

Shriram Finance

Estimate change



TP change



Rating change



CMP: INR1,405

TP: INR1,700 (+21%)

Buy

High credit costs and other impairments drive earnings miss

RoA/RoE of 3.1%/15% in FY24 and FY25

| Bloomberg | SHFL IN |
|-----------------------|-------------|
| Equity Shares (m) | 227 |
| M.Cap.(INRb)/(USDb) | 526 / 6.4 |
| 52-Week Range (INR) | 1509 / 1048 |
| 1, 6, 12 Rel. Per (%) | 11/12/18 |
| 12M Avg Val (INR M) | 1266 |

Financials & Valuations (INR b)

| Y/E March | FY23 | FY24E | FY25E |
|---------------------|-------|-------|-------|
| Total Income | 173 | 194 | 217 |
| PPOP | 123 | 140 | 158 |
| PAT | 59.8 | 68.8 | 78.5 |
| EPS (INR) | 160 | 184 | 210 |
| EPS Gr. (%) | 42 | 15 | 14 |
| Standalone BV (INR) | 1,170 | 1,157 | 1,302 |

Ratios

| | | | |
|-----------------|------|------|------|
| NIM on AUM (%) | 9.4 | 9.1 | 9.0 |
| C/I ratio (%) | 28.5 | 27.9 | 27.4 |
| RoAA (%) | 3.1 | 3.1 | 3.1 |
| RoE (%) | 15.3 | 14.9 | 15.1 |
| Div. Payout (%) | 21.9 | 21.8 | 21.5 |

Valuations

| | | | |
|----------------|-----|-----|-----|
| P/E (x) | 8.8 | 7.7 | 6.7 |
| P/BV (x) | 1.2 | 1.1 | 1.0 |
| Div. Yield (%) | 2.5 | 2.8 | 3.2 |

Shareholding pattern (%)

| As On | Mar-23 | Dec-22 | Mar-22 |
|----------|--------|--------|--------|
| Promoter | 25.5 | 25.3 | 26.5 |
| DII | 14.4 | 11.1 | 14.0 |
| FII | 47.1 | 42.9 | 53.9 |
| Others | 13.0 | 20.7 | 5.7 |

FII Includes depository receipts

- Shriram Finance's (SHFL) 4QFY23 PAT declined 6% YoY/26% QoQ to ~INR13.1b (29% miss). This included impairments of ~INR3b on intangible assets and a one-time credit cost of ~INR2.95b due to stress testing of the entire loan portfolio.
- NII grew 20% YoY to INR41.8b. Reported NIM was stable sequentially at 8.55%. However, NIM (calc.) contracted ~45bp QoQ because of two fewer calendar days in 4QFY23 and higher concentration of loan bookings in the latter half of Mar'23.
- SHFL's customer and product propositions help it to operate in a benign competitive landscape and give it the pricing power to pass on its higher cost of borrowings to customers on new loans disbursed. We estimate NIM compression of ~20bp in FY24, including the positive impact of ~INR2.5b on NII because of fair valuation under merger accounting.
- We cut our FY24/FY25 estimates by 6% each to factor in the amortization of impairment of intangible assets and a higher effective tax rate of ~27%. We model an AUM CAGR of 14% over FY23-25, led by a 12% CAGR in disbursements over the same period. We estimate a ~15% PAT CAGR over FY23-25, resulting in RoA/RoE of ~3.1%/15% in FY24 and FY25.
- Concerns around potential exits by investors (such as PIEL and TPG) still remain an overhang on the stock. We believe the merged entity is stronger than the respective standalone businesses, due to better cross-selling abilities and benefits on the liability side. Reiterate our BUY rating with a TP of INR1,700 (based on 1.2x FY25E BVPS).

Healthy disbursements drive 18% YoY AUM growth

- The operational performance was strong, with 27% YoY growth in disbursements to INR311b and AUM growth of ~18% YoY/5% QoQ to INR1.86t.
- AUM mix was largely stable, with CVs/PVs/CE/MSME forming 50%/ 18%/ 8%/10% of the AUM mix.

Recurring impairment of intangible assets over the next four years

- SHFL had created ~INR15b of intangible assets for using the SCUF branch network and ~INR3b was amortized in FY23. The company will take impairments on the residual intangible assets of ~INR12b, resulting in amortization expenses of ~INR3b p.a. over the next four years.
- Opex (excluding the impairment expenses) declined 4% QoQ to INR11.4b.

Stress testing of portfolio led to elevated credit costs

- GS3 improved by ~10bp sequentially to 6.2%, while NS3 was stable at 3.2%. PCR on Stage 3 loans declined 60bp QoQ to ~50%.
- Annualized credit costs were elevated during the quarter and increased ~50bp QoQ to 2.6% (PQ: 2.1%). Stress testing of the portfolio led to an increase in the probability of default (PD) assumptions and resulted in a one-time credit cost of ~INR2.95b during the quarter. Adjusted for this, credit costs would have declined ~10bp QoQ.
- SHFL utilized additional Covid provisions of ~INR9.5b in FY23. Aggregate Covid provisions stood at ~INR11b (~60bp of EAD). Restructured pool stood at INR7.6b (0.4% of AUM).
- Credit costs (as % of AUM) stood at ~2.4% in FY23 and the management has guided for credit costs of ~2.0% in FY24. We estimate credit costs of 2.3%/2.2% in FY24/FY25.

Key highlights from the management commentary

- The company has guided for AUM growth of ~15% in FY24. It stated that the merger has been successfully concluded, with the complete integration of IT and workforce.
- The management has guided for a higher effective tax rate of ~27% over the next few years because of the unrolling of benefits utilized in prior years.

Valuation and view

- We believe that the blip on margins and stress-testing of portfolio resulting in elevated credit costs are not recurring in nature. SHFL has exhibited healthy disbursement momentum, resulting in AUM growth of ~18% YoY.
- Asset quality remains stable with GS3 at pre-Covid levels of ~6.2%. It has maintained a healthy 50% PCR on its Stage 3 loans and delivered NS3 of ~3%. CAR was healthy at ~23%, with Tier I at ~21%.
- Technical reasons (potential exits of investors like PIEL and TPG) aside, the merged entity is expected to outperform the respective standalone businesses, as it has the levers to deliver healthy and profitable growth.
- The benefits of the merger, such as the ability to cross-sell and a stronger liability profile, provide a solid foundation for sustained growth. The current valuation of 1.0x FY25E P/BV is attractive for a ~15% PAT CAGR over FY23-25 and RoA/RoE of ~3.1%/15% in FY24 and FY25. **Reiterate our BUY rating with a TP of INR1700 (based on 1.2x FY25E BVPS).**

| Quarterly Performance | | | | | | | | | | | | (INR M) |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|------------|
| Y/E March | FY22 | | | | FY23 | | | | FY22 | FY23 | 4QFY23E | v/s Est. |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 59,332 | 60,931 | 62,498 | 65,847 | 68,719 | 70,024 | 73,099 | 74,232 | 2,48,605 | 2,86,074 | 74,065 | 0 |
| Interest Expenses | 30,727 | 30,510 | 30,458 | 30,973 | 29,609 | 32,249 | 31,178 | 32,422 | 1,22,668 | 1,25,458 | 32,256 | 1 |
| Net Interest Income | 28,605 | 30,421 | 32,040 | 34,874 | 39,110 | 37,775 | 41,921 | 41,810 | 1,25,936 | 1,60,616 | 41,809 | 0 |
| YoY Growth (%) | | | | | 36.7 | 24.2 | 30.8 | 19.9 | 9.4 | 27.5 | 19.9 | |
| Other Income | 2,139 | 1,940 | 2,841 | 2,522 | 1,311 | 4,162 | 3,022 | 3,460 | 9,441 | 11,955 | 4,416 | |
| Total Income | 30,744 | 32,360 | 34,881 | 37,396 | 40,421 | 41,937 | 44,944 | 45,270 | 1,35,378 | 1,72,571 | 46,225 | -2 |
| YoY Growth (%) | | | | | 31.5 | 29.6 | 28.9 | 21.1 | 12.9 | 27.5 | 23.6 | |
| Operating Expenses | 8,308 | 9,397 | 9,747 | 10,352 | 10,745 | 11,999 | 11,928 | 14,459 | 37,805 | 49,131 | 12,943 | 12 |
| Operating Profit | 22,436 | 22,963 | 25,133 | 27,044 | 29,676 | 29,938 | 33,016 | 30,810 | 97,573 | 1,23,441 | 33,282 | -7 |
| YoY Growth (%) | | | | | 32.3 | 30.4 | 31.4 | 13.9 | 13.0 | 26.5 | 23.1 | |
| Provisions & Loan Losses | 17,297 | 8,791 | 12,027 | 9,370 | 11,597 | 8,976 | 9,173 | 11,846 | 47,485 | 41,592 | 8,518 | 39 |
| Profit before Tax | 5,139 | 14,172 | 13,106 | 17,674 | 18,079 | 20,962 | 23,844 | 18,964 | 50,088 | 81,849 | 24,764 | -23 |
| Tax Provisions | 1,360 | 3,637 | 3,375 | 3,792 | 4,690 | 5,411 | 6,074 | 5,881 | 12,164 | 22,056 | 6,439 | -9 |
| Net Profit | 3,779 | 10,535 | 9,732 | 13,882 | 13,390 | 15,551 | 17,770 | 13,083 | 37,925 | 59,793 | 18,325 | -29 |
| YoY Growth (%) | | | | | 254.3 | 47.6 | 82.6 | -5.8 | 8.4 | 57.7 | 32.0 | |
| Key Parameters (Calc., %) | | | | | | | | | | | | |
| Yield on loans | | 16.2 | 16.2 | 16.7 | 17.1 | 16.9 | 16.9 | 16.4 | | | | |
| Cost of funds | | 9.2 | 8.8 | 8.6 | 8.0 | 8.3 | 8.0 | 8.3 | | | | |
| Spread | | 7.0 | 7.4 | 8.1 | 9.2 | 8.5 | 8.9 | 8.0 | | | | |
| NIM | | 8.1 | 8.3 | 8.9 | 10.3 | 9.8 | 10.4 | 9.9 | | | | |
| C/I ratio | | 29.0 | 27.9 | 27.7 | 26.6 | 28.6 | 26.5 | 31.9 | | | | |
| Credit cost | | 2.3 | 3.1 | 2.4 | 2.9 | 2.2 | 2.1 | 2.6 | | | | |
| Tax rate | | 25.7 | 25.7 | 21.5 | 25.9 | 25.8 | 25.5 | 31.0 | | | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| Disbursements (INR b) | 173 | 213 | 231 | 245 | 246 | 258 | 292 | 311 | | | | |
| Growth (%) | | | | | 42.3 | 21.1 | 26.5 | 26.7 | | | | |
| AUM (INR b) | 1,489 | 1,521 | 1,568 | 1,577 | 1,630 | 1,694 | 1,775 | 1,857 | | | | |
| Growth (%) | | | | | 9.4 | 11.4 | 13.2 | 17.7 | | | | |
| Borrowings (INR b) | 1,315 | 1,351 | 1,424 | 1,451 | 1,521 | 1,582 | 1,533 | 1,585 | | | | |
| Growth (%) | | | | | 15.7 | 17.1 | 7.7 | 9.2 | | | | |
| Asset Quality Parameters | | | | | | | | | | | | |
| GS 3 (INR B) | 117.0 | 115.2 | 127.1 | 109.8 | 101.3 | 105.8 | 110.6 | 113.8 | | | | |
| GS 3 (%) | 7.9 | 7.6 | 8.2 | 6.9 | 6.3 | 6.3 | 6.3 | 6.2 | | | | |
| NS 3 (INR B) | 63.8 | 58.7 | 63.9 | 55.1 | 52.1 | 53.9 | 54.5 | 56.7 | | | | |
| NS 3 (%) | 4.7 | 4.2 | 4.4 | 3.7 | 3.4 | 3.4 | 3.3 | 3.3 | | | | |
| PCR (%) | 45.5 | 49.1 | 49.7 | 49.8 | 48.6 | 49.1 | 50.7 | 50.1 | | | | |

E: MOFSL estimates



Highlights from the management commentary

Performance Update

- The merger process has been successfully concluded, with the complete integration of IT and workforce.
- Disbursements grew 27% YoY and 6% QoQ and to INR310b (PQ: INR292b).

Guidance

- The management has guided for AUM growth of ~15% in FY24.
- The company reported credit costs of 2% in FY23 and has maintained its guidance for credit costs at 2% for FY24.
- The combined entity now has access to many locations that can be leveraged to drive growth in the MSME sector, which is a focus area for the company. The management seems confident that with this expanded reach, it will be able to deliver strong growth in this segment.

Impact on NII

- The company reported a benefit of INR1.45b in NII owing to two less working days (which affected interest income) and high loan bookings in the latter half of Mar'23.

Asset Quality

- The portfolio mix will affect PD and LGD numbers.
- The company conducted a stress test on the entire portfolio after the merger, which resulted in a one-time impact of around INR2.95b during the quarter. This impact was due to the waivers provided to customers, who were affected during the Covid-19 pandemic.
- Write-offs for 4QFY23 stood at INR8.05b, while for FY23 write-offs stood at INR26.15b.

Impairment of intangibles

- SHFL had created INR15.13b of intangible assets for using the branch network of SCUF. In FY23, there was an impact of ~INR3.03b on account of amortization of the intangibles.
- It will now be amortizing it over the next four years over the life of the useful asset. The impairment impact will be smoothed with INR750m impact every quarter and INR3b per annum.
- The company mentioned that goodwill will be tested for impairment at the end of every fiscal year, but it is unlikely to get impaired within the next few years. It also clarified that there is no tax break on goodwill, but there is a tax break on intangible assets.

Higher effective tax rate

- The effective tax rate will remain elevated at ~27% for the next few years.

Two wheelers

- The company financed 1.2m 2Ws in FY23 and it expects this to grow by 10-12% in FY24 depending on the 2W industry growth.
- Southern markets are currently experiencing a decline in performance, while markets in Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, and West Bengal are showing improved performance.

Personal Loans

- Cross-sell to customers who have either completed a cycle or completed >75% of their existing loans.
- Average ticket size of ~INR55K; Average tenor of 20 months; It has done data mining on ~4.5-5.0% of the eligible database of its customers and plans to further penetrate and cross-sell personal loans to the eligible customer base.

Gold Loans

- The company is currently in the process of scaling up its gold loan book and is setting up the necessary infrastructure and training its workforce accordingly.
- The company does not plan to employ appraisers on a contractual basis; instead, it trains its own employees to appraise gold loans.
- New branches will add to the gold disbursements in the subsequent quarters.

Shriram Housing

- Shriram Housing AUM grew by 50% YoY and 12% QoQ to ~INR80.5b.

Liabilities and liquidity

- Total borrowings stood at ~INR1.6t, with securitization forming ~14% of the borrowing mix.
- CoB has increased to 8.82% in 4QFY23 from 8.77% in 3QFY23.
- Borrowing for the quarter stood at INR200b at a cost of 9.0% through different instruments.
- SHFL had INR176.6b of liquidity, and as per the company policy, it will continue to maintain liquidity equivalent to three months of liability repayments.
- The company mentioned that if the RBI increases the repo rate by 25bp in the next quarter, the incremental cost of funds could increase by 10bp. Regarding borrowing instruments, the company stated that it currently has no plans to issue a dollar bond in the near future as the blended costs are higher compared to other borrowing options.

LGD stood at 42.27%

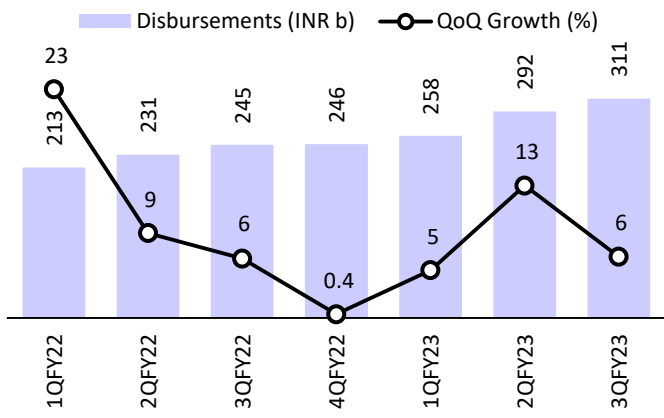
| | EAD (%) | PCR (%) | PD (%) |
|---------|---------|---------|--------|
| Stage 1 | 84.9% | 2.9% | 8.04% |
| Stage 2 | 8.9% | 6.8% | 18.0% |
| Stage 3 | 6.2% | 50.1% | |

Disbursement mix

| Product | INR b | % |
|----------------|-------|------|
| CV | 121.8 | 39.2 |
| PV | 55.9 | 18.0 |
| CE | 19.5 | 6.3 |
| Farm equipment | 6.2 | 2.0 |
| MSME | 35.7 | 11.5 |
| 2W | 23.4 | 7.5 |
| Gold Loans | 25.2 | 8.1 |
| PL | 22.5 | 7.2 |
| Others | 0.25 | 0.1 |
| Total | 310.5 | 39.2 |

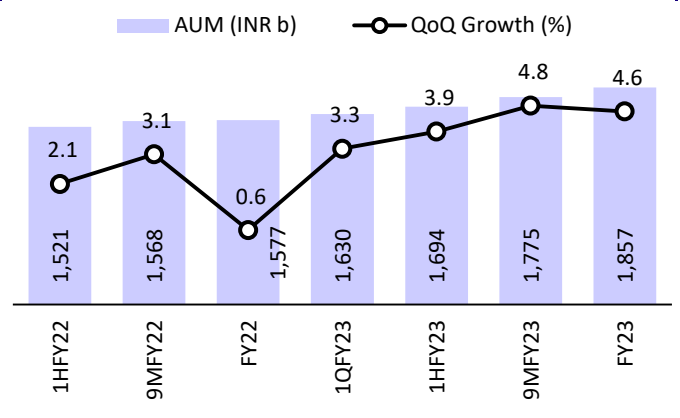
Key exhibits

Exhibit 1: Disbursements grew 27% YoY...



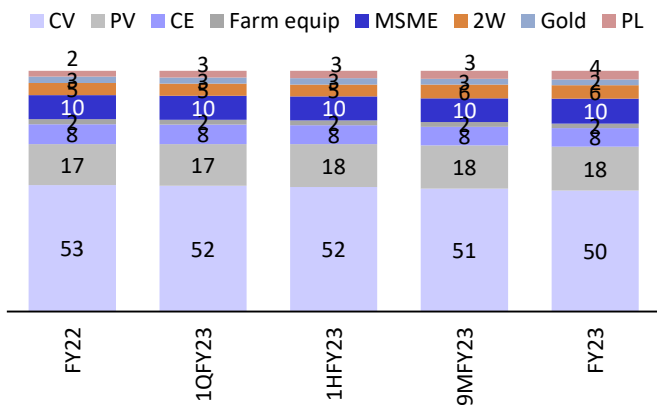
Source: MOFSL, Company

Exhibit 2: ...leading to AUM growth of 18% YoY



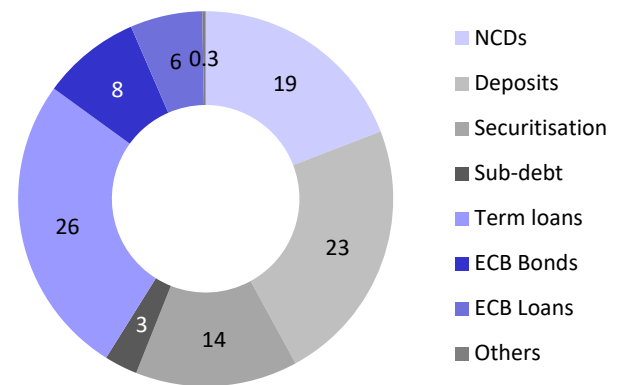
Source: MOFSL, Company

Exhibit 3: Non-CV contributes 22% to the AUM mix (%)



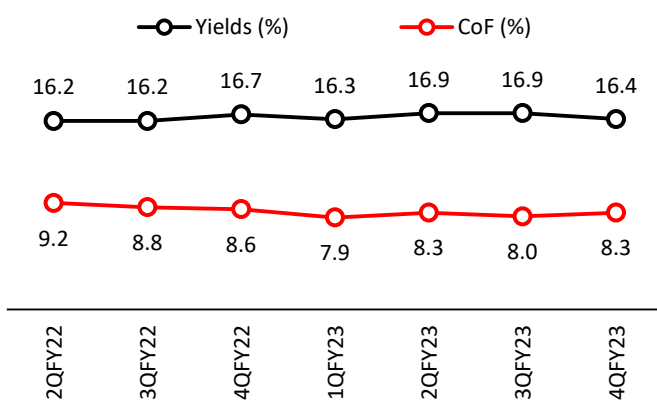
Source: MOFSL, Company

Exhibit 4: Borrowing mix (%)



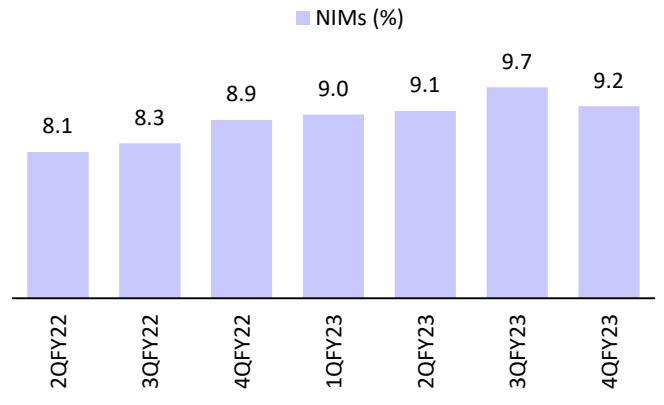
Source: MOFSL, Company

Exhibit 5: CoF increased ~30bp sequentially...



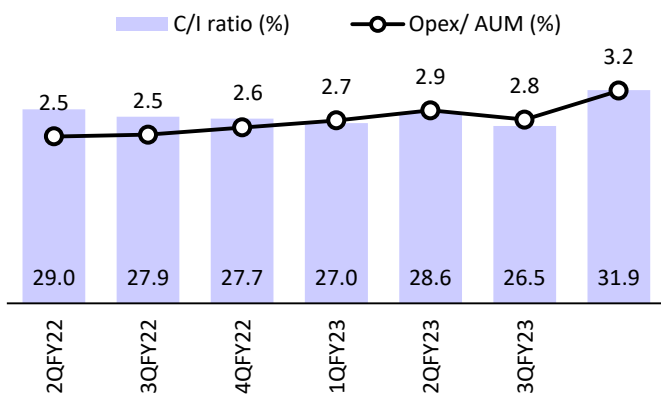
Source: MOFSL, Company

Exhibit 6: NIM compression driven by lower yields



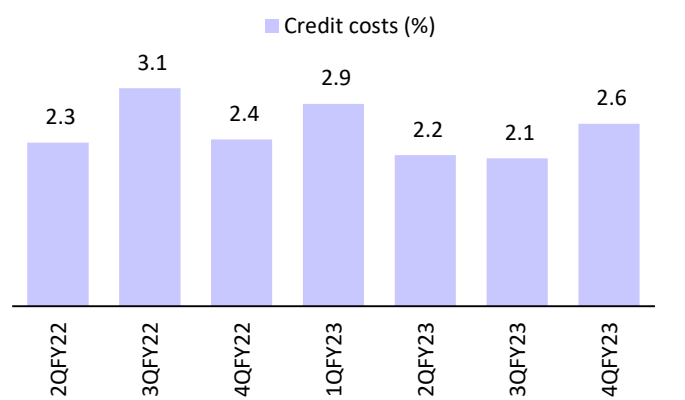
Source: MOFSL, Company

Exhibit 7: Impairment on intangible assets led to elevated opex



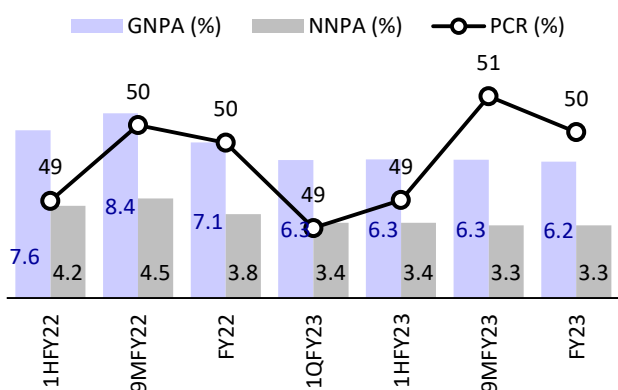
Source: MOFSL, Company

Exhibit 8: Credit costs (including one-time impact from stress testing) increased ~50bp QoQ



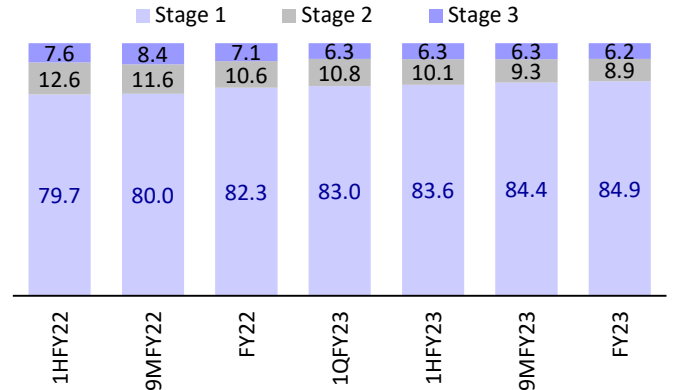
Source: MOFSL, Company

Exhibit 9: Asset quality was largely stable sequentially



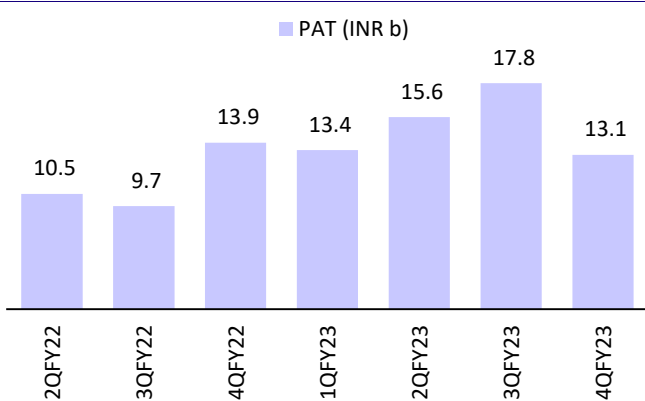
Source: MOFSL, Company

Exhibit 10: Gradual decline in Stage 3 assets (%)



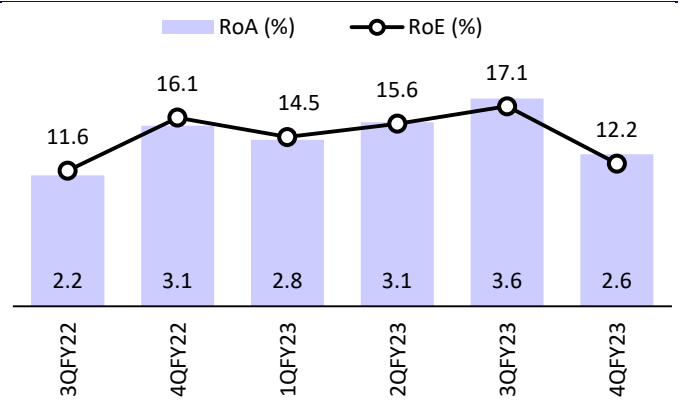
Source: MOFSL, Company

Exhibit 11: PAT declined QoQ due to elevated credit costs



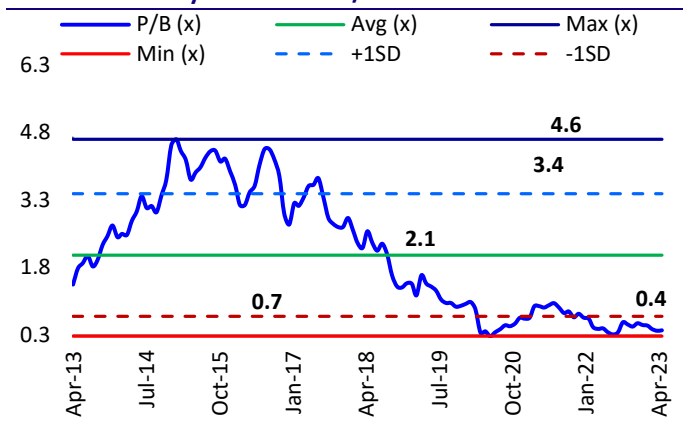
Source: MOFSL, Company

Exhibit 12: 4QFY23 RoE stood at ~12% (%)



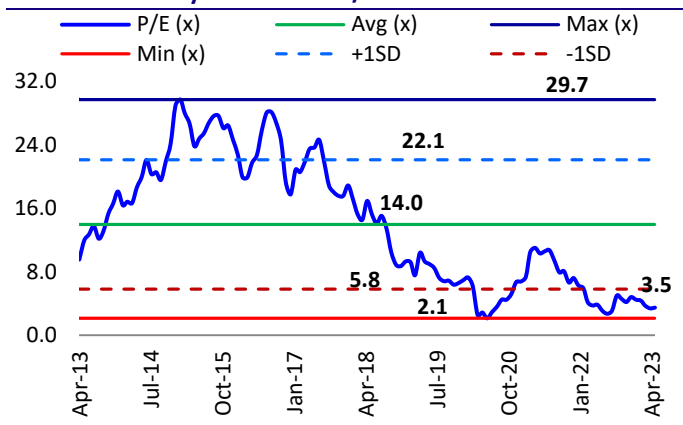
Source: MOFSL, Company, Reported

Exhibit 13: One-year forward P/B



Source: MOSL, Company

Exhibit 14: One-year forward P/E



Source: MOSL, Company

Exhibit 15: Cut our FY24/FY25 estimates by ~6% to factor in the amortization of impairment of intangible assets and a higher effective tax rate of ~27%

| INR B | Old Est. | | New Est. | | Change (%) | |
|--------------------------|--------------|--------------|--------------|--------------|-------------|-------------|
| | FY24 | FY25 | FY24 | FY25 | FY24 | FY25 |
| NII (incl. assignments) | 179.4 | 202.1 | 181.7 | 203.9 | 1.3 | 0.9 |
| Other Income | 18.6 | 20.8 | 12.7 | 13.5 | -31.5 | -35.0 |
| Total Income | 198.0 | 222.9 | 194.4 | 217.4 | -1.8 | -2.5 |
| Operating Expenses | 53.1 | 58.2 | 54.3 | 59.5 | 2.2 | 2.3 |
| Operating Profits | 144.9 | 164.7 | 140.2 | 157.9 | -3.2 | -4.2 |
| Provisions | 46.1 | 51.8 | 46.1 | 50.5 | 0.1 | -2.5 |
| PBT | 98.8 | 112.9 | 94.1 | 107.4 | -4.8 | -4.9 |
| Tax | 25.5 | 29.1 | 25.3 | 28.9 | -0.7 | -0.9 |
| Tax rate (%) | 25.8 | 25.8 | 26.9 | 26.9 | | |
| PAT | 73.3 | 83.8 | 68.8 | 78.5 | -6.2 | -6.3 |
| AUM | 2,109 | 2,396 | 2,124 | 2,408 | 0.7 | 0.5 |
| Loans | 1,976 | 2,250 | 1,971 | 2,237 | -0.3 | -0.6 |
| Borrowings | 1,824 | 2,085 | 1,837 | 2,095 | 0.7 | 0.5 |
| NIM | 9.1 | 9.0 | 9.1 | 9.0 | | |
| Credit Cost (%) | 2.5 | 2.5 | 2.5 | 2.4 | | |
| RoA | 3.3 | 3.3 | 3.1 | 3.1 | | |
| RoE | 15.7 | 15.8 | 14.9 | 15.1 | | |

Sources: MOFSL, company reports

Financials and valuations

| | | | | | | (INR M) | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Income Statement | | | | | | | |
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
| Interest Income | 2,10,407 | 2,19,646 | 2,26,997 | 2,48,605 | 2,86,074 | 3,33,983 | 3,80,774 |
| Interest Expenses | 94,975 | 1,04,105 | 1,11,881 | 1,22,668 | 1,25,458 | 1,52,258 | 1,76,918 |
| Net Interest Income | 1,15,432 | 1,15,541 | 1,15,116 | 1,25,936 | 1,60,616 | 1,81,725 | 2,03,856 |
| Change (%) | 12.7 | 0.1 | -0.4 | 9.4 | 27.5 | 13.1 | 12.2 |
| Other Operating Income | 2,605 | 4,748 | 4,514 | 9,214 | 11,648 | 12,343 | 13,083 |
| Other Income | 258 | 235 | 237 | 227 | 307 | 369 | 424 |
| Total Income | 1,18,295 | 1,20,524 | 1,19,867 | 1,35,378 | 1,72,571 | 1,94,437 | 2,17,364 |
| Change (%) | 11.3 | 1.9 | -0.5 | 12.9 | 27.5 | 12.7 | 11.8 |
| Total Operating Expenses | 33,666 | 35,803 | 33,500 | 37,805 | 49,131 | 54,256 | 59,510 |
| Change (%) | 12.6 | 6.3 | -6.4 | 12.8 | 30.0 | 10.4 | 9.7 |
| Employee Expenses | 17,210 | 18,585 | 16,699 | 19,695 | 25,061 | 28,570 | 32,284 |
| Depreciation | 742 | 2,232 | 2,172 | 2,137 | 5,242 | 5,352 | 5,469 |
| Other Operating Expenses | 15,715 | 14,986 | 14,629 | 15,973 | 18,828 | 20,334 | 21,757 |
| Operating Profit | 84,629 | 84,721 | 86,367 | 97,573 | 1,23,441 | 1,40,181 | 1,57,854 |
| Change (%) | 10.8 | 0.1 | 1.9 | 13.0 | 26.5 | 13.6 | 12.6 |
| Total Provisions | 31,643 | 36,786 | 39,693 | 47,485 | 41,592 | 46,130 | 50,489 |
| % Loan loss provisions to Avg loans ratio | 2.5 | 2.7 | 2.8 | 3.1 | 2.5 | 2.5 | 2.4 |
| PBT | 52,986 | 47,935 | 46,674 | 50,088 | 81,849 | 94,050 | 1,07,365 |
| Tax Provisions | 17,457 | 12,913 | 11,692 | 12,164 | 22,056 | 25,300 | 28,881 |
| Tax Rate (%) | 32.9 | 26.9 | 25.1 | 24.3 | 26.9 | 26.9 | 26.9 |
| PAT | 35,529 | 35,022 | 34,982 | 37,925 | 59,793 | 68,751 | 78,484 |
| Change (%) | 12.0 | -1.4 | -0.1 | 8.4 | 57.7 | 15.0 | 14.2 |

| | | | | | | (INR M) | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance Sheet | | | | | | | |
| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
| Equity Share Capital | 2,929 | 2,929 | 3,191 | 3,371 | 3,744 | 3,744 | 3,744 |
| Reserves & Surplus | 2,17,432 | 2,47,288 | 2,91,764 | 3,43,760 | 4,29,322 | 4,83,845 | 5,46,592 |
| Net Worth | 2,20,361 | 2,50,217 | 2,94,954 | 3,47,132 | 4,33,066 | 4,87,589 | 5,50,336 |
| Borrowings | 11,04,851 | 11,75,376 | 13,17,617 | 14,51,285 | 15,84,698 | 18,36,832 | 20,94,669 |
| Change (%) | 6.7 | 6.4 | 12.1 | 10.1 | 9.2 | 15.9 | 14.0 |
| Other liabilities | 21,865 | 25,436 | 26,317 | 23,320 | 18,875 | 20,762 | 22,838 |
| Total Liabilities | 13,47,077 | 14,51,029 | 16,38,888 | 18,21,754 | 20,36,639 | 23,45,183 | 26,67,843 |
| Cash and bank balances | 52,657 | 1,03,773 | 2,16,562 | 2,29,679 | 1,58,174 | 2,07,875 | 2,51,161 |
| Investments | 48,653 | 35,326 | 42,152 | 86,455 | 85,651 | 84,537 | 86,228 |
| Loans | 12,37,406 | 12,88,442 | 13,57,232 | 14,76,890 | 17,19,846 | 19,70,579 | 22,36,868 |
| Change (%) | 6.2 | 4.1 | 5.3 | 8.8 | 16.5 | 14.6 | 13.5 |
| Fixed Assets | 2,283 | 7,181 | 6,599 | 6,467 | 19,834 | 20,826 | 21,867 |
| Deferred tax Assets | 1,241 | 694 | 6,964 | 9,109 | 17,439 | 19,183 | 21,101 |
| Goodwill | | | | | 14,067 | 14,067 | 14,067 |
| Other Assets | 4,838 | 15,613 | 9,379 | 13,137 | 21,627 | 28,115 | 36,550 |
| Total Assets | 13,47,077 | 14,51,029 | 16,38,888 | 18,21,737 | 20,36,639 | 23,45,183 | 26,67,843 |

E: MOFSL Estimates

Financials and valuations

AUM Mix (%)

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| AUM | 13,40,643 | 13,88,342 | 14,68,128 | 15,77,122 | 18,56,829 | 21,23,505 | 24,07,665 |
| Change (%) | 8.3 | 3.6 | 5.7 | 7.4 | 17.7 | 14.4 | 13.4 |
| Disbursements | 7,28,076 | 7,05,733 | 5,21,985 | 8,62,135 | 11,06,899 | 12,50,796 | 13,88,383 |
| Change (%) | -5.0 | -3.1 | -26.0 | 65.2 | 28.4 | 13.0 | 11.0 |

E: MOFSL Estimates

Ratios

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|-----------------------------|------|------|------|------|------|-------|-------|
| Spreads Analysis (%) | | | | | | | |
| Avg. Yield on Loans | 17.5 | 17.4 | 17.2 | 17.5 | 17.9 | 18.1 | 18.1 |
| Avg Cost of Funds | 8.9 | 9.1 | 9.0 | 8.9 | 8.3 | 8.9 | 9.0 |
| Spread of loans | 8.6 | 8.3 | 8.2 | 8.7 | 9.6 | 9.2 | 9.1 |
| NIM (on loans) | 9.6 | 9.1 | 8.7 | 8.9 | 10.0 | 9.8 | 9.7 |
| NIM (on AUM) | 9.0 | 8.5 | 8.1 | 8.3 | 9.4 | 9.1 | 9.0 |
| C/I ratio | 28.5 | 29.7 | 27.9 | 27.9 | 28.5 | 27.9 | 27.4 |

Profitability Ratios (%)

| | | | | | | | |
|----------------------------|------|------|------|------|------|------|------|
| RoE | 17.3 | 14.9 | 12.8 | 11.8 | 15.3 | 14.9 | 15.1 |
| RoA | 2.7 | 2.5 | 2.3 | 2.2 | 3.1 | 3.1 | 3.1 |
| Int. Expended / Int.Earned | 45.1 | 47.4 | 49.3 | 49.3 | 43.9 | 45.6 | 46.5 |
| Other Inc. / Net Income | 2.4 | 4.1 | 4.0 | 7.0 | 6.9 | 6.5 | 6.2 |

Efficiency Ratios (%)

| | | | | | | | |
|------------------------|------|------|------|------|------|------|------|
| Op. Exps. / Net Income | 28.5 | 29.7 | 27.9 | 27.9 | 28.5 | 27.9 | 27.4 |
| Empl. Cost/Op. Exps. | 51.1 | 51.9 | 49.8 | 52.1 | 51.0 | 52.7 | 54.2 |

Asset-Liability Profile (%)

| | | | | | | | |
|------------------------|-----|-----|-----|-----|-----|-----|-----|
| Loans/Borrowings Ratio | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Assets/Equity | 6.1 | 5.8 | 5.6 | 5.2 | 4.7 | 4.8 | 4.8 |

Asset quality (%)

| | | | | | | | |
|---------------------------|----------|----------|----------|----------|----------|----------|----------|
| GNPA | 1,11,930 | 1,14,400 | 1,01,688 | 1,09,762 | 1,13,822 | 1,19,322 | 1,25,597 |
| NNPA | 65,678 | 66,256 | 51,523 | 49,731 | 56,749 | 59,661 | 62,798 |
| GNPA ratio | 8.5 | 8.3 | 6.9 | 7.1 | 6.2 | 5.7 | 5.3 |
| NNPA ratio | 5.0 | 4.8 | 3.5 | 3.2 | 3.1 | 2.9 | 2.7 |
| PCR | 41.3 | 42.1 | 49.3 | 54.7 | 50.1 | 50.0 | 50.0 |
| Credit Costs (% of loans) | 2.5 | 2.7 | 2.8 | 3.1 | 2.5 | 2.5 | 2.4 |

Valuations

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|-------------|-------------|-------------|-------------|------------|------------|------------|
| Book Value (INR) | 752 | 854 | 924 | 1,030 | 1,157 | 1,302 | 1,470 |
| BV Growth (%) | 16 | 14 | 8 | 11 | 12 | 13 | 13 |
| P/BV | 1.9 | 1.6 | 1.5 | 1.4 | 1.2 | 1.1 | 1.0 |
| EPS (INR) | 121 | 120 | 110 | 112 | 160 | 184 | 210 |
| EPS Growth (%) | 12.0 | -1.4 | -8.3 | 2.6 | 42.0 | 15.0 | 14.2 |
| P/E | 11.6 | 11.7 | 12.8 | 12.5 | 8.8 | 7.7 | 6.7 |
| DPS | 14.3 | 5.2 | 21.1 | 23.4 | 35.0 | 40.0 | 45.0 |
| Dividend Yield (%) | 1.01 | 0.37 | 1.50 | 1.66 | 2.5 | 2.8 | 3.2 |

E: MOFSL Estimates

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| Explanation of Investment Rating | |
|----------------------------------|--|
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| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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