AXIS DIRECT

Microfinance Industry could grow Housing finance way

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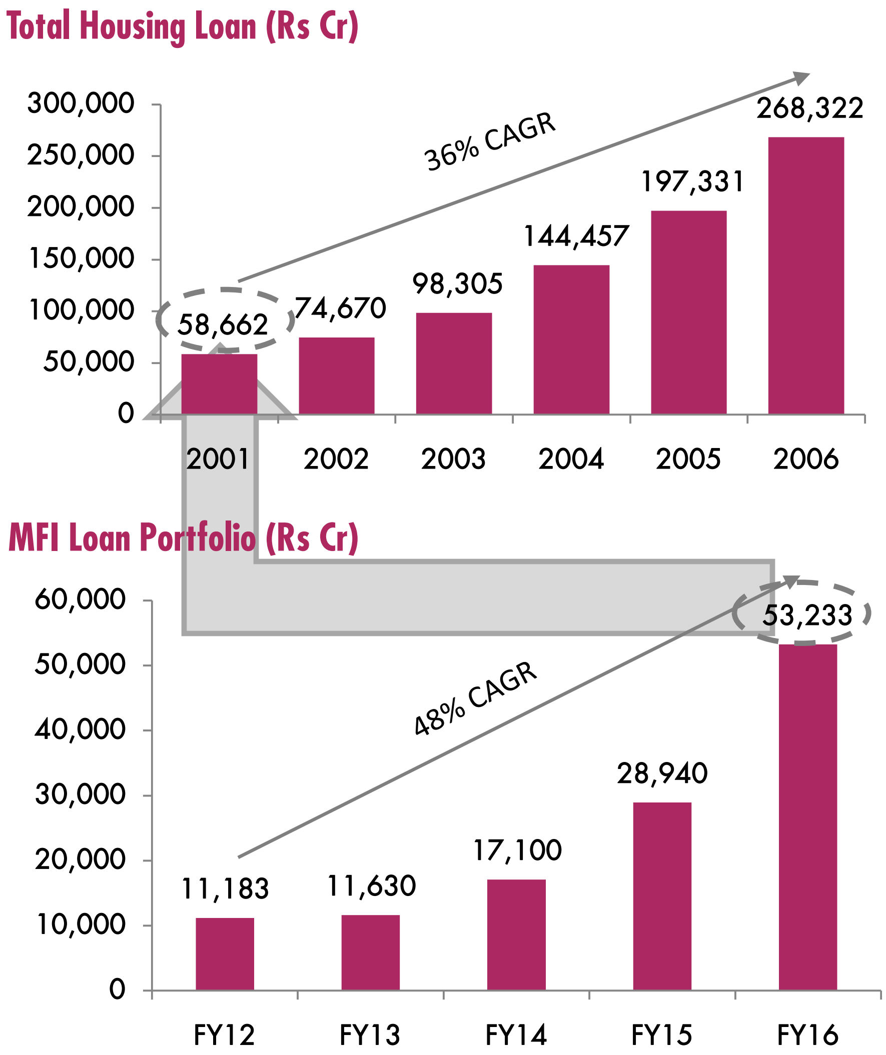
AXIS SECURITIES

Executive Summary

- Microfinance (MFI) book (end FY16) at Rs.53k cr is equivalent to housing finance book (at 2001 levels). MFI Industry has similar growth drivers such as under-penetration of microcredit, improving livelihood, lower interest rates as compared to unorganized players (eg. Money lenders). The HFC industry grew significantly over the years and believe MFI industry is now poised to reflect a similar growth trajectory.
- Mortgage to GDP ratio in India at 9% is lower as compared to some of the other emerging economies and significantly below developed economies like US and UK.
- Favorable demographics, mortgage penetration, rising income levels and well regulated by the National Housing Board (NHB), the housing book has grown at 24% CAGR over last 14 years. We believe MFI could show similar business traction.
- MFI is at nascent stage but well regulated by the RBI could repeat growth story of HFCs. With a large market size of Rs.2.96 Lakh Cr and low financing penetration (~10% of the total potential demand), MFIs could sustain robust growth in the foreseeable future.
- AP crisis impacted the MFI industry which is visible as few MFI companies are still under CDR due to huge losses suffered during the crisis. This resulted in need of a strong regulator for the industry which should protect the industry from any political interferences
- Regulations post AP crisis have strengthened the industry and have made the business model stable and sustainable. Moreover RBI has given most Small Finance Bank licenses to MFIs reiterating the regulators positive stance on the MFI sector.
- HFCs reported strong financial performance with profits grew at 21% CAGR (FY02-15) along with improvement in RoE from 12.5% in FY02 to 16.7% in FY15. This resulted in Mcap of HFCs to rise at 28% CGAR over same period. We believe now MFIs can grow housing finance way.
- As a thematic investment opportunity for long term the ideas that can be looked at are – Bharat Financial Inclusion, Ujjivan Financials, Equitas Holdings & Satin Creditcare.

Source: RBI, NHB, MFIN, Axis Securities

Microfinance loan book equivalent to Housing finance book at FY2001 levels

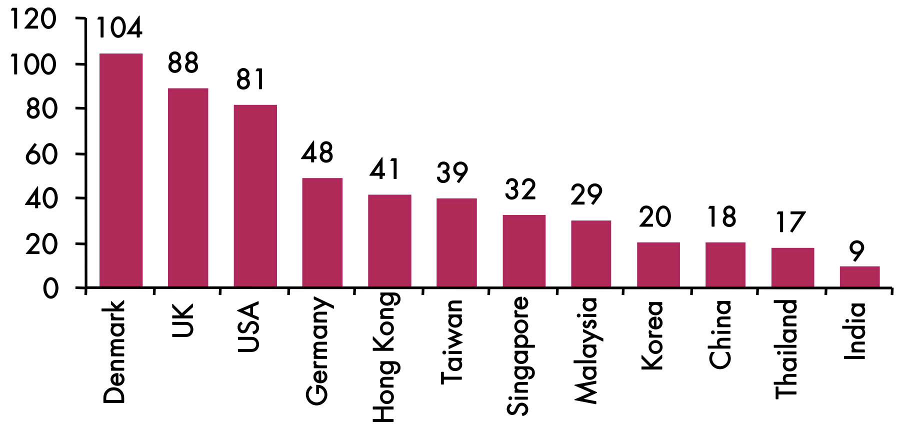


Source: RBI, NHB, MFIN, Axis Securities

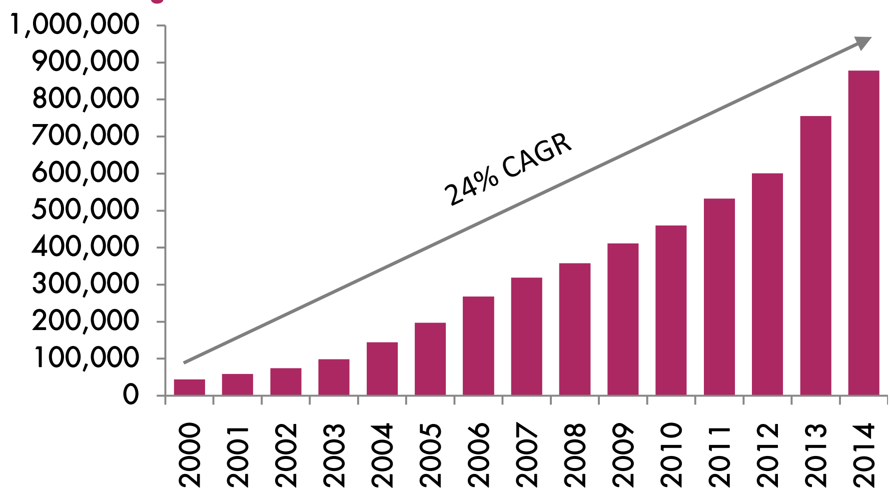
- Housing finance has played key role in meeting the demand of housing industry which still remains underpenetrated market.
- Similarly Microfinance plays the key role in meeting the credit demands of the poor and rural households. Thus promoting socio-economic development, providing livelihood, empowering women, improving income at household levels, etc.
- In 2001, outstanding home loans stood at Rs.58k cr and grew at 36% CAGR for next 5 years led by mismatch in demand and supply of houses , increasing affordability, access to credit at lower interest rates.
- Currently outstanding Microfinance book stood at Rs.53k cr equivalent to housing finance book (at 2001 levels) and have similar growth drivers such as under-penetration of microcredit, improving livelihood, lower interest rates as compared to unorganized players (eg. Money lenders).
- Industry players expect MFI industry to grow at 30-40% CAGR for next 3-5years which is equivalent to housing finance growth of 36% CAGR (FY01-06).
- Historically, MFI book has shown growth of 48% CAGR (FY12-16) at low base of Rs.11k cr loan book.

Historical growth led by drivers

Mortgage penetration % of GDP



Total Housing Loans (Rs Cr)

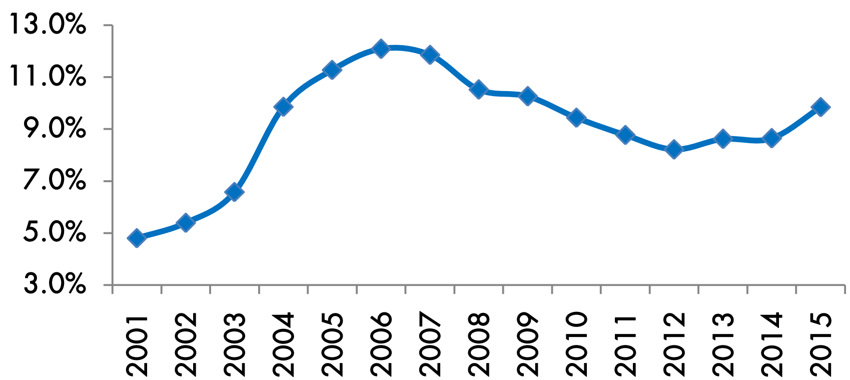


Source: NHB, RBI, Axis Securities

- Increase in per capita income – Improved affordability through rising disposable incomes and decline in interest rates on home loan rates. With rising income levels, there is greater demand for owned houses, thereby providing a fillip to the housing industry.
- Nuclear family concept – Rise in the number of households with a shift towards nuclear families drives the demand for housing finance.
- Under penetrated market – Mortgage to GDP ratio in India at 9% is lower as compared to some of the other emerging economies and significantly below developed economies like US and UK.
- However it is important to note that though India's mortgage to GDP ratio has improved significantly from 3.4% (2001) and 7.40% (2008) to its current status, it is nowhere when compared with other nations.
- Thus with favorable demographics, mortgage penetration and rising income levels, the housing book has grown at 24% CAGR over last 14 years.

Housing finance as % of Total Loan book of banks

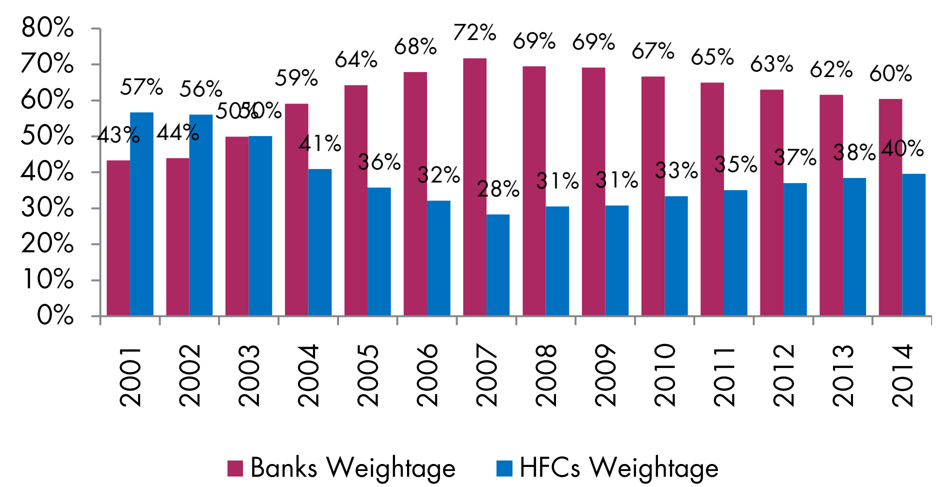
Home Loan as % of Total Book



- With offerings of attractive terms to customers in the form of lower rate of interest, liberal collateral requirements, longer repayment period and higher loan-value ratio, the banks reported robust growth in home loan book. Thus, home loan as portfolio % of total advances has increased from 5% in 2001 to 12% in 2006-07.
- Also, bank's weight age in home finance increased from 43% in 2001 to 72% in 2007.

- Tough competition from HFCs to Banks - Market share of HFCs in total housing loans has been increasing over the last 6-7 years. The increase in share of HFCs vis-a-vis banks is on account of focused efforts of HFCs on housing finance products unlike banks which have a host of products under their offering.
- However, recently due to slowdown in Corporate credit and NPA issues in the same portfolio, banks are focusing on retail portfolio, specially Home loans.

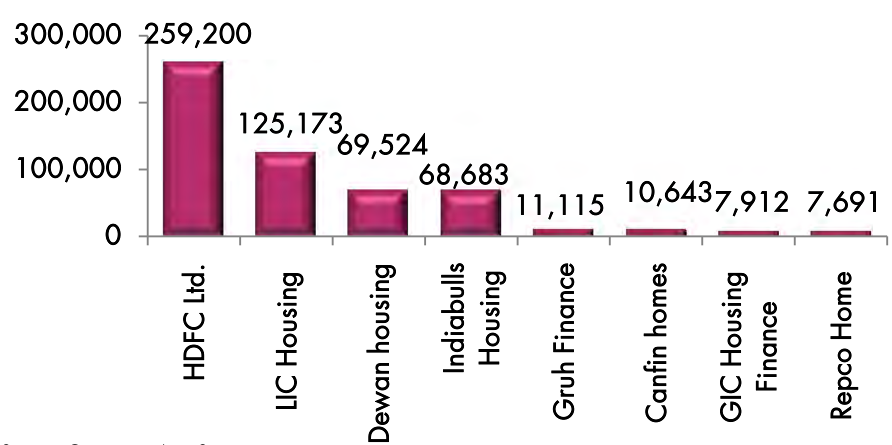
Composition of Banks & HFC



Source: NHB, RBI, Axis Securities

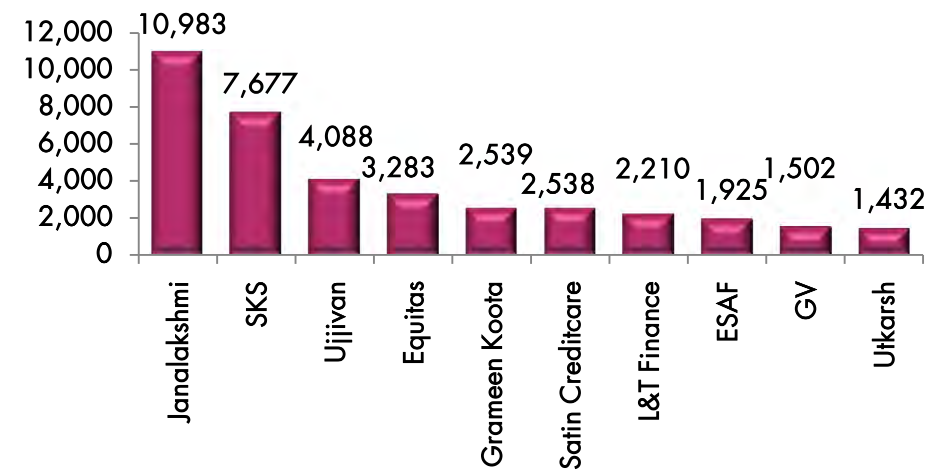
Housing finance industry players and loan book size

HFC's Loan Book (Rs. Cr)



Source: Company, Axis Securities

MFI's Loan Book (Rs. Cr)



- Participants in India's housing finance market mainly comprises of commercial banks, including national banks, private sector banks, regional rural banks, agriculture and rural development banks and state-level apex co-operative housing 52 finance societies, and housing finance companies ("HFCs") which are specialized lending institutions for housing.
- Among HFC's, HDFC is the market leader with market share of ~50%; loan book has grown at 21.5% CAGR from Rs.13k cr in 2001 to Rs.2lakh cr in 2015.
- Players in microfinance credit mainly comprises of (1) MFIs registered with supervisory body Microfinance Institutions Network (MFIN), (2) MFIs registered with supervisory body Sa-Dhan but not with MFIN, (3) Trusts, (4) Section 25 Companies, (5) Cooperatives, (6) Local Area Banks, (7) Self-Help Groups (SHG) and (8) Non-Profit Organizations (NGO).
- Post Bandhan's conversion into full Bank, Janalakhsmi has become the market leader with over 20% market share.

Microfinance industry at nascent stage

- MFIs currently operate in 30 States/Union territories and 568 districts in India. Large MFIs which constitute 90% of industry business with a branch network of 9,669 have reached out to an all time high of 3.2 cr clients with an outstanding loan portfolio of Rs.53,233 cr as of FY16. The average loan outstanding per borrower stood at Rs.16,370 and 80% of loans were used for income generation purposes

- As per the census 2011, the rural population in India is around 83.3 cr. The RBI estimates that around 51% of rural household in India are financially excluded from both formal/ informal sources and 73% of households have no access to formal source of credit. RBI report states that 43.9% of rural households rely on non institutional borrowing.

- With a large market size of Rs.2.96 Lakh Cr and low financing penetration (~10% of the total potential demand), MFIs could sustain robust growth in the foreseeable future. Moreover, with more than 50% of MFI loans concentrated in only four states, growth for MFIs can increase as the remaining states are tapped.

Microfinance penetration

Particulars	Units
Households in India (Million)	247
Households without access to credit (Million)	99
Per ticket loan (Rs.)	30,000
Potential opportunity (Rs. Cr)	296,000
Current market size (Rs. Cr)	79,600
MFI Rs. Cr	36,700
SHG Rs. Cr	42,900
Financing penetration – overall	27%
MFI	10%
SHG	17%

Source: Census, GOI, NABARD, MFIN, Axis Securities

- Also from a funding availability perspective, the microfinance industry is still less than 1% of the Indian banks' total outstanding credit. Therefore, funding should not be a challenge for the sector as long as it is able to maintain asset quality.

- Currently average ticket size seems to be around Rs.16,000 which has increased from Rs.5000 in FY12-13. Although it has increased at high pace, with RBI increasing ticket size from Rs.15,000 to Rs.30,000, there is still more space left to grow with respect to ticket size.

Growth drivers

- **Regulatory boost by RBI** - RBI liberalized guidelines for the sector in the past two years: increased annual income threshold of borrowers, hiked the loan amount and total indebtedness limit, permitted flexible pricing through margin caps, and relaxed the cap for income-generating loans. This has increased the business scope for MFI players significantly.

- Regulatory framework, credit infrastructure, technology and supportive regulations have put microfinance industry back on track. Regulations post AP crisis have strengthened the industry and have made the business model stable and sustainable. Moreover RBI has given most SFB licenses to MFIs reiterates the regulators positive stance on the MFI sector.

- **Improvement in standard of living in rural households will boost the finance requirement** - Micro finance has fuelled the efforts of rural development, women empowerment and wealth generation by providing small scale savings, credit insurance and other financial services to poor and low income households. Micro finance thus serves as a means to empower the poor and provide a valuable tool to help the economic development process.

- **Priority sector lending benefits** - Bank credit extended to MFIs for on-lending to individuals and also to members of SHGs / JLGs will be eligible for categorization as priority sector advance under respective categories viz., Agriculture, Micro, Small and Medium Enterprises, and 'Others', as indirect finance, provided not less than 85 percent of total 12. The Bharat Microfinance Report 2015 assets of MFI (other than cash, balances with banks and financial institutions, government securities and money market instruments) are in the nature of "qualifying assets". In addition, aggregate amount of loan, extended for income generating activity, should not be less than 50 percent of the total loans given by MFIs. The retention of PSL classification for loans to the sector has essentially enabled abundant availability of funding to the industry at reasonable rates.

- **We expect, with favorable growth drivers in place for the industry, MFI sector should grow the housing finance way in the long run although the asset quality remains the risk due to non collateralized nature of the business model.**

Banking license to MFIs by RBI to convert into small banks

- RBI, in Sept 2015, granted an in-principle licenses to 10 entities to open small finance banks, which was another move towards expanding access to financial services in rural and semi-urban areas. **Small finance banks** will offer basic banking services, accepting deposits and lending to unserved and underserved sections including small business units, small and marginal farmers, micro and small industries, and entities in the unorganized sector. **Eight out of the 10 entities which received the in-principle approval, which is valid for 18 months, are microfinance institutions. This shows the confidence of the regulator in the MFI sector**

- Small finance banks will be regulated by the RBI and hence state governments cannot exercise control over them. This will substantially reduce the risk of political interference. These will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks, including the requirement of CRR and SLR. **In Near term, the profitability of the small banks might get impacted as operating cost is expected to go up as these will have to invest in technology for branch operations and in hiring staff dedicated to building the deposit franchise.**

- **Small bank licensee will focus on liability side** - Microfinance to gain market as the competitive intensity to come down as ~54% of the industry is now small finance bank (SFB); the management bandwidth of these entities will be focusing towards setting up bank. Also securitization space would open up as most MFIs which got SFB licenses won't participate, hence MFIs would be preferred entity for securitization requirements of banks. However, SFBs and universal banks will be in a position to provide a complete suite of basic banking services, heightening competition for MFIs.

- **Confidence booster by the regulator through small bank license, lower competition with focus on liability side by these banks and higher securitization bodes well for MFI industry.** Although competition could emerge in the long run from these MFI turn small banks having advantage of lower cost of funds and various products to offer.

Regulator body post AP crisis

- AP crisis impacted the MFI industry which is visible as few MFI companies are still under CDR due to huge losses suffered during the crisis. This resulted in need of a strong regulator for the industry which should protect the industry from any political interferences.

- In the Union budget, government announced MUDRA (Micro Units Development and Refinance Agency) bank to regulate and refinance MFIs which will have a corpus of Rs.20,000 cr and credit guarantee corpus of Rs.3,000 cr. However, Industry players felt that MUDRA as a regulator would result in potential conflict of interest as it has 48 members which cover 90% microfinance sector.

- Thus, clarifying its stand on regulation of microfinance companies, the government has said that the Reserve Bank of India would continue to regulate MFIs registered as non-banking finance companies (NBFCs) with the central bank. MFIs will not be regulated by the MUDRA Bank, as proposed by the finance ministry earlier.

- Following are the regulations for MFIs formulated by the RBI

Parameter	Regulation
Capital Adequacy	Overall CAR should not be less than 15% of aggregate risk weighted assets. Tier-II Capital shall not exceed 100% of Tier I Capital.
Annual Income of Borrowers	Household annual income should not exceed Rs.1,00,000 in rural areas or Rs. 1,60,000 in urban and semi-urban areas.
Loan Amount	Loan amount to not exceed Rs. 60,000 in the first cycle and Rs. 1,00,000 in subsequent cycles
Overall Indebtedness	Total indebtedness of the borrower to not exceed Rs. 1,00,000, excluding loans availed for meeting education and medical expenses
Mutiple Lending	A borrower cannot avail loan from more than two MFIs at a time
Margin Cap	Margin Cap of 10% over cost of funds for large NBFC-MFIs (portfolios >Rs.1bn) and 12% for others
Interest Rate	Interest rate charged to be lower of a) Cost of Funds + Margin Cap or b) avg. base rate of the five largest commercial banks multiplied by 2.75
NPL & Provisioning	Non-standard asset would mean a loan for which interest/principal payment is overdue for 90 days or more. Provisioning of 50% on assets overdue

Source: RBI

21% CAGR PAT growth; RoE improved to 17%

Financials performance of Housing Finance

Particulars Rs. Cr	2002	2008	2014	2015	CAGR (FY02-15)
Net Interest Income (NII)	1,653	5,462	15,302	18,251	20.30%
NII + OI	1,699	6,307	15,620	18,444	20.10%
Operating Profits before Prov.	1,323	5,416	13,369	15,684	21.00%
Total Provisions	210	353	569	752	10.30%
Profit Before Tax	1,062	5,026	12,718	14,830	22.50%
Net Profit	869	3,602	9,175	10,087	20.80%
RoA	1.60%	2.00%	2.10%	2.00%	2.00%
Leverage (X)	8.1	7.5	8.0	8.4	8.3
RoE	12.50%	15.00%	16.80%	16.70%	16.40%
Mcap Rs. Cr	8,873	70,083	149,814	228,548	28.40%

Source: Axis Securities Ltd, Capitaline.

- Housing finance companies have reported strong financial performance led by growth drivers as discussed earlier.
- Profitability grew at 21% CAGR (FY02-15) led by Net interest income growth of 21% CAGR and stable margins
- Asset quality has remained stable with NNPA below 1% which resulted into lower increase in provisions at 10% CAGR
- Return on Equity has improved from 12.5% in FY02 to 16.7% in FY15 led by improvement in RoA to 2% from 1.6%
- Strong financial performance resulted in strong shareholders return as Mcap of HFCs has grown at 28% CAGR

Higher RoA; however lower RoE due to lower leverage

Financials performance of Microfinance

Particulars Rs. Cr	2012	2013	2014	2015	% Growth
Net Interest Income (NII)	943	1,019	1,598	2,530	58%
NII + OI	945	1,021	1,657	2,594	57%
Operating profits	431	576	1,066	1,657	55%
Profits Before tax	(1,035)	90	686	1,242	81%
Net Profit	(1,180)	-33	497	860	73%
RoE	(65.9%)	-1.40%	14.20%	14.40%	
RoA	(20.4%)	-0.40%	4.30%	4.20%	
Leverage	3.23	3.19	3.26	3.44	
Bharat Financial Inclusion Mcap Rs. Cr	859	1,315	2,217	5,769	160%

Source: Axis Securities Ltd, Capitaline.

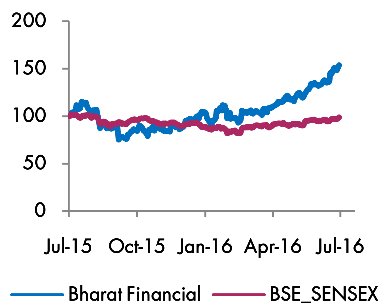
- MFIs have reported losses due to AP crisis in 2012 & 2013. However post that MFIs have recovered by focusing on diversification into different states.
- In FY15, microfinance companies have reported strong growth with 73% increase in profits
- RoA has remain at higher levels of 4%, however RoE has remain subdued at 14% due to lower leverage.
- With strong growth going forward, leverage should increase to boost RoE
- Bharat Financial Mcap has increased by 160% in FY15 due to strong financial performance
- We expect MFIs should continue to grow the housing finance way

Bharat Financial Inclusion Ltd

Stock Data

CMP (as of 22 Jul 2016)	Rs 845
No. of shares	12.75 Cr
Market cap (Rs)	Rs 10,775 cr
52 week high/low (Rs)	891 / 369
Avg. daily vol. (6 mths)	17,74,287 shrs
Bloomberg code	BHAFIN IN
Reuters code	BHAF.BO

Price Performance



Source: Axis Securities Ltd, Capitaline.

Bharat Financial Inclusion Ltd.(BFIL) (erstwhile SKS Micrfinance) will become the largest microfinance company in India, after Bandhan gets converted into a universal bank later this year. Its core business is providing small value loans and other basic financial services to its customers, who are predominantly located in rural areas. The company extends loans to them mainly for use in small businesses or for other income generating activities and not for personal consumption.

Investment Rationale

- **Underpenetrated industry – huge demand untapped** - We believe the overall demand for microfinance in India could be Rs2.4 lakh cr. This market is serviced by bank-sponsored self-help groups (SHGs) and non-banking finance companies - microfinance institutions (NBFCs-MFIs). Both combined are able to meet only 26%-34% of potential demand, indicating huge under-penetration in the segment.
- **Lowest Interest rate lender MFI** - BFIL lends at 19.75% which is the lowest interest rate charged by any private sector MFI globally. Thus competitive positioning should improve on back of lowest lending rates in the industry due to sharp decline in borrowing profile, superior credit rating and business correspondent opportunities in tie-up with large banks.
- **Regulatory support build confidence in MFI model** - Regulatory supervision by RBI and introduction of credit information bureau has strengthened credit appraisal standards and reduced political risk. Additionally, recent steps taken by RBI like increasing the first cycle disbursement by 70/100%, indicates RBI's confidence in the MFI business model.
- **Outlook** – Given the low levels of microfinance penetration in India, the sector is expected to witness strong growth. Entry barriers such as margin and borrower-level leverage caps will ensure limited competition, while favorable regulatory regime ensures longevity. We believe premium valuations to sustain for the stock as profitability growth will continue, thus we remain positive.

Financial Summary

Y/E Mar	PAT (Rs. Cr)	EPS (Rs)	EPS chg (%)	Book value (Rs)	PE(X)	P / BV (X)	RoE (%)	RoA (%)
FY14	70	6.5	-	42.4	31.8	4.8	20.1	4.3
FY15	188	14.9	129	82.9	30.7	5.5	21.6	4.3
FY16	303	23.8	60	108.6	35.5*	7.8*	25.1	4.2

** CMP Source: Axis Securities Ltd, Capitaline.*

Financial Performance

Particulars Rs. Cr	2012	2013	2014	2015	2016	CAGR (FY12-16)
Net Interest Income (NII)	203	158	269	400	652	34%
NII + OI	272	209	331	524	837	32%
Operating profits	-151	-53	85	204	433	
Provisions & Write Offs	1,173	244	15	10	39	-57%
Profits Before tax	-1,324	-297	70	194	394	
Net Profit	-1,361	-297	70	188	303	
Loan Book	1,669	2,359	2,840	4,540	7,841	47%
Assets	1,722	2,511	2,497	4,699	7,154	43%
Networth	435	390	459	1,046	1,383	34%
RoE %	-118.9%	-74.4%	16.7%	21.6%	25.1%	
RoA %	-40.3%	-11.7%	2.3%	4.3%	4.2%	
Leverage (X)	3.0	6.4	7.3	5.0	6.0	
Bharat Financial Inclusion Mcap Rs. Cr	859	1,315	2,217	5,769	6,947	69%

Source: Axis Securities Ltd, Capitaline.

- BFIL reported losses in FY12 & FY13 due to impact of AP crisis. However, post AP crisis, loan book grew by 47% CAGR (FY12-16) led by focus on diversification towards non AP states.

- NII grew by 34% CAGR (FY12-16) while Provisions declined by 57% CAGR (FY12-16) due to better asset quality in non AP portfolio. Thus profitability improved from loss of Rs. 1360 cr in FY12 to Rs.300 cr in FY16.

- Return ratios have improved to RoA of 4.2% and RoE of 25% in FY16. This has resulted in better return to shareholders as Mcap has increased at 69% CAGR over same timeframe.

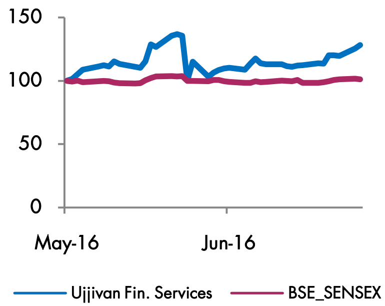
- With strong loan growth guidance of 43% in FY17 by the management, profitability should continue to grow.

Ujjivan Financial Services

Stock Data

CMP (as of 22 July 2016)	Rs 437
No. of shares	11.82 Cr
Market cap (Rs)	Rs 5170 cr
52 week high/low (Rs)	449 / 217
Avg. daily vol. (6 mths)	59,46,734 shrs
Bloomberg code	UJJIVAN IN
Reuters code	-

Price Performance



Source: Axis Securities Ltd, Capitaline.

Ujjivan Financial Services (UFS) is a micro finance (MFI) NBFC with the objective of providing financial services to the economically active poor who are inadequately served by financial institutions. It is the third largest MFI in India in terms of AUM and has a pan-India presence with 470 branches across 24 states & union territories and in 209 districts in India.

Investment Rationale

- **MFI with deep pan-India presence:** UFS has a deep pan India presence as compared to other MFIs which have regional concentration. Gross AUM of Rs.4,589 crore as on FY16 for the north, south, east and west regions were Rs. 987 crore (22% of total AUM), Rs.1424 crore (31%), Rs.1344 crore (29%) and Rs.834 crore (18%), respectively. Additionally, AUM is also well diversified in terms of type of location. With company's initial focus on the urban and semi-urban poor, it has gradually catered to an increasing number of rural customers. As on Q3FY16, approximately 29%, 37% and 34% of UFS's customers comprise rural, semi-urban and urban customers, respectively.
- **Robust risk management framework:** UFSL has an established risk management and audit framework to identify, assess, monitor and manage credit, market, liquidity and operational risks. It has a strong credit function, which is independent of its business and a key controller of the overall portfolio quality. It has implemented credit management models such as decentralized loan sanctioning and stringent credit history checks which have enabled it to maintain a stable portfolio quality. UFSL's effective credit risk management is reflected in its portfolio quality indicators such as robust repayment rates, stable portfolio at risk ("PAR") and low rates of GNPA and NNPA.
- **Decentralized management structure:** UFS has adopted a decentralized management structure, comprising four regional offices at Bengaluru, New Delhi, Kolkata and Pune. It has a two tiered management hierarchy consisting of a national leadership team providing overall direction to the business and four regional leadership teams responsible for taking on-ground operational decisions.

Financial Summary

Y/E Mar	PAT (Rs. Cr)	EPS (Rs)	EPS chg (%)	Book value (Rs)	PE *(X)	P / BV* (X)	RoE (%)	RoA (%)
FY14	58.4	8.9	68	53	-	-	16.9	3.4
FY15	75.8	11.2	26	82	-	-	13.7	2.5
FY16	177.2	20.2	80	119	21.6	3.7	18.3	3.7

** CMP Source: Axis Securities Ltd, Capitaline.*

Financial Performance

Particulars Rs. Cr	2012	2013	2014	2015	2016	CAGR (FY12-16)
Net Interest Income (NII)	**87**	**140**	**208**	**328**	**584**	**61%**
NII + OI	**95**	**152**	**218**	**341**	**604**	**59%**
Operating profits	**5**	**55**	**97**	**136**	**297**	
Provisions & Write Offs	6	7	8	21	25	45%
Profits Before tax	**(1)**	**48**	**89**	**115**	**272**	
Net Profit	**1**	**33**	**59**	**76**	**177**	**242%**
Loan Book	691	1,126	1,617	3,219	5,064	65%
Assets	895	1,357	2,079	3,976	5,727	59%
Networth	240	318	373	736	1,198	49%
RoE %	0.10%	11.80%	16.90%	13.70%	18.30%	
RoA %	0.00%	2.90%	3.40%	2.50%	3.70%	
Leverage (X)		4.1	5	5.5	4.9	

Source: Axis Securities Ltd, Capitaline.

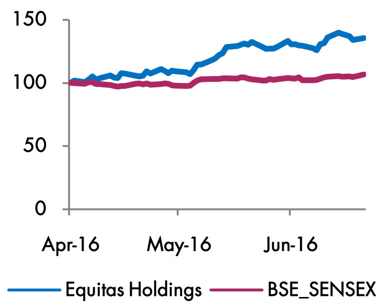
- Ujjivan is present across 24 states and has successfully diversified its AUM with no single state contributing >20% to the overall AUM. This has resulted in reporting AUM growth of 65% CAGR (FY12-16).
- NII grew at 61% CAGR (FY12-16) with strong AUM growth and stable margins.
- In the last few years Ujjivan has been able to improve its leverage from 4x in FY2013 to 5x in FY2016. This has resulted in ROE improving from 11.8% to 18.3% during the same period.
- IPO of the company came at issue price of Rs.210 which have given ~100% return to shareholders in short span of time (2months).

Equitas Holdings

Stock Data

CMP (as of 22 Jul 2016)	Rs 182
No. of shares	33.57 Cr
Market cap (Rs)	Rs 6102 cr
52 week high/low (Rs)	193 /134
Avg. daily vol. (6 mths)	79,79,577 shrs
Bloomberg code	EQUITAS IN
Reuters code	-

Price Performance



Source: Axis Securities Ltd, Capitaline.

Equitas Holdings (EHL) is a Chennai based diversified financial services provider focused on individuals and micro and small enterprises (MSEs) that are underserved by formal financing channels. The company has three wholly-owned subsidiaries Equitas Micro Finance (EMFL), Equitas Finance (EFL) and Equitas Housing Finance (EHFL).

Investment Rationale

- **Diversified product offering and markets with significant cross-selling opportunities:** Equitas offers a range of financial products and services including microfinance, used commercial vehicle finance, MSE finance and housing finance that provides it with significant cross selling and up-selling opportunities to its target customer segments. For the nine months ended December 31, 2015 the proportion of the MSE loan accounts disbursed to its microfinance customers was, 87.38%, clearly showing how the company is leveraging the cross selling opportunities.
- **Strong margins along with strong RoA:** Equitas consolidated margins are strong at 11.6% due to higher margins it earns in the MFI and vehicle financing business. RoA is at 3.1% on a consolidated basis. Consolidated RoE was at 13% vs. RoE of 19.1% in the MFI business due to lower leverage in other businesses, thereby keeping RoE lower.
- **Credible management & transparent operations leading to customer & shareholder trust:** The top management personal have been associated with reputed lending companies like Cholamandalam, Ashok Leyland, DCB Bank etc.in the past. Equitas followed transparent lending practices with regards to loan pricing, loan recovery and loan limits, before the RBI issued operating guidelines for the Microfinance sector. It has introduced customer friendly repayment policies designed to address emergency circumstances such as death of a family member or a major illness without charging any additional interest.
- **Relatively cheap valuation:** The stock trades at valuation of 3.6X FY16 P/BV as against 5.3 X P/BV at which BFIL trades. We remain positive on the business model of the company.

Financial Summary

Y/E Mar	PAT (Rs. Cr)	EPS (Rs)	EPS chg (%)	Book value (Rs)	PE *(X)	P / BV* (X)	RoE (%)	RoA (%)
FY14	74	4.0	90	34.0	-	-	12.25	3.2
FY15	107	4.5	12	43.5	-	-	11.15	3.0
FY16	167	6.2	39	49.7	29.4	3.7	13.31	3.05

** CMP Source: Axis Securities Ltd, Capitaline.*

Financial Performance

Particulars Rs. Cr	2012	2013	2014	2015	2016	CAGR (FY12-16)
Net Interest Income (NII)	**134**	**175**	**294**	**460**	**675**	**50%**
NII + OI	**134**	**176**	**294**	**461**	**678**	**50%**
Operating profits	**12**	**42**	**114**	**214**	**320**	**126%**
Provisions & Write Offs	1	2	0	51	60	176%
Profits Before tax	**11**	**40**	**114**	**162**	**260**	
Net Profit	**-3**	**32**	**74**	**106**	**167**	
Loan Book	824	1,484	2,486	4,010	6,125	65%
Assets	881	1,759	2,608	4,235	6,126	62%
Networth	302	472	742	1,171	1,341	45%
RoE %	**-1.20%**	**8.20%**	**12.30%**	**11.20%**	**13.30%**	
RoA %	**-0.40%**	**2.30%**	**3.20%**	**3.00%**	**3.10%**	
Leverage (X)	**2.9**	**3.6**	**3.8**	**3.8**	**4.4**	

Source: Axis Securities Ltd, Capitaline.

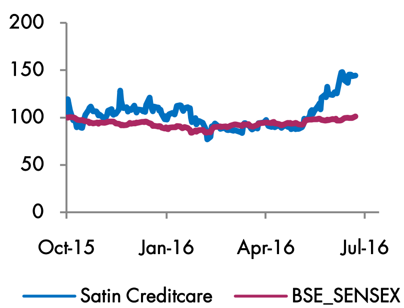
- Equitas has diversified portfolio of CV financing, Housing finance and Microfinance. This has resulted in reporting AUM growth of 65% CAGR (FY12-16).
- NII grew at 50% CAGR (FY12-16) with strong AUM growth and stable margins.
- With consistent improvement in leverage from 3x in FY2012 to 4.4x in FY2016. This has resulted in ROE improving from 8.2% to 13.3% during the same period.
- IPO of the company came at issue price of Rs.110 which have given ~60% return to shareholders in short span of time (3months).

Satin Creditcare

Stock Data

CMP (as of 22 Jul 2016)	Rs 525
No. of shares	3.2 Cr
Market cap (Rs)	Rs 1680 cr
52 week high/low (Rs)	543 / 264
Avg. daily vol. (6 mths)	1,21,957 shrs
Bloomberg code	SATIN IN
Reuters code	SATR.BO

Price Performance



Source: Axis Securities Ltd, Capitaline.

Satin is North India's largest and India's 5th largest MFI# in terms of AUM with presence across 13 states with 329 branches (Sept 15). It offers a comprehensive bouquet of financial products to Bottom-of-Pyramid Population – MFI Loans, Small Business Loans, Low ticket LAP and Business Correspondent Services (through Taraashna Services Pvt. Ltd.)

Investment Rationale

- **Strong leadership in Northern Markets (low penetrated by MFI):** Since inception, Satin has concentrated on India's northern and central regions (no exposure to southern states), where MFI penetration is low (6-12%) compared to southern and eastern states (20-24%). A focus on untapped markets has helped the company post an AUM CAGR of 88% over FY12-FY15 vs. ~50% for the industry, and management expects the outperformance to continue. Management targets 70% loan growth and 60% profitability growth in FY17 as compared to industry growth of 30-40%.
- **Strong AUM growth drove profitability:** Satin reported strong FY13-H1 FY16 total AUM CAGR of 69% and with focus on enhancing the productivity of its employees and introducing technology for expeditious reporting resulted in Cost to income ratio to decline from 81% in FY13 to 62% in H1 FY16. This provided boost to profitability which grew at CAGR 116% (FY13-H1 FY16) and RoA improved from 0.7% to 2.0%.
- **Entry barriers for MFI bodes well for established players:** RBI has capped the spreads at 10% and thus larger and established companies have an advantage over new entrants, given their scale of operations as operating expenses are very high. With the restriction on lending - like not more than two MFIs can lend to the same borrower - new players will find it difficult if the new territories are dominated by two or more strong players.
- **Premium valuations to sustain:** The stock trades at premium valuation of 4.1X H1 FY16 P/BV Due to consistent growth prospects, higher RoA / RoE, healthy margins and well managed asset quality, we believe that the stock would continue to trade at a premium multiple.

Financial Summary

Y/E Mar	PAT (Rs. Cr)	EPS (Rs)	EPS chg (%)	Book value (Rs)	PE *(X)	P / BV* (X)	RoE (%)	RoA (%)
FY14	15.5	6.8	297	59.7	-	-	11.8	1.7
FY15	30.8	12.2	78	74.9	-	-	18.6	2.0
FY16	57.3	18.2	50	101.4	28.8	5.2	22.1	2.2

** CMP Source: Axis Securities Ltd, Capitaline.*

Financial Performance

Particulars Rs. Cr	2012	2013	2014	2015	2016	CAGR (FY12-16)
Net Interest Income (NII)	16	24	52	93	180	84%
NII + OI	29	40	86	147	269	74%
Operating profits	2	5	23	47	88	156%
Provisions & Write Offs	-	-	-	0	1	
Profits Before tax	2	5	23	47	87	156%
Provision for Tax	1	1	8	15	30	154%
Deferred Tax						
Net Profit	1	4	16	32	58	157%
Loan Book	388	580	1,056	2,141	3,271	70%
Assets	300	745	1,122	2,011	3,303	82%
Networth	80	124	138	194	324	42%
RoE %	1.80%	3.80%	11.80%	18.60%	22.10%	
RoA %	0.40%	0.70%	1.70%	2.00%	2.20%	
Leverage (X)	4	5.4	6.9	9.3	10	

Source: Axis Securities Ltd, Capitaline.

- Satin has not reported losses in FY12 as observed in other MFIs as it has been least impacted by AP crisis due to no exposure to southern states.
- NII grew at 84% CAGR (FY12-16) with strong AUM growth and stable margins.
- With highest leverage of 10X in FY16, RoE has improved to 22% although RoA comes to around 2.2% which has more room to improve as compared to other MFIs.
- Satin was listed in regional market Calcutta Stock Exchange but post listing on more profound market NSE in August 2015 has given strong return to shareholders of 453%.

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