13 October 2022

Company Update | Sector: Financials - NBFC

Cholamandalam Inv & Fin

BSE SENSEX	S&P CNX
57,235	17,014

CMP: INR725 **TP: INR925 (+28%)** **Buy**

Sectoral tailwinds to accelerate growth

Demand outlook healthy; asset quality will exhibit steady improvement

- Despite cyclicality in the vehicle finance business, CIFC is slowly but steadily morphing into an enviable franchise by diversifying into newer product segments, scaling up its LAP (Loan against property) segment, and further strengthening its liability franchise. Notably, CIFC is highly focused on improving the underlying asset quality, which was adversely impacted during the pandemic.
- We believe sectoral tailwinds in vehicle finance will sustain at least over the next 12-18 months, aiding the disbursement momentum in the near-term. Over the medium term, we believe that CIFC would have sufficiently strengthened its LAP, Home Loans, and the three newer business segments—Consumer & Small Enterprise Loan (CSEL), Secured Business & Personal Loan (SBPL) and Small & Medium Enterprises (SME)—to start reaping the benefits of diversification and mitigate the effects of cyclicality on its core Vehicle Finance business.
- A deeper understanding on the approach undertaken by CIFC to build these three new businesses has led us to believe that the company may not repeat the follies from a decade back when it forayed into consumer finance in a JV with DBS Bank.
- FY23, in all likelihood, is expected to be a blockbuster of a year for the multi-product vehicle financiers in general and CIFC in particular. The loan disbursements trends in 1HFY23 (reported in 1Q and based on our channel checks in 2Q) indicate that CIFC can deliver a 74%/30% YoY growth in FY23 disbursements/AUM. We continue to maintain a conservative stance on our estimates for both loan disbursements and repayments (to guard against a volatile macro environment) but we acknowledge upside risks to our FY23 disbursements/AUM growth estimates.
- In a rising interest rate environment, margin compression for vehicle financiers such as CIFC is imminent. Although we estimate a margin compression of ~40bp/30bp in FY23/FY24E, respectively, CIFC can pull the levers on its credit costs in FY23 and opex from FY24 onwards, to continue delivering a healthy RoA/RoE.
- CIFC is well-diversified across product segments as well as geographies. Importantly, it has delivered the best asset quality among peers across the various phases of the credit cycle. We estimate AUM and PAT CAGR of 24% and 20%, respectively, over FY22-FY25E. The stock trades at 3.5x FY24E P/BV, above its 10-year average of 2.7x. Given CIFC's ability to deliver industry-leading growth in the loan book – coupled with its strong asset quality (expected average credit cost of ~1.1% over FY23–25E) and consequently a healthy RoE of ~21-22% – we believe it would continue to command premium valuations in the sector. We reiterate our Buy rating with a TP of INR925 (4.0x Sep'24E BVPS).

Stock Info

Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USDb)	595.2 / 7.2
52-Week Range (INR)	818 / 470
1, 6, 12 Rel. Per (%)	-4/1/27
12M Avg Val (INR M)	1579
Free float (%)	48.5

Financials Snapshot (INR b)

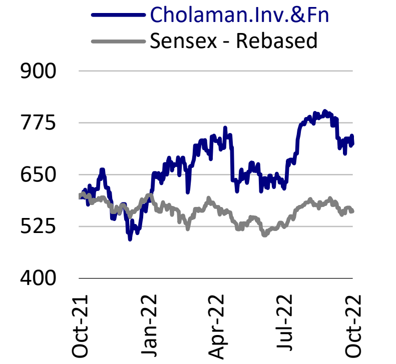
Y/E March	FY23E	FY24E	FY25E
Total Income	70.9	84.5	102.2
PPP	45.5	55.0	67.8
PAT	26.6	32.4	41.0
EPS (INR)	32.4	39.5	50.0
EPS Gr. (%)	11	22	27
BV (INR)	172	208	254
Valuations			
NIM (%)	7.4	7.1	7.2
C/I ratio (%)	35.7	34.9	33.7
RoAA (%)	2.8	2.7	2.8
RoE (%)	20.6	20.8	21.6
Payout (%)	8.7	8.6	8.0
Valuations			
P/E (x)	22.4	18.3	14.5
P/BV (x)	4.2	3.5	2.8
Div. Yield (%)	0.4	0.5	0.6

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.5	51.6	51.6
DII	22.4	23.0	21.8
FII	18.0	17.6	18.9
Others	8.1	7.8	7.7

FII Includes depository receipts

Stock Performance (1-year)



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Strong sectoral tailwinds; expect healthy AUM CAGR of 24% over FY22-25

- In addition to strong sales volumes, higher ticket size of both new and used vehicles will aid strong growth in disbursement in FY23. Customers who had postponed their new vehicle purchases in FY21/FY22 have resumed their purchases in FY23, thus, feeding into the strong demand.
- Rising interest rates alone cannot have any significant impact on the demand for either Passenger or Commercial Vehicles, but even a moderate slowdown in the economy has the potential to mute demand for new vehicles.
- We estimate AUM CAGR of 18%/27%/22%/110% over FY22-25 in VF, LAP, Home Loans, and Newer Business segments, respectively. For CIFC, this will translate into a total AUM CAGR of 24% over the same period.

Newer business segments scaling up well: Momentum will only get stronger

- CIFC officially launched the three newer business segments in Jan'22. The company is at a pivotal point in its evolution towards Chola 3.0 as it is building out newer product segments in Consumer, Small Enterprises, Secured, and Personal loans. While we acknowledge that CIFC does not yet have a clear 'right to win' in newer businesses, we believe it is well-equipped to build capabilities in these product segments.
- Rather than being purely driven by loan growth, CIFC is focusing on the bounce rates, delinquencies, and the underlying asset quality of the newer product segments to evolve its strategy and decide the monthly disbursement run-rate. Bounce-rates in its CSEL segment have predominantly been in the low-to-mid single digit and the asset quality parameters are in line with the expectations and better than most peers.
- The business heads at these businesses are CIFC veterans and have in their earlier roles headed either one of the four zones in the Vehicle Finance business at CIFC. We believe that CIFC chose leaders from its internal senior leadership team to head the newer business segments because it wanted to replicate the same culture – conservatism in underwriting and focus on collections – in the newer business segments as well. We delve deeper into each of these newer business segments in *Exhibit 23*.

Margin compression inevitable but can manage the impact

- Given the fixed-rate lending nature of the vehicle finance business, margin compression is inevitable in a rising interest rate environment. Lenders such as CIFC who benefitted during a declining interest rate regime will have to grapple with narrowing margins over FY23-FY24.
- Compared to MMFS and SHTF, CIFC (in our estimate) has a higher share of floating-rate liabilities in its borrowing mix. This can be explained by Home Loans and LAP (combined 30% of the mix) on CIFC's loan books which are floating rate in nature.
- We estimate margin compression of ~40bp/30bp in FY23/FY24E, respectively. CIFC can use levers such as: a) increasing the proportion of CP (~7% now) in the borrowing mix, b) further rationalizing the excess liquidity on the Balance Sheet, and c) changing the product mix to higher yielding newer product segments. In addition, it can also pull the levers on its credit costs in FY23 and opex from FY24 onwards, to deliver a healthy RoA/RoE.

Asset quality will further improve; expect credit costs at 110-120bp

- While CIFC's loan book did exhibit stress with the advent of the second COVID wave, the company managed to rein in a good proportion of that asset quality deterioration in the remainder of FY22.
- Moreover, we expect steady improvement in Stage 3 assets to ~3.6% by Mar'23 and further improvement to ~3% by Mar'25. We believe that this would also be accompanied by improved LAP asset quality, whereby, the company would be able to leverage the SARFAESI Act for the resolution of stressed advances more effectively.
- CIFC has been conservative in provisioning and is well provided for. However, we estimate slightly higher write-offs and increase in provision coverage ratio (particular on Stage 3 loans) to keep the credit costs elevated in FY23. We model credit costs of 1.2%/1.1%/1.0% in FY23/FY24/FY25, respectively.

Credit rating: Is the time ripe for an upgrade?

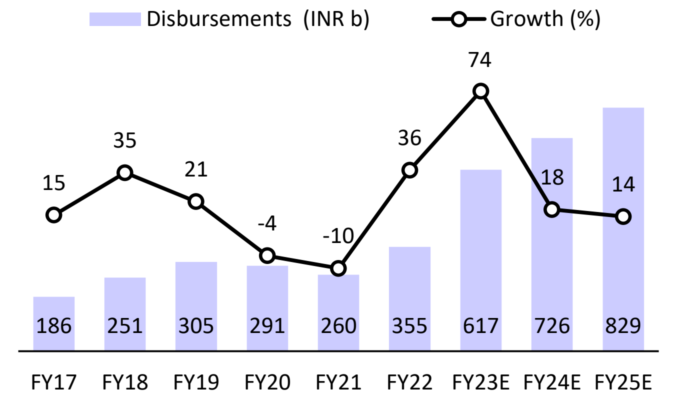
- We believe that given the stage of its evolution, lineage, and demonstrated execution over the last four years, CIFC should start engaging with the credit rating agencies for an AAA credit rating.
- The underlying reasons for the higher-dependence of CIFC on Bank terms loans in its liability mix can be explained by) presence of other AA+ rated NBFCs today that raise money in the debt markets at much higher interest rates than CIFC and b) because the banks recognize the execution demonstrated by CIFC and its Murugappa group parentage, and thereby, provide loans at cheaper rates than debt markets.
- In essence, a) because CIFC is not AAA-rated it misses out on the pool of debt-capital, which is allocated/reserved for AAA-rated papers and b) because debt market participants get better (higher) interest rates on other AA+ rated NBFCs, their appetite for CIFC Debt issuances (priced lower) is naturally not as high
- This we believe will become even more important to strive for in the context of HDFC Ltd (which is AAA-rated) merger with HDFC Bank and which can potentially leave a big vacuum in the AAA-rated debt paper supply.

Robust growth outlook with healthy return ratios; Reiterate BUY

- We believe that CIFC has great growth trajectory, an excellent corporate governance track record, stability in earnings, and the ability to deliver strong through-cycle RoA/RoE.
- For someone with the lineage, track record, and the Balance Sheet strength of CIFC, we would believe that it would be able to tap the huge opportunity in Consumer, MSME, and SME loans with a diversified suite of products for its target middle-of-the-pyramid customers.
- CIFC is likely to continue to grow faster than peers over the medium term, in our opinion. Given CIFC's ability to deliver industry-leading growth in the loan book – coupled with its strong asset quality (estimated credit cost of ~1.0-1.2% over FY23–25E) and consequently a healthy RoE of ~21-22% – we believe CIFC would continue to command premium valuations relative to its listed peers in Vehicle Finance. We reiterate our BUY rating with a TP of INR925 (4.0x Sep'24E BVPS).
- **Key Risks** a) CIFC is expected to predominantly remain a vehicle financier (contributing ~60% of the loan mix by FY25E), and will therefore, remain vulnerable to the cyclicality inherent in vehicle financing b) Asset quality of the newer business segments where it is rapidly scaling up will be known only when there is sufficient scale and seasoning of the respective product segments.

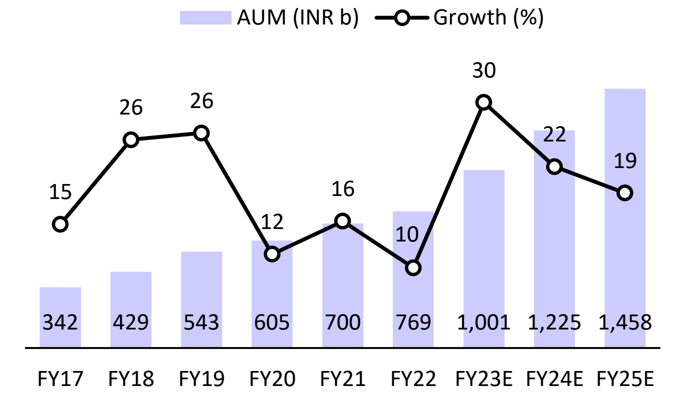
Story in charts

Exhibit 1: Expect disbursements to grow at CAGR of ~33% over FY22-25…



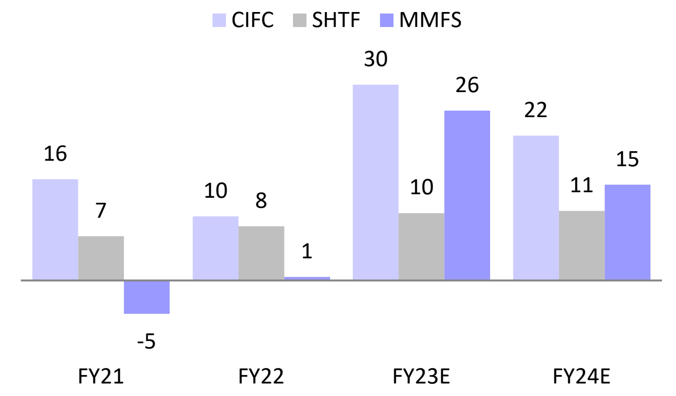
Source: MOFSL, Company

Exhibit 2: … leading to AUM CAGR of ~24% over this period



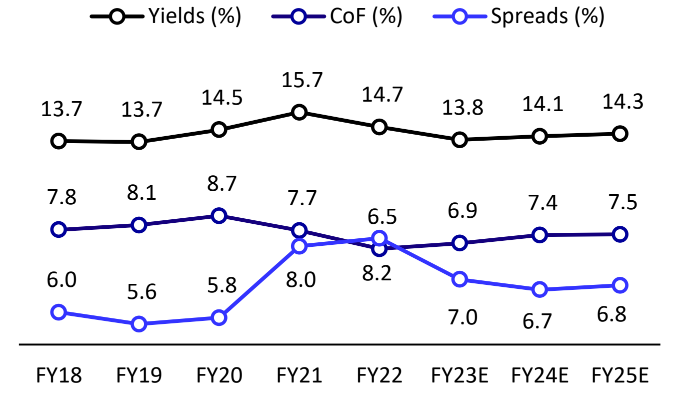
Source: MOFSL, Company

Exhibit 3: CIFC poised to deliver stronger AUM growth relative to peers



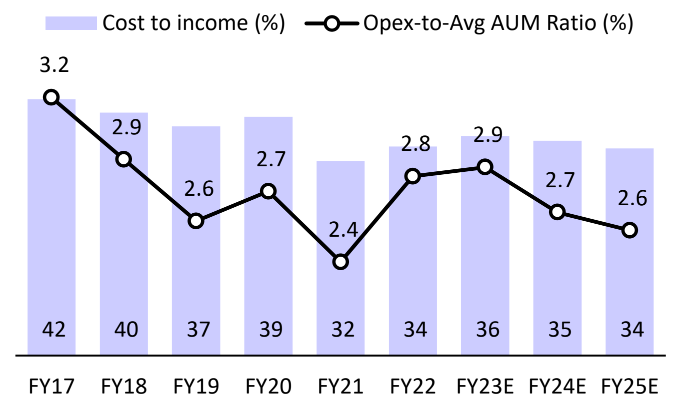
Source: MOFSL, Company

Exhibit 4: Estimate spreads to decline driven by higher CoF



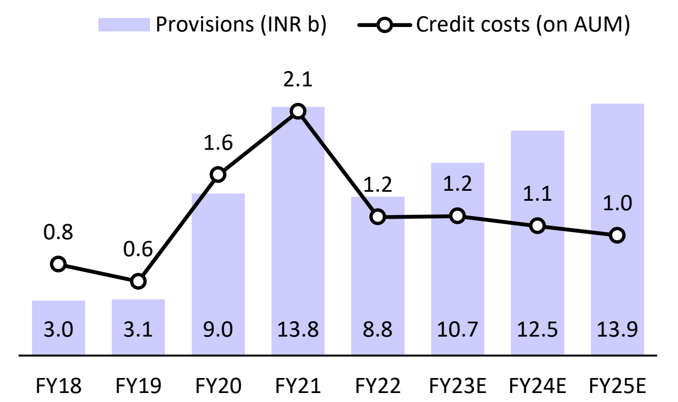
Source: MOFSL, Company

Exhibit 5: While cost-income ratio would decline marginally, expect healthy improvement in cost-AUM ratio



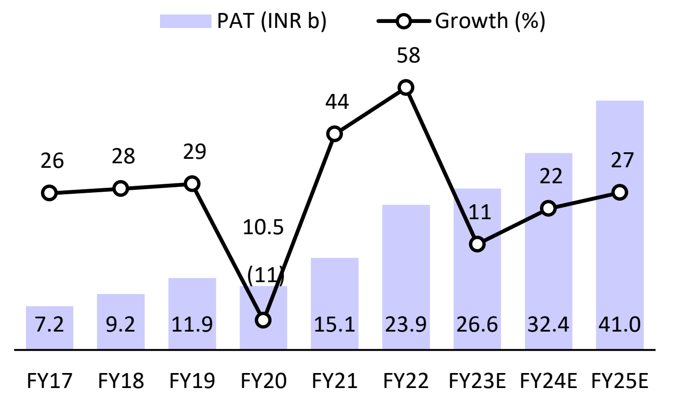
Source: MOFSL, Company

Exhibit 6: Credit costs would normalize to levels of ~100bp by FY25



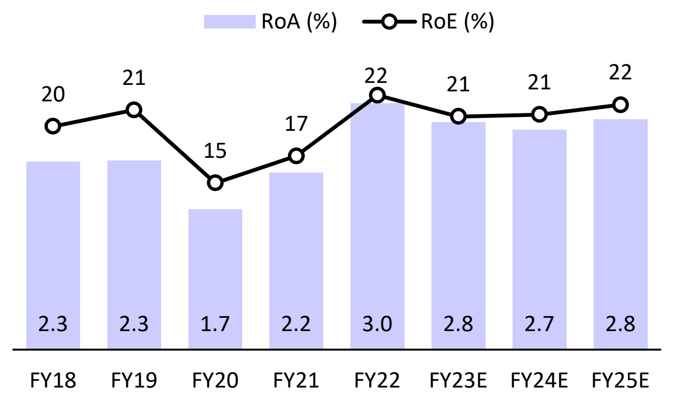
Source: MOFSL, Company

Exhibit 7: PAT CAGR of ~20% over FY22–25



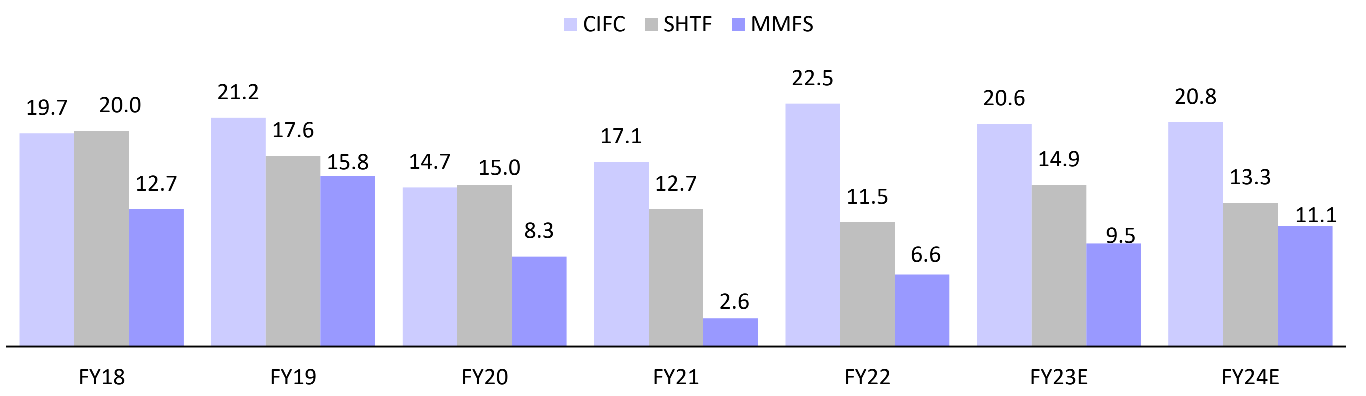
Source: MOFSL, Company

Exhibit 8: Expect healthy RoE of ~21-22% over medium term



Source: MOFSL, Company

Exhibit 9: RoE profile of CIFC better than peers (%)



Source: MOFSL, Company

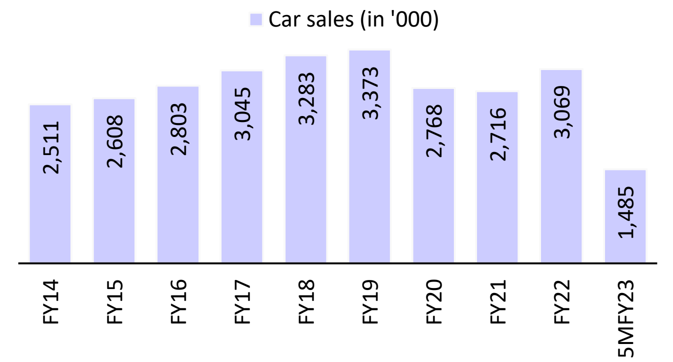
Strong sectoral tailwinds; expect healthy AUM CAGR of 24% over FY22-25

Demand for Commercial Vehicles (CVs) has been improving over the last six to nine months. We expect the demand momentum to sustain in FY23, with higher capacity utilization from Infrastructure spending feeding into the demand for newer vehicles.

E-way bill generation data has been strong and we believe that it will continue to improve in 2HFY23 with the economic momentum picking pace in the seasonally stronger second half of the fiscal year.

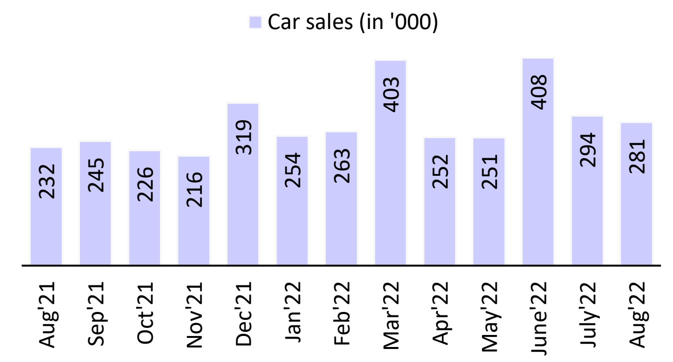
A large part of FY22 was impacted by the shortage in semiconductors, which led to a higher waiting period for Passenger Vehicles. Even if supply-side issues continue to persist, CIFC will gain market share from the other NBFCs in FY23.

Exhibit 10: Yearly car sales volumes



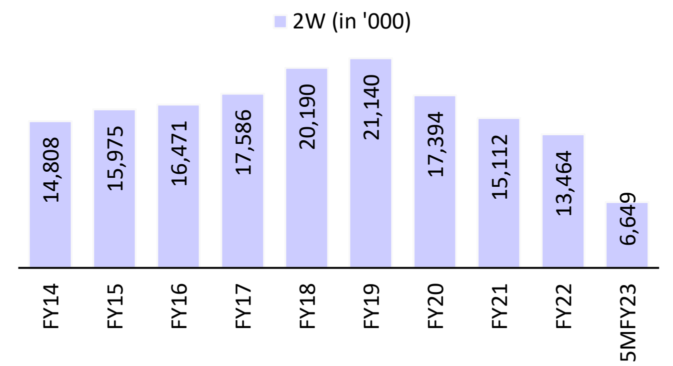
Source: MOFSL, Company

Exhibit 11: Monthly car sales volumes



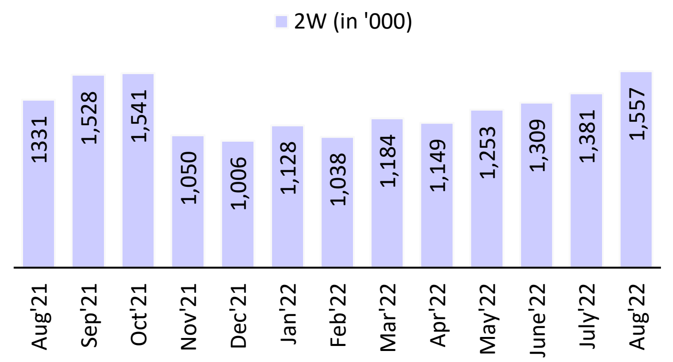
Source: MOFSL, Company

Exhibit 12: Yearly 2W sales volumes



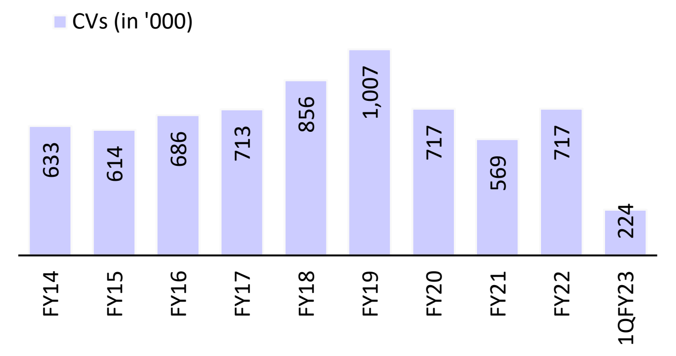
Source: MOFSL, Company

Exhibit 13: Monthly 2W sales volumes



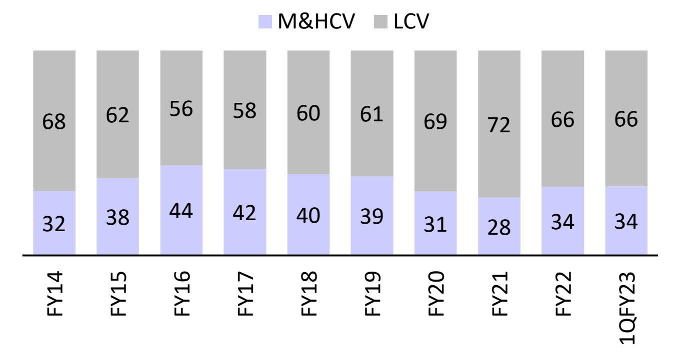
Source: MOFSL, Company

Exhibit 14: Yearly CV sales volumes



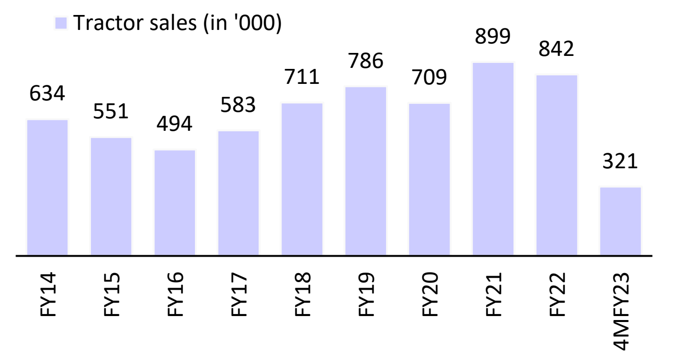
Source: MOFSL, Company

Exhibit 15: CV sales mix (%)



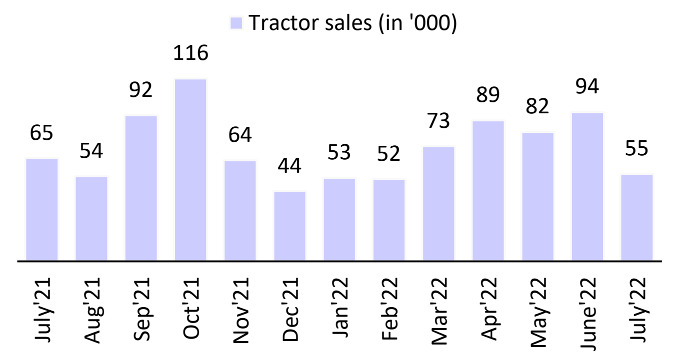
Source: MOFSL, Company

Exhibit 16: Yearly tractor sales volumes



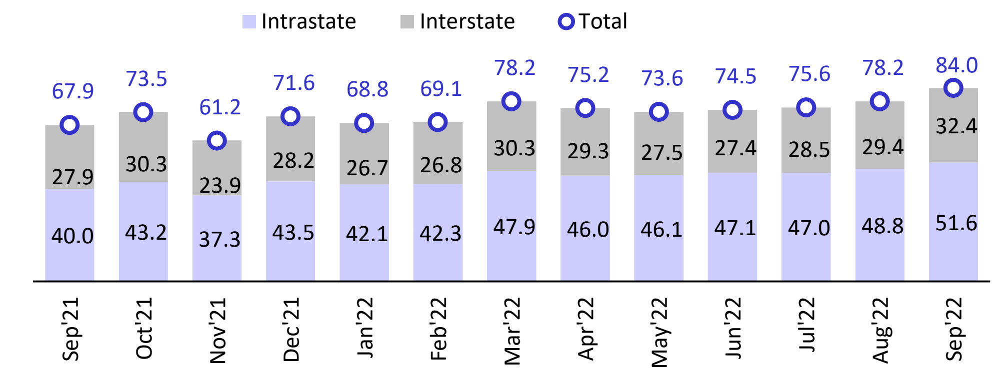
Source: MOFSL, Company

Exhibit 17: Monthly tractor sales volumes



Source: MOFSL, Company

Exhibit 18: Daily average e-way bill generations increased 11% MoM (on a daily average basis) in Sep'22 (m)

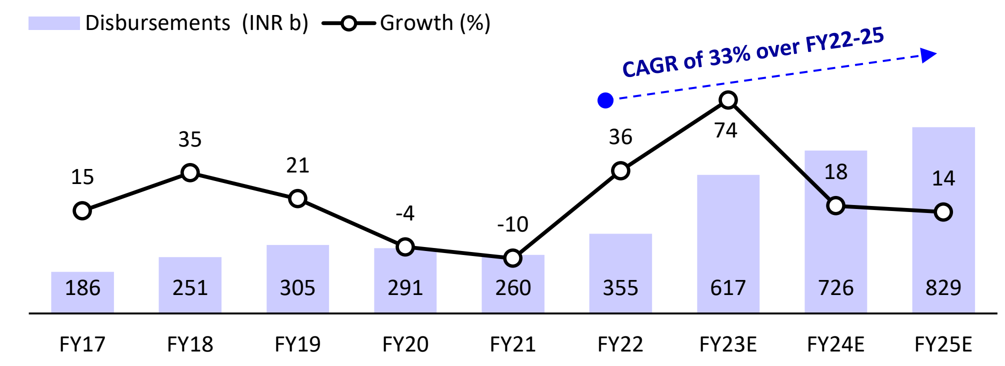


Source: GSTN, MOFSL

Our outlook on a recovery in M&HCV volumes in FY23/FY24 is underpinned by: a) a pick-up in Infrastructure and the Real Estate sector, b) high fleet utilization and increased profitability of fleet operators, and c) an improvement in the broader economy.

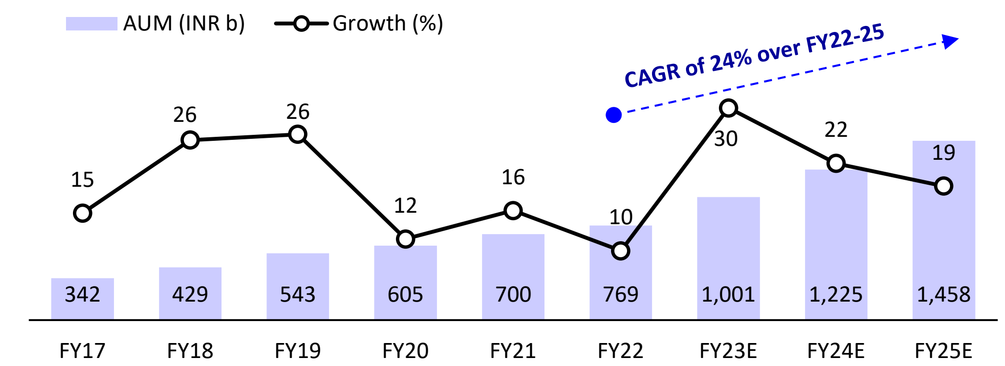
We estimate AUM CAGR of 18%/27%/22%/110% over FY22-25E in Vehicle Finance, LAP, Home Loans, and Newer Business segments, respectively. For CIFC, this will translate into a total AUM CAGR of 24% over the same period.

Exhibit 19: Expect disbursements CAGR of ~33% over FY22-25, aided by increasing contribution from LAP and newer business segments…



Source: MOFSL, Company

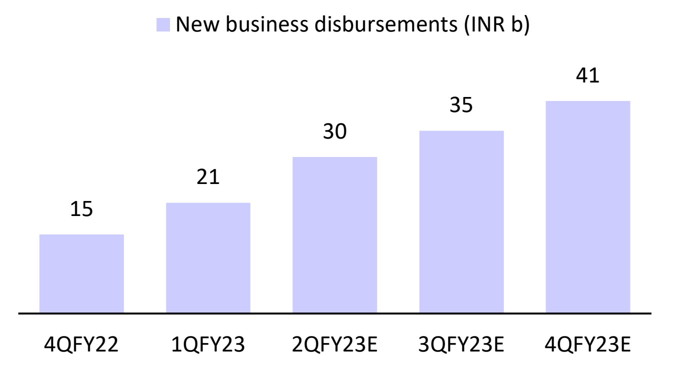
Exhibit 20: … translating into AUM CAGR of ~24% over FY22-25



Source: MOFSL, Company

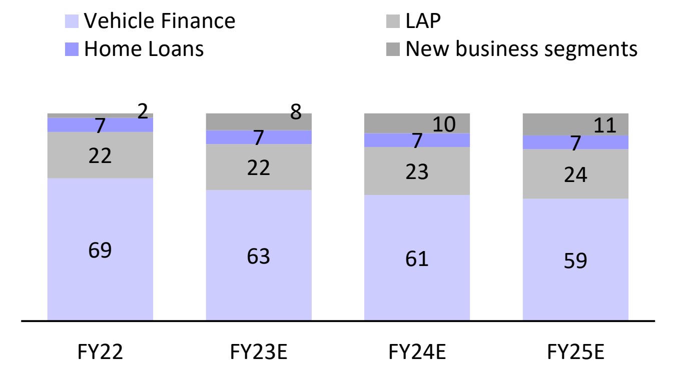
Newer business segments scaling up well: Momentum will only get stronger

Exhibit 21: Newer business segments have scaled up quickly



Source: MOFSL, Company

Exhibit 22: Expect newer businesses to contribute 11% to the AUM mix by FY25E



Source: MOFSL, Company

Rather than being purely driven by loan growth, CIFC is focusing on the bounce rates, delinquencies, and the underlying asset quality of the newer product segments to evolve its strategy and decide the monthly disbursement run-rate. Bounce-rates in its CSEL segment have predominantly been in the low-to-mid single digit and the asset quality parameters are in line with the expectations and better than most peers.

Exhibit 23: Deep dive into the finer nuances of each of the three new business segments

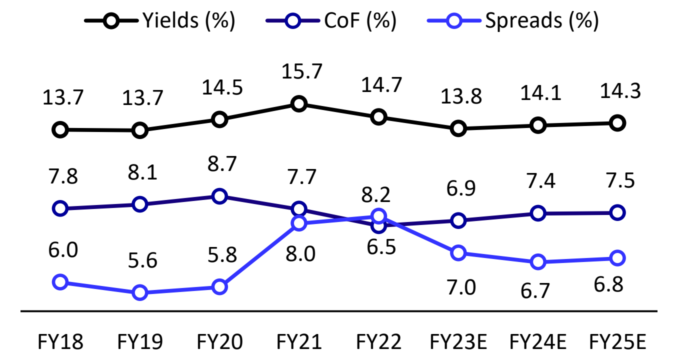
	Consumer & Small Enterprise Loan	Secured Business & Personal Loan	Small & Medium Enterprises Loan
	CSEL	SBPL	SME
Secured/ Unsecured	❖ **Unsecured**	❖ **Secured** (but resale of the collateral is very poor)	❖ **Secured** except for supply chain finance
Distribution Channels	❖ Traditional, Phygital, Partnerships	❖ Traditional Model	❖ Traditional, Phygital, Partnerships
RoA profile (after 2-3 years)	❖ Potential pre-tax RoA of 4.5%-5.0%	❖ Highest RoA business Can potentially deliver pre-tax RoA of 6%-7%	❖ Lowest RoA among the three businesses ❖ Can potentially deliver pre-tax RoA of 2.5%-3.0%
Competitive Landscape	❖ Likes of Bajaj Finance, Fullerton, AB Capital	❖ Likes of Five Star, Veritas, Vistaar, Bandhan and AU SFB	❖ Likes of Bajaj Finance, U-Gro Capital, AB Capital, Tata Capital
Target markets	❖ Tier 1 | Tier 2 | Tier 3	❖ Outskirts of Tier 2 | Tier 3 | Tier 4 towns. Idea is to expand pan-India within the next two years.	❖ Tier 1 | Tier 2
Products	❖ **Two Channels:** Fin-tech Partnerships and traditional DSA channels. Later they will also have DSTs originating the business in CSEL ❖ **Products in traditional channel:** Personal Loans, Business Loans and Professional Loans. Origination done through DSAs. ❖ Relationship manager manages the relationship with the DSAs ❖ Area Business Managers will manage the business and are already responsible for collections. ❖ Compulsory Personal Discussion, FCA and RCU check	❖ **CIFC has started with Business Loans and will be looking to introduce personal loans in the future.** ❖ **Business Loans: Yields of 21%-22%.** These loans are given for working capital. Large part of collections here can happen through ACH and much lower collection effort is required. ❖ **Personal Loans: (Ticket sizes of INR200K and yields of 24%-26%)** Usually given to the cash salaried customers. Usage is for the consumption purpose. 80%-90% collections happen in cash. ❖ Already has branches in states where Five-Star is looking to make in-roads	❖ **Secured Term Loans to Enterprises** (Collateral will be land, machinery and even SORP) ❖ **Supply Chain Finance** (Channel Funding): Organic model and also through partnerships. Always done through anchors including both Vendor Financing and Dealer Financing. No direct bill discounting. ❖ **Equipment Finance** (Identified industries and 4-5 OEMs where recourse if available from OEM). Product segment was started only two years back. ❖ **Loan Against Shares: Maximum LTV of 50% (Book size of ~INR500m). Company is also looking to get into tie-ups for ESOP funding.**
Partnerships	❖ Disbursements through Fin-tech partnerships will be capped at ~33% ❖ **KreditBee** - Short-term PL **Bank Bazaar** - Personal Loans **Zest Money** - Proven BNPL (will be capped at INR100-200m per month) **Paytail** - Offline BNPL **LendingKart** - Business Loans **Consumer Finance** - CIFC is in discussions and might tie-up with someone.		
Credit costs	❖ Bounce rates of mid-single digit now (but the book has not seasoned yet) and the endeavour will be to keep bounce rate in the lower single digits.	❖ At least 2%	❖ 1.0%-1.5%
Ticket Size	❖ Under partnerships, it is doing lower ticket size and lower tenured loans. ~30% of the business is originated through partnerships and has an average duration of 3 months	❖ ATS of INR400K	❖ **ATS for Term Loans:** INR15m-20m **ATS for Equipment:** INR3.5m (Ticket sizes varying from IN5m-10m) **ATS for Supply Chain:** Program value basis (going up to INR100-150m) with typical utilization of ~60%

	Consumer & Small Enterprise Loan	Secured Business & Personal Loan	Small & Medium Enterprises Loan
	CSEL	SBPL	SME
Business Model	❖ Entire credit underwriting for business sourced through the traditional channel is done by CIFC. ❖ For business sourced through partnerships, there are different models but the credit filters are decided by CIFC.	❖ **Entire flow of Sourcing, Underwriting and collections will be done in-house** ❖ Sourcing is done through cold-calling or by the in-house DST. ❖ No sourcing through DSA/connectors since commission pay-outs is not allowed. ❖ Separate PD done by the credit team which does not report to Sales.	
Underwriting	❖ Perfios, Karza, Sherlock are few of the tools used in underwriting. Company has partnered with Kuliza and integrated its journey in its LOS/LMS platform. ❖ 98% customers who have been acquired have a CIBIL score of 700+	❖ CIBIL and High Mark are leveraged	❖ **Internal Scorecard.** They are developing their own underwriting models.
Others	❖ Each branch where it is doing CSEL will have a sales, credit and collections employee	❖ Collection-Head has already joined. Dedicated collection team will be set-up next year. ❖ All the four Zonal Business Heads in SBPL are from CIFC's used vehicle Finance segment ❖ In FY23, it will be looking to grow to 200+ branches and it will grow to 300+ branches over the next 2 years.	

Margin compression inevitable, but can manage the impact

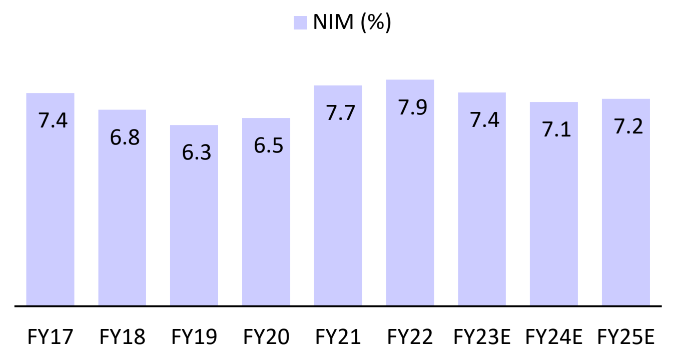
We estimate margin compression of ~40bp/30bp in FY23/FY24E, respectively.

Exhibit 24: Decline in spreads is as expected



Source: MOFSL, Company

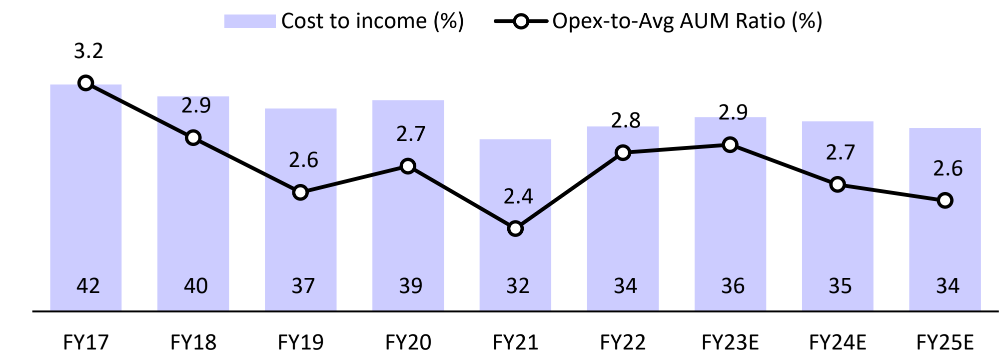
Exhibit 25: Margins compression inevitable, but the impact can be managed



Source: MOFSL, Company

CIFC can use levers such as a) increasing the proportion of CP (~7% now) in the borrowing mix, b) further rationalizing the excess liquidity on the Balance Sheet, and c) changing the product mix to higher yielding newer product segments.

Exhibit 26: Improvement in cost ratios can help offset the impact of compression in margin



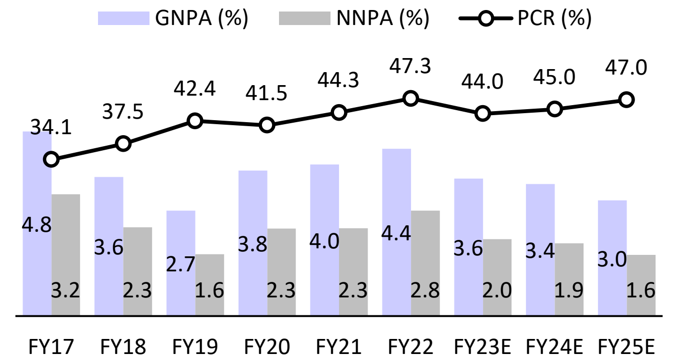
Source: MOFSL, Company

In addition, it can pull the levers on its credit costs in FY23 and opex from FY24 onwards to deliver a healthy RoA/RoE.

Asset quality will further improve; expect credit costs at 100-120bp

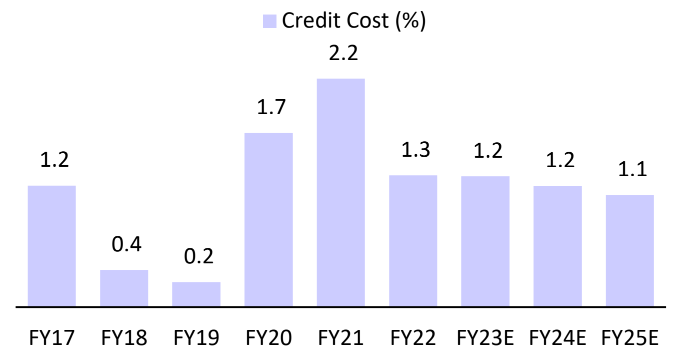
We expect steady improvement in Stage 3 assets to ~3.6% by Mar'23 and further improvement to ~3% by Mar'25. We believe that this would also be accompanied by improved LAP asset quality, whereby, the company would be able to leverage the SARFAESI Act for the resolution of stressed advances more effectively.

Exhibit 27: Expect a steady improvement in asset quality…



Source: MOFSL, Company

Exhibit 28: …resulting in credit costs normalizing to run-rate levels of ~100bp



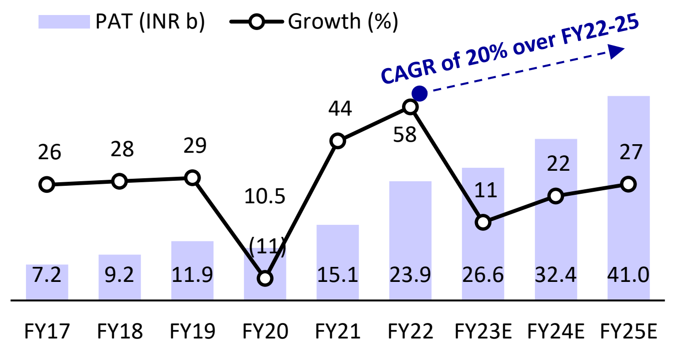
Source: MOFSL, Company

CIFC has been conservative in provisioning and is well provided for. However, we estimate slightly higher write-offs and increase in provision coverage ratio (particular on Stage 3 loans) to keep the credit costs elevated in FY23. We model credit costs of 1.2%/1.1%/1.0% in FY23/FY24/FY25, respectively.

To gain further dominance and strength

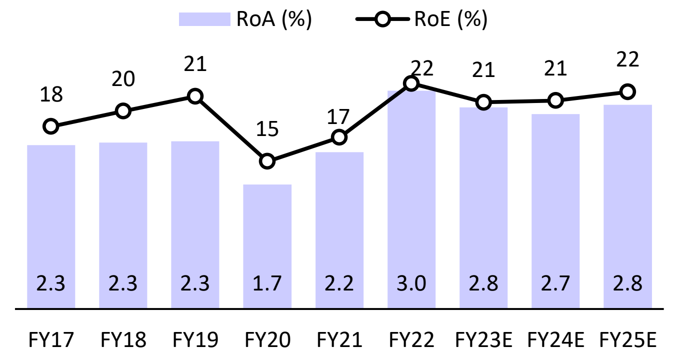
CIFC is likely to continue to grow faster than peers over the medium term, in our opinion. Given CIFC's ability to deliver industry-leading growth in the loan book – coupled with its strong asset quality and consequently healthy RoE of ~21-22% – we believe CIFC would continue to command premium valuations over its listed peers in Vehicle Finance.

Exhibit 29: Estimate PAT CAGR of ~20% over FY22–25…



Source: MOFSL, Company

Exhibit 30: … leading to healthy RoA/RoE of 2.8%/22% by FY25



Source: MOFSL, Company

Exhibit 31: DuPont analysis

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	15.1	13.9	13.1	12.8	12.9	12.8	12.2	12.5	12.7	12.9
Interest Expended	7.9	7.1	6.7	7.1	7.6	6.6	5.5	5.8	6.3	6.4
Net Interest Income	**7.2**	**6.8**	**6.4**	**5.7**	**5.4**	**6.2**	**6.7**	**6.7**	**6.4**	**6.5**
Other Operating Income	1.1	0.9	0.7	1.0	1.3	1.0	1.0	0.8	0.7	0.6
Net Income	**8.3**	**7.7**	**7.1**	**6.7**	**6.7**	**7.2**	**7.8**	**7.5**	**7.1**	**7.1**
Operating Expenses	3.3	3.2	2.8	2.5	2.6	2.3	2.6	2.7	2.5	2.4
Operating Income	**5.0**	**4.5**	**4.3**	**4.2**	**4.1**	**4.9**	**5.1**	**4.8**	**4.6**	**4.7**
Provisions/write offs	1.7	1.0	0.8	0.6	1.5	2.0	1.1	1.1	1.0	1.0
PBT	**3.4**	**3.5**	**3.5**	**3.6**	**2.6**	**2.9**	**4.0**	**3.7**	**3.6**	**3.7**
Tax	1.2	1.2	1.2	1.3	0.9	0.8	0.9	0.9	0.8	0.9
Reported PAT	**2.2**	**2.3**	**2.3**	**2.3**	**1.7**	**2.2**	**3.0**	**2.8**	**2.7**	**2.8**
Leverage	7.6	8.0	8.5	9.1	8.5	7.8	7.4	7.3	7.6	7.6
RoE	**16.6**	**18.2**	**19.7**	**21.2**	**14.7**	**17.1**	**22.5**	**20.6**	**20.8**	**21.6**

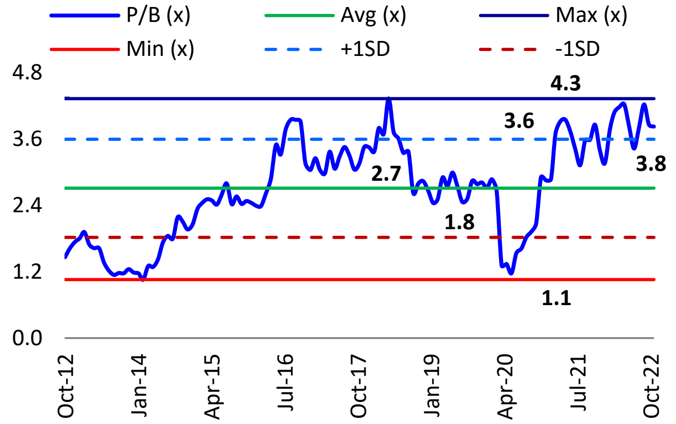
Source: MOFSL, Company

Exhibit 32: Our estimates are largely unchanged after we upgraded our estimates in the recent quarterly preview

INR B	Old Est.		New Est.		% change	
	FY23	FY24	FY23	FY24	FY23	FY24
NII (incl. assignments)	63.6	75.8	63.6	76.6	0.0	1.0
Other Income	7.2	7.8	7.2	7.9	0.0	2.0
Total Income	**70.9**	**83.6**	**70.9**	**84.5**	**0.0**	**1.1**
Operating Expenses	25.2	29.5	25.3	29.5	0.4	0.0
Operating Profits	**45.7**	**54.0**	**45.5**	**55.0**	**-0.2**	**1.7**
Provisions	11.0	12.0	10.7	12.5	-2.5	3.9
PBT	**34.7**	**42.1**	**34.9**	**42.5**	**0.5**	**1.1**
Tax	8.2	10.0	8.3	10.1	0.5	1.1
PAT	**26.5**	**32.1**	**26.6**	**32.4**	**0.5**	**1.1**
AUM	998	1,205	1,001	1,225	0.3	1.7
Loans	974	1,175	971	1,188	-0.2	1.2
Borrowings	907	1,108	909	1,127	0.3	1.7
NIM	7.4	7.1	7.4	7.1		
Credit Cost	1.2	1.1	1.2	1.1		
RoA on AUM	2.8	2.7	2.8	2.7		
RoE	**20.5**	**20.6**	**20.6**	**20.8**		

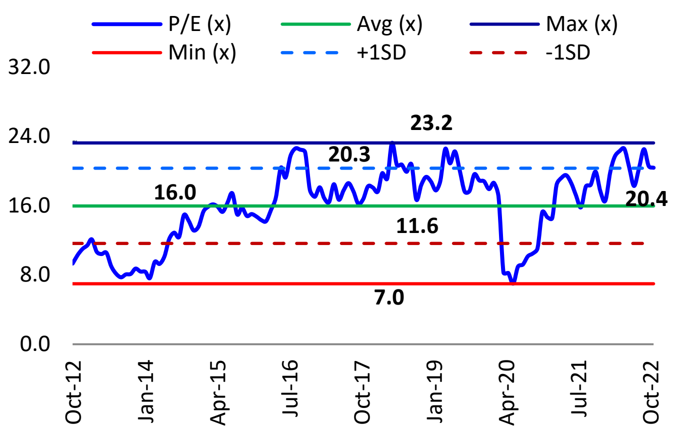
Source: MOFSL, Company

Exhibit 33: PB trend (1-yr forward)



Source: MOFSL, Company

Exhibit 34: PE trend (1-yr forward)



Source: MOFSL, Company

Financials and valuation

Income Statement										(INR M)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Interest Income	39,163	43,717	51,862	64,962	78,417	88,772	95,668	1,18,443	1,51,916	1,85,449
Interest Expenses	20,508	22,308	26,593	35,887	45,922	45,759	42,988	54,834	75,336	91,685
Net Interest Income	**18,655**	**21,409**	**25,268**	**29,075**	**32,495**	**43,013**	**52,680**	**63,609**	**76,580**	**93,764**
Change (%)	24.4	14.8	18.0	15.1	11.8	32.4	22.5	20.7	20.4	22.4
Income from assignments	2,053	2,103	0	867	2,473	0	0	0	0	0
Other Operating Income	708	776	2,931	4,090	5,637	6,388	7,232	6,291	6,920	7,433
Total Income	**21,429**	**24,295**	**28,203**	**34,039**	**40,607**	**49,997**	**60,816**	**70,850**	**84,498**	**1,02,245**
Change (%)	23.8	13.4	16.1	20.7	19.3	23.1	21.6	16.5	19.3	21.0
Total Operating Expenses	**8,449**	**10,133**	**11,153**	**12,696**	**15,776**	**15,834**	**20,687**	**25,300**	**29,522**	**34,481**
Change (%)	12.8	19.9	10.1	13.8	24.3	0.4	30.6	22.3	16.7	16.8
Employee Expenses	2,539	4,027	5,368	5,906	6,550	7,485	8,945	10,824	12,556	14,565
Business Origination Expenses	2,258	1,784	775	1,525	2,398	2,242	2,259	2,575	2,884	3,231
Other Operating Expenses	3,652	4,323	5,010	5,265	6,828	6,107	9,483	11,901	14,082	16,686
Operating Profit	**12,980**	**14,162**	**17,051**	**21,344**	**24,831**	**34,162**	**40,129**	**45,550**	**54,975**	**67,763**
Change (%)	32.2	9.1	20.4	25.2	16.3	37.6	17.5	13.5	20.7	23.3
Total Provisions	**4,272**	**3,106**	**3,037**	**3,112**	**8,973**	**13,778**	**8,803**	**10,680**	**12,470**	**13,946**
% of Operating Profit	32.9	21.9	17.8	14.6	36.1	40.3	21.9	23.4	22.7	20.6
PBT	**8,708**	**11,056**	**14,014**	**18,232**	**15,857**	**20,384**	**31,326**	**34,870**	**42,505**	**53,818**
Tax Provisions	3,023	3,868	4,831	6,370	5,334	5,235	7,442	8,284	10,098	12,786
Tax Rate (%)	34.7	35.0	34.5	34.9	33.6	25.7	23.8	23.8	23.8	23.8
PAT	**5,685**	**7,187**	**9,183**	**11,862**	**10,524**	**15,149**	**23,884**	**26,586**	**32,407**	**41,032**
Change (%)	30.6	26.4	27.8	29.2	-11.3	44.0	57.7	11.3	21.9	26.6
Proposed Dividend	703	547	1,016	1,016	1,662	1,640	1,641	2,300	2,793	3,286

Balance Sheet										(INR M)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Share Capital	1,562	1,564	1,564	1,564	1,640	1,640	1,643	1,643	1,643	1,643
Reserves & Surplus	35,012	40,971	49,105	59,880	80,079	93,962	1,15,434	1,39,720	1,69,334	2,07,081
Net Worth for Equity Shareholders	**36,574**	**42,535**	**50,669**	**61,445**	**81,718**	**95,602**	**1,17,077**	**1,41,363**	**1,70,977**	**2,08,724**
Borrowings	**2,25,762**	**3,02,001**	**3,83,303**	**5,05,667**	**5,50,054**	**6,37,300**	**6,91,735**	**9,09,259**	**11,26,841**	**13,34,489**
Change (%)	15.9	33.8	26.9	31.9	8.8	15.9	8.5	31.4	23.9	18.4
Total Liabilities	**2,78,883**	**3,50,372**	**4,40,897**	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,655**	**10,67,692**	**13,17,449**	**15,65,199**
Investments	666	697	729	729	729	16,188	20,762	18,185	16,903	13,345
Change (%)	-1.3	4.6	4.7	0.0	0.0	2,120.0	28.3	-12.4	-7.1	-21.0
Loans	**2,59,732**	**3,32,244**	**4,22,532**	**5,26,223**	**5,54,027**	**6,58,393**	**7,41,492**	**9,71,345**	**11,88,083**	**14,14,705**
Change (%)	16.8	27.9	27.2	24.5	5.3	18.8	12.6	31.0	22.3	19.1
Net Fixed Assets	1,113	1,417	1,646	1,759	2,839	2,294	2,685	3,088	3,551	3,977
Total Assets	**2,78,883**	**3,50,372**	**4,40,897**	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**10,67,692**	**13,17,449**	**15,65,199**

E: MOFSL Estimates

Financials and valuation

Ratios										(%)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Spreads Analysis (%)										
Avg. Yield on Loans	16.2	14.8	13.7	13.7	14.5	15.7	14.7	13.8	14.1	14.3
Avg Cost of Funds	9.8	8.5	7.8	8.1	8.7	7.7	6.5	6.9	7.4	7.5
Spread of loans	6.5	6.3	6.0	5.6	5.8	8.0	8.2	7.0	6.7	6.8
NIM (on loans)	8.0	7.4	6.8	6.3	6.5	7.7	7.9	7.4	7.1	7.2
Profitability Ratios (%)										
RoE	16.6	18.2	19.7	21.2	14.7	17.1	22.5	20.6	20.8	21.6
RoA	2.2	2.3	2.3	2.3	1.7	2.2	3.0	2.8	2.7	2.8
Int. Expended / Int.Earned	52.4	51.0	51.3	55.2	58.6	51.5	44.9	46.3	49.6	49.4
Other Inc. / Net Income	3.4	3.2	10.4	12.0	13.9	14.0	13.4	10.2	9.4	8.3
Efficiency Ratios (%)										
Op. Exps. / Net Income	39.4	41.7	39.5	37.3	38.9	31.7	34.0	35.7	34.9	33.7
Empl. Cost/Op. Exps.	30.1	39.7	48.1	46.5	41.5	47.3	43.2	42.8	42.5	42.2
Asset-Liability Profile (%)										
Loans/Borrowings Ratio	115	110	110	104	101	103	107	107	105	106
Net NPAs to Net Adv.	2.3	3.2	2.3	1.6	2.3	2.3	2.8	2.0	1.9	1.6
Assets/Equity	7.6	8.2	8.7	9.3	7.8	7.8	7.0	7.6	7.7	7.5

Valuations	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Book Value (INR)	46.8	54	65	79	100	117	143	172	208	254
BV Growth (%)	6.0	16.2	19.1	21.2	26.9	17.0	22.2	20.7	20.9	22.1
Price-BV (x)						**6.2**	**5.1**	**4.2**	**3.5**	**2.8**
EPS (INR)	7.3	9	12	15	13	18	29	32	39	50
EPS Growth (%)	20.1	26.3	27.7	29.1	-15.4	44.0	57.4	11.3	21.9	26.6
Price-Earnings (x)						**39.2**	**24.9**	**22.4**	**18.3**	**14.5**
Dividend per share	0.9	1.1	1.3	1.3	1.7	2.0	2.0	2.8	3.4	4.0
Dividend Yield (%)						**0.3**	**0.3**	**0.4**	**0.5**	**0.6**

E: MOFSL Estimates

N O T E S

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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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