

# Vehicle Finance



**MONSOONS MAY  
PLAY SPOILSPORT**

**ANY FURTHER REPO  
RATE HIKE  
NEGATIVE FOR NIM**



**MARGIN  
COMPRESSION  
TO MODERATE**



## Margin compression nearing end

**SERIES  
II**

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# Vehicle Finance

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## NIM

| (%)  | FY23 | FY24E | FY25E |
|------|------|-------|-------|
| SHFL | 10.0 | 9.8   | 9.7   |
| MMFS | 8.3  | 8.1   | 8.2   |
| CIFC | 7.1  | 7.1   | 7.3   |

## Credit costs (% of loans)

| (%)  | FY23 | FY24E | FY25E |
|------|------|-------|-------|
| SHFL | 2.4  | 2.5   | 2.4   |
| MMFS | 1.4  | 1.7   | 1.9   |
| CIFC | 0.9  | 1.0   | 1.1   |

## RoA

| %    | FY23 | FY24E | FY25E |
|------|------|-------|-------|
| SHFL | 3.1  | 3.1   | 3.1   |
| MMFS | 2.3  | 2.2   | 2.3   |
| CIFC | 2.7  | 2.8   | 3.0   |

## RoE

| (%)  | FY23 | FY24E | FY25E |
|------|------|-------|-------|
| SHFL | 15.3 | 14.9  | 15.1  |
| MMFS | 12.6 | 13.4  | 15.2  |
| CIFC | 20.5 | 22.6  | 23.3  |

## Margin compression nearing end; robust earnings ahead

### Favored play in a stable-to-declining interest rate environment

Vehicle financiers typically bear the brunt of a rising interest rate environment in the form of margin compression because of the fixed rate nature of a vehicle finance product. However, in a stable-to-declining interest rate regime, vehicle financiers will be better placed in terms of margin than other product segments. They are well-positioned to ride the strong underlying demand for vehicles, will incrementally start exhibiting plateauing of NIM and subsequently witness margin improvement. We model an AUM CAGR of 23%/20%/14% and a PAT CAGR of 32%/20%/15% for CIFC/ MMFS/ SHFL over FY23-25. We have a BUY rating on all the three Vehicle Financiers viz. Cholamandalam Finance (CIFC – BUY; TP: INR1,350), Shriram Finance (SHFL – BUY; TP INR2,100) and Mahindra Finance (MMFS – BUY; TP: INR400).

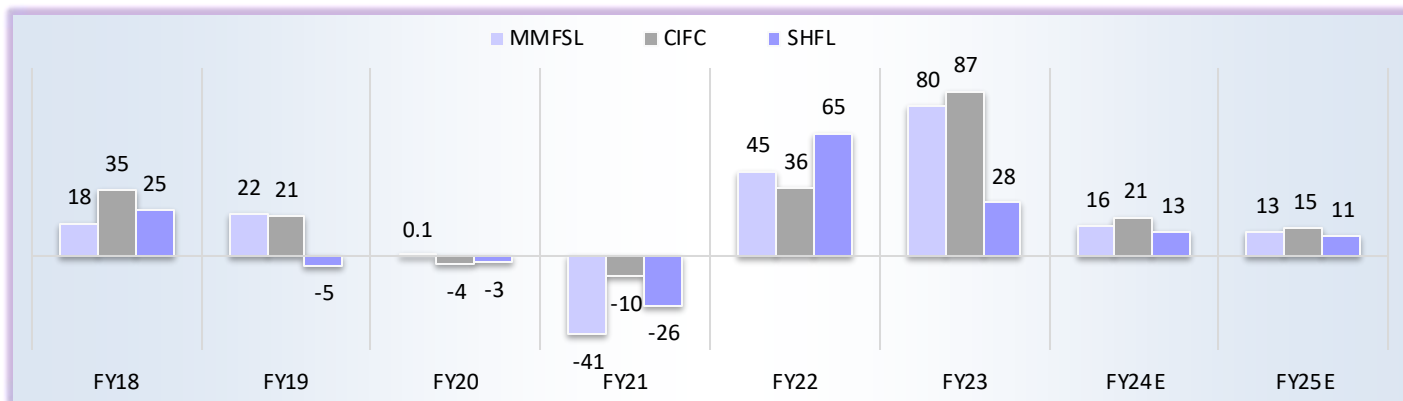
- **CV sales to outshine previous peak:** We are only two years into the current auto up-cycle and CV volumes have not even scaled back to the all-time peak level (~1.03m units) that was achieved in FY19. CV sales grew 34% YoY in FY23 to 0.96m units. Even with very modest growth expectations, we expect CV sales volume to surpass the FY19 peak in FY24 itself.
- **Anticipated higher government spending will be a positive:** Historically, we have seen stronger AUM growth for the vehicle financiers in the fiscal year prior to the general elections (refer Exhibit 23). India's Lok Sabha elections will be held in 2024 and we expect the CV demand momentum to sustain due to the government's higher spending and push towards Infrastructure, mining and real estate sectors.
- **HCV demand strong; NBFCs changing product mix towards higher-yielding segments:** Our channel checks suggest that demand in HCVs is strong but the NBFCs are not very keen to lend aggressively in this segment because: a) it is a highly competitive segment with banks enjoying a higher market share due to their dominance among the fleet operators and b) quite naturally, the yields in this segment are lower and the vehicle finance NBFCs have been trying to alter their product mix in favor of higher-yielding segments such as used vehicles.
- **Diversifying into secular segments:** To mitigate the deep cyclicity in the auto segment, most of the vehicle financiers have piloted or already entered into newer product segments such as Consumer, MSME, and Personal/Business loans where demand is more secular in nature. We expect the new product segments (ex. of LAP and Home Loans) to contribute ~10-15% to the AUM mix within the next three years, for both CIFC and MMFS.
- **Margin compression to moderate; minor NIM expansion for CIFC:** We believe that expectations on NIM compression will moderate in FY24. This has been aided by the view that interest rates should now broadly stabilize before we enter into the interest rate down-cycle (which we believe could happen within the next 9-12 months). In FY24, we estimate margin expansion of ~5bp for CIFC and compression of 20bp each for MMFS and SHFL. We would also reiterate that CIFC with a higher share of non-vehicle floating rate loans will be able to deliver a better margin performance than rest of its peers.

**Valuation and view – MMFS is our preferred pick:** We expect vehicle financiers to use the levers of operating and credit costs and deliver a healthy RoA, despite the compression (or plateauing) in NIM. We model an AUM CAGR of 23%/20%/14% and a PAT CAGR of 32%/20%/15% for CIFC/ MMFS/ SHFL over FY23-25. This will translate into a RoA/RoE of 2.8%/22.6% for CIFC, 2.2%/13.4% for MMFS and 3.1%/15% for SHFL in FY24E. Our estimates for FY24/FY25 are largely unchanged for SHFL and MMFS while we raise our FY24E/25E EPS by ~2.5%/10% for CIFC to factor in margin expansion and new product segments becoming further RoA accretive within 12-15 months. We reiterate our preference for MMFS, followed by CIFC and SHFL. CIFC benefits from a well-diversified loan book, with newer business lines shaping up well. It has more levers than its peers to deliver a healthier RoA/RoE. **We reiterate our BUY rating on all the three vehicle financiers viz.: CIFC with a TP of INR1,350 (premised on 5.0x FY25E BVPS), SHFL with a TP of INR2,100 (premised on 1.4x FY25E BVPS) and MMFS with a TP of INR400 (based on 2.5x FY25E BVPS).**

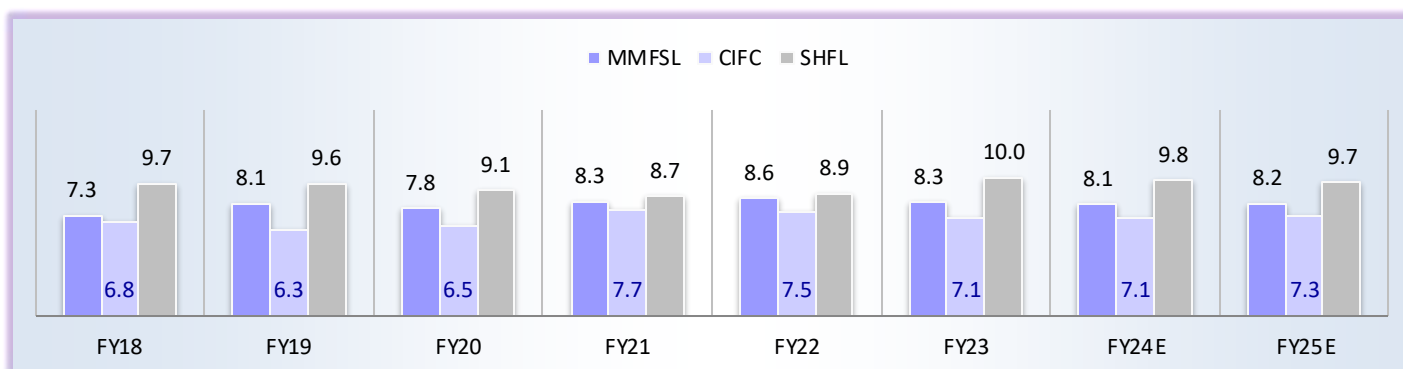
**Key Risks:** a) In the near-term, the monsoons (because of the EL-Nino impact) can play a spoilsport on the asset quality and b) Slowdown in the industry vehicle demand in the medium-term.

## Vehicle Financiers – operating metrics

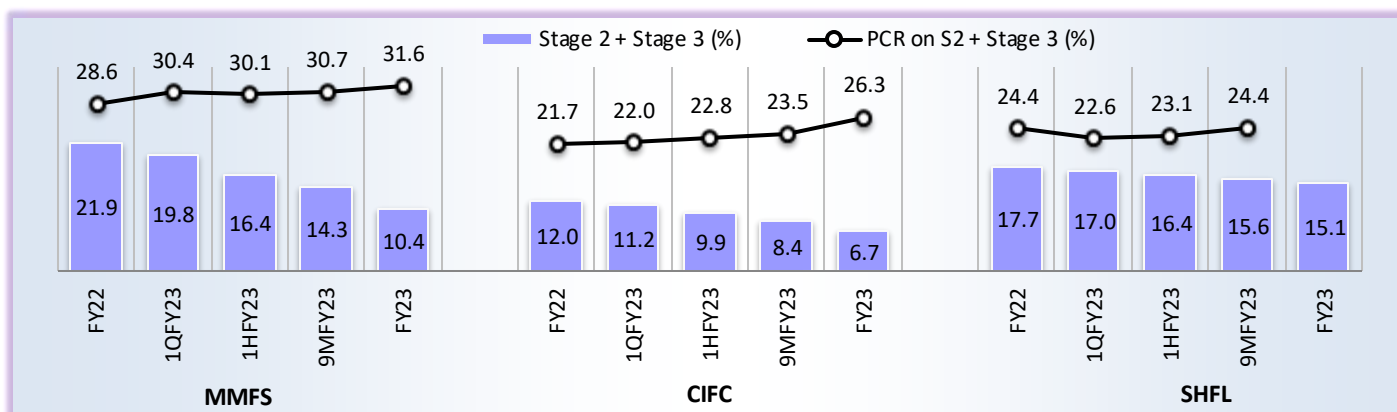
Strong disbursement growth for CIFC and MMFS to sustain in FY24 (despite the high base of FY23)



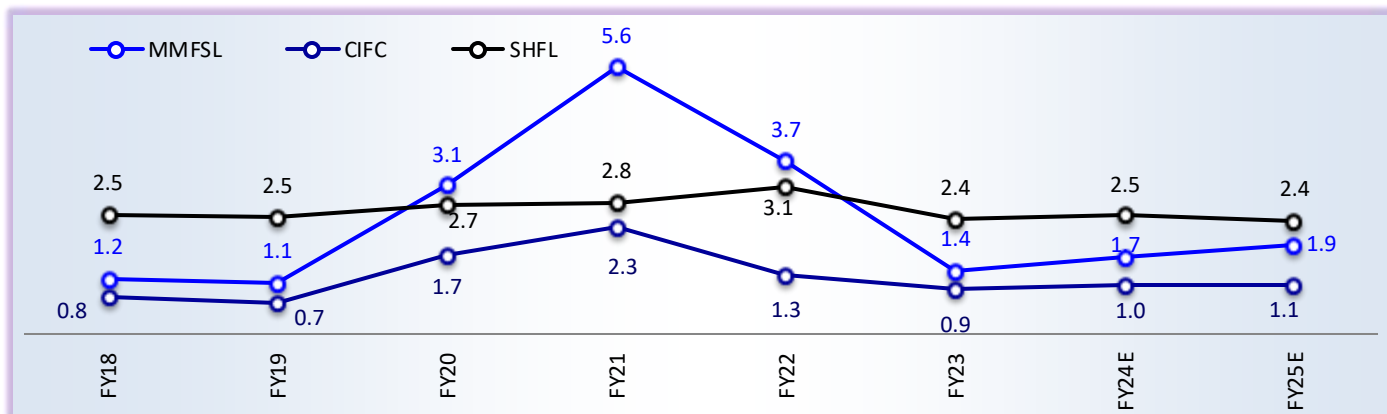
Margin to compress ~20bp each for MMFS and SHFL in FY24 while for CIFC we estimate an expansion of ~5bp



Stressed pool has almost halved for MMFS and CIFC through the course of FY23



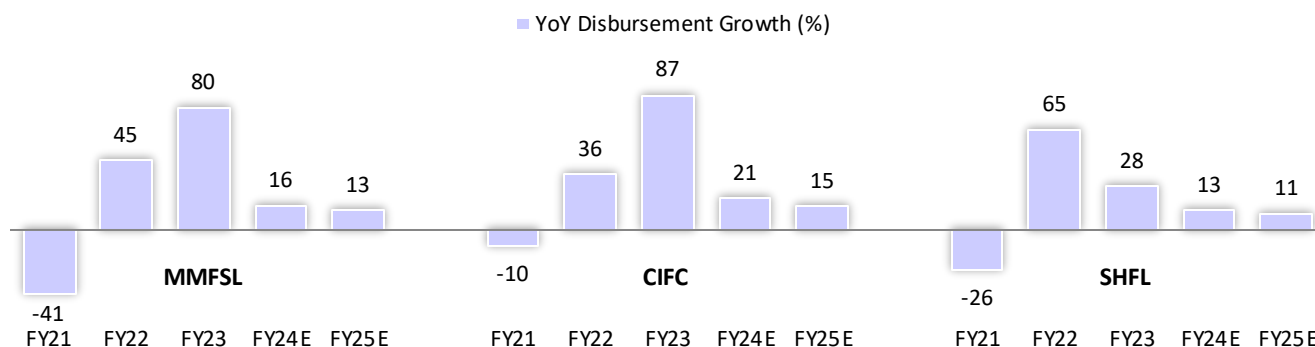
Credit costs to remain benign



### Robust disbursement momentum likely to sustain in FY24 as well

- All the three vehicle financiers (particularly CFC and MMFS) reported a strong disbursement growth in FY23 (on a low base of FY22). In FY24, however, we expect disbursement growth to moderate to 13-21% (on a higher base of FY23).

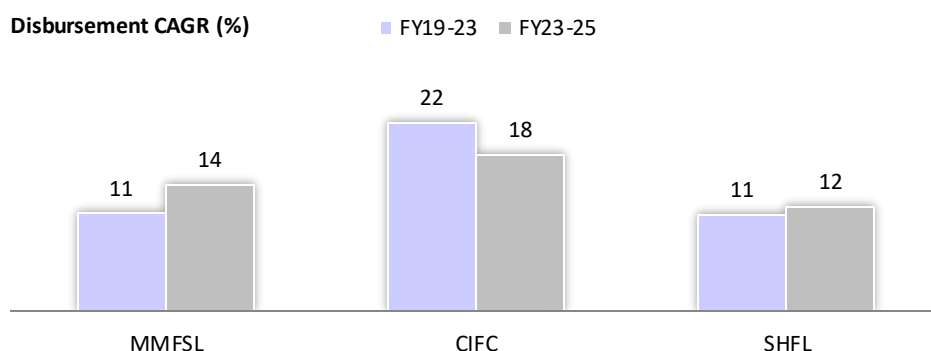
**Exhibit 1: CFC to exhibit the highest disbursement growth in FY24 followed by MMFS and SHFL**



Source: Company, MOFSL

- We estimate a disbursement CAGR of 14%/18%/12% for MMFS/ CFC/SHFL over FY23-FY25.

**Exhibit 2: CFC likely to deliver the highest disbursement CAGR over FY23-FY25 among the three vehicle financiers**



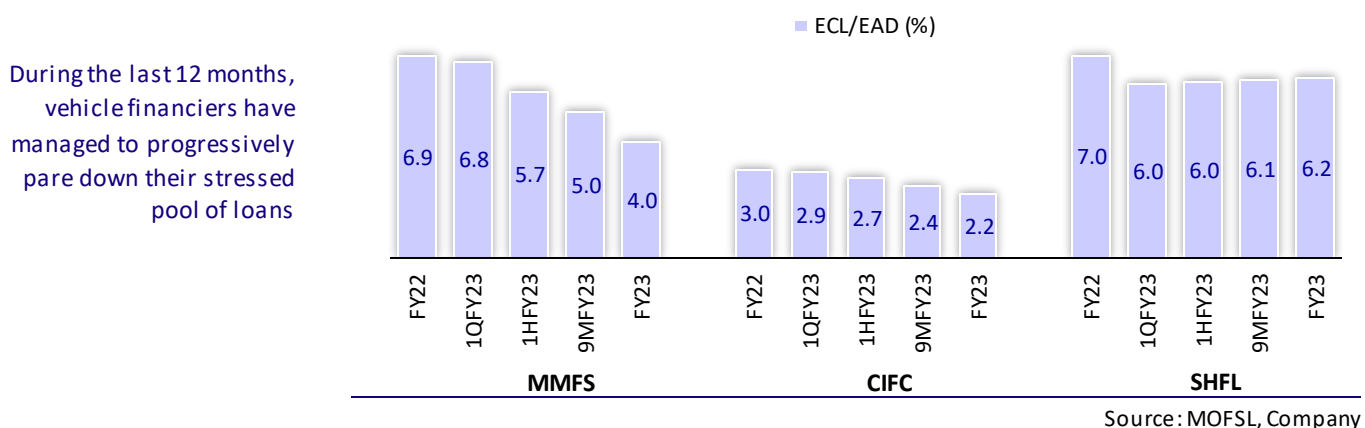
Source: Company, MOFSL



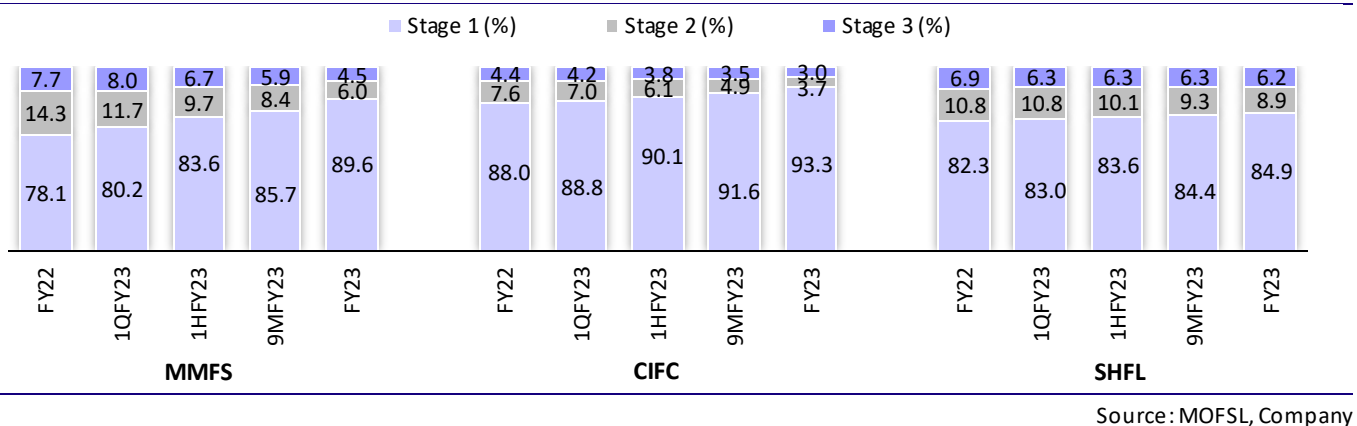
## Stress pool will further decline in FY24

- The stressed pool (particularly the Covid-19 stress) moderated considerably over FY23 with CIFC/MMFS/SHFL reporting a ~5pp/12pp/3pp YoY decline in 30+dpd. However, the nature of monsoons does pose a risk to vehicle financiers' asset quality in general (and MMFS in particular).

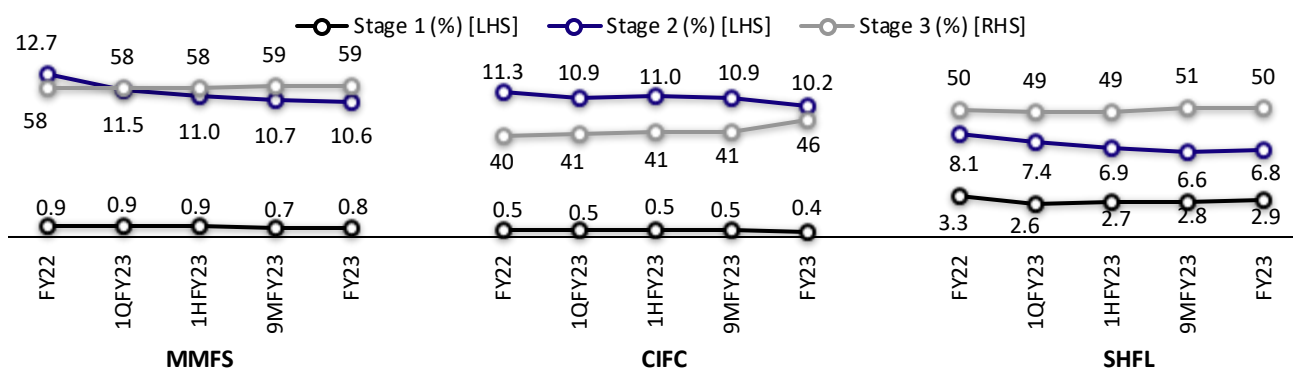
### Exhibit 3: Improvements in asset quality drove moderation in ECL/EAD over the past year



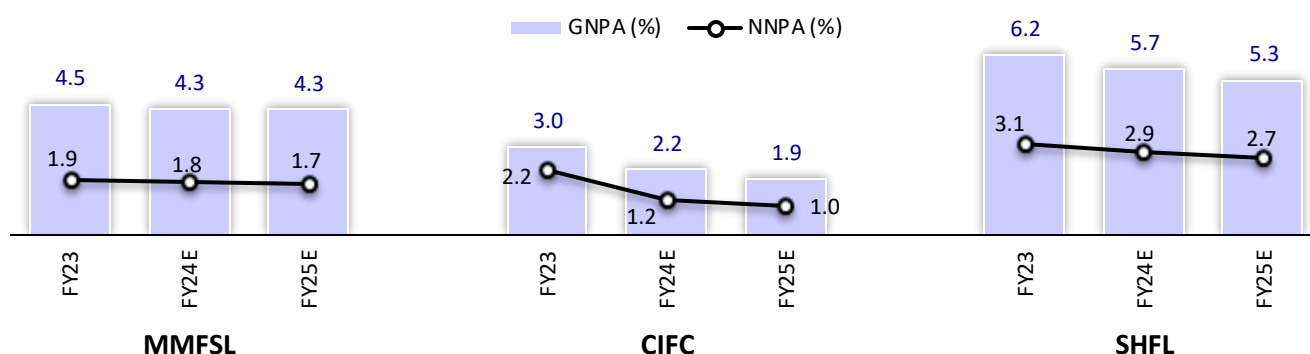
### Exhibit 4: 30+dpd declined as economic activity picked up and resolutions/customer settlements came through



### Exhibit 5: Stage-wise PCR for vehicle financiers



- Barring any contingencies arising from a severe monsoon, we expect the vehicle financiers to deliver further asset quality improvement in FY24.

**Exhibit 6: Asset quality likely to improve over FY24-25 across vehicle financiers**

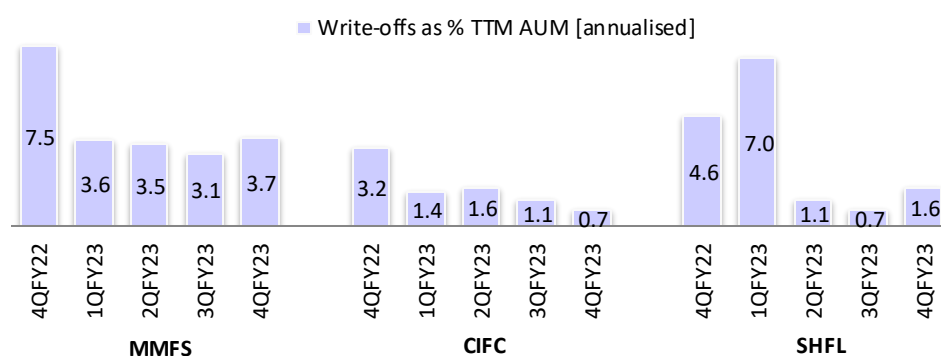
Source: MOFSL, Company

**Write-offs/repossession remained elevated for MMFS**

- Write-offs remained elevated for MMFS (at 3.1%-3.7%) during each of the four quarters in FY23, which effectively utilized the last two quarters for customer settlements and repossessions to drive a sharp improvement in its Stage 3 assets.
- On the contrary, the write-offs stood between 1.1% and 1.6% for CIFC in the first three quarters of FY23 and further moderated to 0.7% in 4QFY23. CIFC, by virtue of its collection efficiency and infrastructure, was able to demonstrate a more organic improvement in its asset quality.

**Exhibit 7: Write-offs moderated across all three vehicle financiers in FY23**

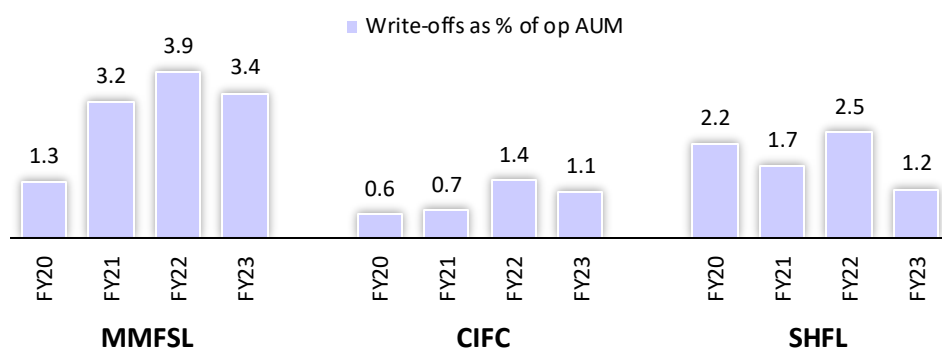
Expect the write-offs to moderate in FY24 as the stressed pool of loans has declined significantly.



Source: MOFSL, Company

- We expect the write-offs to moderate in FY24 as the stressed pool of loans has declined significantly. Lower write-offs along with a gradual improvement in asset quality will result in benign credit costs for the vehicle financiers.

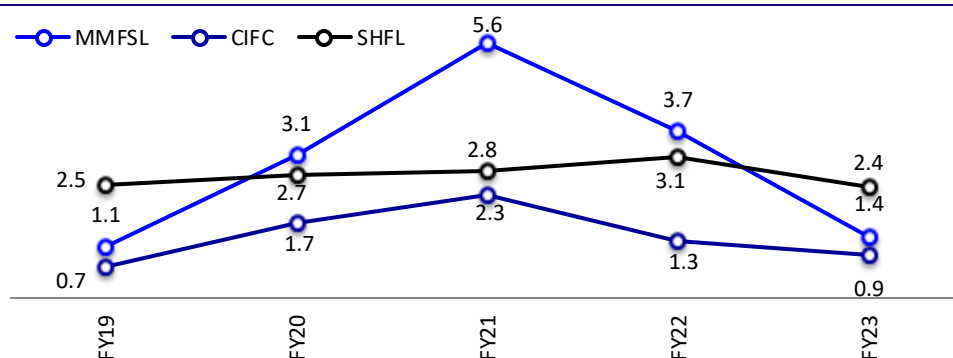


**Exhibit 8: CIFC had the lowest write-offs among peers over the past four years**

Source: MOFSL, Company

Barring any unforeseen development from monsoons in India, we expect credit costs to remain benign

- MMFS utilized higher levels of ECL provisions that it created during the pandemic and at the beginning of FY23, for effecting customer settlements and write-offs.
- While credit cost of ~1.2% (as a % of average business assets) in FY23 is not sustainable, we believe that it can still deliver credit cost of <2.0% in FY24E.
- Barring any unforeseen development from monsoons in India, we expect credit costs to remain benign (lower than their historical averages) for the vehicle financiers.

**Exhibit 9: CIFC has proved its ability to deliver lower credit costs even at times of stress**

Source: MOFSL, Company

## Robust earnings growth trajectory ahead

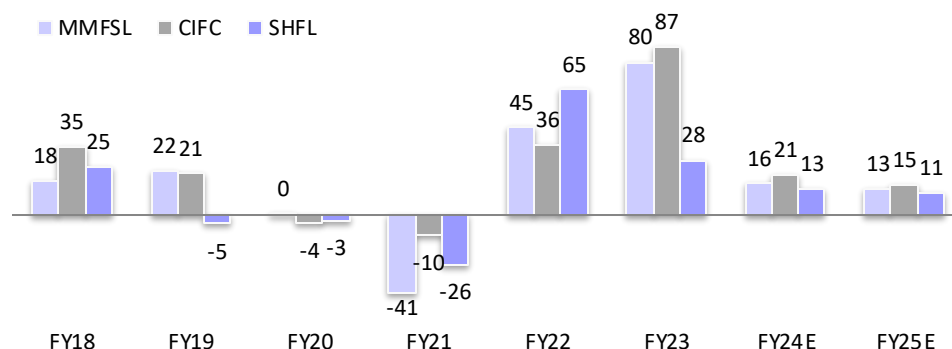
- The auto sector outlook has improved due to the easing of supply chain challenges and a stable domestic demand.
- We expect the strong domestic volume growth to persist across product categories over FY24-25 as most of the challenges, such as supply constraints and raw material inflation, have either receded or been resolved.

**Exhibit 10: Auto industry has seen multiple headwinds over the last 4-5 years**

| Month  | Parameter                                 |
|--------|---|
| Jul'18 | ❖ CV: increase in rated load              |
| Sep'18 | ❖ Insurance cost shock                    |
| Oct'18 | ❖ NBFC liquidity crisis                   |
| Apr'19 | ❖ ABS/CBS implementation                  |
| Jul'19 | ❖ PV: stringent safety norms              |
| Apr'20 | ❖ BS6 emission norms                      |
| Apr'20 | ❖ First Covid wave-led lockdown           |
| 3QFY21 | ❖ Impact of semiconductor shortage        |
| Apr'21 | ❖ Second Covid wave-led lockdown          |
| Feb'22 | ❖ Ukraine-Russia conflict                 |
| Apr'22 | ❖ Semiconductor shortage re-emerges       |
| Jun'22 | ❖ Commodity cost inflation                |
| Mar'23 | ❖ Inventory management due to OBD-2 norms |

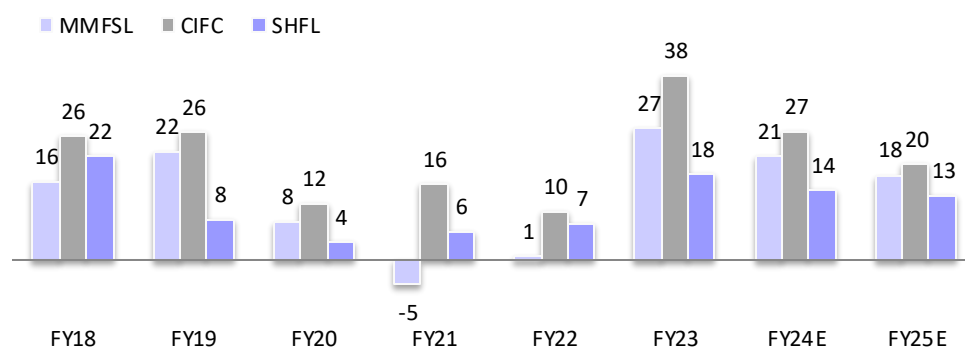
Source: Industry, MOFSL

**Exhibit 11: Healthy disbursement growth for CIFIC and MMFS in FY24E**



Source: MOFSL, Company

**Exhibit 12: CIFIC/MMFS/SHFL to report AUM CAGR of 23%/20%/14% over FY23-25E**



Source: MOFSL, Company

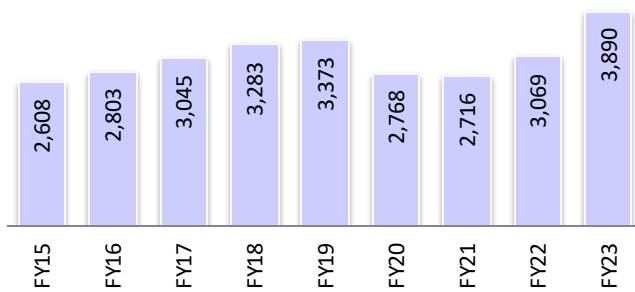
**Exhibit 13: Vehicle book mix based on product segments (FY23, %)**

|                              | SHFL | MMFS | CIFC |
|------------------------------|------|------|------|
| Tractors                     | 2    | 14   | 8    |
| UV                           |      | 33   | 9    |
| Cars/PV                      | 22   | 20   | 12   |
| HCV                          | 60   | 11   | 7    |
| M&LCV                        |      | -    | 25   |
| CE                           | 9    | -    | 7    |
| Pre-owned vehicles/Refinance | -    | 12   | 27   |
| 3W                           | -    | -    | 1    |
| TW                           | 7    | -    | 6    |
| Others                       | -    | 10   | -    |

Source: MOFSL, Company; Note: Data includes mix of only a auto product segments

**Exhibit 14: Yearly car sales volumes ('000 units)**

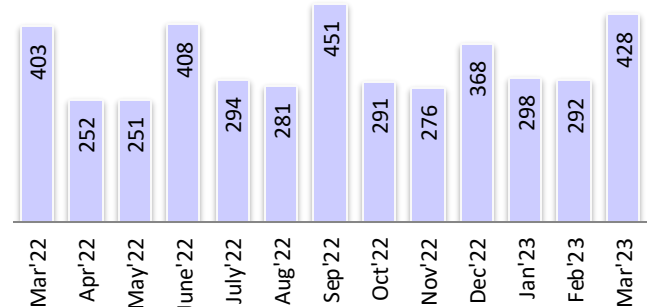
■ Car sales (in '000)



Source: MOFSL, Company

**Exhibit 15: Monthly car sales volumes ('000 units)**

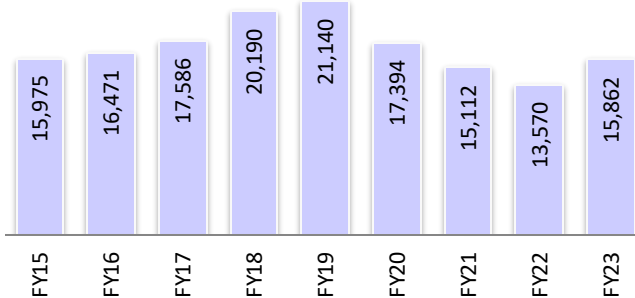
■ Car sales (in '000)



Source: MOFSL, Company

**Exhibit 16: Yearly 2W sales volumes ('000 units)**

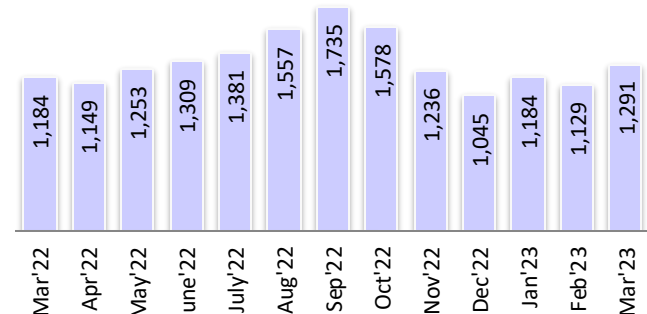
■ 2W (in '000)



Source: MOFSL, Company

**Exhibit 17: Monthly 2W sales volumes ('000 units)**

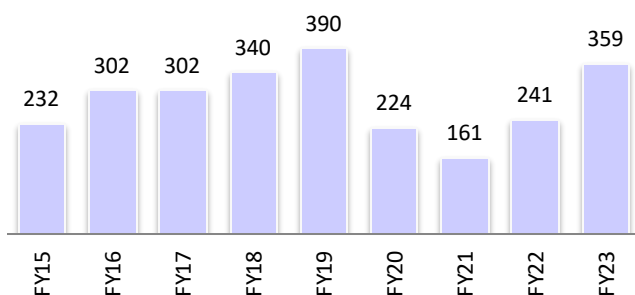
■ 2W (in '000)



Source: MOFSL, Company

**Exhibit 18: Yearly M&HCV sales volumes ('000 units)**

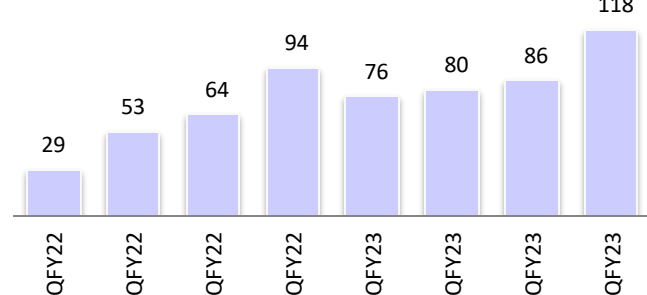
■ M&amp;HCV



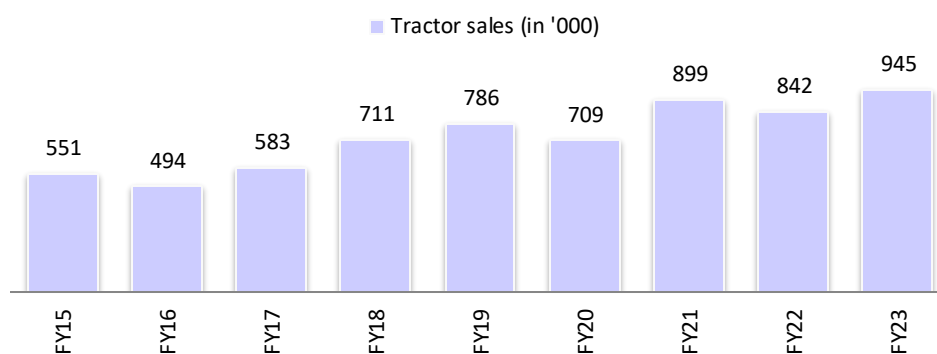
Source: MOFSL, Company

**Exhibit 19: Quarterly M&HCV sales volumes ('000 units)**

■ M&amp;HCV



Source: MOFSL, Company

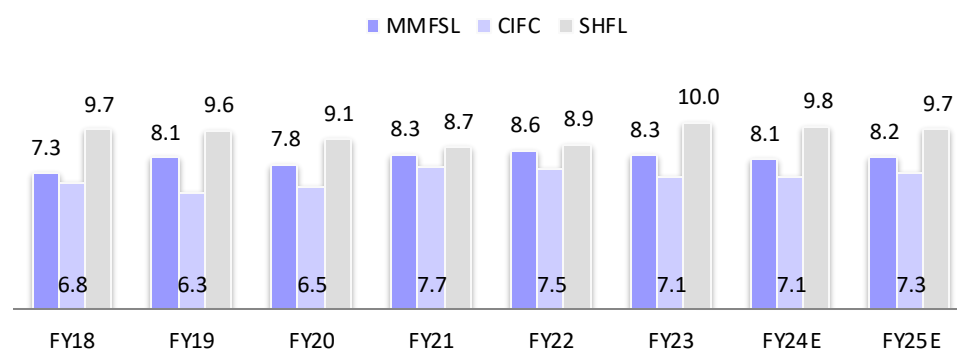
**Exhibit 20: Yearly tractor sales ('000)**

Source: MOFSL, Company

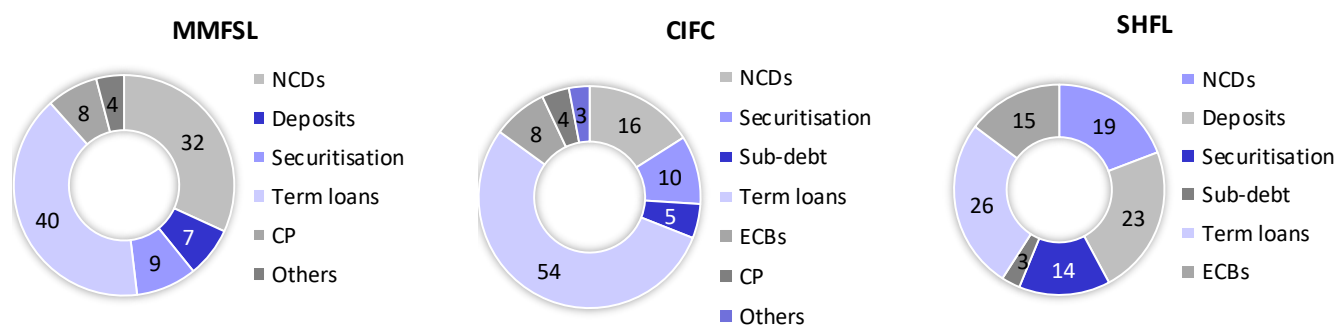
**Moderation in margin compression to aid healthy earnings growth**

Vehicle financiers are better placed than other product segments as rates peak and margins bottom out over the next two quarters.

- Diminishing concerns around rising inflation and the recent pause in rate hikes effected by the RBI suggest that interest rates are near their peak levels. As rates stabilize, the adverse impact of margin compression on earnings should alleviate, thus supporting better profitability outlook of vehicle financiers.
- Vehicle financiers are better placed than other product segments as rates peak and margins bottom out over the next two quarters. Subsequently, we expect margins to stabilize, and then gradually expand as the existing book is replaced with higher-yielding new loans.

**Exhibit 21: Expect margin compression of ~20bp each for MMFSL and SHFL in FY24; CIFC's margin to expand ~5bp YoY**

Source: MOFSL, Company

**Exhibit 22: Vehicle financiers possess levers to increase the proportion of CPs and limit the impact of margin compression**

Source: MOFSL, Company

Source: MOFSL, Company

Source: MOFSL, Company

**Exhibit 23: Performance of Vehicle Finance companies in the lead-up to General Elections**

| Year                    | FY13 | FY14 | FY15 | FY18  | FY19  | FY20  | FY23  | FY24E | FY25E |
|-------------------------|------|------|------|-------|-------|-------|-------|-------|-------|
| <b>Mahindra Finance</b> |      |      |      |       |       |       |       |       |       |
| Loan (INRm)             | 261  | 317  | 342  | 485   | 612   | 650   | 795   | 968   | 1,139 |
| YoY Growth (%)          | 34.2 | 21.5 | 8.1  | 19.6  | 26.2  | 6.1   | 31.5  | 21.9  | 17.6  |
| Disbursals (INRm)       | 169  | 180  | 173  | 264   | 323   | 324   | 495   | 575   | 649   |
| YoY Growth (%)          | 24.0 | 6.9  | -4.2 | 17.6  | 22.3  | 0.1   | 79.6  | 16.0  | 13.0  |
| GNPA (%)                | 3.2  | 4.7  | 6.2  | 9.8   | 6.4   | 8.4   | 4.5   | 4.3   | 4.3   |
| NNPA (%)                | 1.1  | 2.0  | 2.5  | 6.6   | 5.3   | 6.0   | 1.9   | 1.8   | 1.7   |
| PCR (%)                 | 65.9 | 59.1 | 61.0 | 34.1  | 19.2  | 31.0  | 59.5  | 60.0  | 61.0  |
| <b>Chola Finance</b>    |      |      |      |       |       |       |       |       |       |
| Loan (INRm)             | 187  | 233  | 255  | 429   | 543   | 605   | 1,065 | 1,349 | 1,615 |
| YoY Growth (%)          | 44.7 | 24.3 | 9.5  | 25.6  | 26.5  | 11.6  | 38.5  | 26.6  | 19.8  |
| Disbursals (INRm)       | 120  | 129  | 127  | 251   | 305   | 291   | 665   | 803   | 925   |
| YoY Growth (%)          | 36.3 | 7.4  | -2.2 | 35.1  | 21.3  | -4.5  | 87.5  | 20.7  | 15.2  |
| GNPA (%)                | 1.2  | 2.2  | 3.6  | 3.6   | 2.7   | 3.8   | 3.0   | 2.2   | 1.9   |
| NNPA (%)                | 0.3  | 0.9  | 2.4  | 2.3   | 1.6   | 2.3   | 2.2   | 1.2   | 1.0   |
| PCR (%)                 | 78.4 | 60.1 | 34.8 | 37.5  | 42.4  | 41.5  | 46.0  | 48.0  | 50.0  |
| <b>Shriram Finance</b>  |      |      |      |       |       |       |       |       |       |
| Loan (INRm)             | 462  | 509  | 672  | 1,243 | 1,319 | 1,385 | 1,833 | 2,092 | 2,360 |
| YoY Growth (%)          | 7.4  | 10.1 | 32.0 | 35.1  | 6.1   | 5.0   | 15.5  | 14.1  | 12.8  |
| Disbursals (INRm)       | 436  | 440  | 510  | 766   | 728   | 706   | 1,107 | 1,251 | 1,388 |
| YoY Growth (%)          | 30.7 | 0.9  | 15.7 | 24.7  | -5.0  | -3.1  | 28.4  | 13.0  | 11.0  |
| GNPA (%)                |      | 3.5  | 3.6  | 9.2   | 8.5   | 8.3   | 6.2   | 5.7   | 5.3   |
| NNPA (%)                |      | 0.7  | 0.7  | 5.0   | 5.0   | 4.8   | 3.1   | 2.9   | 2.7   |
| PCR (%)                 |      | 78.8 | 79.6 | 45.2  | 41.3  | 42.1  | 50.1  | 50.0  | 50.0  |

**Exhibit 24: Summary of management commentaries on key parameters in 4QFY23 earnings call/analyst meet**

|                      | SHFL   | MMFS  | CIFC   |
|----------------------|--|---|--|
| <b>Growth</b>        | ❖ Management has guided for an AUM growth of ~15% in FY24.   | ❖ Growth expected to come from the pre-owned vehicle and also from the SME/newer businesses.                    | ❖ Strong growth in the non-vehicle product segments should help reduce the cyclical in vehicle finance over time.        |
| <b>Asset quality</b> | ❖ Reported credit costs of 2% in FY23 and has maintained its guidance of 2% credit costs for FY24.   | ❖ Will continue to maintain GS3 below 6% across economic and credit cycles.                                     | ❖ Credit costs to range between 0.75% and 1.2% over a cycle but the average credit costs should be at ~1% across cycles. |
| <b>Funding</b>       | ❖ Management mentioned that if the RBI increases the repo rate by 25bp in the next quarter, the incremental CoF could rise by 10bp.                        | ❖ Incremental CoF is witnessing early signs of easing aided by a pause in rate hikes and higher % of PSL loans. | ❖ CoF to be largely stable going ahead.  |
| <b>Margins</b>       |  |   | ❖ Margin improvement was due to a shift towards higher-yielding products   |
| <b>Opex</b>          | ❖ 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.      | ❖ Opex ratio of 3.2% has peaked out and it should remain rangebound for at least one more year.                 | ❖ Opex/AUM to remain in the range of 3.0%-3.1% led by investments required to expand the new businesses.                 |
| <b>Others</b>        | ❖ The combined entity now has access to several locations that can be leveraged to drive growth in the MSME sector, which is a focus area for the company. | ❖ Will be comfortable with a leverage of 5.5-6.0x and guided for a target RoE of 15%.                           | ❖ Will consider raising equity capital in FY24.  |

Source: MOFSL, Company

## Exhibit 25: Key parameters

|                             | MMFS      |           |           | CIFC      |           |           | SHFL      |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|                             | FY23      | FY24E     | FY25E     | FY23      | FY24E     | FY25E     | FY23      | FY24E     | FY25E     |
| <b>AUM (INR m)</b>          | 8,27,700  | 10,05,080 | 11,82,076 | 10,64,980 | 13,48,574 | 16,14,941 | 18,56,829 | 21,23,505 | 24,07,665 |
| YoY Growth (%)              | 27.4      | 21.4      | 17.6      | 38.5      | 26.6      | 19.8      | 17.7      | 14.4      | 13.4      |
| <b>AUM CAGR [FY23-FY25]</b> | <b>20</b> |           |           | <b>23</b> |           |           | <b>14</b> |           |           |
| <b>Disbursement (INR m)</b> | 4,95,410  | 5,74,676  | 6,49,383  | 6,65,320  | 8,03,060  | 9,25,135  | 11,06,899 | 12,50,796 | 13,88,383 |
| YoY Growth (%)              | 79.6      | 16.0      | 13.0      | 87.5      | 20.7      | 15.2      | 28.4      | 13.0      | 11.0      |
| <b>Net-worth (INR m)</b>    | 1,63,488  | 1,77,766  | 1,96,266  | 1,42,961  | 1,77,067  | 2,21,037  | 4,33,066  | 4,87,589  | 5,50,336  |
| <b>Asset Quality</b>        |           |           |           |           |           |           |           |           |           |
| GNPA (%)                    | 4.5       | 4.3       | 4.3       | 3.0       | 2.2       | 1.9       | 6.2       | 5.7       | 5.3       |
| NNPA (%)                    | 1.9       | 1.8       | 1.7       | 2.2       | 1.2       | 1.0       | 3.1       | 2.9       | 2.7       |
| PCR (%)                     | 59.5      | 60.0      | 61.0      | 46.0      | 48.0      | 50.0      | 50.1      | 50.0      | 50.0      |
| Credit costs (%)            | 1.4       | 1.7       | 1.9       | 0.9       | 1.0       | 1.1       | 2.4       | 2.5       | 2.4       |
| Write-offs (INR b)          | 22.1      | 11.5      | 14.3      | 8.5       | 11.5      | 11.6      | 18.4      | 40.7      | 44.4      |
| <b>Ratios (%)</b>           |           |           |           |           |           |           |           |           |           |
| Avg. Yield on Loans         | 15.3      | 15.7      | 16.0      | 13.5      | 14.0      | 14.2      | 17.9      | 18.1      | 18.1      |
| Avg Cost of Funds           | 7.0       | 8.0       | 8.0       | 6.9       | 7.4       | 7.5       | 8.3       | 8.9       | 9.0       |
| Spread of loans             | 8.3       | 7.7       | 8.0       | 6.6       | 6.6       | 6.7       | 9.6       | 9.2       | 9.1       |
| NIM (on loans)              | 8.3       | 8.1       | 8.2       | 7.1       | 7.1       | 7.3       | 10.0      | 9.8       | 9.7       |
| C/I ratio                   | 42.1      | 41.6      | 37.9      | 38.5      | 35.9      | 33.9      | 28.5      | 27.9      | 27.4      |
| Opex to avg AUM             | 3.7       | 3.6       | 3.3       | 8.3       | 8.9       | 9.0       | 2.9       | 2.7       | 2.6       |
| RoA                         | 2.3       | 2.2       | 2.3       | 2.7       | 2.8       | 3.0       | 3.1       | 3.1       | 3.1       |
| RoE                         | 12.6      | 13.4      | 15.2      | 20.5      | 22.6      | 23.3      | 15.3      | 14.9      | 15.1      |

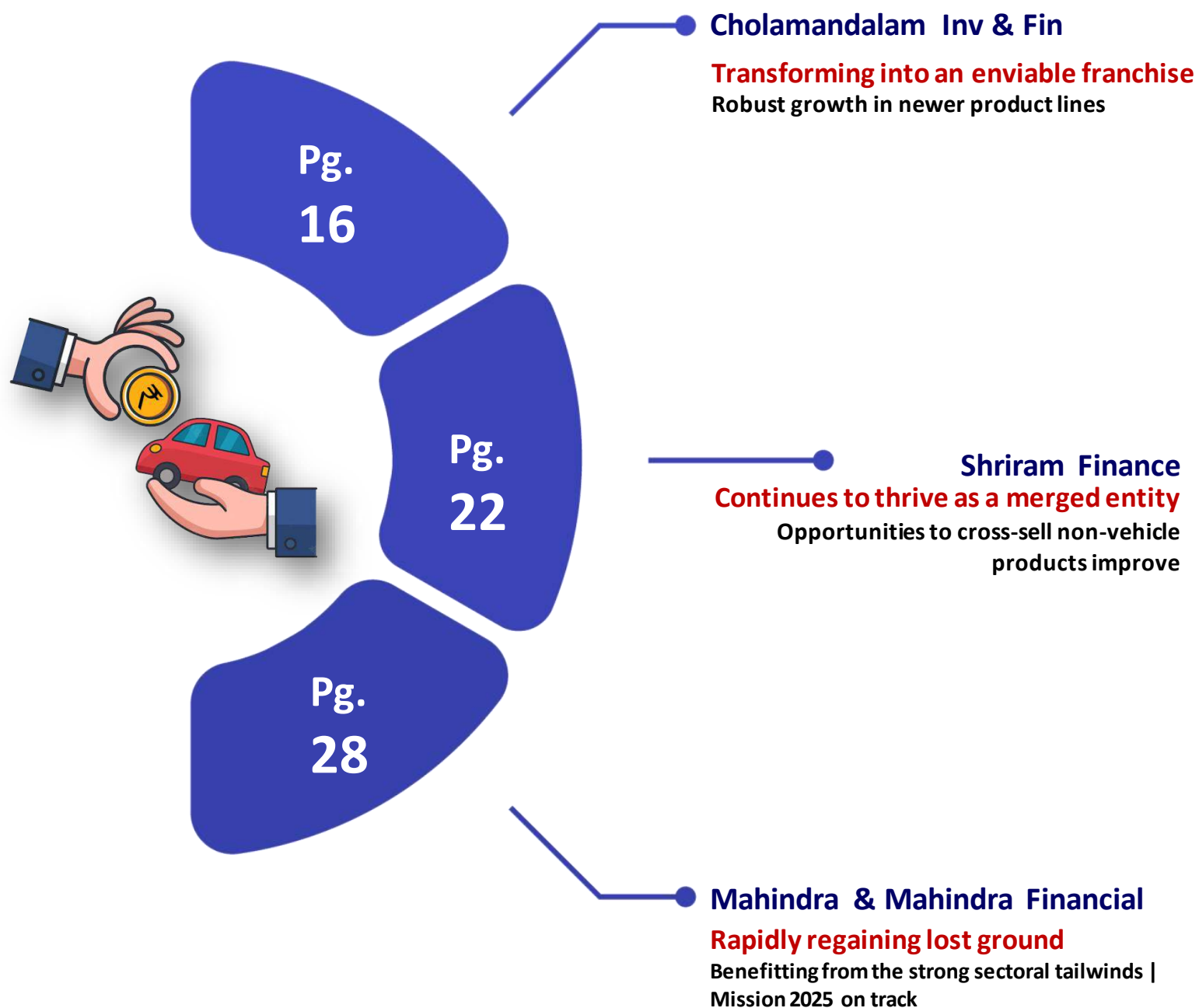
Source: MOFSL, Company

## Exhibit 26: DuPont analysis

| Du-Pont                     | MMFS        |             |             | CIFC        |             |             | SHFL        |             |             |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                             | FY23        | FY24E       | FY25E       | FY23        | FY24E       | FY25E       | FY23        | FY24E       | FY25E       |
| Interest income             | 12.5        | 13.1        | 13.5        | 12.3        | 12.9        | 13.1        | 14.8        | 15.2        | 15.2        |
| Interest expended           | 5.3         | 6.1         | 6.4         | 5.9         | 6.4         | 6.4         | 6.5         | 6.9         | 7.1         |
| <b>Net Interest Income</b>  | <b>7.1</b>  | <b>7.0</b>  | <b>7.2</b>  | <b>6.5</b>  | <b>6.6</b>  | <b>6.7</b>  | <b>8.3</b>  | <b>8.3</b>  | <b>8.1</b>  |
| Other operating income      | 0.3         | 0.3         | 0.3         | 0.7         | 0.7         | 0.6         | 0.6         | 0.6         | 0.5         |
| <b>Net operating income</b> | <b>7.4</b>  | <b>7.3</b>  | <b>7.4</b>  | <b>7.2</b>  | <b>7.2</b>  | <b>7.3</b>  | <b>8.9</b>  | <b>8.9</b>  | <b>8.7</b>  |
| Other income                | 0.1         | 0.2         | 0.2         | 0.2         | 0.2         | 0.2         | 0.0         | 0.0         | 0.0         |
| <b>Net Income</b>           | <b>7.6</b>  | <b>7.4</b>  | <b>7.6</b>  | <b>7.4</b>  | <b>7.4</b>  | <b>7.5</b>  | <b>8.9</b>  | <b>8.9</b>  | <b>8.7</b>  |
| Operating expenses          | 3.2         | 3.1         | 2.9         | 2.8         | 2.7         | 2.5         | 2.5         | 2.5         | 2.4         |
| <b>Operating Income</b>     | <b>4.4</b>  | <b>4.3</b>  | <b>4.7</b>  | <b>4.5</b>  | <b>4.8</b>  | <b>5.0</b>  | <b>6.4</b>  | <b>6.4</b>  | <b>6.3</b>  |
| Provisions/write-offs       | 1.2         | 1.4         | 1.7         | 0.9         | 1.0         | 1.0         | 2.2         | 2.1         | 2.0         |
| <b>PBT</b>                  | <b>3.2</b>  | <b>2.9</b>  | <b>3.1</b>  | <b>3.7</b>  | <b>3.8</b>  | <b>4.0</b>  | <b>4.2</b>  | <b>4.3</b>  | <b>4.3</b>  |
| Tax                         | 0.8         | 0.7         | 0.8         | 1.0         | 1.0         | 1.0         | 1.1         | 1.2         | 1.2         |
| <b>Reported PAT</b>         | <b>2.4</b>  | <b>2.2</b>  | <b>2.3</b>  | <b>2.7</b>  | <b>2.8</b>  | <b>3.0</b>  | <b>3.1</b>  | <b>3.1</b>  | <b>3.1</b>  |
| Average leverage            | 5.4         | 6.2         | 6.7         | 7.5         | 8.0         | 7.9         | 4.9         | 4.8         | 4.8         |
| <b>RoE</b>                  | <b>12.9</b> | <b>13.4</b> | <b>15.2</b> | <b>20.5</b> | <b>22.6</b> | <b>23.3</b> | <b>15.3</b> | <b>14.9</b> | <b>15.1</b> |

Source: MOFSL, Company

## Companies





# Cholamandalam Inv & Fin

BSE SENSEX

62,205

S&amp;P CNX

19,323



## Stock info

|                       |              |
|-----------------------|--------------|
| Bloomberg             | CIFCIN       |
| Equity Shares (m)     | 820          |
| M.Cap.(INRb)/(USDb)   | 961.1 / 11.7 |
| 52-Week Range (INR)   | 1176 / 613   |
| 1, 6, 12 Rel. Per (%) | 8/55/60      |
| 12M Avg Val (INR M)   | 1310         |
| Free float (%)        | 48.5         |

## Financials snapshot (INR b)

| Y/E March    | FY23 | FY24E | FY25E |
|--------------|------|-------|-------|
| Total Income | 72.3 | 95.3  | 118.1 |
| PPP          | 44.5 | 61.1  | 78.1  |
| PAT          | 26.7 | 36.2  | 46.4  |
| EPS (INR)    | 32.4 | 44.0  | 56.5  |
| EPS Gr. (%)  | 24   | 36    | 28    |
| BV (INR)     | 174  | 215   | 269   |

## Valuations

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 7.1  | 7.1  | 7.3  |
| C/I ratio (%) | 38.5 | 35.9 | 33.9 |
| RoAA (%)      | 2.7  | 2.8  | 3.0  |
| RoE (%)       | 20.5 | 22.6 | 23.3 |
| Payout (%)    | 6.2  | 5.7  | 5.3  |

## Valuations

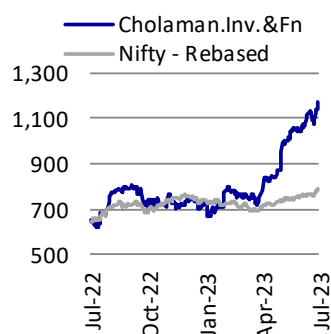
|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 36.1 | 26.6 | 20.7 |
| P/BV (x)       | 6.7  | 5.4  | 4.4  |
| Div. Yield (%) | 0.2  | 0.2  | 0.3  |

## Shareholding pattern (%)

| As On    | Mar-23 | Dec-22 | Mar-22 |
|----------|--------|--------|--------|
| Promoter | 51.5   | 51.5   | 51.6   |
| DII      | 21.5   | 21.2   | 23.0   |
| FII      | 19.6   | 19.4   | 17.6   |
| Others   | 7.4    | 7.9    | 7.8    |

FII Includes depository receipts

## Stock performance (one-year)



CMP: INR1,170

TP: INR1,350(+15%)

Buy

## Transforming into an enviable franchise

Newer businesses to become RoA accretive from FY25 and aid RoA expansion

- Cholamandalam Finance (CIFC) has made a big push towards reducing the cyclical, which is so inherent in its core vehicle financing business. As a result of its focused efforts to diversify the mix, CIFC's disbursements in FY23 were buoyed by robust performances in Home Loans, LAP, CSEL, SBPL and SME segments.
- In addition to product diversification, the overall loan portfolio is also geographically well spread out with presence across 29 states. The largest state accounts for just 11% of its Vehicle Finance loan book as on Mar'23. Such diversification provides flexibility in re-orienting the portfolio based on market opportunities. In addition, over 80% of its branches are located in tier III-IV towns.
- CIFC has managed its liabilities very well by maintaining a healthy mix of its EBLR-linked and MCLR-linked bank term loans. With expectations that the interest rates have largely peaked and will subsequently start abating, we forecast vehicle finance margins to first plateau and eventually expand from 2QFY24 onwards.
- Our deeper understanding of the approach undertaken by CIFC to build the new businesses has made our conviction stronger that the company may not repeat the follies from a decade back when it forayed into consumer finance through a JV with DBS Bank. While the investments in creating newer business lines will keep the opex ratio elevated in FY24E, we expect these businesses (CSEL and SBPL) to become RoA accretive from FY25 onwards and contribute to the company-level RoA expansion to ~3%.
- We model an AUM/PAT CAGR of 23%/32% over FY23-25, with an RoA/RoE of 3.0%/23.3% in FY25. While its current valuation of 4.4x FY25E P/BV appears expensive, we believe that the scarcity of high-quality NBFC franchises, which have high predictability of strong earnings will keep its valuations elevated. Reiterate BUY with a TP of INR1,350 (premised on 5.0x FY25E P/BV).

## Risk-calibrated expansion strategy to scale the three newer businesses

- For a company with the lineage, track record, and balance sheet strength like CIFC, we would believe that it would be able to tap the huge opportunities present in Consumer, MSME, and SME loans with a diversified suite of products for its targeted segment of middle-of-the-pyramid customers.
- CIFC is planning to take a cautious approach in scaling up the newer product segments and it will remain steadfast in pursuing a risk-calibrated expansion strategy. Management diligently tracks the monthly disbursement run-rates in each of the newer product segments, taking into account factors such as bounce rates, delinquencies, and the underlying asset quality.
- CIFC also has plans to roll-out its own consumer app that will be equipped to handle the Consumer and Small Enterprise (CSEL) products end-to-end and the app can also serve as the origination platform for all other product segments. This consumer app, in our view, will reduce the dependence on digital partnerships over time.

- We estimate an AUMCAGR of 19%, 23%, 34%, and 44% for CIFC over FY23-25 in its Vehicle Finance, LAP, Home Loans, and Newer Business segments, respectively, translating into an overall AUMCAGR of 23% over the same period.

#### **Margins should bottom out and gradually improve as rates stabilize**

- CIFC has strategically managed the composition of its loan portfolio (both within vehicle finance and non-auto segments) to achieve healthy blended yields. Further, effective management of the liability mix and prioritizing borrowings under the PSL guidelines have helped CIFC manage its CoF efficiently, despite the rising repo rates (by 250bp) in FY23.
- As interest rates peak, margins will stabilize over the next 1-2 quarters. Subsequently, we expect margins in the vehicle finance industry to expand gradually as the existing book is replaced with higher-yielding new loans.
- CIFC has already rationalized the excess liquidity on its balance sheet and has optimized its product mix to prioritize higher-yielding segments. We expect NIMs to expand ~5bp to 7.1% in FY24 and to further improve to 7.3% in FY25. The company can flex the levers of opex ratios and margins to drive improvement in its return profile.

#### **Pristine asset quality across credit cycles**

- Prudent underwriting policies along with robust collection/recovery platform should drive a steady improvement in Stage 3 assets to 2.2%/1.9% by FY24/25E.
- CIFC has begun to strengthen its asset quality by implementing digitized analytics-enabled collection processes. It has maintained a healthy ECL/EAD of ~2.2% and a PCR of ~46% on Stage 3 loans as of Mar'23.
- As the proportion of newer businesses (particularly CSEL) increases, credit costs will also rise but can be offset by higher blended yields. We believe that CIFC will continue to increase the provision coverage ratio (particularly on Stage 3 loans) and model credit costs of 1.0%/1.1% in FY24/FY25E.

#### **In a better position than peers – Reiterate BUY**

- CIFC is set to deliver a 23% AUM CAGR over FY23-25E aided by its diversification into newer segments. It has demonstrated capabilities to successfully scale up the new businesses, with their contribution to the disbursement mix inching up to ~21% in FY23. While the new businesses will drive higher credit costs, improving yields and moderation in opex should lead to RoA accretion.
- CIFC's ability to consistently deliver industry-leading growth, coupled with its robust asset quality (with a credit cost of ~1% over FY24-25E) and consequent healthy RoE of ~23% (without factoring in the capital raise) positions the company favorably relative to its peers in the vehicle finance sector. We believe CIFC will continue to command premium valuations given the strong predictability of its earnings and return ratios. **Reiterate BUY with a TP of INR1,350 (based on 5.0x FY25E P/BV).**
- **Key downside risks:** a) deceleration in vehicle demand due to an economic slowdown, b) weak monsoons resulting in asset quality deterioration and c) higher delinquencies in the newer product segments resulting in slower ramp-up of the newer businesses.

## Story in charts

Exhibit 27: Expect ~23% AUM CAGR over FY23-25

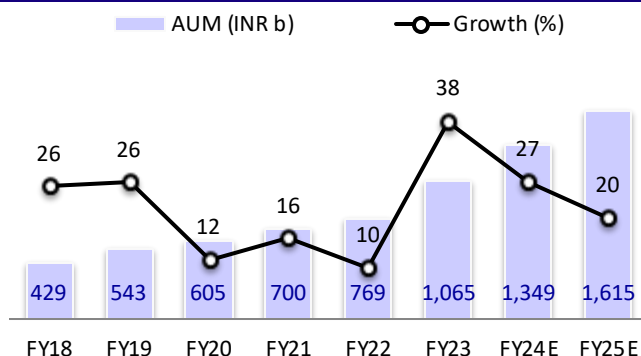


Exhibit 28: Disbursements to post ~18% CAGR over FY23-25E

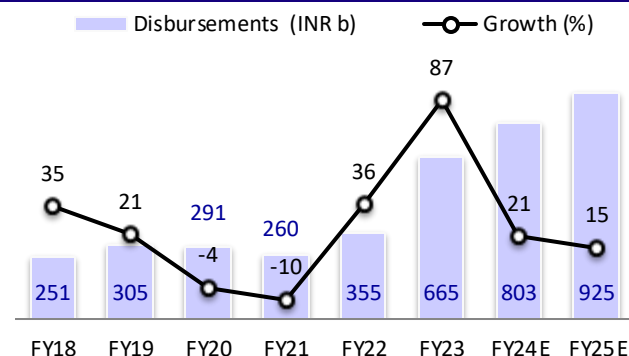


Exhibit 29: Spreads likely to improve driven by an increase in yields and gradual moderation in borrowing costs

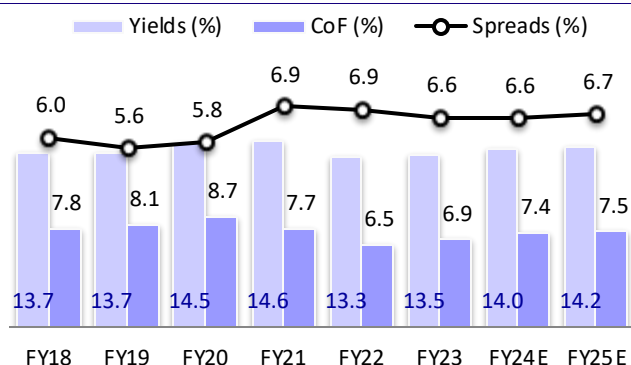


Exhibit 30: NIM to expand to 7.3% by FY25E

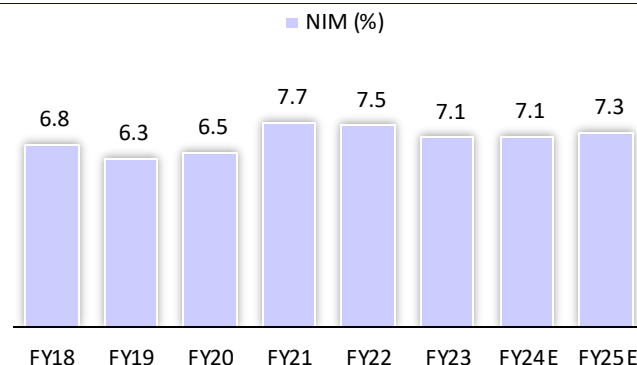


Exhibit 31: CIR to moderate due to economies of scale

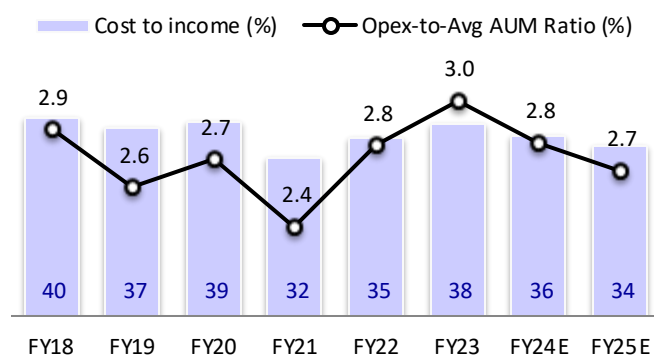


Exhibit 32: Credit cost to normalize towards the run-rate of ~100bp

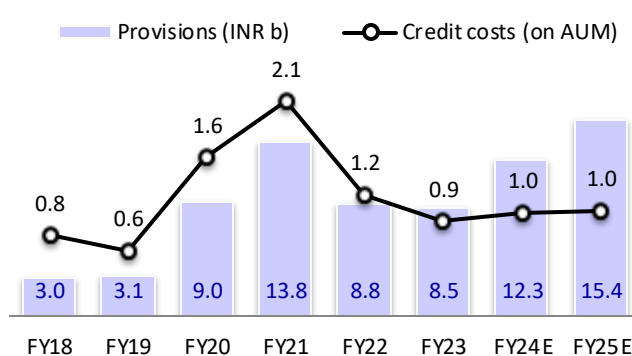


Exhibit 33: Expect asset quality to improve over FY24-FY25

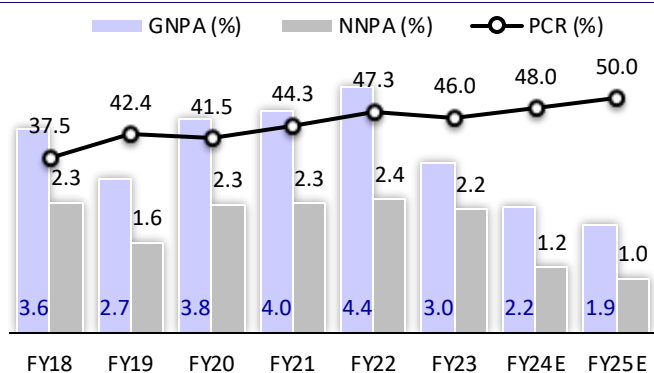
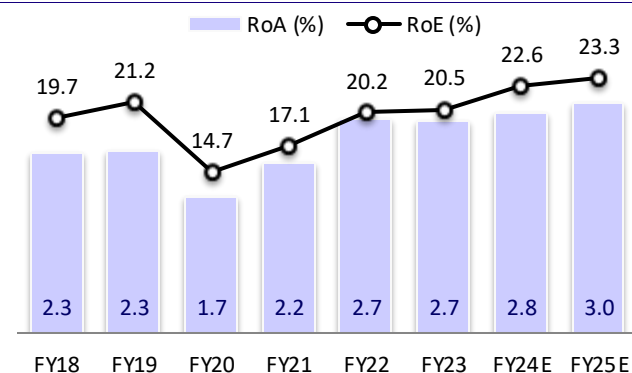


Exhibit 34: Expect a healthy ~23% RoE over medium term



Source: MOFSL, Company

Source: MOFSL, Company

Exhibit 35: DuPont analysis

| Y/E March                  | FY18        | FY19        | FY20        | FY21        | FY22        | FY23        | FY24E       | FY25E       |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income            | 13.1        | 12.8        | 12.9        | 12.8        | 11.9        | 12.3        | 12.9        | 13.1        |
| Interest Expended          | 6.7         | 7.1         | 7.6         | 6.6         | 5.5         | 5.9         | 6.4         | 6.4         |
| <b>Net Interest Income</b> | <b>6.4</b>  | <b>5.7</b>  | <b>5.4</b>  | <b>6.2</b>  | <b>6.4</b>  | <b>6.5</b>  | <b>6.6</b>  | <b>6.7</b>  |
| Other Operating Income     | 0.7         | 1.0         | 1.3         | 1.0         | 1.0         | 0.9         | 0.9         | 0.8         |
| <b>Net Income</b>          | <b>7.1</b>  | <b>6.7</b>  | <b>6.7</b>  | <b>7.2</b>  | <b>7.4</b>  | <b>7.4</b>  | <b>7.4</b>  | <b>7.5</b>  |
| Operating Expenses         | 2.8         | 2.5         | 2.6         | 2.3         | 2.6         | 2.8         | 2.7         | 2.5         |
| <b>Operating Income</b>    | <b>4.3</b>  | <b>4.2</b>  | <b>4.1</b>  | <b>4.9</b>  | <b>4.8</b>  | <b>4.5</b>  | <b>4.8</b>  | <b>5.0</b>  |
| Provisions/write offs      | 0.8         | 0.6         | 1.5         | 2.0         | 1.1         | 0.9         | 1.0         | 1.0         |
| <b>PBT</b>                 | <b>3.5</b>  | <b>3.6</b>  | <b>2.6</b>  | <b>2.9</b>  | <b>3.7</b>  | <b>3.7</b>  | <b>3.8</b>  | <b>4.0</b>  |
| Tax                        | 1.2         | 1.3         | 0.9         | 0.8         | 0.9         | 1.0         | 1.0         | 1.0         |
| <b>Reported PAT</b>        | <b>2.3</b>  | <b>2.3</b>  | <b>1.7</b>  | <b>2.2</b>  | <b>2.7</b>  | <b>2.7</b>  | <b>2.8</b>  | <b>3.0</b>  |
| Leverage                   | 8.5         | 9.1         | 8.5         | 7.8         | 7.4         | 7.5         | 8.0         | 7.9         |
| <b>RoE</b>                 | <b>19.7</b> | <b>21.2</b> | <b>14.7</b> | <b>17.1</b> | <b>20.2</b> | <b>20.5</b> | <b>22.6</b> | <b>23.3</b> |

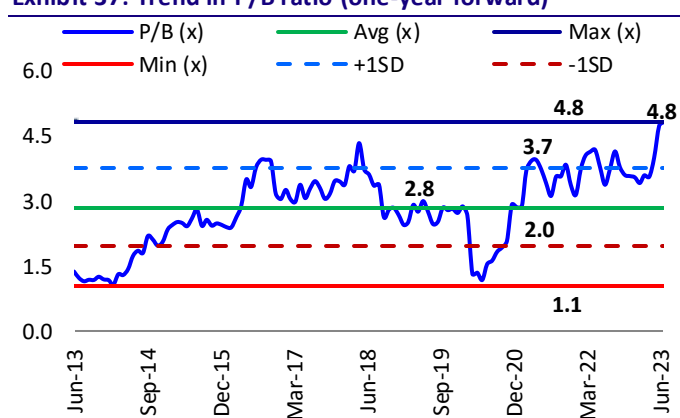
Source: MOFSL, Company

Exhibit 36: Raise our EPS estimates by 2.5%/10.0% for FY24/25E to factor in margin expansion

| INR B                    | Old Est.    |              | New Est.    |              | % change   |             |
|--------------------------|-------------|--------------|-------------|--------------|------------|-------------|
|                          | FY24        | FY25         | FY24        | FY25         | FY24       | FY25        |
| NII (incl. assignments)  | 82.6        | 101.0        | 84.1        | 105.2        | 1.8        | 4.2         |
| Other Income             | 10.5        | 11.8         | 11.2        | 12.8         | 6.9        | 8.8         |
| <b>Total Income</b>      | <b>93.0</b> | <b>112.8</b> | <b>95.3</b> | <b>118.1</b> | <b>2.4</b> | <b>4.6</b>  |
| Operating Expenses       | 34.2        | 40.5         | 34.2        | 40.0         | 0.0        | -1.3        |
| <b>Operating Profits</b> | <b>58.9</b> | <b>72.4</b>  | <b>61.1</b> | <b>78.1</b>  | <b>3.8</b> | <b>7.9</b>  |
| Provisions               | 11.2        | 15.4         | 12.3        | 15.4         | 9.3        | -0.3        |
| <b>PBT</b>               | <b>47.6</b> | <b>56.9</b>  | <b>48.8</b> | <b>62.7</b>  | <b>2.5</b> | <b>10.2</b> |
| Tax                      | 12.4        | 14.8         | 12.7        | 16.3         | 2.5        | 10.2        |
| <b>PAT</b>               | <b>35.3</b> | <b>42.2</b>  | <b>36.2</b> | <b>46.4</b>  | <b>2.5</b> | <b>10.2</b> |
| AUM                      | 1,349       | 1,615        | 1,349       | 1,615        | 0.0        | 0.0         |
| Loans                    | 1,322       | 1,583        | 1,322       | 1,583        | 0.0        | 0.0         |
| Borrowings               | 1,230       | 1,463        | 1,230       | 1,463        | 0.0        | 0.0         |
| NIM                      | 7.0         | 7.0          | 7.1         | 7.3          |            |             |
| Credit Cost              | 0.9         | 1.0          | 1.0         | 1.0          |            |             |
| RoA on AUM               | 2.8         | 2.7          | 2.8         | 3.0          |            |             |
| <b>RoE</b>               | <b>22.1</b> | <b>21.5</b>  | <b>22.6</b> | <b>23.3</b>  |            |             |

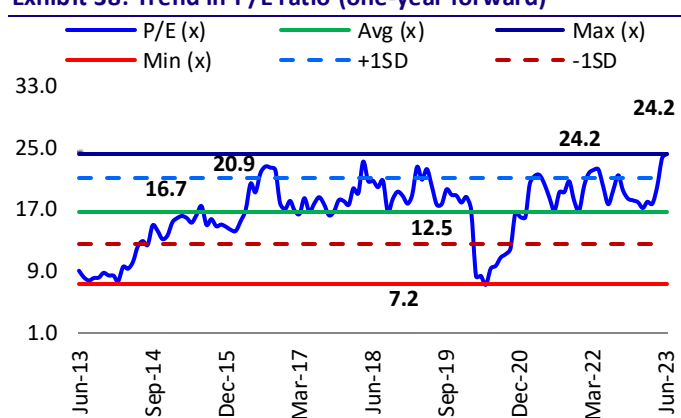
Source: MOFSL, Company

Exhibit 37: Trend in P/B ratio (one-year forward)



Source: MOFSL, Company

Exhibit 38: Trend in P/E ratio (one-year forward)



Source: MOFSL, Company

## Financials and valuations

| Income Statement                |               |               |               |               |               |               |               | (INR m)       |                 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E March                       | FY17          | FY18          | FY19          | FY20          | FY21          | FY22          | FY23          | FY24E         | FY25E           |
| Interest Income                 | 43,717        | 51,862        | 64,962        | 78,417        | 88,772        | 93,251        | 1,20,822      | 1,65,836      | 2,06,201        |
| Interest Expenses               | 22,308        | 26,593        | 35,887        | 45,922        | 45,759        | 42,988        | 57,488        | 81,748        | 1,00,989        |
| <b>Net Interest Income</b>      | <b>21,409</b> | <b>25,268</b> | <b>29,075</b> | <b>32,495</b> | <b>43,013</b> | <b>50,263</b> | <b>63,334</b> | <b>84,088</b> | <b>1,05,213</b> |
| Change (%)                      | 14.8          | 18.0          | 15.1          | 11.8          | 32.4          | 16.9          | 26.0          | 32.8          | 25.1            |
| Income from assignments         | 2,103         | 0             | 867           | 2,473         | 0             | 0             | 0             | 0             | 0               |
| Other Operating Income          | 776           | 2,931         | 4,090         | 5,637         | 6,388         | 7,232         | 6,749         | 8,543         | 9,656           |
| Other Income                    | 8             | 4             | 7             | 3             | 596           | 905           | 2,209         | 2,651         | 3,182           |
| <b>Total Income</b>             | <b>24,295</b> | <b>28,203</b> | <b>34,039</b> | <b>40,607</b> | <b>49,997</b> | <b>58,400</b> | <b>72,292</b> | <b>95,282</b> | <b>1,18,050</b> |
| Change (%)                      | 13.4          | 16.1          | 20.7          | 19.3          | 23.1          | 16.8          | 23.8          | 31.8          | 23.9            |
| <b>Total Operating Expenses</b> | <b>10,133</b> | <b>11,153</b> | <b>12,696</b> | <b>15,776</b> | <b>15,834</b> | <b>20,687</b> | <b>27,799</b> | <b>34,162</b> | <b>39,962</b>   |
| Change (%)                      | 19.9          | 10.1          | 13.8          | 24.3          | 0.4           | 30.6          | 34.4          | 22.9          | 17.0            |
| Employee Expenses               | 4,027         | 5,368         | 5,906         | 6,550         | 7,485         | 8,945         | 12,657        | 14,935        | 17,026          |
| Business Origination Expenses   | 1,784         | 775           | 1,525         | 2,398         | 2,242         | 2,259         | 0             | 0             | 0               |
| Other Operating Expenses        | 4,323         | 5,010         | 5,265         | 6,828         | 6,107         | 9,483         | 15,142        | 19,227        | 22,936          |
| <b>Operating Profit</b>         | <b>14,162</b> | <b>17,051</b> | <b>21,344</b> | <b>24,831</b> | <b>34,162</b> | <b>37,712</b> | <b>44,494</b> | <b>61,120</b> | <b>78,089</b>   |
| Change (%)                      | 9.1           | 20.4          | 25.2          | 16.3          | 37.6          | 10.4          | 18.0          | 37.4          | 27.8            |
| <b>Total Provisions</b>         | <b>3,106</b>  | <b>3,037</b>  | <b>3,112</b>  | <b>8,973</b>  | <b>13,778</b> | <b>8,803</b>  | <b>8,497</b>  | <b>12,296</b> | <b>15,392</b>   |
| % of Operating Profit           | 21.9          | 17.8          | 14.6          | 36.1          | 40.3          | 23.3          | 19.1          | 20.1          | 19.7            |
| <b>PBT</b>                      | <b>11,056</b> | <b>14,014</b> | <b>18,232</b> | <b>15,857</b> | <b>20,384</b> | <b>28,909</b> | <b>35,997</b> | <b>48,823</b> | <b>62,697</b>   |
| Tax Provisions                  | 3,868         | 4,831         | 6,370         | 5,334         | 5,235         | 7,442         | 9,335         | 12,661        | 16,259          |
| Tax Rate (%)                    | 35.0          | 34.5          | 34.9          | 33.6          | 25.7          | 25.7          | 25.9          | 25.9          | 25.9            |
| <b>PAT</b>                      | <b>7,187</b>  | <b>9,183</b>  | <b>11,862</b> | <b>10,524</b> | <b>15,149</b> | <b>21,467</b> | <b>26,662</b> | <b>36,162</b> | <b>46,438</b>   |
| Change (%)                      | 26.4          | 27.8          | 29.2          | -11.3         | 44.0          | 41.7          | 24.2          | 35.6          | 28.4            |
| Proposed Dividend               | 547           | 1,016         | 1,016         | 1,662         | 1,640         | 1,641         | 1,645         | 2,056         | 2,467           |

| Balance Sheet                            |                 |                 |                 |                 |                 |                 |                  | (INR m)          |                  |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| Y/E March                                | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23             | FY24E            | FY25E            |
| Share Capital                            | 1,564           | 1,564           | 1,564           | 1,640           | 1,640           | 1,643           | 1,645            | 1,645            | 1,645            |
| Equity Share Capital                     | 1,564           | 1,564           | 1,564           | 1,640           | 1,640           | 1,643           | 1,645            | 1,645            | 1,645            |
| Preference Share Capital                 | 0               | 0               | 0               | 0               | 0               | 0               | 0                | 0                | 0                |
| Reserves & Surplus                       | 40,971          | 49,105          | 59,880          | 80,079          | 93,962          | 1,15,434        | 1,41,316         | 1,75,422         | 2,19,392         |
| <b>Net Worth for Equity Shareholders</b> | <b>42,535</b>   | <b>50,669</b>   | <b>61,445</b>   | <b>81,718</b>   | <b>95,602</b>   | <b>1,17,077</b> | <b>1,42,961</b>  | <b>1,77,067</b>  | <b>2,21,037</b>  |
| <b>Borrowings</b>                        | <b>3,02,001</b> | <b>3,83,303</b> | <b>5,05,667</b> | <b>5,50,054</b> | <b>6,37,300</b> | <b>6,91,735</b> | <b>9,73,561</b>  | <b>12,29,900</b> | <b>14,63,137</b> |
| Change (%)                               | 33.8            | 26.9            | 31.9            | 8.8             | 15.9            | 8.5             | 40.7             | 26.3             | 19.0             |
| <b>Total Liabilities</b>                 | <b>3,50,372</b> | <b>4,40,897</b> | <b>5,74,263</b> | <b>6,39,930</b> | <b>7,45,484</b> | <b>8,23,655</b> | <b>11,35,155</b> | <b>14,28,396</b> | <b>17,08,174</b> |
| Investments                              | 697             | 729             | 729             | 729             | 16,188          | 20,762          | 36,280           | 49,196           | 58,525           |
| Change (%)                               | 4.6             | 4.7             | 0.0             | 0.0             | 2,120.0         | 28.3            | 74.7             | 35.6             | 19.0             |
| <b>Loans</b>                             | <b>3,32,244</b> | <b>4,22,532</b> | <b>5,26,223</b> | <b>5,54,027</b> | <b>6,58,393</b> | <b>7,41,492</b> | <b>10,47,483</b> | <b>13,21,603</b> | <b>15,82,642</b> |
| Change (%)                               | 27.9            | 27.2            | 24.5            | 5.3             | 18.8            | 12.6            | 41.3             | 26.2             | 19.8             |
| Net Fixed Assets                         | 1,417           | 1,646           | 1,759           | 2,839           | 2,294           | 2,685           | 3,968            | 4,960            | 5,952            |
| <b>Total Assets</b>                      | <b>3,50,372</b> | <b>4,40,897</b> | <b>5,74,263</b> | <b>6,39,930</b> | <b>7,45,484</b> | <b>8,23,634</b> | <b>11,35,155</b> | <b>14,28,396</b> | <b>17,08,174</b> |

E: MOFSL Estimates

## Financials and valuation

| Ratios                             | (%)             |                 |                 |                 |                 |                 |                  |                  |                  |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| Y/E March                          | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23             | FY24E            | FY25E            |
| <b>Spreads Analysis (%)</b>        |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| Avg. Yield on Loans                | 14.8            | 13.7            | 13.7            | 14.5            | 14.6            | 13.3            | 13.5             | 14.0             | 14.2             |
| Avg Cost of Funds                  | 8.5             | 7.8             | 8.1             | 8.7             | 7.7             | 6.5             | 6.9              | 7.4              | 7.5              |
| Spread of loans                    | 6.3             | 6.0             | 5.6             | 5.8             | 6.9             | 6.9             | 6.6              | 6.6              | 6.7              |
| NIM (on loans)                     | 7.4             | 6.8             | 6.3             | 6.5             | 7.7             | 7.5             | 7.1              | 7.1              | 7.3              |
| <b>Profitability Ratios (%)</b>    |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| RoE                                | 18.2            | 19.7            | 21.2            | 14.7            | 17.1            | 20.2            | 20.5             | 22.6             | 23.3             |
| RoA                                | 2.3             | 2.3             | 2.3             | 1.7             | 2.2             | 2.7             | 2.7              | 2.8              | 3.0              |
| Int. Expended / Int. Earned        | 51.0            | 51.3            | 55.2            | 58.6            | 51.5            | 46.1            | 47.6             | 49.3             | 49.0             |
| Other Inc. / Net Income            | 3.2             | 10.4            | 12.0            | 13.9            | 14.0            | 13.9            | 12.4             | 11.7             | 10.9             |
| <b>Efficiency Ratios (%)</b>       |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| Op. Exps. / Net Income             | 41.7            | 39.5            | 37.3            | 38.9            | 31.7            | 35.4            | 38.5             | 35.9             | 33.9             |
| Empl. Cost/Op. Exps.               | 39.7            | 48.1            | 46.5            | 41.5            | 47.3            | 43.2            | 45.5             | 43.7             | 42.6             |
| <b>Asset-Liability Profile (%)</b> |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| Loans/Borrowings Ratio             | 110             | 110             | 104             | 101             | 103             | 107             | 108              | 107              | 108              |
| Net NPAs to Net Adv.               | 3.2             | 2.3             | 1.6             | 2.3             | 2.3             | 2.4             | 2.2              | 1.2              | 1.0              |
| Assets/Equity                      | 8.2             | 8.7             | 9.3             | 7.8             | 7.8             | 7.0             | 7.9              | 8.1              | 7.7              |
| Average leverage                   | 8.0             | 8.5             | 9.1             | 8.5             | 7.8             | 7.4             | 7.5              | 8.0              | 7.9              |
| <b>Valuations</b>                  |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| Book Value (INR)                   | 54              | 65              | 79              | 100             | 117             | 143             | 174              | 215              | 269              |
| BV Growth (%)                      | 16.2            | 19.1            | 21.2            | 26.9            | 17.0            | 22.2            | 22.0             | 23.9             | 24.8             |
| <b>Price-BV (x)</b>                |                 |                 |                 |                 | <b>10.0</b>     | <b>8.2</b>      | <b>6.7</b>       | <b>5.4</b>       | <b>4.4</b>       |
| EPS (INR)                          | 9               | 12              | 15              | 13              | 18              | 26              | 32               | 44               | 56               |
| EPS Growth (%)                     | 26.3            | 27.7            | 29.1            | -15.4           | 44.0            | 41.4            | 24.0             | 35.6             | 28.4             |
| <b>Price-Earnings (x)</b>          |                 |                 |                 |                 | <b>63.4</b>     | <b>44.8</b>     | <b>36.1</b>      | <b>26.6</b>      | <b>20.7</b>      |
| Dividend per share                 | 1.1             | 1.3             | 1.3             | 1.7             | 2.0             | 2.0             | 2.0              | 2.5              | 3.0              |
| <b>Dividend Yield (%)</b>          |                 |                 |                 |                 | <b>0.2</b>      | <b>0.2</b>      | <b>0.2</b>       | <b>0.2</b>       | <b>0.3</b>       |
| E: MOFSL Estimates                 |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| <b>AUM Mix (%)</b>                 |                 |                 |                 |                 |                 |                 |                  |                  |                  |
| Y/E March                          | FY17            | FY18            | FY19            | FY20            | FY21            | FY22            | FY23             | FY24E            | FY25E            |
| <b>AUM</b>                         | <b>3,41,669</b> | <b>4,29,240</b> | <b>5,42,790</b> | <b>6,05,490</b> | <b>6,99,960</b> | <b>7,69,070</b> | <b>10,64,980</b> | <b>13,48,574</b> | <b>16,14,941</b> |
| Change (%)                         | 15.2            | 25.6            | 26.5            | 11.6            | 15.6            | 9.9             | 38.5             | 26.6             | 19.8             |
| <b>On Books AUM</b>                | <b>2,79,036</b> | <b>3,66,904</b> | <b>5,26,070</b> | <b>5,51,350</b> | <b>6,58,380</b> | <b>7,41,420</b> | <b>10,47,360</b> | <b>13,21,603</b> | <b>15,82,642</b> |
| Change (%)                         | 9.5             | 31.5            | 43.4            | 4.8             | 19.4            | 12.6            | 41.3             | 26.2             | 19.8             |
| % of AUM                           | 81.7            | 85.5            | 96.9            | 91.1            | 94.1            | 96.4            | 98.3             | 98.0             | 98.0             |
| <b>Off Books AUM</b>               | <b>62,633</b>   | <b>62,336</b>   | <b>16,720</b>   | <b>54,140</b>   | <b>41,580</b>   | <b>27,650</b>   | <b>17,620</b>    | <b>26,971</b>    | <b>32,299</b>    |
| Change (%)                         | 50.5            | -0.5            | -73.2           | 223.8           | -23.2           | -33.5           | -36.3            | 53.1             | 19.8             |
| % of AUM                           | 18.3            | 14.5            | 3.1             | 8.9             | 5.9             | 3.6             | 1.7              | 2.0              | 2.0              |
| E: MOFSL Estimates                 |                 |                 |                 |                 |                 |                 |                  |                  |                  |

# Shriram Finance

## BSE SENSEX

65,205

## S&amp;P CNX

19,323



## Stock Info

|                       |             |
|-----------------------|-------------|
| Bloomberg             | SHFLIN      |
| Equity Shares (m)     | 227         |
| M.Cap.(INRb)/(USDb)   | 658.7 / 8   |
| 52-Week Range (INR)   | 1777 / 1147 |
| 1, 6, 12 Rel. Per (%) | 20/24/16    |
| 12M Avg Val (INR M)   | 1439        |
| Free float (%)        | 74.5        |

## Financials Snapshot (INR b)

| Y/E March   | FY23  | FY24E | FY25E |
|-------------|-------|-------|-------|
| Net Inc.    | 173   | 194   | 217   |
| PPP         | 123   | 140   | 158   |
| PAT         | 59.8  | 68.8  | 78.5  |
| EPS (INR)   | 160   | 184   | 210   |
| EPS Gr. (%) | 42    | 15    | 14    |
| BV/Sh (INR) | 1,157 | 1,302 | 1,470 |

## Ratios

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

## Valuations

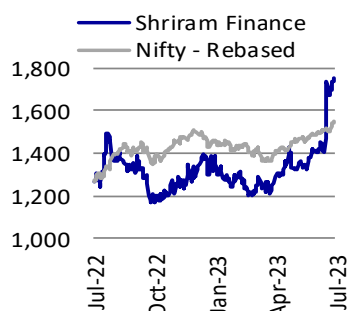
|                |      |     |     |
|----------------|------|-----|-----|
| P/E (x)        | 11.0 | 9.6 | 8.4 |
| P/BV (x)       | 1.5  | 1.3 | 1.2 |
| Div. Yield (%) | 2.0  | 2.3 | 2.6 |

## 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

## Stock performance (one-year)



CMP: INR1,756

TP: INR2,100 (+20%)

Buy

## Continues to thrive as a merged entity

### Post-merger, opportunities to cross-sell non-vehicle product offerings improve

- As a merged entity, Shriram Finance (SHFL) has strategically positioned itself to capitalize on several advantages. These include: a) diversified AUM mix; b) improved access to liabilities; and c) enhanced cross-selling opportunities.
- With a legacy of over four decades, SHFL has exhibited its execution capabilities across multiple credit and economic cycles. Shriram group appointed five Jt. MDs on the business side (three from SHFL and two from SCUF) of the merged entity. All these five Jt. MDs are long-tenured veterans from the Shriram group.
- SHFL has successfully expanded its offerings with the rollout of gold loans and personal loans, and it has also extended its 2W franchise across branches. The company plans to tread cautiously on MSME loans, wherein it will first gain a deeper understanding of the respective micro-markets before scaling up.
- The merged entity is now rated AA+ by both CRISIL and India Ratings. Although our investment thesis does not depend on a change in credit rating, we believe SHFL now has a strong case to work with the credit rating agencies for an upgrade. A credit rating upgrade is an option value, which can help SHFL moderate its borrowing costs by 40-50bp.
- The strong demand for CVs is likely to continue, supported by government's infrastructure spending and healthy real estate activity.
- Our earnings estimates are unchanged. Higher cross-selling opportunities for non-vehicle products and improved distribution of investment and insurance offerings should translate into an AUM/PAT CAGR of 14%/15% over FY23-25E. This should further result in an RoA/RoE of 3.1%/15.0% in FY24E/FY25E. Reiterate BUY with a TP of INR2,100 (based on 1.4x FY25E standalone BV).

### Diversified loan mix; strong loan growth in the non-vehicle products

- The erstwhile CV business of Shriram Transport now contributes ~78% to SHFL's AUM mix with the balance coming from non-CV products of SCUF. In the near term, we expect the CV portfolio (erstwhile SHFL business) to report a 12% CAGR, while the SCUF portfolio would register a 21% CAGR. Combined, we forecast SHFL's AUM to clock a CAGR of ~14% over FY23-FY25.
- The change in mix towards the higher-yielding non-CV products will also be marginally accretive to the blended yields. A considerable proportion of this improvement in yields is expected to be driven by the higher proportion of personal loans and MSME loans in the AUM mix.

### Strong ability to sustain margins with benefits on both asset and liability fronts

- SHFL's customer segment offers it the pricing power and allows it to steer clear of any irrational pricing in the marketplace. Occasionally, SHFL has struggled to access liabilities, but it has always been able to pass on the higher borrowing costs to its customers, with little impact on its margins.



- Post-merger, it will reap the re-pricing benefit on the SCUF portion of the liabilities (as and when they come formaturity/renewal). If the company achieves an upgrade from the credit rating agencies, it can benefit SHFL's borrowing costs by an additional ~40-50bp. Moreover, with 2W and Gold Loan products (short-tenured) in the AUM mix, the company can also borrow through commercial papers (CPs) as there is some stability in the debt capital markets at present.
- We estimate NIM on AUM at 9.1%/9.0% in FY24/FY25 (v/s 9.4% in FY23) without considering any positive impact on the credit rating of SHFL.

#### **No hefty opex from the merger; scaling up to offer SCUF products in all branches**

- With an expanded geographical presence and a larger workforce, SHFL can leverage cross-selling opportunities to reach new customers and introduce new products such as supply chain finance and education loans. These initiatives are likely to lead to improved operating metrics and drive further growth and profitability.
- SHFL has already clarified that it will not be required to pay the Stamp Duty charges, which it had anticipated, when the merger was announced. In addition, there has been no significant rationalization of branches or staff post-merger. Instead, SHFL has added over 7K employees over the last one year to strengthen the sales team for cross-selling SCUF products.
- We have neither factored in any outsized opex due to the merger nor have modeled any significant operating synergies from the merger. We estimate a very gradual decline in the opex-to-assets ratio to 2.4% by FY25 from 2.5% in FY23, primarily driven by scale benefits.

#### **Asset quality improving; credit costs to hover around 2.4%-2.5%**

- Higher prices of new CVs have raised the prices of used CVs. Besides, recently, the repossessions have not been significant since the earnings of the CV customers have been good. Higher utilization of vehicles has led to an asset quality improvement. In personal loans, as the legacy book (open-sourced) continues to run-down, the asset quality will continue to improve.
- Pre-Covid, the merged entity (pro-forma) operated at credit costs of ~2.6% over FY18/FY19. Along with a steady improvement in the Gross Stage 3, we estimate credit costs of ~2.5% (as a % of loans) over FY24-FY25.

#### **Sum is greater than the parts – better placed as a merged entity; Reiterate BUY**

- While the merger has served its intended purpose of giving exits to some large investors in the erstwhile Shriram Capital, it will also allow SHFL to offer its complete product suite across the customer lifecycle. Further, it will now be able to offer all the lending/investing/insurance products based on customer needs.
- The merged entity, in our view, will emerge stronger than the respective standalone businesses of SHFL and SCUF. **Reiterate BUY with a TP of INR2,100 (premised on 1.4x FY25E standalone BV).** Key downside risk: Sharper deterioration in the macroeconomic indicators, resulting in a change in the CV cycle outlook.

## Story in charts

Exhibit 39: Expect ~14% AUM CAGR over FY23-25

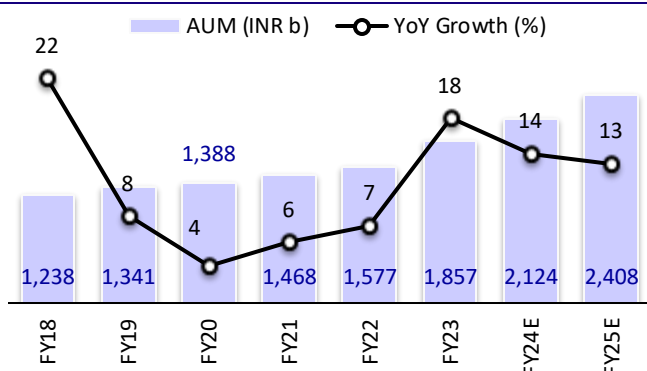


Exhibit 40: Expect ~12% disbursement CAGR over FY23-25

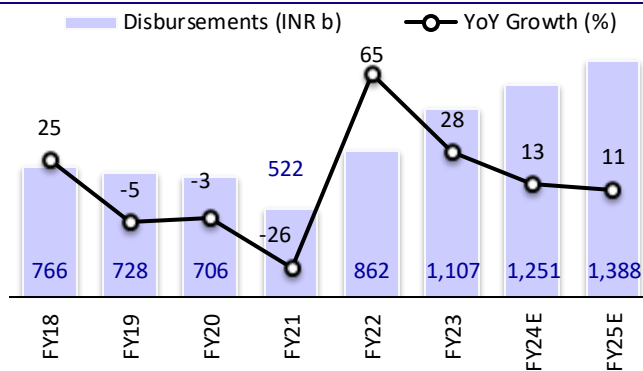


Exhibit 41: Expect spreads to contract ~40bp...

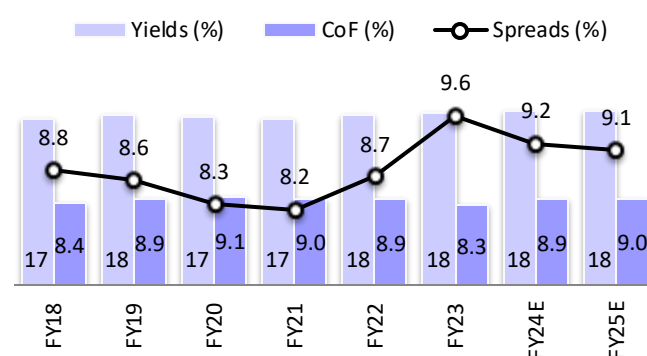


Exhibit 42: ...with a NIM compression of ~20bp in FY24

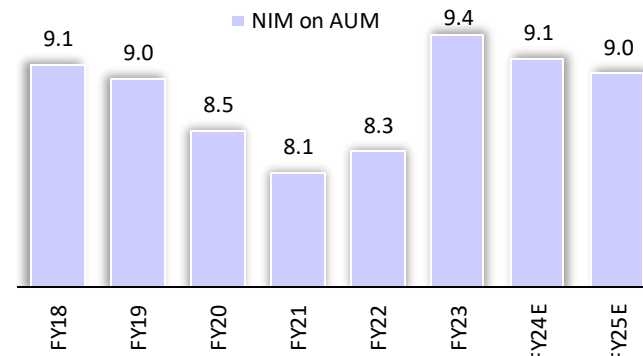


Exhibit 43: Opex ratios to improve driven by scale benefits

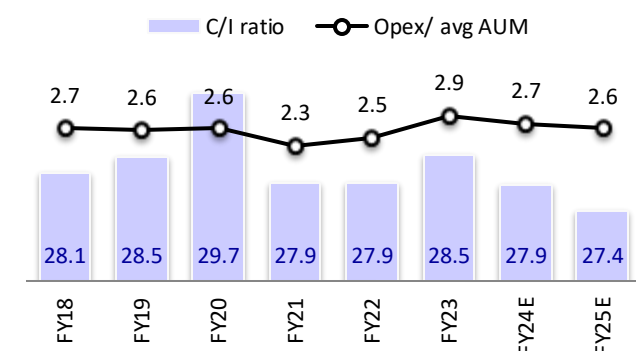


Exhibit 44: Expect credit costs to remain largely stable

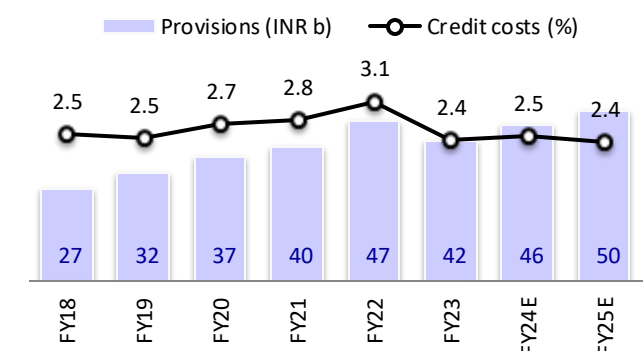


Exhibit 45: PCR on stage 3 to remain at ~50% over FY24/25

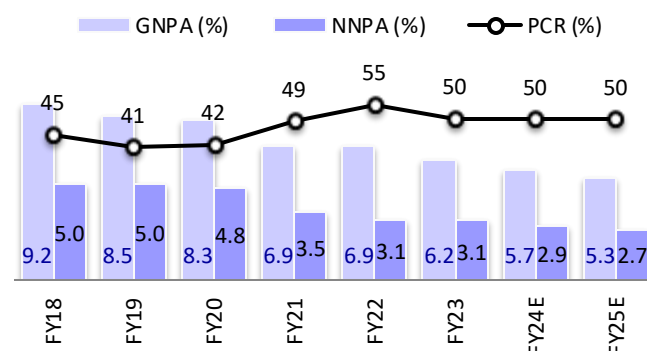
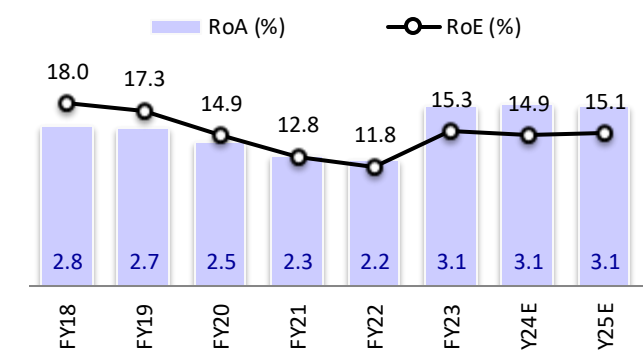


Exhibit 46: Expect an RoA/RoE of 3.1%/15.0% in FY24-FY25



Source: MOFSL, Company

Source: MOFSL, Company

Exhibit 47: DuPont analysis

| Y/E MARCH                  | FY18        | FY19        | FY20        | FY21        | FY22        | FY23        | FY24E       | FY25E       |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income            | 15.9        | 16.2        | 15.7        | 14.7        | 14.4        | 14.8        | 15.2        | 15.2        |
| Interest Expended          | 7.0         | 7.3         | 7.4         | 7.2         | 7.1         | 6.5         | 6.9         | 7.1         |
| <b>Net Interest Income</b> | <b>8.9</b>  | <b>8.9</b>  | <b>8.3</b>  | <b>7.5</b>  | <b>7.3</b>  | <b>8.3</b>  | <b>8.3</b>  | <b>8.1</b>  |
| Non-interest income        | 0.3         | 0.2         | 0.4         | 0.3         | 0.5         | 0.6         | 0.6         | 0.5         |
| <b>Net Total Income</b>    | <b>9.3</b>  | <b>9.1</b>  | <b>8.6</b>  | <b>7.8</b>  | <b>7.8</b>  | <b>8.9</b>  | <b>8.9</b>  | <b>8.7</b>  |
| <b>Operating Expenses</b>  | <b>2.6</b>  | <b>2.6</b>  | <b>2.6</b>  | <b>2.2</b>  | <b>2.2</b>  | <b>2.5</b>  | <b>2.5</b>  | <b>2.4</b>  |
| - Employee expenses        | 1.2         | 1.3         | 1.3         | 1.1         | 1.1         | 1.3         | 1.3         | 1.3         |
| - Other expenses           | 1.4         | 1.3         | 1.2         | 1.1         | 1.0         | 1.2         | 1.2         | 1.1         |
| <b>PPoP</b>                | <b>6.7</b>  | <b>6.5</b>  | <b>6.1</b>  | <b>5.6</b>  | <b>5.6</b>  | <b>6.4</b>  | <b>6.4</b>  | <b>6.3</b>  |
| Provisions/write offs      | 2.4         | 2.4         | 2.6         | 2.6         | 2.7         | 2.2         | 2.1         | 2.0         |
| <b>PBT</b>                 | <b>4.3</b>  | <b>4.1</b>  | <b>3.4</b>  | <b>3.0</b>  | <b>2.9</b>  | <b>4.2</b>  | <b>4.3</b>  | <b>4.3</b>  |
| Tax                        | 1.5         | 1.3         | 0.9         | 0.8         | 0.7         | 1.1         | 1.2         | 1.2         |
| <b>RoA</b>                 | <b>2.8</b>  | <b>2.7</b>  | <b>2.5</b>  | <b>2.3</b>  | <b>2.2</b>  | <b>3.1</b>  | <b>3.1</b>  | <b>3.1</b>  |
| Avg. Leverage              | 6.5         | 6.3         | 5.9         | 5.7         | 5.4         | 4.9         | 4.8         | 4.8         |
| <b>RoE</b>                 | <b>18.0</b> | <b>17.3</b> | <b>14.9</b> | <b>12.8</b> | <b>11.8</b> | <b>15.3</b> | <b>14.9</b> | <b>15.1</b> |

Source: MOFSL, Company

Exhibit 48: Our EPS estimates remain unchanged

| INR B                    | Old Est.     |              | New Est.     |              | % change   |            |
|--------------------------|--------------|--------------|--------------|--------------|------------|------------|
|                          | FY24         | FY25         | FY24         | FY25         | FY24       | FY25       |
| NII (incl. assignments)  | 181.7        | 203.9        | 181.7        | 203.9        | 0.0        | 0.0        |
| Other Income             | 12.7         | 13.5         | 12.7         | 13.5         | 0.0        | 0.0        |
| <b>Total Income</b>      | <b>194.4</b> | <b>217.4</b> | <b>194.4</b> | <b>217.4</b> | <b>0.0</b> | <b>0.0</b> |
| Operating Expenses       | 54.3         | 59.5         | 54.3         | 59.5         | 0.0        | 0.0        |
| <b>Operating Profits</b> | <b>140.2</b> | <b>157.9</b> | <b>140.2</b> | <b>157.9</b> | <b>0.0</b> | <b>0.0</b> |
| Provisions               | 46.1         | 50.5         | 46.1         | 50.5         | 0.0        | 0.0        |
| <b>PBT</b>               | <b>94.1</b>  | <b>107.4</b> | <b>94.1</b>  | <b>107.4</b> | <b>0.0</b> | <b>0.0</b> |
| Tax                      | 25.3         | 28.9         | 25.3         | 28.9         | 0.0        | 0.0        |
| <b>PAT</b>               | <b>68.8</b>  | <b>78.5</b>  | <b>68.8</b>  | <b>78.5</b>  | <b>0.0</b> | <b>0.0</b> |
| AUM                      | 2,124        | 2,408        | 2,124        | 2,408        | 0.0        | 0.0        |
| Loans                    | 1,971        | 2,237        | 1,971        | 2,237        | 0.0        | 0.0        |
| Borrowings               | 1,837        | 2,095        | 1,837        | 2,095        | 0.0        | 0.0        |
| NIM                      | 9.1          | 9.0          | 9.1          | 9.0          |            |            |
| Credit Cost (%)          | 2.5          | 2.4          | 2.5          | 2.4          |            |            |
| RoA                      | 3.1          | 3.1          | 3.1          | 3.1          |            |            |
| <b>RoE</b>               | <b>14.9</b>  | <b>15.1</b>  | <b>14.9</b>  | <b>15.1</b>  |            |            |

Source: MOFSL, Company

Exhibit 49: One-year forward P/B ratio

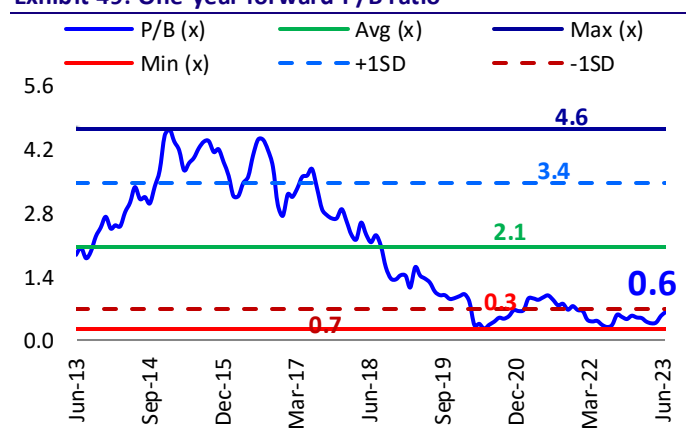
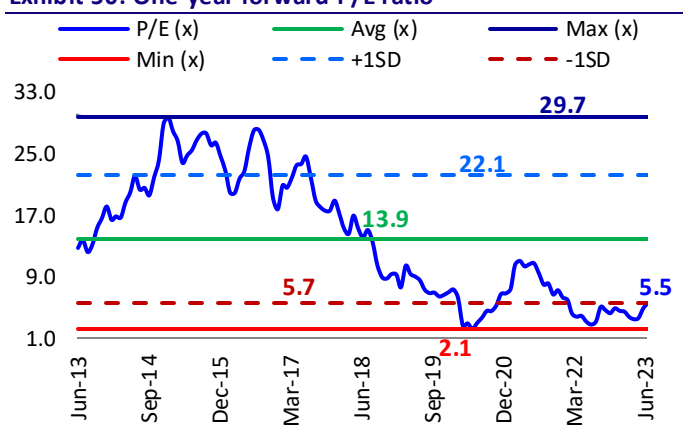


Exhibit 50: One-year forward P/E ratio



## Financials and valuations

| Income Statement                          |                 |                 |                 |                 |                 |                 | (INR m)         |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March                                 | FY18            | FY19            | FY20            | FY21            | FY22            | FY23            | FY24E           | FY25E           |
| Interest Income                           | 1,82,776        | 2,10,407        | 2,19,646        | 2,26,997        | 2,48,605        | 2,86,074        | 3,33,983        | 3,80,774        |
| Interest Expenses                         | 80,329          | 94,975          | 1,04,105        | 1,11,881        | 1,22,668        | 1,25,458        | 1,52,258        | 1,76,918        |
| <b>Net Interest Income</b>                | <b>1,02,447</b> | <b>1,15,432</b> | <b>1,15,541</b> | <b>1,15,116</b> | <b>1,25,936</b> | <b>1,60,616</b> | <b>1,81,725</b> | <b>2,03,856</b> |
| Change (%)                                | 38.6            | 12.7            | 0.1             | -0.4            | 9.4             | 27.5            | 13.1            | 12.2            |
| Other Operating Income                    | 1,628           | 2,605           | 4,748           | 4,514           | 9,214           | 11,648          | 12,343          | 13,083          |
| Other Income                              | 2,195           | 258             | 235             | 237             | 227             | 307             | 369             | 424             |
| <b>Total Income</b>                       | <b>1,06,270</b> | <b>1,18,295</b> | <b>1,20,524</b> | <b>1,19,867</b> | <b>1,35,378</b> | <b>1,72,571</b> | <b>1,94,437</b> | <b>2,17,364</b> |
| Change (%)                                | 25.1            | 11.3            | 1.9             | -0.5            | 12.9            | 27.5            | 12.7            | 11.8            |
| <b>Total Operating Expenses</b>           | <b>29,912</b>   | <b>33,666</b>   | <b>35,803</b>   | <b>33,500</b>   | <b>37,805</b>   | <b>49,131</b>   | <b>54,256</b>   | <b>59,510</b>   |
| Change (%)                                | 26.5            | 12.6            | 6.3             | -6.4            | 12.8            | 30.0            | 10.4            | 9.7             |
| Employee Expenses                         | 14,195          | 17,210          | 18,585          | 16,699          | 19,695          | 25,061          | 28,570          | 32,284          |
| Depreciation                              | 694             | 742             | 2,232           | 2,172           | 2,137           | 5,242           | 5,352           | 5,469           |
| Other Operating Expenses                  | 15,023          | 15,715          | 14,986          | 14,629          | 15,973          | 18,828          | 20,334          | 21,757          |
| <b>Operating Profit</b>                   | <b>76,357</b>   | <b>84,629</b>   | <b>84,721</b>   | <b>86,367</b>   | <b>97,573</b>   | <b>1,23,441</b> | <b>1,40,181</b> | <b>1,57,854</b> |
| Change (%)                                |                 | 10.8            | 0.1             | 1.9             | 13.0            | 26.5            | 13.6            | 12.6            |
| <b>Total Provisions</b>                   | <b>27,455</b>   | <b>31,643</b>   | <b>36,786</b>   | <b>39,693</b>   | <b>47,485</b>   | <b>41,592</b>   | <b>46,130</b>   | <b>50,489</b>   |
| % Loan loss provisions to Avg loans ratio | 2.5             | 2.5             | 2.7             | 2.8             | 3.1             | 2.4             | 2.5             | 2.4             |
| <b>PBT</b>                                | <b>48,903</b>   | <b>52,986</b>   | <b>47,935</b>   | <b>46,674</b>   | <b>50,088</b>   | <b>81,849</b>   | <b>94,050</b>   | <b>1,07,365</b> |
| Tax Provisions                            | 17,188          | 17,457          | 12,913          | 11,692          | 12,164          | 22,056          | 25,300          | 28,881          |
| Tax Rate (%)                              | 35.1            | 32.9            | 26.9            | 25.1            | 24.3            | 26.9            | 26.9            | 26.9            |
| <b>PAT</b>                                | <b>31,715</b>   | <b>35,529</b>   | <b>35,022</b>   | <b>34,982</b>   | <b>37,925</b>   | <b>59,793</b>   | <b>68,751</b>   | <b>78,484</b>   |
| Change (%)                                |                 | 12.0            | -1.4            | -0.1            | 8.4             | 57.7            | 15.0            | 14.2            |

| Balance Sheet                 |                  |                  |                  |                  |                  |                  | (INR m)          |                  |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March                     | FY18             | FY19             | FY20             | FY21             | FY22             | FY23             | FY24E            | FY25E            |
| Equity Share Capital          | 2,929            | 2,929            | 2,929            | 3,191            | 3,371            | 3,744            | 3,744            | 3,744            |
| Reserves & Surplus            | 1,86,732         | 2,17,432         | 2,47,288         | 2,91,764         | 3,43,760         | 4,29,322         | 4,83,845         | 5,46,592         |
| <b>Net Worth</b>              | <b>1,89,660</b>  | <b>2,20,361</b>  | <b>2,50,217</b>  | <b>2,94,954</b>  | <b>3,47,132</b>  | <b>4,33,066</b>  | <b>4,87,589</b>  | <b>5,50,336</b>  |
| <b>Borrowings</b>             | <b>10,35,319</b> | <b>11,04,851</b> | <b>11,75,376</b> | <b>13,17,617</b> | <b>14,51,285</b> | <b>15,84,698</b> | <b>18,36,832</b> | <b>20,94,669</b> |
| Change (%)                    | 19.2             | 6.7              | 6.4              | 12.1             | 10.1             | 9.2              | 15.9             | 14.0             |
| <b>Other liabilities</b>      | <b>20,727</b>    | <b>21,865</b>    | <b>25,436</b>    | <b>26,317</b>    | <b>23,320</b>    | <b>18,875</b>    | <b>20,762</b>    | <b>22,838</b>    |
| <b>Total Liabilities</b>      | <b>12,45,707</b> | <b>13,47,077</b> | <b>14,51,029</b> | <b>16,38,888</b> | <b>18,21,754</b> | <b>20,36,639</b> | <b>23,45,183</b> | <b>26,67,843</b> |
| <b>Cash and bank balances</b> | <b>42,095</b>    | <b>52,657</b>    | <b>1,03,773</b>  | <b>2,16,562</b>  | <b>2,29,679</b>  | <b>1,58,174</b>  | <b>2,07,875</b>  | <b>2,51,161</b>  |
| Investments                   | 30,770           | 48,653           | 35,326           | 42,152           | 86,455           | 85,651           | 84,537           | 86,228           |
| <b>Loans</b>                  | <b>11,65,329</b> | <b>12,37,406</b> | <b>12,88,442</b> | <b>13,57,232</b> | <b>14,76,890</b> | <b>17,19,846</b> | <b>19,70,579</b> | <b>22,36,868</b> |
| Change (%)                    | 21.8             | 6.2              | 4.1              | 5.3              | 8.8              | 16.5             | 14.6             | 13.5             |
| Fixed Assets                  | 2,010            | 2,283            | 7,181            | 6,599            | 6,467            | 19,834           | 20,826           | 21,867           |
| Deferred tax Assets           | 1,246            | 1,241            | 694              | 6,964            | 9,109            | 17,439           | 19,183           | 21,101           |
| Goodwill                      |                  |                  |                  |                  |                  | 14,067           | 14,067           | 14,067           |
| Other Assets                  | 4,257            | 4,838            | 15,613           | 9,379            | 13,137           | 21,627           | 28,115           | 36,550           |
| <b>Total Assets</b>           | <b>12,45,707</b> | <b>13,47,077</b> | <b>14,51,029</b> | <b>16,38,888</b> | <b>18,21,737</b> | <b>20,36,639</b> | <b>23,45,183</b> | <b>26,67,843</b> |

E: MOFSL Estimates

## Financials and valuations

### AUM Mix (%)

| Y/E March            | FY18        | FY19        | FY20        | FY21         | FY22        | FY23        | FY24E       | FY25E       |
|----------------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|
| <b>AUM</b>           | 12,38,426   | 13,40,643   | 13,88,342   | 14,68,128    | 15,77,122   | 18,56,829   | 21,23,505   | 24,07,665   |
| Change (%)           | <b>21.5</b> | <b>8.3</b>  | <b>3.6</b>  | <b>5.7</b>   | <b>7.4</b>  | <b>17.7</b> | <b>14.4</b> | <b>13.4</b> |
| <b>Disbursements</b> | 7,66,170    | 7,28,076    | 7,05,733    | 5,21,985     | 8,62,135    | 11,06,899   | 12,50,796   | 13,88,383   |
| Change (%)           | <b>24.7</b> | <b>-5.0</b> | <b>-3.1</b> | <b>-26.0</b> | <b>65.2</b> | <b>28.4</b> | <b>13.0</b> | <b>11.0</b> |

E: MOFSL Estimates

### Ratios

| Y/E March                   | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|-----------------------------|------|------|------|------|------|------|-------|-------|
| <b>Spreads Analysis (%)</b> |      |      |      |      |      |      |       |       |
| Avg. Yield on Loans         | 17.2 | 17.5 | 17.4 | 17.2 | 17.5 | 17.9 | 18.1  | 18.1  |
| Avg Cost of Funds           | 8.4  | 8.9  | 9.1  | 9.0  | 8.9  | 8.3  | 8.9   | 9.0   |
| Spread of loans             | 8.8  | 8.6  | 8.3  | 8.2  | 8.7  | 9.6  | 9.2   | 9.1   |
| NIM (on loans)              | 9.7  | 9.6  | 9.1  | 8.7  | 8.9  | 10.0 | 9.85  | 9.7   |
| NIM (on AUM)                | 9.1  | 9.0  | 8.5  | 8.1  | 8.3  | 9.4  | 9.1   | 9.0   |
| C/I ratio                   | 28.1 | 28.5 | 29.7 | 27.9 | 27.9 | 28.5 | 27.9  | 27.4  |

### Profitability Ratios (%)

|                             |      |      |      |      |      |      |      |      |
|-----------------------------|------|------|------|------|------|------|------|------|
| RoE                         | 18.0 | 17.3 | 14.9 | 12.8 | 11.8 | 15.3 | 14.9 | 15.1 |
| RoA                         | 2.8  | 2.7  | 2.5  | 2.3  | 2.2  | 3.1  | 3.1  | 3.1  |
| Int. Expended / Int. Earned | 43.9 | 45.1 | 47.4 | 49.3 | 49.3 | 43.9 | 45.6 | 46.5 |
| Other Inc. / Net Income     | 3.6  | 2.4  | 4.1  | 4.0  | 7.0  | 6.9  | 6.5  | 6.2  |

### Efficiency Ratios (%)

|                        |      |      |      |      |      |      |      |      |
|------------------------|------|------|------|------|------|------|------|------|
| Op. Exps. / Net Income | 28.1 | 28.5 | 29.7 | 27.9 | 27.9 | 28.5 | 27.9 | 27.4 |
| Empl. Cost/Op. Exps.   | 47.5 | 51.1 | 51.9 | 49.8 | 52.1 | 51.0 | 52.7 | 54.2 |

### Asset-Liability Profile (%)

|                        |     |     |     |     |     |     |     |     |
|------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Loans/Borrowings Ratio | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 |
| Assets/Equity          | 6.6 | 6.1 | 5.8 | 5.6 | 5.2 | 4.7 | 4.8 | 4.8 |

### Asset quality (%)

|                           |          |          |          |          |          |          |          |          |
|---------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| GNPA                      | 1,13,983 | 1,11,930 | 1,14,400 | 1,01,688 | 1,09,762 | 1,13,822 | 1,19,322 | 1,25,597 |
| NNPA                      | 62,464   | 65,678   | 66,256   | 51,523   | 49,731   | 56,749   | 59,661   | 62,798   |
| GNPA ratio                | 9.2      | 8.5      | 8.3      | 6.9      | 6.9      | 6.2      | 5.7      | 5.3      |
| NNPA ratio                | 5.0      | 5.0      | 4.8      | 3.5      | 3.1      | 3.1      | 2.9      | 2.7      |
| PCR                       | 45.2     | 41.3     | 42.1     | 49.3     | 54.7     | 50.1     | 50.0     | 50.0     |
| Credit Costs (% of loans) | 2.5      | 2.5      | 2.7      | 2.8      | 3.1      | 2.4      | 2.5      | 2.4      |

### Valuations

|                    | FY18        | FY19        | FY20        | FY21        | FY22        | FY23        | FY24E      | FY25E      |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
| Book Value (INR)   | 648         | 752         | 854         | 924         | 1,030       | 1,157       | 1,302      | 1,470      |
| BV Growth (%)      | 17          | 16          | 14          | 8           | 11          | 12          | 13         | 13         |
| P/BV               | <b>2.7</b>  | <b>2.3</b>  | <b>2.1</b>  | <b>1.9</b>  | <b>1.7</b>  | <b>1.5</b>  | <b>1.3</b> | <b>1.2</b> |
| EPS (INR)          | 108         | 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                | <b>16.2</b> | <b>14.5</b> | <b>14.7</b> | <b>16.0</b> | <b>15.6</b> | <b>11.0</b> | <b>9.6</b> | <b>8.4</b> |
| DPS                | 12.6        | 14.3        | 5.2         | 21.1        | 23.4        | 35.0        | 40.0       | 45.0       |
| Dividend Yield (%) | <b>0.7</b>  | <b>0.8</b>  | <b>0.3</b>  | <b>1.2</b>  | <b>1.3</b>  | <b>2.0</b>  | <b>2.3</b> | <b>2.6</b> |

E: MOFSL Estimates

# Mahindra & Mahindra Financial

**BSE SENSEX** 65,205  
**S&P CNX** 19,323

**Mahindra FINANCE**

## Stock Info

|                       |             |
|-----------------------|-------------|
| Bloomberg             | MMFS IN     |
| Equity Shares (m)     | 1236        |
| M.Cap.(INRb)/(USD b)  | 424.5 / 5.2 |
| 52-Week Range (INR)   | 346 / 176   |
| 1, 6, 12 Rel. Per (%) | 11/41/70    |
| 12M Avg Val (INR M)   | 1104        |
| Free float (%)        | 47.8        |

## Financials Snapshot (INR b)

| Y/E March   | FY23 | FY24E | FY25E |
|-------------|------|-------|-------|
| NII         | 64.8 | 78.6  | 94.9  |
| PPP         | 37.5 | 45.9  | 58.9  |
| PAT         | 19.8 | 22.8  | 28.5  |
| EPS (INR)   | 16.1 | 18.5  | 23.1  |
| EPS Gr. (%) | 101  | 15    | 25    |
| BV/Sh.(INR) | 133  | 144   | 159   |

## Ratios

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 8.3  | 8.1  | 8.2  |
| C/I ratio (%) | 42.1 | 41.6 | 37.9 |
| RoA (%)       | 2.3  | 2.2  | 2.3  |
| RoE (%)       | 12.6 | 13.4 | 15.2 |
| Payout (%)    | 37.3 | 37.5 | 35.0 |

## Valuations

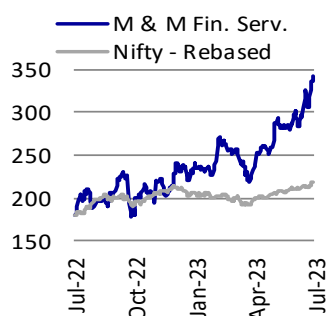
|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 21.4 | 18.6 | 14.9 |
| P/BV (x)       | 2.6  | 2.4  | 2.2  |
| Div. Yield (%) | 1.7  | 2.0  | 2.4  |

## 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

## Stock performance (one-year)



**CMP: INR344**

**TP: INR400 (+16%)**

**Buy**

## Rapidly regaining lost ground

Benefitting from the strong sectoral tailwinds | Mission 2025 on track

- Mahindra & Mahindra Financial (MMFS) has managed to reduce the volatilities in its asset quality and earnings performance by implementing a series of strategic initiatives. These actions were designed to foster stability through streamlined operations, optimized cost structures, improved asset quality, reduced credit costs and enhanced risk management capabilities. These initiatives have also helped it expand its business volumes within the affluent rural and semi-urban (RUSU) customer segment.
- Unless the monsoons play havoc, the rural segment would experience an improvement in cash flows driven by the surge in economic activities due to the upcoming elections. This anticipated surge will generate robust demand for vehicles deployed for commercial-cum-personal uses. In addition, the synergies between the parent Mahindra & Mahindra (M&M) and MMFS have improved, thus aiding healthy loan growth.
- MMFS has implemented a range of underwriting rule engines to streamline its processes and strengthen the asset quality. By leveraging advanced data analytics, the company effectively identifies customers who have exhibited a volatile behavior in the past. This enables the management to take better underwriting decisions.
- MMFS has made a good progress towards its "Mission 2025" targets across parameters such as AUM growth, asset quality, NIM and RoA. We model an AUM/PAT CAGR of 20% each over FY23-FY25E with an RoA/RoE of 2.3%/15.0% in FY25E. Reiterate BUY with a TP of INR400 (premised on 2.5x FY25E P/BV). Monsoons playing spoilsport (due to the EL-Nino impact) in the near-term is the biggest risk to our thesis.

## Visible improvement in asset quality; credit costs at ~2% over FY25E

- MMFS has invested in improving its legal toolkits, which has enabled better recoveries and customer settlements. The company can now effectively leverage its legal capabilities to pursue resolutions in stressed accounts.
- As of FY23, its 30+dpd stood at 10.4% reflecting a notable ~11pp improvement over the last four quarters. This was mainly driven by the company's ability to achieve resolutions in deep NPA buckets as well as the discipline to prevent slippages into higher buckets.
- Given better customer selection (by culling the most vulnerable segment) and implementation of initiatives to monitor early-warning signals and equip the field collection team with data insights, we expect that the asset quality volatility will subside significantly. We now model credit costs of ~1.7%/1.9% over FY24/FY25.

**Margin compression to moderate; opex to decline from FY25**

- MMFS is gradually shifting its product mix towards higher-yielding segments viz. SME loans and pre-owned vehicles that would aid improvement in yields. Given that MMFS is now targeting M&M's urban vehicle segment and the RUSU affluent segment, organic yields could be under pressure. However, this will be offset by lower opex and credit costs on such customers.
- With a pause in rate hikes by the RBI, CoF is likely to peak in FY24 while improvement in yields should curb margin compression effectively. We expect margin to moderate ~20bp in FY24 and expand thereafter by ~10bp in FY25.
- We believe that MMFS is only half-way through the transformation journey that it has embarked upon over the last 12 months. Deployment of a central processing unit can bring in more consistency in underwriting and TAT.
- Major tech-stack upgradation will be effected over the next 12-18 months. While this would keep opex elevated in FY24, it has the potential to unleash material improvement in throughput, turnaround and operating efficiencies once it has been fully deployed by the latter half of FY25.

**Healthy earnings CAGR of 20% over FY23-25 – Reiterate BUY**

- While the company has exhibited volatile operating performance and weak asset quality in the past, we believe that the various strategic initiatives undertaken by the management have scripted a credible transformation.
- Strong liability franchise and deep moats in rural/semi-urban customer segments position MMFS well to reap rewards of the hard work that is ongoing into evolving this franchise.
- MMFS is benefitting from the strong sectoral tailwinds and its parent M&M's strong recovery in auto volumes. This has reflected in healthy disbursement growth and we expect this momentum to sustain in FY24.
- We model an AUM/PAT CAGR of 20% each over FY23-FY25E for an RoA/RoE of 2.3%/15.0% in FY25E. **Reiterate BUY with a TP of INR400 (premised on 2.5x FY25E P/BV).**
- **Key downside risks:** a) Higher exposure to rural India keeps it vulnerable to poor monsoons even though the vulnerability will be lower than in the past, and b) slowdown in vehicle demand due to challenging macro factors.



## Story in charts

Exhibit 51: Expect ~20% AUM CAGR over FY23-25...

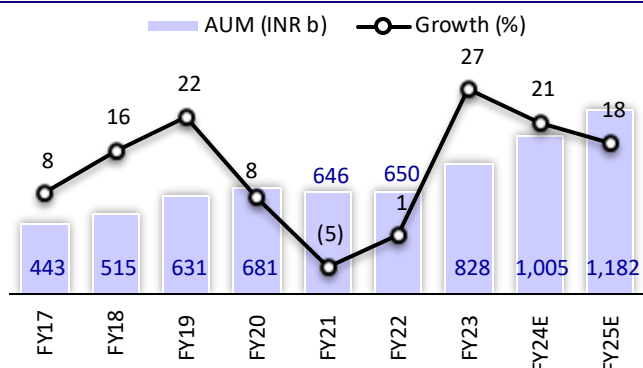


Exhibit 52: ...supported by disbursements CAGR of ~14%

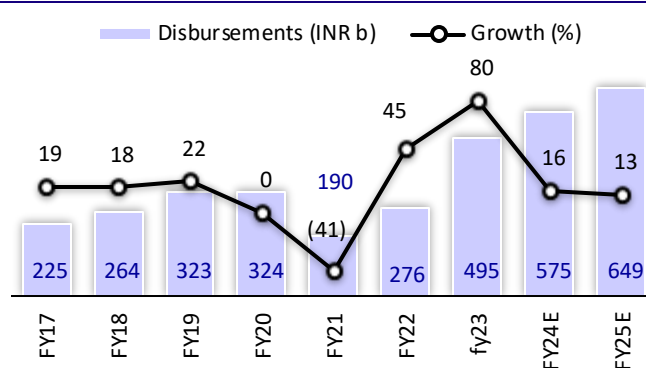


Exhibit 53: Increase in CoF to lead to contraction in spreads

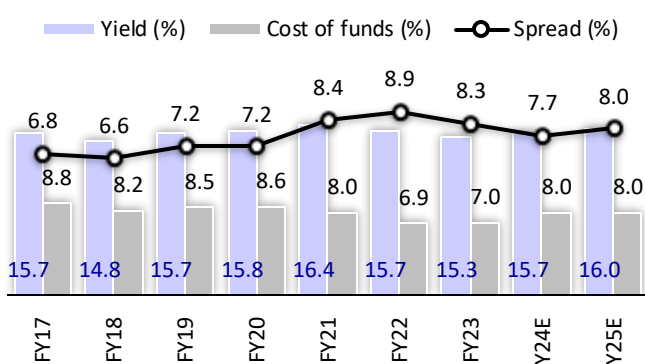


Exhibit 54: Expect NIM to decline 10bp over FY25

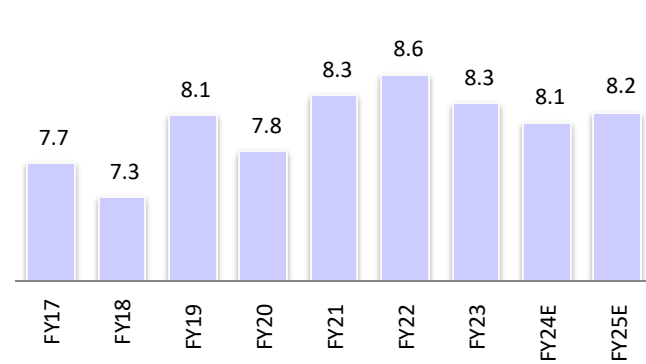


Exhibit 55: C/I ratio projected to moderate to ~38%

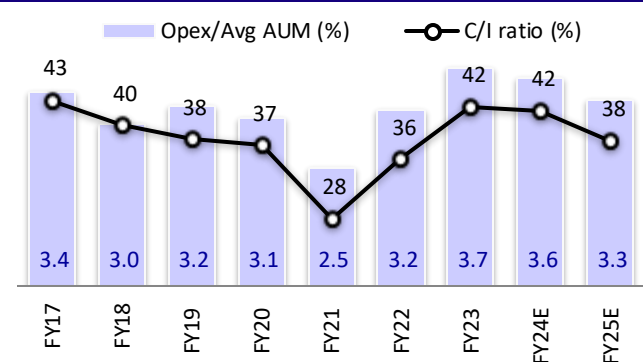


Exhibit 56: Credit costs to be at &lt;2% in FY24/25E

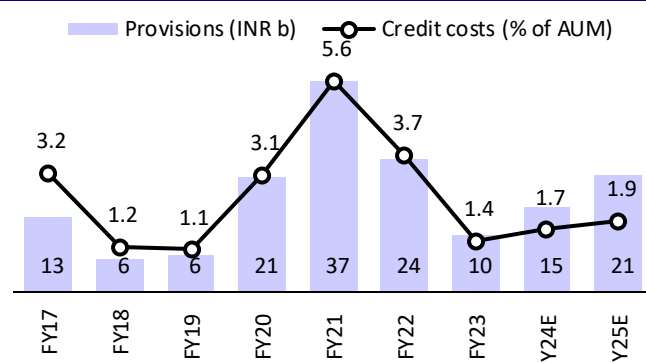
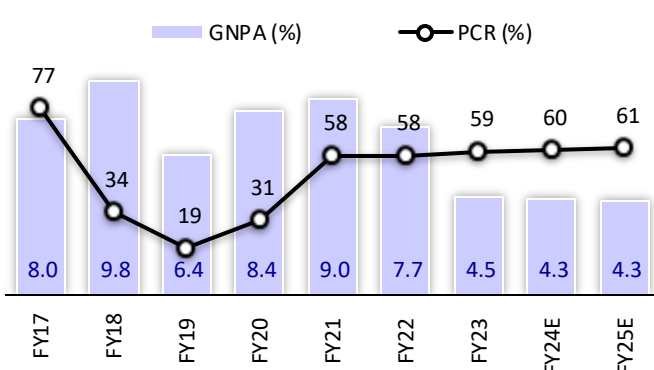
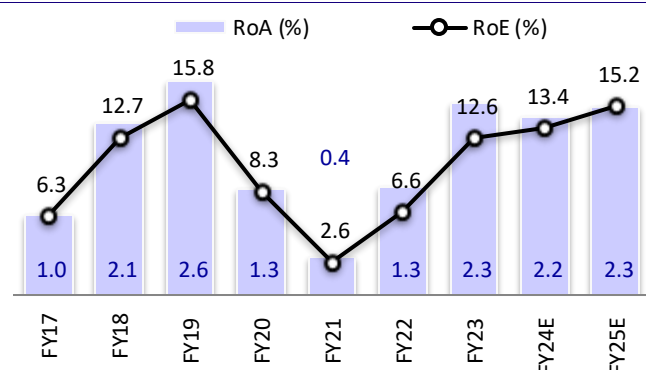


Exhibit 57: Expect asset quality improvement to sustain...



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

Exhibit 58: ...translating into an RoA/RoE of ~2.3%/15.0% in FY25



Source: MOFSL, Company

Exhibit 59: DuPont analysis

| Y/E MARCH                   | FY16        | FY17       | FY18        | FY19        | FY20       | FY21       | FY22       | FY23        | FY24E       | FY25E       |
|-----------------------------|-------------|------------|-------------|-------------|------------|------------|------------|-------------|-------------|-------------|
| Interest Income             | 15.0        | 14.3       | 13.6        | 14.4        | 14.1       | 13.6       | 12.4       | 12.5        | 13.1        | 13.5        |
| Interest Expended           | 7.1         | 6.8        | 6.3         | 6.6         | 6.8        | 6.3        | 5.2        | 5.3         | 6.1         | 6.4         |
| <b>Net Interest Income</b>  | <b>8.0</b>  | <b>7.5</b> | <b>7.2</b>  | <b>7.8</b>  | <b>7.2</b> | <b>7.3</b> | <b>7.3</b> | <b>7.1</b>  | <b>7.0</b>  | <b>7.2</b>  |
| Income from Securitisation  | 0.6         | 0.4        | 0.1         | 0.2         | 0.2        | 0.2        | 0.2        | 0.3         | 0.3         | 0.3         |
| <b>Net operating income</b> | <b>8.6</b>  | <b>7.9</b> | <b>7.3</b>  | <b>8.0</b>  | <b>7.5</b> | <b>7.5</b> | <b>7.5</b> | <b>7.4</b>  | <b>7.3</b>  | <b>7.4</b>  |
| Other Income                | 0.1         | 0.2        | 0.1         | 0.1         | 0.2        | 0.2        | 0.1        | 0.1         | 0.2         | 0.2         |
| <b>Net Income</b>           | <b>8.7</b>  | <b>8.1</b> | <b>7.4</b>  | <b>8.1</b>  | <b>7.7</b> | <b>7.7</b> | <b>7.6</b> | <b>7.6</b>  | <b>7.4</b>  | <b>7.6</b>  |
| Operating Expenses          | 3.2         | 3.5        | 3.0         | 3.1         | 2.9        | 2.2        | 2.7        | 3.2         | 3.1         | 2.9         |
| <b>Operating Income</b>     | <b>5.6</b>  | <b>4.6</b> | <b>4.5</b>  | <b>5.0</b>  | <b>4.8</b> | <b>5.5</b> | <b>4.9</b> | <b>4.4</b>  | <b>4.3</b>  | <b>4.7</b>  |
| Provisions/write offs       | 2.8         | 3.1        | 1.2         | 1.1         | 2.9        | 4.9        | 3.1        | 1.2         | 1.4         | 1.7         |
| <b>PBT</b>                  | <b>2.8</b>  | <b>1.5</b> | <b>3.3</b>  | <b>4.0</b>  | <b>1.9</b> | <b>0.6</b> | <b>1.8</b> | <b>3.2</b>  | <b>2.9</b>  | <b>3.1</b>  |
| Tax                         | 1.0         | 0.5        | 1.2         | 1.4         | 0.6        | 0.1        | 0.5        | 0.8         | 0.7         | 0.8         |
| <b>Reported PAT</b>         | <b>1.8</b>  | <b>1.0</b> | <b>2.1</b>  | <b>2.6</b>  | <b>1.3</b> | <b>0.4</b> | <b>1.3</b> | <b>2.4</b>  | <b>2.2</b>  | <b>2.3</b>  |
| Leverage                    | 6.3         | 6.6        | 6.1         | 6.1         | 6.5        | 5.8        | 5.1        | 5.4         | 6.2         | 6.7         |
| <b>RoE</b>                  | <b>11.4</b> | <b>6.3</b> | <b>12.7</b> | <b>15.8</b> | <b>8.3</b> | <b>2.6</b> | <b>6.6</b> | <b>12.9</b> | <b>13.4</b> | <b>15.2</b> |

Source: MOFSL, Company

Exhibit 60: Our EPS estimates remain largely unchanged

| INR B                    | Old Est     |             | New Est     |             | % Change   |            |
|--------------------------|-------------|-------------|-------------|-------------|------------|------------|
|                          | FY24        | FY25        | FY24        | FY25        | FY24       | FY25       |
| NII (incl. Sec. Inc)     | 77.0        | 92.4        | 77.0        | 92.9        | 0.0        | 0.5        |
| Other Income             | 1.7         | 2.1         | 1.7         | 2.1         | 0.0        | 0.0        |
| <b>Total Income</b>      | <b>78.6</b> | <b>94.4</b> | <b>78.6</b> | <b>94.9</b> | <b>0.0</b> | <b>0.5</b> |
| Operating Expenses       | 32.7        | 36.0        | 32.7        | 36.0        | 0.0        | 0.0        |
| <b>Operating Profits</b> | <b>45.9</b> | <b>58.4</b> | <b>45.9</b> | <b>58.9</b> | <b>0.0</b> | <b>0.9</b> |
| Provisions               | 15.2        | 20.6        | 15.2        | 20.6        | 0.0        | 0.0        |
| <b>PBT</b>               | <b>30.7</b> | <b>37.8</b> | <b>30.7</b> | <b>38.3</b> | <b>0.0</b> | <b>1.3</b> |
| Tax                      | 7.9         | 9.7         | 7.9         | 9.8         | 0.0        | 1.3        |
| <b>PAT</b>               | <b>22.8</b> | <b>28.1</b> | <b>22.8</b> | <b>28.5</b> | <b>0.0</b> | <b>1.3</b> |
| Loans                    | 968         | 1,139       | 968         | 1,139       | 0.0        | 0.0        |
| Borrowings               | 922         | 1,085       | 922         | 1,085       | 0.0        | 0.0        |
| Margins                  | 8.1         | 8.1         | 8.1         | 8.2         |            |            |
| Credit Cost              | 1.7         | 1.9         | 1.7         | 1.9         |            |            |
| <b>RoA on AUM</b>        | <b>2.2</b>  | <b>2.3</b>  | <b>2.2</b>  | <b>2.3</b>  |            |            |
| <b>RoE</b>               | <b>13.4</b> | <b>15.0</b> | <b>13.4</b> | <b>15.2</b> |            |            |

Source: MOFSL, Company

Exhibit 61: One-year forward P/B ratio

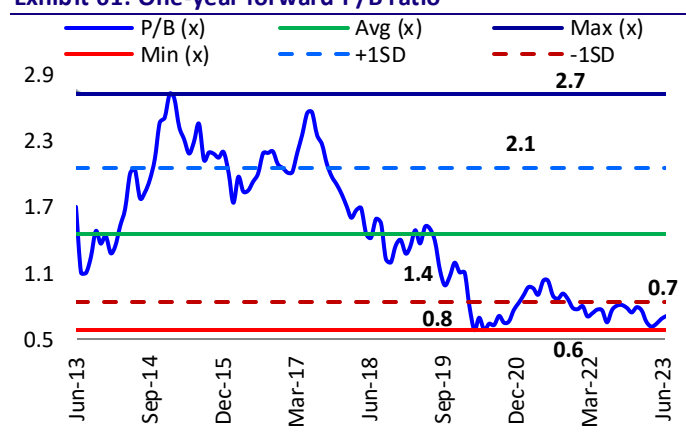
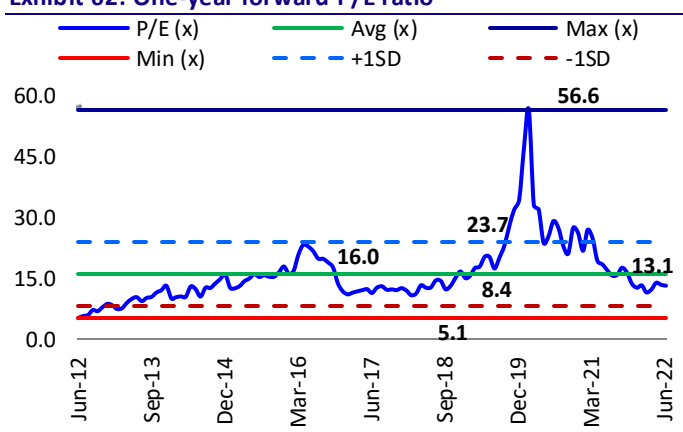


Exhibit 62: One-year forward P/E ratio



## 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        | 1,02,670      | 94,756        | 1,06,826      | 1,38,396      | 1,68,760      |
| Interest Expended            | 28,574        | 30,816        | 39,446        | 48,287        | 47,332        | 39,359        | 45,767        | 64,364        | 79,283        |
| <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>89,477</b> |
| Change (%)                   | 6.0           | 11.0          | 33.3          | 9.5           | 8.2           | 0.1           | 10.2          | 21.2          | 20.9          |
| 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>94,944</b> |
| Change (%)                   | 3.5           | 6.6           | 35.0          | 11.3          | 6.9           | -0.1          | 12.0          | 2121.4        | 20.7          |
| 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>58,934</b> |
| Change (%)                   | -7.6          | 12.5          | 39.1          | 12.6          | 22.3          | -10.4         | 0.7           | 22.4          | 28.3          |
| 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>38,306</b> |
| Tax                          | 2,198         | 5,907         | 8,254         | 4,374         | 873           | 3,682         | 7,138         | 7,902         | 9,845         |
| 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>28,462</b> |
| Change (%)                   | -40.5         | 152.6         | 54.0          | -41.8         | -63.0         | 195.0         | 100.7         | 15.1          | 24.6          |
| Proposed Dividend (Incl Tax) | 1,610         | 2,938         | 4,779         | 0             | 986           | 4,439         | 7,402         | 8,567         | 9,962         |

| 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          | 1,03,072        | 1,12,408        | 1,43,666        | 1,49,376        | 1,61,020        | 1,75,299         | 1,93,799         |
| <b>Net Worth</b>            | <b>66,124</b>   | <b>93,281</b>   | <b>1,04,221</b> | <b>1,13,558</b> | <b>1,46,049</b> | <b>1,51,761</b> | <b>1,63,488</b> | <b>1,77,766</b>  | <b>1,96,266</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>1,04,302</b> | <b>1,13,639</b> | <b>1,46,130</b> | <b>1,51,842</b> | <b>1,63,568</b> | <b>1,77,847</b>  | <b>1,96,347</b>  |
| Change (%)                  | 8.6             | 41.1            | 11.8            | 9.0             | 28.6            | 3.9             | 7.7             | 8.7              | 10.4             |
| <b>Borrowings</b>           | <b>3,52,656</b> | <b>4,00,932</b> | <b>5,28,469</b> | <b>5,94,623</b> | <b>5,85,767</b> | <b>5,58,139</b> | <b>7,49,459</b> | <b>9,22,338</b>  | <b>10,84,831</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>4,43,185</b> | <b>5,27,927</b> | <b>6,70,780</b> | <b>7,40,712</b> | <b>7,70,365</b> | <b>7,52,887</b> | <b>9,62,166</b> | <b>11,54,738</b> | <b>13,41,741</b> |
| Investments                 | 19,843          | 27,341          | 37,917          | 59,110          | 1,16,073        | 84,403          | 99,886          | 1,13,870         | 1,27,535         |
| 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>4,06,000</b> | <b>4,85,470</b> | <b>6,12,496</b> | <b>6,49,935</b> | <b>5,99,474</b> | <b>6,04,446</b> | <b>7,94,547</b> | <b>9,68,455</b>  | <b>11,39,073</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           | 75,133           |
| <b>Total Assets</b>         | <b>4,43,185</b> | <b>5,27,927</b> | <b>6,70,780</b> | <b>7,40,712</b> | <b>7,70,365</b> | <b>7,52,887</b> | <b>9,62,166</b> | <b>11,54,738</b> | <b>13,41,741</b> |

E: MOFSL Estimates

## Financials and valuations

| Ratios                          | (%)    |        |        |             |              |             |             |             |             |
|---------------------------------|--------|--------|--------|-------------|--------------|-------------|-------------|-------------|-------------|
| Y/E March                       | FY17   | FY18   | FY19   | FY20        | FY21         | FY22        | FY23        | FY24E       | FY25E       |
| <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         | 8.2         |
| <b>Profitability Ratios (%)</b> |        |        |        |             |              |             |             |             |             |
| Cost/Income                     | 42.9   | 39.8   | 38.0   | 37.3        | 28.2         | 35.6        | 42.1        | 41.6        | 37.9        |
| 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        | 15.2        |
| 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   | 34.1   | 19.2   | 31.0        | 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         | 10.4        |
| <b>Price-BV (x)</b>             |        |        |        |             | <b>2.9</b>   | <b>2.8</b>  | <b>2.6</b>  | <b>2.4</b>  | <b>2.2</b>  |
| Adjusted BV (INR)               | 107    | 152    | 170    | 176         | 104          | 110         | 123         | 134         | 148         |
| <b>Price-ABV (x)</b>            |        |        |        |             | <b>3.3</b>   | <b>3.1</b>  | <b>2.8</b>  | <b>2.6</b>  | <b>2.3</b>  |
| OPS (INR)                       | 34.1   | 35.3   | 49.1   | 55.2        | 33.7         | 30.2        | 30.4        | 37.2        | 47.8        |
| OPS Growth (%)                  | -7.7   | 3.4    | 39.0   | 12.5        | -38.9        | -10.5       | 0.7         | 22.4        | 28.3        |
| <b>Price-OP (x)</b>             |        |        |        |             | <b>10.2</b>  | <b>11.4</b> | <b>11.3</b> | <b>9.2</b>  | <b>7.2</b>  |
| EPS (INR)                       | 7.1    | 16.5   | 25.3   | 14.7        | 2.7          | 8.0         | 16.1        | 18.5        | 23.1        |
| EPS Growth (%)                  | -40.5  | 132.3  | 53.9   | -41.8       | -81.5        | 194.8       | 100.6       | 15.1        | 24.6        |
| <b>Price-Earnings (x)</b>       |        |        |        | <b>23.3</b> | <b>126.3</b> | <b>42.8</b> | <b>21.4</b> | <b>18.6</b> | <b>14.9</b> |
| Dividend                        | 2.4    | 4.0    | 6.5    | 0.0         | 0.8          | 3.6         | 6.0         | 6.9         | 8.1         |
| <b>Dividend Yield (%)</b>       |        |        |        |             | <b>0.2</b>   | <b>1.0</b>  | <b>1.7</b>  | <b>2.0</b>  | <b>2.4</b>  |

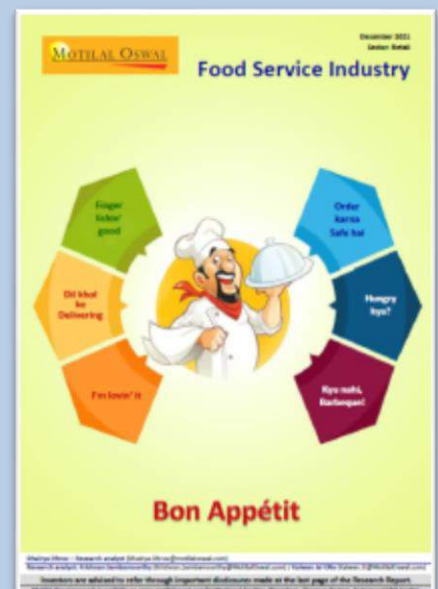
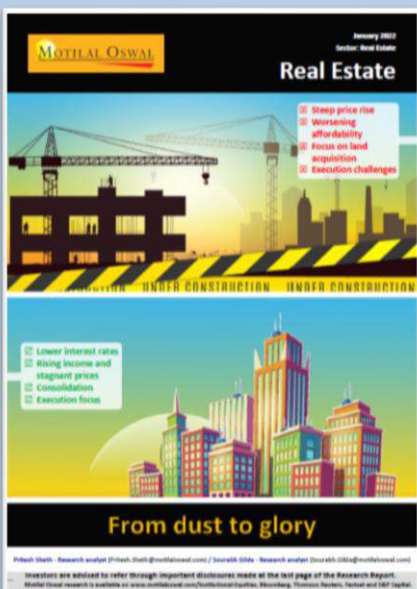
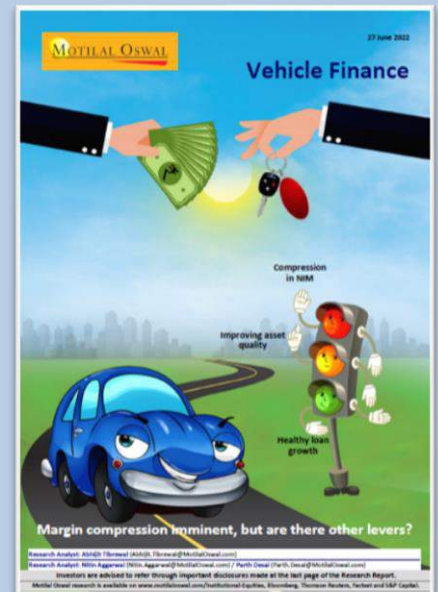
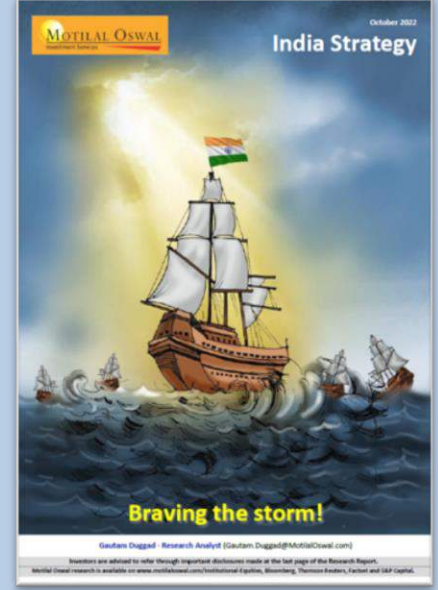
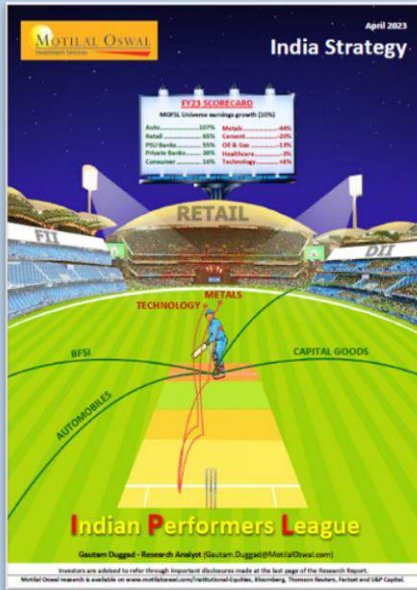
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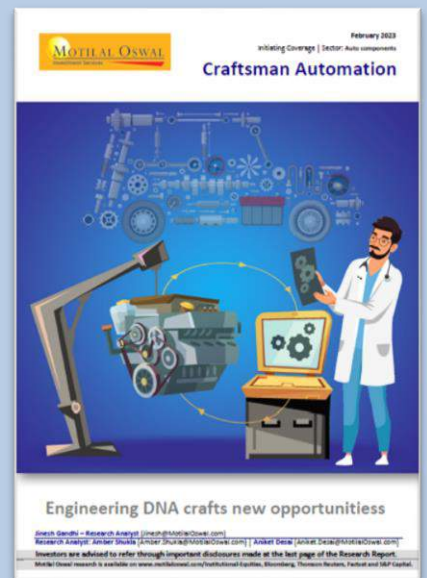
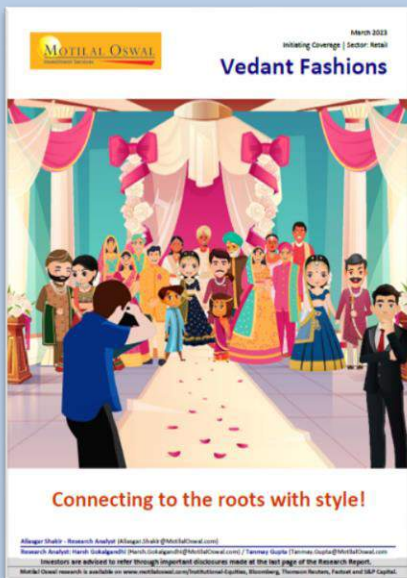
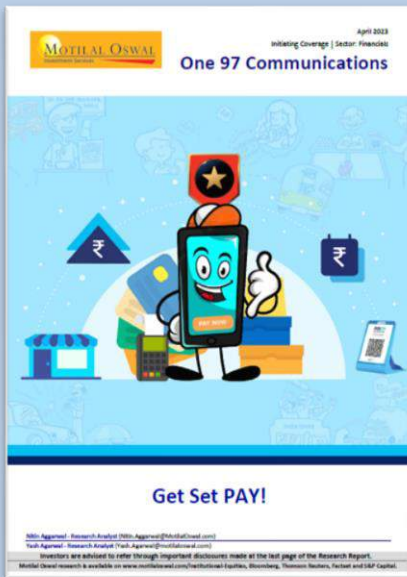
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## NOTES



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|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < -10%   |
| NEUTRAL                          | > -10 % to 15%   |
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