

NBFC Sector

4QFY24 Result Preview

April 09, 2024

Strong growth momentum; Continued pressure on NIMs

Key Points

- While growth in Unsecured Loans has tapered off, we expect covered NBFCs to deliver strong loan growth, driven by Housing/LAP segments, Used Vehicle Finance and Diversified portfolio. We reiterate Shriram Finance and Aavas Financiers as our top 'buys' in this space.
- While growth in the Used CV portfolio is expected to support margins for CV Financiers, rating upgrades and NHB refinance will help control the cost of borrowings for HFCs. Opex is likely to remain elevated.
- While the asset quality environment remains benign, we expect certain pockets of stress in CV Finance, Tractor Finance and Fintech Lending.
- In our view, following will be the key monitorables from 4QFY24 results of NBFCs – (1) Growth guidance, especially for FY25/FY26 (2) NIM movement in subsequent quarters (3) Asset quality and Collection Efficiency (CE) trends.

Vehicle Financiers: We expect CV Financiers to perform well on the back of strong disbursements in Used CV/PV segments. For CIFC, new business verticals/Housing is growing faster than the traditional VF business. Provisional figures for MMFS suggest healthy disbursement growth (9% YoY) while AUM growth remains strong (+24% YoY). We expect some slowdown in CV sales before LS elections and stress in Tractor Finance/Fintech Lending portfolio to hamper growth. Despite a high share of fixed-rate loans and high borrowing costs, we expect NIMs to remain intact, supported by higher yields in the Used CV portfolio (Shriram Finance, CIFC & MMFS). We expect opex costs to remain elevated as companies invest in technology, digital transformation & branch expansion. Credit costs are expected to remain under control for all the players with a strong show by MMFS (GS3 ratio down to 3.3% as of March'24 vs. 4% in Dec'23).

Home Financiers: Despite high competitive intensity, we expect HFCs to post strong loan growth in 4QFY24, driven by pent-up demand (Aavas & Can Fin Homes), new branch openings (LICHF & Repco Home Finance) and the seasonality factor. We expect margins to remain steady, supported by a growing LAP portfolio and recent rate hikes (25bps taken by Aavas in March'24). Moreover, we expect recent rating upgrades (Can Fin & PNB Housing) and NHB refinancing (Aavas, Can Fin & Repco) to help control the cost of funds. Opex is likely to remain elevated as HFCs invest in their franchise and asset quality trends are likely to remain stable.

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Diversified players: While new loans booked during the quarter were lower due to RBI restrictions, Bajaj Finance has been able to deliver robust AUM growth of 34% YoY in 4QFY24. Despite hiking rates by 20-30bps across portfolios, we expect NIMs to compress by ~20bps in 4QFY24 as cost of borrowings is expected to increase further in the quarter. We expect credit costs to remain elevated (1.79% for 9MFY24, excluding management overlay). The provisional numbers for Poonawalla Fincorp show a strong trend (AUM growth of 54% YoY/13% QoQ). The company expects to maintain NIM at ~10% on a steady-state basis by controlling borrowing costs (high-cost legacy borrowings of Rs4bn are due to mature over the near term). While asset quality trends are best-in-class for both players, we remain watchful of the growth trajectory/asset quality metrics in the unsecured portfolio.

Exhibit 1: 4QFY24 Earnings Estimates

Home Financiers (Rs mn)	Q4FY23	Q3FY24	Q4FY24E	YoY (%)	QoQ (%)
Aavas Financiers					
NII	2,517	2,208	2,726	8.3	23.5
PPOP	1,649	1,577	1,554	-5.8	-1.5
PAT	1,267	1,166	1,142	-9.9	-2.1
NIM (%)	7.8	5.8	6.8	-98 bps	98 bps
Cost-to-income ratio (%)	42.2	46.1	48.9	676 bps	282 bps
Credit cost (%)	0.93	1.00	0.95	2 bps	-5 bps
Loans and Advances	114,763	129,932	139,420	21.5	7.3
Borrowings	98,873	114,721	121,260	22.6	5.7
CanFin Homes					
NII	2,613	3,288	3,251	24.4	-1.1
PPOP	2,218	2,865	2,753	24.1	-3.9
PAT	1,658	2,001	1,825	10.1	-8.8
NIM (%)	3.2	3.7	3.6	32 bps	-13 bps
Cost-to-income ratio (%)	18.9	14.7	17.6	-125 bps	293 bps
Credit cost (%)	0.31	0.37	0.36	5 bps	0 bps
Loans and Advances	311,933	340,530	349,373	12.0	2.6
Borrowings	290,681	311,960	340,096	17.0	9.0
LIC Housing Finance					
NII	19,903	20,972	19,832	-0.4	-5.4
PPOP	17,515	18,845	17,585	0.4	-6.7
PAT	11,803	11,629	10,837	-8.2	-6.8
NIM (%)	2.9	2.9	2.7	-20 bps	-24 bps
Cost-to-income ratio (%)	13.6	12.2	13.5	-11 bps	132 bps
Credit cost (%)	0.46	0.62	0.50	4 bps	-12 bps
Loans and Advances	2,678,348	2,812,060	2,952,663	10.2	5.0
Borrowings	2,447,742	2,450,670	2,684,239	9.7	9.5
PNB Housing Finance					
NII	5,723	5,859	5,803	1.4	-1.0
PPOP	4,909	5,044	5,265	7.2	4.4
PAT	2,829	3,465	3,461	22.3	-0.1
NIM (%)	3.5	3.6	3.4	-12 bps	-17 bps
Cost-to-income ratio (%)	20.7	24.1	21.5	78 bps	-257 bps
Credit cost (%)	1.00	0.38	0.41	-59 bps	2 bps
Loans and Advances	579,085	623,370	657,655	13.6	5.5
Borrowings	536,211	531,060	578,737	7.9	9.0
Repco Home Finance					
NII	1,474	1,635	1,667	13.1	2.0
PPOP	1,203	1,370	1,356	12.7	-1.0
PAT	821	994	991	20.7	-0.3
NIM (%)	4.9	5.2	5.1	19 bps	-9 bps
Cost-to-income ratio (%)	23.9	23.0	23.8	-14 bps	77 bps
Credit cost (%)	0.26	0.09	0.11	-16 bps	1 bps
Loans and Advances	119,622	129,218	133,741	11.8	3.5
Borrowings	99,241	103,582	111,450	12.3	7.6

Source: Respective NBFCs, Nirmal Bang Institutional Equities Research

Auto Financiers (Rs mn)	Q4FY23	Q3FY24	Q4FY24E	YoY (%)	QoQ (%)
Cholamandalam					
NII	17,649	21,709	24,311	37.7	12.0
PPOP	12,731	15,157	16,766	31.7	10.6
PAT	8,528	8,762	9,763	14.5	11.4
NIM (%)	7.1	6.8	6.9	-24 bps	9 bps
Cost-to-income ratio (%)	38.2	41.2	40.0	180 bps	-124 bps
Credit cost (%)	0.5	1.1	1.0	54 bps	-10 bps
Loans and Advances	1,047,483	1,325,320	1,499,400	43.1	13.1
Borrowings	973,561	1,231,030	1,388,333	42.6	12.8
Shriram Finance					
NII	41,810	49,110	50,305	20.3	2.4
PPOP	30,810	36,893	40,491	31.4	9.8
PAT	13,083	18,183	24,536	87.5	34.9
NIM (%)	9.9	10.2	10.0	4 bps	-23 bps
Cost-to-income ratio (%)	31.9	29.3	25.6	-633 bps	-372 bps
Credit cost (%)	2.8	2.1	1.9	-91 bps	-20 bps
Loans and Advances	1,719,846	1,978,956	2,058,114	19.7	4.0
Borrowings	1,579,063	1,774,702	1,845,690	16.9	4.0
Mahindra & Mahindra Financial Services					
NII	16,004	16,983	17,288	8.0	1.8
PPOP	9,441	10,625	10,648	12.8	0.2
PAT	6,841	5,528	7,627	11.5	38.0
NIM (%)	8.4	7.4	7.2	-115 bps	-19 bps
Cost-to-income ratio (%)	45.2	41.5	42.5	-272 bps	100 bps
Credit cost (%)	0.0	1.4	0.2	20 bps	-123 bps
Loans and Advances	794,547	933,920	980,616	23.4	5.0
Borrowings	749,459	864,350	907,568	21.1	5.0
Sundaram Finance					
NII	4,308	5,010	5,027	16.7	0.3
PPOP	4,217	4,112	4,341	2.9	5.6
PAT	3,164	3,001	3,057	-3.4	1.9
NIM (%)	5.1	4.9	4.7	-32 bps	-13 bps
Cost-to-income ratio (%)	31.4	37.5	34.5	307 bps	-300 bps
Credit cost (%)	0.2	0.2	0.3	10 bps	9 bps
Loans and Advances	345,520	421,720	427,243	23.7	1.3
Borrowings	327,549	403,400	393,639	20.2	-2.4

Source: Respective NBFCs, Nirmal Bang Institutional Equities Research

Diversified Financials (Rs mn)	Q4FY23	Q3FY24	Q4FY24E	YoY (%)	QoQ (%)
Bajaj Finance					
NII	74,176	89,662	95,808	29.2	6.9
PPOP	51,206	61,439	67,153	31.1	9.3
PAT	31,578	36,390	36,617	16.0	0.6
NIM (%)	10.5	10.2	10.0	-44 bps	-16 bps
Cost-to-income ratio (%)	35.8	35.2	34.9	-86 bps	-30 bps
Credit cost (%)	1.4	1.7	2.3	86 bps	64 bps
Loans and Advances	2,473,790	3,109,680	3,266,119	32.0	5.0
Borrowings	2,166,905	2,001,700	2,001,360	-7.6	0.0
Poonawalla Fincorp					
NII	3,798	4,907	5,455	43.7	11.2
PPOP	2,016	3,502	3,887	92.8	11.0
PAT	1,807	2,651	2,562	41.8	-3.4
NIM (%)	10.0	10.1	9.9	-3 bps	-16 bps
Cost-to-income ratio (%)	49.3	36.3	35.2	-1,418 bps	-117 bps
Credit cost (%)	-1.0	-0.1	0.9	184 bps	99 bps
Loans and Advances	152,295	194,150	219,399	44.1	13.0
Borrowings	111,196	124,720	146,266	31.5	17.3

Source: Respective NBFCs, Nirmal Bang Institutional Equities Research

Exhibit 2: 4QFY24 Provisional Update

Aavas Financiers (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Disbursements	18.9	15.8	19.5%	13.624	38.7%
AUM	173.0	141.7	22.1%	160.8	7.6%
Gross Stage 3 (%)	0.95	0.92	3bps	1.09	-14bps
1+ DPD (%)	3.15	3.30	-15bps	3.75	-60bps
Branches (#)	367	346	-	351	-

Bajaj Finance (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Customer Franchise (mn)	83.6	69.1	21.0	80.4	4.0
New Loans (mn)	7.9	7.6	4.1	9.9	-20.2
AUM	3,304.0	2,473.8	33.6	3,109.7	6.2
Deposits Book	601.0	446.7	34.6	580.1	3.6

Poonawalla Fincorp (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Disbursements	96.8	63.7	51.9	87.3	10.9
AUM	248.0	161.4	53.6	219.5	13.0
Liquidity	36.0	-	-	-	-

Mahindra Finance (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Disbursements	153.0	137.8	11%	154.4	-1%
Business Assets	1,024.0	827.7	24%	970.5	6%
Stage-3 (%)	3.3	4.5	-119 bps	4.0	-67 bps
Stage-2 (%)	5.1	6.0	-90 bps	6.0	-90 bps

Cholamandalam Finance (Rs bn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Vehicle Finance	129.0	121.9	5.8	123.5	4.4
LAP	42.0	27.6	52.1	34.1	23.2
Home Loan	17.0	14.1	21.0	15.9	7.1
MSME	21.3	21.1	1.0	-	-
CSEL	33.0	23.6	40.0	-	-
SBPL	3.7	2.0	87.0	-	-
Overall Disbursements	246.0	210.2	17.0	223.8	9.9
AUM	1,530.0	1,065.0	43.7	1,337.9	14.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Valuation Summary

Company	CMP	TP	Current Rating	M-cap (US\$mn)	Upside / Downside	P/ABV (x)			ROE (%)			ROA (%)		
	(Rs)	(Rs)				FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Auto Financiers														
Chola Investment and Finance	1,203	1,350	Acc	12,208	12%	7.5	5.5	4.4	20.5	19.8	23.3	2.7	2.4	2.9
Mahindra & Mahindra Financial	299	309	Acc	4,445	3%	2.3	2.2	2.0	12.5	11.0	15.9	2.4	1.8	2.4
Shriram Finance	2,569	2,682	Buy	11,511	4%	2.6	2.2	1.9	15.3	16.7	19.0	3.1	3.5	3.9
Sundaram Finance	4,585	3,552	Acc	5,974	-23%	7.0	6.3	5.6	14.9	15.0	14.6	2.9	2.7	2.4
Home Financiers														
Aavas Financiers	1,626	1,772	Buy	1,506	9%	4.0	3.5	3.0	14.3	12.7	14.8	3.6	3.0	3.2
Can Fin Homes	799	794	Acc	1,296	-1%	3.0	2.6	2.2	18.5	18.3	17.0	2.0	2.1	2.0
LIC Housing Finance	647	619	Acc	4,303	-4%	1.7	1.5	1.3	11.2	16.4	14.8	1.1	1.6	1.5
PNB Housing Finance	764	904	Acc	2,385	18%	1.4	1.4	1.2	10.2	11.1	12.0	1.6	2.0	2.3
Repco Home Finance	449	472	Acc	330	5%	1.2	1.0	0.9	12.5	14.4	12.9	2.4	2.9	2.6
Diversified Financiers														
Bajaj Finance	7,179	9,094	Buy	53,479	27%	8.1	5.8	4.7	23.5	21.7	23.2	4.6	4.5	5.0
Poonawalla Fincorp	489	480	Acc	4,570	-2%	6.0	4.8	4.3	9.6	14.1	15.4	3.8	4.9	5.0

Source: Company, Nirmal Bang Institutional Equities Research

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