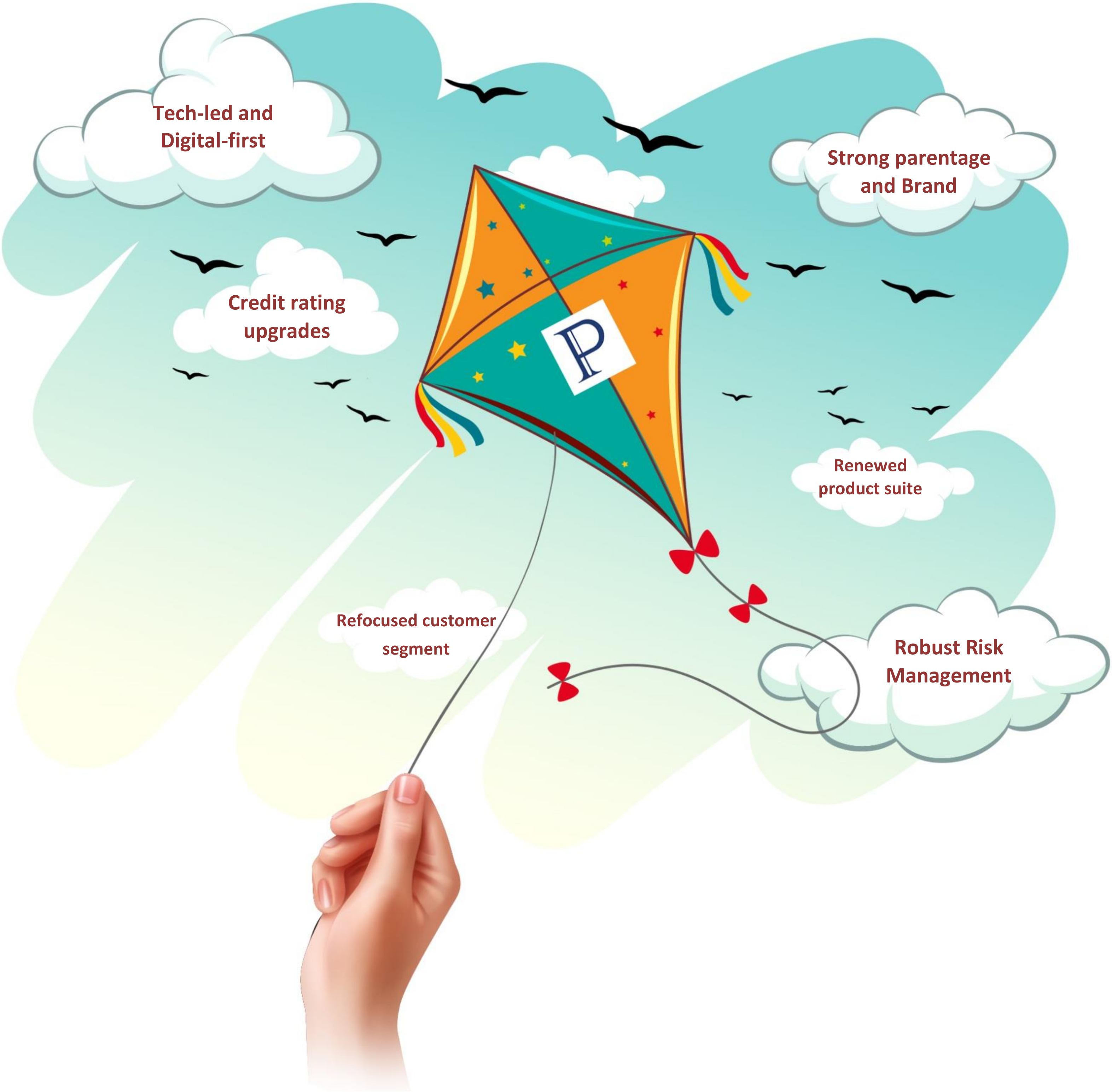
Initiating Coverage | Sector: NBFC

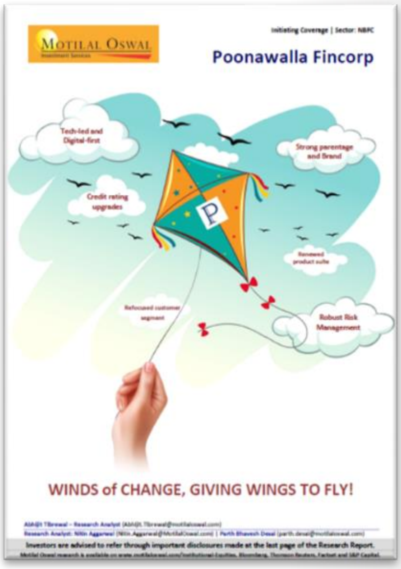
Poonawalla Fincorp



WINDS of CHANGE, GIVING WINGS TO FLY!

Abhijit Tibrewal – Research Analyst (Abhijit.Tibrewal@motilaloswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | **Parth Bhavesh Desai** (parth.desai@motilaloswal.com)



Poonawalla Fincorp

WINDS of CHANGE, GIVING WINGS TO FLY!

Poonawalla Fincorp

BSE Sensex	S&P CNX
59,845	17,807

CMP: INR246 TP: INR350 (+42%) Buy

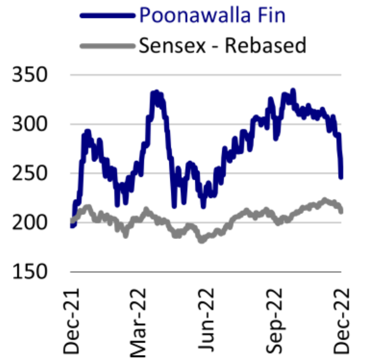
Stock Info

Bloomberg	POONAWAL IN
Equity Shares (m)	765.1
M.Cap.(INRb)/(USDb)	188.3 / 2.3
52-Week Range (INR)	344 / 193
1, 6, 12 Rel. Per (%)	-18/-6/17
12M Avg Val (INR M)	1419
Free float (%)	38.5

Financial Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Total Income	14.6	21.4	29.7
PPOP	6.2	13.1	20.3
PAT	5.7	9.3	13.2
EPS (INR)	7.5	12.2	17.2
EPS Gr. (%)	95.3	63.1	41.0
BV (INR)	82	134	151
Valuations			
NIM (%)	9.9	10.5	10.5
C/I ratio (%)	57.6	38.9	31.7
RoAA (%)	3.8	4.6	4.8
RoE (%)	9.6	11.3	12.1
Payout (%)	10.7	8.2	11.6
Valuations			
P/E (x)	32.9	20.2	14.3
P/BV (x)	3.0	1.8	1.6
Div. Yield (%)	0.3	0.4	0.8

Stock performance (one-year)



WINDS of CHANGE, GIVING WINGS TO FLY!

Changing direction by taking a giant leap forward and upward!

- Poonawala Fincorp (PFL) is an NBFC which focuses on consumer and small business finance via products like personal loans, loans to professionals, business loans, SME loans, LAP, pre-owned car finance, medical equipment loans and auto lease. It operates across 21 states with a lean branch network and standalone AUM of ~INR132b as of Sep'22. This NBFC is the erstwhile Magma Fincorp wherein consequent to a capital raise of ~INR35b in May'21, the Poonawalla Group acquired a controlling stake in the NBFC.
- **Credit rating upgrades ease cost of borrowings:** With new promoters on board, PFL's access to liabilities rose multifold and it was able to achieve credit rating upgrades that resulted in a significant decline in the cost of borrowings (down ~190bp over last 12 months) with better and more diversified liability mix. *This enabled PFL to refocus on better credit-quality customers and realign its product suite to generate superior risk-adjusted returns.*
- **Robust asset quality with benign credit cost…:** Post-acquisition, PFL's management has strengthened its foundation notably by investing in technology (aiding infrastructure/processes), distribution and talent. Over the last 18 months, PFL front loaded provisioning (annualized ~32% in 4QFY21) and took aggressive write-offs in legacy stressed pool of loans. We expect asset quality to remain robust and credit costs to stay benign at ~1% going ahead, due to its strong risk management and focus on credit-tested customers.
- **…to steer a smooth take-off:** At its current size (one-fifth to one-tenth of peers in similar segments), a huge opportunity beckons in its target product segments and with a healthy capital position we believe PFL has a strong and long runway for growth ahead. We model an AUM/PAT CAGR of 37%/~65% over FY22-FY25E, respectively. We also model an RoA/RoE of 4.8%/~12% in FY25E. PFL will have more levers from its fee income and operating cost ratios to deliver a further improvement in RoE driven by an improvement in gearing.
- **Initiate coverage with a BUY and a TP of INR350** (premised on 2.3x FY25 BV). **Key downside risks:** a) Inability to execute on its articulated strategy despite a new management team and investments in technology and processes and b) aggressive competitive landscape leading to pressure on spreads/margins and/or deterioration in asset quality.

Digitial-first at its core; Focus on DDP model will aid scalability

- PFL has rapidly transformed into a 'Digital-first' organization whereby it has reconciled the physical and the digital initiatives to widen its footprint without having to increase the branch distribution, employee count or operating costs proportionately. PFL will eventually transform its distribution model from a DSA-driven model to one of direct sourcing.
- The company has partnered with various fin-techs and consumer-techs such as Cars24, PaisaBazaar and KrazyBee. Seamless tech integration has made PFL the partner of choice. Direct, Digital and Partnership (DDP) contribution in organic disbursements stood at 47% (v/s 17% in 4QFY22). This has led to lower customer acquisition costs (CAC), reduced TAT and customer delight.

Realignment largely complete; expect 37% AUM CAGR over FY22-FY25

- Post-acquisition, the Poonawala group has strengthened its leadership team across functions. This was accompanied by reorientation of the customer mix, realignment of the product suite and implementation of stringent credit policies across existing and newer businesses.

- The company implemented a Unified Loan Origination System (LOS), Loan Management System (LMS) and Customer Relationship Management (CRM) platform. PFL leveraged upon its expertise at erstwhile Poonawalla Finance to deepen its data analytics and enhance the customer value proposition as well as cross-sell function. It is now in a sweet-spot to deliver sustainable AUM growth and profitability. We estimate an AUM CAGR of 37% over FY22-FY25E.

Upgrade in credit ratings; significant improvement in liability franchise

- There were several improvements that transpired after the new management took control around May'21 – including but not limited to – sharpening the underwriting framework, front-ending of write-offs by implementing a stringent write-off policy and leveraging analytics for policy optimization. Collections were further strengthened to exercise a tight control over asset quality. All these interventions along with a strong promoter led to an improvement in credit rating to AA+ (up two notches). **CARE recently upgraded both PFL and PHFL to AAA.**
- Improvement in credit ratings allowed PFL to get most bank loans re-priced at lower rates and enabled the company tap diversified sources of borrowings (including debt capital markets) leading to a marked improvement in liability franchise. PFL now has one of the lowest cost of borrowings in the NBFC cohort.

Conservative portfolio guardrails to enable best-in-class asset quality

- Robust underwriting processes and a change in the company's customer universe have led to a strong asset quality. Following the acquisition, PFL's customer profile transformed to a formal income group (from informal earlier). More than 80% of the customers have a CIBIL score >730, implying stability.
- We expect recoveries from the legacy written-off portfolio to continue in 2HFY23 and even in early FY24. Unlike some of its peers, PFL is a pure-play retail franchise. We project NNPA to remain below 1% and model credit costs to be at ~0.5/1.2% (including recoveries) during FY24/FY25E.

A 'valued' NBFC franchise in the making; initiate with a BUY rating

- Consumer and small business finance – the segments targeted by PFL – have a huge market opportunity. While we expect the early green shoots of a transformed company to become visible within the next three-to-six months, PFL has laid down a robust foundation for sustainable profitability through initiatives that will lead to lower operating costs (as a % of AUM), higher business volumes and robust asset quality.
- We model an AUM/PAT CAGR of 37%/~65% over FY22-FY25E, respectively. We also model an RoA/RoE of 4.8%/~12% in FY25E. PFL will have more levers from its fee income and operating cost ratios to deliver a further improvement in its RoE profile when it reaches steady-state.
- **Initiate coverage with a BUY and a TP of INR350** (premised on 2.3x FY25 BVPS).

Exhibit 1: Comparative valuations

Peers	CMP	Mkt. Cap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR b)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
PFL	246	188	82	134	3.0	1.8	7	12	32.9	20.2	3.8	4.6	9.6	11.3
BAF	6,369	3,856	879	1,079	7.2	5.9	188	230	33.9	27.7	4.7	4.6	23.6	23.5
CIFC	698	574	171	206	4.1	3.4	31	38	22.4	18.3	2.7	2.7	19.9	20.3
MMFS	221	272	131	141	1.7	1.6	12	16	18.0	14.1	1.8	1.9	9.7	11.4
SHF*	1,301	487	1,197	1,383	1.1	0.9	168	186	7.8	7.0	2.9	2.9	15.0	14.4
LTFH	82	204	86	93	1.0	0.9	6	8	12.9	10.7	1.4	1.6	7.6	8.6
MasFin	719	39	262	302	2.7	2.4	37	49	19.4	14.6	2.8	2.8	15.1	17.4

Source: MOFSL, Company; Note: PFL and CIFC on standalone basis; *Shriram Finance basis pro-forma merged financials of SHTF and SCUF

Quick Overview in pictures and charts

Key business parameters (standalone)

AUM	Net Worth	Focused AUM	Borrowing Cost
~INR132b	INR60b	INR116b	7.2%

GNPA/NNPA%	CRAR %	DDP Origination	Credit Rating
1.8%/0.9%	~45%	47% (in 2QFY23)	AAA (CARE) AA+ (CRISIL)

Evolution in the Credit Ratings

Credit facility	Date of rating assigned*	Rating assigned	Previous Rating
Secured debentures	20-Aug-21	CARE AA +	CARE AA -
	31-Jan-22	**CRISIL AA +**	**-**
	30-Sep-22	**CARE AAA**	**CARE AA +**
Subordinated debentures	20-Aug-21	CARE AA +	CARE AA -
	30-Sep-22	**CARE AAA**	**CARE AA +**
Perpetual debt instruments	20-Aug-21	CARE AA	CARE A+
	30-Sep-22	CARE AA+	CARE AA
Commercial papers	04-Mar-22	CARE A1+	CARE A1+
	04-Mar-22	CRISIL A1+	CRISIL A1+
Bank facility	20-Aug-21	CARE AA+ / CARE A1+	CARE AA- / CARE A1+
	31-Jan-22	**CRISIL AA+**	-
	30-Sep-22	**CARE AAA**	**CARE AA+**

Complete suite of products to cater to the lifecycle needs of the customers

Existing products			Upcoming products	Discontinued
Pre-owned cars	Digital Business Loans	Machinery Loan	Consumer Finance	Used CV
Affordable Home Loan	Digital Personal Loans	Digital Consumption Loans	Merchant Cash Advance	Used CE
Affordable LAP	Digital Loans to professionals	Medical Equipment Loan	EMI Card	Tractors
Auto Lease	Digital SME LAP	Supply Chain Finance	Credit Card	

- Expanding product suite to meet customer needs
- Digital led product innovation
- Complete transparency in product features

Consumption led new customer acquisition with an eye on future Leveraging customer base for X-sell/up-sell opportunities

Digital First products, processes & entire customer journey

No hidden charges

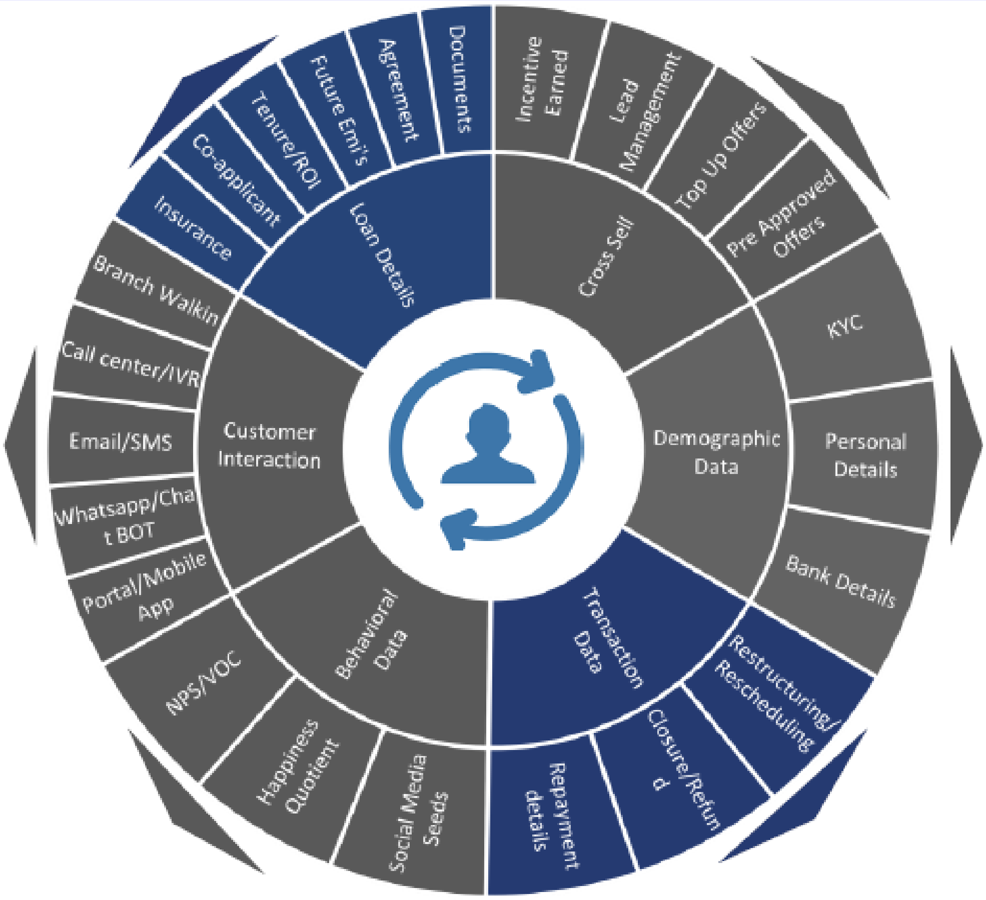
Pivoting towards a formal income and credit-tested customer segment

MAGMA
Investing in the smallest dream

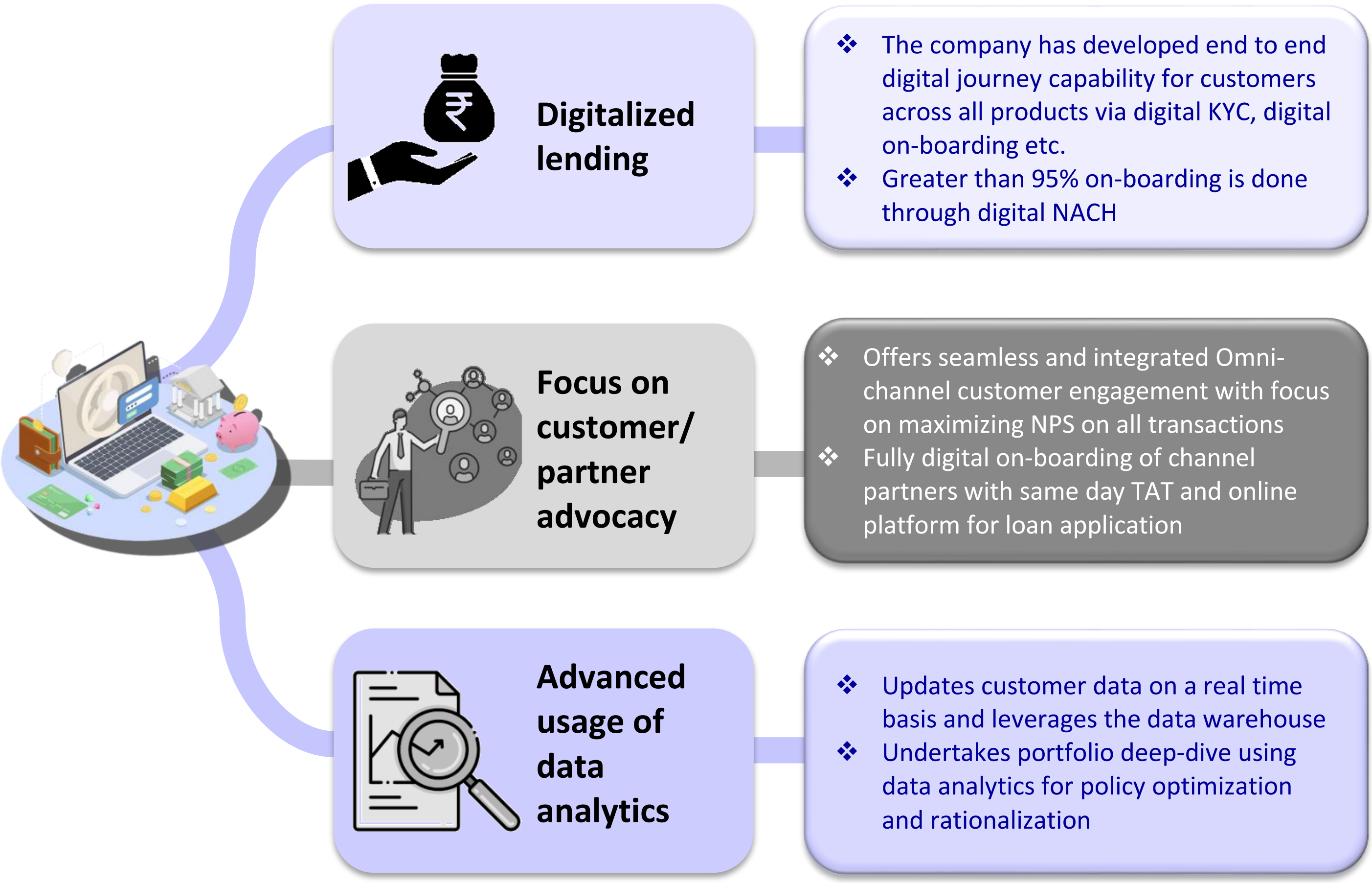
POONAWALLA FINCORP

MAGMA	POONAWALLA FINCORP
Informal customer segment	Formal customer segment
Semi urban & Rural	Metro, Urban & Semi urban
Included new to credit	Credit tested customer

Enhanced Customer Service – 360 degree View – Company has already made significant progress in these propositions



Digital transformation has yielded results



Management Vision 2025

Vision 2025

1. To be amongst the Top 3 NBFCs in consumer and MSMEs; consistent RoA in the range of 4.0-4.5%
2. To leverage technology and achieve AUM growth of 35-40% over the next three years; ~3x of FY21 standalone AUM
3. Amongst the lowest CoF in the industry
4. Best in class Asset Quality; Net Stage 3 < 1%
5. Value unlocking in PHFL; Create efficient operational structure in-line with the growth strategy

Steps taken and progress

1. The company has achieved Leadership board position in 3 products: BL, POC and Loans to Professionals on monthly disbursement basis
2. As on 2QFY23, standalone AUM stood at ~INR132b (1.3x of FY21)
3. Average cost of funds declined 190bps YoY in 2QFY23 to 7.2%; One of the Lowest CoF among peers and it will look to maintain this
4. Net Stage 3 (Standalone) at 0.9% as on Sep'22, aided by aggressive sell-down and write-offs in legacy book.
5. Value unlocking through sale of housing subsidiary (PHFL) to TPG at a valuation of INR39b; Continue to drive consolidation in branches and manpower

Exhibit 2: Expect AUM CAGR of ~37% over FY22-FY25…

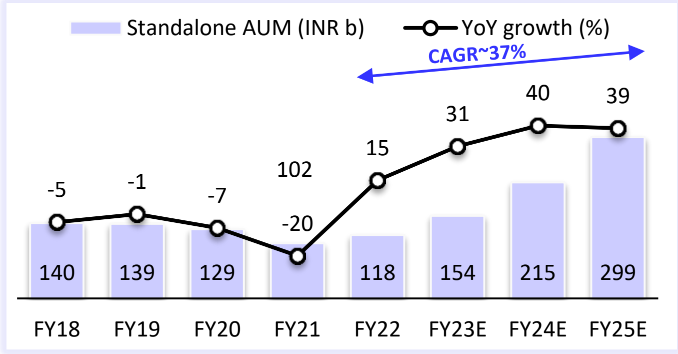


Exhibit 3: …supported by equally strong disbursements

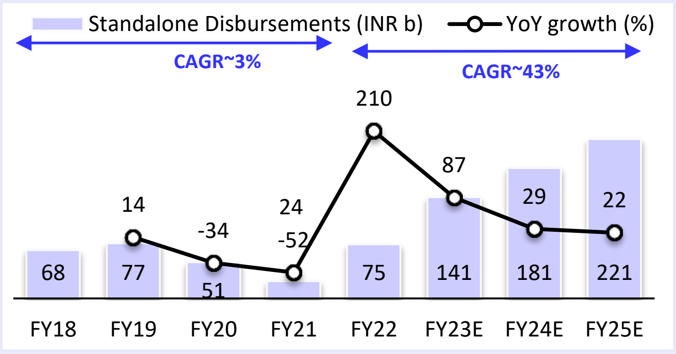


Exhibit 4: Improvement in yields to help protect spreads

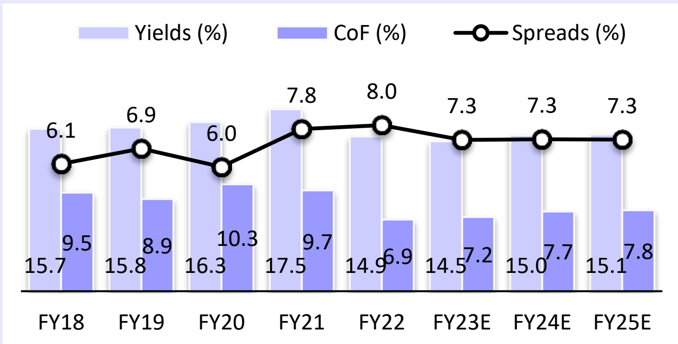


Exhibit 5: Expect NIM to improve sharply in FY24

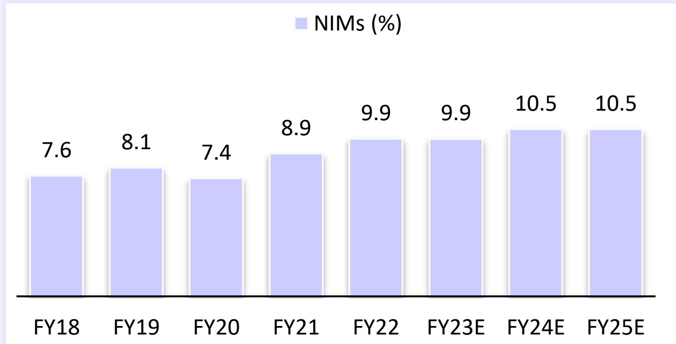


Exhibit 6: Operating efficiencies will lead to decline in cost ratios…

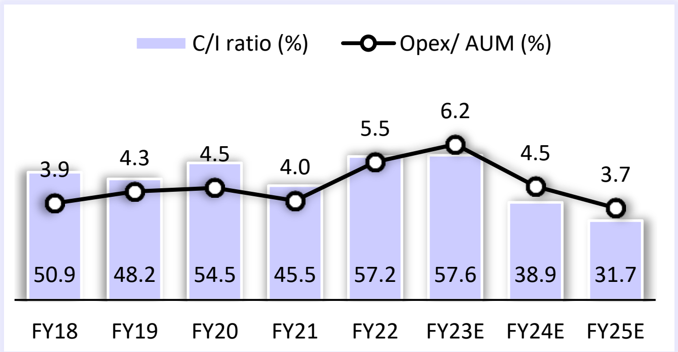


Exhibit 7: Credit costs to remain benign with recoveries from the written-off pool over the next four quarters

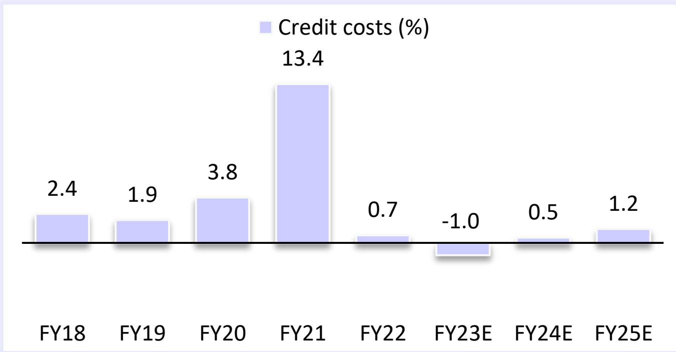


Exhibit 8: Expect a gradual improvement in leverage…

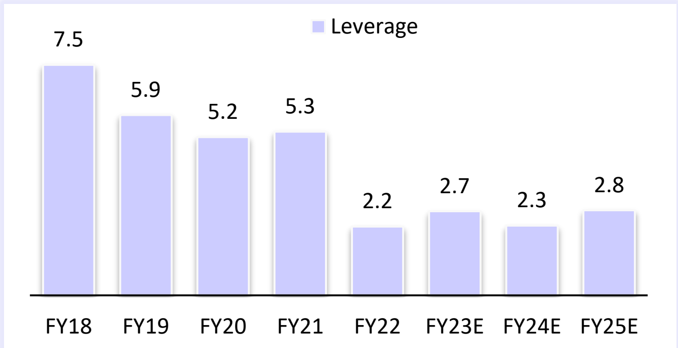
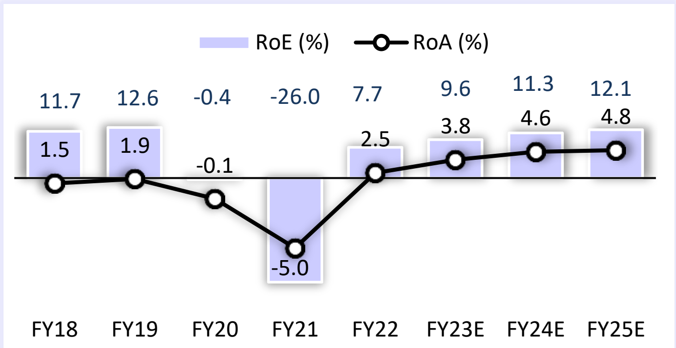


Exhibit 9: …to lead to an RoE of ~12% in FY25



Source: MOFSL, Company

THEN (Magma) v/s NOW (PFL) – what changed?

Biggest change is in aspiration and the direction in which the company is heading

Far improved access to liabilities

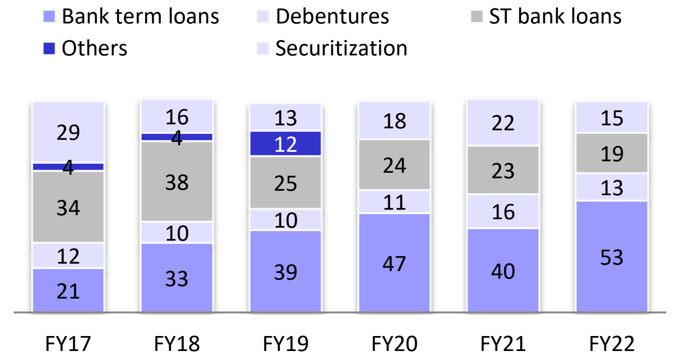
PFL now has one of the lowest incremental borrowing costs among NBFCs.

- Under the new promoter, Poonawalla Group, PFL's access to liabilities has increased multifold. Erstwhile Magma Fincorp (which struggled briefly to access liabilities during pandemic) under its new promoter and management team has today one of the best access to liabilities both from banks as well as debt markets.
- With upgrades in credit ratings to AA+/Stable each from CARE and CRISIL, the company was able to engage with banks and got the interest rate on its bank term loans re-priced downwards. Additionally, CARE upgraded its credit rating recently to AAA/Stable for both PFL and PHFL, which will augur well for the company.
- Following the credit rating upgrade, PFL was able to get most of its bank term-loans re-priced and now it has one of the lowest ***incremental*** costs of borrowings (which declined ~190bp within the last 12 months) among the cohort of NBFCs. This has enabled PFL to target credit-tested urban and semi-urban (formal income) customer segments.

Exhibit 10: Evolution in the Credit Ratings

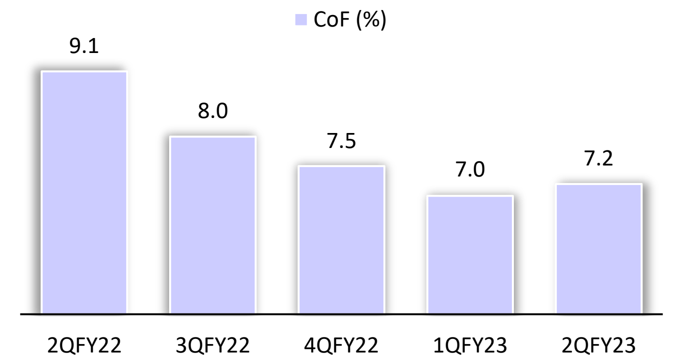
Credit facility	Date of rating assigned*	Rating assigned	Previous Rating
Secured debentures	20-Aug-21	CARE AA +	CARE AA -
	31-Jan-22	**CRISIL AA +**	-
	30-Sep-22	**CARE AAA**	**CARE AA +**
Subordinated debentures	20-Aug-21	CARE AA +	CARE AA -
	30-Sep-22	**CARE AAA**	**CARE AA +**
Perpetual debt instruments	20-Aug-21	CARE AA	CARE A+
	30-Sep-22	CARE AA+	CARE AA
Commercial papers	04-Mar-22	CARE A1+	CARE A1+
	04-Mar-22	CRISIL A1+	CRISIL A1+
Bank facility	20-Aug-21	CARE AA+ / CARE A1+	CARE AA- / CARE A1+
	31-Jan-22	**CRISIL AA+**	-
	30-Sep-22	**CARE AAA**	**CARE AA+**

Exhibit 11: Borrowing mix (%) – Expect access to long-term liabilities and debt markets to improve



Source: MOFSL, Company

Exhibit 12: CoF improved ~190bp over the last four quarters

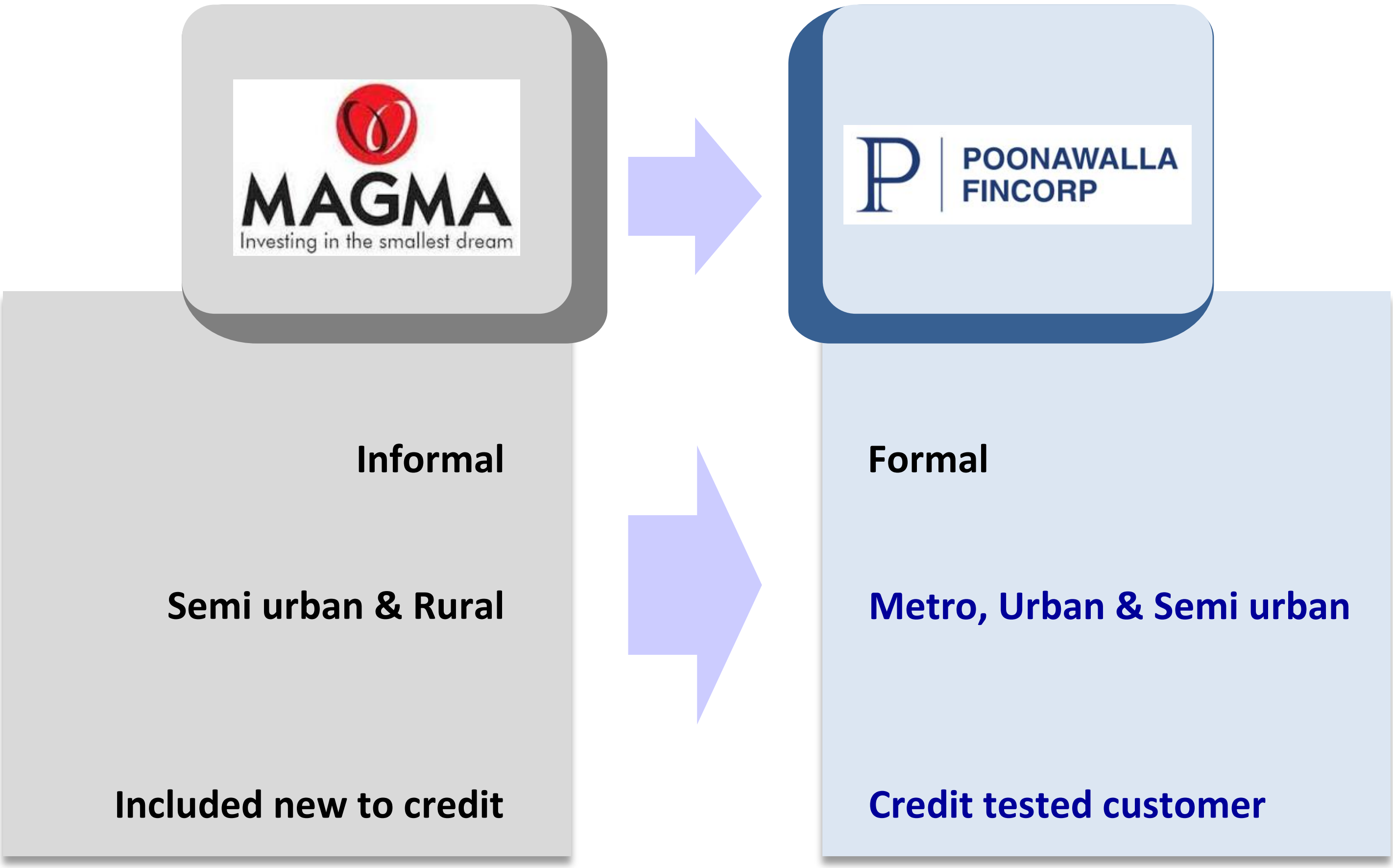


Source: MOFSL, Company

Redefining the target customer segment

- Given the financial resources and funding lines were available for the erstwhile Magma, it engaged in financing of CVs and agriculture vehicles for the first generation entrepreneurs. Most of Magma's target customers lived in the semi-urban/rural India and had informal income.
- Access to strong net worth of pools, decline in the cost of borrowings and ability to think big and different under the new promoter have allowed PFL to focus on '*select credit-tested*' customers who have high CIBIL scores. The company has also targeted ***select*** pockets in urban India that are in nascent stage and hence underpenetrated.

Exhibit 13: Pivoting towards a formal income and credit-tested customer segment



Realignment of product segments

- Following the acquisition by the Poonawalla group, there was a decisive change in the company's fundamentals. This allowed the management to offer products such as Digital Business Loan, Digital Loan to Professionals, Digital Personal Loan, Digital SME LAP, Digital Consumption Loan and Medical Equipment Loan while products which require heavy cash collections were discontinued.

Exhibit 14: Complete suite of products to cater to the lifecycle needs of the customers

Existing products			Upcoming products	Discontinued
Pre-owned cars	Digital Business Loans	Machinery Loan	Consumer Finance	Used CV
Affordable Home Loan	Digital Personal Loans	Digital Consumption Loans	Merchant Cash Advance	Used CE
Affordable LAP	Digital Loans to professionals	Medical Equipment Loan	EMI Card	Tractors
Auto Lease	Digital SME LAP	Supply Chain Finance	Credit Card	

- **Expanding product suite to meet customer needs**
- **Digital led product innovation**
- **Complete transparency in product features**

Consumption led new customer acquisition with an eye on future Leveraging customer base for X-sell/up-sell opportunities

Digital First products, processes & entire customer journey

No hidden charges

PFL is shifting from an intermediary-driven to a DDP sourcing model.

From intermediary-driven to a direct sourcing model

- In erstwhile Magma, most of the products were originated under the intermediary-driven (or more commonly DSA) model. This was an outcome of the product segments in which the company was present. However, as the realignment of the product segments took place, PFL shifted from an intermediary-driven to a direct sourcing model.
- The direct sourcing model was a combination of Direct, Digital and Partnerships (DDP) where Direct was origination by its team of DSTs, Digital was origination on its various technology platforms and Partnerships were originations through partnerships with multiple fin-techs and consumer-techs. In all fin-tech partnerships, the credit and the risk profile is determined by PFL and until now no FLDG arrangements have been triggered. DDP contribution in organic disbursements stood at 47% as of Sep'22 (v/s 17% in 4QFY22).
- Except LAP (which is still dominated by intermediaries), all other product segments will be extensively offered under the DDP model. More importantly, the DDP model is aligned with PFL's target customer segment and has led to lower customer acquisition cost (CAC), reduced TAT and customer delight.

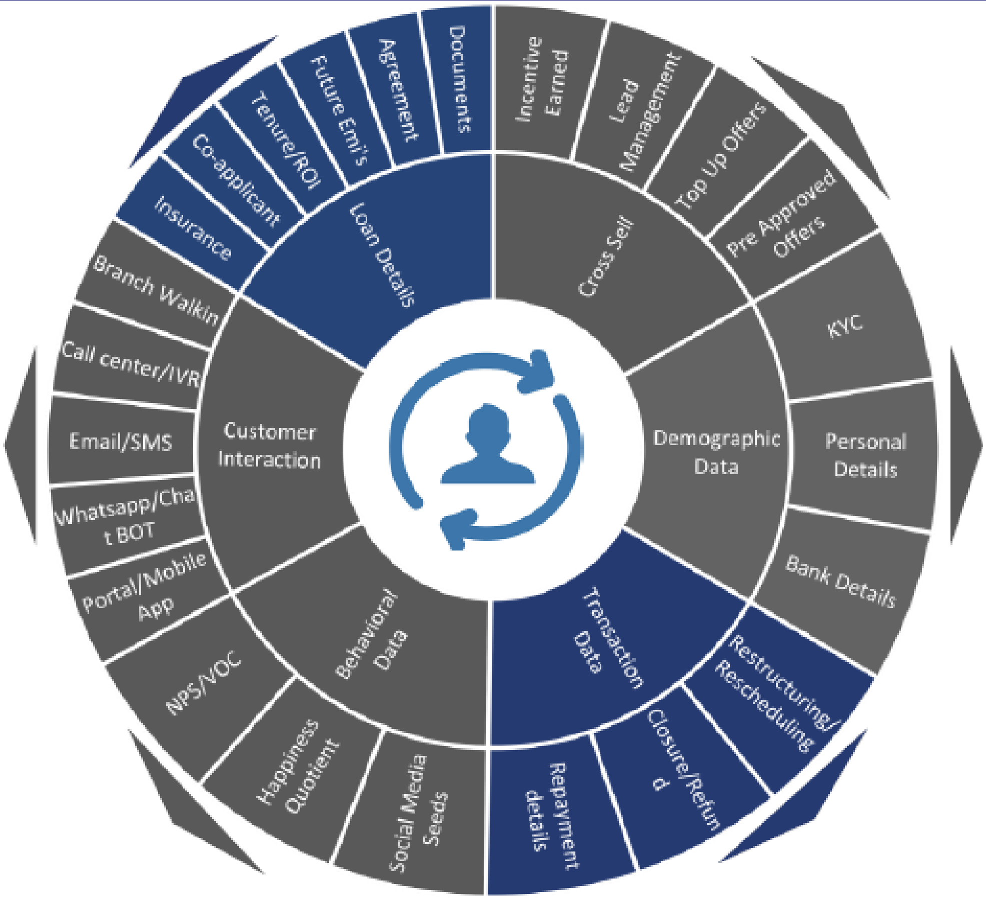
Except LAP, all other product segments will be extensively offered under the DDP model.

PFL is "building a technology company that also provides loans as opposed to an NBFC that has also invested in technology supports"

Razor-sharp emphasis on technology to achieve multiple objectives

- Post-acquisition, PFL modernized its existing software and platforms. It is upgrading to FinnOne Neo, which is the best-in-class, cloud-based lending platform used by leading financial services institutions. The company has strengthened its DNA through investments in technologies and analytics that should help improve its processes across origination, underwriting, collections and servicing.
- We believe that like most large banks and NBFCs, even PFL will be working on its super-app to provide all its offerings on a mobile app, thereby widening the choices offered and enhancing the transparency for the benefit of consumers.

Exhibit 15: Enhanced customer service – 360 degree view – PFL has already made significant progress in these propositions



- Digital for PFL is all encompassing – Cashless, Paper-less and Human-less (requiring little or no human intervention). The company has also built scorecards and business rule engines (BRE) that serve as initial check points to differentiate between valid and invalid profiles without human intervention. The company also plans to leverage analytics extensively to cross-sell/upsell. PFL has developed: a) risk scorecards to provide pre-approved offers and b) propensity models to forecast customer behavior and drive higher sales conversions.
- PFL has built a scalable technology architecture, which will allow it to scale quickly with the capability to process high volumes at high transaction speeds. Technological superiority has rendered the company with competitive moats and made it the preferred partner for tech-led ecosystem.

Exhibit 16: Digital transformation yielding healthy results

Digitalized lending

- The company has developed end to end digital journey capability for customers across all products via digital KYC, digital on-boarding etc.
- Greater than 95% on-boarding is done through digital NACH

Focus on customer/ partner advocacy

- Offers seamless and integrated Omni-channel customer engagement with focus on maximizing NPS on all transactions
- Fully digital on-boarding of channel partners with same day TAT and online platform for loan application

Advanced usage of data analytics

- Updates customer data on a real time basis and leverages the data warehouse
- Undertakes portfolio deep-dive using data analytics for policy optimization and rationalization

Opportunities galore in the target business segments

Exhibit 17: Pre-owned car loans

Addressable market	Opportunities	Current status	PFL game plan
❖ Pre-owned car market is expected to report a sustainable growth at a CAGR of around 11% over the next five years.	❖ Car ownership tenure declining to 3-4 years from 6-7 years earlier.	❖ Gained leadership in Mar'22 in POC financing on monthly disbursement basis	❖ Plans to grow this segment by 15-20% through FY25.
❖ The segment is shifting towards organized players; the share of organized players in the pre-owned car market is likely to grow to 45% by FY25 from 25% in FY21.	❖ Waiting periods for new cars extended.	❖ Entered into partnerships with various digital aggregator platforms to accelerate growth in this segment	❖ Enhancing digital aggregators to provide an end-to-end digital journey resulting in 100% transparency, quick processing and timely financing.
❖ Demand will be driven by new business models, changing customer preferences, reliable products and services as well as increasing demand in Tier 2 & 3 locations.	❖ Quick access to finance due to digital journeys. ❖ Consumer age reduction, with the new generation becoming first time buyers.		

Exhibit 18: Unsecured Loans

Addressable market	Opportunities	Current status	PFL game plan
❖ Personal and business loans are sourcing funnels with cross-sell opportunities for other products.	❖ Unsecured personal and business loans offer attractive NIM and RoA when made to credible customers.	❖ Entered the space of digital loans through long-term partnerships	❖ Intends to moderate turnaround time for business loans progressively
	❖ Even co-lending opportunities can be explored to catalyze growth further.	❖ Digitalized end-to-end process, and introduced process-driven checks that will help in minimizing probable defaults	❖ Building a direct engagement with customers following aggressive marketing campaigns. This will widen its footprint pan-India for loans to professionals (Chartered Accountants, Company Secretaries and medical professionals, et al.).
		❖ Graduated to a leadership position in Mar'22 for Loans to Professionals on a monthly disbursement basis	

Exhibit 19: Loans against property (LAP)

Addressable market	Opportunities	Current status	PFL game plan
❖ Will focus on loans against residential properties (with high attachment value and marketability).	❖ Will focus on credible customers with superior CIBIL scores, thus moderating defaults risk.	❖ Commenced in 2HFY22 and has achieved disbursements of INR2b as of FY22. ❖ Has reached per month disbursements run rate of INR1.3b under this segment.	❖ Plans to offer longer and flexible loan tenures and address a range of property categories.

Exhibit 20: Auto lease

Addressable market	Opportunities	Current status	PFL game plan
❖ Auto lease facility provided to medium and large corporations for fleet acquisition or employee benefits, with the corporate entities guaranteeing payments under Master Lease Contracts.	❖ Following the pandemic, personal mobility has become a priority that should strengthen the demand further.	❖ PFL reported ~53% YoY growth in disbursements in FY22.	❖ Intends to deepen its footprint in the corporate sector (B2B) for auto lease.
❖ Vehicles are leased to corporate employees with an average salary of INR1.5m or above.	❖ Merely 5% of vehicles are leased in India; the industry is likely to report a CAGR of 20% in the medium term.		
	❖ Car lease model delivers a superior tax saving tool for salaried employees.		

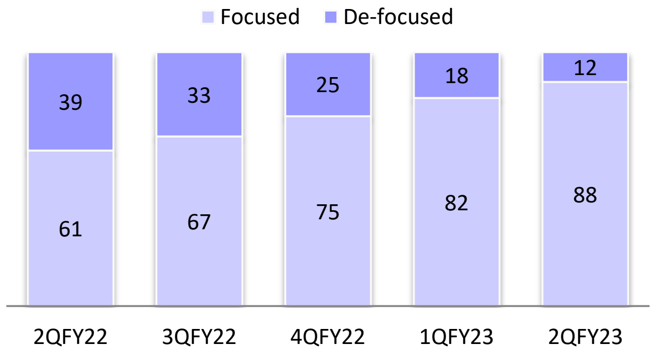
Well positioned for very strong AUM growth…

…estimate AUM CAGR of 37% over FY22-FY25

Focused AUM has exhibited a strong 69% YoY growth

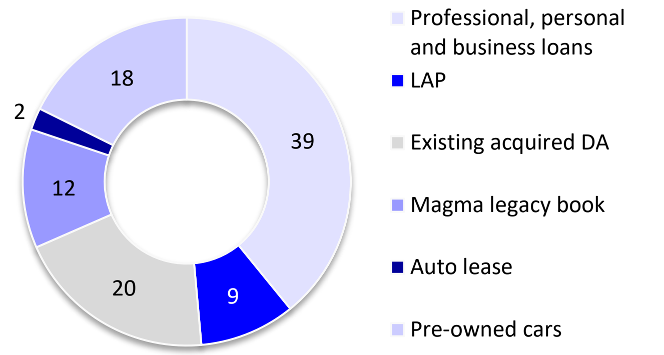
- Under the new promoter and management team, the following strategic priorities were spelt out at the time of acquisition (of erstwhile Magma) a) the company will not cater to product segments that were cash-collection intensive. b) Incremental disbursements in product segments such as new vehicles, tractors and commercial vehicles were discontinued and c) PFL carved out the discontinued products as the ***defocused*** book, which formed only ~12% of the AUM as of Sep'22. PFL has guided that it expects the defocused book to decline to ~3-4% by Mar'23E.
- Focused AUM (standalone) has exhibited a strong 69% YoY growth driven by constant reduction in TAT. Loan disbursals in the focused product segments were facilitated by lean and agile backend operations.
- In Sep'22, PFL scaled up its monthly disbursements (standalone) to INR11b. In 1HFY23, PFL reported disbursements of ~INR60b. We model disbursement CAGR of ~43% over FY22-FY25E. Despite moderation in defocused book, we model an AUM CAGR of 37% over FY22-FY25E.

Exhibit 21: PFL guided that it targets to reduce the de-focused book to 3-4% of AUM by Mar'23



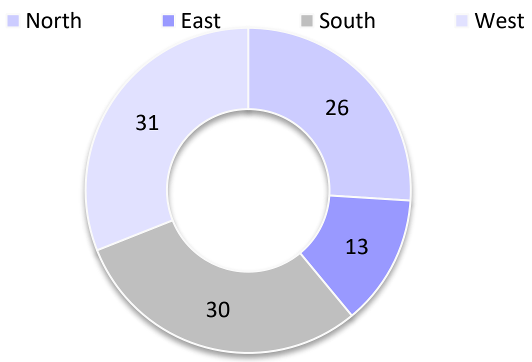
Source: MOFSL, Company

Exhibit 22: Product-wise AUM mix (%)



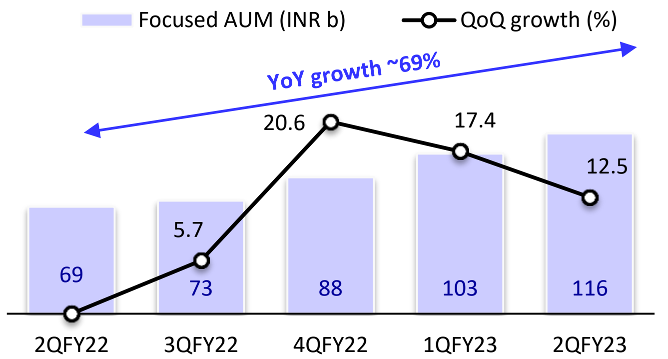
Source: MOFSL, Company; Note: Standalone AUM mix

Exhibit 23: Region-wise AUM mix (%)



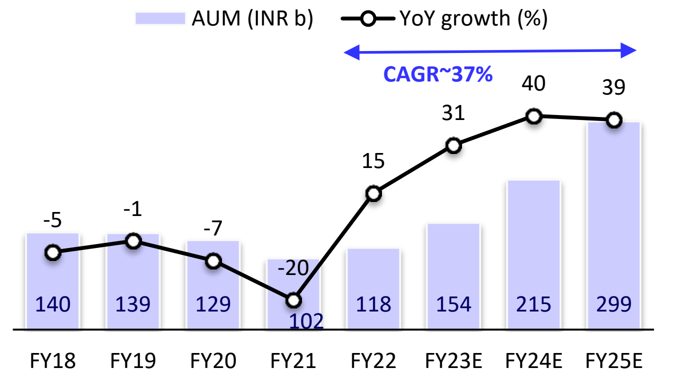
Source: MOFSL, Company

Exhibit 24: Focused AUM grew 69% YoY as of Sep'22



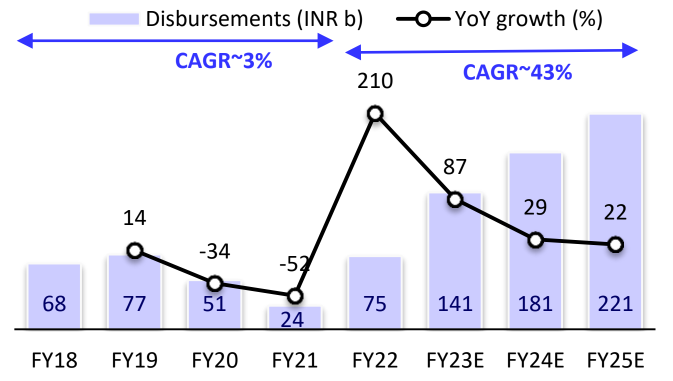
Source: MOFSL, Company

Exhibit 25: Expect AUM CAGR of ~37% over FY22-25 supported by…



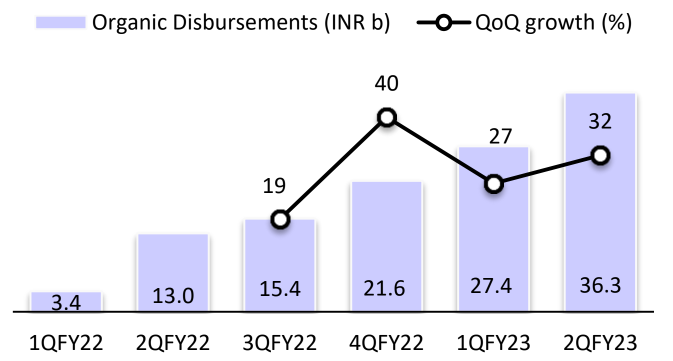
Source: MOFSL, Company; Note: Standalone numbers

Exhibit 26: …~43% disbursement CAGR over the same period



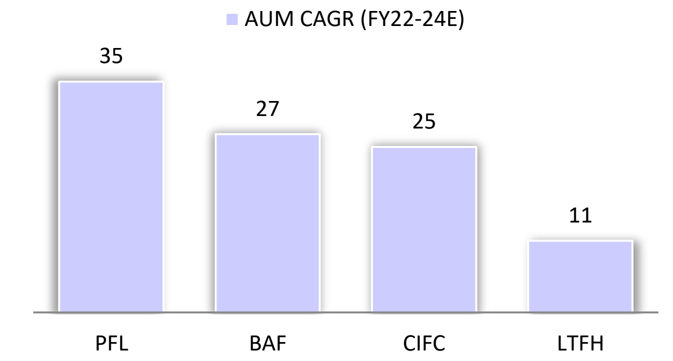
Source: MOFSL, Company; Note: Standalone numbers

Exhibit 27: Organic disbursement growth accelerating



Source: MOFSL, Company; Note: Numbers above are on consol. basis

Exhibit 28: Expect PFL to deliver the highest AUM CAGR (on a much smaller base) relative to its peers



Source: MOFSL, Company

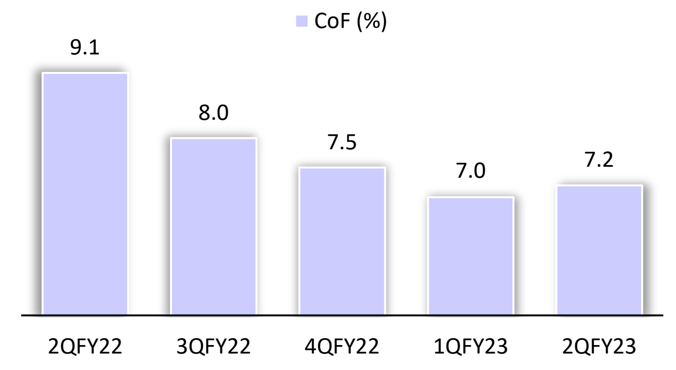
Decline in borrowing cost to aid healthy spreads/margins

Margins to remain healthy at ~10.5% over FY24-FY25E

Competitive CoB allows PFL to cherry-pick better credit quality customers, offer them the best pricing and generate healthy risk-adjusted returns

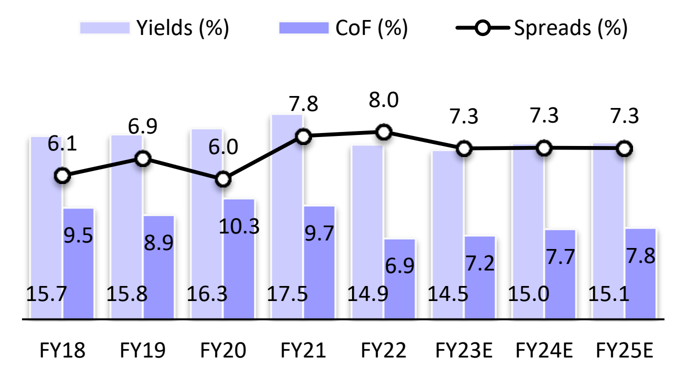
- Despite a rising interest rate environment, we do not expect a significant spike in the borrowing cost for PFL. This is because of its ability to raise incremental borrowings at significantly lower costs (aided by the promoter group) coupled with benefits that will accrue from the maturity of higher-cost legacy borrowings (~INR12-15b) of erstwhile Magma.
- PFL is further diversifying and strengthening its liability franchise. The company has started tapping the debt markets and in Jul'22 it completed its maiden NCD issuance. Also, PFL has developed multiple new individual banking relationships rather than relying on a consortium of banks (as Magma did in the past).
- Following the credit rating upgrades, PFL has effectively worked with banks to get the existing borrowings re-priced that led to reduced cost of borrowings (down ~190bp) in the last 12 months.
- We expect the yield to improve gradually driven by interest rate increases being taken by the company in a rising rate environment. Besides, some of its upcoming products (in pipeline) such as Consumer Durable Finance and Credit Cards would potentially be higher-yielding products that will improve its blended yields. This, in our view, will play out despite some of the higher-yielding legacy books of Magma running-down over the next 6-12 months.
- We estimate an NII CAGR of 41% over FY22-FY25 and margins to remain healthy at ~10.5% in FY24-FY25.

Exhibit 29: CoF declined by ~190bp YoY



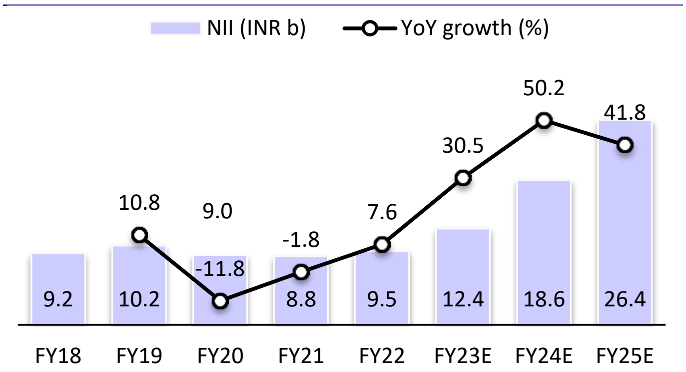
Source: MOFSL, Company

Exhibit 30: Spreads to remain stable at ~7.3% over FY24-25E



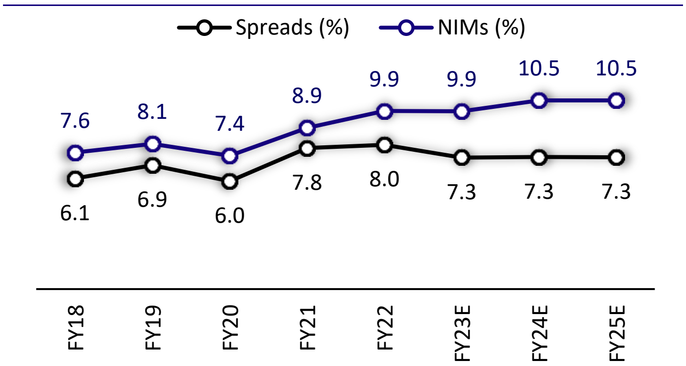
Source: MOFSL, Company

Exhibit 31: Expect NII CAGR of ~41% over FY22-25E



Source: MOFSL, Company

Exhibit 32: Sharp NIM expansion in FY24



Source: MOFSL, Company

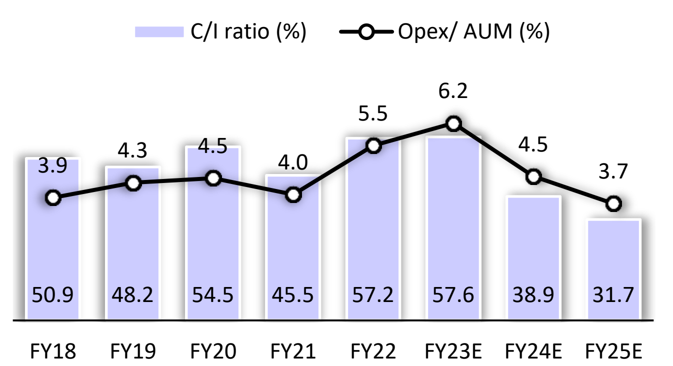
Levers on operating costs yet to fully play out

Expect opex-to-average assets to decline to 3.4% by FY25

With operating efficiencies kicking in, the opex-to-average assets should moderate to 3.4% by FY25E.

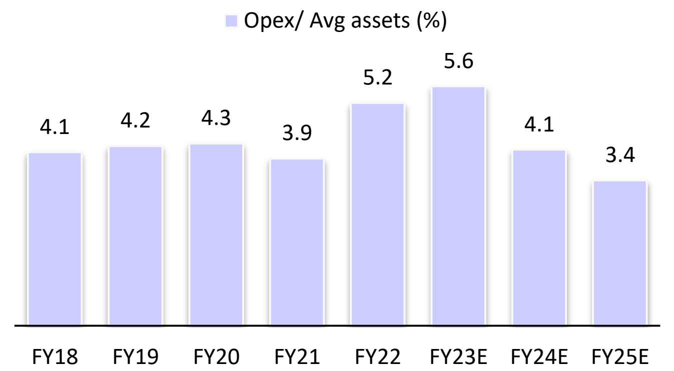
- PFL's opex-to-average assets in FY22 stood at 5.2% (higher than the prior four-year average of 4.4%) led by spends on technology, business restructuring, conceptualization and launch of newer products, expansion of the senior leadership team and charges on account of ESOP issuances.
- Operating cost efficiencies over FY24-FY25E will be aided by: a) significant decline in ESOP costs in FY24 and FY25, b) reduction in the customer acquisition cost (CAC) fueled by transition from an intermediary-driven origination model to a DDP distribution model, c) lower collection costs due to focus on non-cash (digital) collection product segments leading to branches and manpower rationalization, and d) cross-sell and upsell through pre-approved offers allowing for straight through process (STP) and lower acquisition costs.
- PFL has a higher cost structure v/s peers such as BAF, CIFC and the erstwhile Shriram City (now merged with Shriram Transport). However, we believe that it is partly because of the size disadvantage and the one-time ESOP costs (primarily in FY23 and FY24). With the operating efficiencies kicking in over the next two years, the opex-to-average assets should moderate to 3.4% by FY25E.

Exhibit 33: Levers to drive operational efficiency improvement in the near to medium term



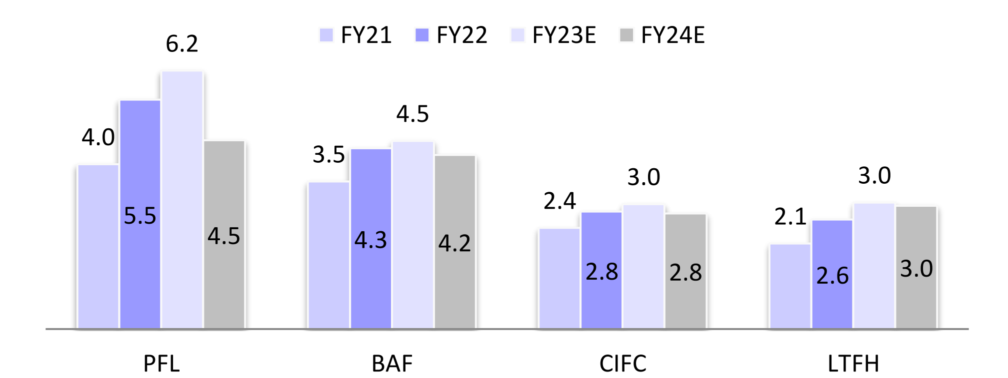
Source: MOFSL, Company

Exhibit 34: Expect Opex-to-average assets to decline to 3.4% by FY25



Source: MOFSL, Company

Exhibit 35: Magma had an opex-intensive structure because of its focus on cash-collection intensive products but expect significant improvement in cost efficiency under PFL



Source: MOFSL, Company; **Note: Data above is for Opex/Avg AUM; Excluding ESOP charge, opex/average AUM for PFL will be 5.0%/4.1% in FY23E/FY24E respectively**

Superior asset quality underpinned by customer selection

Expect recoveries to outpace write-offs over the next four quarters

PFL has implemented a very stringent write-off policy for stressed/ NPA pool of advances

- PFL has markedly tightened its underwriting standards and now has a very effective risk management approach that draws extensively from the technology-centric approach of the company. It has successfully established an effective hybrid – leveraging technology for what can be routinely monitored and things that require human judgment are addressed by professionals.
- About 80% of the customers in the unsecured products have a CIBIL score of higher than 730 because of the company's focus on select credit-tested customers.
- The company has also implemented a very stringent write-off policy for stressed/ NPA pool of advances and is perhaps one of the most aggressive among the cohort of peer NBFCs.

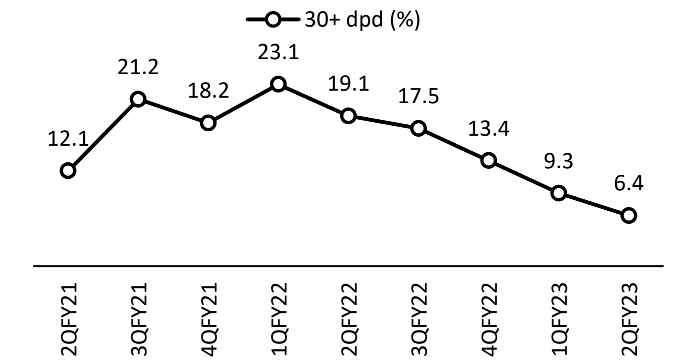
Exhibit 36: PFL's management adopted one of the most stringent write-off policies back in FY21 when it acquired Magma

Product segment	Product	Earlier write-off policy	Revised write-off policy
Asset Backed Finance (ABF)	Cars, CV, CE, Auto Lease, Used Assets, Agri	730+ dpd	180+ dpd
SME	Unsecured loan	450+ dpd	90+ dpd
Mortgage	Affordable Housing Finance	Case to case basis	730+ dpd

Source: MOFSL, Company

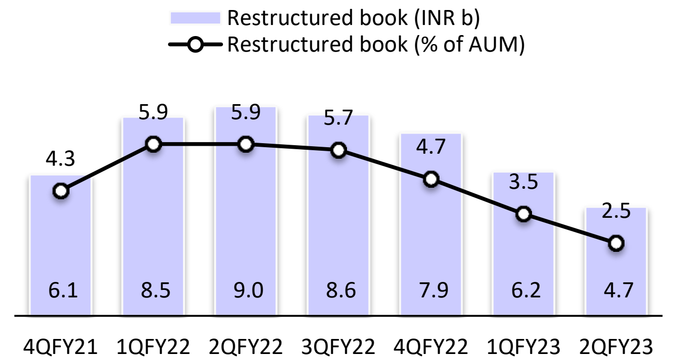
- The pool of restructured advances, which peaked out post the second-COVID wave has been consistently declining and now stands at 2.5% of the AUM. About 45% of this residual restructured book was 0dpd and from the remaining the company has been receiving EMI repayments. PFL has already taken whatever write-offs were required in the restructured books (which were all legacy loans).

Exhibit 37: Sharp improvement in 30+dpd over the last four quarters



Source: MOFSL, Company

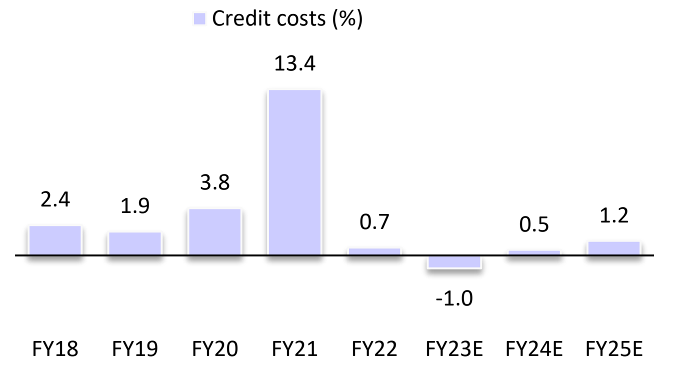
Exhibit 38: Restructured book declined ~340bp YoY



Source: MOFSL, Company; Note: Data on consolidated basis

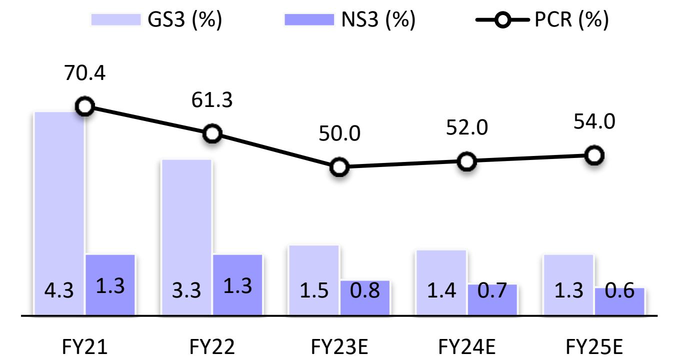
- In terms of the new business loan disbursements between Jun'21 and Jun'22, the asset quality has been very strong (though we believe that the seasoning is yet to happen) with 30+dpd at 0.3%, which we believe is the best in the industry. Bounce rate in this newly originated pool is in low single-digit that is an early indicator of strong asset quality.
- PFL has delivered strong asset quality improvement over the last four quarters with GS3 declining to 1.8% (from 4.8% YoY). This was partly aided by write-offs in stressed pool of advances and partly by healthy recoveries. Even 30+dpd has declined by more than ~13pp over the last four quarters.

Exhibit 39: Credit costs to remain benign



Source: MOFSL, Company; Note: Credit costs as % of avg. loans

Exhibit 40: Asset quality to strengthen as the legacy book runs-offs and newer originations deliver robust asset quality



Source: MOFSL, Company

- Aided by focus on select credit-tested customers (with higher CIBIL scores), formal income and usage of data analytics for early warning indicators, we model a GNPA of 1.3% and NNPA of 0.6% over FY23-FY25E.
- Credit costs will therefore remain benign driven by better customer selection and conservative portfolio guardrails, which the company has incorporated. We expect net credit costs to be negative in FY23 aided by recoveries from the legacy stressed assets and the written-off pool of advances. Over FY24/FY25, we expect credit costs of 0.5/1.2% (as a % of the average loans) respectively.

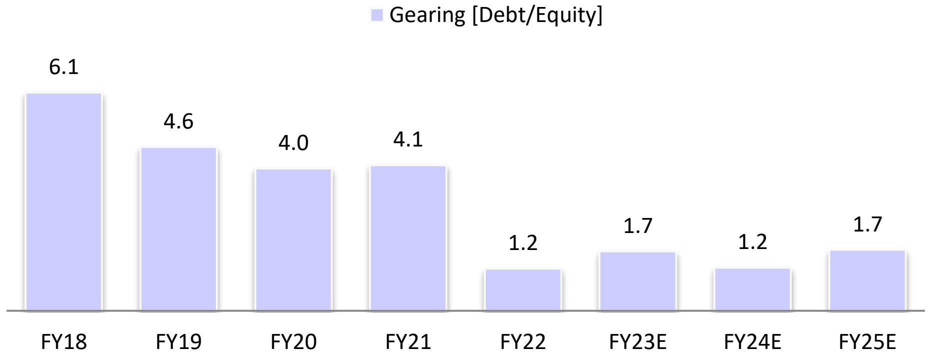
Strong capital buffer and low gearing to propel AUM growth

Access to strong net worth pools has changed the trajectory for PFL

We estimate a net-worth accretion of ~INR31.6b from the sale of the Housing Finance subsidiary (PHFL) to TPG.

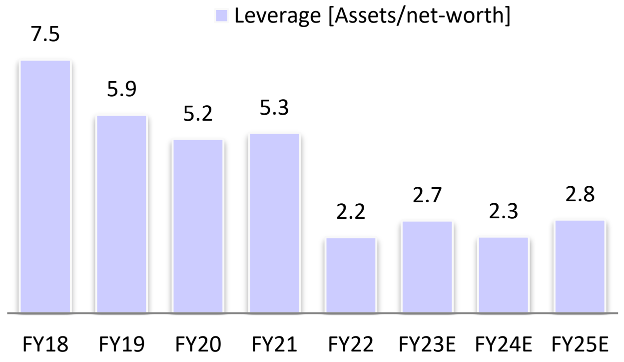
- Post-infusion of ~INR35b from the Poonawalla Group, the capital adequacy of PFL improved meaningfully and the leverage declined substantially prompting the credit rating agencies to effect rating upgrades under the new promoter. CRAR (standalone) stood at ~45% as of Sep'22 with leverage of 2.5x.
- In 1QFY24, we estimate a net-worth accretion of ~INR31.6b from the sale of the Housing Finance subsidiary (PHFL) to TPG Global. Management has indicated that it might evaluate some investments (organic or inorganic) on the technology and analytics side after the completion of the sale of PHFL.
- With such strong access to net worth pools, PFL can now exhibit strong growth (on a low base) despite not needing equity capital infusion for at least the next five years. By FY25, we expect the leverage to improve to 2.8x, which will be driven by 37% AUM CAGR over FY22-FY25 and consequently, this will improve the RoE for the company.

Exhibit 41: Low gearing in FY24 because of net-worth accretion from sale of HFC subsidiary



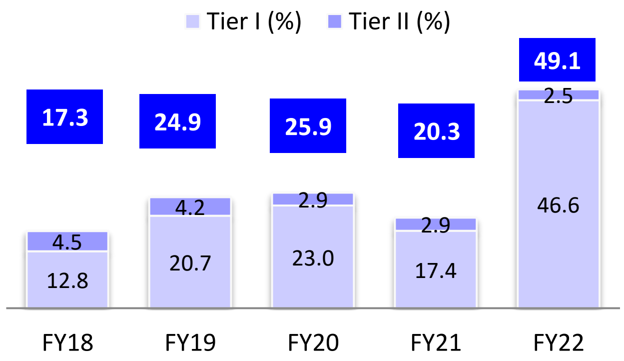
Source: MOSL, Company

Exhibit 42: Expect a healthy improvement in leverage



Source: MOFSL, Company

Exhibit 43: Strong capital buffer even after factoring in a healthy AUM growth over the next three years



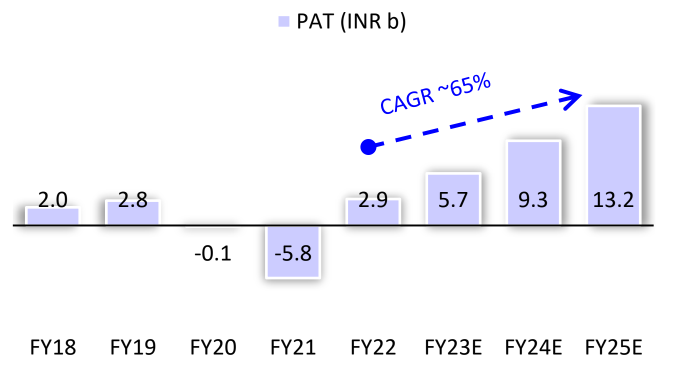
Source: MOFSL, Company

Visibility on earnings growth; RoA at ~4.6-4.8% in FY24/FY25

…Laying the foundation for sustainable profitability

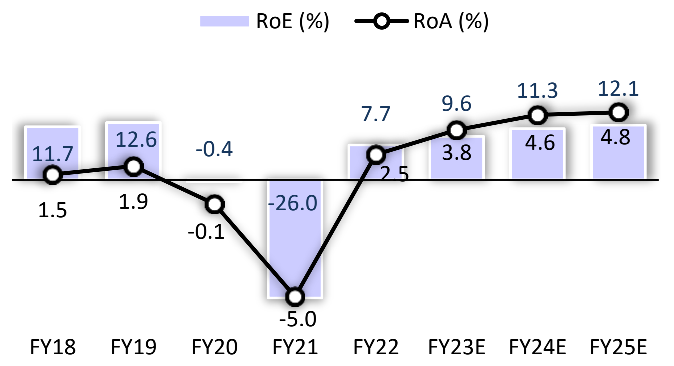
- After recognizing stress in the legacy loan book and taking high credit costs in 4QFY21, FY22 was a year of consolidation for PFL. From FY23, the company has embarked on its growth phase as the business restructuring is now largely complete. Operating efficiencies will however continue to accrue in terms of decline in ESOP costs, further employee rationalization and improvement in branch/employee productivity.

Exhibit 44: Earnings to clock a CAGR of ~65% over FY22-25E



Source: Company, MOFSL

Exhibit 45: RoE to grow to ~12% by FY25E



Source: Company, MOFSL

- We estimate a PAT CAGR of ~65% over FY22-FY25 and model RoA to improve to 4.8% by FY25E. With an improvement in leverage to 2.8x, we expect FY25 RoE to improve to ~12%. RoE, however, will continue to further improve with the improvement in leverage.

Poised to build scale and deliver; Initiate coverage with a BUY

Pure-retail play with strong risk management

PFL endeavors to transform into a technology company ahead rather than remain a traditional NBFC

PFL is now poised to build a franchise that can deliver strong risk-adjusted returns across economic/credit cycles.

Infusion of equity capital from the Poonawalla group came as strong tailwinds and has changed the direction of the PFL franchise. With strong improvement in its credit rating to AAA from CARE (AA+ from CRISIL), it now has very healthy access to banks term loans and debt markets. The benefit on the cost of its liabilities has in turn aided its customer selection and product offerings. With the new-found ability to cater to credit-tested high quality customers, PFL is now poised to build a franchise that can deliver strong risk-adjusted returns across economic/credit cycles.

The company will predominantly focus on the consumer and small businesses lending segments where the opportunity is huge and the ability to holistically underwrite this customer segment gives it the firepower to deliver strong loan growth supplemented by superior asset quality. Unlike some of its diversified NBFC peers, PFL will be a pure-retail play with the ability to build scale in its targeted product/customer segments. What we liked is that PFL wants to leverage technology to be differentiated in the marketplace, improve operational efficiencies and enhance customer delight.

While growing the loan book is the easier part, we believe that PFL will also be able to deliver a strong asset quality since it has chosen products of relatively low-ticket sizes that will make it possible for the company to service a large volume of customers (high velocity supported by its technology backbone) and consequently moderate default risks.

Earlier in Dec'22, PFL announced a complete stake sale of Poonawalla Housing (PHFL) to TPG Global for INR39b. We expect this transaction to be completed (with all the necessary regulatory approvals) by 1QFY24. We have assumed the indexation benefit and capital gains tax on this transaction. Post that, we expect a net-worth accretion of ~INR32b to the standalone entity in FY24. This is based on our assumptions and the actual net-worth accretion from this transaction could vary slightly based on actuals. Post the completion of the sale of the HFC subsidiary, PFL could explore investments in technology and analytics through both organic and inorganic routes.

On a low base (vis-à-vis similar-rated NBFC peers), we model an AUM CAGR of 37% over FY22-FY25E. Despite this strong growth, PFL will continue to have a healthy capital adequacy of ~38% by FY25E. We estimate PAT CAGR of ~65% over the same period to translate into a RoA/RoE of 4.8%/12% by FY25E.

Strong leadership team across functions, realignment of the customer and product segments and emphasis on leveraging technology/analytics position PFL well to build scale and deliver superior risk-adjusted returns. We **initiate coverage on the stock with a BUY rating and a TP of INR350** (premised on 2.3x FY25 standalone BV).

Key downside risks

- **Execution risk:** Inability to execute on its articulated strategy despite a new management team and investments in technology and processes.
- **Competitive landscape:** Aggressive competition could lead to pressure on spreads/margins.
- **Elevated credit costs:** Post-seasoning of the newer business loan disbursements, if the asset quality were to turn out inferior than expectations, it might lead to elevated credit costs.

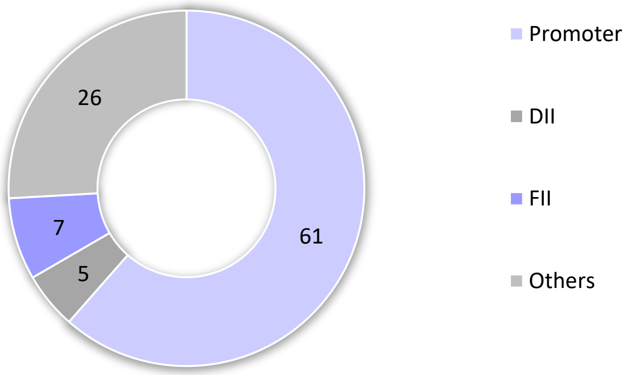
Exhibit 46: Valuation matrix for diversified lenders (NBFCs)

Peers	CMP	Mkt. Cap	BV		P/BV		EPS		P/E		RoA (%)		RoE (%)	
	(INR)	(INR b)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
PFL	246	188	82	134	3.0	1.8	7	12	32.9	20.2	3.8	4.6	9.6	11.3
BAF	6,369	3,856	879	1,079	7.2	5.9	188	230	33.9	27.7	4.7	4.6	23.6	23.5
CIFC	698	574	171	206	4.1	3.4	31	38	22.4	18.3	2.7	2.7	19.9	20.3
MMFS	221	272	131	141	1.7	1.6	12	16	18.0	14.1	1.8	1.9	9.7	11.4
SHF*	1,301	487	1,197	1,383	1.1	0.9	168	186	7.8	7.0	2.9	2.9	15.0	14.4
LTFH	82	204	86	93	1.0	0.9	6	8	12.9	10.7	1.4	1.6	7.6	8.6
MasFin	719	39	262	302	2.7	2.4	37	49	19.4	14.6	2.8	2.8	15.1	17.4

Source: MOFSL, Company;

Note: PFL and CIFC on standalone basis; *Shriram Finance basis pro-forma merged financials of SHTF and SCUF

Exhibit 47: Shareholding pattern (%)



Source: MOFSL, Company

ESG initiatives

Environmental

- The Company has initiated installation of LED lights in new and upcoming branches wherever possible. The Company is also in the process of replacement of existing lights with LED lights in a phased manner.
- All the primary wastes mainly paper and electronic are recycled to the maximum possible extent. The emissions and wastes of the Company are within the permissible limits of the laws applicable.

CSR Initiatives

- The Company's business focusses on the key necessities of people and enables them to earn their livelihood through financial products offered by it to the MSMEs, to Marginal farmers, small shopkeepers.
- The focus area of CSR initiatives undertaken by the Company are education, health and environment. The Company incurs CSR expenses directly or through trust Magma Foundation
- To oversee the activities of CSR, PFC has in place a Board level CSR & SD Committee of Directors headed by Mr Abhay Bhutada, (MD). For FY22, the company spent INR3.35m on CSR initiatives.
- Nature of CSR activities
  - I. **M Scholar:** Under this, scholarships are offered to meritorious students from marginalized families
  - II. **Highway Hero:** Under this, medical camps are conducted and trainings are provided to truck drivers
  - III. **M Care:** Under this, health camps are conducted in rural areas, which lack basic health infrastructure or clinics.
  - IV. **Mid-Day Meal:** Under this, happiness kits are distributed consisting of exercise nooks, stationery, masks, sanitizers, etc. to students of government schools.

Governance

- As on Sep'22 the Company's Board comprised of ten Directors which includes five Independent Directors and one women director.
- All the Non-Executive Directors are eminent professionals and bring the wealth of their professional expertise and experience to the management of the Company.
- The Company has set up a Stakeholders Relationship and Shareholders'/Investors' Grievance Committee to look into the redressal of the complaints of investors as per the requirement of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Bull and Bear Cases

Exhibit 48: Bull and Bear Cases

TP	(INR m)	FY22	FY23E	FY24E	FY25E	CAGR FY22-25E	Thesis
Bear Case (1.8x FY25 BV)	AUM	1,17,650	1,44,594	1,90,851	2,48,162	28%	❖ NII and PPOP CAGR of ~33%/ 48% respectively over FY22-25E driven by rise in CoF and lower AUM growth. ❖ Average credit costs of ~90/120bp in FY24/FY25E and PAT CAGR of 46% over FY22-25E
	NII	9,493	11,967	17,235	22,409	33%	
	PPOP	4,532	5,650	10,320	14,665	48%	
INR250	PAT	2,932	5,286	6,746	9,173	46%	
Base Case (2.3x FY25 BV)	AUM	1,17,650	1,53,622	2,15,274	2,98,901	37%	❖ NII and PPOP CAGR of ~41%/65% respectively over FY22-25E. ❖ Average credit costs of ~50/120 bp in FY24/FY25E and operating efficiencies to lead to PAT CAGR of ~65%
	NII	9,493	12,384	18,607	26,382	41%	
	PPOP	4,532	6,174	13,086	20,321	65%	
INR350	PAT	2,932	5,729	9,343	13,175	65%	
Bull Case (2.9x FY25 BV)	AUM	1,17,650	1,55,879	2,31,546	3,31,896	41%	❖ NII and PPOP CAGR of ~45%/ 73% respectively over FY22-25E on account of stronger AUM growth and delivery of even higher operating efficiencies. ❖ Average credit costs of ~20/100bp in FY24/FY25E to lead to PAT CAGR of ~75%.
	NII	9,493	12,449	19,830	28,935	45%	
	PPOP	4,532	6,359	14,808	23,461	73%	
INR450	PAT	2,932	5,833	11,044	15,842	75%	

Source: MOFSL, Company

Exhibit 49: Bull case scenario

INR m	FY23E	FY24E	FY25E
AUM	1,55,879	2,31,546	3,31,896
Growth (%)	32	49	43
NIM (%)	9.8	10.6	10.5
NII	12,449	19,830	28,935
PPoP	6,359	14,808	23,461
Credit Costs	-1,266	371	2,752
PBT	7,625	14,437	20,709
PAT	5,833	11,044	15,842
Growth (%)	99	89	43
RoA (%)	3.9	5.3	5.4
RoE (%)	9.7	13.2	14.2
BV (INR)	82	137	155
Target PV multiple (Mar'25E)		**2.9**	
Target price (INR)		**450**	
Upside (%)		**83%**	

Source: MOFSL, Company

Exhibit 50: Bear case scenario

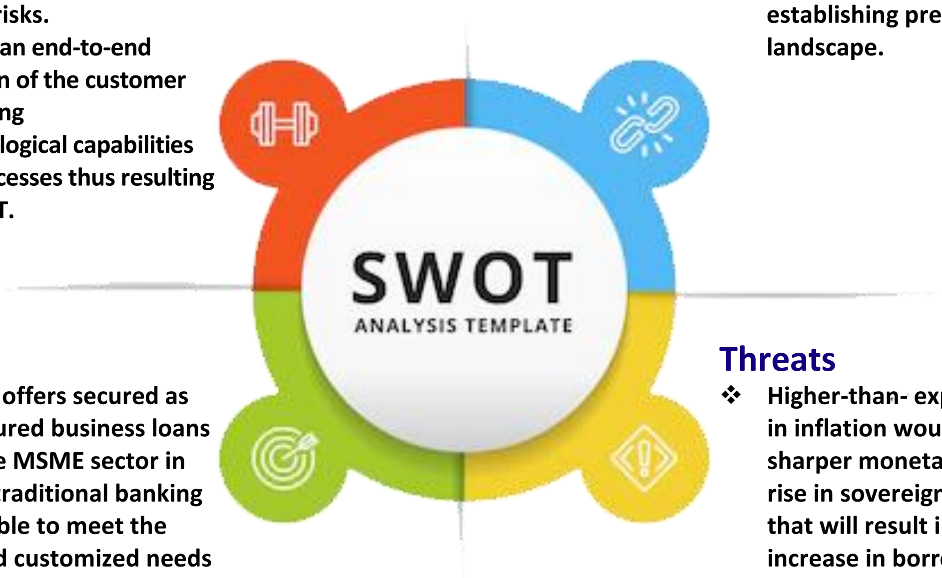
INR m	FY23E	FY24E	FY25E
AUM	1,44,594	1,90,851	2,48,162
Growth (%)	23	32	30
NIM (%)	9.9	10.8	10.6
NII	11,967	17,235	22,409
PPoP	5,650	10,320	14,665
Credit Costs	-1,261	1,501	2,675
PBT	6,910	8,819	11,990
PAT	5,286	6,746	9,173
Growth (%)	80	28	36
RoA (%)	3.6	3.4	3.5
RoE (%)	8.9	8.3	8.9
BV (INR)	81	130	140
Target PV multiple (Mar'25E)		**1.8**	
Target price (INR)		**250**	
Upside (%)		**1%**	

Source: MOFSL, Company

SWOT analysis

Strength
- The granularity of the company's retail book, given its low average ticket size and Pan-India spread, shields PFL from concentrated credit losses and helps spread the localized risks.
- PFL has led to an end-to-end transformation of the customer journey by using digital/technological capabilities in lending processes thus resulting in reduced TAT.

Weakness
- Being a new entrant, the company would have to undergo several tests viz. robustness of its underwriting parameters for the new segments, and establishing presence in credit landscape.



Opportunity
- The company offers secured as well as unsecured business loans to support the MSME sector in India, where traditional banking system is unable to meet the faster TAT and customized needs of MSMEs.
- PFL aims to compete on the back of its enhanced digital lending capabilities as well as its superior customer service

Threats
- Higher-than- expected increase in inflation would lead to sharper monetary tightening and rise in sovereign risk premium that will result in unexpected increase in borrowing costs as well as slow-down in credit growth.
- Irrational pricing due to entry of new players may lead to worsening of risk- adjusted returns for the industry.

Management team

Abhay Bhutada
Managing Director

Has 15 years of diversified experience in the commercial and retail lending domains in the NBFCs space

Sanjay Miranka
Chief Financial Officer

Has 25+ years of experience in Business Finance and Operations Management with 18+ years at ABFL

Manish Chaudhari
President and Chief of Staff

Has 20+ years of experience in lending functions of Credit, Risk, Sales, Strategy at ICICI Bank, Standard Chartered Bank, GE, Cholamandalam, Reliance, and Magma

Rajendra Tathare
Chief Risk Officer

Spent 25+ years in BFSI with Fullerton and HDFC Bank in their credit risk and policy functions

Kandarp Kant
Chief Technology Officer

Spent 23+ years with companies such as Sundaram Finance, Polaris Software Labs, Citi and Oracle

Vineet Tripathi
Chief Business Officer

Has 20+ years of experience in the lending industry across diversified spectrum of Banks and NBFCs with TATA Capital AIG, ING, Citigroup and Bandhan

Manoj Gujaran
Chief Compliance Officer

Has 23+ years of experience in the areas of company law, NBFC compliance, listing regulations, contract management, and litigations

Smita Mitra
Head - Human Resources

Has 18+ years of experience in HR operations spanning NBFC, Banking, Real Estate and Education industries

Hiren Shah
Head – Investor Relations

Has 23+ years of experience in Strategic Finance and Investor Relations. He has earlier worked with Bandhan Bank and Ujjivan Financial Services

Anup Agarwal
Chief Internal Auditor

Two decades of experience across multiple industries. He has earlier worked with with State Bank of India, Kotak Mahindra Bank and Citibank

Board of Directors (BOD)

Adar Poonawalla
Chairman

CEO of Serum Institute of India. Mr. Poonawalla has been dedicated to developing affordable children's vaccines and providing the same across the globe.

Abhay Bhutada
Managing Director

Has 15 years of diversified experience in the commercial and retail lending domains in the NBFCs space

Amar Deshpande
Non-executive Director

Has 36+ years of experience in the BFSI sector with expertise in the areas of Fund Mobilization, Corporate Funding, Project Finance, Debt Syndication, Credit Appraisal, Management Consultancy, etc.

Atul Kumar Gupta
Non-executive Director

Served as the President of ICAI, Member of IRDAI, SEBI's primary market advisory committee and IFAC

Sajid Fazalbhoy
Non-executive Director

Partner at growth and late-stage venture capital fund, Iron Pillar. He was formerly engaged as the Principal Investments and Venture Advisor at Blume Venture Capital, an early stage venture capital fund from 2012 until 2021

Prabhakar Dalal
Independent Director

Currently serving as an Independent/ Nominee Director on the Boards of several organizations across sectors, including West African Development Bank. Also served as a Member of the Jury for Business Excellence Awards

G Jagan Mohan Rao
Independent Director

Served as the MD of BNPM, Principal Chief General Manager of RBI and is on the Board of Indiabulls Trustee Co. Ltd

Bontha Prasad Rao
Independent Director

Has 37+ years of experience and served as the Chairman and MD of BHEL

Vijaylakshmi Iyer
Independent Director

Previously served as an Executive Director of the CBOI as well as the Chairperson and MD of BOI. She was also a Wholetime Member (Finance and Investment) in the IRDAI

Sanjay Kumar
Independent Director

Headed the Compliance Function and served as the CFO of BoB

Financials and valuations

Income Statement								(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Interest Income	19,319	20,365	20,228	17,570	14,586	18,549	27,436	38,945
Interest Expenses	10,126	10,176	11,240	8,746	5,093	6,165	8,829	12,563
Net Interest Income	**9,193**	**10,189**	**8,988**	**8,824**	**9,493**	**12,384**	**18,607**	**26,382**
Change (%)		10.8	-11.8	-1.8	7.6	30.5	50.2	41.8
Non-interest income and Other Income	1,666	2,308	1,962	1,199	1,085	2,187	2,817	3,358
Total Income	**10,859**	**12,497**	**10,951**	**10,023**	**10,578**	**14,571**	**21,424**	**29,740**
Change (%)		15.1	-12.4	-8.5	5.5	37.8	47.0	38.8
Total Operating Expenses	**5,522**	**6,018**	**5,968**	**4,563**	**6,046**	**8,397**	**8,339**	**9,419**
Change (%)		9.0	-0.8	-23.5	32.5	38.9	-0.7	13.0
Employee Expenses	3,306	3,804	3,741	3,060	4,099	5,451	4,906	5,446
Depreciation	490	502	716	522	495	549	604	665
Other Operating Expenses	1,726	1,712	1,487	981	1,453	2,397	2,828	3,309
PPoP	**5,337**	**6,479**	**4,982**	**5,460**	**4,532**	**6,174**	**13,086**	**20,321**
Change (%)		21.4	-23.1	9.6	-17.0	36.2	112.0	55.3
Total Provisions	**2,966**	**2,450**	**4,640**	**13,186**	**686**	**-1,344**	**825**	**3,031**
PBT	**2,371**	**4,029**	**342**	**-7,727**	**3,846**	**7,518**	**12,261**	**17,290**
Tax Provisions	359	1,278	442	-1,943	914	1,789	2,918	4,115
Tax Rate (%)	15.1	31.7	129.3	25.1	23.8	23.8	23.8	23.8
PAT	**2,012**	**2,751**	**-100**	**-5,784**	**2,932**	**5,729**	**9,343**	**13,175**
Change (%)						95.4	63.1	41.0

Balance Sheet								(INR M)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Equity Share Capital	474	539	539	539	1,530	1,530	1,530	1,530
Reserves & Surplus	17,634	25,019	24,614	18,881	55,615	61,038	1,01,369	1,13,779
Net Worth	**18,108**	**25,558**	**25,153**	**19,421**	**57,145**	**62,568**	**1,02,899**	**1,15,309**
Borrowings	**1,10,980**	**1,17,497**	**1,00,595**	**79,487**	**67,734**	**1,04,463**	**1,24,859**	**1,97,275**
Change (%)								
Other liabilities	6,593	6,820	3,803	4,512	3,217	4,022	5,228	6,535
Total Liabilities	**1,35,681**	**1,49,876**	**1,29,552**	**1,03,420**	**1,28,097**	**1,71,053**	**2,32,986**	**3,19,119**
Loans	**1,21,544**	**1,31,379**	**1,11,749**	**85,653**	**1,06,784**	**1,44,482**	**2,11,160**	**2,93,263**
Change (%)	0.0	8.1	-14.9	-23.4	24.7	35.3	46.1	38.9
Cash and Bank Balances	3,978	9,327	6,484	6,124	5,372	9,890	12,532	15,633
Fixed Assets	1,921	1,871	2,267	1,715	1,748	1,888	2,039	2,243
Investments	3,056	3,024	4,024	4,289	8,197	8,197	-	-
Other assets	5,182	4,275	5,028	5,638	5,996	6,596	7,256	7,981
Total Assets	**1,35,681**	**1,49,876**	**1,29,552**	**1,03,420**	**1,28,097**	**1,71,053**	**2,32,986**	**3,19,119**

E: MOFSL Estimates

Financials and valuations

AUM

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM (INR b)	139.9	138.7	128.5	102.5	117.7	153.6	215.3	298.9
YoY growth (%)	**-5**	**-1**	**-7**	**-20**	**15**	**31**	**40**	**39**
Disbursements (INR b)	67.5	76.7	50.5	24.2	75.2	140.7	181.5	221.4
YoY growth (%)		**14**	**-34**	**-52**	**210**	**87**	**29**	**22**

E: MOFSL Estimates

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)								
Avg. Yield on Loans	15.7	15.8	16.3	17.5	14.9	14.5	15.0	15.1
Avg Cost of Funds	9.5	8.9	10.3	9.7	6.9	7.2	7.7	7.8
Spread of loans	6.1	6.9	6.0	7.8	8.0	7.3	7.3	7.3
NIM (on loans)	7.6	8.1	7.4	8.9	9.9	9.9	10.5	10.5
Profitability Ratios (%)								
RoE	11.7	12.6	-0.4	-26.0	7.7	9.6	11.3	12.1
RoA	1.5	1.9	-0.1	-5.0	2.5	3.8	4.6	4.8
Int. Expended / Int.Earned	52.4	50.0	55.6	49.8	34.9	33.2	32.2	32.3
Other Inc. / Net Income	15.3	18.5	17.9	12.0	10.3	15.0	13.1	11.3
Efficiency Ratios (%)								
Op. Exps. / Net Income	50.9	48.2	54.5	45.5	57.2	57.6	38.9	31.7
Opex/ Avg AUM	3.9	4.3	4.5	4.0	5.5	6.2	4.5	3.7
Empl. Cost/Op. Exps.	59.9	63.2	62.7	67.1	67.8	64.9	58.8	57.8
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	1.1	1.1	1.1	1.1	1.6	1.4	1.7	1.5
Debt/Equity (x)	6.1	4.6	4.0	4.1	1.2	1.7	1.2	1.7
Assets/Equity (x)	7.5	5.9	5.2	5.3	2.2	2.7	2.3	2.8
Asset quality								
GNPA (INR m)				4,190	3,720	2,212	3,014	3,886
GNPA (%)				4.3	3.3	1.5	1.4	1.3
NNPA (INR m)				1,240	1,440	1,106	1,447	1,787
NNPA (%)				1.3	1.3	0.8	0.7	0.6
PCR (%)				70.4	61.3	50.0	52.0	54.0
Credit costs (%)	2.4	1.9	3.8	13.4	0.7	-1.0	0.5	1.2

Valuations	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (INR)	76	95	93	72	75	82	134	151
BV Growth (%)	11.0	24.2	-1.7	-22.8	3.7	9.5	64.5	12.1
Price-BV (x)	**3.2**	**2.6**	**2.6**	**3.4**	**3.3**	**3.0**	**1.8**	**1.6**
EPS (INR)	8.5	10.2	-0.4	-21.5	3.8	7.5	12.2	17.2
EPS Growth (%)		20.3	-	-	-	95.3	63.1	41.0
Price-Earnings (x)	**29.0**	**24.1**	**-**	**-**	**-**	**32.9**	**20.2**	**14.3**
Dividend per share	0.0	0.0	0.0	0.0	0.4	0.8	1.0	2.0
Dividend Yield (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.3**	**0.4**	**0.8**

E: MOFSL Estimates

NOTES

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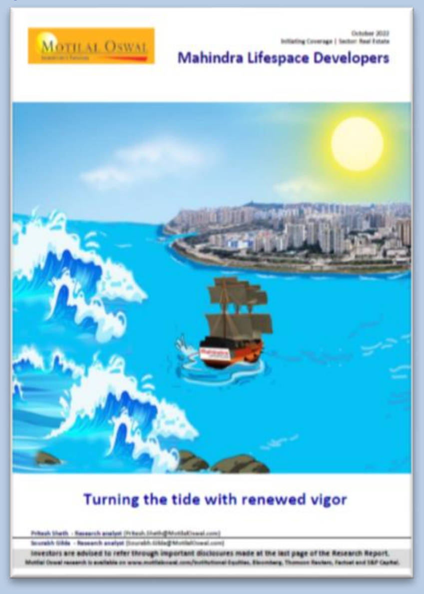

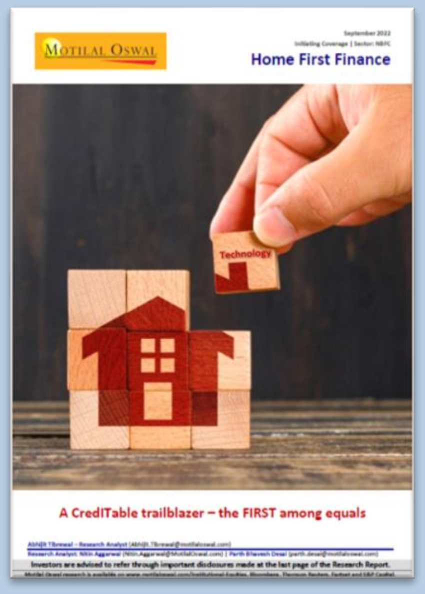

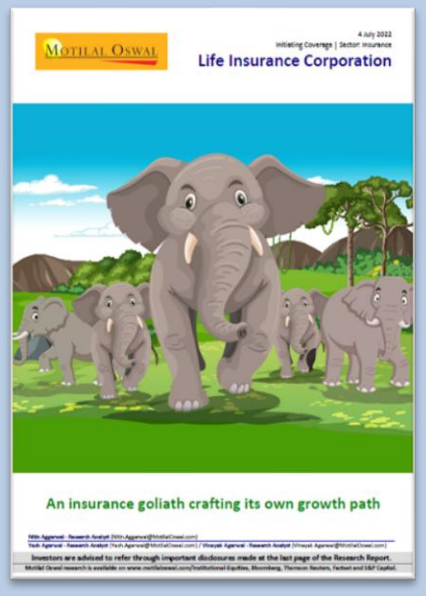

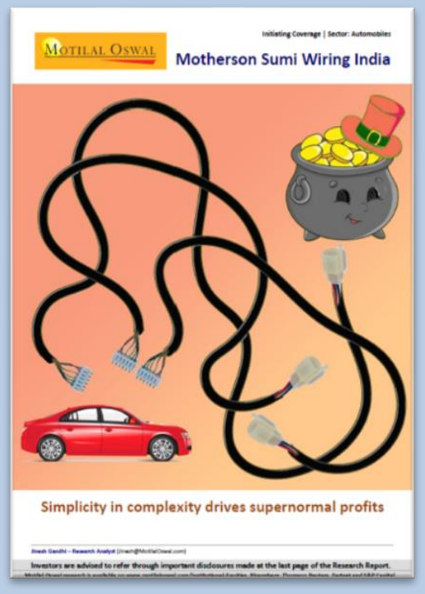

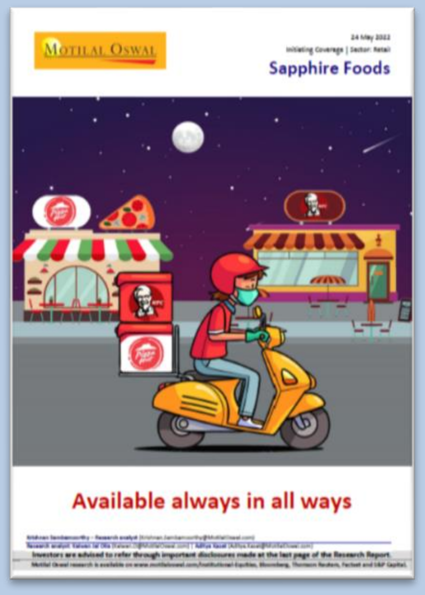

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BUY	>=15%
SELL	< - 10%
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