

# Five Star Business Finance

Estimate changes



TP change



Rating change



Bloomberg	FIVESTAR IN
Equity Shares (m)	294
M.Cap.(INRb)/(USDb)	218.2 / 2.5
52-Week Range (INR)	944 / 600
1, 6, 12 Rel. Per (%)	-5/3/-10
12M Avg Val (INR M)	1011

## Financials Snapshot (INR b)

Y/E March	FY25E	FY26E	FY27E
NII	21.0	24.5	29.0
PPoP	15.3	17.5	20.5
PAT	10.8	12.3	14.3
EPS (INR)	37	42	49
EPS Gr. (%)	29	14	16
BV/Sh. (INR)	215	256	304

## Ratios

NIM (%)	19.5	18.3	17.1
C/I ratio (%)	30.5	32.0	32.6
Credit costs	0.9	0.8	0.8
RoAA (%)	8.3	7.7	7.1
RoAE (%)	18.8	17.9	17.5
Dividend payout	2.7	2.4	3.1

## Valuations

P/E (x)	20.0	17.5	15.0
P/BV (x)	3.4	2.9	2.4
Div. yield (%)	0.1	0.1	0.2

## Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	21.6	21.6	26.5
DII	10.1	9.0	7.8
FII	57.8	56.7	54.3
Others	10.6	12.7	11.4

FII Includes depository receipts

**CMP: INR743**

**TP: INR930 (+25%)**

**Buy**

## Collections holding up well and credit costs still benign

### AUM growth moderated to ~25% YoY; minor deterioration in asset quality

- Five Star Business Finance (FIVESTAR)'s 3QFY25 PAT grew 26% YoY to INR2.74b (in line). NII grew ~28% YoY to INR5.4b (in line), while PPoP rose ~29% YoY to INR3.9b (in line). Other income declined 3% YoY to INR198m.
- Opex grew 21% YoY to INR1.7b (in line). Credit cost stood at INR233m (~13% lower than est.). Annualized credit cost was stable QoQ at ~70bp (PY: ~50bp).
- Management guided for AUM growth of ~25% for FY25. However, the company will revisit the business outlook for the next year at the end of the March quarter and provide guidance for the next fiscal year.
- Overall Collection Efficiency (CE) stood at 98% (PQ: 98.4%). Unique loan collections (Due one, collect one) stood at 96.7% (PQ: 97%). FIVESTAR does not foresee any further significant deterioration in asset quality and expects no substantial increase in credit costs for 4QFY25. While credit costs have recently been in the band of ~70bp, its business model is designed to function effectively with credit costs of ~75-100bp.
- Management shared that the income of FIVESTAR customers has not been impacted. However, the collection efforts required have increased. The rise in 30+dpd by ~70bp QoQ is primarily attributable to overleveraging from unsecured retail loans (including MFI). The company does not expect MFIN guardrails 2.0, if implemented from Apr'25, to have any significant impact on its collections.
- FIVESTAR has successfully navigated the current mini credit cycle (due to unsecured retail), much to our pleasant surprise, with both GS3 and credit costs remaining within the expected range. While there are early green shoots of improvement in the MFI sector and unsecured PL, we now attach a higher probability that FIVESTAR will emerge relatively unscathed from this tough macro environment.** Our earnings estimates remain largely unchanged. FIVESTAR has developed strengths and capabilities in its business model that are difficult for peers to replicate. We anticipate that the company will maintain its best-in-class profitability, with a CAGR of ~26%/~20% in AUM/PAT over FY24-FY27E.
- FIVESTAR will command premium valuations relative to its NBFC/HFC peers due to its ability to deliver strong RoA/RoE of 7.1%/18% in FY27E (despite the moderation in its RoA profile). **Reiterate BUY with a TP of INR930 (based on 3.3x Sep'26E BV).**

### Reported NIMs and spreads decline sequentially

- Reported yield declined ~20bp QoQ to 24%, while CoB was stable QoQ at 9.6%. Reported spreads declined ~20bp QoQ to 14.35%. Reported NIM contracted ~35bp QoQ to ~16.55%.
- Incremental CoF was stable QoQ at ~9.6%. The company reduced the yields on incremental loans during the quarter, which led to a slight contraction in both NIMs and spreads for the period. We model NIMs to decline to 18.3%/17.2% in FY26/FY27E (FY25E: 19.4%).

Abhijit Tibrewal - Research Analyst (Abhijit.Tibrewal@MotilalOswal.com)

Research Analyst: Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Raghav Khemani (Raghav.khemani@MotilalOswal.com)

**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

### Asset quality deteriorates; cash component in collection declines

- GS3/NS3 rose ~15bp/10bp QoQ to ~1.6%/0.8%. PCR declined ~160bp QoQ to ~50.2%. The current portfolio declined to 84.9% (PQ: 86%). Stage 2 rose ~55bp QoQ to ~7.5%.
- 30+ dpd rose ~70bp QoQ to ~9.15% and 1+dpd increased ~110bp QoQ to 15.1%. The company is confident that 30+dpd will largely remain stable at current levels and not exhibit any significant increase from hereon.
- Cash collections declined to ~24% (PQ: ~28% and PY: ~52%) due to the company's strong efforts to reduce cash collections.

### Disbursements moderate; AUM grows ~25% YoY

- Disbursements declined ~22% YoY and ~25% QoQ to ~INR9.4b; AUM grew 25% YoY/2% QoQ to ~INR112b. Moderating the quarterly disbursement in 3Q was a conscious strategy to moderate the portfolio growth for this financial year.
- 3QFY25 RoA/RoE stood at 8.1%/18.5%. Capital adequacy stood at ~51.2% as of Dec'24.

### Highlights from the management commentary

- LGD for FIVESTAR continues to be fairly low at 10-12%. The company offers a fully secured mortgage product and will ensure that the overall provision coverage does not drop.
- NBFC Sector/Banking Sector experienced a decline in collections in Oct/Nov'24. For FIVESTAR as well, collections in Dec'24 picked up well and this trend has continued into Jan'25. The company expects 4Q to perform better than 3Q.
- FIVESTAR continues to be a highly attractive institution for lenders, with new partnerships established during the quarter, including HDFC MF, HSBC MF, and SIDBI. Additionally, SBI has extended fresh sanctions amounting to INR5b.

### Valuation and view

- FIVESTAR reported a weak business momentum in 3QFY25. The company reported AUM growth of ~25% YoY, in line with its guidance to moderate growth momentum given the current weak macro environment and overleverage from unsecured retail. Interestingly, while asset quality deteriorated with GS3 rising ~15bp QoQ due to a minor sequential decline in collection efficiency, credit costs remained broadly stable QoQ at ~70bp.
- The stock currently trades at 2.4x FY27E P/BV. We believe that FIVESTAR's premium valuations will remain intact, given its niche market position, superior underwriting practices, resilient asset quality, and (still) high return metrics.
- We estimate FIVESTAR to deliver a ~26% AUM CAGR over FY24-FY27, along with NIM (as a % of average loans) of 18.3%/17.1% in FY26/FY27E.
- FIVESTAR's asset quality is expected to remain relatively resilient compared to the stress that is witnessed in the unsecured lending segment. **We reiterate our BUY rating on the stock with a TP of INR930 (premised on 3.3x Sep'26E BVPS).**

FIVESTAR: Quarterly Performance												(INRm)
Y/E March	FY24				FY25E				FY24	FY25E	3QFY25E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	4,637	5,041	5,495	5,992	6,411	6,793	7,112	7,415	21,166	27,730	7,051	1
Interest Expenses	962	1,059	1,287	1,377	1,582	1,631	1,714	1,826	4,685	6,752	1,697	1
<b>Net Interest Income</b>	<b>3,676</b>	<b>3,982</b>	<b>4,208</b>	<b>4,615</b>	<b>4,829</b>	<b>5,161</b>	<b>5,399</b>	<b>5,589</b>	<b>16,481</b>	<b>20,978</b>	<b>5,354</b>	<b>1</b>
YoY Growth (%)	35.9	34.3	31.6	33.4	31.4	29.6	28.3	21.1	33.7	27.3	27.2	
Other Income	198	183	205	199	283	266	198	296	785	1,043	248	-20
<b>Total Income</b>	<b>3,874</b>	<b>4,165</b>	<b>4,413</b>	<b>4,814</b>	<b>5,112</b>	<b>5,427</b>	<b>5,597</b>	<b>5,885</b>	<b>17,266</b>	<b>22,021</b>	<b>5,602</b>	<b>0</b>
YoY Growth (%)	41.3	38.4	35.5	33.0	32.0	30.3	26.8	22.2	36.7	27.5	26.9	
Operating Expenses	1,263	1,389	1,412	1,488	1,565	1,627	1,713	1,812	5,553	6,717	1,694	1
<b>Operating Profit</b>	<b>2,611</b>	<b>2,775</b>	<b>3,001</b>	<b>3,326</b>	<b>3,547</b>	<b>3,800</b>	<b>3,884</b>	<b>4,073</b>	<b>11,713</b>	<b>15,304</b>	<b>3,909</b>	<b>-1</b>
YoY Growth (%)	40.5	37.9	45.5	43.6	35.9	36.9	29.4	22.5	42.0	30.7	30.2	-3
Provisions & Loan Losses	152	106	102	194	185	218	233	291	554	927	268	-13
<b>Profit before Tax</b>	<b>2,459</b>	<b>2,670</b>	<b>2,899</b>	<b>3,132</b>	<b>3,362</b>	<b>3,582</b>	<b>3,651</b>	<b>3,782</b>	<b>11,160</b>	<b>14,378</b>	<b>3,641</b>	<b>0</b>
Tax Provisions	622	676	731	771	846	903	913	933	2,800	3,594	917	-1
<b>Net Profit</b>	<b>1,837</b>	<b>1,994</b>	<b>2,168</b>	<b>2,361</b>	<b>2,516</b>	<b>2,679</b>	<b>2,739</b>	<b>2,850</b>	<b>8,359</b>	<b>10,783</b>	<b>2,723</b>	<b>1</b>
YoY Growth (%)	32	38	44	40	37	34	26	21	38.5	29.0	25.6	
<b>Key Parameters (%)</b>												
Yield on loans	25.6	25.4	25.6	25.8	25.7	25.5	25.7	25.6				
Cost of funds	9.0	9.3	9.7	9.1	9.7	9.6	9.6	9.7				
Spread	16.6	16.2	15.9	16.7	16.0	16.0	16.1	15.9				
NIM	20.3	20.1	19.6	19.9	19.3	19.4	19.5	19.3				
Credit cost	0.9	0.5	0.5	0.8	0.7	0.69	0.71	0.8				
Cost to Income Ratio (%)	32.6	33.4	32.0	30.9	30.6	30.0	30.6	30.8				
Tax Rate (%)	25.3	25.3	25.2	24.6	25.2	25.2	25.0	24.7				
<b>Performance ratios (%)</b>												
AUM/Branch (INR m)	196.5	181.2	186	185.4	189.1	165.6	153	0.0				
<b>Balance Sheet Parameters</b>												
<b>AUM (INR B)</b>	<b>75.8</b>	<b>82.6</b>	<b>89.3</b>	<b>96.4</b>	<b>103.4</b>	<b>109.3</b>	<b>111.8</b>	<b>120.1</b>				
Change YoY (%)	43.2	44.2	43.1	39.4	36.4	32.2	25.2	24.6				
<b>Disbursements (INR B)</b>	<b>11.3</b>	<b>12.0</b>	<b>12.1</b>	<b>13.4</b>	<b>13.2</b>	<b>12.5</b>	<b>9.4</b>	<b>15.4</b>				
Change YoY (%)	99.1	50.0	32.8	20.4	16.5	3.9	-22.2	15.1				
<b>Borrowings (INR B)</b>	<b>43.2</b>	<b>48.2</b>	<b>57.9</b>	<b>63.2</b>	<b>67.2</b>	<b>68.8</b>	<b>73.6</b>	<b>77.4</b>				
Change YoY (%)	71.3	91.0	82.2	48.7	55.8	42.8	27.1	22.5				
Borrowings/Loans (%)	56.9	58.3	64.8	65.5	65.0	63.0	65.9	64.4				
Debt/Equity (x)	1.0	1.0	1.2	1.2	1.1	1.1	1.1	1.2				
<b>Asset Quality (%)</b>												
<b>GS 3 (INR M)</b>	<b>1,072</b>	<b>1,118</b>	<b>1,251</b>	<b>1,328</b>	<b>1,454</b>	<b>1,604</b>	<b>1,808</b>	<b>0</b>				
G3 %	1.4	1.4	1.4	1.4	1.4	1.5	1.62	0.0				
<b>NS 3 (INR M)</b>	<b>598</b>	<b>557</b>	<b>572</b>	<b>607</b>	<b>697</b>	<b>773</b>	<b>901</b>	<b>0</b>				
NS3 %	0.8	0.7	0.7	0.6	0.7	0.7	0.8	0.0				
PCR (%)	44.2	50.2	54.3	54.3	52.1	51.8	50.2	0.0				
ECL (%)	1.6	1.6	1.6	1.6	1.6	1.6	1.7	0.0				
<b>Return Ratios - YTD (%)</b>												
ROA (Rep)	8.4	8.5	8.3	8.4	8.2	8.4	8.1	0.0				
ROE (Rep)	16.6	17.1	17.7	18.7	19.0	19.0	18.49	0.0				

E: MOFSL Estimates



## Highlights from the management commentary

### Guidance

- The company has continued to guide for ~25% AUM growth for this year. It will revisit its business outlook for the next year at the end of the March quarter and share it in the 4Q earnings call.
- Credit costs are in the range of 60-70bp, and the company's business model can operate at credit costs of ~75-100bp.
- Rollbacks will take some time. The company does not expect a further deterioration in asset quality and does not foresee any significant inch up in credit costs in 4Q.
- NBFC Sector/Banking Sector experienced a decline in collections in Oct/Nov. For FIVESTAR as well, collections in Dec'24 picked up well and this trend has continued into January. 4Q will be better than 3Q.
- FIVESTAR is confident that 30+dpd will largely remain stable at current levels and is not expected to exhibit any significant increase from hereon.

### Opening Remarks

- In the last quarter, FIVESTAR addressed three key challenges: The regulatory environment, overleveraging, and liquidity environment. The company has overcome these challenges very comfortably.
- The market often compares FIVESTAR to MFIs, but the company has proven that it does not have any direct correlation with MFIs, given the secured nature of its collateral.
- FIVESTAR is a collection-first company and will prioritize collections, followed by profitability and growth.
- In the last quarter, the company focused on Collections, Credit (underwriting in an overleveraged environment), and Cost, achieving the lowest cost-to-income ratio across most lenders.

### Business Updates

- FIVESTAR added ~69 branches in 3QFY25, including 28 new branches and 41 split branches. It will be opening 70-80 branches during the full year.
- Disbursements declined ~25% YoY. The strategy was clear: the company will take a sharper hit in 3Q and plans to return to business as usual in 4Q.
- AUM reached INR111.8b, growing 25% YoY, driven by a conscious strategy to moderate portfolio growth for this financial year.
- Collections were in line with the last quarter, with unique collections at 97% and CE at 98% (more or less the same as the previous quarter).
- GS3 stood at 1.62% (vs 1.44% in 2Q). FIVESTAR has performed well in terms of collections and maintaining good asset quality. GNPA would have been 1.93%, even if INR360m of loans written off in 9MFY24 were included.
- Credit costs stood at 0.7% (broadly stable QoQ).
- Incremental CoB was stable QoQ at 9.56% (PQ: 9.57%).
- PAT reached IN2.74b, growing 26% YoY.
- In 3QFY25, RoA stood at 8.1% and RoE at ~18.5%.

### Financial Performance

- In line with the demand environment, the company moderated its new business and now has an AUM that has grown 25% YoY.
- The company has 440k active loan accounts, and the number of branches stands at 729.
- Disbursements were consciously slowed down.
- The company reduced its yields on incremental loans during the quarter, with yields dropping by ~20bp QoQ. This led to a slight contraction in spreads and NIMs.
- CIR remains robust at 34.9% (34.4% in 3QFY24). The company aims to operate at a cost-to-income ratio of around 34-35%.
- The company continues to be an attractive institution in the eyes of lenders. New lenders during the quarter included HDFC MF, HSBC MF, and SIDBI. SBI provided fresh sanctions of INR5b.
- The company secured sanctions of INR14b and a drawdown of ~INR10.4b. Despite the stressed environment, it saw only a 30bp QoQ drop in unique customer collections and a 40bp drop in CE.
- PCR for ECL/EAD rose 1bp. Stage 3 PCR stood at ~50%. The drop in Stage 2 and 3 PCR is primarily attributed to the run-off in the restructured portfolio.

### Asset Quality, PCR, and Collections

- There has been no release of provisions to protect profitability. LGD continues to be fairly low at 10-12%, as the company offers a fully secured product. It is ensuring that the overall provision coverage does not drop.
- Out of ~INR1.80b in NPA, it is spread across 6,000 customers with an ATS of INR300K.
- For deep delinquent accounts, the company continues to recover, and actual credit losses are expected to be minimal.
- In the last few quarters, the company has strengthened its legal recovery processes, recovering ~INR100m every quarter from NPA and written-off accounts.
- The incomes of FIVESTAR customers have not been impacted. However, the collection efforts required have increased.
- There are no specific trends that the company has observed for ~70bp increase in 30+dpd. This increase is primarily due to overleveraging, which cannot solely be attributed to MFI. Overleveraging has also occurred from unsecured personal loans.
- Certain new customers will flow forward due to overleveraging and the economic environment. However, at this point, customers are stabilizing in their current buckets and not rolling back.
- There is no significant difference in the bureau scrub data between Sep'24 and Dec'24. Some customers became less leveraged, while others became over-leveraged. However, even within the overleveraged customer portfolio, the company is seeing similar CE as the rest of the portfolio.
- The company has yet to decide how much technical write-offs it will take in 4Q. It will continue to take technical write-offs, as they also provide some tax benefits. Additionally, the P&L has the ability to withstand these write-offs.

**Recoveries**

- Recovery on write-off loans takes 18-24 months, as the company does not have access to SARFAESI for loans below INR2m.
- During this FY, it has recovered INR70m from written-off loans.

**Impact of MFIN guardrails 2.0**

- MFIN guardrails will not have any impact on collections. FIVESTAR customer incomes remain steady, and the stress experienced by some customers is primarily due to overleveraging. When the guardrails are implemented in Apr, it is expected to create more demand, encouraging customers to turn to FIVESTAR.

**Credit Underwriting**

- The credit call on overleveraged customers has been an integral part of the assessment, even before this overleverage credit cycle.
- There have been no radical changes to the company's credit policy, but adjustments are made regularly based on risk metrics.

**Inorganic Opportunities**

- The company has a strong interest in affordable housing. In this environment, it believes it is better to concentrate on its strengths rather than explore new ventures. For the next two quarters, it is not considering any inorganic or new organic opportunities.

**Others**

- The number of ROs stood at 6,000 (4,500-4,600 Business Officers and 1,400-1,500 Collection Officers).
- In the case of pre-payment penalties, customers who pre-pay within one year typically do so using their own funds, with minimal BT-OUTs in this segment. No pre-payment charges apply after the first year.
- The company has written-off all loans that have been NPA for more than 2 years, in line with its policy for write-offs beyond 2 years.
- Customers do not typically take unsecured loans to repay secured loans. If at all, they take unsecured loans to repay other unsecured loans.
- There have been no significant issues highlighted by RBI. It provides inputs on growth and lending rates based on the environment, and it is up to the company to act on these inputs for the long-term benefits of the company.
- BT-OUTs stood at 2-3% as it is not an easy customer segment to serve. BT-OUTs are expected to remain muted in the short-to-medium term.
- Customers have an average Bureau score of 500-550.
- The company is considering paying dividends, with announcements expected soon.

Key Exhibits

Exhibit 1: Disbursements declined ~22% YoY

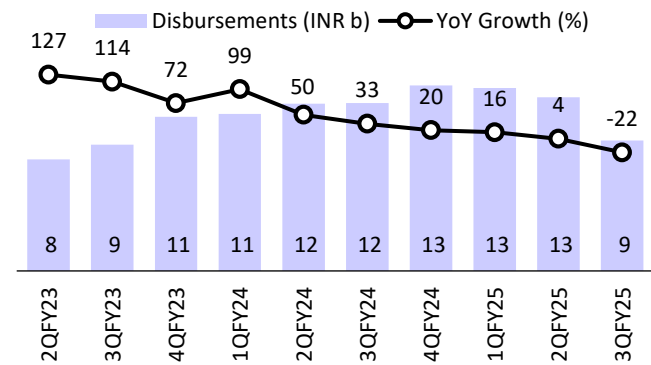


Exhibit 2: AUM rose ~25% YoY

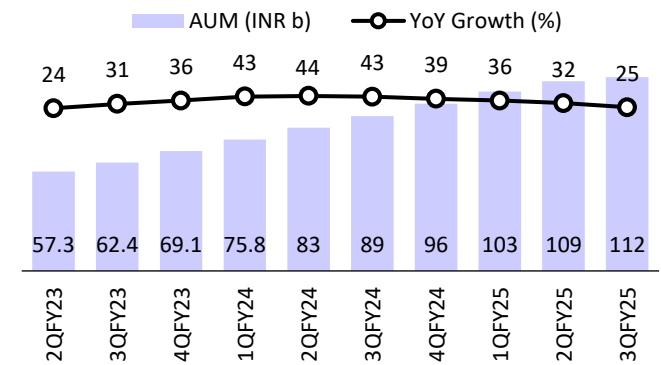


Exhibit 3: Repayments (annualized) were largely stable QoQ

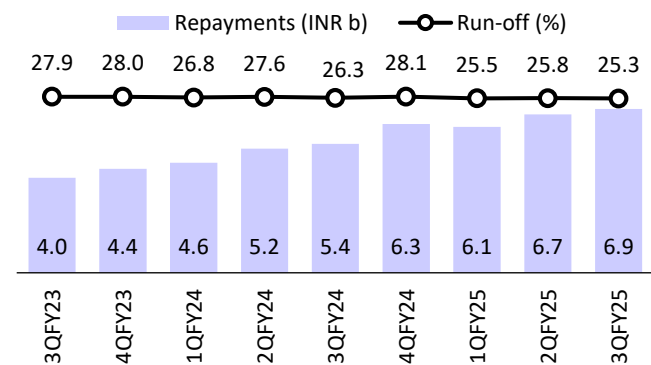


Exhibit 4: Bank borrowings continued to decline

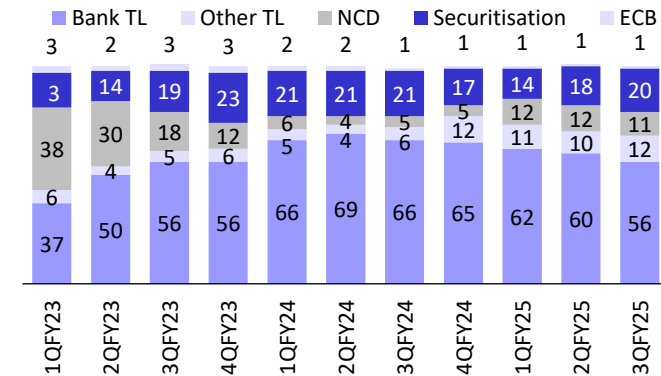


Exhibit 5: Spreads (calc.) rose ~15bp QoQ (%)

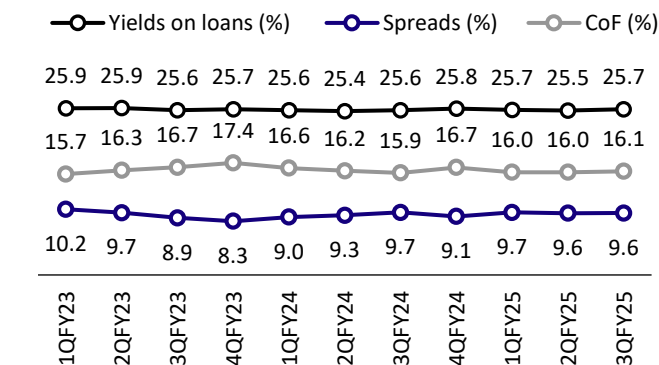
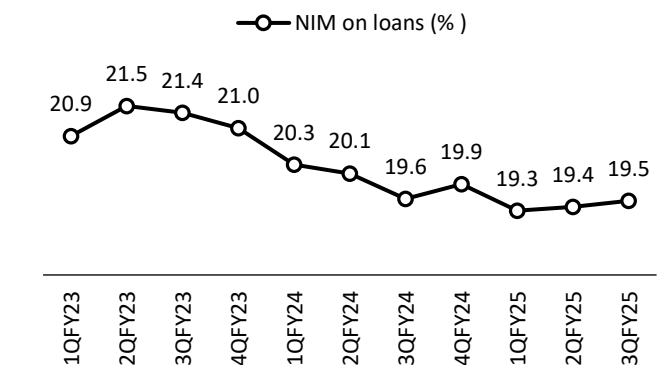


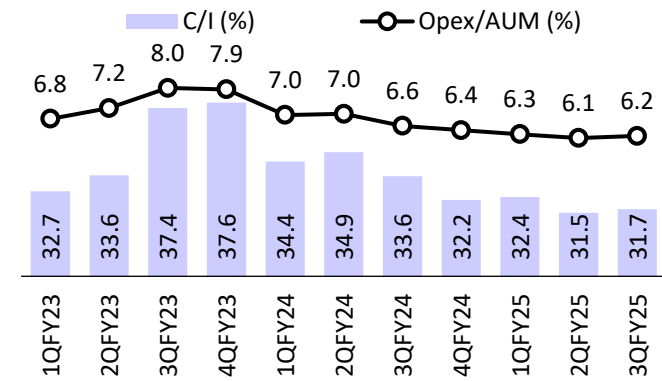
Exhibit 6: NIM (calc.) expanded ~15bp QoQ (%)



Sources: Company; MOFSL

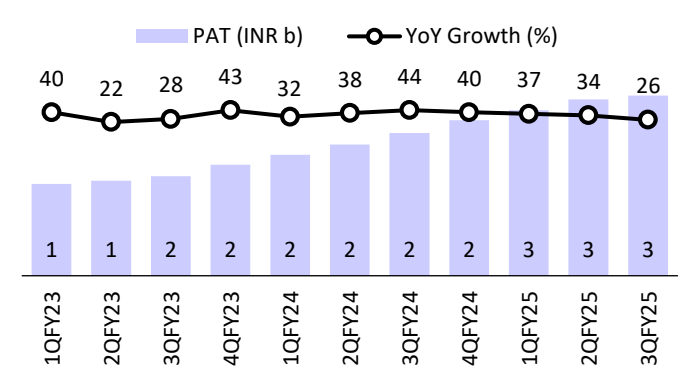
Sources: Company; MOFSL

**Exhibit 7: Opex/AUM rose ~10bp QoQ (%)**



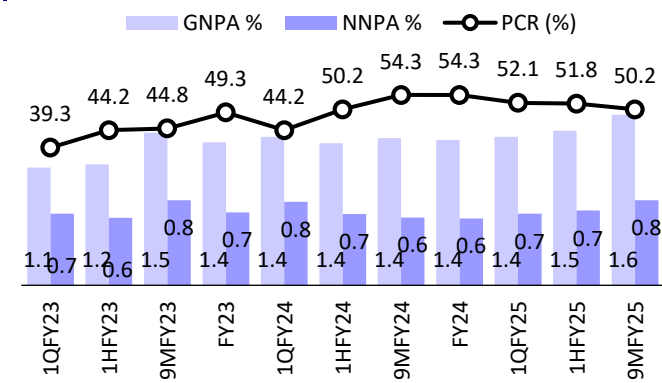
Sources: Company; MOFSL

**Exhibit 8: PAT rose ~26% YoY**



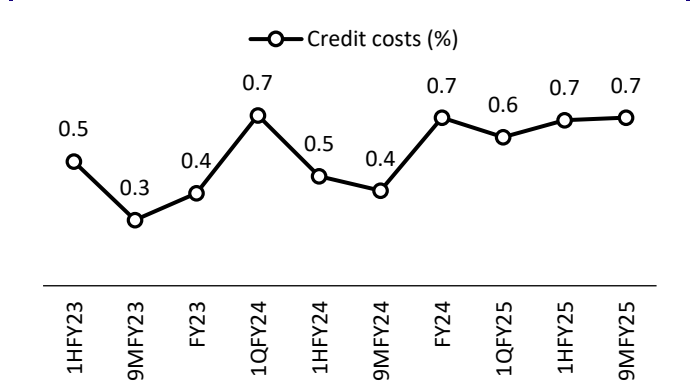
Sources: Company; MOFSL

**Exhibit 9: GS3 increased ~15bp QoQ (%)**



Sources: Company; MOFSL

**Exhibit 10: Credit costs were stable QoQ**



Sources: Company; MOFSL

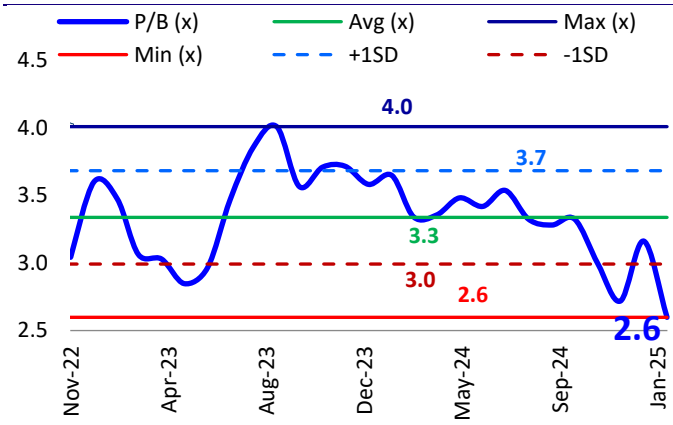


**Exhibit 11: We raise our FY26/FY27 EPS estimates by ~1%/2% to factor in slightly higher AUM growth and higher credit costs**

INR B	Old Est.			New Est.			Change (%)		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
NII	20.9	24.2	28.6	21.0	24.5	29.0	0.4	1.3	1.4
Other Income	1.0	1.2	1.5	1.0	1.2	1.4	0.5	-3.2	-5.3
<b>Total Income</b>	<b>21.9</b>	<b>25.5</b>	<b>30.1</b>	<b>22.0</b>	<b>25.8</b>	<b>30.4</b>	<b>0.4</b>	<b>1.1</b>	<b>1.0</b>
Operating Expenses	6.7	8.2	10.1	6.7	8.2	9.9	0.4	0.1	-1.5
<b>Operating Profits</b>	<b>15.2</b>	<b>17.2</b>	<b>20.1</b>	<b>15.3</b>	<b>17.5</b>	<b>20.5</b>	<b>0.4</b>	<b>1.6</b>	<b>2.3</b>
Provisions	0.9	1.0	1.4	0.9	1.1	1.4	-1.7	4.9	3.6
<b>PBT</b>	<b>14.3</b>	<b>16.2</b>	<b>18.7</b>	<b>14.4</b>	<b>16.4</b>	<b>19.1</b>	<b>0.6</b>	<b>1.4</b>	<b>2.2</b>
Tax	3.6	4.1	4.7	3.6	4.1	4.8	0.6	1.4	2.2
<b>PAT</b>	<b>10.7</b>	<b>12.1</b>	<b>14.0</b>	<b>10.8</b>	<b>12.3</b>	<b>14.3</b>	<b>0.6</b>	<b>1.4</b>	<b>2.2</b>
AUM	119	149	188	120	152	193	1.2	2.0	2.7
Borrowings	76	100	131	77	100	131	2.1	0.6	-0.1
RoA	8.3	7.6	7.0	8.3	7.7	7.1	-0.1	0.6	1.9
RoE	18.7	17.7	17.2	18.8	17.9	17.5	0.5	1.2	1.6

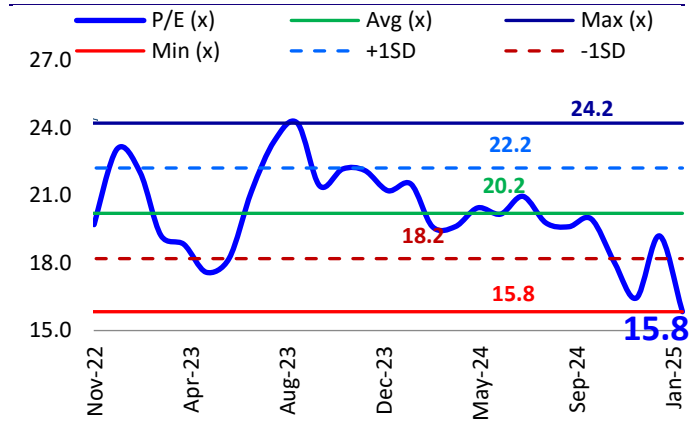
Sources: MOFSL, Company

**Exhibit 12: One-year forward P/B**



Source: MOFSL, Company

**Exhibit 13: One-year forward P/E**



Source: MOFSL, Company

**Exhibit 14: DuPont Analysis**

%	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	22.3	22.3	20.0	19.8	19.9	20.8	21.4	20.5	19.8
Interest Expended	4.4	6.5	6.5	5.0	3.5	4.6	5.2	5.2	5.4
<b>Net Interest Income</b>	<b>17.9</b>	<b>15.8</b>	<b>13.5</b>	<b>14.9</b>	<b>16.4</b>	<b>16.2</b>	<b>16.2</b>	<b>15.3</b>	<b>14.4</b>
Other Income	1.1	1.2	0.7	0.9	0.4	0.8	0.8	0.7	0.7
<b>Total Income</b>	<b>19.0</b>	<b>17.0</b>	<b>14.3</b>	<b>15.7</b>	<b>16.8</b>	<b>16.9</b>	<b>17.0</b>	<b>16.0</b>	<b>15.1</b>
<b>Operating Expenses</b>	<b>6.1</b>	<b>5.1</b>	<b>4.2</b>	<b>5.0</b>	<b>5.8</b>	<b>5.4</b>	<b>5.2</b>	<b>5.1</b>	<b>4.9</b>
<b>Operating Profit</b>	<b>12.9</b>	<b>11.9</b>	<b>10.1</b>	<b>10.7</b>	<b>11.0</b>	<b>11.5</b>	<b>11.8</b>	<b>10.9</b>	<b>10.2</b>
Provisions	0.4	1.5	0.7	0.8	0.3	0.5	0.7	0.7	0.7
<b>PBT</b>	<b>12.5</b>	<b>10.4</b>	<b>9.4</b>	<b>10.0</b>	<b>10.7</b>	<b>10.9</b>	<b>11.1</b>	<b>10.2</b>	<b>9.5</b>
Tax	3.5	2.6	2.3	2.5	2.7	2.7	2.8	2.6	2.4
<i>Tax Rate (%)</i>	<i>28.3</i>	<i>25.0</i>	<i>24.7</i>	<i>24.9</i>	<i>25.0</i>	<i>25.1</i>	<i>25.0</i>	<i>25.1</i>	<i>25.1</i>
<b>PAT</b>	<b>8.9</b>	<b>7.8</b>	<b>7.1</b>	<b>7.5</b>	<b>8.0</b>	<b>8.2</b>	<b>8.3</b>	<b>7.7</b>	<b>7.1</b>
Leverage	1.8	2.0	2.4	2.0	1.9	2.1	2.3	2.3	2.5
<b>RoE</b>	<b>16.0</b>	<b>15.8</b>	<b>16.8</b>	<b>15.0</b>	<b>15.0</b>	<b>17.5</b>	<b>18.8</b>	<b>17.9</b>	<b>17.5</b>

E: MOFSL Estimates

## Financials and Valuation

Income statement								INR m	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	3,897	7,468	10,149	12,038	14,988	21,166	27,730	32,951	39,833
Interest Expended	769	2,174	3,279	3,006	2,663	4,685	6,752	8,401	10,812
<b>Net Interest Income</b>	<b>3,129</b>	<b>5,295</b>	<b>6,870</b>	<b>9,032</b>	<b>12,325</b>	<b>16,481</b>	<b>20,978</b>	<b>24,550</b>	<b>29,021</b>
Change (%)		69	30	31	36	34	27	17	18
Fees and Commissions (Legal and Technical Fees)	133	297	217	294	138	219	313	355	444
Net gain on fair value changes	59	102	132	209	83	443	576	663	762
Non Operating Income (including recovery of bad debts)	0	6	15	21	81	123	153	184	221
Other Income	192	405	364	524	301	785	1,043	1,202	1,427
<b>Net Income</b>	<b>3,321</b>	<b>5,700</b>	<b>7,234</b>	<b>9,556</b>	<b>12,627</b>	<b>17,266</b>	<b>22,021</b>	<b>25,752</b>	<b>30,448</b>
Change (%)		72	27	32	32	37	28	17	18
Employees Cost	765	1,271	1,637	2,361	3,464	4,286	5,120	6,246	7,495
Depreciation	42	101	114	122	173	246	300	405	526
Others	253	342	367	575	741	1,021	1,297	1,583	1,899
Operating Expenses	1,061	1,713	2,118	3,058	4,378	5,553	6,717	8,233	9,920
<b>Operating Profit (PPoP)</b>	<b>2,260</b>	<b>3,986</b>	<b>5,116</b>	<b>6,497</b>	<b>8,249</b>	<b>11,713</b>	<b>15,304</b>	<b>17,519</b>	<b>20,528</b>
Change (%)		76	28	27	27	42	31	14	17
Provisions/write offs	76	493	352	455	201	554	927	1,089	1,401
<b>PBT</b>	<b>2,184</b>	<b>3,493</b>	<b>4,764</b>	<b>6,042</b>	<b>8,048</b>	<b>11,160</b>	<b>14,378</b>	<b>16,429</b>	<b>19,127</b>
Tax	618	874	1,174	1,507	2,012	2,800	3,594	4,124	4,801
Tax Rate (%)	28.3	25.0	24.7	24.9	25.0	25.1	25.0	25.1	25.1
<b>Reported PAT</b>	<b>1,567</b>	<b>2,620</b>	<b>3,590</b>	<b>4,535</b>	<b>6,035</b>	<b>8,359</b>	<b>10,783</b>	<b>12,306</b>	<b>14,326</b>
Change (%)		67	37	26	33	39	29	14	16
Proposed Dividend (incl. tax)	0	0	0	0	0	0	292	292	439

### Balance sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Capital	239	254	255	291	291	292	292	292	292
Reserves & Surplus	13,412	19,190	22,925	36,812	43,104	51,669	62,452	74,465	88,499
<b>Net Worth</b>	<b>13,651</b>	<b>19,444</b>	<b>23,180</b>	<b>37,104</b>	<b>43,395</b>	<b>51,962</b>	<b>62,745</b>	<b>74,758</b>	<b>88,791</b>
Borrowings	9,600	23,637	34,252	25,588	42,473	63,158	77,369	1,00,240	1,30,796
Change (%)		146	45	-25	66	49	22	30	30
Other liabilities	247	451	504	739	1,160	1,768	2,563	3,589	5,024
<b>Total Liabilities</b>	<b>23,498</b>	<b>43,532</b>	<b>57,936</b>	<b>63,431</b>	<b>87,028</b>	<b>1,16,888</b>	<b>1,42,677</b>	<b>1,78,586</b>	<b>2,24,612</b>
Loans	20,959	38,308	43,587	51,024	68,222	96,851	1,18,121	1,49,612	1,89,560
Change (%)		83	14	17	34	42	22	27	27
Investments	0	0	0	2,482	1,446	1,077	1,131	1,244	1,368
Change (%)					-42	-26	5	10	10
Net Fixed Assets	95	279	249	328	449	643	804	1,005	1,256
Other assets	2,445	4,945	14,100	9,597	16,914	18,317	22,622	26,726	32,428
<b>Total Assets</b>	<b>23,498</b>	<b>43,532</b>	<b>57,936</b>	<b>63,431</b>	<b>87,030</b>	<b>1,16,888</b>	<b>1,42,677</b>	<b>1,78,586</b>	<b>2,24,612</b>

E: MOFSL Estimates

### AUM Mix (%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
<b>AUM</b>	<b>21,128</b>	<b>38,922</b>	<b>44,454</b>	<b>50,671</b>	<b>69,148</b>	<b>96,406</b>	<b>1,20,127</b>	<b>1,52,299</b>	<b>1,93,078</b>
YoY Growth (%)	<b>110</b>	<b>84</b>	<b>14</b>	<b>14</b>	<b>36</b>	<b>39</b>	<b>25</b>	<b>27</b>	<b>27</b>
<b>Disbursements</b>	<b>14,822</b>	<b>24,087</b>	<b>12,451</b>	<b>17,562</b>	<b>33,915</b>	<b>48,814</b>	<b>50,474</b>	<b>64,606</b>	<b>80,758</b>
YoY Growth (%)	<b>110</b>	<b>63</b>	<b>-48</b>	<b>41</b>	<b>93</b>	<b>44</b>	<b>3</b>	<b>28</b>	<b>25</b>

## Financials and Valuation

### Ratios

Growth %	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
AUM	110	84	14	14	36	39	25	27	27
Disbursements	110	63	-48	41	93	44	3	28	25
Total Assets	104	85	33	9	37	34	22	25	26
NII	140	69	30	31	36	34	27	17	18
PPOP	170	76	28	27	27	42	31	14	17
PAT	194	67	37	26	33	39	29	14	16
EPS	136	57	37	10	33	38	29	14	16

(%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
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### Spreads Analysis (%)

Yield on loans	25.2	25.2	24.8	25.4	25.1	25.6	25.8	24.6	23.5
Cost of funds	10.2	13.1	11.3	10.0	7.8	8.9	9.6	9.5	9.4
Spread	15.0	12.1	13.5	15.4	17.3	16.8	16.2	15.2	14.1
Net Interest Margin	20.0	17.6	16.5	19.0	20.6	19.9	19.5	18.3	17.1

### Profitability Ratios & Capital Structure (%)

Debt-Equity ratio	0.7	1.2	1.5	0.7	1.0	1.2	1.2	1.3	1.5
Capital adequacy - CRAR	64.1	52.9	58.9	75.2	67.2	50.5	44.4	38.6	36.2
Leverage	1.7	2.2	2.5	1.7	2.0	2.2	2.3	2.4	2.5
Int. Expended/Int.Earned	19.7	29.1	32.3	25.0	17.8	22.1	24.3	25.5	27.1
RoA	<b>8.9</b>	<b>7.8</b>	<b>7.1</b>	<b>7.5</b>	<b>8.0</b>	<b>8.2</b>	<b>8.3</b>	<b>7.7</b>	<b>7.1</b>
RoE	<b>16.0</b>	<b>15.8</b>	<b>16.8</b>	<b>15.0</b>	<b>15.0</b>	<b>17.5</b>	<b>18.8</b>	<b>17.9</b>	<b>17.5</b>

### Cost/Productivity Ratios (%)

Cost/Income	31.9	30.1	29.3	32.0	34.7	32.2	30.5	32.0	32.6
Op. Exps./Avg Assets	6.1	5.1	4.2	5.0	5.8	5.4	5.2	5.1	4.9
Op. Exps./Avg AUM	6.8	5.7	5.1	6.4	7.3	6.7	6.2	6.0	5.7
Other Inc./Net Income	5.8	7.1	5.0	5.5	2.4	4.5	4.7	4.7	4.7
AUM/employee (INR m)	10.7	10.4	11.3	8.9	9.4	10.3	8.3	9.5	11.0
AUM/ branch (INR m)	122.1	154.5	169.7	168.9	185.4	185.4	158.1	181.3	209.9
Empl. Cost/Op. Exps. (%)	72.2	74.2	77.3	77.2	79.1	77.2	76.2	75.9	75.6

### Asset Quality

Gross NPAs (INR m)	181	532	452	530	939	1,328	1,939	2,732	3,685
Gross NPA (%)	<b>0.9</b>	<b>1.4</b>	<b>1.0</b>	<b>1.0</b>	<b>1.4</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>1.9</b>
Net NPAs (INR m)	139	438	371	345	476	608	970	1,339	1,769
Net NPA (%)	0.7	1.1	0.8	0.7	0.7	0.6	0.8	0.9	0.9
PCR (%)	<b>22.9</b>	<b>17.7</b>	<b>18.0</b>	<b>34.9</b>	<b>49.3</b>	<b>54.3</b>	<b>50.0</b>	<b>51.0</b>	<b>52.0</b>
Credit costs (% of gross loans)	<b>0.5</b>	<b>1.6</b>	<b>0.8</b>	<b>1.0</b>	<b>0.3</b>	<b>0.67</b>	<b>0.86</b>	<b>0.80</b>	<b>0.81</b>

VALUATION	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Book Value (INR)	57	77	91	127	149	178	215	256	304
<b>Price-BV (x)</b>	<b>12.9</b>	<b>9.6</b>	<b>8.1</b>	<b>5.8</b>	<b>4.9</b>	<b>4.1</b>	<b>3.4</b>	<b>2.9</b>	<b>2.4</b>
EPS (INR)	7	10	14	16	21	29	37	42	49
EPS Growth YoY	136	57	37	10	33	38	29	14	16
<b>Price-Earnings (x)</b>	<b>112</b>	<b>71</b>	<b>52</b>	<b>47</b>	<b>36</b>	<b>26</b>	<b>20</b>	<b>18</b>	<b>15</b>
DPS (INR)	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.5
<b>Dividend yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>

E: MOFSL Estimates

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SELL	< - 10%
NEUTRAL	< - 10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Nainesh Rajani

Email: [nainesh.rajani@motilaloswal.com](mailto:nainesh.rajani@motilaloswal.com)

Contact: (+65) 8328 0276

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email

Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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