

# 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, run-down 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
DII's	6.9	5.6	5.8
FII's	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
<b>NII</b>	<b>3,793</b>	<b>4,212</b>	<b>4,746</b>	<b>4,907</b>	<b>5,625</b>	<b>12,199</b>	<b>19,493</b>	<b>5,455</b>	<b>3.1</b>	<b>48.3%</b>	<b>14.6%</b>
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%
<b>Net Revenue</b>	<b>3,975</b>	<b>4,775</b>	<b>5,285</b>	<b>5,501</b>	<b>6,407</b>	<b>14,021</b>	<b>21,970</b>	<b>5,995</b>	<b>6.9</b>	<b>61.2%</b>	<b>16.5%</b>
Opex	1,963	1,834	1,929	1,998	2,313	8,031	8,074	2,108	9.7	17.8%	15.7%
<b>PPOP</b>	<b>2,012</b>	<b>2,941</b>	<b>3,356</b>	<b>3,502</b>	<b>4,094</b>	<b>5,991</b>	<b>13,897</b>	<b>3,887</b>	<b>5.3</b>	<b>103.5%</b>	<b>16.9%</b>
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
<b>PBT</b>	<b>2,362</b>	<b>2,676</b>	<b>15,287</b>	<b>3,568</b>	<b>3,855</b>	<b>7,436</b>	<b>13,177</b>	<b>3,448</b>	<b>11.8</b>	<b>63.2%</b>	<b>8.0%</b>
Tax	560	674	2,698	916	538	1,812	4,827	885	-39.3	-3.9%	-41.3%
<b>ETR (%)</b>	<b>23.7</b>	<b>25.2</b>	<b>17.7</b>	<b>25.7</b>	<b>13.9</b>	<b>24.4</b>	<b>36.6</b>	<b>25.7</b>	<b>-1173bps</b>		
<b>PAT</b>	<b>1,803</b>	<b>2,002</b>	<b>12,589</b>	<b>2,651</b>	<b>3,317</b>	<b>5,698</b>	<b>16,515</b>	<b>2,562</b>	<b>29.5</b>	<b>84.0%</b>	<b>25.1%</b>
YoY (%)	102.3	61.9	867.1	76.3	84.0	91.2	189.8	41.8			
<b>Business Metrics</b>											
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			
<b>Asset Quality Metrics</b>											
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

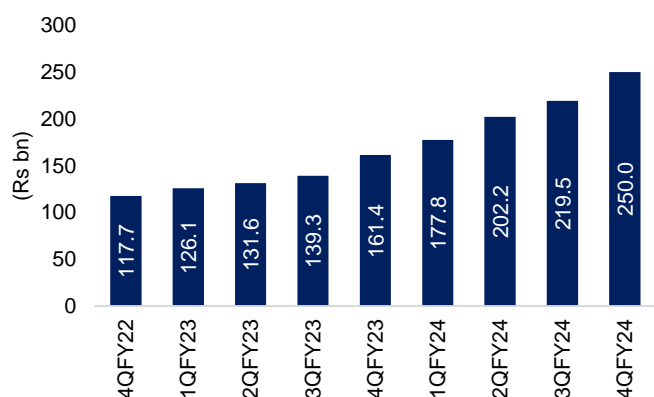
- Recorded highest quarterly disbursement of Rs96.9bn, up 52% YoY and 11% QoQ and the best asset quality numbers leading to a strong overall performance.
- ROA for 4QFY24 at 5.73%, up by 73 bps YoY and 42 bps QoQ, is one of the highest in the industry.
- AUM increased by 2.48x to Rs250bn over the last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

### Asset Quality

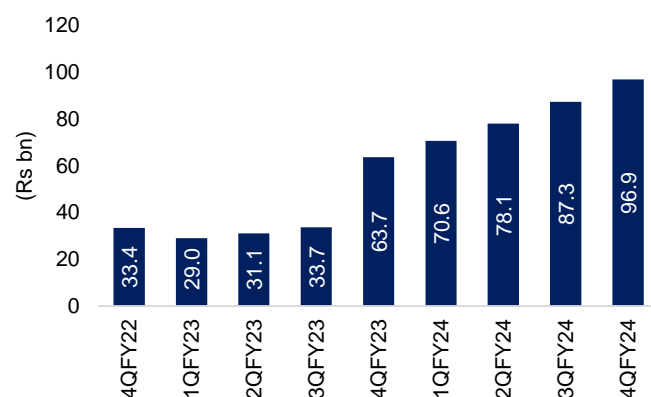
- Gross NPA at 1.16%, down 28 bps YoY and 17 bps QoQ. Net NPA at 0.59%, down 19 bps YoY and 11 bps QoQ.
- Provision coverage ratio at 49.39%, maintaining best-in-class asset quality.
- Cost-of-borrowing at 8.17%, NIM at 11.06%, and operating efficiency improved with OpEx-to-AUM ratio decreasing by 144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

### Guidance and Future Outlook

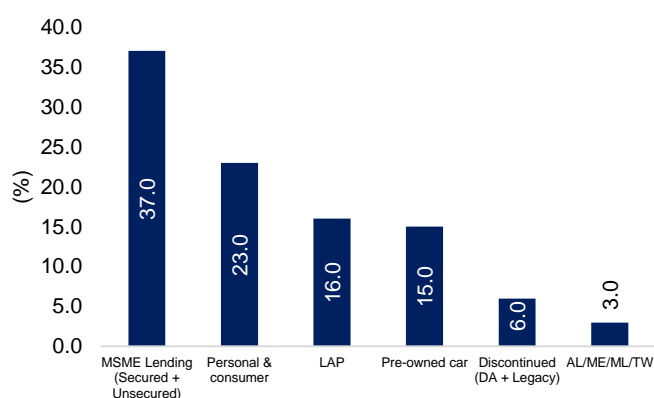
- Profitability growth targeted at 30%-35%, GNPA guidance at 1.3-1.8%, and NNPA at 0.5-0.9%.
- Expected AUM growth of 35% to 40% and ROE guidance at 4-4.5%.

**Exhibit 3: AUM growth over the quarters**


Source: Company, Nirmal Bang Institutional Equities Research

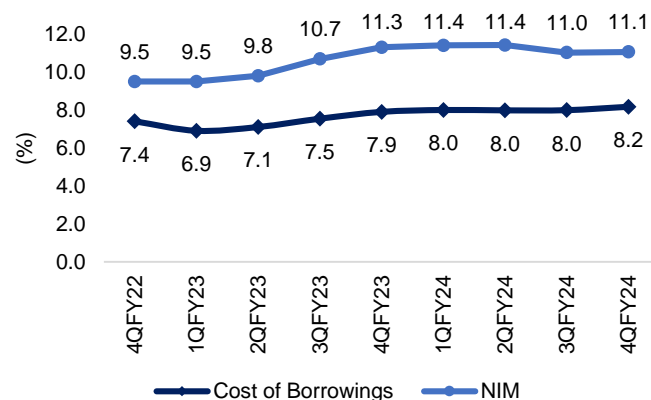
**Exhibit 4: Disbursement surging at faster pace**


Source: Company, Nirmal Bang Institutional Equities Research

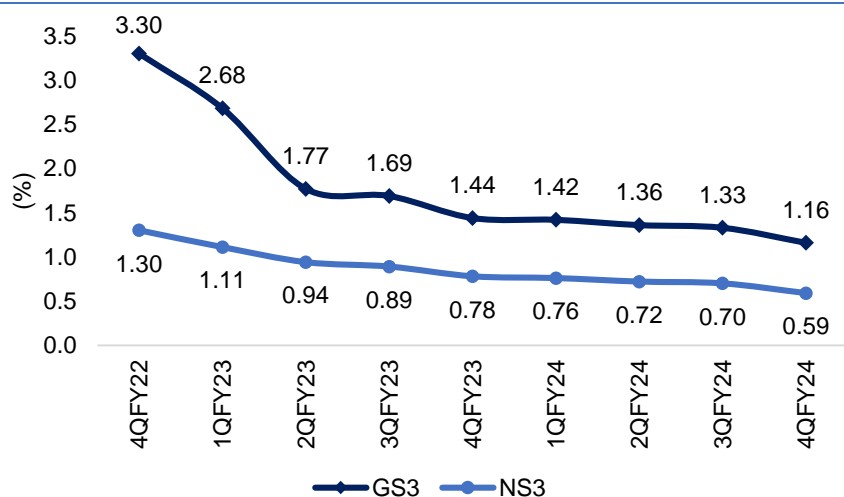
**Exhibit 5: AUM breakup**


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
<b>Net Interest Income</b>	<b>9,537</b>	<b>12,199</b>	<b>19,493</b>	<b>27,375</b>	<b>34,700</b>
NII growth	8.1	27.9	59.8	40.4	26.8
Other Income	1,085	1,822	2,478	3,124	3,673
<b>Net Income</b>	<b>10,622</b>	<b>14,021</b>	<b>21,970</b>	<b>30,499</b>	<b>38,373</b>
Change (%)	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
<b>PPOP</b>	<b>4,576</b>	<b>5,991</b>	<b>13,897</b>	<b>19,724</b>	<b>24,848</b>
PPOP growth	-16.2	30.9	132.0	41.9	26.0
<b>Total Provisions</b>	<b>686</b>	<b>-1,445</b>	<b>720</b>	<b>2,462</b>	<b>4,047</b>
% 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
<b>PBT</b>	<b>3,905</b>	<b>7,510</b>	<b>21,342</b>	<b>17,262</b>	<b>20,802</b>
Tax	925	1,812	4,827	4,315	5,200
Tax Rate (%)	23.8	24.4	36.6	25.0	25.0
<b>PAT</b>	<b>2,980</b>	<b>5,698</b>	<b>16,515</b>	<b>12,946</b>	<b>15,601</b>
PAT growth	-151.5	91.2	189.8	-21.6	20.5
<b>Adjusted PAT</b>	<b>2,980</b>	<b>5,642</b>	<b>10,197</b>	<b>12,946</b>	<b>15,601</b>

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
<b>Net Worth</b>	<b>60,560</b>	<b>64,247</b>	<b>81,671</b>	<b>92,028</b>	<b>104,509</b>
<b>Borrowings</b>	<b>99,088</b>	<b>111,196</b>	<b>150,801</b>	<b>225,192</b>	<b>301,553</b>
Change (%)	25.2	12.2	35.6	49.3	33.9
Other Liabilities	4,779	56,763	8,397	8,803	9,225
<b>Total Liabilities</b>	<b>164,427</b>	<b>232,206</b>	<b>240,869</b>	<b>326,023</b>	<b>415,287</b>
Cash & Cash advances	5,970	6,574	2,685	4,095	4,622
<b>Loans</b>	<b>148,507</b>	<b>152,185</b>	<b>220,464</b>	<b>304,009</b>	<b>392,019</b>
Change (%)	73.4	2.5	44.9	37.9	28.9
Other Assets	9,950	73,447	17,720	17,919	18,647
<b>Total Assets</b>	<b>164,427</b>	<b>232,206</b>	<b>240,869</b>	<b>326,023</b>	<b>415,287</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 12: Ratios**

Ratios	FY22	FY23	FY24	FY25E	FY26E
<b>Spreads Analysis (%)</b>					
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
<b>Profitability Ratios (%)</b>					
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
<b>Efficiency Ratios (%)</b>					
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
<b>Asset-Liability Profile (%)</b>					
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**

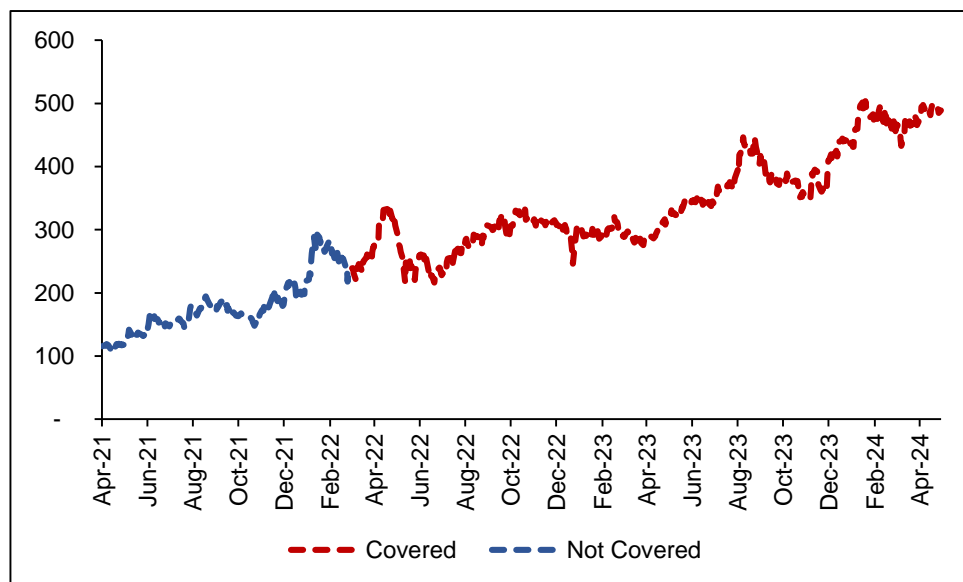
Valuations	FY22	FY23	FY24	FY25E	FY26E
BVPS (INR)	79.0	83.5	105.8	119.2	135.4
BV Growth (%)	10.5	5.7	26.8	12.7	13.6
<b>Price-BV (x)</b>	<b>6.2</b>	<b>5.9</b>	<b>4.6</b>	<b>4.1</b>	<b>3.6</b>
<b>Adjusted BV per share</b>	<b>77.3</b>	<b>82.1</b>	<b>104.2</b>	<b>116.7</b>	<b>131.4</b>
<b>P/ABV</b>	<b>6.3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

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

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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