

# Auto NBFCs

25 August, 2021

## Covid 2 impacted growth and asset quality; recovery expected in H2FY22

In 1QFY22, we witnessed an increase in slippages and decline in disbursements & valuations. However, capital raise carried out in the last one year, abundant liquidity and adequate provision buffers aided in strengthening the balance sheets. Benefits from low cost of funds (COF) continued to accrue. Shriram Transport Finance (SHTF) reported relatively lower decline in disbursements and lower slippages compared to peers. Chola Mandalam Investment & Finance (CIFIC) and Sundaram Finance (SUF) reported strong PPOP. But, disbursements and asset quality deteriorated on QoQ basis. Mahindra Finance (MMFS) was the most impacted in terms of asset quality and operating performance. Collections are showing an improvement on MoM basis and the management expects normalcy in asset quality by 4QFY22. Growth is likely to pick up from H2FY22 with the onset of the festive season. In the Auto NBFC space, SHTF and CIFIC are our 'buy' ideas while we maintain 'accumulate' on MMFS and SUF. Valuations are less demanding compared to the average of the last 3-6 months due to asset quality issues, which we believe will normalise over the next few quarters.

**Used vehicles AUM (NBFC) registered growth; new vehicles AUM declined QoQ:** We studied auto AUM data for 14 banks and NBFCs, which revealed AUM growth of 3.3% YoY and a decline of 2.4% QoQ in 1QFY22 due to Covid 2 disruptions. Banks' auto AUM book grew by 4.0% YoY (down 3.3% QoQ). NBFCs' auto AUM grew by 2.3% YoY (declined 1% QoQ). Within the NBFC space, Used Vehicle AUM was up 16.5% YoY (up 8.4% QoQ) while new vehicle AUM declined by ~8.8% YoY/QoQ. In new vehicles, we see increased competitive intensity from banks resulting in market share loss for NBFCs.

**Disbursements/AUM down sequentially:** Disbursements for our coverage auto NBFCs (SHTF, CIFIC, MMFS & SUF) declined by 31% QoQ (up 1.7x YoY on a low base). At a granular level, auto disbursements were strong in the Used CV segment due to the following factors: (1) essential services were less impacted due to lockdowns and (2) roll-over of contracts entered in 4QFY21, for which disbursements happened in 1QFY22. Tractor was another segment where decline in disbursements was low compared to the overall level. Overall AUM for these four NBFCs was down 0.8% QoQ but registered a growth of 2.9% YoY on a low base.

**Stress levels up 4%-13%, collection improved in June and July:** Lockdowns led to 3.6%, 10.8% and 12.9% additional stress in SHTF, CIFIC and MMFS, respectively (Refer exhibit 16). CIFIC and MMFS resorted to additional restructuring while disbursements under ECLGS were not significant. SHTF/CIFIC/MMFS carried additional covid provision buffer of 2.4%/1%/4.3% as % of loans. Collection efficiency has shown an improvement in June-July'21 (Refer exhibit 11) and the managements expect normalcy in asset quality by 4QFY22.

**High liquidity impacts NIMs; SUF & CIFIC outliers:** NIMs for SUF and CIFIC expanded by 10bps and 30bps QoQ, respectively. SHTF registered a decline of 60bps QoQ in its NIM due to excess liquidity and higher COF while MMFS was affected by interest reversals, leading to NIM compression of 200bps. Liquidity on the books remained strong at 13-18% of total borrowings vs 7-9% as on FY19 (refer exhibit 8), leading to margin compression.

**Outlook:** Recovery in disbursements was witnessed in July'21, with MMFS reporting disbursements of Rs24bn (July'19 avg of ~Rs27bn) while CIFIC registered growth over July'19. SHTF expects FY22 AUM growth of 10-12%. The asset quality issue seems to be transient and the NBFCs expect normalcy by 4QFY22. We bake in AUM growth of 9.3%/8.5%/13% for SHTF/MMFS/CIFIC over FY21-23E.

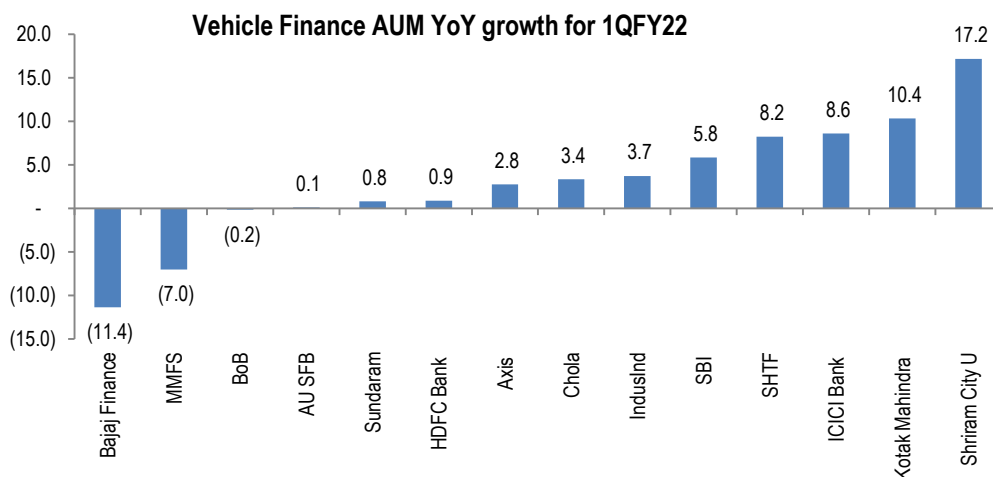
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**Sonal Gandhi**  
 Research Analyst  
[sonal.gandhi@nirmalbang.com](mailto:sonal.gandhi@nirmalbang.com)  
 + 91-9552595929

**Valuation table**

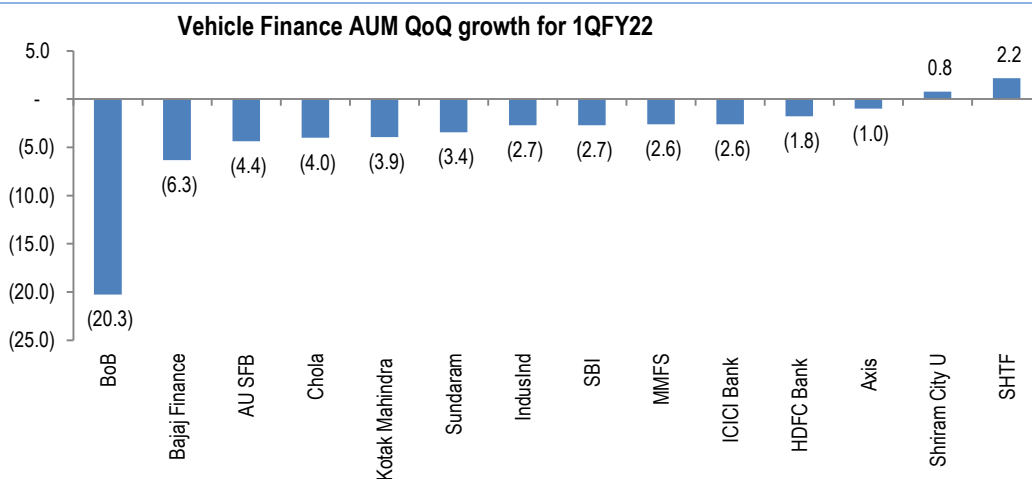
Company	Rating	Market cap		CMP (Rs)	Target Price (Rs)	Up/Down (%)	P/B (x)			P/ABV(x)			RoE (%)		
		Rsbn	US\$bn				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Cholamandalam	Buy	416	5.6	510	585	15	4.4	3.7	3.1	5.2	4.3	3.5	17.1	19.7	19.2
Mahindra Fin	Accumulate	178	2.4	147	162	10	1.2	1.2	1.1	1.4	1.3	1.2	2.5	8.4	12.8
Shriram Trans	Buy	341	4.6	1267	1805	42	1.6	1.4	1.2	2.1	1.8	1.6	12.6	13.6	13.6
Sundaram Fin	Accumulate	287	3.9	2585	2574	(0)	4.6	4.1	3.7	4.9	4.4	3.8	13.8	15.2	15.5

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: AUM YoY growth for 1QFY22**


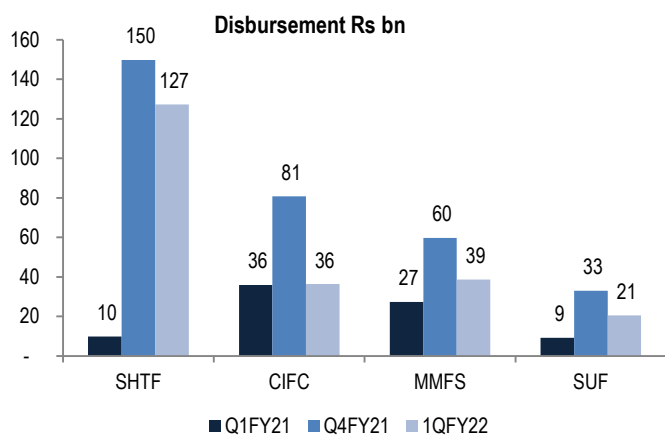
Source: Company, Nirmal Bang Institutional Equities Research

Note: SHTF AUM does not include WC loans; MMFS AUM does not include other and SME loans; CIBC only vehicle AUM considered

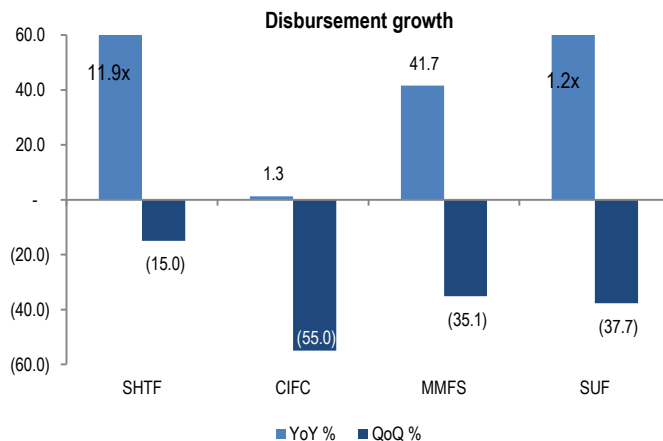
**Exhibit 2: AUM QoQ growth for 1QFY22**


Source: Company, Nirmal Bang Institutional Equities Research

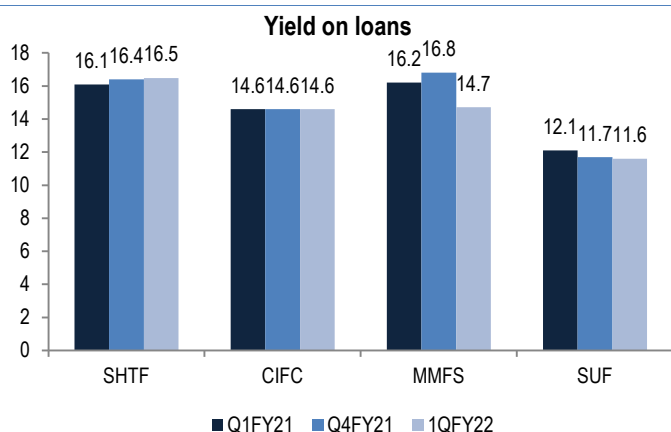
Note: SHTF AUM does not include WC loans; MMFS AUM does not include other and SME loans; CIBC only vehicle AUM considered

**Exhibit 3: Disbursements registered a sequential decline**


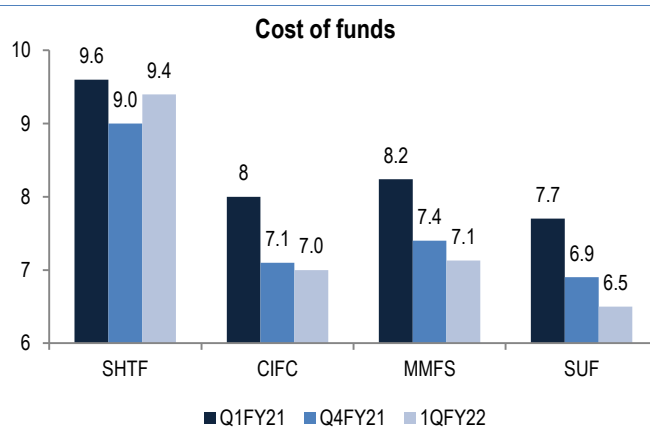
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: SHTF was least impacted sequentially**


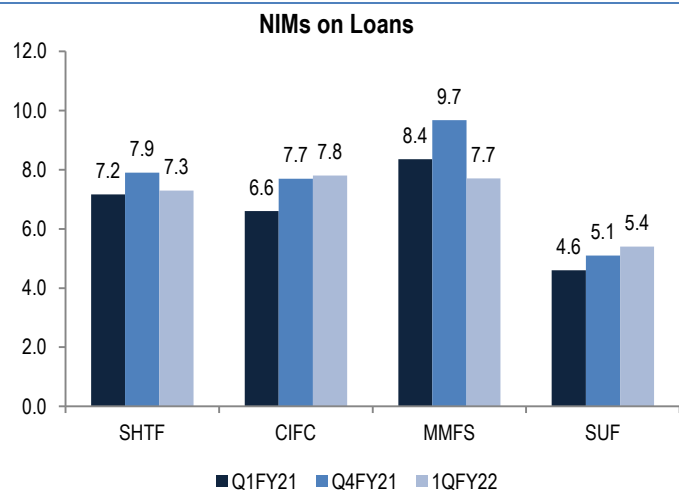
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Interest yields stable QoQ (ex-MMFS)**


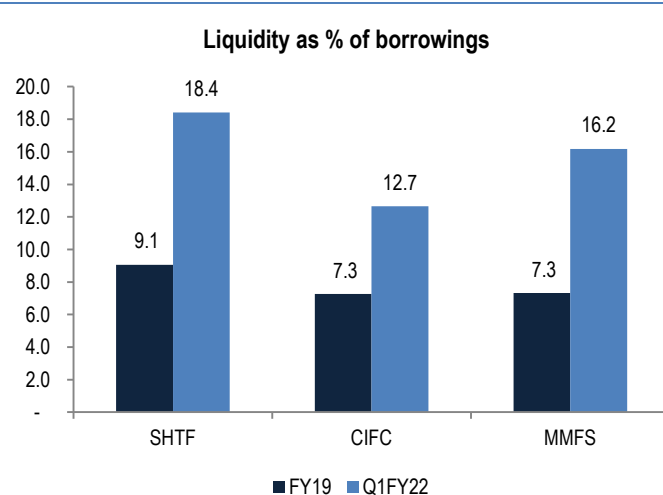
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Cost of funds continued to fall**


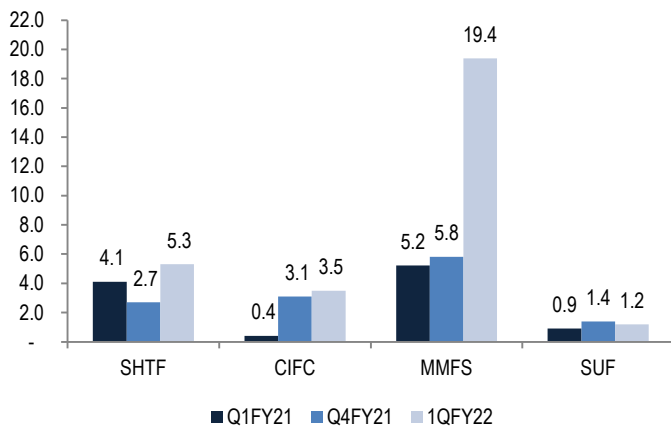
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: NIMs improved for CIFC & SUF**


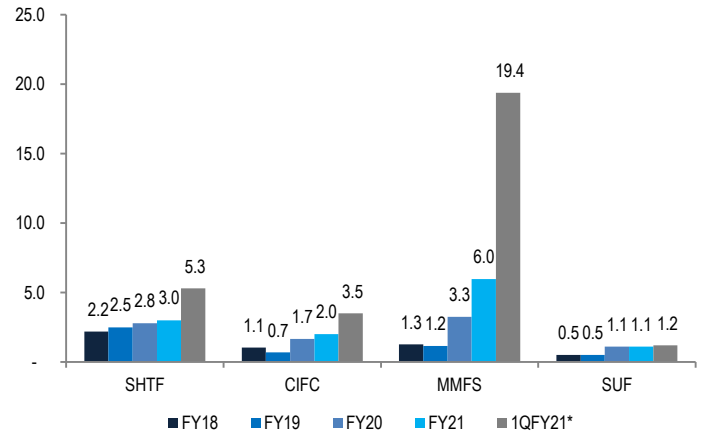
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Liquidity on books remain high impacting NIMs**


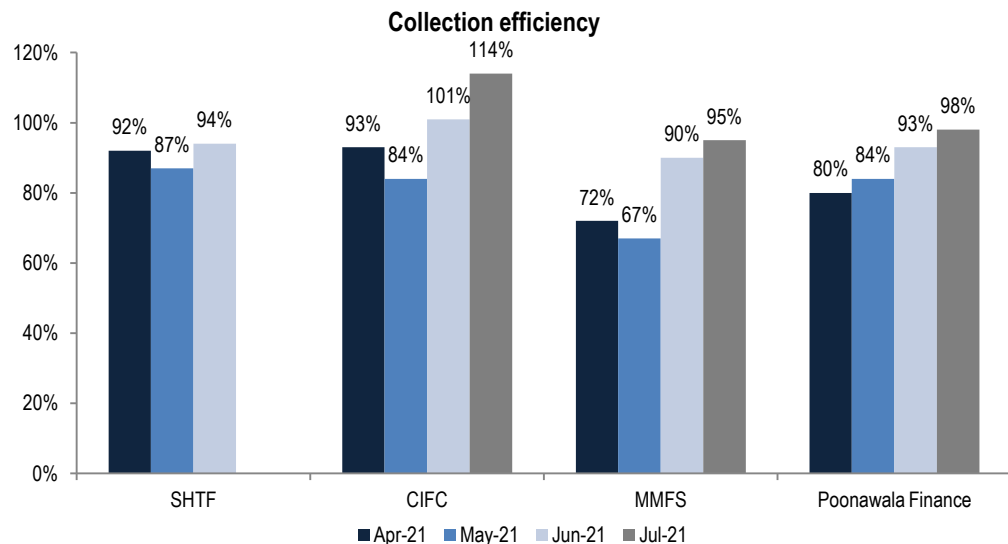
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Credit costs (annualized) continued to rise QoQ**


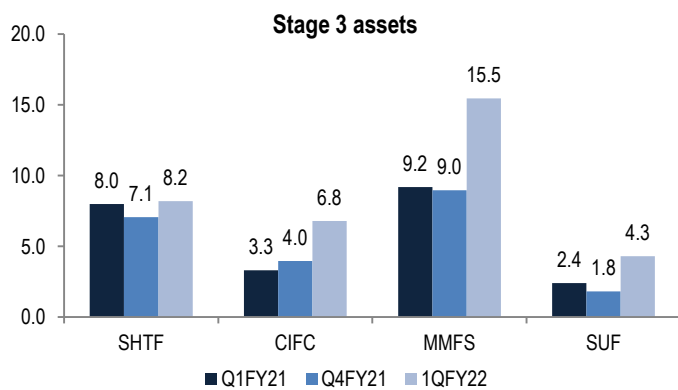
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Credit costs at multi-year high**


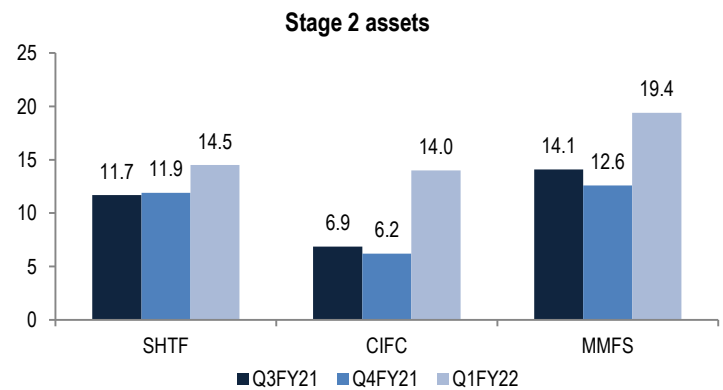
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Collection efficiencies improved in June and further in July**


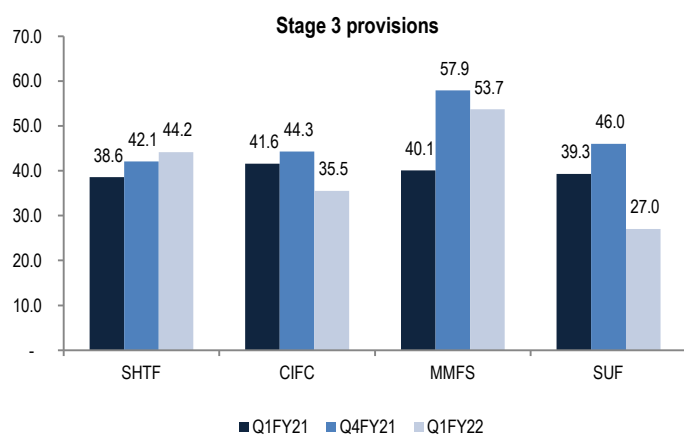
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Stage 3 assets – wide dispersion**


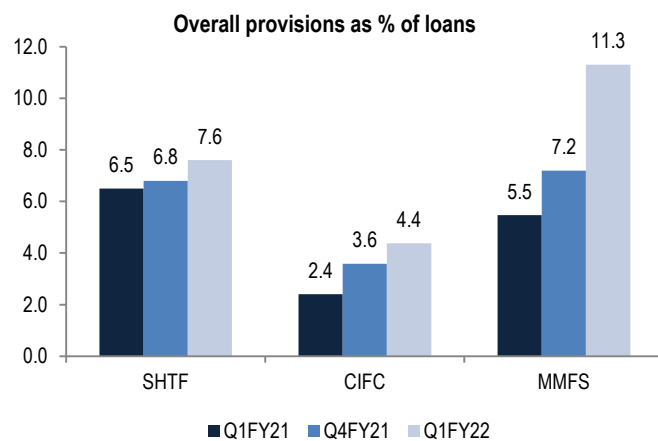
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 13: Stage 2 assets (includes restructured assets)**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 14: Stage 3 provisions increased sequentially for SHTF**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 15: Overall provisions continued to rise**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 16: Overall stress higher for CIFC & SUF QoQ**

Stress Book	SHTF				CIFC				MMFS			
	2QFY21	3QFY21	4QFY21	1QFY22	2QFY21	3QFY21	4QFY21	1QFY22	2QFY21	3QFY21	4QFY21	1QFY22
ECLGS (%)	-	0.6	0.6	0.6	-	2.3	4.1	4.2	-	0.4	0.8	0.9
Restructured (%)	-	0.3	0.5	0.8	-	2.0	2.1	5.4	-	0.0	0.1	3.5
Gross stage 2 (ex-Restructured) (%)	11.7	11.4	11.4	13.7	2.9	4.8	4.1	8.6	7.7	14.1	12.5	15.9
Gross stage 3 / GNPA (%)	7.3	7.1	7.1	8.2	3.0	3.8	4.0	6.8	7.5	10.0	9.0	15.5
Write offs (calculated)	0.4	0.3	0.5	0.3	0.1	0.1	0.1	0.1	1.6	0.6	1.0	0.5
<b>Stress on books as % of advances (%)</b>	<b>19.4</b>	<b>19.7</b>	<b>20.0</b>	<b>23.6</b>	<b>6.0</b>	<b>12.9</b>	<b>14.3</b>	<b>25.1</b>	<b>16.8</b>	<b>25.0</b>	<b>23.3</b>	<b>36.2</b>
Gross Stage 3 provisions (%)	39.7	41.2	42.1	44.2	42.7	43.5	44.3	35.5	35.1	36.6	57.9	53.7
Overall provisions as % of gross loans & advances (%)	6.6	6.7	6.8	7.6	2.6	3.1	3.6	4.4	5.0	6.6	7.2	11.3
Additional Covid provisions (part of overall provisions, %)	2.0	2.2	2.2	2.4	1.3	1.1	1.6	1.0	2.2	1.6	3.6	4.3

Source: Company, Nirmal Bang Institutional Equities Research

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010