

MAGMA FINCORP

Business normalising; asset quality volatility persists

India Equity Research | Banking and Financial Services



Magma Fincorp's (Magma) Q3FY20 PAT at INR224mn belied expectations following higher provisions even as core profitability came in line. Key highlights: i) As anticipated, business momentum normalised (post soft Q2FY20) & disbursements jumped 2x QoQ leading to marginal improvement in AUM QoQ. The growth was driven by focussed products (used assets, housing, SME) constituting >80% of disbursements; ii) Gross stage-3 rose to 6.7% (6.4% in Q2FY20) despite a seasonally strong quarter keeping credit cost higher following lower collection efficiency; and iii) Mr. Deepak Patkar was appointed CEO of the ABF business (earlier Chief Risk Officer) with effect from February 1, 2020, which addresses the management void concern. Factoring the softer 9mFY20 performance, we revise down FY20E EPS ~35% (on low base) & BV 1-2%. We expect valuations to settle lower till more comfort emerges on liquidity, management reshuffle and volatile credit cost. That said, 0.5x FY21E P/ABV implies favourable risk-reward. Maintain 'BUY' with TP of INR85.

Asset quality volatility persists; higher credit cost surprising

Gross stage-3 assets rose further to 6.7% (6.4% in Q2FY20) given: i) disproportionate rise in CV delinquency; ii) lower rollbacks adversely impacting ECL; iii) higher loss on settlement/resale; and iv) a conservative writing-off policy, thereby also keeping credit cost elevated. Stepping into Q4FY20, rise in collection efficiency and Q4 being a strong quarter indicates management confidence on improvement. We expect asset quality volatility to persist, which will rein-in investors' confidence till stability emerges.

Growth normalisation playing through; sustenance key

After a soft Q2FY20, business momentum showed signs of normalisation with disbursements at ~INR20bn leading to marginal QoQ rise in AUM. Going forward, with reducing liquidity challenges (albeit still there), we expect funding cost to taper (incremental borrowing cost came off >40bps). This, along with change in portfolio mix (towards higher-yielding used assets), will support NIMs. That said, we believe transition will be slow and revenue challenges will persist.

Outlook and valuation: Comforting valuations; maintain 'BUY'

Magma was on track in its transformation journey, but emerging challenges—macro and management change—impacted 9mFY20 performance. We anticipate near-term challenges to persist, but valuation at 0.5x FY21E P/ABV lends comfort. We maintain 'BUY/SP'.

Financials

(INR mn)

Year to March	Q3FY20	Q3FY19	Growth %	Q2FY20	Growth %	FY19	FY20E	FY21E
Net revenue	3,220	3,470	(7.2)	3,349	(3.8)	15,119	14,002	16,587
Net profit	224	740	(69.7)	295	(24.2)	3,055	1,081	3,873
Dil. EPS (INR)	0.8	2.7	(69.6)	1.1	(24.5)	11.3	4.0	14.4
Adj. BV (INR)						93.4	95.8	113.9
Price/ Adj book (x)						0.6	0.6	0.5
Price/ Earnings (x)						4.9	13.8	3.8

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: MAGM.BO, B: MGMA IN)

CMP	: INR 55
Target Price	: INR 85
52-week range (INR)	: 138 / 36
Share in issue (mn)	: 269.4
M cap (INR bn/USD mn)	: 16 / 208
Avg. Daily Vol.BSE/NSE('000)	: 397.8

SHARE HOLDING PATTERN (%)

	Current	Q2FY20	Q1FY20
Promoters *	24.4	24.4	24.4
MF's, FI's & BK's	39.2	39.4	35.3
FII's	27.7	28.8	29.0
Others	8.7	7.4	11.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	0.5	(1.8)	(4.9)
3 months	9.6	1.6	3.6
12 months	1.7	13.0	16.0

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Table 1: Q3FY20 earnings highlights

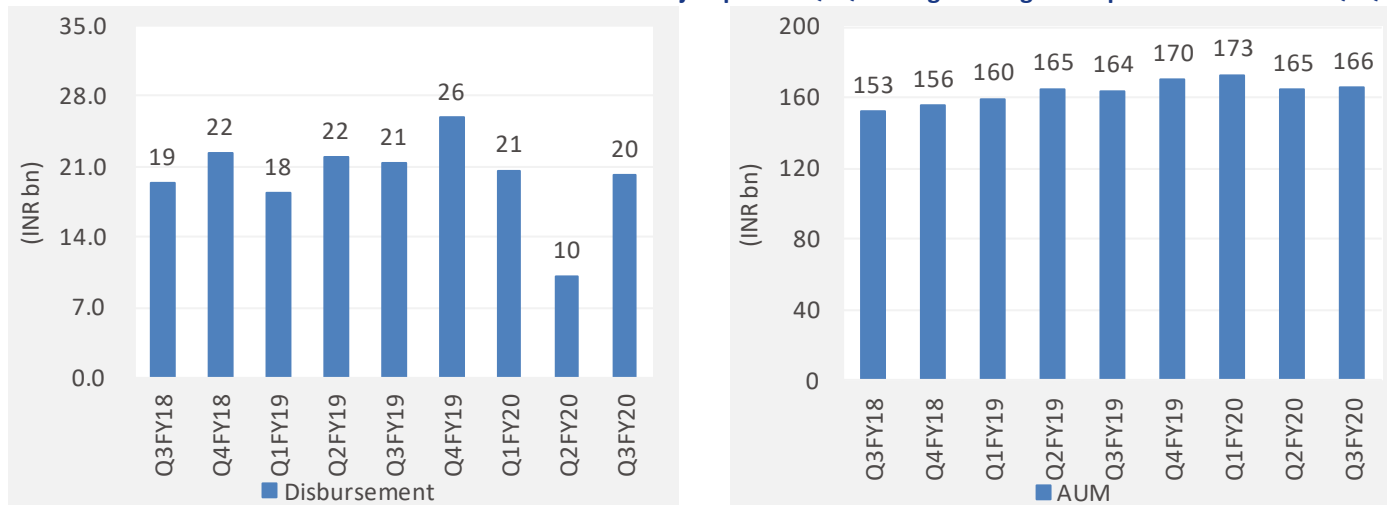
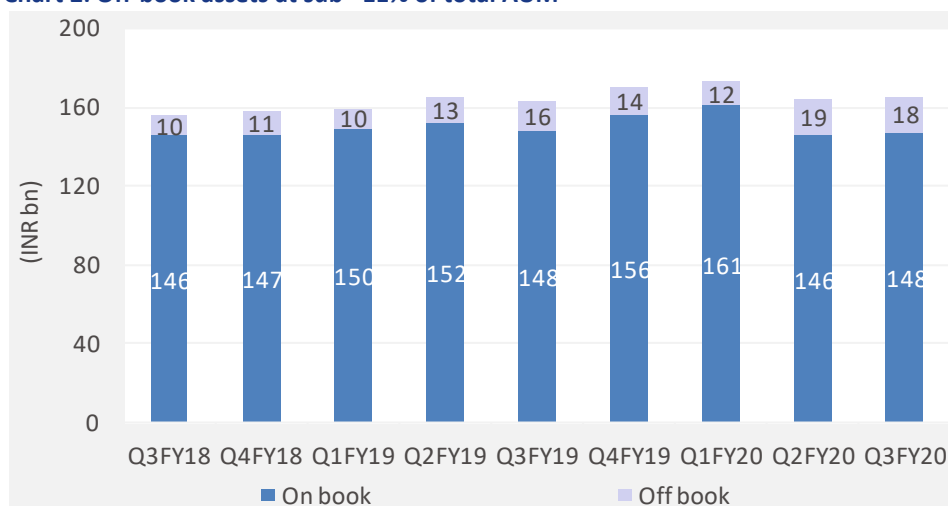
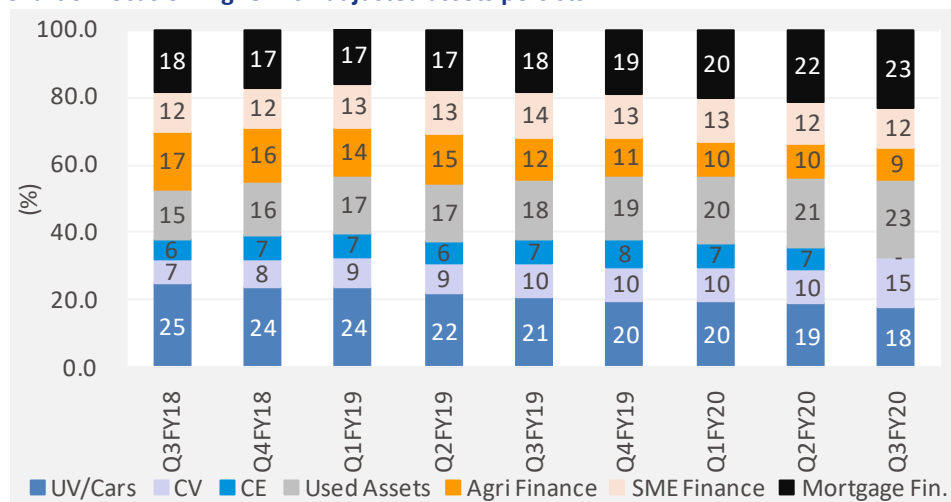
(INR mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	Comments
Interest income	6,091	6,247	(2.5)	6,628	(8.1)	
Interest expense	3,103	2,869	8.2	3,420	(9.3)	
Net interest income	2,987	3,378	(11.6)	3,208	(6.9)	Revenue momentum was soft following softer business momentum and pressure on NIMs (~10bps decline sequentially)
Non-interest income	233	92	153.1	140	65.7	
Net revenues	3,220	3,470	(7.2)	3,349	(3.8)	
Operating expenses	1,736	1,749	(0.8)	1,746	(0.6)	Cost remained under control
-Staff expense	1,099	1,112	(1.1)	1,109	(0.8)	
-Depreciation	195	120	61.9	196	(0.5)	
-Other opex	441	517	(14.6)	441	(0.0)	
Operating profit	1,485	1,721	(13.7)	1,603	(7.4)	
Provisions	1,206	525	129.6	1,225	(1.6)	Credit costs remained elevated despite a seasonally strong quarter largely driven by delequencies in CV segment and lower rollbacks
Profit before tax	296	1,168	(74.7)	408	(27.5)	
Tax expense	72	429	(83.3)	112	(36.3)	
Profit after tax	224	740	(69.7)	295	(24.2)	
EPS (INR)	0.8	2.7	(69.6)	1.1	(24.5)	
Key Metrics						
AUM	1,65,740	1,63,960	1.1	1,64,630	0.7	AUM witnessed marginal growth as the business environment remains weak
- On book	1,47,760	1,48,230	(0.3)	1,45,810	1.3	
Disbursements	20,140	21,320	(5.5)	10,150	98.4	Disbursements normalised after a muted Q2FY20 with >80% driven by focused products

Source: Company, Edelweiss research

Table 2: Asset quality softens further with higher deterioration in CV segment

(INR mn)	Q3FY19	Q1FY20	Q2FY20	Q3FY20
Gross Stage 1 and Stage 2 assets	1,39,880	1,52,820	1,36,530	1,37,900
ECL Provision – Stage 1 and 2	3,330	3,000	2,860	2,770
Stage 1 and Stage 2 coverage ratio (%)	2.4	2.0	2.1	2.0
Gross Stage 3 assets	9,460	8,140	9,280	9,870
ECL Provision – Stage 3	3,610	2,910	3,280	3,405
Gross Stage 3 assets (%) (~ GNPA)	6.3	5.1	6.4	6.7
Net Stage 3 assets (%) (~NNPA)	4.0	3.3	4.2	4.5
Stage 3 coverage ratio (%)	38.1	35.8	35.4	34.5

Source: Company

Chart 1: Business momentum normalised and disbursements jumped 2x QoQ leading to marginal improvement in AUM QoQ**Chart 2: Off-book assets at sub ~11% of total AUM****Chart 3: Focus on higher risk-adjusted assets persists**

Source: Company

Financial snapshot

(INR mn)

Year to March	Q3FY20	Q3FY19	% change	Q2FY20	% change	YTD FY20	FY20E	FY21E
Operating income	6,091	6,247	(2.5)	6,628	(8.1)	19,031	24,526	26,890
Interest exp	3,103	2,869	8.2	3,420	(9.3)	9,811	12,423	12,341
Other income	233	92	153.1	140	65.7	580	2,039	2,661
Net revenues	3,220	3,470	(7.2)	3,349	(3.8)	9,800	14,002	16,587
Staff costs	1,099	1,112	(1.1)	1,109	(0.8)	3,046	4,406	4,761
Depreciation	195	120	61.9	196	(0.5)	557	520	548
Other expenses	441	517	(14.6)	441	0.0	1,270	2,784	3,001
Operating expenses	1,736	1,749	(0.8)	1,746	(0.6)	5,253	7,710	8,310
Pre prov profit	1,485	1,721	(13.7)	1,603	(7.4)	4,547	6,153	7,655
Provisions & writeoff	1,206	525	129.6	1,225	(1.6)	3,721	4,297	2,462
Profit before tax	296	1,168	(74.7)	408	(27.5)	859	1,856	5,193
Provision for taxes	72	429	(83.3)	112	(36.3)	233	774	1,320
PAT	224	740	(69.7)	295	(24.2)	626	1,081	3,873
Diluted EPS (INR)	0.8	2.7	(69.6)	1.1	(24.5)	2.3	4.0	14.4
Ratios (%)								
Cost/income	53.9	50.4		52.1		53.6	55.1	50.1
Provisions / PPP	81.2	30.5		76.5		81.8	69.8	32.2
Tax rate	24.2	36.7		27.6		27.2	41.7	25.4
Gross NPA	6.7	6.3		6.4		6.7	5.8	5.1
Net NPA	4.5	4.0		4.2		4.5	3.9	3.3
Valuation metrics								
B/V per share (INR)							121.7	138.8
Adj book value / share							95.8	113.9
Price/ Book (x)							0.5	0.4
Price/ Adj. book (x)							0.6	0.5
Price/ Earnings (x)							13.8	3.8

Change in Estimates

	New	FY20E Old	% change	New	FY21E Old	% change	Comments
NII	12,103	12,701	(4.7)	14,549	15,055	(3.4)	Factoring in moderate business momentum and pressure on NIMs
PPOP	6,152	6,797	(9.5)	7,655	8,205	(6.7)	
Provisions	4,297	4,072	5.5	2,462	2,620	(6.0)	Factoring higher credit cost amid weak business environment
PAT	1,081	1,653	(35.6)	3,873	4,061	(4.6)	
NIMs	8.3	8.7		9.2	9.3		

Q3FY20 result concall takeaways

With respect to growth & outlook

- The company has appointed Mr. Deepak Patkar as CEO of ABF business with effect from 1st February 2020. He was with Magma in capacity of Chief Risk Officer (CRO) since September 2018.
- The performance of the company in Q3FY20 was much better than that in Q2FY20 as disbursements returned to normalised levels of INR20bn. The growth was led by focused products viz. used assets, affordable housing, and SME (81% share in disbursement compared to 60% YoY).
- While the overall economic environment remains subdued, the company is confident of closing the year with AUM levels similar to FY19 (thereby adding INR5bn in Q4FY20). This growth would be led by focused products.
- The risk-version toward NBFCs has reduced in Q3FY20 which is reflected in easier and cheaper liquidity.
- **Used Assets** – Within used assets, used cars have higher share and the portfolio is behaving quite well. Used CVs would be mere 15% of overall used category.
 - The company diverted the disbursements to this category as new vehicle industry is not doing good and the EMI for customer are 35-40% lower.
 - This category has growth at CGAR of 35% over last 3 years and supports NIMs too.
 - In order to support growth, the company would look to increase distribution network.
- **Housing finance** – The business has reported good growth in Q3FY20 with 46% YoY growth in home loan disbursements.
 - With focus on affordable housing, the share of home loans has increased to 46% of overall AUM from 34% YoY.
 - The company has on-boarded ~1000 customers in last 1 year of which mere 65 are 1dpd+ and collection efficiency of them is ~99.7%.
 - The company would infuse equity capital of INR1bn (taking net-worth to INR5bn) by March 2020.
- Overall, while the cash-flows in rural areas were stressed even in festive season, the company is witnessing some green-shoots in rural economy (except for CV segment) – and hence, Q4FY20 is expected to be a good quarter.
- The company would focus on developing technology and automation with an aim to reduce operating expenses.

With respect to liquidity/borrowings/margins

- The liquidity situation has been easing for the company and it has a robust pipeline of funding sanctions and undrawn credit lines.
- In Q2FY20, the company focused on availing long-term sources and in Q3FY20, the focus was on reducing costs.
- The cost of borrowings is ~10.2% and is expected to decline starting Q1FY21. For FY21, the costs are expected to be lower by 30-50bps.
- It has maintained ~INR27bn of liquidity (consolidated) which gives some flexibility to choose sources of borrowings.

- The incremental borrowings have been in the range of 9.2% to sub-10% (50-70bps lower than 2 quarters back).
- The ALM remains comfortable with positive in all bucket.

With respect to asset quality

- While the Net Credit Loss (NCL) for the company has been quite controlled (except for CV where it has increased), the performance is below trend (given Q3 is a seasonally strong quarter) as collections have not picked up.
- The pain in CV segment is significant given the stretched cash-flows of the borrowers which is preventing the roll-back from stage 3 to stage 1/2.
 - The CV segment contributes ~80% of NCL with loss on settlement/re-sale almost doubled YoY.
 - The release rate of repossessed vehicles has dropped to 35% from 45% earlier and the realisations are also lower which is leading to higher credit cost.
 - While the stress in experienced pan-India, the states of Maharashtra, Uttar Pradesh, Bihar, and West Bengal are relatively more stressed.
 - However, there has been an improvement of 470bps in collection efficiency in Q3FY20 (despite a bad October) and similar trend is observed in January 2020.
- Overall, the company believes that credit costs have peaked out and as economy regains traction, the claw back of NPA customers would begin.
- The early warning indicators (EWI) have not been stress-tested for such prolonged slow-down in industry hence could not capture the deterioration well in advance.

Q2FY20 result concall takeaways

With respect to growth & outlook

- The performance of the company had slowed down during the quarter given the tight liquidity and lower collections and the overall profitability was hurt due to higher funding costs and credit costs.
- Asset liability management and conserving liquidity was top priority for the company over disbursement in Q2FY20 leading to subdued growth.
 - The focus remains on protecting interests of all stakeholders (especially debt holders).
- However, the company believes that a major hurdle with respect to liquidity has been passed and H2FY20 should be better (seasonally strong period).
- **Credit cost guidance – The company increased the guidance from 1.5-1.75% earlier to 2.25-2.5% for full year now.**
- **New CEO for vehicle finance business** – the company is working with head-hunters and the new candidate is expected to be finalised by end of fiscal (Kaushik Banarjee's contract is valid till then).
- **Conversion to Small Finance Bank** – tacking the current challenging environment and settling the business model remains the top priority post which the company would think about such strategic initiatives.
- **Outlook on disbursements** – While the months of August and September were slow, momentum has picked up in October (achieved ~70% of monthly volume).
 - November and December are expected to be better thereby, Q3FY20 would be quite normal with > INR20bn disbursements on overall level.
 - There would be structural adjustment in product mix – SME would be calibrated, mortgages will contribute more, used vehicles would be increased along with some slow-down in CV/CE segments.
- **Co-origination** – The company has started co-origination with a bank (has done with same bank in 2000-2008 period) in October with PV/CV/CE segments. While both parties have experience of working with each other, some time would be needed for things to settle.
- **Asset Finance –**
 - The slowdown is worst felt in commercial vehicle segment while used asset remains least hit.
 - There would be further strategic shift in product mix with more focus on used assets – 63% of disbursements in Q2FY20 were here.
- **SME financing business –**
 - There is stress in segment due to combined effect of liquidity tightness and economic slowdown.
 - As a result, the cautious stance would continue with preference to quality over growth.
- **Housing Finance –**
 - The business continues to do well and disbursements were robust.
 - Expected to end the FY with high double digit growth.
 - The strategy remains to focus more on home loans and direct sourcing.

- The collection efficiency remains good at 99.8% for 12 months loans.
- The company has received first sanction from NHB and a large lender and has evolved into a national player with presence in 11 states.

- **General insurance –**

- The growth remains good with expectation of ending year with high double digit growth.
- The growth is driven by retail (85% of GWP in H1FY20) as well commercial segments.
- During the quarter, the company was empanelled by Maruti and the benefits are expected to start from Q3FY20.

With respect to liquidity/borrowings/margins

- The liquidity situation was quite tight in Q2FY20 (some large repayments in July and August); however the company has repaid all short-term liabilities including commercial paper and replaced the same with better tenor matched instruments during the quarter.
- It raised INR21.36bn via term loan, direct assignment & pass through certificates and ended the quarter with over INR19bn of Liquidity.
- It focuses on adding lenders – have added 6 new lenders during the quarter. Has built a strong pipeline of long-term funds from various institutions.
- The cost of funds spiked by 107bps YoY; however, the company expects incremental costs to decline by 50-70bps and the effect to be felt on average costs by April 2020.
- During the quarter direct assignment was ~INR8.4bn compared to INR4.5bn YoY.
- There was dip in NIM of ~130bps YoY as ~80% of the book is fixed rate compared to floating-rate liability.
- Yields have been increased by ~70bps in Q2FY20 and the benefit will flow in subsequent quarters.

With respect to asset quality

- **ABF business –**

- The collection efficiency was ~97.5% which was hit significantly in the month of September (94.2%).
- There is stress in CV and CE segments with 75% of incremental stage 3 assets flowing from these segments (especially from Buhar, UP and West Bengal which contributes ~30% of AUM).
- September was extremely soft due to floods and excessive rains in key states (especially in last few days).
- The trend has been improving (>100% in August) in October despite festivals and holidays. November and December are expected to be better.
- Overall, the company remains optimistic about better H2FY20.

- **In Maharashtra –**

- Collection efficiency for SME and housing segments was better in October and in CE segment it was ~99%.
- ABF – October was good with >99% collection efficiency.

- **Steady-state NPA levels** – the company would be comfortable with overall NPAs at 4%-5% with 5%-6% in ABF, ~3% in SME and ~1% in housing finance.
- **Credit cost guidance** – The company increased the guidance from 1.5-1.75% earlier to 2.25-2.5% for full year now.
- As a policy, the company writes down exposure of 450+dpd in SME and 730+dpd in other businesses.
- The increase in CPMI trend in ABF (from 4.73% to 5.35% QoQ) is largely due to CV segment.
- It has taken various steps to address stress such as improved grading systems, reduced LTV, and focusing on select products.
- The company does not expect any adverse impact on credit rating (especially short-term).

Other highlights

- Efforts are being taken to reduce operating expenditure – expected to end FY20 as same level as FY19
- The impact of DTA is not yet recognised – would be done by Q4FY20 worth ~INR200mn.

Company Description

Magma is one of the leading NBFCs offering a range of financial products with pan-India presence. The company finances purchase of a gamut of products such as CVs, tractors, cars, used vehicles, gold as well as construction equipment with mortgages added recently to its portfolio. It has a strong network of 326 branches spread across 21 states/ Union Territories in India, with ~INR166bn assets under management

Investment Theme

Magma was on track in its transformation journey, but emerging challenges—macro and management change—impacted 9mFY20 performance. We anticipate near-term challenges to persist, but valuation at 0.5x FY21E P/ABV lends comfort. We maintain 'BUY/SP'.

Key Risks

Despite diversifying in nine segments, auto financing (cars, CV, CE) still contributes higher to AUM. The growth and asset quality performance in these businesses would be correlated to underlying industry dynamics. Hence, Magma's earnings as well will be subject to seasonality and cyclicity of the same

Financial Statements

Key Assumptions

Year to March	FY19	FY20E	FY21E	FY22E
Macro				
GDP(Y-o-Y %)	6.8	5.0	5.8	6.5
Inflation (Avg)	3.4	4.3	4.8	5.0
Repo rate (exit rate)	6.3	5.2	4.5	5.0
USD/INR (Avg)	70.0	71.5	71.0	70.0
Sector				
Credit growth	14.0	11.0	13.0	15.0
Bank's base rate (%)	9.0	8.7	8.5	8.5
Wholesale borr. cost (%)	8.5	8.5	8.3	8.1
G-sec yield	7.0	7.1	7.1	7.1
Company				
Yield on advances	18.0	17.2	17.4	16.8
Cost of funds	9.7	10.8	9.9	9.5
Spread	8.3	6.4	7.5	7.4
Employee cost growth	10.8	10.6	8.1	10.5
Other opex growth	12.3	(15.3)	7.8	15.5
Tax rate (%)	32.0	41.7	25.4	25.2
Dividend payout	5.0	5.0	5.0	5.0
Disbursement growth	22.8	(12.6)	19.5	26.8
Gross NPLs	5.4	5.8	5.1	4.8
Net NPLs	3.9	3.9	3.3	2.9
Provision coverage	26.7	33.7	34.7	39.9

Income statement

(INR mn)

Year to March	FY19	FY20E	FY21E	FY22E
Interest income	23,955	24,526	26,890	30,818
Interest expended	10,623	12,423	12,341	13,988
Net interest income	13,332	12,103	14,549	16,831
Fee & other income	1,217	1,351	1,475	1,720
Other income	596	688	1186	1396
Net revenues	15,119	14,002	16,587	19,136
Operating expense	7,765	7,710	8,310	9,298
- Employee exp	3,984	4,406	4,761	5,260
- Depn /amortisation	493	520	548	573
- Other opex	3,288	2,784	3,001	3,465
Preprovision profit	7,329	6,153	7,655	9,055
Provisions	2,833	4,297	2,462	2,941
Profit Before Tax	4,496	1,856	5,193	6,114
Less: Provision for Tax	1,441	774	1,320	1,544
Net profit	3,055	1,081	3,873	4,570
Shares o /s (mn)	269	269	269	269
Basic EPS (INR)	11.3	4.0	14.4	17.0
Diluted shares o/s (mn)	269	269	269	269
Adj. Diluted EPS (INR)	11.3	4.0	14.4	17.0
Dividend per share (DPS)	0.5	0.1	0.6	0.7
Dividend Payout Ratio (%)	5.0	5.0	5.0	5.0

Growth ratios (%)

Year to March	FY19	FY20E	FY21E	FY22E
Operating income growth	7.1	(9.2)	20.2	15.7
Revenues	7.3	(7.4)	18.5	15.4
Opex growth	11.3	(0.7)	7.8	11.9
PPP growth	2.7	(16.0)	24.4	18.3
Provisions growth	(24.5)	51.7	(42.7)	19.4
Adjusted Profit	32.4	(64.6)	258.1	18.0

Operating ratios

Year to March	FY19	FY20E	FY21E	FY22E
Yield on advances	18.0	17.2	17.4	16.8
Cost of funds	9.7	10.8	9.9	9.5
Net interest margins	9.8	8.3	9.2	9.0
Spread	8.3	6.4	7.5	7.4
Cost-income	51.4	55.1	50.1	48.6
Tax rate	32.0	41.7	25.4	25.2

Banking and Financial Services

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20E	FY21E	FY22E	
Share capital	538	538	538	538	
Reserves & Surplus	31,129	32,227	36,816	41,821	
Shareholders' funds	31,668	32,766	37,355	42,359	
Total Borrowings	113,453	117,002	132,184	163,365	
Long Term Liabilities	1,591	1,456	1,432	1,455	
Def. Tax Liability (net)	166	218	442	699	
Sources of funds	146,878	151,442	171,412	207,878	
Gross Block	140,964	145,015	164,763	201,092	
Net Block	5,897	6,155	6,415	6,688	
Capital work in progress	1,933	1,717	1,423	1,104	
Intangible Assets	4,449	4,380	4,541	4,814	
Total Fixed Assets	6,366	5,824	5,729	5,820	
Non current investments	(1,917)	(1,445)	(1,188)	(1,006)	
Uses of funds	146,878	151,442	171,412	207,878	
Earning assets	143,353	148,269	168,557	205,319	
Disbursements	87,667	76,590	91,561	116,078	
BVPS (INR)	117.6	121.7	138.8	157.4	
AUM	173,241	171,476	188,076	222,919	
AUM growth	10.6	(1.0)	9.7	18.5	
EA growth	12.2	3.4	13.7	21.8	
Gross NPAs	9,306.4	9,964	9,553	10,725	
Net NPAs	6,817	6,605	6,243	6,443	
Provision coverage	26.7	33.7	34.7	39.9	
Gross NPA ratio	5.4	5.8	5.1	4.8	
Net NPA ratio	3.9	3.9	3.3	2.9	

RoE decomposition (%)		FY19	FY20E	FY21E	FY22E
Year to March					
Net int. income/assets	9.8	8.3	9.2	9.0	
Other income/Assets	0.4	0.4	0.4	0.3	
Net revenues/assets	10.3	8.7	9.5	9.3	
Operating expense/assets	5.7	5.3	5.2	5.0	
Provisions/assets	2.1	2.9	1.6	1.6	
Taxes/assets	1.1	0.5	0.8	0.8	
Total costs/assets	8.9	8.8	7.6	7.4	
ROA	2.3	0.7	2.4	2.4	
Equity/assets	20.5	22.1	22.1	21.3	
ROAE (%)	11.0	3.4	11.0	11.5	

Valuation parameters		FY19	FY20E	FY21E	FY22E
Year to March					
Adj. Diluted EPS (INR)	11.3	4.0	14.4	17.0	
Y-o-Y growth (%)	16.6	(64.6)	258.1	18.0	
BV per share (INR)	117.6	121.7	138.8	157.4	
Adj. BV per share (INR)	93.4	95.8	113.9	129.5	
Diluted P/E (x)	4.9	13.8	3.8	3.3	
P/B (x)	0.5	0.5	0.4	0.4	
Price/ Adj. BV (x)	0.6	0.6	0.5	0.4	
Dividend Yield (%)	0.8	0.1	1.1	1.3	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Magma Fincorp	208	13.8	3.8	0.5	0.4	3.4	11.0
Aavas Financiers	2,178	59.7	49.1	7.4	6.4	13.3	14.1
HDFC	54,739	23.4	18.1	2.5	2.3	16.2	15.4
Indiabulls Housing Finance	1,661	5.5	5.7	0.8	0.8	15.9	14.8
LIC Housing Finance	2,834	8.9	6.8	1.2	1.1	14.4	16.7
Mahindra & Mahindra Financial Services	3,030	17.8	14.1	2.0	1.9	11.6	13.8
Manappuram Finance	2,172	13.6	10.8	3.1	2.7	24.6	26.8
Muthoot Finance	4,172	11.5	10.4	2.7	2.3	26.0	23.8
REC	3,845	5.1	4.4	0.8	0.7	15.4	16.3
Repco Home Finance	280	6.5	6.0	1.1	1.0	19.0	17.5
Shriram City Union Finance	1,255	7.4	6.5	7.4	6.5	17.7	17.4
Shriram Transport Finance	3,128	7.7	6.6	1.3	1.1	18.7	18.6
Median	-	10.2	6.7	1.3	1.1	16.1	16.5
AVERAGE	-	15.7	12.7	2.1	1.9	16.3	17.2

Source: Edelweiss research

Additional Data

Directors Data

Mayank Poddar	Chairman	Vijayalakshmi R Iyer	Director
V.K.Vishwanathan	Director	Sunil Chandiramani	Director
Narayan K.Seshadri	Non Executive Independent Chairman	Sanjay Chamria	Vice Chairman & MD
Bontha Prasad Rao	Director		

Auditors - B S R & Co. LLP

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
TrueNorth	10.49	Amansa Holdings	7.67
Lavender Investments	7.00	Nippon Life India Asset Management	6.92
International Finance Corp.	5.06	N J Ballas Asset Management	4.91
IDFC Mutual Fund	4.42	Bank Muscat	3.25
ICICI Prudential Life Insurance	2.65	Goldman Sachs Asset Management	2.42

**as per last available data*

Bulk Deals

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

**in last one year*

Insider Trades

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

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Aavas Financiers	REDUCE	SU	M	Aditya Birla Capital	BUY	SO	H
Axis Bank	BUY	SO	M	Bajaj Finserv	REDUCE	SU	L
Bank of Baroda	BUY	SO	M	DCB Bank	BUY	SP	M
HDFC	BUY	SO	L	Federal Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	HDFC Bank	BUY	SO	L
Indiabulls Housing Finance	HOLD	SU	M	IDFC FIRST BANK	BUY	SP	L
Kotak Mahindra Bank	BUY	SP	M	IndusInd Bank	BUY	SO	L
LIC Housing Finance	BUY	SO	M	L&T Finance Holdings	HOLD	SP	M
Mahindra & Mahindra Financial Services	BUY	SP	M	Magma Fincorp	BUY	SP	M
Max Financial Services	BUY	SO	L	Manappuram Finance	HOLD	SU	H
Muthoot Finance	BUY	SO	M	Multi Commodity Exchange of India	HOLD	SP	M
Punjab National Bank	REDUCE	SU	M	REC	HOLD	SP	M
Repco Home Finance	BUY	SP	M	Shriram City Union Finance	BUY	SP	M
Shriram Transport Finance	BUY	SO	M	South Indian Bank	BUY	SP	M
State Bank of India	BUY	SO	L	Union Bank Of India	HOLD	SU	M
Yes Bank	BUY	SP	M				

ABSOLUTE RATING

Ratings

Expected absolute returns over 12 months

Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings

Criteria

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

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

RELATIVE RISK RATING

Ratings

Criteria

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

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings

Criteria

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

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

Aavas Financiers, Aditya Birla Capital, AU Small Finance Bank Ltd, Axis Bank, Bajaj Finserv, Bank of Baroda, DCB Bank, Equitas Holdings, Federal Bank, HDFC, HDFC Bank, HDFC Life Insurance Company Ltd, ICICI Bank, ICICI Lombard General Insurance Company Ltd, IDFC FIRST BANK, Indiabulls Housing Finance, IndusInd Bank, ICICI Prudential Life Insurance Company Ltd, Kotak Mahindra Bank, LIC Housing Finance, L&T Finance Holdings, Max Financial Services, Multi Commodity Exchange of India, Manappuram Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Punjab National Bank, Power Finance Corp, REC, Repco Home Finance, SBI Life Insurance Company Ltd, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
01-Feb-20	BFSI (Life Insurance)	Budget commentary forebodes ULIP disruption; <i>Budget Review</i>		
01-Feb-20	BFSI	Union Budget 2020 – Impact analysis; <i>Budget Review</i>		
31-Jan-20	State Bank of India	A quarter of one-offs; best positioned to play recovery cycle; <i>Result Update</i>	318	Buy

Distribution of Ratings / Market Cap

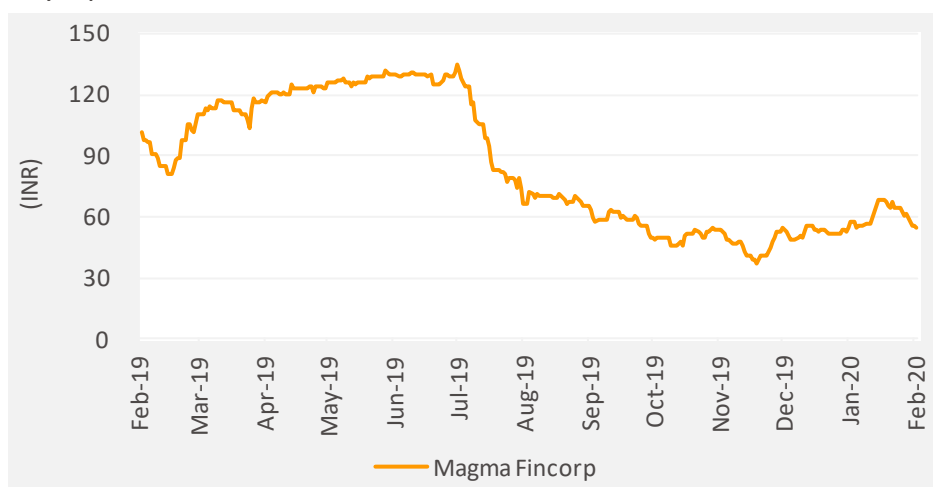
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

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

One year price chart



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