

Shriram City Union Finance



The Quintessential NBFC

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Why is SCUF a Quintessential NBFC?

NBFCs were started with the intention to serve customer segments that banks do not cater to. SCUF has developed expertise over the years to capture this segment in a cost-efficient way, ensuring sufficient returns for its shareholders too. Considering significant banking under-penetration in this niche segment, there will always remain significant opportunities for NBFCs like SCUF to grow.

Shriram City Union Finance

BSE Sensex
27,288

S&P CNX
8,413

CMP: INR1,849

TP: INR2,500 (+35%)

Buy



Stock Info

Bloomberg	SCUF IN
Equity Shares (m)	65.9
52-Week Range (INR)	2650 / 1337
1, 6, 12 Rel. Per (%)	3/2/18
M.Cap. (INR b)	117.3
M.Cap. (USD b)	1.8
12M Avg Val (INR M)	98
Free float (%)	66.2

Financial Snapshot (INR b)

Y/E March	2017E	2018E	2019E
NII	27.9	32.8	39.9
PPP	16.3	19.4	24.1
PAT	6.6	8.2	10.4
EPS (INR)	101	125	157
EPS Gr. (%)	25	24	26
BV/Sh. (INR)	766	869	1000
RoA (%)	3.3	3.6	3.7
RoE (%)	13.9	15.3	16.8
Payout (%)	19	17	17
Valuations			
P/E (x)	18.4	14.8	11.8
P/BV (x)	2.4	2.1	1.8
Div. Yield (%)	0.9	1.0	1.2

Shareholding pattern (%)

As On	Sep-16	Jun-16	Sep-15
Promoter	33.8	33.8	33.8
DII	5.8	2.0	2.3
FII	17.5	16.1	15.1
Others	43.0	48.1	48.8

FII Includes depository receipts

Shriram City Union Finance

The Quintessential NBFC



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[Please click here for Video Link](#)

The Quintessential NBFC

Tapping the untapped market

- Shriram City Union Finance (SCUF) is a diversified NBFC with strong expertise in low-ticket-size and high-growth products like micro, small and medium enterprise (MSME) and two-wheeler (2W) lending.
- SCUF's key strengths are a) a large customer base with long-term relationships directly or through group companies, b) strong local knowledge and ability to appraise businesses dealing in cash (requires strong on-the-ground knowledge) and c) robust recovery mechanism.
- With strong capitalization (Tier I of 23%+), improving return ratios (3.7% RoA, 16.8% RoE by FY19E) and robust AUM CAGR of 19% over FY16-19E, the stock should deliver 35% return over next 12 months, in our view. We initiate coverage on SCUF with a Buy rating and a target price of INR2,500.

A sustainable model to tap an untapped market

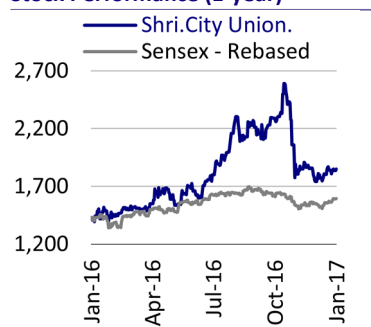
Loan appraisals/collections for businesses largely dealing in cash require strong on-the-ground knowledge. NBFCs like SUCF are well placed to capture this segment with their local knowledge, cost-efficient business model and robust recovery mechanism. SCUF also relies on the large pool of Shriram Chits' customers to grow its business and gain information on customer credit/repayment history. With significant opportunities in place, we expect SCUF to deliver AUM CAGR of 19% over FY16-19E.

MSME – Banking on high volume and low ticket size

MSME financing accounts for more than half of SCUF's loan book, with the company targeting customers with credit requirement below INR2.5m. **At INR0.5m, the average loan ticket size of the company is significantly lower than the ticket size of business loans (LAP) of other NBFCs.** Around 85% of the book is backed by property collateral, mostly self-occupied residential. Apart from robust growth opportunities in this segment, strong collateral also ensures healthy asset quality and lower loss given default.

Market leader in 2W financing

SCUF has significant presence in 2W financing (~18% of its loan book). **With a network of 6,000 dealers, SCUF is India's largest 2W financier by volumes, disbursing ~75,000 loans a month.** It usually commences business in a new geography with 2W financing, which, in our view, is an apt strategy given that it is a mass market product. Here, it mostly targets self-employed customers who find it difficult (due to tedious paper work) to secure finance from banks. This helps SCUF on two fronts: (1) to gain foothold in a new territory and (2) to understand credit behavior of the self-employed segment in the region.

Stock Performance (1-year)**Temporary blip due to demonetization**

Over last two months, cash flow issues (due to cash crunch post demonetization) and moderation in economic activities impacted growth for SCUF. We see this as a temporary blip as the cash situation at the ground level is improving rapidly. Demand for credit in the target customer base remains high, and most of the loans are for income generation. Hence, beyond a temporary blip, we do not see any significant impact on medium- to long-term growth and asset quality.

Strong earnings CAGR of 25% over FY16-19E

With strong capitalization and capacity in place, SCUF is expected to record AUM CAGR of 19% over FY16-19E. Also, with strong pricing power in the target customer segment, falling interest rates should be beneficial for margins. Robust growth would also drive operating leverage (expect cost-to-average AUM to decline to 5.4% in FY19 from 5.8% in FY16). While NPA recognition transition to 90dpd would increase GNPLs in the interim, we expect net credit losses to remain unchanged. With margins improvement, operating leverage and higher leverage on equity, RoE should approach 17% by FY19. We expect earnings CAGR of 25% over FY16-19E.

Improving return ratio, strong growth; Initiating with Buy

With a large employee base of ~25,000 and branches totaling ~1,000, SCUF has built the infrastructure to support its AUM growth. Also, strong capitalization (Tier 1 of 23%+) would ensure dilution-free growth for the company. RoAs/RoEs are expected to improve to 3.7%/17%+ by FY19E. We value the company at 2.5x FY19E BV based on Residual Income model. Our key assumptions are Rf of 7.0%, CoE of 13.5% and a terminal growth rate of 5%. The stock has corrected ~20% since 8 November 2016. We thus initiate coverage with a **Buy rating and a target price of INR2,500**.

Exhibit 1: Valuation comparison

	RoA			RoE			P/B			P/E		
	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Shriram City Union Finance	3.3	3.6	3.7	13.9	15.3	16.8	2.4	2.1	1.8	18.4	14.8	11.8
Shriram Transport Finance	2.2	2.5	2.7	13.4	15.4	16.6	1.9	1.7	1.5	15.2	11.8	9.6
Bajaj Finance	3.3	3.3	3.4	21.1	22.8	25.4	5.5	4.5	3.6	28.3	21.8	15.9
Mahindra & Mahindra Finance	1.9	2.0	2.0	11.3	11.9	12.0	2.4	2.2	2.0	22.4	19.4	17.6
Cholamandalam Investment & Finance	2.4	2.5	2.6	18.1	19.0	20.3	3.5	2.9	2.5	20.7	16.7	13.1

Source: Company, MOSL

Capitalizing on strong growth opportunity in MSME

~70% of Shriram Chits customers yet to be tapped

- SCUF operates on a differentiated business model. It taps the large customer base of Shriram Chits, gaining access to customer credit history and repayment records. This helps in credit appraisal and thus reduces asset quality risk.
- SCUF operates on a 'hub and spoke' business model, where loan origination/disbursal decisions are vested with the branches. This expedites the decision-making process.
- Its no-outsourcing policy (with loan origination, credit evaluation and collections done by in-house teams) provides greater control over customer service and asset quality.

SCUF's MSME financing is different from other NBFCs with much smaller ticket sizes (~INR0.5m) and differentiated loan sourcing (via Shriram Chits)

Niche customer base - Focus on MSME segment

SCUF benefits from moderate competitive intensity in the target customer base. The difficult for banks to match SCUF's informal relationship-based appraisal and collection methodologies in rural areas and quick turnaround time gives the competitive advantage. In addition, the small ticket sizes and high volumes dissuade banks from pursuing this segment of customers.

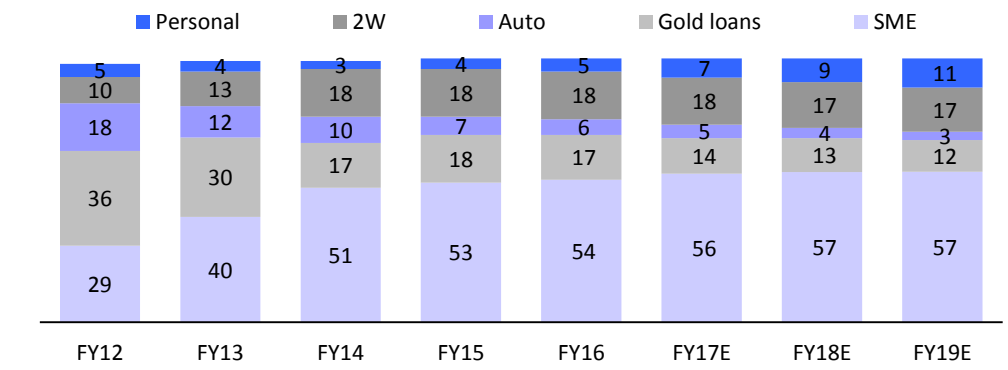
As SCUF operates predominantly in self-employed customer segments (where most financiers struggle, owing to lack of proper documentation), origination and appraisal processes assume critical importance. SCUF reduces risk by: 1) closely linking the loan sanction process to the proper assessment of the repayment capacity of the borrower; and 2) in-housing all processes by using the large chit fund employee base. We believe that even with improved digitization over the coming years, this segment will continue to be under-catered by banks due to the above-mentioned reasons, thus offering huge potential to financiers like SCUF.

Exhibit 2: SME financing – Snapshot

What?	Description
Ticket size	❖ INR0.1-2.5m (Average: INR0.5m)
Sourcing	❖ 90% sourced in-house (40% from chit fund database). 10% of business (from Maharashtra & Gujarat) sourced from agents
Geographies	❖ AP+TN (60%); Mah+Guj+MP+Raj (15%). Primarily semi-urban areas. Avoid rural areas
Competitors	❖ Regional banks like CUB, KVB, SIB are competitors in a few regions in higher ticket size loans
Average yield	❖ 20-21%
Tenure	❖ 3 years
Basic criteria for lending	❖ Borrower should have been in business for 3 years and should be making profits. Business should be scalable
Customer profile	❖ 75% are traders. Around 20-25% are repeat customers
Loan underwriting	❖ At branch level (except for very high ticket size loans)
LTV	❖ 55%
Collateral	❖ 85% of book is collateralized against property (generally self-occupied residential), rest against chit funds
Branch network	❖ 65-70% of total branches conduct SME lending
TAT	❖ 1-3 weeks

Source: MOSL, Company

Exhibit 3: Segment-wise AUM mix; SME and Personal loans to gain share



Source: MOSL, Company

So far, SCUF has only mined ~20-25% of the total database of Shriram Chits. There is significant room to grow just from this database

Capitalizing on the strong customer base of Shriram Chit funds

SCUF leverages the large customer base of Shriram Group companies, especially Shriram Chits, to source customers for its small enterprise loans business. SCUF is able to access customers’ credit history and repayment records at Shriram Chits, which helps in credit appraisal and thereby reduces asset quality risk. SCUF only targets Shriram Chits’ customers who have a vintage of at least six months.

SCUF’s target customers, especially small enterprise owners, sometimes do not have sufficient movable and/or immovable property which they can provide as security for loans. In such cases, chits from group companies are accepted as collateral via a lien.

SCUF only finances customers who have certain vintage with Shriram Chits and who have been in business for at least two years. This enables the company to gather enough data to evaluate customers’ credit behavior. At present, around 80% of its customers are either Shriram Chits’ clients or are referred by them. That said, SCUF has only mined ~20-25% of Shriram Chits’ customer base. Thus, the company has enough room to grow the client portfolio.

Decentralized decision making with no-outsourcing policy

Providing the funding requirements of customers not having commonly proper documents warrants a deep local set-up and a sizeable field force having skills in gauging cash flows of the enterprise and loan recovery. The operations are decentralized with key decisions and processes executed at the branch level.

Responsibility of loan origination and recoveries is vested with the branch

SCUF operates a ‘hub and spoke’ business model, where responsibilities from loan origination to recoveries are vested with the branches. This ensures speedy credit approvals and more efficient turnaround time in processing loans. Branch managers are authorized to approve all loan products. Also, variable pay of branch officials is linked to the asset quality of loans they have originated and disbursed.

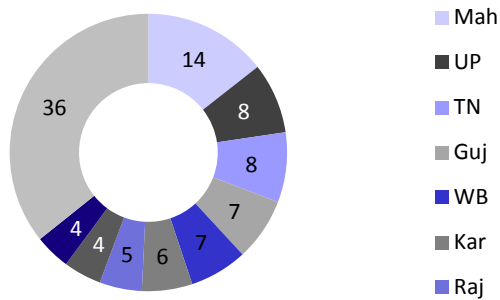
SCUF has no-outsourcing policy, with loan origination, credit evaluation and collection done by in-house teams (barring some parts in Maharashtra and Gujarat). Further, officials involved in loan origination are also responsible for its servicing and recovery.

Over 80% of AUM is from TN, AP, Karnataka and Maharashtra

Well positioned in top MSME states

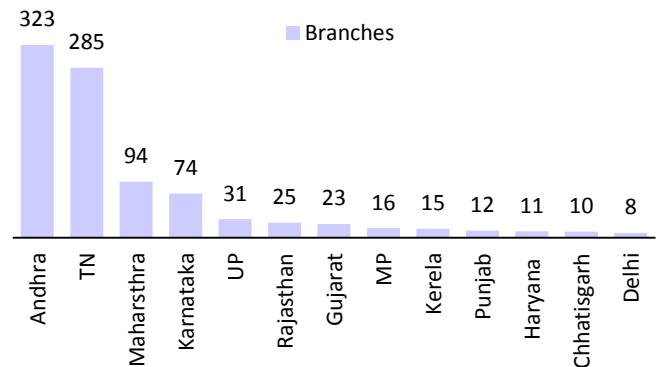
Four states (Andhra Pradesh, Karnataka, Tamil Nadu and Maharashtra) contribute over one-third of India’s GDP. In addition, these states account for over 30% of total MSMEs in India. SCUF has positioned itself well in these states with its strong presence. Given its strong branch network and presence of other group companies in these states, SCUF is well acquainted with these markets and has good understanding of the local business culture.

Exhibit 4: State-wise contribution to India’s GDP (FY15)



Source: Gol data

Exhibit 5: SCUF’s branch network

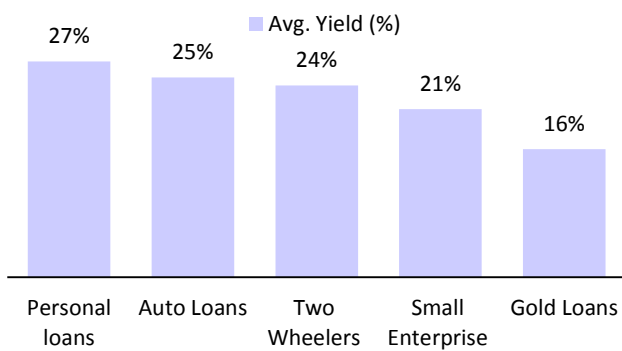


Source: MOSL, Company

Secured small business loans offer attractive yields

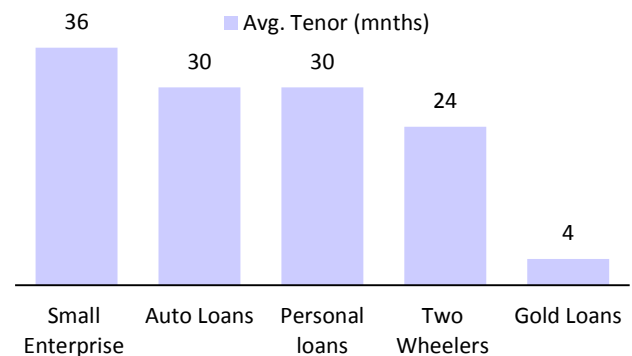
SCUF lends to small businesses that have credit requirement of INR0.5-1m (average of INR500,000). Business owners in this segment lack proper documentation on income and cash flows as most of their business transactions are done with cash. Thus, banks and other financial institutions find it difficult to appraise this segment. Relatively high risk and low competitive intensity leads to higher yield of 20-22% on small businesses.

Exhibit 6: Yields in small business loans are attractive



Source: MOSL, Company

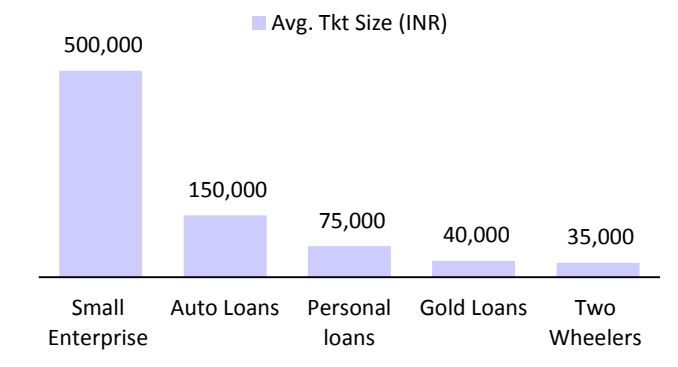
Exhibit 7: Higher tenor for small business loans



Source: MOSL, Company

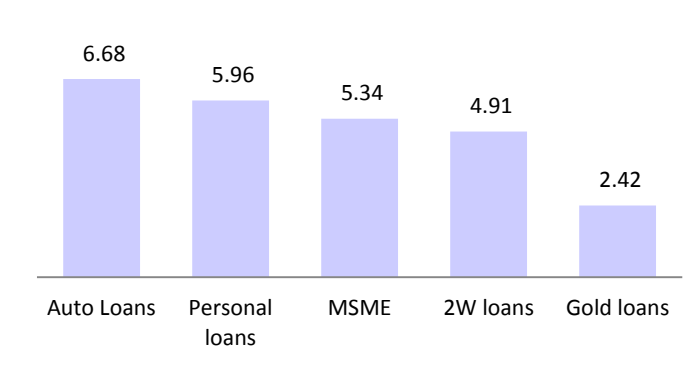
Loans to small business owners are secured. In case the borrower is a customer of Shriram Chits, the chits are also used as collateral. In other cases, the borrower’s immovable property (mostly residential self-occupied) or other assets are used as collateral.

Exhibit 8: Ticket size is also higher for small enterprise loans



Source: MOSL, Company

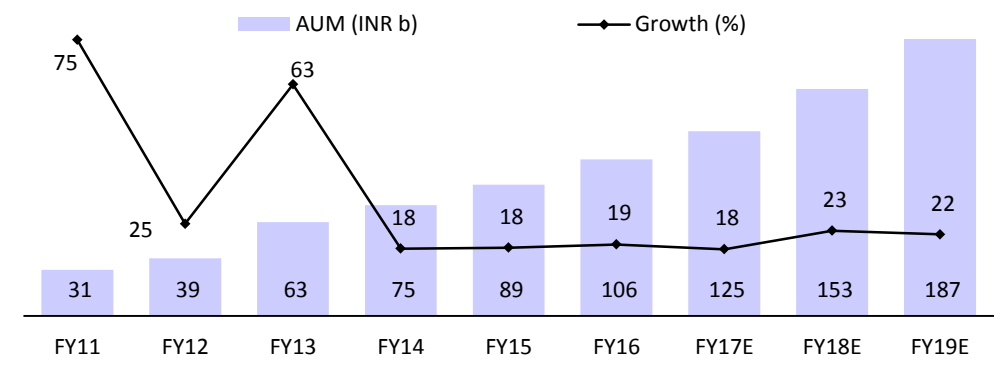
Exhibit 9: GNPA ratio as of 2QFY17 (150dpd)



Source: MOSL, Company

GNPL in the MSME lending book is currently elevated due to the significant stress experienced by the MSME sector. However, secured nature of lending will result in low ultimate credit losses in the segment. We expect small business loans to be a significant growth driver for the company. The share of small business loans in the overall AUM mix is expected to increase to 57% from 54% in FY16.

Exhibit 10: AUM growth will continue to be robust in SME segment



Source: MOSL, Company

MSME offers massive financing opportunity

MSME sector lacks sufficient access to formal financing

- ~36m MSMEs in India account for ~45% of manufacturing output and contribute 8% of the nation's GDP.
- MSME is credit starved, despite total banking sector credit of INR8t to the sector. IFC estimates total credit shortfall of INR26t for the MSME sector.
- MSMEs usually lack documents required for credit appraisals. This, along with higher credit costs, makes it difficult for banks to lend to this segment.

MSME sector, a critical cog in India's growth machinery

The MSME sector is critical part of India's growth machinery, with ~36m enterprises across different industries employing over 80m people in 2012-13. In addition, the MSME sector accounts for ~45% of India's total manufacturing output and contributes well over 8% annually to India's GDP. With the government's impetus on manufacturing in order to create jobs and revive economic growth in the country, we expect the MSME sector to grow at above GDP growth rate over the medium term.

Exhibit 11: Definition of MSME

Category/	Initial investment in plant & machinery (in INR m)		
	Micro	Small	Medium
Manufacturing	<2.5	2.5-50	50-100
Services	<1	1-20	20-50

Source: MSMED Act, IFC, MOSL

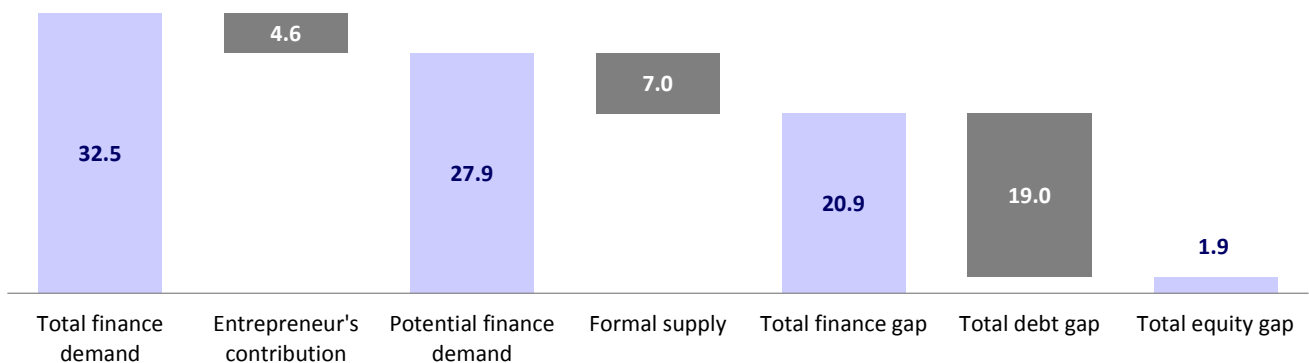
IFC estimates INR19t credit funding shortfall for MSMEs

Total bank credit to the MSME sector grew at a CAGR of +25% to INR7.9t over FY05-14. Yet, the MSME sector is severely credit starved. According to a report by IFC-Intelicap, total finance requirement of the MSME sector is INR32.5t, of which the debt requirement amounts to INR26t. Hence, there is a huge shortfall of credit provided by banks to the MSME segment. This shortfall is addressed by NBFCs as well as other informal sources such as local moneylenders, family & friends, chit funds, etc. IFC estimates that formal sources cater to only 22% of the total MSME debt financing.

MSME sector is critical to the economy, with a contribution of over 45% to total manufacturing output

Total capital requirement for MSME segment is estimated at INR26t, of which INR19t is the debt gap

Exhibit 12: Overall finance gap in the MSME sector (INR t)



Source: MOSL, Company, IFC-Intelicap report, 'Providing venture debt to the MSME Sector in India', 2012

Banks focus more on
higher-ticket-size loans

Higher costs and difficulty in credit appraisal limit bank lending...

Commercial banks usually find difficult to service the micro and small enterprises segment due to the smaller ticket size, lack of formal documents of the borrower, irregularity of cash flows and recovery (which are generally outsourced by banks) cost. Furthermore, banks follow a standardized credit appraisal process and rely heavily on documentary evidences to assess credit worthiness of borrowers. However, most MSME business owners, especially the smaller ones, find it difficult to provide such documents as most of their transactions are still cash-based. Thus, banks prefer to focus on relatively high ticket loans where credit appraisal is much easier and transaction costs are lower.

...present significant lending opportunity for NBFCs

NBFCs are typically well suited for financing businesses involving low ticket sizes, intensive customer servicing with repeated interactions, monitoring and hence high levels of staffing, and the need for flexibility in appraisal norms and loan repayment terms. Banks prefer large-ticket loans as they lack the low-cost large feet on the street. Also, banks prefer traditional methods of loan appraisal (requiring stringent documentation) and repayment terms.

The untapped addressable finance demand in the micro enterprises segment presents a huge opportunity for NBFCs, especially for those such as SCUF who have the necessary workforce and infrastructure to service this demand profitably

Two-wheeler – A segment difficult to assess

Largest two-wheeler lender in India by volumes

SCUF is the largest two-wheeler financier by volume in the country

- ~30% of two-wheeler purchases are on finance. NBFCs account for ~80% of the two-wheeler financing market.
- SCUF is India's largest two-wheeler financier by volumes, disbursing ~75,000 loans per month via its large network of 6,000 dealers.
- 2W loans are offered as entry products in markets where Shriram Chits is not present. This is done to establish a foothold there and understand the credit behavior of the target customer segment.

SCUF enters a new geography with the two-wheeler loan product, as two-wheelers are mass market products

A mass market product; helps in understanding credit behavior

When expanding into newer geographies, SCUF adopts a cautious approach and starts off with two-wheeler loans. It then gradually moves to introduce other products such as gold and SME loans. The advantage of beginning with two-wheeler loans is that it is a mass-market product and helps to get local area knowledge and credit culture at a faster pace. SCUF enters into agreements with local dealers instead of OEMs for setting up loan desks in their showrooms and targets the non-bureau listed self-employed segment.

Exhibit 13: Two-wheeler financing - Snapshot

Particulars	Description
Geographies	South & West (80%). North picking up
Number of branches	90-95% of branches do 2W lending
Dealer network	6,000 dealers across the country
Dealer commissions	1.5-2%
Yield	22-24%
Tenure	18-24 months
LTV	75%
Volumes	~75,000 two-wheelers financed per month

Source: MOSL, Company

Finance penetration for two-wheelers is much lower today than it was in 2008/09

Improving levels of two-wheeler financing penetration

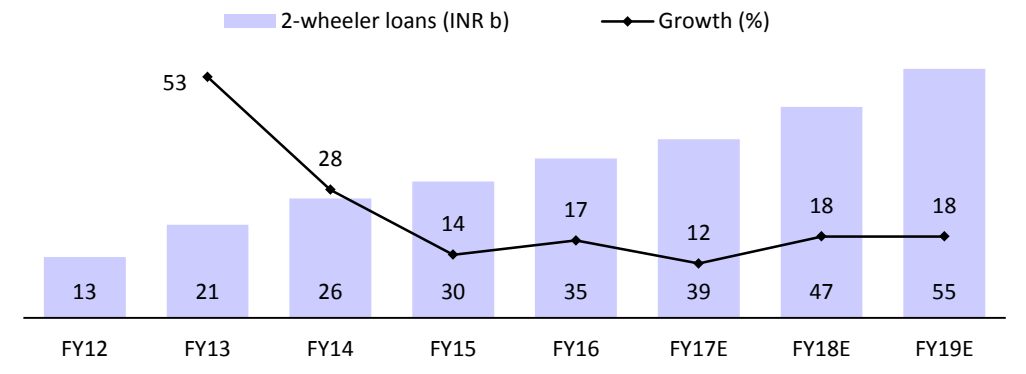
Finance penetration of two-wheelers plunged sharply from levels of 60% before 2009 to around 23% in FY11. However, penetration has started increasing again and currently stands at ~30%. We expect this trend to continue over the medium term as the market is expected to see aggressive action by both existing players as well as new entrants.

Gaining market share to become one of the largest players in India

SCUFs 2W financing book size is INR39b and is amongst the largest players in the NBFC space. The size of the book is comparable to HDFC Bank (INR58b), Bajaj Finance (INR45b) and IndusInd Bank (INR31b). The company's dominant position is underpinned by rich experience of more than a decade of presence and a deeply penetrated network even outside the southern markets. This portfolio has witnessed a sustained strong growth of +15% over the past couple of years notwithstanding modest volume growth registered by the 2W industry. The company is benefitting from the trend of increasing credit purchases.

SCUF is also making efforts in encouraging customers to opt for the financing option and save the cash for business needs and emergencies. Thus, it is playing a pivotal role in expanding the 2W financing market. SCUF has enjoyed a decent share in the 2W financing market. We believe that SCUF would continue performing well in this segment on the back of its strong presence in rural and semi-urban areas, targeting the self-employed and under-banked segments.

Exhibit 14: Two-wheeler AUM – Pickup in FY18 – helped by increasing finance penetration



Source: MOSL, Company

Gold loan book stable; Personal loans to drive growth

Formal gold loan players will continue gaining market share

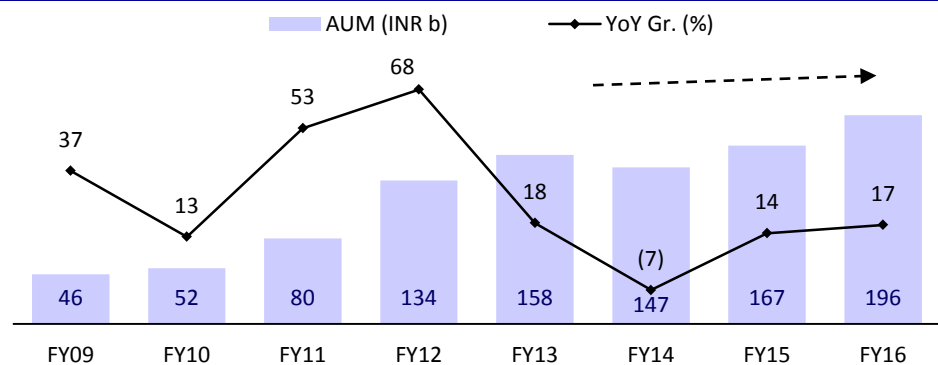
SCUF cut back significantly on gold loans in FY14 on the back of correction in gold prices and stringent norms laid out by the RBI

- Gold loan AUM declined sharply on the back of correction in gold prices and tightening of lending norms by the RBI. With gold prices having stabilized, AUM growth picked up in FY15/16. However, the company looks to grow this book in a calibrated way.
- Post demonetization, we expect formal gold financiers to gain market share from informal moneylenders which account for an estimated 75% of the total market.
- Over the past few quarters, SCUF has focused on growing its cross-sell personal loans book. This book, growing at 35%+, enjoys much higher yields than other segments.

Gold loan portfolio has stabilized

SCUF's growth slowed down during FY13-16 with AUM registering CAGR of just 7.3%. The slowdown in growth was due to: a) run down of the gold loan portfolio following tightening of norms by the RBI, and b) political tensions in the key state of Andhra Pradesh.

Exhibit 15: AUM CAGR of 7% over FY13-16 v/s 36% over FY09-13, dragged by gold loans



Source: Company, MOSL

Share of gold loans declined from 30% in FY13 to 17% in FY14

Loan against gold was the fastest growing segment for the company and constituted 36% of AUM in FY12. However, SCUF decided to run down its gold loan book after a) RBI tightened norms for lending against gold b) gold price volatility in international markets which resulted in lower yields and increased credit costs and c) political situation in state of Andhra Pradesh. As a result, gold AUM declined ~50% from INR48.3b in FY12 to INR25b in FY14. During this period, SCUF focused on recoveries and managed to keep its asset quality under check. With a GNPL ratio of 2.4%, this segment enjoys the best asset quality among all segments of the company.

Exhibit 16: Gold loan book declined sharply in FY14

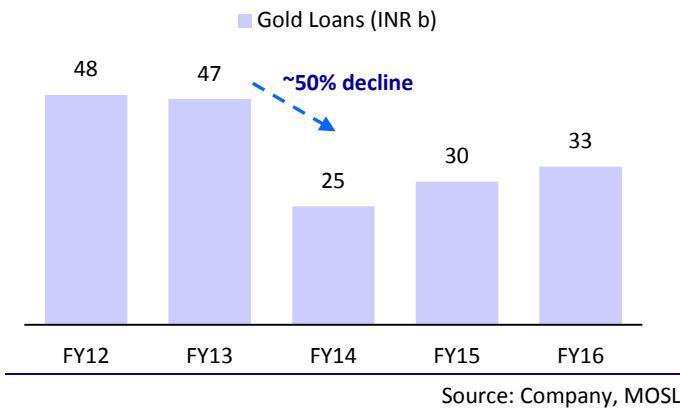
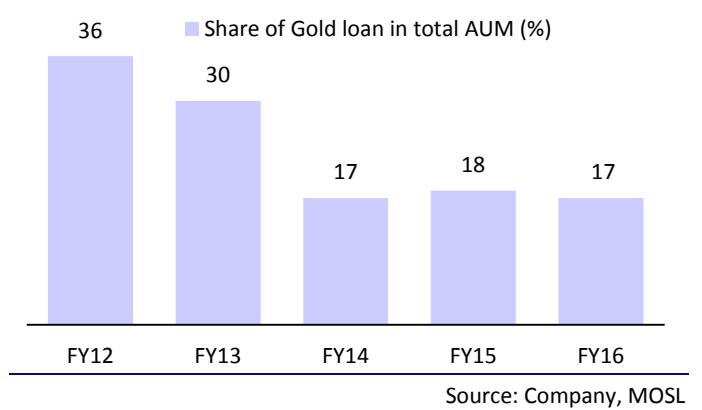


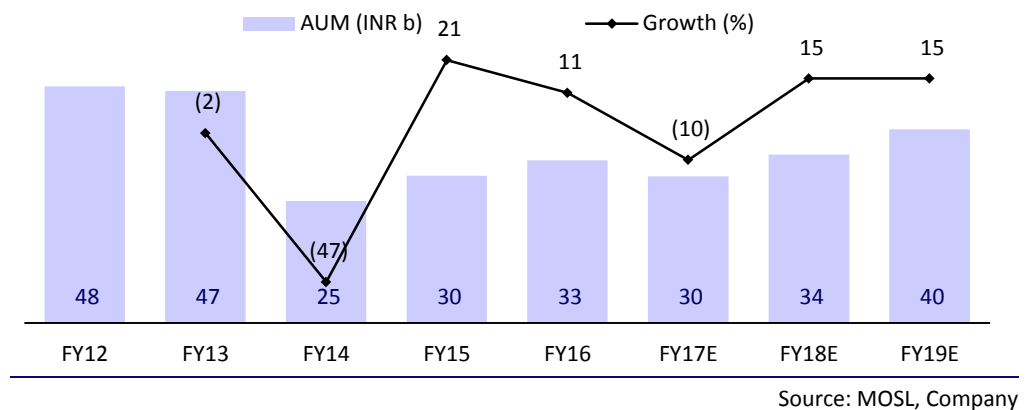
Exhibit 17: Leading to decline in share of gold loans



Demonetization – Temporary blip on growth; Asset quality to be stable

In this segment, 100% of dealings (disbursements as well as collections) are done in cash. This segment would be the worst hit in terms of growth as the company can only disburse loans up to the extent of collections. Collection efficiency was 85%+ in November. We expect AUM to remain largely stable in 2HFY17, but should pick up in FY18 with improved currency in circulation. However, we do not foresee any asset quality pain due to the SCUF’s prudent underwriting practices (66% LTV at origination).

Exhibit 18: AUM growth expected to pick up

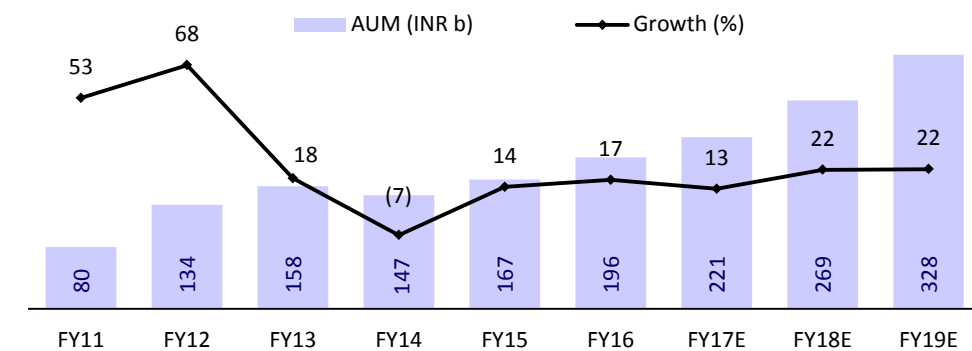


Focus on personal loan cross-sell to improve growth and margins

SCUF also has auto and personal loan products. While auto financing is not a focus of the company anymore, personal loans have been a strong focus in the past few quarters and now account for 6-7% of the total AUM. This book has been growing 35%+ YoY. This business, which is unsecured, is primarily cross-sell to existing customers, thus reducing risk to a certain extent. While delinquencies are slightly higher than those in other segments, it is compensated by higher yields. We expect the share of personal loans to continue to rise which will help improve margins.

After growing at a sluggish 8% AUM CAGR over FY13-16, we believe SCUF is back on the growth track driven by MSME, personal and two-wheeler loans. We expect 19% AUM CAGR over FY16-19E.

Exhibit 19: AUM growth expected to pick up



Source: MOSL, Company

SWOT analysis

- Unique, presence in high yield, high growth business segments and superior sustainable returns
- Customers are largely drawn from Shriram Group's chit fund subscribers leading to lower credit risk
- Strong presence in semi-urban, and rural areas of Southern and Western India



Strength



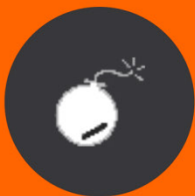
Weaknesses

- Operates in high-risk segments. Asset quality in these segments is cyclical
- Dependence on wholesale funding is high. The company is trying to reduce this by exploring the NCD route
- Gold loan business runs on cash

- Operates in underpenetrated business segments with huge growth potential
- Currently only 45-50% of the total branches offer the entire product suite. Expansion of product offering at such locations would result in higher growth
- Yet to explore the whole set of customers of Shriram Chits



Opportunities



Threats

- SCUF operates in small-ticket retail finance. High yield in this segment could attract stiff competition
- Significant concentration in southern region, especially Tamil Nadu
- SFBs, like Equitas, have access to lower cost of funds
- Changes in regulatory guidelines could impact the business parameters

Consolidation over; growth revival to drive earnings

Expect AUM CAGR of 19% over FY16-19; RoE to improve to 17% by FY19

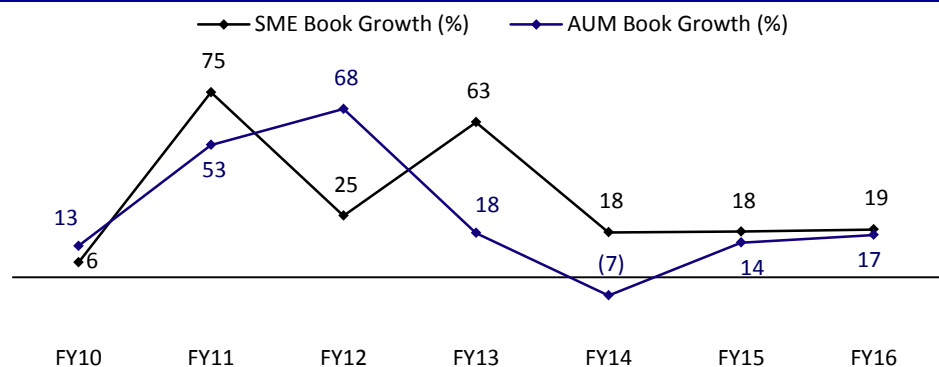
- As discussed, AUM CAGR is expected to ~19% over FY16-19E led by MSME and personal loans. Negative impact of interest reversals will be offset by declining borrowing cost, thus keeping margins largely stable.
- SUCF maintained RoE of >20% over the past decade however, regulatory challenges in gold loan product, transition to 90dpd and additional capital infusion impacted ROE over last two years. We expect improvement in growth rates to drive operating leverage and leverage on equity driving overall growth lower.

MSME financing, which was a significant growth driver for SCUF, slowed down over FY13-16 due to sluggish rural economy and political unrest in AP

Small business loans set to drive earnings growth

Small business loans registered a CAGR of 71% between FY08-13, but slowed down considerably to grow at an average of just 18% over the subsequent two years, due to a general slowdown in the economy, run down in the gold loan book, and political uncertainty in the key state of Andhra Pradesh due to the Telangana movement.

Exhibit 20: SME book driving AUM growth



Source: MOSL, Company

With continued focus on MSME financing, share of this segment should reach 57% over next three years

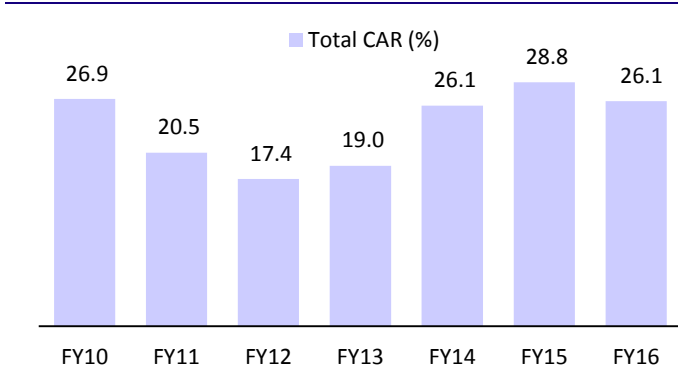
In our view, the company’s strategy to focus on business loans and stability on gold would enable small business loans to drive earnings growth for the company. Strong latent demand in the segment (where nearly over 40% of credit demand from the MSME segment is unmet) and banks’ unwillingness to lend to this segment should support the company’s growth. We estimate AUM to grow at a CAGR of 19% over FY16-19E, driven by growth in MSME loans and personal loans.

Healthy capitalization to support growth without dilution

With Tier I capital of 23%, SCUF is much better capitalized than all its peers

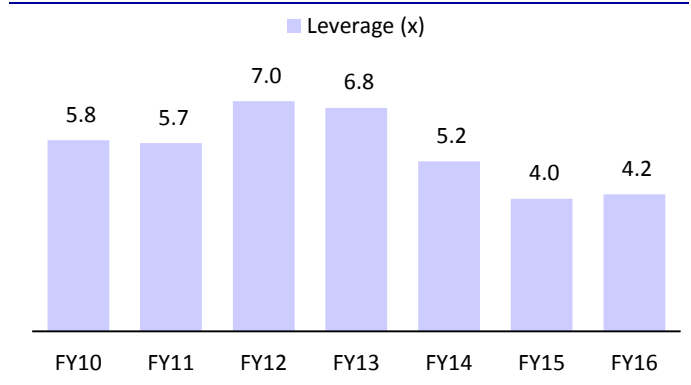
SCUF is well capitalized with CAR of 26%; we believe the current capital level is quite adequate and should support the company’s growth targets over the medium term without further dilution. SCUF’s Tier I capital ratio increased in FY15 on the back of equity infusion of INR7.9bn from Piramal Enterprises.

Exhibit 21: Healthy capitalization levels to support dilution-free growth



Source: Company, MOSL

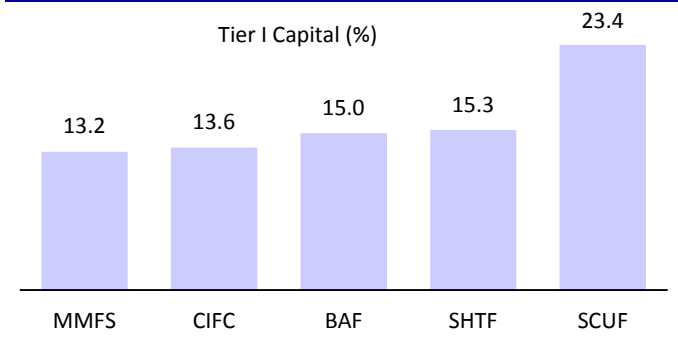
Exhibit 22: Low leverage due to recent capital infusion



Source: Company, MOSL

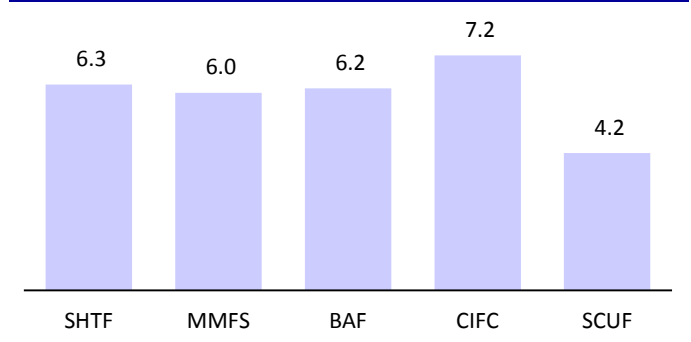
Additionally, current leverage (assets/equity) is below the peer average of 6-7x. This provides additional comfort as the company has room to increase leverage to support loan growth.

Exhibit 23: Well capitalized among peer group



Source: MOSL, Company

Exhibit 24: Low leverage provides ample headroom to grow



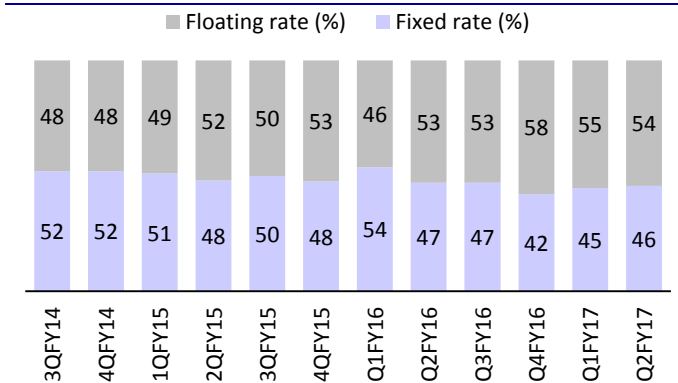
Source: MOSL, Company

SCUF relies significantly on bank borrowings (50% of total borrowings)

Declining funding costs and stable lending rates to push NII

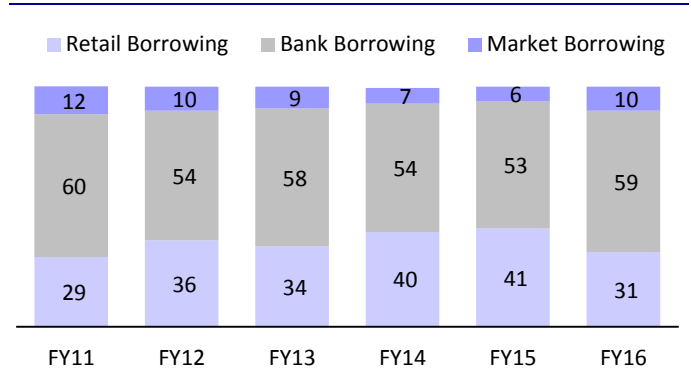
SCUF enjoys a well-diversified funding base. It also has access to retail deposits as it is registered as a deposit-taking NBFC with the RBI. Although bulk of the borrowing comes from banks, the concentration is mitigated as SCUF borrows from a large number of foreign and domestic banks. Declining wholesale interest rates and a reduction in base rates/MCLR by banks would lead to a fall in cost of funds for SCUF. We have built in cost of fund reduction of ~70bp from 10.3% in FY16 to 9.6% in FY19. We believe there could be further downside to cost of funds.

Exhibit 25: Nearly half of borrowing at floating rate



Source: Company, MOSL

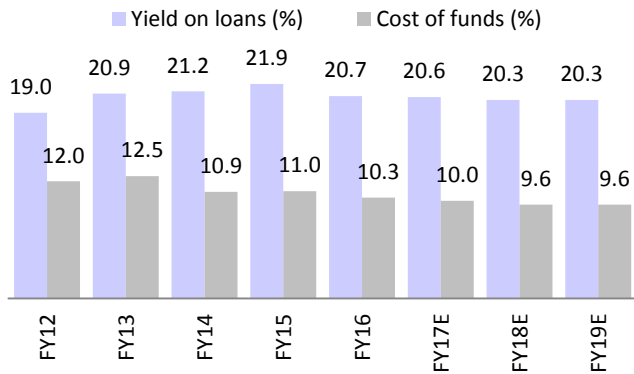
Exhibit 26: Bulk of borrowing is from banks



Source: Company, MOSL

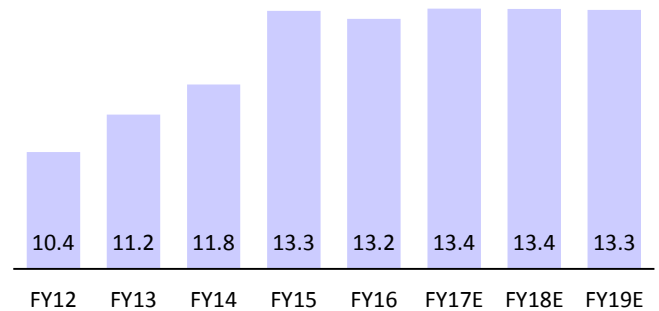
SCUF lends primarily on a fixed rate, while bulk of its borrowings are from banks (variable rate). As a result, its assets re-price slower than its liabilities. Hence, in a declining interest rate scenario, margins should benefit as SCUF does not intend to reduce lending rates anytime soon. In addition, higher mix of personal loans will help improve overall yields. However, there will be a negative impact of interest reversals due to NPA migration to 90dpd in FY17 and FY18. Hence, we expect NIMs to remain largely stable at ~13% over the medium term.

Exhibit 27: Stable yields with falling CoF...



Source: Company, MOSL

Exhibit 28: ...leads to stable margins



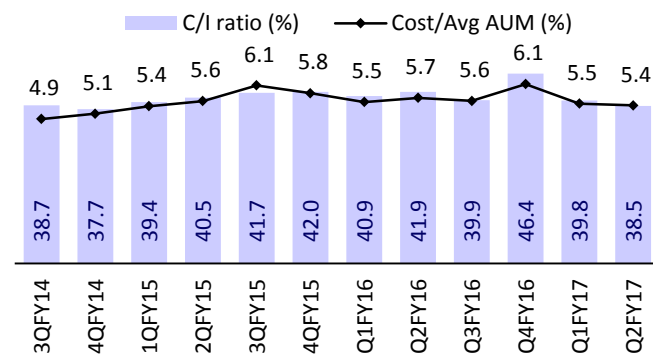
Source: Company, MOSL

Cost to income ratio to improve as growth returns and margins expand

Operating expense ratio deteriorated sharply in past three years due to transfer of employees from the Chit fund and investments in network development

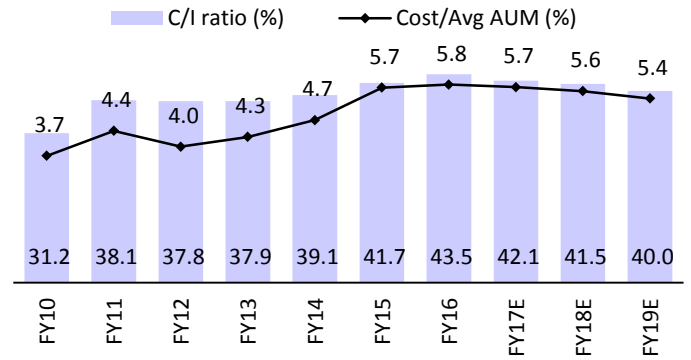
SCUF’s cost to income increased over the last 8 quarters due to the following factors: a) slowdown in AUM growth, led by the rebalancing of its gold loan portfolio and the slowdown in SME loan off take which resulted in resource underutilization; b) SCUF transferred ~7000 employees from its chits subsidiary; these employees were primarily involved in developing the SME loan business among chit customers; and c) investments in resource and network. The cost/avg. AUM ratio increased significantly from 3.7% in 1QFY13 to 6.1% in 4QFY16, while the cost/income ratio touched a multi-quarter high of 46%. This is likely to decline in the coming quarters as AUM growth accelerates largely driven by improving productivity of existing resources and branches.

Exhibit 29: C/I ratio peaked in FY16, starting to improve now



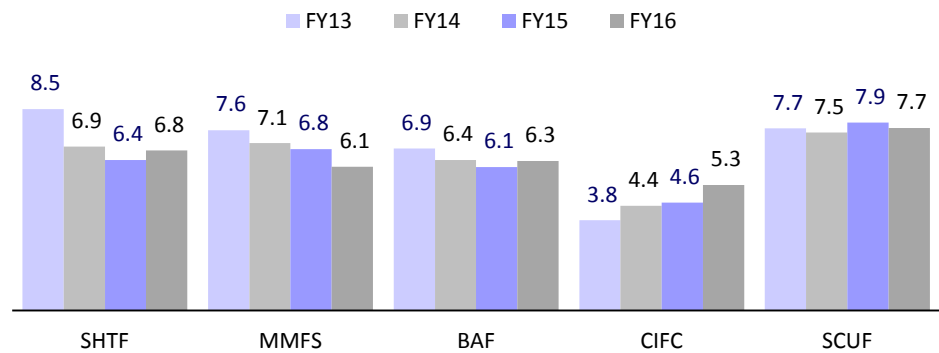
Source: Company, MOSL

Exhibit 30: AUM growth to drive decline in cost ratios



Source: Company, MOSL

Exhibit 31: SCUF's PPOP to average assets has remained largely stable



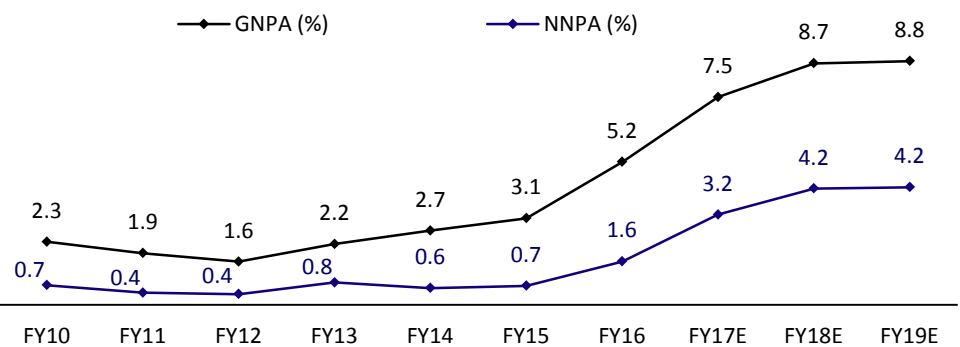
Source: MOSL, Company

SCUF recognizes NPL at 150dpd. It has robust PCR of 73%

Asset quality expected to remain stable; barring transition to 90dpd

Although SCUF targets self-employed customers – a segment where majority of borrowers does not possess credit bureau verification data – it has maintained GNPA levels below 4.0% over the past decade. However under the new NPL migration norms, reported NPL will remain elevated. In FY16, SCUF migrated to 150dpd due to which NPLs spiked to 5.15%. While the reported NPL numbers will continue to rise due to migration, we do not foresee any increased risk to net credit losses. Further, the company enjoys a healthy coverage ratio of over 70% which would help it cushion the impact of rising GNPLs.

Exhibit 32: Increase in GNPL due to migration to 90dpd and impact of demonetization



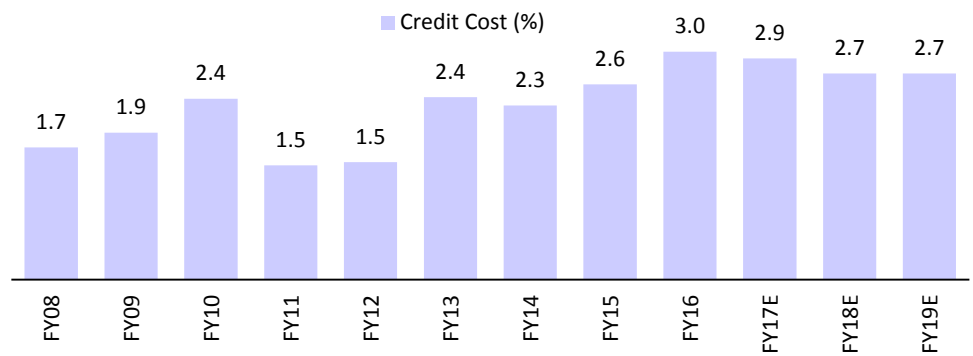
Source: MOSL, Company

Credit cost to moderate as SCUF utilizes its strong provision buffer

Credit cost to remain elevated under new regulatory regime

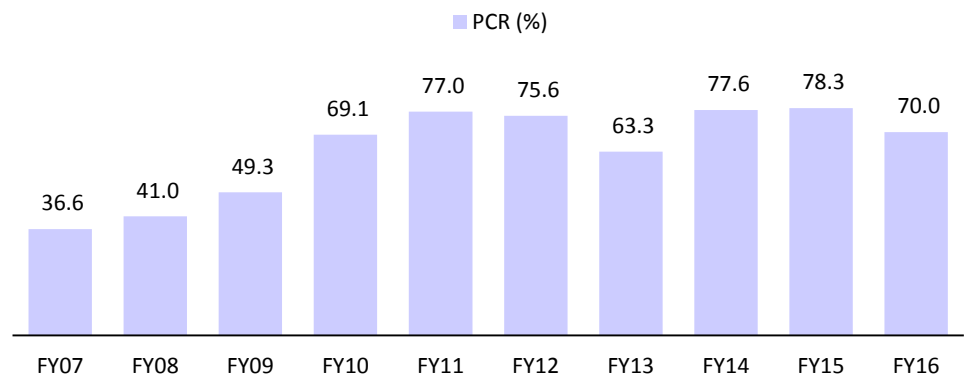
IN 4QFY16, SCUF migrated to 150dpd NPL reorganization norms as mandated by RBI under the new regulatory regime. This move led to a 160bp QoQ increase in NPLs to 5.15%; in our view, credit cost will remain elevated as the company has to migrate to 90dpd NPL reporting (this will push reported NPLs at higher levels) over the next two years. There will also be some impact of demonetization on the reported asset quality.

Exhibit 33: Credit cost (% of AUM) should moderate going forward



Source: MOSL, Company

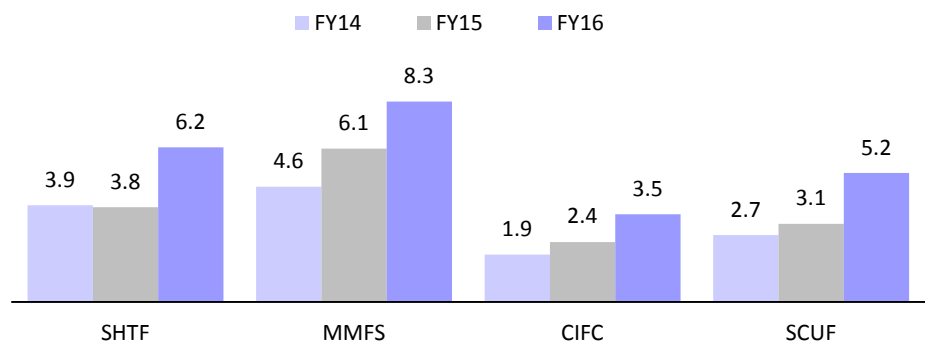
Exhibit 34: Healthy provision coverage ratio maintained



Source: MOSL, Company

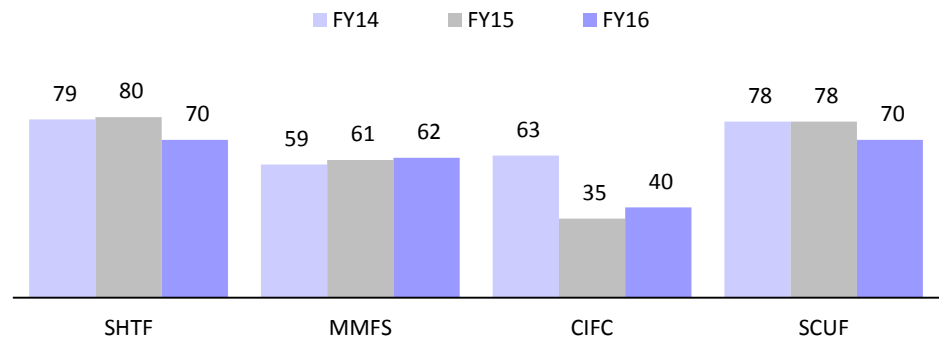
When compared to its peers (SHTF, MMFS and CIFC), SCUF has maintained robust asset quality and a higher coverage ratio.

Exhibit 35: SCUF's asset quality better than peers...



Source: MOSL, Company; Note: SHTF and SCUF recognize NPA on 150dpd, CIFC and MMFS on 120dpd basis

Exhibit 36: ...resulting in higher coverage ratio (%)

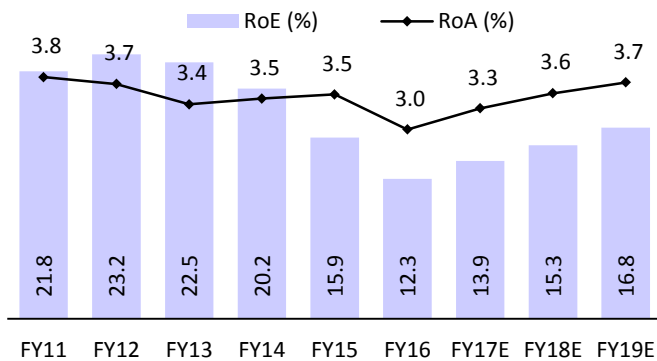


Source: MOSL, Company

RoE's suppressed; Operating leverage and equity leverage to drive improvement

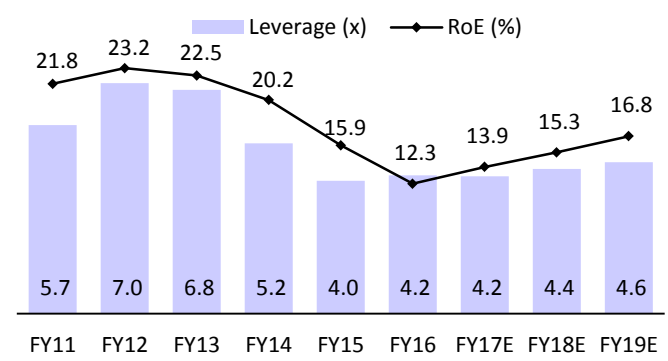
SCUF has maintained healthy ROE (over 20%) over the past decade. However, its ROE declined sharply to 12.3% in FY16 due to capital infusion of INR7.9b (by Piramal Enterprises) and significant higher credit cost. Given the improving growth outlook and lower credit costs, we expect earnings to grow at a CAGR of 27% during FY16-19 and ROE to reach 18% by FY19.

Exhibit 37: RoE to improve in forecast period



Source: MOSL, Company

Exhibit 38: Current RoE suppressed due to lower leverage



Source: MOSL, Company

Bull & Bear case



Bull Case

- In our bull case, we assume an AUM CAGR of 23% (vs. base case of 19%). We believe that if circulation of currency is better than expected, there is significant upside to AUM growth.
- Margins will expand to 13.9% by FY19 driven by a sharp decline in cost of funds, lower impact of interest reversals and strong growth in high-yielding personal loans book.
- We expect improved cost control, with cost-to-income ratio declining more than 600bp over FY16-19 to 36.8% (v/s 40% in base case)
- Asset quality would show some improvement with GNPA of 7.5% by FY19 (v/s 8.8% in base case) on 90dpd basis.
- This results in a PAT CAGR of +39% (vs. 25% in base case) over FY16-19 with RoA/RoE in FY19 equal to 4.7%/22.2%
- Based on the above assumptions, our bull case target multiple is 3.0x FY19 BV, implying an upside of 71%.



Bear Case

- In our bear case, we assume an AUM CAGR of 13% (vs. base case of 19%). Sustained sluggishness in the 2W segment and slowdown in the SME segment could result in moderation in AUM growth.
- We expect margins to remain stable at ~13%.
- Sluggish growth coupled with increase in operating expenses will result in cost-to-income ratio increasing to 46.4% by FY19 (v/s 40% in base case)
- Asset quality would deteriorate further with GNPA of 9.2% by FY19 (v/s 8.8% in base case) on 90dpd basis.
- This results in a sluggish PAT CAGR of 10% (vs. 25% in base case) over FY16-19 with RoA/RoE in FY19 equal to 2.8%/12.6%
- Based on the above assumptions, our bear case target multiple is 1.5x FY19 BV, implying a downside of 29%.

Exhibit 39: Scenario Analysis – Bull Case

Bull Case	FY17E	FY18E	FY19E
NII	27,685	34,335	44,720
Opex	11,909	14,182	16,868
Provisions	7,203	7,314	7,359
PBT	9,438	13,767	21,592
PAT	6,201	9,045	14,186
NIM	13.3	13.6	13.9
RoA	3.1	3.8	4.7
RoE	13.0	16.8	22.2
EPS	94	137	215
BV	759	875	1,064
Target multiple	3.0		
Target price	3,192		
Upside/downside	73%		

Source: Company, MOSL

Exhibit 40: Scenario Analysis – Bear Case

Bear Case	FY17E	FY18E	FY19E
NII	26,150	28,909	33,794
Opex	12,063	14,018	16,135
Provisions	7,419	6,936	7,856
PBT	7,513	8,807	10,745
PAT	4,936	5,786	7,059
NIM	13.1	13.0	13.1
RoA	2.5	2.7	2.8
RoE	10.5	11.3	12.6
EPS	75	88	107
BV	740	806	887
Target multiple	1.5		
Target price	1,331		
Upside/downside	-28%		

Source: Company, MOSL

Valuations and view

Strong earnings growth and ROE improvement despite headwinds

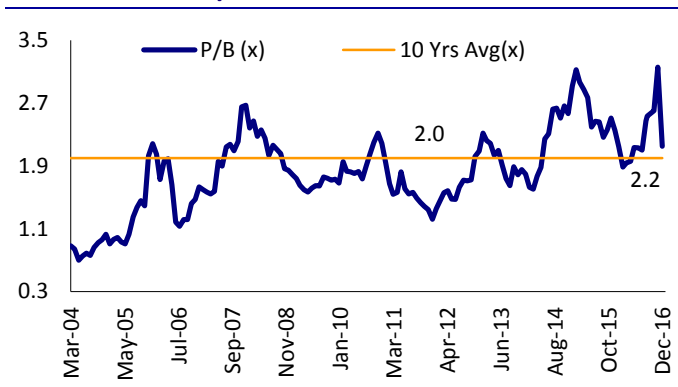
- SCUF is a niche play in the retail NBFC space with the focus on MSME lending. Its business model offers high growth potential with strong profitability and low competition.
- While SCUF has maintained GNPL (180dpd) <4.0% over the cycle, we expect it to rise to 8.8% by FY19 on account of migration to 90dpd and some impact of demonetization. Yet, loan loss provisioning will decline as SCUF has strong PCR of 70%, more than peers.
- We believe this is a 3.5-4.0%+ RoA business on a run-rate basis. After all the impact of NPA migration is over, we expect RoA/RoE of 3.7%/16.8% in FY19. We believe a company growing at 20%+ YoY with a run-rate RoE of 16-18% deserves a better multiple. Buy with target price of 2,500 (2.5x FY19E P/B)

SCUF is a niche play in the retail NBFC space with MSME and gold financing key focus areas. Its business model offers high growth potential with strong profitability and low competition. The target customer segment and the small and mid-market remains under penetrated by the formal banking system, thus offers huge potential. Moreover with strong credit appraisal skills developed over the years, the company is well placed to benefit from the huge untapped potential in the SME space. In our view, SCUF is an attractive play on the under-penetrated rural and semi-urban MSME markets of India. It has strong competitive advantage and operates in a niche segment, which should offer it a good growth and return profile.

After delivering a 44% AUM CAGR from FY06-13, the company went into a consolidation mode, given the weak macro environment and the re-alignment of the gold loan portfolio. As a result, the AUM grew at a meager 7.3% over FY13-16. With the portfolio aligned, scaling up of business in new geographies and a healthy capitalization of 23% (Tier I), we expect SCUF to move back into growth mode. We expect AUM/earnings growth of 19%/25% over the next three years.

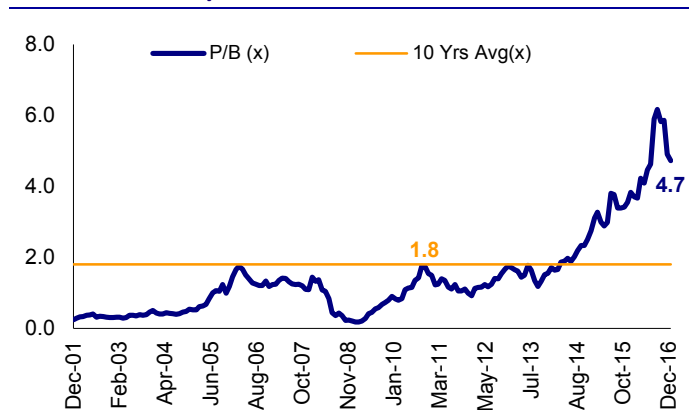
We value the company based on its residual income model. We have assumed $R_f=7.0%$, $CoE=13.5%$ and terminal growth rate = 5%. We initiate coverage with a Buy rating, valuing the stock at INR2,500 implying 2.5x FY19 P/B.

Exhibit 41: SCUF P/B chart



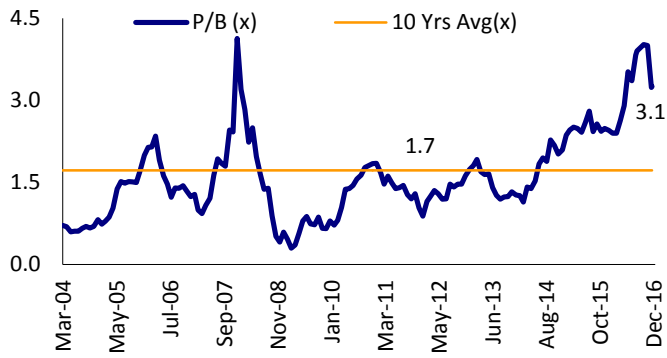
Source: MOSL, Company

Exhibit 42: BAF P/B chart



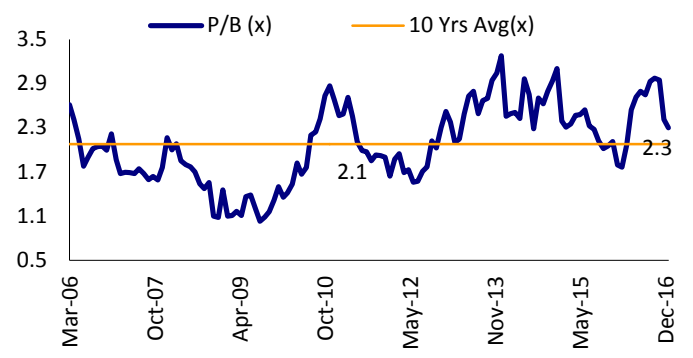
Source: MOSL, Company

Exhibit 43: CIFC P/B chart



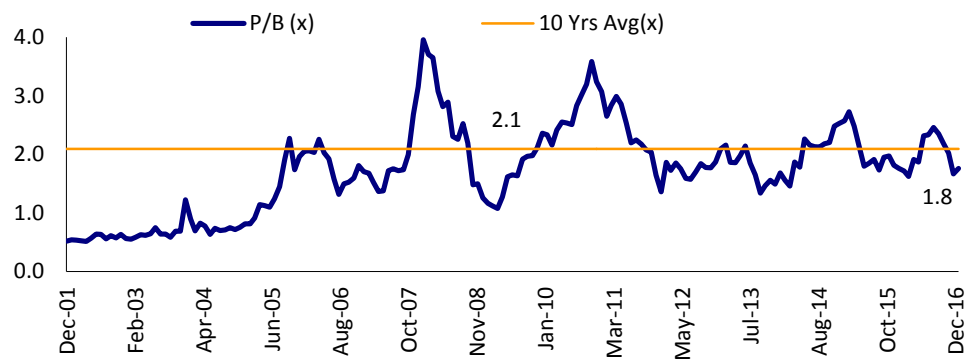
Source: MOSL, Company

Exhibit 44: MMFS P/B chart



Source: MOSL, Company

Exhibit 45: SHTF P/B chart



Source: MOSL, Company

Key risks

Stringent credit appraisal is the key

SCUF's borrowers are primarily self-employed. Their earnings are volatile and closely linked to the local economy. Accurate credit appraisals and managing recoveries are the key to maintaining asset quality.

Competition from other NBFCs and SFBs in small enterprise loans

Given attractive yields in the small enterprise loans segment, other NBFCs, especially SFBs, could get aggressive in this segment. SFBs will have access to lower cost of funds, which could potentially lead to price competition. This would have a big impact on SCUF's margins and thereby, return ratios. Further, in order to maintain market share, the focus toward stringent credit appraisals might get diverted, leading to elevated levels of NPAs.

Increased competition from NBFCs and banks in 2W loans space

The 2W loan space, where only 30% of vehicles are purchased on credit, presents major business opportunities for banks as well as captive financing arms of 2W manufacturers. Aggressive business moves by such companies could hurt SCUF's expansion as it uses 2W lending as an entry avenue in newer geographies. Thus, slower growth in the 2W franchise would hurt geographical expansion plans of the company.

Sustained slowdown in demand due to demonetization

The demand for credit, especially in the MSME segment, has been subdued since demonetization as underlying business activity has been impacted. While we believe that operations should return to pre-demonetization levels in 1-2 quarters, a sustained slowdown in underlying business activity would lead to sluggish loan book growth. In addition, slowdown in on-the-ground business activity could lead to rise in NPLs as collection efficiency declines.

Company Background

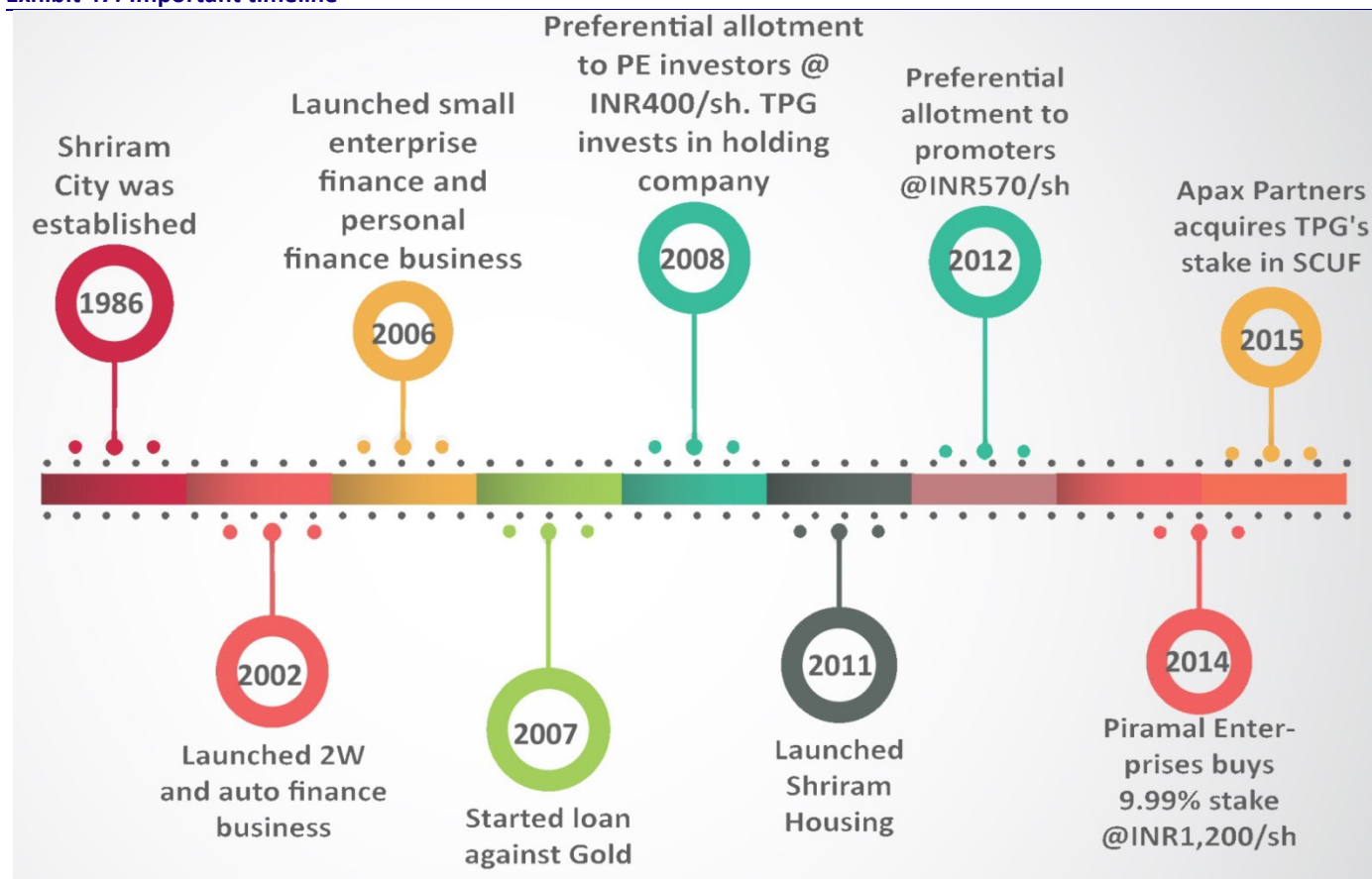
- Shriram City Union Finance (SCUF) is a deposit-taking NBFC focusing on retail lending. It offers loans to small and medium business enterprises, two-wheeler loans, loans against gold and home loans via its subsidiary Shriram Housing Finance in rural and semi-urban areas of India.
- Established in 1986 as Shriram Hire Purchase Finance, it is a part of three-decade old Shriram Group, which has interests in commercial vehicle loans, retail finance, chit funds, insurance, etc.
- Prior to 2002, SCUF was engaged in offering loans for used commercial vehicles primarily to small road transport operators. However, Shriram Group consolidated its commercial vehicle financing business under its group company (Shriram Transport Finance Ltd). Thus, SCUF exited the segment and focused on other product offerings, including loans to small and medium business enterprises, two-wheeler loans and loan against gold.
- SCUF grew its AUM at a CAGR of 33% over the past decade to INR203b by leveraging the existing customer relationship of the Shriram Chit Fund. SCL and its operating entities have an overall customer base in excess of 10.2m, more than 42,000 employees across 2,400 offices, and net profit of INR22b with assets under management (AUM) in excess of INR760b.
- SCUF is backed by a strong support of private equity investors. It raised INR1.3b in FY09 via preferential allotment to private equity at a price of INR400 per share from investors, including PE investors such as TPG Capital. Further, in 2014, Piramal Enterprises picked up a 10% stake at INR1,200 per share.

Exhibit 46: SCUF's business mix

Product Offering	MSME Finance	Retail Finance				
	Small Enterprise Finance	Two Wheeler	Auto Loans	Personal Loans	Loan against Gold	Home Loans
Product Profile	Loans to self-employed customers for various business needs	Purchase of 2-wheeler	Purchase of new and pre-owned passenger and commercial vehicles	Personal loans to its existing and old customers	Loan against gold as a collateral	Loans for construction/purchase of house/flat
% of Loan book	53%	18%	9%	3%	17%	
Year of commencement	Dec-2005	Dec-2002	Dec-2005	Jan-2006	Oct-2006	Dec-2011
Average Tenor (months)	36	24	30	30	4	15 years
Average Yield (%)	24%-27%	22%-24%	22%-24%	24%-27%	16%-18%	15%
Avg. Ticket Size (INR)	500,000	35,000	150,000	75,000	40,000	1,000,000
LTV (%)	NA	75%	60%	NA	66%	60%

Source: MOSL, Company

Exhibit 47: Important timeline



Source: MOSL, Company

Board of Directors

SCUF's senior management comprises of professionals with significant experience and association with the group for significant amount of time. The team is led Mr. Duruvasan Ramachandra, Managing Director & CEO, who has been with the group nearly since inception.

Exhibit 48: Board of Directors

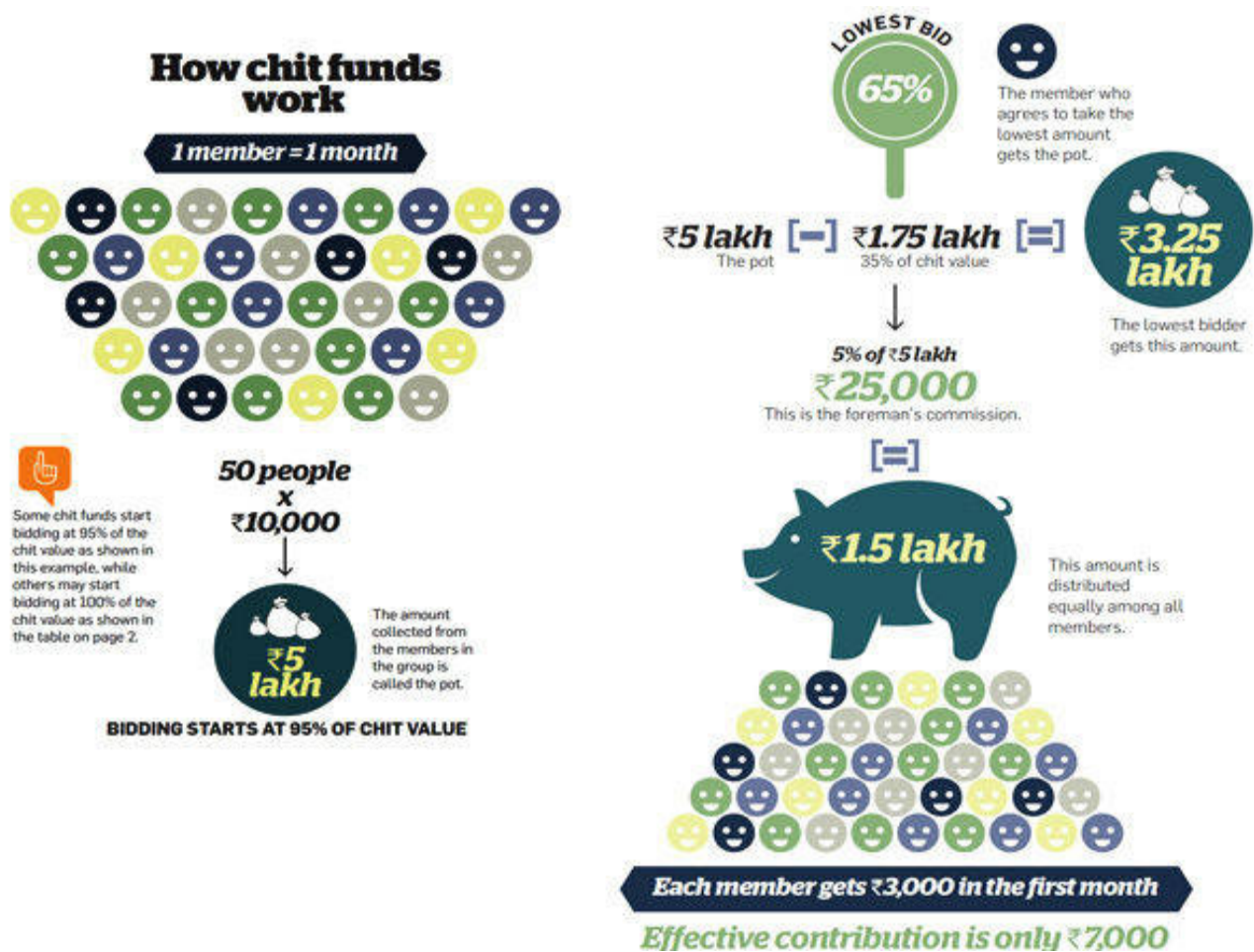
Name	Designation	Education	Experience in Financial services (Years)	Prior/Other assignments
Mr. Duruvasan Ramachandra	Managing Director & CEO	Commerce Graduate	~30	CEO and Executive Director of Shriram Chits P Ltd
Mr. Debendranath Sarangi	Independent Chairman	IAS (1977 Batch), M. Sc , MA	35	Chief Secretary, Govt. of Tamil Nadu
Mr. Gerrit Lodewyk Van Heerde	Non-Independent Director	B. Com; Honors degree in Actuarial Science	22	Chief Financial Officer of Sanlam Emerging Markets
Mr. Pranab Prakash Pattanayak	Independent Director	Master of Arts	37	MD of State Bank of Mysore
Mr. Ranvir Dewan	Non-Independent Director	B. Com; Chartered Accountant	13	Head of FIG, TPG Capital
Mr. Subramaniam Krishnamurthy	Independent Director	B.A; LLB	~40	Banking Ombudsman, Chennai

Source: MOSL, Company

Chit Fund: How it works

A chit fund is a kind of savings scheme practiced in India. A chit fund company is a company that manages, conducts or supervises a chit scheme—chit fund companies are regulated by Chit Fund Act, 1982. These schemes are very popular in tier II and III towns in India and even in rural India, due to under-penetration of banking services, as they are a way of raising quick money or catering to sudden liquidity needs or even planned expenditure.

Exhibit 49: Illustration of how a chit fund works



Source: Company, MOSL

- The foreman—the company conducting the chitty—brings the members together and conducts the chitty. The foreman is also responsible for collecting the money from members, preside over the auctions, and keep subscriber records. He is compensated by a fixed amount (generally 5% of gross chitty amount) monthly for the efforts.
- The members of the chitty get into an agreement to subscribe a sum of money by way of periodic installments and each member in turn is entitled to the prize amount. As per the general pattern, **monthly subscription amount x duration (in months) = Gross Prize Amount**.
- For example, if we consider a chit value of INR 100,000/- with 50 members in the group, then each member has to contribute INR2,000/month, whereby

(50X2,000) INR100,000 is collected by the group. The duration also equals the number of subscribers as there must be not more or less subscribers to receive prize money each month.

- Chit fund members assemble on a fixed day every month with their contributions. The maximum prize money on an auction may be limited to say 70% of the gross sum assured, which is INR 70,000 in the above example. If there is more than one person willing to take this minimum sum, then a reverse auction is conducted, in which subscribers bid for sum lower than INR100,000, in our example.
- The auction is conducted in which the members participate and the member who offers maximum discount is declared as the prized subscriber.
- The member who gets the prize foregoes the discount he offered for e.g. if winning bid was 45%, which means a person foregoes INR45,000 and the balance INR55,000 is paid to the winner as prize money. Out of 45% discount 5% goes to the foreman towards commission for conducting the chit and balance of the discount amount is distributed equally amongst all members of the group. So 40% is distributed to all the members by which next month they have to contribute $(\text{INR}2000 - 800) = \text{INR}1200$ and INR800 is declared a dividend for that month.

Shriram Housing Finance: Nascent business

Great potential ahead

Housing finance business is 8% of SCUF's AUM

SCUF floated Shriram Housing Finance (SHF) as its subsidiary in 2011. SCUF holds 77.25% in the entity with PE investor, Valiant Partners, holding the rest 22.75%. SHF is engaged in providing finance for purchase, acquisition and repair of housing property and primarily targets self-employed and informal salary employees in the Tier-II and Tier-III cities. SHF currently operates out of 79 branches spread across 17 states in India and employs ~600 people.

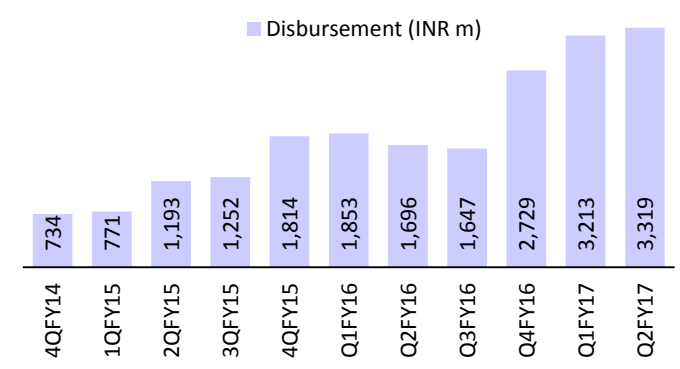
Exhibit 50: SHF's product profile

Avg. Loan Amt. – Individual loans (INR m)	~1.1
Avg. Balance Tenure (months)	175
Avg. LTV (%)	54
Portfolio mix (%)	Retail home loan (85%), LAP (10-12%), Builder loans (3-4%)
GNPA (%)	3.5

Source: Company, MOSL

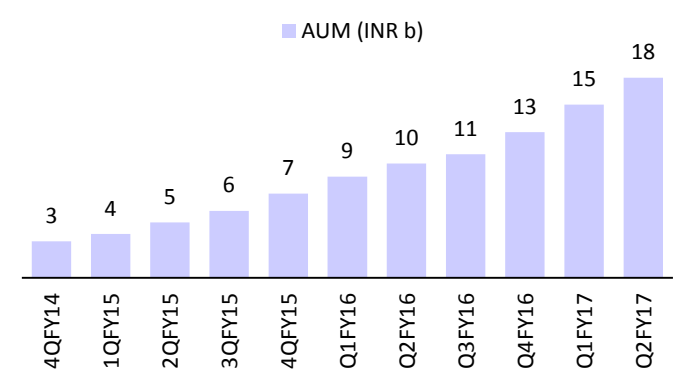
SHF had an AUM of INR18b as of 2QFY17 and recorded CAGR of 100% over FY14-16. It enjoys yields of ~15% and NIMs of 10% as it focuses on self-employed people, and until FY15, it was utilizing its own capital for disbursement and thus cost of fund was zero. Gross NPA currently stands at 3.5%, but the company targets to bring it to down to ~1.5% over the medium term. Prior to demonetization, the company targeted to grow the loan book to INR50b by FY18. However, we believe it should now be able to reach INR35-40b by FY18.

Exhibit 51: Disbursement growth remains strong



Source: MOSL, Company

Exhibit 52: AUM has grown ~4x in two years



Source: MOSL, Company

Shriram Housing will continue focusing on the self-employed/affordable housing category (currently c.90% of loan book) in Tier II/III towns. We ignore SHF in our valuation as the business is still in the nascent stage and does not contribute much to SCUF's earnings.

Financials and valuations

Income Statement						(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Financing Income	17,824	27,012	29,312	33,104	37,065	42,579	49,178	59,795
Financing charges	9,286	14,105	13,507	13,432	13,834	15,182	16,969	20,655
Net Financing income	8,538	12,907	15,805	19,672	23,231	27,397	32,209	39,140
Change (%)	24.3	51.2	22.4	24.5	18.1	17.9	17.6	21.5
Income from securitisation	2,624	3,460	2,207	1,243	658	508	598	728
Net Income (Incl Secur)	11,162	16,367	18,012	20,915	23,889	27,905	32,807	39,868
Change (%)	45.1	46.6	10.1	16.1	14.2	16.8	17.6	21.5
Fee & Other Income	76	75	487	519	250	350	300	300
Net Income	11,238	16,442	18,500	21,434	24,139	28,255	33,107	40,168
Change (%)	46.1	46.3	12.5	15.9	12.6	17.1	17.2	21.3
Employee Cost	924	2,239	2,708	4,116	5,132	5,748	6,610	7,734
Other Operating Exp.	3,330	3,987	4,531	4,820	5,362	6,160	7,114	8,327
Operating Income	6,985	10,215	11,261	12,499	13,645	16,347	19,382	24,107
Change (%)	46.6	46.2	10.2	11.0	9.2	19.8	18.6	24.4
Total Provisions	1,743	3,559	3,462	4,088	5,577	6,240	6,857	8,351
% to operating income	25.0	34.8	30.7	32.7	40.9	38.2	35.4	34.6
PBT	5,242	6,657	7,799	8,411	8,068	10,106	12,525	15,756
Tax	1,816	2,160	2,587	2,830	2,771	3,467	4,296	5,404
Tax Rate (%)	34.7	32.5	33.2	33.6	34.3	34.3	34.3	34.3
PAT	3,425	4,496	5,211	5,581	5,298	6,640	8,229	10,352
Change (%)	42.4	31.3	15.9	7.1	-5.1	25.3	23.9	25.8
Proposed Dividend	335	464	611	1,028	989	1,055	1,187	1,450

Balance Sheet						(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Capital	524	554	593	659	659	659	659	659
Reserves & Surplus	15,982	21,537	28,390	40,352	44,457	49,830	56,634	65,243
Net Worth	16,506	22,092	28,983	41,011	45,116	50,489	57,293	65,903
Net Worth	17,350	22,528	29,017	41,036	45,136	50,509	57,313	65,923
Borrowings	97,914	127,287	120,491	124,017	144,084	159,561	193,968	236,347
Change (%)	71.5	30.0	-5.3	2.9	16.2	10.7	21.6	21.8
Other Liabilities & Prov.	0	0	0	0	0	0	0	0
Total Liabilities	115,264	149,815	149,508	165,054	189,220	210,071	251,281	302,270
Investments	178	730	6,276	9,817	7,923	8,716	9,587	10,546
Change (%)	223.0	309.9	759.5	56.4	-19.3	10.0	10.0	10.0
Loans	110,900	137,795	129,835	160,275	191,406	215,214	261,668	318,892
Change (%)	58.0	24.3	-5.8	23.4	19.4	12.4	21.6	21.9
Net Fixed Assets	525	884	1,014	823	849	879	810	641
Net Current Assets	3,660	10,407	12,384	-5,861	-11,309	-14,738	-20,784	-27,809
Total Assets	115,264	149,815	149,508	165,054	188,869	210,071	251,281	302,270

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Spreads Analysis (%)								
Yield on loans	19.0	20.9	21.2	21.9	20.7	20.6	20.3	20.3
Cost of funds	12.0	12.5	10.9	11.0	10.3	10.0	9.6	9.6
Interest Spread	7.0	8.4	10.3	11.0	10.4	10.6	10.7	10.7
NIMs (incl Securitisation inc) on AUM	10.4	11.2	11.8	13.3	13.2	13.4	13.4	13.3

Profitability Ratios (%)

RoE	23.2	22.5	20.2	15.9	12.3	13.9	15.3	16.8
RoA	3.7	3.4	3.5	3.5	3.0	3.3	3.6	3.7
Int. Expended/Int.Earned	52.1	52.2	46.1	40.6	37.3	35.7	34.5	34.5
Other Inc. (incl. Sec. Inc.) / Net Income	24.0	21.5	14.6	8.2	3.8	3.0	2.7	2.6

Efficiency Ratios (%)

Op. Exps./Net Income	37.8	37.9	39.1	41.7	43.5	42.1	41.5	40.0
Empl. Cost/Op. Exps.	21.7	36.0	37.4	46.1	48.9	48.3	48.2	48.2

Asset-Liability Profile (%)

Loans/Borrowings Ratio	113.3	108.3	107.8	129.2	132.8	134.9	134.9	134.9
Leverage	7.0	6.8	5.2	4.0	4.2	4.2	4.4	4.6
Average leverage	6.4	6.9	5.9	4.5	4.1	4.2	4.3	4.5

Valuations

Book Value (INR)	331.3	406.5	489.5	622.7	684.6	766.1	869.3	999.9
BV Growth (%)	35.4	22.7	20.4	27.2	10.0	11.9	13.5	15.0
Price-BV (x)	5.6	4.5	3.8	3.0	2.7	2.4	2.1	1.8
Adjusted BV (INR)	328.6	399.7	484.9	617.0	668.9	729.0	809.8	928.5
Price-ABV (x)	5.6	4.6	3.8	3.0	2.8	2.5	2.3	2.0
EPS (INR)	65.4	81.1	87.9	84.7	80.4	100.7	124.8	157.0
EPS Growth (%)	34.7	24.0	8.3	-3.7	-5.1	25.3	23.9	25.8
Price-Earnings (x)	28.3	22.8	21.0	21.8	23.0	18.4	14.8	11.8
DPS (INR)	6.4	8.4	10.0	15.0	15.0	16.0	18.0	22.0
Dividend Yield (%)	0.3	0.5	0.5	0.8	0.8	0.9	1.0	1.2

E: MOSL Estimates

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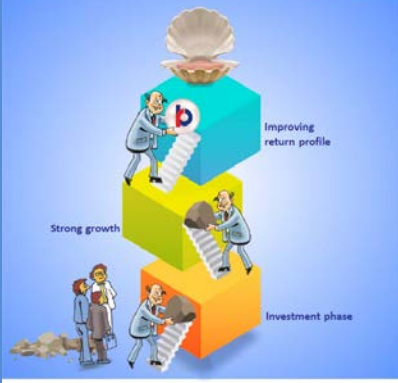
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