

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. Cholamandalam Investment & Finance (CIFC) 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 CIFC 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, CIFC, 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, CIFC and MMFS, respectively (Refer exhibit 16). CIFC and MMFS resorted to additional restructuring while disbursements under ECLGS were not significant. SHTF/CIFC/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 & CIFC outliers: NIMs for SUF and CIFC 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 CIFC 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/CIFC over FY21-23E.

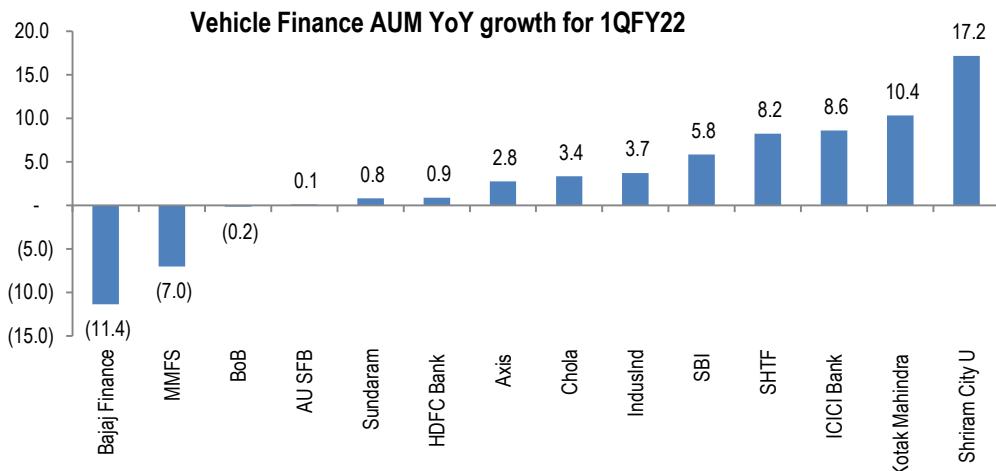
NBIE Values your patronage- Vote for The Team in the Asia Money poll 2021. [Click here](#)

Sonal Gandhi
Research Analyst
sonal.gandhi@nirmalbang.com
+ 91-9552595929

Valuation table

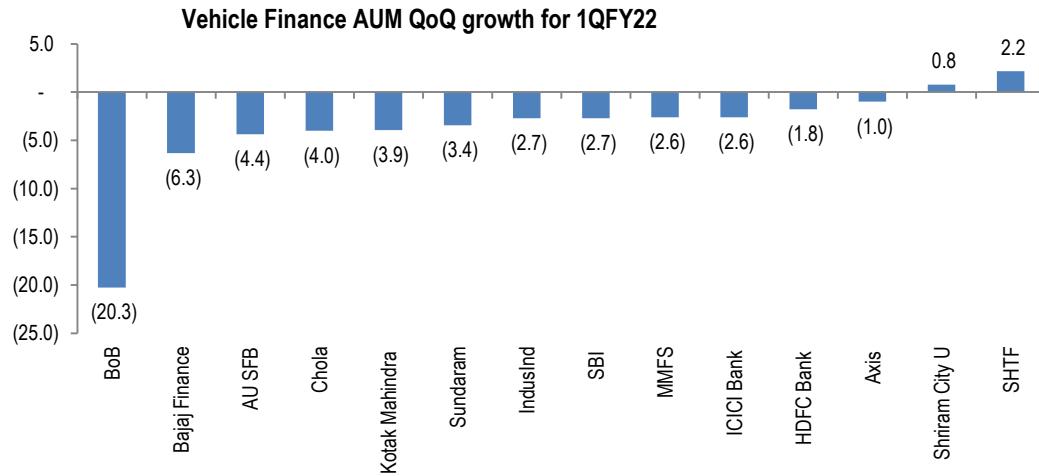
Company	Rating	Market cap		CMP (Rs)	Target Price (Rs)	Up/Down (%)	P/B (x)			P/ABV(x)			RoE (%)		
		Rsbn	US\$bn				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Cholamandalam	Buy	416	5.6	510	585	15	4.4	3.7	3.1	5.2	4.3	3.5	17.1	19.7	19.2
Mahindra Fin	Accumulate	178	2.4	147	162	10	1.2	1.2	1.1	1.4	1.3	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


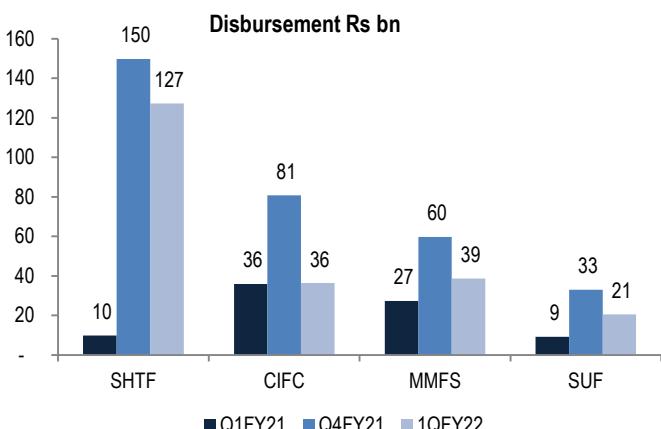
Source: Company, Nirmal Bang Institutional Equities Research

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

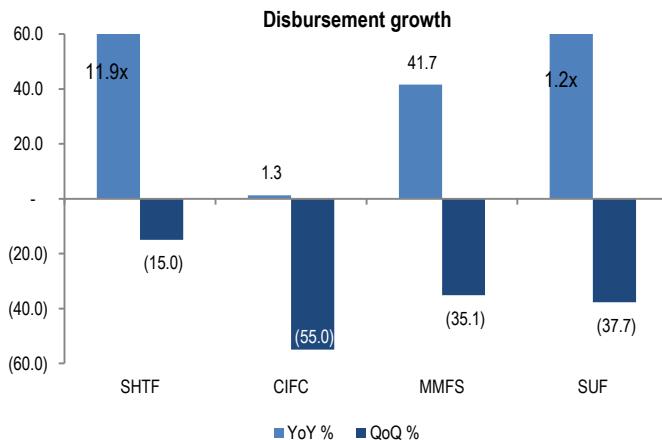
Exhibit 2: AUM QoQ growth for 1QFY22


Source: Company, Nirmal Bang Institutional Equities Research

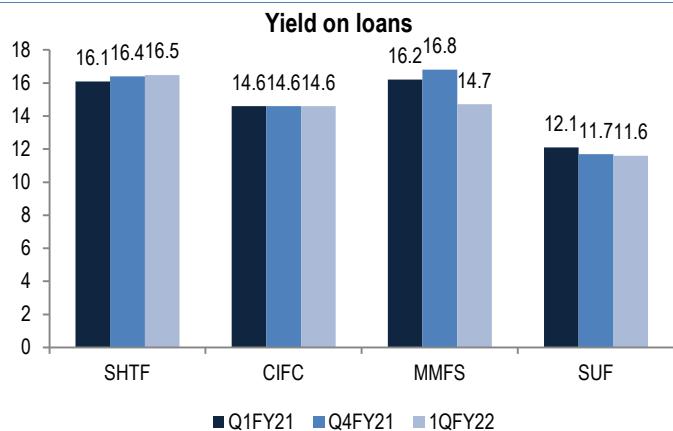
Note: SHTF AUM does not include WC loans; MMFS AUM does not include other and SME loans; CIFC only vehicle AUM considered

Exhibit 3: Disbursements registered a sequential decline


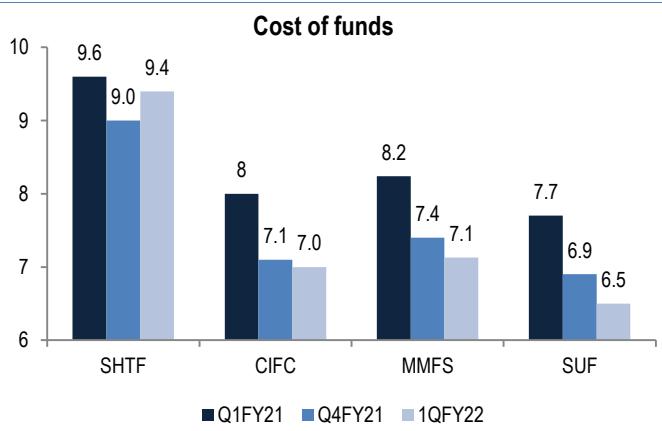
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: SHTF was least impacted sequentially


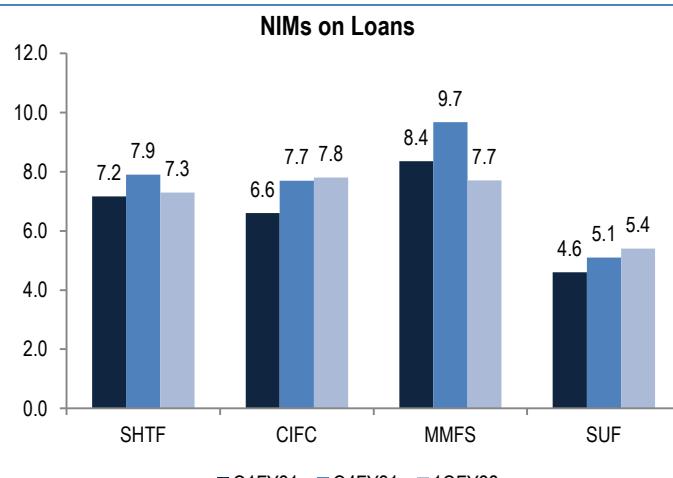
Source: Company, Nirmal Bang Institutional Equities Research

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


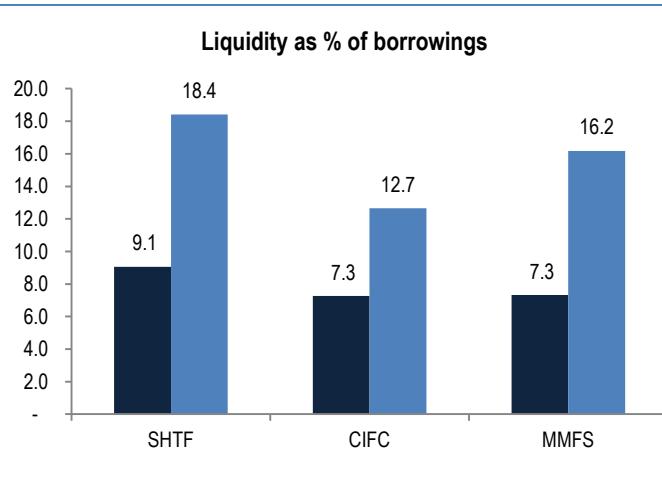
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cost of funds continued to fall


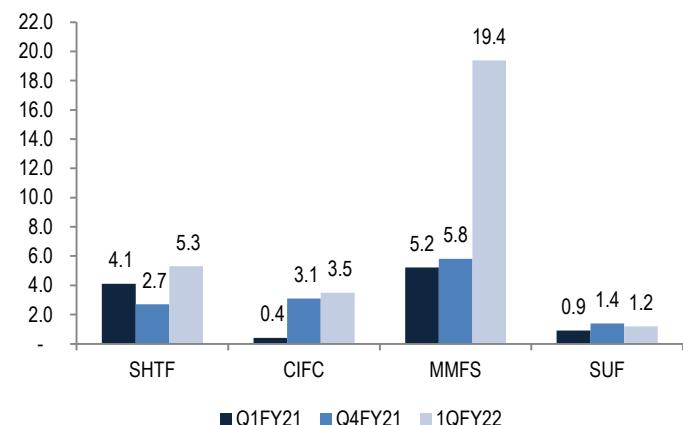
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: NIMs improved for CIFC & SUF


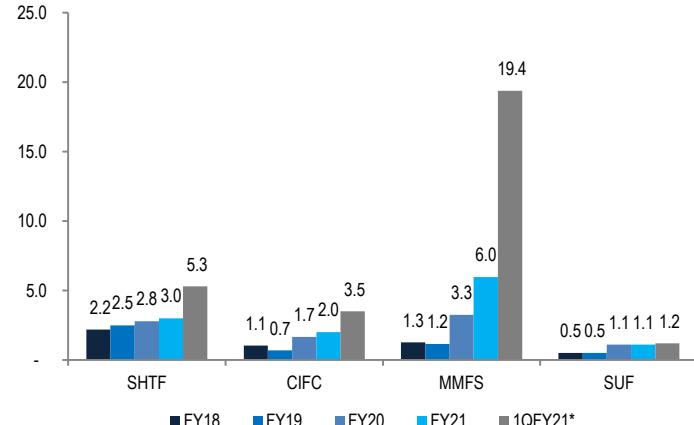
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Liquidity on books remain high impacting NIMs


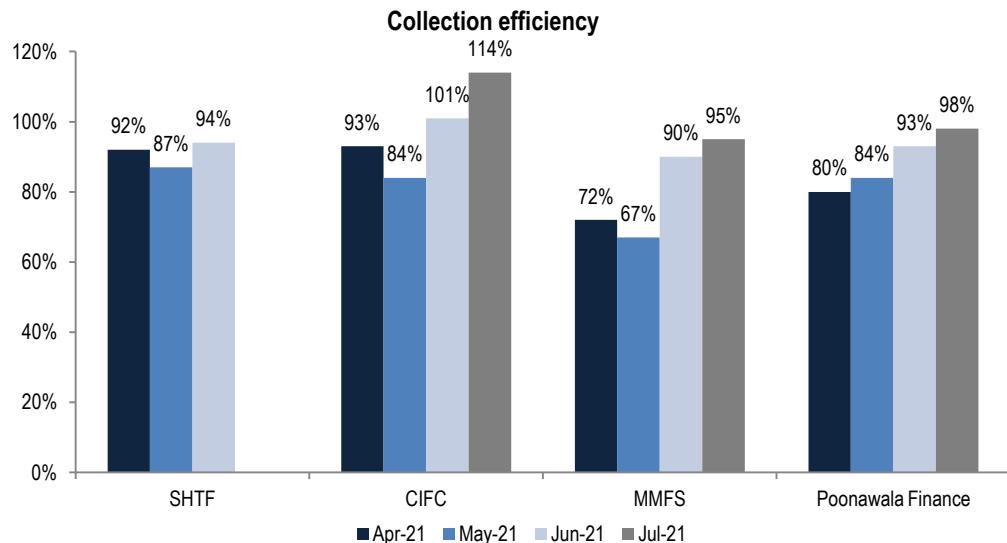
Source: Company, Nirmal Bang Institutional Equities Research

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


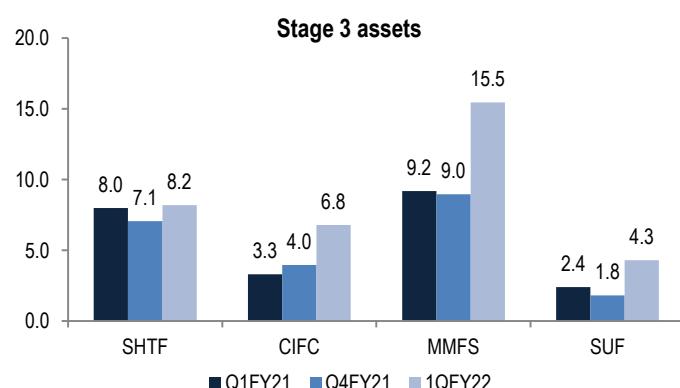
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Credit costs at multi-year high


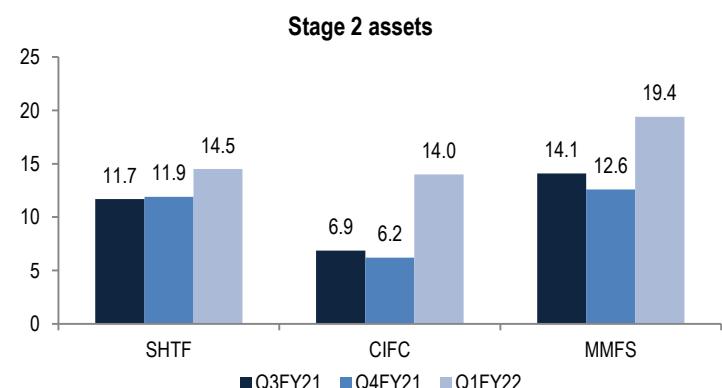
Source: Company, Nirmal Bang Institutional Equities Research

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


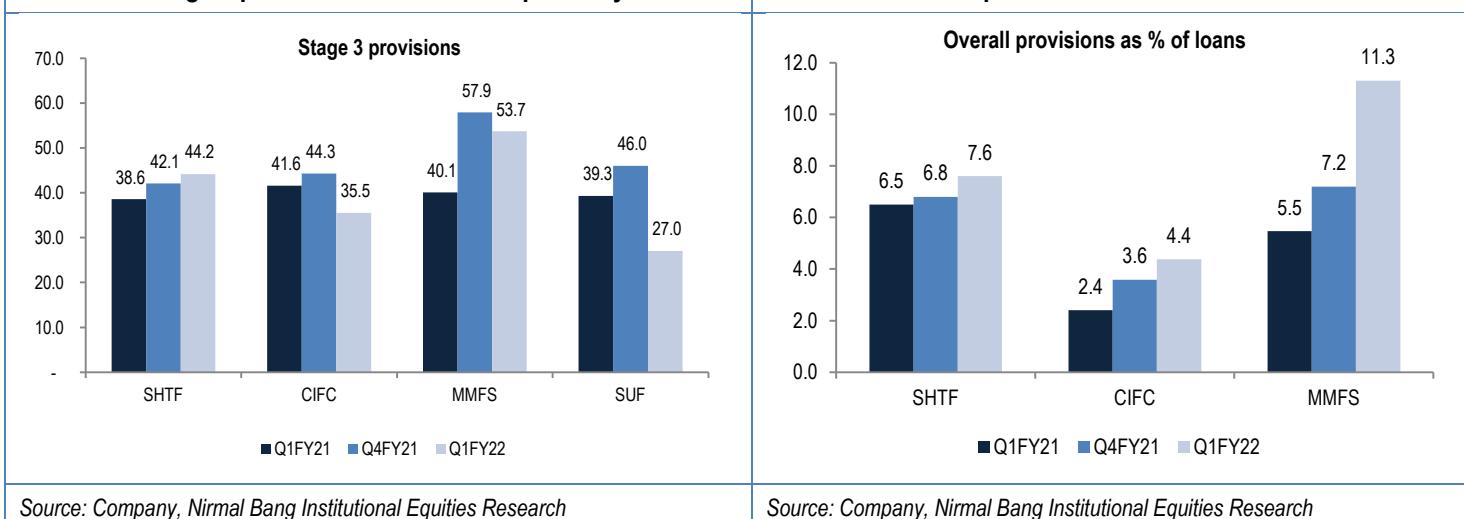
Source: Company, Nirmal Bang Institutional Equities Research

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
Exhibit 15: Overall provisions continued to rise


Source: Company, Nirmal Bang Institutional Equities Research

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
Stress on books as % of advances (%)	19.4	19.7	20.0	23.6	6.0	12.9	14.3	25.1	16.8	25.0	23.3	36.2
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

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Sonal Gandhi, research analyst the author of this report, hereby certify that the views expressed in this research report accurately reflects our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analysts was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analysts are principally responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

DISCLAIMER

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBSPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBSPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBSPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBSPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBSPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBSPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBSPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBSPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBSPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBSPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

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