

# Bajaj Finance

Estimate change

TP change

Rating change



Bloomberg	BAF IN
Equity Shares (m)	602
M.Cap.(INRb)/(USDb)	4737.4 / 63.2
52-Week Range (INR)	8020 / 3239
1, 6, 12 Rel. Per (%)	-1/39/86
12M Avg Val (INR M)	14509

## Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Net Income	172.7	209.8	255.5
PPP	119.6	139.9	169.9
PAT	44.2	68.7	100.1
EPS (INR)	73.5	114.2	166.4
EPS Gr. (%)	-16.3	55.4	45.7
BV/Sh. (INR)	606	708	858

## Ratios

NIM (%)	9.5	10.3	10.3
C/I ratio (%)	30.7	33.3	33.5
RoA (%)	2.6	3.6	4.4
RoE (%)	12.8	17.4	21.2
Payout (%)	13.6	10.0	10.0

## Valuations

P/E (x)	106.8	68.7	47.2
P/BV (x)	13.0	11.1	9.1
Div. Yield (%)	0.1	0.1	0.2

## Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	56.0	56.0	56.1
DII	9.7	9.3	10.7
FIIFII	23.8	24.2	21.6
Others	10.4	10.4	11.6

FII Includes depository receipts

**CMP: INR7,849 TP: INR8,650 (+10%)**
**Buy**

## Visible traction on digital platform and omnichannel strategy

- PAT was up 53% YoY and 48% QoQ to INR14.8b (8% miss) in 2QFY22. While NII at INR42.9b (10% beat) was up 26% YoY due to higher interest income from surplus liquidity and from IPO financing, it was mitigated by higher OPEX (up 48% QoQ and 40% above our estimate). Credit costs stood at INR13b (est. INR11b), which included additional COVID-19 provisions of INR3.5b in 2QFY22 to guard against contingencies from a potential third wave.
- GNPL ratio/PCR improved by ~50bp/~400bp QoQ to 2.45%/55%. **The majority of restructuring was in Mortgages in 2QFY22.** Non-overdue OTR book stood at INR15.12b (~90bp of AUM). BAF has classified its OTR pool in Stage 2 and holds ECL provision of INR2.89b (19.1%) in this book.
- BAF is seeing healthy traction of its omnichannel strategy, both for acquisition of EMI card customers (~372k) as well as for loans at the EMI store (~248k; 4% of new loans in 2QFY22). Stimulation of customers at the point of sale (POS) by leveraging its integrated offline to online framework led to originations of INR3.9b in Personal loans and ~27k Credit Cards. While the majority of this is still supported by BAF's customer data platform (CDP), it will become seamless and further reduce friction when its new consumer app upgrade is rolled out by mid-Dec'21.
- What we will now be looking forward to is the new features which will be rolled out in the second sprint of the consumer app. The payments stack of BAF will be exciting as it plans to leverage PPI, UPI, EMI cards, and Credit Cards, along with a rewards program. From QR-based payments to a presence at the POS machines and eventually to a payment gateway, BAF is looking to morph its erstwhile REMI business into a full-fledged payments offering by leveraging the merchants app, which it expects to go live in Feb'22.
- Barring any new COVID disruption, we expect BAF to deliver ~24% AUM growth in FY22E and a 25% CAGR thereafter. We expect margin to sustain driven by a reduction in the negative carry as excess liquidity normalizes and the decline in interest income reversals. We have increased our credit cost estimate for FY22E to 2.8% (v/s 2.6% earlier). We expect BAF to deliver a RoA/RoE of 4.4-4.7%/21-23% over **FY23-24E. Given the expected recovery in asset quality in 2HFY22 and the sustained milestones-driven progress made by BAF in its digital transformation program, we reiterate our Buy rating with a TP of INR8,650 per share (9x Sep'23E BVPS).**

### Sustained improvement in customer acquisition; AUM growth reverting to pre-COVID levels

- Total customer franchise increased to 52.8m (up 4.7% QoQ and 19.7% YoY). New loans booked rose 37% QoQ to 6.3m (v/s 3.6m YoY) and was back to pre-COVID levels.
- AUM grew 22% YoY and ~5% QoQ to INR1.67t. Consolidated AUM grew by ~7% QoQ, adjusted for IPO financing. On a QoQ basis, AUM growth was driven by Urban B2B Sales Finance (+12%), Urban B2C (+7%), Rural businesses (+8%), and Commercial businesses, excluding LAS (+9%). Auto Finance (-5%) and LAS (-6%) were a drag in 2QFY22. SME business/Mortgages rose 8%/6% QoQ

### Higher OPEX driven by greater collection costs and employee expenses

- Operating expenses were elevated on account of higher collection costs (owing to the second COVID wave) and employee expenses. In 2QFY22, BAF increased its employee strength by over 2,000 to support its growth stance.
- Collection costs were greater because of higher bounce rates during the second COVID wave (1QFY22) and also due to recovery efforts on loans that were written-off in FY21. Collection costs have peaked out, should reduce in 3Q, and normalize in 4QFY22.
- OPEX-to-NII stood elevated at 38% in 2QFY22. With a normalization in collections and an increase in NII as a result of Balance Sheet growth, OPEX-to-NII should normalize to 32-33% in 2HFY22.

### Highlights from management commentary

- Interest income reversal stood at INR3.22b in 2QFY22. The management expects quarterly interest reversals to normalize to INR1.8-2b in 3QFY22 and beyond.
- In the absence of a third COVID wave, loan loss and provisions should normalize to pre-pandemic levels of INR7b-INR8b in 3Q/4QFY22.
- BAF is currently investing in building **the EMI store**. Its contribution was 250k loans in 2QFY22. In 2QFY23, it could potentially originate 500k accounts.
- BAF could mostly likely diversify to other 2W OEMs in the near future.

### Valuation and view

Despite the slightly higher credit costs and elevated operating expenses, 2QFY22 was a decent quarter for BAF. Customer acquisitions and new loans booked have not reached record highs, but have convincingly scaled back to pre-COVID levels. We expect BAF to be able to deliver a quarterly run-rate in AUM growth similar to pre-COVID levels in 2HFY22. Provided there is no new COVID wave, we expect BAF to contain credit costs ~2.8% in FY22. Margin is likely to sustain on: a) lower cost of funds, b) reduced liquidity, and c) normalization in interest reversals. We update our estimates to factor in higher credit costs and operating expenses in 1HFY22, and expect BAF to deliver a RoA/RoE of 4.4-4.7%/21-23% over the medium term. Given the positive outlook, we maintain our **Buy** rating with a TP of INR8,650 per share (9x Sep'23E BVPS).

Quarterly performance												(INR m)
Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	
Interest Income	57,932	57,631	57,225	60,343	59,542	66,873	69,883	71,787	2,33,034	2,68,086	62,519	7
Interest expenses	24,976	23,581	23,627	21,956	22,536	23,976	25,055	24,684	94,140	96,250	23,437	2
<b>Net Interest Income</b>	<b>32,956</b>	<b>34,050</b>	<b>33,598</b>	<b>38,388</b>	<b>37,007</b>	<b>42,898</b>	<b>44,828</b>	<b>47,103</b>	<b>1,38,894</b>	<b>1,71,836</b>	<b>39,082</b>	10
YoY Growth (%)	10.3	8.4	-7.1	2.2	12.3	26.0	33.4	22.7	2.9	23.7	14.8	
Other Operating Income	8,565	7,568	9,360	8,206	7,888	10,447	10,104	9,510	33,797	37,950	8,024	30
<b>Net Income</b>	<b>41,521</b>	<b>41,618</b>	<b>42,958</b>	<b>46,594</b>	<b>44,895</b>	<b>53,345</b>	<b>54,933</b>	<b>56,614</b>	<b>1,72,691</b>	<b>2,09,786</b>	<b>47,107</b>	13
YoY Growth (%)	12.4	4.1	-5.3	-0.5	8.1	28.2	27.9	21.5	2.1	21.5	13.2	
Operating Expenses	11,567	11,559	13,896	16,060	13,733	20,297	17,787	18,068	53,082	69,885	14,449	40
<b>Operating Profit</b>	<b>29,954</b>	<b>30,059</b>	<b>29,062</b>	<b>30,534</b>	<b>31,162</b>	<b>33,048</b>	<b>37,146</b>	<b>38,546</b>	<b>1,19,608</b>	<b>1,39,901</b>	<b>32,658</b>	1
YoY Growth (%)	24.7	14.9	-3.2	-5.5	4.0	9.9	27.8	26.2	6.3	17.0	8.6	
Provisions and Cont.	16,857	17,004	13,517	12,308	17,503	13,003	8,500	8,049	59,686	47,055	11,000	18
<b>Profit before Tax</b>	<b>13,097</b>	<b>13,055</b>	<b>15,545</b>	<b>18,226</b>	<b>13,659</b>	<b>20,045</b>	<b>28,646</b>	<b>30,497</b>	<b>59,923</b>	<b>92,846</b>	<b>21,658</b>	-7
Tax Provisions	3,474	3,406	4,085	4,760	3,634	5,235	7,467	7,804	15,724	24,140	5,619	-7
<b>Net Profit</b>	<b>9,623</b>	<b>9,649</b>	<b>11,460</b>	<b>13,466</b>	<b>10,025</b>	<b>14,810</b>	<b>21,178</b>	<b>22,693</b>	<b>44,198</b>	<b>68,706</b>	<b>16,039</b>	-8
YoY Growth (%)	-19.5	-35.9	-29.0	42.0	4.2	53.5	84.8	68.5	-16.0	55.4	66.2	
<b>Key Operating Parameters (%)</b>												
Fees-to-Net Income Ratio	20.6	18.2	21.8	17.6	17.6	19.6	18.4	16.8	19.6	18.1		
Credit Cost	4.93	5.15	4.01	3.46	4.67	3.31	2.04	1.81	4.10	2.83		
Cost-to-Income Ratio	27.9	27.8	32.3	34.5	30.6	38.0	32.4	31.9	30.7	33.3		
Tax Rate	26.5	26.1	26.3	26.1	26.6	26.1	26.1	25.6	26.2	26.0		
<b>Balance Sheet Parameters</b>												
AUM (INR b)	1,381	1,371	1,436	1,529	1,591	1,669	1,778	1,897	1,529	1,897		
Change YoY (%)	7.1	1.1	-1.1	3.9	15.2	21.8	23.9	24.0	3.9	24.0		
Borrowings (INR b)	1,211	1,249	1,242	1,316	1,333	1,450	1,500	1,600	1,316	1,600		
Change YoY (%)	8.0	4.5	1.7	1.4	10.1	16.1	20.8	21.6	1.4	21.6		
Loans/Borrowings (%)	109.3	105.5	111.1	111.4	114.9	110.9	115.0	114.9	111.4	114.9		
<b>Asset quality parameters (%)</b>												
GS 3 (INR b)	19.4	14.4	41.9	27.3	47.4	41.0			27.3	33.5		
Gross Stage 3 (as a percentage of assets)	1.40	1.34	2.86	1.79	2.96	2.45			1.79	1.78		
NS 3 (INR b)	6.8	5.2	17.6	11.4	23.1	18.3			11.4	13.4		
Net Stage 3 (as a percentage of assets)	0.50	0.56	1.22	0.75	1.46	1.10			0.77	0.72		
PCR (%)	64.9	64.3	58.0	58.4	51.3	55.5			58.4	60.0		
<b>Return Ratios (%)</b>												
RoAA (Rep.)	2.8	2.8	3.6	3.6	2.8	3.6			2.6	3.6		
RoAE (Rep.)	11.6	11.6	13.2	14.8	10.8	15.2			12.8	17.4		

E: MOFSL estimates



## Highlights from the management commentary

### Business update

- Core AUM growth (excluding IPO financing and losses due to COVID-19) in 2QFY22 stood ~INR111.5b. In the absence of a third COVID wave, the management expects the quarterly AUM growth rate for 2HFY22 to remain strong.
- **Interest income reversal stood at INR3.22b in 2QFY22. The management expects quarterly interest reversals to normalize to INR1.8-2b in 3QFY22 and beyond.**
- Liquidity will normalize to INR80-90b by the end of 3Q or 4QFY22.

### Asset quality

- Stage 2 and 3 assets are at elevated levels (compared to the pre-COVID period). **S2 levels should decline to INR70-80b by FY22-end.**
- In 2QFY22, BAF increased management overlay provisions to INR8.32b from INR4.83b (1QFY22) to protect itself from a potential third COVID wave.
- **In the absence of a third COVID wave, loan loss and provisions should normalize to pre-pandemic levels of INR7b-INR8b in 3Q/4QFY22. Credit costs in FY22E should be in the INR45-46b range.**
- Secured assets constituted 78% of NNPA, of which Auto Finance/Mortgages were INR10.27b/INR2.96b (v/s INR14.2b/INR2.9b in 1QFY22).
- 2W and 3W asset quality should improve over the next 3-4 months. Improvement in asset quality in LAP would extend beyond 4QFY22 to recover back to pre-COVID levels.
- **The majority of restructuring has happened in mortgages.** Non-overdue OTR book increased to INR15.12b v/s INR12.87b in 1QFY22. In 2QFY22, BAF offered OTR of INR4.26b under OTR 2.0. OTR loans are classified in Stage 2 and BAF holds ECL provision of INR2.89b (19.1%) against this book.

### Operating expenses

- OPEX was elevated on account of higher collection cost, owing to the second COVID wave and an increase in salary cost.
- Collection cost stood at INR2.8b/INR5.2b in 1Q/2QFY22. This is primarily due to the increase in the bounce rate during the second COVID wave. Collection cost has peaked out, should reduce in 3Q, and normalize in 4QFY22.
- Steady recoveries in bad debts, which were written-off (INR2.13b in bad debt recoveries in 2QFY22), led to higher collections costs.
- BAF increased its employee strength by over 2,000 in 2QFY22 to support its growth stance.
- With normalization of collections and an increase in NII as a result of Balance Sheet growth, OPEX-to-NII metric should normalize in the 33-34% range by 4QFY22. The management's medium term outlook on cost ratios remains unchanged.

### Payments

- BAF had 3.1m wallet customers as of 24<sup>th</sup> Oct'21.
- Its merchant app is on track to go live by Feb'22. It will enable P2P and P2M onboarding, transactions, promotions, rewards, and settlements.

- After the board's approval, it has applied for a payment aggregator (PA) and BBPS operating unit license and has initiated various approvals.
- The REMI business is now transforming into the envisaged payments business. Complete onboarding to payments, settlements, and lifecycle management of the merchant will be undertaken on the merchant app.
- The payments ecosystem will be supported by: a) PPI, b) UPI, c) EMI cards, and d) Credit Cards.
- Bringing QR as a payment mode and merchant app will enable the acceptance of QR at the POS.
- Three phased approach in payments: QR will be followed by POS machines and subsequently the payment gateway ecosystem.

#### REMI business has been restructured

- The business side of REMI has been restructured. Ticket size has increased to INR15k from INR9.5k. BAF has moved into categories like Tyres, low speed Bikes, Coaching Classes, Small Appliances, and Dentistry services.
- EMI store has lifted its engagement rate with customers and helps close transactions.
- BAF helps customers avail the product at a no cost EMI under REMI, but the tenures are typically between 4 months and 6 months.

#### EMI store and cards

- **BAF is currently investing in building the EMI store and its contribution was 250k loans in 2QFY22. In 2QFY23, it could potentially originate 500k accounts.**
- It acquired 372k new EMI card customers in 2QFY22 using an integrated digital ecosystem. This offering will be fully integrated into the new consumer app upgrade as it goes live.
- EMI card: 60/90 day activation stands at 22-23%/27-28%. Activation happens when a customer opts for a loan. EMI card is a paid product and the customer pays fees for the EMI card. Intuitively, the activation rate should be higher than current levels.
- It has launched a digital EMI card in partnership with Flipkart in Oct'21. It expects 10-12k card originations monthly from the Flipkart platform.
- BAF does not originate EMI cards at the POS. The customer first opts for a loan and is then offered an EMI card. Under the digital ecosystem, the customer first opts for an EMI card and is then approached for a loan.

#### Omnipresence strategy update

- BAF is growing predominantly in North and East India at this point in time. The contribution of North/East India to its portfolio is lower (compared to its contribution to GDP).
- EMI store visits increased to 29.7m in 2QFY22 from 10.2m in 4QFY21. Around 248k new loans were originated from the EMI store in 2QFY22.
- **Personal loans and Credit Cards are being cross-sold when the customer is in the store. It is being offered at the POS. Existing pre-approved customers are offered a Personal loan or Credit Card. As the 3-in-1 app comes in, the customer can subsume the journey in the app itself.**

- The consumer app upgrade in mid-Dec'21 will make the process even more seamless and will lead to stronger volume momentum. In 2QFY22, it originated INR3.92b in Personal loans and ~27k Credit Cards through its digital platform.
- BAF has migrated from a centralized Pune-based call center to eight regional call centers to deliver multi-lingual sales and service support to its customers.

#### **Will mostly likely diversify to other 2W OEMs in the near future**

- Business has gone through a reasonable period of stress and concentration and dependence on One OEM had a role to play in this. The management is deliberating on this issue and will update in their 3QFY22 earnings call on whether they plan to diversify to other 2W OEMs.
- BAF does not intend to diversify to other 3W OEMs and will remain captive to Bajaj Auto.

#### **Consumer app upgrade**

- The consumer app has 12.9m active customers as of 2QFY22. Upgrade to the new consumer app has been delayed by 45 days on account of delays in certain tech deliveries and due to the upcoming festive season.
- Sprint 1, which covers all customer service menus, payments, EMI store, 20 engagement apps, and a robust search functionality, has gone live on Google Play Store for 10% of its customers.
- Sprint 2, which covers end-to-end business journeys, Insurance, and the Mutual Fund marketplace, will get deployed to all its customers by 15<sup>th</sup> Dec'21.

#### **BFSL**

- BFSL acquired 109k customers in 2QFY22. Its retail and HNI customer franchise stood at 204k as of 2QFY22.
- It delivered a post-tax profit of INR30m in 2QFY22.

#### **BHFL**

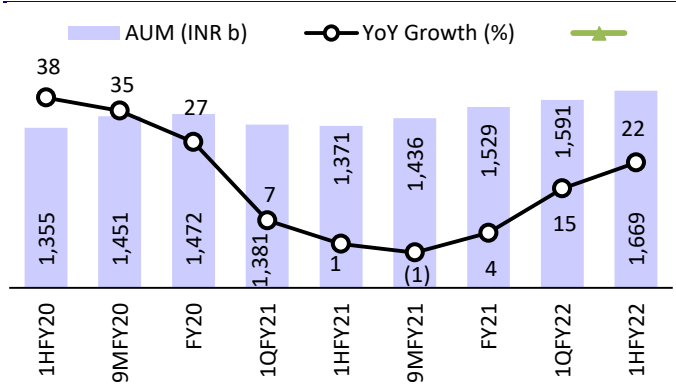
- Launched its Affordable Housing Finance business. Traction has been slow, but a start that has been made to complete BHFL's product portfolio.

#### **Others**

- There is no significant change in pricing. Yields look artificially high since revenue also includes the income it earns on surplus liquidity, which is parked under investments. IPO financing also had a role to play in the higher interest income, but does not reflect in quarter-end AUM.
- Within two quarters, it will start publishing a slide on app engagement, along with the HEART metric: happiness, engagement, app activation, retention, and transaction.

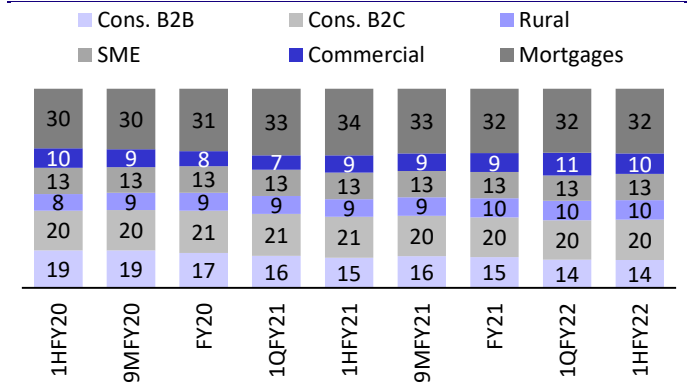
Key exhibits

Exhibit 1: Growth in AUM reverts steadily to pre-COVID levels (%)



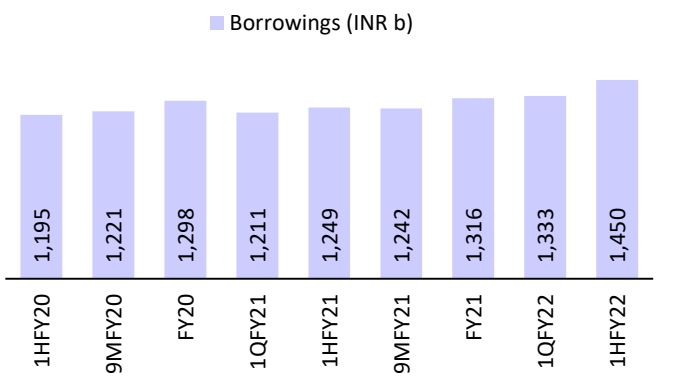
Source: MOFSL, Company

Exhibit 2: AUM mix was stable (%)



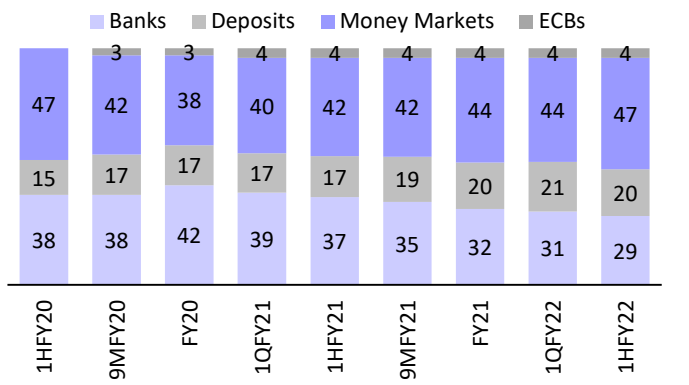
Source: MOFSL, Company

Exhibit 3: Surplus liquidity buffers to fall by the end of FY22



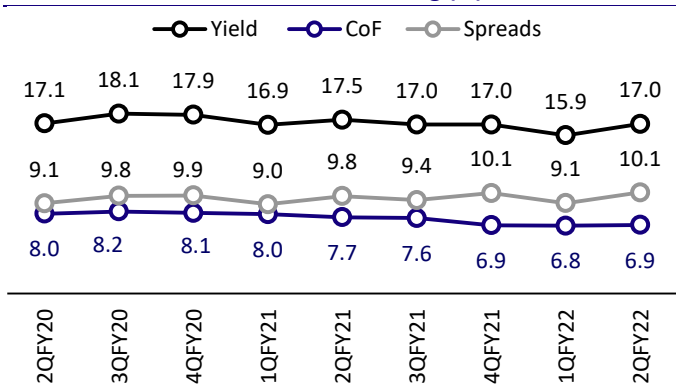
Source: MOFSL, Company

Exhibit 4: Increasing share of debt market borrowings leading to low incremental CoF (%)



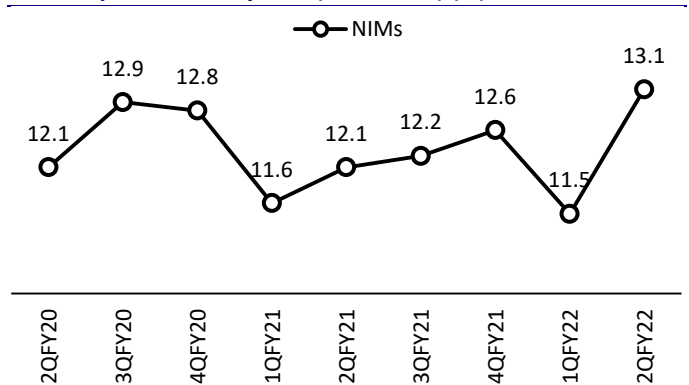
Source: MOFSL, Company

Exhibit 5: Higher yields driven by income on surplus liquidity and interest income from IPO financing (%)



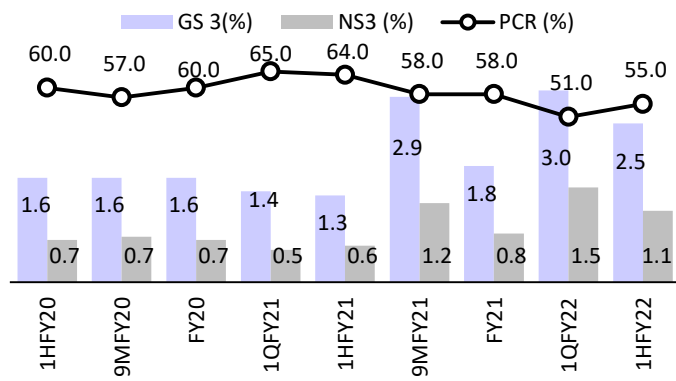
Source: MOFSL, Company

Exhibit 6: Margin (calculated) up 158bp QoQ on account of an 115bp increase in yields (calculated) (%)



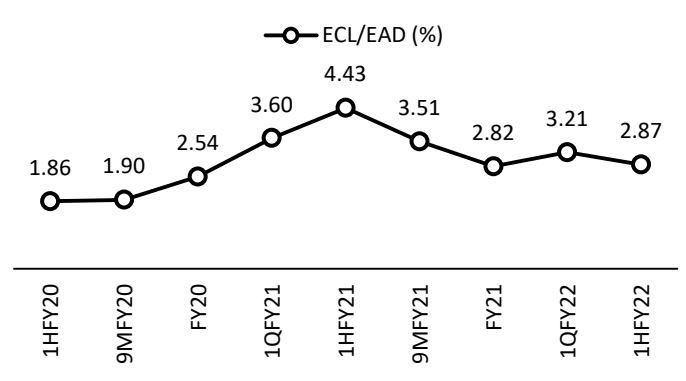
Source: MOFSL, Company

**Exhibit 7: PCR increases by ~400bp QoQ (%)**



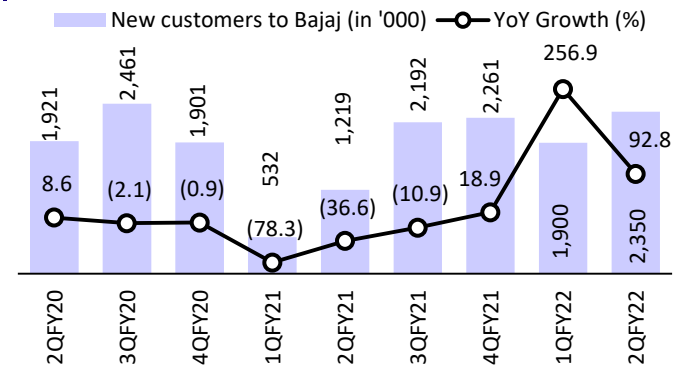
Source: MOFSL, Company; Note: Without SC dispensation, GNPA ratio would be 1.8%

**Exhibit 8: Total ECL provisions ~2.9% of EAD**



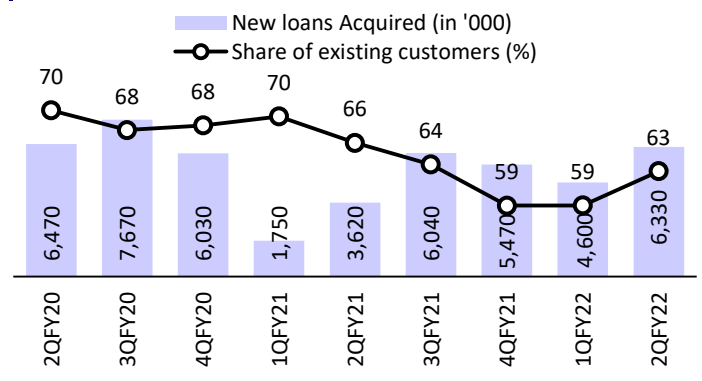
Source: MOFSL, Company

**Exhibit 9: Sustained improvement in new customer addition, touches pre-COVID levels**



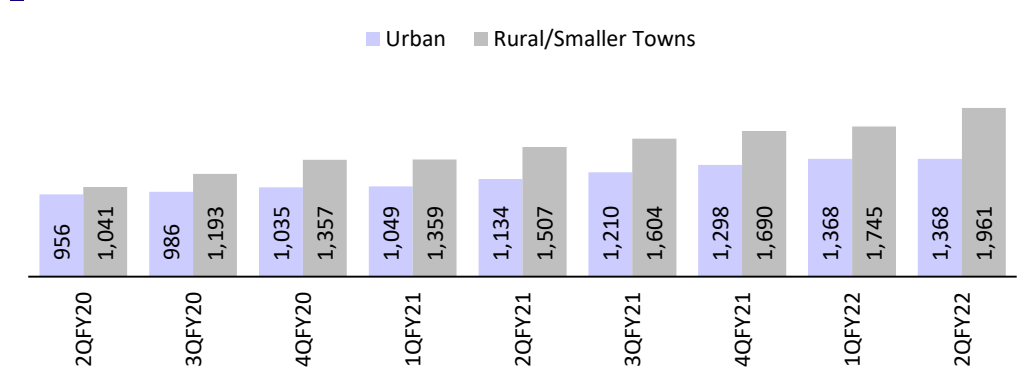
Source: MOFSL, Company

**Exhibit 10: Share of existing customers in new loans booked increases to 63%**



Source: MOFSL, Company

**Exhibit 11: Trend in branch expansion**



Source: MOFSL, Company

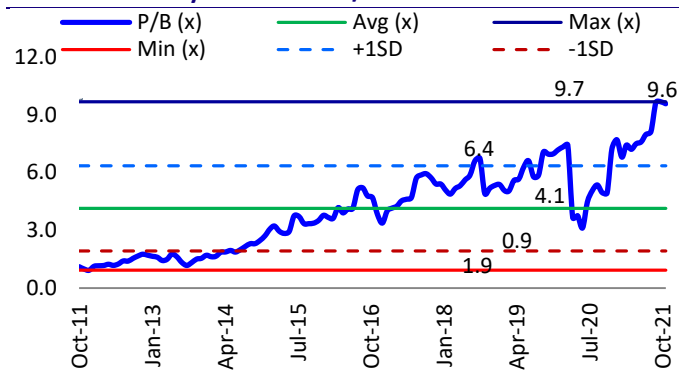


**Exhibit 12: 4%-5% cut in our FY22E/FY23E EPS estimate, led by higher opex and credit cost**

INR b	Old estimate			New estimate			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
NII	166.8	210.4	266.7	171.8	212.1	267.6	3.0	0.8	0.4
Other operating Income	35.4	42.2	49.3	37.8	43.2	50.6	6.7	2.4	2.5
Other Income	0.2	0.2	0.3	0.2	0.2	0.2			
<b>Total Income</b>	<b>202.4</b>	<b>252.8</b>	<b>316.3</b>	<b>209.8</b>	<b>255.5</b>	<b>318.4</b>	<b>3.7</b>	<b>1.1</b>	<b>0.7</b>
Operating Expenses	61.4	74.2	90.2	69.9	85.6	104.8	13.8	15.4	16.2
<b>Operating Profit</b>	<b>141.0</b>	<b>178.6</b>	<b>226.1</b>	<b>139.9</b>	<b>169.9</b>	<b>213.6</b>	<b>-0.8</b>	<b>-4.9</b>	<b>-5.5</b>
Provisions	43.3	37.1	41.2	47.1	34.5	33.2	8.8	-7.0	-19.3
<b>PBT</b>	<b>97.8</b>	<b>141.4</b>	<b>184.9</b>	<b>92.8</b>	<b>135.3</b>	<b>180.4</b>	<b>-5.0</b>	<b>-4.3</b>	<b>-2.4</b>
Tax	25.4	36.8	48.1	24.1	35.2	46.9	-5.0	-4.3	-2.4
<b>PAT</b>	<b>72.3</b>	<b>104.7</b>	<b>136.8</b>	<b>68.7</b>	<b>100.1</b>	<b>133.5</b>	<b>-5.0</b>	<b>-4.3</b>	<b>-2.4</b>
Loans	1,824	2,281	2,851	1,839	2,299	2,851	0.8	0.8	0.0
Borrowings	1,587	1,950	2,409	1,600	1,966	2,409	0.8	0.8	0.0
<b>RoA</b>	<b>3.8</b>	<b>4.6</b>	<b>4.9</b>	<b>3.6</b>	<b>4.4</b>	<b>4.7</b>			
<b>RoE</b>	<b>18.2</b>	<b>22.0</b>	<b>23.4</b>	<b>17.4</b>	<b>21.2</b>	<b>23.2</b>			

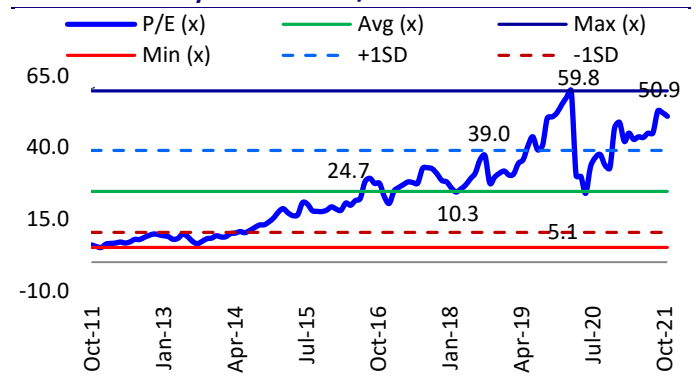
Source: MOFSL, Company

**Exhibit 13: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 14: One-year forward P/E**



Source: MOFSL, Company

## Financials and valuations

Income Statement									(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Interest Income	65.5	87.1	115.9	163.5	229.7	233.0	268.1	330.7	414.2
Interest Expended	29.3	38.0	46.1	66.2	94.7	94.1	96.2	118.6	146.6
<b>Net Interest Income</b>	<b>36.2</b>	<b>49.0</b>	<b>69.7</b>	<b>97.3</b>	<b>135.0</b>	<b>138.9</b>	<b>171.8</b>	<b>212.1</b>	<b>267.6</b>
Change (%)	37.0	35.4	42.2	39.5	38.8	2.9	23.7	23.5	26.2
Other Operating Income	7.5	12.7	11.6	21.4	34.0	33.6	37.8	43.2	50.6
Other Income	0.4	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2
<b>Net Income</b>	<b>44.1</b>	<b>62.0</b>	<b>81.4</b>	<b>118.8</b>	<b>169.1</b>	<b>172.7</b>	<b>209.8</b>	<b>255.5</b>	<b>318.4</b>
Change (%)	39.0	40.7	31.3	45.9	42.4	2.1	21.5	21.8	24.6
Operating Expenses	19.0	25.6	32.7	42.0	56.6	53.1	69.9	85.6	104.8
<b>Operating Profit</b>	<b>25.1</b>	<b>36.4</b>	<b>48.7</b>	<b>76.8</b>	<b>112.5</b>	<b>119.6</b>	<b>139.9</b>	<b>169.9</b>	<b>213.6</b>
Change (%)	44.0	45.0	34.1	57.6	46.5	6.3	17.0	21.4	25.8
Provisions and W/Offs	5.4	8.2	10.3	15.0	39.3	59.7	47.1	34.5	33.2
<b>PBT</b>	<b>19.6</b>	<b>28.2</b>	<b>38.4</b>	<b>61.8</b>	<b>73.2</b>	<b>59.9</b>	<b>92.8</b>	<b>135.3</b>	<b>180.4</b>
Tax	6.9	9.8	13.5	21.8	20.6	15.7	24.1	35.2	46.9
Tax Rate (%)	34.9	34.8	35.0	35.3	28.1	26.2	26.0	26.0	26.0
<b>PAT</b>	<b>12.8</b>	<b>18.4</b>	<b>25.0</b>	<b>39.9</b>	<b>52.6</b>	<b>44.2</b>	<b>68.7</b>	<b>100.1</b>	<b>133.5</b>
Change (%)	42.4	43.6	35.9	60.0	31.8	-16.0	55.4	45.7	33.3
Proposed Dividend	1.6	2.5	2.8	4.3	7.3	6.0	6.9	10.0	13.3

Balance Sheet									(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Capital	0.5	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Reserves and Surplus (excl. OCI)	73.7	89.4	157.4	195.8	323.0	363.2	425.0	515.1	635.3
<b>Net Worth</b>	<b>74.3</b>	<b>90.5</b>	<b>158.6</b>	<b>197.0</b>	<b>324.2</b>	<b>364.4</b>	<b>426.2</b>	<b>516.3</b>	<b>636.5</b>
OCI	0.0	0.0	-0.1	0.0	-0.9	-1.2	-1.2	-1.2	-1.2
<b>Net Worth (including OCI)</b>	<b>74.3</b>	<b>90.5</b>	<b>158.5</b>	<b>197.0</b>	<b>323.3</b>	<b>363.2</b>	<b>425.0</b>	<b>515.1</b>	<b>635.3</b>
Change (%)	54.7	21.9	75.1	24.3	64.1	12.3	17.0	21.2	23.3
<b>Borrowings</b>	<b>370.2</b>	<b>508.9</b>	<b>665.6</b>	<b>1,015.9</b>	<b>1,298.1</b>	<b>1,316.5</b>	<b>1,600.2</b>	<b>1,965.8</b>	<b>2,409.0</b>
Change (%)	38.7	37.5	30.8	52.6	27.8	1.4	21.6	22.8	22.5
Other liabilities	25.2	19.9	23.9	29.5	22.6	35.6	41.0	47.1	54.2
<b>Total Liabilities</b>	<b>469.7</b>	<b>619.4</b>	<b>848.0</b>	<b>1,242.3</b>	<b>1,643.9</b>	<b>1,715.3</b>	<b>2,066.2</b>	<b>2,528.0</b>	<b>3,098.5</b>
<b>Investments</b>	<b>10.3</b>	<b>41.3</b>	<b>31.4</b>	<b>86.0</b>	<b>175.4</b>	<b>184.0</b>	<b>184.0</b>	<b>184.0</b>	<b>184.0</b>
Change (%)	211.2	299.5	-24.0	173.9	104.0	4.9	0.0	0.0	0.0
<b>Loans</b>	<b>438.3</b>	<b>564.0</b>	<b>800.0</b>	<b>1,137.1</b>	<b>1,428.0</b>	<b>1,483.3</b>	<b>1,839.3</b>	<b>2,299.1</b>	<b>2,850.9</b>
Change (%)	40.5	28.7	41.8	42.1	25.6	3.9	24.0	25.0	24.0
Other assets	21.1	14.1	16.6	19.2	40.5	48.0	42.9	44.9	63.6
<b>Total Assets</b>	<b>469.7</b>	<b>619.4</b>	<b>848.0</b>	<b>1,242.3</b>	<b>1,643.9</b>	<b>1,715.3</b>	<b>2,066.2</b>	<b>2,528.0</b>	<b>3,098.5</b>

E: MOFSL estimates

## Financials and valuations

Ratios	(%)								
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Spreads Analysis (%)</b>									
Yield on Advances	17.5	17.4	17.0	16.9	17.9	16.0	15.7	15.5	15.6
Cost of borrowings	9.2	8.7	7.9	7.9	8.2	7.2	6.6	6.7	6.7
Interest Spread	8.3	8.7	9.1	9.0	9.7	8.8	9.1	8.9	8.9
Net Interest Margin	9.7	9.8	10.2	10.0	10.5	9.5	10.3	10.3	10.4
<b>Profitability Ratios (%)</b>									
Cost/Income	43.1	41.4	40.1	35.3	33.5	30.7	33.3	33.5	32.9
Empl. Cost/Op. Exps.	33.2	36.3	43.9	46.2	45.0	47.0	46.4	47.0	48.0
RoE	20.9	22.3	20.0	22.5	20.2	12.8	17.4	21.2	23.2
RoA	3.2	3.4	3.4	3.8	3.6	2.6	3.6	4.4	4.7
<b>Asset quality (%)</b>									
GNPA	5.4	9.8	11.6	18.0	23.6	27.3	33.5	42.4	49.2
NNPA	1.2	2.6	3.5	7.3	9.4	11.4	13.4	17.0	19.7
GNPA	1.2	1.7	1.4	1.6	1.6	1.8	1.8	1.8	1.7
NNPA	0.3	0.5	0.4	0.6	0.7	0.8	0.7	0.7	0.7
PCR	77.2	74.0	69.6	59.7	60.3	58.4	60.0	60.0	60.0
<b>Capitalization (%)</b>									
CAR	19.5	19.5	24.0	20.7	25.0	28.3	24.6	23.7	23.5
Tier I	16.1	13.3	18.4	16.3	21.3	25.1	22.3	22.0	22.2
Tier II	3.4	6.2	5.5	4.4	3.7	3.2	2.3	1.7	1.3
Average Leverage on Assets (x)	6.5	6.6	5.9	5.9	5.5	4.9	4.8	4.9	4.9
<b>Valuation</b>									
Book Value (INR)	138.7	165.5	275.7	341.4	540.3	605.7	708.4	858.2	1,058.0
<b>Price-to-BV (x)</b>					<b>14.5</b>	<b>13.0</b>	<b>11.1</b>	<b>9.1</b>	<b>7.4</b>
EPS (INR)	23.9	33.6	43.4	69.3	87.7	73.5	114.2	166.4	221.9
EPS Growth (%)	33.0	40.7	29.2	59.6	26.7	-16.3	55.4	45.7	33.3
<b>Price-to-Earnings (x)</b>					<b>89.5</b>	<b>106.8</b>	<b>68.7</b>	<b>47.2</b>	<b>35.4</b>
Dividend per Share (INR)	2.5	3.6	4.0	6.0	10.0	10.0	11.4	16.6	22.2
<b>Dividend Yield (%)</b>					<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>

E: MOFSL estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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