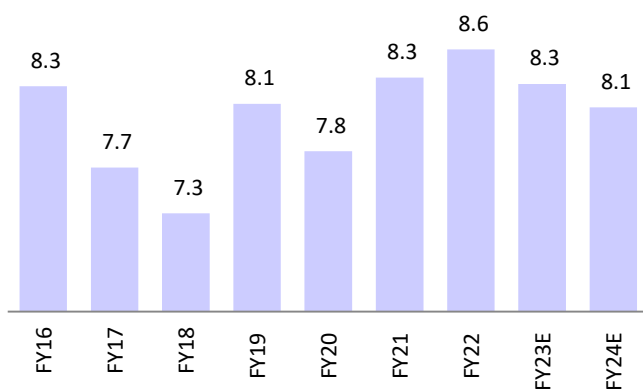
Source: MOFSL, Company

Exhibit 2: ...driven by healthy disbursements CAGR of ~25% over FY22-24E



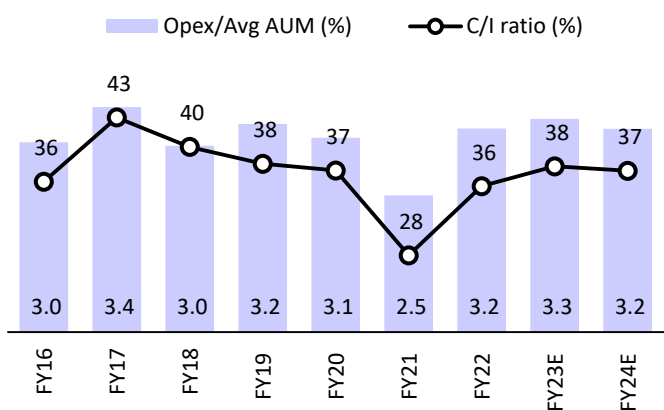
Source: MOFSL, Company

Exhibit 3: Expect NIMs compression of ~30bp/20bp in FY23/FY24, respectively



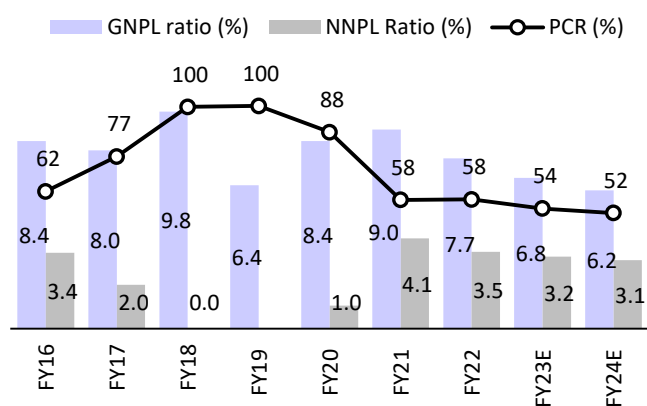
Source: MOFSL, Company

Exhibit 4: Opex will remain elevated in FY23E driven by investments in technology, processes and newer businesses



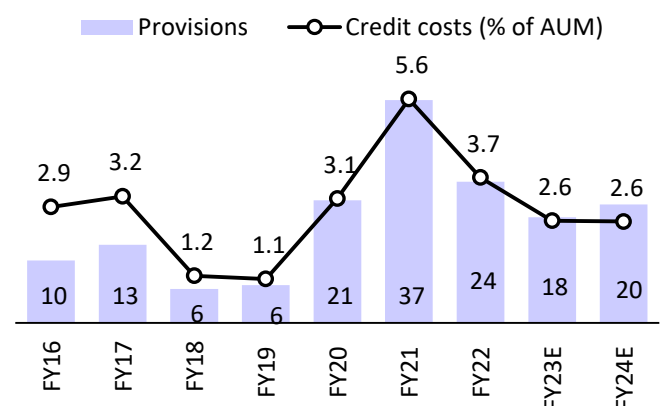
Source: MOFSL, Company

Exhibit 5: Expect asset quality to improve moderately...

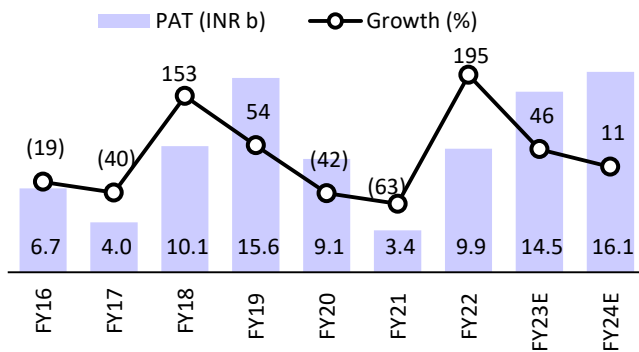


Source: MOFSL, Company

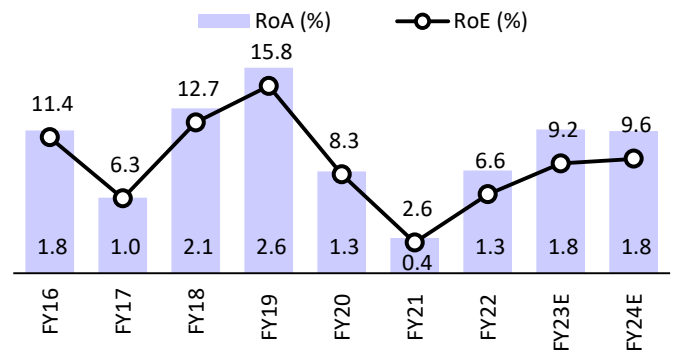
Exhibit 6: ...driving a decline in credit costs in FY23/FY24



Source: MOFSL, Company

Exhibit 7: We model PAT CAGR of ~23% over FY22-24E...

Source: MOFSL, Company

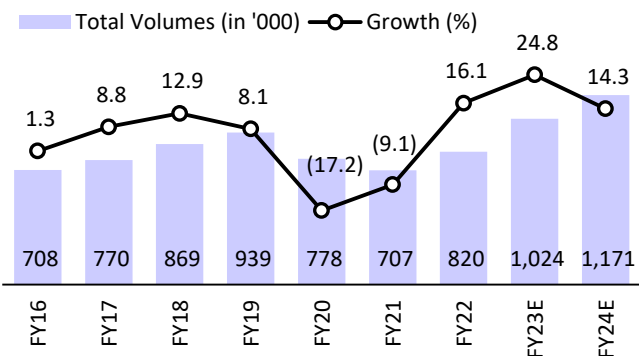
Exhibit 8: ...leading to an RoA/RoE of 1.8%/10% by FY24E

Source: MOFSL, Company

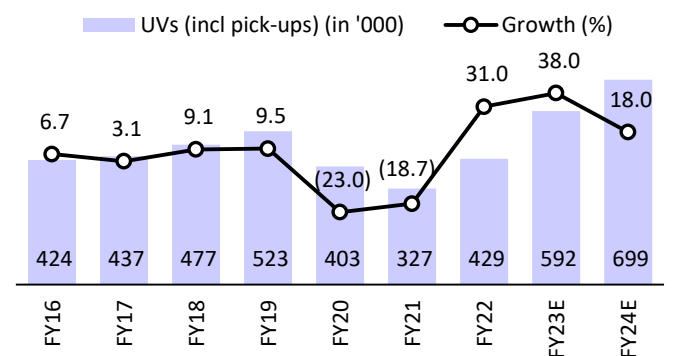
Better volumes from the parent can aid loan growth of MMFS

MMFS would benefit from higher expected volumes for M&M, particularly in the UV segment, which has always been the former's strength.

- While the outlook for tractors has improved with a healthy monsoon, we expect the Auto business to be a major growth driver over the next couple of years, fueled by strong momentum in both SUVs (driven by new products and easing of supply issues) and LCVs (cyclical recovery)
- We estimate M&M's Automotive segment (including UVs, 3W and CV) to deliver ~40% YoY volume growth in FY23. Total volumes (including tractors) are estimated to grow ~25% YoY this fiscal year.

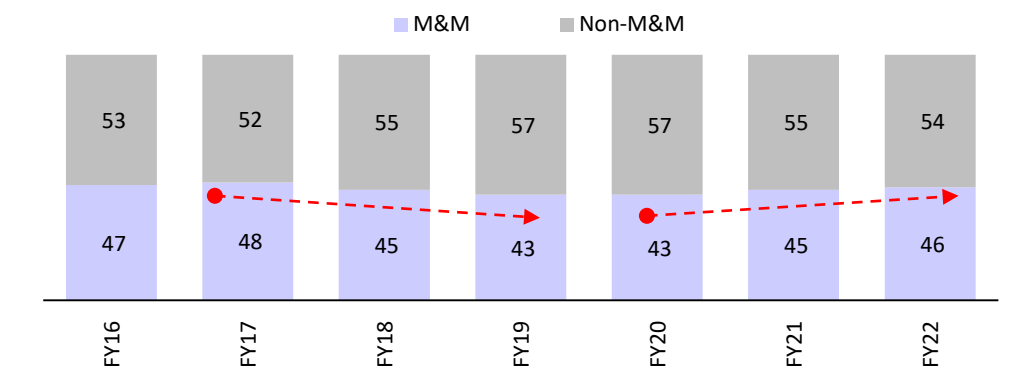
Exhibit 9: M&M's total volumes

Source: MOFSL, Company

Exhibit 10: M&M's UV volumes

Source: MOFSL, Company, borrowing mix %

- The contribution of M&M's assets to MMFS' AUM stood at 46% in Mar'22 (up from 43% in Mar'19). We forecast MMFS to benefit from the projected higher volumes of M&M, particularly in the UV segment, which has always been the former's strength.

Exhibit 11: Share of M&M's assets in the MMFS AUM

Source: MOFSL, Company

Vision 2025 could appear aspirational but it is a step in the right direction

- M&M is now taking a more prominent and explicit interest in the performance of its subsidiary MMFS.
- With its Vision 2025, MMFS will endeavor to deliver sustainable and profitable growth. Under this transformational journey, MMFS articulated its ambitious goals of improvements in AUM, asset quality, NIM, cost ratios, and RoA. While the growth targets (doubling AUM in 3-4 years) appear aggressive, it will keep pushing the management team to deliver a much improved performance.

Exhibit 12: Key goals under Vision 2025 transformation programme

Gross stage-3 assets < 6% Stable asset quality	2x Assets Under Management (AUM)
15% New business contribution	~7.5% Maintain Net Interest Margins (NIMs)
Cost to Assets ~2.5% Operating leverage	~2.5% Return on Assets (ROA)

Source: MOFSL, Company

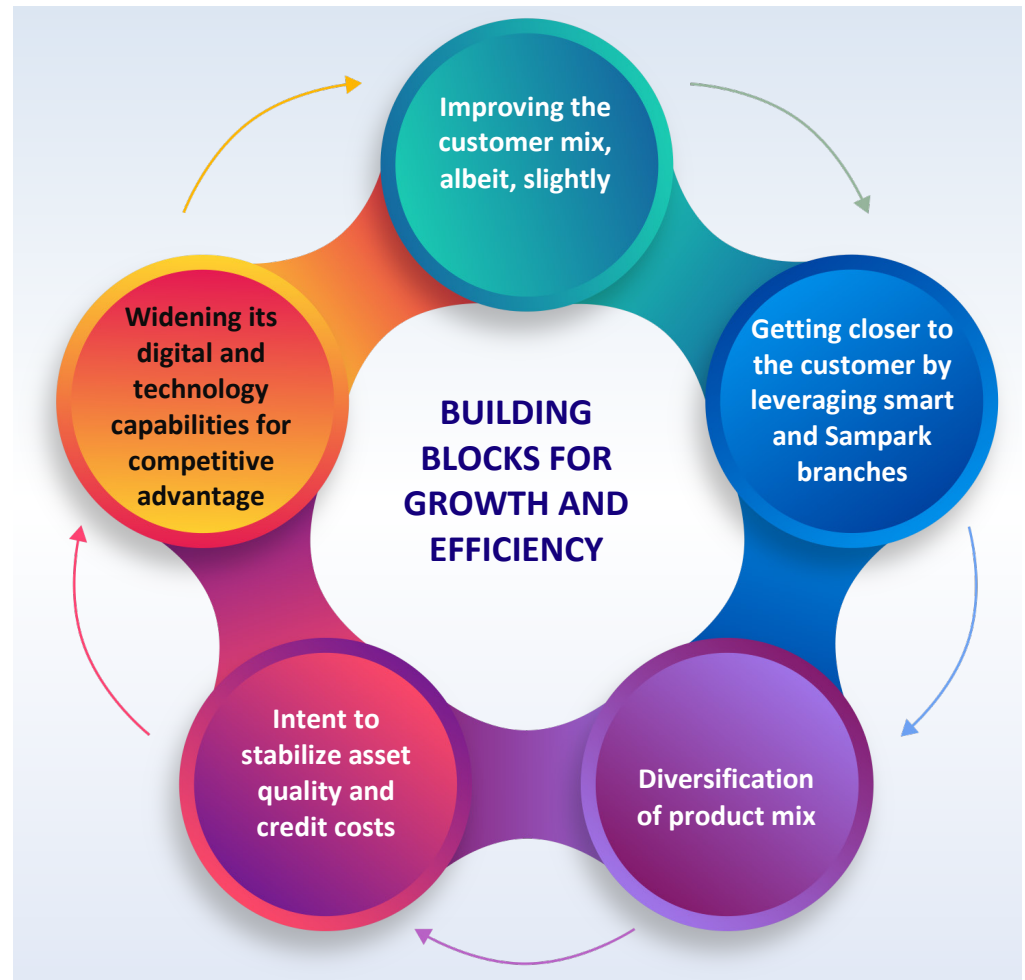
Exhibit 13: Priorities which would be achieved through strategic initiatives

 Stabilise asset quality	→ Customer segment mix → Product diversification → Digital and technology	→ Collections war-room → Legal efforts
 Recharge growth 2x AUM through core + diversification	→ Vehicle lending leadership → Scale new growth engines	→ Cross-sell and premiumise → Leverage partnerships
 Strengthen technology and digital	→ Digitising core with cloud 1 st architecture → Building next-gen API platform	→ Leveraging Artificial Intelligence and Machine Learning based models → Hiring high quality tech and data science team
 Future ready human capital	→ Optimising capability mix → Empowering employees with the latest tech infrastructure to drive productivity	→ Fostering a culture of digital and data first → Improving productivity through process optimisation

Source: MOFSL, Company

Building blocks for growth and efficiency initiated by the company have the potential to transform this franchise

Exhibit 14: Strategic initiatives to achieve transformational goals



Source: MOFSL, Company

Rather than depending exclusively on the 'earn and pay' customer segment, MMFS would also want to become the lender for choice for the affluent RUSU customer segment

Improving the customer mix, albeit, slightly

- MMFS, in the past, has had a very heavy dependence on the 'earn and pay' segment and the company will indeed need to strengthen its position in this segment. However, this customer segment also keeps it vulnerable to the extreme fragile customer segments.
- Management recognizes that there is a flourishing affluent RUSU customer segment that can be catered by offering some interesting propositions and products. MMFS has articulated that it would want to become the lender of choice for the affluent RUSU customer segment.

Getting closer to the customer by leveraging smart and Sampark branches

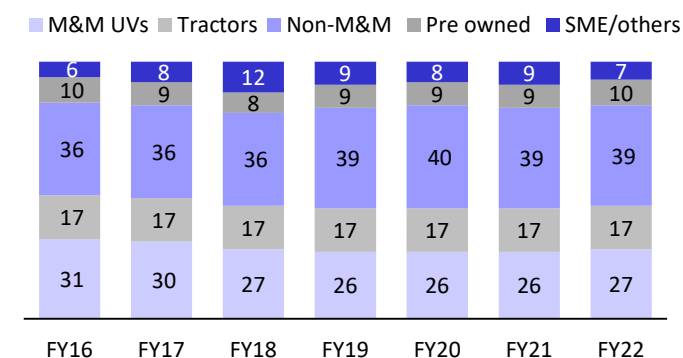
- MMFS has opened up ~460 smart branches within the premises of its dealer partners. These smart branches have minimum infrastructure and much lesser number of employees to cater to a specific dealer partner. This has enabled MMFS to provide better service experience to customers and forge a closer association with the dealers.
- Sampark branches are located in niche rural markets allowing the company to get closer to its customers and activate the market with all its offerings available under one umbrella and providing easy accessibility. MMFS also appoints existing customers as MF Sutradhaars in these regions, providing them with an alternate source of income. As of Mar'22, the company had 89 smart branches and 110 Sampark branches.

Diversification of product mix

SME, Leasing, and Digi Finco are complementary businesses that can provide counter-cyclical benefits to the cyclical vehicle financing business

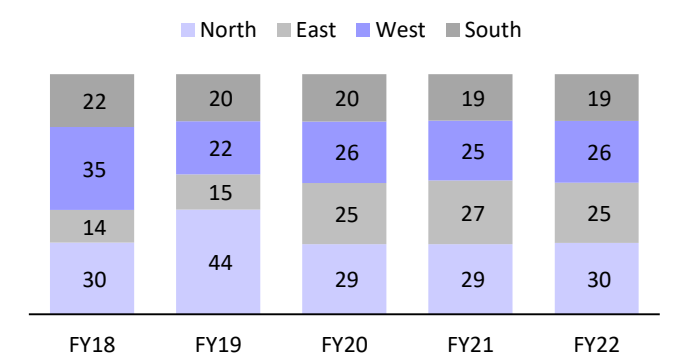
- Except for a small proportion of SME loans, the business assets of MMFS are primarily vehicle finance. To mitigate the cyclical nature inherent in vehicle financing, MMFS has seeded complementary business segments in the form of SME, leasing business and the Digi FinCo business. These complementary businesses can provide counter-cyclical benefits to the cyclical vehicle financing business and expand the potential for delivering consistent growth.
- MMFS plans to scale its SME lending portfolio in the agriculture, automotive and engineering domains. In our view, the SME segment is promising and the Mahindra group's strength positions it well to participate in this growth journey.

Exhibit 15: Vision is to increase the share of new products (SME, LAP and Digi Finco) to 15% by 2025E



Source: MOFSL, Company

Exhibit 16: Region-wise credit concentration



Source: MOFSL, Company

Plans to increase the business share of new products (SME, LAP, Leasing & Digi Finco products) to 15% by 2025E

- Leasing and Subscription platform 'Quiklyz' will facilitate customers to access new cars without the hassle of car ownership. MMFS plans to scale both the Corporate and Personal segments through this venture and has launched this initially in the metro cities to be further scaled up to 30 locations within a year.
- **MMFS plans to raise the business share of new products (SME loans, LAP, Leasing & Digi Finco products) to 15% by 2025E.**

Collection war rooms have been set-up for stringent focus on collections and to reduce asset quality volatility

Intent to stabilize asset quality and credit costs

- On many recent occasions, the company has touched upon having set-up collection war rooms to improve its asset quality and reduce the inherent volatility in asset quality and credit costs.
- Collection war rooms have enabled MMFS to strengthen its on-ground collections and also start building on its collection analytics (albeit, still in early stages in our opinion).
- MMFS has started using analytics to gauge some early warning signals about an exposure that could potentially slip into an NPA. The company will try to activate the collection machinery in advance to prevent it from slipping into the NPA pool.

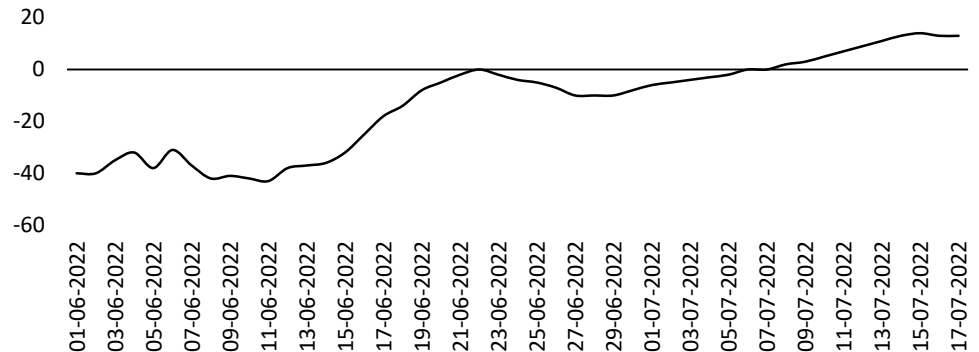
Widening its digital and technology capabilities to leverage data for competitive advantage

- Rollout of 'OneApp', an application to boost experience of field employees by empowering them with decision making abilities as well as digital intervention and at the same time allowing them to do efficient collections, has changed the way in which MMFS did business earlier.
- The company has embarked on setting up an end-to-end hyper-personalized marketing tech platform to engage with its customers across various digital channels.
- Business intelligence dashboards and insights have played a key role in aiding rollout of strategic initiatives in business and collections. Usage of machine learning models in lending and retention has played a critical role in enhancing business volumes. Discussions with the management suggest that MMFS will continue to expand its data sciences and improve artificial intelligence penetration.

Healthy monsoons can lead to recovery in the fortunes of rural India

Exhibit 17: Monsoons, this year, which were in deficit until 5th Jul'22 have swiftly recovered and India has a 13% surplus as of 17th Jul'22

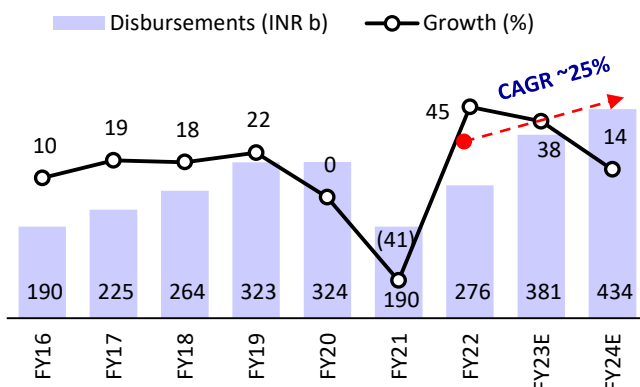
Rural recovery will aid disbursement volumes, which combined with increase in ticket sizes of vehicles can help MMFS deliver healthy disbursements



Source: IMD

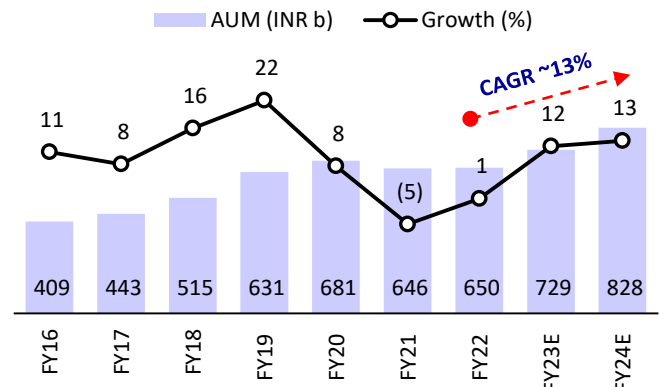
- In the backdrop of expected healthy monsoons, the farm cash flows can improve leading to rural recovery and resulting in higher volumes.
- After a lull in FY21 disbursement, followed by the second Covid wave in India, MMFS has now pressed the accelerator on disbursements. Rural recovery will aid disbursement volumes, which combined with the increase in ticket sizes of vehicles can help MMFS deliver healthy disbursement/AUM CAGR of 25%/13% over FY22-FY24E, respectively.

Exhibit 18: Disbursements CAGR of ~25%...



Source: MOFSL, Company

Exhibit 19: ...leading to AUM CAGR of ~13% over FY22-FY24E

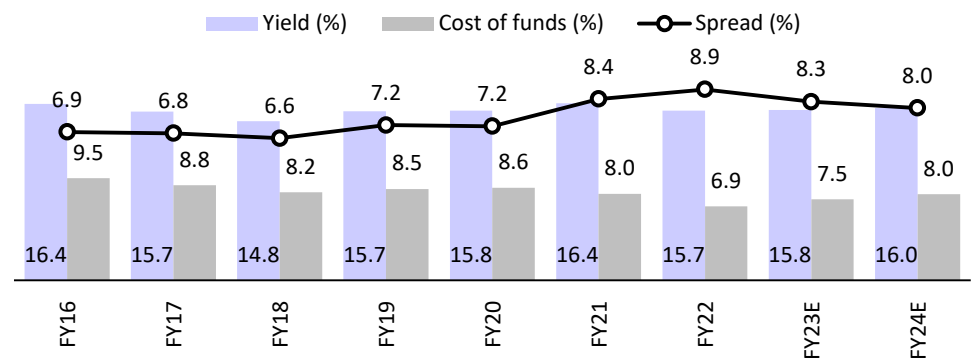


Source: MOFSL, Company

MMFS is relatively less susceptible in a rising interest rate environment

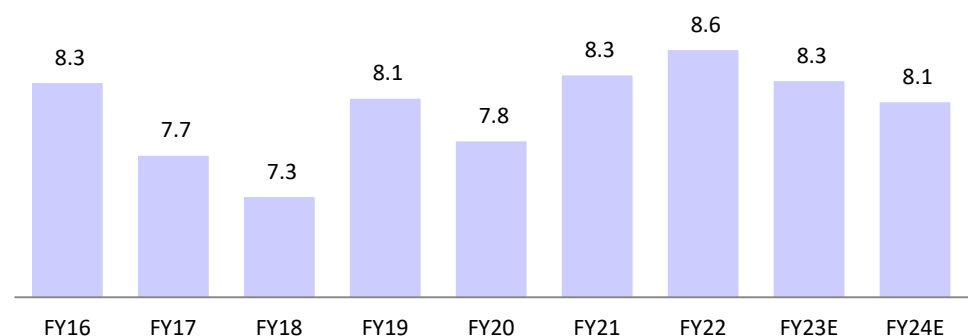
- Around 75% of its liabilities are at a fixed rate, while almost all of its AUM is at a fixed rate. While MMFS will be relatively less susceptible on the borrowing side, it will have limited headroom to pass on the higher cost of borrowings to its customers, leading to a compression in spreads in FY23E.
- We model in a NIM compression of ~30bp/20bp to 8.3%/8.1% in FY23E/FY24E, respectively.

Exhibit 20: Expect compression in spreads to lead to...



Source: MOFSL, Company

Exhibit 21: ...moderation in margins over FY23-FY24E

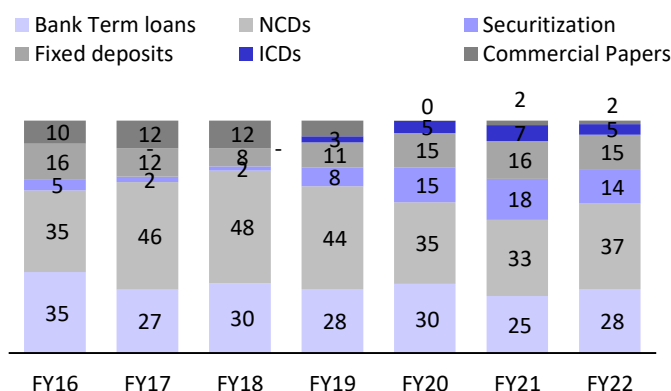


Source: MOFSL, Company

Healthy and well-diversified liability franchise will keep MMFS in a good stead

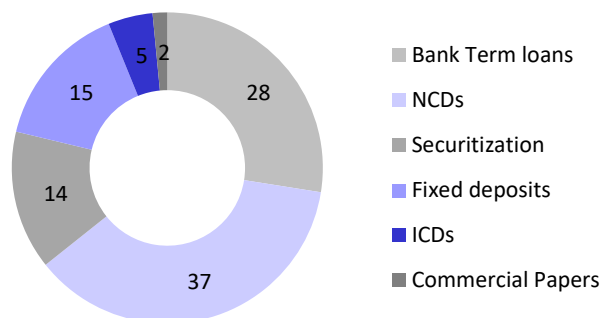
- MMFS has a credit rating of AAA from India Ratings and CARE while it has an AA+/Stable rating from CRISIL. A big enabler underlying this credit rating is the strong parentage of M&M, which we believe is now taking a very prominent and explicit interest in the performance of MMFS.

Exhibit 22: Diversified borrowing mix



Source: MOFSL, Company

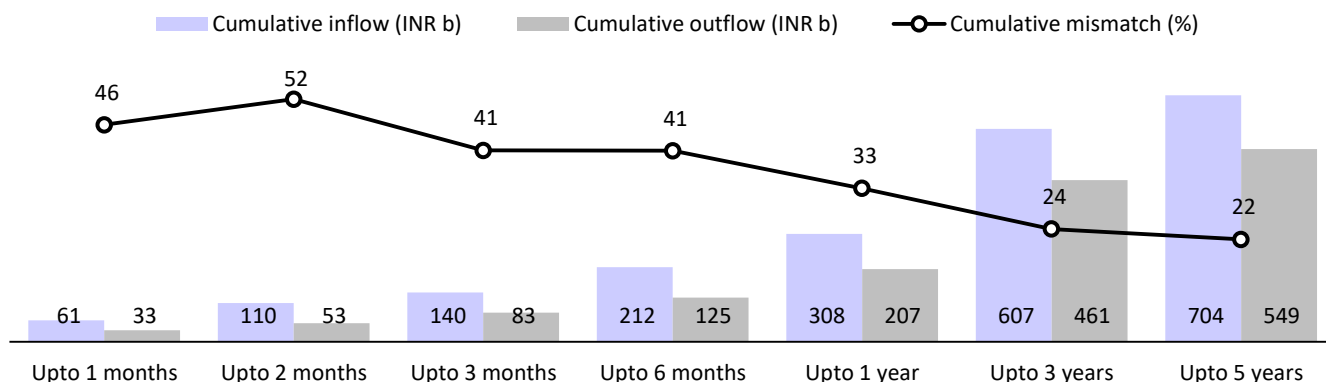
Exhibit 23: Expect the proportion of bank term loans and CPs to increase and mitigate the impact of rising borrowing costs



Source: MOFSL, Company

- The company has maintained a liquidity buffer of greater than three months all through and has a very healthy ALM profile with a positive divergence across all the buckets/tenures.

Exhibit 24: Healthy ALM profile with positive cumulative mismatch across all time buckets

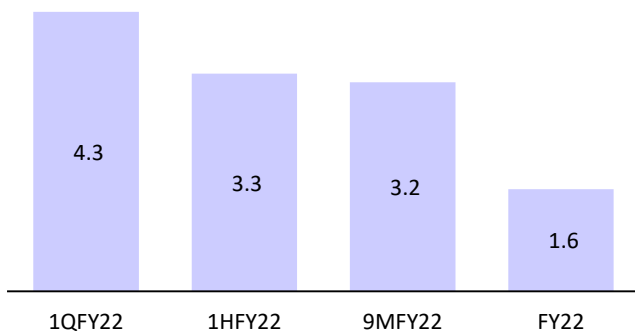


Source: MOFSL, Company

Asset quality and credit costs volatile in the past but likely to offer more stability going ahead

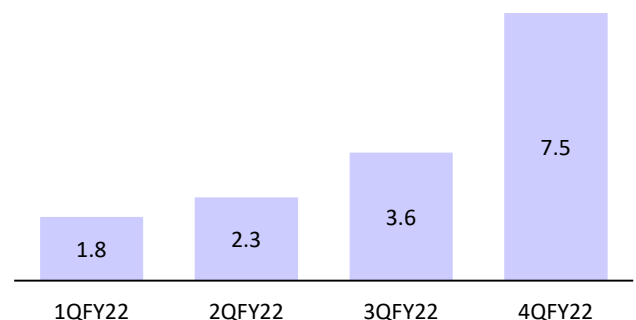
- During the second Covid wave, the stress build-up was more pronounced for MMFS relative to its peers such as CIFC and SHTF. MMFS did, however, end up reversing all ECL provisions of ~INR25b that it made in 1QFY22 for the next three quarters. But this came along with associated equivalent write-offs of ~INR25b in FY22.
- Given the elevated nature of the write-offs, one might be tempted into thinking that a large part of the clean-up on the balance sheet has been completed. While we would partly agree on this but also believe that vehicle financiers are yet to see the complete asset quality impact of the restructured pool of advances.
- Moreover, MMFS unlike Shriram Transport and CIFC has not implemented the RBI NPA circular in its books of accounts. We want to emphasize here that we are not referring to the reporting of the GNPA/NNPA under IRACP but are referring to the implementation of the RBI NPA circular, which MMFS suggested it will implement from Oct'22 onwards. MMFS will have to find ways to rein-in the higher levels of NPAs (under the RBI NPA circular) but in the absence of that there could again be volatility in asset quality and credit costs.

Exhibit 25: MMFS, like most lenders, utilized their Covid provisions/management overlay in the last two quarters



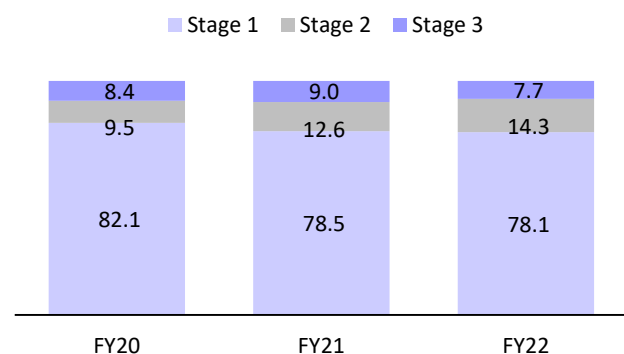
Source: MOFSL, Company

Exhibit 26: Write-offs as a % of TTM business assets (annualized) were elevated



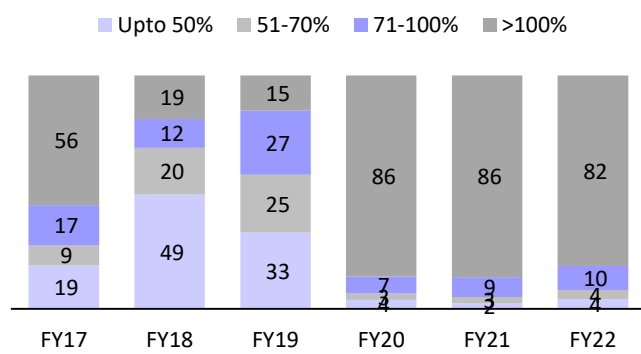
Source: MOFSL, Company

Exhibit 27: Asset quality will (hopefully) be lesser volatile now

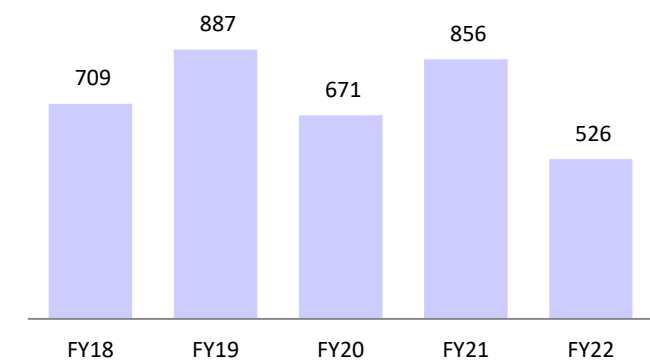


Source: MOFSL, Company

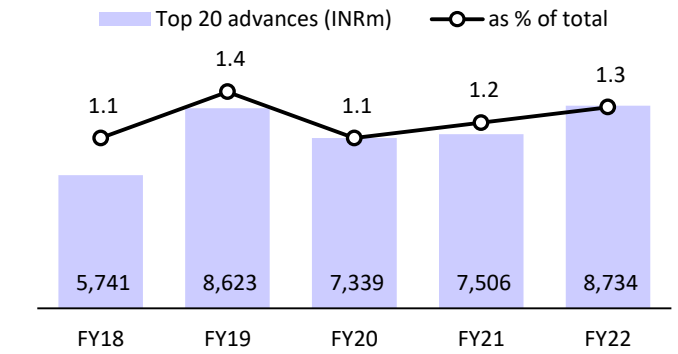
Exhibit 28: LTV bifurcation of the GS3 pool suggests that over 80% of the loans have LTV >100%



Source: MOFSL, Company

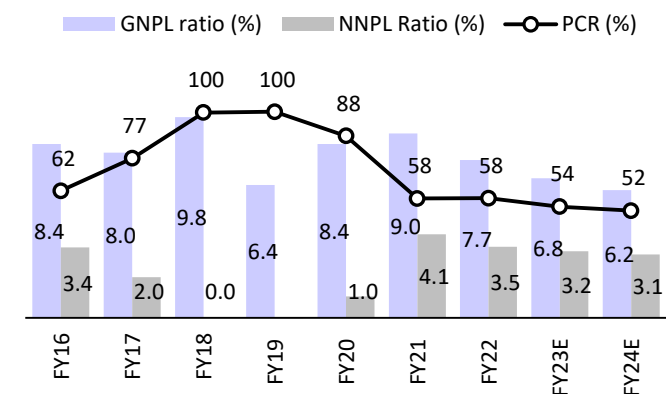
Exhibit 29: Total exposure to the top 4 NPA accounts (INR m)

Source: MOFSL, Company

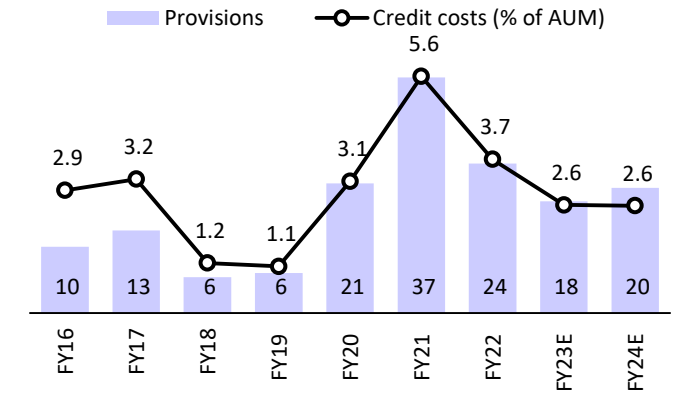
Exhibit 30: Top 20 advances as a % of total

Source: MOFSL, Company

- What has remained largely constant is the granularity of the loans as well as the non-performing exposures. As is evident from the exhibits above, top 20 advances as a % of the total gross loans have remained range-bound and anchored around ~1%.
- Under Vision 2025, MMFS endeavors to deliver a stable asset quality, with GS3 below 6% across the credit and economic cycles. Stability in credit costs, however, is even more desirable. We believe that MMFS is already taking steps in that direction and we model credit costs of ~2.6% in FY23-FY24E (v/s 3.7%/5.6%/3.1% in FY22/FY21/FY20, respectively).

Exhibit 31: Expect asset quality to moderately improve...

Source: MOFSL, Company

Exhibit 32: ...driving decline in credit costs in FY23/FY24

Source: MOFSL, Company

Valuation and view

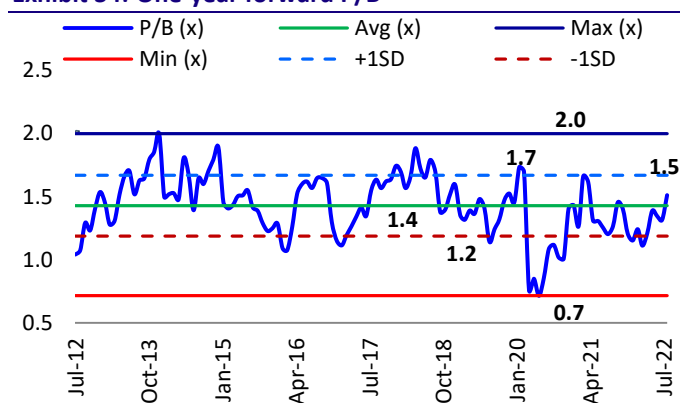
- Though still in nascent stages, both the small ticket lending business (Digi Finco) and the vehicle leasing and subscription business (Quicklyz) hold a lot of promise for MMFS.
- The company has managed to maintain its leadership position in the Tractor and Mahindra UV financing segments, which has always been its strength. While understandably, the company has exhibited volatile operating performance and weak asset quality in the past, we believe that the various strategic initiatives undertaken by the management, if executed correctly, have the potential to script a credible transformation.
- Strong liability franchise and deep moats in rural/semi-urban customer segment position MMFS well to reap rewards of the hard work that is going into evolving this franchise. **We maintain our BUY rating on the stock with a TP of INR235 (premised on 1.7x FY24E P/BV).**
- Key risks to our thesis: a) potential volatility in asset quality and credit costs after the implementation of the RBI NPA circular from Oct'22 onwards, b) inability to improve the customer/product mix resulting in continued exposure to highly vulnerable and volatile cash flow segments and loan growth remaining susceptible to cyclical of vehicle finance, and c) sharp slowdown in vehicle demand led by the slowdown in macro and economic indicators.

Exhibit 33: Increase our FY23/FY24 PAT estimate by ~2% to factor in lower opex

INR B	Old Est		New Est		% Change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII (incl. Sec. Inc)	59.1	65.7	59.2	65.4	0.2	-0.4
Other Income	0.7	0.9	0.7	0.9	0.0	0.0
Total Income	59.8	66.5	59.9	66.3	0.2	-0.3
Operating Expenses	22.9	25.4	22.6	24.7	-1.4	-3.0
Operating Profits	36.9	41.1	37.3	41.6	1.2	1.3
Provisions	17.7	19.7	17.7	19.9	0.0	0.7
PBT	19.2	21.4	19.6	21.8	2.3	1.8
Tax	5.0	5.6	5.1	5.7	2.3	1.8
PAT	14.1	15.8	14.5	16.1	2.3	1.8
Loans	677	770	685	781	1.1	1.4
Borrowings	589	670	631	720	7.2	7.5
Margins	9.2	9.1	8.3	8.1		
Credit Cost	2.8	2.7	2.6	2.6		
RoA on AUM	1.8	1.9	1.8	1.8		
RoE	9.0	9.4	9.2	9.6		

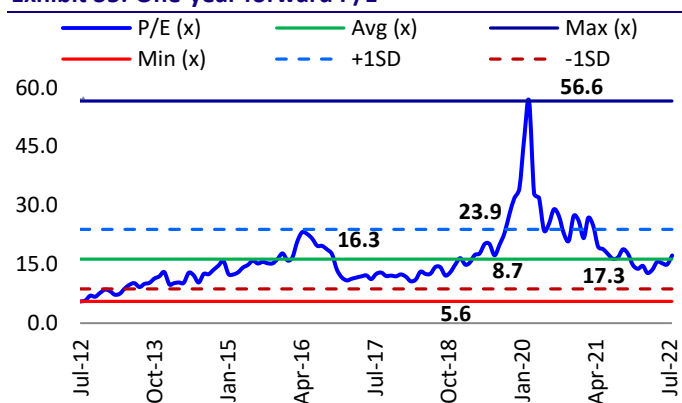
Source: MOFSL, Company

Exhibit 34: One-year forward P/B



Source: MOFSL, Company

Exhibit 35: One-year forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	56,163	60,127	65,842	86,146	99,417	1,02,670	94,756	1,01,962	1,17,255
Interest Expended	26,393	28,574	30,816	39,446	48,287	47,332	39,359	44,769	54,034
Net Interest Income	29,770	31,553	35,025	46,700	51,130	55,338	55,398	57,193	63,220
Change (%)	7.8	6.0	11.0	33.3	9.5	8.2	0.1	3.2	10.5
Other Operating Income	2,368	1,612	493	1,084	1,561	1,283	1,824	2,006	2,207
Other Income	519	636	517	869	1,473	1,277	609	731	877
Net Income	32,658	33,801	36,036	48,653	54,164	57,897	57,830	59,929	66,303
Change (%)	5.8	3.5	6.6	35.0	11.3	6.9	-0.1	3.6	10.6
Operating Expenses	11,781	14,509	14,336	18,476	20,182	16,325	20,577	22,604	24,683
Operating Profits	20,877	19,292	21,700	30,177	33,982	41,573	37,253	37,326	41,621
Change (%)	0.3	-7.6	12.5	39.1	12.6	22.3	-10.4	0.2	11.5
Provisions	10,495	13,091	5,681	6,352	20,545	37,348	23,683	17,721	19,865
PBT	10,382	6,201	16,019	23,824	13,438	4,224	13,570	19,605	21,755
Tax	3,656	2,198	5,907	8,254	4,374	873	3,682	5,137	5,700
Tax Rate (%)	35.2	35.5	36.9	34.6	32.5	20.7	27.1	26.2	26.2
PAT	6,726	4,002	10,111	15,571	9,064	3,352	9,888	14,469	16,055
Change (%)	-19.1	-40.5	152.6	54.0	-41.8	-63.0	195.0	46.3	11.0
Proposed Dividend (Incl Tax)	2,713	1,610	2,938	4,779	0	986	4,439	4,919	5,619

Balance Sheet								INR m	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,129	1,130	1,229	1,230	1,231	2,464	2,466	2,466	2,466
Reserves & Surplus (Ex OCI)	59,752	64,994	92,052	1,03,072	1,12,408	1,43,666	1,49,376	1,58,925	1,69,361
Net Worth	60,881	66,124	93,281	1,04,221	1,13,558	1,46,049	1,51,761	1,61,391	1,71,827
Other Comprehensive Income		0	0	81	81	81	81	81	81
Net Worth	60,881	66,124	93,281	1,04,302	1,13,639	1,46,130	1,51,842	1,61,472	1,71,908
Change (%)	7.4	8.6	41.1	11.8	9.0	28.6	3.9	6.3	6.5
Borrowings	2,94,523	3,52,656	4,00,932	5,28,469	5,94,623	5,85,767	5,58,139	6,30,948	7,19,911
Change (%)	12.1	19.7	13.7	31.8	12.5	-1.5	-4.7	13.0	14.1
Other liabilities	40,391	24,404	33,715	38,009	32,451	38,469	42,906	49,342	56,743
Total Liabilities	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	8,41,682	9,48,482
Investments	15,351	19,843	27,341	37,917	59,110	1,16,073	84,403	75,962	69,885
Change (%)	41.4	29.3	37.8	38.7	55.9	96.4	-27.3	-10.0	-8.0
Loans and Advances	3,62,189	4,06,000	4,85,470	6,12,496	6,49,935	5,99,474	6,04,446	6,84,579	7,81,103
Change (%)	11.7	12.1	19.6	26.2	6.1	-7.8	0.8	13.3	14.1
Other assets	18,255	17,342	15,116	20,367	31,668	54,818	64,038	81,140	97,493
Total Assets	3,95,795	4,43,185	5,27,927	6,70,780	7,40,712	7,70,365	7,52,887	8,41,682	9,48,482

E: MOFSL Estimates

Financials and valuations

Ratios	(%)								
Y/E March	2016	2017	2018	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on Portfolio	16.4	15.7	14.8	15.7	15.8	16.4	15.7	15.8	16.0
Cost of Borrowings	9.5	8.8	8.2	8.5	8.6	8.0	6.9	7.5	8.0
Interest Spread	6.9	6.8	6.6	7.2	7.2	8.4	8.9	8.3	8.0
Net Interest Margin	8.3	7.7	7.3	8.1	7.8	8.3	8.6	8.3	8.1
Profitability Ratios (%)									
Cost/Income	36.1	42.9	39.8	38.0	37.3	28.2	35.6	37.7	37.2
Empl. Cost/Op. Exps.	47.4	46.9	58.1	59.0	56.9	62.2	56.9	57.5	57.9
RoE	11.4	6.3	12.7	15.8	8.3	2.6	6.6	9.2	9.6
RoA	1.8	1.0	2.1	2.6	1.3	0.4	1.3	1.8	1.8
Asset Quality (%)									
GNPA	32,242	35,341	50,270	40,706	57,467	57,857	49,760	49,413	51,416
NNPA	12,351	7,968	139	-63	6,695	24,339	20,860	22,730	24,680
GNPA %	8.4	8.0	9.8	6.4	8.4	9.0	7.7	6.8	6.2
NNPA %	3.4	2.0	0.0	0.0	1.0	4.1	3.5	3.2	3.1
PCR %	61.7	77.5	99.7	100.2	88.3	57.9	58.1	54.0	52.0
Capitalization (%)									
CAR	17.3	18.1	22.7	20.3	19.6	26.0	27.8	24.2	21.9
Tier I	14.6	13.6	17.0	15.5	15.4	22.2	24.3	21.6	19.9
Tier II	2.7	4.5	5.7	4.8	4.2	3.8	3.5	2.6	2.0
Average Leverage on Assets (x)	6.3	6.6	6.1	6.1	6.5	5.8	5.1	5.1	5.4
Valuation									
Book Value (INR)	108	117	152	169	185	119	123	131	139
BV Growth (%)	7.3	8.5	29.7	11.7	8.9	-35.8	3.8	6.3	6.5
Price-BV (x)						1.7	1.7	1.6	1.5
Adjusted BV (INR)	93	107	152	170	176	104	110	117	125
Price-ABV (x)						2.0	1.8	1.7	1.6
OPS (INR)	37.0	34.1	35.3	49.1	55.2	33.7	30.2	30.3	33.8
OPS Growth (%)	0.2	-7.7	3.4	39.0	12.5	-38.9	-10.5	0.2	11.5
Price-OP (x)						6.1	6.8	6.7	6.0
EPS (INR)	11.9	7.1	16.5	25.3	14.7	2.7	8.0	11.7	13.0
EPS Growth (%)	-19.2	-40.5	132.3	53.9	-41.8	-81.5	194.8	46.3	11.0
Price-Earnings (x)						75.1	25.5	17.4	15.7
Dividend	4.0	2.4	4.0	6.5	0.0	0.8	3.6	4.0	4.6
Dividend Yield (%)						0.4	1.8	2.0	2.2

E: MOFSL Estimates

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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