11 August 2016

Update | Sector: Financials

# Dewan Housing

| BSE SENSEX | S&P CNX |
|---|---|
| 27,775 | 8,575 |



**Stock Info**

| | |
|---|---|
| Bloomberg | DEWH IN |
| Equity Shares (m) | 291.8 |
| 52-Week Range (INR) | 268 / 141 |
| 1, 6, 12 Rel. Per (%) | 16/47/-2 |
| M.Cap. (INR b) | 73.8 |
| M.Cap. (USD b) | 1.1 |
| Avg Val, INR m | 322 |
| Free float (%) | 65.1 |

**Financials Snapshot (INR b)**

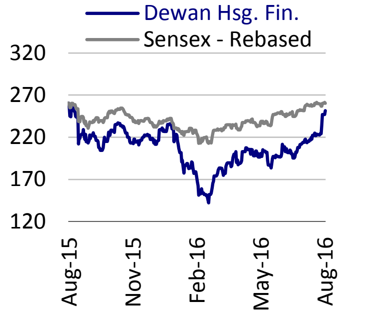
| Y/E Mar | 2016 | 2017E | 2018E |
|---|---|---|---|
| NII | 14.8 | 18.3 | 23.3 |
| PPP | 12.8 | 15.9 | 20.4 |
| Adj. PAT | 7.3 | 8.9 | 11.2 |
| EPS (INR) | 25.0 | 30.5 | 38.2 |
| EPS Gr. (%) | 17.2 | 22.2 | 25.1 |
| BV (INR) | 171.9 | 193.5 | 221.9 |
| P/E (x) | 10.1 | 8.3 | 6.6 |
| P/BV (x) | 1.5 | 1.3 | 1.1 |
| RoAA (%) | 1.2 | 1.3 | 1.3 |
| RoE (%) | 15.1 | 16.7 | 18.4 |

**Shareholding pattern (%)**

| As On | Jun-16 | Mar-16 | Jun-15 |
|---|---|---|---|
| Promoter | 34.9 | 34.9 | 34.9 |
| DII | 2.6 | 2.6 | 3.8 |
| FII | 32.2 | 33.1 | 26.7 |
| Others | 30.3 | 29.4 | 34.6 |

FII Includes depository receipts

**Stock Performance (1-year)**




## CMP: INR253 TP: INR333(+32%) Buy

## Poised for re-rating

### Triggers in place to drive up the return ratios

Dewan Housing (DEWH) is one of the largest pan-India housing finance companies focusing on the lower and middle income (LMI) segment. With 353 branches/centers across the country, it largely caters to the self-employed segment, which constitutes 40% of total AUM. DEWH's core competence lies in its ability to conduct credit appraisals for customers in the LMI and self-employed segments. We expect 20%/23% AUM/PAT CAGR over FY16-19 and 1.4%/19% RoA/RoE by FY19. At P/B of 1.1x FY18E, we believe DEWH is undervalued, especially when peers are trading at more than 3x. As the triggers of better funding cost and lower cost-to-income ratio lead to better return ratios, we expect re-rating to happen. **Buy** with a target price of INR333, valuing the stock at 1.5x FY18ABV.

### Evolving liability mix to support margins in competitive environment

Over the past few years, DEWH has been consistently focusing on diversifying its liability mix. Share of bank borrowings has declined from 74% five years ago to 52% now. Moreover, management targets to further lower this share to ~40% over the next two years. Consequently, the share of borrowings from capital markets increased from 11% to 32% over the same period. DEWH is in the process of raising INR40b from an NCD issue, which has received overwhelming response from investors. We believe DEWH could reduce cost of funds by 70bp over FY16-19 on account of mix change and declining interest rates. Despite heightened competition in the individual home loan segment, we expect NIM on AUM to increase ~20bp over FY16-19 to 2.5%.

### Significant gains in cost reduction; more to come

DEWH has the highest operating costs among peers due to higher employee and advertising and legal expenses. The company is focusing on cost reduction via: a) reducing advertising costs b) improving employee-level efficiency and c) technology improvement. While management targets 18% AUM growth over the medium term, incremental branch count and employee addition would be less. Balance sheet growth would be driven by improving branch-level productivity and not by mere branch expansion. C/I ratio has declined ~750bp over the past four years, and we expect it to decline further ~500bp over FY16-19.

### Asset quality robust; return ratios steady

While headline GNPL ratio increased from 0.71% in FY13 to 0.95% in FY16, it is a reflection of changing product mix. Share of non-retail financing increased from 17% to 28% over the same period, resulting in an uptick in NPLs. Asset quality is robust and comparable to all its peers. In addition, the company has consistently delivered AUM growth of 20%+ and RoE of 15%+ over the past several years. Stable asset quality will further help to enhance the return ratios.

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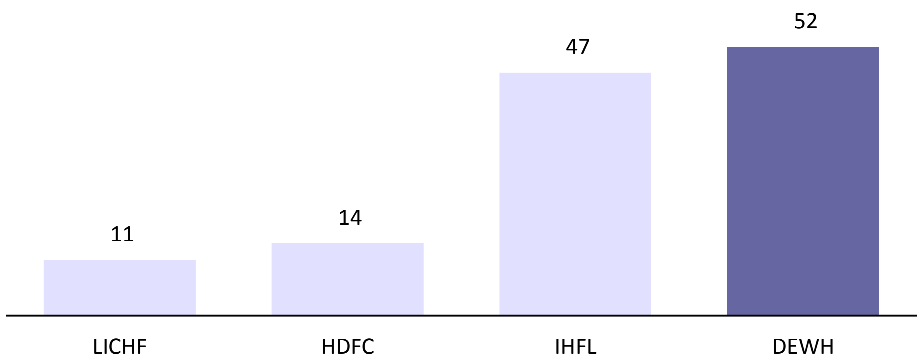
## Evolving liability mix to support margins in competitive environment

- Share of bank borrowings in total liability mix has declined from 74% five years ago to 52% now. Moreover, management targets a reduction in this share to ~40% over the next two years. Consequently, the share of borrowings from capital markets has increased from 11% to 32% over the same period.
- Despite significant reduction in the share of bank borrowings, it remains much higher than peers. Hence, we believe DEWH has significant potential to diversify its liability mix.

The company has a much larger proportion of bank borrowings compared to peers, implying further scope for CoF reduction.

**Exhibit 1: Proportion of bank borrowings is significantly higher than peers**

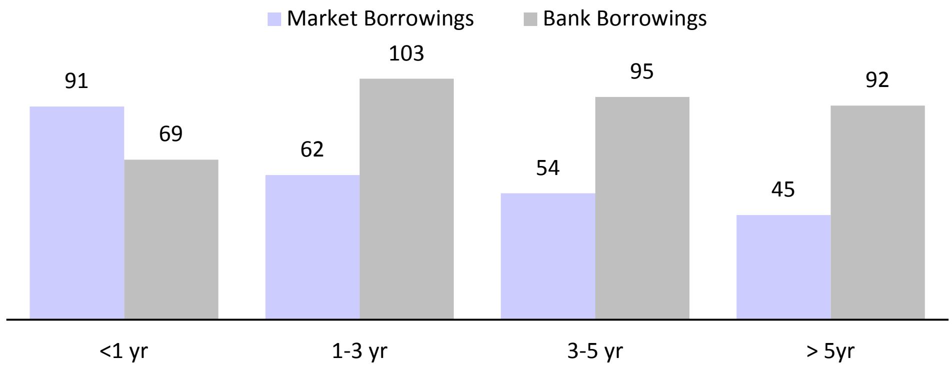



Source: Company, MOSL

- The difference in incremental cost of funds raised via NCDs v/s banks is around 75bp. As a result, overall cost of funds could decline ~20bp over the next two years without taking into account any reduction in MCLR by banks. The robust credit rating of AAA would ensure that DEWH is able to tap capital markets as and when required.
- Over INR90b of DEWH's market borrowings are expected to mature by FY17. This constitutes over 35% of outstanding market borrowings. At the same time, around 20% of bank borrowings (INR69b) will be repaid in FY17. Cost of borrowings on NCDs outstanding as of FY16 is in the range of 8.5-11.5%. We believe that cost of NCDs that are maturing this year would be at the upper end of this range. Hence, cost savings on refinancing will be meaningful.

Over 25% of total outstanding borrowings will expire/mature by FY17. Refinancing will significantly lower cost of funds.

**Exhibit 2: Maturity profile of borrowings as of FY16**




Source: Company, MOSL

DEWH's recent NCD offering of INR40b has received overwhelming response.

- DEWH has already completed the raising of INR40b NCD issue and received overwhelming response. The issue received subscriptions of INR190b.
- Buoyed by the phenomenal success of this issue, we would expect the bonds to trade at lower yields than the cut off, paving the way for even lower cost and even larger bond issuances in the rest of the year.

**Exhibit 3: Yield on recent NCD issue, %**

| | Maturity | | |
|---|---|---|---|
| | 3 yr | 5 yr | 10 yr |
| Yield | 9.1-9.2 | 9.1-9.25 | 9.1-9.3 |

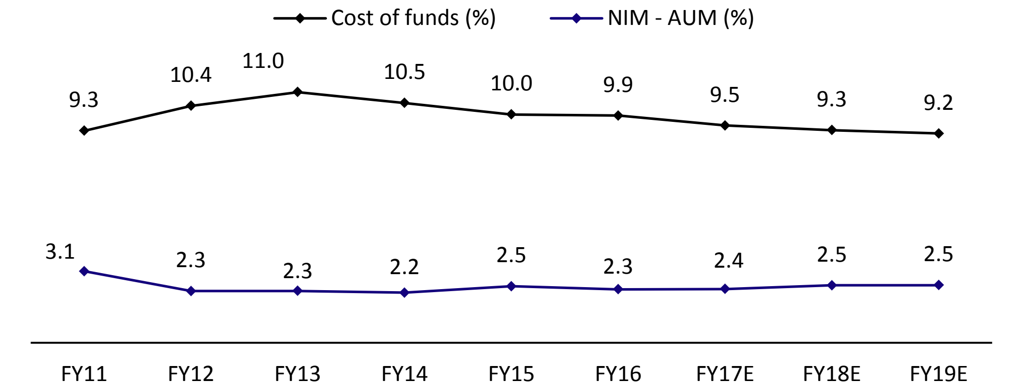
Source: Company, MOSL

- The company is also considering insurance companies and pension funds as a source of incremental borrowings.
- Over the past five years, DEWH has consistently increased the share of non-retail loans (LAP & builder loans). This book currently comprises ~28% of overall AUM, up from 5% in FY11. Due to diversification into high-margin segments, the company was able to sustain loan yields.
- However, management does not wish to increase its share much beyond this level. Consequently, yields will be under pressure since the mix shift would not be enough to offset yield declines due to heightened competition in the individual home loan segment.

NIMs should improve marginally despite heightened competition in the home loan segment due to significant reduction in cost of funds.

- Despite pressure on yields, we believe NIM (on AUM) can increase ~20bp over FY16-19 to 2.5% due to a significant reduction in borrowing costs.

**Exhibit 4: Decline in cost of funds should offset falling yields**




Source: Company, MOSL

## Significant gains in cost reduction; more to come

Opex cost reduction remains a prime focus of management. Advertising costs should decline going forward.

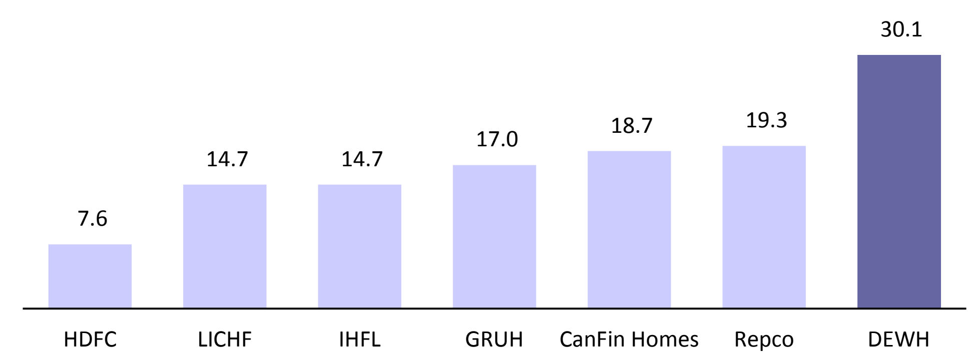
- The company is strongly focusing on cost reduction as a means to boost RoA. This will be driven by a) reduction in advertising costs and b) improving employee-level efficiency. While management targets 18% AUM growth over the medium term, incremental branch count and employee addition would be less.
- In the prior quarter's earnings call, management mentioned that the 100 branches opened in the past 2-3 years are yet to scale up. As the branches ramp up on the business, they would create operating leverage.
- DEWH has significantly higher employee and 'other' operating expenses (i.e. advertising and legal) compared to competitors. Higher employee cost can be attributed to the company's strategy of relying more on in-house sourcing teams. However, management is focused on reducing advertising costs on an absolute basis going forward.
- Management targets YoY cost-to-income ratio reduction of at least 150bp in FY17.

**Exhibit 5: Operating expenses vis-à-vis peers**

| FY16 | DEWH | | REPCO | | GRUH | | LICHF | | HDFC | |
|---|---|---|---|---|---|---|---|---|---|---|
| | INR m | (%) | INR m | (%) | INR m | (%) | INR m | (%) | INR m | (%) |
| Employee Cost | 2,276 | 12.5 | 409 | 12.3 | 428 | 9.1 | 1,293 | 5.2 | 3,491 | 2.9 |
| Advertisement | 984 | 5.4 | 43 | 1.3 | 31 | 0.7 | 288 | 1.2 | 334 | 0.3 |
| Legal / Professional | 567 | 3.1 | 14 | 0.4 | 64 | 1.4 | 20 | 0.1 | 127 | 0.1 |
| Travelling / Conveyance | 301 | 1.6 | 1 | 0 | 16 | 0.3 | 77 | 0.3 | 181 | 0.2 |
| Rent, Rates & Taxes | 296 | 1.6 | 48 | 1.5 | 45 | 1 | 283 | 1.1 | 532 | 0.4 |
| Repairs & Maintenance | 191 | 1 | 10 | 0.3 | 31 | 0.7 | 19 | 0.1 | 167 | 0.1 |
| Communication Exp. | 142 | 0.8 | 10 | 0.3 | 27 | 0.6 | 93 | 0.4 | 255 | 0.2 |
| Office Maintenance | 83 | 0.5 | - | - | 15 | 0.3 | 44 | 0.2 | 240 | 0.2 |
| Electricity | 73 | 0.4 | 5 | 0.2 | 9 | 0.2 | 53 | 0.2 | 151 | 0.1 |
| Other expenses | 583 | 3.2 | 50 | 1.5 | 38 | 0.8 | 1529 | 6.1 | 1619 | 1.3 |

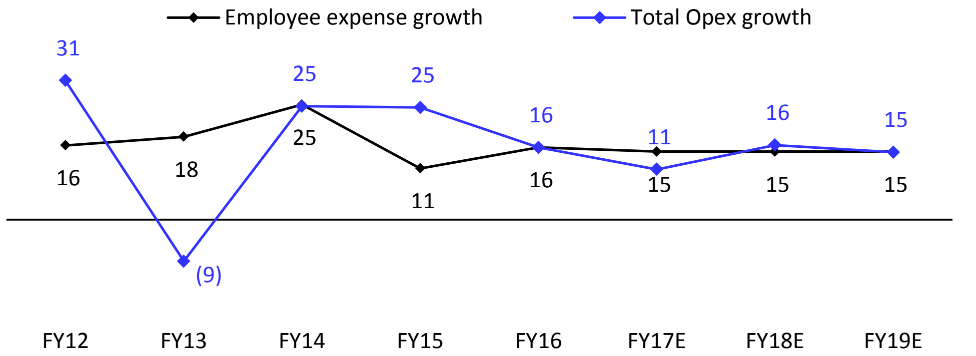
*# % indicates percentage of total income* Source: Company, MOSL

**Exhibit 6: Cost-to-income ratio for DEWH is significantly higher than peers**



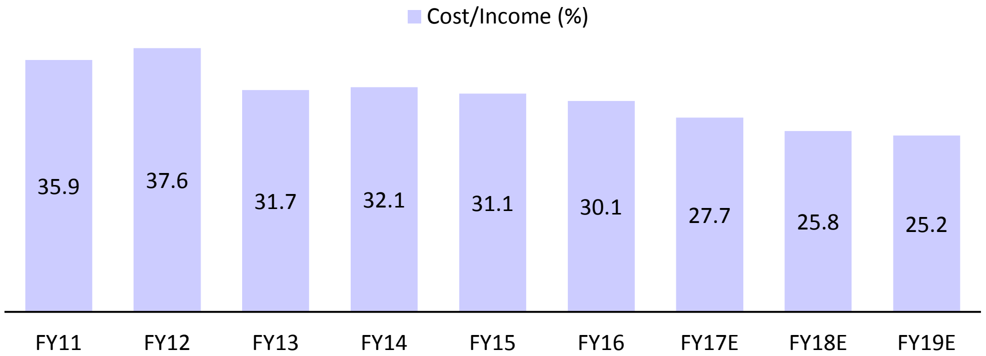

Source: Company, MOSL; Numbers as of FY16

**Exhibit 7: Opex growth to moderate going forward…**




Source: Company, MOSL

**Exhibit 8: …resulting in C/I ratio decline of ~500bp over FY16-19**




Source: Company, MOSL

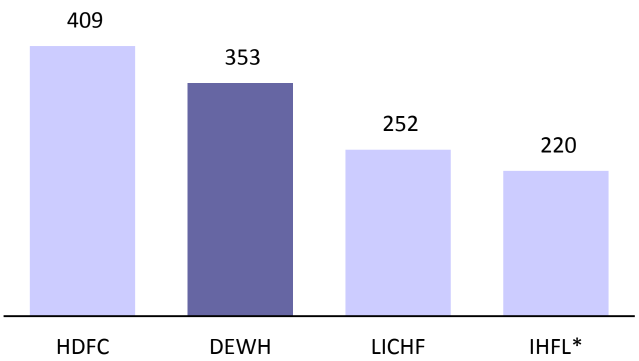
## Niche business model, significant upside potential from government's thrust on housing

- DEWH is one of the largest pan-India housing finance companies with 353 branches/centers across the country. The company has an AUM market share of ~5% in the housing finance segment.
- It primarily caters to the LMI segment. This is a largely underpenetrated segment as banks face difficulties in credit appraisals due to lack of formal documents and local 'on-the-ground' knowledge, and irregularity of income. DEWH relies on strong local relationships with its customers to conduct business in this segment.

DEWH primarily caters to the LMI segment, with a large presence in the self-employed segment.

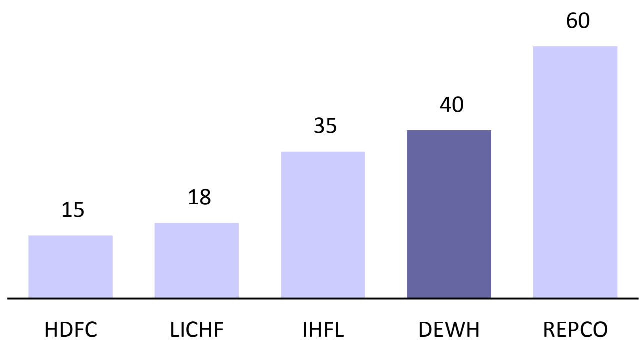
- The self-employed segment constitutes ~40% of total AUM of the residential home loan book. Also, as per the National Sample Survey, the self-employed segment forms ~35% of the workforce, but only ~10% of loans. This segment also has been ignored by large banks and HFCs due to difficulty in credit appraisals, lack of proper documentation, intense KYC checks, NPL volatility and aggressive follow-ups post disbursement. DEWH is probably the only large pan-India financier with such a high share of customers from the self-employed segment. With strong capabilities in underwriting loans to this segment, the company is able to earn higher spreads.

**Exhibit 9: Number of centers**




Source: Company, MOSL; *IHFL number is as of FY15

**Exhibit 10: Self-employed segment focus – a niche for DEWH**




Source: Company, MOSL

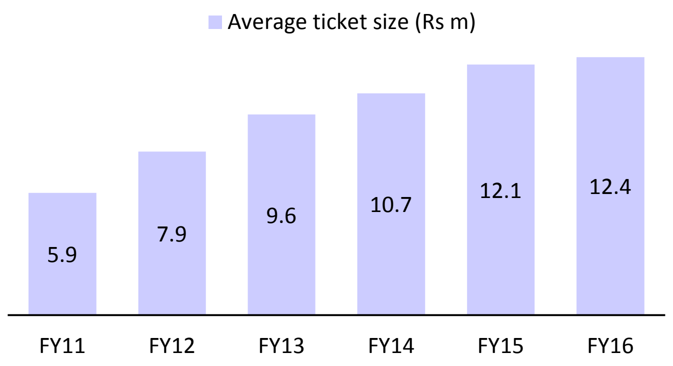
- Average ticket size of residential home loans is INR1.3m. The company also disburses loans to builders in the affordable housing segment. This helps in establishing relationships with builders as well as gives it access to final home buyers for residential home loans. Ticket size in this segment ranges from INR350-550m. The company also has a LAP book, which comprises 16% of total AUM. However, LAP is not the primary focus area of the company.

DEWH has a diversified loan book, with LAP and builder loans comprising ~28% of total AUM.

- In residential home loans, 75-80% of sourcing is done in-house (including exclusive agents), while the remaining is done via DSAs. Given the high share of loans sourced in-house, the company is able to carefully manage portfolio risk. On the other hand, in the LAP book, 75-80% of sourcing is from DSAs. DSA commissions are 50-75bp for LAP and 50bp for residential home loans.
- While the proportion of project loans has increased to ~10% of total AUM, management does not wish to exceed 12-15% of AUM. Also, management is

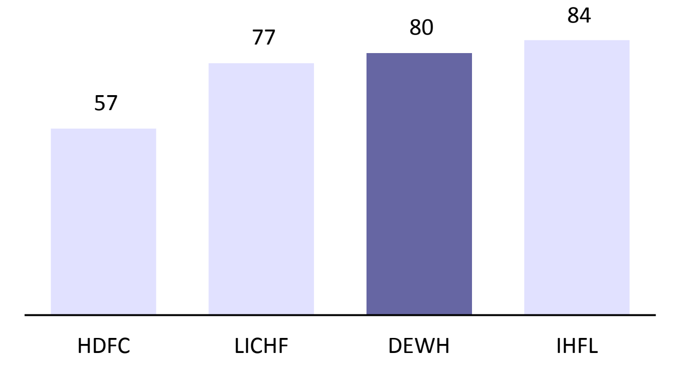
comfortable with the share of LAP in the range of 18-25%, and is not actively seeking to grow the book.

**Exhibit 11: Average ticket size has doubled in five years**




Source: Company, MOSL

**Exhibit 12: Share of in-house sourcing (incl exclusive agents)**



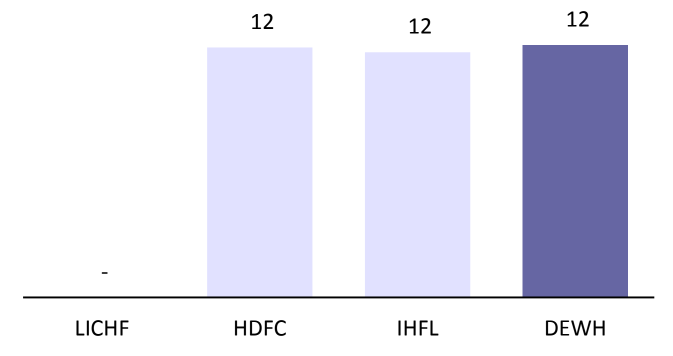

Source: Company, MOSL

- In the Union Budget for FY17, the government introduced tax incentives for buyers as well as developers of affordable housing. This bodes well for DEWH, given its focus on the LMI and affordable housing segments.

The company has been increasing its loan securitization through direct assignment. It bears no credit risk and holds no capital for these loans.

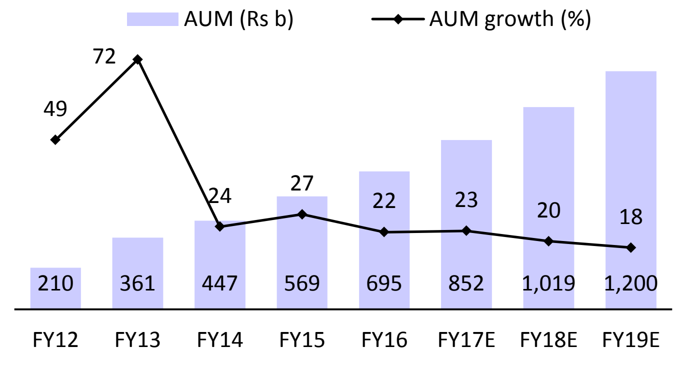
- DEWH has also stepped up the sell-down of loans. The company sold down ~INR28b in FY15, INR40b in FY16 and is targeting INR50-70b in FY16. Sell-down is through direct assignment of loans, rather than PTC issuance. This benefits the company in terms of freeing up capital (no capital to be kept for these loans) as well as zero credit risk. Majority of demand for these loans is from state-owned banks as they look to expand their retail portfolios. We expect AUM to grow at a 21% CAGR over FY16-19E.

**Exhibit 13: Proportion of securitized assets**




Source: Company, MOSL

**Exhibit 14: Several drivers to help sustain AUM growth**



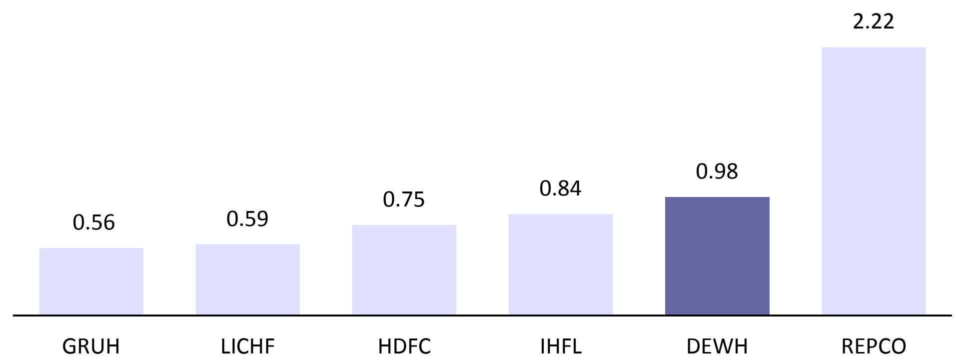

Source: Company, MOSL

## Asset quality robust; return ratios steady

Asset quality deterioration over the past few years has largely been a function of changing product mix.

- While headline GNPL ratio increased from 0.71% in FY13 to 0.95% in FY16, it is a reflection of changing product mix of the company. Share of non-retail financing increased from 17% to 28% over the same period, resulting in an uptick in NPLs.
- Segment-wise GNPL ratio is as follows: Home loan: 0.65-0.70%; LAP: 1.3-1.4%; Builder loans: 1.5-1.6%.

**Exhibit 15: GNPL ratio – 1QFY17**




Source: Company, MOSL

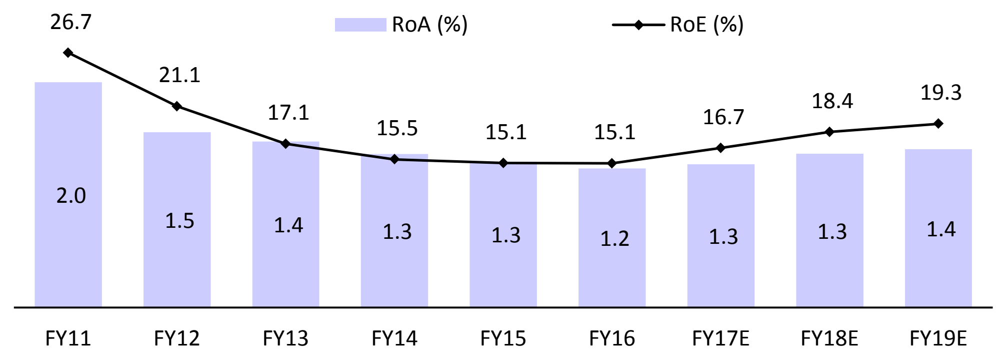
- The company has consistently delivered RoE of 15%+ over the past several years. We believe RoE will reach 19% by FY19, driven by strong loan growth, improving margins and a significant reduction in operating costs.

**Exhibit 16: DuPont Analysis**

| DHFL | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
|---|---|---|---|---|---|---|---|
| Interest Income | 12.2 | 11.8 | 11.7 | 11.6 | 11.4 | 11.4 | 11.4 |
| Interest Expended | 10 | 9.6 | 9.1 | 9.1 | 8.8 | 8.6 | 8.5 |
| **Net Interest Income** | **2.2** | **2.2** | **2.6** | **2.5** | **2.6** | **2.8** | **2.9** |
| **Non-Interest Income** | **0.9** | **0.8** | **0.5** | **0.6** | **0.5** | **0.5** | **0.5** |
| Fee Income and others | 0.6 | 0.6 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Net Income** | **3.1** | **3** | **3.1** | **3** | **3.1** | **3.3** | **3.3** |
| **Operating Expenses** | **1** | **1** | **1** | **0.9** | **0.9** | **0.9** | **0.8** |
| Cost to Income Ratio | 31.7 | 32.1 | 31.1 | 30.1 | 27.7 | 25.8 | 25.2 |
| Employee Expenses | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other expenses | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| **Operating Profit** | **2.1** | **2** | **2.1** | **2.1** | **2.2** | **2.5** | **2.5** |
| Loan Loss Provisions | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 |
| Extra ordinary Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **PBT** | **2** | **1.9** | **1.9** | **1.8** | **1.9** | **2** | **2.1** |
| Tax | 0.5 | 0.5 | 0.7 | 0.6 | 0.6 | 0.7 | 0.7 |
| Tax Rate (%) | 26 | 28 | 34.1 | 33.8 | 34.1 | 34.1 | 33.9 |
| **PAT** | **1.4** | **1.3** | **1.3** | **1.2** | **1.3** | **1.3** | **1.4** |
| **Leverage** | 12.7 | 11.6 | 11.9 | 12.4 | 13.3 | 13.7 | 13.9 |
| **RoE (%)** | **18.4** | **15.5** | **15.1** | **15.1** | **16.7** | **18.4** | **19.3** |

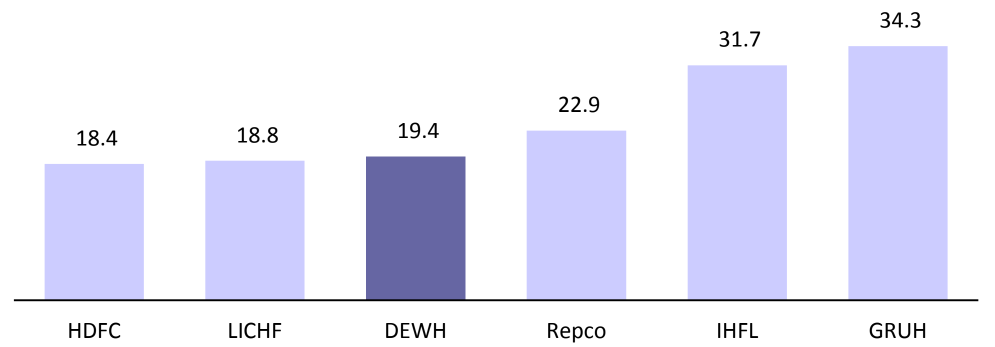
Source: Company, MOSL

**Exhibit 17: Upside to RoE from significant improvement in costs**




Source: Company, MOSL

**Exhibit 18: FY19E RoE is in line with its large peers**



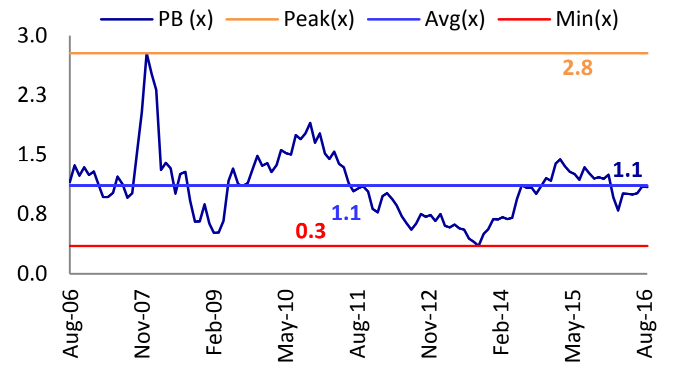

Source: Company, MOSL

## Several value drivers over the medium term – reiterating BUY

With strong growth and an improving return profile, we believe valuations at 1.1x FY18 BVPS are compelling.

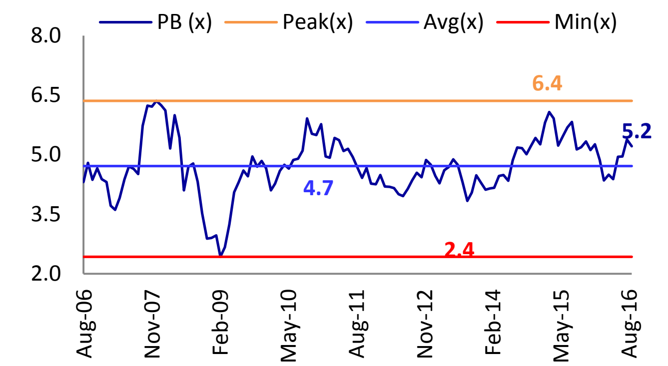
- DEWH trades at 1.1x FY18E ABV, implying a steep discount to its housing finance peers which trade at multiples in excess of 3x.
- The company has continued to perform steadily on growth and asset quality front. In addition, the company has consistently delivered AUM growth of 20%+ and RoE of 15%+ over the past several years.
- Diversifying liability mix would support margins, even in this competitive economic environment.
- Moreover, management's commitment to bring down the cost structure was evident in 1QFY17 and can provide a significant boost to earnings. We believe that consistent reduction in operating expenses would improve investor sentiment and drive a sharp re-rating of the stock.
- DEWH has several significant non-current investments. It has fixed assets of INR7.8b as of FY16, as compared to INR9.8b in FY15. Redeployment of capital from fixed assets into the core business will also help enhance return ratios.
- It has also invested in several subsidiaries, most of which are still in the early stage of their lifecycle. It has a 50% stake in its life insurance subsidiary, DHFL Pramerica Life Insurance, which has scripted a turnaround and posted a net profit of INR508m in FY16. The outlook on the life insurance industry is positive and several larger insurance companies are likely to get listed over the next twelve months. These events will help to create a positive reference valuation for DHFL Pramerica Life Insurance.
- We expect AUM CAGR of ~20% over FY16-19, and estimate RoA/RoE at 1.4%/19.3% for FY19. Valuation at 1.3x/1.1x FY17/18E ABV is attractive and at a significant discount to peers, given the improving returns ratios. **Buy** with a target price of INR333, valuing the stock at 1.5x FY18E adjusted book value.

**Exhibit 19: DEWH P/B (1-year fwd)**



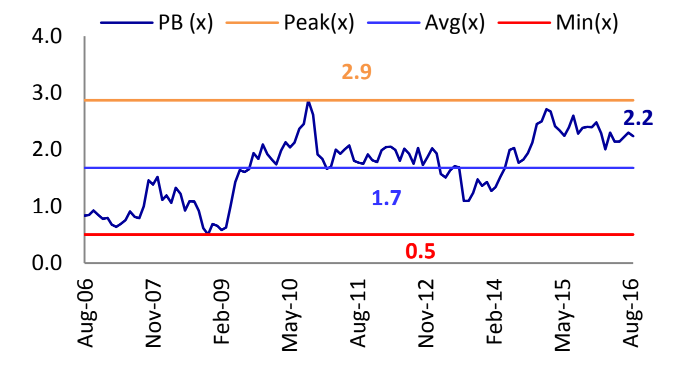

Source: Company, MOSL

**Exhibit 20: HDFC P/B (1-year fwd)**



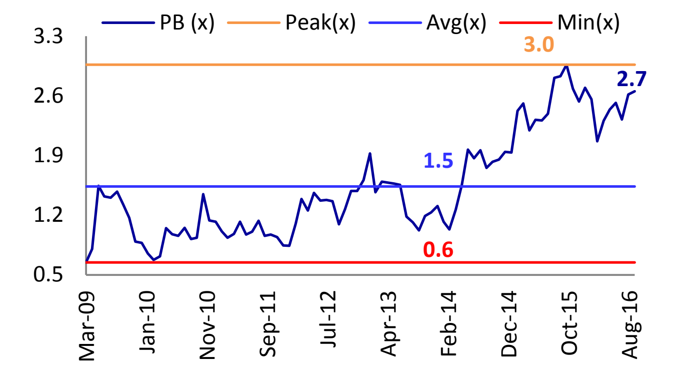

Source: Company, MOSL

**Exhibit 21: LICHF P/B (1-year fwd)**



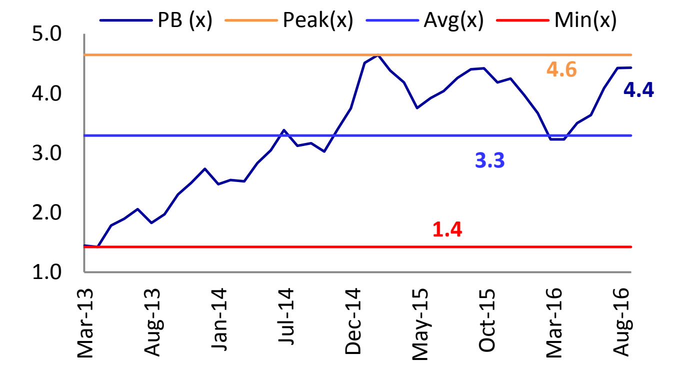

Source: Company, MOSL

**Exhibit 22: IHFL P/B (1-year fwd)**



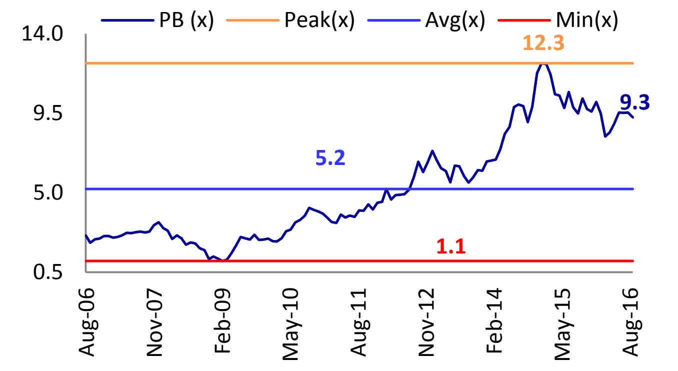

Source: Company, MOSL

**Exhibit 23: REPCO P/B (1-year fwd)**




Source: Company, MOSL

**Exhibit 24: GRUH P/B (1-year fwd)**




Source: Company, MOSL

## Valuation Matrix

| | Rating | CMP | Mcap | EPS (INR) | | P/E (x) | | BV (INR) | | P/BV (x) | | RoA (%) | | RoE (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (INR) | (USDb) | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 | FY17 | FY18 |
| HDFC* | Buy | 1,367 | 32.7 | 34.6 | 37.9 | 27.4 | 23.2 | 194 | 217 | **4.53** | **3.70** | 1.85 | 1.83 | 19.5 | 19.0 |
| LICHF | Buy | 526 | 4.0 | 39.5 | 47.3 | 13.3 | 11.1 | 213 | 251 | **2.47** | **2.10** | 1.49 | 1.51 | 20.1 | 20.9 |
| IHFL | Buy | 810 | 5.2 | 68.2 | 84.0 | 11.9 | 9.7 | 280 | 315 | **2.89** | **2.57** | 3.74 | 3.78 | 25.6 | 28.2 |
| GRHF | Buy | 301 | 1.7 | 8.3 | 10.7 | 36.2 | 28.3 | 28 | 35 | **10.61** | **8.53** | 2.33 | 2.34 | 32.4 | 33.5 |
| REPCO | Buy | 819 | 0.8 | 30.3 | 39.0 | 27.0 | 21.0 | 179 | 214 | **4.56** | **3.83** | 2.14 | 2.17 | 18.2 | 19.8 |
| DEWH | Buy | 247 | 1.1 | 29.7 | 36.4 | 8.3 | 6.8 | 194 | 221 | **1.27** | **1.12** | 1.19 | 1.21 | 16.2 | 17.5 |
| **Housing Finance** | | | **45.5** | | | **21.6** | **18.3** | | | **4.34** | **3.83** | | | | |
| RECL | Neutral | 223 | 3.3 | 59.2 | 68.6 | 3.8 | 3.3 | 336 | 389 | 0.66 | 0.57 | 2.63 | 2.55 | 18.9 | 18.9 |
| POWF | Neutral | 224 | 4.5 | 46.8 | 49.1 | 4.8 | 4.6 | 72 | 107 | 3.12 | 2.09 | 2.69 | 2.35 | 85.1 | 55.0 |
| **Infra Finance** | | | **7.8** | | | **4.3** | **3.9** | | | **1.22** | **0.99** | | | | |
| SHTF | Buy | 1,289 | 4.4 | 68.4 | 84.6 | 18.8 | 15.2 | 503 | 570 | 2.56 | 2.26 | 1.96 | 2.01 | 14.4 | 15.6 |
| MMFS | Buy | 335 | 2.9 | 13.9 | 18.1 | 24.2 | 18.5 | 118 | 131 | 2.85 | 2.56 | 1.92 | 2.19 | 12.3 | 14.5 |
| BAF | Buy | 10,034 | 8.1 | 345.9 | 442.0 | 29.0 | 22.7 | 1,663 | 2,040 | 6.03 | 4.92 | 3.48 | 3.38 | 22.8 | 23.9 |
| MUTH | Buy | 399 | 2.4 | 28.0 | 33.6 | 14.3 | 11.9 | 159 | 180 | 2.52 | 2.22 | 3.66 | 3.57 | 18.7 | 19.9 |
| SKSM | Buy | 834 | 1.6 | 48.8 | 52.5 | 17.1 | 15.9 | 157 | 210 | 5.30 | 3.97 | 6.30 | 4.48 | 36.7 | 28.6 |
| **Asset Finance** | | | **19.5** | | | **21.7** | **17.6** | | | **3.50** | **3.18** | | | | |
| **NBFC Aggregate** | | | **72.7** | | | **15.1** | **13.0** | | | **3.24** | **2.81** | | | | |
| **Financials** | | | **253.9** | | | **16.7** | **13.6** | | | **1.92** | **1.74** | | | | |

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

# Financials and Valuations

| Income Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017E** | **2018E** | **2019E** |
| Operating Income | 28,633 | 37,977 | 46,705 | 57,160 | 69,706 | 80,859 | 94,926 | 111,021 |
| Interest Expended | 23,496 | 31,194 | 37,826 | 44,596 | 54,900 | 62,554 | 71,610 | 83,208 |
| **Net Interest Income** | **5,138** | **6,783** | **8,879** | **12,564** | **14,806** | **18,305** | **23,316** | **27,813** |
| Change (%) | 28.6 | 32.0 | 30.9 | 41.5 | 17.8 | 23.6 | 27.4 | 19.3 |
| Fee Income | 2,395 | 1,992 | 2,280 | 1,860 | 1,724 | 1,982 | 2,220 | 2,486 |
| **Net Income** | **8,899** | **9,596** | **11,851** | **15,221** | **18,267** | **22,026** | **27,528** | **32,582** |
| Change (%) | 24.9 | 7.8 | 23.5 | 28.4 | 20.0 | 20.6 | 25.0 | 18.4 |
| Operating Expenses | 3,349 | 3,039 | 3,800 | 4,740 | 5,495 | 6,104 | 7,108 | 8,203 |
| **Operating Profit** | **5,551** | **6,557** | **8,051** | **10,480** | **12,772** | **15,922** | **20,420** | **24,380** |
| Change (%) | 21.6 | 18.1 | 22.8 | 30.2 | 21.9 | 24.7 | 28.3 | 19.4 |
| Provisions | 463 | 450 | 700 | 1,050 | 1,750 | 2,400 | 3,500 | 4,000 |
| % of average loans | 0.20 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 |
| **Extra ordinary Income** | **250** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **PBT** | **5,338** | **6,107** | **7,351** | **9,430** | **11,022** | **13,522** | **16,920** | **20,380** |
| Tax | 1,304 | 1,588 | 2,061 | 3,218 | 3,730 | 4,611 | 5,770 | 6,909 |
| Tax Rate (%) | 24 | 26 | 28 | 34 | 34 | 34 | 34 | 34 |
| **Reported PAT** | **4,034** | **4,519** | **5,290** | **6,213** | **7,292** | **8,911** | **11,151** | **13,471** |
| Change (%) | 12.9 | 12.0 | 17.1 | 17.4 | 17.4 | 22.2 | 25.1 | 20.8 |
| **Adjusted PAT** | **3,784** | **4,519** | **5,290** | **6,213** | **7,292** | **8,911** | **11,151** | **13,471** |
| Change (%) | 17.5 | 19.4 | 17.1 | 17.4 | 17.4 | 22.2 | 25.1 | 20.8 |
| Proposed Dividend | 478 | 720 | 1,202 | 968 | 2,811 | 2,076 | 2,598 | 3,139 |

| Balance Sheet | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017E** | **2018E** | **2019E** |
| Share Capital | 1,168 | 1,282 | 1,284 | 1,457 | 2,918 | 2,918 | 2,918 | 2,918 |
| Reserves & Surplus | 19,159 | 31,089 | 34,465 | 44,901 | 47,252 | 53,555 | 61,845 | 72,272 |
| **Net Worth** | **20,327** | **32,371** | **35,750** | **46,358** | **50,170** | **56,473** | **64,763** | **75,190** |
| **Borrowings** | **246,717** | **322,527** | **398,749** | **494,456** | **610,496** | **706,426** | **833,583** | **975,292** |
| Change (%) | 19.2 | 30.7 | 23.6 | 24.0 | 23.5 | 15.7 | 18.0 | 17.0 |
| **Total Liabilities** | **268,971** | **354,898** | **434,498** | **540,814** | **660,666** | **762,899** | **898,346** | **1,050,482** |
| **Investments** | **2,141** | **2,750** | **7,215** | **10,062** | **8,932** | **9,379** | **9,660** | **9,950** |
| Change (%) | -46.8 | -36.3 | 71.9 | 19.8 | 17.9 | 17.5 | 16.6 | 16.0 |
| **Loans** | **254,694** | **342,219** | **408,732** | **515,109** | **622,951** | **747,541** | **882,098** | **1,032,055** |
| Change (%) | 27.8 | 34.4 | 19.4 | 26.0 | 20.9 | 20.0 | 18.0 | 17.0 |
| Net Fixed Assets | 2,582 | 4,379 | 9,877 | 9,846 | 7,805 | 8,195 | 8,523 | 8,864 |
| Net Current Assets | 6,059 | 5,549 | 8,674 | 5,796 | 20,978 | -2,216 | -1,935 | -387 |
| **Total Assets** | **268,971** | **354,898** | **434,498** | **540,814** | **660,666** | **762,899** | **898,346** | **1,050,482** |

E: MOSL Estimates

# Financials and Valuations

| Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017E** | **2018E** | **2019E** |
| **Spreads Analysis (%)** | | | | | | | | |
| Avg. Yield - Housing loans | 12.6 | 12.7 | 12.4 | 12.4 | 12.2 | 11.8 | 11.7 | 11.6 |
| Avg. Cost of Funds | 10.4 | 11.0 | 10.5 | 10.0 | 9.9 | 9.5 | 9.3 | 9.2 |
| Interest Spread on Housing loans | 2.25 | 1.76 | 2.0 | 2.4 | 2.3 | 2.3 | 2.4 | 2.4 |
| Net Interest Margin (On AUM) | 2.263 | 2.27 | 2.2 | 2.5 | 2.3 | 2.4 | 2.5 | 2.5 |
| | | | | | | | | |
| **Profitability Ratios (%)** | | | | | | | | |
| RoAE | 21.1 | 17.1 | 15.5 | 15.1 | 15.1 | 16.7 | 18.4 | 19.3 |
| RoAA | 1.53 | 1.45 | 1.34 | 1.27 | 1.21 | 1.25 | 1.34 | 1.38 |
| Int. Expended/Int.Earned | 82.1 | 82.1 | 81.0 | 78.0 | 78.8 | 77.4 | 75.4 | 74.9 |
| Other Inc./Net Income | 42.3 | 29.3 | 25.1 | 17.5 | 18.9 | 16.9 | 15.3 | 14.6 |
| | | | | | | | | |
| **Efficiency Ratios (%)** | | | | | | | | |
| Fees/Operating income | 43.1 | 30.4 | 28.3 | 17.7 | 13.5 | 12.4 | 10.9 | 10.2 |
| Op. Exps./Net Income | 37.6 | 31.7 | 32.1 | 31.1 | 30.1 | 27.7 | 25.8 | 25.2 |
| Empl. Cost/Op. Exps. | 35.5 | 46.3 | 46.4 | 41.4 | 41.4 | 42.9 | 42.4 | 42.2 |
| | | | | | | | | |
| **Asset-Liability Profile (%)** | | | | | | | | |
| Loans/Borrowings Ratio | 96.9 | 94.2 | 97.6 | 96.0 | 98.0 | 94.5 | 94.5 | 94.5 |
| Debt/Equity (x) | 12.1 | 10.0 | 11.2 | 10.7 | 12.2 | 12.5 | 12.9 | 13.0 |
| Gross NPA (INR Mn) | 1,316 | 2,393 | 3,175 | 4,851 | 5,731 | 6,877 | 8,252 | 9,903 |
| Net NPA (INR Mn) | 0 | 1,560 | 2,099 | 3,460 | 3,610 | 4,470 | 5,116 | 5,942 |
| | | | | | | | | |
| **Valuations (Consolidated)** | | | | | | | | |
| Book Value (INR) | 87 | 126 | 139 | 159 | 172 | 194 | 222 | 258 |
| Growth (%) | 16.8 | 45.1 | 10.3 | 14.3 | 8.1 | 12.6 | 14.7 | 16.1 |
| Price-BV (x) | 2.9 | 2.0 | 1.82 | 1.59 | 1.5 | 1.3 | 1.1 | 1.0 |
| Adjusted BV (INR)* | 72.0 | 126 | 139 | 159 | 169 | 193 | 222 | 258 |
| Price-ABV (x) | 3.5 | 2.0 | 1.82 | 1.59 | 1.5 | 1.3 | 1.1 | 1.0 |
| OPS (INR) | 23.8 | 26 | 31 | 36 | 44 | 55 | 70 | 84 |
| Growth (%) | 8.7 | 7.6 | 22.6 | 14.8 | 21.7 | 24.7 | 28.3 | 19.4 |
| Price-OP (x) | 10.7 | 9.9 | 8.1 | 7.0 | 5.8 | 4.6 | 3.6 | 3.0 |
| EPS (INR) | 14.8 | 17.6 | 20.6 | 21.3 | 25.0 | 30.5 | 38.2 | 46.2 |
| Growth (%) | 5.6 | 18.7 | 16.9 | 3.5 | 17.2 | 22.2 | 25.1 | 20.8 |
| Price-Earnings (x) | 17.0 | 14.4 | 12.3 | 11.9 | 10.1 | 8.3 | 6.6 | 5.5 |
| Dividend Per Share | 1.8 | 2.5 | 4.4 | 3.5 | 20.0 | 6.1 | 7.6 | 9.2 |
| Dividend Yield (%) | 0.7 | 1.0 | 1.7 | 1.4 | 7.9 | 2.4 | 3.0 | 3.6 |

E: MOSL Estimates

# PRODUCT GALLERY

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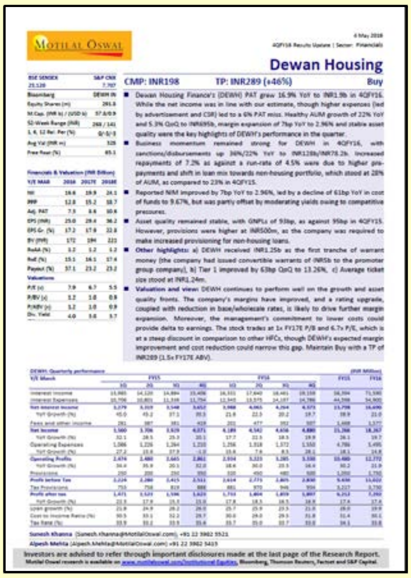


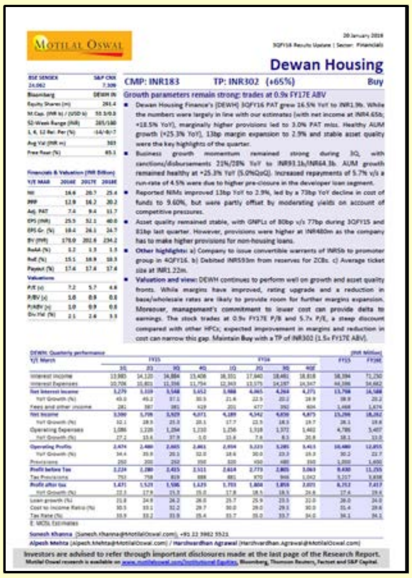


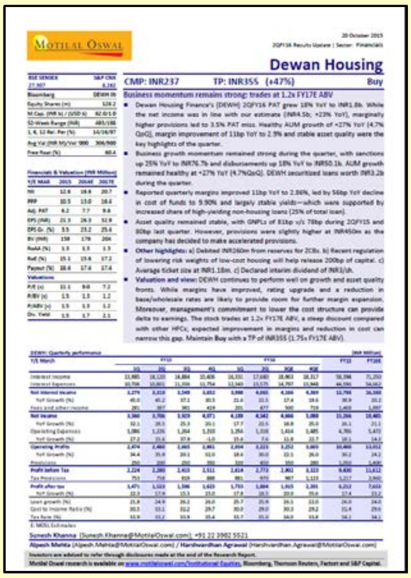


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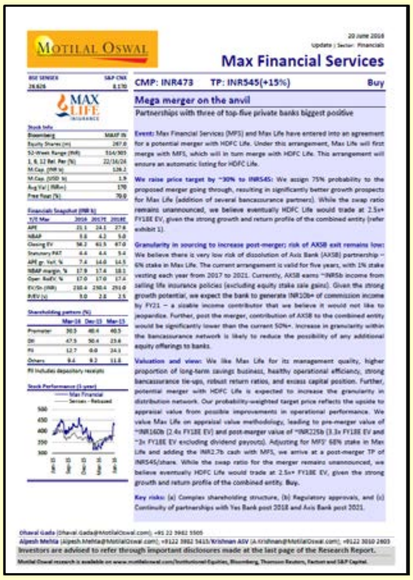


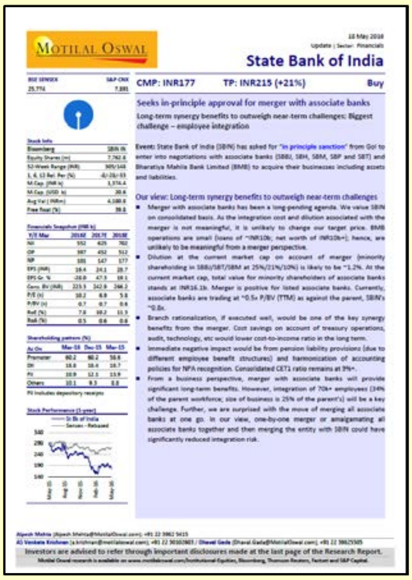


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