

18 January 2024

Poonawalla Fincorp

All-out growth; retaining a Buy

Driven by strong, ~58% y/y, ~9% q/q, AUM growth, Poonawalla Fincorp's Q3 FY24 net profit shot up ~76% y/y to Rs2,651m (surpassing ARE). Increasing product share, competitive cost of funds and tech savviness are likely to drive a best-in-class 40% AUM CAGR over FY24-26. We retain our Buy rating on the company's high growth with a TP of Rs595, 4.1x FY26e P/BV, for a 16% RoE expectation.

Strong digital-driven AUM growth; sourcing more organic. Driven by the increasing product portfolio, AUM rose a robust ~58% y/y, ~9% q/q. Disbursements at Rs87bn grew 159% y/y with all-round growth. The app and web presence are expected to increase with more products lined up for launches. Niche financing products and the strong tech focus are likely to aid expansion of loans at a 40% CAGR over FY24–FY26.

Stable NIM and productivity. NIM was stable at 11% despite the rising interest-rate environment as management contained its CoF. As a result, we believe the company can maintain its NIM over FY24-26 at >10%. As operating efficiencies kick in, we build in a 35.2% cost-to-income ratio over FY24-26.

Best-in-class capital and stable asset quality outlook. The NBFC has created an adequate buffer, which would protect against delinquencies from the pre-acquisition book. As a result, we expect stable credit cost of 1.2% over FY25-26. Best-in-class capital adequacy of 38.2% in an environment where tweaks in risk weight by the RBI impacted peers' CRAR, PFL surely stands out.

Valuation. Our 12-mth target price of Rs595 is based on the multi-stage DDM model. This implies a ~4.1x FY26e P/BV. **Risks:** Higher slippages, less-than-expected loan growth.

Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
AUM	1,15,190	1,61,430	2,34,074	3,27,703	4,42,399
Net interest income	9,493	12,217	18,949	28,528	37,284
NIM (%)	8.7	8.8	9.6	10.2	9.7
PPoP	4,532	6,008	12,949	20,531	26,712
PAT	2,932	5,637	9,735	12,958	16,700
EPS (Rs.)	3.8	7.3	12.7	16.9	21.7
BV (Rs.)	74.7	83.7	108.2	123.9	144.1
P/E (x)	129.4	67.6	39.1	29.4	22.8
P/BV (x)	6.6	5.9	4.6	4.0	3.4
Dividend yield (%)	0.1	0.4	0.1	0.2	0.3
RoA (%)	2.5	3.7	4.7	4.7	4.4
CRAR (%)	49.1	38.9	42.4	33.9	28.6

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.595

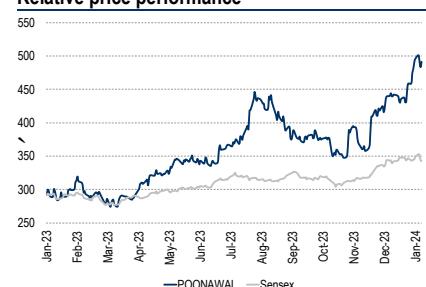
Share Price: Rs.368

Key data	POONAWAL IN
52-week high / low	Rs505 / 274
Sensex / Nifty	71187 / 21462
3-m average volume	\$16.2m
Market cap	Rs378bn / \$4547.5m
Shares outstanding	769m

Shareholding pattern (%)	Dec'23	Sep'23	Jun'23
Promoters	62.1	62.1	62.1
- of which, Pledged	-	-	-
Free float	37.9	37.9	37.9
- Foreign institutions	7.8	7.9	7.2
- Domestic institutions	5.6	7.0	8.0
- Public	24.6	23.0	22.7

Estimates revision (%)	FY25e	FY26e
NII	2.2	2.1
PPOP	6.9	2.6
PAT	8.1	6.3

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net interest income	9,493	12,217	18,949	28,528	37,284
Growth (%)	7.6	28.7	55.1	50.6	30.7
Other income	1,085	1,931	2,221	2,443	2,687
Total income	10,578	14,148	21,170	30,971	39,971
Total income growth (%)	5.5	33.7	49.6	46.3	29.1
Operating expenses	6,046	8,139	8,221	10,440	13,259
Salary	4,099	5,148	5,590	7,099	9,016
PPoP	4,532	6,008	12,949	20,531	26,712
PPoP growth (%)	(17.0)	32.6	115.5	58.5	30.1
Provisions	686	(1,445)	1,187	3,067	4,205
PBT	3,846	7,666	22,072	17,463	22,507
Tax	914	1,816	2,543	4,506	5,807
PAT*	2,932	5,637	9,735	12,958	16,700
PAT growth (%)	NM	99.5	72.7	33.1	28.9

Source: Company, Anand Rath Research *PAT excluding extraordinary income

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	1,530	1,536	1,536	1,536	1,536
Other equity	55,615	62,711	81,530	93,581	1,09,112
Net worth	57,145	64,247	83,066	95,117	1,10,648
Borrowings	67,258	1,11,196	1,40,107	2,12,962	3,13,054
Growth (%)	-15.0	65.3	26.0	52.0	47.0
Other liabilities	3,693	4,775	7,558	10,265	14,051
Total liabilities	1,28,097	1,80,218	2,30,731	3,18,344	4,37,754
Cash & Cash equivalents	5,372	6,574	516	(560)	9,959
Investments	8,197	3,109	3,420	3,591	3,771
Advances	1,06,784	1,52,295	2,13,007	2,98,210	4,02,583
Growth (%)	24.7	42.6	39.9	40.0	35.0
Other assets	7,744	18,240	13,789	17,104	21,441
Total Assets	1,28,097	1,80,218	2,30,731	3,18,344	4,37,754
AUM	1,15,190	1,61,430	2,34,074	3,27,703	4,42,399

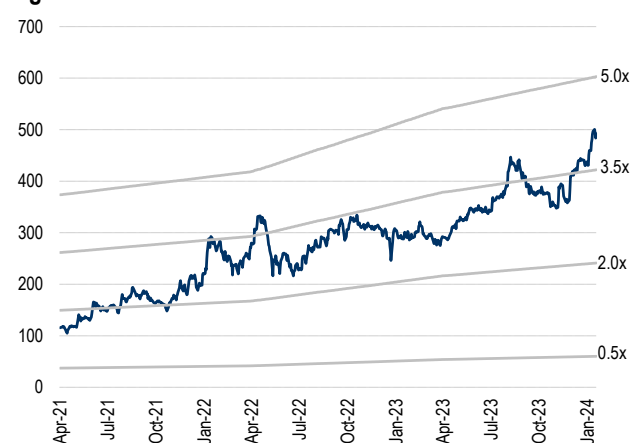
Source: Company, Anand Rath Research

Fig 3 – Ratio analysis (%)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
NIMs	8.7	8.8	9.6	10.2	9.7
Cost-to-income	57.2	57.5	38.8	33.7	33.2
Credit cost	0.7	(1.1)	0.7	1.2	1.2
RoA	2.5	3.7	4.7	4.7	4.4
RoE	7.7	9.3	13.2	14.5	16.2
GNPA	3.3	1.4	0.9	0.8	0.8
NNPA	1.3	0.8	0.4	0.3	0.3
CRAR	49.1	38.9	42.4	33.9	28.6
Tier 1	46.6	37.7	41.4	33.2	28.1
EPS (Rs)	3.8	7.3	12.7	16.9	21.7
BVPS (Rs)	74.7	83.7	108.2	123.9	144.1
ABVPS (Rs)	73.4	82.6	107.4	123.0	143.0
Dividend yield	0.1	0.4	0.1	0.2	0.3
P/E (x)	129.4	67.6	39.1	29.4	22.8
P/B (x)	6.6	5.9	4.6	4.0	3.4
P/ABV (x)	6.8	6.0	4.6	4.0	3.5

Source: Company, Anand Rath Research

Fig 4 – Price-to-book band



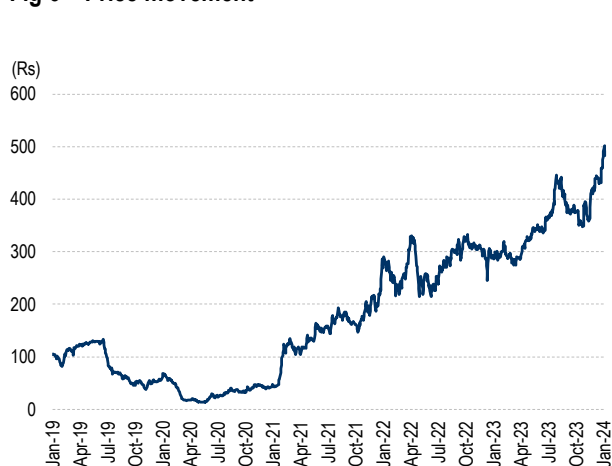
Source: Bloomberg

Fig 5 – One-year-forward price-to-book-value



Source: Bloomberg

Fig 6 – Price movement



Source: Bloomberg

Earnings call key takeaways

Management commentary and guidance

- Focus is on increasing market share in the top-100 markets (urban and semi-urban). No additional branches would be required before AUM crosses Rs500bn.
- Over the next two years, 100% sourcing will be organic.
- AUM growth 35-40% y/y, 7-8% q/q, over 2-3 years.
- Secured-to-unsecured mix guidance at 50:50
- Reduction of shorter tenure book (less than 12 months), which is now 22% of AUM and to be maintained below 25%.
- Steady state-basis guidance.
- NIM - 10%.
- Opex/AUM - 3.5%.
- Credit cost – 80bps to 120bps.
- RoA – 4% to 4.5%.

Business

- Phase 2 of digital transformation completed.
- 33% of digital disbursement customer profile is prime & above, per bureau data
- Leveraging WhatsApp in building an alternative distribution channel as customer servicing and lead generation has worked well. Will be starting industry-first full loan journey in 2-3 weeks.
- Coming product launches:
 - Co-branded credit card to be launched in Q4 FY24, which will help to engage with customers, with day-to-day transactions targeted only for a pre-approved set of customers. Joining and annual fee will be zero and two variations of cards will be launched initially.
 - EMI cards and dropline flexi-loan product in the next two quarters.
- During the quarter, ~20% of disbursements were sourced through DSAs while 80%+ of total disbursements were organic.

Profitability

- Hardening of rates seen in the last 2-3 quarters due to tight liquidity and rising interest-rate scenario, despite which the CoB was stable through an effective liability-management strategy.
- Sequential contraction in margins due to run-down and write-off in legacy book.

Asset quality

- Legacy book excl. DA is ~1% of AUM; remaining is the acquired DA book, ~7% of AUM.
- GNPA is 9.04% for discontinued book (legacy + DA); for the new book it is 0.42%

Capital

- Rs29.73bn surplus liquidity in Dec'23.
- LCR of 127%.

Others

- Downloads of more than 2,000 daily and rate of downloads is growing 1.5x. Uninstall rate is less than 15%.

Key highlights

Quarterly snapshot

Fig 7 – Income statement

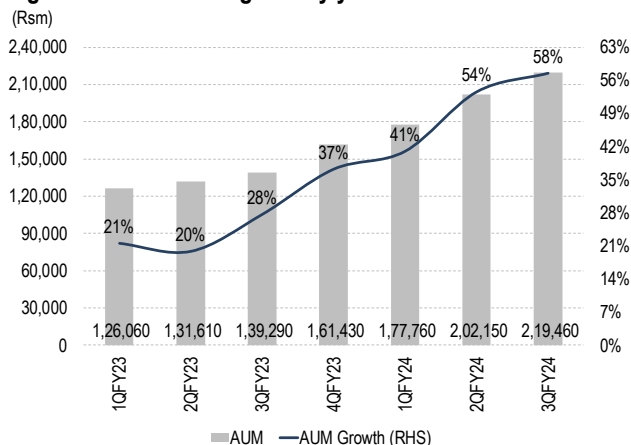
(Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
Interest income	4,179	4,605	5,529	6,560	6,901	7,144
Interest expenses	1,441	1,593	1,732	2,348	2,155	2,237
Net interest income	2,738	3,012	3,798	4,212	4,746	4,907
<i>Growth (%)</i>	3.2	23.6	52.0	57.8	73.3	62.9
Other income	627	588	182	563	539	594
Total income	3,365	3,600	3,979	4,775	5,285	5,501
<i>Growth (%)</i>	25.1	33.2	38.2	53.9	57.1	52.8
Operating expenses	2,107	2,043	1,963	1,834	1,929	1,998
<i>of which, salary</i>	1368	1294	1194	1050	1093	1130
PPoP	1,257	1,558	2,016	2,941	3,356	3,502
<i>Growth (%)</i>	2.8	35.6	75.1	149.8	167.0	124.8
Provisions	(482)	(452)	(347)	266	281	(65)
PBT	1,740	2,010	2,363	2,676	3,075	3,568
Exceptional items	-	-	4	-	10,301	-
Tax	438	506	560	674	778	916
PAT	1,302	1,504	1,807	2,002	2,297	2,651

Source: Company, Anand Rath Research

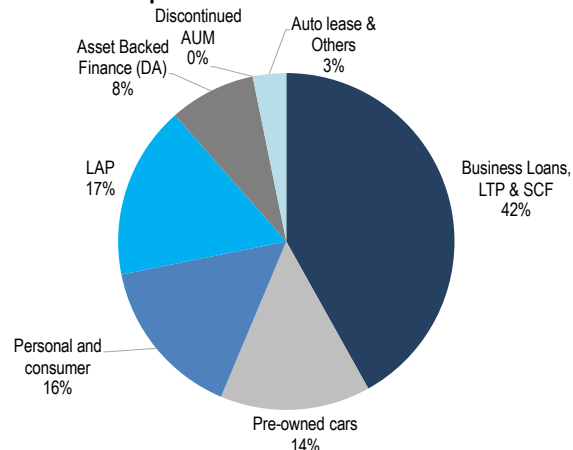
Fig 8 – Others

(Rs m)	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
AUM	1,31,610	1,39,290	1,61,430	1,77,760	2,02,150	2,19,460
<i>Focused</i>	1,16,160	1,27,380	1,51,980	1,71,150	2,02,150	2,19,460
<i>De-focused</i>	15,450	11,910	9,450	6,610	-	-

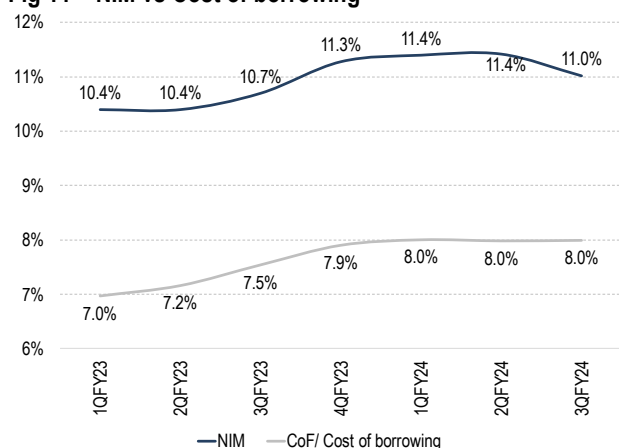
Source: Company, Anand Rath Research

Fig 9 – AUM and AUM growth y/y

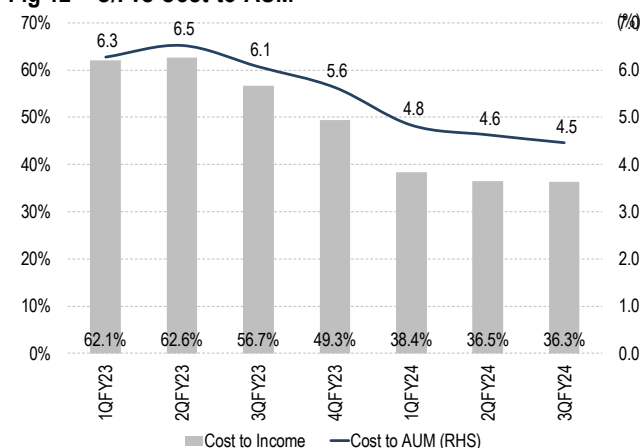
Source: Company, Anand Rathi Research

Fig 10 – AUM composition

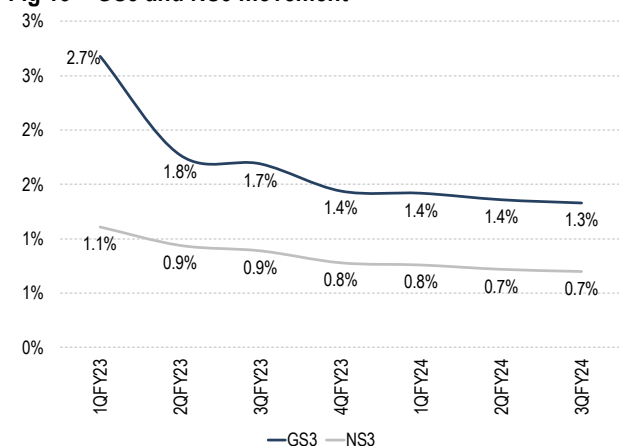
Source: Company, Anand Rathi Research

Fig 11 – NIM vs Cost of borrowing

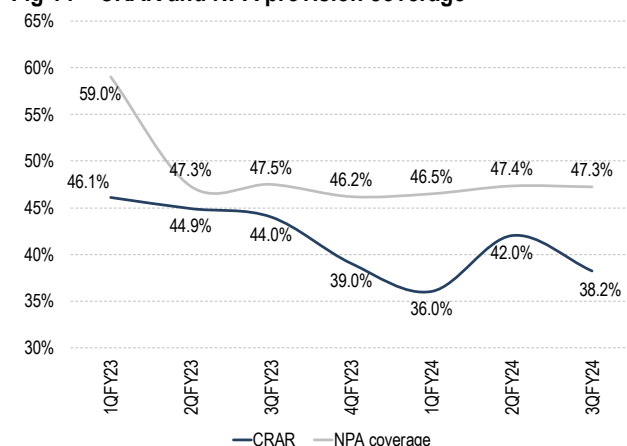
Source: Company, Anand Rathi Research

Fig 12 – C/I vs Cost-to-AUM

Source: Company, Anand Rathi Research

Fig 13 – GS3 and NS3 movement

Source: Company, Anand Rathi Research

Fig 14 – CRAR and NPA provision coverage

Source: Company, Anand Rathi Research

Valuation

Our 12-mth target price of Rs595 is based on the multi-stage DDM model. This implies a ~4.1x multiple on FY26e BV.

Fig 15 – Change in estimates

(Rs m)	FY25e			FY26e		
	New	Old	Chg %	New	Old	Chg %
Net interest income	28,528	27,914	2.2	37,284	36,524	2.1
Pre-provisioning profit	20,531	19,210	6.9	26,712	26,045	2.6
PAT	12,958	11,991	8.1	16,700	15,709	6.3

Source: Anand Rath Research

Fig 16 – Key assumptions

(%)	FY25e	FY26e
Balance-sheet assumptions		
AUM growth	40.0	35.0
Borrowings growth	52.0	47.0

Asset quality

Credit cost	1.2	1.2
Provision coverage	60.0	60.0

Source: Company, Anand Rath Research

Fig 17 – du Pont analysis

(%)	FY22	FY23	FY24e	FY25e	FY26e
Interest income	12.6	11.8	13.5	15.0	14.8
Interest expense	4.4	3.9	4.3	4.6	4.9
Net interest income	8.2	7.9	9.2	10.4	9.9
Other income	0.9	1.3	1.1	0.9	0.7
Total income	9.1	9.2	10.3	11.3	10.6
Operating expenses	5.2	5.3	4.0	3.8	3.5
PPoP	3.9	3.9	6.3	7.5	7.1
Provisions	0.6	(0.9)	0.6	1.1	1.1
Tax	0.8	1.2	1.5	1.6	1.5
RoA	2.5	3.7	4.7	4.7	4.4
RoE	7.7	9.3	13.2	14.5	16.2

Source: Company, Anand Rath Research

Key risks

- Higher slippages
- Less-than-expected loan growth

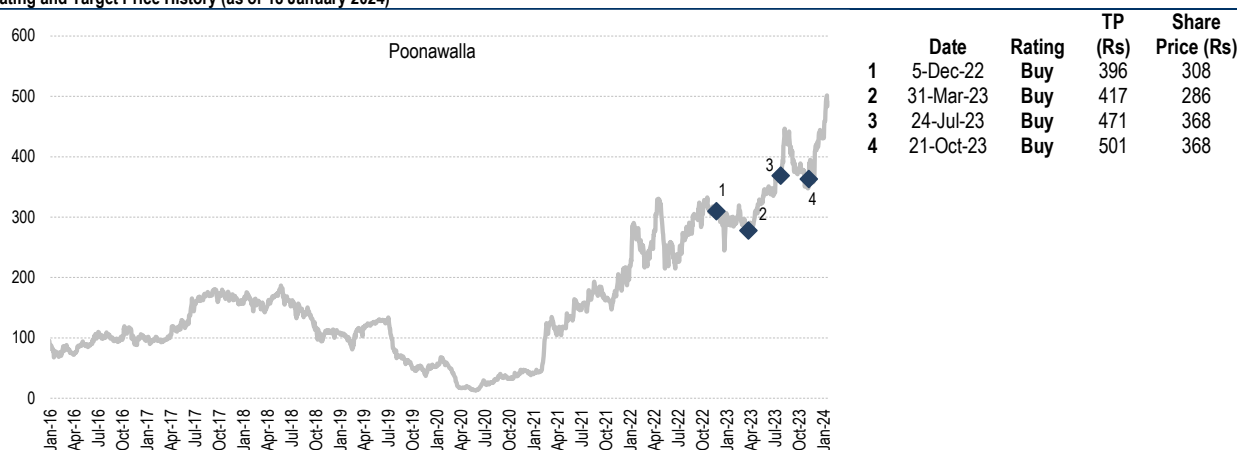
Appendix

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