27 February 2024

Company Update| Sector: NBFCs

L&T Fin.Holdings

BSE SENSEX	S&P CNX
73,095	22,198

L&T Finance

Bloomberg	LTFH IN
Equity Shares (m)	2469
M.Cap.(INRb)/(USDb)	420.8 / 5.1
52-Week Range (INR)	179 / 79
1, 6, 12 Rel. Per (%)	-3/24/66
12M Avg Val (INR M)	1177

Financials &Valuations (INR b)

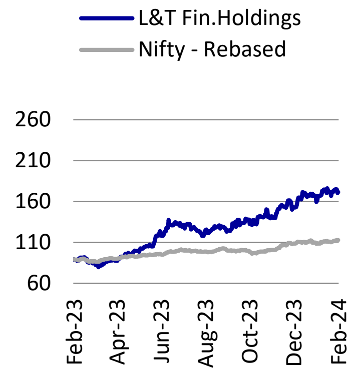
Y/E March	FY24E	FY25E	FY26E
Total Income	75.7	88.7	110.1
PPP	52.8	63.2	81.7
PAT	24.4	29.2	38.4
EPS (INR)	9.8	11.8	15.5
EPS Gr. (%)	50.4	19.7	31.7
BV/Sh. (INR)	95	102	111
Ratios			
NIM (%)	9.8	10.0	9.9
C/I ratio (%)	39.6	37.9	34.4
RoAA (%)	2.3	2.5	2.7
RoE (%)	10.8	12.0	14.6
Payout (%)	50.0	50.0	30.0
Valuation			
P/E (x)	17.2	14.4	10.9
P/BV (x)	1.8	1.7	1.5
Div. Yield (%)	2.9	3.5	2.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	65.9	66.0	66.2
DII	9.1	7.0	6.1
FII	10.7	12.1	11.2
Others	14.4	14.7	16.6

FII Includes depository receipts

Stock performance (one-year)



CMP: INR169 TP: INR200 (+18%) Buy

Riding retailization to deliver improved profitability

Retail mix now at ~91%; expect consol. RoA/RoE at 2.7%/15% by F26E

- L&T Finance (LTFH) has exhibited a strong commitment to running down its wholesale book efficiently, resulting in a notable decline to ~INR70b (~9% of the Loan mix). Concurrently, the retail mix has improved to ~91%, with broad-based growth across all its core retail segments.
- Retail Loans grew at a CAGR of ~25% with Rural Business Finance (MFI) growing at CAGR of ~26%, 2W at ~15%, Farm Equipment at ~12% and Home Loans at ~25% over FY21-9MFY24. After a period of post-COVID consolidation, LAP has resumed its growth trajectory with ~28% YoY growth
- Mr. Sudipta Roy assumed the role of CEO of LTFH effective Jan'24. He aims to leverage his expertise/relationships from his previous role at ICICI Bank to further improve credit underwriting practices and strengthen the franchise's position.
- Back in 3QFY23, LTFH utilized the entire proceeds from the sale of its asset management business for marking down the wholesale book by taking a one-time provision of ~INR27b to account for illiquidity discounts. We do not anticipate any significant incremental impact on the P&L from rundown of the residual wholesale book. Management has guided for an annualized drag of ~INR1.5-2b from the wholesale book over the next two years.
- Our investment thesis on LTFH is predicated on 1) Strong retail AUM CAGR of ~29% and total AUM CAGR of ~18% over FY23-FY26E, 2) Expansion in NIM + Fee income by ~20bp to ~10% in FY25E from an improvement in product mix and relatively softer increase in borrowing costs, 3) stabilization in credit costs (predominantly from retail) to ~2.6-2.7% and 4) expansion in RoA to ~2.7% by FY26 (vs. FY24E of ~2.3%).
- LTFH has broadened its customer acquisition funnel and is also focused on increasing its cross-sell through the launch of contiguous product offerings.
- Through strong execution in retail, we expect LTFH to deliver a PAT CAGR of ~33% over FY23-FY26E. This will result in a RoA/RoE of 2.7%/15% in FY26E. We reiterate our BUY rating on the stock with a target price of INR200 (based on 1.8x FY26E P/BV). Key risks are 1) asset quality deterioration in relatively vulnerable segments such as Personal Loans and MFI and 2) the possibility of weaker growth in retail loans from any economic slowdown.

Bringing more predictability to the franchise; retail AUM CAGR of ~29%

- LTFH has been working on sharpening its credit underwriting in not just its personal loans segment, but also across all its other retail segments. It is leveraging credit bureau, account aggregators, and alternate data to make its underwriting more robust.
- The company is focused on eliminating chokepoints in customer journeys, through additions to its in-house engineering team, which will also allow for enhanced time to market. Focus on improving cross-sell will through higher through-put will aid in retail Loans CAGR of 29% over FY23-26E.

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Rural Finance: Higher customer retention through multiple initiatives

- LTFH has significantly boosted business momentum in its rural finance segment. Within its MFI business, ~68% of the 9MFY24 disbursements were toward existing customers (which are 0dpd), thereby facilitating enhanced customer retention.
- In its Farm Equipment business (and even 2W), LTFH leverages analytics extensively for driving higher counter share at important dealerships and uses top-up products such as Kisan Suvidha for improving customer retention.

Urban Finance: Higher prime customer share in 2W; PL used as cross-sell

- Within its 2W segment, the share of prime customers in quarterly disbursements rose to ~41% (vs. ~35 % in 3QFY23). LTFH has been leveraging existing 2W customer database and partnerships with 20+ digital/web aggregators for sourcing personal loans (PL).
- The company has no exposure in the <INR50K ticket size PL segment and has consciously stayed away from the BNPL segment. It does not lend to new credit customers and will be growing its personal loans book in a risk calibrated manner by further sharpening its credit underwriting and customer funnel
- In SME Finance, LTFH has been actively focused on digitization and expanding its channels and branches. It expects geo-expansion and newer sub-products (aimed at specific ticket sizes) to act as the next lever for growth.

Wholesale Finance: Expect it to rundown further without impact on P&L

- Wholesale Loan Book (including infra and real estate) has declined to ~INR70b and now forms ~9% of the Loan Book. We expect wholesale to decline to <5% within the next six months.
- Wholesale exposures of ~INR190b were sold to the ARCs and out of this, ~INR40b was received in cash. Remainder was in the form of SRs which have provisions of ~INR73b, resulting in the net SR value ~INR77b (i.e., ~40% of the original value of wholesale assets). Management has guided for annualized drag of ~INR1.5-2b from the wholesale book over the next two years.

Parentage of L&T along with a strong liability franchise

- LTFH has a credit rating of AAA from all its credit rating agencies. Along with a diversified retail mix and a higher provision coverage ratio, the credit rating also factors in strong support from the parent L&T.
- Since LTFH was running down its wholesale book, its incremental borrowings were minimal during the last two years, shielding its borrowing costs from the upward trend in interest rates. However, with the wholesale rundown nearing its completion, the anticipated robust growth in retail loans is expected to necessitate incremental borrowings. Consequently, we expect CoB to increase by ~25-30bp driven by 1) repricing of liabilities and 2) the impact of RBI RWA circular on bank term loans to NBFCs.

NIM to improve further in FY25; operating leverage to play out from FY26

- Aided by a change in product mix toward retail and lower drag from the wholesale book, we expect the NIM to expand to ~10% in FY25 (vs. 9.8% in FY24E). Unlike other diversified lenders, we do not expect any significant growth calibration in its personal loans segment.

- Given LTFH's pivot toward retail and the investments made to strengthen its retail franchise, its operating expense to average assets has already increased to 3.3% (vs. 2.2% in FY22 and ~2% in FY19). We expect cost ratios to remain at similar levels in FY25 before gradually declining to ~3% by FY26, driven by operating leverage gained in the retail segment.

High PCR and macro-prudential buffer provide comfort on asset quality

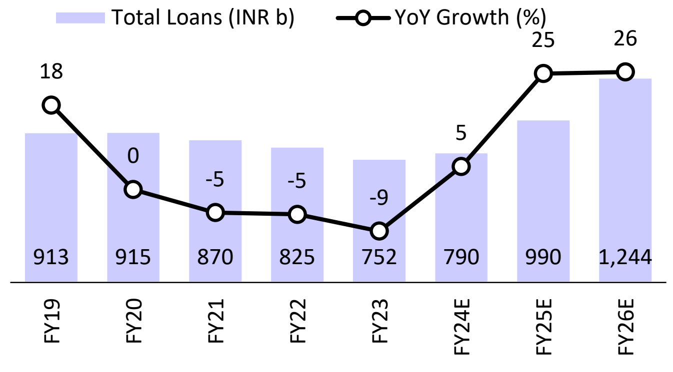
- LTFH has demonstrated a consistent improvement in its asset quality with Retail GS3 at ~3% as on Dec'23 (vs. 3.8% in Mar'22). It also has a healthy retail PCR of ~78% leading to NS3 at ~0.6%. In addition, the company has macro-prudential provisions of ~INR12b, which will protect it against any localized deterioration in pockets or particular product segments.
- In our view, incrementally, there will be no significant credit costs from further rundown of the wholesale book. However, given LTFH's pivot toward retail, we build slightly higher credit costs of ~2.7% in FY25-FY26 (relative to 2.6% in FY24E).

Riding retailization for better profitability; reiterate BUY

- We expect LTFH to deliver a better execution in retail than in all its prior five-year strategy plans. The confidence stems from improvements being done across sourcing, underwriting, and collections by leveraging digital, technology and partnerships. LTFH can deliver a PAT CAGR of ~33% over FY23-FY26E, which will result in a RoA/RoE of 2.7%/15% in FY26E. We reiterate our BUY rating on the stock with a target price of INR200 (based on 1.8x FY26E P/BV).
- Key risks are 1) asset quality deterioration in relatively vulnerable segments such as Personal Loans and MFI and 2) the possibility of weaker growth in retail loans from any economic slowdown

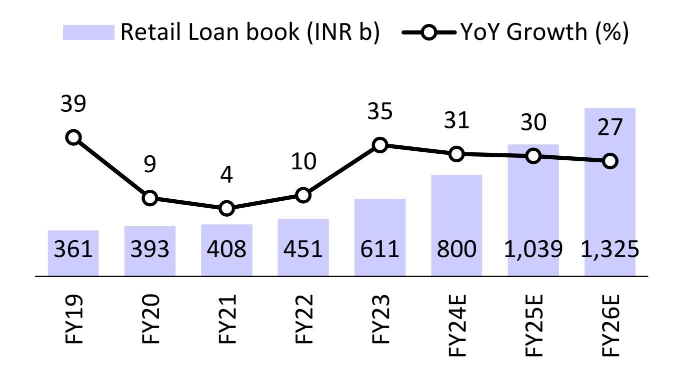
Story in charts

Exhibit 1: Total loans CAGR of ~18% over FY23-26E



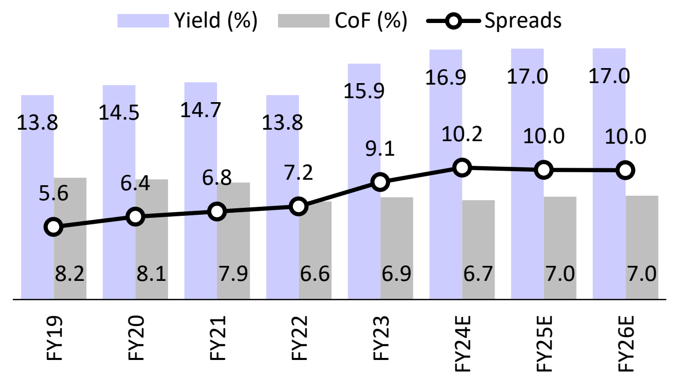
Source: MOFSL, Company

Exhibit 2: Retail loans CAGR of ~29% over FY23-FY26E



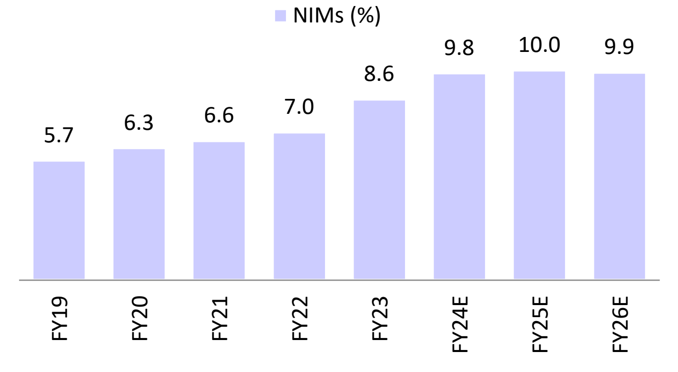
Source: MOFSL, Company

Exhibit 3: Spreads to decline because of the rise in CoF



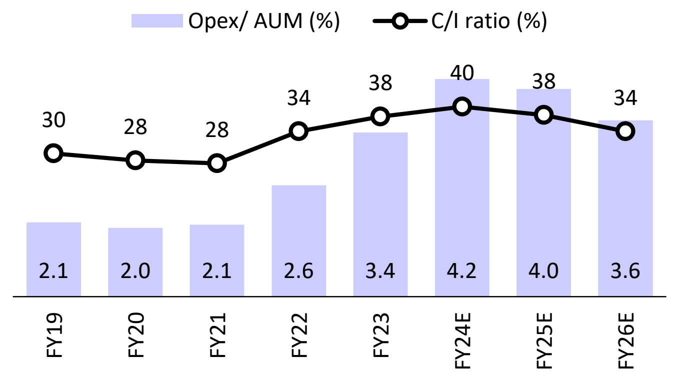
Source: MOFSL, Company

Exhibit 4: NIM expected to improve from product mix change



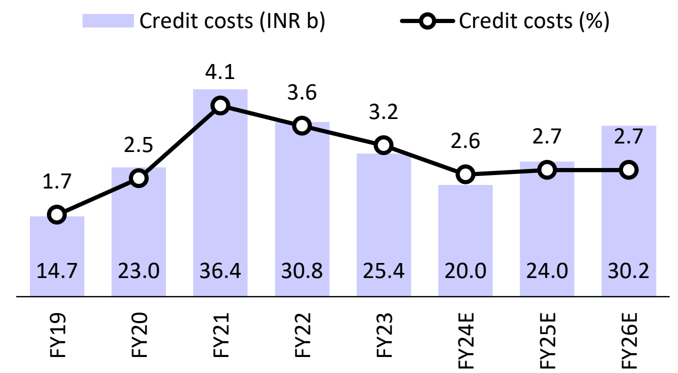
Source: MOFSL, Company

Exhibit 5: Cost ratios to improve, led by better productivity



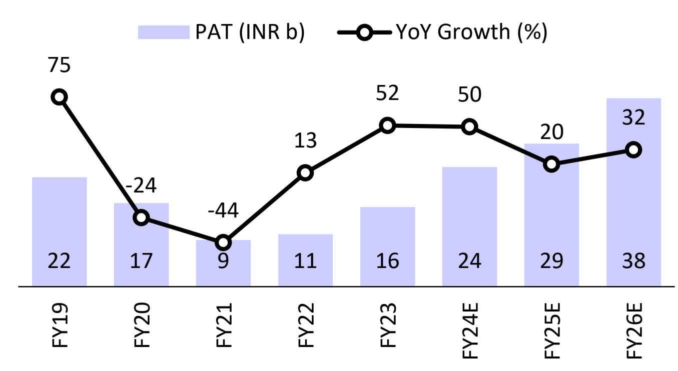
Source: MOFSL, Company

Exhibit 6: Credit costs to remain range-bound over FY25-26E



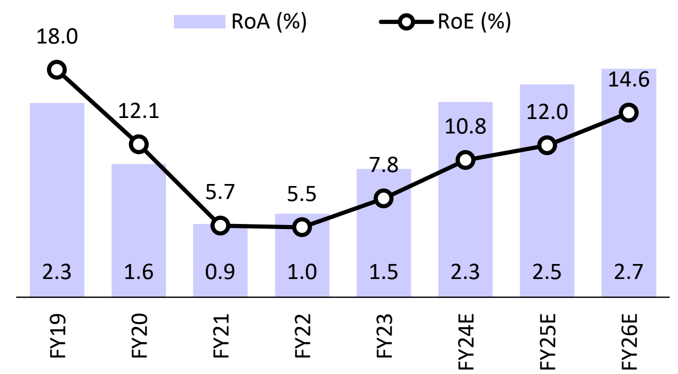
Source: MOFSL, Company

Exhibit 7: Expect PAT CAGR of ~33% over FY23-26E



Source: MOFSL, Company

Exhibit 8: ROA/ROE to improve to 2.7%/15% by FY26E



Source: MOFSL, Company

Strong parentage and a diversified liability profile

LTFH, the financial services subsidiary of L&T Group, is majority-owned by L&T Limited (~66%). In addition to demonstrated capital support at regular intervals by injecting equity capital of ~INR19b in FY21 and ~INR20b in FY18, LTFH also benefits from financial flexibility due to its association with L&T Group.

With a view to have a single unified operational lending entity within LTFH, subsidiaries L&T Finance and L&T Infra Credit have been merged into LTFH. The merger has released funds from low-yielding liquid assets to be reinvested in higher-yielding retail lending.

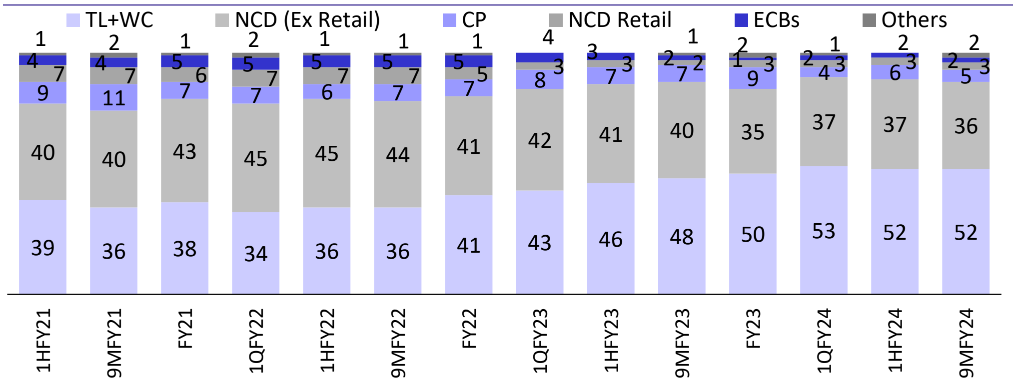
Diverse liability profile drives optimal borrowing costs

LTFH has a well-diversified funding mix across various products, investors, and loan tenors. As of Dec'23, the borrowing mix comprised of bank loans (~52%), NCDs (~39%), CP (5%), and ECB (~2%), among others.

Despite rising interest rate, LTFH has experienced a marginal increase of ~10bp YoY in its cost of funds to ~7.1% as of Dec'23. This is predominantly due to run-down of the wholesale book resulting in very little need for incremental borrowings. Further, the proportion of CPs in the total borrowing mix has remained below ~10% over the past three years. LTFH also extensively leverages Priority Sector Loans to keep its cost of borrowing (CoB) benign.

Being a part of the L&T group, helps its AAA credit rating and enables it to raise borrowings at competitive rates. The management expects CoB to increase by ~10-12bp over the next one year due to RBI Risk Weight Asset (RWA) guidelines. We expect CoB to increase to ~7% in FY25 and FY26 (vs. ~6.7% in FY24E).

Exhibit 9: Share of bank loans has increased ~4pp over the course of last one year



Source: Company, MOFSL

Exhibit 10: LTFH has the lowest cost of funds among peers which has increased by only ~10bp YoY

Borrowing costs (%)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
LTFH	6.8	6.9	7.0	6.8	6.9	7.0	7.1
BAF	6.3	6.7	7.0	6.9	7.3	7.4	7.5
Poonawalla	7.0	7.2	7.5	7.9	8.0	7.2	7.5
PIEL	8.8	8.8	8.4	8.7	8.6	8.6	8.7
IIFL Fin	8.8	8.9	9.2	9.1	9.1	9.5	9.5

Source: MOFSL, Company

Lakshya targets achieved for Retail; On track for consol. targets

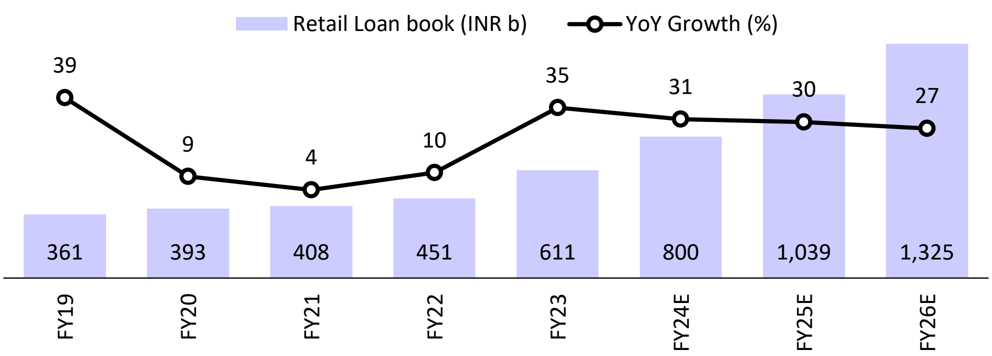
LTFH embraced a vision of becoming a leading digitally enabled retail finance company by pivoting from a product-focused to a customer-centric approach. To realize this vision, the company formulated its strategy called "Lakshya 2026". Embarking on this four-year strategic roadmap in April 2022, LTFH successfully attained its goals, two years ahead of schedule.

- **Retail mix** at 91% vs. Lakshya target of >80%.
- **Retail book growth** at 31% YoY vs. targeted growth rate of 25%.
- **Retail asset quality:** GS3 at 2.95% and NS3 at 0.64% vs. targeted GS3 of <3% and NS3 of <1%

LTFH's consolidated loan book declined ~8% YoY to INR818b as on Dec'23; however, the retail book grew ~31% YoY to INR748b. The decline in overall AUM is attributable to accelerated rundown of the wholesale book as a part of its retailization strategy. Consequently, the share of retail book increased to ~91% as on Dec'23. We expect the retail mix to improve to ~94-95% by Mar'24. We model a CAGR of ~18% over FY23-26E in the consolidated loan book.

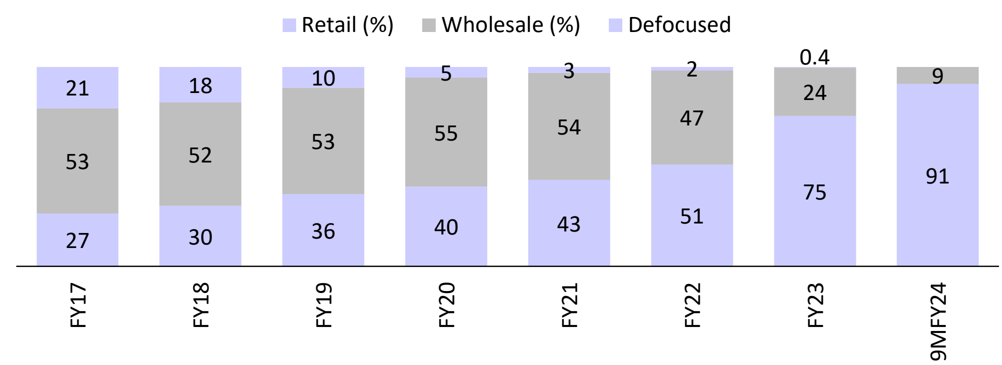
After having achieved the Lakshya goals for its retail businesses, LTFH is now directing its efforts toward achieving these goals even at the consolidated level by FY26. These goals would include, 1) Retail mix exceeding 95%, 2) achieving a consolidated loan CAGR of over 25%, and 3) Consolidated GS3 < 3% and NS3 < 1%, and 4) achieving a consolidated ROA of 2.8%-3.0% by the end of FY26.

Exhibit 11: Expect Retail Loans CAGR of ~29% over FY23-FY26E



Source: Company, MOFSL

Exhibit 12: Retail mix at 91% vs. Lakshya 2026 target of >80%

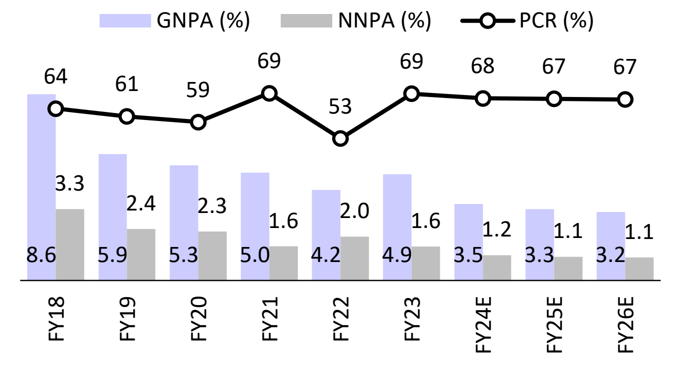


Source: Company, MOFSL

Enhanced collection efficiencies drive superior Retail Asset Quality

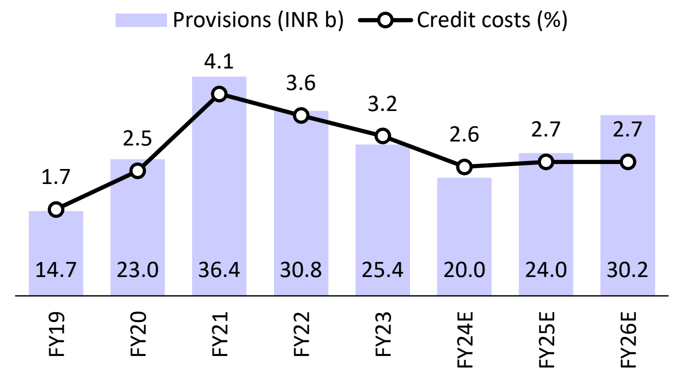
LTFH employs a monthly collection model, strategically emphasizing collections in the initial half of each month. This approach provides the necessary flexibility to focus on pursuing new business opportunities during the latter part of the month. With over a decade of experience in rural markets, LTFH has honed its collection discipline, contributing to a strong credit engine.

Exhibit 13: Expect NNPA to stabilize at ~1.1% (%)



Source: MOFSL, Company

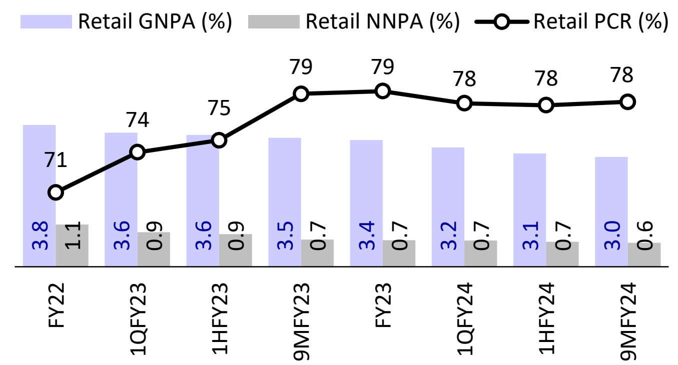
Exhibit 14: Credit costs range-bound between 2.6%-2.7%



Source: MOFSL, Company

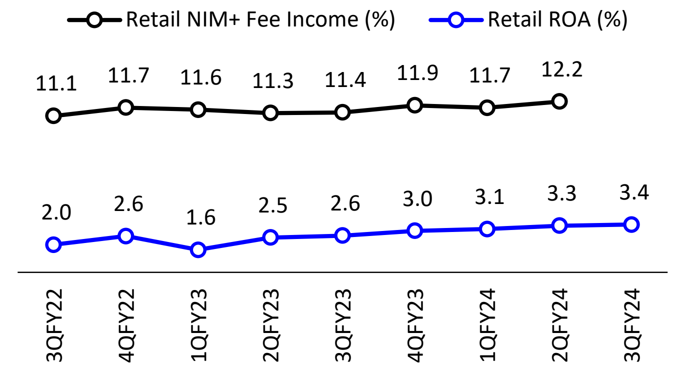
As on Dec'23, Consol. GS3/NS3 stood at ~3.2%/~0.8% with PCR at ~75%. Retail GS3 declined ~50bp YoY to ~3%, while NS3 stood at ~0.7%. LTFH has exhibited consistent improvement in collection efficiency and expects the retail book's asset quality to exhibit further improvement. The management expects a secular improvement in the credit costs trajectory and has guided for retail credit costs of 2.5-2.7%. We model credit costs of 2.6%/2.7%/2.7% in FY24/FY25/FY26.

Exhibit 15: Retail asset quality gradually improving (%)



Source: MOFSL, Company

Exhibit 16: Retail ROA stood at ~3.4% in 3QFY24 (%)



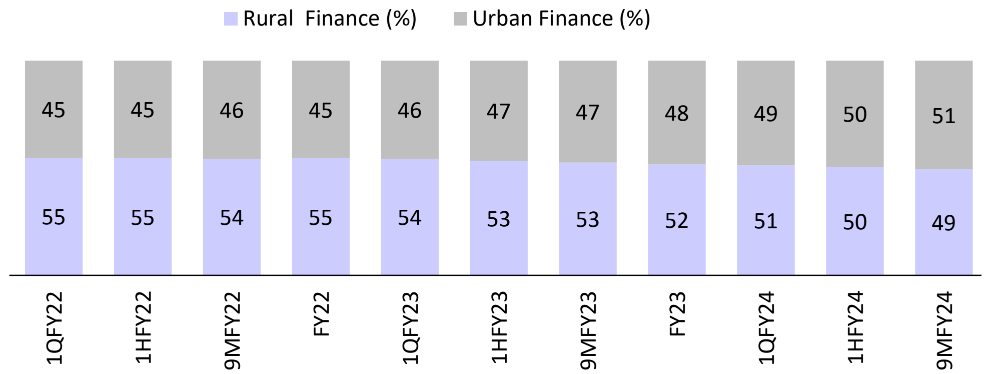
Source: MOFSL, Company

Balancing the Rural and Urban Ecosystems in retail finance

LTFH is among the most diversified NBFCs with presence across multiple retail product segments. Within retail, ~51% is urban finance and ~49% is rural finance book.

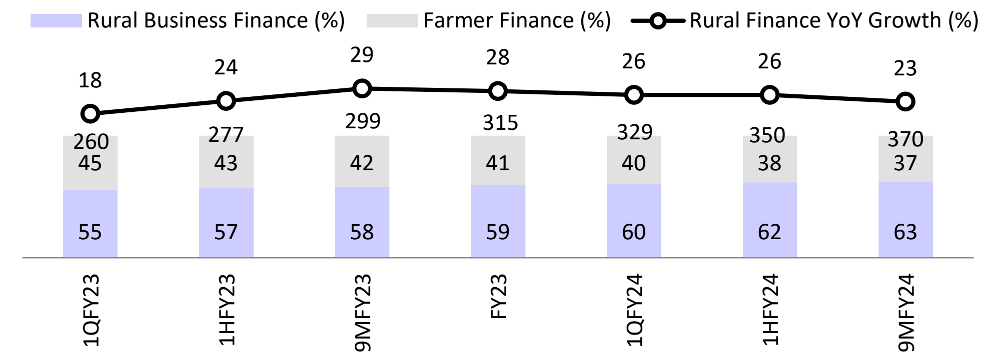
- The company categorizes Rural Business Finance (including MFI) and Farmer Finance (including tractor finance) under its Rural Finance vertical.
- Two-wheeler Finance, Personal Loans, Home Loans, LAP, and SME loans are categorized under the Urban Finance vertical.

Exhibit 17: Gradual Increase in Urban Finance Share within Retail Loans (%)



Source: MOFSL, Company

Exhibit 18: Rural finance book grew at ~23% YoY as on 3QFY24



Source: MOFSL, Company

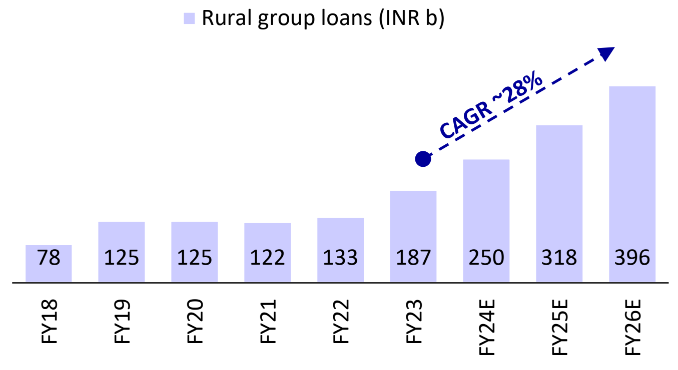
Rural Finance: Lead position in both its Rural product segments

In Rural finance, LTFH offers group loans, microfinance, and farm equipment loans to support rural businesses, especially women entrepreneurs, across ~200K villages through ~1,700 meeting center branches. Farmer Finance is dedicated to funding agricultural activities and addressing farmer's credit requirements, offering loans for tractors and equipment.

Rural Group Loans and Micro Finance (JLG)

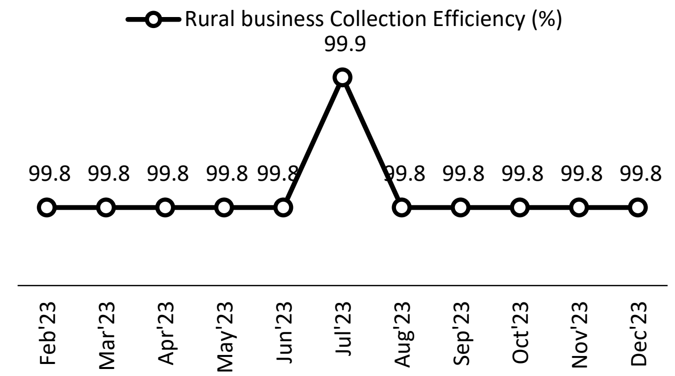
- LTFH has a presence across 16 states and has a customer database of ~INR14m. The top three states for LTFH in this product segment are Bihar, Tamil Nadu, and Karnataka.
- ~40% of its existing customers are exclusive and it does not over leverage the customer by maintaining average ticket size of outstanding loans at ~INR36-37K.
- The company does not provide additional top-up loans to delinquent customers and makes ~100% provisions on the 90+ dpd loans.
- LTFH selects pin-codes for its presence basis portfolio at risk (PAR) and customer leverage in the respective geography.
- It has created strong risk guardrails, ensuring that its MFI customers 1) are associated with a maximum of three lenders, 2) undergo continuous checks for exposures and adhere to FOIR norms, and 3) remain compliant with both internal and external DPD requirements.

Exhibit 19: Rural group loans CAGR of ~28% over FY23-FY26E



Source: MOFSL, Company

Exhibit 20: Rural Business CE remained stable throughout

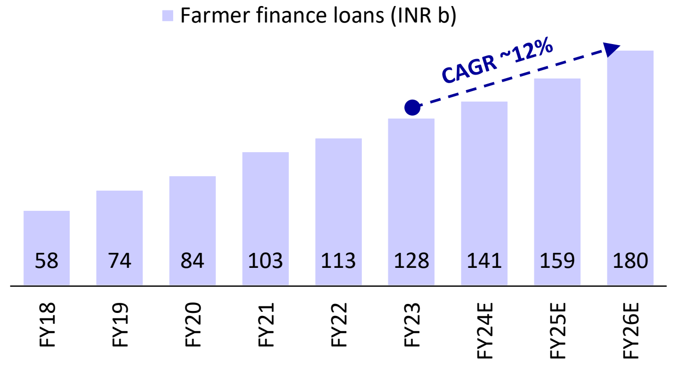


Source: MOFSL, Company

Farmer Finance

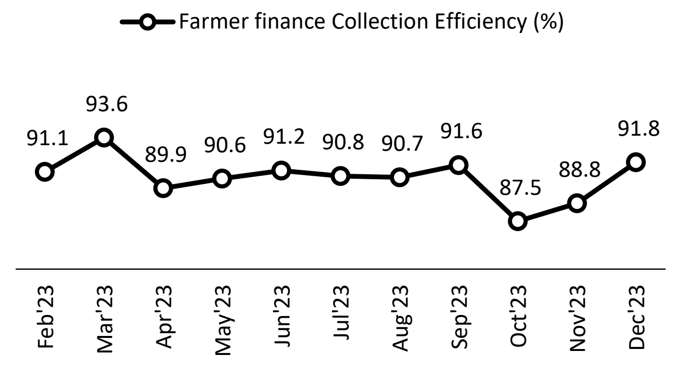
- LTFH has a presence in the Tractor finance business for over 18 years and its key states are UP, MP, Telangana, and Karnataka.
- Like most other vehicle products, Tractors is a Dealer/OEM-relationship driven business. The company is well-penetrated across the Top 5 Tractor OEMs in the country and has over 3000+ dealer relationships.
- It effectively leverages top-up products such as Kisan Suvidha for customer retention and financing adjacencies in the agri-allied ecosystem.
- In addition to an analytics-based scorecard for decision-making, the company also monitors other external parameters such as water reservoir levels, rainfall distribution, state fiscal position, farm cash cycle, MSP, crop sowing pattern, and tractor model/other asset variables.

Exhibit 21: Farmer Finance CAGR of ~12% over FY23-FY26E



Source: MOFSL, Company

Exhibit 22: Farmer Finance CE normalized in Dec'23 (%)



Source: MOFSL, Company

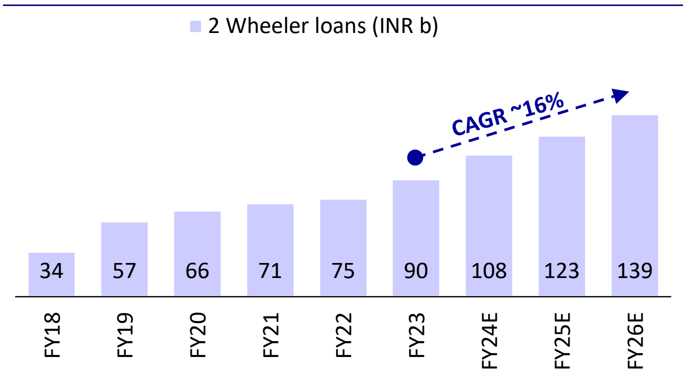
Urban Finance: Multi-product offerings for individuals as well as businesses

Under Urban finance, LTFH offers 2W loans, Home loans and LAP, personal loans, and SME finance across ~100 cities/towns via ~150 branches. It is moving to an advanced Bureau+ model (including leveraging account aggregators) to enhance its business rule engines (BRE). This will help it further optimize digital journeys across Urban products.

Two Wheeler Finance

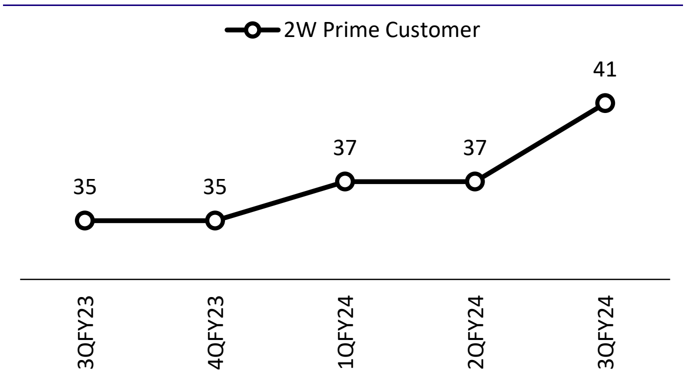
- LTFH is a leader in 2W financing with a total lineage of 10+ years and has a presence across 100+ locations in India. Its key states are West Bengal, Maharashtra, and Gujarat.
- It extensively leverages analytics for OEM and dealer-driven business model and provides algorithm-based pre-approved sanctions for customers at top dealers.
- The company caters to a very wide customer segment from across new to credit to Prime. It is also building its franchise in Electric 2W financing by strengthening its existing relationships and entering into new tie ups with leading industry players.
- LTFH is focusing on prime customer's through-the-door acquisition to reduce credit cost. Consequently, the share of prime customers increased to ~41% (vs. 35% in 3QFY23).
- It has strengthened its underwriting by incorporating OEM model variables, pin-code selection based on multivariate analysis, and dealership performance.

Exhibit 23: Two-wheeler CAGR of ~16% over FY23-FY26E



Source: MOFSL, Company

Exhibit 24: Increasing share of prime customers would improve the customer profile in 2W (%)

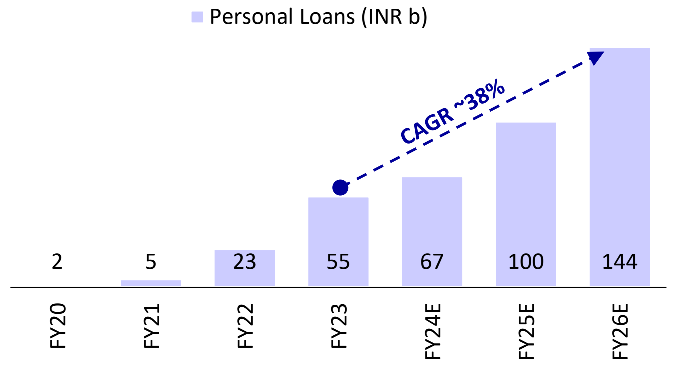


Source: MOFSL, Company

Personal Loans (PL)

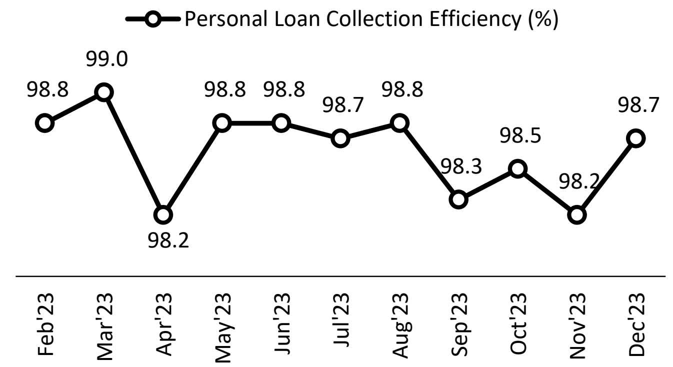
- LTFH extensively leverages the database of its 2W customers for cross-selling and upselling opportunities.
- In the last quarter, the management calibrated its growth in personal loans to better optimize the customer journey, sharpen credit funnel, and introduce video KYC to transition personal loans to 100% digital process.
- In addition to the traditional sourcing of PL as a cross-sell product to the existing customers, the company has 20+ online acquisition partnerships for personal loans.
- The company has no exposure in the <INR50K ticket size PL segment and has consciously stayed away from the BNPL segment. It does not lend to new credit customers and will be growing its personal loans book in a risk-calibrated manner

Exhibit 25: Management calibrated its strong growth trajectory in personal loans



Source: MOFSL, Company

Exhibit 26: Personal loan CE has stayed healthy despite industry-wide concerns in the segment (%)

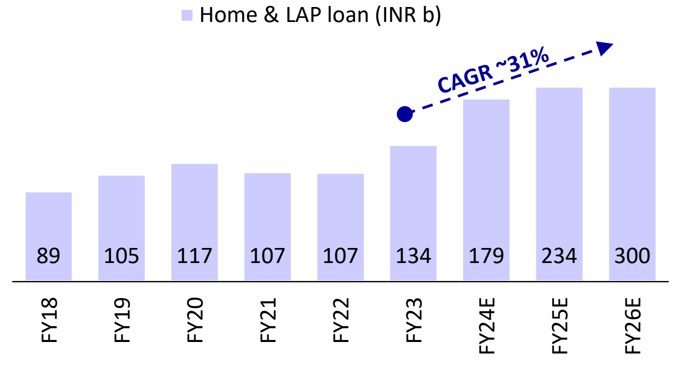


Source: MOFSL, Company

Home Loans & LAP

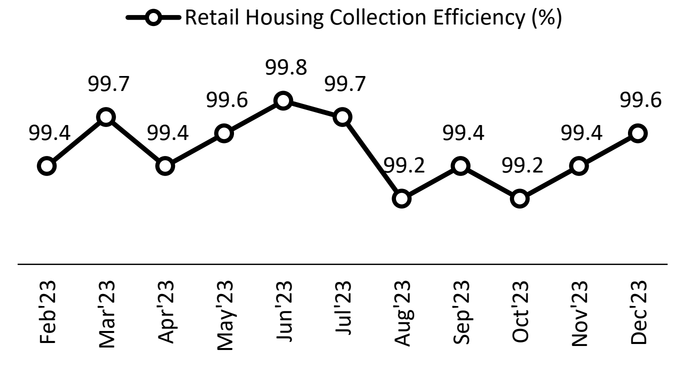
- LTFH is focussed on the prime and near-prime segment in housing loans because of the company's ability to effectively compete with peers, aided by its lower cost of funds.
- Management's objective is to precisely define the product proposition, with a focus on expanding this product segment to achieve substantial scale through developer tie-ups, DSA, and channel/digital partners.
- The company is focused on improving Home Loans (HL) disbursement by building newer distribution channels.

Exhibit 27: Home Loans & LAP CAGR of ~31% over FY23-26E



Source: MOFSL, Company

Exhibit 28: Retail Housing CE has consistently been ~99%+ (%)

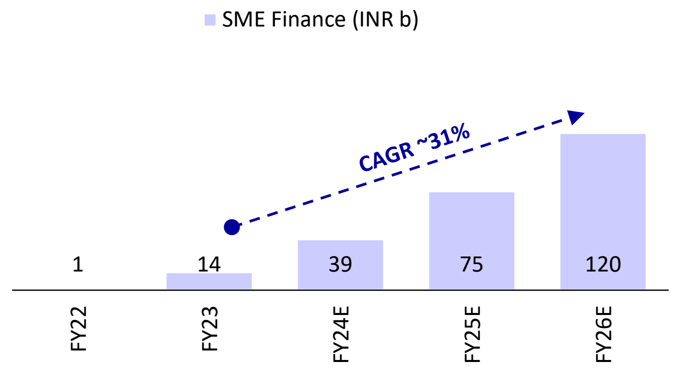


Source: MOFSL, Company

SME Finance

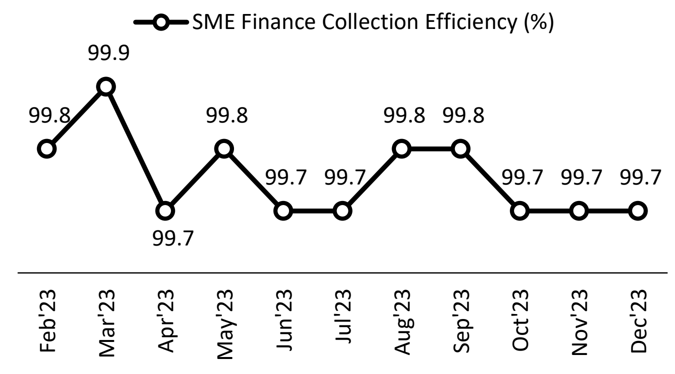
- Post the pilot launch of the SME Finance business in FY22, this product segment has expanded geographically from 2 locations to ~110, of which, 56 new locations were added in 3QFY24. SME loan book stood at INR31b as on Dec'23.
- LTFH has been making focussed efforts toward digitization and channel expansion and geo-expansion will provide the next levers for growth.

Exhibit 29: SME Finance CAGR of ~31% over FY23-26E (%)



Source: MOFSL, Company

Exhibit 30: SME Finance CE has consistently been strong (%)



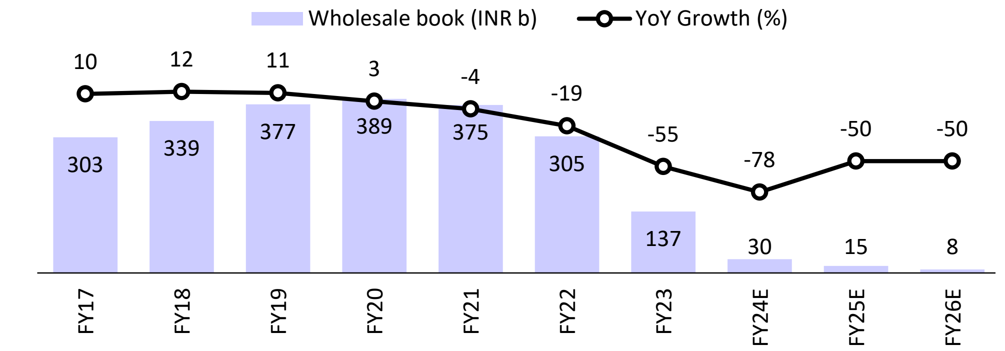
Source: MOFSL, Company

Wholesale: Expect it to rundown further without any adverse impact on P&L

LTFH utilized the entire proceeds from the sale of its asset management business for marking down the wholesale book by taking a one-time provision of ~INR27b to account for illiquidity discounts. We do not anticipate any significant incremental impact on the P&L from rundown of the residual wholesale book.

As of Dec'23, the wholesale book stood at INR70b (~9% of the total loan book).

Exhibit 31: Accelerated rundown of the wholesale book from FY22 onwards



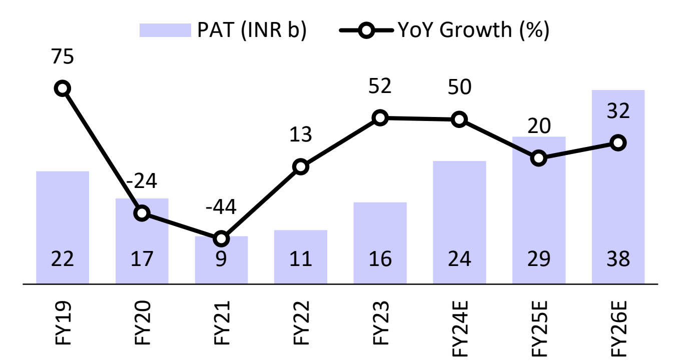
Source: MOFSL, Company

Wholesale exposures of ~INR190b were sold to the ARCs and out of this, ~INR40b was received in cash. Remainder was in the form of SRs which have provisions of ~INR73b, resulting in the net SR value of ~INR77b (i.e., ~40% of the original value of wholesale assets). The management has guided for annualized drag of ~INR1.5-2b from the wholesale book over the next two years.

Riding retailization for better profitability; reiterate BUY

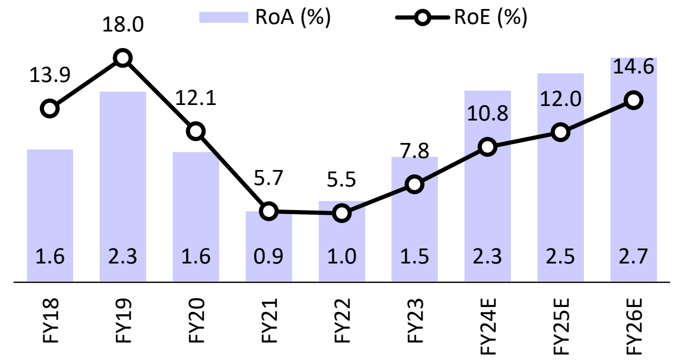
We expect the drag from the wholesale book on profitability to gradually decline, resulting in healthy improvement in ROA and ROE for LTFH. We estimate ROA/ROE of ~2.7%/~15% in FY26.

Exhibit 32: Expect PAT CAGR of ~33% over FY23-26E



Source: MOFSL, Company

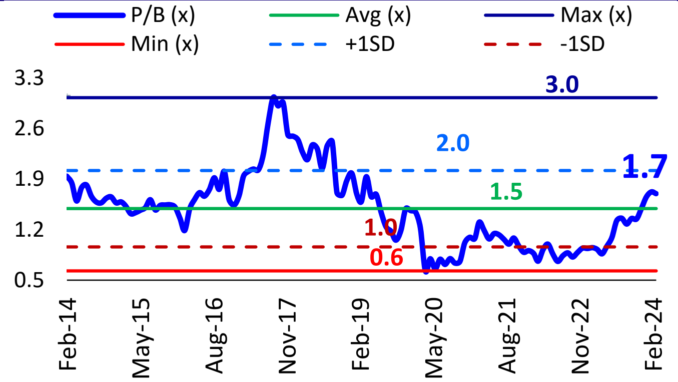
Exhibit 33: ROA/ROE of ~2.7%/15% in FY26



Source: MOFSL, Company

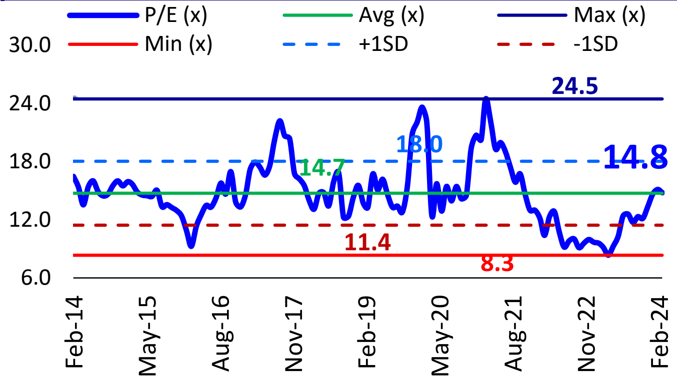
- We expect LTFH to deliver a better execution in retail than in all its prior five-year strategy plans. The confidence stems from improvements across sourcing, underwriting, and collections, leveraging digital tools, technology, and strategic partnerships.
- We reiterate our BUY rating on the stock with a target price of INR200 (based on 1.8x FY26E P/BV). Key risks are 1) potential deterioration in asset quality, particularly in relatively vulnerable segments such as Personal Loans and MFI and 2) possibility of weaker growth in retail loans.

Exhibit 34: One-year forward P/B



Source: MOFSL, Company

Exhibit 35: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

Income statement								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Interest Income	1,16,403	1,32,447	1,31,049	1,17,042	1,25,651	1,30,121	1,50,860	1,89,518
Interest Expended	68,600	75,136	71,999	57,494	57,972	54,371	62,201	79,392
Net Interest Income	**47,803**	**57,311**	**59,049**	**59,548**	**67,679**	**75,750**	**88,659**	**1,10,126**
Change (%)	39.8	19.89	3.0	0.8	13.7	11.9	17.0	24.2
Other Operating Income	13,494	8,594	5,732	6,053	3,569	6,445	7,374	8,232
Net Operating Income	**61,297**	**65,905**	**64,782**	**65,601**	**71,248**	**82,194**	**96,033**	**1,18,358**
Change (%)	28.7	7.5	-1.7	1.3	8.6	15.4	16.8	23.2
Other Income	3,118	3,726	6,276	3,928	5,268	5,215	5,736	6,310
Net Income	**64,415**	**69,632**	**71,058**	**69,529**	**76,515**	**87,409**	**1,01,769**	**1,24,668**
Change (%)	33.7	8.1	2.0	-2.2	10.0	14.2	16.4	22.5
Operating Expenses	19,215	19,785	19,749	23,946	28,732	34,639	38,559	42,928
Operating Profits	**45,200**	**49,846**	**51,309**	**45,582**	**47,783**	**52,770**	**63,210**	**81,740**
Change (%)	31.8	10.3	2.9	-11.2	4.8	10.4	19.8	29.3
Provisions/write offs	14,681	23,046	36,357	30,833	25,404	20,042	24,031	30,153
PBT	**30,520**	**26,801**	**14,952**	**14,750**	**22,379**	**32,728**	**39,179**	**51,587**
Tax	8,200	9,798	5,463	4,256	6,464	8,346	9,991	13,155
Tax Rate (%)	26.9	36.6	36.5	28.9	28.9	25.5	25.5	25.5
PAT before pref dividend	**22,320**	**17,003**	**9,489**	**10,494**	**15,915**	**24,382**	**29,188**	**38,432**
Change (%)	74.7	-23.8	-44.2	10.6	51.7	53.2	19.7	31.7
Preference Dividend	0	0	0	0	0	0	0	0
PAT to equity shareholders (incl. extraordinary items)	**22,320**	**17,003**	**9,489**	**10,704**	**16,216**	**24,382**	**29,188**	**38,432**
Change (%)	75	-24	-44	13	52	50	20	32
Proposed Dividend	**2,319**	**2,093**	**0**	**1,237**	**4,959**	**12,191**	**14,594**	**11,530**

Balance sheet								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Equity Share Capital	19,988	20,048	24,695	24,740	24,797	24,797	24,797	24,797
Reserves & Surplus	1,14,498	1,26,876	1,63,038	1,74,737	1,90,487	2,09,910	2,26,907	2,50,745
Borrowings	**9,15,070**	**9,38,945**	**8,85,558**	**8,52,012**	**8,30,435**	**7,90,172**	**9,99,787**	**12,68,555**
Change (%)	21.6	2.6	-5.7	-3.8	-2.5	-4.8	26.5	26.9
Other liabilities	10,995	9,577	16,427	17,533	17,903	18,477	19,378	20,325
Total Liabilities	**10,60,551**	**10,95,447**	**10,89,717**	**10,69,022**	**10,63,621**	**10,43,355**	**12,70,869**	**15,64,421**
Loans	**9,13,246**	**9,14,625**	**8,70,303**	**8,24,694**	**7,51,546**	**7,90,172**	**9,89,889**	**12,43,681**
Change (%)	18.5	0.2	-4.8	-5.2	-8.9	5.1	25.3	25.6
Investments	**86,408**	**59,793**	**88,721**	**1,19,169**	**1,43,662**	**1,55,155**	**1,62,913**	**1,71,058**
Change (%)	63.0	-30.8	48.4	34.3	20.6	8.0	5.0	5.0
Net Fixed Assets	11,660	11,621	11,621	5,306	5,573	5,852	6,145	6,452
Other assets	49,237	1,09,408	1,19,071	1,19,852	1,62,841	92,176	1,11,923	1,43,230
Total Assets	**10,60,551**	**10,95,447**	**10,89,717**	**10,69,022**	**10,63,621**	**10,43,355**	**12,70,869**	**15,64,421**

E: MOSL Estimates

Financials and Valuation

Ratios								(%)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Spreads Analysis (%)								
Avg. Yield on Loans	13.8	14.5	14.7	13.8	15.9	16.9	17.0	17.0
Avg. Cost-Int. Bear. Liab.	8.2	8.1	7.9	6.6	6.9	6.7	7.0	7.0
Loan Spreads	5.6	6.4	6.8	7.2	9.1	10.2	10.0	10.0
NIM on loans	5.7	6.3	6.6	7.0	8.6	9.8	10.0	9.9
Profitability Ratios (%)								
Int. Expended/Int.Earned	58.9	56.7	54.9	49.1	46.1	41.8	41.2	41.9
Other Inc./Net Income	25.8	17.7	16.9	14.4	11.5	13.3	12.9	11.7
Op. Exps./Net Income	29.8	28.4	27.8	34.4	37.6	39.6	37.9	34.4
Empl. Cost/Op. Exps.	42.9	53.7	51.0	47.5	49.1	52.1	52.4	52.7
Provisions/PPoP (%)	32.5	46.2	70.9	67.6	53.2	38.0	38.0	36.9
Asset Quality (%)								
Gross NPAs	55,490	50,370	45,040	35,430	38,320	28,656	33,473	40,390
Gross NPAs to Adv.	5.9	5.3	5.0	4.2	4.9	3.5	3.3	3.2
Net NPAs	21,740	20,780	13,770	16,780	11,780	9,297	10,919	13,261
Net NPAs to Adv.	2.4	2.3	1.6	2.0	1.6	1.2	1.1	1.1
PCR (%)	60.8	58.7	69.4	52.6	69.3	67.6	67.4	67.2
ECL/EAD (%)								
Return ratios and Capitalisation (%)								
RoE	18.0	12.1	5.7	5.5	7.8	10.8	12.0	14.6
RoA	2.3	1.6	0.9	1.0	1.5	2.3	2.5	2.7
CAR								
Tier I								
Debt to Equity (x)	6.8	6.4	4.7	4.3	3.9	3.4	4.0	4.6
Average Assets/Equity (x)	7.8	7.7	6.5	5.6	5.1	4.7	4.8	5.4

VALUATION	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Book Value (INR)	67.3	73.3	76.0	80.6	86.8	94.7	101.5	111.1
Price-BV (x)	**2.5**	**2.3**	**2.2**	**2.1**	**1.9**	**1.8**	**1.7**	**1.5**
Adjusted Book Value (INR)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Price-BV (x)	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**	**16.9**
OPS (INR)	11.2	8.5	3.8	4.2	6.4	9.8	11.8	15.5
EPS Growth YoY	74.4	-24.1	-54.7	10.4	51.3	53.2	19.7	31.7
Price-Earnings (x)	**15.1**	**19.9**	**44.0**	**39.8**	**26.3**	**17.2**	**14.4**	**10.9**
EPS (INR)	11.2	8.5	3.8	4.3	6.5	9.8	11.8	15.5
EPS Growth YoY	74.4	-24.1	-54.7	12.6	51.2	50.4	19.7	31.7
Price-Earnings (x)	**15.1**	**19.9**	**44.0**	**39.1**	**25.8**	**17.2**	**14.4**	**10.9**
Dividend per share (INR)	1.0	0.9	0.0	0.5	2.0	4.9	5.9	4.6
Dividend yield (%)	**0.6**	**0.5**	**0.0**	**0.3**	**1.2**	**2.9**	**3.5**	**2.8**

E: MOSL Estimates

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

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