

Poonawalla Fincorp (POONAWAL)

NBFC | 4QFY24 Result Update

ACCUMULATE
CMP: Rs489 | Target Price (TP): Rs480 | Downside: 2%
April 30, 2024

Growth momentum sustained; asset quality improves

Key Points

- Poonawalla Fincorp's 4QFY24 performance was in line with our expectations, with NII/PPOP coming in at a variation of +3.1%/+5.3%. PAT saw a beat of 29.5% from our estimates on account of lower provisions.
- AUM growth remained buoyant (55% YoY/ 14% QoQ) driven by a surge in disbursements; we build 38% in FY25E aided by new launches (co-branded credit card and EMI Card).
- Asset quality saw sequential improvement and the company expects to maintain the long-term GNPA guidance of 1.3%- 1.8%.
- Diversified growth, steady opex and strong asset quality performance are key positives. We make marginal changes to our FY25/FY26 estimates, factoring in lower yields due to a shift in portfolio mix. Roll forward our valuation to Mar-2026 ABV of Rs131 with an unchanged target multiple of 3.7x, giving us a target price (TP) of Rs480. However, valuations are expensive. Maintain ACCUMULATE.

Strong business momentum leveraging digital infrastructure: PFL demonstrated an accelerated disbursement growth (Rs 96.9 bn) up 11% QoQ / 52% YoY, driven by significant traction in its mobile app that offers instant digital personal loans (a part of the Direct Digital Program - DDP). AUM (standalone) stood at Rs250bn, up 14% QoQ/55% YoY with a focus on MSME, pre-owned car loans and LAP. The company has built a diversified portfolio with MSME lending/ consumer/ LAP/ pre-owned cars/auto lease segments contributing ~37%/23%/16%/15%/3% of AUM. It is focusing on going deeper in the top 100 geographies, with a calibrated approach aided by cross-sell/ up-sell effort. The discontinued book (reclassified as legacy + DA) stood at Rs14.65bn (6% of AUM) and the company expects it to run down in ~2 years. The company has also received RBI approval for a co-branded credit card with IndusInd Bank and expects to launch it in Q1FY25 followed by an EMI card in subsequent months; we expect these products to drive growth. The company reiterated its long-term AUM growth guidance of ~35-40%; we build 38% AUM growth in FY25.

NIMs resilient; opex costs controlled: NII grew 48.3% YoY (14.6% QoQ) supported by robust AUM growth. Cost of borrowings inched up to 8.17% (+18bps QoQ) on account of tight liquidity conditions and risk weight increase. However, Reported NIM expanded by 4bps QoQ to ~11.06% as the company was able to pass on the increase in cost of borrowing to the customer. However, it expects to maintain NIM at ~10% on a steady state basis. A shift towards low-risk, Prime and Super Prime customers, rundown of high-yielding legacy book and a pivot towards secured lending (49% of the portfolio) is likely to result in moderation in NIM from current levels. While opex-to-AUM ratio stood stable at 4% (similar to Q3FY24), the company continues to make deep investments in technology/ data analytics. It is optimizing operating costs by leveraging a digital infrastructure (for sourcing and collections) and expects to control opex at 3.5% in FY25 (excluding 0.5% ESOP charge). PAT stood at Rs3.32bn, translating into an RoA of 5.73% (+42bps QoQ and +73bps YoY). We expect NIMs to remain in line with guidance, aided by strong AUM growth and lower CoF in FY25. Moreover, we expect an improvement in productivity to keep costs controlled despite planned expansion in FY25.

Est Change	Maintain
TP Change	Upward
Rating Change	No change

Company Data and Valuation Summary

Reuters	POON.BO
Bloomberg	POONAWAL IN
Market Cap (Rsbn / US\$bn)	378.7 / 4.5
52 Wk H / L (Rs)	520 / 319
ADTV-3M (mn) (Rs / US\$)	974.0 / 11.7
Stock performance (%) 1M/6M/1yr	5.0 / 35.9 / 51.3
Nifty 50 performance (%) 1M/6M/1yr	2.87 / 4.2 / 25.2

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	62.1	62.1	62.1
DILs	6.9	5.6	5.8
FILs	7.9	7.8	7.8
Others	23.1	24.6	24.3
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
NII	12,199	19,493	27,375	34,700
% growth	27.9	59.8	40.4	26.8
NIM %	8.1	10.5	10.4	10.0
C/I Ratio %	57.3	36.7	35.3	35.2
Operating Profit	5,991	13,897	19,724	24,848
% growth	30.9	132.0	41.9	26.0
Adjusted PAT	5,642	10,197	12,946	15,601
% growth	91.2	80.7	27.0	20.5
ABVPS (INR /share)	82	104	117	131
P/ABV	6.0	4.7	4.2	3.7
RoA (%)	2.9	4.3	4.6	4.2
Leverage (x)	3.2	3.2	3.3	3.8
RoE (%)	9.1	14.0	14.9	15.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [4QFY24 presentation](#)

Please refer to the disclaimer towards the end of the document.

Strong improvement in asset quality trends: Asset quality improved sequentially with GS-3/NS-3 ratio at 1.16%/0.59% vs 1.33%/0.70% in 3QFY24. PCR stood at 49.39%. The company does not expect asset quality challenges to hamper growth as it is pivoting towards a lower risk segment (Prime and Super Prime customer). Moreover, it continues to strengthen in-house collection models and expects further improvement in asset quality over the next few quarters with a long-term GNPA/ NNPA guidance of 1.3%-1.8% and 0.5%-0.9% respectively. We expect credit costs to remain in line with guidance of 0.8% -1.2% on a steady-state basis.

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24	4Q24E	Variation (%)	YoY	QoQ
NII	3,793	4,212	4,746	4,907	5,625	12,199	19,493	5,455		3.1	48.3%
YoY (%)	51.9	57.8	73.3	62.9	48.3	27.9	59.8	43.7			
Other Income	182	563	539	594	782	1,822	2,478	540	44.8	329.9%	31.7%
Net Revenue	3,975	4,775	5,285	5,501	6,407	14,021	21,970	5,995		6.9	61.2%
Opex	1,963	1,834	1,929	1,998	2,313	8,031	8,074	2,108	9.7	17.8%	15.7%
PPOP	2,012	2,941	3,356	3,502	4,094	5,991	13,897	3,887		5.3	103.5%
YoY (%)	74.7	149.8	167.0	124.8	103.5	30.9	132.0	92.8			
Provisions	-347	266	281	-65	239	-1,445	720	439	-45.5	NA	NA
PBT	2,362	2,676	15,287	3,568	3,855	7,436	13,177	3,448		11.8	63.2%
Tax	560	674	2,698	916	538	1,812	4,827	885	-39.3	-3.9%	-41.3%
ETR (%)	23.7	25.2	17.7	25.7	13.9	24.4	36.6	25.7	-1173bps		
PAT	1,803	2,002	12,589	2,651	3,317	5,698	16,515	2,562		29.5	84.0%
YoY (%)	102.3	61.9	867.1	76.3	84.0	91.2	189.8	41.8			
Business Metrics											
AUM (Rs bn)	161	178	202.2	219	250	220	161	248	0.8	54.9%	13.9%
YoY (%)	37.2	41.0	53.6	57.6	54.9	44.9	40.1	53.6			
Asset Quality Metrics											
GS3 (%)	1.44	1.42	1.36	1.33	1.16	1.16	1.30	1.30	-14bps	-28bps	-17bps
NS3 (%)	0.78	0.76	0.72	0.70	0.59	0.59	0.69	0.68	-9bps	-19bps	-11bps
PCR - stage 3 (%)	46.19	46.43	47.17	47.33	49.39	49.14	46.67	47.50	189bps	320bps	206bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised Estimates		Earlier Estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest income (Rs mn)	27,375	34,700	27,753	35,682	-1.4	-2.8
Operating Profit (Rs mn)	19,724	24,848	19,862	25,717	-0.7	-3.4
Profit after tax (Rs mn)	12,946	15,601	13,062	16,336	-0.9	-4.5
ABVPS	116	131	114	131	1.4	-0.4

Source: Company, Nirmal Bang Institutional Equities Research

Poonawalla 4QFY24 Concall KTAs

Business Highlights

- The company has undergone significant transformation since acquiring Magma, focusing on building a strong and sustainable organization.
- National presence across 19 states with 102 branches, shows well-diversified geographic spread. No large market concentration, well-diversified portfolio across MSME and consumer segments.
- Digital model implementation resulted in decreased total trade count and branch consolidation.
- Introduced full-stack customer service solution through WhatsApp, empowering customers and enhancing their experience. Over 70% of customer service interactions are now digital, with innovative features like access to Bureau reports through WhatsApp.
- The company focuses on utilization of best available technology solutions while prioritizing information security. Systems hosted on the cloud for enhanced availability and scalability, ensuring stability and customer convenience.
- Robust digital infrastructure for collections with over 95% collections through digital models. The company continues to invest in latest collection solutions to adapt to changing collection channels.
- The management highlighted their focus on the top 100 geographies, urban and semi-urban markets, and deep market penetration instead of broad expansion.
- Emphasis is on a credit-led model rather than a collection-led model, focusing on risk management.
- Utilizing commercial paper and short-term limits to enhance ALM and focusing on NCD and CP for further improvement in cost of funds.
- Offering zero pre-payment option across all products, customer-centric approach, and minimal complaints about mis-selling, hidden charges.
- Benefiting from regulatory tightening, viewing it as advantageous for the sector and the company's compliance-focused approach.
- Regulatory approval received for the co-branded credit card, set to launch in the next two to three weeks. The launch is delayed to ensure compliance and a unique product proposition without joining or annual fees.

Operational Performance

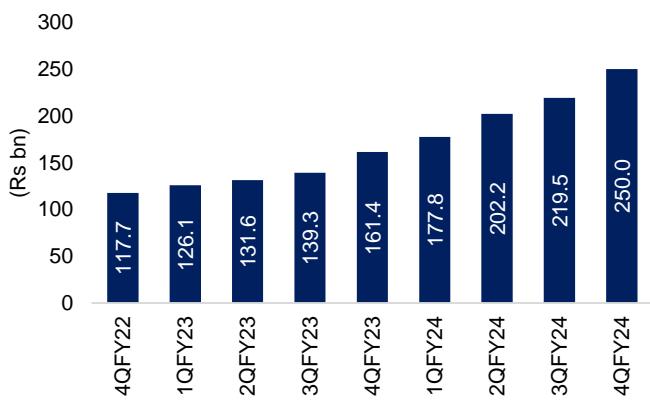
- Recorded highest quarterly disbursement of Rs96.9bn, up 52% YoY and 11% QoQ and the best asset quality numbers leading to a strong overall performance.
- ROA for 4QFY24 at 5.73%, up by 73 bps YoY and 42 bps QoQ, is one of the highest in the industry.
- AUM increased by 2.48x to Rs250bn over the last three years.
- Liquidity Coverage Ratio at 130.45%, exceeding the regulatory requirement of 85%.

Asset Quality

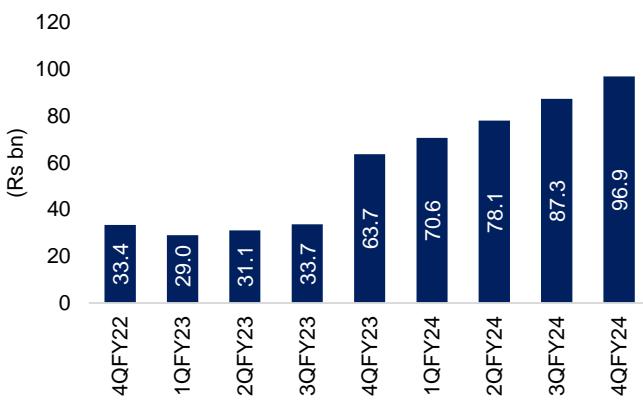
- Gross NPA at 1.16%, down 28 bps YoY and 17 bps QoQ. Net NPA at 0.59%, down 19 bps YoY and 11 bps QoQ.
- Provision coverage ratio at 49.39%, maintaining best-in-class asset quality.
- Cost-of-borrowing at 8.17%, NIM at 11.06%, and operating efficiency improved with OpEx-to-AUM ratio decreasing by 144 bps YoY.

Guidance and Future Outlook

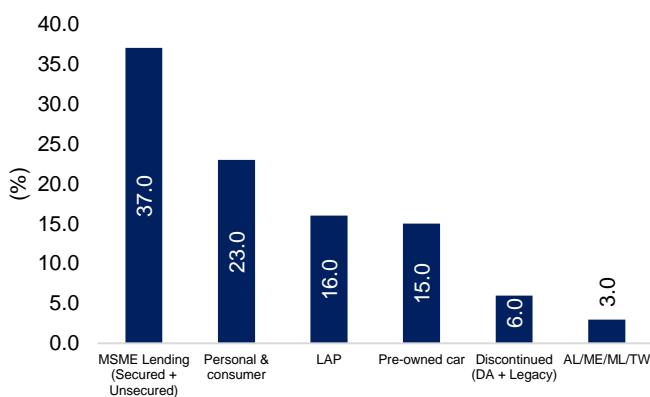
- Profitability growth targeted at 30%-35%, GNPA guidance at 1.3-1.8%, and NNPA at 0.5-0.9%.
- Expected AUM growth of 35% to 40% and ROE guidance at 4-4.5%.

Exhibit 3: AUM growth over the quarters


Source: Company, Nirmal Bang Institutional Equities Research

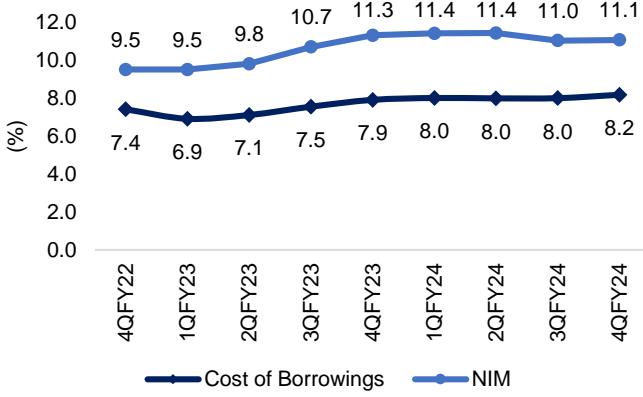
Exhibit 4: Disbursement surging at faster pace


Source: Company, Nirmal Bang Institutional Equities Research

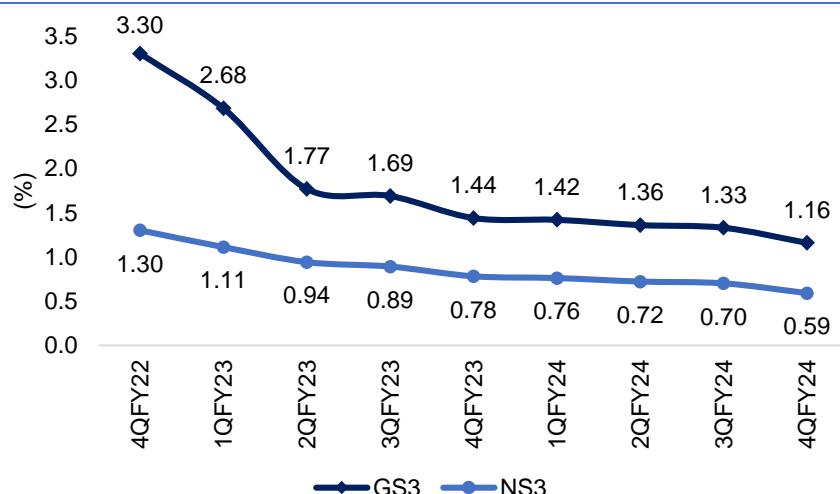
Exhibit 5: AUM breakup


Source: Company, Nirmal Bang Institutional Equities Research

*The DA book & the legacy book has been reclassified from respective verticals under the Discontinued (Legacy+DA) from 2QFY24.

Exhibit 6: Cost of borrowings and NIM


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Asset quality improving


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Financial summary

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	9,537	12,199	19,493	27,375	34,700
Pre-provisioning operating profit	4,576	5,991	13,897	19,724	24,848
Adjusted PAT	2,980	5,642	10,197	12,946	15,601
P/E (x)	125.5	66.5	36.9	29.1	24.1
P/BV (x)	6.2	5.9	4.6	4.1	3.6
P/ABV (x)	6.3	6.0	4.7	4.2	3.7
EPS (Rs)	4	7	13	17	20
BV (Rs)	79	83	106	119	135
ABV (Rs)	77	82	104	117	131
Gross NPAs (%)	2.4	1.5	1.2	1.3	1.6
Net NPAs (%)	0.9	0.8	0.6	0.7	0.8
RoA (%)	2.2	2.9	4.3	4.6	4.2
RoE (%)	7.5	9.1	14.0	14.9	15.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: One-year forward P/ABVPS chart


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 10: Income Statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Interest Income	14,624	18,152	28,996	40,993	53,222
Interest expenses	5,086	5,953	9,503	13,618	18,522
Net Interest Income	9,537	12,199	19,493	27,375	34,700
NII growth	8.1	27.9	59.8	40.4	26.8
Other Income	1,085	1,822	2,478	3,124	3,673
Net Income	10,622	14,021	21,970	30,499	38,373
<i>Change (%)</i>	6.0	32.0	56.7	38.8	25.8
Employee Cost	4,099	5,148	4,444	4,996	4,201
Other Operating Exp.	1,947	2,883	3,629	5,779	9,324
PPOP	4,576	5,991	13,897	19,724	24,848
PPOP growth	-16.2	30.9	132.0	41.9	26.0
Total Provisions	686	-1,445	720	2,462	4,047
% to operating income	15.0	-24.1	5.2	12.5	16.3
PBT before share of JV	3,890	7,436	13,177	17,262	20,802
Share of JV	15	0	0	0	0
Exceptional items	0	74	8,165	0	0
PBT	3,905	7,510	21,342	17,262	20,802
Tax	925	1,812	4,827	4,315	5,200
<i>Tax Rate (%)</i>	23.8	24.4	36.6	25.0	25.0
PAT	2,980	5,698	16,515	12,946	15,601
PAT growth	-151.5	91.2	189.8	-21.6	20.5
Adjusted PAT	2,980	5,642	10,197	12,946	15,601

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Capital	1,530	1,536	1,541	1,541	1,541
Reserves & Surplus	59,030	62,711	80,130	90,487	102,968
Net Worth	60,560	64,247	81,671	92,028	104,509
Borrowings	99,088	111,196	150,801	225,192	301,553
Change (%)	25.2	12.2	35.6	49.3	33.9
Other Liabilities	4,779	56,763	8,397	8,803	9,225
Total Liabilities	164,427	232,206	240,869	326,023	415,287
Cash & Cash advances	5,970	6,574	2,685	4,095	4,622
Loans	148,507	152,185	220,464	304,009	392,019
Change (%)	73.4	2.5	44.9	37.9	28.9
Other Assets	9,950	73,447	17,720	17,919	18,647
Total Assets	164,427	232,206	240,869	326,023	415,287

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Ratios

Ratios	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Interest yields (on advances)	12.5	12.1	15.6	15.6	15.3
Avg Cost of funds	5.7	5.7	7.3	7.2	7.0
NIMs	8.1	8.1	10.5	10.4	10.0
Interest spread	6.8	6.4	8.3	8.4	8.3
Profitability Ratios (%)					
RoE	7.5	9.1	14.0	15.0	16.0
RoA	2.2	2.9	4.3	4.6	4.2
Int. Expended/Int.Earned	34.8	32.8	32.8	33.2	34.8
Other Inc./Net Income	11.4	14.9	12.7	11.4	10.6
Efficiency Ratios (%)					
Cost/Income Ratio	56.9	57.3	36.7	35.3	35.2
Empl. Cost/Op. Exps.	67.8	64.1	55.0	46.4	31.1
Asset-Liability Profile (%)					
Loans/Borrowings Ratio	1.5	1.4	1.5	1.4	1.3
GNPA	3,722	2,251	2,680	3,975	6,518
NNPA	1,442	1,211	1,360	2,107	3,259
GNPL ratio (%)	2.4	1.5	1.2	1.3	1.6
NNPL ratio (%)	0.9	0.8	0.6	0.7	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Valuations

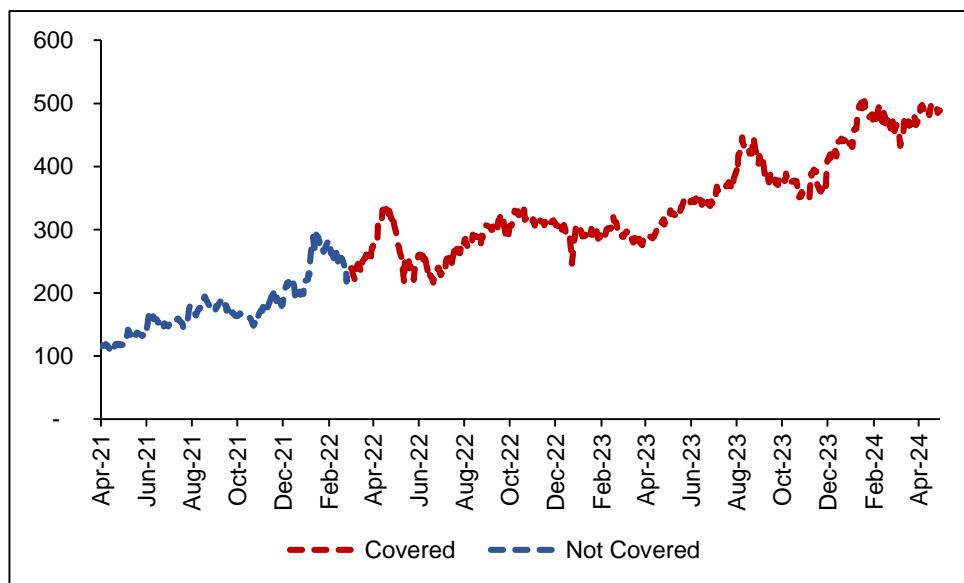
Valuations	FY22	FY23	FY24	FY25E	FY26E
BVPS (INR)	79.0	83.5	105.8	119.2	135.4
BV Growth (%)	10.5	5.7	26.8	12.7	13.6
Price-BV (x)	6.2	5.9	4.6	4.1	3.6
Adjusted BV per share	77.3	82.1	104.2	116.7	131.4
P/ABV	6.3	6.0	4.7	4.2	3.7
EPS (INR)	3.9	7.3	13.2	16.8	20.2
Growth (%)	-118.2	88.6	80.1	27.0	20.5
Price-Earnings (x)	125.5	66.5	36.9	29.1	24.1
Dividend	0.0	2.0	4.3	3.4	4.0
Dividend Yield (%)	0.0	0.4	0.9	0.7	0.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
2 March 2022	Accumulate	239	261
14 May 2022	Buy	248	294
28 July 2022	Buy	269	314
19 September 2022	Buy	297	355
22 October 2022	Buy	315	380
26 January 2023	Buy	300	345
22 March 2023	Buy	281	371
26 April 2023	Buy	308	367
25 July 2023	Buy	368	438
22 October 2023	Accumulate	376	390
19 January 2024	Accumulate	484	472
30 April 2024	Accumulate	489	480

Rating track graph



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, Shreya Khandelwal, research analyst and the author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has 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%

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. NBEPL 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 NBEPL 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. NBEPL 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 NBEPL & 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. NBEPL 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. NBEPL 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. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL 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 NBEPL 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 NBEPL, 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	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
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