



Script – Bharat Finance

Recommendation – Buy

| Script | Sector | Sentiment | Action | Stop Loss | Target |
|-----------------------|----------------|---|-------------------------|---------------|-----------------|
| <i>Bharat Finance</i> | <i>Finance</i> |  | <i>Buy above 900.00</i> | <i>750.00</i> | <i>1200.00+</i> |



BHARAT
Financial Inclusion Ltd

Prayaas se pragati

(Formerly known as 'SKS Microfinance Limited')

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Bharat Finance Overview

Bharat Finance reported 1QFY18 net loss of INR371m, driven by a provision hit of INR1.76b. The company up-fronted bulk of the provisions which it plans to make for the year. We view this as a key positive.

Collection efficiency trends have been encouraging. First month collection rate improved from 91% in November 2016 to 92% in April and 96.2% in July. Collection efficiency on a lagged basis also witnessed an improving trend.

The company disclosed collection efficiency trends on loans disbursed over Jan-Jun 2017 across geographies. The minimum cumulative collection efficiency in any state is 99.7%. The pool of overall stressed loans continues to decline. Total overdue portfolio declined QoQ from INR7.12b to INR5.55b. The company now holds provisions of INR3.94b against INR4.64b of 8 weeks+ overdue loans. Number of loans disbursed increased 8% QoQ, while total disbursements declined 4% sequentially.

The management has given guidance of aggressive assets under management or AUM growth of 48% in FY18. BFIL plans to add 200 branches during the year. Net interest margin or NIM improved 100bps QoQ to 9.1% on account of relatively lower interest reversal. Non-interest income declined 2% YoY, but improved 24% QoQ, as the momentum in cross-sales picked up during the quarter. Cost-to-AUM ratio improved by 20bps YoY to 6.4%. BFIL has unabsorbed DTA (unrecognised) of Rs2.9bn and MAT credit of Rs2.2bn. We have retained Buy rating on the stock with a target price of Rs1200+.

Large unmet demand, low competitive intensity, supportive regulations, strong balance sheet and best-in-class operating metrics have put BHAFIN on a high-growth path. While there has been a hit due to demonetization and other external factors, we believe that the long-term growth story remains unchanged. We acknowledge that upside could accrue with potential events (M&A) and better-than-expected profit growth.

Valuation and outlook:

The management has prudently taken a large part of the provisioning upfront in the past two quarters, far larger than what was required under the Reserve Bank of India or RBI norms. BFIL's board has given its approval to the management to appoint a consultant for evaluating strategic options including induction of a strategic investor. With its small finance bank or SFB competitors busy in transition, BFIL has further boosted its growth engine. Higher AUM growth along with one of the highest return ratios among NBFCs deserves a premium valuation. BFIL continues to focus on a superior group-lending model with greater focus on rural areas as well as underpenetrated geographies, selectively avoiding states with higher SHG presence, weekly collections, one of the lowest loan ticket sizes among peers, the lowest lending rate and most of its customers being Aadhar card-linked. Given the digital initiatives as well as its expected loan growth momentum, there is huge scope for improvement in operating leverage

| Rating Matrix | |
|-------------------------|----------------------------|
| Rating | Buy |
| Target | 1200++ |
| Target Period | 3-6 Months Minimum. |
| Potential Upside | 33% |

Technical View on Bharat Finance



We have seen mind blowing rally in Bharat finance in last few trading sessions. It spurts from 756 to 892 almost up by 17.00%. Bharat finance future is trading around 890. It made a low of 756.55 on Aug 11, 2017 and bounced back sharply. Bharat finance formed symmetrical triangle pattern on weekly chart and having breakout point at 890 but we consider 900 as major resistance as it is a square root of 30.

Bharat finance future has hurdle at 900 and support at 750. Three consecutive closes above 900 will see nonstop rally of almost 300 points i.e. 1200+ mark in days to come; minor hurdle at 945 mark. Overall trend looks positive and any sharp fall will be a buying opportunity in it.

On Daily chart, Bharat finance is trading above 21 and 55 days exponential moving average which is at 776 & 774 while MACD and RSI still showing positive diversion which indicates that upper side seems certain.

Traders don't go for aggressive or positional selling at all because trend is positive and we will expect rally to remain continue in coming weeks. For positional trade, stop loss seeing at 750. It will get positional weak only below 750 mark which is unlikely to breach in near terms.

Trading Recommendation

Buy Bharat Finance above 900 with stop loss 750 (on closing basis) for the upside target of 1200+.

| Pivot Levels | | | | | |
|----------------|-----------|-----------|--------|--------------|--------------|
| Script | Support 2 | Support 1 | Pivot | Resistance 1 | Resistance 2 |
| Bharat Finance | 760.00 | 818.00 | 850.00 | 908.00 | 940.00 |

Tuesday, 22 Aug. 17

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