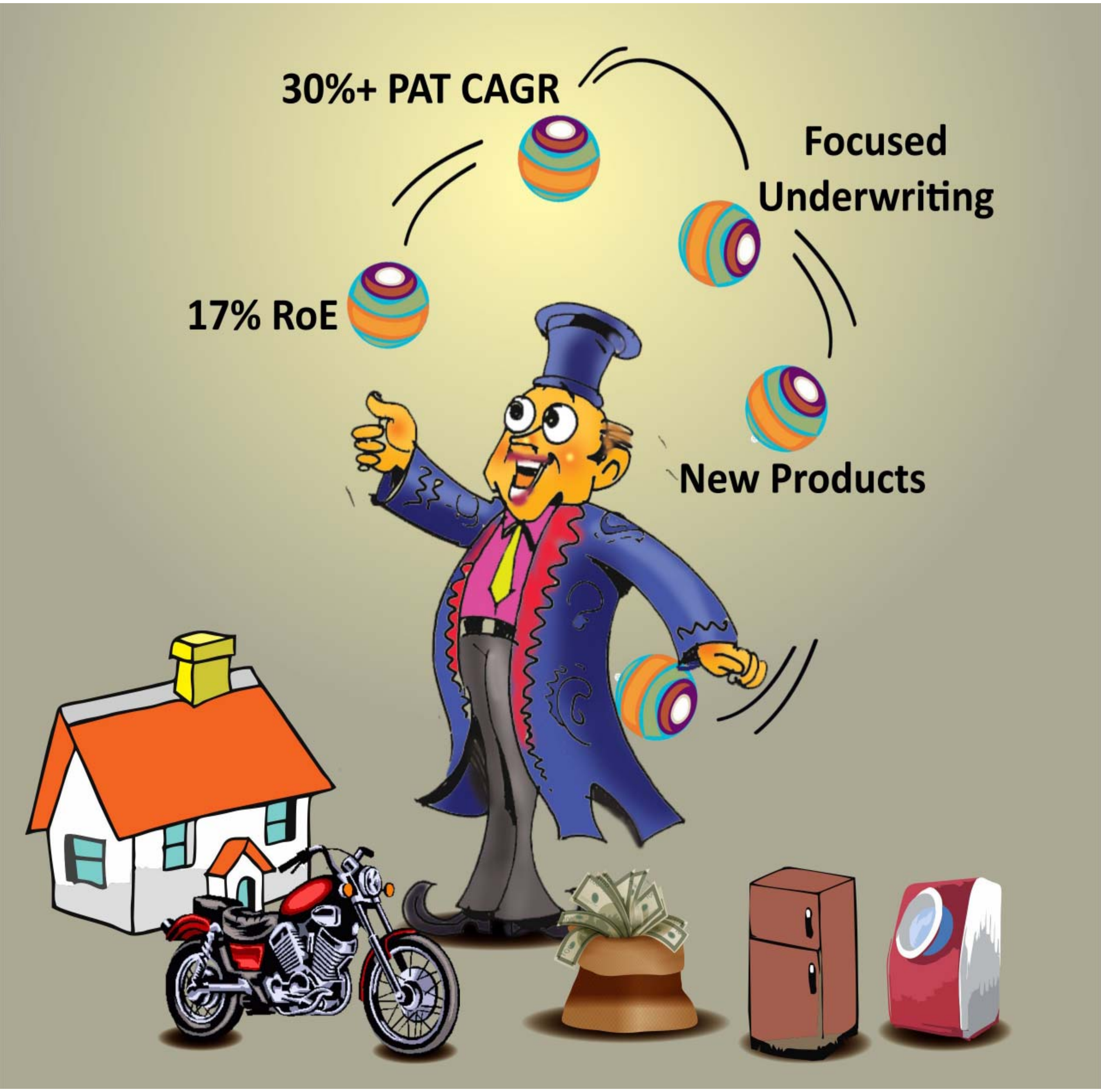
MOTILAL OSWAL

Initiating Coverage | 28 July 2017
Sector: Financials

Capital First



Capitalizing on multiple opportunities

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Capital First

BSE Sensex	S&P CNX
32,310	10,015

CMP: INR766 **TP: INR925 (+21%)** **Buy**

Stock Info

Bloomberg	CAFL IN
Equity Shares (m)	97.4
52-Week Range (INR)	815/ 465
1, 6, 12 Rel. Per (%)	12/3/-12
M.Cap. (INR b)	72.1
M.Cap. (USD b)	1.1
12M Avg Val (INR M)	373
Free float (%)	64

Financial Snapshot (INR b)

Y/E March	2017	2018E	2019E
NII	12.3	16.5	21.2
PPP	8.1	11.6	15.1
PAT	2.4	3.2	4.2
EPS (INR)	24.6	33.0	43.3
EPS Gr. (%)	34.2	33.8	31.5
BV/Sh. (INR)	234.4	263.8	303.0
RoA on AUM (%)	1.6	1.8	1.9
RoE (%)	12.0	13.2	15.3
Payout (%)	10.6	9.0	8.0
Valuations			
P/E (x)	30.0	22.4	17.1
P/BV (x)	3.2	2.8	2.4
Div. Yield (%)	0.4	0.4	0.5

Shareholding pattern (%)

As On	Jun-17	Mar-17	Jun-16
Promoter	36.0	61.1	65.1
DII	10.9	6.2	7.6
FII	25.7	8.4	7.5
Others	27.4	24.3	19.8

FII Includes depository receipts

Capital First

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Please click here for Video Link

Capitalizing on multiple opportunities

Becoming a formidable player in multiple segments

- **Founded in 2012 via management buyout of an existing NBFC, Capital First (CAFL) is a non-deposit-taking NBFC focusing largely on retail lending. Over the past six years, CAFL has transformed itself from a predominantly wholesale financier to a well-diversified retail financier with impeccable asset quality.**
- **CAFL is a niche play in the retail NBFC space with a diversified loan portfolio. While secured MSME financing is the largest product in the portfolio, CAFL targets to increase the share of higher-yielding consumer durables (CD) and two-wheeler (2W) financing from 13%/10% currently to 16-17% each by FY19. Additionally, the company has built a large unsecured MSME financing book (18% of total) by cross-selling to existing customers.**
- **Margins are expected to expand significantly (~90bp over FY17-20E), driven by incremental share of higher-yielding products, combined with declining cost of funds (CoF). This, coupled with 23% AUM CAGR, should drive 29% NII CAGR over FY17-20.**
- **Over the past few years, CAFL has made significant investments in building new product segments. With the investment phase now largely behind, the benefits are expected to accrue over the medium term. We expect RoA/RoE to improve from 1.6%/12% in FY17 to 1.9%/17% in FY20. Against this favorable backdrop, we initiate coverage on CAFL with a Buy rating and a target price of INR925 (3.0x FY19E BVPS).**

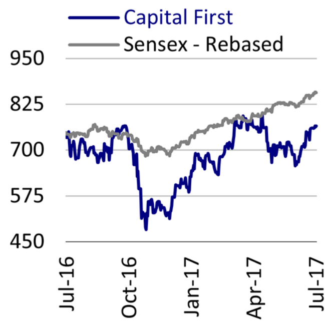
Classic turnaround story

CAFL was founded in 2012 via management buyout of an existing listed NBFC, which primarily dealt in wholesale financing. Mr Vaidyanathan, the current chairman, joined the company in 2010. He roped in private equity firm Warburg Pincus in 2012, which acquired a majority stake in the company. Since then, CAFL has undergone a major turnaround. The company has diversified the balance sheet away from wholesale financing, with the share of this segment declining from 90% in FY10 to 7% now. With new management and shareholders coming in, significant emphasis was laid on underwriting standards and asset quality, resulting in a decline in the GNPL ratio from 5%+ to 1% over FY10-17.

Niche play in MSME financing; Growth driven by new product segments

CAFL is a niche play in the retail NBFC space, with MSME financing as a key focus area. It has been able to score well over banks and other peers due to its better service, quick TAT and low-to-mid ticket size. The company started CD and 2W financing in 2010-11. Both these businesses have scaled up well, and CAFL is now among the largest players in both these segments. **Consequently, management intends to further increase the combined share of both these segments from 23% to 35% (equally split) by FY19.** At the same time, the company will look to reduce the share of LAP, which is witnessing intense pricing pressure across industry. We expect ~40% AUM CAGR in 2W and CD financing to drive 23% overall AUM CAGR over FY17-20E.

Stock Performance (1-year)



Margins on an uptrend led by evolving asset and liability mix

With the gradual loan mix shift toward unsecured MSME, 2W and CD financing, yields have improved from 14.6% in FY13 to 17.4% in FY17. Management targets to further increase the share of higher-yielding CD/2W financing from 13%/10% currently to 16-17% each by FY19 . This should be accompanied by a decline in the share of low-yielding LAP from 42% currently to 33% by FY19, in our view. **Our calculation suggests that overall yields can increase by 50bp due to the changing loan book mix, despite lower incremental yields in LAP. CAFL would be one of the very few NBFCs under our coverage to exhibit an improvement in yields.** At the same time, the company should reap significant benefits of lower CoF due to MCLR cuts by banks and also refinancing of higher-cost maturing NCDs. Consequently, we expect margins to improve from 7.2% in FY17 to 8.1% in FY20.

Asset quality best among peers

With the change in ownership and management in FY11, the company prioritized improving asset quality and cleaning the balance sheet. With these actions, the GNPL ratio declined from 5.3% in FY10 to 0.1% in FY12. Asset quality has remained benign since then, as company has an aggressive write-off policy. The 0.95% GNPL ratio in FY17 (at 120 dpd NPA recognition basis) is the best in our NBFC coverage universe. Importantly, CAFL has been proactive in detecting early warning signals. The company also maintains healthy provision coverage of 68% on its GNPLs.

30%+ PAT CAGR over FY17-20E

We expect under-penetration in the large business segments, coupled with a focus on CD/2W financing, to drive AUM CAGR of 23% over FY17-20. The change in AUM mix is expected to drive yields upward. This, coupled with lower cost of borrowings, should result in 90bp NIM expansion over FY17-20, in our view. As a result, we expect robust NII CAGR of 29% over FY17-20. However, we expect the expense ratio (opex/average AUM) to increase from 4.6% to 4.9% over FY17-20 due to the changing asset mix (cost structure in CD/2W financing is higher than that in LAP). Similarly, credit costs should also increase from 2.4% in FY17 to 3.2% in FY20, in our view. Overall, this should drive RoA/RoE improvement from 1.6%/12% in FY17 to 1.9%/17% by FY20. The expected PAT CAGR of 30%+ over FY17-20E for CAFL would be one of the highest in our coverage universe.

Improving return ratios, strong growth; Initiating with Buy

CAFL raised INR3.4b via preferential allotment to GIC in December 2016. While its tier I capital ratio is comfortable at 16%, better-than-expected growth rate would lead to additional capital requirement in the medium term. With strong AUM CAGR and improving return ratios over the medium term, we believe the stock is attractively priced at current valuations. We value the company based on its residual income model. Assuming Rf of 7.0%, CoE of 14% and a terminal growth rate of 5%, we initiate coverage with a Buy rating and a target price of INR925, implying 3.0x FY19E P/B.

Turnaround story

Complete business overhaul over past seven years

- **Mr. Vaidyanthan, Chairman and Managing Director, had a stint with Citibank and ICICI Group for 10 years each building their complete retail asset portfolio. In 2010, as he set out to build a retail financing focused Company on his own, he choose the brownfield option to acquire a stake in an existing NBFC and turn it around.**
- **After acquiring the stake, he changed the business model, exited existing non-core businesses, launched retail financing products and focused on improving asset quality. Subsequently, in 2012, Mr Vaidyanathan brought on board Warburg Pincus, which acquired a majority stake in the company to provide an exit to the erstwhile promoter. Warbug Pincus also infused INR1b into the company.**
- **With this, the company got a new identity as Capital First and changed its board composition. Over past seven years, CAFL has undergone a dramatic transformation from a pure wholesale player to a largely retail-focused player (93% of loan book is retail). At the same time, GNPL declined from 5%+ in 2010 to 0.95% in FY17.**

Change in management and ownership

Mr Vaidyanathan joined the company in 2010 and brought on board Warburg Pincus to invest INR8.1b in 2012

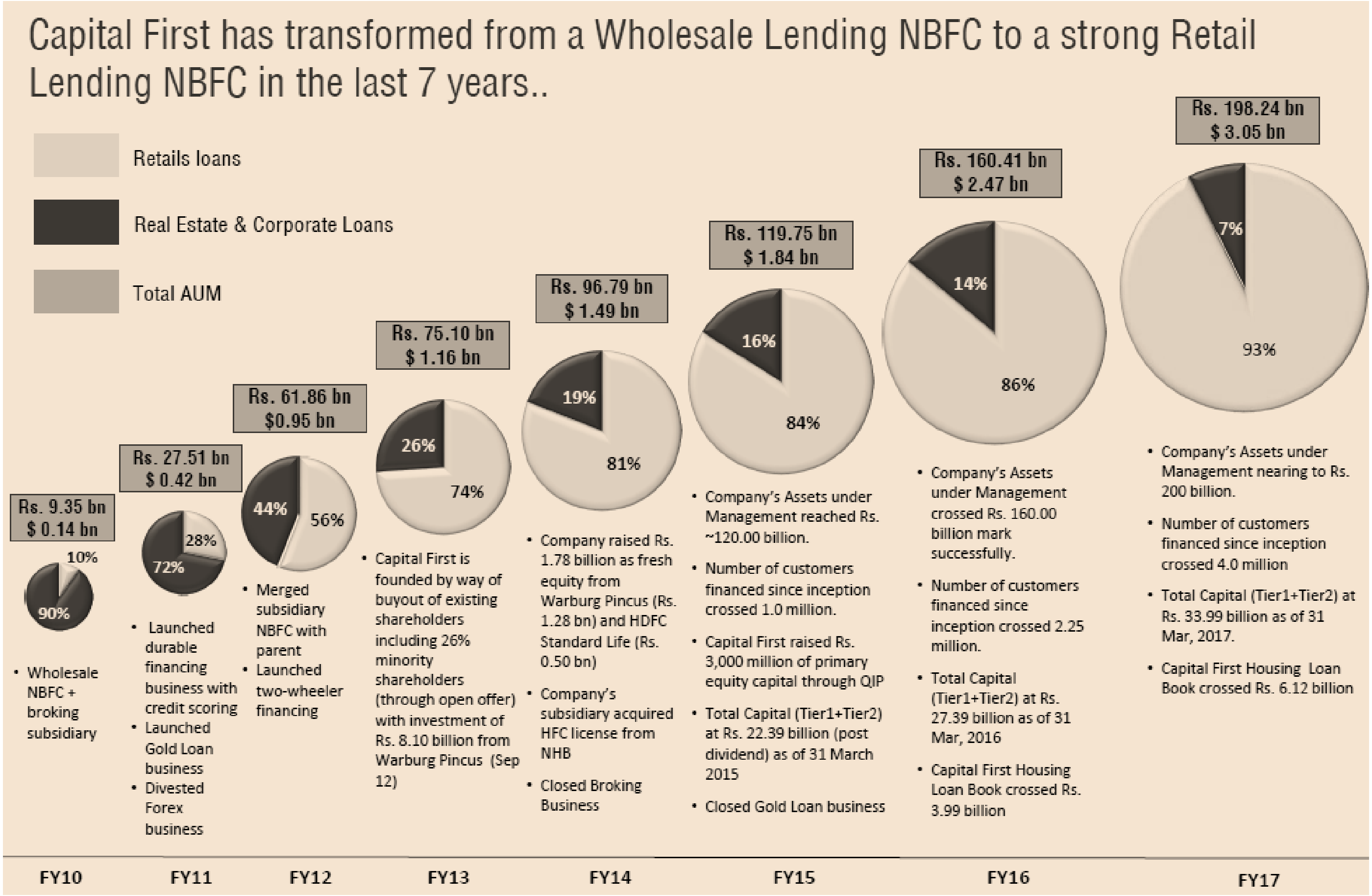
After Mr. Vaidyanathan joined the company, he changed the business model, exited existing non-core businesses, launched retail financing product, improved asset quality and roped in fresh talent. Most of the existing core management team joined between 2010 and 2012. In 2012, to provide an exit to the erstwhile promoters, Mr. Vaidyanathan acquired the financial backing of Warburg Pincus. As a part of the transaction, Warburg Pincus invested INR8.1b in the company, of which INR1b was fresh capital infusion. In the following year, the company raised INR1.78b from Warburg Pincus (INR1.28b) and HDFC Standard Life (INR0.5b). As the company continued to grow at a rapid pace, it again raised INR3b via a QIP in FY15, which was subscribed by marquee investors like Goldman Sachs. In December 2016, the Company further raised INR 3.4b through preferential allotment to GIC, Singapore.

Moving toward retail financing

Share of wholesale loans declined from 90% in FY10 to 7% in FY17.

Since the entry of Mr Vaidyanathan, the company has focused on diversifying and de-risking its balance sheet. It launched SME Loans, consumer durable loans, two wheeler loans and gold loans (gold loans business was eventually closed in FY15, though). It also laid more emphasis on unsecured SME loans and cross-selling of personal loans while it de-emphasized wholesale lending. Since 2015, the Company also focused on growing its housing loan portfolio through affordable housing loans. As a result, the loan mix has changed from 90% wholesale and 10% retail in FY10 to 93% retail and 7% wholesale currently. GNPL too has declined from 5%+ to 0.95%, while profit after tax increased from INR0.5b in FY11 to INR2.4b in FY17.

Exhibit 1: History of the company



Source: MOSL, Company

Diversifying the balance sheet

Targeting the urban customer; Scaling back in LAP

- **Unlike most NBFCs that target rural/semi-urban population, CAFL predominantly targets the urban population. With a network of 50 branches, it has presence across 200+ Tier 1/2 locations.**
- **While LAP has supported the Company's growth so far, other retail businesses like consumer durable loans and two wheeler loans have matured and are expected to contribute a larger share in the overall loan mix going forward.**
- **This diversification should help somewhat de-risk the balance sheet, as there has been intense competition, pricing pressure and asset quality worries recently in the LAP industry.**

CAFL targets the banked, urban customer in LAP. Its niche lies in better customer service and quick turnaround time.

Targeting the sweet spot in LAP – urban customer, average ticket size

CAFL is a niche play in the retail NBFC space, with MSME financing as a key focus area. Its business model offers high growth potential with strong profitability and moderate competition. Unlike most other NBFCs, the company does not target the quintessential rural customer. Rather, it focuses on the banked, urban customer in tier 1/2 geographies. LAP comprises 42% of its overall AUM. Its niche over banks and other players in MSME financing lies in its better service and quick turnaround time (all paperwork is done at the borrower's site, so that s/he does not need to spend time on travelling). The industry offers loans with ticket size starting from INR0.2m to INR500m based on the customer segment and risk profile. Capital First focuses on the low-to-mid section of the ticket size spectrum where the competition is relatively less considering the perceived risk of the customer. This target customer segment remains under penetrated by the formal banking system.

Exhibit 2: Major secured MSME financiers among NBFCs and HFCs

Company	AUM (INR b)	Geography	Ticket size (INR m)
Indiabulls	219	Urban	7-8
LICHF	182	Urban	1-2
DHFL	141	Rural	4-5
Shriram City Union	127	Rural	0.8
HDFC	98	Largely Urban	
Cholamandalam	96	Largely semi-urban and rural	5
Bajaj Finance	84	Largely Urban	10
Capital First	83	Largely urban	8
PNBHF	75	Urban	5

Source: MOSL, Company

Around 70-75% of the loan book comes from northern and western India. The Company primarily sources 80-85% of these loans through the direct selling agents (DSAs).

Over past few years, CAFL has also scaled up its unsecured business loan book sustainably, especially coming from a very small base. The share of the unsecured business loan book has increased from 1% in 1QFY14 to 18% currently, implying 100%+ loan book CAGR. In this segment, the company offers loans with average ticket size of INR2m at yields of 18-19%. With this book having scaled up well over past few years, management expects that the share of unsecured business loans may remain largely between 20-22% over the medium term.

Direct assignment of loans in LAP helps generate high RoE due to nil capital requirements.

Sell-downs in LAP help generate high RoE

The Company also does direct assignment of loans and ~25% of the company's retail AUM has been assigned so far. CAFL follows a direct assignment route and does not sell-down via PTCs. As a result, it is able to raise money near MCLR rates and also does not need to provide capital on loans sold down. This helps generate high RoE for the overall LAP segment.

Exhibit 3: SME financing – snapshot

What?	Description
Average ticket size	❖ INR8m for LAP; INR2m for unsecured business loans
Sourcing	❖ 80% sourced through direct selling agents (DSA)
Geographies	❖ North and west account for 70-75% of loan book; Pre-dominantly in Tier 1,2 geographies
Competitors	❖ Smaller banks and NBFCs like Cholamandalam and Bajaj Finance
Yield	❖ 11-12% incremental yield for LAP; 18-19% incremental yield for unsecured business loans
Loan tenure	❖ 4-5 years for LAP (on actuarial basis); 3 years for unsecured business loans
Loan underwriting	❖ At branch level (decentralized)
Collection	❖ Separate team responsible for collection
LTV	❖ 45% at origination; Maximum permissible LTV at origination: 65%
Collateral	❖ Residential or commercial property
Distribution	❖ 200+ locations through DSAs, own sales team and 50 branches

Source: MOSL, Company

Increasing focus on 2W/CD lending

CAFL started consumer durable financing and two-wheeler financing between 2010 and 2011. Both these businesses have scaled up significantly since then, and the company is among the largest players in each segment.

Tie-ups with over 2,000 2W dealers; finance 25-30k vehicles per month

CAFL has created a niche for itself in 2W lending, as it is among the few NBFCs that are not captive to a particular OEM. Other such NBFCs include Shriram City Union Finance and L&T Finance. However, SCUF pre-dominantly targets the rural population and does not have significant presence in urban areas. On the other hand, CAFL mostly targets the self-employed segment in urban areas, unlike banks which largely chase the salaried segment. As a result, the company is again in the sweet spot, where competition is moderate and opportunities are immense. CAFL has a tie-up with over 2,000 dealers across the country, and finances 25,000–30,000 2Ws every month.

~25% market share in consumer durables financing

CD financing is primarily a two-player market. Bajaj Finance is the leader, but CAFL is fast catching up and has now garnered an estimated 25% market share in this segment. Similar to Bajaj Finance, the company offers interest-free CD loans to customers and earns yields via subvention from the manufacturer. The company is present in more than 200 locations across the country. With a robust technology platform (which helps it conduct a thorough borrower profile assessment and credit bureau check), CAFL is able to provide credit decision instantly once the customer data is fed in the system. Its technology platform also enables rigorous underwriting, as evidenced by the excellent asset quality enjoyed by the company.

Exhibit 4: 2W financing – snapshot

What?	Description
Geographies	❖ North & West (70-75%)
Dealer network	❖ 2,000 dealers across the country
Yield	❖ ~22%
Loan tenure	❖ 2-3 years
Underwriting	❖ Automated; Sanctioning at dealer location
Collection	❖ Separate team responsible for collections
Volumes	❖ 25,000-30,000 vehicles per month
Customer segment	❖ 65% self-employed customers
OEM tie-ups	❖ 'Preferred financier' status for Royal Enfield and Harley Davidson.

Source: MOSL, Company

Exhibit 5: Consumer durables financing – snapshot

What?	Description
Geographies	❖ Pan-India, largely North and West
Dealer network	❖ 5,000+
Yield	❖ 23-24%
Tenure	❖ 8-12 months
Underwriting	❖ Automated; Sanctioning at point of purchase
Collection	❖ Separate team responsible for collections

Source: MOSL, Company

Over past three years, CAFL has focused on these two segments, resulting in the share of CD financing increasing from 4% to 13% and that of 2W financing from 5% to 10%. Management targets to increase the share of each of these segments to 16-17% each by FY19.

Home loans, largely for affordable housing, is a nascent but fast growing business for CAFL

Home loans – nascent but growing business

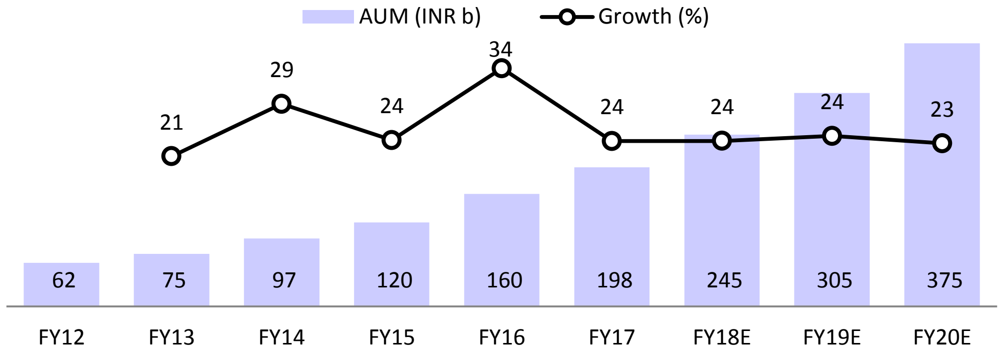
CAFL also offers affordable home loans, primarily to the self-employed segment, through its wholly owned subsidiary, Capital First Home Finance Ltd. Average ticket size is INR1-1.5m, and the loan book stands at INR8b. Sourcing is done primarily through in-house resources. Capital First started focusing on this segment from FY15-16 and it is now expected to grow at a 50%+ CAGR over next two years. As a result, its share in the overall loan book is expected to increase from 4% currently to 8% by FY19.

Wholesale business on the decline

Although the erstwhile business model focused on wholesale credit, primarily on real estate developer financing, since the entry of Mr Vaidyanathan, the company has lowered its focus on this segment. Consequently, the share of wholesale financing has declined from 90% in FY10 to 7% currently, and is expected to decline even further over the medium term. The Company completely de-focused real estate financing and this portion of the book is coming down sharply. The Company also provides corporate loans, primarily to smaller NBFCs – this book comprises around 60% of the total wholesale financing loan book. Management expects this segment to grow well over time given huge demand for credit; however, it is not a key focus area of the company.

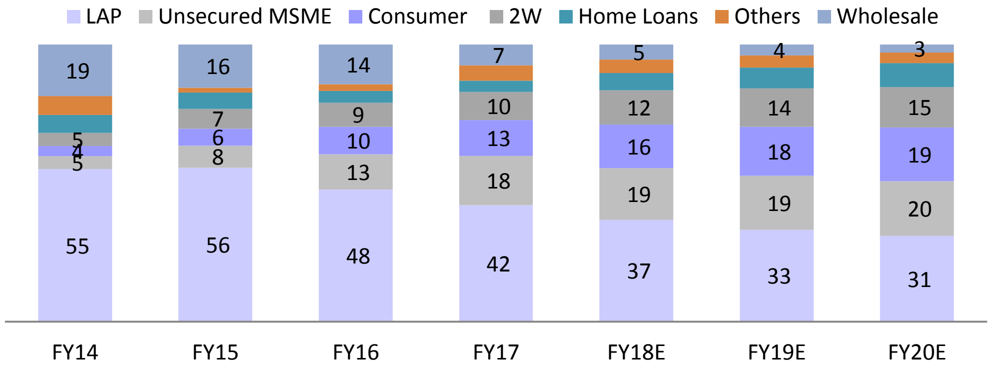
We expect 23% AUM CAGR over FY17-20, with a decline in the share of LAP

Exhibit 6: AUM growth chart



Source: MOSL, Company

Exhibit 7: Segment-wise AUM mix



Source: MOSL, Company

Huge market opportunity

MSME sector lacks sufficient access to formal financing

- **In India, ~36m micro, small & medium Enterprises (MSMEs) contribute ~45% of manufacturing output and 8% of GDP.**
- **MSMEs are credit-starved, despite total banking sector credit of INR8t to the sector. IFC-Intellecap estimates total credit shortfall of INR26t for the MSME sector.**
- **MSMEs usually lack documents required for credit appraisals. This, along with higher credit costs, makes it difficult for banks to lend to this segment.**

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

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

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

Exhibit 8: Definition of MSME

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

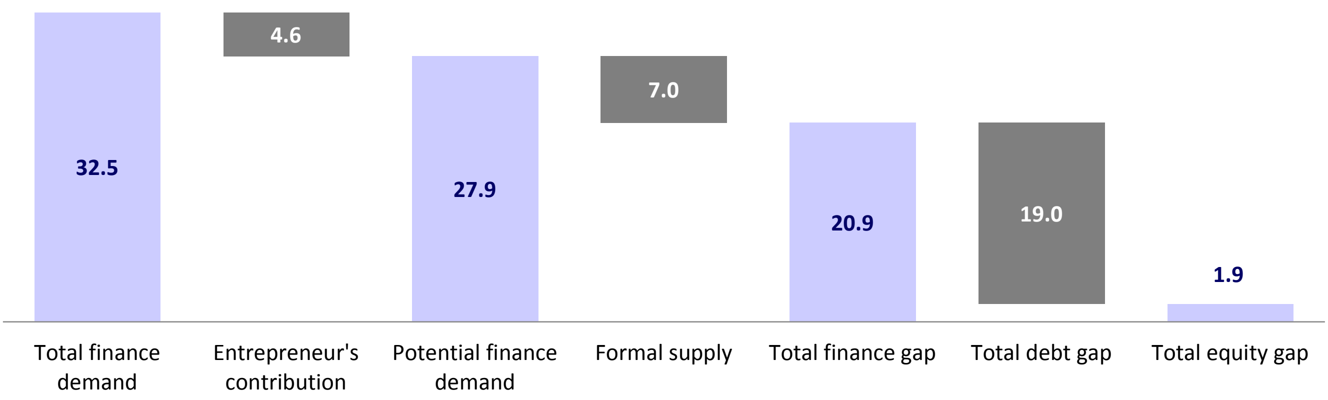
Source: MSMED Act, IFC, MOSL

IFC estimates INR19t credit funding shortfall for MSMEs

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

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

Exhibit 9: Overall finance gap in MSME sector (INR t)



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

Banks focus more on higher-ticket-size loans

Higher costs and difficulty in credit appraisal limit bank lending…

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

…presenting significant lending opportunity for NBFCs

NBFCs are typically well suited for businesses requiring low-ticket-size financing, given their ability to service customers with repeated interactions, high levels of staffing and flexibility in terms of appraisal norms and loan repayment terms. Banks prefer large-ticket loans as they lack low-cost large 'feet on the street'. Also, banks prefer traditional methods of loan appraisal (requiring stringent documentation) and repayment terms.

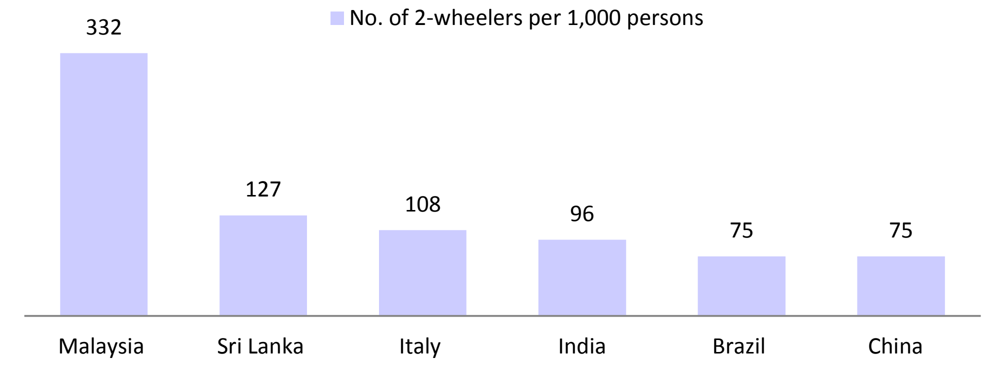
The untapped addressable finance demand in the micro enterprises segment presents a huge opportunity for NBFCs, especially those having the necessary workforce and infrastructure to service this demand profitably.

2W penetration in India is lower than peers

India – the second largest 2W market, but financing penetration low

India is the second largest 2W market in the world after China, with sales of over 15m vehicles every year. However, compared to other countries with similar or even higher per capita income, 2W penetration in India stands lower – countries like Malaysia have 3x penetration than that of India.

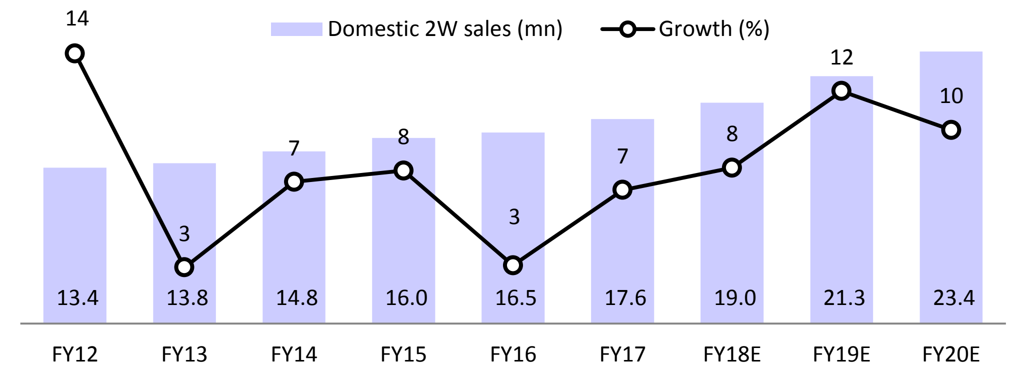
Exhibit 10: Further scope to increase 2W penetration in India



Source: MOSL, data.gov.in

The 2W industry is generally considered a proxy for the rural economy. Over past few years, sales of 2Ws have been muted due to the sluggish rural and agrarian economy. Over FY12-17, the industry recorded a mere 6% volume CAGR. However, with the improving outlook of the rural economy driven by the government's thrust on infrastructure development, we expect 10% sales CAGR over FY17-20E.

Exhibit 11: 2W sales growth expected to pick up



Source: MOSL

Finance penetration for 2Ws is much lower today than it was in 2008/09

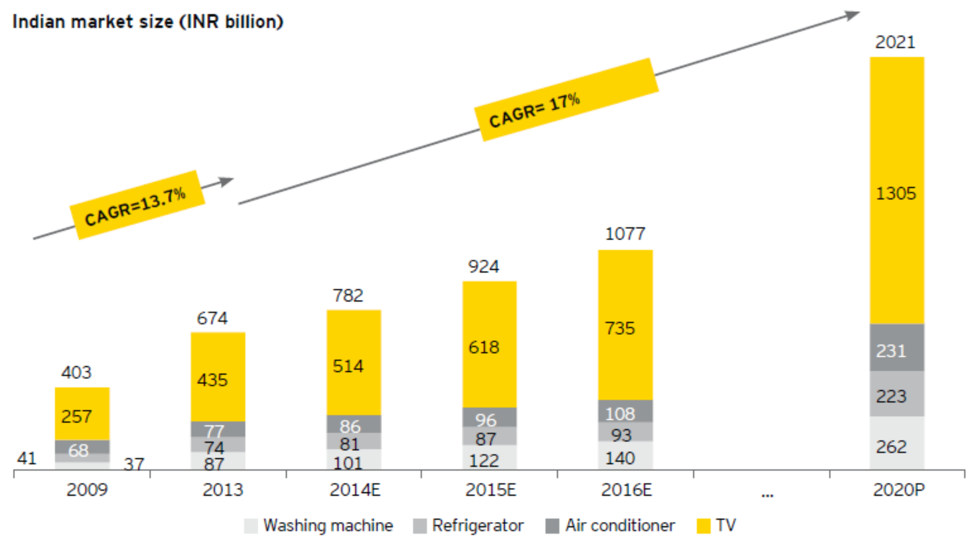
Finance penetration of 2W had declined sharply from levels of 60% before 2009 to ~23% in FY11. However, penetration has started increasing again since then (currently at ~30%). This trend is expected to continue over the medium term, although we do not expect it to reach 2009 levels any time soon.

Aspirational middle-class supports growth in consumer durables

Rising per capita income and growing aspirations of people have helped the consumer electronics business to grow significantly over the past decade. However, penetration of most 'white goods' in India is significantly lower than that in developed markets. According to a report by Ernst and Young (**link to report**), the consumer electronics market is expected to grow to USD29b by FY20 from USD10b in FY14. In addition, there are only two established players in the CD financing segment – Bajaj Finance and Capital First. Both these players account for 20-25% of the overall market (BAF: 15-20%, Capital First: 5%). We believe that there is significant scope to increase penetration in this segment, as the value proposition is unparalleled – the customer does not bear any cost (barring a small one-time fee) and the loan sanctioning happens in a span of a few minutes. This also incentivizes the customer to purchase higher-ticket-size products. Additionally, the share of organized retail in India stands at less than 5%. With the implementation of GST and the gradual shift from unorganized to organized trade, we expect organized retail to gain market share. This would be beneficial for players like CAFL which operate out of organized retail centers.

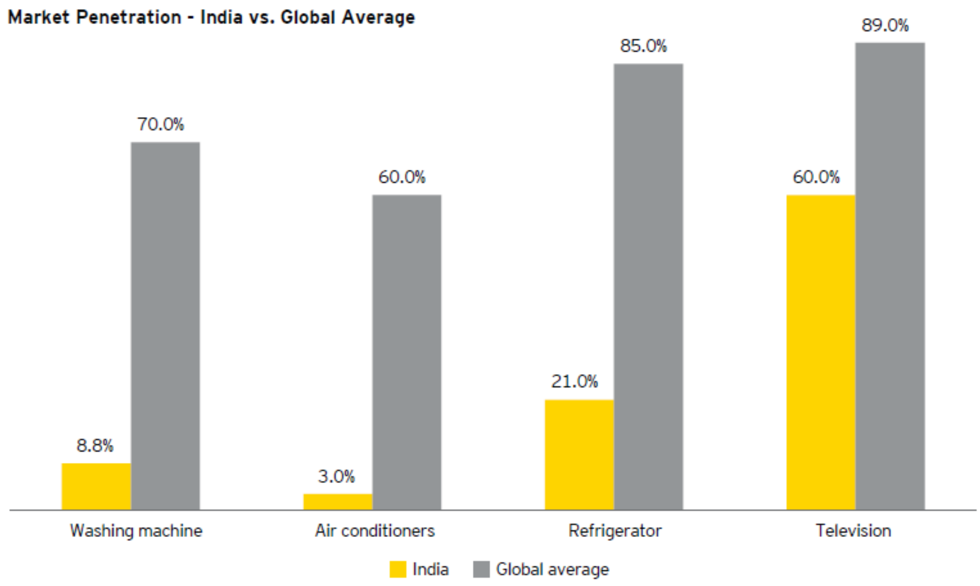
With lower penetration of consumer durable goods in India v/s developed countries, growth is expected to remain strong over the medium-to-long term

Exhibit 12: Indian market size (INR b)



Source: MOSL, E&Y report

Exhibit 13: Market penetration – India v/s global average



Source: MOSL, E&Y report

Significant upside to margins

Changing asset mix, along with lower cost of funds, to improve margins

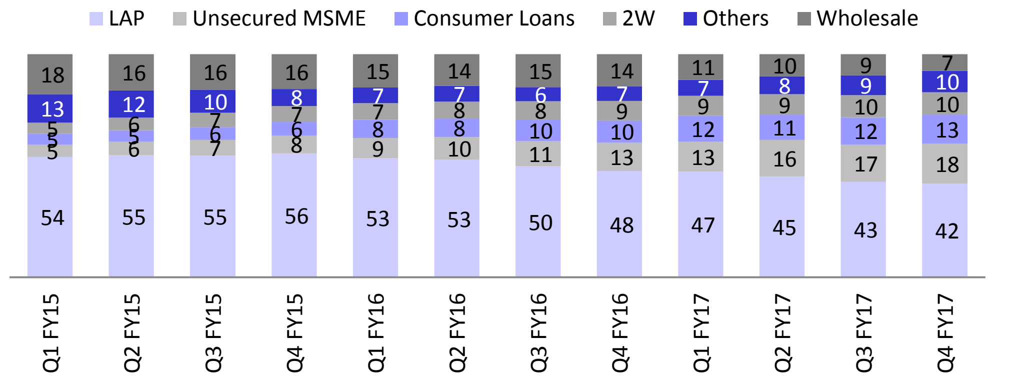
- **CAFL is gradually moving away from being just an SME lender to becoming a diversified, multi-product, high-yielding retail lender.**
- **It targets to increase the share of higher-yielding CD/2W financing from 13%/10% currently to 16-17% each by FY19. This should be accompanied by a decline in the share of low-yielding LAP, from 42% currently to 33% by FY19.**
- **The company should also reap significant benefits in terms of cost of funds, given i) a drastic reduction in MCLR by banks and ii) refinancing of maturing market borrowings at lower cost.**

We expect ~50bp improvement in yields over FY17-19 driven by increased share of unsecured products

Changing loan book mix to improve yields

Over past four years, the company has introduced and scaled-up new products such as unsecured MSME financing and CD/2W loans. The share of unsecured MSME financing has increased from 1% in 1QFY14 to 18% currently, while that of CD (3% to 13%) and 2W (3% to 10%) financing has also inched up. Consequently, the share of secured MSME financing (LAP) declined from 55% in 1QFY14 to 42% in 4QFY17. The share of wholesale lending too has declined from 24% to 7% over the same time period (wholesale lending is a de-focused segment anyway).

Exhibit 14: Trend in AUM mix (%)



Source: MOSL, Company

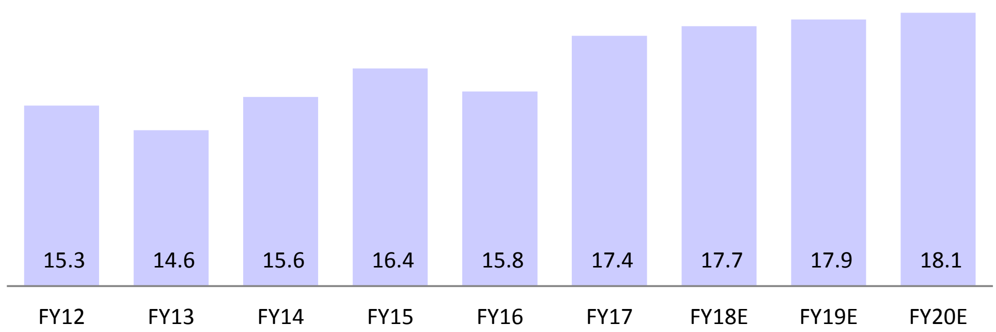
Exhibit 15: LAP is lower yielding than other segments

Segment	Incremental Yields (%)
LAP	11-12
Unsecured MSME	18-19
Consumer Durables	23-24
2W	21-22

Source: MOSL, Company

With increase in the share of higher-yielding CD and 2W portfolio, we expect 50bp improvement in overall yields over the next two years, despite incremental yield pressure in LAP. **CAFL would be one of the few NBFCs under our coverage, wherein we expect an improvement in yields over the medium term.**

Exhibit 16: Yield on loans to improve significantly (%)



Source: MOSL, Company

With the change in its asset mix, the loan book composition will look as follows:

Loan mix of CAFL will resemble that of BAF by FY19, in our view

Exhibit 17: Comparison of BAF and CFL (FY19E)

Loan book mix (FY19E, %)	Bajaj Finance	Capital First
LAP + Unsecured MSME	45	53
Consumer financing (incl. 2W)	35	32
Others	20	16

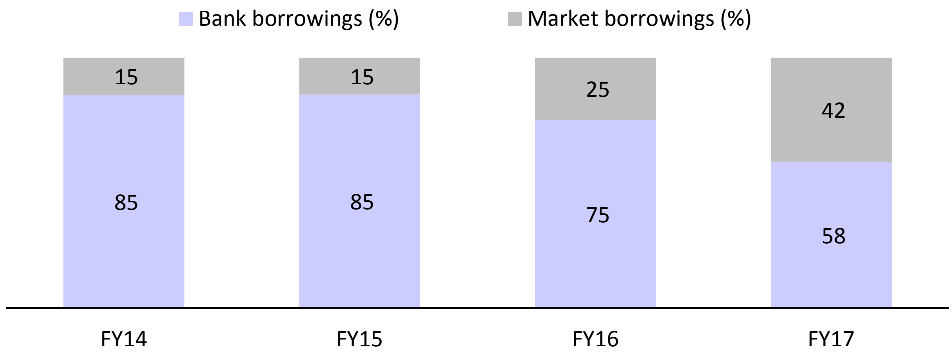
Source: MOSL, Company

Reducing reliance on bank borrowings

The company has traditionally raised bulk of its funding from banks, despite AA+ rating by CARE. The share of bank borrowings ranged from 75-85% up to FY16. However, with a sharp reduction in G-sec yields and a corresponding drop in cost of market borrowings in FY17, CAFL has started raising more money via CPs and NCDs. Consequently, the share of bank borrowings dropped from 75% in FY16 to 58% in FY17, while that of market borrowings increased from 25% to 42%.

Share of bank borrowings decreased from 75% to 58% over FY17

Exhibit 18: Share of bank borrowings declined sharply over FY15-17 (%)



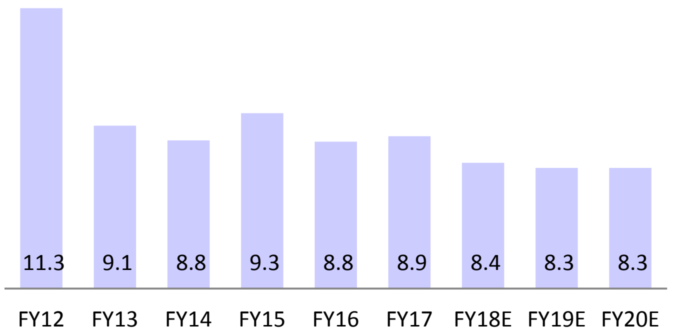
Source: MOSL, Company

The company has witnessed rating upgrades from A+ in FY11 to AA+ in FY13 and maintained it since then. Recently, it has been upgraded to AAA by Brickworks. With that, it was able to raise funds at competitive rates from the market. CAFL counts marquee domestic and international organizations like International Finance Corporation among its bond investors. Management intends to continue raising bulk of its incremental funds from the debt capital market, reducing its dependence on banks. As a result, it targets to reduce the share of bank borrowings to 40% by FY19.

We expect the company to reap significant benefits on cost of funds from i) a drastic reduction in MCLR by banks (Capital First has 95% of its bank borrowings at MCLR) b) refinancing of high-cost maturing NCDs.

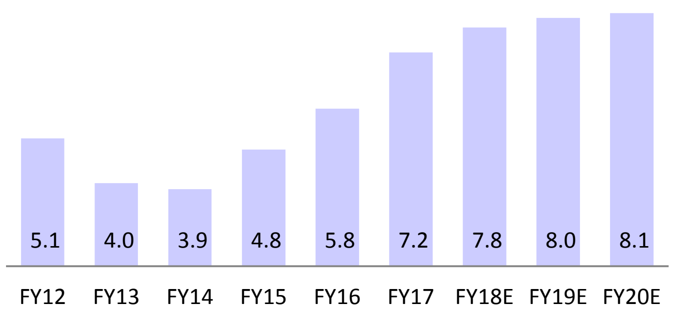
Higher yields due to the changing asset mix, coupled with the decline in cost of borrowings, will help improve margins by 90bp over FY17-20, in our view.

Exhibit 19: Cost of borrowings (%)



Source: Company, MOSL

Exhibit 20: NIM on AUM (%)



Source: Company, MOSL

Asset quality best among peers

GNPL ratio declined from 5%+ in FY10 to 1% now; Healthy capitalization

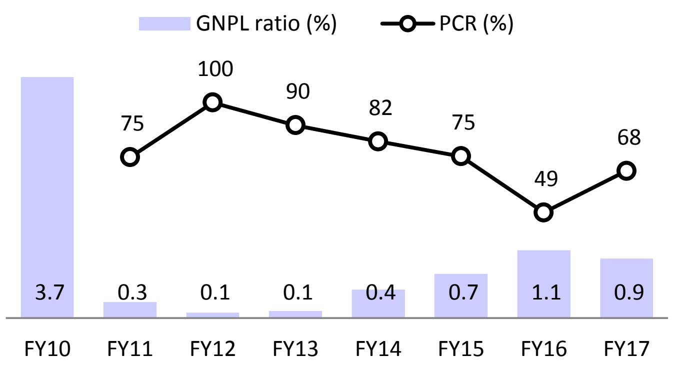
- **With the change in ownership and management of the company in FY11, the top priority was to improve asset quality and clean the balance sheet. CAFL also took a provision hit on its investments in subsidiaries as it planned to exit non-core businesses.**
- **With these actions, the GNPL ratio declined from 5.3% in FY10 to 0.1% in FY12. Asset quality has remained benign since then, and stood at 0.95% in FY17. The company also maintains healthy provision coverage of 68% on its GNPLs.**
- **CAFL recently raised INR3.4b via preferential share allotment to GIC. With 16% Tier I capital, we believe the company is well-capitalized to support growth.**

GNPL ratio of 1% is lowest in our NBFC coverage universe; however, credit costs are higher than some peers.

Significant improvement in asset quality

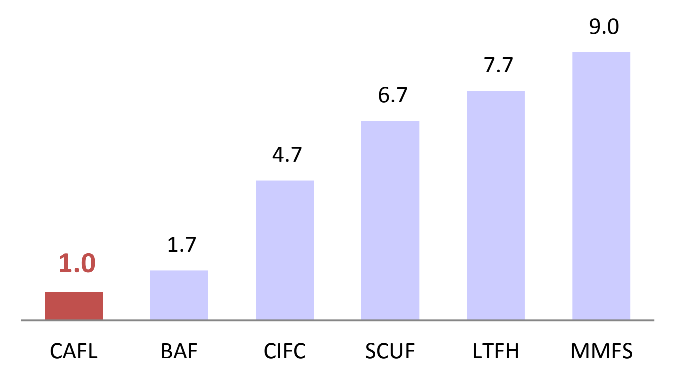
When Mr Vaidyanathan took charge of the company in FY11, the company faced legacy asset quality issues. Its GNPL ratio stood at over 5% as 90% of the loan book was wholesale. Management devised a plan to de-emphasize the wholesale lending book and focus more on retail products. The company also took a provision hit on its investments in subsidiaries, as it planned to exit the non-core businesses. As a result, its GNPL ratio declined from 5.3% in FY10 to 0.1% in FY12, and has remained benign since then. With a GNPL ratio of 0.95% currently, CAFL enjoys best asset quality among all NBFCs under our coverage. However, the company follows a prudent provisioning policy and also write-offs loans as and when recovery is doubtful. As a result, credit costs are higher than that of some peers.

Exhibit 21: Asset quality trend



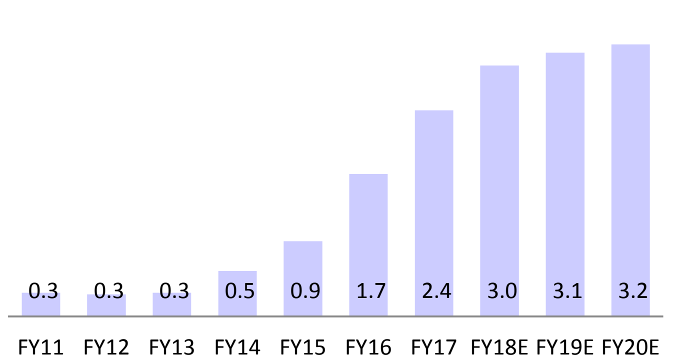
Source: Company, MOSL, Note: GNPL ratio for FY10 as at 180dpd

Exhibit 22: GNPL ratio – FY17 (%)



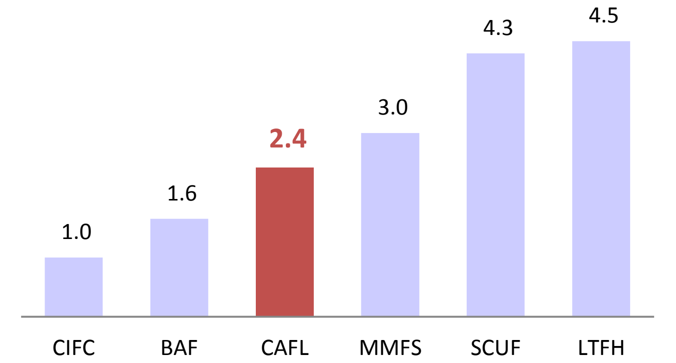
Source: Company, MOSL; Note: Only CIFC is at 90dpd

Exhibit 23: Credit cost (on AUM, %)



Source: Company, MOSL

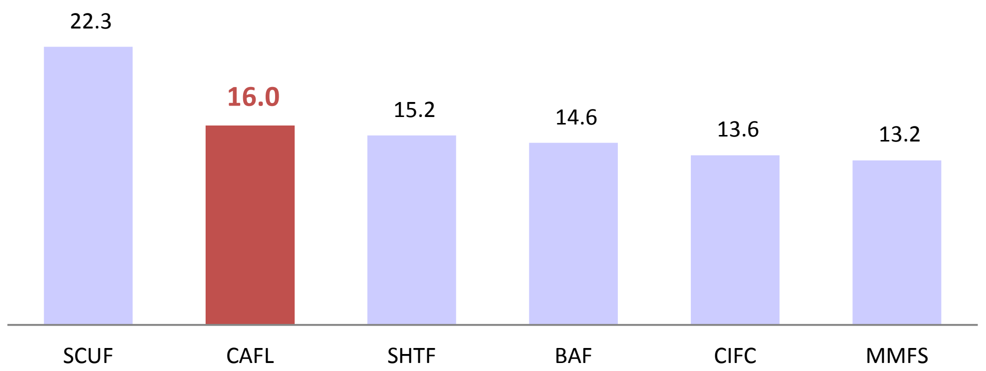
Exhibit 24: FY17 credit costs v/s peers



Source: Company, MOSL; LTFH credit costs are for rural segment

Since the change in management and the restructuring of the company in FY11, CAFL has raised capital a number of times. It received fresh infusion of INR1b from Warburg Pincus in FY13, and INR1.28b and INR0.5b from Warburg Pincus and HDFC Standard Life Insurance, respectively, in FY14. It also did a QIP amounting to INR3b in FY15, with Goldman Sachs as one of the largest investors. In December 2016, it raised INR3.4b via preferential share allotment to GIC taking the Tier I ratio of 16%. However, given the strong growth expected over the medium term, we believe the company may look to raise capital over the near-to-medium term.

Exhibit 25: Healthy Tier I ratio – FY17 (%)



Source: Company, MOSL; BAF number as of 9MFY17

SWOT analysis

Strength

- Presence in high-yield, high-growth business segments
- Targeting the banked urban customer
- Best-in-class asset quality
- Investment phase in technology is behind

Weaknesses

- Operates in cyclical businesses, which are directly dependent on the performance of the economy
- Dependence on wholesale funding is high. The company is trying to reduce this by exploring the NCD route

Opportunities

- Operates in underpenetrated business segments with huge growth potential
- Negligible presence in south and east India
- Huge opportunity to scale up in affordable housing finance for the self-employed segment
- Primarily urban model, opportunities in Tier3/ Tier 4 locations

Threats

- CFL operates in high-yielding retail finance, which could attract stiff competition
- SFBs have access to lower cost of funds, which could result in price competition
- Increase in share of unsecured business loans and consumer durables loans could impact asset quality
- Changes in regulatory guidelines could impact business parameters

Profitability to improve; Top-quartile RoE by FY20

30%+ PAT CAGR over FY17-20; RoE to improve to 17% by FY20

- **Under-penetration in the large business segments, coupled with a focus on CD/2W financing, will drive AUM CAGR of 23% over FY17-20E, in our view.**
- **The change in AUM mix is likely to drive yields upward. This, coupled with lower cost of borrowings, should result in 90bp NIM expansion over FY17-20E. As a result, we expect robust NII CAGR of 29% over the same period.**
- **CAFL is expected to incur slightly elevated opex due to a change in the loan mix. Asset quality is expected to remain largely stable. As a result, return ratios should improve significantly, going forward. RoA /RoE are expected to increase from 1.6%/12% in FY16 to 1.9%/16.7% by FY19.**

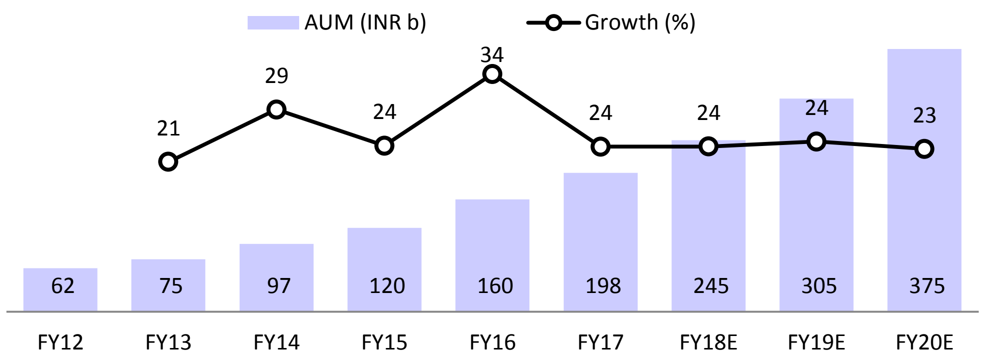
Loan growth to be driven by CD, 2W and home loan segments

23% AUM CAGR over FY17-20, despite scale-back in LAP

Due to intension competition, pricing pressure as well as perceived asset quality worries by the industry at large, CAFL has been growing its LAP book cautiously over the past few quarters. While the book grew 15-20% up to FY16, the company has scaled back slightly in this segment and grew only 9% in FY17. We expect growth in this segment to continue to remain muted over the near-to-medium term. On the other hand, the company is focusing on growing the 2W/CD financing book. We expect these segments to be the key growth drivers over the medium term.

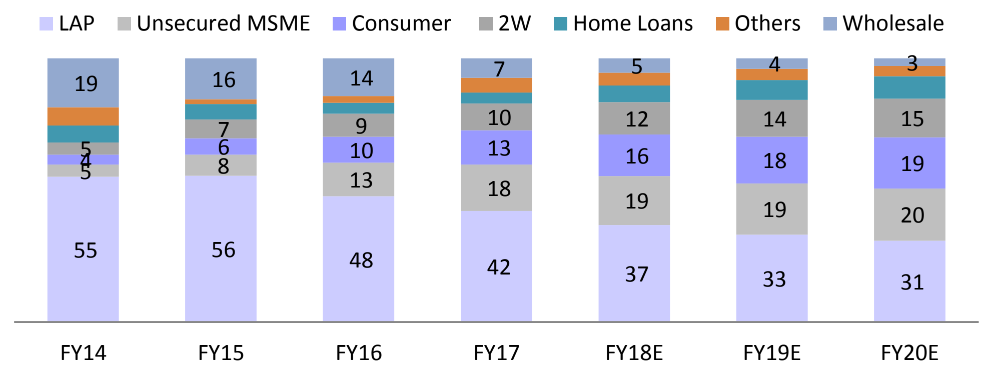
We expect under-penetration in the large business segments, coupled with a focus on CD/2W financing, to drive AUM CAGR of 23% over FY17-20E.

Exhibit 26: AUM growth trend



Source: MOSL, Company

Exhibit 27: Segment-wise AUM mix – share of LAP will continue to decline



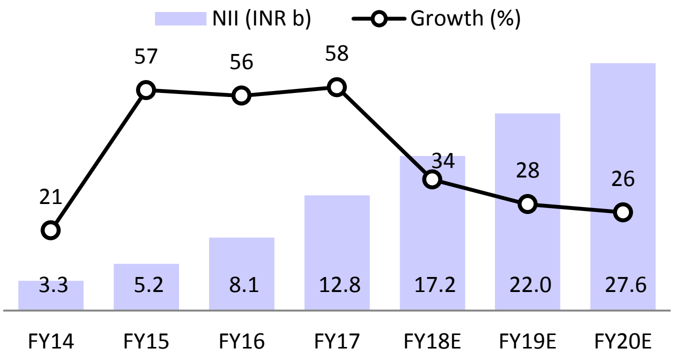
Source: MOSL, Company

90bp margin expansion to drive 29% NII CAGR over FY17-20

29% NII CAGR over FY17-20, driven by 90bp margin improvement

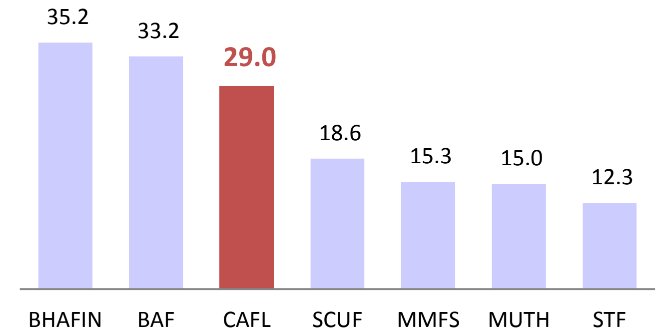
CAFL is well poised to reap significant benefits on the margins front over next two years due to a) mix shift from low-yielding LAP to higher-yielding 2W/CD financing and b) significant benefits in terms of cost of funds due to MCLR cuts and refinancing of high-cost borrowings. With the margin benefit in place, coupled with 23% AUM CAGR, we expect NII CAGR of 29% over FY17-20. CAFL is better placed in terms of expected NII CAGR over FY17-20 in our NBFC coverage universe.

Exhibit 28: Revenue growth trend



Source: Company, MOSL

Exhibit 29: NII CAGR (FY17-20E)



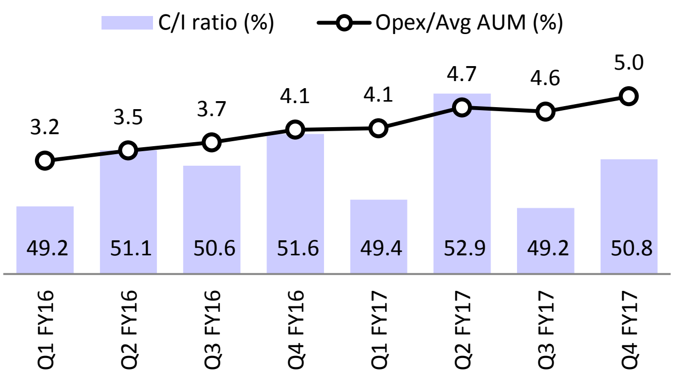
Source: Company, MOSL

Expense ratio will increase marginally due to shift towards 2W/CD financing

Expense ratio to increase marginally due to changing asset mix

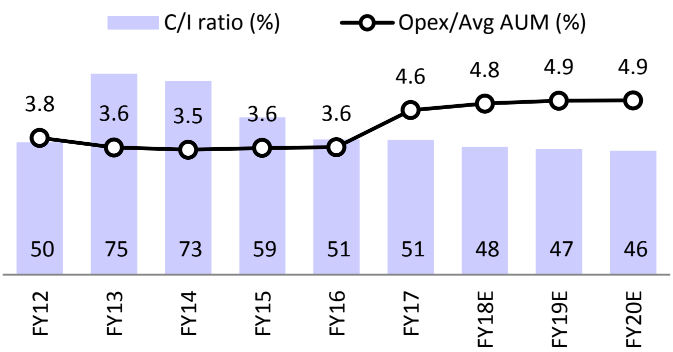
Over past few years, CAFL has incurred elevated costs due to investments in technology and high loan origination costs. Investments in technology were primarily toward the 2W/CD segments, where sophisticated technology is necessary for instant credit bureau checks and application scorecard generation. We believe the investment phase is largely over and CFL should reap the benefits of these investments over time. However, loan recovery costs will increase with a higher share of 2W/CD lending. With the overall asset mix changing towards 2W and CD lending, which are higher-cost segments, we expect opex-to-average AUM to increase from 4.6% in FY17 to 4.9% in FY20.

Exhibit 30: Trend in opex ratios



Source: Company, MOSL

Exhibit 31: Opex/avg AUM to tick up



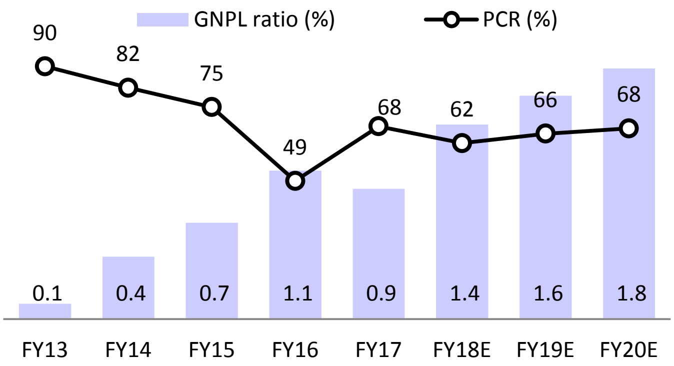
Source: Company, MOSL; Started amortizing fee and securitization income in FY13, hence spike to C/I ratio

We expect an increase in credit costs driven by higher share of 2W and CD financing segments

Asset quality pristine but credit costs to rise

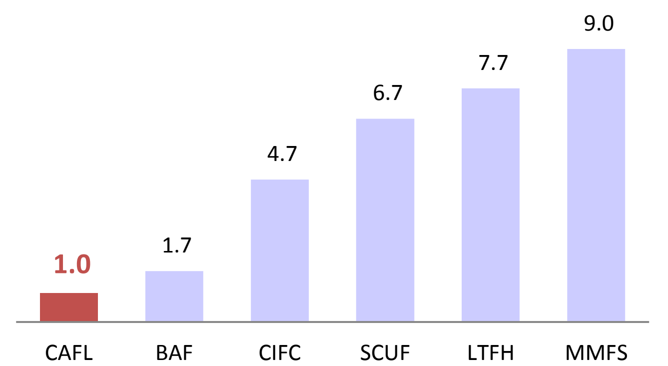
While the erstwhile company faced legacy asset quality issues, when Mr Vaidyanathan took charge, the focus was solely on improving asset quality. Management decided to run-off the wholesale lending book and focus more on retail products. Consequently, its GNPL ratio declined from 5.3% in FY10 to 0.1% in FY12, and has remained benign since then. With a GNPL ratio of 0.95% currently, CAFL enjoys best asset quality among all NBFCs under our coverage. We appreciate management's proactive stance in keeping a cautious view on LAP. We expect asset quality to remain stable over the medium term. However, given the increasing share of CD and 2W loans, we expect credit costs to increase, as these are generally higher-delinquency products.

Exhibit 32: Asset quality trend



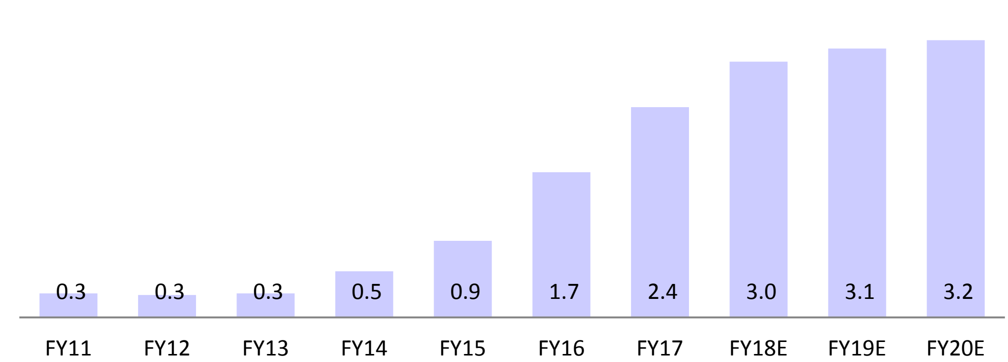
Source: Company, MOSL

Exhibit 33: GNPL ratio – FY17 (%)



Source: Company, MOSL; Note: Only CIFC is at 90dpd

Exhibit 34: Credit cost (% of AUM) should increase

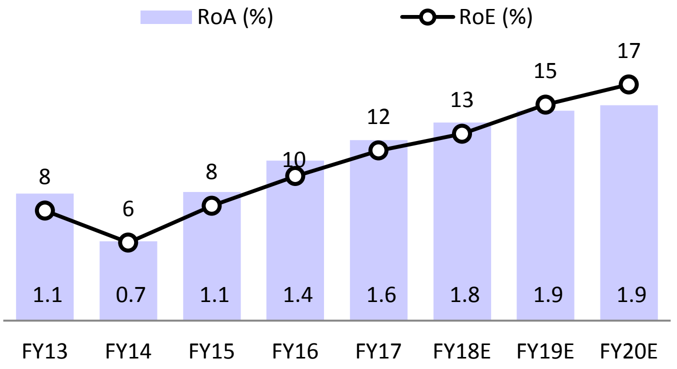


Source: MOSL, Company

30%+ PAT CAGR over FY17-20; RoE to improve to 17% by FY20

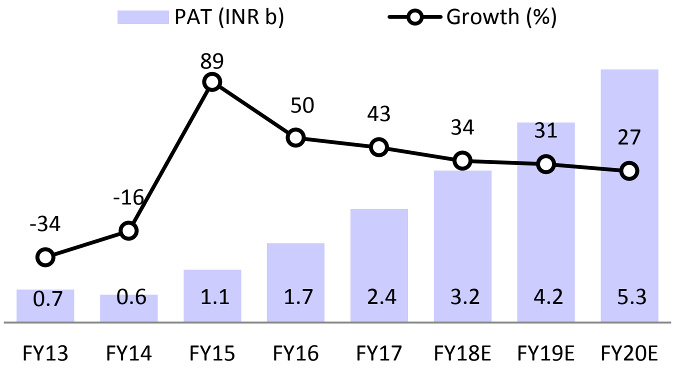
Due to large proportion of secured MSME loans on the book, heavy reliance on wholesale funding and significant investments in technology/manpower, CAFL has had inferior return ratios compared to peers. Its RoA has largely been in the range of 1-1.5% and RoE in the range of 8-12%. However, we expect the company to break out of this range over next 2-3 years. With strong AUM growth coupled with an improvement in margins, RoA/RoE is expected to reach 1.9%/17% by FY20. As a result, we expect 31% PAT CAGR over FY17-20E.

Exhibit 35: Return ratios set to improve



Source: MOSL, Company

Exhibit 36: Strong profit growth ahead



Source: MOSL, Company

Bull & Bear case

Bull Case

- ☑ In our bull case, we assume a strong AUM CAGR of 28% (vs. base case of 23%). We believe improvement in the LAP segment could surprise on the upside.
- ☑ We expect margins to improve to 9.7% by FY20 v/s 9.1% in the base case
- ☑ We expect significant cost control, with cost-to-income ratio declining to 43% by FY20 (v/s 47% in base case)
- ☑ Asset quality would remain stable with GNPA of 1.0% by FY20 (v/s 1.8% in base case).
- ☑ This results in a PAT CAGR of 43% (vs. 31% in base case) over FY17-20 with RoA/RoE in FY20 equal to 2.3%/21%
- ☑ Based on the above assumptions, our bull case target multiple is 3.5x FY19 BV, implying an upside of 48%.

Bear Case

- ☑ In our bear case, we assume an AUM CAGR of 18% (vs. base case of 23%). Slowdown in CD financing segment could lead to such a scenario.
- ☑ We expect margins to increase to 9.0% by FY20 v/s 9.1% in the base case.
- ☑ We expect cost-to-income ratio to remain largely stable at 50-51% over FY17-20 (v/s 47% in base case)
- ☑ Asset quality would worsen with GNPA of 2.1% by FY20 (v/s 1.8% in base case).
- ☑ This results in a PAT CAGR of 16% (vs. 31% in base case) over FY17-20 with RoA/RoE in FY20 equal to 1.6%/13%
- ☑ Based on the above assumptions, our bear case target multiple is 2.0x FY19 BV, implying a downside of 21%.

Exhibit 37: Scenario Analysis – Bull Case

Bull Case	FY18E	FY19E	FY20E
Net Interest Income	16,731	22,394	29,686
Opex	10,671	13,454	16,672
Provisions	6,513	8,956	11,889
PBT	5,261	7,378	10,347
PAT	3,532	4,955	6,948
NIM – IEA (%)	8.9	9.3	9.7
RoA (%)	1.9	2.1	2.3
RoE (%)	14.5	17.6	20.6
EPS	36.3	50.9	71.3
BV	267	313	378
Target multiple	3.5		
Target price (INR)	**1,095**		
Upside	**48%**		

Source: Company, MOSL

Exhibit 38: Scenario Analysis – Bear Case

Bear Case	FY18E	FY19E	FY20E
Net Interest Income	15,599	18,545	21,842
Opex	10,406	12,945	15,597
Provisions	6,416	8,229	9,858
PBT	4,489	4,765	5,608
PAT	3,015	3,200	3,766
NIM – IEA (%)	8.7	8.8	9.0
RoA (%)	1.7	1.6	1.6
RoE (%)	12.5	11.9	12.5
EPS	30.9	32.8	38.7
BV	262	292	327
Target multiple	2.0		
Target price (INR)	**583**		
Upside	**-21%**		

Source: Company, MOSL

Valuation and view

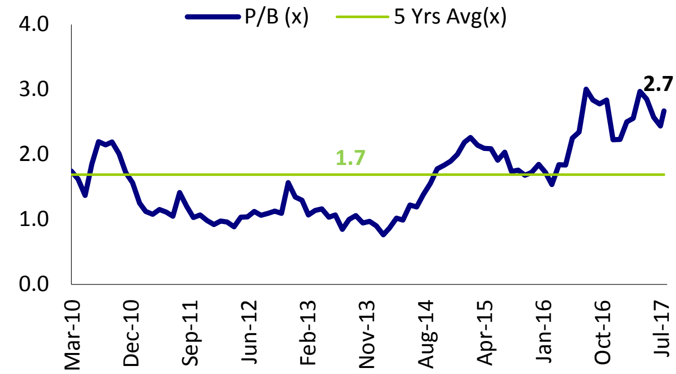
Strong earnings growth and RoE improvement to drive re-rating

- **CAFL is a niche play in the retail NBFC space with a diversified loan portfolio. Its business model offers high growth potential with strong profitability and low competition.**
- **While the company has grown its AUM at 26% CAGR over FY12-17, it has not compromised on asset quality. Its asset quality remains pristine, with the GNPL ratio at ~1% over past five years. We expect asset quality to remain stable, as the company is focusing on segments where it has good underwriting knowledge.**
- **We believe the return ratios have been suppressed as CAFL has made significant investments in manpower and technology in CD/2W financing segments. In addition, its margins were low due to a large share of LAP and heavy reliance on bank funding. We expect significant margin improvement and stable asset quality to drive RoA/RoE improvement from 1.6%/12% in FY17 to 1.9%/17% in FY20. We initiate coverage with a Buy rating, valuing the stock at INR925, implying 3x FY19E P/B.**

CAFL is a niche play in the retail NBFC space, with MSME financing as a key focus area. Its business model offers high growth potential with strong profitability and moderate competition. While the company has traditionally been a LAP player, over the years, it has also honed its underwriting skills in 2W/CD financing. The segments it operates in are largely underpenetrated and have huge growth potential. At the same time, huge investment requirement in manpower and technology, low ticket sizes, short loan duration and the need to maintain strong relationships with manufacturers/dealers create huge entry barriers in this business.

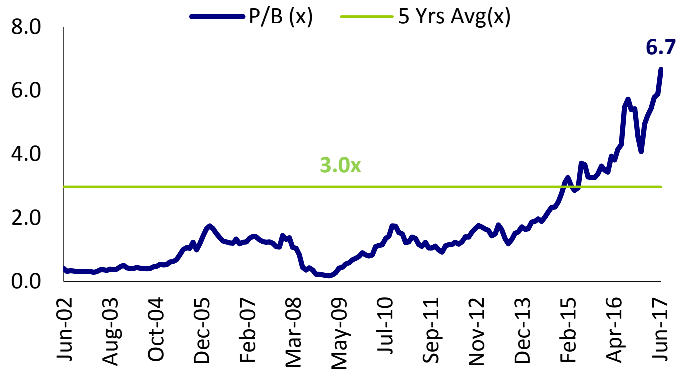
While the company has grown its AUM at 26% CAGR over FY12-17, it has not compromised on asset quality. Its asset quality remains pristine, with the GNPL ratio at ~1% over past five years. However, return ratios have been suppressed, as CAFL has made significant investments in manpower and technology in CD/2W financing segments. In addition, its margins were low due to a large share of LAP and heavy reliance on bank funding. We expect margins improvement, moderate expense growth and stable asset quality to drive RoA/RoE improvement from 1.6%/12% in FY17 to 1.9%/17% in FY20.We value the company based on an RI model, assuming Rf of 7.0%, CoE of 14% and terminal growth rate of 5%. We initiate coverage with a **Buy** rating, valuing the stock at INR925, implying 3x FY19E P/B.

Exhibit 39: CAFL P/B chart (1 yr forward)



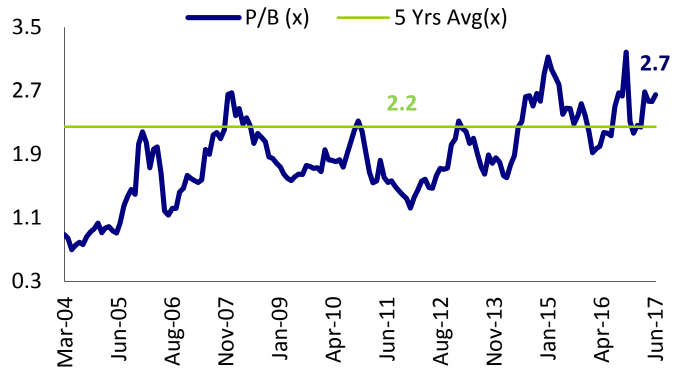
Source: MOSL, Company

Exhibit 40: BAF P/B chart (1 yr forward)



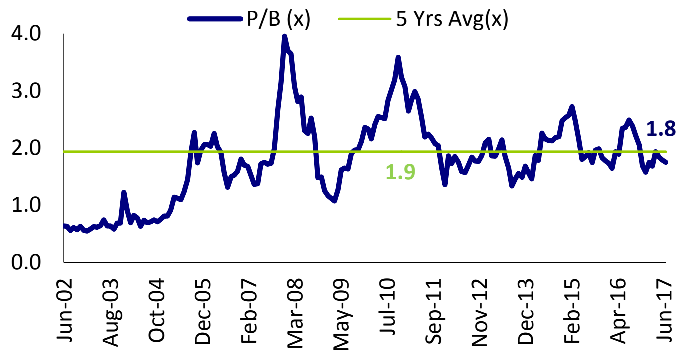
Source: MOSL, Company

Exhibit 41: SCUF P/B chart (1 yr forward)



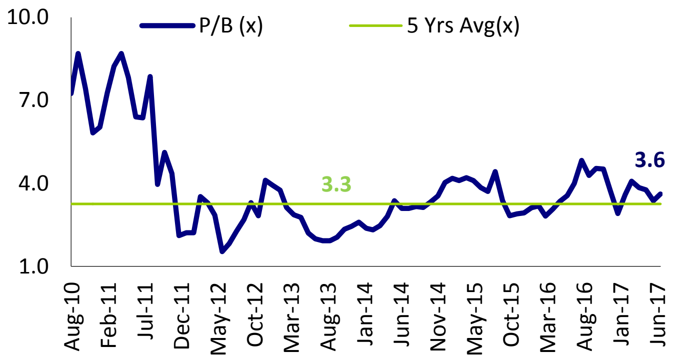
Source: MOSL, Company

Exhibit 42: SHTF P/B chart (1 yr forward)



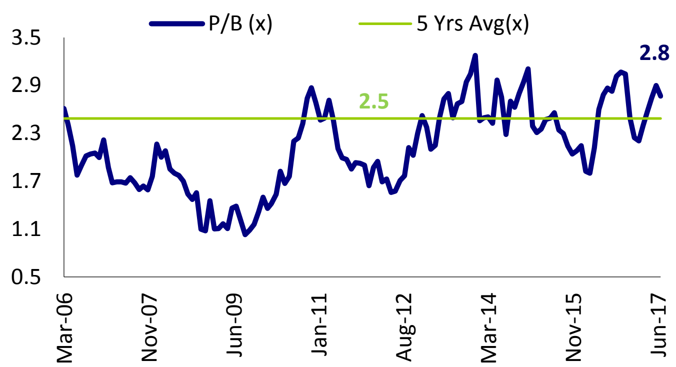
Source: MOSL, Company

Exhibit 43: BHAFIN P/B chart (1 yr forward)



Source: MOSL, Company

Exhibit 44: MMFS P/B chart (1 yr forward)



Source: MOSL, Company

Key risks

Stringent credit appraisal is the key

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

Competition from other NBFCs/SFBs in small enterprise loans

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

Increased competition from NBFCs and banks in 2W/CD financing

The 2W loan space, where only 30% of vehicles are purchased on credit, presents major business opportunities for banks as well as captive financing arms of 2W manufacturers. The CD financing market is a two-player market that presents strong growth opportunity with robust profitability. These two segments could attract more players into the market.

Strong growth in unsecured lending could pose asset quality risks

Over past two years, the unsecured MSME lending book has almost quadrupled from INR9.6b to INR35b. Similarly, the CD financing book has grown from INR7b to INR26b. We believe that there could be a possibility of asset quality issues in the future due to the unsecured nature of lending.

Company background

- CAFL is a non-deposit-taking NBFC focusing largely on retail lending. It offers loans to small and medium business enterprises, 2W/CD loans, and also home loans via its subsidiary Capital First Home Finance.
- In August 2010, Mr Vaidyanathan, with more than two decades experience in retail banking acquired a stake in an existing wholesale focused NBFC with a strategy to transform the Company to a retail financing focused franchise with the help of financial backup from a private equity investor to provide exit to the erstwhile promoters.
- In FY11, CAFL divested its entire stake in a 50:50 JV with Centrum Capital. In FY12, it merged an existing subsidiary NBFC (engaged in retail finance) with the parent company.
- In FY13, Cloverdell Investment Ltd. (Warburg Pincus) – through a combination of (1) purchase of equity shares from existing shareholders and (2) the issue of fresh equity shares and fresh compulsorily convertible preference shares – acquired a controlling stake in the company by infusing fresh equity capital of INR1b.
- In May 2013, the company's 100% owned subsidiary, Capital First Home Finance Private Limited, obtained a certificate of registration from the National Housing Bank to commence housing finance business.
- In 2015, the company raised equity capital of INR3b via a QIP from marquee investors such as Goldman Sachs Asset Management.
- CAFL recently raised INR3.4b via preferential share allotment to GIC.

Exhibit 45: Board of Directors

Name	Designation	Brief Profile
Mr. V. Vaidyanathan	Chairman & Managing Director	Previously MD & CEO of ICICI Prudential Life Insurance and Executive Director on the Board of ICICI Bank. 25+ years of corporate work experience.
Mr. N.C. Singhal	Independent Director	Founding Vice Chairman & Managing Director of SCICI Ltd (merged with ICICI Ltd). 56 years of experience in the corporate sector
Mr. Vishal Mahadevia	Non-Executive Director	Currently, Managing Director and Co-Head, Warburg Pincus India. Over 22 years of experience in the corporate sector.
Mr. M.S. Sundara Rajan	Independent Director	Former Chairman & Managing Director of Indian Bank. Over 40 years of work experience in the Banking industry.
Mr. Hemang Raja	Independent Director	Former Managing Director and Head-India, Credit Suisse Private Equity, and also MD & CEO of IL&FS Investsmart Ltd. 35+ years of work experience
Dr. Brinda Jagirdar	Independent Director	Former Chief Economist of SBI with over 35 years of experience in the Banking industry
Mr. Dinesh Kanabar	Independent Director	Current CEO of Dhruva Advisors and former CEO of KPMG, India. Over 25 years of experience in the corporate sector
Mr. Narendra Ostawal	Non-Executive Director	Managing Director of Warburg Pincus India. Around 15 years of experience in consulting and private equity.
Mr. Apul Nayyar	Executive Director	Executive Director responsible for Retail and SME businesses at Capital First. Previously worked in leadership positions at IIFL, Merrill Lynch and Citigroup.
Mr. Nihal Desai	Executive Director	Executive Director responsible for risk, IT and operations at Capital First. Over 22 years of work experience in the corporate sector.

Source: MOSL, Company

Financials and valuations

Income Statement								(INR Million)
Y/E MARCH	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	7,284	9,748	12,892	16,678	23,888	29,843	37,725	47,260
Interest Expended	4,833	6,467	7,878	8,972	11,606	13,332	16,564	20,617
Net Interest Income	**2,451**	**3,282**	**5,014**	**7,705**	**12,282**	**16,511**	**21,161**	**26,642**
Change (%)	56.6	33.9	52.8	53.7	59.4	34.4	28.2	25.9
Other Operating Income	719	782	1,352	2,145	3,841	5,377	6,990	8,738
Other Income	83	95	175	66	280	336	403	484
Net Income	**3,254**	**4,158**	**6,541**	**9,916**	**16,403**	**22,224**	**28,555**	**35,864**
Change (%)	-6.0	27.8	57.3	51.6	65.4	35.5	28.5	25.6
Operating Expenses	2,452	3,022	3,862	5,028	8,298	10,671	13,454	16,672
Operating Income	**802**	**1,136**	**2,679**	**4,888**	**8,104**	**11,553**	**15,101**	**19,192**
Change (%)	-54.0	41.7	135.8	82.5	65.8	42.6	30.7	27.1
Provisions and W/Offs	218	489	1,052	2,364	4,530	6,770	8,813	11,233
PBT	**584**	**648**	**1,627**	**2,524**	**3,575**	**4,783**	**6,288**	**7,959**
Tax	99	58	511	848	1,174	1,571	2,066	2,615
Tax Rate (%)	17.0	9.0	31.4	33.6	32.8	32.8	32.8	32.8
PAT	**698**	**590**	**1,117**	**1,676**	**2,401**	**3,212**	**4,223**	**5,345**
Change (%)	-34.1	-15.5	89.4	50.1	43.3	33.8	31.5	26.6
Proposed Dividend	128	165	200	219	253	289	338	374

Balance Sheet								(INR Million)
Y/E MARCH	2013	2014	2015	2016	2017	2018E	2019E	2020E
Capital	704	820	910	912	974	974	974	974
Reserves & Surplus	8,903	10,898	14,828	16,123	21,862	24,726	28,544	33,440
Net Worth	**9,607**	**11,719**	**15,738**	**17,035**	**22,836**	**25,701**	**29,518**	**34,414**
Borrowings	**62,301**	**84,220**	**84,374**	**119,549**	**141,081**	**176,351**	**222,781**	**274,021**
Change (%)	42.0	35.2	0.2	41.7	18.0	25.0	26.3	23.0
Total Liabilities	**71,909**	**95,938**	**100,112**	**136,584**	**163,917**	**202,052**	**252,299**	**308,434**
Investments	11	3,474	1,942	1,836	2,587	3,104	3,725	4,470
Change (%)	-99.7	31,281.3	-44.1	-5.4	40.9	20.0	20.0	20.0
Advances	**55,303**	**69,657**	**87,089**	**124,455**	**149,871**	**187,338**	**234,173**	**288,033**
Change (%)	24.7	26.0	25.0	42.9	20.4	25.0	25.0	23.0
Net Fixed Assets	391	340	191	292	646	656	666	676
Other assets	16,204	22,466	10,890	10,000	11,016	10,953	13,735	15,256
Total Assets	**71,909**	**95,938**	**100,112**	**136,584**	**164,119**	**202,052**	**252,299**	**308,434**

E: MOSL Estimates

Financials and valuations

Ratios								
Y/E MARCH	2013	2014	2015	2016	2017E	2018E	2019E	2020E
Spreads Analysis (%)								
Yield on Advances	14.6	15.6	16.4	15.8	17.4	17.7	17.9	18.1
Cost of borrowings	9.1	8.8	9.3	8.8	8.9	8.4	8.3	8.3
Interest Spread	5.5	6.8	7.1	7.0	8.5	9.3	9.6	9.8
NIM	4.9	5.3	6.4	7.3	9.0	9.8	10.0	10.2
NIM – AUM	4.0	3.9	4.8	5.8	7.2	7.8	8.0	8.1
Profitability Ratios (%)								
RoE	7.8	5.5	8.1	10.2	12.0	13.2	15.3	16.7
RoA	1.1	0.7	1.1	1.4	1.6	1.8	1.9	1.9
RoA on AUM	1.0	0.7	1.0	1.2	1.3	1.4	1.5	1.6
Int. Expended/Int.Earned	66.3	66.3	61.1	53.8	48.6	44.7	43.9	43.6
Secur. Inc./Net Income	22.1	18.8	20.7	21.6	23.4	24.2	24.5	24.4
Efficiency Ratios (%)								
Op. Exps./Net Income	75.4	72.7	59.0	50.7	50.6	48.0	47.1	46.5
Empl. Cost/Op. Exps.	53.3	42.0	35.2	35.2	28.8	28.7	28.5	27.6
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	88.8	82.7	103.2	104.1	106.2	106.2	105.1	105.1
Net NPAs to Adv.	0.0	0.1	0.2	0.5	0.3	0.5	0.5	0.6
CAR	23.5	22.2	23.4	19.8	20.3	17.9	16.0	14.8
Tier 1	16.3	16.3	18.8	14.5	16.0	14.4	13.2	12.5
Valuation								
Book Value (INR)	136	143	173	187	234	264	303	353
Price-BV (x)					3.2	2.8	2.4	2.1
Adjusted BV (INR)	136.4	143	172	184	233	260	298	347
Price-ABV (x)					3.2	2.8	2.5	2.1
EPS (INR)	9.9	7.2	12.3	18.4	24.6	33.0	43.3	54.9
EPS Growth (%)	-39.6	-27.5	70.8	49.6	34.2	33.8	31.5	26.6
Price-Earnings (x)					30.0	22.4	17.1	13.5
Dividend per Share (INR)	1.8	2.0	2.2	2.4	2.6	3.0	3.5	3.8
Dividend Yield (%)					0.4	0.4	0.5	0.5

E: MOSL Estimates

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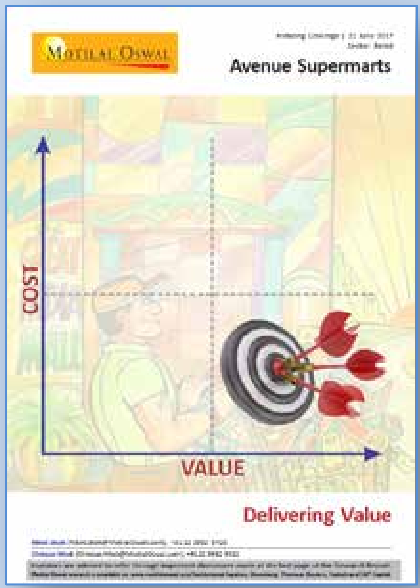

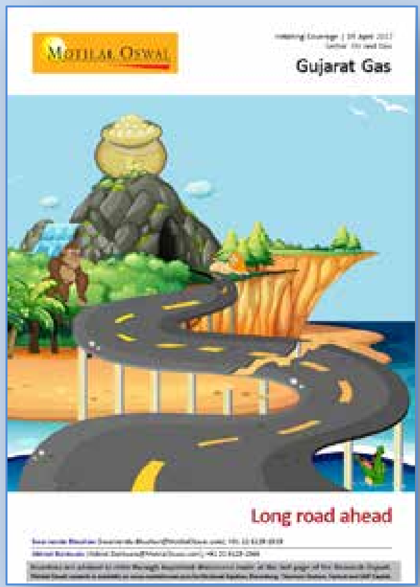

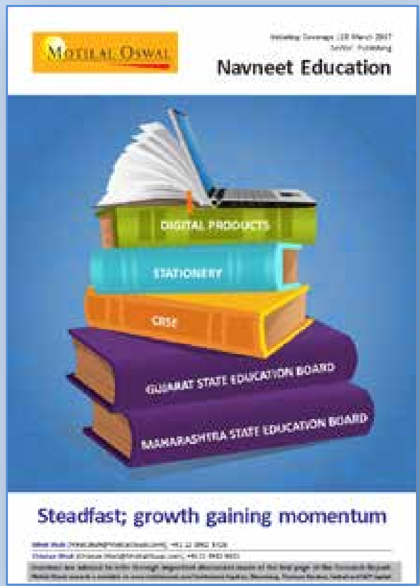

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