RESULT UPDATE

MAHINDRA & MAHINDRA FINANCIAL SERVICES

Momentum intact

India Equity Research| Banking and Financial Services

Mahindra & Mahindra Financial Services' (MMFS) Q1FY14 earnings at INR1.91bn (up 19% YoY) were in line with our expectation as lower specific provisions offset the decline in net interest income (NII). Key highlights were: (1) NIMs came off 130bps QoQ against 100bps estimate due to interest income reversal on higher NPLs and change in income recognition on securitisation transaction from accrual basis to cash basis; (2) jump in GNPLs, though a seasonal Q1 trait, settled higher QoQ at 4.2% from 3.0% in Q4FY13 contributed partly by delinquencies in the commercial vehicle (CV) segment; and (3) buoyancy in rural market coupled with broadening presence amongst manufacturers continues to support strong AUM growth of 36% (to INR295bn). Amidst uncertainty on interest rates coupled with pressure on corporate asset quality, we continue to maintain MMFS as our top pick in the NBFC space, given that it is well placed on ALM, commands pricing power (vindicated by it hiking lending rates 50-80bps across segments) and its deepening presence and broader offerings continue to support AUM growth of 25% plus. Maintain 'BUY' with target price of INR300.

GNPLs rise on CV stress, but improvement anticipated

In Q1FY14, GNPLs came in marginally higher than the seasonal uptick at 4.2% led by higher-than-expected delinquencies on CVs. With a better-than-expected monsoon supporting favourable economics of rural India we believe company policies, i.e., (a) diversification of customer class; (b) diversification of products; (c) LTV at <70%; and (d) strong focus on recoveries, will keep asset quality in good stead. Management highlighted that the drop in provisioning coverage by 10 percentage points to 56% is a reflection of limited seasoning of its NPL book and expects it to improve with better recoveries during the course of the year. Regulatory changes may hike GNPL; however, we view this more as a norm change as credit costs are likely to remain at 160-180bps.

Outlook and valuations: Buoyancy intact; maintain 'BUY'

Structural and cyclical drivers are conducive for MMFS' business growth strategy. A well placed asset-liability management profile coupled with adequate pricing power will restrict the impact of rising cost of funds. We are building in PAT CAGR of 22% over FY13-15E. The stock is trading at 2.4x FY15E P/B (adjusted) value with potential to clock RoA/RoE of 3.5%/20% plus. We maintain **`BUY/Sector Outperformer'**.

Financials

Year to March	Q1FY14	Q1FY13	*Growth %*	Q4FY13	*Growth %*	FY13	FY14E	FY15E
Net Op. Inc.	6,164	4,876	*26.4*	6,632	*(7.1)*	22,137	27,536	34,544
Net profit (INR mn)	1,913	1,610	*18.8*	3,338	*(42.7)*	8,326	9,950	12,428
B/V per share (INR)						79	92	108
Diluted EPS (INR)	3.4	3.1	*8.5*	6.0	*(44.1)*	14.6	17.5	21.9
Price/ Adj book (x)						3.2	2.8	2.4
Price/ Earnings (x)						16.5	13.8	11.0

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: MMFS.BO, B: MMFS IN)*

CMP	: INR 241
Target Price	: INR 300
52-week range (INR)	: 287 / 131
Share in issue (mn)	: 568.8
M cap (INR bn/USD mn)	: 137 / 2,396
Avg. Daily Vol.BSE/NSE('000)	: 1,082.0

SHARE HOLDING PATTERN (%)

	Current	Q4FY13	Q3FY13
Promoters *	52.2	52.2	52.3
MF's, FI's & BK's	4.3	4.8	6.6
FII's	38.2	38.0	36.4
Others	5.3	5.1	4.7

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(1.4)	5.3	2.3
3 months	6.6	(0.1)	6.0
12 months	76.5	15.6	33.1

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Going strong: Broadening/deepening presence aids 36% AUM growth

AUM growth continued to maintain momemtum at 36% in Q1FY14, in line with MMFS' recent track record. Given its brand presence and customer relationships, the company is the first choice of manufacturers looking to penetrate rural markets. It is increasingly tying up with other players viz., Toyota, Nissan, among others in the car segment and non Mahindra & Mahindra (M&M) manufacturers in tractors to bring about diversification. Management highlighted that given the challenges in the CV segment, growth will continue to remain subdued, whereas satisfactory monsoon augurs well for tractor sales. We are building in 27% CAGR in AUM over FY13-15.

Margin lower than estimate

Margin witnessed higher slippage of 130bps against expectation of 100bps. Management attributed about 40-50bps impact to interest reversal on higher NPL and about 7-9bps to change in income recognition on securitisation transaction from accrual basis to cash basis. Consequently, NII growth came in lower at 26% to INR6.16bn (against our expectation of INR6.4bn). Going ahead, we believe, well matched ALM profile coupled with adequate pricing power should ensure minimal impact on margins due to rising cost of funds.

Table 1: Disbursements supported by increased traction in tractors, though growth in CV moderates

(%)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Auto/Utility vehicles	27.0	27.0	27.0	31.0	34.7	35.5	31.0	30.0
Tractors	20.0	20.0	19.0	19.0	17.1	20.5	19.0	21.0
Cars	32.0	32.0	33.0	27.0	24.9	23.7	24.0	23.0
Commercial vehicles	11.0	11.0	11.0	11.0	11.0	8.5	14.0	13.0
Refinance & Others	10.0	10.0	10.0	12.0	12.0	12.0	12.0	13.0
Disbursements (INR bn)	44.5	58.9	53.3	48.4	55.5	68.0	66.4	63.9

Source: Company

Table 2: Proportion of car and used vehicles is structurally moving up

(%)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Auto/ Utility vehicles	32.0	30.0	30.0	1.0	29.0	29.0	29.0	28.0
Tractors	20.0	20.0	20.0	20.0	19.0	19.0	19.0	19.0
Cars	31.0	31.0	31.0	32.0	32.0	32.0	32.0	33.0
Commercial vehicles	11.0	12.0	12.0	13.0	13.0	13.0	13.0	12.0
Refinance & Others	6.0	7.0	7.0	7.0	7.0	7.0	7.0	8.0
AUM (INR bn)	167.0	194.6	206.4	217.4	237.7	256.5	279.1	295.4

Source: Company

Table 3: Broadening/deepening presence aids 36% AUM growth

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
AUM (INR bn)	167.0	194.6	206.4	217.4	237.7	256.5	279.1	295.4
Q-o-Q growth (%)	5.2	16.5	6.1	5.3	9.3	7.9	8.8	5.8
Y-o-Y growth (%)	36.4	44.8	36.2	37.0	42.3	31.8	35.2	35.8
Disbursement (INR bn)	44.5	58.9	53.3	48.4	55.5	68.0	66.4	63.9
Q-o-Q growth (%)	16.1	32.2	(9.4)	(9.2)	14.6	22.5	(2.3)	(3.9)
Y-o-Y growth (%)	32.4	38.8	34.5	26.3	24.6	15.5	24.6	31.8
On-book/AUM (%)	91.8	90.9	88.7	90.7	92.7	94.3	90.6	92.6
Off -book/AUM (%)	8.2	9.1	11.3	9.3	7.3	5.7	9.4	7.4

Source: Company

Table 4: Borrowing profile – Instrument wise

(%)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Bonds/NCDs	18.5	20.8	21.7	22.4	25.1	26.4	25.3	28.0
Bank term loans	53.5	48.8	55.2	47.5	45.2	47.4	51.2	42.3
Assignment	9.9	11.6	14.3	11.9	9.1	7.4	12.2	9.7
Fixed deposits	7.7	8.3	8.4	9.5	9.4	10.5	10.8	12.0
Commercial paper	10.3	10.5	0.3	8.7	11.2	8.4	0.5	7.9
Total borrowing (INR bn)	137.9	153.0	162.9	169.5	189.7	196.6	214.8	226.4

Source: Company

Table 5: Borrowing profile – Investor wise

(%)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Banks	55.2	51.0	60.3	55.1	63.7	67.2	78.3	72.0
Mutual funds	18.3	20.8	11.7	22.2	27.3	26.2	16.2	27.0
Insurance Co	8.7	8.0	10.1	9.7	9.9	11.9	13.2	16.5
Banks for assignment	9.9	11.6	15.2	13.1	11.3	9.5	17.1	14.4
Others	7.9	8.7	9.1	10.6	11.8	13.6	15.5	18.0
Total borrowings (INR bn)	137.9	153.0	162.9	169.5	189.7	196.6	214.8	226.4

Source: Company

Table 6: NIMs compressed by ~130bps QoQ to 8.6% due to decline in yields

(%)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Yields	15.9	16.2	16.7	15.8	16.1	16.1	16.6	15.2
Cost of funds	8.0	8.7	8.4	8.4	8.7	9.0	8.7	8.6
NIM	9.6	9.2	10.1	9.2	9.2	9.1	9.9	8.6

Source: Company

Table 7: GNPLs inch up to 4.2% largely owing to stress in CV segment

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Gross NPA (INR bn)	6.7	7.4	5.5	7.6	8.6	9.9	7.6	11.6
Gross NPA to total assets (%)	4.0	4.1	3.0	3.8	3.9	4.1	3.0	4.2
Net NPA (INR bn)	1.7	1.9	1.2	2.3	3.1	3.7	2.6	5.1
Net NPA to Total Assets (%)	1.0	1.1	0.7	1.2	1.4	1.6	1.0	1.9
Coverage ratio(%)	75.3	74.4	78.0	70.2	63.5	62.2	65.9	56.2

Source: Company

Table 8: Tier 1 healthy at 16.4%

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
Capital adequacy	17.3	17.5	18.0	17.4	16.5	19.8	19.7	19.6
Tier I	14.7	14.6	15.1	14.7	14.0	17.3	17.0	16.4
Tier II	2.6	2.9	2.9	2.7	2.5	2.5	2.7	3.2

Source: Company

Financial snapshot (INR mn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Operating income	10,925	8,351	*30.8*	11,103	*(1.6)*	38,325	48,790	60,729
Interest exp	4,761	3,475	*37.0*	4,471	*6.5*	16,188	21,254	26,185
Net operating income	6,164	4,876	*26.4*	6,632	*(7.1)*	22,137	27,536	34,544
Other income	60	39	*53.7*	153	*(60.4)*	622	441	491
Total income	6,224	4,916	*26.6*	6,784	*(8.3)*	22,759	27,977	35,035
Staff costs	592	584	*1.5*	539	*9.9*	2,234	2,646	3,056
Depreciation & amortization	62	52	*19.2*	58	*7.6*	226	250	274
Other expenses	1,409	1,031	*36.7*	1,514	*(6.9)*	4,963	5,654	6,867
Operating expenses	2,064	1,667	*23.8*	2,112	*(2.2)*	7,423	8,550	10,197
Pre prov profit (ppp)	4,160	3,248	*28.1*	4,673	*(11.0)*	15,336	19,427	24,838
Provisions & writeoff	1,252	854	*46.7*	329	*281.1*	3,190	4,465	6,149
Profit before tax	2,908	2,395	*21.4*	4,344	*(33.1)*	12,146	14,962	18,689
Provision for taxes	995	784	*26.9*	1,292	*(23.0)*	3,820	5,012	6,261
Core profit	1,913	1,610	*18.8*	3,338	*(42.7)*	8,326	9,950	12,428
Diluted EPS (INR)	3.4	3.1	*8.5*	6.0	*(44.1)*	14.6	17.5	21.9
Book value						78.7	91.7	107.9
Ratios								
Cost/income (%)	33.2	33.9		31.1		32.6	30.6	29.1
Provisions / PPP	30.1	26.3		7.0		20.8	23.0	24.8
Tax rate (%)	34.2	32.8		29.7		31.5	33.5	33.5
Balance sheet data (INR mn)								
Borrowings	226,377	169,514	*33.5*	214,794	*5.4*	213,151	273,595	349,365
Networth	46,466	31,135	*49.2*	44,546	*4.3*	44,672	52,061	61,290
Gross NPA	11,555	7,639	*51.3*	7,630	*51.4*	7,630	11,527	17,775
Gross NPA (%)	4.2	4.0		3.0		3.0	3.5	4.2
Net NPA	5,062	2,275	*122.5*	2,600	*94.7*	2,600	4,035	6,221
Net NPA (%)	1.9	0.6		1.0		1.0	1.2	1.5
Coverage ratio (%)	56.2	70.2		65.9		77.7	68.0	65.0

Key highlights of Q4FY13 earnings analyst meet

The management reiterated that rural market is still buoyant and manufacturers consider Mahindra Finance as critical part of their growth strategy. Growth momentum is strong as it is getting deeper in terms of locations and offering more products to various profile of customers (expanding manufacturer base in cars, tractors etc). Mahindra Finance has the first mover advantage to capture this demand; while there are many players who have rural aspirations, Mahindra Finance is 100 kms and 5 years ahead of them.

Business Strategy

- To go ***as deep as possible and more close to customers -*** added 50 more branches in FY13 to 657 branches. Every manufacturer (including Nissan, Toyota, JPC) now needs an enabler (like MMFS) in rural markets to drive their sales
- To ***offer all products in every location to every profile of customers***
- Curtail LTV
- Get their customer to generate enquiries (referrals)
- ***Used car financing will be a huge opportunity*** as most the manufacturers have floated second hand vehicle model – not driven by interest rates but by monthly EMI
- Will not get into unrelated businesses – will never focus on gold financing, 2-wheelers etc
- Technology will not be a decision making tool but a servicing tool

With respect to banking venture

- ***Banking not in mind as of now while articulating this strategy; will always like to be NBFC as a model.*** However, at a group level, Committee under Mr. Bharat Doshi (Group CFO) is evaluating applications for banking license and strategy.

With respect to asset quality

- ***Collection efficiency is holding up*** - exactly the same as last year
- Created a team of 125 supervisors who will monitor 3 branches each very closely.
- ***Have lowered reliance on farm dependant customers***
- Repossessed vehicles is 2000-3000 – hardly a month's stock
- Heavy commercial vehicle is less than 2% of the portfolio – due to its small size it was able to withdraw from the markets much earlier

Mahindra Rural Housing Finance

- ***Will double housing loan portfolio every year to reach ~INR 40 bn by 2015*** – only rural housing (no semi-urban or urban)
- First 5-7 loans in village takes a year to kick off but then the growth is substantial
- Adequate pricing power
- ***Very low LTV; average ticket size is 90k and average household income will be 1.45 lac per annum***

- Each front end customer manager should do 7-10 files per months
- NHB is the largest re-financier
- ***Mitigating risk of one particular state or region*** – widespread presence across 9 states (Maharashtra, Tamil Nadu)

Mahindra Insurance Brokers

- Have mobilized INR 5.5 bn of premium reaching across 800k customers. Profit of INR 344 bn.
- Significant strategic development in FY13 has been stake sale to Leapfrog (valuing the company at INR 5.2 bn) who now holds 15% stake. Their objective is profit with purpose and gels well Mahindra Finance objectives. Brings learning from African and Asian markets
- Tailormade product to suit the customer profile

Datapoints

- M&M vehicles at 48%; non M&M at 52%
- Mahindra Finance USA has investment of INR 552 mn and earns profit of INR 80 mn
- Securitized INR 14.3 bn – gets priority sector and got 200-250 bps discount to general borrowing cost
- Additional general provision on standard asset of INR 357 mn – not included in NPA provision. Total standard asset provisioning is INR 950 mn.

Key highlights of Q3FY13 earnings conference call

- **With respect to business growth**
  - Did not see any moderation in rural market buoyancy but disbursement momentum for MMFS came off a bit due to its conscious step back on CV segment.
  - Assessment of monthly performance during Q3FY13 suggests that October was a good month, November saw the moderation and in December it again saw an uptick.
  - The company is seeing ***little stress industry wide in MHCV segment and hence don't want to participate aggressively***. Within MHCV, stress was particularly seen in containers, tippers etc. Moreover, ***in the current scenario, customers demand higher LTV and MMFS is not so matured player to take a risk on the sam***e.
  - Focus still continues on LCV which has helped in maintaining reported growth in CV segment.
  - UV – focusing on all manufacturers and not only M&M vehicles
  - In tractors, averaging around 800-1000 financing per month – participating in non-Mahindra vehicle to drive growth
  - Second hand vehicle financing is going well as in this environment people prefer second hand to keep capital investments under check
  - In car segment - ***Maruti – where MMFS is number 2 financiers had little supply constraint. New launches has resulted in bounce back in December***. For Hyundai, its number 1 NBFC financier and in top 4 (including banks). Initially it was financing 500 cars per month which has gone up to 1,500-1,800 per month.
- **With respect to asset quality**
  - Created a ***team of 125 supervisors who will monitor 3 branches each very closely***.
  - Resale prices have not yet dipped and repossession is not yet difficult
  - ***Collection efficiency is holding up***.
  - Aggressive provisioning policy continues for 2-wheeler and personal loans
  - If it moves from 150 days to 90 days NPL recognition norm, gross NPLs would move up by 150 bps.
- **With respect to securitization/assignment**
  - ***No securitization in 9MFY13 – in final stage with couple of banks for securitization in Q4FY13***.
  - Assignment transactions seem difficult given regulatory constraints. Most of the transaction this year will be securitization.
  - In terms of rates, it will be 200 bps lower than the market rates.

Outlook

- Clearly visibility how the growth pattern is going to emerge in each of these segments.
- Mix between Mahindra & non-Mahindra to remain near 50%.
- NIMs will continue to be healthy and ***no pressure to drop rates to gain market share.*** Decrease in borrowing cost to aid margin expansion.
- Will add 45-50 branches every year.
- ***In GNPLs, one should not expect substantial correction in Q4 (like previous years of 100-200 bps) as NPLs have been uniform across quarters offlate. However, moderation by 30-50 bps is still possible***.
- ***Stressed account of INR 150 mn in SME segment is expected to be upgraded in the near term***.

Datapoints

- In FY12, it assigned ~INR 14 bn and in FY13 it is expected to be around INR 10 bn.
- Parent shareholding pattern will not be a constraint for growth – they will either participate or dilute.

Company Description

MMFSL, a subsidiary of M&M with 52% promoter ownership, is a leading NBFC offering a range of financial services in rural and semi-urban areas. The company finances purchase of utility vehicles, tractors, cars, commercial vehicles, used vehicles as well as construction equipment. It has a strong network of 675 branches spread across 25 states and four Union Territories in India. Collection executives also use GPRS-enabled handheld devices, which help the company locate payments. In the backdrop of strong customer relationships, the company is also engaged in other businesses as follows:

- Providing loans for buying and renovating homes in rural India through Mahindra Rural Housing Finance. The business started operations in 2008. The National Housing Bank has 12.5% equity in the company.
- Offering insurance solutions to retail customers as well as corporations through Mahindra Insurance Brokers.

  It has been in operation since 1993, initially financing M&M dealers for tractor purchases and then into retail tractor financing. In 2002, it started financing non-M&M vehicles as well.

Investment Rationale

- Mahindra & Mahindra Financial Services (MMFSL), one of India's leading auto financiers with >INR295 bn of AUM, is in a sweet spot to capitalise on the resilient rural economy.
- We like MMFSL for its M&M parentage with its resultant captive business by executives stationed at M&M dealerships (~50% of AUM from M&M vehicles).
- Locally recruited staff, speedy disbursements and limited access to alternative credit channels for customers further enhance its competitive profile.

Key Risks

- MMFSL's business model is directly linked to demand for underlying auto segments hence earnings will be subject to the seasonality and cyclicality of the same
- 50% of MMFSL's loan book is accounted for by M&M vehicles. This dependency links its performance to that of M&M. Hence, weak performance by the latter's models can affect disbursements
- Along with the rising footprint of banks in rural areas, expansion of other NBFCs like Shriram City Union Finance, Tata Finance, Sundaram Finance, Bajaj Finance, Kotak Prime is a cause of concern for the company due to their aggressive growth strategies
- Adverse regulatory developments and slowdown in rural economy are other vectors to look out for

Financial Statements

Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	5.6	6.5
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
Sector				
Credit growth	17.1	14.7	15.0	16.0
Borrowings growth (%)	13.4	13.5	15.0	16.0
Bank's base rate (%)	10.5	9.7	9.5	9.3
Wholesale borrowing cost (%)	10.5	8.9	8.7	8.5
G-sec yield	8.5	7.8	7.6	7.5
Company				
Operating metric assumptions (%)				
Yield on advances	17.1	16.4	15.9	15.6
Net interest margins	10.9	10.1	9.5	9.5
Cost of funds	8.9	8.8	8.7	8.4
Employee cost growth	31.9	11.8	18.4	15.5
Other opex growth	14.3	33.2	13.9	21.5
Tax rate (%)	33.0	31.5	33.5	33.5
Balance sheet assumption (%)				
Disbursement growth	35.3	22.2	24.2	19.4
Repayment/prepayment rate	24.7	(3.8)	44.9	19.4
Gross NPLs	3.0	3.0	3.5	4.2
Prov Cov	77.7	68.0	65.0	65.0
Net NPLs	0.7	1.0	1.2	1.5

Income statement (INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Interest income	27,677	38,325	48,790	60,729
Interest expended	11,203	16,188	21,254	26,185
Net interest income	16,474	22,137	27,536	34,544
- Fee & forex income	269	622	441	491
Net revenues	16,743	22,759	27,977	35,035
Operating expense	5,920	7,423	8,550	10,197
- Employee exp	1,998	2,234	2,646	3,056
- Depreciation /amortisation	196	226	250	274
- Other opex	3,727	4,963	5,654	6,867
Preprovision profit	10,823	15,336	19,427	24,838
Provisions	1,570	3,190	4,465	6,149
Profit before tax	9,253	12,146	14,962	18,689
Provision for tax	3,051	3,820	5,012	6,261
Profit After Tax	6,201	8,326	9,950	12,428
Extraordinaries	-	502	-	-
Reported PAT	6,201	8,827	9,950	12,428
Basic EPS (INR)	12.1	14.6	17.5	21.9
Shares outstanding (mn)	520	569	569	569
Diluted EPS (INR)	11.9	14.6	17.5	21.9
Dividend per share (INR)	2.7	3.4	3.8	4.8
Dividend payout (%)	26.9	27.3	25.7	25.7

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	23.8	35.9	22.9	25.2
NII growth	25.4	34.4	24.4	25.4
Opex growth	20.0	25.4	15.2	19.3
PPP growth	26.0	41.7	26.7	27.9
Provisions growth	0.2	103.2	40.0	37.7
Net profit	33.9	34.3	19.5	24.9

Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Yield on advances	17.1	16.4	15.9	15.6
Net interest margins	10.9	10.1	9.5	9.5
Cost of funds	8.9	8.8	8.7	8.4
Spread	8.9	8.3	7.8	7.9
Cost-income	35.4	32.6	30.6	29.1
Tax rate	33.0	31.5	33.5	33.5

Balance sheet				(INR mn)
As on 31st March	**FY12**	**FY13**	**FY14E**	**FY15E**
Equity capital	1,027	1,124	1,124	1,124
Reserves & surplus	28,483	43,618	51,007	60,236
Shareholders funds	29,510	44,743	52,132	61,361
Short term debt	46,704	63,945	82,079	104,810
Long term debt	92,907	149,206	191,517	244,556
Borrowings	139,611	213,151	273,595	349,365
Deferred tax liability	(2,012)	(2,206)	(2,461)	(2,780)
Sources of funds	**167,109**	**255,687**	**323,266**	**407,946**
Total net fixed assets	989	945	895	820
Non current investments	2,131	2,231	2,331	2,431
Current Investments	2,894	3,094	3,294	3,494
Cash and equivalents	2,452	7,904	6,751	8,550
Loans and advances	174,985	263,470	337,548	427,488
Other current assets	152	1,310	1,641	2,005
Total current assets (ex cash)	180,483	275,777	349,234	441,537
Others current liabilities	16,494	23,266	29,194	36,843
Total current liabilities &	16,494	23,266	29,194	36,843
Net current assets (ex cash)	163,989	252,511	320,040	404,695
Uses of funds	**167,109**	**255,687**	**323,266**	**407,946**
Book value per share (INR)	56.7	78.7	91.7	107.9

RoE decomposition (%)

Year to March	**FY12**	**FY13**	**FY14E**	**FY15E**
Net interest income/assets	10.9	10.1	9.5	9.5
Net revenues/assets	11.1	10.4	9.7	9.6
Operating expense/assets	(3.9)	(3.4)	(3.0)	(2.8)
Provisions/assets	(1.0)	(1.5)	(1.5)	(1.7)
Taxes/assets	(2.0)	(1.7)	(1.7)	(1.7)
Total costs/assets	(7.0)	(6.6)	(6.2)	(6.2)
ROA	4.1	3.8	3.4	3.4
Equity/assets	18.0	16.9	16.8	15.5
ROAE (%)	22.8	22.5	20.6	21.9

Valuation parameters

Year to March	**FY12**	**FY13**	**FY14E**	**FY15E**
Diluted EPS (INR)	11.9	14.6	17.5	21.9
Y-o-Y growth (%)	*33.9*	*22.7*	*19.5*	*24.9*
Book value per share (INR)	56.7	78.7	91.7	107.9
Adjusted book value per share	55.1	75.5	86.7	100.2
Diluted PE (x)	20.2	16.5	13.8	11.0
Price/BV (x)	4.3	3.1	2.6	2.2
Price/ Adj. BV (x)	4.4	3.2	2.8	2.4
Dividend yield (%)	1.1	1.4	1.6	2.0

Peer comparison valuation

	Market cap	Diluted PE (X)		Price/BV (X)		ROAE (%)	
Name	**(USD mn)**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**
Mahindra & Mahindra Financial Services	2,396	13.8	11.0	2.6	2.2	20.6	21.9
HDFC	21,074	21.9	18.7	4.5	4.0	21.5	22.6
Infrastructure Development Finance Co	3,007	8.4	7.1	1.2	1.0	14.6	15.3
LIC Housing Finance	1,732	7.8	6.4	1.2	1.1	18.1	17.6
Manappuram General Finance	211	4.9	4.1	0.5	0.5	10.7	12.0
Multi Commodity Exchange of India	616	15.0	12.8	3.0	2.7	20.0	20.9
Muthoot Finance	596	3.9	3.5	0.8	0.7	21.4	20.4
Power Finance Corp	2,896	3.2	2.7	0.6	0.5	20.1	19.9
Reliance Capital	1,588	10.7	9.3	0.7	0.7	6.7	7.3
Rural Electrification Corporation	3,062	3.9	3.6	0.9	0.8	23.0	21.4
Shriram City Union Finance	885	9.9	8.1	1.9	1.6	21.6	21.4
Median	-	8.4	7.1	0.8	0.7	20.1	19.9
AVERAGE	-	9.4	7.9	1.3	1.1	15.6	15.7

Source: Edelweiss research

Additional Data

Directors Data

Bharat N Doshi	Chairman	Uday Y Phadke	Director
Dhananjay Mungale	Director	Manohar G Bhide	Director
Piyush Mankad	Director	Ramesh Iyer	Managing Director
Rama Bijapurkar	Director	Pawan Kumar Goenka	Director

Auditors - B K Khare & Co

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Eastspring Investments	6.46	JP Morgan Chase	3.72
Fidelity Management and Research	2.66	Cartica Capital	2.50
Wasatch Advisors	2.40	Morgan Stanley	1.48
JP Morgan Funds Asia	1.35	TIAA CREF Investment	1.25
Eastspring Investments	1.12	JF India Fund	1.11

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Development Credit Bank	BUY	SO	M
Federal Bank	BUY	SO	L	HDFC	HOLD	SP	L
HDFC Bank	HOLD	SP	L	ICICI Bank	BUY	SO	L
IndusInd Bank	BUY	SP	L	IDFC	BUY	SO	L
ING Vysya	BUY	SO	L	Karnataka Bank	BUY	SO	M
Kotak Mahindra Bank	REDUCE	SU	M	LIC Housing Finance	BUY	SO	M
Magma Fincorp	BUY	SO	M	MMFS	BUY	SO	M
Manappuram General Finance	BUY	SP	H	Multi Commodity Exchange of India	BUY	SP	M
Muthoot Finance	BUY	SP	M	Oriental Bank Of Commerce	BUY	SO	L
Power Finance Corp	BUY	SO	M	Punjab National Bank	HOLD	SP	M
Reliance Capital	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	South Indian Bank	HOLD	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	BUY	SO	M
Yes Bank	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Development Credit Bank, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
24-Jul-13	**Yes Bank**	Improved business model limits downside; *Result Update*	383	Buy
23-Jul-13	**Banking**	RBI ups the ante ; *Sector Update*		
23-Jul-13	**Federal Bank**	Provisions higher, retail build-up on track; *Result Update*	380	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1 stocks under review	127	44	8	180

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	112	54	14

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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