Equity Research
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BSE Sensex: 56858

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Q1FY23 result review, TP and earnings change

Financials

Target price: Rs335

Earnings revision

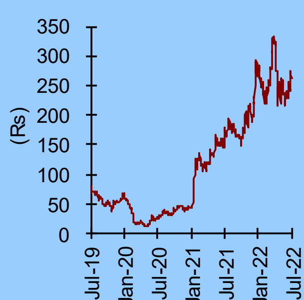
(%)	FY23E	FY24E
PAT	↓ 2	↓ 1

Target price revision
Rs335 from Rs261

Shareholding pattern

	Dec '21	Mar '22	Jun '22
Promoters	68.3	61.5	61.5
Institutional investors	12.4	12.8	13.1
MFs and other	5.1	4.8	4.4
FIs/Banks	1.4	1.4	1.3
Insurance co.	0.0	0.0	0.0
FIIs	5.9	6.6	7.4
Others	19.3	25.7	25.4

Price chart



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INDIA

ICICI Securities

Poonawalla Fincorp

BUY
Maintained

Post consolidation, propelling into a growth phase; housing finance value unlocking an additional trigger

Rs269

For Poonawalla Fincorp (PFL), Q1FY23 and FY22 were defining periods of translating strategy into execution. Company delivered on its stated strategy in Q1FY23 registering an RoA of 3.4%, organic disbursement growth of 26.5% QoQ, focused AUM growth of 13% QoQ, net stage-3 at 0.95%, and credit cost reversals. Strategic execution during the consolidation phase is propelling PFL into the growth phase as reflected in: 1) new products steadily scaling up; 2) monthly organic disbursement run-rate of Rs10bn; 3) commanding leaderboard in pre-owned car financing segment and loan to professional segment; 4) entry into leaderboard in consumer and SME finance; 5) superior credit rating and repricing, which has aided funding cost benefit of 264bps since Q1FY22; 6) investment in people, technology, scale-up and rollout of new products leading to higher opex-to-AUM at 5.6%.

Company has created a management overlay of Rs2.24bn on its legacy book against a one-time gain on sale of Magma HDI shares. More than 50% of defocused book is in zero-dpd bucket and the company has inched up coverage to 20% (*vs* 9.6% QoQ) of the legacy book, thus carrying adequate provisioning buffer. This makes PFL confident of not only having no further provisioning requirement, but also provides scope for some recoveries/write-backs.

Company gained traction in its recently-launched product segment, Direct, Digital & Partnership (DDP) led distribution platform, launch of new products, and focus on cross-sell/upsell enhancing visibility on AUM growth of 34% for FY23E/FY24E. Management has guided for 3.0-3.5% RoA in FY23, steady-state RoAs of 3.5-4.0% with NIMs being sustained and credit cost being contained at <1% with gross stage-3 pool settling below 2% and net stage-3 continuing to be <1%

We believe rerating will be triggered by sharp business execution, improved market positioning in focused product segments, business scale-up through diversified and granular portfolio mix, and consistent earnings delivery. Also, the proposed preferential issue in Poonawalla Housing Finance up to Rs10bn for <15% dilution will discover value of its pan-India, superior credit-rated (AA+ positive) affordable housing franchise. With the portfolio attuned for growth and >3% RoA profile, the stock can command a valuation of 3.5x FY24E consolidated book (against earlier expectations of 2.75x). We revise our target price to Rs335 (earlier: Rs261). Maintain BUY.

Market Cap	Rs205bn/US$2.6bn
Bloomberg	POONWAL IN
Shares Outstanding (mn)	764.9
52-week Range (Rs)	333/148
Free Float (%)	38.5
FII (%)	7.4
Daily Volume (US$/'000)	15,830
Absolute Return 3m (%)	(14.2)
Absolute Return 12m (%)	53.4
Sensex Return 3m (%)	(0.5)
Sensex Return 12m (%)	9.7

Year to March	FY21	FY22	FY23E	FY24E
NII (Rs mn)	10,652	11,943	15,562	20,087
Net Profit (Rs mn)	(5,590)	3,751	5,798	7,499
EPS (Rs)	(20.7)	4.9	7.6	9.8
% Chg YoY	(2,165.4)	(123.7)	54.6	29.3
P/E (x)	(13.0)	54.8	35.4	27.4
P/BV (x)	3.3	3.4	3.1	2.8
Net NPA (%)	1.2	1.1	1.0	0.8
Dividend Yield (%)	-	-	0.1	0.1
RoA (%)	(3.9)	2.5	3.1	3.0
RoE (%)	(22.6)	9.1	9.2	10.8

- **Poonawalla Fincorp (PFL) reported PAT of Rs1.41bn (up 18.5% QoQ / 118% YoY) ahead of our expectations of Rs1.2bn, thereby registering 3.4% RoA in Q1FY23.** Sustained NIMs (at 9.5%) and focused AUM growth of 13% QoQ supported the robust operating performance during the quarter. This was partially offset by 10% QoQ / 52% YoY rise in opex (5.6% of AUM). Earnings beat was further buoyed by provisioning reversal of Rs120mn. Company has created a management overlay of Rs2.24bn on its legacy book against a one-time gain of Rs2,4bn on sale of Magma HDI shares.

- **Focused AUM growth of 13% QoQ; accelerating customer acquisition engine; new product scaling up; focus on cross-sell/up-sell:** Disbursements during Q1FY23 stood at Rs34.3bn (up 98% YoY / 2.8% QoQ) *vs* cumulative disbursement of Rs94.9bn for FY22. Execution of strategic business model transitioning is validated by consistently improving quarterly organic disbursement run-rate (Rs3.38nbn / Rs12.95bn / Rs15.43bn / Rs 21.64bn / Rs27.38bn in Q1 / Q2 / Q3 / Q4FY22 / Q1FY23). As a result, focused AUM growth was robust at 66.1% YoY / 13.0% QoQ. This, despite 23% run-down in discontinued product segments (Rs22.8bn), supported overall AUM growth of 22.4% YoY / 6.5% QoQ.

  PFL's preowned cars segment achieved its highest-ever quarterly disbursement run-rate in Q1FY23 with 22.0% QoQ growth. In this segment, disbursement via partnerships accounted for 20.2% of total disbursements in Q1FY23 (*vs* 17.4% / 7.3% in Q4 / Q3FY22).

  Digital BL | Digital PL | Digital LTP disbursements grew 63.1% QoQ (over and above 32.4% / 15.8% in Q4 / Q3FY22). It has achieved leadership board position in loans to professionals as well as preowned cars.

  Digital LAP disbursements were up 32.5% QoQ with focus on end-to-end digital platform.

  Affordable housing / LAP disbursements more than doubled and the company has launched a MSME-focused secured product up to ticket-size of Rs1.5mn.

  Company expects the growth momentum to continue in the coming quarters supported by change in product mix and higher contribution from the distribution pillars of Direct, Digital and Partnerships (DDP). DDP contribution increased ~2x QoQ to 34.1% of the total Q1FY23 disbursement (growing 147% QoQ in Q1FY23). Disbursement through new partners for Digital BL, Digital PL and Digital LAP were initiated during the quarter. PFL is a preferred partner for digital aggregators, fintechs and other ecosystem players as 100% digital onboarding of channel partners is initiated with <1-day TAT and also follows system-based payouts. For loan applications too, PFL has an online platform.

  Company also launched machinery loan and supply chain finance in Q1FY23. Increasing product offering and leveraging advanced data analytics will further aid cross-sell/upsell.

  Scale and launch of newer products will boost growth FY23E onwards. We are building-in AUM growth of 34% each over FY23E / FY24E respectively.

- **Endeavour is to contain gross stage-3 below 2% and credit cost at <1%:** Consolidated stage-3 further declined 47bps QoQ to 2.19% (from 2.66%% / 3.5% / 4.1% in Q4/Q3/Q2) for the consolidated entity. Stage-3 for housing finance further improved to 0.87% (*vs* 0.96% in FY22).

  Restructured book moderated to Rs6.2bn – 3.5% of AUM (*vs* Rs7.86bn and 5.7% QoQ) and it carries provision of 23.7% (19.6% QoQ) on this pool. 45% of restructured book was in 0 dpd bucket at Rs2.8bn. However, for the purpose of asset classification, Rs4.53bn (73% of total restructured assets) has been classified under stage 2.

  Company now carries coverage of 1.9% (*vs* 1.4%) on stage-1, 23.8% (15.1%) on stage-2, and 57% (59%) on stage-3 assets. ECL provisions of 4.6% (4.2% / 4.9% / 5.4% in Q4 / Q3 / Q2) of AUM seem adequate for the existing stress pool (2.19% stage-3 + 3.5% restructured).

  Even post implementation of the revised asset classification norms w.e.f. Sep'22, management expects gross stage-3 to settle below 2% and net stage-3 to be contained below 1%. We believe the comfortable buffer will call for lower incremental credit cost of <100bps in FY23E / FY24E as well.

- **NIMs sustained; opex elevated at 5.6%:** Funding cost benefit of 49bps QoQ (264bps YoY) in Q1FY23 helped sustained NIMs at 9.5%. It reflects replacement of old long-term funds with low-cost borrowing and incremental borrowings at competitive rates. Company initiated its capital market journey in Jul'22 raising Rs4.5bn of CPs and Rs2.5bn of maiden NCD. It has also added multiple new relationships during the quarter and moved away from consortium to multiple banking arrangement. With hike in benchmark rates, company is following a pass-through in lending rates as well (reflected in rise in median disbursement IRR).

  Investment in franchise, roll-out of retail products and gained traction in disbursements led by 10% QoQ / 52% YoY rise in opex. Opex-to-AUM thereby was elevated at 5.6%.

- **Poonawalla Housing Finance – RoA of 2.4%; AUM grew >30% YoY:** PHFL has registered disbursement growth of 116% YoY (albeit down 33% YoY), which supported AUM growth of 4.4% QoQ / 30.5% YoY to >Rs52.8bn. 74% of loans were sourced directly in Q1FY23. NIMs improved 4bps QoQ / 186bps YoY to 7% primarily led by 33bps decline in funding cost. PAT grew 4% QoQ to Rs300mn, thereby registering 2.4% RoA. Management expects PHFL's AUM to grow at a CAGR of 25% to >Rs100bn by FY25.

  Board has accorded an in-principle approval to raise funds in PHFL on preferential basis for value unlocking and future growth. It has appointed an investment banker and expects to conclude the transaction by end of this fiscal.

- **Magma HDI General Insurance:** It has booked gain of Rs2.4bn on sale of Magma HDI shares at consolidated level.

Table 1: Quarterly profit and loss

(Rs mn)

	Q1FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Interest Income	4,595	4,838	5,179	7.1	12.7
Interest Expense	1,995	1,587	1,734	9.2	-13.1
Net Interest Income (NII)	**2,600**	**3,250**	**3,446**	**6.0**	**32.5**
Other Income	237	457	608	33.0	156.7
Total Income	**2,837**	**3,707**	**4,053**	**9.3**	**42.9**
Employee Expenses	1,188	1,424	1,619	13.7	36.2
Other Operating Expenses (incl. depreciation)	389	753	748	-0.7	92.3
Total Operating Expenses	**1,577**	**2,176**	**2,367**	**8.8**	**50.1**
Pre-Provisioning Operating Profit (PPoP)	**1,259**	**1,531**	**1,687**	**10.2**	**33.9**
Provisions and write offs	494	-6	-140	2,104.0	-128.3
Profit Before Tax	**810**	**1,537**	**1,826**	**18.8**	**125.4**
Tax Expenses	165	348	417	19.7	152.8
Tax Rate	*20.4*	*22.7*	*22.8*	0.7	12.2
Minority	0	2	2	-	-
Profit / (Loss) - after minority	**645**	**1,187**	**1,407**	**18.6**	**118.0**
EPS (Rs)	**0.8**	**1.6**	**1.8**	18.5	118.2

Source: Company data, I-Sec research

Table 2: Key performance indicators

(Rs mn)

	Q1FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Loan AUM	**1,44,240**	**1,65,790**	**1,76,600**	**6.5**	**22.4**
Loan disbursements	**17,320**	**33,360**	**34,360**	**3.0**	**98.4**
Yields on AUM (calculated) (%)	12.8	12.2	12.1	-7 bps	-73 bps
Cost of borrowings (calculated) (%)	8.7	7.1	7.2	11 bps	-149 bps
NIM (calculated) (%)	**7.9**	**9.3**	**9.3**	**-2 bps**	**139 bps**
Gross NPA - on-book AUM (%)	**5.4**	**2.7**	**2.2**	**-51 bps**	**-321 bps**
Net NPA - on-book AUM (%)	2.7	1.1	1.0	-17 bps	-176 bps
Provision coverage ratio (%)	51.1	58.8	56.9	-189 bps	587 bps
Cost to Income (%)	55.6	58.7	59.4	72 bps	382 bps
RoA (%) - annualised (reported)	**1.9**	**3.0**	**3.2**	**23 bps**	**129 bps**
RoE (%) - annualised (reported)	**6.5**	**15.7**	**17.6**	**198 bps**	**1112 bps**
CRAR (%)	**57.8**	**0.0**	**0.0**	**0 bps**	**-5780 bps**
-Tier 1 (%)	0.0	0.0	0.0	0 bps	0 bps
-Tier 2 (%)	57.8	0.0	0.0	0 bps	-5780 bps
Branches	297	297	297	0 nos.	0 nos.

Source: Company data, I-Sec research

Table 3: Quarterly du-pont analysis (annualised, on average loan AUM)

	Q1FY22	Q4FY22	Q1FY23	QoQ (%)	YoY (%)
Average AUM (Rs mn)	**1,43,245**	**1,59,035**	**1,71,195**	**7.6**	**19.5**
Interest earned	12.8	12.2	12.1	-7 bps	-73 bps
Interest expended	5.6	4.0	4.1	6 bps	-152 bps
Gross Interest Spread	**7.3**	**8.2**	**8.1**	**-12 bps**	**79 bps**
Credit cost	1.4	0.0	-0.3	-31 bps	-170 bps
Net Interest Spread	**5.9**	**8.2**	**8.4**	**19 bps**	**250 bps**
Operating cost	4.4	5.5	5.5	6 bps	113 bps
Lending spread	**1.5**	**2.7**	**2.8**	**13 bps**	**137 bps**
Non-interest income	0.8	1.1	1.3	11 bps	47 bps
Operating spread	**2.3**	**3.9**	**4.1**	**24 bps**	**184 bps**
Tax	0.5	0.9	1.0	10 bps	51 bps
ROAAUM	**1.8**	**3.0**	**3.1**	**14 bps**	**133 bps**
Effective leverage (AAUM/ AE)	3.6	2.7	2.8	14 bps	-83 bps
RoAE	**6.5**	**7.9**	**8.7**	**82 bps**	**222 bps**

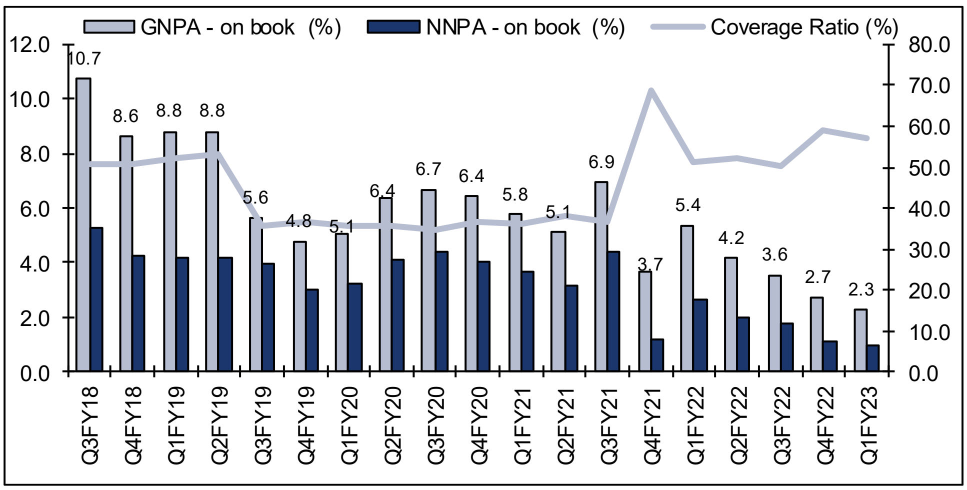
Source: Company data, I-Sec research

Table 4: Endeavour is to contain gross stage-3 below 2% and credit cost at <1%

	PFL			PHFL			Consol		
	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22	Jun-21	Mar-22	Jun-22
Stage 1 Assets (%)	76.9%	86.7%	90.8%	85.3%	90.8%	90.8%	78.9%	87.8%	91.1%
Stage 2 Assets (%)	16.7%	10.1%	6.6%	12.7%	8.3%	8.3%	15.8%	9.6%	6.7%
Stage 1 PCR (%)	1.6%	1.8%	2.5%	0.4%	0.3%	0.3%	1.3%	1.4%	1.8%
Stage 2 PCR (%)	22.4%	15.8%	28.7%	14.1%	12.8%	12.8%	20.8%	15.1%	23.8%
Stage 1 & 2 PCR (%)	**5.3%**	**3.2%**	**4.3%**	**2.2%**	**1.4%**	**1.4%**	**4.5%**	**2.7%**	**3.4%**
Gross Stage 3 (Rs mn)	6,380	3,720	3,270	590	410	410	6,970	4,130	3,670
Net Stage 3 (Rs mn)	3,040	1,440	1,340	380	260	260	3,410	1,700	1,580
Gross Stage 3 (%)	6.4%	3.3%	2.7%	2.0%	1.0%	1.0%	5.4%	2.7%	2.2%
Net Stage 3 (%)	3.2%	1.3%	1.1%	1.3%	0.6%	0.6%	2.7%	1.1%	1.0%
Stage 3 PCR (%)	**52.4%**	**61.2%**	**59.2%**	**36.5%**	**37.4%**	**37.4%**	**51.0%**	**58.9%**	**57.0%**

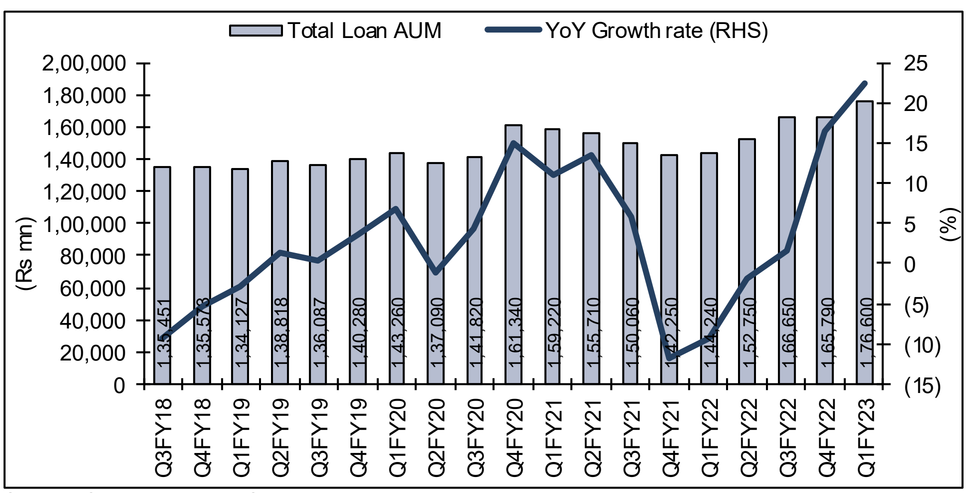
Source: Company data, I-Sec research

Chart 1: Endeavour is to contain gross stage-3 below 2% and credit cost at <1%



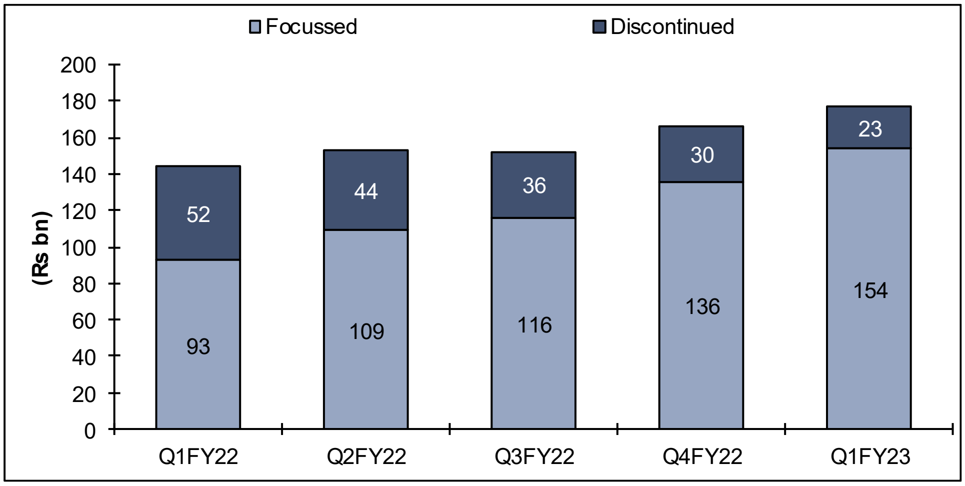
Source: Company data, I-Sec research

Chart 2: Focused AUM growth of 13% QoQ; accelerating customer acquisition engine; new product scaling up; focus on cross-sell/up-sell



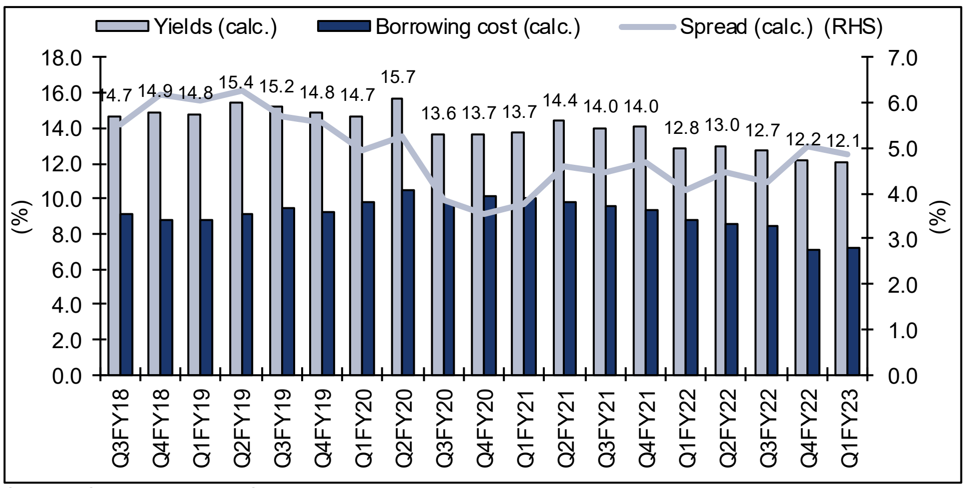
Source: Company data, I-Sec research

Chart 3: Focused AUM scaling up, defocused book down to Rs23bn



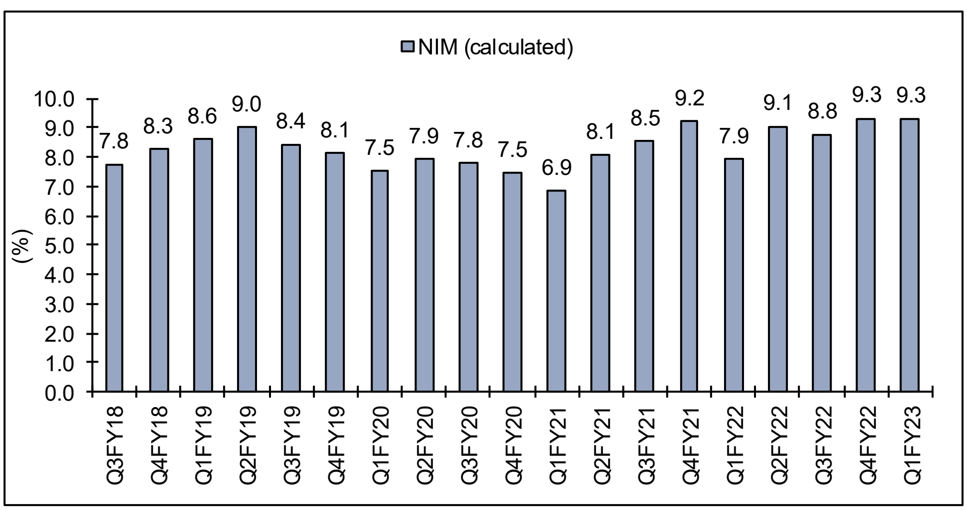
Source: Company data, I-Sec research

Chart 4: CRISIL has assigned AA+ rating, aiding lower borrowing cost



Source: Company data, I-Sec research

Chart 5: NIMs sustain at higher levels



Source: Company data, I-Sec research

Q1FY23 Earnings Conference Call Takeaways

MD & CEO Opening remarks

- ***Fantastic quarter where strategy is translated into execution.*** Execution excellence was reflected is the fact that Q1FY23 was better than Q4FY22 when Q1 is otherwise seasonally weak.
- ***Validation of business model reflected in consistent rise in organic disbursements.***
- It reported PAT of Rs1.41bn (up 18.5% QoQ/118% YoY), thereby registering 3.4% RoA in Q1FY23 (up 155bps YoY/29bps QoQ).
- ***Created management overlay of Rs2.24bn on legacy book against one-time gain on sale of Magma HDI shares. On legacy book of Rs20bn it was carrying provision of 9.6% which has now gone up to 20%. Hence, there will be no further provisioning requirement.***
- Digital capabilities a source of competitive edge – focus on culture of digital first across the organisation.
- ***Launched machinery loan & supply chain finance in Q1FY23***
- Preferred partner for digital aggregators, FinTech & other ecosystem partners

What to look forward into FY23

- Consumer and SME segment has seen revival in sentiments and demand. Given its focus on consumer & SME with pan-India retail franchise it seems it is at right place, at right time with right aspiration
- ***Depending on the opportunity and data analytics, will see if focus needed on any locations. Else currently with digital journey and collection team, it is present in more than 50 locations.***
- ***Monthly organic disbursements run-rate of Rs10bn and will do Rs120bn of organic disbursements in FY23. This will support more than Rs50bn of AUM growth in FY23***
- 264bps reduction in cost of borrowing. Will see rise in borrowing in coming quarters but Q4FY23 borrowing cost will still be lower than Q4FY22
- ***It is passing on any rising rate into the lending rates reflected in rise in median disbursement IRR and NIMs should be sustained.***
- ***Expects gross stage-3 to be less than 2% and net stage-3 will continue to be less than 1%. Steady state credit cost should remain less than 1%.***
- ***RoA will settle at 3.0-3.5% in FY23 and on a steady state, it will be in the range of 3.5-4.0%.***

Consolidate, Grow, Lead strategy

- In first six months of acquisition, consolidation phase is over and is now on a growth path.
- ***Want to be in top 1 in consumer and SME finance.***
- Leadership board position in POC and LTP on monthly disbursement basis and in ***consumer loans, business loans – will be in a leadership position***
- More than 6k CAs – personal loan also doing lot of cross-selling
- Way ahead there will be an exclusive team focused on cross-sell and digital lending.

Focused AUM grew 13% QoQ; focus on cross-sell/up-sell

- Disbursements during Q1FY23 stood at Rs34.3bn (up 98% YoY/2.8% QoQ).
- ***Quarterly Organic disbursement run-rate has been consistently improving Rs3.38nbn/Rs12.95bn / Rs15.43bn / Rs 21.64 bn / Rs27.38bn in Q1/Q2/Q3/Q4FY22/Q1FY23.***

- Focused AUM growth was robust at 66.1% YoY / 13.0% QoQ; overall AUM grew 22.4% YoY / 6.5% QoQ
- ***DDP contribution increased ~2x QoQ to 34.1% of the total Q1FY23 disbursement*** (growing 147% QoQ growth in Q1FY23)
- ***Disbursement through new partners for Digital BL, Digital PL and Digital LAP initiated during the quarter.***
- ***Current portfolio mix: 76% secured and 24% unsecured. Over a period the mix would be 60:40.***

<u>Product-wise traction in disbursements</u>

- ***Preowned cars*****:** It achieved highest ever quarterly disbursement in Q1FY23 with 22.0% QoQ growth. Disbursement via partnership contributed 20.2% in Q1FY23 (vs 17.4% in Q4FY22 & 7.3% in Q3FY22)
- ***Digital BL | Digital PL | Digital LTP:*** QoQ disbursement grew 63.1% in Q1 vs 32.4% in Q4FY22 & 15.8% in Q3FY22, Leadership board position in LTP, 100% digital journey capability
- ***Digital LAP: Disbursements up 32.5% QoQ and focus on end to end digital platform***
- ***Affordable housing/LAP:*** Disbursements more than doubled, launched 'MSME' focused secured product up to ticket size of Rs1.5mn

<u>Stage-3 improves 47bps QoQ to 2.19%</u>

- ***Stage-3 further declined 47ps QoQ to 2.19% (from 2.66%% in Q4) for the consolidated entity.***
- ***Restructured book moderated to Rs6.2bn – 3.5% of AUM (vs Rs7.86bn and 5.7% QoQ) and it carries provision of 23.7% (19.6% QoQ) on this pool.***
- ***Write-off has been Rs1.05bn in Q1FY23 – it has been from the legacy book (majority from asset backed financing, pre-owned car and some SME financing in earlier organisation).***
- Provisioning existing as of now puts it in a good stead and there can be expectations of recovery and write-backs.
- ***Defocused book is Rs22.81bn of which >50% is in 0dpd bucket and balance piece is sufficient covered through provisioning.***

<u>NIMs sustained at 9.5%; partially offset by elevated opex to AUM at 5.6%</u>

- Funding cost benefit of 49bps QoQ (264bps YoY) in Q1FY23 that sustained NIMs at 9.5%
- ***Initiated capital market journey in Jul 22– Raised Rs4.5bn of CPs and Rs2.5bn of maiden NCD***

<u>Poonawalla Housing Finance (PHFL)</u>

- ***PHFL has registered disbursement growth of 116% YoY that supported AUM growth of 4.4% QoQ / 30.5% YoY to >Rs52.8bn.***
- NIMs improved 4bps QoQ / 186bps YoY to 7% primarily led by 33bps decline in funding cost.
- ***Stage-3 for housing finance further improved to 0.87% (vs 0.96% in FY22).***
- Board has accorded an in-principle approval to raise funds in PHFL on preferential basis for value unlocking and future growth
- Raise not exceeding Rs10bn with stake dilution of less than 15% in one or more tranches by way of preferential issue during FY23.
- It has just appointed investment banker and transactions will be completed before end of this fiscal.

<u>Incremental datapoints</u>

- As of Q1FY23, networth stood at Rs62.35bn and borrowings at Rs108bn

Q4FY22 Earnings Conference Call Takeaways

FY22 - journey of consolidation phase

- ***Strengthened itself during covid and are now better placed by building digitized processes, granular portfolio and inherent resilience.***
- Ended FY22 on a very positive note
- ***Very optimistic and confident of growth prospects going ahead***
- So far, there are no major domestic setbacks due to Russia Ukraine war

Asset quality

- NS3 at 1.1% - best in the NBFC space
- ***CE at 108.4%, surpassing pre-covid levels***
- Carrying Rs 1.4bn of specific covid provisions
- Every quarter, bank would assess total provisions and look to see, if any provision reversal can be done
- ***Write-off at 90+ for all unsecured products, which is among the few in the industry***
- ***90% of customers who are on-boarded have more than 700 credit score***

Yields, cost and margins

- ***215 bps reduction in average cost of borrowing between Q1FY22 and Q4FY22***
- It will continue to diversify its borrowing mix
- Cost of borrowings at 8.3% for Q3FY2 (adjusting for one-off) and for Q4 at 7.1%
- ***Expect liability book repricing to be well spread over FY23 and not see a sudden spike in borrowing cost***
- ***Average cost of borrowings for FY23 expected to be below Q4FY22 level and well below FY22 cost of borrowings***
- ***On supply chain finance, yield range is 12-13%***

AUM growth

- AUM of focussed products up 17% QoQ in Q4
- It has a mix of products which are short term and medium term in nature, that will enable growth as well as profitability.
- On a steady state, company is looking at a steady state mix of secured and unsecured products
- ***As of FY22, company has 19% share of unsecured in total AUM and on a steady state, company would be hitting it upto 30-35% by FY23-end***
- For all the partnership which company does - focus has been on two factors namely scalability and risk management practices
- On merchant cash advances, digital economy is booming and hence company is focusing on all those merchants who accept all modes of digital payments.
- Exploring co-lending opportunities across various products. Have pan India tie-up across various products for loans to professionals especially CA's

Disbursements

- Disbursements up 158% YoY, AUM up 17% YoY and 9% QoQ in Q4
- ***In most of the products, company has crossed highest ever disbursements in March 2022***
- ***Recorded highest ever overall monthly disbursements in March 2022***
- ***Discontinued book at 18% of AUM and expect it to run down in the next 18-24 months***

- ***Organic disbursements at Rs 22bn in Q4 vs Rs 15.43bn QoQ and non organic at Rs 11.5bn***

Digitisation

- ***Implemented State of the art, cloud-hosted LOS, LMS & CRM within a record time***
- Implemented digital onboarding journey for customers
- ***End to end turnaround time is now among the best in the industry due to digitisation efforts***
- Fintech architecture and digital capability enable it to be favourable partner for other fintechs
- Made on-boarding journey for channel partners more convenient and ensure turnaround in less than a day
- Work very closely on the bureau data
- Disbursement contribution of the Digital, Direct and Partnership (DDP) channel stood at 17.5% in Q4
- ***Exponential rise in leads generated from digital marketing which was up 10x in Q4 itself***

Opex

- Opex is higher due to heavy investments in technology, people and customer service initiatives and will continue to do that in FY23 as well
- ***Company will continue to make investments in technology***
- Adopted a very progressive approach for ESOP. It has set aside 2% of capital for ESOP and can look to add more.
- ***Post FY23, there could be sustainable reduction in cost to income ratio***

Housing subsidiary (PHFL)

- ***Initiated fund raise of upto Rs 10bn on preferential basis for value unlocking and future growth***
- ***Crossed Rs 50bn AUM mark in Q4FY22 and expected to cross Rs 100bn AUM by FY 2025***
- Disbursements up 57% YoY stood at Rs 19.7bn in FY22 and for Q4 at Rs 7.9bn
- ***Growing at 29% CAGR over the past 4 years and should be able to double AUM in the next 3 years***
- ***High Margin, High Growth and High Quality - company motto***
- ***Direct relationship model with the customers - ‘Go Direct’ strategy: 77% of loans through direct sourcing.***
- ***Portfolio mix - 70% HL, 30% affordable LAP with average portfolio yield of 13%***
- ***46k customers and ATS of Rs 1.1mn***
- ***Customer profile is low income group (LIG) customers where average household income would be Rs 30k-60k per month***
- 60% customers are self-employed and company is targeting to bring this to 50%
- GS3 at 0.96% - lowest ever and PCR at 37.4%. Coverage at 1.7% of loan book
- Crisil long term rating at AA+ (Stable). All ALM buckets are positively matched
- Opex to assets would be at similar levels in FY23 as well since company is looking to expand branch network
- However, in FY24, there could be reduction to the tune of 30-40bp in opex to assets
- ***RoA at 1.8% in FY22 from 0.3% in FY21***
- ***Aiming at steady state RoA of 3% and opex to assets at 3.0% going ahead***

Financials

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22	FY23E	FY24E
Interest earned	24,164	21,657	19,105	23,393	32,418
Interest expended	12,938	11,005	7,162	7,831	12,332
Net interest income	**11,226**	**10,652**	**11,943**	**15,562**	**20,087**
Other income	**1,623**	**1,898**	**1,305**	**2,359**	**3,080**
Staff cost	4,479	3,815	5,192	6,614	7,606
Depreciation	752	563	546	557	599
Other operating expenses	1,773	1,235	1,779	2,562	2,977
Total operating cost	**7,005**	**5,613**	**7,517**	**9,733**	**11,181**
Pre-provisioning op profit	**5,844**	**6,937**	**5,732**	**8,188**	**11,985**
Provisions & contingencies	**5,016**	**14,480**	**830**	**467**	**1,959**
Share of profit of associates	(10)	55	15	-	-
Profit before tax	**818**	**(7,488)**	**4,917**	**7,720**	**10,026**
Income taxes	547	(1,898)	1,163	1,920	2,527
Minority	-	-	3	2	-
PAT	**271**	**(5,590)**	**3,751**	**5,798**	**7,499**

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

Particulars	**FY20**	**FY21**	**FY22**	**FY23E**	**FY24E**
Capital	539	539	1,530	1,530	1,530
Reserves & surplus	26,941	21,404	59,052	64,544	71,738
Preference Capital	-				
Net worth	**27,480**	**21,943**	**60,582**	**66,074**	**73,268**
Minority Interest	-	-	3	5	5
Total borrowings	**1,19,870**	**1,04,331**	**93,201**	**1,33,630**	**1,94,885**
Other Liabilities & Provisions	5,050	5,848	10,640	14,163	19,342
Total liabilities & stockholders' equity	**1,52,400**	**1,32,122**	**1,64,427**	**2,13,873**	**2,87,500**
Loans & advances	**1,35,550**	**1,13,610**	**1,48,507**	**1,97,666**	**2,69,958**
Cash and Balance	7,080	7,750	5,970	6,391	6,918
Fixed Assets	1,930	1771	2147	2324	2515
Current & other assets	7,840	8991	7804	7492	8109
Total Assets	**1,52,400**	**1,32,122**	**1,64,427**	**2,13,873**	**2,87,500**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

Particulars	FY20	FY21	FY22	FY23E	FY24E
Growth (%):					
AUM	(5.3)	(11.8)	16.5	33.5	34.3
Disbursements	(27)	(43)	158	66	(63)
Loan book (on balance sheet)	1,35,550	1,13,610	1,48,507	1,97,666	2,69,958
Net Interest Income (NII)	(15.8)	(5.1)	12.1	30.3	29.1
Non-interest income	175.8	17.0	(31.2)	80.7	30.6
Pre provisioning operating profits (PPoP)	(17.4)	18.7	(17.4)	42.8	46.4
PAT	(91.1)	(2,166.1)	(167.1)	54.6	29.3
EPS	(91.1)	(2,165.4)	(123.7)	54.6	29.3
Yields, interest costs and spreads (%)					
NIM on AUM	6.8	7.0	7.8	8.0	7.7
Yield on loan assets (on -book)	14.6	14.3	12.4	12.1	12.5
Average cost of funds	10.2	9.8	7.3	6.9	7.5
Interest Spread on loan assets (on -book)	4.4	4.5	5.2	5.2	5.0
Operating efficiencies					
Non-interest income as % of net income	12.6	15.1	9.9	13.2	13.3
Cost to income ratio (%)	54.5	44.7	56.7	54.3	48.3
Op.costs/avg AUM (%)	4.2	3.7	4.9	5.0	4.3
No. of employees (including off rolls)	10,467	11,110	11,791	11,968	12,148
Average annual salary (Rs mn)	0.4	0.3	0.4	0.6	0.6
Annual inflation in average salary(%)	(2.9)	(19.7)	28.2	25.5	13.3
Salaries as % of non-int. costs (%)	63.9	68.0	69.1	68.0	68.0
NII /employee (Rs mn)	1.1	1.0	1.0	1.3	1.7
AUM/employee(Rs mn)	15.4	12.8	14.1	18.5	24.5
Capital Structure					
Debt-Equity ratio	4.4	4.8	1.5	2.0	2.7
Leverage (x)	5.5	6.0	2.7	3.2	3.9
CAR (%)	25.9	23.4	23.1	22.2	20.9
Tier 1 CAR (%)	23.0	20.7	20.6	19.7	18.4
Tier 2 CAR (%)	2.9	2.7	2.5	2.5	2.5
Asset quality and provisioning					
GNPA (% of AUM)	6.4	3.7	2.7	2.2	2.0
NNPA (% of AUM)	4.1	1.2	1.1	1.0	0.8
GNPA (Rs mn)	9,140	4,650	4,130	4,536	5,608
NNPA (Rs mn)	5,800	1,460	1,700	1,996	2,341
Coverage ratio (%)	36.5	68.6	58.8	56.0	58.3
Credit costs as % of average AUM (bps)	303	954	54	24	76
Return ratios & capital management					
RoAA (%)	0.2	(3.9)	2.5	3.1	3.0
RoAE (%)	1.0	(22.6)	9.1	9.2	10.8
Payout ratio (%)	-	-	-	5.3	4.1
Valuation Ratios					
EPS (Rs)	1.0	(20.7)	4.9	7.6	9.8
Price to Earnings	267.5	(13.0)	54.8	35.4	27.4
BVPS (Rs)	101.8	81.2	79.1	86.3	95.7
Price to Book	2.64	3.31	3.39	3.11	2.81
Dividend yield (%)	-	-	-	0.1	0.1

Source: Company data, I-Sec research

Table 8: Du-pont analysis

Particulars	FY20	FY21	FY22	FY23E	FY24E
Interest earned	14.6	14.3	12.4	12.1	12.5
Interest expended	7.8	7.2	4.6	4.0	4.8
Gross Interest Spread	**6.8**	**7.0**	**7.8**	**8.0**	**7.7**
Credit cost	3.0	9.5	0.5	0.2	0.8
Net Interest Spread	**3.7**	**(2.5)**	**7.2**	**7.8**	**7.0**
Operating cost	4.2	3.7	4.9	5.0	4.3
Lending spread	**(0.5)**	**(6.2)**	**2.3**	**2.8**	**2.7**
Non-interest income	1.0	1.3	0.8	1.2	1.2
Minority	-	-	0.0	0.0	-
Final spread	**0.5**	**(5.0)**	**3.2**	**4.0**	**3.9**
Tax rate (%)	*66.9*	*25.3*	*23.6*	*24.9*	*25.2*
ROAAUM	**0.2**	**(3.7)**	**2.4**	**3.0**	**2.9**
Effective leverage (AAUM/ AE)	6.0	6.1	3.7	3.1	3.7
RoAE	**1.0**	**(22.8)**	**9.1**	**9.2**	**10.8**

Source: Company data, I-Sec research

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