

Poonawalla Fincorp

Refer to important disclosures at the end of this report

Portfolio diversification on the cards

- Poonawalla Fincorp reported profits of Rs645mn, missing our estimate of Rs754mn due to lower NII and NIMs amid a gradual shift toward a secured portfolio. Disbursements remained healthy at Rs17.3bn (+7x yoy, +21.5% qoq), mainly tilted toward secured products like housing. AUM, however, remained flat sequentially at Rs144.2bn.
- Gross Stage 3 witnessed a surge to ~5.4% from ~3.7% last quarter as lockdowns affected collection efficiency. However, trends are improving. The overall restructured book stands at Rs8.5bn (~5.9% of AUM) against which the company holds a provision of Rs1.5bn, with an additional overlay of Rs2.8bn (~2% of AUM).
- We continue to believe that Poonawalla Fincorp is well placed in terms of adequacy and liquidity. New management plans to diversify the current portfolio by making an effective mix of secured/unsecured products, i.e. affordable housing, pre-owned cars and business loans from current offerings, and new offerings like LAP, PL, loans to professionals, etc.
- With the change in guard, we believe that the company will see superior profitable growth, resulting in a significant improvement in return ratios. We roll forward to Sep'22E and revise the TP to Rs195 (Rs175 earlier), corresponding to 2.2x P/Adj Sep'23E Book (earlier 2.1xP/ABV FY23E) with RoEs of 12.1% and RoA of 3.3%. Maintain Buy with OW in EAP.

Surge in disbursements aided by sufficient adequacy and product diversity:

Management aims to triple the AUM by FY25E, aided by sufficient liquidity and diversity in product offerings. The company plans to discontinue the relatively riskier businesses of used CV/CE and tractor financing. Instead, management intends to create a significant presence in loans to professionals, PLs, non-affordable housing loans and SME LAP. The company also plans to introduce consumer durable financing, co-branded credit cards and digital lending products by the end of FY22. With professional management taking the charge, we remain optimistic about growth numbers.

Cost of fund advantage to support margins and improve asset quality:

The change in promoters should significantly improve the company's borrowing profile (shift toward capital markets), which should, in turn, support rejig of the asset mix with the right blend of secured-unsecured loans – de-risking the loan book from black swan events. With the ease in the cost of funds, the company has a dual advantage. With a good scope of margin expansion, the company can focus on the quality of customers (which is feasible at lower yields).

Outlook and valuations:

After the fund infusion, the company is well placed in terms of adequacy, promoter backup and liquidity. Probable rating upgrades, lower cost of funds and ability to inject equity by the promoter (without fear of forced dilution) are the key positives. We roll forward to Sep'22E and revise the TP to Rs195 (Rs175 earlier), corresponding to 2.2x P/Adj Sep'23E Book (earlier 2.1xP/ABV FY23E) with RoEs of 12.1% and RoA of 3.3%.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	12,767	12,520	13,414	18,943	23,547
Net profit	271	(5,590)	4,212	6,797	9,175
EPS (Rs)	1.0	(20.7)	5.5	8.9	12.0
ABV (Rs)	85.7	77.4	74.6	82.8	91.5
RoA (%)	0.2	(3.9)	2.6	3.2	3.4
RoE (%)	1.0	(22.6)	10.3	10.8	13.3
PE (x)	175.1	(8.5)	31.8	19.7	14.6
P/ABV	2.0	2.3	2.4	2.1	1.9

Source: Company, Emkay Research

CMP	Target Price
Rs 175 as of (August 14, 2021)	Rs 195 (▲) 12 months
Rating	Upside
BUY (■)	11.1 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	(16.4)/(1.0)
Target Price change (%)	11.4
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	5.5	8.9
Consensus	6.1	8.1
Mean Consensus TP (12M)	Rs 167	

Stock Details

Bloomberg Code	POONAWAL IN
Face Value (Rs)	2
Shares outstanding (mn)	764
52 Week H/L	186 / 29
M Cap (Rs bn/USD bn)	134 / 1.81
Daily Avg Volume (nos.)	1,269,346
Daily Avg Turnover (US\$ mn)	2.7

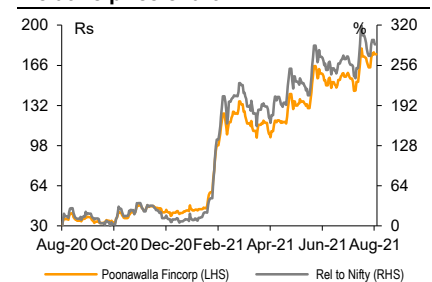
Shareholding Pattern Jun '21

Promoters	73.2%
FIIIs	8.7%
DIIIs	6.4%
Public and Others	11.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	29	79	444
Rel. to Nifty	5	15	64	272

Relative price chart



Source: Bloomberg

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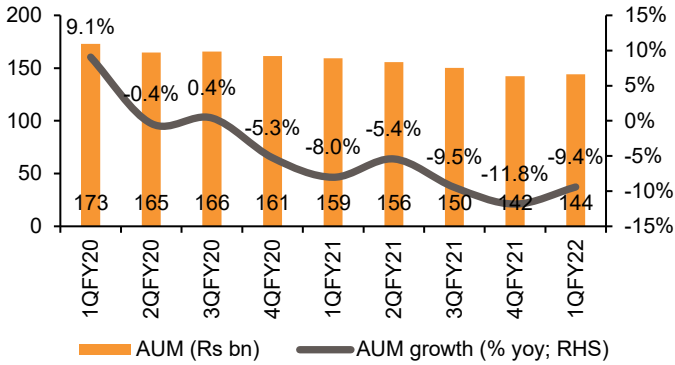
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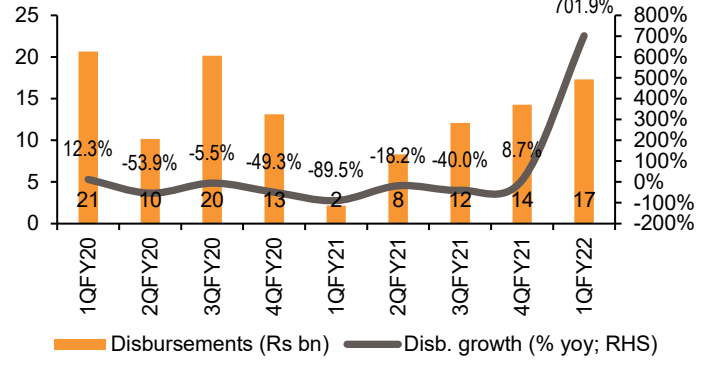
Story in Charts

Exhibit 1: AUM declines ~9% yoy in Q1



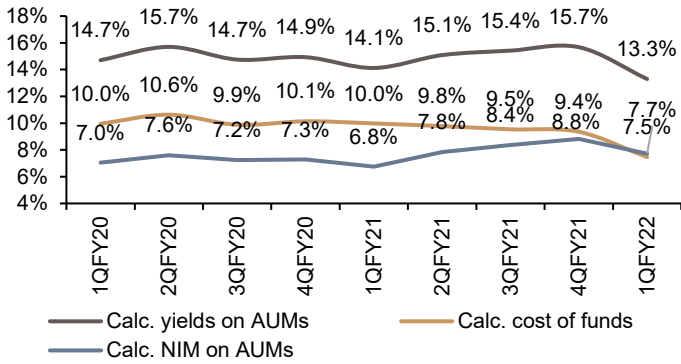
Source: Company, Emkay Research

Exhibit 2: Disbursements up 21% qoq in Q1



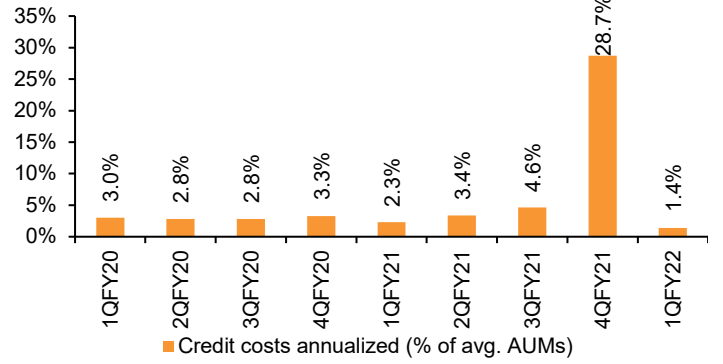
Source: Company, Emkay Research

Exhibit 3: Margins contract due to lower yields despite lower cost of funds



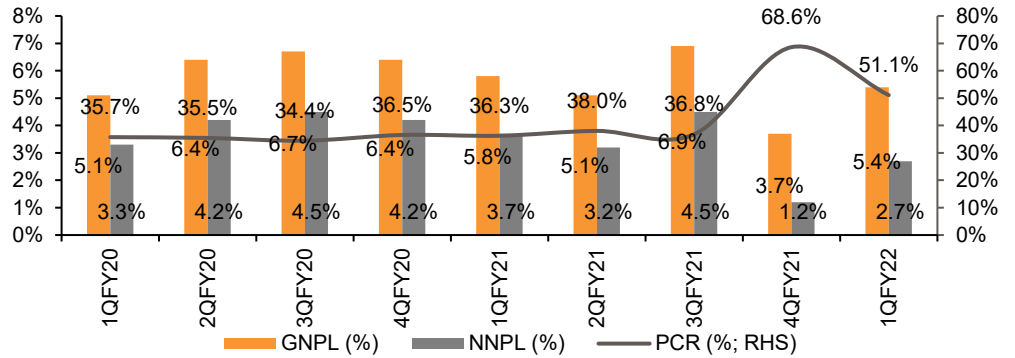
Source: Company, Emkay Research

Exhibit 4: Credit costs normalized



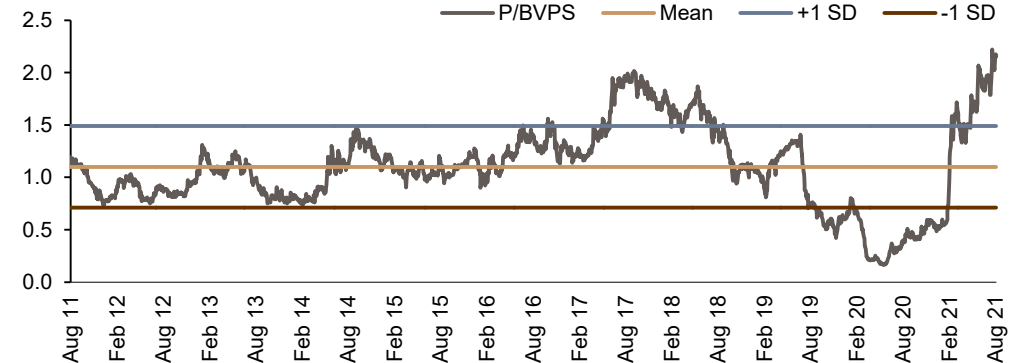
Source: Company, Emkay Research

Exhibit 5: Asset quality deteriorates due to second Covid wave



Source: Company, Emkay Research

Exhibit 6: The stock currently trades at ~2.2x 1-year forward P/B



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q1FY22)

Rs mn	Actual	Estimates		% variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	2,768	3,086	2,989	-10.3%	-7.4%	Lower NIM than expected
PPOP	1,259	1,635	1,839	-23.0%	-31.5%	Lower NII
PAT	645	754	570	-14.4%	13.2%	Lower PPOP

Exhibit 8: Quarterly financials

Particulars (Rs mn)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	% yoy	% qoq	FY21	FY22	% yoy
Operating Income	5,659	5,939	5,893	5,728	4,763	-15.8%	-16.9%	23,525	22,563	-4.1%
Interest Expenses	2,954	2,849	2,696	2,505	1,995	-32.5%	-20.4%	11,005	9,149	-16.9%
Net Operating Income	2,705	3,090	3,197	3,223	2,768	2.3%	-14.1%	12,520	13,414	7.1%
Operating Expenses	1,391	1,380	1,316	1,496	1,577	13.4%	5.4%	5,583	6,900	23.6%
Operating Profit	1,354	1,797	1,946	1,870	1,259	-7.0%	-32.7%	6,937	6,514	-6.1%
Provisions	914	1,330	1,777	10,489	494	-46.0%	-95.3%	14,480	2,357	-83.7%
CoR (%)	2.28%	3.38%	4.65%	28.71%	1.38%			11.6%	1.7%	
Profit Before Tax from core biz	440	468	169	(8,619)	766	73.9%	NA	(7,543)	4,157	NA
Op. results from Gen. Ins. Biz	30	37	5	(16)	45	49.7%	NA	55	55	NA
Profit Before Tax	470	504	174	(8,636)	810	72.3%	NA	(7,488)	4,212	NA
Tax	93	124	44	(2,159)	165	77.2%	NA	(1,898)	-	NA
Reported PAT (after MI)	377	381	130	(6,477)	645	71.1%	NA	(5,590)	4,212	NA
Gross NPA (%)	5.8%	5.1%	6.9%	3.7%	5.4%			3.7%	5.6%	
Net NPA (%)	3.7%	3.2%	4.5%	1.2%	2.7%			1.2%	2.6%	
Provision coverage ratio (%)	36%	38%	37%	69%	51%			69%	54%	

AUM	159,220	155,710	150,060	142,250	144,240	-9.4%	1.4%	142,250	181,865	27.8%
Disbursement	2,160	8,300	12,080	14,260	17,320	701.9%	21.5%	36,800	99,360	170.0%

Source: Company, Emkay Research

Exhibit 9: Revision in earnings estimates

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	12,240	12,575	2.7%	16,698	17,852	6.9%	22,923	22,238	-3.0%
PPOP	6,914	6,514	-5.8%	10,840	11,157	2.9%	15,688	14,701	-6.3%
PAT	5,044	4,212	-16.5%	6,858	6,797	-0.9%	9,525	9,175	-3.7%
EPS (Rs)	6.6	5.5	-16.4%	9.0	8.9	-1.0%	12.5	12.0	-3.8%
BV (Rs)	80	79	-1.6%	87	86	-1.3%	96	95	-1.2%

Source: Company, Emkay Research

Exhibit 10: Key assumptions

(in %)	FY21	FY22E	FY23E	FY24E
Loans growth	-16.1%	44.1%	30.5%	25.4%
Borrowings growth	-13.0%	19.2%	33.9%	31.9%
Yield on average loans	17.2%	15.5%	15.3%	15.0%
Cost of average int. liabilities	9.8%	8.0%	7.7%	7.3%

Source: Company, Emkay Research

Con-call highlights

- The product mix will be based on market opportunities to help deliver risk-adjusted returns going forward. Affordable home loans, pre-owned cars, and business loans from current offerings and new offerings like LAP, PL, loans to professionals, co-branded credit cards, machine loans and equipment loans will create a healthy mix of secured/unsecured loans.
- The company targets a 25-30% CAGR in the next 2-3 years. Backed by a strong parent and sufficient equity capital, the company will achieve its growth ambitions in the next five years.
- Near-term growth will come from pre-owned car finance, business loans, affordable housing loans and LAP. The company wants to be among the top 3 players in the pre-owned car finance, business loans and affordable housing loan segments.
- Discontinued book: The book is seeing a good recovery and a natural rundown of 90% of the book will happen in the next 30 months.
- Used Cars: Management believes that the industry is expected to grow at a much faster pace due to the change in customer preferences (earlier customers used to keep a new car for an average of 6 years, which is expected to come down to 4.5-5 years in the next 2-3 years). The company will not do commercial used car financing (like taxis).
- Co-branded credit cards: The company is already in talks with a few banks about tie-ups.
- The liability mix will further be realigned with the optimum mix of banks, capital markets, long-term financial institutions, etc.
- The company has shifted the corporate office to Pune and is getting support from all employees. Senior leaders have already moved to Pune.
- Poonawalla Finance lacked physical touch points, which is now taken care of, as the company inherited a pan-India physical infrastructure, complemented by strong digital capabilities to facilitate customer acquisition at an optimum cost and enable process and delivery at committed rates.
- Management will look at rationalizing branches in a given course of time.
- The company sits on comfortable liquidity of Rs32.4bn as of Jun'21. The incremental cost of borrowing stands at sub 7%.
- The company has carried out a complete overhaul of credit and underwriting policies in the last two months, based on the learning from its own businesses and the external environment in the industry.
- It will bring down the credit cost to less than 1.5% by the end of FY22.
- CE stood at 98% in Jul'21, returning to normalcy of pre-Covid levels of 96.5%.
- Business will see a shift from rural to semi-urban and urban geographies.
- The company infused Rs5bn of equity capital in the housing finance subsidiary in Q1FY22. It will look at IPO opportunities toward the end of FY25, depending on the market situation and the needs of the business.
- All the lines of business in Poonawalla Finance will be moved to Poonawalla Fincorp.
- The overall industry of pre-owned cars is mostly dominated by banks such as HDFC and ICICI, and some NBFCs. The aim is to become among the top 3 players from the current 6th position.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	12,196	12,184	12,575	17,852	22,238
Other income	571	336	839	1,091	1,310
Net income	12,767	12,520	13,414	18,943	23,547
Operating expenses	6,969	5,528	6,845	7,731	8,792
Pre provision profit	5,798	6,992	6,569	11,212	14,755
PPP excl treasury	5,798	6,992	6,569	11,212	14,755
Provisions	4,980	14,480	2,357	2,640	2,407
Profit before tax	818	(7,488)	4,212	8,572	12,349
Tax	547	(1,898)	0	1,774	3,174
Tax rate	67	25	0	21	26
Profit after tax	271	(5,590)	4,212	6,797	9,175

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	539	539	1,527	1,527	1,527
Reserves	26,941	21,404	58,557	63,994	70,875
Net worth	27,480	21,943	60,083	65,521	72,402
Borrowings	119,870	104,330	124,396	166,554	219,605
Total liabilities	152,397	132,122	190,620	238,523	298,777
Cash and bank	7,083	7,747	17,179	15,478	21,267
Investments	1,506	1,774	1,244	1,332	1,757
Loans	135,465	113,612	163,679	213,531	267,811
Others	6,002	7,043	6,436	5,995	5,690
Total assets	152,397	132,122	190,620	238,523	298,777

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	7.4	8.0	7.8	8.6	8.5
RoA	0.2	(3.9)	2.6	3.2	3.4
RoAE	1.0	(22.6)	10.3	10.8	13.3
GNPA (%)	6.4	3.7	5.6	4.7	4.5
NNPA (%)	4.2	1.2	2.6	1.4	1.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	1.0	(20.7)	5.5	8.9	12.0
BVPS	101.8	81.4	78.7	85.8	94.9
ABVPS	85.7	77.4	74.6	82.8	91.5
DPS	0.0	0.0	0.8	1.8	3.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	175.1	(8.5)	31.8	19.7	14.6
P/BV	2.0	2.3	2.4	2.1	1.9
P/ABV	2.0	2.3	2.4	2.1	1.9
Dividend Yield (%)	0.0	0.0	0.5	1.0	1.7

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	8.2	(0.1)	3.2	42.0	24.6
PPOP	(18.1)	20.6	(6.1)	70.7	31.6
PAT	(91.1)	(2,166.2)	(175.4)	61.4	35.0
Loans	(9.8)	(16.1)	44.1	30.5	25.4

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
NII	2,705	3,090	3,197	3,223	2,768
NIM (%)	6.8	7.8	8.4	8.8	7.7
PPOP	1,384	1,834	1,951	1,854	1,304
PAT	377	381	130	(6,477)	645
EPS (Rs)	1.40	1.41	0.48	(24.02)	0.84

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	May-21	Jun-21
Promoters	24.4	24.4	24.4	73.3	73.2
FIIIs	32.4	30.2	28.5	8.7	8.7
DIIIs	26.4	25.0	20.2	6.6	6.4
Public and Others	16.9	20.5	26.9	11.5	11.8

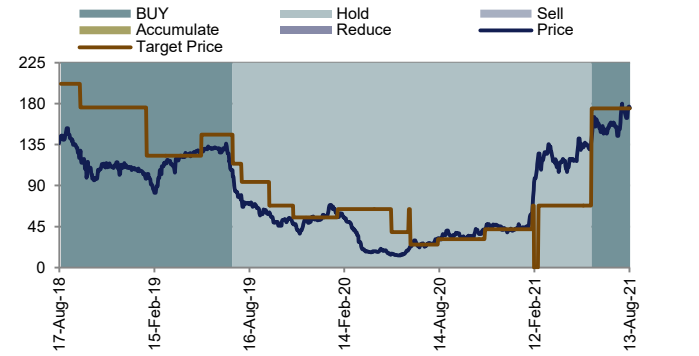
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
01-Jul-21	149	175	12m	Buy	Jignesh Shial
01-Jun-21	143	175	12m	Buy	Jignesh Shial
19-Feb-21	125	68	12m	Hold	Jignesh Shial
11-Feb-21	94	-	12m	Hold	Jignesh Shial
08-Feb-21	70	68	12m	Hold	Jignesh Shial
09-Nov-20	40	42	12m	Hold	Jignesh Shial
16-Sep-20	38	31	12m	Hold	Jignesh Shial
11-Aug-20	32	31	12m	Hold	Jignesh Shial
19-Jun-20	24	25	12m	Hold	Jignesh Shial
16-Jun-20	20	64	12m	Hold	Jignesh Shial
14-May-20	15	39	12m	Hold	Jignesh Shial
08-Mar-20	39	64	12m	Hold	Jignesh Shial
01-Feb-20	55	64	12m	Hold	Jignesh Shial
19-Nov-19	39	55	12m	Hold	Jignesh Shial
08-Nov-19	47	55	12m	Hold	Jignesh Shial
23-Sep-19	61	68	12m	Hold	Jignesh Shial
28-Aug-19	68	94	12m	Hold	Jignesh Shial
01-Aug-19	74	94	12m	Hold	Jignesh Shial
15-Jul-19	100	114	12m	Hold	Jignesh Shial
25-May-19	131	146	12m	Buy	Jignesh Shial
25-May-19	131	146	12m	Buy	Jignesh Shial
16-May-19	127	146	12m	Buy	Jignesh Shial
15-Feb-19	82	123	12m	Buy	Jignesh Shial
31-Jan-19	98	123	12m	Buy	Jignesh Shial
02-Nov-18	108	176	12m	Buy	Jignesh Shial
26-Sep-18	128	176	12m	Buy	Jignesh Shial
24-Sep-18	121	202	12m	Buy	Jignesh Shial
20-Aug-18	145	202	12m	Buy	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 13 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	7.79	7.79	0%	0	100.00
Bajaj Finance	1.77	1.77	0%	0	22.67
Cholamandalam Investment	0.22	0.22	0%	0	2.78
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.17	5.20	1%	3	66.68
L&T Finance Holdings	0.07	0.07	0%	0	0.93
LIC Housing Finance	0.13	0.13	0%	0	1.66
Mahindra Finance	0.10	0.00	-100%	-10	0.00
Nippon Life India Asset Management	0.06	0.06	0%	0	0.78
Ponawalla Finco	0.00	0.04	NA	4	0.48
Shriram City Union Finance	0.00	0.03	NA	3	0.40
Shriram Transport Finance	0.28	0.28	0%	0	3.61
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	13-Aug-20	11-Feb-21	12-May-21	13-Jul-21	12-Aug-21
EAP - BFSI-NBFCs	100.0	93.1	146.2	133.2	143.1	146.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	87.8	137.5	125.0	134.3	137.7

*Performance measurement base date 1st April 2019

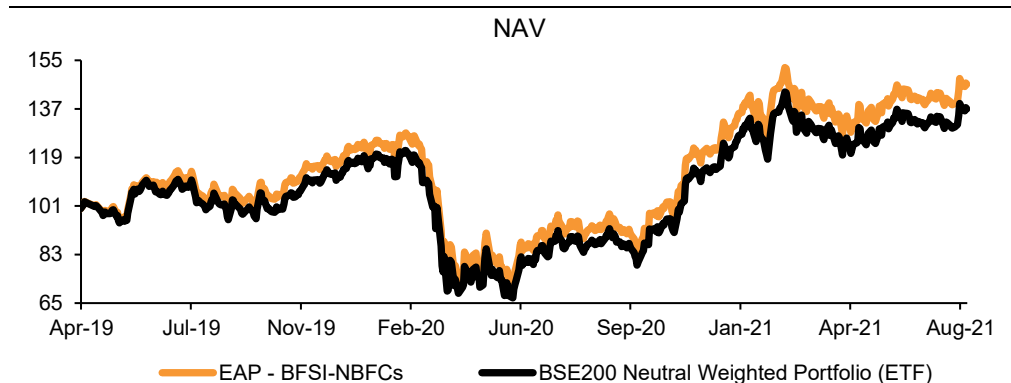
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	2.7%	10.3%	0.5%	57.8%
BSE200 Neutral Weighted Portfolio (ETF)	2.6%	10.2%	0.2%	56.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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