

# Mahindra & Mahindra Financial

Estimate change 

TP change 

Rating change 

	MMFS IN
Bloomberg Equity Shares (m)	1234
M.Cap.(INRb)/(USD)	319.9 / 3.9
52-Week Range (INR)	272 / 161
1, 6, 12 Rel. Per (%)	10/24/37
12M Avg Val (INR M)	975

## Financials & valuations (INR b)

Y/E March	FY23	FY24E	FY25E
NII	64.8	78.6	94.4
PPP	37.5	45.9	58.4
PAT	19.8	22.8	28.1
EPS (INR)	16.1	18.5	22.8
EPS Gr. (%)	101	15	23
BV/Sh.(INR)	133	144	159

## Ratios

NIM (%)	8.3	8.1	8.1
C/I ratio (%)	42.1	41.6	38.1
RoA (%)	2.3	2.2	2.3
RoE (%)	12.6	13.4	15.0
Payout (%)	37.3	37.5	35.0

## Valuations

P/E (x)	16.1	14.0	11.4
P/BV (x)	2.0	1.8	1.6
Div. Yield (%)	2.3	2.7	3.1

## Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	52.2	52.2	52.2
DII	25.2	23.8	16.2
FII	15.0	16.3	18.1
Others	7.7	7.8	13.6

FII Includes depository receipts

**CMP: INR259**

**TP: INR320 (+24%)**

**Buy**

## Healthy quarter; conviction on the turnaround getting stronger

- Mahindra & Mahindra Financial (MMFS) reported strong earnings beat with 4QFY23 PAT of INR6.8b, which grew 14% YoY. The growth was aided by a sharp improvement in asset quality that translated into almost NIL credit costs despite write-offs of ~INR6b during the quarter.
- FY23 PAT of ~INR19.8b grew ~101% YoY. FY23 credit costs stood at 1.35% while RoA/RoE stood at 2.3%/13.0%.
- MMFS has made a good progress towards its Mission 2025 targets across AUM growth, asset quality, NIM and RoA. With process enhancements across sourcing, underwriting and collections, we expect the asset quality improvement to sustain and now model lower credit costs of ~1.7%/1.9% in FY24/FY25. Margin compression (in a rising rate environment) can be partly mitigated by the change in product mix.
- We raise our FY24E/FY25E PAT by 10%/13% to factor in higher loan growth and lower credit costs. We model an AUM and PAT CAGR of 20% and 19% over FY23-FY25E for an FY25 RoA and RoE of 2.3% and 15.0%, respectively.
- Given the volatility in performance that the company has demonstrated in the past, we have ourselves closely watched its transformation over the last six quarters with some skepticism. While Dr. Anish Shah (Chairman, MMFS) himself acknowledged that the transformation envisaged in MMFS is only half-way complete, we are ready to believe in this transformation journey of MMFS. **Reiterate BUY with a revised TP of INR320 (premised on 2.0x FY25E BVPS).**
- **Key risks:** a) Higher exposure to rural India will keep it vulnerable to poor monsoons even though the vulnerability will be lower than in the past, b) slowdown in vehicle demand due to macro factors.

## Disbursement growth healthy; gaining market share across products

- Business assets at ~INR828b grew 27% YoY. Disbursements at ~INR138b grew 50% YoY in 4QFY23 while FY23 disbursements rose ~80% YoY.
- The synergies between the parent M&M and MMFS have improved, which is aiding the healthy loan growth across all the different product segments. Management shared that the company has steadily gained market share across all its vehicle offerings.

## Investments in strengthening processes will keep opex elevated

- Opex-to-average assets in FY23 stood elevated at 3.2% because of investments in technology platforms and legal toolkits. Management guided that the opex ratio will continue to remain elevated and remain range-bound at similar levels in FY24.
- We model opex-to-average assets of 3.1%/2.9% in FY24/FY25E.

### Margin compression will continue but can be partly mitigated

- MMFS' 4QFY23 NIM (as % of Business Assets) dipped ~20bp QoQ to 8.0%.
- Hike in repo rates are yet to reflect in MMFS' cost of borrowing and we expect the margin compression to continue in FY24. We model NIM to contract ~20bp in FY24E. MMFS will try to offset a part of this NIM compression by changing its product mix towards higher-yielding segments like pre-owned vehicles and tractors.
- NIM impact because of lending to affluent rural and semi-customers will be mitigated by lower opex and credit costs for such customers.

### Strong improvement in asset quality likely to sustain

- GS3/NS3 improved 145bp/65bp QoQ to 4.5%/1.9%. Stage 2 declined ~240bp QoQ to 6.0%. This resulted in 30+dpd improving ~4pp QoQ to 10.4%. Restructured pool declined to 2.6% (PQ: 3.4%) of business assets.
- Under Mission 2025, management will aspire to keep GS3 below 6% through economic and credit cycles, and reduce the asset quality volatility that it exhibited in the past.

### Mission 2025: Steady progress being made and now appears structural

- Under its Mission 2025 strategy, MMFS had stated that it will grow its AUM to 2x, maintain GS3 below 6%, retain NIM at ~7.5%, and keep cost ratio at 2.5% leading to an RoA of 2.5%.
- To achieve this mission, the company is focusing on several strategies, including expanding its presence in underpenetrated and untapped geographies, leveraging technology to drive operational efficiency and customer engagement, developing new products and services that cater to the evolving needs of its customers, and building a strong team with the necessary skills and expertise to execute its growth plans.
- MMFS isolated the customers that resulted in the most stress for the company during the pandemic and it is now proactively looking at minimizing the long tail. Proportion of the vulnerable customers in newer originations has also declined significantly.

### Key takeaways from the management commentary

- Cash collections have declined to 35% from 65% over the last few years and it guided that the proportion of cash collections will decline further.
- The company is aggressively working on leveraging priority sector lending (PSL) eligible loans as a means to reduce its cost of borrowings (CoB).

### Higher agility gives greater confidence in execution; reiterate BUY

- Given its long lineage, strong parentage, and a great liability franchise, MMFS have navigated the stress emanating from the pandemic reasonably well, and is well positioned to deliver on its articulated targets. The synergies between the parent and MMFS have also played a very crucial role in scripting this potential turnaround.
- MMFS currently trades at 1.6x FY25E P/BV. For a PAT CAGR of 19% over FY23-FY25E and FY25 RoA/RoE of 2.3%/15%, **we reiterate our BUY rating with a TP of INR320 (based on 2.0x FY25E BVPS).**

## Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23	4QFY23E	v/s est
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Interest income	21,395	24,577	24,867	23,917	24,372	25,163	27,947	29,344	94,756	1,06,826	29,385	0
Interest Expenses	10,179	10,151	9,514	9,514	9,320	10,688	12,419	13,340	39,359	45,767	13,823	-3
<b>NII</b>	<b>11,216</b>	<b>14,426</b>	<b>15,353</b>	<b>14,403</b>	<b>15,052</b>	<b>14,475</b>	<b>15,528</b>	<b>16,004</b>	<b>55,398</b>	<b>61,059</b>	<b>15,561</b>	<b>3</b>
YoY Growth (%)	-16.6	6.0	13.4	-2.3	34.2	0.3	1.1	11.1	0.1	10.2	8.0	
Other income	475	647	563	747	614	930	969	1,223	2,432	3,735	887	38
<b>Net Total Income</b>	<b>11,691</b>	<b>15,073</b>	<b>15,916</b>	<b>15,150</b>	<b>15,666</b>	<b>15,405</b>	<b>16,496</b>	<b>17,227</b>	<b>57,830</b>	<b>64,794</b>	<b>16,449</b>	<b>5</b>
YoY Growth (%)	-15.9	5.6	12.4	-2.2	34.0	2.2	3.6	13.7	-0.1	12.0	8.6	
Operating Expenses	4,203	4,910	5,294	6,170	6,208	6,768	6,513	7,786	20,577	27,276	7,134	9
<b>Operating Profit</b>	<b>7,488</b>	<b>10,163</b>	<b>10,623</b>	<b>8,979</b>	<b>9,458</b>	<b>8,637</b>	<b>9,983</b>	<b>9,441</b>	<b>37,253</b>	<b>37,518</b>	<b>9,315</b>	<b>1</b>
YoY Growth (%)	-28.3	-1.4	6.4	-15.1	26.3	-15.0	-6.0	5.1	-10.4	0.7	3.7	
Provisions	28,186	-3,668	-1,474	639	6,453	1,985	1,551	4	23,683	9,992	2,333	-100
<b>Profit before Tax</b>	<b>-20,698</b>	<b>13,831</b>	<b>12,096</b>	<b>8,341</b>	<b>3,005</b>	<b>6,652</b>	<b>8,431</b>	<b>9,437</b>	<b>13,570</b>	<b>27,526</b>	<b>6,982</b>	<b>35</b>
Tax Provisions	-5,411	3,602	3,158	2,333	776	1,624	2,142	2,596	3,682	7,138	1,902	37
<b>Net Profit</b>	<b>-15,288</b>	<b>10,229</b>	<b>8,939</b>	<b>6,008</b>	<b>2,229</b>	<b>4,483</b>	<b>6,290</b>	<b>6,841</b>	<b>9,888</b>	<b>19,843</b>	<b>5,080</b>	<b>35</b>
YoY Growth (%)	-1,121.3	237.0	-426.1	300.6	-114.6	-56.2	-29.6	13.9	195.0	100.7	-15.4	
<b>Key Operating Parameters (%)</b>												
Yield on loans (Cal)	14.7	17.3	17.2	16.1	15.8	15.2	15.6	15.4	15.7	15.3		
Cost of funds (Cal)	7.1	7.3	6.7	6.7	6.5	6.8	7.2	7.3	6.9	7.0		
Spreads (Cal)	7.6	10.0	10.5	9.4	9.3	8.4	8.5	8.0	8.9	8.3		
Credit Cost (Cal)	17.6	-2.3	-0.9	0.4	3.9	1.1	0.8	0.0	3.7	1.4		
Cost to Income Ratio	36.0	32.6	33.3	40.7	39.6	43.9	39.5	45.2	35.6	42.1		
Tax Rate	26.1	26.0	26.1	28.0	25.8	24.4	25.4	27.5	27.1	25.9		
<b>Balance Sheet Parameters</b>												
Loans (INR B)	564	572	583	604	631	696	734	795	604	795		
Change YoY (%)	-11.6	-11.2	-6.2	0.8	11.9	21.6	26.0	31.4	0.8	31.5		
Borrowings (INR B)	556	559	571	558	591	673	709	749	558	749		
Change YoY (%)	-12.3	-7.4	-3.6	-4.7	6.3	20.4	24.3	34.3	-4.7	34.3		
Loans/Borrowings (%)	101.5	102.3	102.1	108.3	106.8	103.3	103.5	106.0	108.3	106		
Debt/Equity (x)	4.2	3.9	3.8	3.6	3.8	4.3	4.3		3.7	4.6		
<b>Asset Quality Parameters (%)</b>												
GS 3 (INR B)	98.3	80.7	72.2	49.8	54.4	49.4	45.9	37.2	49.8	37.2		
Gross Stage 3 (% on Assets)	15.5	12.7	11.3	7.7	8.0	6.7	5.9	4.5	7.7	4.5		
NS 3 (INR B)	45.5	37.9	33.8	20.9	22.8	20.7	18.8	15.1	20.9	15.1		
Net Stage 3 (% on Assets)	7.8	6.4	5.6	3.4	3.5	2.9	2.6	1.9	3.5	1.9		
PCR (%)	53.7	53.0	53.2	58.1	58.1	58.2	59.0	59.5	58.1	59.5		
ECL (%)	11.3	10.1	8.9	6.9	6.8	5.7	5.0	4.0	7.5	4.7		
<b>Return Ratios (%)</b>												
ROAA	-8.2	5.6	4.8	3.2	1.2	2.2	2.8	2.9	1.3	2.3		
ROAE	-43.8	29.9	24.5	15.7	5.7	11.4	15.7	16.3	6.6	12.5		

E: MOFSL estimates

## Mission 2025: On track

### Targets

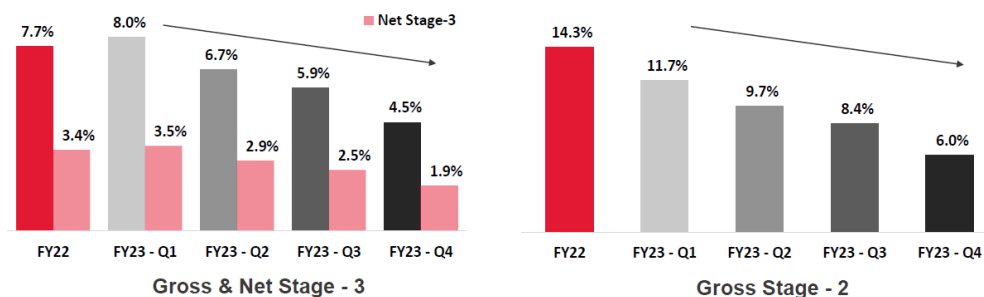
- MMFS will maintain GS3 below 6% across economic and credit cycles.
- New businesses to contribute 15% to the AUM mix.
- Maintain NIM ~7.5%.
- Operating leverage will lead to cost-to-assets ratio of ~2.5% translating into an RoA of ~2.5%.
- Even if vehicle volumes were to remain the same, inflation and a higher ticket size will lead to an improvement in disbursements. Even a marginal increase in market share can lead to better volumes.
- Pre-owned vehicles are going to be a strong growth engine.

### Transformation priorities

#### Stabilize asset quality, with GS3 below 6%

- **Identifying the right customer segment:** Reassess the highly vulnerable and the volatile cash flow segment. Target affluent 'RURBAN' clients. Target the burgeoning and affluent RUSU customer segment.
- **Product diversification:** Increase in non-vehicle share through SME, LAP, Leasing, and Digital FinCo.

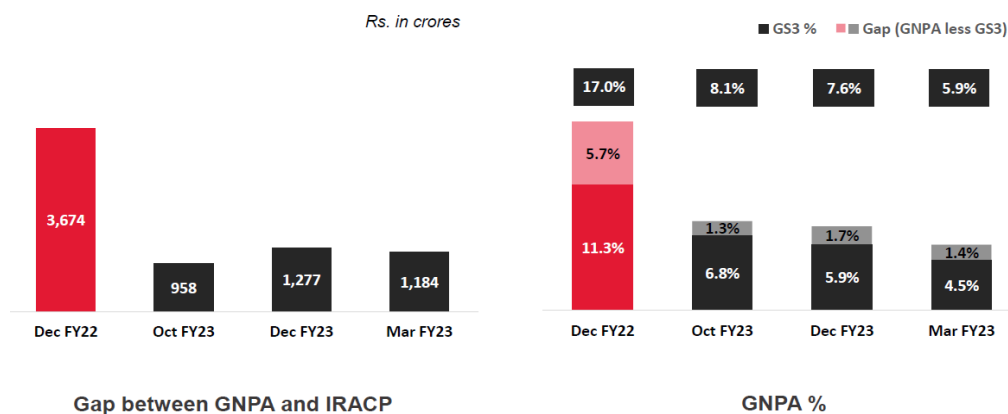
#### Exhibit 1: Steady improvement in asset quality across the last four quarters



Source: Company, MOFSL

- **Digital and Tech:** MMFS has significantly upped its engagement with credit bureaus. Application scorecard is being used across businesses. Digital lending journeys mitigate risk (VKC, e-sign, eNACH).
- **Collection war-rooms:** Curated treatment for customer segments and disciplined vehicle repossessions.
- **Legal efforts:** Leveraging legal tech and debt resolution platforms to resolve bad debts.

### Exhibit 2: Improved collection efficiency and efforts towards improving customer discipline has aided reduction in gap between IRACP GNPA and Ind-AS Stage 3



Source: Company, MOFSL

### Recharge growth to achieve 2x AUM through Core + Diversification

- **Leadership in vehicle lending:** Deepen the rural network, scale the Pre-owned Vehicle segment, and increase penetration in both the Tractor and Auto segments of MM. Target is to gain further market share.
- **Scale new growth engines:** SME, LAP, Leasing, and Digital FinCo.
- **Cross-sell and premiumize:** Leverage cross-sell as MMFS has a life to date customer base of 7m (Active customers: 2m). Target affluent RUSU customers.
- **Leverage partnerships** with dealers and OEMs.

**Strengthen Tech and Digital:** Differentiate through 'Phygital'. MMFS does not intend to completely modernize its business but instead the branches, people, technology, and data will play a key role.

- Digitizing core with Cloud first infrastructure.
- Adding APIs to the core system to allow partners to connect with its systems.
- Adding AI/ML-based models across the customer lifecycle to create a better customer experience.
- Undertaking a tech transformation journey by partnering with aggregator/co-lending platforms.

### Future ready human capital

- Realigned organization; localization will play a major role.
- Empowering employees with the latest tech infrastructure to drive productivity.
- Fostering a culture of digital and data first.
- Improving productivity through process optimization.



## Highlights from the management commentary

### Guidance

- MMFS will be comfortable with leverage of 5.5-6.0x and guided for target RoE of 15%.
- Less collection efforts are required now due to lower cash collections. Cash collections have declined to 35% from 65% over the last few years and it guided that the proportion of cash collections will decline further.
- Opex will remain high since it has been investing in legal toolkits and various IT platforms. Opex ratio of 3.2% has peaked out and it should remain range-bound for at least one more year.

### Demand outlook

- All states across India are doing well. It is not push sales which are happening, so a lender can also pick and choose customers.
- MMFS continues to believe that with such a robust infrastructure and with farm cashflows expected to hold up, the rural cashflows will do very well
- Demand for pre-owned vehicles is very high and the collateral values protect the principal value of the loans very well. Growth will come from pre-owned vehicle and also the SME/newer businesses
- Despite all the competition that it has seen, it has grown its market share by taking the dealerships into deeper pockets.

### Company should be able to fare better in the next downturn

- MMFS isolated the customers that resulted in the most stress for the company during the pandemic and it is now proactively looking at minimizing the long tail. Proportion of the vulnerable customers in newer originations has also declined significantly.
- Added high quality customer segments: Rural affluent customers comes in with a lower CAC and credit costs even in stressed environment/cycles

### MMFS: Still the DNA of a captive financier or has anything changed?

- Performance bar has been raised significantly across all the businesses in M&M.
- It does not want to be perceived as a captive financier and wants to create a model, which will be very strong over time.
- There is no minimum expectation of M&M from MMFS in terms of financing volumes.
- Internally, MMFS has always kept a maximum threshold on the proportion of M&M vehicles that it will finance
- There were never any credit loss agreements between MMFS and M&M.

### Ability to pass on higher interest rates and sustain NIM

- NIM will be a function of the product mix. It expects higher growth in the pre-owned vehicles across PV, CV and tractors.
- Even in new vehicles, it is the leader in tractor finance and as a category it gives very good yields and NIM
- Most of the businesses are priority sector lending (PSL), which allows it to raise money at attractive rates

### Liabilities

- There could be a short-term pause in the rate hike and the current interest rate regime will sustain for some time.
- There are early signs of some easing happening in the incremental CoF. It is aggressively working on PSL as a means to reduce the CoB. With the PSL and AAA rating, it should be able to mitigate the impact of any potential ~25bp hike in repo rates.

### Customer selection

- Started catering to the affluent customer segment in the rural and semi-urban markets. But it will not compete in the metro markets.
- The company has also been able to say no to certain set of customers who have brought in volatility. Based on various data points which are both internal and external, it has been able to take sensible decisions on customer selection.
- Pricing for prime customers is finer and credit costs for such customers will be negligible. So it does not expect this strategy to be RoA dilutive.

### Financial performance

- Consistent improvement in the disbursements during FY23
- Business assets grew 27% YoY and 4QFY23 disbursements grew 50% YoY
- Consistent improvement in the asset quality. NS3 is below 2%. GS2 has consistently declined and is now at 6%
- IRACP GNPA that stood at INR36.74b as of Dec'21 has declined to INR11.8b in Mar'23. FY23 NIM was at 7.6%. FY23 Opex to assets stood at 3.2% and credit costs was at 1.2%. FY23 RoA/RoE stood at 2.3%/12.1%.

### Transformation priorities

- It has brought in rigor to its processes and is shifting some of the manual processes to technology platforms.
- Started acquiring rural and semi-urban affluent customers – opex and credit costs for these customers are low.
- MMFS has looked at the most vulnerable customer segments and has been culling them out.
- It has done a significant amount of work to improve its underwriting processes and has demonstrated the ability to collect even from the deeper buckets

### Recharging growth

- Nibbled a higher market share in most of the vehicle product categories.
- Pre-owned vehicle segment ticks all the boxes and MMFS has the ability to distribute it in all the markets and the product has a very high RoA
- It will open 200 more branches in deep rural locations that will add to its growth aspirations
- Cross-sell ratios have been gradually improving.

### Partnerships

- All customer journeys are omni-channel and frictionless. Looking at partnerships in an NPV manner so that it gets the benefits in a staggered manner.
- Risk toolkits are built on the back of AI/ML toolkits



- Revamping LOS/LMS and the entire core tech stack and it will have the most sophisticated digital journeys going ahead.

### Human capital

- Moving to a high performance oriented culture. Bringing down the opex ratio will involve a cost conscious culture.
- It has ~25,000 strong human capital that works out of 1,400 branches. Building horizontal skill sets so that the branches are equipped to sell multiple products.

### Newer businesses/products

- Started to grow the SME business in the last few years. Within SME, it used to focus on Auto, Engineering and Food Processing.
- MMFS has recently started doing the micro segment and the Hero Product is LAP. Headroom for growth in LAP is quite significant.
- Started the Leasing business about 18 months back and it is an NBFC product. Working with 250 corporates and it has built a moat in that segment too.
- It does not want to spread too narrow and flirt with multiple products

### Vision

- Leading and responsible financial solutions partner of choice for Emerging India.
- Automobile portfolio of MMFS is one-third M&M and the rest non-M&M. It will not just remain a vehicle financier.

### Mission 2025

- Stable asset quality with GS3 below 6% | Double the AUM by FY25 | Maintain NIM at ~7.5% | Target Cost-to-Assets of 2.5%
- New business contribution at 15%
- RoA of 2.5%

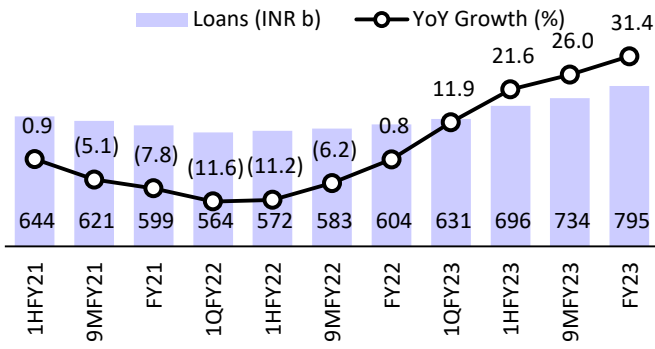
### Others

- MMFS remains conscious of the fact that it is very well capitalized and has to consume capital in the most sensible manner. Not going to look at opportunities which are not strategic to MMFS but will evaluate opportunities which fit its strategic framework.
- MMFS is committed to significantly improve the asset quality and for the long-term
- MMFS is still only half way through the turnaround. It has a strong leadership team in place.
- FMCG companies speak about rural wages or cash-flows under stress. However, there is clear difference between need-based and aspirational products. Tractors and CVs are earnings assets.



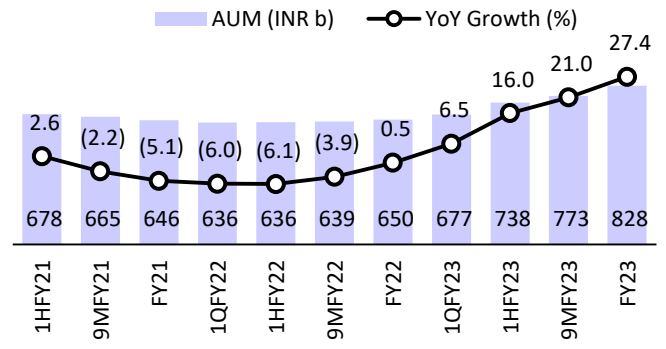
## Key exhibits

**Exhibit 3: On-book loans grew ~31% YoY**



Source: MOFSL, Company

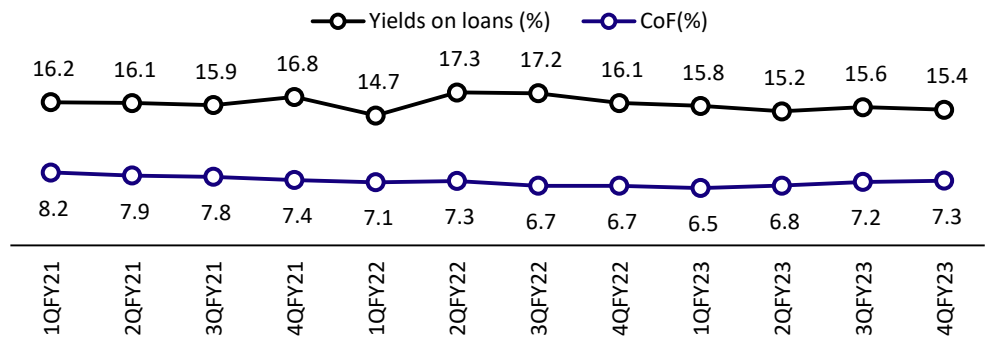
**Exhibit 4: Business assets grew ~7% QoQ**



Source: MOFSL, Company

**Exhibit 5: CoF increased ~15bp sequentially**

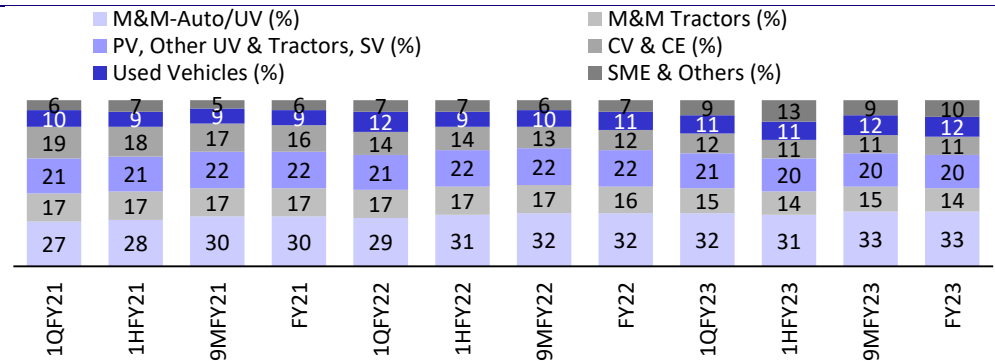
Spreads down ~40bp QoQ



Source: MOFSL, Company

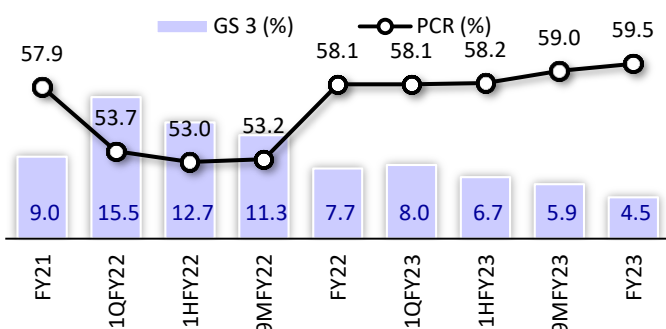
**Exhibit 6: AUM mix (%)**

Share of SME & others up 100bp QoQ to 10%



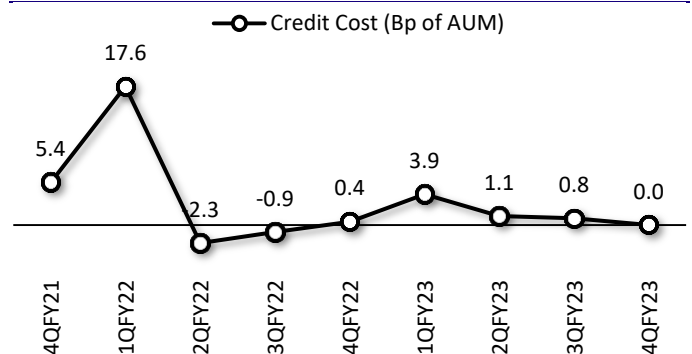
Source: MOFSL, Company

**Exhibit 7: GS3 declined to 4.5%, PCR improved ~50bp QoQ**



Source: MOFSL, Company, GS 3% on total assets

**Exhibit 8: Almost NIL credit costs in 4QFY23**



Source: MOFSL, Company

**Higher agility gives greater confidence in execution; reiterate BUY**

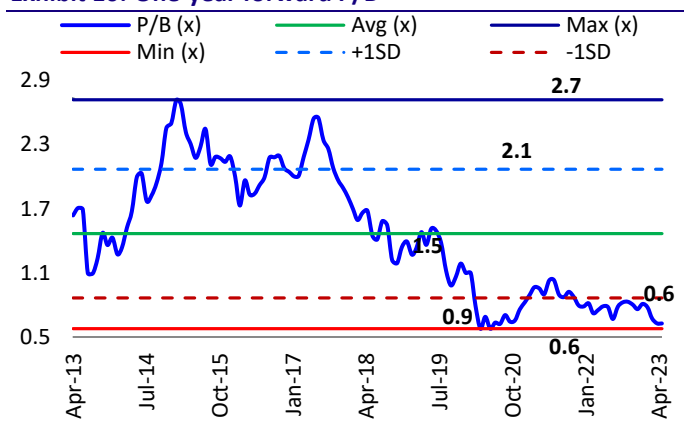
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- MMFS currently trades at 1.6x FY25E P/BV. For a PAT CAGR of 19% over FY23-FY25E and FY25 RoA/RoE of 2.3%/15%, **we reiterate our BUY rating with a TP of INR320 (based on 2.0x FY25E BVPS).**

**Exhibit 9: Increase our FY24/FY25 EPS estimates by 10%/13% to factor higher loan growth and lower credit costs**

INR B	Old Est		New Est		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII (incl. Sec. Inc)	74.5	86.9	77.0	92.4	3.3	6.3
Other Income	1.1	1.3	1.7	2.1	56.2	62.7
<b>Total Income</b>	<b>75.6</b>	<b>88.1</b>	<b>78.6</b>	<b>94.4</b>	<b>4.1</b>	<b>7.2</b>
Operating Expenses	30.0	33.6	32.7	36.0	9.1	7.3
<b>Operating Profits</b>	<b>45.6</b>	<b>54.6</b>	<b>45.9</b>	<b>58.4</b>	<b>0.8</b>	<b>7.1</b>
Provisions	17.6	21.0	15.2	20.6	-13.8	-1.7
<b>PBT</b>	<b>28.0</b>	<b>33.6</b>	<b>30.7</b>	<b>37.8</b>	<b>10.0</b>	<b>12.5</b>
Tax	7.2	8.6	7.9	9.7	10.0	12.5
<b>PAT</b>	<b>20.8</b>	<b>25.0</b>	<b>22.8</b>	<b>28.1</b>	<b>10.0</b>	<b>12.5</b>
Loans	940	1,089	968	1,139	3.1	4.6
Borrowings	903	1,047	922	1,085	2.1	3.6
Margins	8.0	7.9	8.1	8.1		
Credit Cost	2.0	2.0	1.7	1.9		
<b>RoA on AUM</b>	<b>2.0</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>		
<b>RoE</b>	<b>12.1</b>	<b>13.3</b>	<b>13.4</b>	<b>15.0</b>		

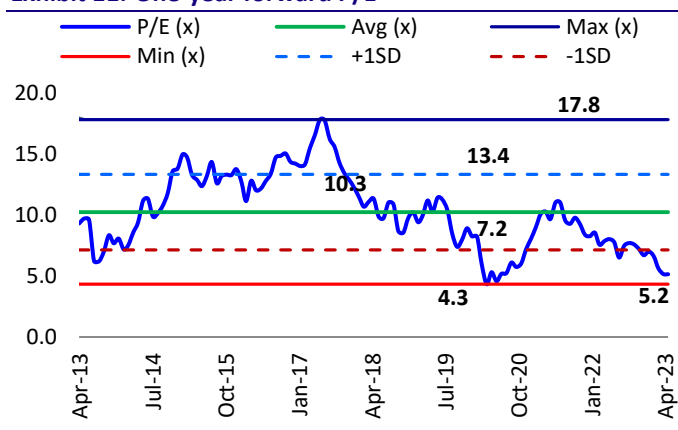
Source: MOFSL, Company

**Exhibit 10: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 11: One-year forward P/E**



Source: MOFSL, Company

## Financials and valuations

Income Statement								INR m	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest Income	60,127	65,842	86,146	99,417	102,670	94,756	106,826	138,396	168,760
Interest Expended	28,574	30,816	39,446	48,287	47,332	39,359	45,767	64,364	79,785
<b>Net Interest Income</b>	<b>31,553</b>	<b>35,025</b>	<b>46,700</b>	<b>51,130</b>	<b>55,338</b>	<b>55,398</b>	<b>61,059</b>	<b>74,032</b>	<b>88,975</b>
Change (%)	6.0	11.0	33.3	9.5	8.2	0.1	10.2	21.2	20.2
Other Operating Income	1,612	493	1,084	1,561	1,283	1,824	2,462	2,955	3,398
Other Income	636	517	869	1,473	1,277	609	1,273	1,655	2,068
<b>Net Income</b>	<b>33,801</b>	<b>36,036</b>	<b>48,653</b>	<b>54,164</b>	<b>57,897</b>	<b>57,830</b>	<b>64,794</b>	<b>78,641</b>	<b>94,442</b>
Change (%)	3.5	6.6	35.0	11.3	6.9	-0.1	12.0	21.4	20.1
Operating Expenses	14,509	14,336	18,476	20,182	16,325	20,577	27,276	32,719	36,009
<b>Operating Profits</b>	<b>19,292</b>	<b>21,700</b>	<b>30,177</b>	<b>33,982</b>	<b>41,573</b>	<b>37,253</b>	<b>37,518</b>	<b>45,922</b>	<b>58,433</b>
Change (%)	-7.6	12.5	39.1	12.6	22.3	-10.4	0.7	22.4	27.2
Provisions	13,091	5,681	6,352	20,545	37,348	23,683	9,992	15,175	20,628
<b>PBT</b>	<b>6,201</b>	<b>16,019</b>	<b>23,824</b>	<b>13,438</b>	<b>4,224</b>	<b>13,570</b>	<b>27,526</b>	<b>30,748</b>	<b>37,804</b>
Tax	2,198	5,907	8,254	4,374	873	3,682	7,138	7,902	9,716
Tax Rate (%)	35.5	36.9	34.6	32.5	20.7	27.1	25.9	25.7	25.7
<b>PAT</b>	<b>4,002</b>	<b>10,111</b>	<b>15,571</b>	<b>9,064</b>	<b>3,352</b>	<b>9,888</b>	<b>19,843</b>	<b>22,846</b>	<b>28,089</b>
Change (%)	-40.5	152.6	54.0	-41.8	-63.0	195.0	100.7	15.1	22.9
Proposed Dividend (Incl Tax)	1,610	2,938	4,779	0	986	4,439	7,402	8,567	9,831

Balance Sheet								INR m	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	1,130	1,229	1,230	1,231	2,464	2,466	2,467	2,467	2,467
Reserves & Surplus (Ex OCI)	64,994	92,052	103,072	112,408	143,666	149,376	161,020	175,299	193,556
<b>Net Worth</b>	<b>66,124</b>	<b>93,281</b>	<b>104,221</b>	<b>113,558</b>	<b>146,049</b>	<b>151,761</b>	<b>163,488</b>	<b>177,766</b>	<b>196,024</b>
Other Comprehensive Income	0	0	81	81	81	81	81	81	81
<b>Net Worth</b>	<b>66,124</b>	<b>93,281</b>	<b>104,302</b>	<b>113,639</b>	<b>146,130</b>	<b>151,842</b>	<b>163,568</b>	<b>177,847</b>	<b>196,105</b>
Change (%)	8.6	41.1	11.8	9.0	28.6	3.9	7.7	8.7	10.3
<b>Borrowings</b>	<b>352,656</b>	<b>400,932</b>	<b>528,469</b>	<b>594,623</b>	<b>585,767</b>	<b>558,139</b>	<b>749,459</b>	<b>922,338</b>	<b>1,084,831</b>
Change (%)	19.7	13.7	31.8	12.5	-1.5	-4.7	34.3	23.1	17.6
Other liabilities	24,404	33,715	38,009	32,451	38,469	42,906	49,219	54,634	60,643
<b>Total Liabilities</b>	<b>443,185</b>	<b>527,927</b>	<b>670,780</b>	<b>740,712</b>	<b>770,365</b>	<b>752,887</b>	<b>962,166</b>	<b>1,154,738</b>	<b>1,341,498</b>
Investments	19,843	27,341	37,917	59,110	116,073	84,403	99,886	113,870	127,535
Change (%)	29.3	37.8	38.7	55.9	96.4	-27.3	18.3	14.0	12.0
<b>Loans and Advances</b>	<b>406,000</b>	<b>485,470</b>	<b>612,496</b>	<b>649,935</b>	<b>599,474</b>	<b>604,446</b>	<b>794,547</b>	<b>968,455</b>	<b>1,139,073</b>
Change (%)	12.1	19.6	26.2	6.1	-7.8	0.8	31.5	21.9	17.6
Other assets	17,342	15,116	20,367	31,668	54,818	64,038	67,732	72,412	74,891
<b>Total Assets</b>	<b>443,185</b>	<b>527,927</b>	<b>670,780</b>	<b>740,712</b>	<b>770,365</b>	<b>752,887</b>	<b>962,166</b>	<b>1,154,738</b>	<b>1,341,498</b>

E: MOFSL Estimates

## Financials and valuations

<b>Ratios</b>	<b>(%)</b>								
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Spreads Analysis (%)</b>									
Yield on Portfolio	15.7	14.8	15.7	15.8	16.4	15.7	15.3	15.7	16.0
Cost of Borrowings	8.8	8.2	8.5	8.6	8.0	6.9	7.0	8.0	8.0
Interest Spread	6.8	6.6	7.2	7.2	8.4	8.9	8.3	7.7	8.0
Net Interest Margin	7.7	7.3	8.1	7.8	8.3	8.6	8.3	8.1	8.1
<b>Profitability Ratios (%)</b>									
Cost/Income	42.9	39.8	38.0	37.3	28.2	35.6	42.1	41.6	38.1
Empl. Cost/Op. Exps.	46.9	58.1	59.0	56.9	62.2	56.9	58.1	58.6	59.6
RoE	6.3	12.7	15.8	8.3	2.6	6.6	12.6	13.4	15.0
RoA	1.0	2.1	2.6	1.3	0.4	1.3	2.3	2.2	2.3
<b>Asset Quality (%)</b>									
GNPA	35,341	50,270	40,706	57,467	57,857	49,760	37,170	43,681	50,859
NNPA	7,968	139	-63	6,695	24,339	20,860	15,070	17,472	19,835
GNPA %	8.0	9.8	6.4	8.4	9.0	7.7	4.5	4.3	4.3
NNPA %	2.0	0.0	0.0	1.0	4.1	3.5	1.9	1.8	1.7
PCR %	77.5	99.7	100.2	88.3	57.9	58.1	59.5	60.0	61.0
Total Provisions/loans %	8.9	6.7	3.4	4.9	7.4	7.5	4.7	4.2	4.1
<b>Capitalisation (%)</b>									
CAR	18.1	22.7	20.3	19.6	26.0	27.8	22.5	18.4	17.1
Tier I	13.6	17.0	15.5	15.4	22.2	24.3	19.9	16.7	15.8
Tier II	4.5	5.7	4.8	4.2	3.8	3.5	2.6	1.6	1.3
Average Leverage on Assets (x)	6.6	6.1	6.1	6.5	5.8	5.1	5.4	6.2	6.7
<b>Valuation</b>									
Book Value (INR)	117	152	169	185	119	123	133	144	159
BV Growth (%)	8.5	29.7	11.7	8.9	-35.8	3.8	7.7	8.7	10.3
<b>Price-BV (x)</b>					<b>2.2</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>
Adjusted BV (INR)	107	152	170	176	104	110	123	134	148
<b>Price-ABV (x)</b>					<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>
OPS (INR)	34.1	35.3	49.1	55.2	33.7	30.2	30.4	37.2	47.4
OPS Growth (%)	-7.7	3.4	39.0	12.5	-38.9	-10.5	0.7	22.4	27.2
<b>Price-OP (x)</b>					<b>7.7</b>	<b>8.6</b>	<b>8.5</b>	<b>7.0</b>	<b>5.5</b>
EPS (INR)	7.1	16.5	25.3	14.7	2.7	8.0	16.1	18.5	22.8
EPS Growth (%)	-40.5	132.3	53.9	-41.8	-81.5	194.8	100.6	15.1	22.9
<b>Price-Earnings (x)</b>				<b>17.6</b>	<b>95.2</b>	<b>32.3</b>	<b>16.1</b>	<b>14.0</b>	<b>11.4</b>
Dividend	2.4	4.0	6.5	0.0	0.8	3.6	6.0	6.9	8.0
<b>Dividend Yield (%)</b>					<b>0.3</b>	<b>1.4</b>	<b>2.3</b>	<b>2.7</b>	<b>3.1</b>

E: MOFSL Estimates

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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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