30 October 2024

2QFY25 Result Update| Sector: NBFCs

Five Star Business Finance

Estimate changes	↓
TP change	↑
Rating change	↔

Bloomberg	FIVESTAR IN
Equity Shares (m)	292
M.Cap.(INRb)/(USDb)	256.5 / 3.1
52-Week Range (INR)	944 / 600
1, 6, 12 Rel. Per (%)	16/12/-9
12M Avg Val (INR M)	865

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	16.5	21.0	25.1
PPoP	11.7	15.3	17.9
PAT	8.4	10.8	12.6
EPS (INR)	29	37	43
EPS Gr. (%)	38	29	17
BV/Sh. (INR)	178	215	257
Ratios			
NIM (%)	19.9	19.4	18.3
C/I ratio (%)	32.2	30.8	32.2
Credit costs	0.7	0.8	0.8
RoAA (%)	8.2	8.3	7.7
RoAE (%)	17.5	18.8	18.3
Dividend payout	0.0	2.7	3.5
Valuations			
P/E (x)	30.7	23.8	20.4
P/BV (x)	4.9	4.1	3.4
Div. yield (%)	0.0	0.1	0.2

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	21.6	26.5	31.3
DII	9.0	35.9	42.7
FII	56.7	27.7	15.1
Others	12.7	10.0	11.0

FII Includes depository receipts

CMP: INR877 TP: INR1,015 (+16%) Buy

Macros prompt a cut in AUM growth guidance

Earnings in line but disbursements moderate; lending rate to be cut by ~2pp

- Five Star Business Finance (FIVESTAR)'s 2QFY25 PAT grew 34% YoY to INR2.7b (in line). 1HFY25 PAT grew by ~36% YoY and we expect 2HFY25 PAT to grow by ~24% YoY. NII grew ~30% YoY to INR5.2b (in line), and PPoP rose ~37% YoY to INR3.8b (in line).
- Opex grew 17% YoY to INR1.6b (in line). Credit costs stood at INR218m (~28% above MOFSLe). This translated into annualized credit cost of ~80bp (PY: ~50bp and PQ: ~70bp).
- **Considering the current macro environment and the regulator's view, FIVESTAR has decided to moderate its AUM growth and lowered its AUM growth guidance to ~25% for FY25.**
- In addition, effective Nov'24, FIVESTAR has decided to reduce its lending rates by ~2pp to ~22.5%. Given the fixed-rate nature of these loans, the spread compression will happen only on the incremental disbursements. We model NIMs to decline to 18.3%/17.2% in FY26/FY27E (FY25E: 19.4%).
- We cut our FY26/FY27 PAT estimates by 3%/5% to factor in moderation in loan growth and a more accelerated compression in NIM. FIVESTAR has developed strengths and capabilities in its business model, which are difficult for peers to replicate. We anticipate that the company will maintain its best-in-class profitability, with a CAGR of ~28%/~21% in AUM/PAT over FY24-FY27E.
- FIVESTAR will command premium valuations relative to its NBFC/HFC peers due to its ability to deliver strong RoA/RoE of 7.1%/18% in FY27E (despite the moderation in return ratios). **Reiterate BUY with a TP of INR1,015 (based on 3.6x Sep'26E BV).**

Reported NIM up ~20bp QoQ; spreads stable QoQ

- Reported yield was flat QoQ at 24.2% and CoB was also stable QoQ at 9.7%. Reported spreads were stable QoQ at 14.5%. Reported NIM rose ~20bp QoQ to ~16.9% because of a minor decline in leverage.
- FIVESTAR is looking to increase its proportion of non-bank liabilities. To that end, it recently issued PTCs, which were subscribed to by a few large domestic mutual funds. The company has ~63% of its borrowings at a floating rate and ~37% are fixed rate in nature.
- The management guides for NIM of ~14%-15% and spreads of ~12%, on a normalized basis under steady state.

Asset quality largely stable; cash component in collection declines

- GS3 and NS3 increased ~5bp each QoQ at 1.5% and 0.7%, respectively. PCR declined ~25bp QoQ to ~51.8%. Stage 2 rose ~25bp QoQ to ~7%. 30+ dpd increased ~35bp QoQ to 8.45% and 1+dpd increased ~70bp QoQ to 14%. This was commendable given the quantum of stress in the microfinance segment.

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- The cash proportion in collections declined ~28% (PQ: ~35% and PY: ~55%), because of strong efforts made by the company to reduce cash collections.
- The overall collection efficiency (CE) stood at 98.4% (PQ: 98.5%). Unique loan collections (due one, collect one) stood at 97% (PQ: 97.2%).

Disbursements moderated; AUM grew ~32% YoY

- Disbursements grew ~4% YoY and declined ~5% QoQ to~INR12.5b. AUM grew 32% YoY/6% QoQ to ~INR109.3b. 2QFY25 RoA/RoE stood at 8.4%/19% respectively. Capital adequacy stood at 48.7%.

Highlights from the management commentary

- FIVESTAR did a bureau scrub of all the primary applicants on active loans. ~13.7% of its loan accounts belong to customers who are over-leveraged with three or more loans with other financial institutions.
- The company has 1,600 loans (translating into ~0.4% of its total active loans), which have exhibited lower CE in the last six months. FIVESTAR has decided to implement stricter underwriting for over-leveraged customers.

Valuation and view

- FIVESTAR reported decent business momentum in 2QFY25. The company has decided to slow down its loan growth in FY25, considering the current environment and the view aired by the regulator on various public forums.
- The stock currently trades at 3.4x FY26E P/BV. We believe that FIVESTAR's premium valuations will remain intact, given its niche market position, superior underwriting practices, resilient asset quality, and (still) high return metrics.
- We estimate FIVESTAR to deliver a ~28% AUM CAGR over FY24-FY27, along with NIM (as a % of average loans) of 18.3%/17.2% in FY26/FY27E.
- FIVESTAR's asset quality is expected to remain relatively resilient compared to the stress that is witnessed in the unsecured lending segment. We expect credit costs to remain benign over FY25-FY26, as the company continues to prioritize digital collections. **We reiterate our BUY rating on the stock with a TP of INR1,015 (premised on 3.6x Sep'26E BVPS).**

Quarterly Performance (INR M)

Y/E March	FY24				FY25E				FY24	FY25E	2QFY25E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	4,637	5,041	5,495	5,992	6,411	6,793	7,139	7,474	21,166	27,816	6,847	-1
Interest Expenses	962	1,059	1,287	1,377	1,582	1,631	1,726	1,859	4,685	6,798	1,704	-4
Net Interest Income	**3,676**	**3,982**	**4,208**	**4,615**	**4,829**	**5,161**	**5,413**	**5,616**	**16,481**	**21,019**	**5,143**	**0**
YoY Growth (%)	*35.9*	*34.3*	*31.6*	*33.4*	*31.4*	*29.6*	*28.6*	*21.7*	*33.7*	*27.5*	*29.2*	
Other Income	198	183	205	199	283	266	261	232	785	1,041	213	25
Total Income	**3,874**	**4,165**	**4,413**	**4,814**	**5,112**	**5,427**	**5,674**	**5,847**	**17,266**	**22,060**	**5,356**	**1**
YoY Growth (%)	*41.3*	*38.4*	*35.5*	*33.0*	*32.0*	*30.3*	*28.6*	*21.5*	*36.7*	*27.8*	*28.6*	
Operating Expenses	1,263	1,389	1,412	1,488	1,565	1,627	1,739	1,868	5,553	6,798	1,685	-3
Operating Profit	**2,611**	**2,775**	**3,001**	**3,326**	**3,547**	**3,800**	**3,935**	**3,979**	**11,713**	**15,261**	**3,671**	**4**
YoY Growth (%)	*40.5*	*37.9*	*45.5*	*43.6*	*35.9*	*36.9*	*31.1*	*19.6*	*42.0*	*30.3*	*32.3*	**14**
Provisions & Loan Losses	152	106	102	194	185	218	242	232	554	877	170	28
Profit before Tax	**2,459**	**2,670**	**2,899**	**3,132**	**3,362**	**3,582**	**3,693**	**3,748**	**11,160**	**14,385**	**3,501**	**2**
Tax Provisions	622	676	731	771	846	903	934	913	2,800	3,596	886	2
Net Profit	**1,837**	**1,994**	**2,168**	**2,361**	**2,516**	**2,679**	**2,759**	**2,835**	**8,359**	**10,789**	**2,615**	**2**
YoY Growth (%)	32	38	44	40	37	34	27	20	*38.5*	*29.1*	*31.1*	
Key Parameters (%)												
Yield on loans	25.6	25.4	25.6	25.8	25.7	25.5	25.4	25.2				
Cost of funds	9.0	9.3	9.7	9.1	9.7	9.6	9.7	9.8				
Spread	16.6	16.2	15.9	16.7	16.0	16.0	15.7	15.5				
NIM	20.3	20.1	19.6	19.9	19.3	19.4	19.3	19.0				
Credit cost	0.9	0.5	0.5	0.8	0.7	0.8	0.9	0.8				
Cost to Income Ratio (%)	32.6	33.4	32.0	30.9	30.6	30.0	30.6	31.9				
Tax Rate (%)	25.3	25.3	25.2	24.6	25.2	25.2	25.3	24.4				
Performance ratios (%)												
AUM/Branch (INR m)	196.5	181.2	186.1	185.4	189.1	166	0.0	0.0				
Balance Sheet Parameters												
AUM (INR B)	75.8	82.6	89.3	96.4	103.4	109.3	115.3	121.6				
Change YoY (%)	43.2	44.2	43.1	39.4	36.4	32.2	29.1	26.1				
Disbursements (INR B)	**11.3**	**12.0**	**12.1**	**13.4**	**13.2**	**12.5**	**13.2**	**14.1**				
Change YoY (%)	99.1	50.0	32.8	20.4	16.5	3.9	9.0	5.5				
Borrowings (INR B)	43.2	48.2	57.9	63.2	67.2	68.8	73.2	78.9				
Change YoY (%)	71.3	91.0	82.2	48.7	55.8	42.8	26.4	24.9				
Borrowings/Loans (%)	56.9	58.3	64.8	65.5	65.0	63.0	63.5	64.9				
Debt/Equity (x)	1.0	1.0	1.2	1.2	1.1	1.1	1.2	1.3				
Asset Quality (%)												
GS 3 (INR M)	**1,072**	**1,118**	**1,251**	**1,328**	**1,454**	**1,604**	**0**	**0**				
G3 %	**1.4**	**1.4**	**1.4**	**1.4**	**1.4**	**1.5**	**0.0**	**0.0**				
NS 3 (INR M)	**598**	**557**	**572**	**607**	**697**	**773**	**0**	**0**				
NS3 %	**0.8**	**0.7**	**0.7**	**0.6**	**0.7**	**0.7**	**0.0**	**0.0**				
PCR (%)	**44.2**	**50.2**	**54.3**	**54.3**	**52.1**	**51.8**	**0.0**	**0.0**				
ECL (%)	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**1.6**	**0.0**	**0.0**				
Return Ratios - YTD (%)												
ROA (Rep)	8.4	8.5	8.3	8.4	8.2	8.4	0.0	0.0				
ROE (Rep)	16.6	17.1	17.7	18.7	19.0	19.0	0.0	0.0				

E: MOFSL Estimates

CONFERENCE CALL

Highlights from the management commentary

Business Updates

- FIVESTAR added ~113 branches in 2QFY25, including 36 new branches and 77 Split branches.
- Disbursements grew ~4% YoY but declined ~5% QoQ to ~INR12.5b.
- Conscious strategy to moderate the portfolio growth for this financial year.
- CE in 2QFY25 stood at 98.4% (vs. 98.5% in 1Q).
- GS3 stood at 1.47% (vs. 1.41% in 1Q). FIVESTAR has performed well both in terms of collections and maintained good asset quality.
- Diversified its liabilities from bank borrowings to other sources of borrowings.
- Incremental CoB rose ~5bp.
- 2Q RoA of 8.3% and RoE of ~19%.

Guidance

- Considering the current environment and the regulator's view, FIVESTAR has decided to moderate its AUM growth and lowered its AUM growth to ~25% in FY25.
- FIVESTAR will like to keep the spread at 12% and expects to achieve it sooner rather than later. If there are benefits in CoB, it will pass it on to customers to keep the spread at 12%.
- Does not expect a significant compression in RoA in FY25 and guides for RoA of 8%.
- Guides for a cost-income ratio of 31-32%.
- NIM of ~14-15%, opex of ~5.0-5.5%, and credit costs of ~1%; RoA (PBT) of ~8.5% and RoA(PAT) of 6% (leverage of 3.0-3.5x) and RoE of 20-22%

Loan growth

- The board has considered the current environment and the regulator's view. It has decided to slow loan growth in FY25 and will re-evaluate its growth guidance for FY26, closer to the end of the current fiscal year.

Yields and Incremental yields

- FIVESTAR has decided to drop its lending rates on incremental disbursements by ~200bp to 22.5%. Spread compression will only happen on incremental disbursements.
- Incremental yields will decline by ~200bp but it will take some time to reflect in the blended portfolio yields.
- Portfolio yields will remain at ~24% in FY25 and then yields will decline in FY26/FY27.

Asset Quality

- FIVESTAR did a bureau scrub of all the primary applicants on active loans. ~13.7% of its loans are over-leveraged with 3 or more loans with other financial institutions.
- The company has 1,600 loans (translating into ~0.4% of its total active loans) with lower CE in the last 6 months. FIVESTAR has decided to implement stricter underwriting for customers who are over-leveraged.

- FIVESTAR is not seeing any stress in its loan book. Customers, who have exhibited lower CE, are only ~0.4% of its total active loans and there are some issues in such customers' cash flow level.
- Lower CE of ~0.4% (in 1,600 loan accounts) was not because of stress in the microfinance sector. Even during stressed times, customers prioritize which lenders they want to repay.
- 30% of FIVESTAR borrowers also have active microfinance loans.
- Identified certain pockets where stress could build up - based on the customer profile or customer leverage. If it sees that CE in any locations is weaker, then it will tighten the credit underwriting in those pockets.
- Write-offs stood at ~INR110m for 2QFY25 (~INR70m in 1Q).

Liabilities

- FIVESTAR is looking toward increasing its proportion of non-bank liabilities.
- Nippon MF, Kotak MF and HDFC MF have subscribed to PTCs of the company. These borrowing instruments have come at a slightly higher rate than other CoB.
- 37% of borrowings are fixed-rate borrowings and ~63% are floating and linked to MCLR and EBLR

RBI Audit

- RBI audit for FY24 has been completed. While the audit report is awaited, the interaction with audit teams suggests that there are no red flags and/or adverse findings.

Others

- Among its new/non-core states, it will grow at a more accelerated pace in Maharashtra.
- Increase in ticket sizes will only be inflation driven.
- Login-to-sanction ratio remains at 75% and the sanction-to-disbursement ratio at 95%.
- Active base of 460k loan accounts
- There has been an improvement in NIM primarily because of the minor decline in leverage.
- The company is not seeing any specific geographical pockets of stress. When the MFI companies slow down their growth (whom to lend and how to lend), these problems of overleveraging will die soon. MFI problem should be short-lived for the next two quarters only.
- Opex is skewed toward fixed costs and the proportion of the variable in the overall salary is 30-35%
- Average employees per branch are 10-11.

Key Exhibits

Exhibit 1: Disbursements grew ~4% YoY

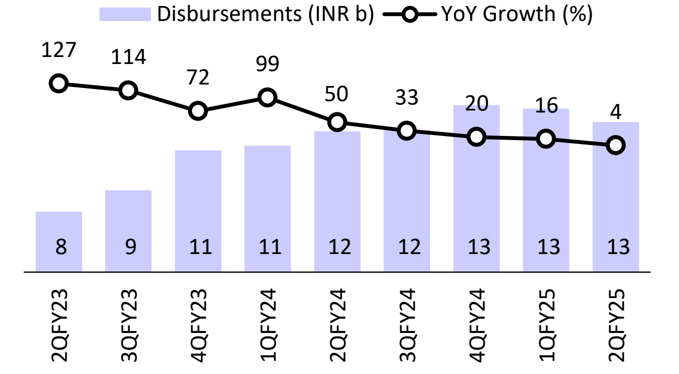


Exhibit 2: AUM rose ~32% YoY

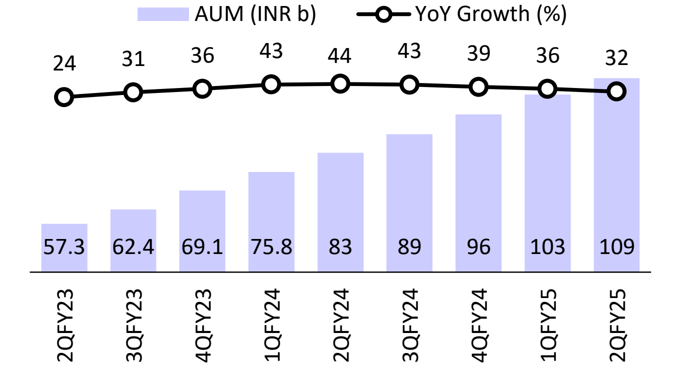


Exhibit 3: Repayments (annualized) were largely stable QoQ

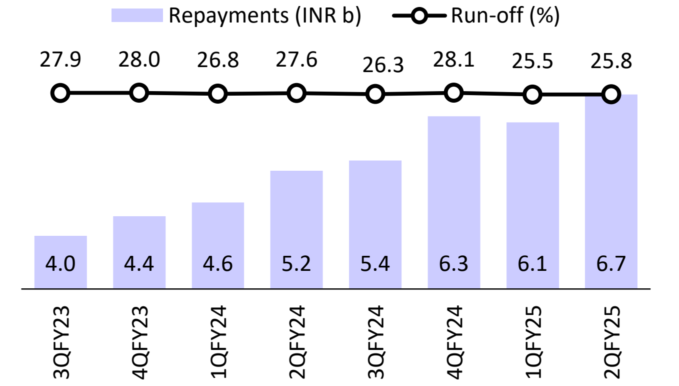


Exhibit 4: Bank borrowings continued to decline

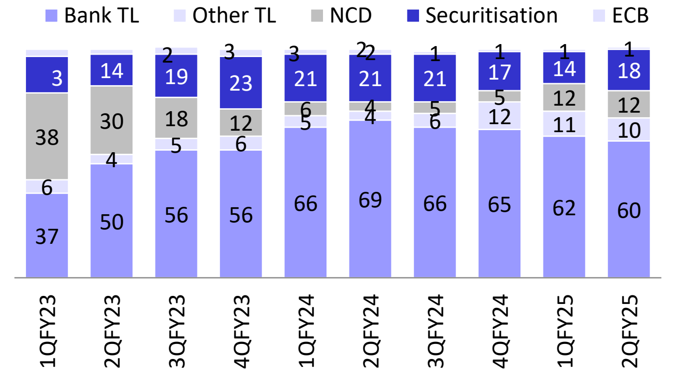
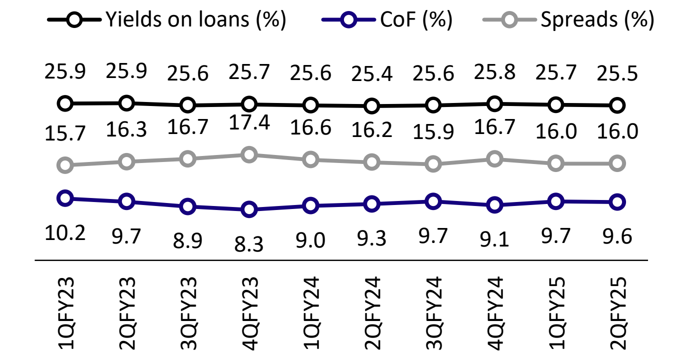
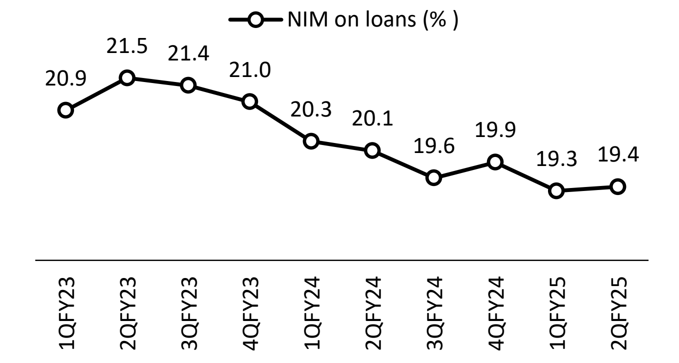


Exhibit 5: Spreads (calc.) were stable QoQ (%)



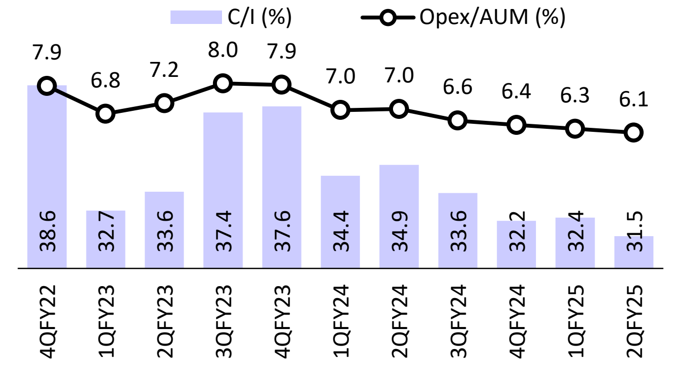
Sources: Company; MOFSL

Exhibit 6: NIM (calc.) rose ~10bp QoQ (%)



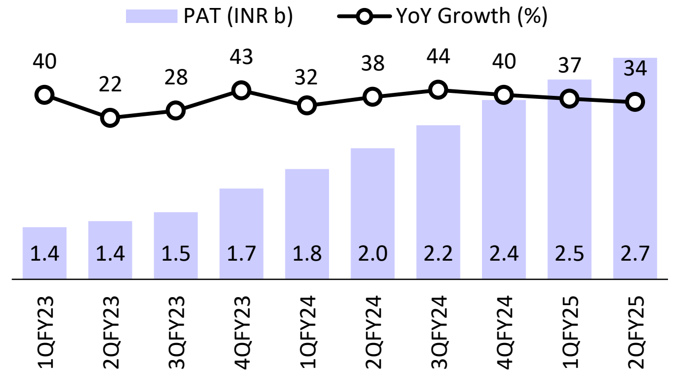
Sources: Company; MOFSL

Exhibit 7: Opex/AUM declined ~15bp QoQ (%)



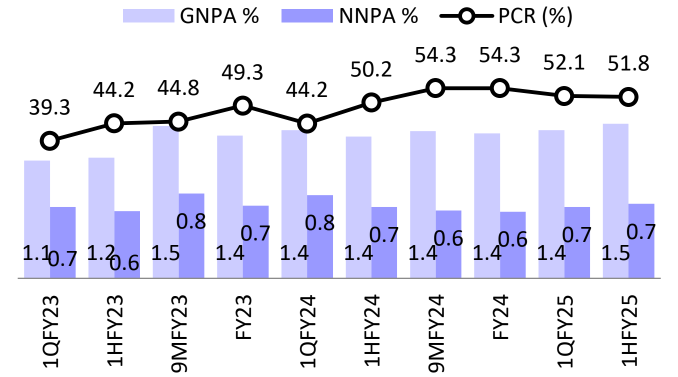
Sources: Company; MOFSL

Exhibit 8: PAT rose ~34% YoY



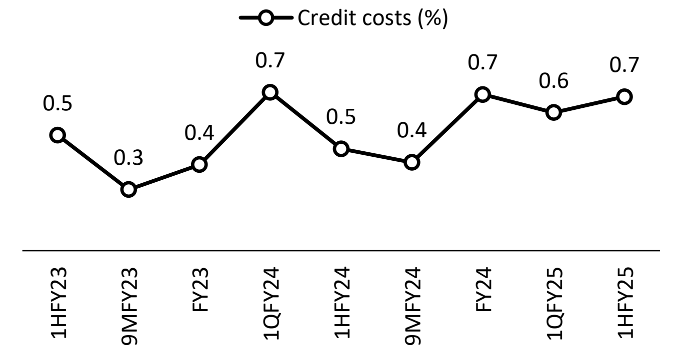
Sources: Company; MOFSL

Exhibit 9: GS3 increased ~5bp QoQ (%)



Sources: Company; MOFSL

Exhibit 10: Credit costs increased ~10bp QoQ



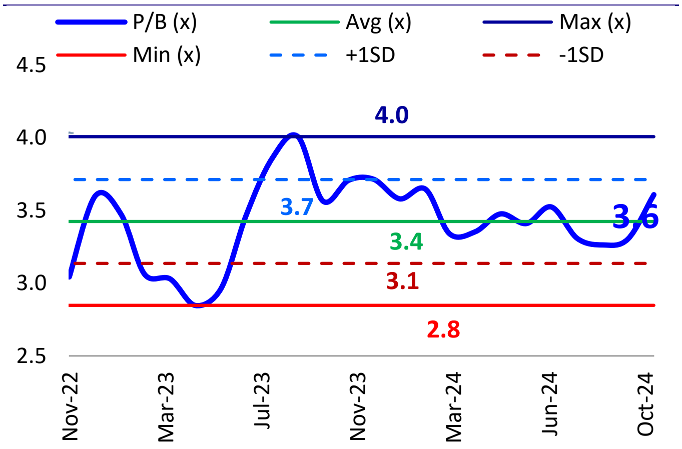
Sources: Company; MOFSL

Exhibit 11: We cut our FY26/FY27 EPS estimates by ~3%/5% to factor in lower AUM growth and an accelerated decline in NIM

INR B	Old Est.			New Est.			% change		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII	21.2	26.0	31.9	21.0	25.1	30.4	-0.8	-3.6	-4.7
Other Income	1.0	1.2	1.5	1.0	1.3	1.6	7.5	1.6	2.2
Total Income	**22.2**	**27.3**	**33.4**	**22.1**	**26.3**	**32.0**	**-0.4**	**-3.4**	**-4.3**
Operating Expenses	7.0	8.8	10.8	6.8	8.5	10.5	-3.3	-3.3	-3.4
Operating Profits	**15.1**	**18.5**	**22.6**	**15.3**	**17.9**	**21.5**	**0.9**	**-3.4**	**-4.8**
Provisions	0.8	1.2	1.5	0.9	1.1	1.5	10.5	-11.0	-1.9
PBT	**14.3**	**17.3**	**21.0**	**14.4**	**16.8**	**20.0**	**0.4**	**-2.8**	**-5.0**
Tax	3.6	4.3	5.3	3.6	4.2	5.0	0.4	-2.8	-5.0
PAT	**10.7**	**13.0**	**15.8**	**10.8**	**12.6**	**15.0**	**0.4**	**-2.8**	**-5.0**
AUM	127	164	211	122	156	203	-4.1	-4.8	-3.9
Borrowings	85	114	150	79	105	143	-7.0	-7.5	-5.2
RoA	8.1	7.6	7.2	8.3	7.7	7.1	2.6	1.5	-1.0
RoE	18.7	18.8	19.0	18.8	18.3	18.2	0.3	-2.6	-4.2

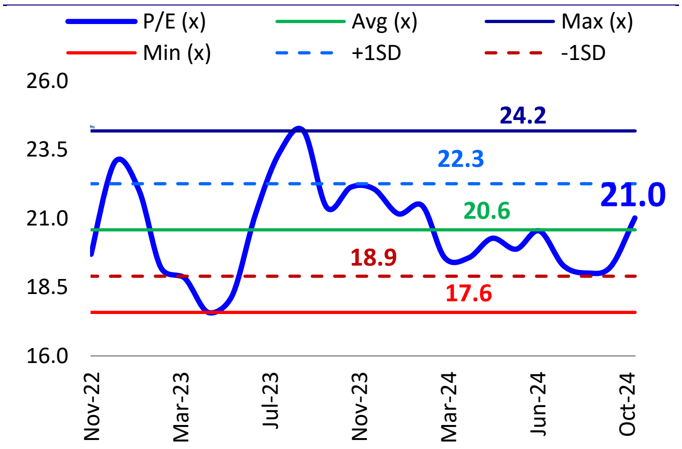
Sources: MOFSL, Company

Exhibit 12: One-year forward P/B



Source: MOFSL, Company

Exhibit 13: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

Income statement INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	3,897	7,468	10,149	12,038	14,988	21,166	27,816	33,703	41,809
Interest Expended	769	2,174	3,279	3,006	2,663	4,685	6,798	8,639	11,405
Net Interest Income	**3,129**	**5,295**	**6,870**	**9,032**	**12,325**	**16,481**	**21,019**	**25,064**	**30,404**
Change (%)		69	30	31	36	34	28	19	21
Fees and Commissions (Legal and Technical Fees)	133	297	217	294	138	219	265	342	441
Net gain on fair value changes	59	102	132	209	83	443	599	688	792
Non Operating Income (including recovery of bad debts)	0	6	15	21	81	123	178	240	324
Other Income	192	405	364	524	301	785	1,041	1,270	1,556
Net Income	**3,321**	**5,700**	**7,234**	**9,556**	**12,627**	**17,266**	**22,060**	**26,334**	**31,960**
Change (%)		72	27	32	32	37	28	19	21
Employees Cost	765	1,271	1,637	2,361	3,464	4,286	5,186	6,431	7,910
Depreciation	42	101	114	122	173	246	295	398	517
Others	253	342	367	575	741	1,021	1,318	1,647	2,042
Operating Expenses	1,061	1,713	2,118	3,058	4,378	5,553	6,798	8,476	10,469
Operating Profit (PPoP)	**2,260**	**3,986**	**5,116**	**6,497**	**8,249**	**11,713**	**15,261**	**17,858**	**21,491**
Change (%)		76	28	27	27	42	30	17	20
Provisions/write offs	76	493	352	455	201	554	877	1,055	1,510
PBT	**2,184**	**3,493**	**4,764**	**6,042**	**8,048**	**11,160**	**14,385**	**16,803**	**19,981**
Tax	618	874	1,174	1,507	2,012	2,800	3,596	4,217	5,015
Tax Rate (%)	28.3	25.0	24.7	24.9	25.0	25.1	25.0	25.1	25.1
Reported PAT	**1,567**	**2,620**	**3,590**	**4,535**	**6,035**	**8,359**	**10,789**	**12,585**	**14,966**
Change (%)		67	37	26	33	39	29	17	19
Proposed Dividend (incl. tax)	0	0	0	0	0	0	292	439	585

Balance sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	239	254	255	291	291	292	292	292	292
Reserves & Surplus	13,412	19,190	22,925	36,812	43,104	51,669	62,458	74,750	89,277
Net Worth	**13,651**	**19,444**	**23,180**	**37,104**	**43,395**	**51,962**	**62,750**	**75,043**	**89,570**
Borrowings	9,600	23,637	34,252	25,588	42,473	63,158	78,905	1,05,303	1,42,626
Change (%)		146	45	-25	66	49	25	33	35
Other liabilities	247	451	504	739	1,160	1,768	2,563	3,589	5,024
Total Liabilities	**23,498**	**43,532**	**57,936**	**63,431**	**87,028**	**1,16,888**	**1,44,218**	**1,83,934**	**2,37,220**
Loans	20,959	38,308	43,587	51,024	68,222	96,851	1,19,553	1,53,727	1,99,478
Change (%)		83	14	17	34	42	23	29	30
Investments	0	0	0	2,482	1,446	1,077	1,131	1,244	1,368
Change (%)					-42	-26	5	10	10
Net Fixed Assets	95	279	249	328	449	643	804	1,005	1,256
Other assets	2,445	4,945	14,100	9,597	16,914	18,318	22,731	27,959	35,119
Total Assets	**23,498**	**43,532**	**57,936**	**63,431**	**87,030**	**1,16,889**	**1,44,218**	**1,83,934**	**2,37,220**

E: MOFSL Estimates

Financials and Valuation

AUM Mix (%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	21,128	38,922	44,454	50,671	69,148	96,406	1,21,604	1,56,486	2,03,153
YoY Growth (%)	**110**	**84**	**14**	**14**	**36**	**39**	**26**	**29**	**30**
Disbursements	14,822	24,087	12,451	17,562	33,915	48,814	52,963	68,323	88,136
YoY Growth (%)	**110**	**63**	**-48**	**41**	**93**	**44**	**9**	**29**	**29**

Ratios

Growth %	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	110	84	14	14	36	39	26	29	30
Disbursements	110	63	-48	41	93	44	9	29	29
Total Assets	104	85	33	9	37	34	23	28	29
NII	140	69	30	31	36	34	28	19	21
PPOP	170	76	28	27	27	42	30	17	20
PAT	194	67	37	26	33	39	29	17	19
EPS	136	57	37	10	33	38	29	17	19

(%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Spreads Analysis (%)									
Yield on loans	25.2	25.2	24.8	25.4	25.1	25.6	25.7	24.7	23.7
Cost of funds	10.2	13.1	11.3	10.0	7.8	8.9	9.6	9.4	9.2
Spread	15.0	12.1	13.5	15.4	17.3	16.8	16.1	15.3	14.5
Net Interest Margin	20.0	17.6	16.5	19.0	20.6	19.9	19.4	18.3	17.2
Profitability Ratios & Capital Structure (%)									
Debt-Equity ratio	0.7	1.2	1.5	0.7	1.0	1.2	1.3	1.4	1.6
Capital adequacy - CRAR	64.1	52.9	58.9	75.2	67.2	50.5	43.9	37.7	34.7
Leverage	1.7	2.2	2.5	1.7	2.0	2.2	2.3	2.5	2.6
Int. Expended/Int.Earned	19.7	29.1	32.3	25.0	17.8	22.1	24.4	25.6	27.3
RoA	**8.9**	**7.8**	**7.1**	**7.5**	**8.0**	**8.2**	**8.3**	**7.7**	**7.1**
RoE	**16.0**	**15.8**	**16.8**	**15.0**	**15.0**	**17.5**	**18.8**	**18.3**	**18.2**
Cost/Productivity Ratios (%)									
Cost/Income	31.9	30.1	29.3	32.0	34.7	32.2	30.8	32.2	32.8
Op. Exps./Avg Assets	6.1	5.1	4.2	5.0	5.8	5.4	5.2	5.2	5.0
Op. Exps./Avg AUM	6.8	5.7	5.1	6.4	7.3	6.7	6.2	6.1	5.8
Other Inc./Net Income	5.8	7.1	5.0	5.5	2.4	4.5	4.7	4.8	4.9
AUM/employee (INR m)	10.7	10.4	11.3	8.9	9.4	10.3	10.3	11.8	13.7
AUM/ branch (INR m)	122.1	154.5	169.7	168.9	185.4	185.4	196.1	223.6	260.5
Empl. Cost/Op. Exps. (%)	72.2	74.2	77.3	77.2	79.1	77.2	76.3	75.9	75.5
Asset Quality									
Gross NPAs (INR m)	181	532	452	530	939	1,328	1,889	2,757	3,729
Gross NPA (%)	**0.9**	**1.4**	**1.0**	**1.0**	**1.4**	**1.4**	**1.6**	**1.8**	**1.8**
Net NPAs (INR m)	139	438	371	345	476	607	869	1,241	1,678
Net NPA (%)	0.7	1.1	0.8	0.7	0.7	0.6	0.7	0.8	0.8
PCR (%)	**22.9**	**17.7**	**18.0**	**34.9**	**49.3**	**54.3**	**54.0**	**55.0**	**55.0**
Credit costs (% of gross loans)	**0.5**	**1.6**	**0.8**	**1.0**	**0.3**	**0.7**	**0.8**	**0.8**	**0.8**

VALUATION									
Book Value (INR)	57	77	91	127	149	178	215	257	306
Price-BV (x)	**15.4**	**11.5**	**9.6**	**6.9**	**5.9**	**4.9**	**4.1**	**3.4**	**2.9**
EPS (INR)	7	10	14	16	21	29	37	43	51
EPS Growth YoY	136	57	37	10	33	38	29	17	19
Price-Earnings (x)	**134**	**85**	**62**	**56**	**42**	**31**	**24**	**20**	**17**
DPS (INR)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.5	2.0
Dividend yield (%)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.2**	**0.2**

E: MOFSL Estimates

Financials and Valuation

DuPont Analysis

%	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	22.3	22.3	20.0	19.8	19.9	20.8	21.3	20.5	19.9
Interest Expended	4.4	6.5	6.5	5.0	3.5	4.6	5.2	5.3	5.4
Net Interest Income	**17.9**	**15.8**	**13.5**	**14.9**	**16.4**	**16.2**	**16.1**	**15.3**	**14.4**
Other Income	1.1	1.2	0.7	0.9	0.4	0.8	0.8	0.8	0.7
Total Income	**19.0**	**17.0**	**14.3**	**15.7**	**16.8**	**16.9**	**16.9**	**16.0**	**15.2**
Operating Expenses	**6.1**	**5.1**	**4.2**	**5.0**	**5.8**	**5.4**	**5.2**	**5.2**	**5.0**
Operating Profit	**12.9**	**11.9**	**10.1**	**10.7**	**11.0**	**11.5**	**11.7**	**10.9**	**10.2**
Provisions	0.4	1.5	0.7	0.8	0.3	0.5	0.7	0.6	0.7
PBT	**12.5**	**10.4**	**9.4**	**10.0**	**10.7**	**10.9**	**11.0**	**10.2**	**9.5**
Tax	3.5	2.6	2.3	2.5	2.7	2.7	2.8	2.6	2.4
Tax Rate (%)	*28.3*	*25.0*	*24.7*	*24.9*	*25.0*	*25.1*	25.0	25.1	25.1
PAT	**8.9**	**7.8**	**7.1**	**7.5**	**8.0**	**8.2**	**8.3**	**7.7**	**7.1**
Leverage	1.8	2.0	2.4	2.0	1.9	2.1	2.3	2.4	2.6
RoE	**16.0**	**15.8**	**16.8**	**15.0**	**15.0**	**17.5**	**18.8**	**18.3**	**18.2**

E: MOFSL Estimates

NOTES

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

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