Initiating Coverage | 5 January 2018

Sector: Financials

AU Small Finance Bank

First Among Equals

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Contents: AU Small Finance Bank – First among equals

AU Small Finance Bank

BSE Sensex	S&P CNX
34,154	10,559

Stock info

Bloomberg	AUBANK IN
Equity Shares (m)	284.3
52-Week Range (INR)	736 / 358
1, 6, 12 Rel. Per (%)	-2/86/-
M.Cap. (INR b)	199.0
M.Cap. (USD b)	3.1
Avg Val, INRm	1285
Free float (%)	67.1

Financial snapshot (INRb)

Y/E MARCH	FY18E	FY19E	FY20E
NII	10.1	13.8	18.6
PPP	6.2	8.4	11.6
PAT	3.1	4.4	6.2
PAT Gr(%)	-9.5	42.4	41.0
EPS	10.8	15.4	21.7
BV/Share	81.0	96.8	118.9
P/E (x)	64.7	45.4	32.2
P/BV (x)	8.6	7.2	5.9
RoA (x)	1.8	1.9	1.9
ROE(X)	14.3	17.3	20.1

Shareholding pattern (%)

As On	Sept-17
Promoter	33.0
DII	6.3
FII	9.5
Others	51.2

FII Includes depository receipts

AU Small Finance Bank

First among equals

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Please click here for Video Link

CMP: INR700 | **TP: INR700** | **Neutral**

First among equals

AU Small Finance Bank (AUBANK) has emerged from the transition of a leading retail-focused NBFC (AU Finance). It primarily serves low and middle-income individuals/businesses, with distinct focus on three key lending products – Vehicle finance, MSME finance, and SME finance. During FY13-17, AUBANK delivered 36% loan book CAGR and 46% earnings CAGR. With the grant of a Small Finance Bank (SFB) license AUBANK plans to rapidly expand the scale of its operations and has shown strong progress in building its deposit franchise in the early days of its SFB launch. The migration to an SFB will weigh on return ratios in the near term; however, we believe significant under-penetration in the states where AUBANK operates, strong credit underwriting, and rapid scale-up of new product launches will enable it to emerge as a leading SFB over the long term. We expect 42% earnings CAGR over FY18-20e, driving FY20e RoA/RoE to 1.94%/20.1%. While we appreciate the long term opportunity that AUBANK presents we believe that the stock is fairly valued at current valuations (~96% higher than the issue price). We thus initiate coverage with a Neutral rating and TP of INR700 (5.9x Mar-20E BV, 32.2x FY20E EPS).

Business growth to remain robust; diversity set to improve further

As an asset-financing NBFC, AUBANK built a strong presence across three secured lending segments – Vehicle loans, MSME loans, and SME loans. On transitioning to an SFB, it has launched several new deposit and lending products and has also expanded into newer geographies -

- AUBANK had successfully launched and built a housing finance business over FY11-16, which it later sold at ~5x P/B. AUBANK now plans to launch its home loan product by 1QFY19e with focus on affordable housing segment. Given its prior experience in housing finance and its strong presence in tier-II/III centers, we believe AUBANK is well placed to rapidly scale up this business post launch.
- We expect AUBANK to deliver 42% loan CAGR over FY18-20e. The diversity in loan mix and geographic regions will also add stability to the franchise.

Earnings growth to accelerate from FY18e; transition hiccups short-lived

While transitioning into an SFB will impact return ratios on (i) negative carry due to CRR/SLR, resulting in margin compression, and (ii) higher operating expenses due to investments in technology, branches, operating centers, employees, etc, we expect return ratios to bounce back to healthy levels over FY19-20e. We believe its diverse loan book, wide geographical presence and strong underwriting skills across different lending segments will enable AUBANK to complete its SFB transition expeditiously. We expect RoA/RoE to bottom out at 1.82%/14.3% in FY18e and recover to 1.94%/20.1% by FY20e.

Borrowing cost to moderate; Fee growth to remain strong

AUBANK is primarily funded via wholesale borrowings (NCDs, term loans, CP, etc), resulting in higher borrowing cost. With healthy accretion in deposit base, we expect funding cost to moderate to 7.0% by FY20E.

This will enable AUBANK to launch several new competitive lending products, boosting its business growth.

- We nevertheless expect margins to moderate on (i) CRR/SLR requirement, and (ii) change in asset mix, as AUBANK launches new products (working capital loans, housing finance) etc.
- Access to low-cost deposit funding will help AUBANK to strengthen its liability franchise and enable it to retain higher share of assets on its books. Priority sector loans (PSL) constitute a dominant share of AUBANK's assets and enables AUBANK to actively participate in the PSLC market and earn healthy fees.
- Besides, launch of several new lending products and pick-up in cross-selling and third-party distribution will further boost fee income

Migration to 90dpd has impacted NPL ratios; we expect asset quality to improve

The secured nature of advances along with strong underwriting skills and processes has enabled AUBANK to maintain strong control on NPL ratios. However, the migration to 90dpd basis in 1QFY18, as AUBANK launched its SFB operations, has resulted in an increase in GNPL ratio to ~3%. We view this deterioration as transient and expect NPL ratios to improve gradually over FY18-20e. AUBANK continues to follow a conservative provisioning policy – it makes 100% provisioning on any asset that is delinquent for >730 days.

Valuations appear full; remain convinced about long term story

We expect AUBANK to deliver 42% earnings CAGR over FY18-20e, particularly as it absorbs the costs related to SFB migration in FY18. After bottoming out at 14.3% in FY18, RoE should gradually improve to 20.1% by FY20e. AUBANK has demonstrated the capability to build a quality retail franchise, as evident in its performance across all its lending segments. While we appreciate the long term opportunity that AUBANK presents we believe that the stock is fairly valued at current valuations (~96% higher than the issue price). We thus initiate coverage with Neutral rating and PT of INR700 (5.9x Mar-20E BV, 32.2x FY20E EPS). However over a more medium term three year scenario we value AUBANK at Rs950 per share (27x earnings). Risks – delay in scaling up SFB operations and inability to ramp up liability franchise.

Exhibit 1: Valuation comparison

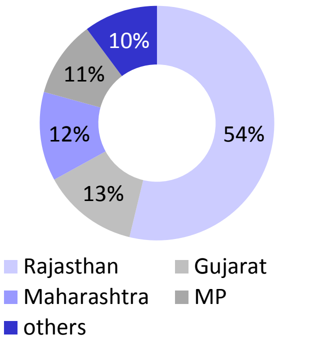
Particulars	Loan Book (INRb) 2Q18	Price (INR)	MCap (INRb)	PAT (INRb) (FY18E)	PAT CAGR (F17-F20E)	ROA (%)		ROE (%)		P/B (x)		P/E (x)	
SFB's						FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Equitas	73	157	53	0.6	25%	0.6	1.6	2.6	8.2	2.3	2.2	90.8	27.4
Ujjivan	65	408	49	0.2	8%	0.1	1.6	0.8	12.4	2.8	2.5	NA	24.1
AU SFB	121	700	199	3.1	25%	1.8	1.9	14.3	17.3	8.6	7.2	64.7	45.4
NBFC's													
Bajaj Finance	721	1,811	1039	26.2	40%	3.5	3.6	20.2	20.4	6.4	5.3	39.6	28.4
Shriram Transport	855	1,485	337	18.0	32%	2.7	3.1	15.1	17.4	2.6	2.3	18.4	14.0
Banks													
HDFC Bank	6,049	1,864	4,776	176.1	23%	1.9	1.9	18.8	20.4	4.9	4.1	27.1	22.0
Yes Bank	1,487	333	760	40.6	26%	1.7	1.8	17.3	19.5	3.0	2.6	18.7	14.3
IndusInd Bank	1,232	1,700	1.012	36.4	33%	1.8	1.9	16.9	19.0	4.4	3.7	27.9	21.6
Kotak Bank	1,526	1,003	1,840	61.0	26%	1.8	1.9	12.7	13.5	4.3	3.7	31.3	24.1

Note: For Equitas, Ujjivan, AU Bank, Bajaj Finance, Shriram Transport Loan book represents AUM

Source: Company, MOSL

Investment thesis

Geographical split of AUM (FY17)



Source: MOSL, Company

AU Small Finance Bank (AUBANK) has emerged from the transition of a leading retail-focused NBFC (AU Finance). It primarily serves low and middle-income individuals/businesses, with distinct focus on three key lending products – vehicle finance, MSME finance, and SME finance. During FY13-17, it delivered 36% loan book CAGR and 46% earnings CAGR. With the grant of a small finance bank (SFB) license – it is the only asset-financing NBFC to have received one – AUBANK plans to rapidly expand the scale of its operations. It has shown strong progress in building its deposit franchise in the early days of its SFB operations. Its migration to an SFB will weigh on return ratios in the near term; however, we believe significant under-penetration in the states where AUBANK operates, its strong credit underwriting, and rapid scale-up of new product launches make a strong investment case. We expect 42% earnings CAGR over FY18-20e, driving FY20e RoA/RoE to 1.94%/20.1%.

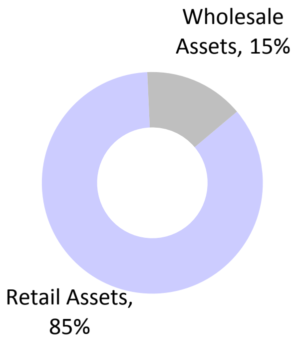
Valuation

We expect AUBANK to deliver 42% earnings CAGR over FY18-20e, particularly as it absorbs the costs related to SFB migration in FY18. After bottoming out at 14.3% in FY18, RoE should gradually improve to 20.1% by FY20e. AUBANK has demonstrated the capability to build a quality retail franchise, as evident in its performance across all its lending segments. We believe that strong credit underwriting, wide geographical presence, and presence across multiple lending segments will enable AUBANK to undertake the SFB transition with limited earnings disruption. While near-term returns could be limited on account of subdued earnings in FY18, we believe AUBANK has the potential to emerge as a strong SFB over the long term. While we appreciate the long term opportunity that AUBANK presents we believe that the stock is fairly valued at current valuations. We thus initiate coverage with a Neutral rating and PT of INR700 (5.9x Mar-20E BV, 32.2x FY20E EPS). We believe that strong management track record, 42% projected earnings CAGR, and secured retail portfolio will enable AUBANK to sustain its premium multiples.

Risks

- Building and scaling up SFB operations need significant investments in technology, infrastructure and employees. Also, there is need for compliance with rigorous SFB guidelines.
- Scaling up newly-launched asset products and building a strong liability franchise will be key to growth and profitability. Any delays here will adversely impact valuations.
- Being a dominantly wholesale-funded entity, a rising interest rate environment may adversely impact borrowing costs, and hence, profitability.
- AUBANK has significant exposure to the top four states, which together account for ~90% of its loan book.

AUM distribution as on 2QFY18



Source: Company, MOSL

AU Small Finance Bank

AU Small Finance Bank (AUBANK) has emerged from the transition of a leading retail-focused NBFC (AU Finance) into a bank. It primarily serves low and middle-income individuals and businesses with limited or no access to formal banking and finance channels. AU Finance commenced operations in 1996 in Jaipur, Rajasthan and was registered as an NBFC with the RBI in 2000. In 2005, it became a commercial associate of HDFC Bank for originating and servicing vehicle loans, which fast-tracked its learning and implementation of various processes and systems. It has since expanded the scale of its business, with a vision to cater to the unserved and underserved customer segments. It expanded its product portfolio to include MSME loans in 2007, housing finance in 2011 (sold in 2016), and SME loans in 2012.

The company was granted an SFB license by the RBI on December 20, 2016, and it commenced SFB operations on April 19, 2017. It is the only NBFC categorized as an asset-finance company to have received an SFB license. It aims to be a leading retail-focused SFB that offers high quality service and customized solutions to its customers. AUBANK currently operates out of 301 branches, has 9,974 employees, and services 303,756 active loan accounts.

Exhibit 2: AU Small Finance Bank - Key milestones

Particulars	Achievements
1996	❖ AU Finance was incorporated in the name of L.N. Finco Gems Pvt Ltd on 10th Jan, 1996. Launched vehicle finance bus.
2002-03	❖ Registers with RBI as a non-deposit taking NBFC. Ties up with HDFC Bank as a channel partner for CV business
2006-09	❖ Expanded its base to Maharashtra & Gujarat. Received PE investment of INR200m from Motilal Oswal
2010-11	❖ RBI registers the company as an Asset Financing Company and subsequently classifies it as NBFC-ND- AFC. ❖ International Finance Corporation (IFC), IBE Fund and IBE Fund-I invested into the company. AU started offering housing loans through whole-time subsidiary and further expanded its operations to Punjab, Madhya Pradesh and Goa.
2012-13	❖ Received investments worth INR1.5b and INR330.44m from Redwood Investment Ltd and IFC ❖ Launched insurance broking services and expanded presence to Delhi, Himachal Pradesh and Haryana. ❖ Credit rating upgraded two notches to CRISIL A / Stable for long-term credit facilities.
2014-15	❖ Credit rating upgraded to IND A+ / Stable for long-term credit facilities and IND A1+ for short-term credit facilities. Received a credit rating of CARE A+ for long-term banking facilities by CARE ratings. ❖ Became the only AFC to receive 'in-principle' approval from the RBI for establishing a Small Finance Bank
2016	❖ Received final approval from the RBI for transforming into SFB. Divested equity stake in Au Housing Finance Limited, Index Money Limited and Au Insurance Broking Services Private Limited. ❖ Assigned a credit rating of CRISIL A/ watch positive by CRISIL Ratings.
2017	❖ AU commences operations as Small Finance Bank. ❖ AU SFB got listed on 10th July, 2017 via overwhelmingly successful IPO

Source: Company, MOSL

Experienced management team with a strong track record

AUBANK has an experienced management team led by **Mr Sanjay Agarwal** (Promoter, MD & CEO), a first generation entrepreneur. He is a chartered accountant with over 21 years of experience in finance, accounting, strategic planning and credit risk management. Over the last 20 years, he has helped transform the small NBFC start-up into a small finance bank with a loan book of >INR100b. AUBANK has an experienced senior management team, with average experience of >15 years in a wide range of financial products and services.

Mr Sanjay Agarwal: He is the Promoter, Managing Director and CEO. A qualified Chartered Accountant, he has over 21 years of experience in finance, accounting, strategic planning and credit risk management. He has played an instrumental role in building AUBANK right from its start in 1996.

Mr Uttam Tibrewal: He is head of business operations and is a Whole-time Director. He has been associated with AUBANK since 2003. He holds a BCom from the University of Delhi.

Exhibit 3: Experienced management team

Name	Designation	Age (Yrs)	Highest Qualification	Work Ex (Yrs)	Relevant Experience
Mr Aalekh Vijayvargia	National Credit Manager Secured Business Loan- MSME	37	CA	14	India Infoline Housing Limited and ICICI Bank
Mr Bhaskar Vittal Karkera	Chief of Wheels	49	BE (Automobile Engineering) from University of Bombay	26	Mahindra Financial Services, HMP Engineers, Mahindra & Mahindra, and HDFC Bank
Mr Naveen Vashisht	National Business Manager – Wheels (Used)	49	Senior Management Program (IIM, Kolkata)	25	Equitas Micro Finance, Development Credit Bank, Cholamandalam Investment and Finance Company, and Indiabulls Infrastructure Credit
Mr Pankaj Sharma	National Business Manager – MSME	42	MBA from Mohanlal Sukhadia University, Jaipur	17	DSP Merrill Lynch Capital, Indiabulls Housing Finance, ICICI Bank, and BOB Housing Finance
Mr Priyam Alok	Chief of Business Banking	36	MBA from Bharathidasan University	14	Kotak Mahindra Primus, Citibank India NA, ING Vysya Bank, and Reliance Broadcast Network
Mr Sanjay Singh Rajawat	Group Head – Liabilities	49	CA and Master of Philosophy from Rajasthan University	25	Deutsche bank, ICICI bank & IDBI bank
Mr Vivek Tripathi	Chief of Wholesale Banking	38	PG Diploma, University of Mumbai, Management for Executives from IIM Society, Lucknow,	15	ICICI Bank, Reliance Capital, Grasim Industries, and Sintex Industries Limited
Mr Rishi Dhariwal	Chief of Credit and Collection – Retail Bank	47	PG Program in Mgmt for Executives from IIM, Ahmedabad	24	Citicorp Finance (India) and Ashok Leyland
Mr Hemant Sethia	Senior Vice President - Investor Relations	35	MBA from Bharathidasan University and CA	11	Credit Analysis and Research, and HDFC Bank

Source: Company, MOSL

What can investors look for as AUBANK gains scale!

We analyze AUBANK return potential over the long term as shaping and building up the franchise will take time while track record of the management across product lines gives us confidence about their execution skills. We have thus **compared AUBANK to several other leading private banks that have gone to build a formidable franchise and alongside delivered excellent returns to shareholders.**

Going back in history, we have thus compared AU's current loan book size to other leading banks and note that **from the starting reference point these banks have delivered 27-42% CAGR returns over the next ten years while their loan book has compounded between 22%-40% over the similar period.** We further note that the trading multiples for most of these banks has either been stable or have reported some expansion (**highest multiple expansion being for KMB and IIB**) which resulted in them delivering higher CAGR returns vs their balance sheet / earnings growth.

Exhibit 4: Key metrics of leading banks at the time they were of the size of AUBANK

(INRb)	Year of comparison	Loan book (INRb)	PAT (INR b)	Mkt Cap (INRb)	P/B (x)	P/E (x)	Mkt Cap / Loans	RoA (%)	RoE (%)
AU SFB	FY17	64	3.1	199	10.0	37.7	3.1	2.6	20.4
HDFC Bank	FY02	68	3.0	66	3.0	21.4	1.0	1.5	20.8
Yes Bank	FY07	63	0.9	8	5.0	20.7	0.1	1.2	13.9
IndusInd Bank	FY04	73	2.6	12	1.2	3.6	0.2	2.1	37.4
Axis Bank	FY03	72	1.9	9	1.0	4.4	0.1	1.1	25.3
Kotak Bank	FY05	71	1.7	8	1.4	NA	0.1	1.3	9.7

Source: Company, MOSL

Note: Here we have taken loan book as the measure of comparison to ascertain the starting point

Exhibit 5: Key metrics - 3 years hence

Particulars (Rs Mn)	3 Year Hence	Loan book (bn)	Loan Book (3 Yr CAGR)	PAT (b)	PAT (3 Yr CAGR)	Mkt Cap (b)	Mkt Cap (3 Yr CAGR)	Stock Price (3 Yr CAGR)	P/B (x)	P/E (x)	Mkt Cap / Loans	RoA (%)	RoE (%)
AU SFB	FY20	184	42%	5.7	23%								
HDFC Bank	FY05	256	55%	6.7	31%	169	37%	32%	3.7	23.8	0.7	1.4	18.5
Yes Bank	FY10	222	52%	4.8	72%	17	30%	22%	2.8	12.2	0.1	1.6	20.3
IndusInd Bank	FY07	111	15%	0.7	-36%	13	5%	1%	1.3	20.7	0.1	0.4	7.1
Axis Bank	FY06	223	46%	4.9	36%	99	121%	107%	3.5	20.3	0.4	1.1	18.4
Kotak Bank	FY08	220	45%	9.9	80%	216	195%	66%	6.7	5.0	1.0	1.0	8.3

Source: Company, MOSL

Exhibit 6: Key metrics - 10 years hence

(INRb)	10 Year Hence	Loan book (INRb)	Loan book (10 Yr CAGR)	PAT (INRb)	PAT (10 Yr CAGR)	Mkt cap (INRb)	Mkt Cap (10 Yr CAGR)	Stock price (10 Yr CAGR)	P/B (x)	P/E (x)	Mkt Cap / Loans	RoA (%)	RoE (%)
AU SFB's	FY27	1,285	35%	52.8	33%								
HDFC Bank	FY12	1,954	40%	51.7	33%	1,220	34%	27%	4.1	23.5	0.6	1.7	18.7
Yes Bank	FY17	1,323	36%	33.3	43%	141	34%	27%	3.3	16.8	0.1	1.8	18.9
IndusInd Bank	FY14	551	22%	14.1	18%	264	37%	29%	3.1	18.7	0.5	1.8	17.5
Axis Bank	FY13	1,970	39%	51.8	39%	609	52%	42%	1.8	11.1	0.3	1.7	18.5
Kotak Bank	FY15	886	29%	30.5	33%	1,014	62%	34%	7.5	35.8	1.1	1.8	13.2

Source: Company, MOSL

While we concede that AUBANK is already trading at expensive valuations of 5.9x March20E BV, we believe that strong earnings/balance sheet growth rate will nevertheless take it to similar levels of profitability and loan book size as other top retail banks today.

Exhibit 7: Performance of leading banks over last three years

Particulars (Rs Mn)	Loan Book (FY14-FY17)	PAT (FY14-FY17)	Mkt Cap (FY14-FY17)	Stock Price (FY14-FY17)
HDFC Bank	22%	20%	27%	24%
Yes Bank	33%	27%	68%	55%
IndusInd Bank	27%	27%	48%	42%
Axis Bank	17%	-16%	20%	19%
Kotak Bank	33%	26%	39%	31%

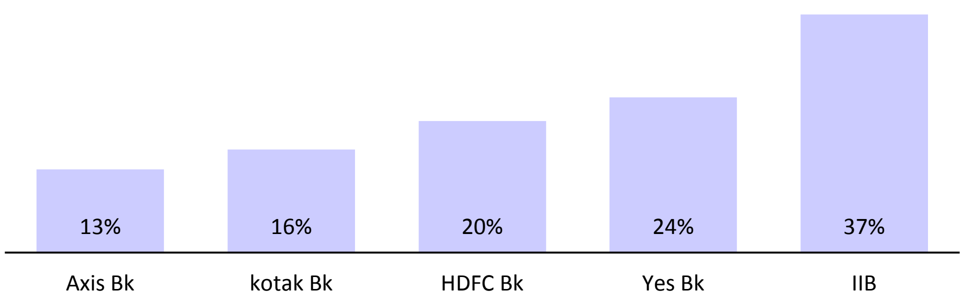
Source: Company, MOSL

Exhibit 8: Performance of leading banks over last ten years

Particulars	Loan book (FY07-FY17)	PAT (FY07-FY17)	Market cap (FY07-FY17)	Stock price (FY07-FY17)
HDFC Bank	28%	29%	28%	22%
Yes Bank	36%	43%	34%	27%
IndusInd Bank	26%	45%	51%	42%
Axis Bank	26%	19%	24%	17%
Kotak Bank	27%	25%	26%	22%

Source: Company, MOSL

Exhibit 9: Stock price CAGR (Dec 07 – Dec 17)



Source: Company, MOSL

We note that assigning a multiple of 20-25x earnings vs ~32.2x Mar-20e EPS that it trades today (this corresponds to 3.5x to 4.5x P/BV range and implies ~30% multiple de-rating from current levels) the bank can be valued in between INR1t to INR1.3t, over next ten years. However over a more medium term three year scenario we value AUBANK at INR950 per share (27x earnings) which implies an upside of ~36% over current levels.

Alternately, we also assess AUBANK's valuation ten years down the line by comparing it on loan to market cap for major banks, after building in 35% CAGR in loans (HDFCB, AXSB & YES have delivered 40%/39%/36% loan CAGR during the same phase). We believe that valuation on market cap to loans can be used as a comparative valuation assessment tool as we otherwise project AUBANK's RoA to stabilize at ~2% mark, which stands close to the other top performing private banks. We thus value AUBANK at 0.7x loans (HDFCB/IIB/KMB trades at 0.65x/0.55x/0.7x adjusted) which corresponds to Rs0.96t.

Our valuation assessment between the two above methodologies thus implies a CAGR return of 17% to 21% over the ten year period. The above return potential though stands lower than the range of 27%-42% returns that other leading private banks have reported (mainly due to premium valuations today) but still significant enough for long term investors. Moreover the above return also factors in much more reasonable multiple for AUBANK than what it is trading at today.

Strong presence across secured retail segments

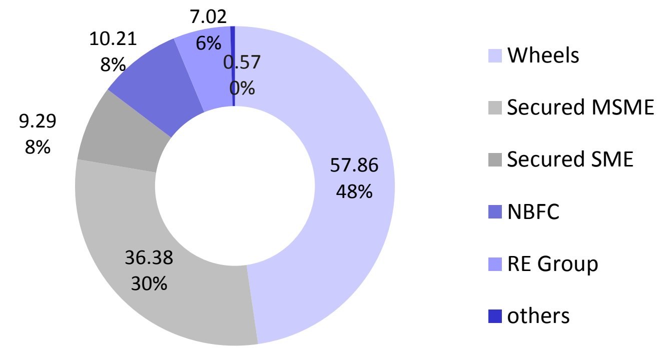
AUBANK has built a strong presence across three lending segments – vehicle loans, MSME loans and SME loans. It has always focused on secured lending, which has enabled it to maintain strong control on asset quality across economic cycles. Unlike most other NBFCs that have received the SFB license, AUBANK does not have any exposure to the micro-finance segment or to unsecured personal loans. Given the collateralized nature of lending (~99% of loans are secured) AUBANK is able to maintain a strong control on its loss ratios in the event of a default.

Exhibit 10: Characteristics of key product lines

Particulars	Vehicle loans	MSME loans	SME loans
Clientele	1) First time users/ buyers 2) Small Road Transport operators 3) Self Employed individuals	1) Micro, small manufacturing and service enterprises 2) Agriculture based units	1) Manufacturing, trading and service units 2) Medium sized NBFC / HFC /MFI 3) Small builders for development of affordable units
Target Segment	Rural, semi-urban & low income urban masses	Turnover > INR1m & < INR10m	Turnover > INR10m
Ticket size	Up to INR2.5m (average INR0.3-0.4m)	Up to INR5m (average INR0.9-1m)	INR5m– INR200m (average INR20m - 25m)
Tenure	36 – 60 months	60–120 months	36–84 months
Security	Vehicle	Property	Property/ Receivables
Purpose	Income / Revenue Generation	Business Expansion Working capital requirement Equipment purchase	Business expansion Working Capital
AUM as on Sept 17	INR57.9b	INR36.4b	INR27b
AUM Mix as of Sept 17	47.7%	30%	22.3%

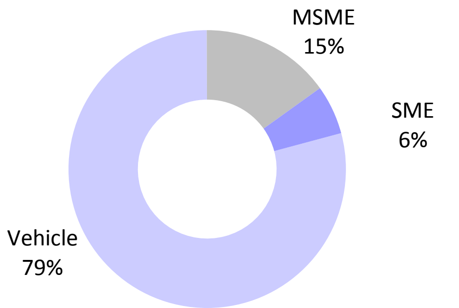
Source: Company, MOSL

Exhibit 11: AUBANK's loan mix as of 2QFY18 (INRb)



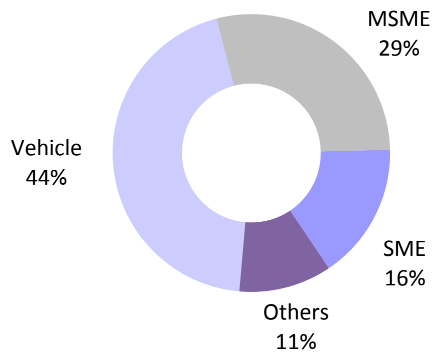
Source: Company, MOSL

Exhibit 12: AUBANK's AUM composition – FY13



Source: Company, MOSL

Exhibit 13: AUBANK's AUM composition – FY19e



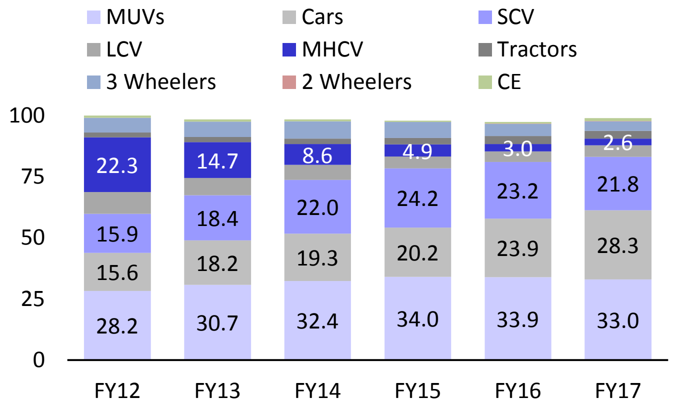
Source: Company, MOSL

Vehicle finance business

AUBANK commenced operations as a vehicle financier in 1996. It extends loans for the purchase of new/used vehicles (and for refinancing of vehicles) that are primarily used for revenue generating activities. It extends vehicle loans across several categories: (i) multi-utility vehicles, (ii) cars, (iii) small commercial vehicles, (iv) light commercial vehicles, (v) medium and heavy commercial vehicles, (vi) tractors, (vii) three-wheelers, (viii) two-wheelers, and (ix) construction equipment.

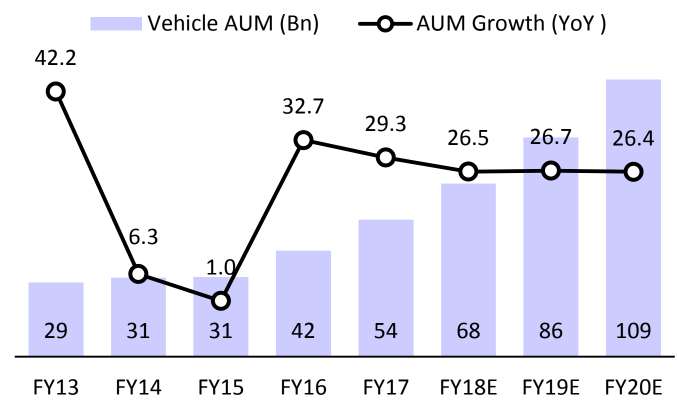
Over the years, AUBANK has built a deep understanding of the cost of ownership and resale potential for various vehicle types in different regions, and this has helped it in framing customized credit policies. Gross AUM in the vehicle finance business has grown at a CAGR of 16.5% over the last four years to INR58b (as of 2QFY18), while the share of this business in total AUM is 48%. The average ticket size in this business is INR0.34m while the typical loan tenure is 3-5 years.

Exhibit 14: Vehicle Finance – trend in AUM composition



Source: Company, MOSL

Exhibit 15: Vehicle Finance – trend in AUM growth



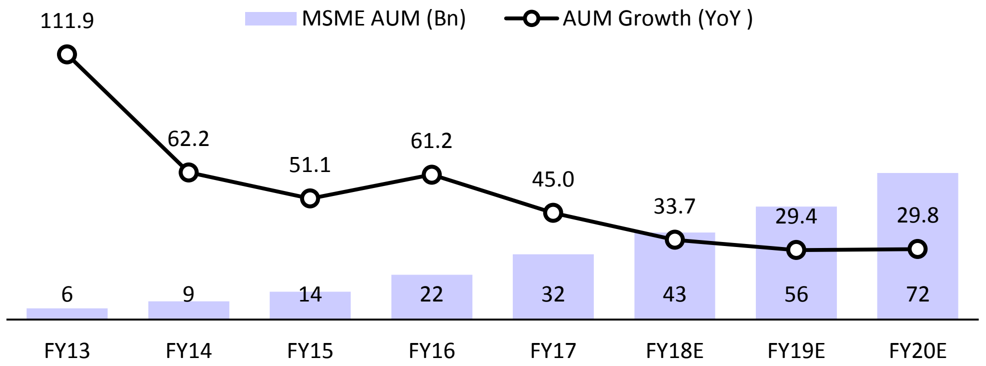
Source: Company, MOSL

MSME finance business

AUBANK launched its MSME (Micro, Small and Medium Enterprises) business in 2007 to cater to the credit needs of the large section of the economy, which was largely unbanked / under-served by formal financial institutions. The MSME segment accounts for an estimated ~45% of India's manufacturing output and ~40% of total exports. According to CRISIL, only a quarter of the total lending to MSMEs is through formal channels, which signifies the potential lending opportunity that this segment presents.

Here, AUBANK targets customers with a turnover of over INR1m and loan customers typically include provision stores, dairy businesses, hotels and restaurants. AUBANK extends MSME loans for business expansion, working capital and purchase of equipment, and nearly all of these loans are secured by immovable property. In FY17, the average ticket size in this business was INR1.08m while the loan tenure extends up to 12 years.

Exhibit 16: MSME finance – trend in AUM growth



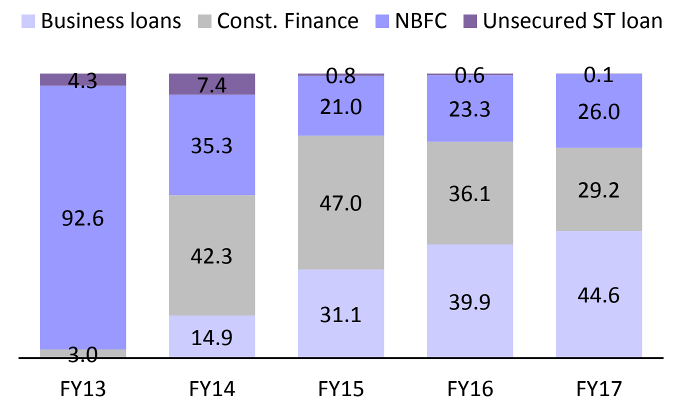
Source: Company, MOSL

SME finance business

AUBANK commenced the SME loan business in 2012. Under this segment, it extends loans to varied small and medium businesses including HFCs and MFIs. It classifies the SME loans into three broad categories: (i) SME business loans, (ii) Construction finance loans, and (iii) NBFC finance loans. It extends SME loans for purposes such as business expansion, working capital, and equipment purchase. The target segment comprises customers with a turnover of >INR10m and typically includes small and medium sized enterprises, traders, wholesalers, distributors, retailers, self-employed professionals, and small construction companies. The loans are secured by immoveable property or receivables of the borrowers. AUBANK originates the SME loan business through its centralized team in Jaipur, referrals by existing customers/employees, cross-selling products to existing vehicle finance and MSME customers, and through advertisements.

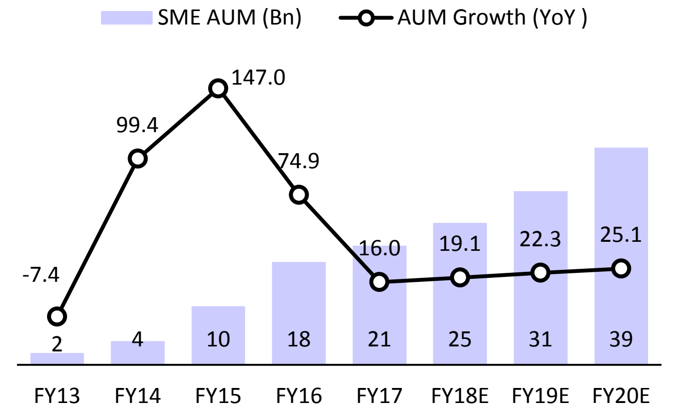
The gross AUM in this segment has grown at a CAGR of 78% over the last four years to INR27b (as of 2QFY18) and the segment constitutes 22% of AUBANK's total gross AUM as at 2QFY18. The average ticket size in this business stands at INR21.9m while loan tenure typically ranges up to 15 years.

Exhibit 17: SME financing – trend in AUM composition



Source: Company, MOSL

Exhibit 18: SME financing – trend in AUM growth



Source: Company, MOSL

Transitioning to SFB will help expand product offerings

AUBANK has launched a wide variety of CASA accounts to attract new customers

Savings account	Current account
Samarth	Mangalam
Bachpan	Shubh Labh
Vidyaarthi	Shubh Shuruaat
Samarth Pravasi	Parivahan
Tejaswini	Paryatan
Varishtha	Vikray
Aarambh	AU Samriddhi
Pragati	
Sahyog	

Source: Company, MOSL

AUBANK's experience in multiple consumer lending segments and wide customer base has enabled it to quickly launch its SFB operations. Its technology-driven hub-and-spoke branch model and strong customer focus has enabled it to convert most of its erstwhile branches into bank branches/asset centers.

In the **retail segment**, AUBANK has launched working capital loans, gold loans, agriculture loans and loans against securities. This supplements its primary product lines of vehicle, SME and MSME loans. Further, AUBANK plans to launch its housing finance business latest by 1QFY19e.

In the **wholesale segment**, the bank has launched business banking loans with the facility of cash credit/overdraft. It plans to continue with selective focus on its lending towards NBFCs, MFIs and real estate developers. Gradually, AUBANK also plans to offer transaction banking services for MSME and SME customers to help them better manage their liquidity and cash flow operations.

On the **liability side**, AUBANK has launched a complete bouquet of products comprising of current accounts, savings accounts, term deposits, recurring deposits, and transaction banking services. In addition, it also offers locker services at its branches. To better differentiate its liability products, AUBANK (i) has launched a wide variety of current and savings accounts, (ii) offers higher interest rates, and (iii) makes monthly interest payouts. This has helped it to improve its product proposition and also address the specific needs of its customers.

Exhibit 19: AUBANK - Product portfolio

Asset products	Liability products	Other products and services
Retail assets: 1) Vehicle finance loans 2) Secured business loans to SME & MSMEs 3) Housing finance loans (to be launched) 4) Gold loans 5) Loan against securities 6) Agriculture term loans	1) Current accounts 2) Savings accounts 3) Term deposits and recurring deposits 4) Payment wallets and customized prepaid instruments 5) Collections and payments solutions for MSME and SME customers	1) Sale of third party investment products such as mutual funds, insurance and risk management products 2) Financial advisory and education programs for individuals and new entrepreneurs
Wholesale assets: 1) Business Banking - Working capital facilities such as OD & cash credit 2) Unsecured loans for MSME and SME 3) NBFC loans 4) Construction finance loans 5) Non-fund based products		

Source: Company, MOSL

Besides asset and liability products, AUBANK also plans to cross-sell a range of third-party investment products such as mutual funds and insurance, and provide financial advisory services to its existing and potential customer base.

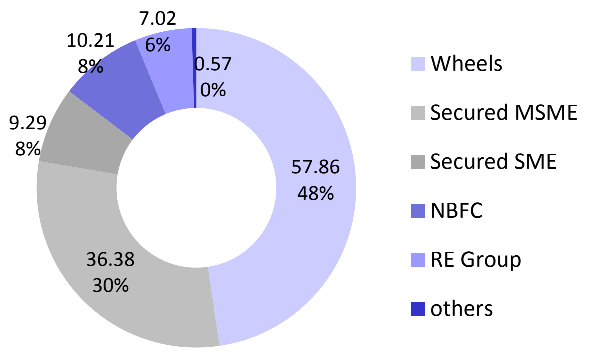
AUBANK has also started offering online banking with NEFT fund transfer facility and is investing in building digital payment solutions such as internet banking, bill payment system, cash management services, wallet services, IMPS, etc. It aims to operationalize these services by the end of FY18, which will help it bridge the product gap with the larger banks and compete effectively.

Scale up of new products will add to diversification

Having started off as a pure play vehicle financier, AUBANK now has a diversified business mix. The share of vehicle loans in its AUM has declined from ~80% in FY12 to ~50% in FY17. AUBANK has adopted a prudent approach to grow its business and has put credit quality as a top priority. Despite it being a pure vehicle financier, it adopted a cautious stance on incremental disbursements in the MHCV space in April 2013, as it sensed impending stress in this segment. The share of this segment in its total vehicle AUM was 3% in Mar17 against 23% in March 2012. Its overall vehicle AUM remained static for nearly three years (FY12-15), and this was the time AUBANK focused on building SME and MSME financing.

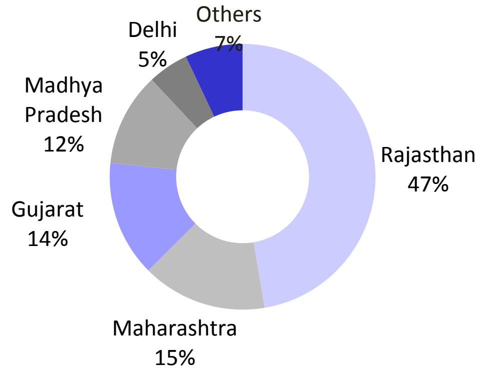
Currently, the vehicle finance, MSME finance, and SME finance segments comprise 48%, 30%, 22%, respectively of AUBANK's total AUM. We expect the AUM mix to diversify further, as AUBANK scales up its newly launched products and introduces other lending products like housing loans. Besides product diversification, we believe AUBANK's geographical diversification will also improve gradually as currently top four states account for ~90% of total loans.

Exhibit 20: AUBANK's loan mix as of 2QFY18



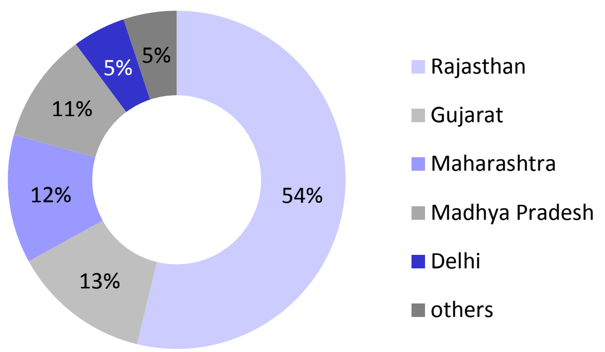
Source: Company, MOSL

Exhibit 21: AUBANK's state wise customer mix



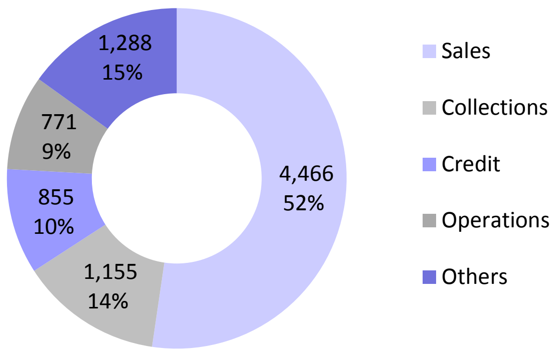
Source: Company, MOSL

Exhibit 22: AUBANK's geographical AUM split-FY17



Source: Company, MOSL

Exhibit 23: Sales and collection together form 75% of the employee base

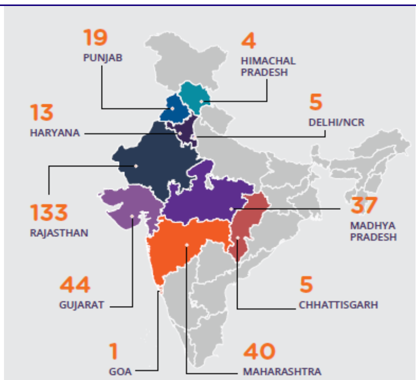


Source: Company, MOSL

Rapid branch expansion will improve brand visibility and aid business growth

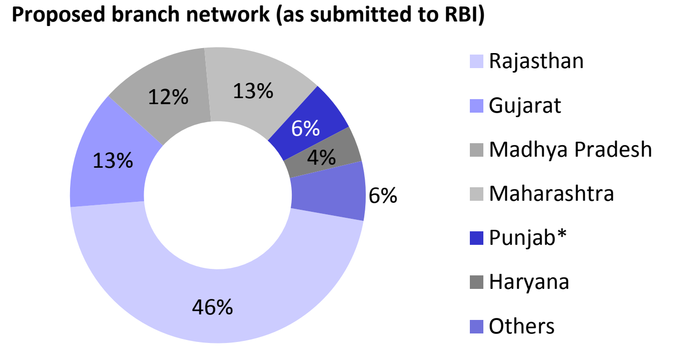
We believe AUBANK has significant opportunity to grow its business. It has converted 121 of its NBFC branches into asset centers, where it only offers lending products. It intends to continue expanding its branch network and add 162 branches in FY18 to reach 431 branches and 121 asset centers by the end of FY18. The 431 branches will comprise of 164 branches in tier-1 centers and 267 branches in tier-2 to tier-6 centers, of which 113 branches are expected to be located in unbanked rural centers. This will also enable AUBANK to comply with the requirement of having at least 25% branches in rural/unbanked centers by March 2018. The RBI has allowed banks to (i) classify a business correspondent center as a branch, (ii) exempted asset centers from being counted as branches for three years, and (iii) count asset and liability centers together as one branch. This would significantly ease the pressure on SFBs to meet the stringent guidelines on branch distribution.

Exhibit 24: AUBANK's geographic presence as at FY17 end



Source: Company, MOSL

Exhibit 25: AUBANK's proposed branch network



Source: Company, MOSL.

Note: Other states include Chattisgarh, Delhi, Himachal Pradesh, UP, Goa, TN, Telangana, Uttarakhand, WB, AP, Kerala, Karnataka and Odisha

To gain customer mindshare, AUBANK has imparted a unique look to its branches in keeping with the local image. Besides, it uses visual language at its branches to better guide rural customers. This along with rapid increase in branch network will enable it to strengthen its brand and gain strong mindshare amongst customers.

Exhibit 26: AUBABNK makes use of respective city images in its branches to form strong connect with its customers

Source: Company, MOSL

Exhibit 27: AUBANK makes use of visual language to assist its rural/suburban clientele

Source: Company, MOSL

AUBANK - key strengths and business strategy

- **Leverage existing capabilities and customer base**
  AUBANK is the only NBFC categorized as an asset finance company to have received an SFB license from the RBI. Its operational experience as an asset finance NBFC, with presence across several secured lending segments, strong customer base and wide branch presence has enabled it to smoothly launch its SFB operations. The company has strong local understanding of the geographical regions in which it operates, which enables it to address specific needs of its customers and win repeat business. It intends to continue with its go-to-market approach to increase its customer base, implement customer reach programs and expand its footprint / product suite to drive customer acquisition in target markets.

- **Customer centricity remains a high focus area**
  AUBANK places high emphasis on customer delight and strives to offer quality service to its customers. It has created customized products and services to cater to the evolving needs of its customers. It has put in place customer-friendly processes, which make it easier to serve the unbanked and under-banked population. It is employing digital channels for paperless on-boarding of new customers through e-KYC and following it up with a variety of paperless transactions at branches. Backed by robust technology architecture, the bank is able to offer the same service levels to its customers at all its branches and not just the home branch. AUBANK ensures that the customer interactions are primarily undertaken by its own employees. To provide quality service to its customers, AUBANK focuses on the following:

  - **Hire local talent**: AUBANK recruits locally, which enables better understanding of customers in the region and their requirements. This also helps build closeness with its customers in rural and semi-urban markets, win repeat business, and maintain high collection efficiency.
  - **Develop healthy relationships with vehicle manufacturers and dealers:** AUBANK has developed healthy relationships with vehicle manufacturers and dealers, and enters into preferred financing arrangements with them from time to time. This enables it to source new business and control asset quality.
  - **Dedicated call centers:** The bank has set up a separate team of tele-callers to source new business for each of its business segments. Its call centers operate in English/select regional languages. This enables AUBANK to maintain close connect with its customers and helps ensure timely collections.
  - **Referral and other programs**: AUBANK has introduced referral programs like “Dost Banaye Dost” for its customers; this helps source new business and maintain a check on asset quality. It has also launched employee referral programs that offer incentives to employees who refer their family and friends to AUBANK for business.

- **Multiple distribution channels to enable faster growth**
  AUBANK plans to employ multiple channels to offer its products to customers. This will enable it to improve penetration in rural and suburban geographies, and equip it to compete with other private banks in urban and metropolitan regions. It intends to offer its retail asset and liability products through both online and branch banking channels. It is already on-boarding customers digitally through a tab-based application, which employs e-KYC verification and enables paperless account opening.

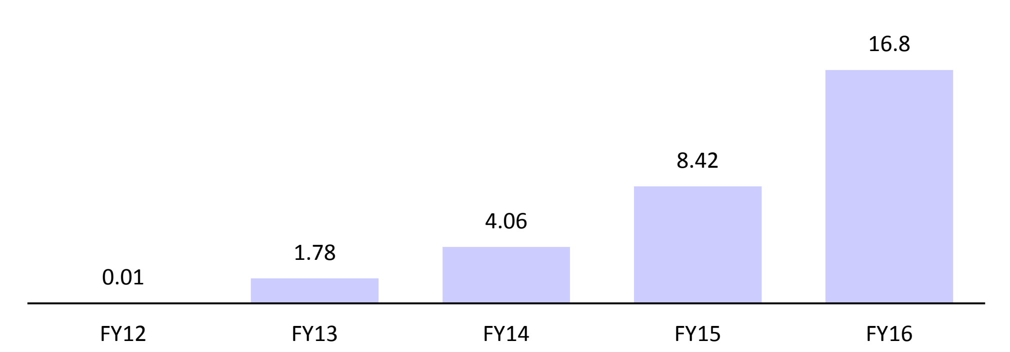
- **Diverse product offering to help attract new customers**
  AUBANK has launched banking operations with a diverse product offering, which helps attract new customers. Besides asset and liability products, it also plans to cross-sell third-party products such as mutual funds and insurance, and provide financial advisory services. It also plans to offer transaction banking services for MSME and SME customers to help them better manage their liquidity and cash flow operations. A wider product portfolio will enable AUBANK to speed up customer acquisition and improve customer experience.

- **Right technology use will enable sustainable growth and aid productivity**
  AUBANK has carefully chosen its technology architecture after evaluating the platforms being used by other leading private sector banks. It aims to leverage technology to grow its business and offer diverse products to its customers in a convenient and cost-effective manner. It has implemented several key applications including Oracle's Core Banking & Accounting Platform (Flexcube), Newgen's Loan Origination Platform and CRM Next's Customer Relationship Management (CRM tool). The bank has already provided tablets integrated with biometric devices and bluetooth printers to its employees to enable faster customer verification, account opening and activation. It has also commenced using interactive voice response systems (IVR) in English and select regional languages to cater to its existing customer base.

Housing finance business can scale up rapidly

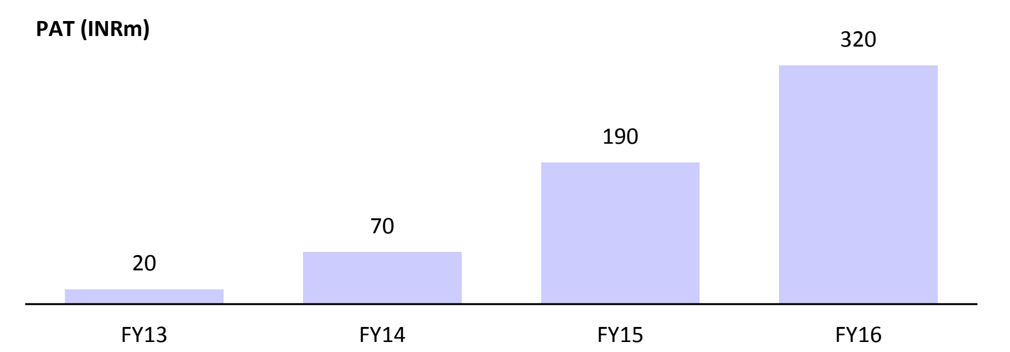
AUBANK had earlier launched and built the housing finance business in 2011 via its wholly-owned subsidiary, Aavas Financiers Limited (formerly known as AU Housing Finance). Over 2012-2016, it was able to grow its housing loan book to INR16.8b, before it divested 90.1% stake in the subsidiary in June 2016. Strong return ratios and pristine asset quality enabled AUBANK to sell its stake to Kedaara Capital and Partners group at INR8.28b (~5x P/B). It now plans to launch the home loan product (by 1QFY19e) as a part of its SFB operations and will focus on the affordable housing segment. Given its prior experience in building housing finance operations and its growing presence in tier-II/III centers, we believe AUBANK is well placed to rapidly scale up this business post its launch.

Exhibit 28: AU rapidly scaled up the housing operations over five years - AUM INRb



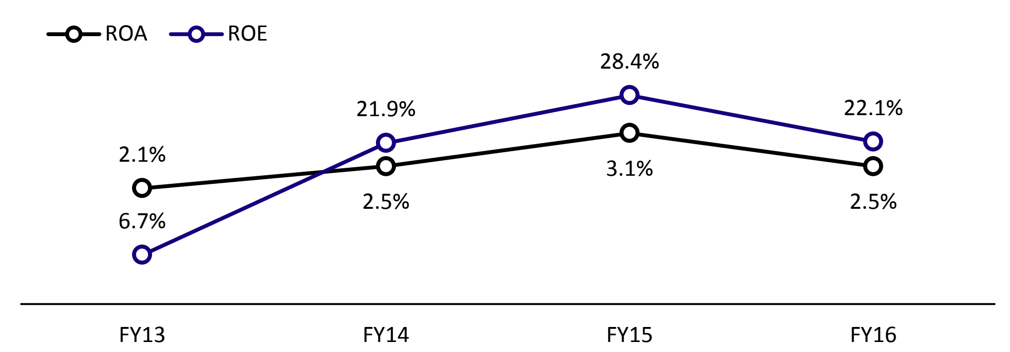
Source: Company, MOSL

Exhibit 29: AU housing finance reported robust traction in earnings over FY12-16



Source: Company, MOSL

Exhibit 30: AU housing finance reported RoA/RoE of 2.5%/22.1% in FY16

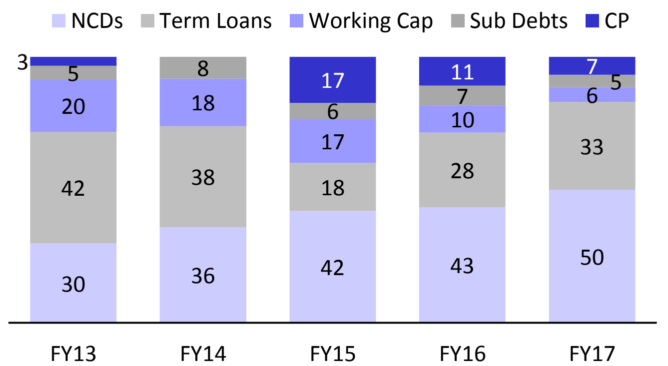


Source: Company, MOSL

Borrowing cost set to moderate…

As an NBFC, AUBANK funded its loan book primarily by way of NCDs, term loans, commercial paper, and subordinated debt. This resulted in high borrowing cost. However, with the launch of SFB operations, AUBANK is able to access low cost CASA deposits, term deposits, and recurring deposits. These will supplement its existing sources of liquidity and strengthen its funding franchise. In the initial few months of its banking operations, AUBANK has already opened ~1, 56,091 CASA accounts and has mobilized INR19.8b of deposits, of which CASA deposits constitute 33%. This has helped lower its average incremental funding cost to 6.7% in 1HFY18 (post conversion to a bank) from 8.15% - before it converted into a bank. We expect AUBANK's average funding cost to decline to 7.0% by FY20e, as the composition of deposits improves further, while existing high cost NCD borrowings mature.

Exhibit 31: Sources of funding



Source: Company, MOSL

Exhibit 32: Steady improvement in credit rating has helped AUBANK in reducing its borrowing cost

Rating agency	Term	Credit rating as of FY13	Current credit rating
CRISIL Ratings	Long Term	CRISIL A / Stable	CRISIL A+ / Stable
	Short Term	CRISIL A1	-
ICRA	Long Term	[ICRA]A (Stable)	ICRA A+ (Stable)
	Short Term	-	ICRA A1+
India Ratings	Long Term	-	IND A+ (Positive)
	Short Term	-	IND A1+
CARE Ratings	Long Term	CARE A	CARE A+ (stable)
	Short Term	CARE A1	-
Brickwork Ratings	Long Term	-	BWR AA / Stable
	Short Term	-	

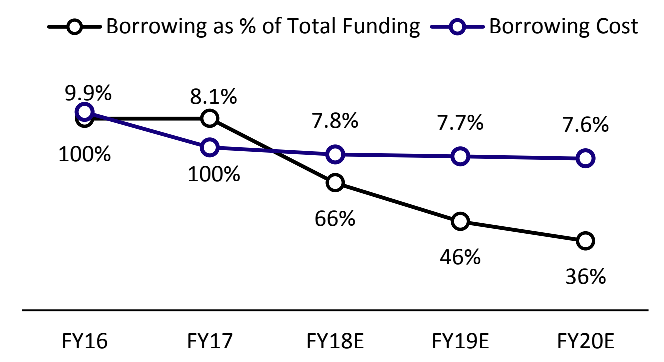
Source: Company, MOSL

Exhibit 33: Incremental cost of funds has declined sharply after AUBANK launched its SFB operations

Particulars	Cost of funds (%)
Cost of funds before conversion into a bank	8.15
Post bank conversion – incremental cost	6.70
Average cost of funds	7.40

Source: Company, MOSL

Exhibit 34: Borrowing as % of total funds will likely decline to ~36% by FY20E



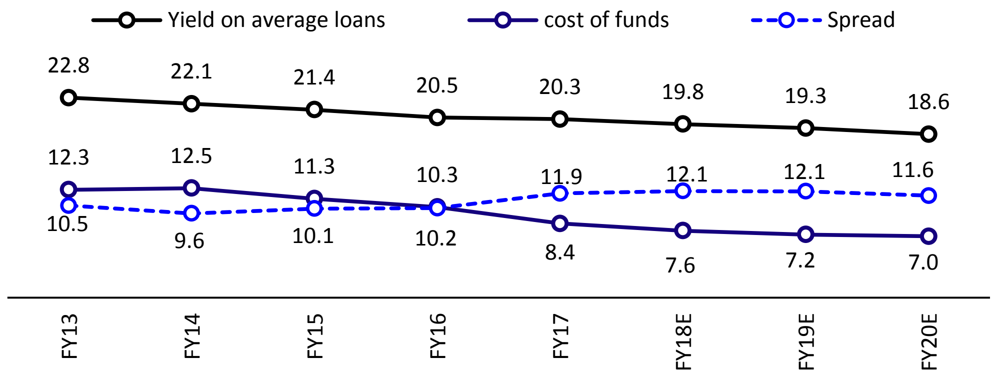
Source: Company, MOSL

Besides, AUBANK will also be able to raise funds from (a) the RBI's liquidity adjustment facility and market stabilization fund, (b) capital market borrowings such as infrastructure bonds, tier-II bonds, and perpetual bonds. AUBANK has also received the Scheduled Commercial Bank status from the RBI and is thus eligible to raise resources through money market borrowings, interbank borrowings and issuance of certificates of deposit.

…but NIM to decline on SFB migration and change in asset mix

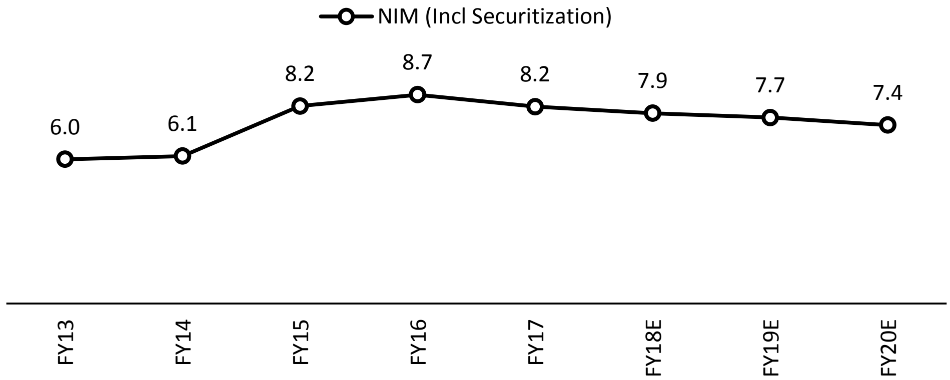
We expect the yield on interest-earning assets to moderate by 172bp over FY17-20e led by (i) lower yield on investments, as AUBANK complies with CRR/SLR regulations, (ii) change in asset mix, particularly as AUBANK launches and scales up its housing finance operations, and (iii) benign external rate environment. We thus estimate margins (including securitization) to moderate by 76bp over FY17-20e.

Exhibit 35: We expect spreads to moderate to 7% by FY20e



Source: Company, MOSL

Exhibit 36: While expect margins to moderate to 7.4% by FY20e



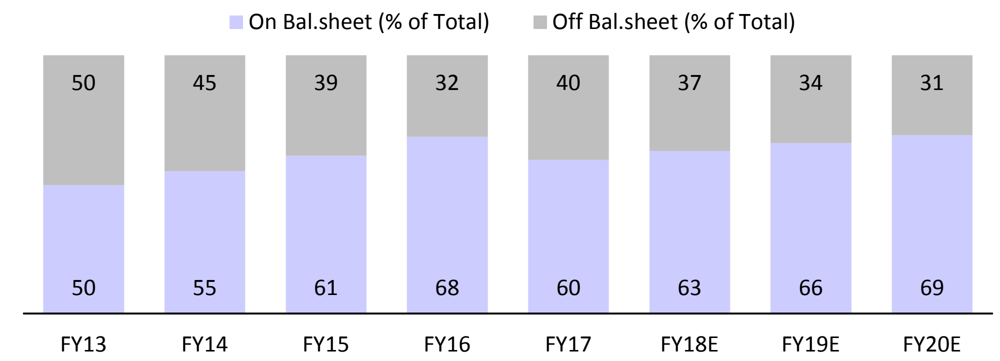
Source: Company, MOSL

Off balance sheet mix likely to decline

PSL certificates to help boost fee income

AUBANK has been an active participant in loan assignment and securitization activities, which have helped it optimize its funding and liquidity requirements and boost return ratios. We believe access to low-cost deposits will help it to strengthen its liability franchise and enable it to retain higher share of assets on its books. We expect AUBANK's off balance sheet mix to decline to 31% by FY20e.

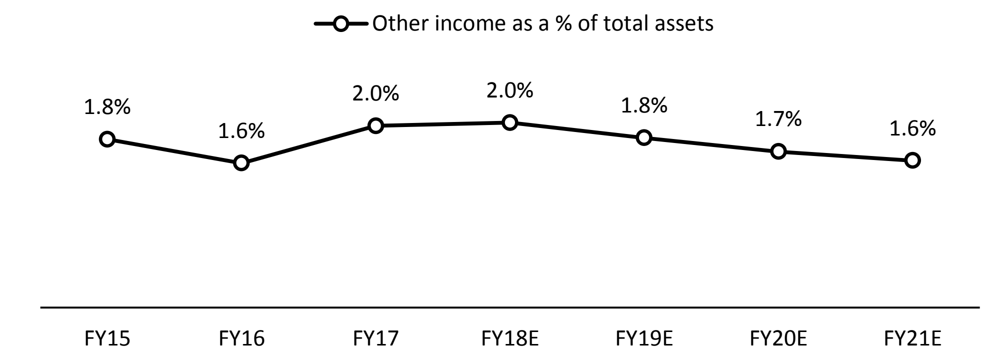
Exhibit 37: We expect AUBANK's off balance sheet mix to decline to 31% by FY20e



Source: Company, MOSL

We note that the priority sector accounts for ~80% of AUBANK's assets; this is higher than the 75% of prior year ANBC it is required to maintain as an SFB. Hence, AUBANK can actively participate in the priority sector lending certificates (PSLC) market, where it will be able to trade its right of claim on priority sector loans for a fee. It generated fee income of INR450m from the PSLCs it sold in 1HFY18. Pick-up in cross-selling and third-party distribution income, and increase in transaction banking/processing charges will further boost AUBANK's overall fee income growth. We expect AUBANK to report strong fee growth over next few years.

Exhibit 38: Trend in other income as percentage of total assets



Source: Company, MOSL

Migration to 90dpd has impacted NPL ratios

We expect it to improve steadily

AUBANK has historically maintained strong asset quality, with GNPL ratio varying between 0.38% and 1.68% over the last six years. The secured nature of its lending business along with strong underwriting skills and processes has helped AUBANK in reporting healthy NPL ratios. However, migration to 90dpd NPL recognition norm in 1QFY18 (as AUBANK launched its SFB operations) has resulted in an increase in GNPL ratio to 3%. In 1QFY18, its GNPLs were also adversely affected by the impact of GST implementation on its SME/MSME borrowers. Given the collateralized nature of its lending portfolio and lower loss given default, we expect AUBANK's NPL ratios to improve gradually over FY18-20e.

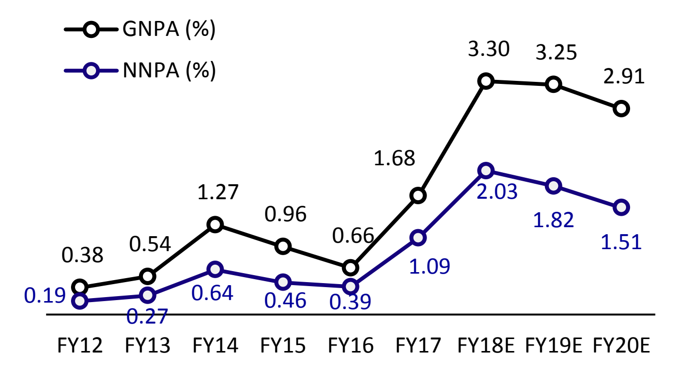
We note that AUBANK has been following a conservative provisioning policies right from the time of its NBFC operations. The following exhibit highlights that AUBANK has been more aggressive in NPL provisioning than the regulatory requirement.

Exhibit 39: AUBANK follows an aggressive provisioning policy v/s the regulatory requirements

Overdue period (in Months)	Provision % for erstwhile AU Finance					RBI provisioning policy		AUBANK provisioning policy	
	2017	2016	2015	2014	2013				
Up to 6 months						Up to 1 Yr (secured)	15%	90 days - 180 days	15%
4 to 5 months	10%	NA	NA	NA	NA	Up to 1 Yr (Unsecured)	25%	181 days - 364 days	30%
5 to 6 months	10%	10%	NA	NA	NA	1-3 Yr	40%	365 days-730 days	60%
6 to 12 months	40%	40%	50%	50%	50%	< Than 3 Yr	100%	More than 730 days	100%
12 months & above	Write - off @ 100%								

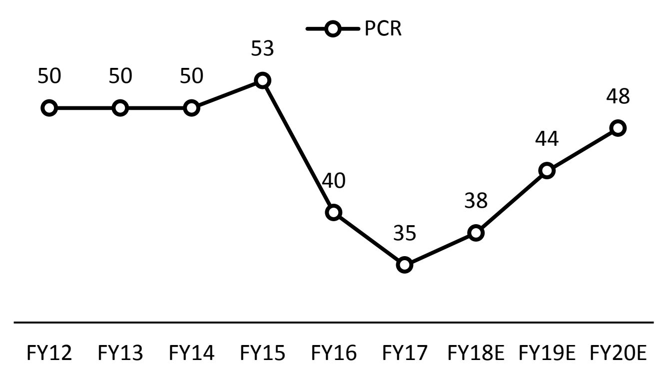
Source: Company, MOSL

Exhibit 40: We expect asset quality to improve gradually from FY19e onwards



Source: Company, MOSL

Exhibit 41: Provisioning coverage to improve to 48% by FY20e; we build in FY18-19e average credit cost of 1.22%



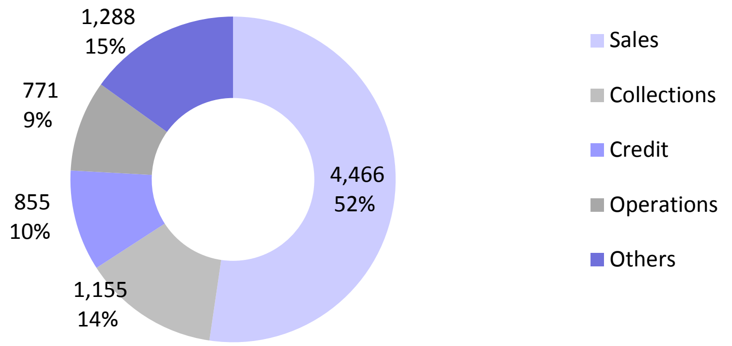
Source: Company, MOSL

- **Strong credit underwriting and risk management framework**
  AUBANK has a strong and comprehensive credit and risk management framework to identify, monitor and manage risks. Credit risk management is all the more crucial, as a significant number of AUBANK's customers are primarily first-time users of financial products, and therefore, do not have any credit history. AUBANK has put in place separate credit teams for each of its business lines driven by in-house field investigation officers. The credit team evaluates business needs, identifies expansion plans, and analyzes the borrower's ability to repay the loan.

AUBANK follows a three-layered assessment process, which includes visits by credit officers, relationship officers and business officers to analyze the business and collateral quality.

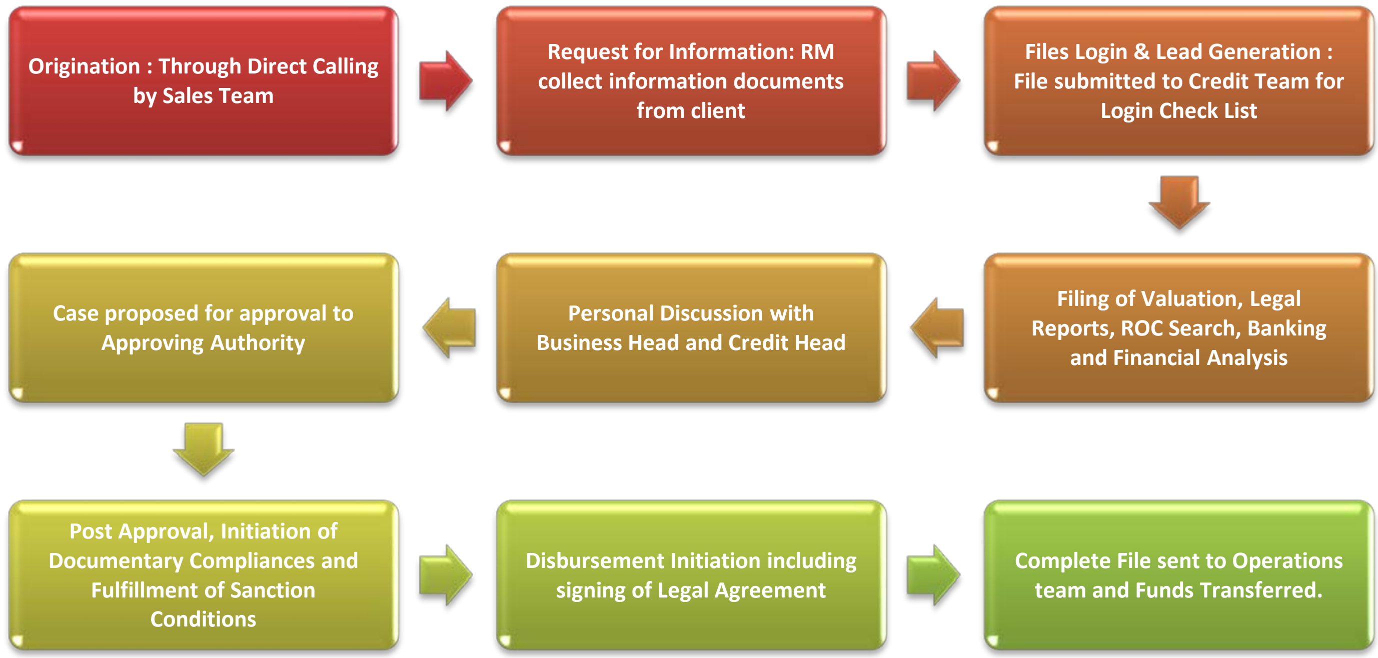
- **Strong emphasis on loan collection and monitoring**
  AUBANK has set up a robust collection management system, which includes a collection control room that centrally manages allocations among collection executives and uses analytics for the optimum allocation of cases to the collection team. The collection team comprises 1,155 employees (14% of total employees) and 139 external collection agents as of FY17. Collections are organized by geography, and are further divided based on delinquency, products and customer repayment history. Effective credit risk management has enabled AUBANK to maintain healthy asset quality across business and economic cycles.

Exhibit 42: Sales, collections and credit together account for ~75% of AUBANK's employee base



Source: Company, MOSL.
Note: Others include employees in IT, HR, Treasury

Exhibit 43: Credit appraisal process for secured business loan

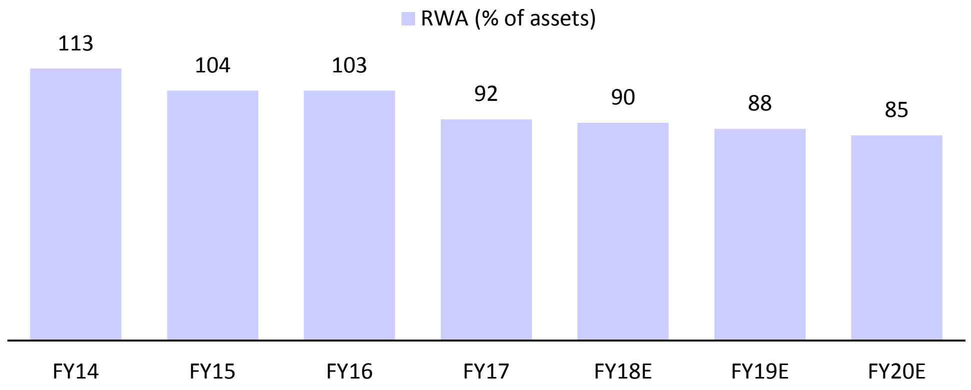


Source: Company, MOSL

Well capitalized to support business growth

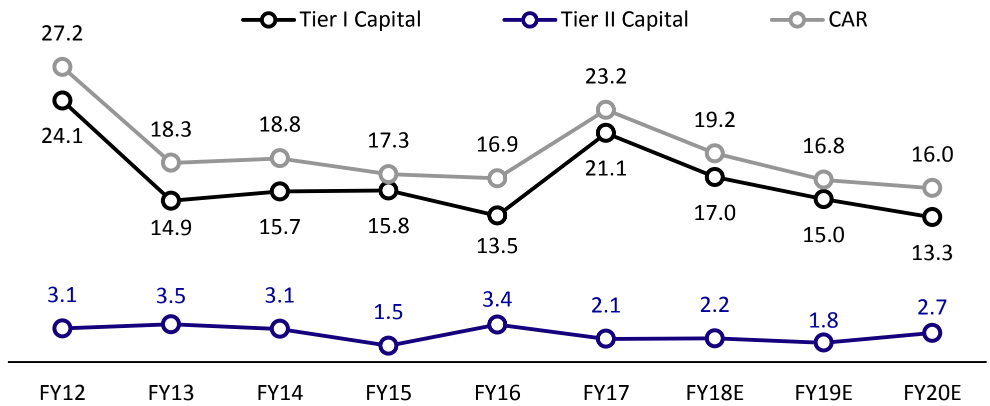
AUBANK has a strong CAR/tier-1 of ~20.6%/19.7% as at 2QFY18 against the regulatory minimum CAR of 15% (7.5% minimum tier-1). Unlike scheduled commercial banks, SFBs are not required to maintain any capital conservation buffer or any counter-cyclical capital buffer while the Tier-1 requirement is also lower. This enables them to operate on a higher leverage than scheduled banks. We note that with the current projections on growth and profitability, AUBANK is well-capitalized to support its balance sheet growth for FY18/19e. We project CAR to decline to 16.8% (15.0% tier-1) by FY19e, as we model 42% CAGR in loan growth over FY17-20e and expect the next round of capital raising in 2HFY19e/FY20e.

Exhibit 44: RWA as a % of assets



Source: Company, MOSL

Exhibit 45: AUBANK is well capitalized to support 35% AUM CAGR over FY17-20e



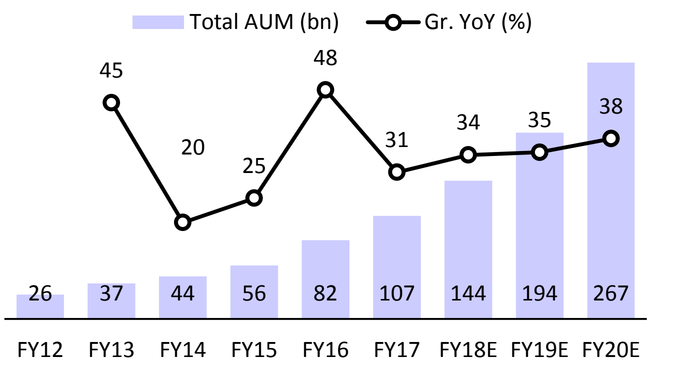
Source: Company, MOSL

Transition to SFB will cause transient earnings disruption

Transitioning to small finance bank (SFB) offers AUBANK significant growth potential and the management has aspirations to make AUBANK a retail-focused, preferred and trusted SFB. A diverse loan book, wide geographical presence, and strong underwriting skills across segments will enable AUBANK to complete its SFB transition expeditiously. It has converted most of its NBFC branches into bank branches/asset centers and has been focusing on attracting new customers and cross-selling newly-launched products to its existing customers. This has also helped it in raising INR19.8b of deposits in the short span of its banking operations.

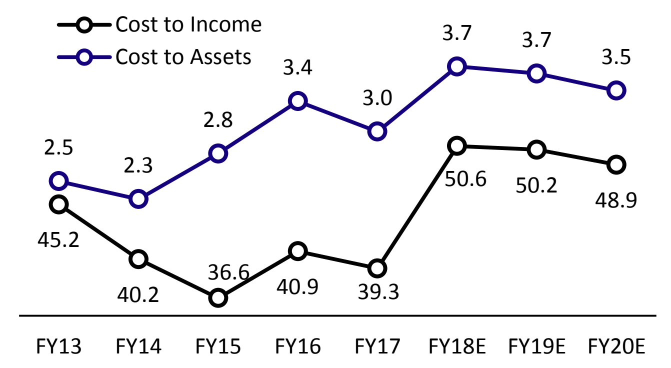
While transitioning into an SFB will impact return ratios on account of (i) negative carry due to CRR/SLR, resulting in margin compression, and (ii) higher operating expenses due to investments in technology, branches, employees, etc, we expect the return ratios to bounce back to healthy levels over FY19-20e. AUBANK has cumulatively spent INR710m on technology and INR1, 850m on branch infrastructure, while it has added 5,500 employees over the past two years, which would keep its cost ratios elevated in the near term. We expect RoA/RoE to bottom out at 1.8%/14.3% in FY18, and then recover to 1.94%/20.1% by FY20e.

Exhibit 46: AUM growth to remain strong at 35% CAGR over FY17-20e



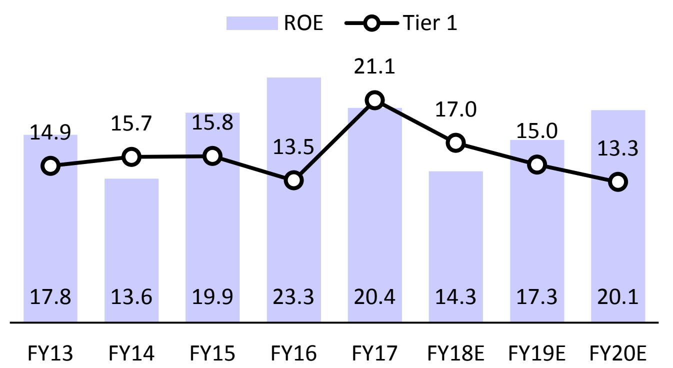
Source: Company, MOSL

Exhibit 47: Cost-income ratio likely to moderate to 49% by FY20e



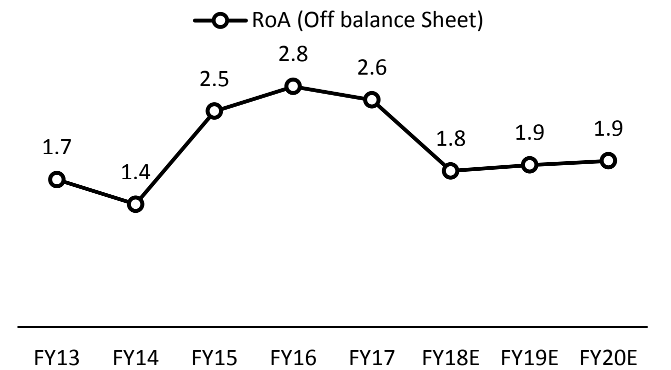
Source: Company, MOSL

Exhibit 48: Expect RoE to recover to 20.1% by FY20e, after bottoming out at 14.3% in FY18…



Source: Company, MOSL

Exhibit 49: …led by steady improvement in RoA to 1.94% by FY20e

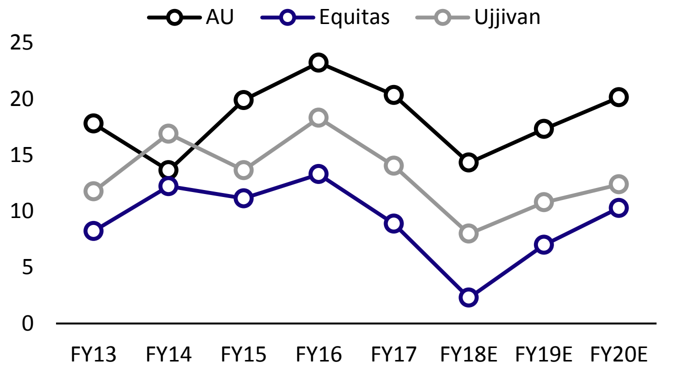


Source: Company, MOSL

What differentiates AUBANK from other SFBs

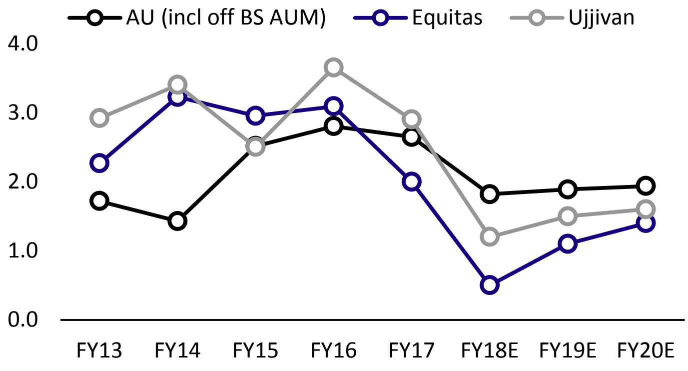
AUBANK is well positioned to scale up its operations as an SFB owing to its rich experience across diverse lending products and deep under-penetration in states in which it operates. It has reported healthy traction in building its liability franchise over the early days of its banking operations, backed by its wide branch/customer network and smart pricing of deposits. We note that deposit rates offered by AUBANK are attractive enough to compete with other leading universal banks; yet, they are lower than what many other SFBs are offering. On the lending side, too, we note that AUBANK's MCLRs are significantly lower than most other SFBs, which enables it to competitively price its loans and focus on business growth. The strategy to contiguously grow the branch network and rapidly scale up asset and liability operations will enable AUBANK to expedite its SFB transition and report healthy bounce-back in earnings over FY18-20e.

Exhibit 50: Trend in RoE for listed SFBs



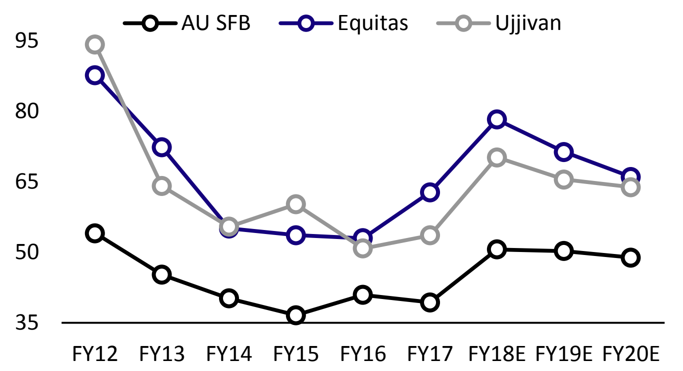
Source: Company, Bloomberg, MOSL

Exhibit 51: RoA profile of listed SFBs



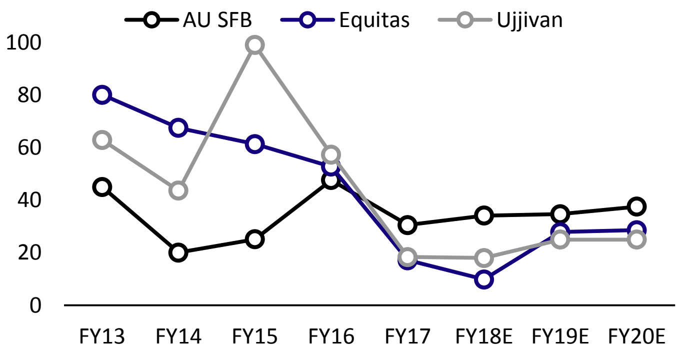
Source: Company, Bloomberg, MOSL

Exhibit 52: Cost to income comparison across listed SFBs



Source: Source: Company, Bloomberg, MOSL

Exhibit 53: Loan growth comparison across listed SFBs



Source: Source: Company, Bloomberg, MOSL

Exhibit 54: SA rate comparison across SFBs and select private banks

Particulars	AU SFB	Equitas	Ujjivan	Capital SFB	Disha (Fincare)	ESAF	Suryoday	Utkarsh	Yes	IndusInd	Kotak
Less Than INR 1 lac	5.0%	6.0%	4.0%	4.0%	6.0%	6.0%	6.3%	6.0%	5.0%	4.0%	5.0%
INR 1 lac to less than 10 Lacs	6.0%	6.0%	4.0%	4.0%	7.0%	6.5%	7.3%	6.0%	6.0%	4.0%	6.0%
10 Lacs & above	6.5%	6.5%	4.0%	4.0%	7.0%	7.0%	7.0%	6.0%	6.0%	5.0%	6.0%
1 Cr & upto 10 Cr	NA	NA	NA	NA	NA	NA	NA	NA	6.3%	5.5%	5.5%
above 10 cr	NA	NA	NA	NA	NA	NA	NA	NA	NA	6.0%	NA

Source: Company, MOSL

Exhibit 55: MCLR rates across SFBs – AUBANK has one of the lowest MCLR rates amongst SFBs (barring Capital SFB)

Particulars	AU SFB	Equitas	Ujjivan	Capital SFB	Disha (Fincare)	Suryoday	Utkarsh
Overnight MCLR	11.9%	15.9%	16.1%	9.5%	15.4%	16.5%	13.8%
One month MCLR	11.9%	16.0%	16.2%	9.5%	15.4%	16.6%	13.9%
Three month MCLR	12.4%	16.1%	16.3%	9.5%	15.6%	16.6%	14.0%
Six month MCLR	12.9%	16.1%	16.4%	9.5%	15.8%	16.6%	14.1%
One year MCLR	12.9%	16.2%	16.4%	9.5%	15.9%	16.7%	14.4%

Source: Company, MOSL

Exhibit 56: Peak term deposit rates across SFBs – AUBANK's term deposit rates generally stand in the middle amongst SFBs

Banks	0-3 mths	3-6 Mths	6mths to 1 yr	1yr to 3yr	>3 yrs
Equitas	6.3%	6.5%	7.0%	7.3%	7.0%
AU SFB	6.0%	6.8%	7.0%	7.4%	7.3%
Ujjivan	6.3%	6.8%	7.5%	8.0%	7.0%
Capital SFB	6.0%	6.5%	6.8%	7.1%	7.0%
Disha (Fincare)	4.0%	6.0%	7.0%	9.0%	8.0%
ESAF	6.8%	6.8%	7.5%	9.0%	7.5%
Suryoday	5.0%	5.5%	7.8%	8.8%	7.8%
Utkarsh SFB	4.5%	5.5%	7.5%	8.4%	7.0%

Source: Company, MOSL

A quick snapshot of SFBs

Exhibit 57: Snapshot as on FY15 – few months before receiving the in-principle approval for setting up a Small Finance Bank

(FY15)	AU SFB	Equitas	Ujjivan	Capital SFB	Jana Bank	Suryoday	Utkarsh
NII (INRb)	3.61	3.55	2.79	0.54	3.18	0.55	0.52
Total income (INRb)	4.24	1.06	3.40	0.66	4.34	0.63	0.69
Opex (INRb)	1.55	2.47	2.04	0.47	3.01	0.35	0.39
Operating profit (INRb)	2.69	2.14	1.35	0.19	1.33	0.28	0.30
PAT (INRb)	1.40	1.06	0.75	0.14	0.75	0.17	0.16
Borrowings (INRb)	28.8	30.9	31.2	0.6	18.8	3.0	4.4
Deposits (INRb)	NA	NA	NA	15.1	NA	NA	NA
Advances - on Book (INRb)	34.0	34.6	32.2	9.3	10.6	5.4	6.2
Total assets (INRb)	40.3	44.6	39.8	16.8	50.0	7.6	9.4
AUM (incl off BS) (INRb)	55.7	40.1	32.7	9.3	37.6	5.8	7.2
GNPA (%)	1.0	1.1	0.1	0.4	0.7	0.1	NA
NNPA (%)	0.5	0.8	0.0	0.1	0.5	0.0	NA
Tier 1 ratio (%)	15.8	NA	21.7	8.9	26.8	21.5	22.2
Tier 2 ratio (%)	1.5	NA	2.5	6.3	1.2	4.4	12.9
CRAR (%)	17.3	NA	24.2	15.2	28.0	25.9	35.1
ROE (%)	19.91	11.15	13.67	16.80	9.45	15.4	12.9
ROA (%)	4.01	2.96	2.50	0.92	2.00	2.9	2.6
NIM (%)	10.32	12.07	11.62	3.53	NA	NA	NA
Branches	232	361	423	38	234	240	342
Employees	3,553	3,925	6,547	NA	6,793	1,752	NA

Source: MOSL, Company

Exhibit 58: Snapshot as on FY17 – nearly two years after receiving the Small Finance Bank license

FY17	AU SFB	Equitas	Ujjivan	Capital SFB	Jana Bank	Suryoday	Utkarsh
Date of commencing the SFB operations	**19-Apr-17**	**5-Sep-16**	**6-Feb-17**	**13-Apr-16**	**NA**	**23-Jan-17**	**23-Jan-17**
Head office	**Jaipur**	**Chennai**	**Bengaluru**	**Jalandhar**	**Bangalore**	**Navi Mumbai**	**Varanasi**
NII (INRb)	7.29	8.55	8.06	0.74	14.78	1.38	1.83
Total income (INRb)	8.87	9.69	8.55	0.94	17.46	1.37	2.39
Opex (INRb)	3.49	6.15	4.58	0.71	11.90	1.01	1.38
Operating profit (INRb)	5.38	3.54	3.97	0.23	5.56	0.38	1.01
PAT (INRb)	8.22	1.59	2.08	0.15	1.70	0.15	0.34
Borrowings (INRb)	70.7	65.4	29.4	1.2	67.3	10.2	22.9
Deposits (INRb)	0	18.8	1.0	23.8	0	0.2	0.1
Advances (on Book) (INRb)	63.9	58.3	45.8	13.6	47.6	8.2	15.9
Total Assets (INRb)	98.1	94.4	84.8	27.2	150.5	16.0	26.7
AUM (incl off BS) (INRb)	107.3	71.2	63.8	13.6	128.1	9.6	16.1
GNPA (%)	1.7	3.5	3.7	1.0	1.7	6.2	NA
NNPA (%)	1.1	1.5	0.0	0.7	0.6	3.8	NA
Tier 1 ratio (%)	21.1	32.3	113.8	14.5	17.1	48.0	17.2
Tier 2 ratio (%)	2.1	3.2	0.0	8.5	6.8	5.7	8.7
CRAR (%)	23.2	35.5	113.8	23.0	23.9	53.6	25.9
ROE (%)	20.36	8.9	14.1	NA	7.35	4.3	NA
ROA (%)	3.79	2.0	2.9	NA	1.28	1.2	0.95
NIM (%)	9.06	10.8	12.6	3.54	11.97	11.5	NA
Branches	301	610	457	NA	462	224	378
Employees	8,515	13,367	10,167	NA	16,357	2,156	3,845

Source: Company, MOSL

Exhibit 59: Product offering of SFB's

Loan Products	AU SFB	Equitas	Ujjivan	Capital SFB	Suryoday	Utkarsh
Business loans & others	✓	✓	✓	✓	✓	✓
SME /MSME	✓	✓	✓	✓	✓	✓
LAP	✓	✓	✓		✓	
Personal & consumer loans				✓		✓
Gold loan	✓	✓				
Auto / Car loan	✓			✓		
CV/CE	✓	✓		✓		
2W/ 3W	✓	✓		✓		
Housing	To be launched in 1QFY19e	✓	✓	✓		✓

Source: Company, MOSL

Exhibit 60: Loan mix as of 2QFY18

AU SFB	%	Equitas	%	Ujjivan	%
Wheels	47.7	Micro finance	36.1	Microfinance –grp loans	85.2
Secured MSME	30.0	Vehicle finance	28.3	Microfinance –individual loans	10.5
Secured SME	7.7	M-LAP	24.4	MSE	1.8
Gold loans	0.0	Housing finance	4.1	Housing	2.5
NBFC	8.4	Business loans	3.4		
RE group	5.8	Agri loans	1.8		
Business banking	0.4	Gold loans	0.4		
		Others	1.1		

Source: Company, MOSL

SWOT analysis…

Strength

- AUBANK has established itself as a strong SFB across multiple secured product lines
- The bank has little geographical overlap with other SFB's which limits the competition among existing players
- It has created customized products and services to cater to the evolving needs of its customers

Weaknesses

- Concentration risk: AUBANK has significant exposure to the top four states, which together account for ~90% of its loan book
- Being a dominantly wholesale-funded entity, a rising interest rate environment may adversely impact borrowing costs, and hence, profitability

Opportunities

- Leveraging technology along with doorstep servicing would enable AUBANK in rapidly gaining market share
- AUBANK operates in underpenetrated geographies which offers it strong growth potential
- The bank is yet to launch several other key lending products which will accelerate its business growth

Threats

- With increasing credit penetration bargaining power of borrowers has increased. SFBs may also lose business to other banks on account of refinancing as economy gets further formalized
- With several new banks, fintech companies and existing banks vying for same talent pool, nurturing and retaining the key management personnel can be a challenge

Bull & Bear case

Bull Case

- ☑ In our bull case, we assume strong AUM CAGR of 44% (v/s 35% in base case). We believe scale up of housing finance business and growth in MSME/SME business could surprise on the upside.
- ☑ We expect margins to increase slightly to 8.1% in FY19e, aided by faster build-up of liability franchise. Credit deposit ratio should improve to 111% by FY20e (v/s 122% in our base case).
- ☑ We expect significant cost control, with cost-to-income ratio declining to 45% by FY20e (v/s 49% in our base case).
- ☑ Asset quality would be slightly better, with GNPA of 1.65% by FY20e (v/s 2.91% in our base case).
- ☑ This results in PAT CAGR of 40% (v/s 25% in our base case) over FY17-20e, with RoA/RoE of 2.0%/21.3% in FY20e.
- ☑ Based on the above assumptions, we value AUBANK at INR825 (6.6x Mar-20E BV) – an upside of 18%.

Bear Case

- ☑ In our bear case, we assume AUM CAGR of 31% (v/s 35% in our base case). Delay in scaling up the newly-launched lending products and modest trend in SME segment may result in such a scenario.
- ☑ We expect margins to decline to 7.3% in FY19e, particularly as we moderate our estimates on deposit growth. We thus expect credit-deposit ratio of 145% by FY20e (v/s 122% in our base case).
- ☑ We expect cost ratios to spike, resulting in C/I ratio increasing to 58% by FY20e (v/s 49% in our base case).
- ☑ Asset quality is likely to deteriorate with higher slippages coming in from newly launched segments. Accordingly, we model in GNPL ratio of 3.3% by FY20e (v/s 2.91% in our base case).
- ☑ This results in PAT CAGR of 12% (v/s 25% in our base case) over FY17-20e, with RoA/RoE at 1.5%/15.3% in FY20e.
- ☑ Based on the above assumptions, we value AUBANK at INR450 (4.3x Mar-20E BV) – a downside of 36%.

Exhibit 61: Scenario Analysis – Bull Case

Bull Case	FY18E	FY19E	FY20E
NII	10,929	15,572	21,939
Opex	6,326	9,380	12,453
Provisions	1,369	1,396	1,887
PBT	4,859	7,211	10,300
PAT	3,398	4,886	7,146
NIM (%)	8.3	8.1	7.9
RoA (%)	1.8	1.9	2.0
RoE (%)	14.7	17.9	21.3
EPS	12.0	17.2	25.1
BV	82.1	97.7	120.3
Target multiple	**6.6**		
Target price (INR)	**825**		
Upside (%)	**18%**		

Source: Company, MOSL

Exhibit 62: Scenario Analysis – Bear Case

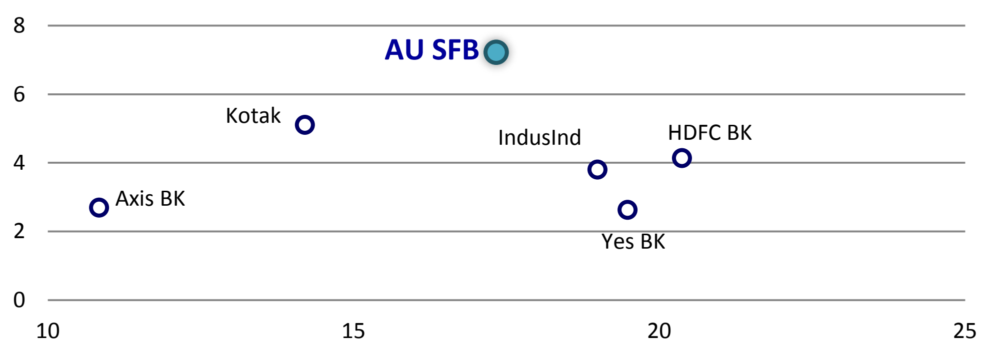
Bear Case	FY18E	FY19E	FY20E
NII	8,789	12,108	15,944
Opex	6,402	9,068	12,003
Provisions	1,285	1,624	2,058
PBT	3,719	4,901	6,511
PAT	2,436	3,450	4,264
NIM (%)	7.6	7.3	6.8
RoA (%)	1.5	1.5	1.5
RoE (%)	11.5	13.8	15.3
EPS	8.6	12.1	15.0
BV	78.8	90.6	105.3
Target multiple	**4.3**		
Target price (INR)	**450**		
Downside (%)	**36%**		

Source: Company, MOSL

Valuations full; remain convinced about long term story

- We expect AUBANK to deliver steady improvement in earnings/return ratios from FY19E onwards, particularly as it absorb the costs related to SFB migration in FY18E. We believe that strong credit underwriting, wide geographical presence and committed management (~33% promoter stake) will enable AUBANK to undertake the SFB transition with limited disruption.
- We expect earnings to grow at 42% CAGR over FY18-20e, and RoE to gradually improve to 20.1% after bottoming out at 14.3% in FY18.
- AUBANK has demonstrated the capability to build a quality retail franchise as evident in its performance across lending segments. While near-term returns will likely be limited on account of subdued earnings in FY18E and expensive valuations, we believe that AUBANK has the potential to emerge as a strong SFB over the long term. We believe AUBANK has the potential to make it big amongst SFBs.
- While the stock valuations appear full and in the near term leaves little for investors, we believe strong management track record, 42% projected earnings CAGR, and secured retail portfolio will enable AUBANK to sustain its premium multiples.
- We value AUBANK using two-stage GGM at INR700, which corresponds to 5.9x Mar-20E BV. While we appreciate the long term opportunity that AUBANK presents we believe that the stock is fairly valued at current valuations (~96% higher than the issue price). We thus initiate coverage with a Neutral rating and PT of INR700 (5.9x Mar-20E BV, 32.2x FY20E EPS). We believe that the stock's valuation will remain highly sensitive to business growth and recovery in return ratios. However over a more medium term three year scenario we value AUBANK at Rs950 per share (27x earnings) which implies an upside of ~36% over current levels – for details please refer to section titled "What can investors look for as AUBANK gains scale !".

Exhibit 63: P/B vs RoE - FY19E



Source: Company, MOSL

Exhibit 64: Dupont analysis

Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Interest Income	**6.47**	**7.15**	**6.33**	**5.98**	**5.94**	**5.83**
Core Fee and Secu. Inc	1.13	1.05	1.30	1.34	1.26	1.18
Total Income	**7.61**	**8.22**	**7.70**	**7.41**	**7.30**	**7.12**
Operating Expenses	**2.79**	**3.36**	**3.03**	**3.75**	**3.67**	**3.48**
Employee cost	1.70	2.09	1.67	2.28	2.28	2.20
Others	1.09	1.27	1.35	1.47	1.39	1.28
Core operating Profits	**4.82**	**4.84**	**4.60**	**3.58**	**3.33**	**3.53**
Non Interest income	1.14	1.06	1.37	1.42	1.36	1.29
Trading and others	0.00	0.02	0.07	0.08	0.10	0.11
Operating Profits	**4.82**	**4.86**	**4.67**	**3.66**	**3.63**	**3.64**
Provisions	**1.09**	**0.58**	**0.57**	**0.90**	**0.77**	**0.71**
PBT	**3.74**	**4.28**	**4.10**	**2.75**	**2.86**	**2.93**
Tax	1.22	1.47	1.46	0.94	0.97	1.00
RoA	**2.52**	**2.80**	**2.65**	**1.82**	**1.89**	**1.94**
RoE	**19.91**	**23.25**	**20.36**	**14.34**	**17.33**	**20.15**

Exhibit 65: Valuation comparison

Particulars	Loan Book (INRb) 2Q18	Price (INR)	MCap (INRb)	PAT (INRb) (FY18E)	PAT CAGR (F17-F20E)	ROA (%)		ROE (%)		P/B (x)		P/E (x)	
SFB's						FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Equitas	73	157	53	0.6	25%	0.6	1.6	2.6	8.2	2.3	2.2	90.8	27.4
Ujjivan	65	408	49	0.2	8%	0.1	1.6	0.8	12.4	2.8	2.5	NA	24.1
AU SFB	121	700	199	3.1	25%	1.8	1.9	14.3	17.3	8.6	7.2	64.7	45.4
NBFC's													
Bajaj Finance	721	1,811	1039	26.2	40%	3.5	3.6	20.2	20.4	6.4	5.3	39.6	28.4
Shriram Transport	855	1,485	337	18.0	32%	2.7	3.1	15.1	17.4	2.6	2.3	18.4	14.0
Banks													
HDFC Bank	6,049	1,864	4,776	176.1	23%	1.9	1.9	18.8	20.4	4.9	4.1	27.1	22.0
Yes Bank	1,487	333	760	40.6	26%	1.7	1.8	17.3	19.5	3.0	2.6	18.7	14.3
IndusInd Bank	1,232	1,700	1.012	36.4	33%	1.8	1.9	16.9	19.0	4.4	3.7	27.9	21.6
Kotak Bank	1,526	1,003	1,840	61.0	26%	1.8	1.9	12.7	13.5	4.3	3.7	31.3	24.1

Note: For Equitas, Ujjivan, AU Bank, Bajaj Finance, Shriram Transport Loan book represents AUM
Source: Company, MOSL

Risks

- Building and scaling up SFB operations needs significant investments in technology, infrastructure and staff cost, besides complying with rigorous SFB guidelines, and thus, carries execution risk.
- Scaling up newly-launched asset products and building a strong liability franchise will be key to growth and profitability. Any delays here will adversely impact valuations.
- Operating cost may remain elevated, as AUBANK successfully completes its transition to an SFB. Besides, complying with SFB guidelines on branch mix, PSL targets, etc., may also affect return ratios.
- Top-four states account for ~90% of AUBANK's loan book and this poses concentration risk.

Annexure

SFB guidelines – a recap

To promote financial inclusion, the RBI had issued in-principle approval for the set-up of 11 payments banks and 10 SFBs in 2015. SFBs are primarily intended to cater to the unserved and underserved sections of the population, including small business units and micro and small industries. SFBs can also undertake other simple financial services activities, such as the distribution of mutual fund units, insurance products, and pension products.

Exhibit 66: List of entities awarded SFB licenses by RBI

Sr.No	Particulars	State
1	Au Financiers (India) Ltd	Jaipur
2	Capital Local Area Bank Ltd	Jalandhar
3	Disha Microfin Private Ltd	Ahmedabad
4	Equitas Holdings P Limited	Chennai
5	ESAF Microfinance and Investments Private Ltd	Chennai
6	Janalakshmi Financial Services Private Limited	Bengaluru
7	RGVN (North East) Microfinance Limited	Guwahati
8	Suryoday Micro Finance Private Ltd	Navi Mumbai
9	Ujjivan Financial Services Private Ltd	Bengaluru
10	Utkarsh Micro Finance Private Ltd	Varanasi

Source: Company, MOSL

The entities eligible to set up an SFB include resident individuals or professionals with 10 years of experience in banking and finance, companies and societies, existing NBFCs, microfinance institutions, and local area banks. The minimum paid-up equity capital for SFBs is INR1b. SFBs are subject to all prudential norms and RBI regulations applicable to existing commercial banks, including the requirement to maintain cash reserve ratio and statutory liquidity ratio. They are also required to have 25% of all branches in unbanked rural centers within one year from the date of commencement of operations. The priority sector lending requirement for SFBs is 75% of ANBC of prior year v/s 40% for universal banks. Also, at least 50% of an SFB's loan portfolio should constitute loans and advances of a size up to INR2.5m.

Exhibit 67: Small finance banks vs Scheduled commercial banks

Parameter	SFBs	SCBs
Capital Measurement Approach	Basel III standardized approach. External rating based risk weight for rated exposure & regulatory retail approach for small retail loans	Basel III
Minimum CAR	15%	11.5% by Mar'19
CET1	6%	8% by Mar'19 (including CCB)
AT1	1.5%	1.5%
Minimum Tier 1 Capital	7.5%	9.5% by Mar'19
CCB	N/A	2.5% by Mar'19
CCCB	N/A	Maximum up to 2.5%, not applied as of now
Maximum Tier II Capital	7.5%	2%
Pre-specified trigger for conversion of AT1	6% till Mar'19; 7% after Mar'19	CET1>5.625% till Mar'19; CET1>6.125% after Mar'19

Exhibit 68: Banks Vs NBFC ND

Parameter	For the year ended	NBFC-ND-SI	Banks (Basel-III)
Minimum net owned funds		INR20m	INR5b
Capital adequacy		15.0%	9.0%
Tier-I Capital	Mar-15	7.5%	7.0%
	Mar-16	8.5%	7.625%
	Mar-17	10.0%	8.25%
GNPA recognition	Mar-15	180 days	90 days
	Mar-16	150 days	90 days
	Mar-17	120 days	90 days
	Mar-18	90 days	90 days
CRR		N.A	4.0%
SLR		N.A	19.5%
Priority sector		N.A	40% of advances
SARFAESI eligibility		Yes	Yes
Exposure norms		Single borrower: 15% (+10% for IFC)	Single borrower: 15% (+5% for infrastructure projects)
		Group of borrowers: 25% (+15% for IFC)	Group of borrowers: 40% (+10% for infrastructure projects)
Standard asset provisioning	Mar-15	0.25%	0.40%
	Mar-16	0.30%	0.40%
	Mar-17	0.35%	0.40%
	Mar-18	0.40%	0.40%

Source: Company, MOSL

Exhibit 69: AUBANK: number of active loan accounts

State	Number of loan accounts			
	As at FY13		As at FY17	
	No. of active loan a/c	% of Total	No. of active loan a/c	% of Total
Rajasthan	73,789	50%	132,747	47%
Maharashtra	35,706	24%	42,633	15%
Gujarat	24,593	17%	39,564	14%
Madhya Pradesh	5,358	4%	31,837	11%
Delhi	616	0%	13,891	5%
Punjab	4,097	3%	12,396	4%
Chhattisgarh	1,158	1%	3,055	1%
Haryana	-	NA	2,195	1%
Himachal Pradesh	-	NA	1,433	1%
Goa	960	1%	598	0%
Total	**146,277**	**100%**	**280,349**	**100%**

Source: Company, MOSL

Exhibit 70: List of key shareholders as on Sep'17

Name	%
Promoter Group	32.97
Redwood investments (Warburg Pincus)	15.82
International finance Corp	7.99
Labh Investment ltd (Chrys capital VI LLC)	3.80
Ourea holdings (Kedara Capital I)	3.95
SBI mutual fund (through its various MF schemes)	3.62
Mysore holdings	2.42
MYS holdings	2.42
ICICI prudential life insurance	1.71
SBI life insurance	1.71
Motilal Oswal asset management (through various MF schemes)	1.58
Amansa capital	1.22
Motilal Oswal securities ltd	1.15

Source: Company, MOSL

Financials and valuations

Income Statement

Y/E MARCH	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	1,552	3,370	4,984	6,429	9,351	12,298	17,069	23,567	32,446
Interest Expense	1,033	1,972	2,876	2,820	3,953	5,003	6,949	9,787	13,854
Net Financing income	**519**	**1,398**	**2,108**	**3,609**	**5,399**	**7,294**	**10,119**	**13,780**	**18,593**
Change (%)		*169.6*	*50.8*	*71.2*	*49.6*	*35.1*	*38.7*	*36.2*	*34.9*
Income from Sec.	697	711	656	610	753	1,441	1,934	2,206	2,453
Net Income (Incl Secur)	**1,216**	**2,109**	**2,764**	**4,219**	**6,152**	**8,736**	**12,054**	**15,986**	**21,046**
Change (%)		*73.4*	*31.1*	*52.7*	*45.8*	*42.0*	*38.0*	*32.6*	*31.7*
Other Income	8	24	58	24	50	135	473	947	1,657
Net Income	**1,224**	**2,133**	**2,822**	**4,243**	**6,202**	**8,871**	**12,527**	**16,933**	**22,703**
Change (%)		*74.2*	*32.3*	*50.4*	*46.2*	*43.0*	*41.2*	*35.2*	*34.1*
Operating Expenses	**661**	**965**	**1,134**	**1,554**	**2,538**	**3,489**	**6,337**	**8,508**	**11,093**
Change (%)		*45.9*	*17.6*	*37.0*	*63.3*	*37.5*	*81.6*	*34.3*	*30.4*
Operating Profits	**563**	**1,168**	**1,688**	**2,690**	**3,665**	**5,382**	**6,190**	**8,425**	**11,610**
Change (%)		*107.6*	*44.4*	*59.4*	*36.2*	*46.9*	*15.0*	*36.1*	*37.8*
Total Provisions	**58**	**168**	**607**	**606**	**438**	**652**	**1,530**	**1,790**	**2,253**
% to operating income	*10.4*	*14.4*	*36.0*	*22.5*	*12.0*	*12.1*	*24.7*	*21.2*	*19.4*
PBT	**504**	**1,001**	**1,081**	**2,084**	**3,226**	**4,730**	**4,660**	**6,635**	**9,356**
Exceptional items	**0**	**0**	**0**	**0**	**0**	**6,703**	**0**	**0**	**0**
PBT including exceptional	**504**	**1,001**	**1,081**	**2,084**	**3,226**	**11,433**	**4,660**	**6,635**	**9,356**
Tax	181	333	371	681	1,110	3,214	1,585	2,256	3,181
Tax Rate (%)	*35.9*	*33.3*	*34.3*	*32.7*	*34.4*	*28.1*	*34.0*	*34.0*	*34.0*
PAT	**323**	**668**	**709**	**1,402**	**2,116**	**8,220**	**3,076**	**4,379**	**6,175**
Adjusted PAT	**323**	**668**	**709**	**1,402**	**2,116**	**3,400**	**3,076**	**4,379**	**6,175**
Change (%)		*106.4*	*6.3*	*97.7*	*50.9*	*288.4*	*-62.6*	*42.4*	*41.0*
Change in Adj PAT (%)		*106.4*	*6.3*	*97.7*	*50.9*	*60.7*	*-9.5*	*42.4*	*41.0*

Balance Sheet

Y/E MARCH	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E
Equity Share Capital	184	405	430	441	441	2,843	2,843	2,843	2,843
Reserves & Surplus	2,891	4,014	5,548	7,667	9,654	17,033	20,186	24,662	30,957
Equity Networth	**3,075**	**4,419**	**5,978**	**8,108**	**10,094**	**19,876**	**23,029**	**27,504**	**33,800**
Interest bearing liabilities	**7,285**	**24,821**	**21,300**	**28,783**	**47,826**	**70,710**	**111,745**	**160,572**	**236,408**
Change (%)									
Other liabilities	**1,211**	**1,889**	**2,308**	**3,462**	**5,022**	**7,531**	**8,661**	**12,991**	**17,538**
Change (%)									
Total Liabilities	**11,571**	**31,128**	**29,586**	**40,353**	**62,942**	**98,117**	**143,497**	**201,129**	**287,807**
Loans	**9,141**	**18,432**	**24,560**	**34,040**	**56,208**	**63,900**	**90,721**	**128,034**	**184,122**
Change (%)									
Investments	**309**	**7,387**	**1,136**	**1,398**	**2,316**	**21,503**	**30,104**	**41,544**	**60,239**
Net Fixed Assets	154	168	169	194	246	2,758	6,896	13,103	22,930
Other assets	1,968	5,142	3,721	4,721	4,172	9,956	14,275	16,574	18,079
Total Assets	**11,571**	**31,128**	**29,586**	**40,353**	**62,942**	**98,117**	**143,497**	**201,129**	**287,807**
Total Assets (incl. off BS)	**27,974**	**49,740**	**49,516**	**61,990**	**88,947**	**141,556**	**196,777**	**267,086**	**370,529**

AUM Mix

AUM (INR b)	**25,543**	**37,043**	**44,490**	**55,677**	**82,213**	**107,339**	**144,002**	**193,991**	**266,844**
Change (%)		*45.0*	*20.1*	*25.1*	*47.7*	*30.6*	34.2	34.7	37.6
On BS (%)	35.8	49.8	55.2	61.1	68.4	59.5	63.0	66.0	69.0
Off BS (%)	64.2	50.2	44.8	38.9	31.6	40.5	**37.0**	**34.0**	**31.0**

Financials and valuations

Ratios									
Y/E MARCH	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**	**2020E**
Spreads Analysis (%)									
Avg. Yield - on loans		22.8	22.1	21.4	20.5	20.3	19.8	19.3	18.6
Avg. Yield - on earning assets		19.1	19.3	21.0	19.9	17.1	16.4	16.0	15.5
Avg. Cost of funds		12.3	12.5	11.3	10.3	8.4	7.6	7.2	7.0
Spreads		6.8	6.9	9.8	9.6	8.6	8.8	8.9	8.5
NIM		7.9	8.2	11.8	11.5	10.1	9.8	9.5	9.0
NIM (Incl off balance sheet)		6.0	6.1	8.2	8.7	8.2	7.9	7.7	7.4
Profitability Ratios (%)									
RoE		17.8	13.6	19.9	23.3	20.4	14.3	17.3	20.1
RoA (On balance Sheet)		3.1	2.3	4.0	4.1	3.8	2.5	2.5	2.5
RoA (incl off BS AUM)		1.7	1.4	2.5	2.8	2.6	1.8	1.9	1.9
Op. Exps./Net Income	54.0	45.2	40.2	36.6	40.9	39.3	50.6	50.2	48.9
Empl. Cost/Op. Exps.	58.4	54.6	61.4	60.8	62.2	55.2	60.8	62.1	63.3
Asset-Liability Profile (%)									
Net NPAs to Adv.	0.2	0.3	0.6	0.5	0.4	1.1	2.0	1.8	1.5
Debt/Equity (x)	2.4	5.6	3.6	3.6	4.7	3.6	4.9	5.8	7.0
Assets/Equity (Avg)		5.7	5.8	5.0	5.7	5.4	5.6	6.8	8.0
Assets/Equity (Avg - Incl off)		10.4	9.5	7.9	8.3	7.7	7.9	9.2	10.4
CAR	27.2	18.3	18.8	17.3	16.9	23.2	19.2	16.8	16.0
Tier I	24.1	14.9	15.7	15.8	13.5	21.1	17.0	15.0	13.3
Valuations									
Book Value (INR)		109.2	139.1	183.9	228.9	69.9	81.0	96.8	118.9
BV Growth (%)			27.4	32.2	24.5	-69.5	15.9	19.4	22.9
Price-BV (x)							8.6	7.2	5.9
EPS (INR)			17.0	32.2	48.0	18.6	10.8	15.4	21.7
EPS Growth (%)				89.4	49.0	-61.3	-41.8	42.4	41.0
Price-Earnings (x)							64.7	45.4	32.2

E: MOSL Estimates

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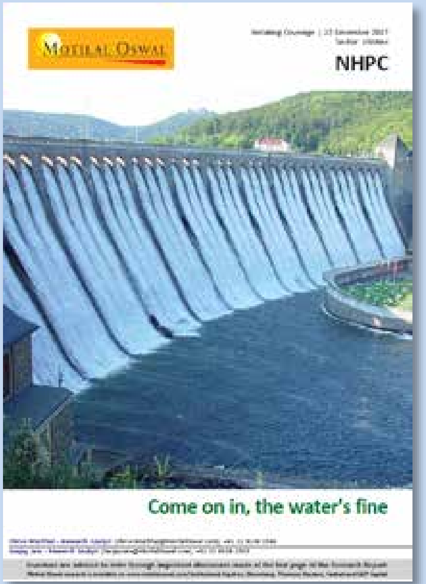

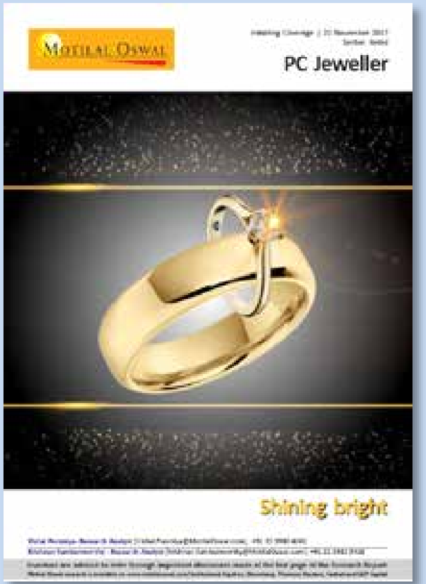

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