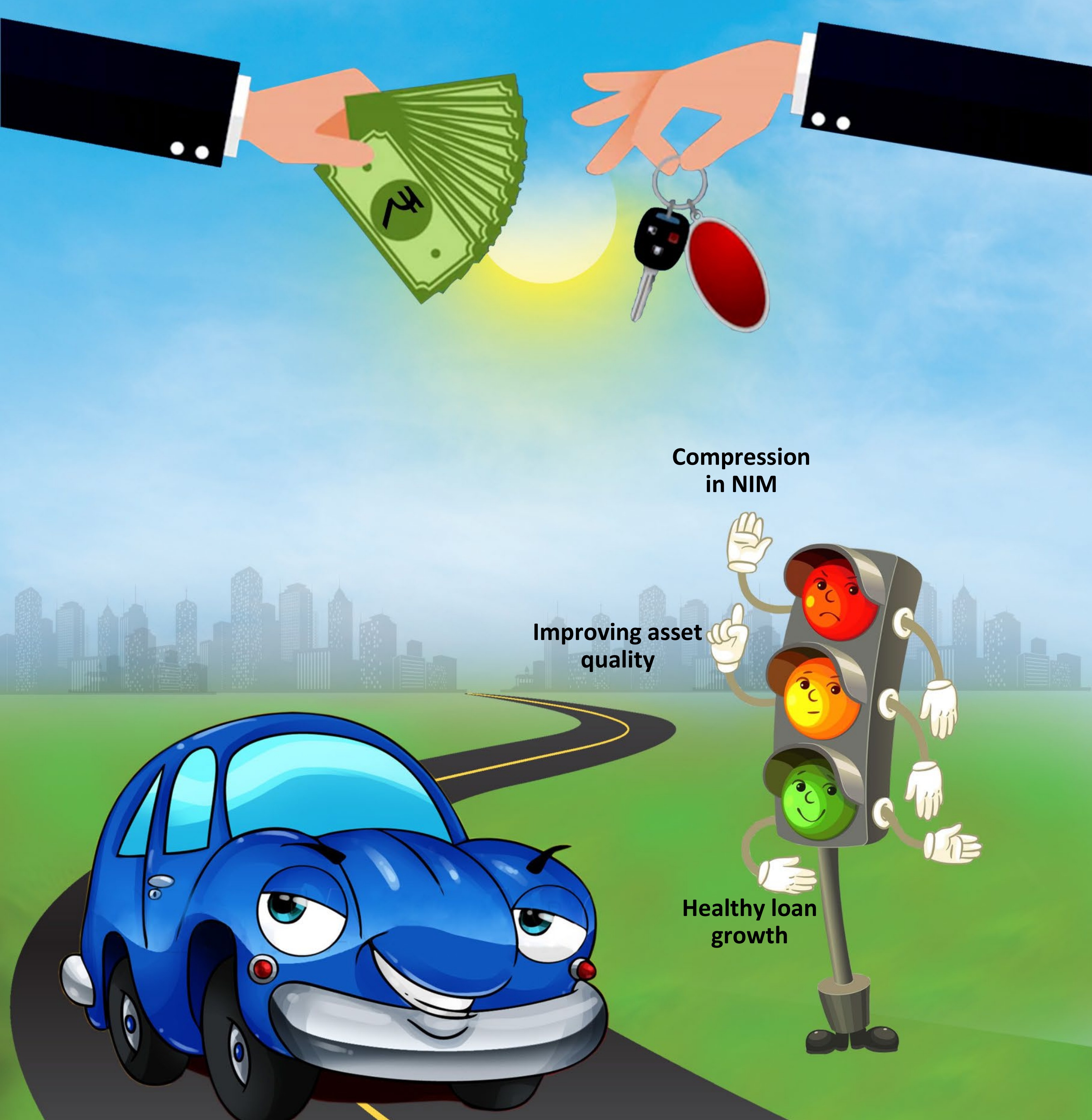
27 June 2022

Vehicle Finance



Margin compression imminent, but are there other levers?

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Vehicle Finance: Margin compression imminent, but are there other levers?

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Business transformation with Vision 2025 aspirational, but a step in the right direction

Vehicle Finance

Margin compression imminent, but are there other levers?

Expect NIM compression of 30-45bp in FY23; other levers to limit impact on RoA

- **There can be a 140-165bp increase (including the 90bp already announced in May-Jun'22) in policy repo rates in FY23. Given the fixed-rate lending nature of Vehicle Finance and depending on the nature of the liabilities, borrowing and product mix, and the pricing power, the impact on margin can vary between 30bp and 45bp among different lenders in FY23.**
- **Semiconductor shortages persisted for a large part of FY22. The situation is expected to sustain, with supply-side issues unlikely to get fully resolved in FY23. If fuel prices were to stay or moderate from current levels, we do not estimate any significant impact on vehicle demand or on repayments or collections. However, if fuel prices were to increase by 10%-15% from current levels, we expect higher delinquencies particularly in the CV-CE segment.**
- **Commodity-price inflation is feeding into higher ticket size of New and Used Vehicles. This will aid disbursement growth in FY23 as well. Rising interest rates in isolation will not have a direct impact on demand for either Passenger or Commercial Vehicles, but even a moderate slowing down of the economy has the potential to keep demand for new vehicle purchases muted.**
- **Demand for Commercial Vehicles (CVs) has exhibited an improving trajectory for the last four-to-five months. We expect the demand momentum to sustain in FY23, with higher capacity utilization from Infrastructure spending feeding into the demand for newer vehicles.**
- **In 1HFY23, lenders will endeavor to minimize the impact of higher borrowing costs by reducing excess liquidity and increasing the proportion of short-term borrowings (to the extent their ALM allows). We have tweaked our credit growth estimates marginally and also factored in NIM compression for large vehicle financiers in our coverage.**
- **Asset quality for all three vehicle financiers – CIFC, MMFS, and SHTF – exhibited a strong improvement, with NS3 for each one of them comfortably below 4% as of Mar'22. Write-offs were elevated, suggesting that repossessions and settlements were used more aggressively to effect the improvement in asset quality, even as the RBI NPA circular will become effective from Oct'22.**

Valuation and view: We expect vehicle financiers to use the levers of operating and credit costs to deliver a healthy RoA, despite the expected compression in NIM. We model an AUM CAGR of 21%/12%/11% and a PAT CAGR of 14%/26%/ 17% for CIFC/MMFS/SHTF over FY22-24. This will translate in a RoA of 2.6%/1.9%/2.3% and a RoE of 19%/9%/12 for CIFC/MMFS/SHTF in FY24E. We cut our FY23/FY24 estimate by 13%/14% for MMFSL and by 4%/9% for SHTF to factor in a NIM compression and minor changes in loan growth/credit costs. We maintain our preference for CIFC, followed by SHTF. CIFC benefits from a well-diversified loan book, with newer business lines shaping up well. It will perhaps have more levers than its other peers to deliver a healthier RoA/RoE. We maintain our Buy rating on all the three vehicle financiers viz. CIFC with a TP of INR780 (3.9x FY24E BVPS), on SHTF with a TP of INR1,450 (1.2x FY24E BVPS) and on MMFS with a TP of INR210 (1.5x FY24E BVPS).

NIM

(%)	FY22	FY23E	FY24E
SHTF	7.9	7.6	7.5
MMFS	9.5	9.2	9.1
CIFC	7.5	7.1	7.0

Credit costs (% of loans)

(%)	FY22	FY23E	FY24E
SHTF	3.4	2.7	2.5
MMFS	3.9	2.8	2.7
CIFC	1.3	1.2	1.2

RoA

%	FY22	FY23E	FY24E
SHTF	2.0	2.2	2.3
MMFS	1.3	1.8	1.9
CIFC	2.7	2.6	2.6

RoE

(%)	FY22	FY23E	FY24E
SHTF	11.5	11.9	12.4
MMFS	6.6	9.0	9.4
CIFC	20.2	18.3	18.6

E-way bill generation stable, showing signs of an improvement

Macro trends have been positive both on the farm as well as freight side. While the last two years may seem like an aberration, with reported e-way bill data exhibiting volatility (driven by various COVID waves), we believe it is now showing signs of stability. With a further improvement in economic momentum, e-way bill generation data will witness a further uptick in FY23.

Higher ticket sizes will aid growth in disbursement; estimate 10-12% AUM growth in core Vehicle Finance in FY23

Domestic M&HCV volumes bottomed out in FY21 (~59% lower than their FY19 peak), with demand starting to recover from 2HFY22. While a sharp rise in diesel prices may hurt near-term CV demand, medium-term demand is likely to stay strong, led by higher capacity utilization and strong replacement in the M&HCV segment. Vehicles financiers (including an unlisted player) suggest a 5-6% increase in average ticket sizes (ATS) across vehicle types in FY22. With expectations of a similar increase in ATS in FY23, we estimate an AUM growth of 10-12% in Vehicle Finance in FY23 for the three key players under over coverage universe.

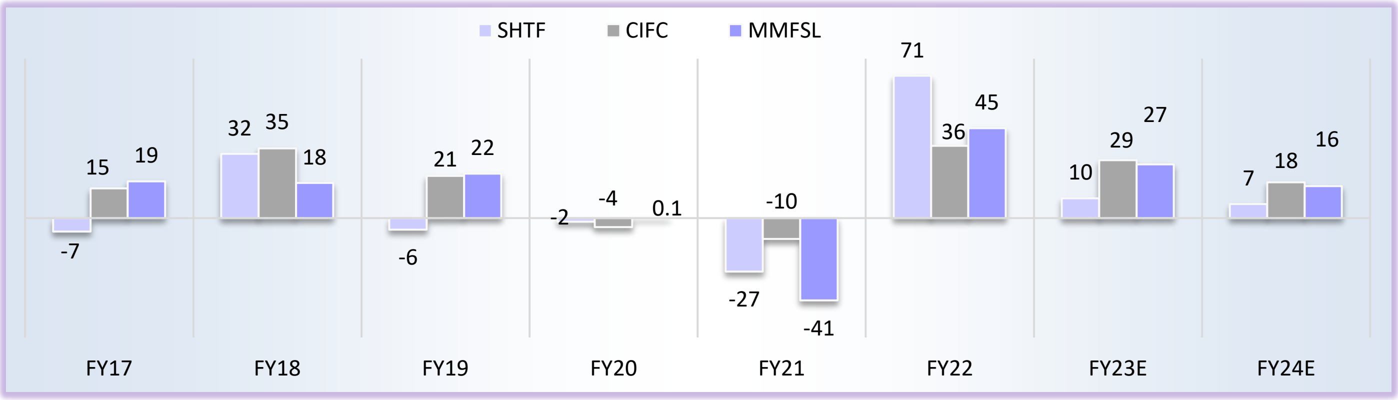
Expect a margin compression of 30-45bp in FY23, but the same can be partly mitigated

Just as vehicle financiers benefitted from a declining interest rate cycle over FY21-22, with a few of them even reporting historically higher spreads and NIM, we believe that FY23 will be a real acid test of liability strength and the mix of respective franchises. Impact of higher cost of borrowings will be partly mitigated by further rationalizing the excess liquidity on the balance sheet and by optimizing the borrowing and product mix. We still estimate a margin compression of 30-45bp for vehicle financiers in FY23.

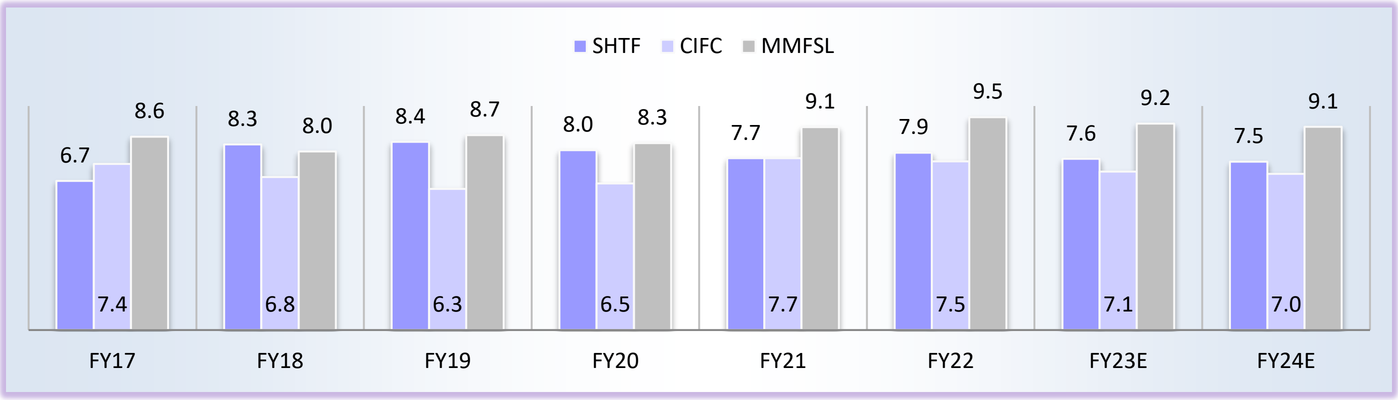
Improvement in asset quality accompanied by elevated write-offs; performance of the restructured pool still an important monitorable

CIFC, MMFS, and SHTF ended FY22 with a sharp improvement in asset quality, which was accompanied by higher write-offs and utilization of management overlay and COVID-related provisions on the Balance Sheet. We expect this improvement in asset quality to sustain. This, combined with a further utilization of COVID-related provisions, should result in lower credit costs (as % of loans) of 1.2%/2.8%/2.7% for CIFC/MMFS/ SHTF in FY23E.

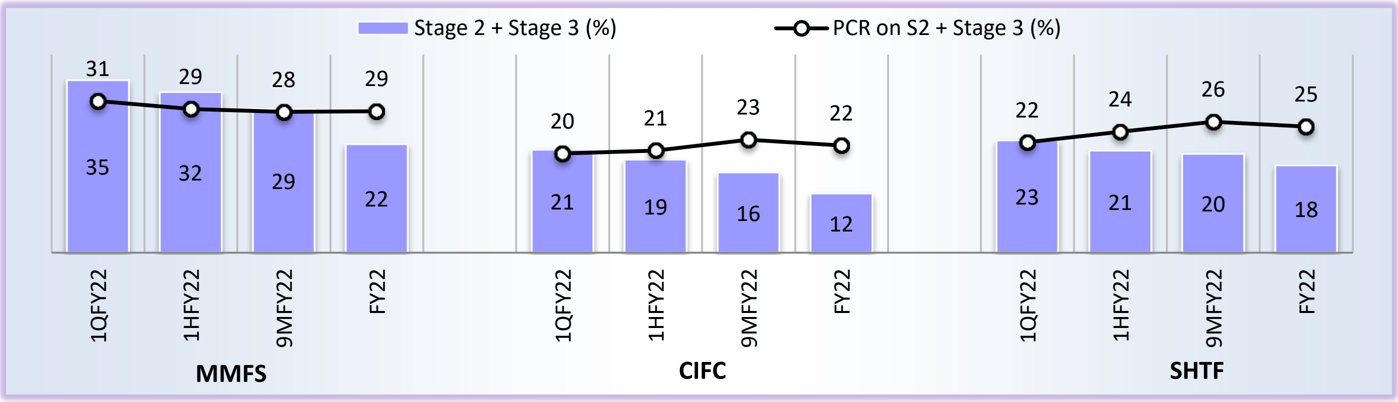
Expect healthy disbursement growth for CIFC and MMFS in FY23



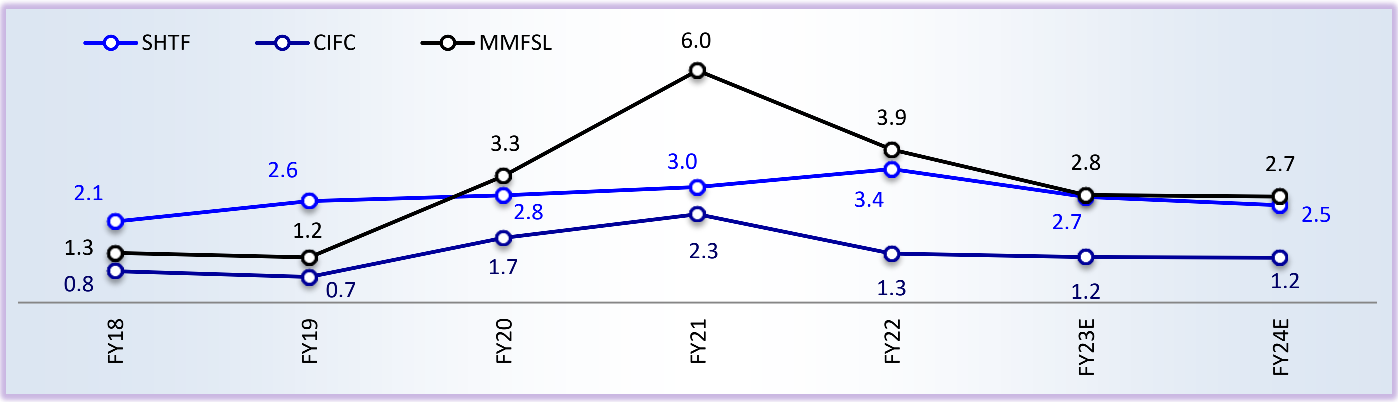
Expect margin compression of 30-45bp in FY23 for the vehicle financiers



Stressed pool declined meaningfully for MMFS and CIFC through the course of FY22



Credit costs for CIFC expected to decline



4QFY22 recap: Strong momentum in disbursements and a sharp decline in the stressed asset pool

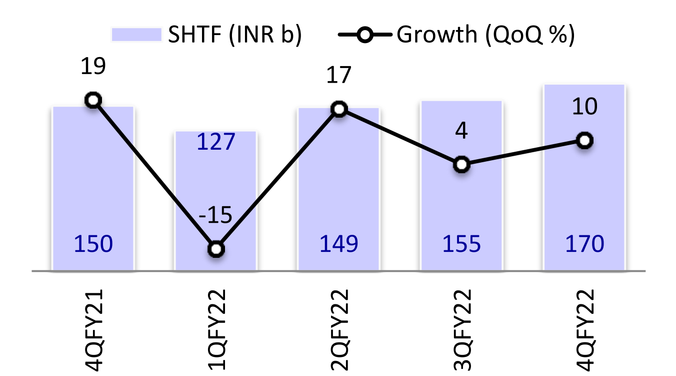
Utilization of COVID-19 provisions for making elevated write-offs in 4QFY22

Disbursements aided by higher ticket sizes; early signs of a pickup in M&HCVs

Commentary from the vehicle financiers seems to suggest that they have recently turned more constructive (and less risk-averse) to the financing of new M&HCVs.

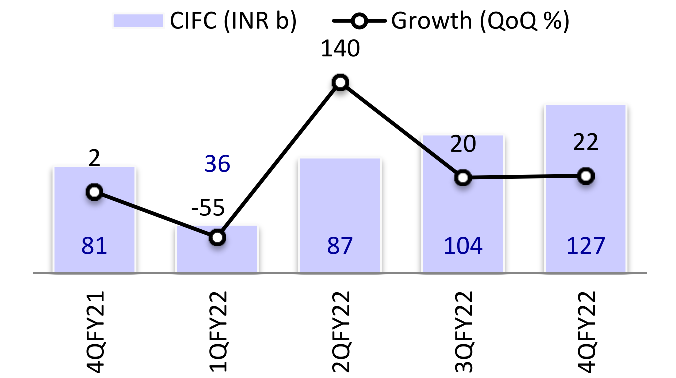
Disbursements in Vehicle Finance (PVs or CVs) in FY22 were aided by higher ticket sizes, led by commodity-price inflation and higher prices of new vehicles. Disbursements for SHTF and CIFC touched a record high in 4QFY22, while for MMFS it was just shy of record levels. Commentary from these vehicle financiers seems to suggest that they have recently turned more constructive (and less risk-averse) to the financing of new M&HCVs. Part of the increase in ATS of disbursements in 2HFY22 can also be explained by this.

Exhibit 1: Disbursements grew by 10% QoQ for SHTF in 4QFY22



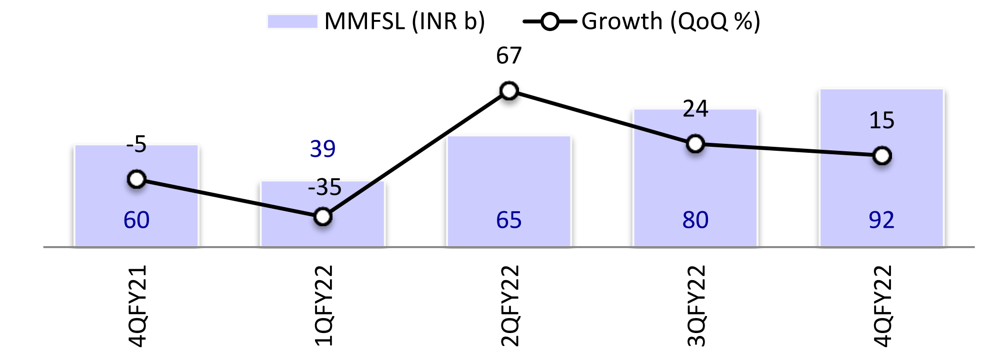
Source: MOFSL, Company

Exhibit 2: Disbursements rose by 22% QoQ for CIFC in 4QFY22



Source: MOFSL, Company

Exhibit 3: Disbursements grew by 15% QoQ for MMFS in 4QFY22



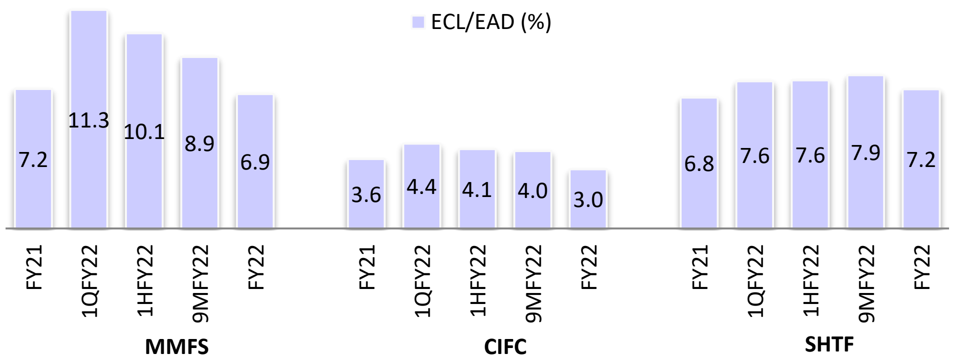
Source: MOFSL, Company

Stress pool moderates significantly over FY22

The second COVID wave in India led to a sharp deterioration in asset quality across vehicle financiers. Since then, vehicle financiers have managed to progressively pare down their stressed pool of loans, which has gradually declined for the last three quarters.

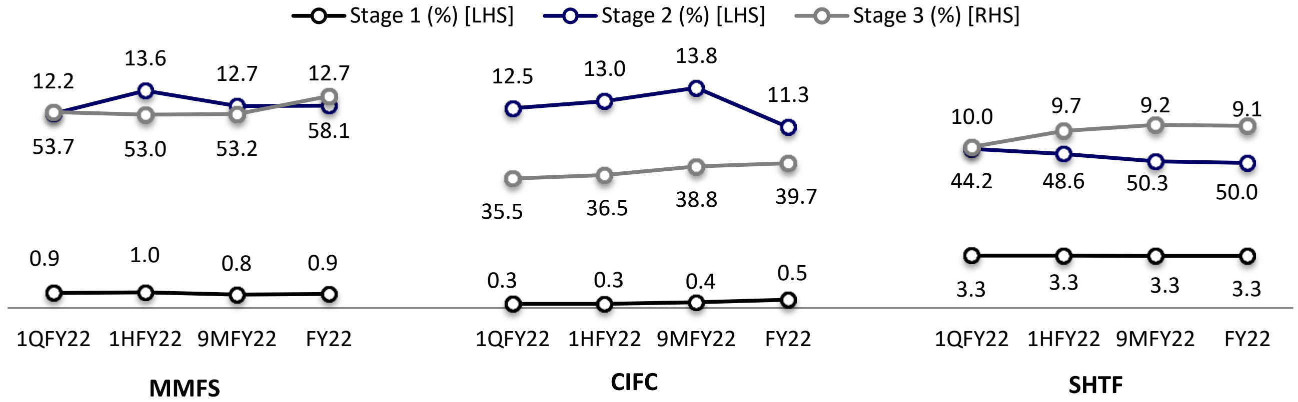
Vehicle financiers have over the last nine months managed to progressively pare down their stressed pool of loans

Exhibit 4: ECL/EAD ratio fell by ~60bp/30bp YoY for CIFC/MMFS



Source: MOFSL, Company

Exhibit 5: Stage 3 PCR has either increased or remained stable sequentially for the three vehicle financiers



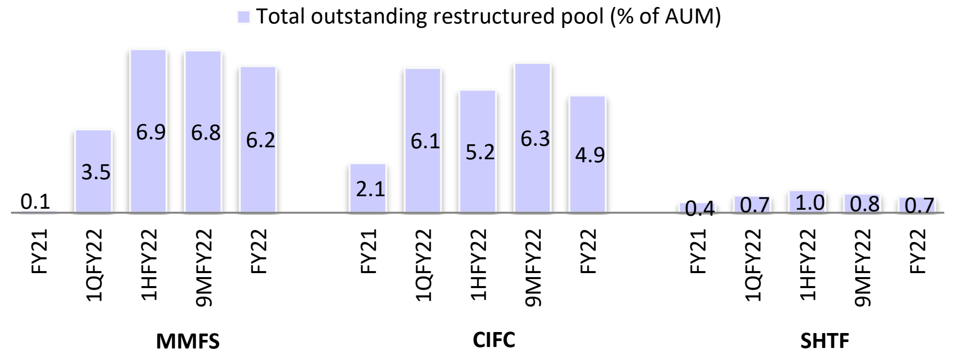
Source: MOFSL, Company

The majority of its restructured loan pool has been classified under Stage 2. Collections and repayment behavior from this pool of loans in FY23 will be a key monitorable.

While the proportion of restructured loans fell across the board for all three vehicle financiers, the proportion of the outstanding restructured pool remains the highest for MMFS, followed by CIFC, and the least for SHTF. It is pertinent to note that ECLGS disbursements, as a percentage of AUM, is the highest for CIFC (~3%), while it is less than 1% for both MMFS and SHTF.

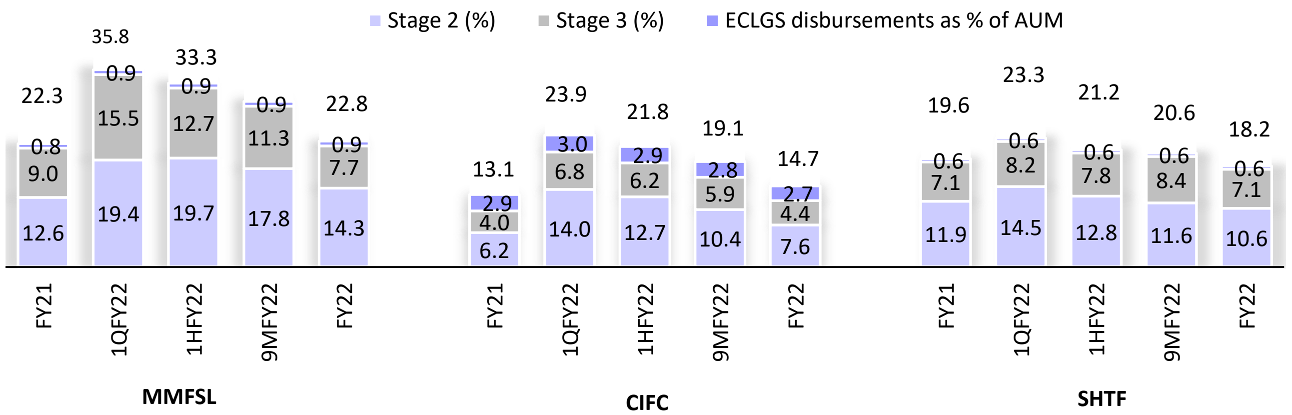
Proportion of the outstanding restructured pool remains the highest for MMFS, followed by CIFC, and the least for SHTF.

Exhibit 6: Outstanding restructured pool is the lowest for SHTF



Source: Company, MOFSL

Exhibit 7: Stressed pool of loans including Stage 2, Stage 3 and ECLGS disbursements



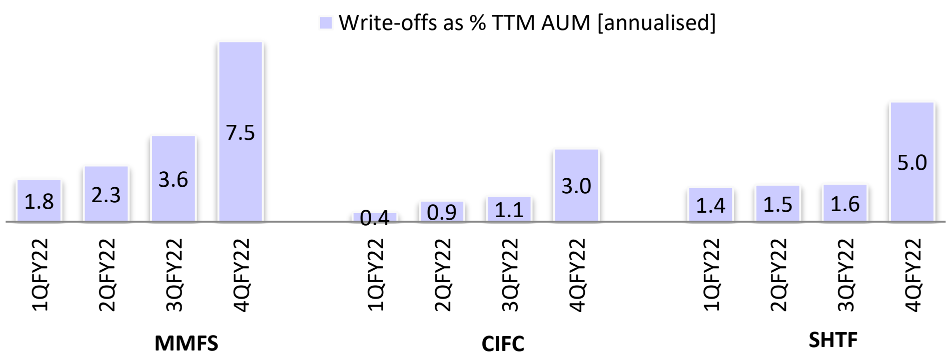
Source: MOSL, Company

Write-offs and repossession costs elevated in 4QFY22

Charge to the P&L on account of repossession costs, settlements, and write-offs were relatively elevated in 4QFY22. For MMFS and SHTF, this may have been driven by their need to show an improvement in Gross Stage 3, and consequently be able to deliver a Net Stage 3 of less than 4%. While this was not a pressing need for CIFC, it also affected write-offs of long-overdue accounts, where further recoveries are expected to remain minimal.

Charge to the P&L on account of repossession costs, settlements, and write-offs were relatively elevated in 4QFY22.

Exhibit 8: Write-offs were elevated across all three vehicle financiers in 4QFY22

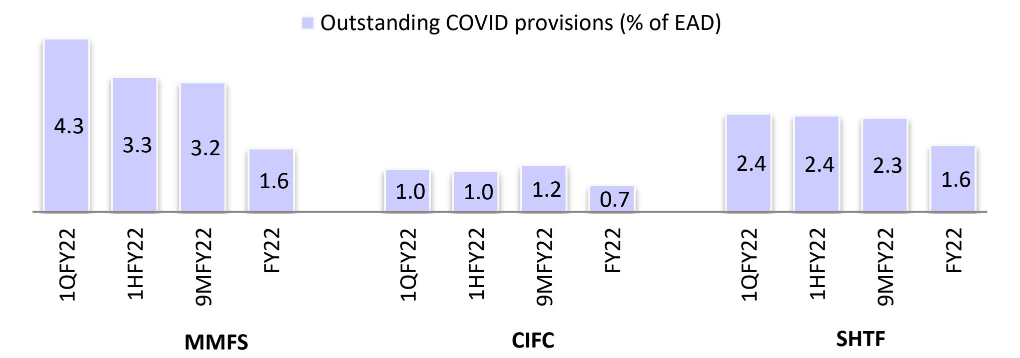


Source: MOFSL, Company

Interestingly, all three vehicle financiers utilized their COVID-related provisions in 4QFY22. This suggests that the risks from COVID-related asset quality stress has significantly receded. Given our expectations of a further improvement in asset quality, vehicle financiers will utilize their COVID-related provisions to drive down credit costs in FY23.

All three vehicle financiers utilized their COVID-related provisions in 4QFY22. This suggests that the risks from COVID-related asset quality stress has significantly receded

Exhibit 9: Vehicle financiers utilized COVID provisions in 4QFY22 for write-offs



Source: MOFSL, Company

OPEX was elevated in 4QFY22 on better employee incentives, led by strong business volumes, and on account of investments being made in newer product lines.

What lies ahead?

Demand for Cars/UVs/PVs will not be impacted by rising interest rates. A large part of FY22 was impacted by the shortage in semiconductors, which led to a higher waiting period for Passenger Vehicles. Commentary from select OEMs as well as semiconductor manufacturers seems to suggest that the shortages in semiconductors will sustain even in FY23. While lenders like MMFS said that disbursements in FY22 were impacted by a shortage of vehicles, FY23 will be about gaining market share, even if supply-side issues continue to persist.

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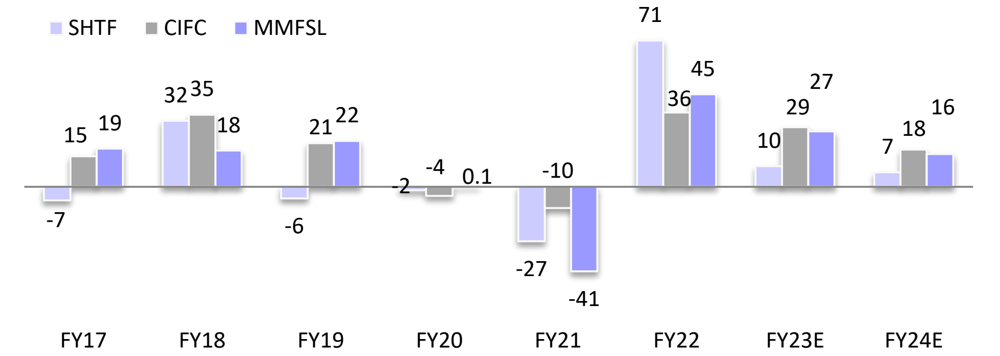
Exhibit 10: Expect healthy disbursement growth for CIFC and MMFS in FY23



Source: MOFSL, Company

Expect the momentum in CV sales to sustain despite near-term headwinds from fuel price volatility

Volatile fuel prices create doubts in the minds of customers if he/she should purchase a vehicle for commercial purposes. An improved outlook on a recovery in M&HCV volumes in FY23 is underpinned by: a) a pick-up in Infrastructure and the Real Estate sector, b) high fleet utilization and improvement in the profitability of fleet operators, and c) an improvement in the broader economy.

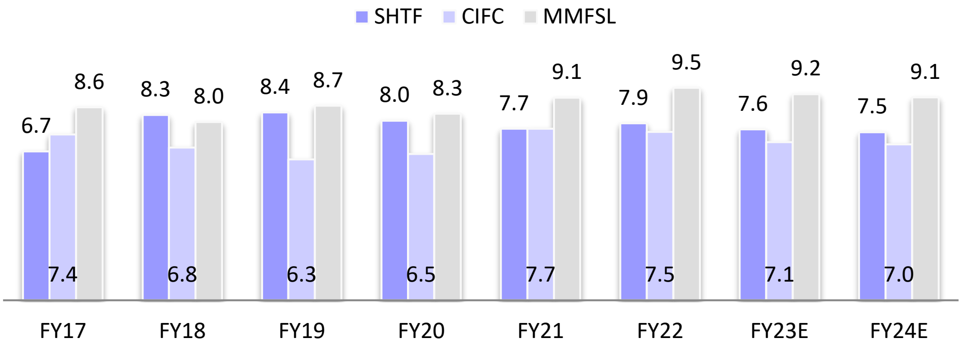
Recently, the Government of India (GoI) cut excise duty on diesel and petrol, which has made fuel prices cheaper by 6-8% at the pump. Some states like Rajasthan and Kerala announced a reduction in VAT on diesel and petrol, which will translate in a further reduction in fuel prices. This will curb inflation and will have a positive impact on demand for both new and Used CVs.

Expect a compression in margin in FY23 and FY24, few mitigants available

CIFC has ~70% of fixed-rate Vehicle loans while MMFS and SHTF are predominantly vehicle financiers and a large part of their loans are at a fixed rate

Given the fixed-rate lending nature of the Vehicle Finance business, different financiers, depending on their liability and product mix and the mitigants available, will see varying degrees of NIM compression in FY23. CIFC has a slightly diversified product mix, with ~70% of fixed-rate Vehicle loans in its AUM mix and ~30% of variable-rate LAP and Home loans. MMFS and SHTF are predominantly vehicle financiers and a large part of their loans are at a fixed rate. Around 80-85% of both MMFS and SHTF's liabilities are at a fixed rate.

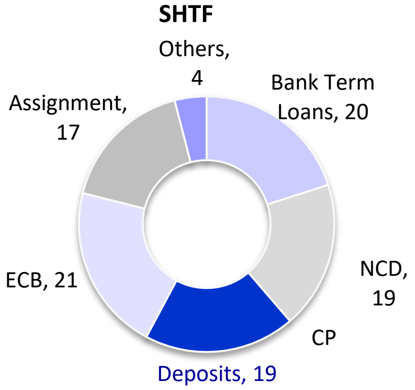
Exhibit 11: Expect margin compression of 30-45bp in FY23 for the vehicle financiers



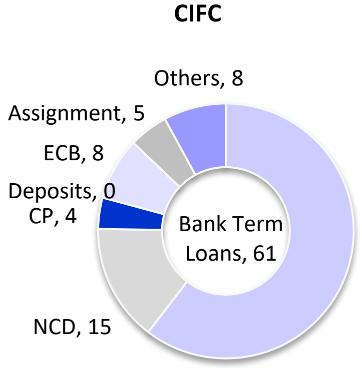
Source: MOFSL, Company

To mitigate the compression in margin, we believe vehicle financiers will use the following levers: a) optimize excess liquidity on the Balance Sheet, and b) increase the proportion of CPs in the borrowing mix in FY23

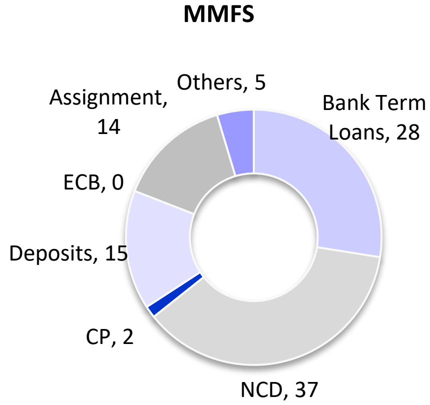
Exhibit 12: Vehicle Financiers will increase the proportion of CPs to limit impact on margin compression



Source: MOFSL, Company



Source: MOFSL, Company



Source: MOFSL, Company

Improvement in M&HCV volumes; expect demand momentum to sustain

- GoI on 21st Mar'22 announced a cut in excise duty on diesel and petrol and exhorted states to cut VAT on fuel to provide relief to the common man and curb inflation. The Finance Ministry announced the imposition of export duty on a large part of the steel portfolio and reduced import duty on coal and coke (inputs used in the manufacture of steel).
- Both these actions will benefit consumers of steel products, i.e. Auto and Construction/Real Estate sectors (from the lower costs of steel), and Transporters and Logistics providers, whose earnings were impacted due to weak demand in Apr'22 and their inability to raise freight rates.
- The proportion of Used/Pre-Owned Vehicles in the product mix of vehicle financiers grew further in FY22. SHTF, in particular, faced tailwinds from higher ticket sizes of Used Vehicles, which led to record high disbursements in FY22.

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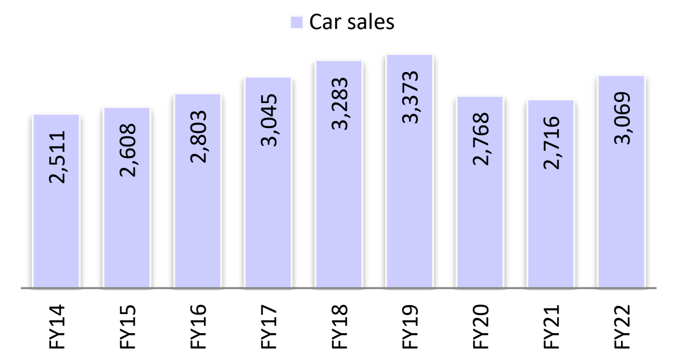
Exhibit 13: Vehicle book mix, basis product segments (FY22, %)

	SHTF	MMFS	CIFC
Tractors	3	16	10
UV		32	7
Cars/PV	21	22	11
HCV	47	12	7
M&LCV	27	-	25
CE	-	-	6
Pre-owned vehicles/Refinance	-	11	28
3W	-	-	1
TW	-	-	5
Others	2	7	-

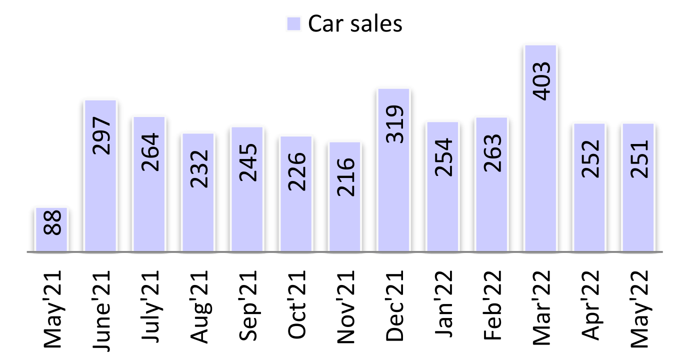
Source: MOFSL, Company

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



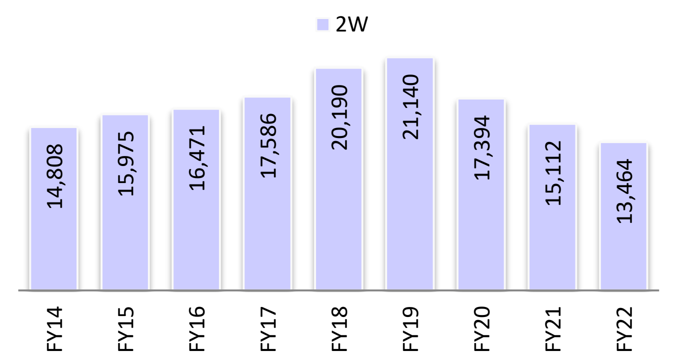
Source: MOFSL, Company

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



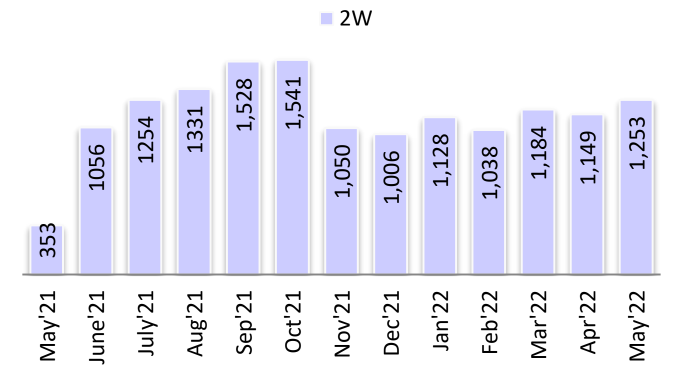
Source: MOFSL, Company

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



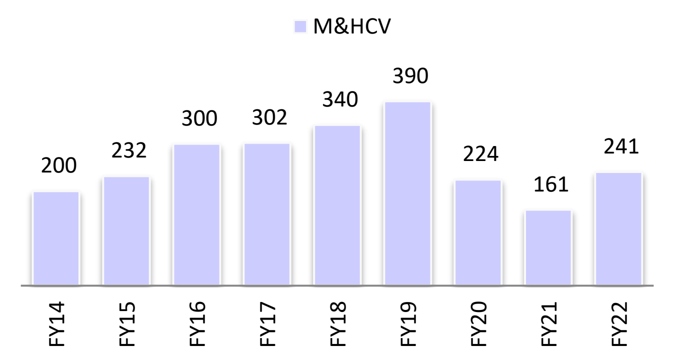
Source: MOFSL, Company

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



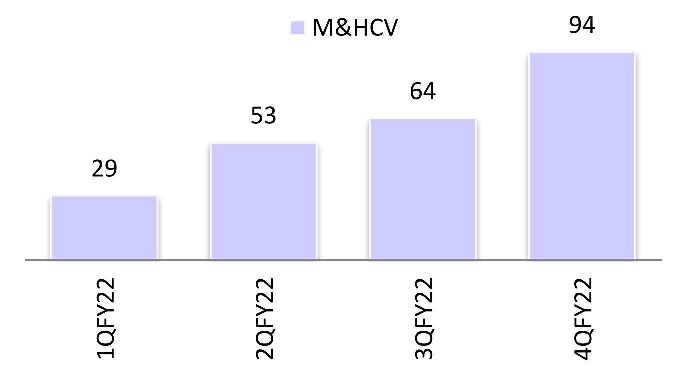
Source: MOFSL, Company

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



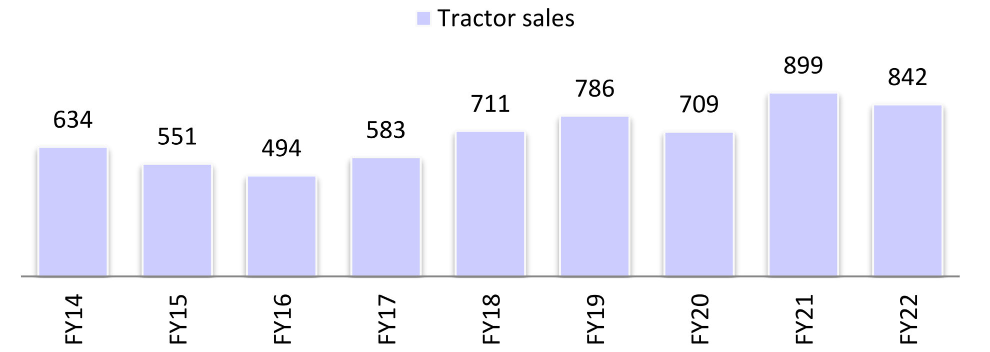
Source: MOFSL, Company

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



Source: MOFSL, Company

Exhibit 20: Yearly tractor sales ('000)

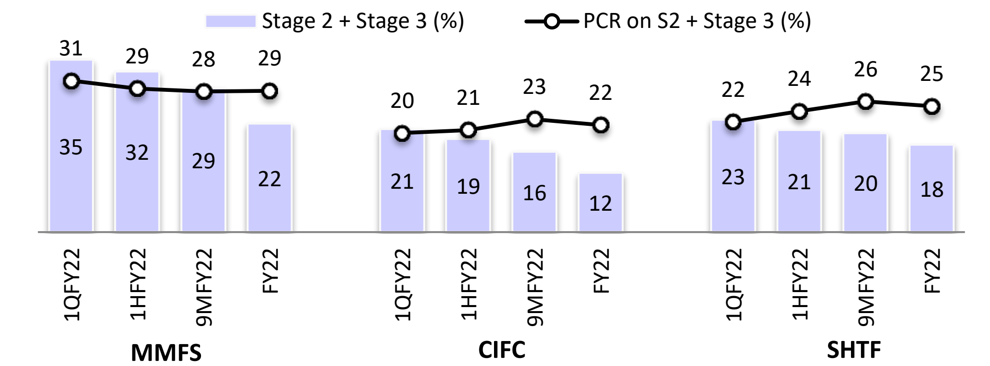


Source: MOFSL, Company

Decline in the overall stress pool will aid asset quality and lead to lower credit costs in FY23

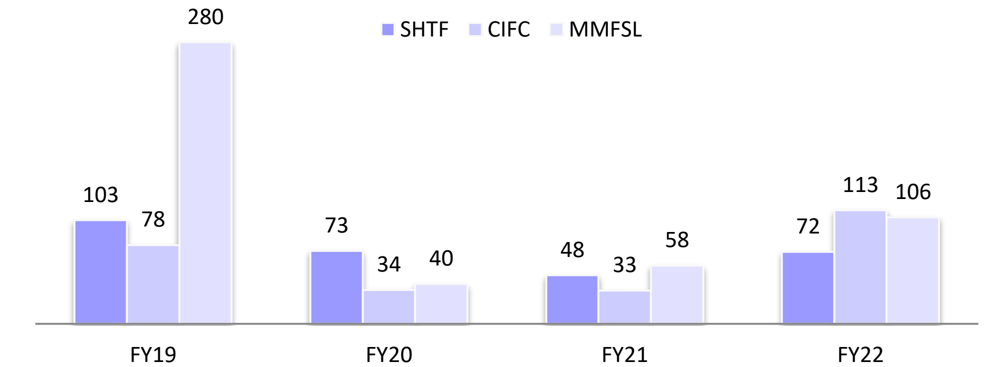
A large part of the reduction in asset quality stress in FY22 was affected by repossessions and settlements, which resulted in large P&L write-off costs.

Exhibit 21: Stressed pool declined meaningfully for MMFS and CIFC through the course of FY22



Source: MOFSL, Company

Exhibit 22: Write-offs were more pronounced for CIFC and MMFS compared to SHTF in FY22

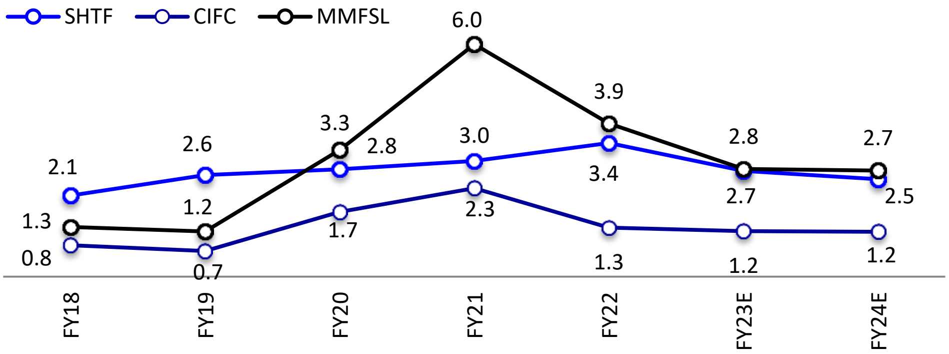


Source: MOFSL, Company

A large part of the asset quality stress, which emanated from the COVID-19 pandemic, has either been resolved or is currently classified as restructured, where the residual stress will unwind over the next four quarters. Across the board, we expect credit costs to moderate in FY23, driven by: a) improvement in asset quality, b) utilization of COVID-related provisions as tail risks from the pandemic on asset quality recede.

Expect credit costs to moderate in FY23, driven by: a) improvement in asset quality, b) utilization of COVID-related provisions as tail risks from the pandemic on asset quality recede.

Exhibit 23: Credit costs for CIFC expected to decline



Source: MOFSL, Company

Companies

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Cholamandalam Inv & Fin

Reducing cyclicality by focusing on building robust newer product lines

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Shriram Transport Finance

Beneficiary of an improvement in CV demand

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Mahindra & Mahindra Financial

Business transformation with Vision 2025 aspirational, but a step in the right direction

27 June 2022

Sector: Financials - NBFC

Cholamandalam Inv & Fin

BSE SENSEX	S&P CNX
53,161	15,832

Chola
Enter a better life

Stock Info

Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USDb)	520.7 / 6.6
52-Week Range (INR)	770 / 470
1, 6, 12 Rel. Per (%)	0/28/19
12M Avg Val (INR M)	1682
Free float (%)	48.5

Financials Snapshot (INR b)

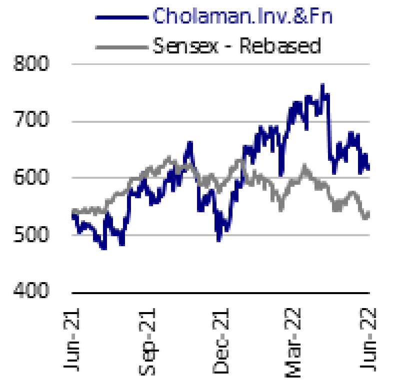
Y/E March	FY22	FY23E	FY24E
Total Income	58.4	64.7	76.4
PPP	37.7	41.1	49.3
PAT	21.5	23.4	28.1
EPS (INR)	26.1	28.5	34.2
EPS Gr. (%)	41	9	20
BV (INR)	143	168	199
Valuations			
NIM (%)	7.5	7.1	7.0
C/I ratio (%)	35.4	36.5	35.5
RoAA (%)	2.7	2.6	2.6
RoE (%)	20.2	18.3	18.6
Payout (%)	7.7	9.8	8.8
Valuations			
P/E (x)	24.3	22.3	18.5
P/BV (x)	4.4	3.8	3.2
Div. Yield (%)	0.3	0.4	0.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	51.6	51.6	51.6
DII	23.0	22.8	24.4
FII	17.6	17.7	16.5
Others	7.8	8.0	7.5

FII Includes depository receipts

Stock performance (one-year)



CMP: INR634 TP: INR780 (+23%) Buy

Reducing cyclicality by focusing on building robust newer product lines

- **CIFC is at a pivotal point in its evolution towards Chola 3.0 as it is building out newer product segments in Consumer, Small Enterprises, Secured, and Personal loans.**
- **While we acknowledge that CIFC does not yet have a clear 'right to win' in newer businesses, we believe it is well-equipped to build-out capabilities in these product segments, given the manner in which it is approaching these businesses.**
- **The management’s endeavor will be to gradually reduce cyclicality, which is inherent in its core Vehicle Finance business, by building a fairly diversified loan book, which can withstand the test of economic and credit cycles from a growth and asset quality paradigm.**
- **We model an AUM/PAT CAGR of 21%/15% over FY22-24, with a RoA/RoE of 2.6%/19% in FY24. CIFC is our high conviction idea within our NBFC coverage universe. We reiterate our Buy rating with a TP of INR780/share (3.9x FY24E P/BV).**

Industry-leading AUM growth aided by a strong momentum in newer business segments

CIFC has a clear ‘right to win’ in the Vehicle Finance business as it has delivered industry-leading growth in various cycles, with a relatively superior asset quality as compared to its peers. The LAP business has seen a formidable improvement since demonetization and the GST rollout. The management now exudes confidence in growing this segment. While it is natural to be a little skeptical given the strong momentum witnessed in the new business segments in 4QFY22, we expect the management to calibrate growth in FY23/FY24, given its experience on asset quality in these business lines.

FY23 will be about liability as well as asset management

Compared to MMFS and SHTF, CIFC (in our estimate) has a higher share of floating-rate liabilities in its borrowing mix. This is because only Vehicle Finance loans (~70% of its mix) are at a fixed rate and the balance is Home loans and LAP, which are at a floating rate. In an increasing interest-rate environment, NIM compression is inevitable. We believe CIFC can use levers like: a) increasing the proportion of CP (~4% now) in the borrowing mix, b) further rationalizing the excess liquidity on its Balance Sheet, and c) changing the product mix to higher yielding newer product segments. We expect NIM to decline by ~45bp/10bp to 7.1%/7.0% in FY23/FY24. CIFC can flex the levers of OPEX and credit costs to maintain a healthy RoA.

Expect asset quality to normalize to pre-COVID levels by FY23-end; credit costs will be the lowest among peers

CIFC has demonstrated a healthy improvement in asset quality in the last nine months of FY22 on the back of much lower write-offs and repossession costs relative to its peers. It will exhibit higher delinquencies in 1HFY23 as customers report lower earnings on higher fuel prices (despite an improvement in freight rates). We expect a strong 2HFY23, with the 30+dpd reverting back to ~7% by FY23 (v/s 12% in Mar'22). If there are no more severe COVID waves in India, we expect the company to utilize the management overlay as asset quality risks recede. We estimate higher credit costs (~200bp) in newer business lines and ~100bp for traditional businesses for a blended credit cost of 110bp (on loans) in FY23-24.

Stakes its claim to become a large diversified NBFC; hands-down the best player in this space

All NBFC franchises, where there is a great visibility on the growth trajectory, an excellent corporate governance track record, stability in earnings, and the ability to deliver strong through-cycle RoA/RoE, will trade at premium valuations relative to their peers. There is a huge opportunity in Consumer, MSME, and SME loans for someone with the lineage, track record, and the Balance Sheet strength of CIFC to create a franchise that offers a diversified suite of products for the middle-of-the-pyramid customers and an option value to deliver higher RoA/RoE after the build-out of newer product segments is complete over the next two years. CIFC is our high conviction idea within our NBFC coverage universe. We reiterate our Buy rating with a TP of INR780 per share (3.9x FY24E P/BV) and a FY24E RoA/RoE of 2.6%/19%.

Story in charts

Exhibit 24: Expect an AUM CAGR of ~21% over FY22-24

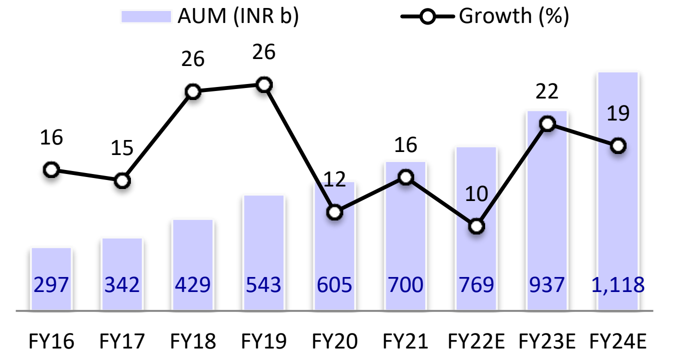


Exhibit 25: Disbursements to clock ~23% CAGR over FY22-24

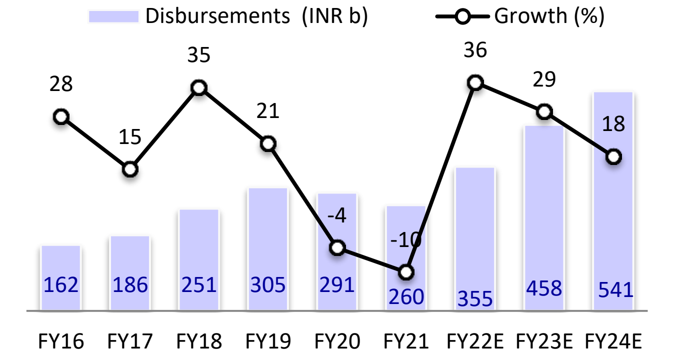


Exhibit 26: Expect a decline in spreads

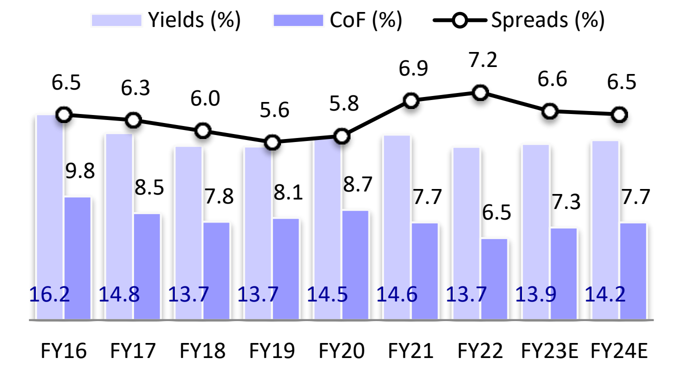


Exhibit 27: Expect NIM to contract by ~45bp in FY23E

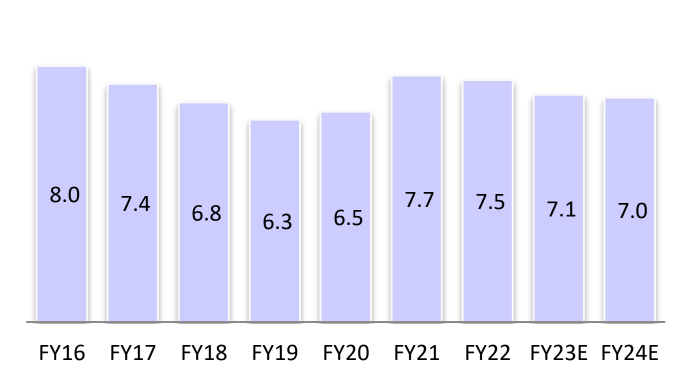


Exhibit 28: Cost ratios will remain at current levels, led by investments in distribution and technology

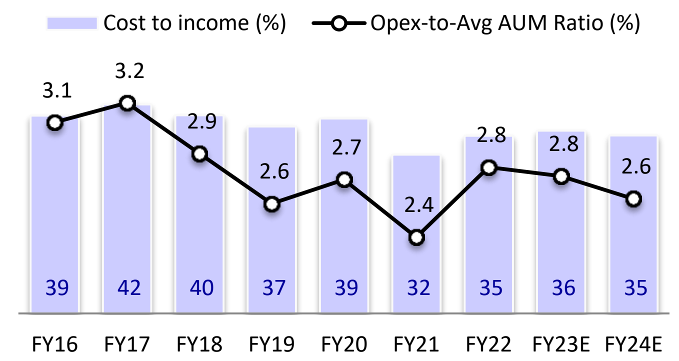


Exhibit 29: Credit cost will normalize towards the run-rate of ~100bp

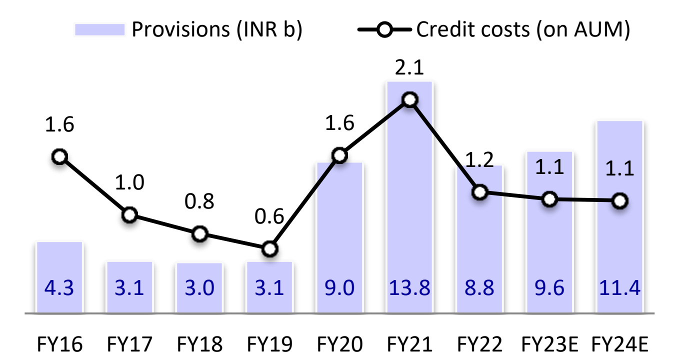
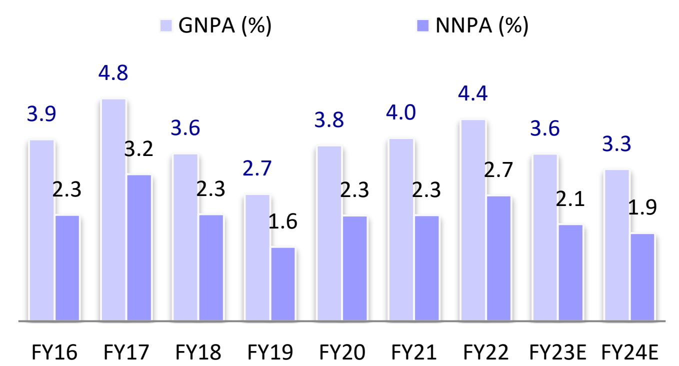
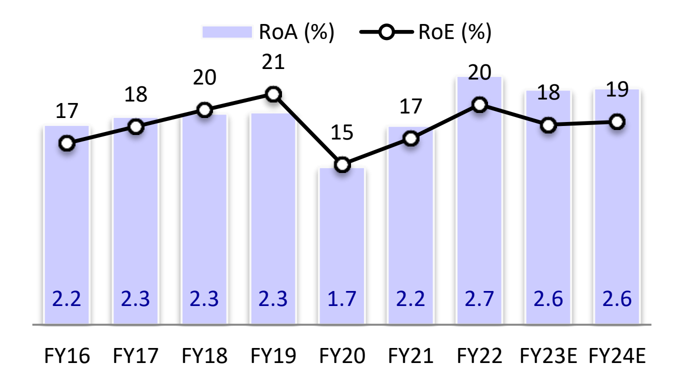


Exhibit 30: Expect asset quality to improve over FY23-24



Source: MOFSL, Company

Exhibit 31: Healthy RoE of ~19% over the medium term



Source: MOFSL, Company

Exhibit 32: DuPont Analysis

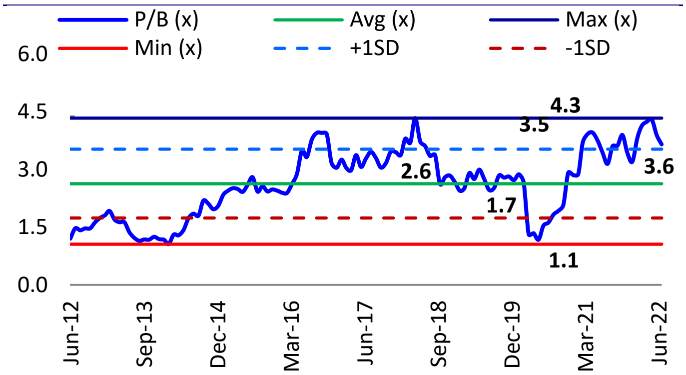
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	15.1	13.9	13.1	12.8	12.9	12.8	12.2	12.6	13.0
Interest Expended	7.9	7.1	6.7	7.1	7.6	6.6	5.5	6.2	6.6
Net Interest Income	**7.2**	**6.8**	**6.4**	**5.7**	**5.4**	**6.2**	**6.7**	**6.4**	**6.4**
Other Operating Income	1.1	0.9	0.7	1.0	1.3	1.0	0.7	0.7	0.7
Net Income	**8.3**	**7.7**	**7.1**	**6.7**	**6.7**	**7.2**	**7.4**	**7.2**	**7.1**
Operating Expenses	3.3	3.2	2.8	2.5	2.6	2.3	2.6	2.6	2.5
Operating Income	**5.0**	**4.5**	**4.3**	**4.2**	**4.1**	**4.9**	**4.8**	**4.5**	**4.6**
Provisions/write-offs	1.7	1.0	0.8	0.6	1.5	2.0	1.1	1.1	1.1
PBT	**3.4**	**3.5**	**3.5**	**3.6**	**2.6**	**2.9**	**3.7**	**3.5**	**3.5**
Tax	1.2	1.2	1.2	1.3	0.9	0.8	0.9	0.9	0.9
Reported PAT	**2.2**	**2.3**	**2.3**	**2.3**	**1.7**	**2.2**	**2.7**	**2.6**	**2.6**
Leverage	7.6	8.0	8.5	9.1	8.5	7.8	7.4	7.1	7.2
RoE	**16.6**	**18.2**	**19.7**	**21.2**	**14.7**	**17.1**	**20.2**	**18.3**	**18.6**

Source: MOFSL, Company

Exhibit 33: Cut our FY23/FY24 EPS estimate by 10%/7% to factor in higher OPEX and credit cost

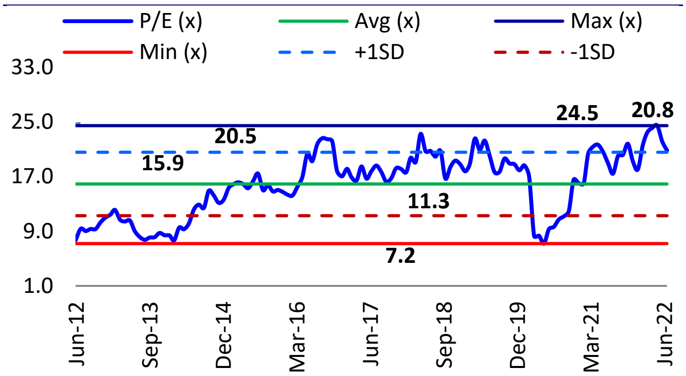
INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII (incl. assignments)	57.9	69.0	58.2	69.2	0.4	0.3
Other Income	7.5	7.9	6.6	7.2	-12.2	-8.0
Total income	**65.4**	**76.9**	**64.7**	**76.4**	**-1.0**	**-0.6**
Operating Expenses	22.3	25.1	23.6	27.1	5.7	7.9
Operating Profit	**43.1**	**51.7**	**41.1**	**49.3**	**-4.5**	**-4.7**
Provisions	8.1	11.0	9.6	11.4	18.2	4.2
PBT	**34.9**	**40.8**	**31.5**	**37.9**	**-9.7**	**-7.1**
Tax	9.0	10.5	8.1	9.7	-9.5	-6.9
PAT	**25.9**	**30.3**	**23.4**	**28.1**	**-9.8**	**-7.2**
AUM	912	1,088	937	1,118	2.8	2.8
Loans	866	1,034	905	1,079	4.4	4.4
Borrowings	812	974	848	1,012	4.5	3.9
NIM	7.3	7.3	7.1	7.0		
Credit Cost	1.0	1.1	1.1	1.1		
RoA on AUM	3.0	2.9	2.6	2.6		
RoE	**20.6**	**20.0**	**18.3**	**18.6**		

Exhibit 34: Trend in P/B ratio (one-year forward)



Source: MOFSL, Company

Exhibit 35: Trend in P/E ratio (one-year forward)



Source: MOFSL, Company

Financials and valuation

Income Statement									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Interest Income	39,163	43,717	51,862	64,962	78,417	88,772	95,668	1,14,397	1,40,827
Interest Expenses	20,508	22,308	26,593	35,887	45,922	45,759	42,988	56,210	71,616
Net Interest Income	**18,655**	**21,409**	**25,268**	**29,075**	**32,495**	**43,013**	**52,680**	**58,187**	**69,211**
Change (%)	24.4	14.8	18.0	15.1	11.8	32.4	22.5	10.5	18.9
Income from assignments	2,053	2,103	0	867	2,473	0	0	0	0
Other Operating Income	708	776	2,931	4,090	5,637	6,388	4,815	5,606	6,234
Total Income	**21,429**	**24,295**	**28,203**	**34,039**	**40,607**	**49,997**	**58,400**	**64,743**	**76,442**
Change (%)	23.8	13.4	16.1	20.7	19.3	23.1	16.8	10.9	18.1
Total Operating Expenses	**8,449**	**10,133**	**11,153**	**12,696**	**15,776**	**15,834**	**20,687**	**23,605**	**27,134**
Change (%)	12.8	19.9	10.1	13.8	24.3	0.4	30.6	14.1	15.0
Employee Expenses	2,539	4,027	5,368	5,906	6,550	7,485	8,945	10,287	11,624
Business Origination Expenses	2,258	1,784	775	1,525	2,398	2,242	0	0	0
Other Operating Expenses	3,652	4,323	5,010	5,265	6,828	6,107	11,742	13,318	15,510
Operating Profit	**12,980**	**14,162**	**17,051**	**21,344**	**24,831**	**34,162**	**37,712**	**41,138**	**49,308**
Change (%)	32.2	9.1	20.4	25.2	16.3	37.6	10.4	9.1	19.9
Total Provisions	**4,272**	**3,106**	**3,037**	**3,112**	**8,973**	**13,778**	**8,803**	**9,621**	**11,448**
As a percentage of Operating Profit	32.9	21.9	17.8	14.6	36.1	40.3	23.3	23.4	23.2
PBT	**8,708**	**11,056**	**14,014**	**18,232**	**15,857**	**20,384**	**28,909**	**31,517**	**37,860**
Tax Provisions	3,023	3,868	4,831	6,370	5,334	5,235	7,442	8,114	9,747
Tax Rate (%)	34.7	35.0	34.5	34.9	33.6	25.7	25.7	25.7	25.7
PAT	**5,685**	**7,187**	**9,183**	**11,862**	**10,524**	**15,149**	**21,467**	**23,403**	**28,114**
Change (%)	30.6	26.4	27.8	29.2	-11.3	44.0	41.7	9.0	20.1
Proposed Dividend	703	547	1,016	1,016	1,662	1,640	1,643	2,300	2,464

Balance Sheet									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Share Capital	1,562	1,564	1,564	1,564	1,640	1,640	1,643	1,643	1,643
Reserves and Surplus	35,012	40,971	49,105	59,880	80,079	93,962	1,15,434	1,36,538	1,62,187
Net Worth for Equity Shareholders	**36,574**	**42,535**	**50,669**	**61,445**	**81,718**	**95,602**	**1,17,077**	**1,38,180**	**1,63,830**
Borrowings	**2,25,762**	**3,02,001**	**3,83,303**	**5,05,667**	**5,50,054**	**6,37,300**	**6,91,735**	**8,48,269**	**10,11,885**
Change (%)	15.9	33.8	26.9	31.9	8.8	15.9	8.5	22.6	19.3
Total Liabilities	**2,78,883**	**3,50,372**	**4,40,897**	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**9,86,449**	**11,75,715**
Investments	666	697	729	729	729	16,188	20,762	25,448	30,357
Change (%)	-1.3	4.6	4.7	0.0	0.0	2,120.0	28.3	22.6	19.3
Loans	**2,59,732**	**3,32,244**	**4,22,532**	**5,26,223**	**5,54,027**	**6,58,393**	**7,41,492**	**9,04,508**	**10,78,972**
Change (%)	16.8	27.9	27.2	24.5	5.3	18.8	12.6	22.0	19.3
Net Fixed Assets	1,113	1,417	1,646	1,759	2,839	2,294	2,685	3,088	3,551
Total Assets	**2,78,883**	**3,50,372**	**4,40,897**	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**9,86,449**	**11,75,715**

E: MOFSL estimates

Financials and valuation

Ratios									(%)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Spreads Analysis (%)									
Avg. Yield on Loans	16.2	14.8	13.7	13.7	14.5	14.6	13.7	13.9	14.2
Avg. Cost of Funds	9.8	8.5	7.8	8.1	8.7	7.7	6.5	7.3	7.7
Spread on loans	6.5	6.3	6.0	5.6	5.8	6.9	7.2	6.6	6.5
NIM (on loans)	8.0	7.4	6.8	6.3	6.5	7.7	7.5	7.1	7.0
Profitability Ratios (%)									
RoE	16.6	18.2	19.7	21.2	14.7	17.1	20.2	18.3	18.6
RoA	2.2	2.3	2.3	2.3	1.7	2.2	2.7	2.6	2.6
Int. Expended/Int. Earned	52.4	51.0	51.3	55.2	58.6	51.5	44.9	49.1	50.9
Other Inc./Net Income	3.4	3.2	10.4	12.0	13.9	14.0	9.8	10.1	9.5
Efficiency Ratios (%)									
Op. Exps./Net Income	39.4	41.7	39.5	37.3	38.9	31.7	35.4	36.5	35.5
Empl. Cost/Op. Exps.	30.1	39.7	48.1	46.5	41.5	47.3	43.2	43.6	42.8
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	115	110	110	104	101	103	107	107	107
Net NPA to Net Adv.	2.3	3.2	2.3	1.6	2.3	2.3	2.7	2.1	1.9
Assets/Equity ratio	7.6	8.2	8.7	9.3	7.8	7.8	7.0	7.1	7.2

Valuations	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (INR)	46.8	54	65	79	100	117	143	168	199
Growth in BV (%)	6.0	16.2	19.1	21.2	26.9	17.0	22.2	18.0	18.6
Price-to-BV (x)						**5.4**	**4.4**	**3.8**	**3.2**
EPS (INR)	7.3	9	12	15	13	18	26	28	34
EPS Growth (%)	20.1	26.3	27.7	29.1	-15.4	44.0	41.4	9.0	20.1
Price-to-Earnings (x)						**34.3**	**24.3**	**22.3**	**18.5**
Dividend per share	0.9	1.1	1.3	1.3	1.7	2.0	2.0	2.8	3.0
Dividend Yield (%)						**0.3**	**0.3**	**0.4**	**0.5**

E: MOFSL estimates

27 June 2022

Update | Sector: Financials

Shriram Transport Finance

BSE SENSEX	S&P CNX
53,161	15,832

SHRIRAM Transport Finance Company Limited
A WINNING RELATIONSHIP

Stock Info

Bloomberg	SHTF IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	338.8 / 4.3
52-Week Range (INR)	1696 / 1003
1, 6, 12 Rel. Per (%)	13/10/-9
12M Avg Val (INR M)	1714
Free float (%)	73.6

Financials Snapshot (INR b)

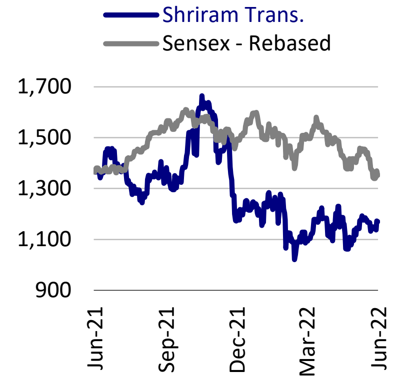
Y/E March	FY22	FY23E	FY24E
Net Inc.	95.4	100.9	109.9
PPP	74.1	76.5	83.5
PAT	27.1	32.2	37.0
EPS (INR)	100	119	137
EPS Gr. (%)	1.8	19.1	14.9
BV/Sh (INR)	962	1,058	1,174
Ratios			
NIM (%)	7.9	7.6	7.5
C/I ratio (%)	22.3	24.2	24.0
RoA (%)	2.0	2.2	2.3
RoE (%)	11.5	11.9	12.4
Payout (%)	24.0	21.1	18.6
Valuations			
P/E (x)	12.5	10.5	9.1
P/BV (x)	1.3	1.2	1.1
Div. Yield (%)	1.6	1.7	1.7

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	26.5	26.1	26.5
DII	14.0	15.2	6.9
FII	53.9	53.2	61.0
Others	5.7	5.6	5.6

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,252 **TP: INR1,450 (+16%)** **Buy**

Beneficiary of an improvement in CV demand

Good progress being made on the merger

Demand/volumes for Commercial Vehicles (CVs) have remained strong for the past three-to-four months. This demand momentum in CVs is likely to sustain and should aid SHTF, which is a predominant play on Used CV financing. SHTF has delivered historically high levels of disbursements over the last three quarters, aided by higher ticket sizes and greater volumes. Capacity utilization levels remain high. The management foresees a strong CV cycle over the next three years. It is making steady progress on the announced merger, with various cross-sell pilots being run across identified branches. We model an AUM/PAT CAGR of 11%/21% over FY22-24 for a FY24 RoA/RoE of 2.5%/13%. We maintain our Buy rating with a TP of INR1,450 per share (based on 1.2x FY24E P/BV).

Loan growth will be aided by higher ticket sizes and volumes

Our estimates suggest that ~50% of the growth in FY22 was aided by higher ticket sizes and the balance was attributable to higher volumes. Commentaries from fleet operators and vehicle financiers seem to suggest that capacity utilization has been high at 80-85% all through Jan-May'22. We expect this to translate into disbursement/AUM CAGR of 8%/11% over FY22-24 for SHTF.

Access to the debt market has improved and liabilities are easily accessible

Prior to the outbreak of the COVID-19 pandemic, it went through bouts where it faced difficulties in accessing the debt market and in raising funds from Private Banks. However, access to the debt market has eased in the last one-year and borrowings have become easily accessible. SHTF has a well-diversified borrowing mix, with estimated fixed/floating rate liabilities of ~85%/~15%.

Pricing power will help lower the impact on spreads and margin in a rising interest rate environment

SHTF has pricing power in its customer segment of predominantly SRTOs. In a rising interest rate environment, while NIM compression is inevitable, the pricing power of SHTF can help mitigate NIM compression. And we expect NIM to decline by ~30bp to 7.6% in FY23.

Expect asset quality to remain stable at current levels

SHTF has exhibited lower asset quality stress (particularly during the COVID-19 pandemic) relative to its peers. A large part of this outperformance is attributable to the Used CV segment (constituting over 90% of its AUM mix) and exposure to the SRTO customer segment, which was relatively less vulnerable even during the pandemic. We expect the GS3 to remain range-bound at current levels of 7-7.5% and model credit costs of 2.5%/2.3% in FY23/FY24.

Announced merger will be approved by Oct'22

It has made steady progress in its three-way merger that was announced in Dec'21. SHTF/SCUF have their shareholders, secured, and unsecured creditors' meetings scheduled on 4th Jul'22/6th Jul'22. After the voting and respective meetings, NCLT will announce the results. RBI approval for the merger is expected by Oct'22.

The merged entity will emerge stronger than their respective standalone businesses

Liability-side challenges faced by the company (even before the COVID-19 pandemic broke out) have been addressed. It now has a relatively higher comfort in raising funds from Banks, but the borrowing cost of debt market instruments still continues to remain higher.

Concern around potential (partial/complete) exits by investors (such as PIEL, Apax, TPG, and Sanlam) after the merger is complete may remain an overhang on the stock. We believe that some of these stake sales could be consummated in private transactions, rather than via the open market. We have a Neutral view on the announced merger as we neither see any significant synergies nor can highlight any significant negatives. We believe that the merged entity will emerge stronger than their respective standalone businesses. We maintain our Buy rating on the stock with a TP of INR1,450 (premised on 1.2x FY24E BV).

Story in charts

Exhibit 36: Expect AUM CAGR of ~11% over FY22-24

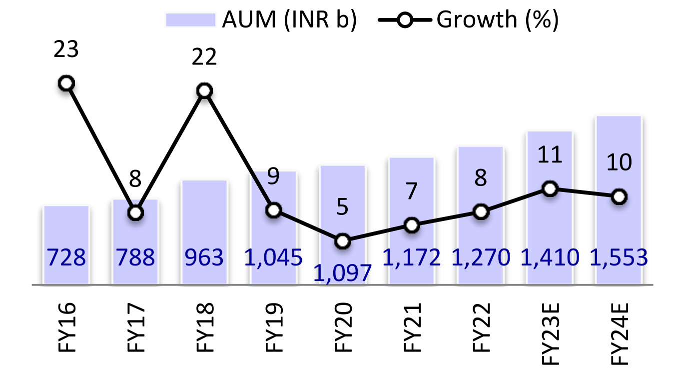


Exhibit 37: Project disbursement CAGR of ~8% over FY22-24E

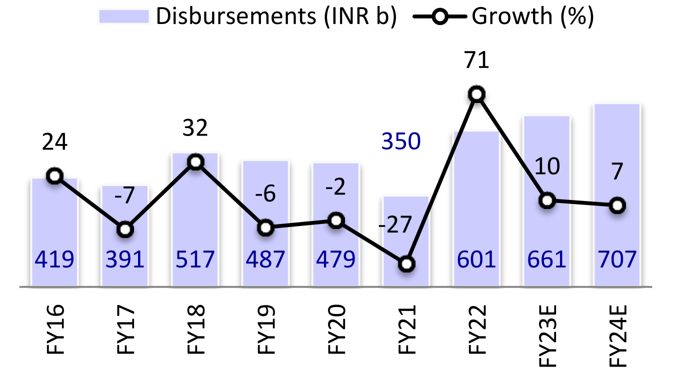


Exhibit 38: Expect spreads to decline ~40bp in FY23…

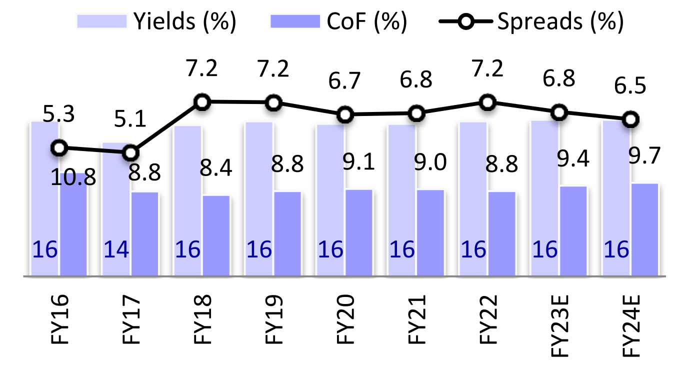


Exhibit 39: … and NIM compression of ~30bp in FY23

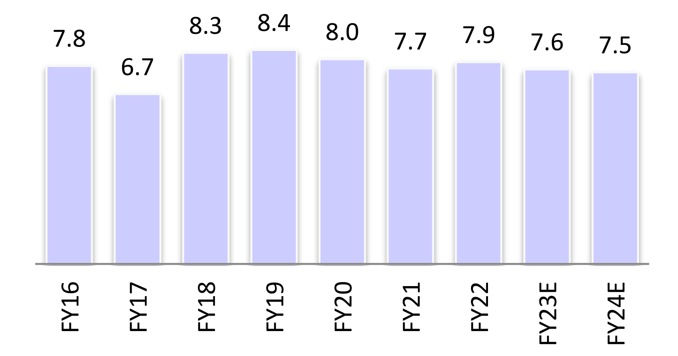


Exhibit 40: Expect C/I ratio to increase to ~24% (largely stable)

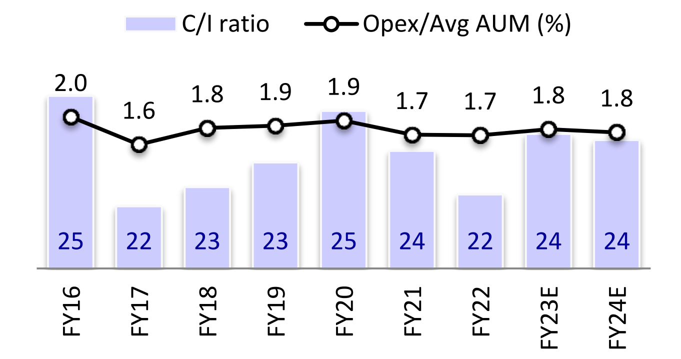


Exhibit 41: Expect credit cost to decline over FY23 and FY24

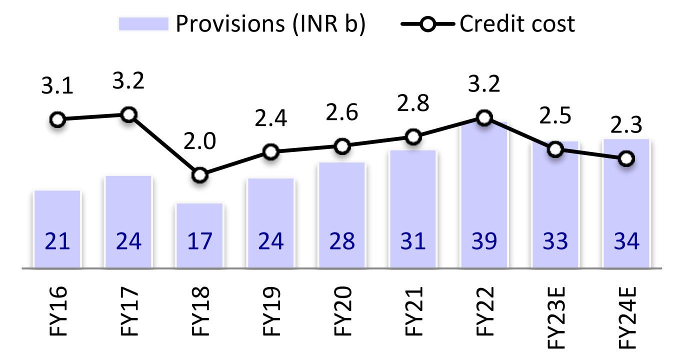
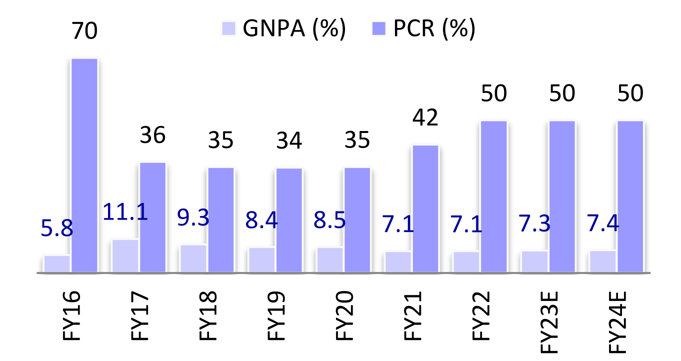
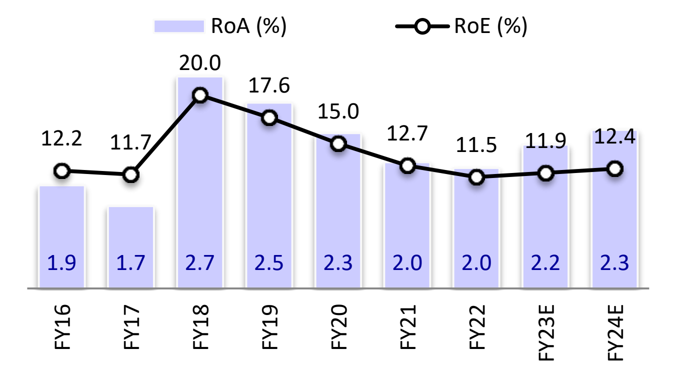


Exhibit 42: Expect asset quality to remain stable



Source: MOFSL, Company

Exhibit 43: Expect a RoA/RoE of 2.5%/12% in FY24



Source: MOFSL, Company

Exhibit 44: DuPont Analysis

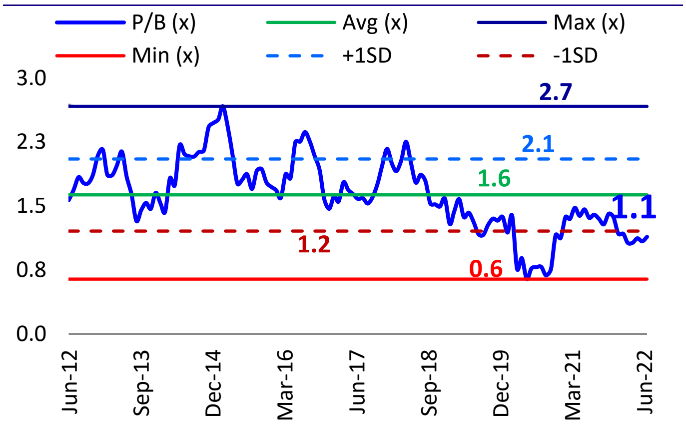
Y/E MARCH	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	15.0	13.1	14.7	15.2	14.8	14.1	13.7	13.9	14.2
Interest Expended	8.0	7.0	7.1	7.4	7.5	7.4	7.2	7.6	7.8
Net Interest Income	**7.0**	**6.1**	**7.6**	**7.8**	**7.3**	**6.6**	**6.6**	**6.4**	**6.4**
Other operating income	0.9	1.1	0.1	0.1	0.3	0.2	0.4	0.4	0.4
Other Income	0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	**8.0**	**7.4**	**8.0**	**7.9**	**7.6**	**6.9**	**7.0**	**6.8**	**6.8**
Operating Expenses	2.1	1.6	1.8	1.9	1.9	1.6	1.6	1.7	1.6
Operating Income	**6.0**	**5.7**	**6.2**	**6.1**	**5.7**	**5.2**	**5.4**	**5.2**	**5.2**
Provisions	3.2	3.3	1.9	2.4	2.5	2.6	2.8	2.3	2.1
PBT	**2.7**	**2.5**	**4.2**	**3.7**	**3.1**	**2.7**	**2.6**	**2.9**	**3.1**
Tax	0.9	0.9	1.5	1.2	0.9	0.6	0.6	0.7	0.8
Reported PAT	**1.8**	**1.6**	**2.7**	**2.5**	**2.3**	**2.0**	**2.0**	**2.2**	**2.3**
Leverage	6.6	7.0	7.3	7.0	6.6	6.2	5.7	5.4	5.3
RoE	**11.7**	**11.0**	**19.9**	**17.6**	**14.9**	**12.6**	**11.3**	**11.7**	**12.2**

Source: MOFSL, Company

Exhibit 45: Lower our FY23/FY24 EPS estimate by 4%/9% to factor in lower NII

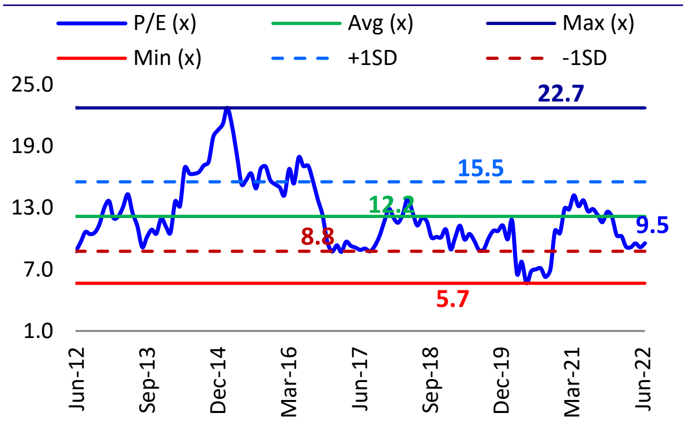
INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII (incl. Sec. Inc.)	95.8	106.9	94.1	102.6	-1.7	-4.1
Other Income	6.9	7.6	6.8	7.3		
Total Income	**102.7**	**114.6**	**100.9**	**109.9**	**-1.7**	**-4.1**
Operating Expenses	24.4	26.4	24.4	26.4	0.0	0.0
Operating Profit	**78.2**	**88.1**	**76.5**	**83.5**	**-2.3**	**-5.3**
Provisions	33.5	34.1	33.5	34.1	0.0	0.0
PBT	**44.8**	**54.0**	**43.0**	**49.4**	**-4.0**	**-8.6**
Tax	11.2	13.5	10.7	12.3	-4.0	-8.6
PAT	**33.6**	**40.5**	**32.2**	**37.0**	**-4.0**	**-8.6**
AUM	1,410	1,553	1,410	1,553	0.0	0.0
Loans	1,298	1,429	1,298	1,429	0.0	0.0
Borrowings	1,224	1,348	1,224	1,348	0.0	0.0
NIM (%)	7.8	7.8	7.6	7.5		
Credit Cost (%)	2.5	2.3	2.5	2.3		
RoA	**2.0**	**2.3**	**2.0**	**2.2**		

Exhibit 46: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 47: One-year forward P/E ratio



Source: MOFSL, Company

SHTF: Financials and valuations

Income Statement									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Interest Income	95,300	98,013	1,31,935	1,53,843	1,62,675	1,71,281	1,86,463	2,05,471	2,27,309
Interest Expenses	50,744	52,094	63,688	75,113	82,703	90,543	97,343	1,11,345	1,24,752
Net Interest Income	**44,556**	**45,919**	**68,248**	**78,730**	**79,972**	**80,739**	**89,120**	**94,125**	**1,02,557**
Change (%)	32.0	3.1	48.6	15.4	1.6	1.0	10.4	5.6	9.0
Other Operating Income	6,171	9,293	1,051	1,382	2,880	2,923	6,089	6,576	7,102
Other Income	762	758	2,027	233	203	160	191	213	239
Net Income	**51,489**	**55,970**	**71,326**	**80,344**	**83,055**	**83,821**	**95,399**	**1,00,915**	**1,09,899**
Change (%)	23.1	8.7	27.4	12.6	3.4	0.9	13.8	5.8	8.9
Operating Expenses	13,089	12,288	16,085	18,739	20,720	19,857	21,298	24,441	26,415
Operating Profit	**38,400**	**43,682**	**55,241**	**61,605**	**62,336**	**63,964**	**74,101**	**76,474**	**83,484**
Change (%)	23.7	13.8	26.5	11.5	1.2	2.6	15.8	3.2	9.2
Provisions	20,586	24,443	17,223	23,823	27,949	31,184	38,609	33,482	34,095
PBT	**17,814**	**19,239**	**38,018**	**37,783**	**34,387**	**32,780**	**35,493**	**42,992**	**49,389**
Tax	6,032	6,666	13,413	12,143	9,368	7,908	8,413	10,748	12,347
Tax Rate (%)	33.9	34.6	35.3	32.1	27.2	24.1	23.7	25.0	25.0
PAT	**11,782**	**12,573**	**24,605**	**25,640**	**25,018**	**24,873**	**27,079**	**32,244**	**37,042**
Change (%)	-4.8	6.7	95.7	4.2	-2.4	-0.6	8.9	19.1	14.9
Proposed Dividend	2,731	2,995	3,006	3,282	1,134	4,555	5,410	5,675	5,741

Balance Sheet									(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Capital	2,269	2,269	2,269	2,269	2,269	2,531	2,705	2,705	2,705
Reserves and Surplus (Excl. OCI)	99,272	1,10,247	1,31,871	1,54,228	1,75,965	2,12,265	2,57,644	2,83,526	3,14,826
Net Worth	**1,01,541**	**1,12,516**	**1,34,140**	**1,56,497**	**1,78,234**	**2,14,796**	**2,60,349**	**2,86,231**	**3,17,532**
Other Comprehensive Income		-13	-26	-49	-97	-1,027	-1,027	-2,255	-2,255
Net Worth	**1,01,541**	**1,12,503**	**1,34,114**	**1,56,448**	**1,78,137**	**2,13,769**	**2,59,322**	**2,83,976**	**3,15,277**
Change (%)	9.9	10.8	19.2	16.7	13.9	20.0	21.3	10.3	11.0
Borrowings	**4,97,907**	**6,87,982**	**8,21,308**	**8,79,144**	**9,43,718**	**10,61,964**	**11,44,967**	**12,24,077**	**13,48,125**
Change (%)	12.5	38.2	19.4	7.0	7.3	12.5	7.8	6.9	10.1
Other Liabilities	80,185	16,627	17,028	17,333	19,432	21,055	16,772	19,060	19,441
Total Liabilities	**6,79,633**	**8,17,112**	**9,72,450**	**10,52,925**	**11,41,286**	**12,96,789**	**14,21,061**	**15,27,114**	**16,82,843**
Investments	13,562	22,587	23,415	39,991	27,985	31,979	68,092	74,901	82,391
Change (%)	-59.2	66.5	3.7	70.8	-30.0	14.3	112.9	10.0	10.0
Loans	**6,37,701**	**7,40,157**	**9,07,456**	**9,67,515**	**10,22,316**	**10,83,030**	**11,66,652**	**12,97,522**	**14,29,013**
Change (%)	25.6	16.1	22.6	6.6	5.7	5.9	7.7	11.2	10.1
Other Assets	28,371	54,369	41,579	45,419	90,985	1,81,780	1,86,318	1,54,691	1,71,440
Total Assets	**6,79,633**	**8,17,112**	**9,72,450**	**10,52,925**	**11,41,286**	**12,96,789**	**14,21,061**	**15,27,114**	**16,82,843**

E: MOFSL estimates

SHTF: Financials and valuations

Ratios									(%)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Spreads Analysis (%)									
Yield on loans	16.1	13.9	15.7	16.0	15.8	15.8	16.0	16.2	16.2
Cost of funds	10.8	8.8	8.4	8.8	9.1	9.0	8.8	9.4	9.7
Spread on loans	5.3	5.1	7.2	7.2	6.7	6.8	7.2	6.8	6.5
NIM	7.8	6.7	8.3	8.4	8.0	7.7	7.9	7.6	7.5
Profitability Ratios (%)									
Cost/Income	25.4	22.0	22.6	23.3	24.9	23.7	22.3	24.2	24.0
Emp./Operating Exp.	45.0	44.6	44.3	47.1	48.8	45.6	46.8	46.1	46.9
RoE	12.2	11.7	20.0	17.6	15.0	12.7	11.4	11.9	12.4
RoA	1.9	1.7	2.7	2.5	2.3	2.0	2.0	2.2	2.3
RoA (On AUM)	1.8	1.7	2.8	2.6	2.3	2.2	2.2	2.4	2.5
Asset quality (%)									
GNPA	38,702	88,597	89,345	86,163	91,771	82,928	88,876	1,02,771	1,14,616
NNPA	11,437	56,419	58,401	56,465	59,911	48,067	44,461	51,386	57,308
GNPA (%)	5.8	11.1	9.3	8.4	8.5	7.1	7.1	7.3	7.4
NNPA (%)	1.8	7.4	6.3	5.7	5.7	4.3	3.7	3.8	3.9
PCR (%)	70.4	36.3	34.6	34.5	34.7	42.0	50.0	50.0	50.0
Capitalization (%)									
CAR	20.6	16.6	17.4	20.3	22.0	22.5	22.6	24.8	24.8
Tier I	16.4	14.3	14.5	15.6	18.1	19.9	20.5	22.8	23.2
Tier II	4.1	2.4	2.9	4.7	3.9	2.6	2.1	2.0	1.7
Average Leverage on Assets (x)	6.6	7.0	7.3	7.0	6.6	6.2	5.7	5.4	5.3

Valuations	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (INR)	448	496	591	690	786	849	960	1,058	1,174
BV Growth (%)	9.9	10.8	19.2	16.7	13.9	8.0	13.1	10.2	10.9
Price-to-BV (x)				**1.8**	**1.6**	**1.5**	**1.3**	**1.2**	**1.1**
Adjusted BV (INR)	412	322	411	516	601	716	845	925	1,025
Price-to-ABV (x)				**2.4**	**2.1**	**1.7**	**1.5**	**1.4**	**1.2**
OPS (INR)	169	193	243	272	275	253	274	283	309
Growth (%)	23.7	13.8	26.5	11.5	1.2	-8.0	8.4	3.2	9.2
Price-to-Earnings (x)				**4.6**	**4.6**	**5.0**	**4.6**	**4.4**	**4.1**
EPS (INR)	52	55	108	113	110	98	100	119	137
Growth (%)	-4.8	6.7	95.7	4.2	-2.4	-10.9	1.8	19.1	14.9
Price-to-Earnings (x)				**11.1**	**11.4**	**12.7**	**12.5**	**10.5**	**9.1**
Dividend	10.0	10.0	11.0	12.0	5.0	18.0	20.0	21.0	21.2
Dividend Yield (%)				**1.0**	**0.4**	**1.4**	**1.6**	**1.7**	**1.7**

E: MOFSL estimates

Mahindra & Mahindra Financial

BSE SENSEX	S&P CNX
53,161	15,832

Mahindra FINANCE

Stock Info

Bloomberg	MMFS IN
Equity Shares (m)	615
M.Cap.(INRb)/(USDb)	219.8 / 2.8
52-Week Range (INR)	206 / 128
1, 6, 12 Rel. Per (%)	7/29/11
12M Avg Val (INR M)	1021
Free float (%)	47.8

Financials Snapshot (INR b)

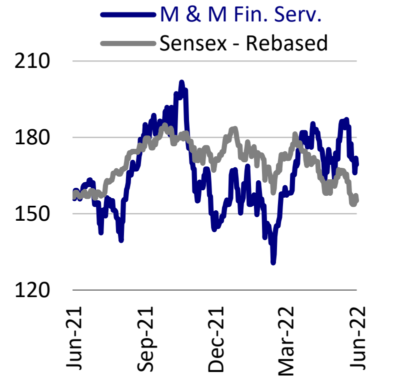
Y/E March	FY22	FY23E	FY24E
NII	55.4	57.1	63.5
PPP	37.3	36.9	41.1
PAT	9.9	14.1	15.8
EPS (INR)	8.0	11.5	12.8
EPS Gr. (%)	195	43	11
BV/Sh.(INR)	123	131	140
Ratios			
NIM (%)	9.5	9.2	9.1
C/I ratio (%)	35.6	38.3	38.2
RoA (%)	1.3	1.8	1.9
RoE (%)	6.6	9.0	9.4
Payout (%)	44.9	30.5	30.5
Valuations			
P/E (x)	22.1	15.5	13.9
P/BV (x)	1.4	1.4	1.3
Div. Yield (%)	2.0	2.0	2.2

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	52.2	52.2	52.2
DII	16.2	15.4	16.8
FII	18.1	19.5	20.5
Others	13.6	13.0	10.6

FII Includes depository receipts

Stock performance (one-year)



CMP: INR178 | **TP: INR210 (+18%)** | **Buy**

Business transformation with Vision 2025 aspirational, but a step in the right direction

MMFS has a healthy and well-diversified liability franchise, which will keep it in better stead in a rising interest rate environment. What we find even better is that parent MM is now taking a more prominent and explicit interest in its performance. Vision 2025 articulated its aspirational goals for AUM growth, asset quality, NIM, cost ratios, and RoA. While the growth targets seem aggressive, it will keep pushing the management team to deliver a much improved performance. The management recently talked about multiple changes that it effected at the operational level, which will help usher stability in asset quality and reduce volatility in credit costs. We model in an AUM/PAT CAGR of 12%/26% over FY22-24E for a RoA/RoE of 1.9%/9.4% in FY24E. We maintain our Buy rating with a TP of INR210/share (based on 1.5x FY24E P/BV).

Better volumes from MM can aid loan growth of MMFS

Wholesale volumes from MM in May'22 surpassed our estimate, with a healthy MoM improvement in UVs (including Pickups). We estimate MM's Auto segment to deliver over 30% growth in volumes in FY23. The contribution of MM's assets to MMFS' AUM stood at 46% in Mar'22 (v/s 43% in Mar'19). We expect MMFS to benefit from higher expected volumes for MM, particularly in the UV segment, which has always been the former's strength.

Relatively less susceptible in a rising interest rate environment?

Around 72% of its liabilities are at a fixed rate, while almost all of its AUM is at a fixed rate. While MMFS will be relatively less susceptible on the borrowing side, it will have limited headroom to pass on the higher cost of borrowings to its customers, leading to a compression in spreads in FY23E. We model in a NIM compression of ~30bp/15bp to 9.2%/9.1% in FY23/FY24.

Asset quality remains volatile, guides at more stability in credit costs

During the second COVID wave, the stress build-up was most pronounced for MMFS relative to its peers like CIFC and SHTF. MMFS did, however, end up reversing all ECL provisions of ~INR25 that it made in 1QFY22 over the next three quarters. But this came along with associated equivalent write-offs of ~INR25b in FY22. Under Vision 2025, MMFS endeavors to deliver a stable asset quality, with GS3 below 6% across credit and economic cycles. Unless there is a substantial improvement or change in the underwriting processes at MMFS, keeping GS3 below 6% will be difficult to achieve on a sustained basis. Stability in credit costs, however, is the most desirable. We believe that MMFS is already taking steps in that direction.

Story in charts

Exhibit 48: Expect 12% AUM CAGR over FY22-24E…

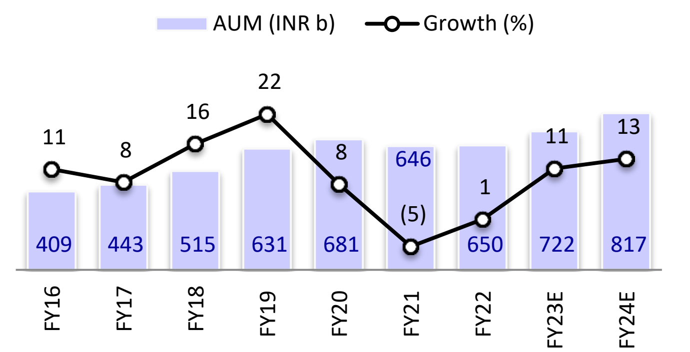


Exhibit 49: …supported by disbursements CAGR of ~20% over FY22-24E

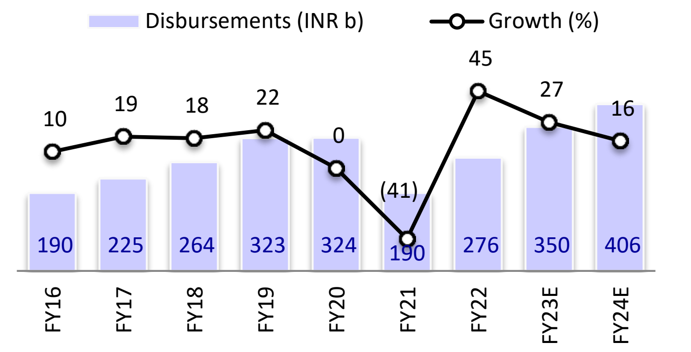


Exhibit 50: Expect sharp increase in CoB over FY23-24

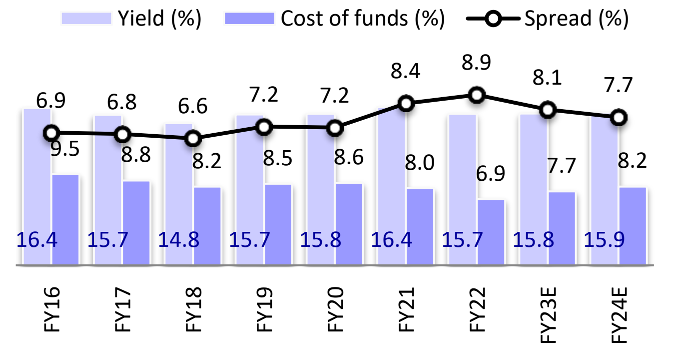


Exhibit 51: Expect NIM to decline by 30/15bp in FY23/FY24

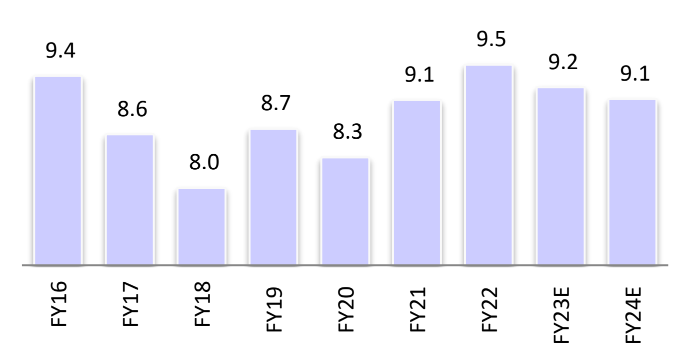


Exhibit 52: Expect C/I ratio to increase to ~38%

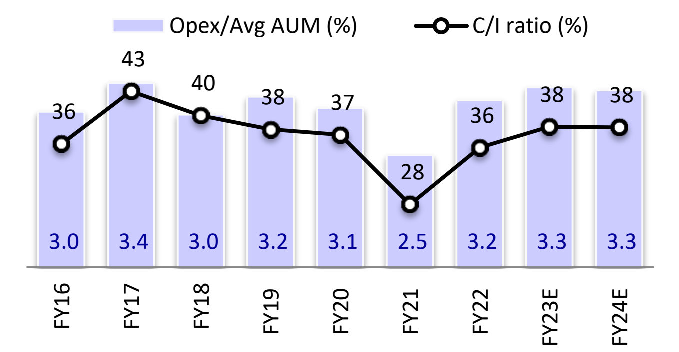


Exhibit 53: Expect credit costs to decline to ~2.6% in FY23/24E

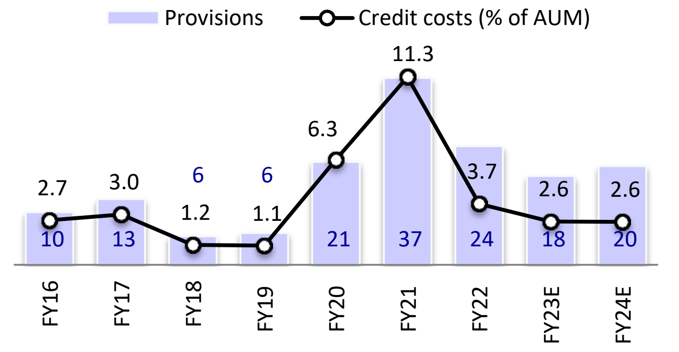
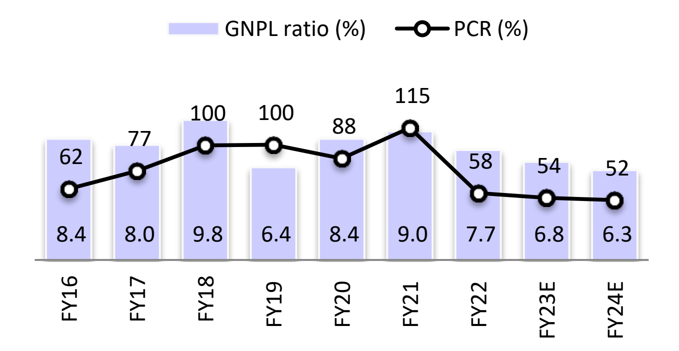
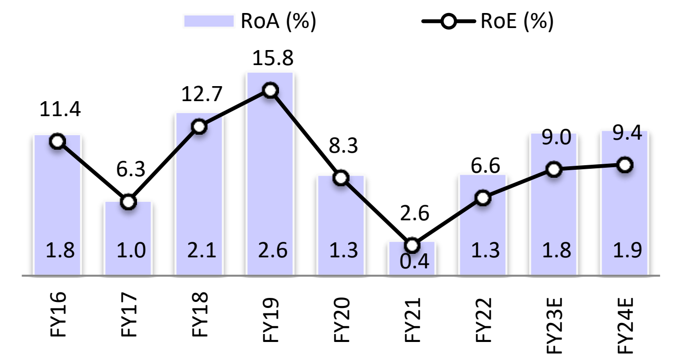


Exhibit 54: Expect asset quality improvement to sustain…



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

Exhibit 55: …translating into RoA of ~2% in the medium term



Source: MOFSL, Company

Exhibit 56: DuPont Analysis

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	15.0	14.3	13.6	14.4	14.1	13.6	12.4	13.0	13.5
Interest Expended	7.1	6.8	6.3	6.6	6.8	6.3	5.2	5.7	6.1
Net Interest Income	**8.0**	**7.5**	**7.2**	**7.8**	**7.2**	**7.3**	**7.3**	**7.4**	**7.5**
Income from Securitization	0.6	0.4	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Net operating income	**8.6**	**7.9**	**7.3**	**8.0**	**7.5**	**7.5**	**7.5**	**7.6**	**7.7**
Other Income	0.1	0.2	0.1	0.1	0.2	0.2	0.1	0.1	0.1
Net Income	**8.7**	**8.1**	**7.4**	**8.1**	**7.7**	**7.7**	**7.6**	**7.7**	**7.8**
Operating Expenses	3.2	3.5	3.0	3.1	2.9	2.2	2.7	3.0	3.0
Operating Income	**5.6**	**4.6**	**4.5**	**5.0**	**4.8**	**5.5**	**4.9**	**4.8**	**4.8**
Provisions/write-offs	2.8	3.1	1.2	1.1	2.9	4.9	3.1	2.3	2.3
PBT	**2.8**	**1.5**	**3.3**	**4.0**	**1.9**	**0.6**	**1.8**	**2.5**	**2.5**
Tax	1.0	0.5	1.2	1.4	0.6	0.1	0.5	0.6	0.7
Reported PAT	**1.8**	**1.0**	**2.1**	**2.6**	**1.3**	**0.4**	**1.3**	**1.8**	**1.9**
Leverage	6.3	6.6	6.1	6.1	6.5	5.8	5.1	5.0	5.1
RoE	**11.4**	**6.3**	**12.7**	**15.8**	**8.3**	**2.6**	**6.6**	**9.0**	**9.4**

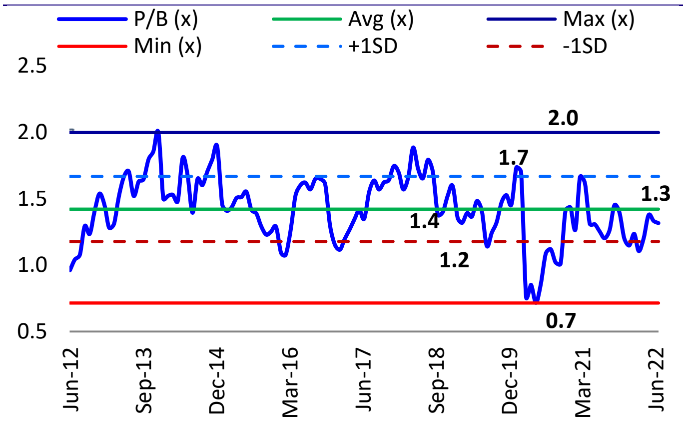
Source: MOFSL, Company

Exhibit 57: Lower our FY23/FY24 EPS estimate by 13-14% to factor in NIM compression and lower credit costs

INR b	Old estimate		New estimate		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
NII (incl. Sec. Inc)	61.9	70.2	59.1	65.7	-4.5	-6.4
Other Income	0.7	0.8	0.7	0.9	4.3	8.9
Total Income	**62.6**	**71.0**	**59.8**	**66.5**	**-4.4**	**-6.3**
Operating Expenses	22.9	25.4	22.9	25.4	0.0	0.0
Operating Profit	**39.7**	**45.5**	**36.9**	**41.1**	**-7.0**	**-9.8**
Provisions	17.7	20.7	17.7	19.7	0.0	-4.6
PBT	**21.9**	**24.8**	**19.2**	**21.4**	**-12.6**	**-14.0**
Tax	5.7	6.5	5.0	5.6	-12.6	-14.0
PAT	**16.2**	**18.3**	**14.1**	**15.8**	**-12.6**	**-14.0**
Loans	680	781	677	770	-0.4	-1.4
Borrowings	591	679	589	670	-0.4	-1.4
Margin	9.6	9.6	9.2	9.1		
Credit Cost	2.8	2.8	2.8	2.7		
RoA on AUM	**2.1**	**2.1**	**1.8**	**1.9**		
RoE	**10.3**	**10.8**	**9.0**	**9.4**		

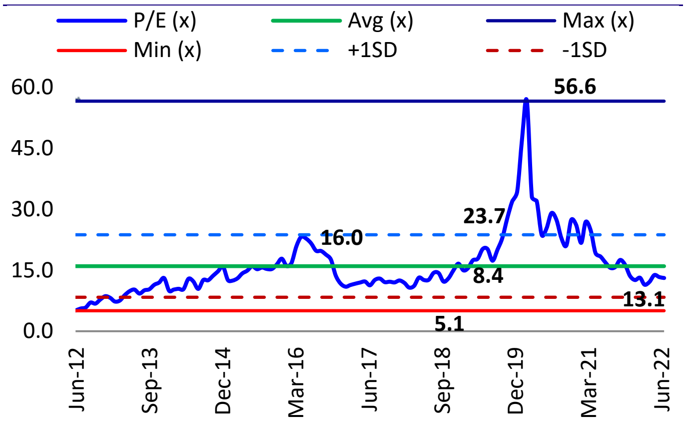
Source: MOFSL, Company

Exhibit 58: One-year forward P/B ratio



Source: MOFSL, Company

Exhibit 59: One-year forward P/E ratio



Source: MOFSL, Company

Financials and valuations

Income Statement									INR m
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest Income	56,163	60,127	65,842	86,146	99,417	1,02,670	94,756	1,01,231	1,15,045
Interest Expended	26,393	28,574	30,816	39,446	48,287	47,332	39,359	44,152	51,592
Net Interest Income	**29,770**	**31,553**	**35,025**	**46,700**	**51,130**	**55,338**	**55,398**	**57,079**	**63,452**
Change (%)	7.8	6.0	11.0	33.3	9.5	8.2	0.1	3.0	11.2
Other Operating Income	2,368	1,612	493	1,084	1,561	1,283	1,824	2,006	2,207
Other Income	519	636	517	869	1,473	1,277	609	731	877
Net Income	**32,658**	**33,801**	**36,036**	**48,653**	**54,164**	**57,897**	**57,830**	**59,816**	**66,536**
Change (%)	5.8	3.5	6.6	35.0	11.3	6.9	-0.1	3.4	11.2
Operating Expenses	11,781	14,509	14,336	18,476	20,182	16,325	20,577	22,919	25,444
Operating Profit	**20,877**	**19,292**	**21,700**	**30,177**	**33,982**	**41,573**	**37,253**	**36,897**	**41,092**
Change (%)	0.3	-7.6	12.5	39.1	12.6	22.3	-10.4	-1.0	11.4
Provisions	10,495	13,091	5,681	6,352	20,545	37,348	23,683	17,724	19,730
PBT	**10,382**	**6,201**	**16,019**	**23,824**	**13,438**	**4,224**	**13,570**	**19,172**	**21,361**
Tax	3,656	2,198	5,907	8,254	4,374	873	3,682	5,023	5,597
Tax Rate (%)	35.2	35.5	36.9	34.6	32.5	20.7	27.1	26.2	26.2
PAT	**6,726**	**4,002**	**10,111**	**15,571**	**9,064**	**3,352**	**9,888**	**14,149**	**15,765**
Change (%)	-19.1	-40.5	152.6	54.0	-41.8	-63.0	195.0	43.1	11.4
Proposed Dividend (incl. Tax)	2,713	1,610	2,938	4,779	0	986	4,439	4,316	4,808

Balance Sheet									INR m
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	1,129	1,130	1,229	1,230	1,231	2,464	2,466	2,466	2,466
Reserves and Surplus (excl. OCI)	59,752	64,994	92,052	1,03,072	1,12,408	1,43,666	1,49,376	1,59,210	1,70,166
Net Worth	**60,881**	**66,124**	**93,281**	**1,04,221**	**1,13,558**	**1,46,049**	**1,51,761**	**1,61,676**	**1,72,632**
Other Comprehensive Income		0	0	81	81	81	81	81	81
Net Worth	**60,881**	**66,124**	**93,281**	**1,04,302**	**1,13,639**	**1,46,130**	**1,51,842**	**1,61,757**	**1,72,713**
Change (%)	7.4	8.6	41.1	11.8	9.0	28.6	3.9	6.5	6.8
Borrowings	**2,94,523**	**3,52,656**	**4,00,932**	**5,28,469**	**5,94,623**	**5,85,767**	**5,58,139**	**5,88,657**	**6,69,695**
Change (%)	12.1	19.7	13.7	31.8	12.5	-1.5	-4.7	5.5	13.8
Other liabilities	40,391	24,404	33,715	38,009	32,451	38,469	42,906	49,342	56,743
Total Liabilities	**3,95,795**	**4,43,185**	**5,27,927**	**6,70,780**	**7,40,712**	**7,70,365**	**7,52,887**	**7,99,675**	**8,99,070**
Investments	15,351	19,843	27,341	37,917	59,110	1,16,073	84,403	75,962	69,885
Change (%)	41.4	29.3	37.8	38.7	55.9	96.4	-27.3	-10.0	-8.0
Loans and Advances	**3,62,189**	**4,06,000**	**4,85,470**	**6,12,496**	**6,49,935**	**5,99,474**	**6,04,446**	**6,76,955**	**7,70,149**
Change (%)	11.7	12.1	19.6	26.2	6.1	-7.8	0.8	12.0	13.8
Other assets	18,255	17,342	15,116	20,367	31,668	54,818	64,038	46,757	59,036
Total Assets	**3,95,795**	**4,43,185**	**5,27,927**	**6,70,780**	**7,40,712**	**7,70,365**	**7,52,887**	**7,99,675**	**8,99,070**

E: MOFSL estimates

Financials and valuations

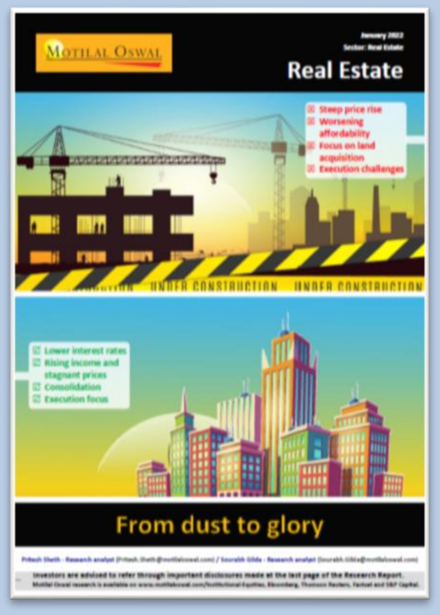
Ratios									(%)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Spreads Analysis (%)									
Yield on Portfolio	16.4	15.7	14.8	15.7	15.8	16.4	15.7	15.8	15.9
Cost of Borrowings	9.5	8.8	8.2	8.5	8.6	8.0	6.9	7.7	8.2
Interest Spread	6.9	6.8	6.6	7.2	7.2	8.4	8.9	8.1	7.7
Net Interest Margin	9.4	8.6	8.0	8.7	8.3	9.1	9.5	9.2	9.1
Profitability Ratios (%)									
Cost/Income ratio	36.1	42.9	39.8	38.0	37.3	28.2	35.6	38.3	38.2
Empl. Cost/Op. Exps.	47.4	46.9	58.1	59.0	56.9	62.2	56.9	56.7	57.2
RoE	11.4	6.3	12.7	15.8	8.3	2.6	6.6	9.0	9.4
RoA	1.8	1.0	2.1	2.6	1.3	0.4	1.3	1.8	1.9
Asset Quality (%)									
GNPA	32,242	35,341	50,270	40,706	57,467	57,857	49,760	49,413	51,155
NNPA	12,351	7,968	139	-63	6,695	-8,631	20,860	22,730	24,555
GNPA (%)	8.4	8.0	9.8	6.4	8.4	9.0	7.7	6.8	6.3
NNPA (%)	3.4	2.0	0.0	0.0	1.0	-1.4	3.5	3.3	3.1
PCR (%)	61.7	77.5	99.7	100.2	88.3	114.9	58.1	54.0	52.0
Capitalization (%)									
CAR	17.3	18.1	22.7	20.3	19.6	26.0	25.8	23.8	21.6
Tier I	14.6	13.6	17.0	15.5	15.4	22.2	22.5	21.2	19.6
Tier II	2.7	4.5	5.7	4.8	4.2	3.8	3.3	2.6	2.0
Average Leverage on Assets (x)	6.3	6.6	6.1	6.1	6.5	5.8	5.1	5.0	5.1

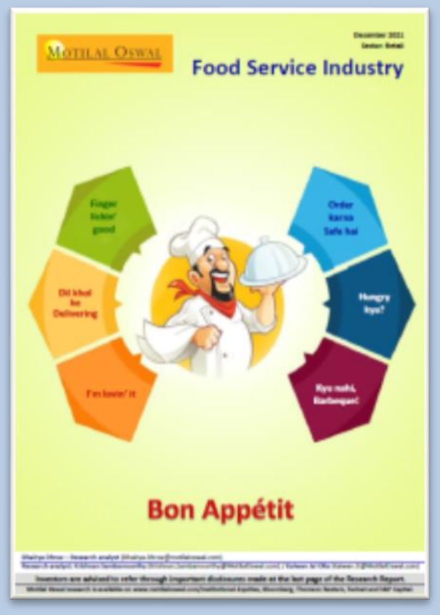
Valuation	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Book Value (INR)	108	117	152	169	185	119	123	131	140
BV Growth (%)	7.3	8.5	29.7	11.7	8.9	-35.8	3.8	6.5	6.8
Price-to-BV (x)						**1.5**	**1.4**	**1.4**	**1.3**
Adjusted BV (INR)	93	107	152	170	176	124	110	117	126
Price-to-ABV (x)						**1.4**	**1.6**	**1.5**	**1.4**
OPS (INR)	37.0	34.1	35.3	49.1	55.2	33.7	30.2	29.9	33.3
OPS Growth (%)	0.2	-7.7	3.4	39.0	12.5	-38.9	-10.5	-1.0	11.4
Price-to-OP (x)						**5.3**	**5.9**	**5.9**	**5.3**
EPS (INR)	11.9	7.1	16.5	25.3	14.7	2.7	8.0	11.5	12.8
EPS Growth (%)	-19.2	-40.5	132.3	53.9	-41.8	-81.5	194.8	43.1	11.4
Price-to-Earnings (x)						**65.3**	**22.1**	**15.5**	**13.9**
Dividend	4.0	2.4	4.0	6.5	0.0	0.8	3.6	3.5	3.9
Dividend Yield (%)						**0.5**	**2.0**	**2.0**	**2.2**

E: MOFSL estimates

REPORT GALLERY

RECENT SECTOR THEMATIC REPORTS





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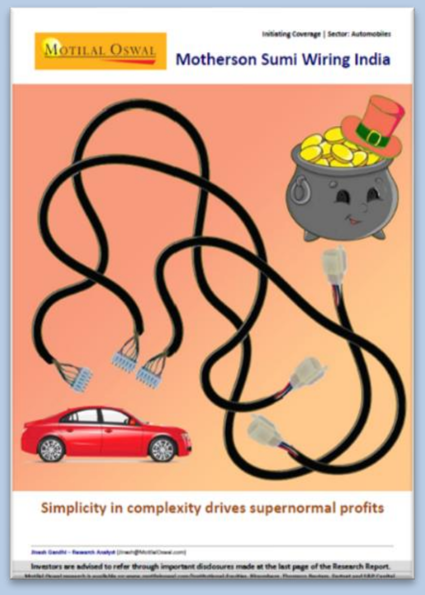

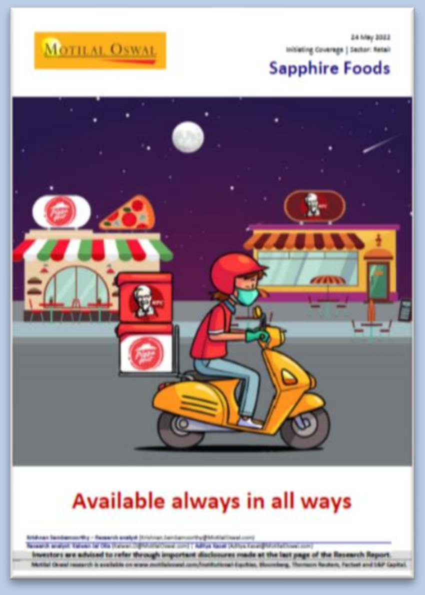

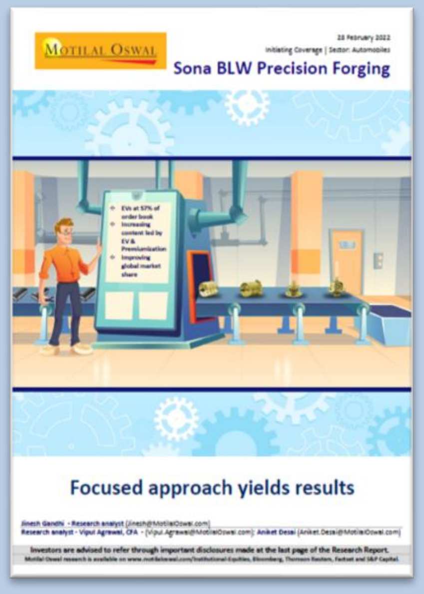

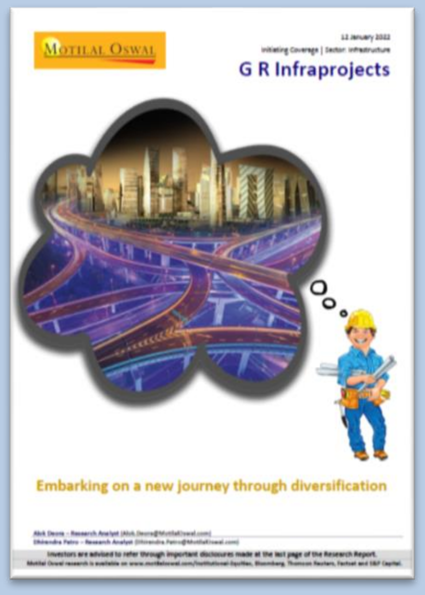

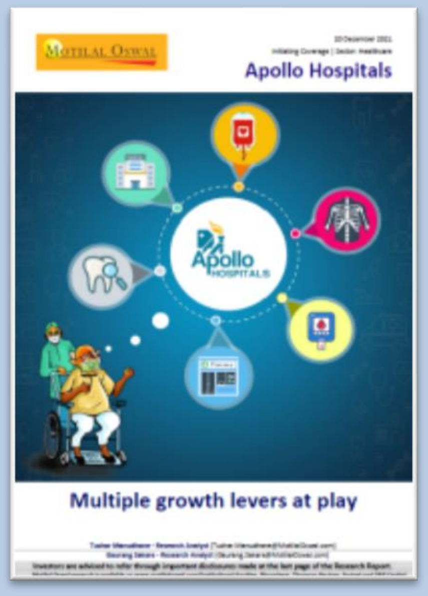

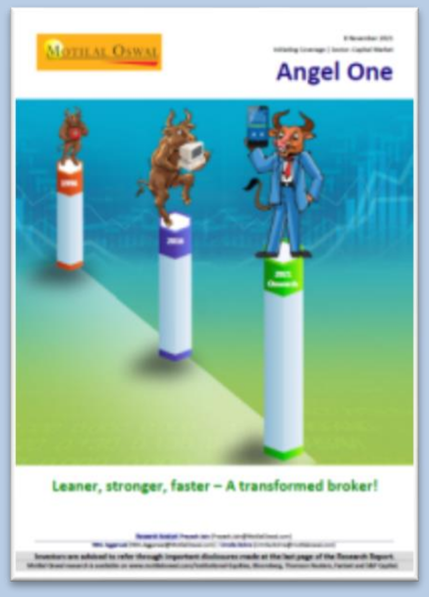

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UNDER REVIEW	Rating may undergo a change
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