Initiating Coverage | 28 July 2016
Sector: Financials

Equitas Holdings

Fixing the missing link

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Equitas Holdings: Fixing the missing link

Equitas Holdings

BSE Sensex	S&P CNX
28,209	8,666

CMP: INR201 **TP: INR220(+10%)** **Neutral**

equitas

Stock Info

Bloomberg	EQUITAS IN
Equity Shares (m)	335.4
52-Week Range (INR)	206/134
1, 6, 12 Rel. Per (%)	10/-/-
M.Cap. (INR b)	67.2
M.Cap. (USD b)	1.0
12M Avg Val (INR M)	1,323
Free float (%)	100.0

Financial Snapshot (INR b)

Y/E March	2016	2017E	2018E
NII	5.1	8.4	11.3
OP	3.2	3.6	4.4
NP	1.7	1.8	2.1
NIM (%)	11.6	10.6	8.8
EPS (INR)	6.2	5.3	6.1
EPS Gr. (%)	56.1	-13.9	14.9
BV/Sh. (INR)	50	66	72
ABV/Sh. (INR)	49	65	70
RoE (%)	13.3	10.0	8.8
RoA (%)	3.0	1.9	1.4
Valuations			
P/E(X)	32.4	37.6	32.8
P/BV (X)	4.0	3.0	2.8
P/ABV (X)	4.1	3.1	2.8

Equitas Holdings

Fixing the missing link

Alpesh Mehta

Please click here for Video Link

Fixing the missing link

Strong growth although high transition risk; Rich valuations limit upside

We initiate coverage on Equitas Holdings (EQUITAS), a 100% holding company of Equitas Microfinance (EMFL), Equitas Finance (EFL) and Equitas Housing Finance (EHFL), with Neutral rating and target price of INR220 (3x FY18E BV). We like EQUITAS for (a) Significant growth opportunity in underpenetrated market, (b) Credible management team and (c) Healthy return ratios (sustainable 1.8%+ RoA/18%+ RoE). The stock has delivered ~82% return since listing. In the last three months it has outperformed the benchmark by ~38%. While we like the business, at the current valuation (2.8x FY18E BV) margin of safety is low in the run up to bank transition (higher execution risk). Better than expected margin performance, smooth transition to SFB and higher growth may provide upside to our estimate.

Significant growth opportunity – 35%+ AUM CAGR in FY16-21E

EQUITAS is one of the most diversified small finance banks (SFBs), with a presence in the MFI business (54% of AUM), Used Commercial Vehicles finance (25%), MSE finance (18%) and Housing finance (4%). Over last five years, EQUITAS recorded a CAGR of 50% in AUM, led by strong traction in MFI business (33% CAGR) and commencement of new business lines. Given the deep under penetration in its key areas of operations, we expect EQUITAS to record CAGR of 36% in AUM over FY16-21E, led by increasing share of non-MFI business (62% vs. 46% in FY16).

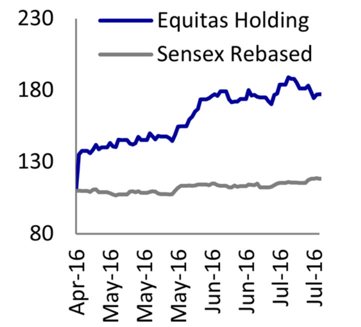
Evolution of liability franchise to pull down funding costs

Post its conversion into an SFB, stability and granularity in liability profile will be one of the key benefits for EQUITAS, thus reducing the risk during times of liquidity shocks. However, we expect mobilization of low cost deposits to be a more gradual process (12% CASA ratio in FY21E). Apart from having 400+ new liability branches, EQUITAS plans to build a strong business correspondent (BC) network to cater to both the asset and liability needs of its customers. This will help reduce the cost of acquisition for EQUITAS and also provide a sustainable income model for its BC network. As its liability mix evolves towards low cost funding, we expect a decline in both cost of funds and proportion of unsecured lending (MFI loans), thus providing additional stability to its business model.

Significant emphasis on technology and processes

Based on our branch and center visits (refer to page 28), we found emphasis on processes and use of technology to be a common theme (for instance, check or cash collection in MFI business is done via instant mobile receipt sent by collection officer and cross verified by branch manager). Additionally, management plans to build a robust BC channel with significant use of technology. We expect opex ratio to remain high during initial years (Opex to assets of 6-7%), but believe this is a cost of long term investment in setting up robust franchise and help in scaling up the business.

Stock Performance (3-months)



Credible management team with a blend of social and economic value

EQUITAS is currently headed by its founder Mr. P.N. Vasudevan along with the heads of its various subsidiaries. Risk management and corporate governance are the core themes of the company. Each committee in the company is headed by an independent director along with the independent director acting as the chairman of the board. Further, the company has decided to maintain a voluntary RoE cap of 25% and a salary gap not exceeding 40x the lowest salary in the organization. In addition, the company has policies such as: (a) 5% of profit goes towards non-financial services (b) Loan write-offs/moratorium for sick clients (c) Setting up a not-for-profit company to provide food security via 22 shops (all are currently making profits), and (d) Training people and providing healthcare services via camps. All these company policies have resulted in strong brand recognition for EQUITAS among its clients.

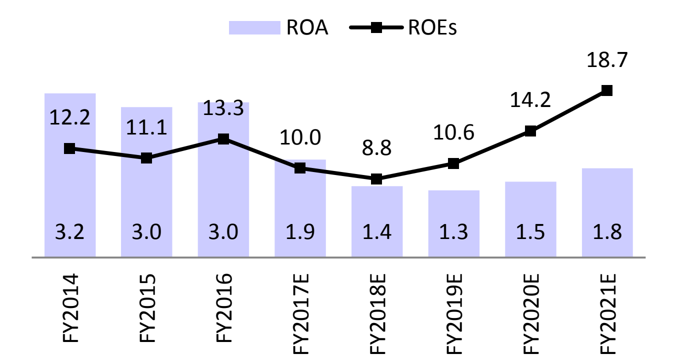
Valuation and view

EQUITAS' RoA is expected to decline from ~3% in FY16 to ~1.5% in FY19 due to impact of transition to bank. While the ROAs are likely to decline we believe stock will trade at a premium due to earnings/asset growth visibility, reduced liquidity risk and asset concentration. Strong asset growth and new revenue streams (fee income, etc.) will drive a CAGR of 32%+ in the company's earnings. Moreover, EQUITAS will be way ahead of other SFBs in terms of breadth of products. The stock has delivered ~82% return since listing. In the last three months it has outperformed the benchmark by ~38%. While we like the business, at the current valuation (2.8x FY18E BV) margin of safety is low in the run up to bank transition (higher execution risk).

Key risks

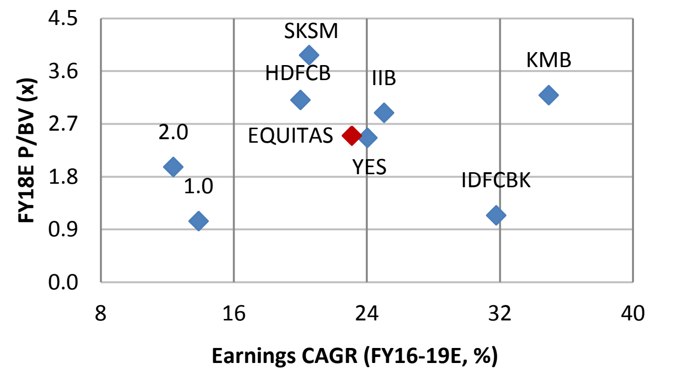
a. Execution risk- migration to bank
b. Uncertainty over SFB reverse merger with holding company
c. Heightened competitive intensity
d. Changes in regulations for MFI business considering strong growth and aggression by various players in the industry

Exhibit 1: Gradual improvement expected in RoA post initial decline



Source: MOSL, Company

Exhibit 2: Rich valuation; margin of safety remains limited



Source: MOSL, Company

Strong growth ahead in an underpenetrated market

CAGR of 40%+ in loan book expected over FY16-21E

- **EQUITAS has a share of just ~0.1% in the loan market. We expect the company to record a CAGR of 40%+ in loans over the next five years, led by strong customer additions, products additions and ramp up in its new business lines. The share of secured lending (Non MFI loans) in its overall loans is expected to increase to 62% vs. 49% in FY16.**
- **EQUITAS' business model revolves around the MFI business for enabling new product additions, introduction of new products in existing geographies and using MFI customer credit behavior as a base for cross selling. The introduction of new products will lend much-needed diversification and stability to the business (as new products are longer tenor loans).**
- **The long-term growth opportunity in the MFI business remains significant, though we expect its share to decline to sub 40% by FY21E (vs. 51% in FY16), due to EQUITAS' increased focus on new customer acquisitions instead of increasing average ticket size (ATS) to existing customer base.**
- **The share of MSME lending is expected to increase over the next five years (27% vs. 18% in FY16), primarily due to the effective use of the BC model and leveraging of EQUITAS' strong MFI customer base.**

Exhibit 3: Quick snapshot of existing businesses

FY16	MFI	UCV	MSME #	Affordable Housing
Proportion of AUM (%)	54	25	18	4
Average lending yields (%)	22	22-23	21-22	14-14.5
Average ticket size (INR m)	0.01-0.035	0.3	0.05-0.5	0.5-2.0
Average duration (years)	1-2	3	5-6	15
Tenure (years)	2	3-4	3-15	3-20
LTV (%)	NA	75-80	50-60	60-70
Branches (nos.)	391	134	134	14
NIMs (%)	12.7	14.8		7.3
Opex ratio (% of Avg. AUM)	7.4	6.8		5.3
Credit costs (%)	0.7	1.9		0.5
Profit After Tax (INR m)	804	851		20
Pre-tax RoA (%)	4.6	6.1		1.5

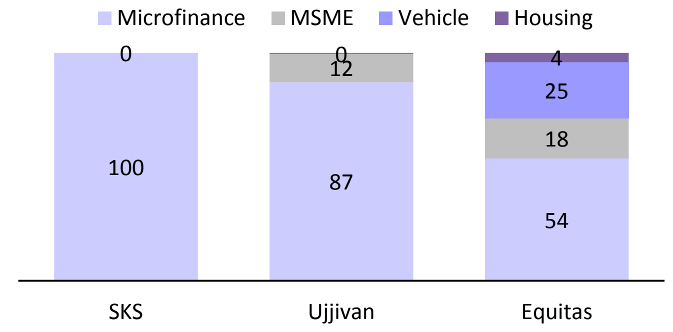
Note: All MSME branches are located in EQUITAS' existing vehicle finance branches Source: MOSL, Company

Significant growth opportunity across businesses

Opportunity - EQUITAS has a share of just ~0.1% in the loan market

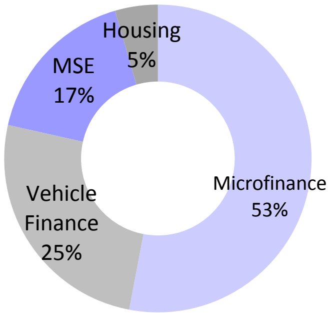
EQUITAS primarily operates in four key segments: (1) Microfinance (2) Used commercial vehicle financing (3) MSME lending, and (4) Affordable housing. Regular engagement with target customer segments and understanding of related socio-economic dynamics enables the company to establish effective credit and operational procedures and risk control frameworks, thus allowing it to improve its credit evaluation, asset valuation, loan disbursement, staff training and collection procedures. With AUM of INR61b, or a market share of 0.1%, there exists a significant growth opportunity. Further, EQUITAS plans to add agri gold loan and two wheeler loan products to its existing portfolio. We expect EQUITAS to record a CAGR of 40%+ in loans over FY16-21E, led by a strong traction across businesses.

Exhibit 4: EQUITAS has one of the most diversified NBFC-MFI AUM mix; FY16 (%)



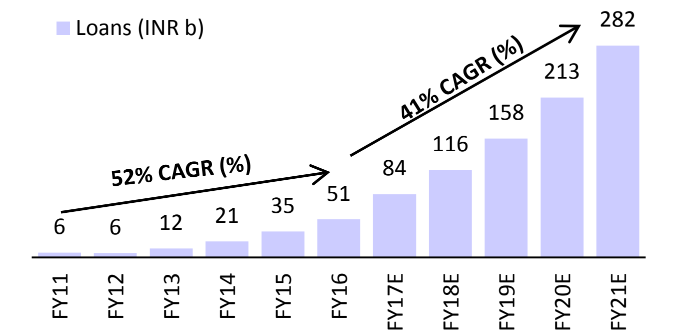
Source: MOSL, Company

Exhibit 5: MFI business accounts for 53% of assets (AUM mix; FY16)



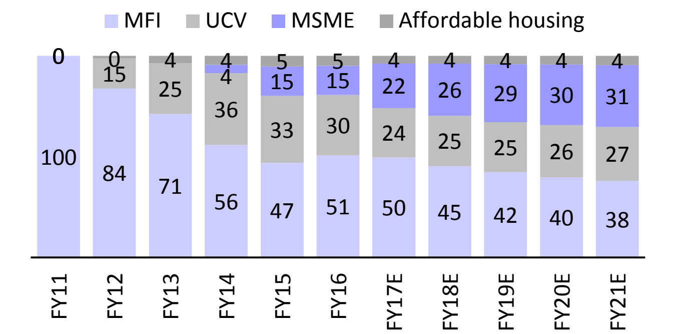
Source: MOSL, Company

Exhibit 6: Strong growth expected to continue…



Source: MOSL, Company

Exhibit 7: …primarily led mainly by secured lending



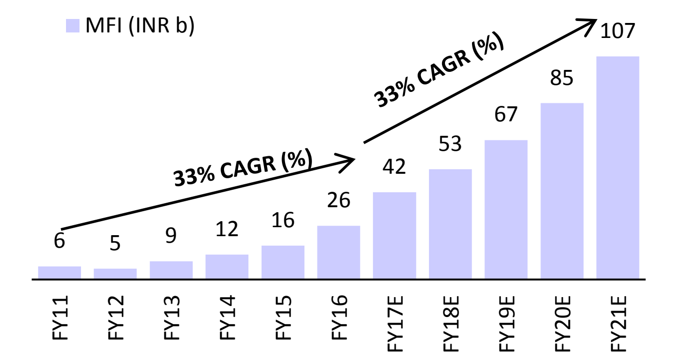
Source: MOSL, Company

Note: We have not factored in the contribution from new businesses, such as agri gold loans and two wheeler loans in our estimates

MFI business: Robust AUM growth of 30%+ - led new customer additions

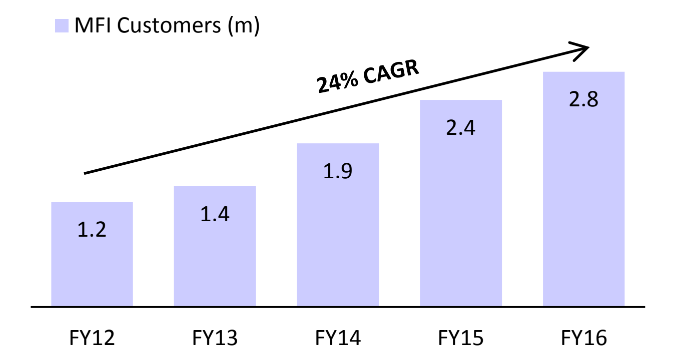
EMFL is the fourth largest MFI in India with 2.9m+ customers. The RBI has permitted MFIs to increase their loan ticket size to INR0.1m vs. INR0.05m previously, though EMFL's management remains skeptical about increasing ticket size to drive growth, as the borrower's repayment ability remains unchanged. Hence, we expect EMFL to deliver a growth of 30%+ in AUM (on a smaller base), vs. 35%+ for SKSM on a higher base, driven mainly by new customer acquisitions. Our ground reality check (please refer to page 28) confirms that the management's growth strategy will focus on making customer additions instead of increasing ticket size.

Exhibit 8: MFI loan growth to be lower vs. large peers (33% CAGR in FY16-21E)



Source: MOSL, Company

Exhibit 9: Large part of incremental growth to be driven by customer acquisitions

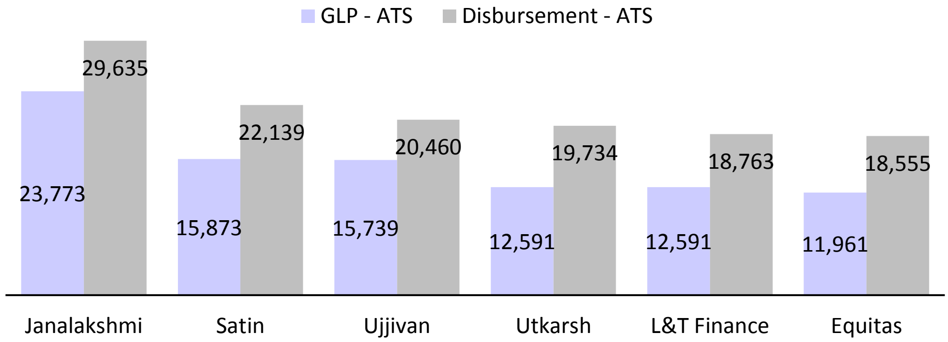


Source: MOSL, Company

MFI growth to be driven by customer acquisitions rather than sharp increase in disbursements to existing customers

Due to focus on restricting the ticket size per borrower, EMFL's AUM growth will be largely driven by volume growth, i.e. number of loans disbursed and number of clients enrolled. There is more competition in the area of products terms (including loan ticket size) rather than in product pricing. EMFL currently offers INR20,000 to first-time customers which is increased to a maximum of INR35,000 in the fourth cycle.

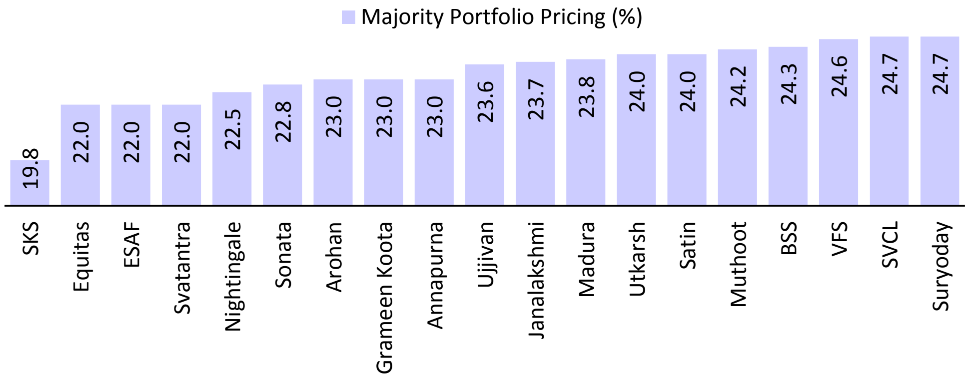
Exhibit 10: EMFL's ATS the lowest amongst top six MFIs



Note: Satin data as of Dec-15; SKS data does not include portfolio in AP Source: MOSL, MFIN

For SFBs RBI lending spread cap of 10-12% (for NBFC – MFI) does not apply. Incremental cap could move up however, in our view, management would pass on the benefit of reduction in cost of funds

Exhibit 11: Lending rate ~200bp higher vs. that of largest MFI

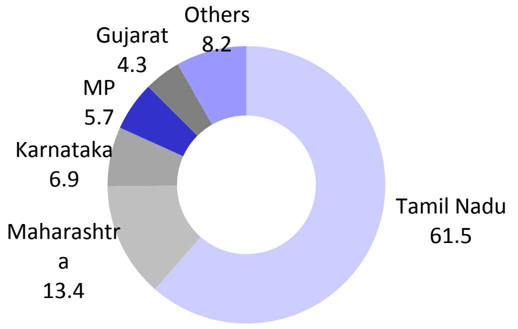


Source: MOSL, Company

EQUITAS intends to increase penetration in its existing geographies

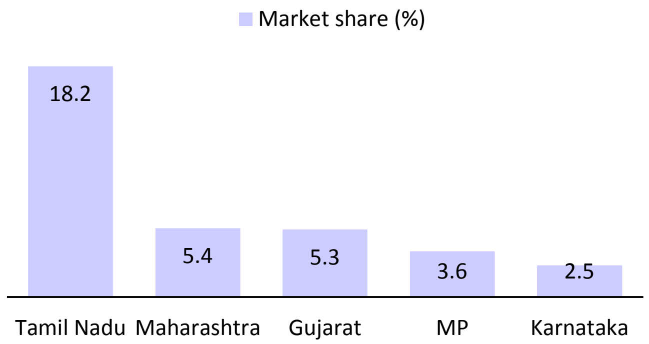
EQUITAS has a strong presence in the South and West regions, resulting in deep local knowledge and understanding of repayment habits of the local populace. This has resulted in a repayment rate of 99% (close to that of other MFIs). The company's ATS is low at ~INR18,000/borrower and it has set limits on disbursements per customer, with branch evaluation being based on customer addition vs. disbursements/loans outstanding. A strong focus on risk management instead of growth has resulted in a granular portfolio (albeit, at a lower growth rate vs. its peers) with a low concentration risk (lowest ATS among its peers).

Exhibit 12: State-wise GLP mix (%) – No plans of aggressively entering new geographies



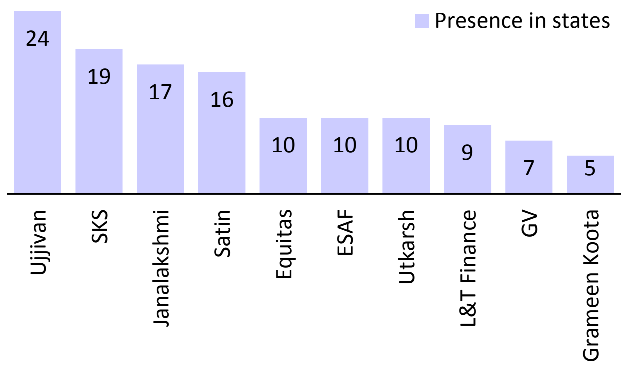
Source: MOSL, Company

Exhibit 13: State-wise market share (FY16, %) – Largely dominated by Tamil Nadu at present



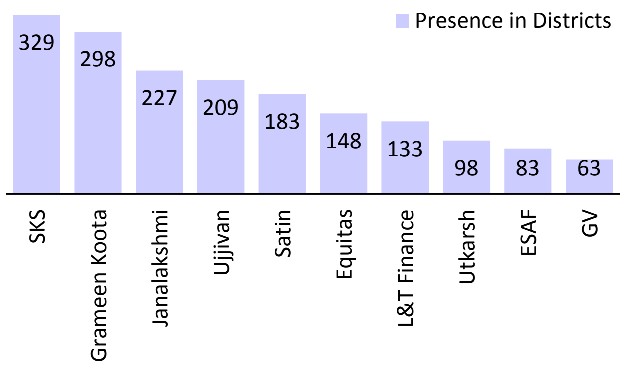
Source: MOSL, Company

Exhibit 14: EQUITAS has a presence in just 10 states…



Source: MOSL,MFIN

Exhibit 15: …and is yet to penetrate deeply into those states



Source: MOSL,MFIN

Our back of the envelope calculations suggest a market of INR4.5t+ for the MFI business

Potential demand for micro-credit pegged at INR4.5t

By using certain available data, we have tried to estimate the rural demand for microfinance. The 2011 census has put the rural Indian population figure at ~833m. Also, the United Nations' "World Population Prospects" published by its Department of Economic & Social Affairs sees India's annual population growth rate at 1.65%. Assuming an average household of five members, the number of households in FY16 would be ~181m. Assuming an yearly credit requirement of INR25,000 per household, we estimate the microcredit requirement for rural households to reach INR4.5t by FY16 alone.

Exhibit 16: Potential microfinance demand of INR4.5t

	FY11	FY12E	FY13E	FY14E	FY15E	FY16E
Rural population (m)	833	847	861	875	889	904
No. of rural households (avg. five a household)	167	169	172	175	178	181
Annual rural household credit demand (INR)	17,015	18,376	19,846	21,433	23,148	25,000
Total microfinance credit demand (INR b)	2,835	3,112	3,416	3,751	4,117	4,520

Source: MOSL, Company

Penetration in non-Southern states remains very low

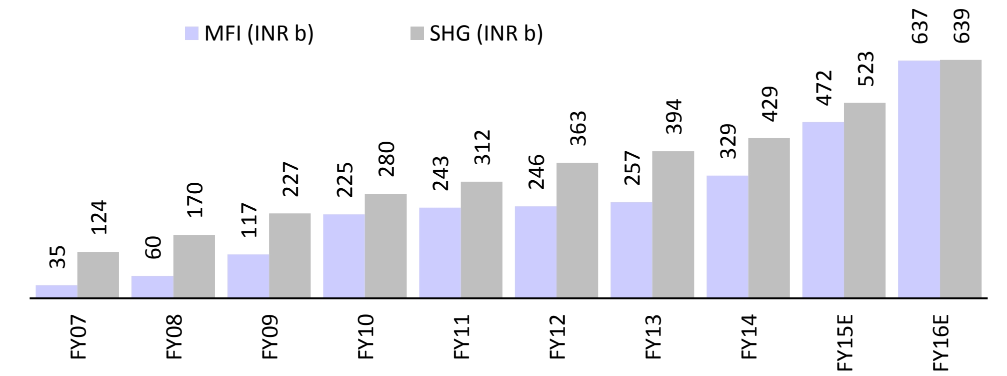
Exhibit 17: State-wise MFI client penetration

(million)	MFI Clients	Population	Households	Penetration (%)
Tamil Nadu	5.7	78	16	36.3
Karnataka	3.8	66	13	28.9
Odisha	2.1	44	9	24.1
Kerala	1.2	34	7	18.0
Madhya Pradesh	2.8	80	16	17.5
Maharashtra	3.7	121	24	15.3
West Bengal	2.2	95	19	11.5
Punjab	0.6	30	6	8.8
Gujarat	1.2	66	13	9.3
Haryana	0.5	28	5	9.5
Bihar	1.9	117	23	8.3
Uttar Pradesh	3.1	216	43	7.3
Rajasthan	0.8	75	15	5.0

Source: MFIN, MOSL, Company

The supply of microfinance credit is far below demand, with institutional lenders in this segment – bank-linked self-help groups (SHGs) and non-banking microfinance companies (NBFC-MFIs and including potential SFBs) – addressing only 15% of the demand for microfinance. The Indian microfinance sector is significantly underpenetrated and the latent demand for microcredit is significant.

Exhibit 18: MFIs and SHGs together constitute only 15% of potential demand



Note: SHG data for FY15/16 is not available; MFI data for FY16 is based on MOSL estimates

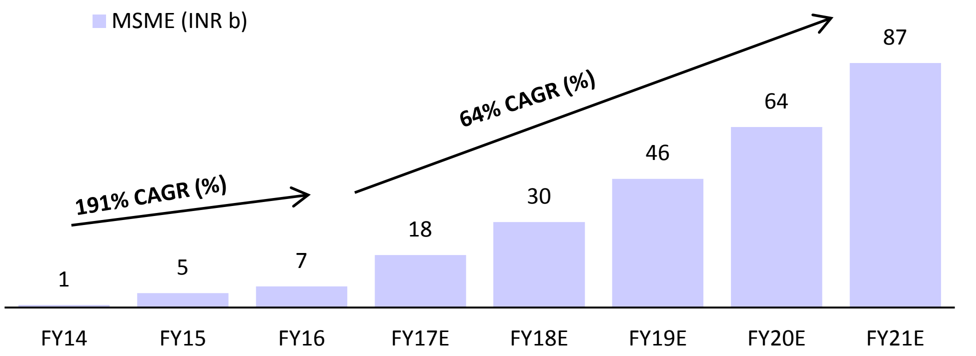
Source: MOSL

Unlike its peers, EQUITAS' focus remains on driving MFI growth through customer acquisitions

MSME book to account for one-third of incremental loans

EQUITAS provides asset-backed financing (usually secured by immovable property), primarily for self-employed individuals operating micro and small enterprises, typically located in urban and semi-urban locations. Most of the loans are offered to top-end MFI customers, who have spent certain time with the company and are credit-tested. The overall growth potential for the MSME segment is similar (if not more) to that for the MFI business and hence, given the low base, its growth is likely to remain robust during the initial years.

Exhibit 19: Share of MSME segment expected to increase to 31% by FY21E vs. 15% in FY16



Source: MOSL, MFIN

MSME's customer acquisition costs are currently low as clients come largely through referrals received from MFI business

The MSME customer acquisition costs are currently low as its clients come mainly through referrals received from the MFI business. Additionally the MSME segment's other operating costs are also low, as its collections are electronic-based (bank accounts). The MSME customers have access to bank accounts, but not to bank credit as their business performance is not documented on paper and the lending seriousness among banks is very low (due to low value). Under MSME finance (including LAP), EQUITAS extend loans to the self-employed informal segment for the loans ranging from INR0.05m to INR5m for a tenor of 15 years. The average ticket size has remained at ~INR0.25m.

Focus on risk management to remain high due to challenges in determining exact cash flow of borrowers

Since the appraisal of income for MSME customers is tough, EQUITAS performs two layers of checks to its credit appraisal team and credit supervision team. The credit appraisal team consists of the credit officer and the branch manager who try to assess the applicant's income by making field visits. The credit supervision team randomly scrutinizes cases to check if the income assessment has been done correctly.

BC channel to play critical role in last mile connectivity

EQUITAS plans to make large investments in the BC channel to create not just leads for asset products, but also enable the BC to act as liability product agents. The BC will collect and disburse cash on demand, with technology being a key enabler for managing operational risks (immediate intimation of any debit/credit transaction).

Exhibit 20: Full-fledged Business Correspondent model (Production info graphics)

Source: MOSL, Company

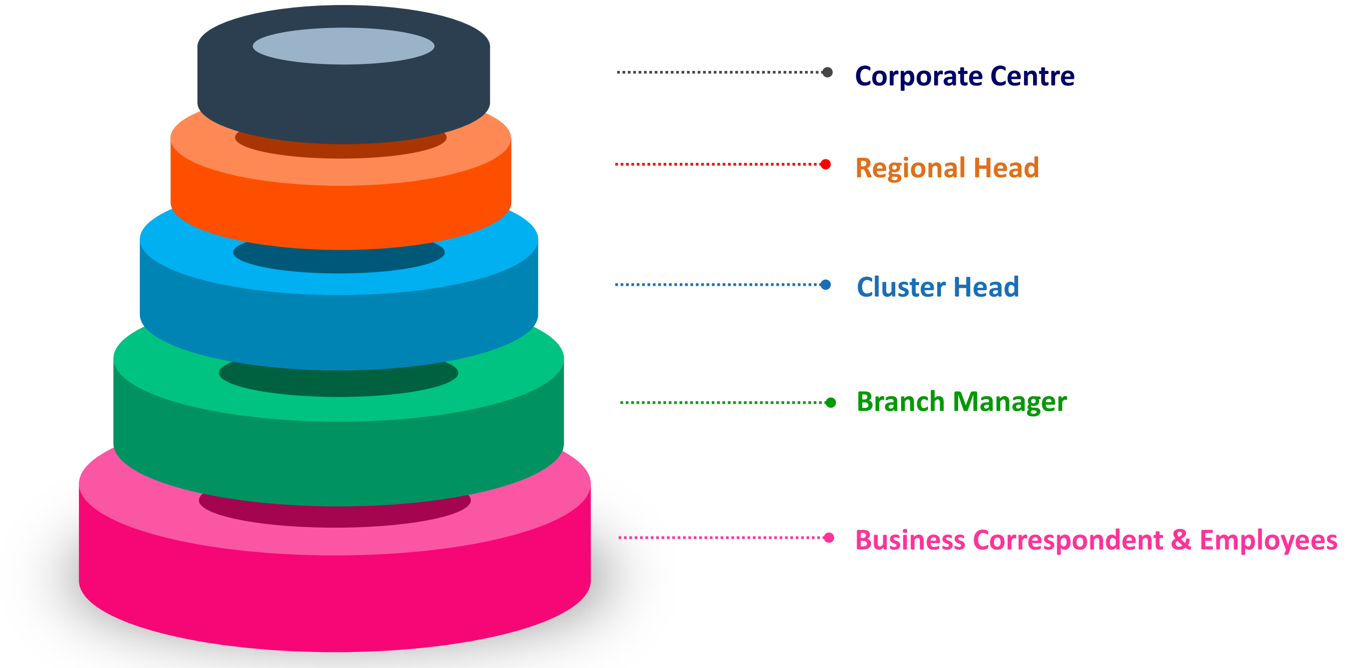
Out of 350 BCs appointed so far, 50% are EQUITAS' clients

EQUITAS plans to have one BC within the radius of one kilometer of its branch. As a result, each customer will eventually have access to EQUITAS within the radius of one kilometer of its branch. Currently, each branch covers 25-30km and EQUITAS has 350 BCs, which the management plans to increase to 1,000 by Sept-16 (SFB expected to become operational tentatively by 3QFY17).

With each cluster having 10-20 branches and each branch managing 20-25 BCs, each cluster will be assigned ~350 BCs

Unlike normal BCs who are usually responsible only for asset lead generation, EQUITAS plans to make them an important partner in its overall business by providing them with a stable and sustainable source of income. For instance, if one BC generates five MSME lending leads per month with an ATS of INR0.3m, then assuming a 50% lead to loan conversion, the BC will generate ~INR0.75m of loans and earn a commission of INR3,500-INR4,000. This, coupled with liability and third-party offerings, will ensure that a BC earns a monthly income of INR8,000-INR10,000.

Exhibit 21: Business correspondent to act as front line staff



Source: MOSL, Company

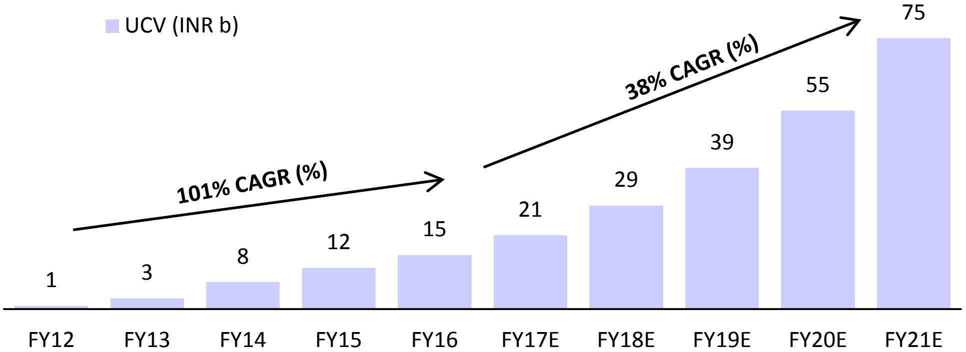
UCV financing is targeted at first-time UCV buyers and small fleet operators, both of whom are neglected by the formal financial channel (due to their limited credit history)

UCV financing – Leveraging management's past experience

EQUITAS' used vehicle finance business is operated through a wholly-owned subsidiary, Equitas Finance Limited (EFL). The group's entry into the used vehicle finance business in 2011 marked its first major diversification outside the microfinance business and was done with the aim of leveraging the senior management team's (refer page 36) background in the vehicle finance business. EFL usually targets first-time buyers of used commercial vehicles and small fleet operators, both of whom are customers neglected by the formal financial channel (due to their limited credit history). Currently, approximately 80% of vehicles financed are to first time buyers/small fleet operators.

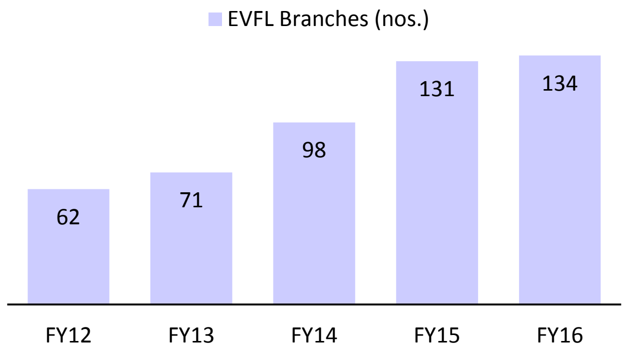
Post its initial success, we expect a strong growth in UCV financing over FY16-21E

Exhibit 22: Strong growth expected in UCV business on back of lower base and expanding footprint



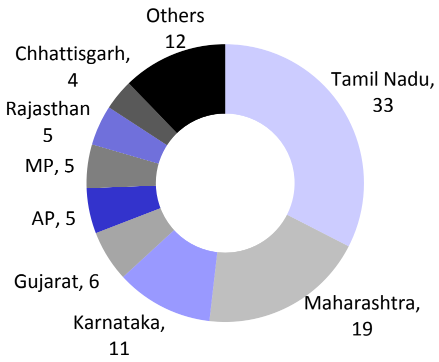
Source: MOSL, Company

Exhibit 23: EVFL has a presence in 13 states and one union territory



Source: MOSL, Company

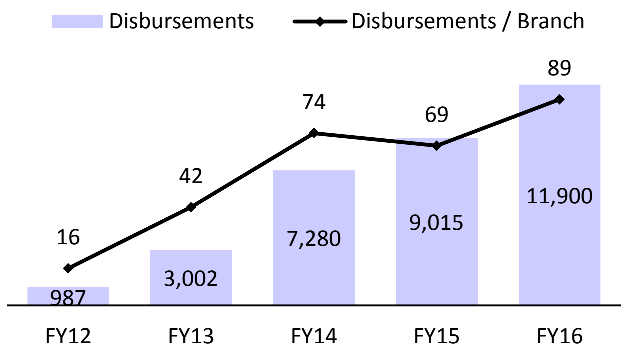
Exhibit 24: Currently, three states account for 60%+ of outstanding loans



Source: MOSL, Company

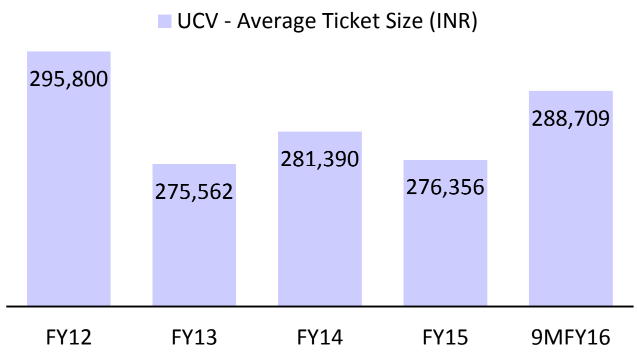
As of Mar-16, the company's vehicle finance business operations had a network of 134 branches in Tamil Nadu, Gujarat, Maharashtra, Madhya Pradesh, Karnataka, Chhattisgarh, Rajasthan, Delhi, Haryana, Punjab, Telangana and Andhra Pradesh. Most of these branches are located in the premises of the microfinance branches.

Exhibit 25: UCV disbursements per branch continue to trend higher (INR m)…



Source: MOSL, Company

Exhibit 26: …with ATS remaining below INR0.3m



Source: MOSL, Company

Sourcing is done through relationships with transporters and direct marketing activity in transport hubs

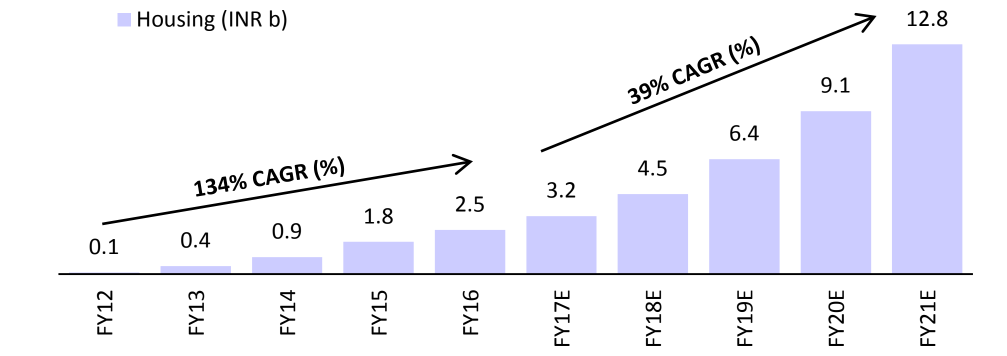
Customers are sourced via field staff from their networks, relationships with transporters and through other means, including telecalling and direct marketing activities in transport hubs, where transporters tend to congregate. Additionally, EQUITAS enters into arrangements with dealers of used commercial vehicles. The credit appraisal process involves a personal interview, guarantor, vehicle inspection and document checks.

So far, the housing finance segment had been in the pilot stage. But with all systems and process now set, we expect a strong growth ahead for the segment

Housing Finance – Focus on small ticket affordable housing segment

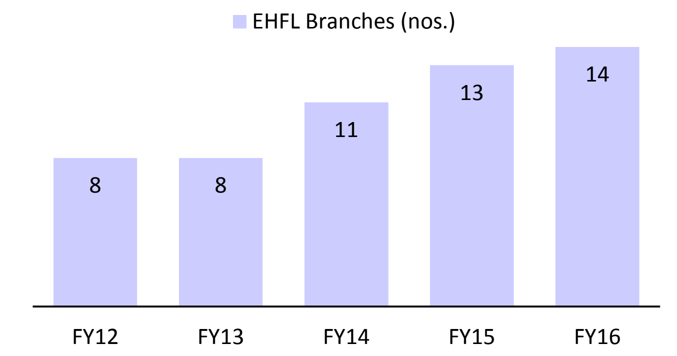
EQUITAS provides housing finance through its wholly-owned housing finance subsidiary, which extends micro-housing and affordable-housing loans to self-employed individuals, who have limited access to loans from banks and larger housing finance companies. So far, this segment had been in the pilot stage. But with its systems and process now all set, we expect the segment to record a strong growth ahead and estimate a CAGR of ~40%. The segment is capable of surpassing our estimated growth levels, considering its offering of complementary products to its existing customer base.

Exhibit 27: Strong growth expected in affordable housing business owing to lower base



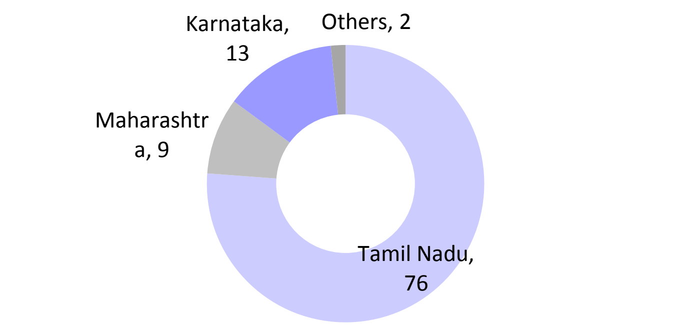
Source: MOSL, Company

Exhibit 28: EVFL has a presence in three states and one union territory



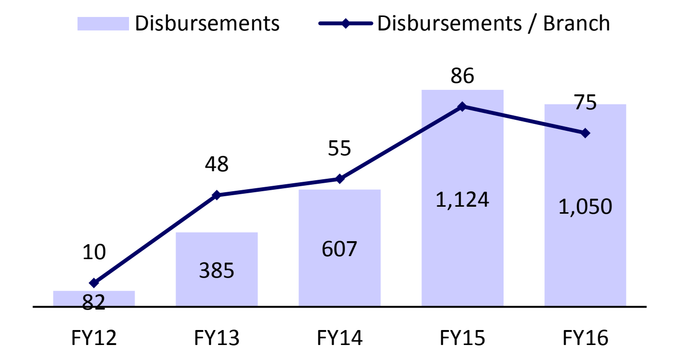
Source: MOSL, Company

Exhibit 29: Currently, three states account for ~98% of outstanding loans



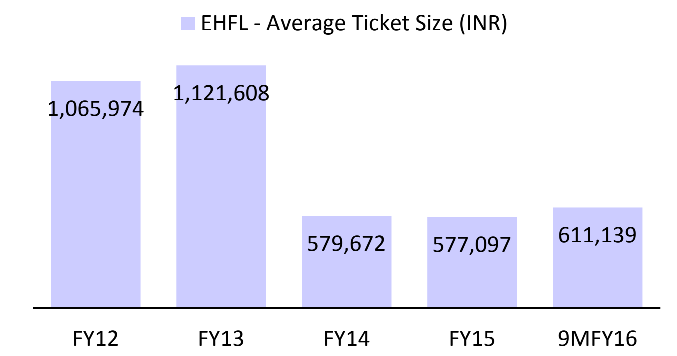
Source: MOSL, Company

Exhibit 30: EHFL disbursements per branch moderates due to focus on putting processes in place (INR m)…



Source: MOSL, Company

Exhibit 31: …with ATS remaining below INR1m



Source: MOSL, Company

A significant percentage of micro-housing finance products are cross-sell products offered to eligible higher income microfinance customers with a good track record. Customers in this segment typically run small enterprises and/or are employed in the informal segment. The typical tenure of such loans is 3-20 years.

Overall robust growth ahead with expected CAGR of 35%+

EQUITAS has everything in its favor to help it achieve a strong growth in an under-penetrated MFI market. Further, cross selling to its existing customer base, new product additions and an under-penetrated market will keep its overall growth rate at a healthy level. We like the management's approach of focusing on risk management before driving growth. The new product additions are longer duration loans, which will provide much-needed stability for achieving growth. Moreover, diversification is also underway for secured products.

Exhibit 32: Summary - Segmental growth drivers

Segment	Growth Drivers	CAGR (FY16-21E)	% of total FY16	% of total FY21E
MFI	Focus on increasing penetration into existing geographies; no new geographic expansion for 12-18 months	33	51	38
MSME	Low base and customer acquisitions via the BC model should enable 60%+ CAGR	64	15	31
UCV	Low base and expanding footprint; currently, three states account for 60%+ of loans	38	30	27
Affordable Housing	Significant opportunity ahead; currently has a presence in only three states (95%+ of loans), but with all system and processes in place, we expect a strong growth ahead	39	5	5
New Products	Management plans to add gold loans and agri loans post the conversion into SFB (we have not factored these products into our estimates)	NA	NA	NA

Source: MOSL, Company

Building blocks for a diversified liability base

CASA ratio expected to enter low-teens in next five years; BC model remains the key

- **One of the key drivers for becoming an SFB is the access to a stable and granular funding profile. A higher retail liability share will not only provide stability from the liquidity perspective, but will also lead to a sharp reduction in cost of funds**
- **We expect the mobilization of CASA deposits to remain a challenge during the initial years, though the success of EQUITAS' BC model could provide an upside to our estimates (12% CASA ratio for FY21E).**
- **The replacement of borrowings with wholesale deposits will reduce the cost of term liabilities by 100-150bp (minimum) during the initial years. If EQUITAS is successful in mobilizing its retail term liabilities over the medium term, then it stands to benefit more from lower funding costs.**

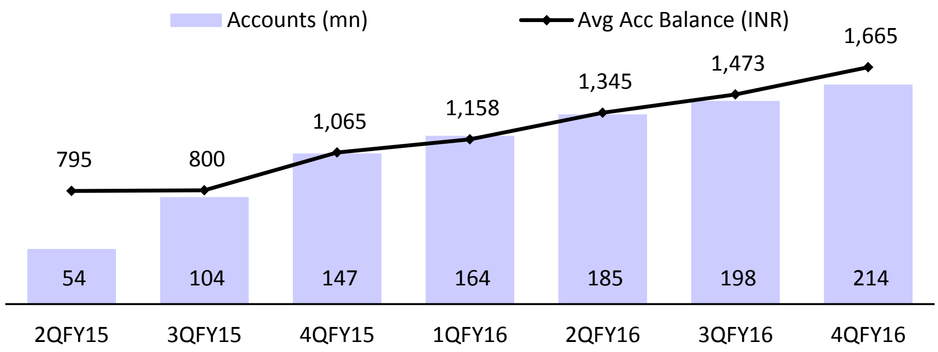
Banking on success of BC model for garnering CASA deposits

SFBs could face tough competition in mobilizing CASA deposits from the government's Jan-Dhan scheme and payment banks

In a highly competitive environment, it takes time to build up sufficient CASA deposits in order for it to become a meaningful portion of SFB's liability profile. The competition in the target customer space (unbanked and under-served population) has increased significantly due to the government's Jan Dhan Yojana (PMJDY) and payment banks. Hence, we estimate a moderate increase in EQUITAS' CASA deposits during the initial years.

Under PMJDY, 214m basic bank savings accounts have been opened in less than two years. The total balance in such bank accounts is estimated at ~INR357b, translating into an average balance of INR1,665. These accounts are likely to become the primary accounts for the holders, as they are linked to their AADHAR card and subsidies from various government schemes are transferred directly into these bank accounts.

Exhibit 33: Jan Dhan scheme provides a fillip to opening of basic bank savings accounts



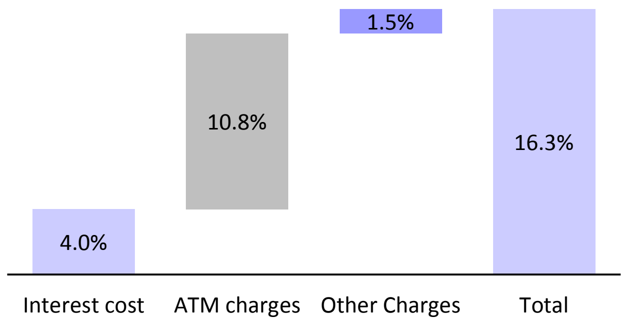
Source: MOSL

Cost of maintaining savings accounts likely to be very high for SFBs, at least during the initial years

SFBs are widely expected to target their existing customer base in order to develop their liability franchise. Based on our assumptions of 4% interest paid on savings accounts, an average of three transactions per month at an ATM costing around INR15/transaction and other charges of about INR75/annum for the account, the total cost for maintaining a savings account balance of INR5,000 would be 16.3%

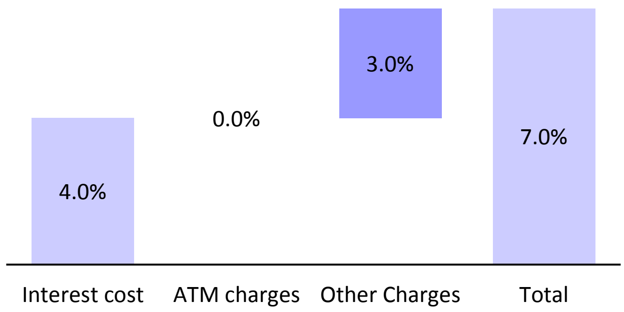
p.a. However, assuming that the company does not provide a debit card to customers with a low savings account balance, the cost of maintaining a savings account with a balance of INR5,000 will decline to ~7% p.a. (higher other charges to reflect transaction costs via the BC channel).

Exhibit 34: Maintaining savings account with average balance of INR5,000 to typically cost ~16% for SFB



Source: MOSL

Exhibit 35: Maintaining savings account with average balance of INR5,000 without debit card to typically cost 7% for SFB



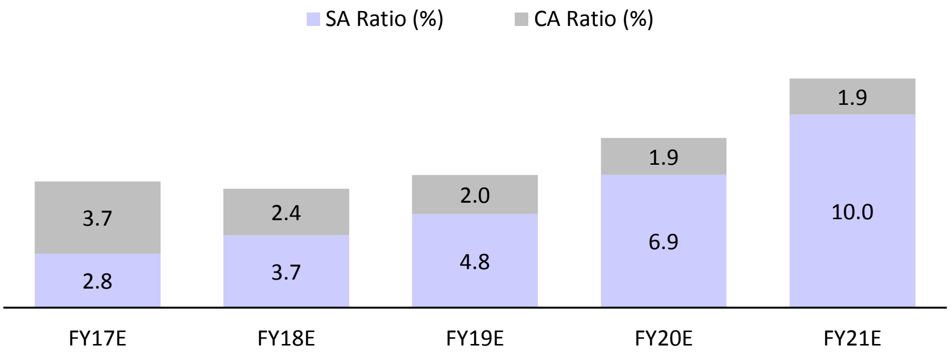
Source: MOSL

As per rating agency ICRA's estimates, the cost of deposit mobilization for savings account deposits could be in the range of 10-12% of the mobilized amount for ticket sizes of around INR1,000 per depositor with around 2,000-2,500 depositors per branch. If small banks manage to double their depositor base as well as ticket size, then the cost of deposit mobilization could decline significantly to around 2-3% of the amount mobilized. Hence, it will be critical for such small banks to develop a sizeable retail deposit base (along with CASA) at reasonable ticket sizes in order to keep their cost of deposit mobilization at reasonable levels and report reasonable returns, which holds the key to their profitability. Given that the ATS for the accounts opened through PMJDY is around INR3,100 per account (excluding zero balance accounts) and was around INR11,600 for average savings account for bank branches in rural areas as on March 31, 2013, these small banks are likely to garner deposits at a reasonable ticket size over the medium term and thus, enjoy more cost benefits than MFIs/newer HFCs (source: RBI guidelines, ICRA rating SFB, 2014).

Overall cost for acquisition and maintaining retail franchise expected to remain much higher (7-8%) during initial years

Thus, in our view, the headline savings account rate will remain at 4-5% unless SFBs develop scale, while the overall cost for acquisition and maintaining a retail franchise is expected to remain much higher (7-8%) during the initial years. However, this cost could still be closer to the blended cost of funds. We expect EQUITAS to achieve a CASA ratio in the low teens (~12%) by FY21E. Better than expected traction witnessed by EQUITAS in urban and semi-urban locations could provide an upside to our estimates.

Exhibit 36: Expected CASA ratio of ~12% by FY21E to be led by granular SA deposit mobilization

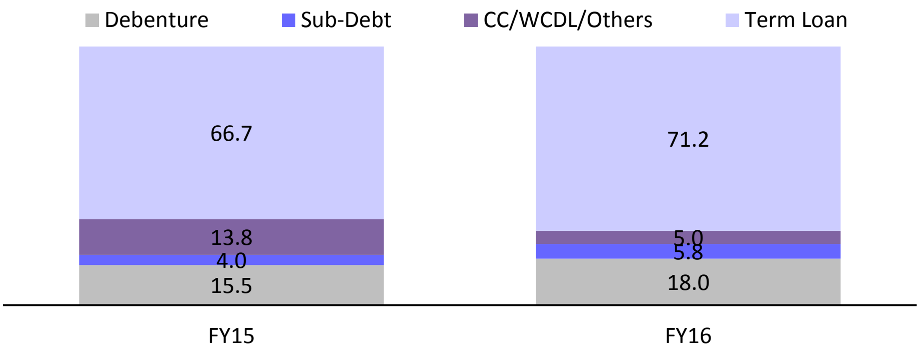


Note: We expect SFB to commence operations by 3QFY17. Source: MOSL, Company

Replacement of borrowings with deposits to reduce cost

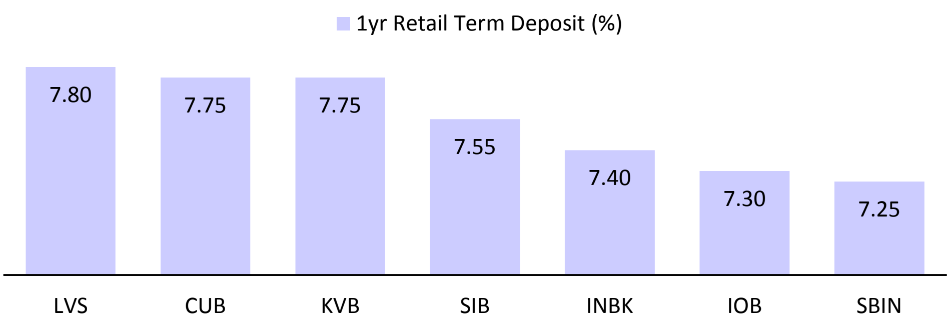
EQUITAS is currently dependent on financial institutions on the liability side. With the start of its banking operations, these liabilities will be replaced by wholesale deposits initially and retail liabilities over the medium to long term for which the costs will be lower. Under its banking license, EQUITAS will have access to wholesale liabilities, interbank market and granular retail liabilities. As a result, the company's structurally liability cost is likely to decline. Despite the expected increase in the share of wholesale deposits, the ALM risk is likely to be less due to lower duration of loans.

Exhibit 37: Current liability profile skewed towards term loans from banks



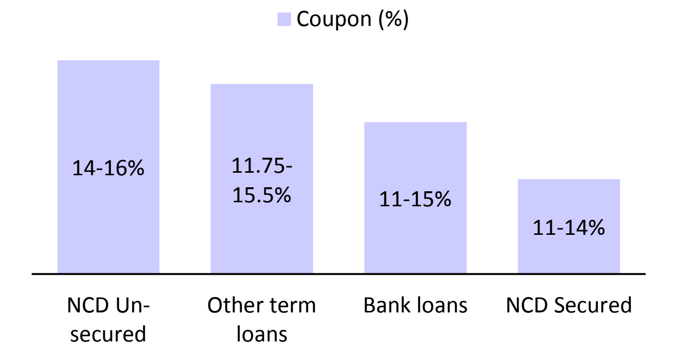
Source: MOSL, Company

Exhibit 38: Retail term deposit rate of regional banks in the 7.55%-7.8% range



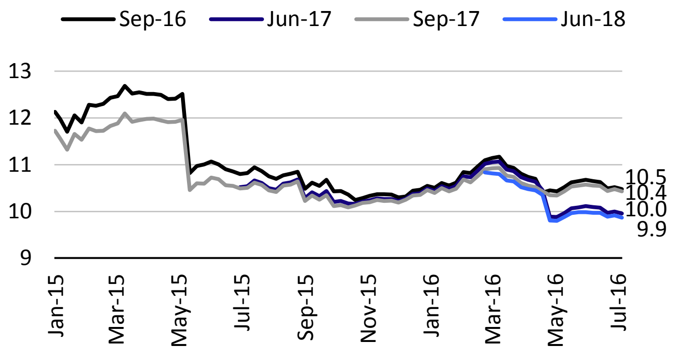
Source: MOSL, Company

Exhibit 39: Current borrowing costs from various sources



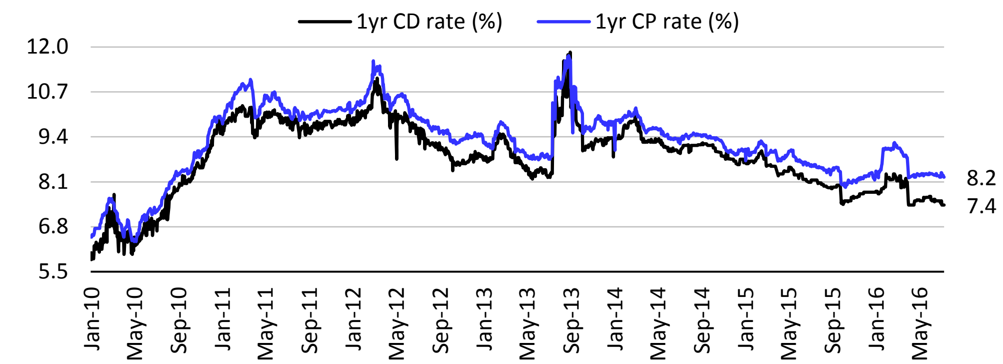
Note: The above chart does not include funding via refinancing.
Source: MOSL, Company

Exhibit 40: YTM of various EQUITAS debentures indicate 9.5-10.5% borrowing cost



Source: MOSL, Company

Exhibit 41: While, one year CP/CD range between 7.4-8.2%



Source: MOSL, Company

Management plans to provide micro liability products via the BC channel

Quote of Mr. Vasudevan in one of his interviews. (Interview link).

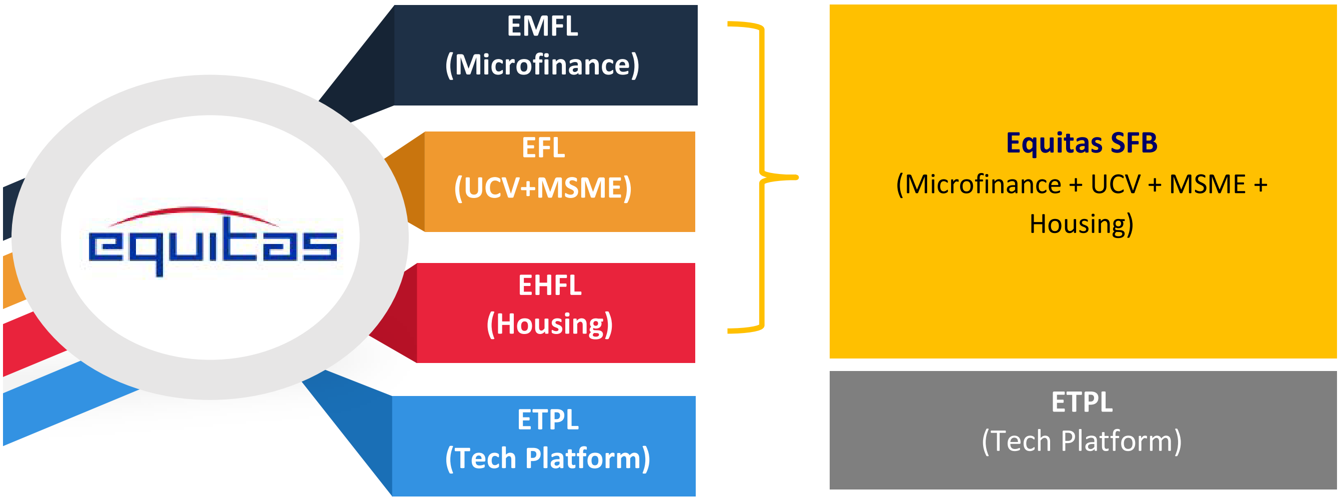
"What we need to do is, somebody let us say there is a lady who has just finished her job or finished her business at 6:00 in the evening and she has got Rs 50 in hand which she doesn't need for the day is there a way she can put that Rs 50 into an account. At 6:00 in the evening and say 7:00-7:30 there is a small medical requirement. She wants Rs 40 to buy some medicine can she take Rs 40 and go and buy medicine out of that. If that transaction is enabled then there is a lot of money which is there in the system which can actually come into the banking system."

The Small Finance Bank Story

Transitory drag on earnings; Expected 1.8% RoA and 18%+ RoE by 2021

- **EQUITAS' RoE for the first full year of its SFB operations (FY19) is expected to be in the low double-digits (~11%), due to higher operating costs (costs towards addition of 400 branches and technology implementation).**
- **The impact of additional regulatory capital requirements (CRR and SLR) is likely to be limited and we expect it to be marginally negated by a reduction in cost of funds (due to banking platform).**
- **The replacement of borrowings with wholesale deposits should reduce cost of funds by 100-150bp+ (minimum). In our view, increasing CASA deposits will be difficult for SFBs as they need to compete with not only scheduled commercial banks (especially government sponsored programs), but also with payment banks/other SFBs/RRBs.**

Exhibit 42: Proposed structure post SFB license (production)



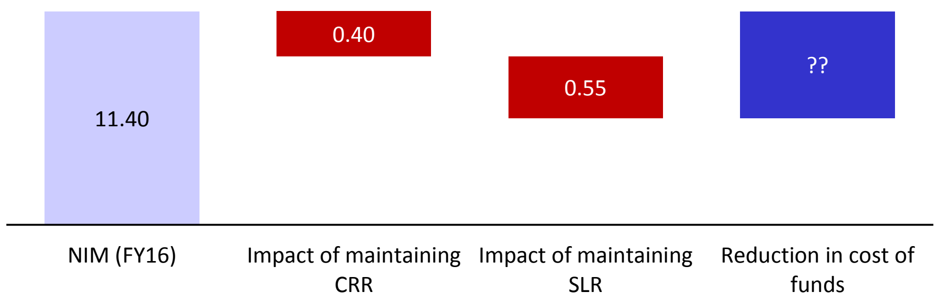
Source: MOSL, Company

SFBs need to maintain CRR/SLR

Negative carry of 80bp expected on resources mobilized for meeting CRR and SLR norms, based on cost of funds of ~9%

SFBs need to comply with CRR/SLR norms from day one of operations and no forbearance is provided for complying with statutory provisions. For EQUITAS, this will result in lower funds available for lending, negative carry on the resources mobilized to fulfill regulatory norms (SLR +CRR of ~80bps) and lower return ratios. While the CRR/SLR will be a drag on EQUITAS' earnings, the reduction in existing cost of funds (due to replacement of borrowings with wholesale deposits) should marginally negate the impact. Considering the new business model it's difficult to ascertain exact decline in cost of funds. However, our discussions suggest that it would be atleast 100-150bp which can negate the impact of regulatory cost.

Exhibit 43: Impact on margins post conversion to SFB (%)



Source: MOSL, Company

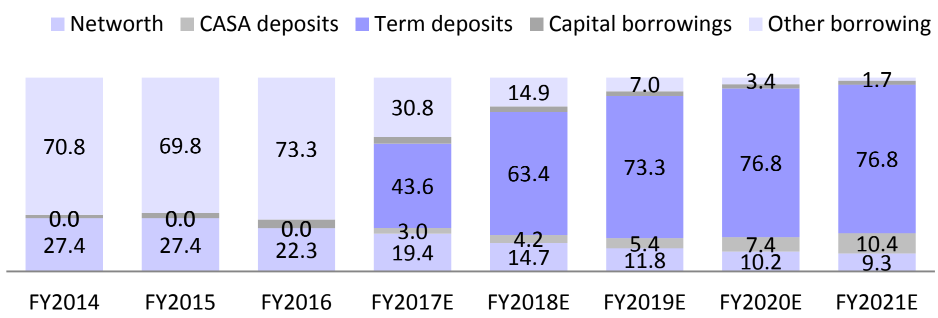
SFBs could face tough competition from government's Jan-Dhan scheme and payment banks in mobilizing savings account deposits

Decline in cost of funds holds the key to negating transition impact

There could be a sharp decline in cost of funds (about 100-150bp, in our view), as the SFB will have more avenues for borrowing, which should marginally offset the impact of negative carry on the CRR and SLR. On the outstanding borrowings of INR46.8b, a reduction of ~150bp in cost of funds will lead to an increase of INR700m in the PBT. At the time of conversion to SFB, our calculations suggest that the total fund requirement (for CRR and SLR) will be ~INR25b on which the negative carry is expected to be ~INR750m. Hence, the initial reduction in cost of funds will offset the impact of negative carry. With the proportion of investments (with negative carry) in the overall interest earnings assets likely to go up, we estimate a decline of 100bp in the NIM for FY17E (half year impact of negative carry) and a further decline of 180bp in FY18 (full year impact of negative carry).

SFBs to progressively move towards deposits from borrowings

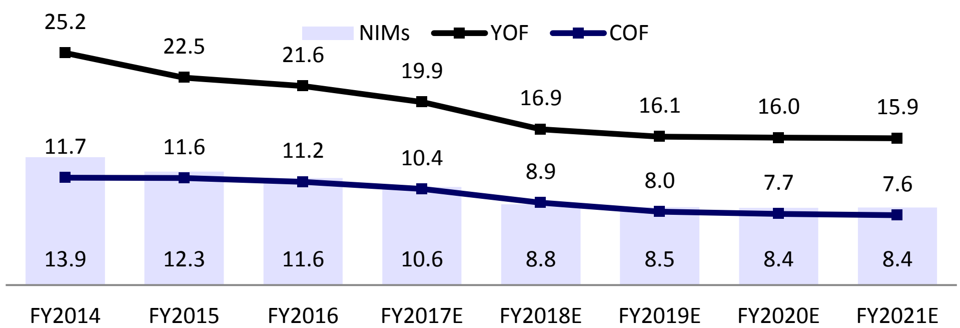
Exhibit 44: Share of borrowings in overall liabilities to decline to ~11% by FY19



Source: MOSL, Company

Increase in balance sheet leverage and higher proportion of investments in interest earning assets to impact margins

Exhibit 45: NIM estimated to moderate over FY16-19E



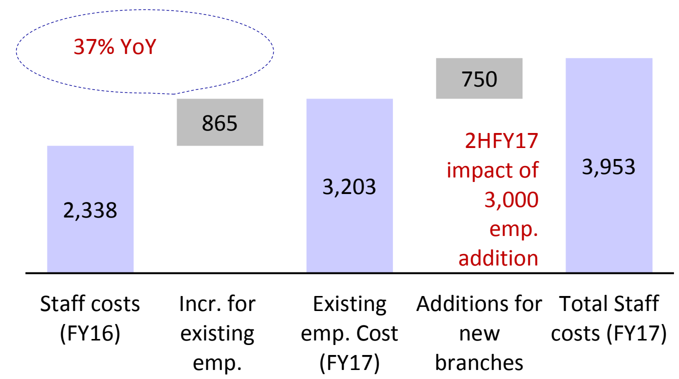
Source: MOSL, Company

Expansion cost remains critical to achieving profitability

In order to build the liability franchise, EQUITAS is looking at aggressively expanding its branch network. Unlike the existing branches (which are in slightly remote locations and on higher floors), these branches will be situated at prominent locations and on the ground floor. As a result, the company's branch overhead costs are likely to be higher. The location of the new branches is likely to be the same as that of the existing branches.

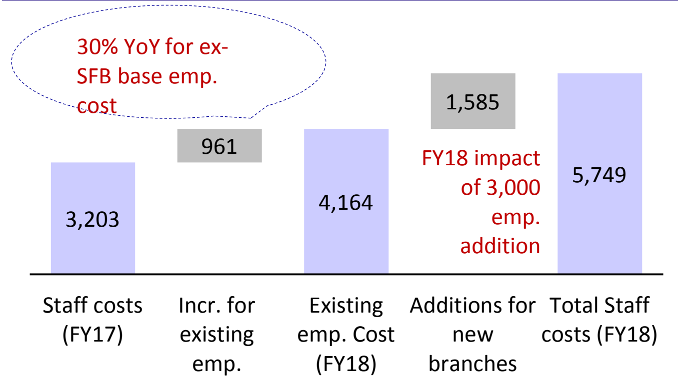
In our estimates, we have factored in a cost of INR4-5m for each branch with overhead costs at INR1-1.2m and the rest being employee costs (6-8 employees with an average salary cost of ~INR0.5m/employee). Strong technology platform remains the core of EQUITAS strategy. We have built in technology related costs of INR1.2b (to be amortized over three years). The transition will impact the company's profitability in FY17 and FY18 and we expect the operating leverage to play out from FY19 onwards.

Exhibit 46: 20% of additional cost in employee expenses led by new hires for SFB roll out



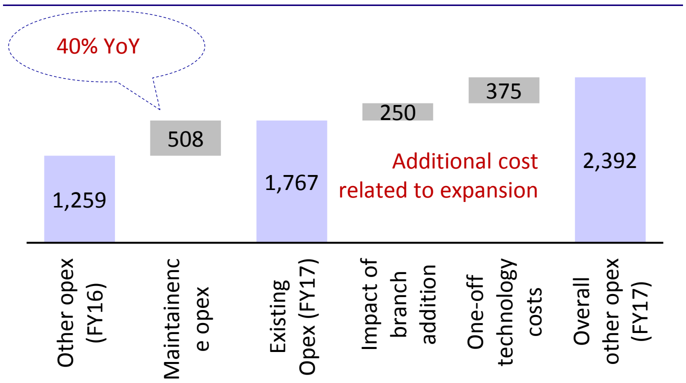
Source: MOSL, Company

Exhibit 47: 30% of additional cost in employee expenses led by new hires for SFB roll out



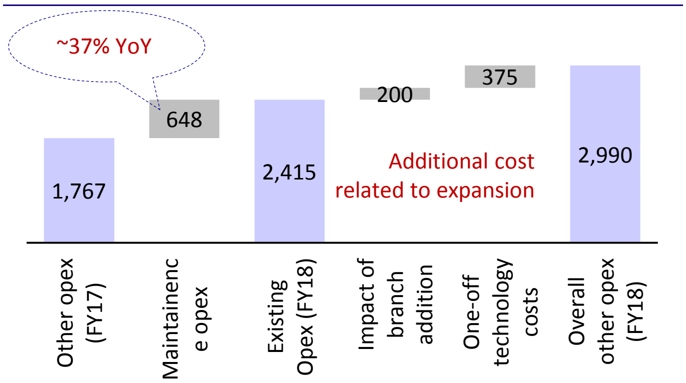
Source: MOSL, Company

Exhibit 48: Operating expenses for core operations estimated to increase by 40% YoY (INR mn)



Source: MOSL, Company

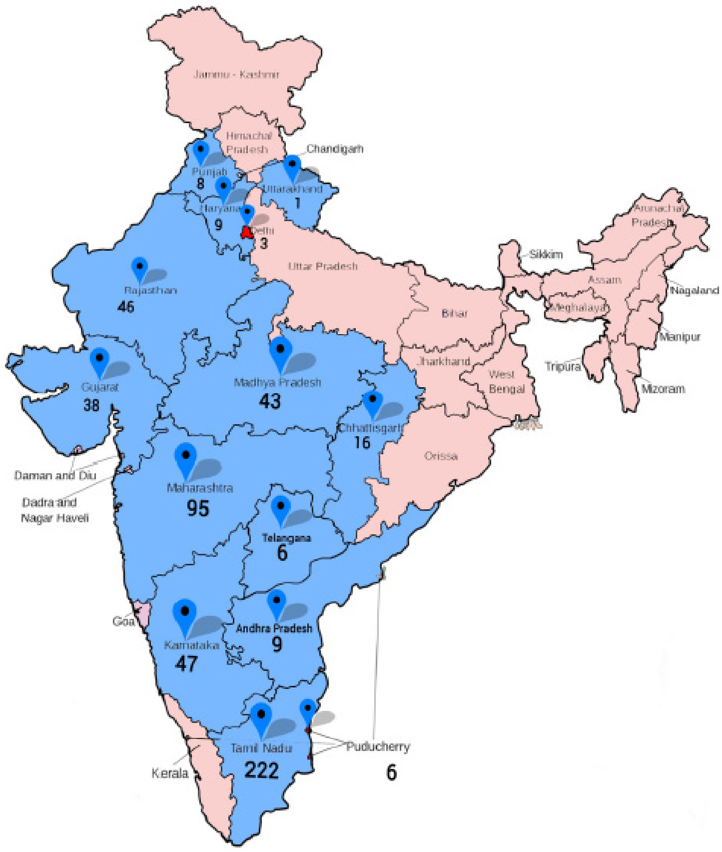
Exhibit 49: Technology costs of INR1-1.2b to be amortized over three years (INR mn)



Source: MOSL, Company

New branches to be opened largely in same locations as that of existing branches

Exhibit 50: EQUITAS' outstanding branch network



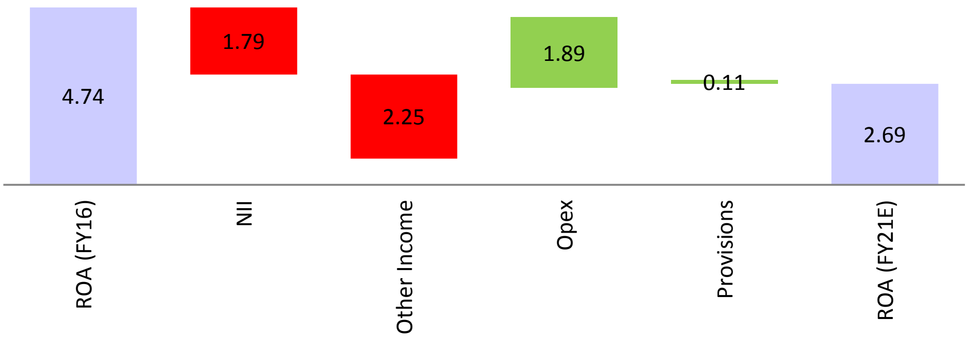
Source: MOSL, Company

Expansion costs and negative carry to be a drag on profitability initially

As per our estimates, the short-term profitability of SFBs will be severely impacted by their continued dependence on institutional financing, as they will need time to ramp up low cost deposits. On the other hand, SFBs will have to maintain their CRR and SLR ratios from day one of commencing operations. This will lead to lower yields on assets without significant savings in cost of funds, thereby pulling down their NIMs. As per our calculations, the RoA for SFBs during their first full year of operations is likely to be ~1.4%, as compared to 3%+ for NBFC MFIs. Further, lower leverage on the balance sheet (Assets/Equity) of 6.3x will keep ROEs at 9-10%.

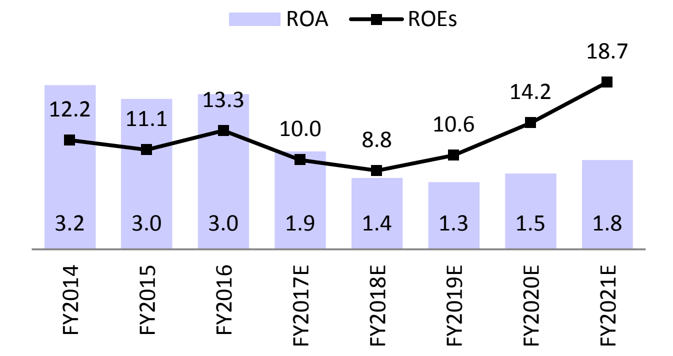
Drag on income to be compensated by operating leverage. Sustainable RoAs to be lower vs. NBFC business

Exhibit 51: Show step chart indicating major RoA impacts (check with Alpesh)



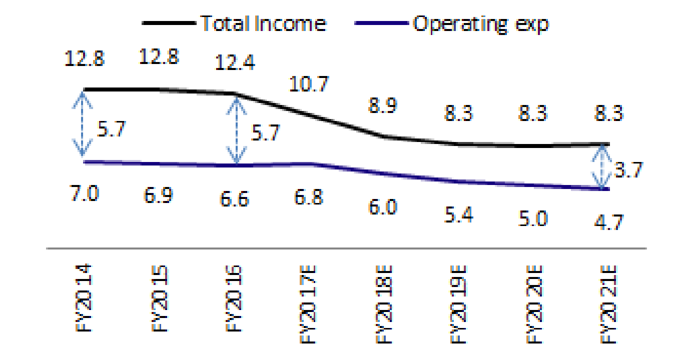
Source: MOSL, Company

Exhibit 52: Gradual improvement expected in RoA post initial decline



Source: MOSL, Company

Exhibit 53: Drag on income to be compensated by operating leverage playing out



Source: MOSL, Company

Strong growth however, excution risk to transition

Rich valuation reduces the margin of safety; Initiate with a Neutral

- **Robust industry demand in an under penetrated market, low competitive intensity, significant capacity addition and strong capitalization levels to enable CAGR of 43% in AUM, translating into CAGR of ~32% in PAT**
- **Significant capacity addition, regulatory drag and strong investments in technology will increase the CI ratio to 67% in FY18 from 53% in FY16. However as the branches become profitable and ticket size likely to increase CI ratio to gradually decline to ~55% by end of FY21. Higher than expected fall in cost of funds and better than expected growth will reduce the CI ratio faster and will be the key enabler of profitability.**
- **We expect the RoA to bottom out at ~1.4% in FY18 (due to conversion into SFB and branch expansion) and then gradually improve to ~1.8% by FY21.**
- **The stock has delivered ~82% return since listing. In the last three months it has outperformed the benchmark by ~38%. While we like the business, at the current valuation (2.8x FY18E BV) margin of safety is low in the run up to bank transition (higher execution risk). Better than expected margin performance, smooth transition to SFB and higher growth may provide upside to our estimate.**

Exhibit 54: DuPont analysis: Operating leverage vital to RoA improvement; Conversion to SFB a drag on profitability

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E	FY20E	FY21E
Net Interest Income	**9.4**	**10.1**	**9.8**	**9.2**	**9.0**	**7.7**	**7.4**	**7.4**	**7.5**
Core Fee and Secu. Inc	2.7	2.6	2.8	2.9	1.5	1.1	0.8	0.7	0.7
Fee to core Income (%)	21.4	20.0	21.7	23.6	14.2	11.9	9.7	9.0	8.7
Core Income	**12.1**	**12.6**	**12.6**	**12.2**	**10.5**	**8.8**	**8.2**	**8.1**	**8.2**
Operating Expenses	**9.0**	**7.0**	**6.9**	**6.6**	**6.8**	**6.0**	**5.4**	**5.0**	**4.7**
Cost to Core Income (%)	74.4	55.6	54.4	53.9	64.9	68.0	66.3	61.9	57.1
Employee cost	5.5	4.4	4.3	4.3	4.3	3.9	3.6	3.3	3.1
Employee to total exp (%)	61.5	62.0	62.7	65.0	62.3	65.8	66.4	66.4	66.0
Others	3.5	2.7	2.6	2.3	2.6	2.0	1.8	1.7	1.6
Core operating Profits	**3.1**	**5.6**	**5.8**	**5.6**	**3.7**	**2.8**	**2.8**	**3.1**	**3.5**
Trading and others	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Operating Profits	**3.5**	**5.7**	**5.9**	**5.8**	**3.9**	**3.0**	**2.9**	**3.3**	**3.7**
Provisions	**0.6**	**0.8**	**1.4**	**1.1**	**0.9**	**0.8**	**0.9**	**1.0**	**1.0**
NPA	0.2	0.6	1.2	0.8	0.7	0.7	0.8	0.9	0.9
Others	0.4	0.2	0.2	0.3	0.2	0.1	0.1	0.1	0.1
PBT	**2.8**	**4.9**	**4.5**	**4.7**	**3.0**	**2.2**	**2.0**	**2.3**	**2.7**
Tax	0.6	1.7	1.6	1.7	1.0	0.8	0.7	0.8	0.9
Tax Rate (%)	19.8	34.7	34.7	35.7	35.0	35.0	35.0	35.0	35.0
RoA	**2.3**	**3.2**	**3.0**	**3.0**	**1.9**	**1.4**	**1.3**	**1.5**	**1.8**
Leverage (x)	3.6	3.8	3.8	4.4	5.2	6.3	8.0	9.5	10.7
RoE	**8.2**	**12.2**	**11.1**	**13.3**	**10.0**	**8.8**	**10.6**	**14.2**	**18.7**

Source: MOSL, Company

High growth in an under-penetrated market

The growth opportunity remains huge in the under-penetrated micro credit customer segment. While the yields and return ratios are very high, a low ticket size, high cost of operations and challenges in understanding the customers' financials creates high entry barriers for large universal banks. SFBs such as EQUITAS are in an unmatched position to cater to such customers based on their experience and ecosystem set around their MFI business model. New products (especially secured loans) will provide the much-needed stability, granularity and longevity to the business.

Access to new lines of credit to reduce cost of funds and improve liquidity perception

With its SFB license in place, EQUITAS' funding profile is likely to become granular and its dependence on institutional credit is expected to decline. Additionally, the diversification will also lead to a positive change in the company's perceived risk perception. We believe that with the gradual build-up of its liability base, there will be a sharp decline in the cost of funds, which in turn will make the company more price competitive.

SFBs are likely to be a unique business model with their high NIM (2x+ of universal banks) and high cost of operations (2x+ of universal banks). Their near-term RoE is likely to be muted due to the impact of SFB conversion, though we believe that their RoA is likely to be sustainable at 1.8%+ (could be higher if the decline in cost of funds is more than expected or management decides to target growth in excess of 40%). EQUITAS is likely to achieve an RoE of 18%+ by the end of FY21.

Initiate coverage with Neutral rating and RI model based target price of INR220 (3x FY18 BV)

We value EQUITAS based on its residual income model and estimated earnings CAGR of 32% by FY21E. For the longer term (over FY21-36E), we estimate an earnings CAGR of 19% and a terminal year growth of 5%. We have assumed Rf=7.5%, β=1.4 (considering the execution challenges related to the SFB rollout) and a risk premium of 5%. We expect EQUITAS' RoA to initially decline to ~1.4% (FY18E), but increase later to ~1.8% (FY21E). The company's RoE is expected to gradually increase to 18%+ by FY21E.

In our view, EQUITAS will trade at premium valuation, led by its niche business model, high capitalization and inherently high profitability, with a strong focus on risk management. However, at current valuations (2.8x FY18E BV) margin of safety is low hence we initiate with Neutral rating with a target price of INR220 (3x FY18 BV).

Exhibit 55: Residual Income (INR M)

Particulars	FY16	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY25E	FY30E	FY36E
Net Profit	1,671	1,787	2,053	2,708	4,130	6,440	8,372	17,685	43,964	81,331
% growth		6.9	14.9	31.9	52.5	55.9	30.0	25.0	16.7	6.7
No of Shares	270	335	335	335	335	335	335	335	335	335
EPS (A)	6.2	5.3	6.1	8.1	12.3	19.2	25.0	52.7	131.1	242.5
% growth		-13.9	14.9	31.9	52.5	55.9	30.0	25.0	16.7	6.7
BVPS(Excl Revaluation Reserve)	50	66	72	81	93	112	130	219	557	1,391
% growth		33.5	9.2	11.1	15.3	20.7	15.6	20.3	19.7	13.9
CoE*BVPS (Opening Equity) (B)		7	10	11	12	14	17	27	70	183
Residual Income (A-B)	6	-2	-4	-3	0	5	8	25	61	59
% growth		-134.3	80.5	-27.1	-108.4	2,150.4	54.6	31.6	12.7	-12.8
RoE (Average Equity) (%)		9.2	8.8	10.6	14.2	18.7	20.7	26.3	25.7	18.6
PV of Residual Income	0	0	-3	-2	0	3	4	9	10	4
PV of Terminal Value										29
BV per share	68									
PV of Residual income	122									
Terminal Value	29									
TP (INR)	**220**									
Upside (%)	**9.8**									

Source: MOSL, Company

Key risks

High execution risk of setting up of SFB

EQUITAS has no operating history or experience in the banking business. However, it has successfully managed the NBFC business. The initially high set up costs will also impact the company's profitability. The execution risk remains high, however we believe in the company's strategy of entering this business.

Business model and regulatory framework governing SFBs still untested in India

In November 2014, the RBI had issued SFB guidelines for licensing SFBs in the private sector to, inter-alia, supply credit to micro and small enterprises and agriculture and provide banking services in the unbanked and under-banked areas in India. Accordingly, EQUITAS was granted in-principle approval in October 2015. However, the success of the SFB business model in India is yet to be tested. In our view, EQUITAS will be able to capitalize on its experience in the microfinance, vehicle finance and housing finance businesses to develop and implement certain processes and policies for the proposed SFB.

SFB promoter shareholding to be reduced to 40% by end of fifth year

EQUITAS Holdings (listed entity) will be the promoter of the proposed EQUITAS SFB (wherein all the subsidiaries of EQUITAS Holdings will be merged). During the start of operations, EQUITAS SFB will be a 100% subsidiary of EQUITAS Holdings. As per the regulations, the promoter will have to reduce the shareholding in the SFB to 40% within five years of the date of commencement of business as SFB. Additionally, the SFB in-principal license requires an SFB to be listed within three years of starting operations. The company has requested the RBI to reverse the merger of EQUITAS SFB with EQUITAS Holdings. In the event of the RBI's non-approval, EQUITAS Holdings will have to reduce its shareholding in the SFB to 40%.

High concentration in Tamil Nadu and southern region

Approximately 60% of EQUITAS' overall portfolio is in the state of Tamil Nadu, thus exposing it to the risks and rewards of being overly dependent on a single state. Deficient rainfall, unfavorable political environment and a slowing state economy could impact the company's ability to grow and operate in that state. It must also be noted that the outstanding credit per household is among the highest in Tamil Nadu.

Change in regulations for MFIs

After the crisis in Andhra Pradesh, the RBI had tightened the regulations for the MFI business. However, it recently relaxed some of the regulations related to increasing a borrower's ticket size, number of MFIs lending to the same borrower, etc. Following the recent change in regulations, the MFI business has witnessed a strong growth. We expect the MFI business to once again face tighter regulations. Considering that most of the MFIs have become SFBs and banks are aggressively lending through the BC channel, we expect the RBI to tweak the definition of MFI lending per customer and replace MFI with financial institution in order to reduce the risk of over leveraging per customer.

Key takeaways from our ground reality check

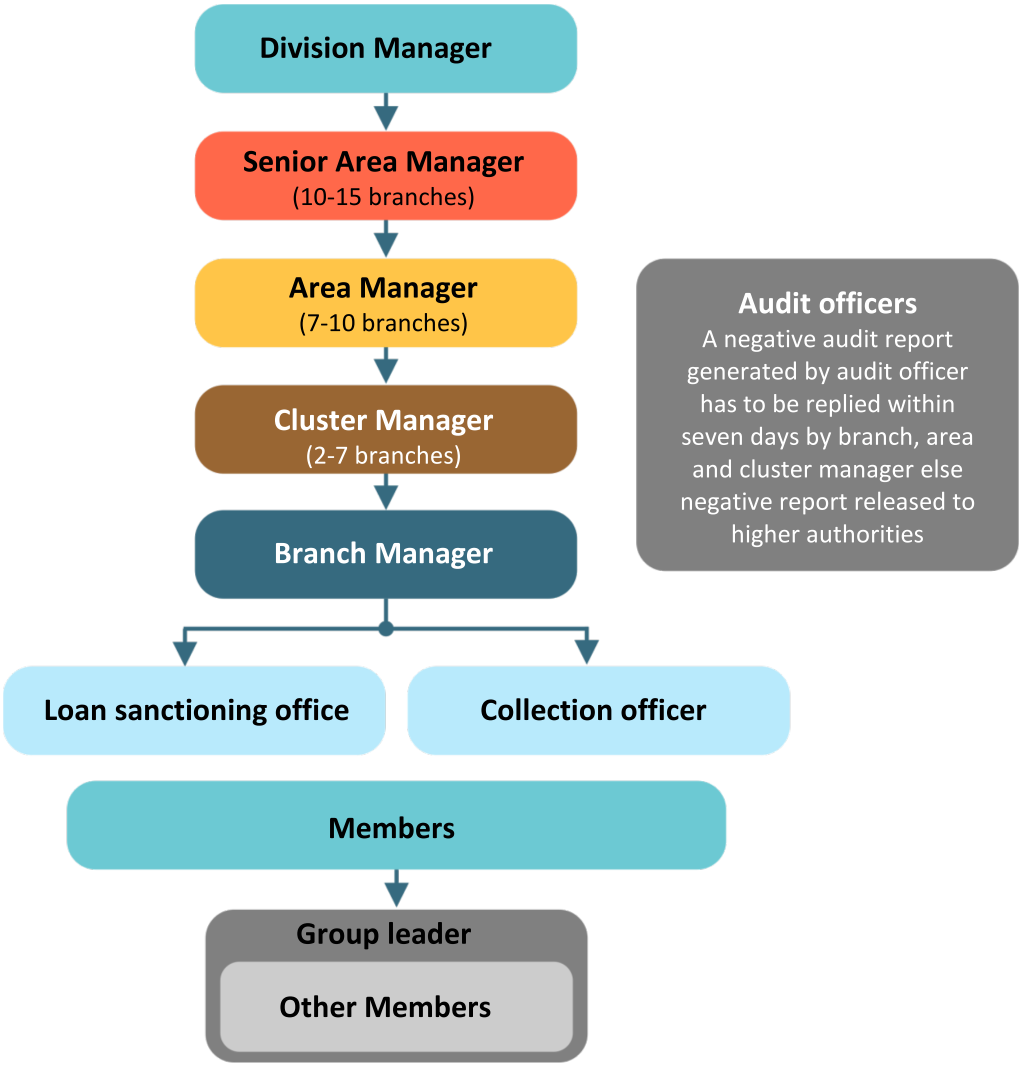
Credit demand remains buoyant; competition and ATS to increase

We carried out a ground reality check by visiting some of EQUITAS' microfinance centers and branches.

Key takeaways from our ground reality check

- **Strong focus on risk management:** In our interaction with EQUITAS' customers and employees, the company's focus on risk management remained a key theme. Unlike some of its peers, (a) the loan sanctioning officers and collection officers are different at EMFL (b) monthly/quarterly targets are based on the number of member additions vs. loan disbursements (c) ATS increased from the range of INR20,000-INR22,000 in the first cycle to INR35,000 in the fourth cycle, as compared to INR50,000+ for most of its peers.

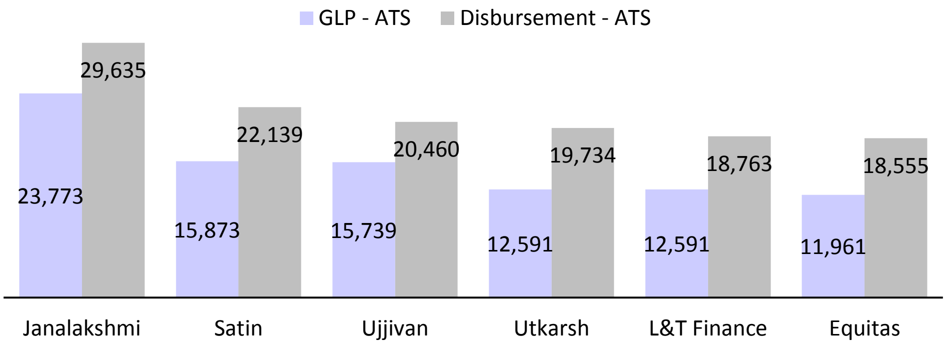
Exhibit 56: Operational structure in MFI business



Source: MOSL, Company

- **Competition/ATS likely to increase further:** Several of EMFL's members highlighted their need for higher credit and that the competition was offering higher credit. Discussion with the EMFL management and customers EMFL appears to be sole financer for 60-65% of MFI customers, this could trend lower if it fails to increase its ATS.

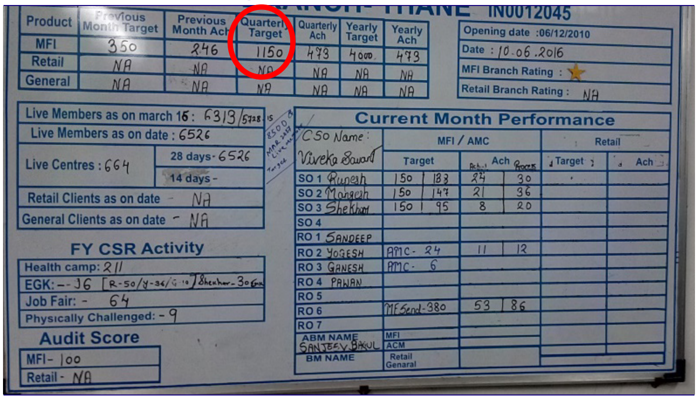
Exhibit 57: EMFL's ATS remains lower in comparison to its large MFI peers



Source: MOSL, Company

- **Higher ATS could increase cash collection risk:** The quantum of collection amount will increase materially once there is an increase in the ATS. While most of the operational risks are insured by MFIs, some cash handing risks still persist for them, in our view.
- **50% of credit demand led by consumption:** While lending is done with the objective of supporting and enabling the member to undertake income generating activities, we found in some cases members were using credit to upgrade their standard of living (buying consumer durable products), spending on one-off events (like weddings) or paying for their children's education fees.
- **Members well aware of EQUITAS becoming a bank:** Almost all the members were aware that EQUITAS was becoming a bank and several members were eagerly waiting for it to launch new lending products (two wheeler/personal loans).
- **Building low cost deposits could be a challenge:** The level of savings among the members we met was low. EQUITAS has highlighted that it has the KYC process for account opening fully in place, though we believe that mobilizing and dispensing cash on demand will remain a key challenge.
- **Employee satisfaction remains high due to ESOPs and work benefits:** EQUITAS provides several additional benefits over and above the fixed pay for its employees, which is one of the key drivers of its high employee satisfaction. Some of the benefits offered by the company are (a) medical cover for self and dependent family members of the employee and zero percent medical loan (up to 2x monthly salary) for employees and family members.

Exhibit 58: Branch targets are based on customer additions

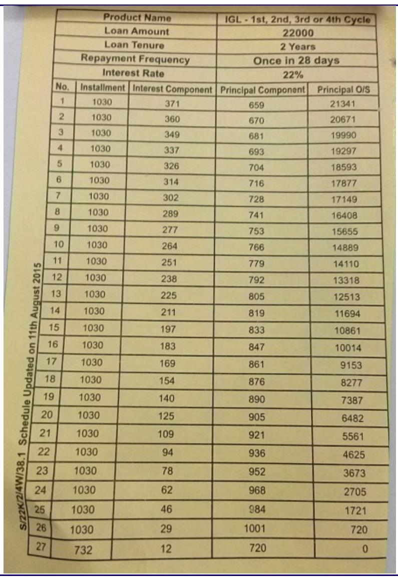


Source: Company, MOSL

Exhibit 59: A typical center meeting at urban location

Source: Company, MOSL

Exhibit 60: Customer's loan repayment schedule



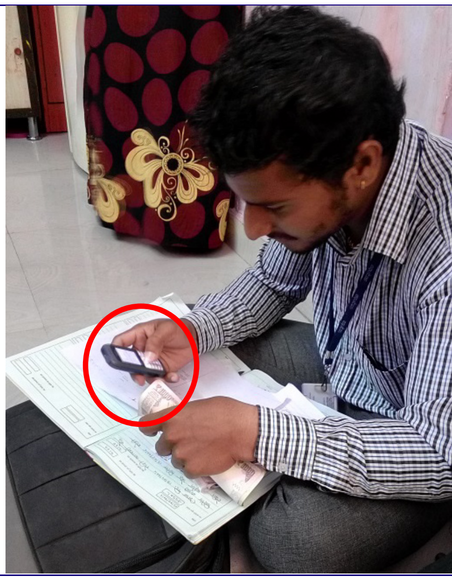
Product Name	IGL - 1st, 2nd, 3rd or 4th Cycle
Loan Amount	22000
Loan Tenure	2 Years
Repayment Frequency	Once in 28 days
Interest Rate	22%

No.	Installment	Interest Component	Principal Component	Principal O/S
1	1030	371	659	21341
2	1030	360	670	20671
3	1030	349	681	19990
4	1030	337	693	19297
5	1030	326	704	18593
6	1030	314	716	17877
7	1030	302	728	17149
8	1030	289	741	16408
9	1030	277	753	15655
10	1030	264	766	14889
11	1030	251	779	14110
12	1030	238	792	13318
13	1030	225	805	12513
14	1030	211	819	11694
15	1030	197	833	10861
16	1030	183	847	10014
17	1030	169	861	9153
18	1030	154	876	8277
19	1030	140	890	7387
20	1030	125	905	6482
21	1030	109	921	5561
22	1030	94	936	4625
23	1030	78	952	3673
24	1030	62	968	2705
25	1030	46	984	1721
26	1030	29	1001	720
27	732	12	720	0

S/22K/2/4W/38.1 Schedule Updated on 11th August 2015

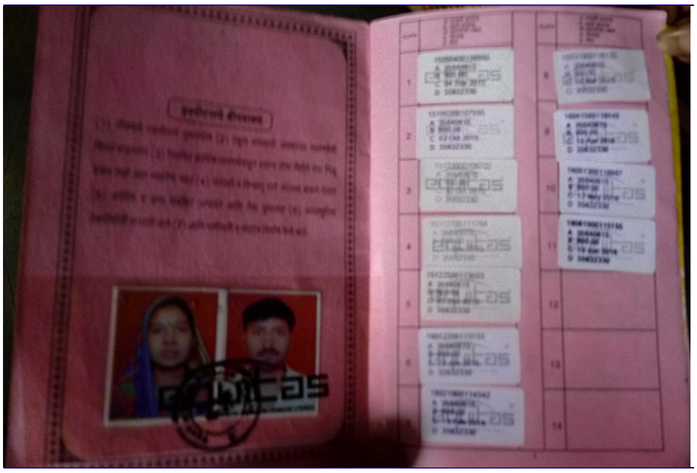
Source: Company, MOSL

Exhibit 61: Officer immediately intimates collection amount



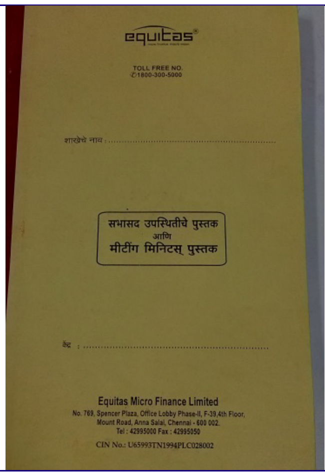
Source: Company, MOSL

Exhibit 62: Pass book of a member with printed stickers; thereby reducing manual errors



Source: Company, MOSL

Exhibit 63: Each center has a register (log book) which is kept with center leader



Source: Company, MOSL

Bull & Bear case

Bull Case

- In our bull case, we assume a strong AUM CAGR of 42% (vs. base case of 35%) and marginal benefit of operating leverage (average opex to assets lower by 10bp vs. base case). Given strong growth opportunities across product segments, there is a strong possibility of growth surprising on the upside.
- We also factor in a better-than-expected performance, with cost of funds driving average NIM higher by ~20bp over FY16-21.
- The fees to disbursements ratio is expected to increase (average +5bp) marginally, and better-than-expected disbursement growth should drive a fee income CAGR of 34% (vs. 28% expected in base case).
- Considering EQUITAS is making significant investments to set up banking operations, its operating leverage remains a key monitorable. We expect the investment gestation period to be high. We have factored in operating leverage benefit of just 10bp and an average CI ratio of 60% (vs. 63% in base case).
- We factor in a PAT CAGR of 42% (vs. 31% in base case), average ROAs to be higher by 15bp and exit ROAs to be higher by 45bp.
- Based on the above assumptions and keeping cost of equity constant at 14.5%, our bull case target multiple is 4.0x FY18 BV, implying an upside of 45%.

Bear Case

- In our bear case, we factor in slight moderation in growth (despite strong pent-up demand across product segments) with a 30% CAGR (vs. 35% in base case). Apart from growth, important factors leading to moderate PAT CAGR of 21% are: a) higher cost of funds and in turn average NIMs down by 30bp vs. base case, and b) lack of operating leverage (opex to assets higher by 40bp vs. base case).
- Uncertainty over cost of funds should increase once EQUITAS starts its banking operations. Also, CASA mobilization remains a key factor. Factoring in these uncertainties, we model higher cost of funds in our bear case, and margins thus being lower by 30bp vs. base case.
- Moderate growth, coupled with pressure on margins and cost of setting up banking operations, should impact the cost-to-income ratio adversely. In our bear case, we assume the cost-to-income ratio being ~800bp higher at 71%, and opex to average assets higher by 40bp.
- We factor in a PAT CAGR of 21% (vs. 31% in base case), average ROAs lower by 54bp and exit ROAs lower by 22bp.
- Based on the above assumptions and keeping cost of equity constant at 14.5%, our bear case target multiple is 2.0x FY18 BV, implying a downside of 28%.

Exhibit 64: Scenario Analysis

Parameters (FY16-21)	Base Case	Bull Case	Bear Case
AUM CAGR	35%	42%	30%
Average NIMs	8.94%	9.17%	8.66%
Fee Income CAGR	28%	34%	18%
Avg fees to disbursements	1.31%	1.40%	1.24%
Employee exp CAGR	37%	43%	36%
Other Opex CAGR	36%	38%	33%
Average CI Ratio	62.5%	60.5%	71.0%
Opex to average assets	5.60%	5.52%	6.00%
Operating Profits CAGR	33%	44%	24%
Credit Cost average	1.17%	1.25%	1.16%
Average ROA	1.58%	1.72%	1.04%
Average ROE	12.5%	14.9%	8.5%
Exit ROA (FY21)	1.75%	2.21%	1.53%
PAT CAGR	31%	42%	21%
Target Multiple	**3.0x**	**4.0x**	**2.0x**
Upside	**25%**	**45%**	**-28%**

Source: Company, MOSL

SWOT analysis

Strength

- Strong brand recall
- Robust distribution in place
- 3m+ customer base
- Performance-linked incentives for all employees via ESoPs
- Diversified AuM
- Significant capital in place for next growth phase

Weaknesses

- Yet to establish pan-India presence
- Large part of collection in cash

Opportunities

- Limited competition in the identified customer base
- New product additions to give impetus to growth
- Strong pricing power offers ability to build strong franchise without impacting profitability

Threats

- Regulatory changes specially related to MFI segment
- Significant concentration in southern region, especially Tamil Nadu
- Aggressive practices adopted by competitors – impacting business growth

Company background

Incorporated in 2007, Equitas Holdings (EQUITAS) is an NBFC focused on micro credit individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels. The company is one of the 10 recipients of small finance bank (SFB) licenses by the RBI and is India's first SFB to come out with an IPO.

EQUITAS' target customers are low income and economically weaker individuals operating small businesses, as well as MSEs with limited access to formal financing channels. EQUITAS is a holding company and operates through its three subsidiaries - Equitas Microfinance (EMFL) into microfinance lending, Equitas Finance (EFL) into vehicle and MSE lending, and Equitas Housing Finance (EHFL) into affordable housing finance.

EQUITAS is headquartered in Chennai and has operations spread across 11 states through ~550 branches, 8,500+ employees and 2.9m+ customers, as on 31st March 2016. On a consolidated level, the company has AUMs of INR61.3b and a net worth of INR21b+ (including the recent IPO proceeds of INR7.5b).

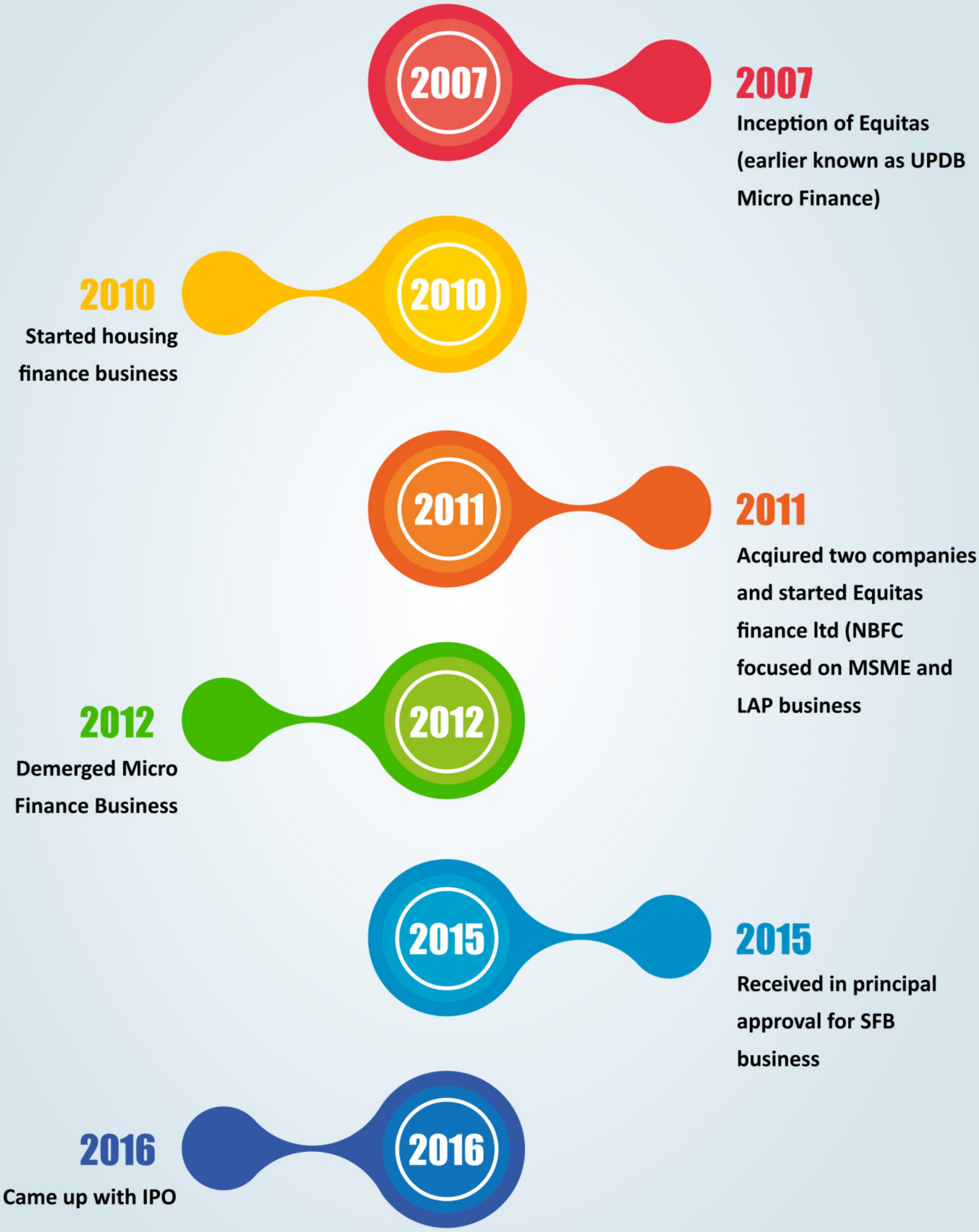
EQUITAS started off as an MFI and after four years of successful operations, it diversified into other secured loan products, with different subsidiaries offering vehicle finance, MSE finance and housing finance. MFI contributes 54% of the company's overall loan book, followed by vehicle finance (25%), MSE finance (18%), and housing finance (4%).

When EQUITAS commenced operations in 2007, the MFI sector was completely unregulated and the lending rate was high at 40%, though such rates were justified, as the CoF stood at 14-15% and opex cost at 15-20%. However, during its initial days, EQUITAS decided that its cost of growth would be borne by investors and customers would bear only the steady opex costs (estimated at 7.5%), resulting in its lending rate of ~25%, which was the lowest in the industry at that time.

In order to achieve low opex, the company relied heavily on technology and innovative methods. However, EQUITAS did not change its customer facing model and stuck to the Grameen model (started by Dr Mohd. Yusuf of Grameen Bank). EQUITAS still continues to follow the Grameen model for its MFI customers.

After the crisis in Andhra Pradesh, the RBI had come up with regulations for the sector and imposed a lending cap of 26% (based on a simple formula of 10-12% margin or 'base rate x 2.75', whichever is less). The RBI also allowed MFIs to charge a flat processing fee of 1% in addition to interest. EQUITAS, which was already lending at the rate of 25%, did not face much issue, but it began charging a flat processing fee of 1% to build in an additional buffer for adverse times.

Timeline of Equitas



Strong and capable management team

Exhibit 65: Key managerial personnel

Name	Designation	Age	Education	Prior assignments
P. N. Vasudevan	Managing Director	54	University of Madras Institute of Company Secretaries of India	Vice President and Business Head of Vehicle Finance - Cholamandalam Investment and Finance Co Limited (20 years) Head – Consumer Banking Group of Development Credit Bank Limited (2 years).
S. Bhaskar	Chief Financial Officer	57	University of Madras Chartered Accountants of India	Cholamandalam Investment and Finance Company Limited. (20 years) Group Treasurer and Senior Vice President – Audit for the Murugappa Group, Chennai. Price water house Coopers
H. Mahalingam	President and Group Chief Technology Officer	60	University of Madras	Chief Manager- Kothari Safe Deposits Limited Chief Manager (Information Technology) - Cholamandalam Investment and Finance Company Limited.
S. Muralidharan	Group Head-Human Resources		Bharathiar University Bharathidasan University	Datamatics Staffing Services (7 years) Cholamandalam Investment and Finance Company Limited Citicorp Finance (India) Limited Ashok Leyland Limited
A. John Alex	Group Head-Social Initiatives		Andhra Pradesh Agricultural University	Chief Manager- Indian Overseas Bank (25 years) Gazetted Officer- Tamil Nadu Government
H. K. N. Raghavan	Chief Executive Officer-EMFL	50	Osmania University Indian Institute of Management, Calcutta	Hindustan Unilever Limited Agro Tech Foods Provident Fund Henkel SPIC India Limited Dabur Foods Limited

Source: Company, MOSL

Annexure I

Exhibit 66: Loan Products summary

Products	Loan Amount if disbursed in cash (INR)	Loan Amount if disbursed into bank (INR)	Loan Tenure	Repayment frequency	Interest Rate (% per annum, IRR)*	Pre closure charge
	Income Generating Loan					
Cycle 1	13,000; 15,000; 17,000; 18,000; 20,000	13,000; 15,000; 17,000; 18,000; 20,000; **22,000**	2 Years	Weekly, Fortnightly, Once in 28 days, Monthly	22%	NIL
Cycle 2	13,000; 15,000; 17,000; 18,000; 20,000; 22,000; 25,000	13,000; 15,000; 17,000; 18,000; 20,000; 22,000; 25,000; **27,000**				
Cycle 3	13,000; 15,000; 17,000; 18,000; 20,000; 22,000; 25,000; 27,000; 30,000					
Cycle 4	13,000; 15,000; 17,000; 18,000; 20,000; 22,000; 25,000; 27,000; 30,000; 35,000					
AIGL	5,000	-	1 Year			

* Interest rate will be defined from time to time & will be communicated separately

Source: Company, MOSL

Exhibit 67: Insurance fee structure

Insurance Premium - LIC and DHFL											
Loan (INR)	**13,000**	**15,000**	**17,000**	**18,000**	**20,000**	**22,000**	**25,000**	**27,000**	**30,000**	**35,000**	**5,000**
Tenure (Years)	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**1**
LIC-Premium (Incl. ST)											
Member	63	73	83	88	98	107	122	132	146	171	12
Spouse	190	219	248	263	292	321	365	394	438	511	36
Total	**253**	**292**	**331**	**351**	**390**	**428**	**487**	**526**	**584**	**682**	**48**
DHFL-Premium (Incl. ST)											
Member	73	87	95	101	112	123	140	151	168	196	14
Spouse	202	233	264	279	310	341	388	419	465	543	39
Total	**275**	**320**	**359**	**380**	**422**	**464**	**528**	**570**	**633**	**739**	**53**

Source: Company, MOSL

Exhibit 68: Processing Fee Structure (1% of loan amount)

Loan Amount (INR)	**13,000**	**15,000**	**17,000**	**18,000**	**20,000**	**22,000**	**25,000**	**27,000**	**30,000**	**35,000**	**5,000**
Tenure (Year)	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**1**
Processin fee (excl. ST)	130	150	170	180	200	220	250	270	300	350	50
Service Tax	18	21	24	25	28	31	35	38	42	49	7
Total	**148**	**171**	**194**	**205**	**228**	**251**	**285**	**308**	**342**	**399**	**57**

Source: MOSL, Company

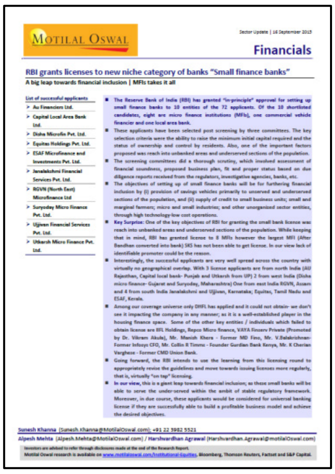
Annexure II: RBI norms for MFIs

Exhibit 69: RBI norms for MFIs

Borrower loans	
Income generating loan	Loans towards income generation activities more than 70% of overall book
Loan terms	85% of net assets to be assets complying with following: • Maximum of two NBFC-MFIs can lend to the same borrower • Borrower household annual income levels - Rural below INR100,000 (enhanced from INR60,000); urban and semi-urban below INR160,000 (enhanced from INR120,000) • Loan amount per customer below INR60,000 (enhanced from INR35,000) in the first cycle and up to INR100,000 (enhanced from INR50,000) subsequently • Total borrower indebtedness below INR100,000 (increased from INR50,000) from all MFIs • MFIs can lend under SHG/JLG/individual level
Loan tenor	• Not less than 24 months for loan amount above INR15,000 • Minimum moratorium equal to interest period
Interest rate caps (linked to bank rates)	• No interest rate cap • Margin cap 12% for small MFIs and 10% for other MFIs (based on asset size) • Interest to be calculated on diminishing outstanding basis
Interest periods and repayment	• Weekly, fortnightly or monthly
Penalty	• No penalty on delayed payments • No prepayment penalty
Transparency on other charges	• Only three forms of charges - interest, processing fee 1% of disbursement and insurance premium (including admin charges) • No collection of security deposits • Loan card to every borrower with details in vernacular language
Recovery	• Recoveries at residence only if a customer fails to appear at the designated place • more than twice
Funding and capital	
Capital ratios	Minimum net owned funds: INR50m (North east MFIs – INR20m) after March 31, 2014 Min CAR (Tier 1 + Tier 2): 15% of risk weighted assets. Tier II capital cannot exceed 100% of Tier I capital Exceptions for AP portfolio of MFIs
Priority sector	Status to continue
Governance	
Code of conduct, customer protection code	NBFC-MFIs to ensure that a code of conduct and systems are in place for recruitment, training and supervision of field staff
Provisioning	Loan provision to be maintained by NBFC-MFIs shall be the higher than a) 1% of outstanding loan portfolio, or b) 50% of aggregate loan installments which are overdue above 90 days and below 180 days; 100% of aggregate loan installments which are overdue for 180 days or more
CIB	Mandated that all NBFC-MFIs be members of at least one credit information bureau
SRO	Mandated that all NBFC-MFIs be members of at least one SRO

Source: RBI, India Ratings, MOSL

Please refer our report on RBI guideline dated Sep, 16 2015


Sector Update | 16 September 2015

Financials

RBI grants licenses to new niche category of banks "Small finance banks"

A big leap towards financial inclusion | MFIs takes it all

Annexure III: RBI norms for SFBs

From the final RBI guidelines published in November 2014

Objective: Increasing financial inclusion by (a) provision of savings vehicles to under-served and un-served sections of the population, and (b) supply of credit to small business units, small farmers, micro and small industries, and other unorganized sector entities through high technology-low cost operations.

Key eligibility criteria for promoters: (a) Resident individuals/professionals with 10 years of experience in Banking and Finance, companies, and societies, (b) Existing NBFCs, MFIs, and LABs can also opt for conversion. Local focus and the ability to serve smaller customers will be a key criterion in licensing such banks.

Who are not eligible? Joint ventures by different promoter groups for the purpose of setting up small finance banks would not be permitted. Proposals from large public sector entities and industrial and business houses, including from NBFCs promoted by them, will also not be entertained.

Branch expansion: For the initial five years, prior RBI approval would be required. At least 25% of branches would be required to be opened in unbanked rural centers (population of up to 9,999).

Scope of activities

- Small finance bank will primarily undertake basic banking activities of acceptance of deposits and lending to underserved sections of society.
- It can undertake non-risk sharing financial services activities such as distribution of MF, Insurance and MF products.
- The small finance bank can also become a Category II Authorized Dealer in foreign exchange business for its clients' requirements.
- There will not be any restriction in the area of operations of small finance banks; however, preference will be given to those applicants who in the initial phase set up the bank in a cluster of under-banked States / districts, such as in the North-East, East and Central regions of the country
- The other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking business.

Capital requirements

- Minimum paid-up equity capital of INR 1b
- Minimum CAR – 15%; Tier 1 – 7.5% as per Basel-I computations

Promoter shareholding

- Minimum initial shareholding of 40% with lock-in of five years
- If shareholding above 40%, it should be brought down to 40% within five years, to 30% within 10 years and to 26% within 12 years
- Mandatory listing once net worth reaches INR5b

- If the existing NBFCs / MFIs / LABs have diluted the promoters' shareholding to below 40%, but above 26%, due to regulatory requirements or otherwise, the RBI may not insist on the promoters' minimum initial contribution.

Prudential norms

- Robust risk management framework is required.
- Would be subject to all prudential norms and RBI regulations that apply to existing commercial banks, including maintenance of CRR and SLR. No forbearance would be provided for complying with the statutory provisions.
- Small banks will have to meet PSL targets, including sub-targets.
- Minimum 75% of loans should be towards priority sectors
- The maximum loan size and investment limit exposure to single/group borrowers/issuers would be restricted to 10%/15% of capital funds.
- Loans and advances of up to INR2.5m, primarily to micro enterprises, should constitute at least 50% of the loan portfolio.

Other conditions

- Foreign shareholding as per prevailing FDI regulations for private banks
- The small finance bank will be required to use the words "Small Finance Bank" in its name in order to differentiate it from other banks.
- If a promoter setting up a SFB and desires to set up a PB, it should set up both types of banks under a Non-Operative Financial Holding Company (NOFHC) structure.
- Additional conditions for NBFCs/MFIs/LABs converting into a bank
- Minimum net worth – INR1b
- NBFC / MFI will cease to exist; all business which a bank cannot statutorily undertake needs to be divested / disposed of.
- In case of existing NBFCs / MFIs / LABs converting into SFB, where there is shareholding in excess of 10% by entities other than the promoters, the RBI may consider providing time up to three years for bringing it down to 10%.

Financials: Valuation metrics

	Rating	CMP	Mcap	EPS (INR)		P/E (x)		BV (INR)		P/BV (x)		RoA (%)		RoE (%)	
		(INR)	(USDb)	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18
ICICIBC*	Buy	272	24.0	18.1	20.8	11.2	8.5	145	159	1.32	1.11	1.19	1.22	11.1	11.8
HDFCB	Buy	1,248	47.8	58.4	70.2	21.4	17.8	332	386	3.76	3.23	1.90	1.89	18.9	19.6
AXSB	Buy	543	19.6	31.8	37.4	17.1	14.5	243	274	2.24	1.98	1.32	1.31	13.8	14.4
KMB*	Buy	749	20.8	26.8	34.0	28.0	22.1	207	240	3.61	3.12	1.61	1.82	14.2	15.4
YES	Buy	1,221	7.8	78.8	99.2	15.5	12.3	390	469	3.13	2.60	1.80	1.84	22.0	23.1
IIB	Buy	1,168	10.5	50.5	63.8	23.1	18.3	334	389	3.49	3.00	1.92	1.96	16.2	17.6
IDFC Bk	Buy	51	2.6	3.0	4.1	16.9	12.2	42	46	1.19	1.11	1.09	1.12	7.2	9.4
FB	Neutral	65	1.7	3.9	4.7	16.6	13.9	50	54	1.29	1.21	0.67	0.67	8.0	9.0
DCBB	Buy	104	0.4	7.4	8.6	14.1	12.1	69	78	1.51	1.34	0.98	0.93	11.3	11.7
JKBK	Neutral	68	0.5	17.6	21.2	3.8	3.2	146	162	0.46	0.42	0.99	1.05	12.7	13.7
SIB	Buy	21	0.4	3.1	3.7	7.0	5.8	30	33	0.71	0.65	0.61	0.64	10.7	11.7
Private Aggregate			**136.2**			**19.8**	**16.5**			**2.65**	**2.35**				
SBIN (cons)*	Buy	231	27.2	19.3	24.3	11.9	9.5	240	259	1.03	0.94	0.49	0.54	8.3	9.7
PNB	Neutral	129	3.8	15.7	19.9	8.2	6.5	200	220	0.65	0.59	0.44	0.50	8.2	9.5
BOI	Neutral	111	1.4	9.3	23.5	12.0	4.7	337	356	0.33	0.31	0.12	0.27	2.8	6.8
BOB	Buy	154	5.4	14.7	18.7	10.5	8.3	159	173	0.97	0.89	0.48	0.54	9.6	11.2
CBK	Neutral	258	2.1	25.4	34.8	10.2	7.4	497	524	0.52	0.49	0.24	0.30	5.2	6.8
UNBK	Buy	129	1.3	26.8	36.7	4.8	3.5	318	351	0.41	0.37	0.43	0.53	8.7	11.0
OBC	Neutral	118	0.6	22.1	27.9	5.3	4.2	473	494	0.25	0.24	0.28	0.32	4.8	5.8
INBK	UR	156	1.1	22.2	29.1	7.0	5.3	298	320	0.52	0.49	0.49	0.56	7.7	9.4
ANDB	Buy	60	1.9	2.9	8.2	20.3	7.3	129	136	0.46	0.44	0.15	0.39	2.3	6.2
Public Aggregate			**44.8**			**12.0**	**8.9**			**0.76**	**0.72**				
Banks Aggregate			**181.0**			**17.0**	**13.6**			**1.64**	**1.50**				
HDFC*	Buy	1,401	33.5	34.6	37.9	28.7	24.3	194	217	4.76	3.91	1.85	1.83	19.5	19.0
LICHF	Buy	514	3.9	39.5	47.3	13.0	10.9	213	251	2.41	2.05	1.49	1.51	20.1	20.9
IHFL	Buy	770	4.9	68.2	84.0	11.3	9.2	280	315	2.75	2.45	3.74	3.78	25.6	28.2
GRHF	Buy	295	1.6	8.3	10.7	35.4	27.6	28	35	10.37	8.34	2.33	2.34	32.4	33.5
REPCO	Buy	826	0.8	30.3	39.0	27.3	21.2	179	214	4.60	3.86	2.14	2.17	18.2	19.8
DEWH	Buy	224	1.0	29.7	36.4	7.5	6.1	194	221	1.15	1.01	1.19	1.21	16.2	17.5
Housing Finance			**45.8**			**21.8**	**18.5**			**4.37**	**3.86**				
RECL	Neutral	213	3.2	59.2	68.6	3.6	3.1	336	389	0.63	0.55	2.63	2.55	18.9	18.9
POWF	Neutral	220	4.4	46.8	49.1	4.7	4.5	72	107	3.06	2.06	2.69	2.35	85.1	55.0
Infra Finance			**7.6**			**4.2**	**3.8**			**1.18**	**0.96**				
SHTF	Buy	1,233	4.2	68.4	84.6	18.0	14.6	503	570	2.45	2.16	1.96	2.01	14.4	15.6
MMFS	Buy	321	2.7	13.9	18.1	23.1	17.7	118	131	2.72	2.45	1.92	2.19	12.3	14.5
BAF	Buy	10,323	8.4	345.9	442.0	29.8	23.4	1,663	2,040	6.21	5.06	3.48	3.38	22.8	23.9
MUTH	Buy	319	1.9	24.9	32.0	12.8	10.0	157	177	2.03	1.80	3.29	3.47	16.7	19.2
SKSM	Buy	896	1.7	48.8	52.5	18.3	17.1	157	210	5.69	4.27	6.30	4.48	36.7	28.6
Asset Finance			**19.0**			**21.6**	**17.4**			**3.43**	**3.12**				
NBFC Aggregate			**72.4**			**15.1**	**13.0**			**3.22**	**2.80**				
Financials			**253.4**			**16.4**	**13.4**			**1.91**	**1.73**				

*Multiples adj. for value of key ventures/Investments; For ICICI Bank and HDFC Ltd BV is adjusted for investments in subsidiaries

Financials and Valuations

Income Statement (INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Interest Income	1,673	2,405	4,218	6,496	9,431	15,633	21,730	28,811	38,884	51,765
Interest Expense	642	1,076	1,895	2,947	4,360	7,270	10,444	13,692	18,473	24,361
Net Interest Income	**1,031**	**1,329**	**2,323**	**3,549**	**5,071**	**8,362**	**11,286**	**15,119**	**20,411**	**27,403**
Change (%)	-24.7	28.9	74.8	52.8	42.9	64.9	35.0	34.0	35.0	34.3
Non Interest Income	314	427	617	1,063	1,718	1,572	1,825	2,025	2,536	3,235
Net Income	**1,344**	**1,755**	**2,940**	**4,612**	**6,789**	**9,935**	**13,111**	**17,144**	**22,947**	**30,638**
Change (%)	-21.1	30.6	67.5	56.9	47.2	46.3	32.0	30.8	33.9	33.5
Operating Expenses	1,178	1,269	1,618	2,472	3,597	6,344	8,738	11,121	13,909	17,170
Pre Provision Profits	**167**	**487**	**1,322**	**2,140**	**3,192**	**3,590**	**4,372**	**6,023**	**9,039**	**13,468**
Change (%)	-76.8	192.3	171.6	61.9	49.2	12.5	21.8	37.7	50.1	49.0
Provisions (excl tax)	58	89	184	508	591	841	1,214	1,857	2,685	3,561
PBT	**109**	**398**	**1,138**	**1,632**	**2,601**	**2,749**	**3,158**	**4,166**	**6,354**	**9,907**
Tax	144	79	395	566	930	962	1,105	1,458	2,224	3,468
Tax Rate (%)	131.9	19.8	34.7	34.7	35.7	35.0	35.0	35.0	35.0	35.0
PAT	**-35**	**319**	**743**	**1,066**	**1,671**	**1,787**	**2,053**	**2,708**	**4,130**	**6,440**
Change (%)	-112.2	-1,018.2	133.0	43.5	56.8	6.9	14.9	31.9	52.5	55.9
Equity Dividend (Incl tax)	0	0	0	0	0	0	0	0	0	0
Core PPP*	**108**	**436**	**1,293**	**2,076**	**3,077**	**3,425**	**4,107**	**5,657**	**8,573**	**12,903**
Change (%)	-84.2	302.8	196.6	60.6	48.2	11.3	19.9	37.8	51.5	50.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Share Capital	444	578	726	2,689	2,699	3,354	3,354	3,354	3,354	3,354
Reserves & Surplus	2,578	4,142	6,694	9,019	10,714	18,903	20,955	23,663	27,793	34,233
Net Worth	**3,023**	**4,719**	**7,420**	**11,708**	**13,414**	**22,257**	**24,309**	**27,017**	**31,147**	**37,587**
Deposits	**0**	**0**	**0**	**0**	**0**	**53,498**	**111,896**	**180,388**	**257,871**	**353,633**
Change (%)							109.2	61.2	43.0	37.1
of which CASA Dep	**0**	**0**	**0**	**0**	**0**	**3,498**	**6,896**	**12,388**	**22,671**	**41,993**
Change (%)							97.1	79.6	83.0	85.2
Borrowings	5,798	12,794	19,702	30,992	46,833	39,006	29,414	21,764	17,142	14,487
Other Liabilities & Prov.	788	1,026	394	1,949	4,819	5,950	7,268	8,865	10,804	12,802
Total Liabilities	**9,608**	**18,539**	**27,516**	**44,649**	**65,065**	**120,711**	**172,888**	**238,034**	**316,963**	**418,510**
Current Assets	1,845	4,460	4,147	5,574	9,470	8,720	14,785	21,254	25,335	32,365
Investments	**2**	**75**	**36**	**1,757**	**119**	**20,499**	**31,274**	**44,705**	**60,793**	**81,349**
Change (%)	0.0	3,674.0	-52.3	4,779.2	-93.2	17,169.8	52.6	42.9	36.0	33.8
Loans	**6,160**	**12,135**	**21,232**	**34,646**	**50,700**	**84,093**	**116,435**	**158,200**	**212,848**	**281,874**
Change (%)	-1.7	97.0	75.0	63.2	46.3	65.9	38.5	35.9	34.5	32.4
Fixed Assets	250	236	272	467	623	1,998	3,374	4,749	6,124	7,500
Other Assets	1,351	1,633	1,829	2,204	4,154	5,400	7,020	9,126	11,864	15,423
Total Assets	**9,608**	**18,539**	**27,516**	**44,649**	**65,065**	**120,711**	**172,888**	**238,034**	**316,963**	**418,510**

Asset Quality

GNPA (INR m)	73	33	155	374	681	1,188	2,113	3,511	5,409	7,963
NNPA (INR m)	7	22	128	278	478	594	1,057	1,755	2,705	3,982
GNPA Ratio	1.18	0.27	0.73	1.08	1.34	1.40	1.80	2.19	2.51	2.79
NNPA Ratio	0.12	0.18	0.60	0.80	0.94	0.71	0.91	1.11	1.27	1.41
PCR (Excl Tech. write off)	90.1	35.3	17.2	25.8	29.9	50.0	50.0	50.0	50.0	50.0

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E	2020E	2021E
Spreads Analysis (%)										
Avg. Yield-Earning Assets	**26.9**	**26.2**	**25.2**	**22.5**	**21.6**	**19.9**	**16.9**	**16.1**	**16.0**	**15.9**
Avg. Yield on loans	25.5	25.3	24.4	22.9	21.8	21.9	19.6	18.8	18.8	18.7
Avg. Yield on Investments	0.0	215.5	243.9	10.3	12.4	7.0	7.0	7.0	7.0	7.0
Avg. Cost-Int. Bear. Liab.	**11.0**	**11.6**	**11.7**	**11.6**	**11.2**	**10.4**	**8.9**	**8.0**	**7.7**	**7.6**
Avg. Cost of Deposits	0.0	0.0	0.0	0.0	0.0	10.0	8.4	7.6	7.5	7.5
Interest Spread	**16.0**	**14.6**	**13.5**	**10.9**	**10.4**	**9.4**	**8.0**	**8.1**	**8.3**	**8.4**
Net Interest Margin	**16.6**	**14.5**	**13.9**	**12.3**	**11.6**	**10.6**	**8.8**	**8.5**	**8.4**	**8.4**

Profitability Ratios (%)										
RoE	-1.2	8.2	12.2	11.1	13.3	10.0	8.8	10.6	14.2	18.7
RoA	-0.4	2.3	3.2	3.0	3.0	1.9	1.4	1.3	1.5	1.8
Int. Expense/Int.Income	38.4	44.8	44.9	45.4	46.2	46.5	48.1	47.5	47.5	47.1
Fee Income/Net Income			21.0	23.0	25.3	15.8	13.9	11.8	11.1	10.6
Non Int. Inc./Net Income	23.3	24.3	21.0	23.0	25.3	15.8	13.9	11.8	11.1	10.6

Efficiency Ratios (%)										
Cost/Income	87.6	72.3	55.0	53.6	53.0	63.9	66.7	64.9	60.6	56.0
Empl. Cost/Op. Exps.	54.2	61.5	62.0	62.7	65.0	62.3	65.8	66.4	66.4	66.0
Busi. per Empl. (INR m)						7.6	12.5	16.8	21.3	26.4
NP per Empl. (INR lac)	-0.1	1.0	1.7	1.7	2.0	1.4	1.4	1.6	2.2	3.1

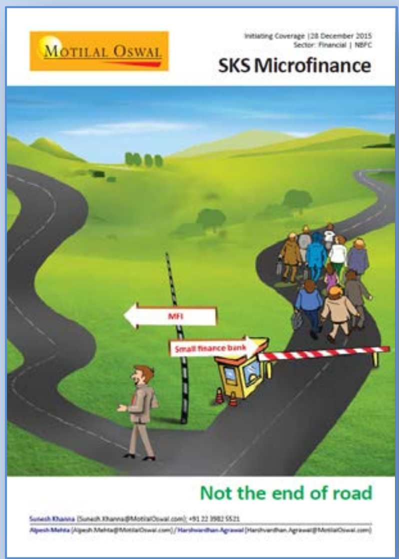
Valuation

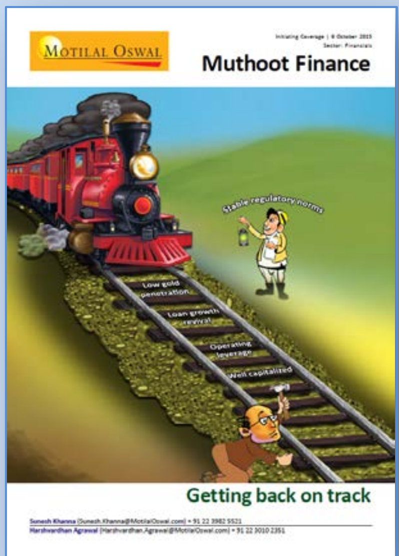
Book Value (INR)	68.0	81.7	102.2	43.5	49.7	66.4	72.5	80.6	92.9	112.1
Change (%)	0.1	20.1	25.1	-57.4	14.1	33.5	9.2	11.1	15.3	20.7
Price-BV (x)		**2.5**	**2.0**	**4.6**	**4.0**	**3.0**	**2.8**	**2.5**	**2.2**	**1.8**
Adjusted BV (INR)	67.9	81.5	101.0	42.9	48.5	65.2	70.4	77.2	87.6	104.4
Price-ABV (x)		**2.5**	**2.0**	**4.7**	**4.1**	**3.1**	**2.8**	**2.6**	**2.3**	**1.9**
EPS (INR)	-0.8	5.5	10.2	4.0	6.2	5.3	6.1	8.1	12.3	19.2
Change (%)	-112.2	-806.2	85.3	-61.2	56.1	-13.9	14.9	31.9	52.5	55.9
Price-Earnings (x)		**36.3**	**19.6**	**50.6**	**32.4**	**37.6**	**32.8**	**24.8**	**16.3**	**10.4**
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

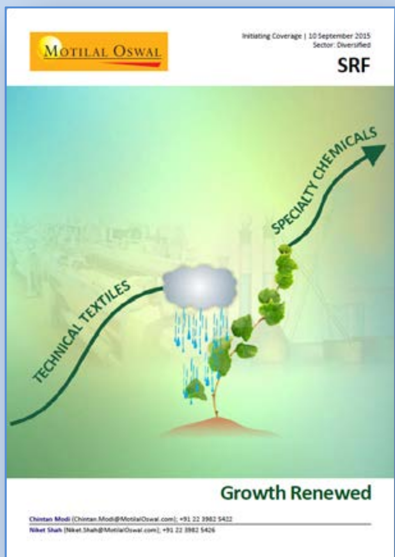
E: MOSL Estimates

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS







NOTES

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