

## Q4FY2021 Earning Preview

Sector: NBFC

Sector View: Positive

## Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Bajaj Finance	5,029	Buy	6,000
Cholamandalam Inv	563	Buy	630
HDFC Ltd	2,502	Buy	3,100
L&T Finance Holding	99	Buy	118
LIC Housing	420	Buy	610
M&M Financials	195	Buy	260
Repco Home Finance	320	Buy	400
Spandana Sphoorty	608	Buy	850

Source: Company; Sharekhan Research,

An economic recovery, lower cost of funds and a stable liquidity scenario, would help NBFCs clock better earnings performance in terms of growth and collection efficiency in Q4FY2021. The opening up and normalisation of business activity / increased mobility indicators augurs well for the high-touch business model of most NBFCs, and hence we expect disbursements and collections across product segments to normalise further. However, after the Supreme Court direction on recognition of non-performing assets (NPAs), the street would closely eye disclosures on asset quality. Most well-run NBFCs had frontloaded their NPAs and made provisions on proforma NPAs, due to which we expect credit cost to be manageable. Management commentary on growth and credit cost outlook will be keenly awaited. The healthy trend of month-on-month improvement in collection efficiency (CE) for most NBFCs is expected to continue. However, the outlook on individual product segment is likely to be varied. Stable liquidity scenario has helped, and hence most players are likely to see margin support due to the benefit of fall in marginal cost of funds. As the activity in securitisation has also picked up, it will further help liquidity management.

Considering segments, Home sales have seen a sharp recovery across key geographies during the quarter, helped by incentives from the government (stamp duty cut, tax incentives, etc) and discounts by builders along with improving affordability. Hence, the tailwinds for home loan segment will offset the heightened competitive intensity. Moreover, automobile sales, which remained healthy across most product lines (especially in segments such as tractors and passenger vehicles) augurs well for growth. On the back of a strong Rabi crop, expectations of normal monsoon and pick-up in economic activity we expect vehicle financiers and rural players to have strong outlook. Overall, for NBFCs, we expect an incrementally improved credit growth outlook for FY2022E/FY2023E and expect them to gradually ease surplus liquidity on balance sheet (which would reduce drag on margins).

**Outlook**

**We retain preference for strong, well capitalised NBFCs:** The economy is showing signs of a gradual recovery, which augurs well for long-term demand outlook. However potential risks still exist and global challenges (due to the pandemic) are also present. However, this time around, the Vaccination drive is likely to cushion the impact on earnings front (especially on the asset-quality recognition part). During Q4, we expect stronger NBFCs to show sequentially better growth, helped by business activity resumption, and falling marginal cost of funds which will provide support to margins. Going forward, the gradually reducing liquidity buffer will be positive support for margins and medium term return ratios. We hope to see more clarity and granular information sharing on the book as lenders will share their strategy to align their portfolio and work with borrowers to recover loans. Agriculture is likely to remain to be a relatively bright spot. We expect to see continued improvements in collection efficiency; management commentary on growth and asset quality (due to recent surge in COVID-19 cases) would be eyed.

**Valuation**

Over the past few months, a steady improvement across all important parameters has been encouraging, though we believe that industry leaders would continue to perform better in the medium term due to inherent strengths of stable ratings and the ability to withstand challenges. We continue to favour players with strong balance sheets and those least impacted by the ensuing COVID-19 lockdown.

**Key risks:**

Due to the resurgence of COVID 19, the economic recovery may be prolonged. Economic distress may lead to further risk-off behaviour impacting profitability and growth outlook.

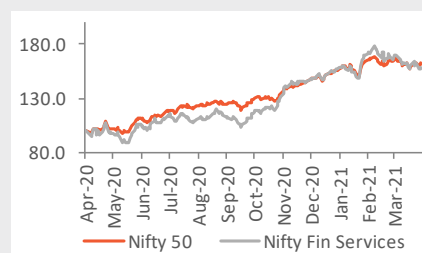
**Leaders for Q4FY2021:** HDFC Ltd, LIC Housing, Repco Home, Cholamandalam Investment

**Laggards for Q4FY2021:** Spandana Sphoorty

**Preferred Picks:**

HDFC Ltd, Cholamandalam Investment, Repco Home Finance and M&M Financial

## Price chart



**Q4FY2021 earnings estimates**

Company	Net Interest Income (Rs Cr)				PPoP (Rs Cr)				PAT (Rs Cr)			
	Q4FY21E	Q4FY20	YoY %	QoQ %	Q4FY21E	Q4FY20	YoY %	QoQ %	Q4FY21E	Q4FY20	YoY %	QoQ %
<b>NBFC</b>												
Bajaj Finance	3,551	3,755	-5.4	5.7	3,057	3,232	-5.4	5.3	1,367	948	44.2	19.3
Cholamandalam Invesment	1,388	1,015.4	36.7	1.8	980	640.6	53.0	-3.9	493	42.7	1055.6	20.6
HDFC Ltd	3,976	3,464	14.8	-0.7	3,832	3,509	9.2	-1.5	2,770	2,321	19.4	-5.3
L&T Finance Holding	1,857	1,552.1	19.6	7.1	1,515	957.9	58.2	7.7	398	384.9	3.5	38.5
LIC Housing	1,245	1,364.0	-8.7	17.2	1,147	1,251.2	-8.3	25.5	763	687.1	11.0	4.9
M&M Financials	1,420	1,347.4	5.4	2.7	1,079	978.5	10.2	2.9	580	220.9	162.7	NA
Repco Home Finance	157	139.4	12.8	3.3	133	112.5	18.2	1.6	88	47.7	85.5	11.2
Spandana Sphoorty	209	225.2	-7.2	0.4	175	288.5	-39.5	11.4	34	77.5	-56.7	NA
<b>Total NBFCs</b>	<b>13,804</b>	<b>12,863</b>	<b>7.3</b>	<b>4.0</b>	<b>11,917</b>	<b>10,970</b>	<b>8.6</b>	<b>3.9</b>	<b>6,493</b>	<b>4,729</b>	<b>37.3</b>	<b>23.2</b>

Source: Company, Sharekhan Research

**Valuations**

Company	CMP (Rs)	Reco/View	Target Price (Rs)	BVPS		P/BV	
				FY22E	FY23E	FY22E	FY23E
<b>NBFC</b>							
Bajaj Finance	5029	Buy	6000	727.0	874.3	6.9	5.8
Cholamandalam Inv	563	Buy	630	108.4	132.5	5.2	4.2
HDFC Ltd	2502	Buy	3100	558.1	606.0	4.5	4.1
L&T Finance Holding	99	Buy	118	75.0	82.1	1.3	1.2
LIC Housing	420	Buy	610	407.7	470.1	1.0	0.9
M&M Financials	195	Buy	260	113.9	121.8	1.7	1.6
Repco Home Finance	320	Buy	400	291.5	322.4	1.1	1.0
Spandana Sphoorty	608	Buy	850	485.9	581.5	1.3	1.0

Source: Bloomberg, Sharekhan Research

## Q4FY2021 NBFC earnings preview

## Company-wise key expectations

Company	y-o-y (%)	q-o-q (%)	Comment
<b>Bajaj Finance</b>			
NII	(5.4)	5.7	We expect Bajaj Finance to deliver strong sequential AUM traction, as disbursements bounce back to a near-normal levels, We expect NIM to be stable as business picks up in COnsumer finance and helped by falling cost of funds; but liquidity drag to balance the same; we expect marginal increase in GNPA's
PPOP	(5.4)	5.3	
PAT	44.2	19.3	
<b>Cholamandalam Investment</b>			
NII	36.7	1.8	We expect Chola to deliver strong mid-teens YoY AUM growth as disbursements bounce back to a near-normal levels, We expect NIM to be stable as change in business mix towards lower yielding products would be balanced by lower liquidity drag and falling cost of funds; Expect marginal increase in GNPA's
PPOP	53.0	(3.9)	
PAT	1,055.6	20.6	
<b>HDFC Ltd</b>			
NII	14.8	(0.7)	We expect HDFC to deliver healthy ~12% AUM growth led by a strong retail growth. Core NIM is likely to expand due to improved business traction. Credit cost is likely to be within normal range
PPOP	9.2	(1.5)	
PAT	19.4	(5.3)	
<b>L&amp;T Finance Holding</b>			
NII	19.6	7.1	We expect LTFH to deliver single digits q-o-q loan growth led by Tractors and Infra Segment; Decline in Cost of Funds and lower Liquidity on BS will be positive for margins
PPOP	58.2	7.7	
PAT	3.5	38.5	
<b>LIC Housing</b>			
NII	(8.7)	17.2	We expect loan growth to moderate to high single digits NIM may improve sequentially due to declining borrowings costs. Going forward, the management commentary on growth and credit cost will be keenly watched. Also, health of developer segment will be a monitorable.
PPOP	(8.3)	25.5	
PAT	11.0	4.9	
<b>M&amp;M Financials</b>			
NII	5.4	2.7	We expect loan growth to be moderate in single digits; NIM may improve sequentially due to declining borrowings costs. Going forward, the management commentary on growth and credit cost will be keenly watched. Also, commentary on Tractors and HCV etc will be key to watch out for
PPOP	10.2	2.9	
PAT	162.7	NA	
<b>Repco Home Finance</b>			
NII	12.8	3.3	We expect loan growth to pick up to pre-Covid levels, but AUM growth to be mid single digits NIM may be stable helped by declining borrowings costs. Going forward, the management commentary on growth and credit cost will be keenly watched.
PPOP	18.2	1.6	
PAT	85.5	11.2	
<b>Spandana Sphoorty</b>			
NII	(7.2)	0.4	We expect challenges to loan growth continue, and hence AUM growth to be moderate in high single digits; NIM may improve sequentially due to declining borrowings costs. Going forward, the management commentary on growth and credit cost will be keenly watched. Also, pace of Pandemic in Rural areas will be a monitorable.
PPOP	(39.5)	11.4	
PAT	(56.7)	NA	

Source: Sharekhan Research

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.