

Poonawalla Fincorp Ltd.

**On a strong pedestal:
Ready to fire on all cylinders**

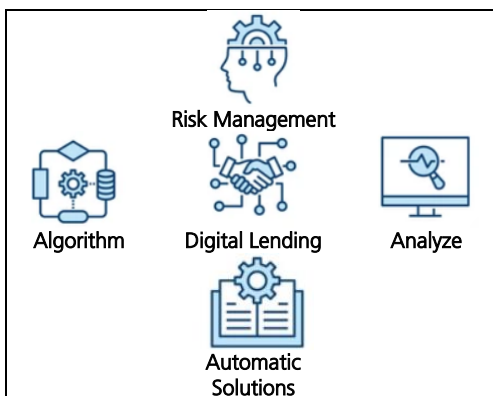


**Metamorphosed into an
urban-centric digital lender**

**Pivoting to growth
phase post consolidation**

**Initiate with BUY &
TP of INR 400,
implying 38% upside**

Table of Contents	Page No.
Key Charts	4
Investment argument	6
Vision 2025	8
Strong promoter backing has triggered a virtuous cycle	9
Why was inorganic path chosen?	10
Reoriented strategy, realigned customer segment, revamped product portfolio	11
Digitalisation is at the core and empowering a unique distribution proposition of DDP	14
Reduction in cost of borrowings	16
Margin profile to be a tad altered, owing to shift in product mix	18
Operating leverage and cost efficiencies to drive profitability	19
Improving asset quality trends; credit cost pain peaked out	21
The proof is in the pudding: Higher collection efficiency, lower slippages and front-ended write-offs drive sharp improvement in asset quality	22
Robust capital buffer provides a launch pad for growth	24
Poised to deliver earnings CAGR of 46% over FY22-25E; RoA will be propelled to 3.4% by FY25E	25
Initiate coverage with BUY and TP of INR 400	26
Key risks	28
Poonawalla Fincorp: RoE Tree	29
Dupont Analysis	30
Company background	31
Subsidiaries	32
Highly experienced management team	34
Reward structure well-aligned for employees	35
Valuation table	36
Financial Tables (Consolidated)	37



Poonawalla Fincorp Ltd. (PFL) has transformed into one of the most agile digital lenders. PFL focuses on urban customers in the formal sector of occupation/ employment with adequate credit history. It offers wide-ranging lending products such as Unsecured loans, LAP, Pre-owned car loans, Machinery loans, and Supply Chain Finance, among others. It sets itself apart from its peers in terms of customer experience of digital journey and transparency along with risk adjusted pricing.

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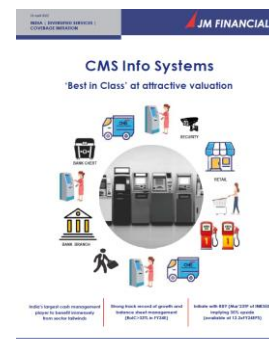
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Poonawalla Fincorp Ltd.

On a strong pedestal: Ready to fire on all cylinders

We initiate coverage on Poonawalla Fincorp (PFL) with a BUY rating and a target price of INR 400. Poonawalla Fincorp (erstwhile Magma Fincorp) has undergone a metamorphosis of sorts after significant capital infusion by the Poonawalla group (~62% stake) in early-CY21. The backing of a respected, longstanding, non-levered promoter group has enabled the company to reduce its cost of borrowings significantly and thus focus on the credit-tested, high quality customer base while also making strong long-term investments in technology, presence and talent. All this, with clear visibility of a strong RaRoC. Having strengthened the foundation over the last year or so, we expect PFL to enter a strong acceleration phase of customer acquisition and offer digital-first products. We expect PFL to deliver an AUM-CAGR of 36% over FY22-25E and achieve a mix of 60:40 between secured:unsecured loans over this period. Asset quality is likely to remain strong given the focus on credit-tested customers, past experience of digital lending, and sharp focus on risk. Near-term RoEs appear suppressed given high capitalisation levels (~47% Tier1, as of FY22) and we expect expansion ahead as operating leverage kicks in to drive RoA of 3.4% (RoE of 15.4%) in FY25E. We believe with its strong growth runway (size 1/6th-1/10th of relevant NBFC peers) and strong liabilities advantage, PFL will trade at premium valuations. We value the stock at 4x Sep'24e P/BV to arrive at our TP of INR400 (38% upside).

Poonawalla Fincorp - metamorphosis complete: The erstwhile Magma Fincorp, after ~62% stake acquisition by Poonawalla Group, has undergone a significant transformation w.r.t its business model as its parentage changed to a longstanding, non-levered, cash-rich promoter group with PFL being the maiden listed business. The change of ownership has driven significant reduction in cost of borrowings (down 260bps over 15 months), enabled the company to refocus its customer and product segment (to credit-tested customers with select offerings) and invest significantly in technology and talent. Past stressed pool has been amply provided for with a further cushion of ~170bps on the balance sheet to shield from future unforeseen credit shocks.

Digital-first, granular lender with a focus on risk-adjusted returns: PFL is now a digital-first lender focusing on consumer and small business lending with customer journeys being fully digital in nature from onboarding to collections. PFL will focus on segments such as LAP, personal loans, business loans, pre-owned cars and other consumer lending products (e.g., credit cards, consumer product loans) to achieve a mix of ~60:40 between secured and unsecured products over the medium term. Its low cost liabilities and technology focus give it the wherewithal to compete with large consumer NBFCs and banks on these products w.r.t pricing and TATs. This also should result in lower credit costs over the medium term as the quality of customers is quite strong at origination itself (90% of new customers have >700 credit score for unsecured products). We expect PFL to deliver 36% CAGR in AUM over FY22-25E.

Strong growth runway; valuations to expand as delivery follows: We see PFL inching closer to its steady state RoA profile of 3.5-4% by FY25E as growth sustains and operating leverage kicks in beginning FY24. Its small size (size 1/6th-1/10th of relevant NBFC peers), access to capital and strong technology focus should result in RoA hitting 3.4% by FY25 (with upside risks through fee potential), in our view. We expect PFL's valuation to expand as it begins delivering on its growth target with a stable asset quality. We believe with a steady-state RoE profile of 19-22%, the business will continue to command premium valuations over the medium term. Our target price of INR 400 is based on 4x Sep-24 P/BV. We initiate with a **BUY**.

Recommendation and Price Target

Current Reco.	BUY
Current Price Target (12M)	400
Upside/(Downside)	38%

Key Data – POONAWAL IN

Current Market Price	INR291
Market cap (bn)	INR222.6/US\$2.8
Free Float	29%
Shares in issue (mn)	765
3-mon avg daily val (mn)	INR1,032.3/US\$13
52-week range	344/141
Sensex/Nifty	59,085/17,605
INR/US\$	79.8

Price Performance

%	1M	6M	12M
Absolute	7.8	33.5	61.2
Relative*	1.8	26.2	52.6

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Net Profit	-5,644	3,739	5,244	7,323	11,760
Net Profit (YoY) (%)	nm	nm	40.3%	39.6%	60.6%
Assets (YoY) (%)	-13.3%	24.5%	32.0%	35.5%	35.1%
ROA (%)	-3.9%	2.5%	2.7%	2.9%	3.4%
ROE (%)	-22.6%	9.1%	8.4%	10.7%	15.4%
EPS	-20.7	4.9	6.9	9.6	15.4
EPS (YoY) (%)	nm	nm	39.7%	39.6%	60.6%
P/E (x)	-13.5	56.8	40.7	29.1	18.1
BV	81	79	85	93	107
BV (YoY) (%)	-20.2%	-2.7%	7.4%	9.6%	14.3%
P/BV (x)	3.43	3.52	3.28	2.99	2.62

Source: Company data, JM Financial. Note: Valuations as of 24/Aug/2022

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

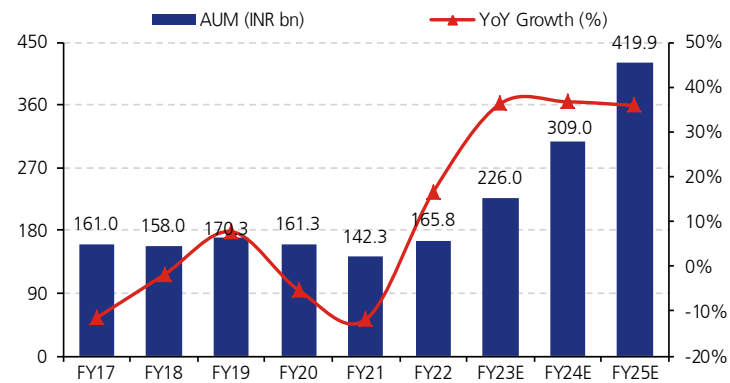
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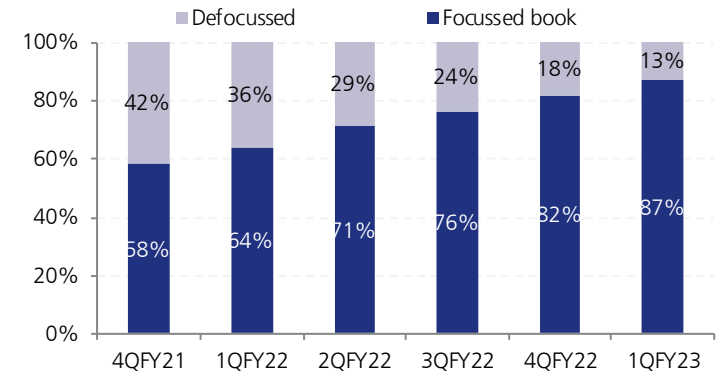
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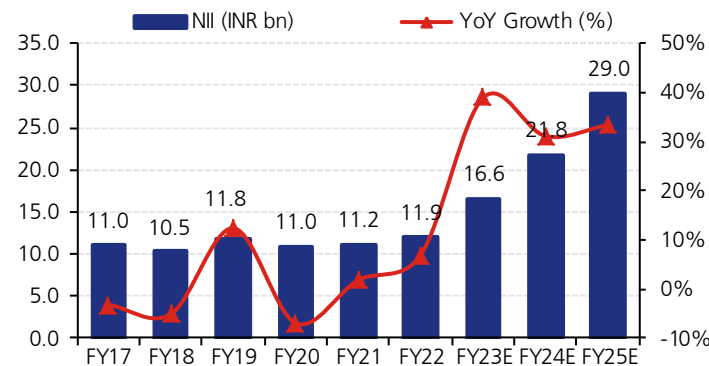
Key Charts

Exhibit 1. AUM will meaningfully expand as PFL has entered into Growth phase from Consolidation phase till FY22

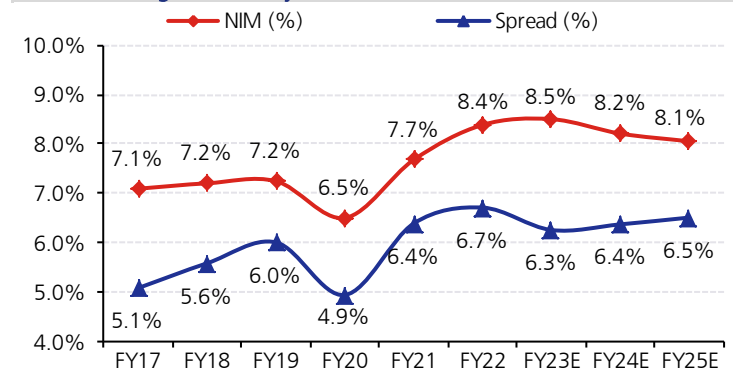
Source: Company, JM Financial

Exhibit 2. Defocussed book has been sharply compressed

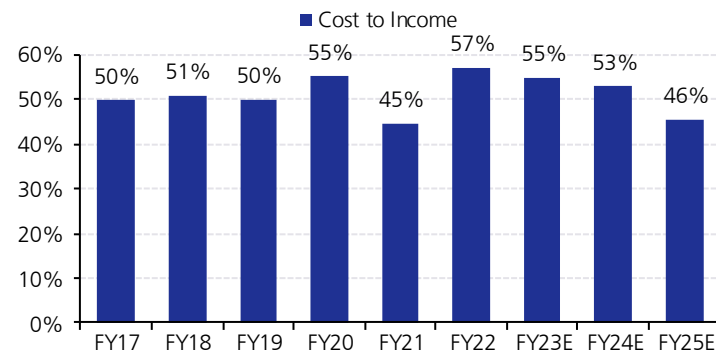
Source: Company, JM Financial

Exhibit 3. Expect NII CAGR of 34% over FY22-25E

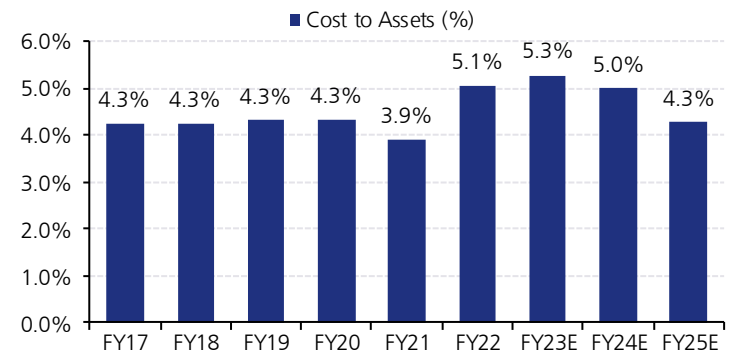
Source: Company, JM Financial

Exhibit 4. Margins are likely to soften from current levels

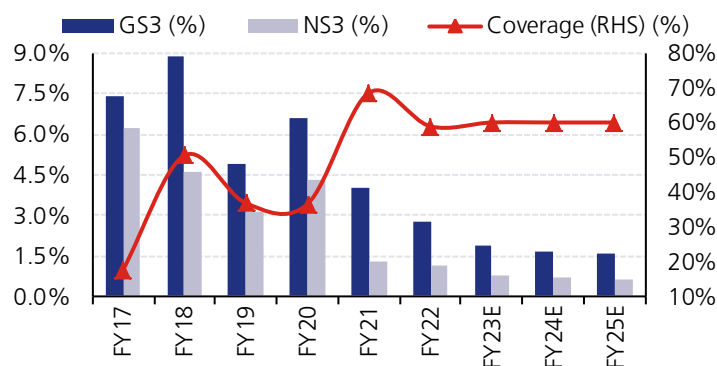
Source: Company, JM Financial

Exhibit 5. Operating leverage will improve cost-to-income...

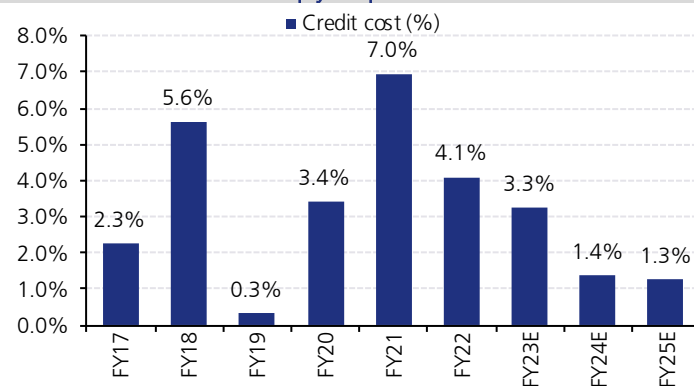
Source: Company, JM Financial

Exhibit 6. ... and cost-to-asset ratio in FY25E

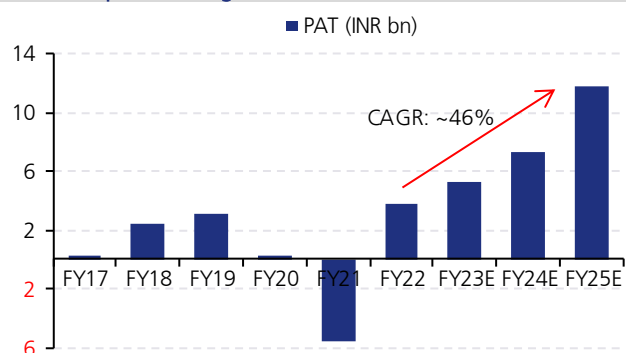
Source: Company, JM Financial

Exhibit 7. Asset quality materially improved post FY21

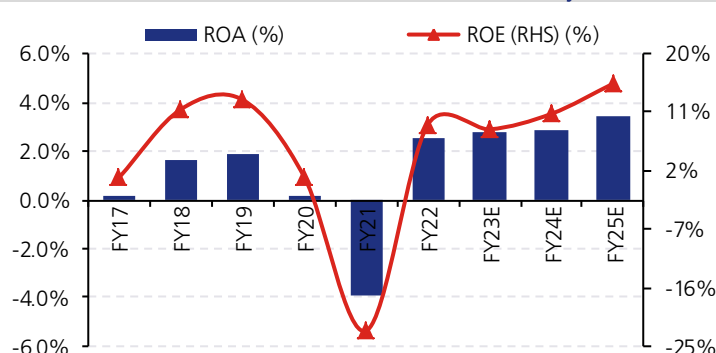
Source: Company, JM Financial

Exhibit 8. Credit cost will sharply drop FY23E onwards

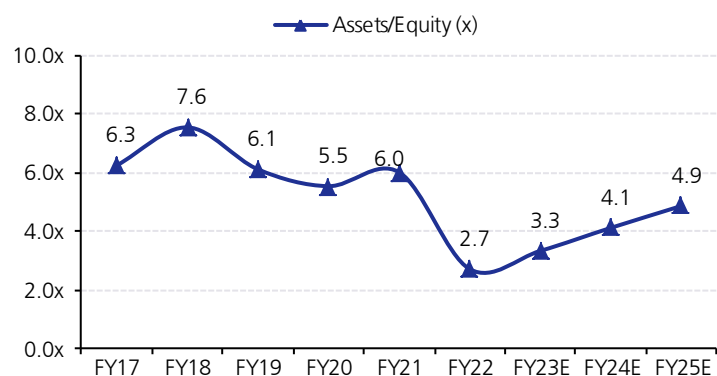
Source: Company, JM Financial

Exhibit 9. Expect earnings CAGR of ~46% over FY22-25E

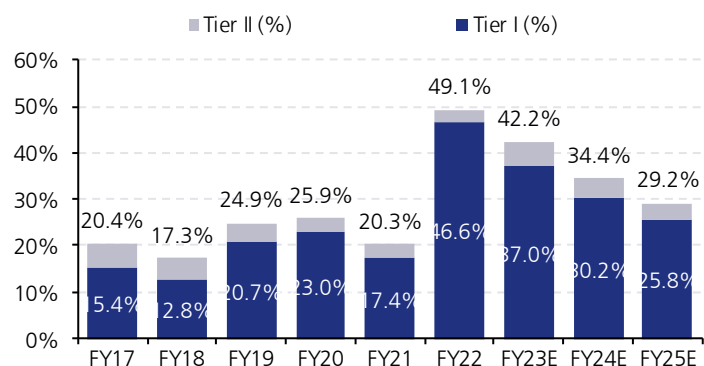
Source: Company, JM Financial

Exhibit 10. Return ratios – RoA and RoE to be at healthy levels

Source: Company, JM Financial

Exhibit 11. Leverage ratio has reduced post capital-raising but will gradually inflate

Source: Company, JM Financial

Exhibit 12. Capital adequacy ratio

Source: Company, JM Financial

Investment argument

- **Business restructuring has set the base for sustainable growth; expect ~36% AUM CAGR over FY22-25E:** Post the change in promoters and induction of the new management team, PFL underwent significant restructuring over the past 18 months, which included reoriented strategy, realigned customer segment, and revamped product portfolio. PFL has shifted its customer base from largely rural/ semi-urban to urban affluent with focus on digitalisation. Digital onboarding using digital KYC, digital mandates, e-mandates, e-applications, e-contracts, and disbursements have enabled smooth onboarding and superior experience for customers. Resultantly, turnaround time has reduced and customer acquisition cost has declined. End-to-end digital processes have enabled faster new product launches, simplified process and made offerings transparent. Additionally, the financier has actively invested in data mining capabilities, which will propel cross-sell. Going ahead, we believe PFL is well-positioned to deliver sustainable and profitable growth. We expect healthy AUM CAGR of ~36% over FY22-25E.
- **Phenomenal improvement in asset quality:** Asset quality deteriorated over FY19-3QFY21 due to macroeconomic headwinds caused by Covid-induced stress (wherein GS3/ NS3 increased from 4.8%/ 3.1% in FY19 to 6.9%/ 4.5% in 3QFY21). But it has improved remarkably since then: GS3/ NS3 stood at 2.2%/ 1% as of 1QFY23, driven by: i) Healthy collection efficiency trends, ii) Stringent risk management practices including tighter underwriting, iii) Accelerated write-off policy. 90% of the new customers onboarded have CIBIL score > 700 for unsecured underwriting and most of the overall customers have CIBIL score > 750. The focus is on customers in the formal income segment in terms of business loan, cash flow-based lending and GST-based lending. Additionally, with the usage of data analytics, the entire book originated over the last 12 months has 30+ DPD of sub 0.3%, which is best in class. The new management has also up-fronted provisions; as a result, coverage ratio on GS3 stood at ~57% (as of 1QFY23) – much higher than historical levels (avg. FY16-20: 33%) and one of the highest among NBFCs. We expect asset quality trends to improve due to the new management's initiatives, compression of the riskier defocussed book, and a smooth transition to IRAC norms with insignificant impact through FY23. We estimate credit costs to come off to ~130bps in FY25E.
- **Strong promoter backing drove credit rating upgrades:** The Cyrus Poonawalla Group (founded in 1966) infused INR 34.6bn in PFL through Rising Sun Holdings Pvt. Ltd (RSHPL) for 61.5% shareholding. In addition to the large financial commitment, the promoters have shared their name 'Poonawalla' with the lender and Mr. Adar Poonawalla has become the Chairman of the board, thus highlighting PFL's strategic importance to the group. Support of such a strong promoter with easy access to capital has assuaged credit rating agencies' concerns on the NBFC. Consequently, rating agencies upgraded PFL's rating several notches in FY22. These factors along with improving fundamentals helped PFL to refinance and negotiate interest rates from its debtors (incl. banks); thereby, cost of borrowing declined sharply, by 260bps in the last 15 months.
- **Substantial drop in leverage ratios; Robust capital buffer:** Another key factor that drove credit rating upgrades is the meaningful drop in leverage ratios: debt/equity is ~1.7x now (vs. avg. FY-16-20: 5.1x) and assets/equity is sub-3x (vs. avg. FY-16-20: 6.5x). Capital ratios expanded steeply, with Tier-1 ratio at 46.6% and CRAR at 49.1%, as of FY22. This provides a launch pad for 30%+ CAGR over next few years without any further capital infusion.
- **Healthy earnings CAGR of ~46% over FY22-25E, return ratios set to improve:** We expect healthy earnings momentum with ~46% PAT CAGR over FY22-25E and RoA at 3.4% in FY25E (vs. 1.7% in FY22), driven by pick up in loan growth (AUM CAGR of ~36% over FY22-25E), scaling up of operations, and improvement in credit costs (down 283bps over FY22-25E) and cost ratios (cost-asset ratio down 79bps over FY22-25E). These enhancements along with increasing leverage to optimal levels will boost RoE to 15.4% in FY25.
- **Initiate coverage with BUY and TP of INR 400:** Poonawalla is trading at ~2.8x Sep'24E P/BV. Our target valuation is based on the company's expanding RoA/RoE profile without meaningful change in risk appetite. The steady state RoA aspiration of the management stands at 3.5-4%. In our 2-stage Gordon Growth model, we ascribe weights in the ratio 65:35 to steady state RoE (of 23.5%) and FY24e RoE (of 15.4%). This is lower than usual

80:20 ratio, given PFL's smaller size and execution risk. We arrive at a target price of INR 400, which values the company at 4x Sep24 P/BV.

- **Key risk:** Execution risk, higher-than-expected credit costs, tightening of liquidity and volatility in interest rates.

Vision 2025

The new management has set specific goals for the next 3 years and accordingly charted its course. We have analysed here the progress on those fronts and believe that Poonawalla Fincorp is well on track to meet these targets within the stipulated time.

Exhibit 13. Vision 2025 set by the management and advancement towards it

Vision 2025	Steps taken and progress
To be among the Top 3 NBFCs in consumer and MSMEs.	The company has achieved leadership position in pre-owned cars (POC) and loans to professional (LTP) on monthly disbursement basis
Risk calibrated accelerated growth, ~3x of FY21 AUM, implying AUM of INR 420bn in FY25.	As of 1QFY23, AUM stood at INR 177bn (1.2x of FY21, with Focused AUM 1.8x of FY21). The company has attained monthly disbursement of INR 10bn in Focused products, new products in pipeline and established Direct, Digital and Partnership (DDP) distribution model which should help scaling up at accelerated pace.
Amongst the lowest cost of funds (CoF) in the industry with ~250 bps reduction in borrowing cost.	Average cost of funds reduced 270bps YoY in 1QFY23 to 6.9%, aided by favourable negotiations on term loans pricing and rating upgrades. Going forward, fixed rate debt from capital markets (80% of this is legacy, thus at high interest rates) will be refinanced at lower rates.
Best in class Asset Quality; Net Stage 3 < 1%.	Net Stage 3 at 0.95 % as on 1QFY23, supported by clean-up of legacy book. Notably, the loans originated in past 12 months have 30+ DPD of just 0.3%.
Accelerate the growth trajectory of Poonawalla Housing Finance Limited (PHFL), followed by value unlocking through IPO.	Initiated fund-raise of upto INR 10bn for value unlocking & future growth.

Source: Company, JM Financial

Strong promoter backing has triggered a virtuous cycle

The Cyrus Poonawalla Group (founded in 1966) is one of the leading Biotechnology players and the world's largest vaccine manufacturer by number of doses produced and sold. The group is led by its flagship company Serum Institute of India Pvt Ltd (SIPL), which has a healthy financial profile with total operating income of INR 75bn in FY21, and robust net worth of INR 216bn, as of FY21.

The group has been present in financial services through Poonawalla Finance Private Ltd. (PFPL). The group infused INR 34.6bn in Magma Fincorp through Rising Sun Holdings Pvt. Ltd (RSHPL) for 61.5% shareholding and renamed the entity to Poonawalla Fincorp in 2021. In addition to the large financial commitment, the promoters have lent the family name 'Poonawalla' to the lender and Mr Adar Poonawalla has become the Chairman of the board, thus highlighting PFL's strategic importance to the group.

Strong promoter backing has resulted into a sharp decline in the cost of funds of the entity, which is now able to cater to a high quality customer base. In addition, it has also enabled the company to make strong long-term investments into technology, and attract right talent with the requisite skillset across verticals, thus mitigating execution risk to an extent. A complete overhaul of product suite, customer segment and credit risk profile of the targeted borrowers are likely to substantially improve PFL's IRR and RAROC. Additionally, support of such a strong promoter with easy access to capital has not only shifted the perception of credit rating agencies but assuaged their concerns on the NBFC. Resultantly, PFL's rating has been upgraded by a few notches in FY22, creating a fly-wheel effect with cost of borrowings (CoB) falling sharply.

Exhibit 14. Major credit rating agencies have upgraded ratings by multiple notches post acquisition

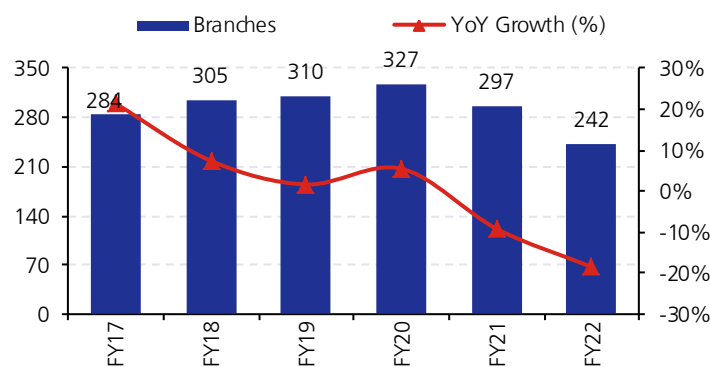
Credit facility	Date of rating assigned*	Rating assigned	Previous rating assigned
Secured debentures	20-Aug-21	CARE AA +	CARE AA -
	31-Jan-22	CRISIL AA +	-
	15-Nov-21	BWR AA +	BWR AA -
	18-Oct-21	ACUITE AA +	ACUITE AA
Subordinated debentures	20-Aug-21	CARE AA +	CARE AA -
	15-Nov-21	BWR AA +	BWR AA -
	18-Oct-21	ACUITE AA +	ACUITE AA
Perpetual debt instruments	20-Aug-21	CARE AA	CARE A+
	15-Nov-21	BWR AA	BWR A+
Commercial papers	04-Mar-22	CARE A1+	CARE A1+
	04-Mar-22	CRISIL A1+	CRISIL A1+
Bank facility	20-Aug-21	CARE AA + / CARE A1+	CARE AA - / CARE A1+
	31-Jan-22	CRISIL AA +	-

Source: Company, JM Financial; *Date of rating assigned relates to rating valid on 31 March, 2022

Why was inorganic path chosen?

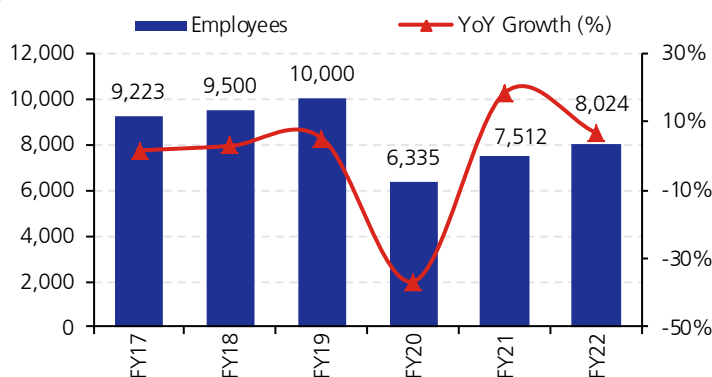
The new promoter is well-established and has the wherewithal to create a new brand in the NBFC space. Moreover, the new management is refurbishing the product portfolio, customer segments and accelerating write-offs. It is intuitive to ask 'why was the inorganic path chosen?' The primary reasons for the acquisition route were: i) Pan-India distribution: Over the last 3 decades, the erstwhile organisation had established more than 290 branches in 21 states, as of FY21 (even after consolidating operations in the aftermath of Covid-19), and ii) a large workforce (7,500+, as of FY21) leading to a well-oiled collection machinery (60-65% employees in collections vs. ~50% for peers). Overall, these distribution capabilities (branch network and human resources) would have consumed 4-5 years to make a meaningful impression in the lending space, we believe. Hence, the inorganic route has preserved management bandwidth and enabled it to cultivate digital prowess, product design, analytics and customer experience.

Exhibit 15. Pan-India presence with sizeable branch network



Source: Company, JM Financial

Exhibit 16. Strong workforce established over the years

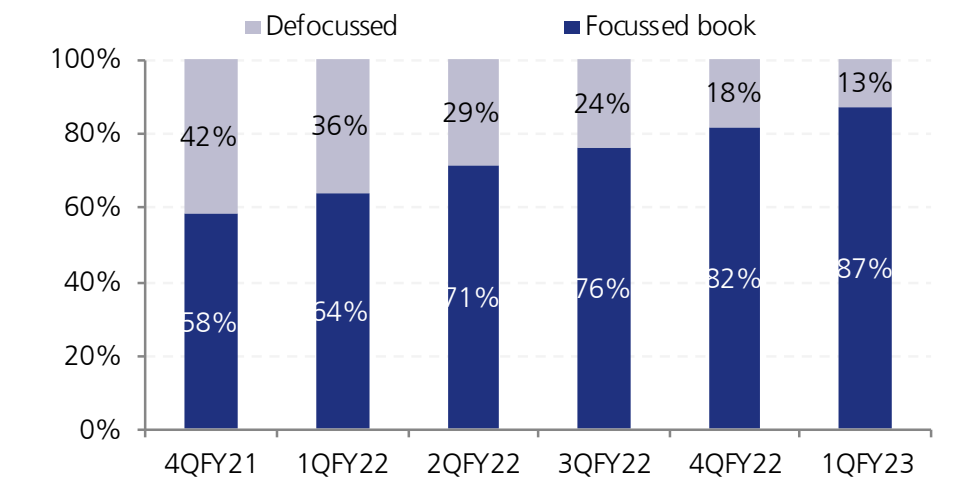


Source: Company, JM Financial

Reoriented strategy, realigned customer segment, revamped product portfolio

Poonawalla group acquired Magma Fincorp in 4QFY21. Since then, the company has witnessed monumental changes in strategy. These sweeping changes are across product portfolio, customer segment, and geography, among others. Earlier, the lender was offering finance for commercial and agriculture vehicles to first generation entrepreneurs, most of who were based out of rural India and hardly possessed any income-validating documents. The management has carved out this book as 'Defocussed', which has been running down swiftly over the last 6 quarters. We expect it to completely run down in the next 24 months.

Exhibit 17. Share of focussed book expanded sharply over the last 6 quarters



Source: Company, JM Financial

Digital native diversified lender focused on consumer and small businesses: Post acquisition, the new management of Poonawalla Fincorp Ltd. (PFL) navigated the ship to financing urban customers – where select pockets are nascent and underpenetrated. It has realigned the customer base towards credit-tested borrowers (vs. new-to-credit earlier) and small/ medium businesses with semi-formal/ formal source of income and adequate documentation. The company focuses on product diversification, granularity and cross-sell opportunities. The disbursements have been majorly in focused segments such as:

- **Pre-owned car loans (POC):** Decline in car ownership to 3-4 years (vs. 6-7 years earlier), extended waiting period for new cars, quick access to finance due to digital journeys, consumer age reduction, with the new generation becoming first time buyers are some of the tailwinds for this segment. In FY22, PFL's disbursements increased 4% YoY, aided by commencement of partnerships with various digital aggregator platforms (disbursement via partnership contributed ~17% in 4QFY22 vs. ~7% in 3QFY22). PFL's average ticket size (ATS) in Mar'22 was INR 350,000. The POC marketplace is experiencing consolidation in favour of digital aggregators (strategic tie-up with Cars24 in Nov-21) and disbursement will gain further traction as the trend intensifies. The management plans to grow this segment by 15-20% CAGR by FY25 from the current size of ~Rs24bn (JMFe).
- **Unsecured loans:** Personal and business loans represent a sourcing funnel with a cross-sell opportunity for products like LAP, among others. PFL provides a competitive proposition when compared with banks given its low cost of funds, opening it to a large financing opportunity. In FY22, it entered the space of digital loans through long-term partnerships, resulting in significant traction in the unsecured loans segment. PFL has tied up with KreditBee (Finnovation Tech Solutions Private Limited) and KB NBFC (Krazybee Services Pvt Ltd) for digital and co-lending with multiple such partnerships in the offing.

The unsecured lending space was already operational under the current leadership in Poonawalla Finance Pvt Ltd (PFPL) for over 2 years ([approx. loan book of ~INR 10bn as of Dec'19](#)). As a reflection of strong underwriting abilities, PFPL's portfolio demonstrated strong asset quality despite the pandemic.

Going forward, the company will widen its footprint pan-India by offering loans to professionals (chartered accountants, company secretaries and medical professionals, among others). Its 3-year vision is to leverage its digital access, broadbase customers, grow the business, establish a direct franchise, and widen its geographic footprint. The company will also build on the co-lending proposition to catalyse growth. Currently, secured:unsecured mix is 76:24; however, in a steady state scenario, the mix will be around 60:40.

- **Loan against property:** PFL commenced this business in 2HFY22 and disbursed INR 2.1bn in that period. The company will focus on credible customers with superior CIBIL score for loan against residential properties (high attachment value and marketability).
- **Affordable housing finance:** PFL is present in this space through its subsidiary Poonawalla Housing Finance Limited (PHFL). The business comprised more than 46,000+ customers, with ATS of INR 1.1mn. The company intends to double its book (currently at INR 52bn) over the next 3 years.
- **Auto lease:** The auto lease facility is provided to medium and large corporations for fleet acquisition or employee benefits, with the corporate entities guaranteeing payments under Master Lease Contracts. Under this product, vehicles are leased to corporate employees with an average salary of INR 1.5mn or more. In FY22, the company reported ~53% YoY growth in disbursements vs. a decline of 42% YoY in FY21.

The company has a wide spectrum of products in the aforementioned segments. Moreover, it has a robust product line-up encompassing Merchant Cash Advance, Consumer Finance, EMI Card and Credit Card to be launched in the next few quarters.

Exhibit 18. Wide array of products in consumer and small business segments

Existing products			Upcoming products
Pre-owned Cars	Digital Business Loans	Machinery Loan	Merchant Cash Advance
Affordable Home Loan	Digital Personal Loan	Digital Consumption Loan	Consumer Finance
Affordable LAP	Digital Loan to Professionals	Medical Equipment Loan	EMI Card
Auto Lease	Digital SME LAP	Supply Chain Finance	Credit Card

Source: Company, JM Financial

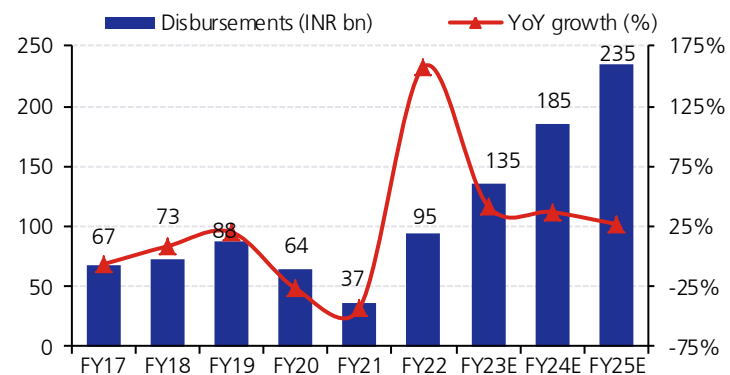
Exhibit 19. Overview of major products

Product	Indicative median yields	Maximum ticket size
Business Loan (BL)	17.5-18%	INR 1.5mn
Pre-owned Cars (POC)	15.50%	INR 0.4mn
Personal Loans (PL)	11-11.75%	INR 0.6mn
Loan To Professionals (LTP)	12.50%	INR 1.3mn
Loan Against Property (LAP)	10-11%	INR 10mn

Source: Company, JM Financial

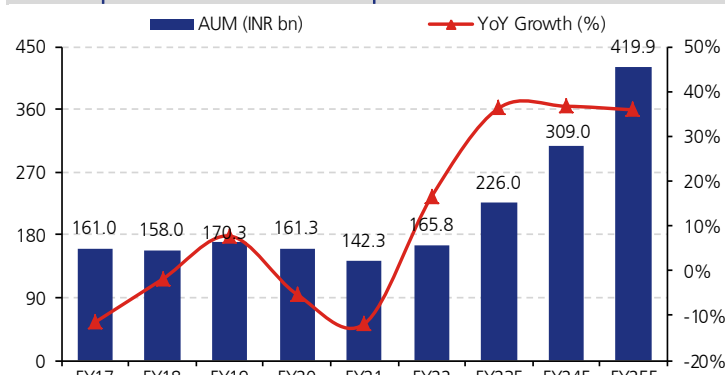
In 1QFY23, PFL attained a monthly disbursement of INR 10bn and is well-placed to replicate the similar monthly runrate; thus, disbursement of INR 120-150bn is feasible in FY23. We believe the company is on track to deliver a healthy AUM CAGR of ~36% over FY22-25E, which would expand the AUM to INR 420bn in FY25E.

Exhibit 20. Expect disbursements CAGR of ~35% over FY22-25E



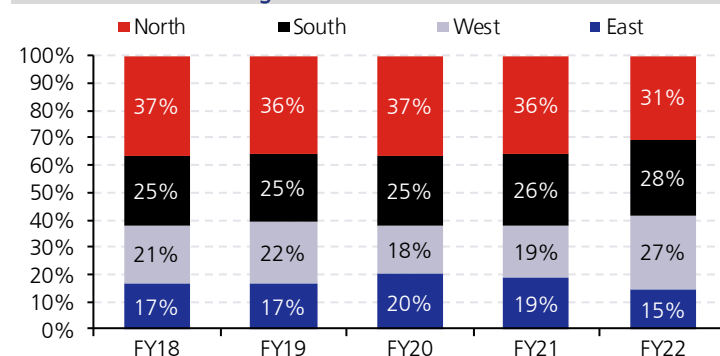
Source: Company, JM Financial

Exhibit 21. AUM will meaningfully expand as PFL has entered into Growth phase from Consolidation phase till FY22



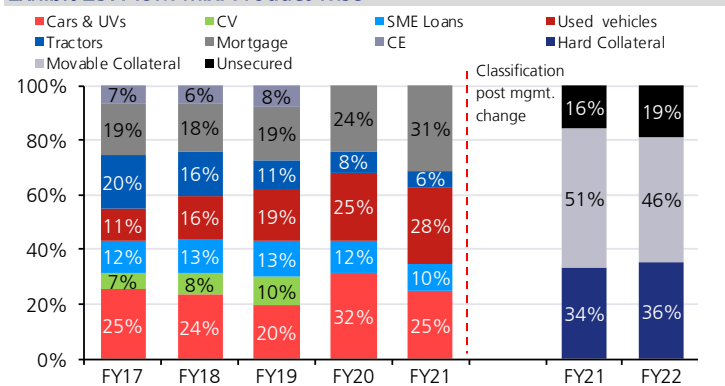
Source: Company, JM Financial

Exhibit 22. AUM mix: Region wise



Source: Company, JM Financial

Exhibit 23. AUM mix: Product wise



Source: Company, JM Financial

Exhibit 24. AUM o/s and CAGR over FY22-24E: PFL to deliver strong AUM growth, given relatively small size and scope to scale-up swiftly

AUM (INR bn)	1QFY23	CAGR FY22-24E
BAF	2,040	27%
CIFC	819.3	25%
MMFS	825.9	15%
PFL	176.6	37%

Source: Company, JM Financial

Digitalisation is at the core and empowering a unique distribution proposition of DDP

Given that the new management embarked on its journey around 4 quarters ago, and amidst the second Covid wave, digitalisation has been at the core of operations. Technology has a strong imprint across verticals, viz., sourcing, underwriting, onboarding, collections, and customer service. The straight-through processing enabled by business rule engine has led to swift decision-making and constancy. Digital onboarding using digital KYC, digital mandates, e-mandates, e-applications, e-contracts, and disbursements have enabled smooth onboarding and superior experience for customers.

Resultantly, turnaround time (TAT) has reduced and customer acquisition cost (CAC) has declined. End-to-end digital processes have enabled new product launches in quick succession, simplified process, and made offerings transparent. Additionally, the financier has actively invested in data mining capabilities, which would help propel the cross-sell engine and leverage data analytics across sales, risk management and collections.

Exhibit 25. Digitalising end-to-end journey: Sales & Onboarding; Operational & Collection Efficiency



Source: Company, JM Financial

Exhibit 26. Digitalising end-to-end journey: Customer Engagement & Service



Source: Company, JM Financial

Direct, Digital & Partnership (DDP): PFL has not only launched a new range of products but also transformed the distribution model from an intermediary-driven one towards a direct sourcing one. This has resulted in a reduction of CAC and improved customer acquisition. Its fintech architecture and digital capabilities make it a preferred partner for other fintech players. The tech integration with partners via API sharing and CRM extension has led to a seamless flow of information. It has partnered with Cars24, KrazyBee (aim to disburse over INR 10bn in FY23), PaisaBazaar and is scouting for more like-minded fintech partnerships to boost distribution. The Direct, Digital and Partnership (DDP) distribution channel is aligned with the company's target customer segment. Hence, the DDP model has made significant inroads with a contribution of 34% to disbursement in 1QFY23 (vs. ~17% in 4QFY22).

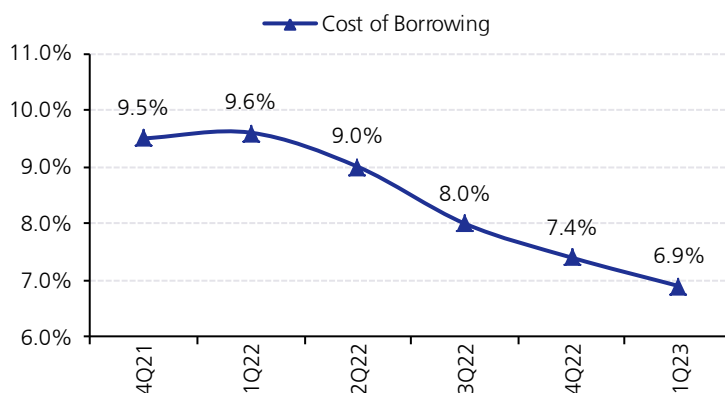
Reduction in cost of borrowings

The new management is cognisant of the fact that a strong diversified liability franchise would result in lower cost of borrowings (CoB) and eventually lead to a sustainably profitable business. Additionally, lower cost of borrowing naturally lends itself to selection of higher quality customers. PFL has undertaken a few initiatives in this regard since 1QFY22 such as:

- i) Embarked on the capital market journey in Jul'22 by raising INR 4.5bn through commercial paper and INR 2.5bn through a maiden NCD issue
- ii) Established multiple new relationships for borrowings and moved away from consortium to multiple banking arrangement
- iii) Repriced all eligible borrowings in addition to the prepayment of high cost borrowings, and clean-up of high-cost PTC borrowings

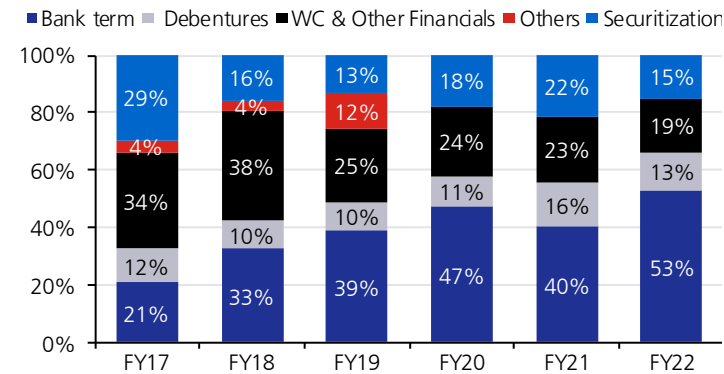
These measures along with strong promoter backing and rating upgrades from credit rating agencies (as highlighted in previous sections) along with improving fundamentals helped PFL to refinance and negotiate interest rates from its debtors (incl. banks); thereby, the cost of borrowing declined sharply, by 260bps in the last 15 months and 50bps QoQ to 6.9% in 1QFY23. This enabled it to pick customers selectively, offer fine pricing to them and generate superior risk-adjusted-return.

Exhibit 27. Cost of borrowing materially declined, driven by new management's efforts

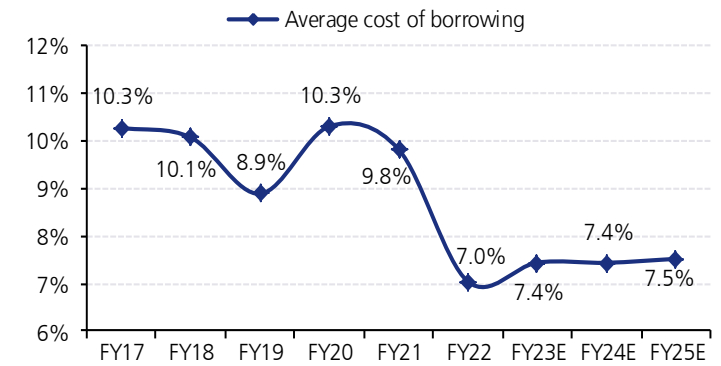


Source: Company, JM Financial

We believe CoB will inch up from current levels, given that the Reserve Bank of India (RBI) has already hiked the repo rate by 140bps since May'22 and will further increase the policy rate, along with reduction in system liquidity. However, the increment in CoB will not be as much. We estimate CoB (calculated) to be around 7.5% by FY25E.

Exhibit 28. Liability franchise: Bank/ term loans constitute the majority of the mix

Source: Company, JM Financial

Exhibit 29. Avg. CoB will increase; however, it will be substantially below previous levels

Source: Company, JM Financial

Exhibit 30. PFL's CoB is broadly around large players

Cost of borrowings (CoB)	FY22	1QFY23
BAF	6.6% *	6.6%
CIFC	6.5% *	6.3%
HDFC	5.8%	5.9%
MMFS	6.9%	6.5%
PFL	8.6%	6.9%

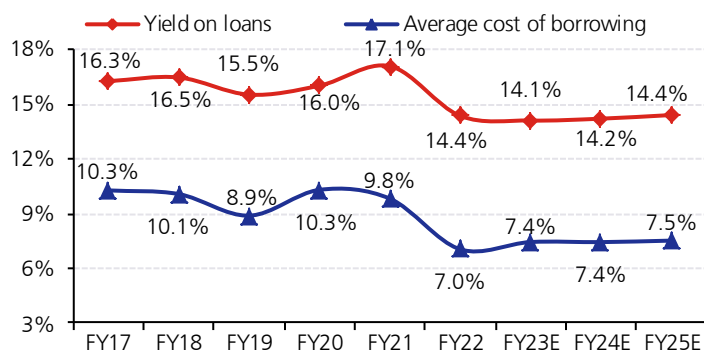
Source: Company, JM Financial; *calculated

Margin profile to be a tad altered, owing to shift in product mix

PFL's margins (calculated) expanded by 78bps over FY19-22 despite reduction in loan yields (calculated) and lower securitisation. This margin expansion was driven by 184bps reduction in funding cost (calculated) over the same period as well as strong capitalisation on the balance sheet.

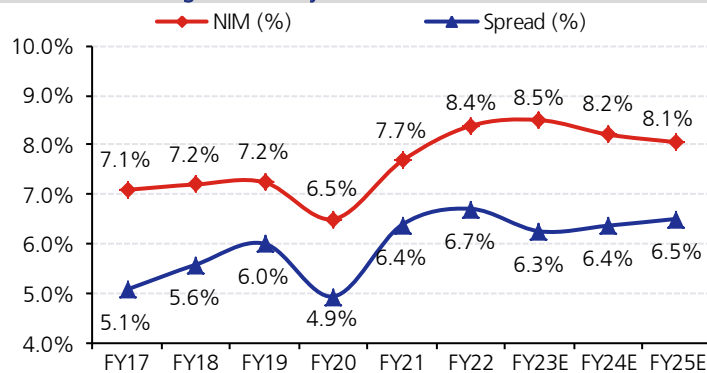
Going forward, we believe loan yields will marginally decline (vs. FY22) albeit share of unsecured products will expand. The drop in loan yields in the near term will be on account of: i) increasing share of relatively low yield products (such as LAP, personal loans and loans to professionals) in the mix, ii) complete rundown of legacy/ defocussed book with higher yields. Hence, we expect margins to be around 8.1% levels over FY22-25E and expect NII CAGR of 34% over FY22-25E.

Exhibit 31. Yield on loans will marginally slide in near term while average borrowing costs will witness uptick...



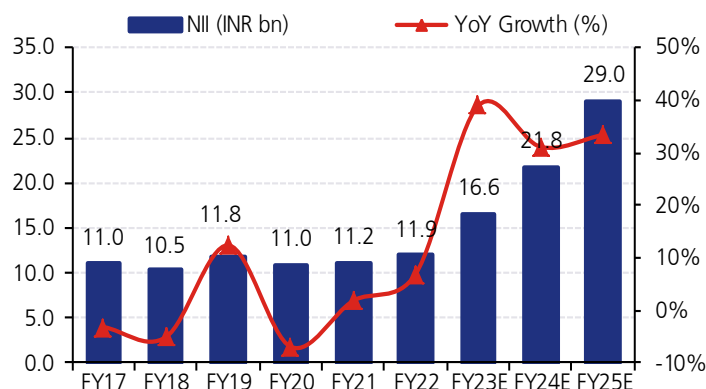
Source: Company, JM Financial

Exhibit 32. ...margins are likely to soften from current levels



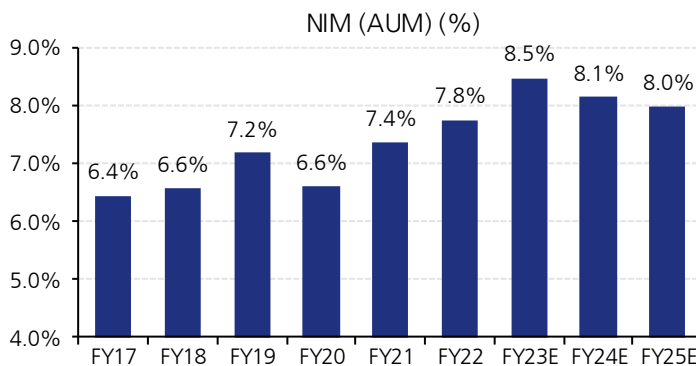
Source: Company, JM Financial

Exhibit 33. Expect NII CAGR of 37% over FY22-25E



Source: Company, JM Financial

Exhibit 34. NII/AUM trends



Source: Company, JM Financial

Operating leverage and cost efficiencies to drive profitability

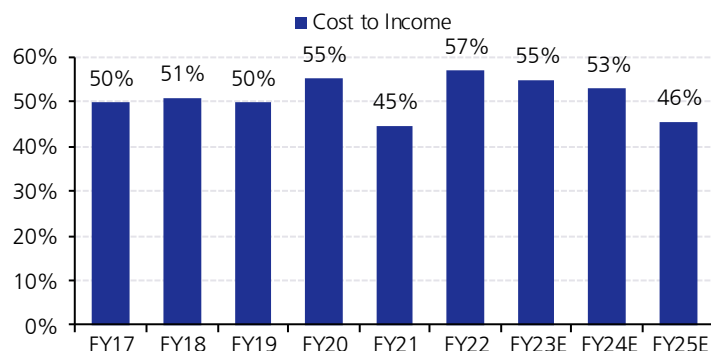
- **Cost-to-avg. asset ratio has increased to 5.1% in FY22 due to business restructuring including disproportionate technology spends**

The company (erstwhile Magma) traditionally had a high cost-to-average asset ratio, given: i) Profile of the customers, ii) DSA-heavy distribution channel, iii) Geographical presence predominantly in rural & semi-urban, and iv) Large employee base mainly into collections. However, in FY22, it further spiked to 5.1% (vs. 5-yr avg. of ~4.2%), which was on account of business restructuring, large spends on technology, new product launches, rebranding, expanding employee base, and ESOP cost (though notional charge), among others.

- **Operating leverage and cost efficiencies will kick in over the next 2-3 years**

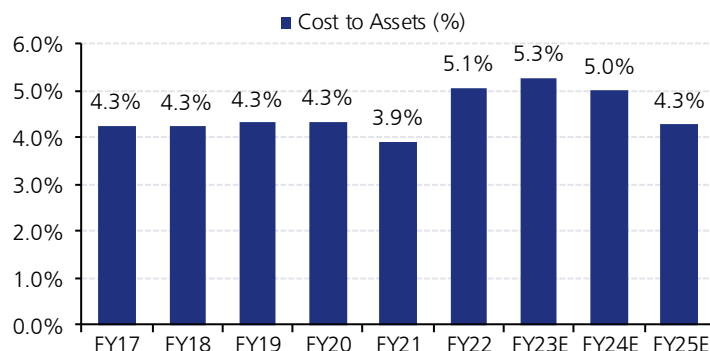
The new management has shifted away from the high-cost DSA-driven distribution model towards the DDP model (as discussed in the previous section), resulting in a reduction in CAC and improved customer acquisition. As growth picks up in the next 2-3 years, we expect the cost-assets ratio to decline to 4.3% in FY25E (vs. 5.1% FY22) driven by: i) Enhanced productivity through technology, automation and process simplification, ii) Improved cross-sell iii) Better utilisation as PFL is focused on exploiting the untapped potential of existing branches, i.e., focus on branch-level profitability, iv) Increased penetration of products across various channels, v) Shift in collections from cash to digital medium leading to branch rationalisation and reskilling/ upskilling of existing employees from collections to other operations as volume accelerates, vi) Enhanced reliance on a strong influencer network in all products/ segments, vii) Pre-qualified offer base generation for Straight Through Processing (STP).

Exhibit 35. Cost to income ratio will decline...



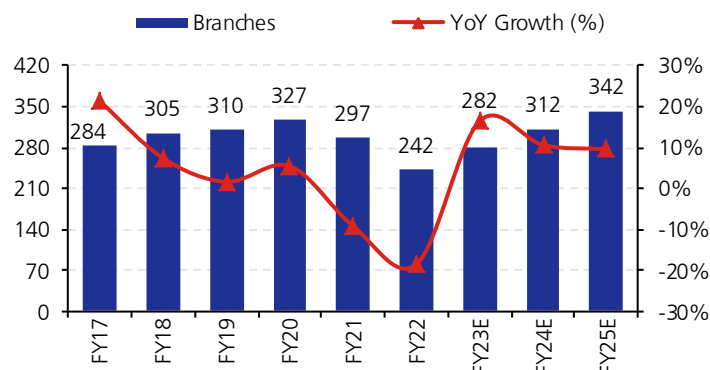
Source: Company, JM Financial

Exhibit 36. ...similarly, cost to assets will improve with higher volumes



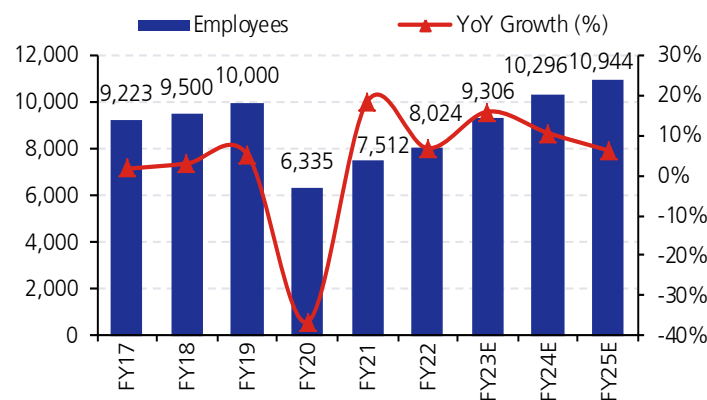
Source: Company, JM Financial

Exhibit 37. Branch addition will be slow as digital is the main driver of business

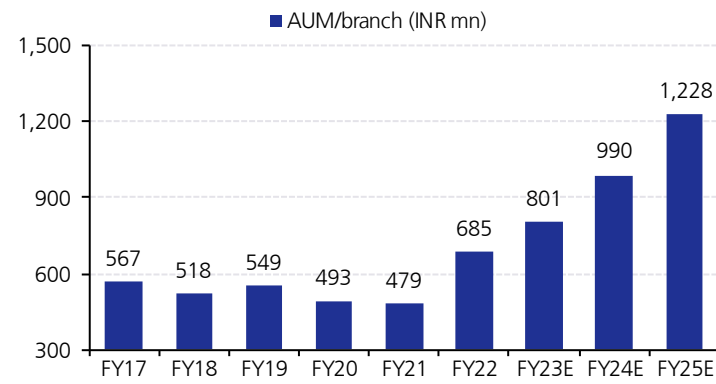


Source: Company, JM Financial

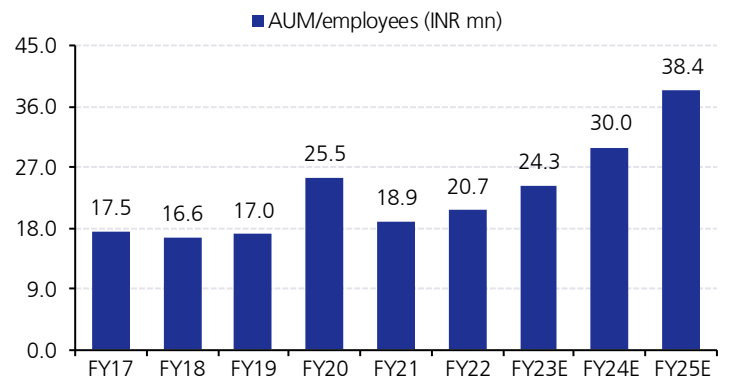
Exhibit 38. Employee addition will be gradual



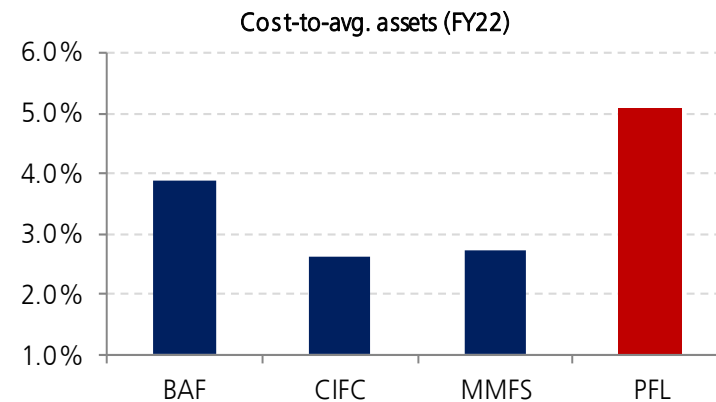
Source: Company, JM Financial

Exhibit 39. Productivity will materially increase

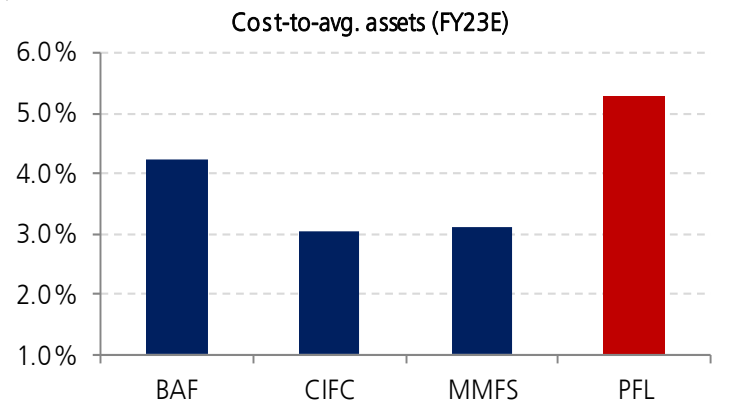
Source: Company, JM Financial

Exhibit 40. AUM per employee will sharply expand in 3yrs

Source: Company, JM Financial

Exhibit 41. PFL has a relatively higher cost structure vs. peers

Source: Company, JM Financial

Exhibit 42. Cost-to-avg. (FY23E) comparison with leading players

Source: Company, JM Financial

Improving asset quality trends; credit cost pain peaked out

The new management has overhauled the company's risk management practices, tightened underwriting standards, outlined conservative portfolio guardrails, and employed analytics for policy optimisation. The company follows bureau data very closely while onboarding customers; for instance, 90% of the customers of unsecured products have credit scores > 700, hence they are credit-tested. To minimise the fraud risk, the underwriting team procures information directly from the source and avoids any possible fraud or manipulation in any of the documents. With regards to MSMEs loans, the focus is on the formal segment, which is already working on GST as it is more prudent than paper-based underwriting. Post disbursement, there is ongoing monitoring of early warning signals (EWS). The management has implemented one of the most aggressive write-off policies among NBFCs, in case of any stress/ slippage.

Exhibit 43. Accelerated write-off policy in place since 4QFY21

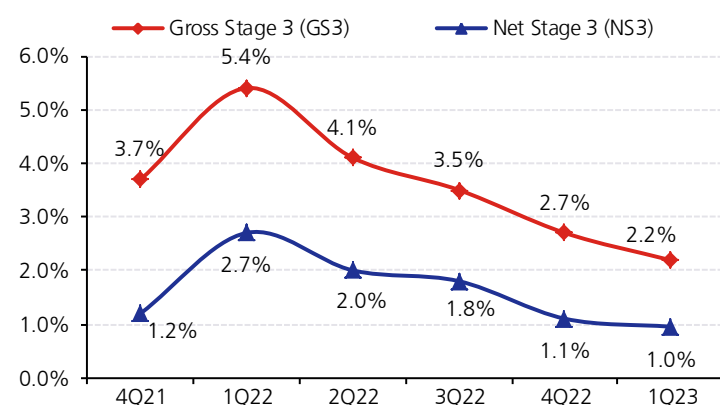
Product segment	Product(s)	Earlier write-off policy	Revised write-off policy
Asset Backed Finance (ABF)	Cars, CV, CE, Auto Lease, Used Assets, Agri	730+ DPD	180+ DPD
SME	Unsecured loan	450+ DPD	90+ DPD*
Mortgage	Affordable Housing Finance	Case to case basis	730+ DPD#

Source: Company, JM Financial; *Excluding ECLGS cases and off-book cases, #Excluding off-book cases

The proof is in the pudding: Higher collection efficiency, lower slippages and front-ended write-offs drive sharp improvement in asset quality

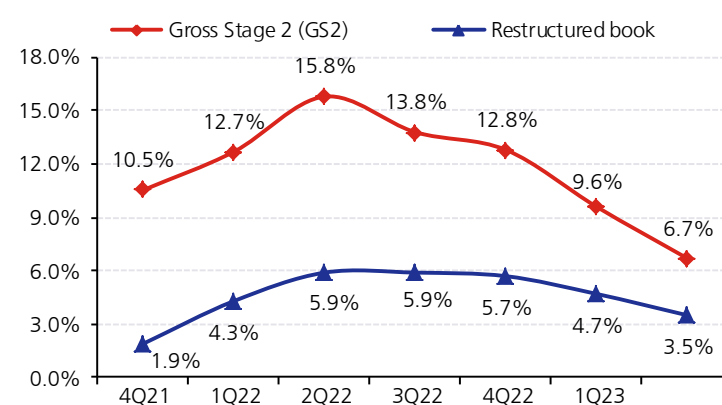
Asset quality parameters have registered remarkable improvement since the new management took over. The company's collections have been strengthened even as it has maintained tight control on asset quality. PFL has experienced a sharp uptick in collection efficiency (CE) over the past few months – 108.4% in Mar'22 vs. 99.1% in Dec'21. Gross Stage 3 (GS3) assets fell to 2.2% as of 1QFY23 (vs. 2.7% QoQ) from 3.7% as of 4QFY21. Similarly, Net Stage 3 (NS3) assets dropped to ~1% as of 1QFY23 (vs. 1.1% QoQ) – notably, it is one of the targets indicated in Vision 2025. The one-time restructuring (OTR) book shrank to 3.5% as of 1QFY23 (vs. 4.7% QoQ) from 4.3% as of 4QFY21; 45% of total restructured assets were in 0 bucket, however, for the purpose of asset classification and provisioning, 73% of total restructured assets had been classified under GS2. The GS2 ratio dipped to 6.7% as of 1QFY23 (vs. 9.6% QoQ) from 12.7% as of 4QFY21. On IRAC basis, GNPA came down significantly 3.6% as of 1QFY23, (vs. 5.9% QoQ); similarly NNPA declined to 1.9% as of 1QFY23 (vs. 4% QoQ).

Exhibit 44. GS3 trend post acquisition



Source: Company, JM Financial

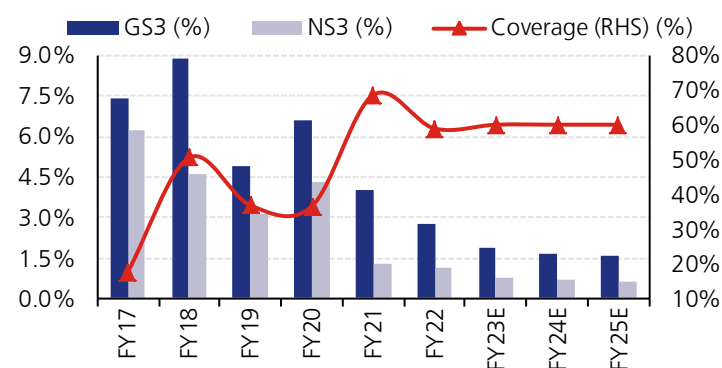
Exhibit 45. GS2 and restructured book trend post acquisition



Source: Company, JM Financial

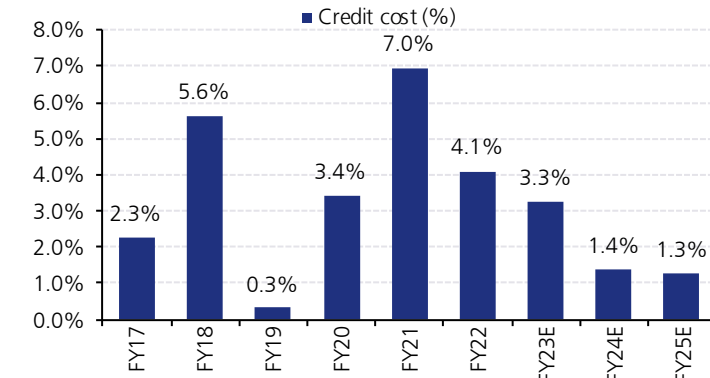
Underwriting policies are also well thought out: 90% of the new customers onboarded have CIBIL score > 700 for unsecured underwriting and most of the overall customers have CIBIL score > 750. The focus is on customers in the formal income segment in terms of business loan, cash flow-based lending and GST-based lending. Additionally, with the usage of data analytics, the entire book originated over the last 12 months has 30+ DPD of sub 0.3%, which is amongst best in class. Hence, going forward, we believe underwriting will be as per these tightened standards and GS3 would be around 1.6% and NS3 will be maintained at < 1%.

Exhibit 46. Asset quality materially improved post FY21



Source: Company, JM Financial

Exhibit 47. Credit costs will sharply drop



Source: Company, JM Financial

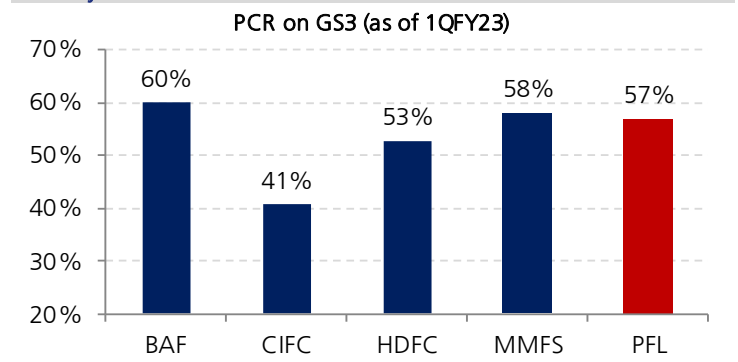
Provision coverage sharply expanded to ~57% - one of the highest among peers: The new management put up credit costs upfront, and accelerated write-offs, after taking over in 4QFY21 – credit costs climbed to 7% for FY21. Consequently, provision coverage ratio (PCR) on GS3 steeply expanded to ~69% from 37% in 3QFY21. As of 1QFY23, PCR stood at ~57% - still much higher than historical levels (avg. FY16-20: 33%) and one of the highest among NBFCs. Coverage on the restructured book (excluding management overlay) was at ~24%, as of 1QFY23 (vs. ~20% QoQ) – well above regulatory norms. Conservatively, PFL continued to carry Management Overlay of INR 3bn (1.7% of AUM). The management also expanded coverage on the discontinued book (total book: INR 23bn out of which on-BS is INR 20bn) to 20%+ (vs. 9.3%) by utilising consideration (INR 2.2bn) from sale of its insurance arm (Magma HDI). We expect asset quality trends to improve, driven by the management's initiatives to improve underwriting, compression of riskier defocussed book, and smooth transition to IRAC norms with insignificant impact through FY23. We estimate credit costs to come off to ~130bps in FY25E.

Exhibit 48. PFL: Adequate provisions across stages

As of 1QFY23	Provision coverage
Stage 1	1.9%
Stage 2	23.8%
Stage 3	57.0%
Management overlay (% of AUM)	1.7%

Source: Company, JM Financial

Exhibit 49. PFL has one of the highest coverage ratios (PCR) in the industry

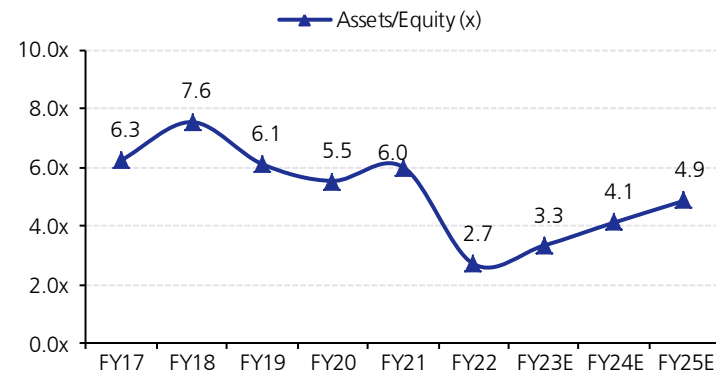


Source: Company, JM Financial

Robust capital buffer provides a launch pad for growth

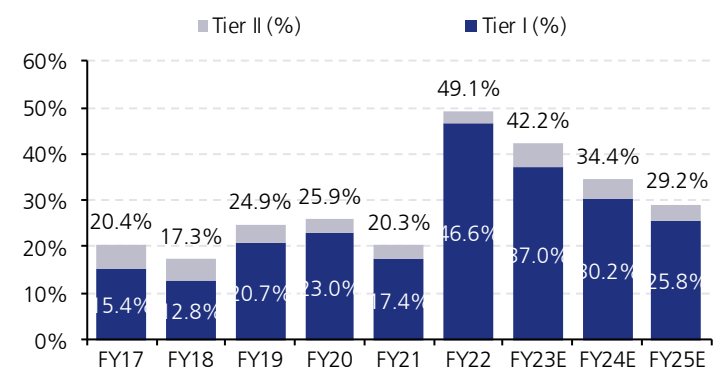
Rising Sun Holdings Pvt. Ltd (RSHPL) infused INR 34.6bn in the company for 61.5% shareholding. Post this, capital ratios expanded steeply, with Tier-1 ratio at 46.6% and CRAR at 49.1%, as of FY22. This provides a launch pad for 30%+ CAGR over the next few years without any further capital infusion, in our opinion. It has also reduced leverage ratios: debt/equity is at ~1.7x now (vs. avg. FY-16-20: 5.1x) and assets/equity is sub-3x now (vs. avg. FY-16-20: 6.5x).

Exhibit 50. Leverage ratio has reduced post capital-raising



Source: Company, JM Financial

Exhibit 51. Capital adequacy ratio



Source: Company, JM Financial

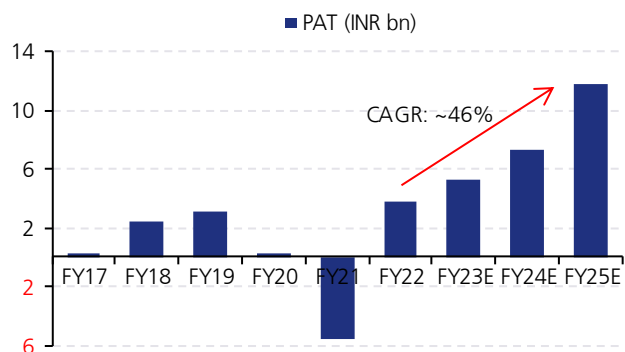
Poised to deliver earnings CAGR of 46% over FY22-25E; RoA will be propelled to 3.4% by FY25E

■ We forecast net profit to witness ~46% CAGR over FY22–25E driven by:

- 1) Revival in AUM growth – PFL is poised to generate 36% AUM CAGR over FY20-25E, due to: i) Existing products gaining ground, ii) Launch of new products, iii) Greater penetration in urban markets, iv) Calibrated expansion into newer markets, and v) Higher cross-selling. Due to the diversified nature of the book, there is enough flexibility in the business mix to counter pricing/ growth pressures in certain segments and maintain healthy loan growth.
- 2) Business transformation initiatives to improve profitability with focus on i) Higher direct sourcing ii) Increasing cross-sale to improve productivity and reduce CAC iii) Focus on product profitability and branch profitability, and iv) Improved utilisation and efficiency of the employees/branches through recent tech initiatives.
- 3) Operating leverage: As the company has entered into the growth phase from the consolidation mode. This will be ensued by leadership phase in FY25, hence operating leverage will kick in as volumes ramp up.
- 3) Tighter risk management and focussing on collections to control credit costs.

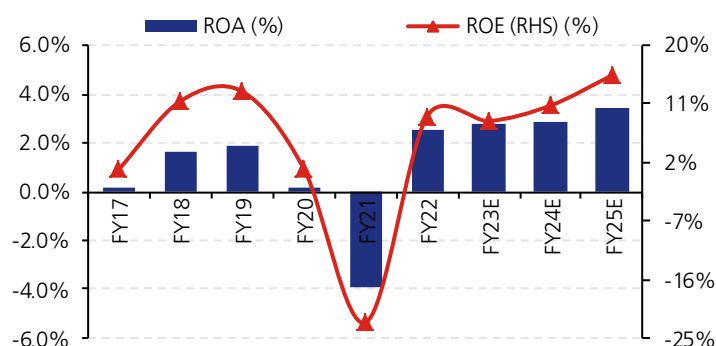
We expect PFL to report RoA/ RoE of 3.4%/ 15.4% (compared to 5-year average of 0.5% RoA and 2.4% RoE), respectively, by FY25E. This enhancement in return profile will be driven by healthy AUM growth (~36% CAGR over FY22-25E), improvement in cost ratios and credit costs.

Exhibit 52. Expect earnings CAGR of ~46% over FY22-25E



Source: Company, JM Financial

Exhibit 53. Return ratios to pick up by FY25E



Source: Company, JM Financial

Initiate coverage with BUY and TP of INR 400

We believe PFL's access to long-term capital (strong cash-rich parent with nil leverage), which in turn is driving significant benefit on liability pricing for the company, is one of its key strengths. A corollary of this is the ability to cater to the relatively higher quality customers and still deliver strong through-cycle, risk-adjusted returns.

Additionally, its relatively smaller size (AUM at almost 1/6th-1/10th of relevant AA+ and above-rated NBFC peers) and large opportunity in the consumer and small business lending segment provides a strong growth runway over the medium term. The company is a digital native under its new avatar and this, we believe, is a key differentiator vis-à-vis peers.

The management aspires to achieve a steady state RoA of 3.5-4% over the next 3 years and beyond. We pencil in RoE expansion to 15%+ levels as leverage scales up to ~5x and yet maintain a Tier1 of >25%. With its granular asset mix and a strong parentage, PFL can achieve steady-state leverage of 5.5-7x without raising capital, which would translate into a medium-term RoE profile of 20-24%.

Consequently, we see PFL rerating from its current levels of ~2.8x Sep'24E P/BV to 4x Sep'24E P/BV and we arrive at a target price of INR 400.

Exhibit 54. Steady State (Schematic) RoE

NII / Assets (%)	8.5%
Other income / Assets (%)	1.2%
Total Income / Assets (%)	9.7%
Cost to Assets (%)	4.0%
PPP / Assets (%)	5.7%
Provisions / Assets (%)	1.0%
PBT / Assets (%)	4.7%
ROA (%)	3.5%
Leverage (x)	6.7x
ROE (%)	23.5%

Source: JM Financial

Exhibit 55. Computation of Valuation multiple

Blended ROE	20.7%
g (initial growth)	17.6%
r (Cost of equity)	12.3%
gn (perpetual growth rate)	5.2%
n (initial growth period, yrs)	10
Payout1	15%
Payoutn	75%
K1	1.95
K2	17.48
P/BV	4.01x

Source: JM Financial

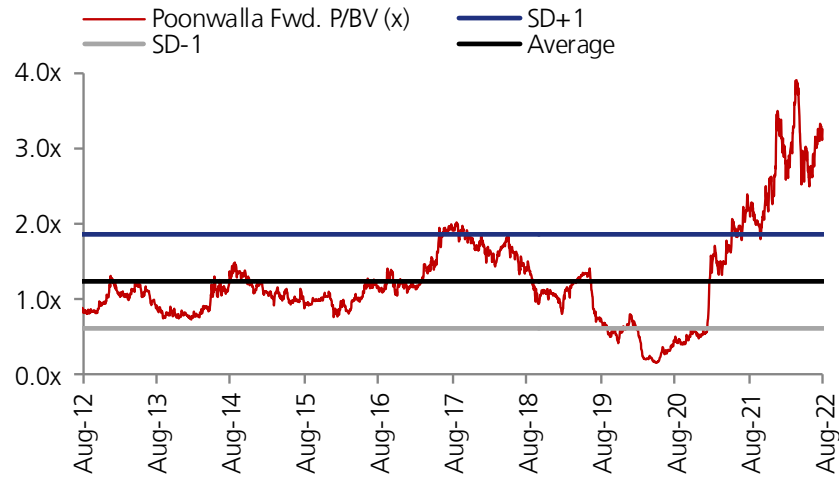
In our 2-stage Gordon Growth model, we ascribe weights in the ratio 65:35 to steady state RoE (of 23.5%) and FY24e RoE (of 15.4%). This is lower than usual 80:20 ratio, given PFL's smaller size and execution risk.

Exhibit 56. Valuation using Two-stage GGM

Cost of equity estimate	
Risk free rate	7.0%
Market risk premium	5.0%
Beta	1.1x
r (Cost of equity)	12.3%
g (Perpetual growth rate)	4.0%
RoE estimate	
FY24E (RoE)	15.4%
Schematic RoE	23.5%
Blended RoE estimate	20.7%
P/BV (x)	4.01x
Sep'24E ABV (INR)	99.9
Intrinsic value (per share) on GGM (INR)	400

Source: Company, JM Financial

Exhibit 57. Poonawalla: One-year forward P/BV (x)



Source: Bloomberg, Company, JM Financial

Key risks

- i) **Execution risk:** Over the past 18 months, PFL has onboarded new management, overhauled its branch structuring, implemented business process restructuring, and expanding its businesses into new segments and regions. PFL's new strategy is yet to play out and AUM is yet to scale up. How the book will perform in case of any downcycle is yet to be seen. So far, PFL's asset quality performance has exceeded our expectations.
- ii) **Volatility in interest rates:** Being a wholesale funded institution, any sustained liquidity shock could impact PFL's spreads adversely and affect its profitability.
- iii) **Pressure on margins due to increased competition:** Increasing competition especially in segments such as unsecured loans, SME loans, housing could exert pressure on the company's yields and margins.

Poonawalla Fincorp: RoE Tree

- **Expect RoA to improve to 3.4% by FY25E:** We expect healthy earnings (~46% CAGR over FY22-25E) and see RoA improving to 3.4% in FY25E vs. 1.7% in FY22, driven by revival in loan growth (AUM CAGR of ~36% over FY22-25E), and improvement in credit costs (down 283bps over FY22-25E) and cost ratios (down 79bps over FY22-25E). These enhancements along with increasing leverage to optimal levels will boost RoE to 15.4% in FY25E.

Exhibit 58. RoE Tree: RoA will be among the highest in the industry; further, RoE will get boost from gradual re-leveraging

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net margin (as % of avg. IEA)	7.72%	7.80%	7.19%	8.35%	8.60%	9.16%	8.87%	8.71%
NIM (as % of avg. Assets)	7.36%	7.44%	6.85%	7.85%	8.05%	8.70%	8.52%	8.41%
Core Non-IR/Asset	0.77%	0.89%	0.97%	0.87%	0.81%	0.88%	0.92%	0.96%
Core Non-IR/Revenues	9.51%	10.74%	12.46%	9.94%	9.14%	9.21%	9.76%	10.24%
Core Revenue/Assets	8.13%	8.33%	7.82%	8.72%	8.86%	9.59%	9.44%	9.37%
Cost/Core income	51.55%	51.19%	54.83%	44.61%	56.89%	54.93%	52.89%	45.57%
Cost/Assets	4.19%	4.26%	4.29%	3.89%	5.04%	5.27%	4.99%	4.27%
Core operating profits	3.94%	4.07%	3.53%	4.83%	3.82%	4.32%	4.45%	5.10%
LLP/Loans	2.32%	1.75%	3.39%	11.60%	0.75%	0.73%	0.69%	0.61%
Loans/Assets	89.4%	90.2%	89.1%	87.5%	88.4%	91.1%	92.1%	92.8%
Pre-Tax RoA	1.97%	2.74%	0.47%	-5.35%	3.29%	3.66%	3.82%	4.53%
Effective tax rate	18.7%	31.3%	66.1%	25.2%	23.7%	25.2%	25.2%	25.2%
RoA	1.7%	1.9%	0.2%	0.9%	0.9%	2.7%	2.9%	3.4%
Equity/Assets	14.5%	14.9%	17.1%	17.4%	27.8%	32.9%	26.7%	22.1%
RoE	11.4%	12.9%	1.0%	-2.3%	6.3%	8.4%	10.7%	15.4%

Source: Company, JM Financial

Exhibit 59. Comparison of JMFe with consensus estimates

	Consensus			JMFe			Variance		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
PAT (INR mn)	5,343	6,886	8686	5,244	7,323	11,760	-1.8%	6.3%	35.4%
RoA	2.72%	2.67%	2.70%	2.75%	2.87%	3.40%	3bps	20bps	70bps
RoE	8.2%	9.8%	11.7%	8.4%	10.7%	15.4%	13bps	98bps	370bps

Source: Bloomberg, JM Financial

Dupont Analysis

Exhibit 60. Dupont Analysis

Du-pont Analysis (%)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
NII / Assets (%)	7.36%	7.44%	6.85%	7.85%	8.05%	8.70%	8.52%	8.41%
Other income / Assets (%)	0.99%	1.23%	1.05%	0.95%	0.84%	0.93%	0.96%	0.99%
Total Income / Assets (%)	8.35%	8.66%	7.90%	8.80%	8.90%	9.63%	9.48%	9.40%
Cost to Assets (%)	4.25%	4.32%	4.35%	3.92%	5.07%	5.29%	5.01%	4.28%
PPP / Assets (%)	4.10%	4.35%	3.55%	4.88%	3.83%	4.34%	4.47%	5.11%
Provisions / Assets (%)	2.07%	1.56%	3.03%	10.18%	0.52%	0.67%	0.63%	0.56%
PBT / Assets (%)	2.03%	2.79%	0.52%	-5.30%	3.31%	3.68%	3.83%	4.55%
Tax Rate (%)	18.67%	31.32%	66.10%	25.16%	23.72%	25.20%	25.20%	25.20%
ROA (%)	1.66%	1.92%	0.17%	-3.93%	2.53%	2.75%	2.87%	3.40%
Leverage (%)	6.9	6.7	5.8	5.8	3.6	3.0	3.7	4.5
ROE (%)	11.4%	12.9%	1.0%	-22.6%	9.1%	8.4%	10.7%	15.4%

Source: Company, JM Financial

Exhibit 61. Poonawalla Fincorp summary financials

Poonawalla Fincorp	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	CAGR/Change (FY18-22)	CAGR/Change (FY22-25E)
Shareholders' equity (INR bn)	20	27	27	22	61	65	71	82	32%	10%
Loan book (INR bn)	136	150	135	114	149	199	272	370	2%	36%
PAT (INR bn)	2.4	3.0	0.3	-5.6	3.8	5.2	7.3	11.8	12%	46%
Gross NPL (%)	8.89%	4.89%	6.58%	3.98%	2.74%	1.87%	1.67%	1.59%	-6.2%	-1.1%
Net NPL (%)	4.61%	3.15%	4.28%	1.29%	1.14%	0.76%	0.67%	0.64%	-3.5%	-0.5%
RoA (%)	1.7%	1.9%	0.2%	-3.9%	2.5%	2.7%	2.9%	3.4%	0.9%	0.9%
Leverage (x)	7.6	6.1	5.5	6.0	2.7	3.3	4.1	4.9		
RoE (%)	11.4%	12.9%	1.0%	-22.6%	9.1%	8.4%	10.7%	15.4%	-2.3%	6.3%

Source: Company, JM Financial

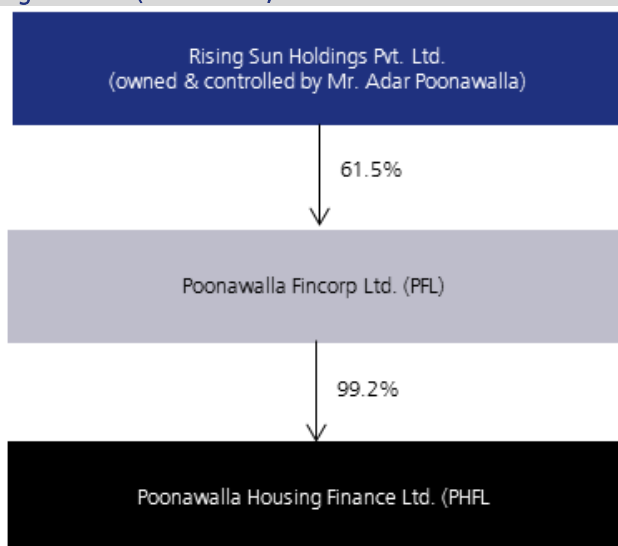
Company background

Rising Sun Holdings (owned and controlled by Mr. Adar Poonawalla) acquired Magma Fincorp Ltd (incorporated in 1988) and rebranded it as Poonawalla Fincorp Ltd (PFL) in FY22. Poonawalla Fincorp Ltd. is a non-deposit-taking systemically important NBFC that focuses on consumer and MSME financing.

The company offers a diversified product suite to address the growing financing needs of retail financing and enterprises. It focuses on consumer and small business finance through diverse product offerings like pre-owned car finance, personal loans, loans to professionals, business loans, small and medium enterprise loans, loans against property, medical equipment loans, affordable home loans, and auto lease. The company operates through a pan India and well-diversified network of 242 branches across 21 states. As of 1QFY23, the diversified financier has AUM of INR 176.6bn.

The company has a presence in housing finance through its subsidiary – Poonawalla Housing Finance Limited (PHFL). The pan-India pure play affordable housing entity offers home financing loans for long and flexible tenures around competitive rates. As of 1QFY23, the HFC has AUM of INR 52.8bn. In May'22, PFL exited the insurance business after receiving approval from CCI to divest its entire ~36% shareholding of Magma HDI General Insurance.

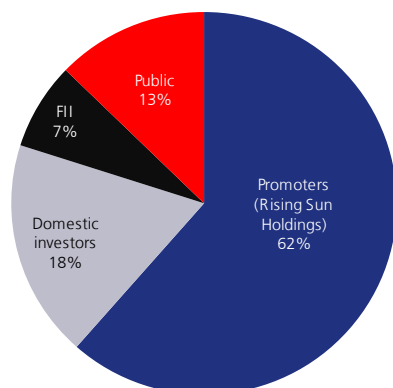
Exhibit 62. Holding structure (as of Jun'22, after divestment of insurance subsidiary)



Source: Company, JM Financial

Shareholding pattern

Exhibit 63. Shareholding Pattern (as of Jun'22)



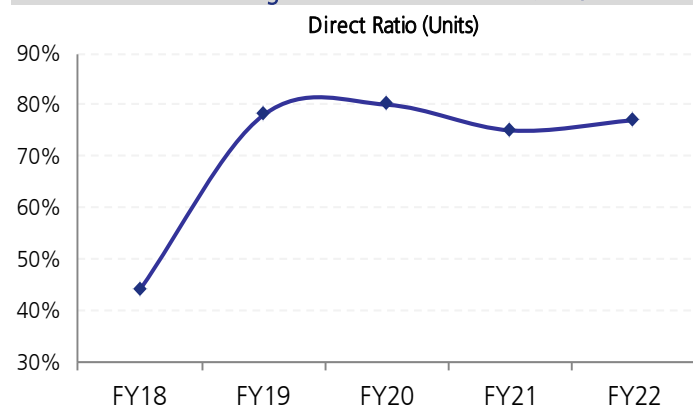
Source: Company, JM Financial

Subsidiaries

Housing Finance: Poonawalla Housing Finance Ltd. (PHFL), the pan-India pure play affordable housing entity, offers home financing loans for long and flexible tenures at competitive rates. The company prioritises business growth through direct sourcing through the branch-led model. The business comprised more than 46,000+ customers; average ticket size was INR 1.1mn at the exit of FY22. PHFL has 128 branches spanning 20 states. As of 1QFY23, the HFC has AUM of INR 52.8bn.

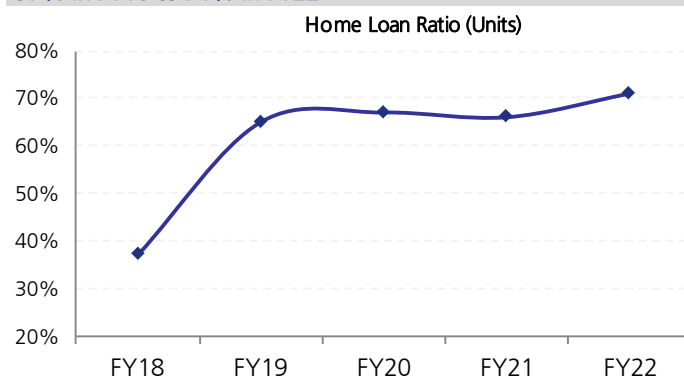
Given the deep un-served potential of the affordable housing segment, favourable demographics and supportive government policies, PHFL proposes to raise growth capital for its network expansion and support AUM growth – fund-raise of upto INR 10bn has been initiated in 1QFY23 and will be eventually followed by value unlocking through IPO. The lender intends to double its book over the next 3 years and carve out a niche to realise its potential.

Exhibit 64. Direct sourcing ratio was maintained at >75%



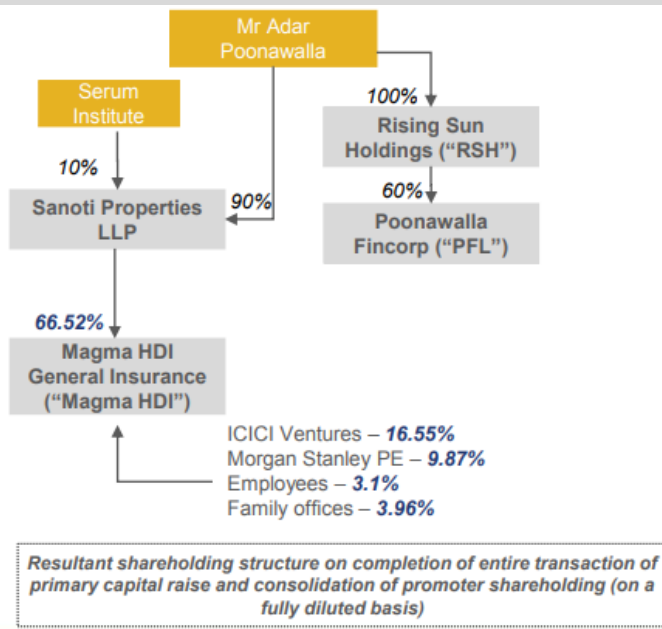
Source: Company, JM Financial

Exhibit 65. The Home Loan ratio in fresh disbursements grew from 37% in FY18 to 71% in FY22



Source: Company, JM Financial

Insurance Business hived off: PFL inherited the insurance unit (Magma HDI General Insurance Co Ltd.), which was a joint venture between Magma, HDI Global SE (Germany), Celica Developers and Jaguar Advisory Services. As per, IRDAI "Registration of Insurance Companies Regulations", a promoter of an insurance company should not be a subsidiary of another company. Post the acquisition of PFL by Rising Sun Holdings Pvt. Ltd. in May'21, PFL has become a subsidiary of RSH. Hence, in Nov'21, the Board of Directors of PFL approved the divestment of the company's stake in Magma HDI to comply with IRDAI and RBI Regulations.

Exhibit 66. Proposed shareholding structure (in Nov'21) post divestment by PFL in Magma HDI General Insurance


Source: Company, JM Financial

Sanoti Properties LLP, which is held by Mr. Adar Poonawalla and Serum Institute of India Pvt Ltd, acquired PFL's stake in Magma HDI. In May'22, PFL received approval from CCI to divest its direct and indirect shareholding of Magma HDI General Insurance. Evincing prudence, the management also expanded coverage on the discontinued book (total book: INR 23bn out of which on-BS is INR 20bn) to 20%+ (vs. 9.3% QoQ) by utilising consideration (INR 2.2bn) from this transaction.

Highly experienced management team

■ Experienced management team with diverse exposure in financial services

PFL's management team is led by Mr. Abhay Bhutada and well-supported by highly experienced professionals who have in-depth industry knowledge and experience in banks, NBFCs and large corporates. Many of them held senior positions at leading banks and financial services companies such as Aditya Birla Finance, TATA Capital, ICICI Bank, HDFC Bank, Standard Chartered Bank, and Barclays Bank.

Exhibit 67. Management profile

Name	Designation	Experience
Mr. Abhay Bhutada	MD	CA Abhay Bhutada is a seasoned finance professional with over 15 years of diversified experience in the commercial and retail lending domain. His visionary thinking and flawless execution earned him the Young Entrepreneur of India 2017 bestowed upon by the Chairman of State Bank of India and Promising Entrepreneur of India 2019 by The Economic Times. Asia One has recently felicitated him as "40 under 40 Most influential leader for FY21". He is a qualified Chartered Accountant.
Mr. Sanjay Miranka	CFO	Mr. Sanjay Miranka has more than two and a half decades of experience across Financial Services, Edible Commodities and Telecom sectors. He was in his last role associated with Aditya Birla Finance Ltd (ABFL) for close to 18 years in various capacities such as Head of Capital Market Lending Business and later as CFO. For his outstanding contribution, he was conferred with "The Best CA CFO Award in Large Corporate BFSI Category" by ICAI in 2020. He is a qualified Chartered Accountant and Company Secretary.
Mr. Manish Chaudhari	President & Chief of Staff	Mr. Manish Chaudhari has over 20 years of experience managing various retail assets in various lending functions of Credit, Risk, Product, Sales, Strategy and Partnerships. He has worked in various leading banks and as NBFCs like ICICI Bank, Standard Chartered Bank, GE, Cholamandalam, Reliance, & Magma. He has also been an entrepreneur as co-founder of CoinTribe, an online lending SME marketplace for 5 years. He is a Business Economics graduate from Delhi University and holds a Management degree with specialisation in E-Commerce & Finance.
Mr. Vineet Tripathi	CBO	Mr. Vineet Tripathi is a seasoned financial services professional with more than 2 decades of experience in lending industry. He has worked in retail assets across diversified spectrum of Banks and NBFC's. Prior to joining Poonawalla Fincorp he has been associated with players like TATA Capital, ING, General Electric, Citigroup & Bandhan. He was last associated as Business Head for Secured and Unsecured assets at TATA Capital and as Head -Retail Assets at Bandhan Bank.
Mr. Kandarp Kant	CTO	Mr. Kandarp Kant is a seasoned professional with 23 years of experience in the lending industry. He has played a multitude of roles in the NBFC business and has rich experience in technology implementation with marquee companies like Sundaram Finance, Polaris Software Labs, Citi and Oracle. He is a Computer Science graduate from University of Delhi with Post Graduation in Management from Birla Institute Of Management Technology. He has recently earned Certificate in Data Science and Machine Learning from Harvard University edX.
Mr. Ankur Kapoor	COO	Mr. Ankur Kapoor has vast experience of more than two decades spanning across various institutions, sectors and geographies. He has been associated with companies like Standard Chartered Bank, Barclays Bank, GECIS, LG and Blue Star in his earlier roles. He was last associated with Aditya Birla Finance Limited, where he was Head – Operations and Customer Service. He is an engineer by qualification and a certified six sigma master black belt.
Mr. Rajendra Tathare	CCO	Mr. Rajendra has a rich experience of more than two and a half decades in Credit Risk and Policy function. In his last role, he was "Head of Credit Underwriting" for all Secured and Unsecured Loan products with Fullerton India Credit Company Limited. Earlier he has also led policy function for unsecured loans, viz., personal loans, business loans and Digital Loans. He spent almost 15 years with Fullerton and prior to that was associated with HDFC Bank where he handled credit underwriting for various retail products like business loans, personal loans, car loans, two-wheeler loans, etc. He has an MBA from Pune and PGDGM from Emeritus Institute-Singapore.

Source: Company, JM Financial

Reward structure well-aligned for employees

The shareholders of PFL on 24th Jul'21 had instituted 'ESOP Plan 2021', wherein the company provided for the creation and issue of 15mn options, convertible into equity shares of INR 2 each. The options generally will vest in a graded manner and are exercisable within 36 months from the date of vesting. The appealing reward structure will: i) help attract new talent, ii) put 'skin in the game' of the existing employees, leading to a sustainable value creation, thus benefitting shareholders in the long run. During FY22, the Nomination and Remuneration Committee granted ~8.1mn options (vs. nil in FY21) to the eligible employees of the company (each options entitles the option holder to 1 equity share of INR 2 each).

Exhibit 68. ESOPs outstanding

(in mn)	FY21	FY22
O/S options at the beginning of the year	2.5	3.7
Add: Granted during the year	1.4	23.3
Less: Exercised during the year	0.1	1.6
Less: Lapsed/forfeited during the year	0.1	11.2
O/S options at the end of the year	3.7	14.2
(as % of total O/S shares)	0.5%	1.9%
Wtd. Avg. price for O/S ESOPs (INR)	63.8	83.6

Source: Company, JM Financial

Valuation table

Exhibit 69. NBFC comps

	RoA			RoE			P/E (x)			P/B (x)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
BAF	3.7%	4.4%	4.8%	17.4%	21.7%	24.2%	61.7	41.3	30.3	9.9	8.2	6.6
LTFH	1.0%	2.3%	2.2%	5.4%	12.0%	11.4%	17.5	7.2	6.8	0.9	0.8	0.7
SHTF	2.0%	2.4%	2.6%	11.4%	13.0%	13.6%	13.3	10.1	8.8	1.4	1.3	1.1
MMFS	1.3%	1.7%	2.1%	6.5%	8.0%	10.6%	21.6	16.5	11.6	1.4	1.3	1.2
CIFC	2.7%	2.7%	2.7%	20.2%	19.6%	20.0%	30.3	25.9	21.3	5.6	4.7	3.9
HDFC	2.3%	2.2%	2.2%	12.0%	12.0%	11.5%	16.4	14.6	13.4	1.9	1.7	1.5
LICHF	0.9%	1.2%	1.3%	10.1%	12.9%	13.1%	9.4	6.4	5.6	0.9	0.8	0.7
PNBHF	1.2%	1.5%	1.7%	8.9%	8.5%	8.7%	7.3	8.4	7.0	0.6	0.6	0.6
Aavas	3.6%	3.4%	3.3%	13.7%	13.9%	14.7%	49.6	42.2	35.2	6.3	5.5	4.9

Source: Company, JM Financial; Valuations as of 24/Aug/2022

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Net Interest Income (NII)	11,165	11,943	16,599	21,768	29,048	
Non Interest Income	1,355	1,251	1,771	2,448	3,418	
Total Income	12,520	13,194	18,369	24,216	32,466	
Operating Expenses	5,583	7,517	10,088	12,805	14,794	
Pre-provisioning Profits	6,937	5,677	8,281	11,411	17,673	
Loan-Loss Provisions	5,636	-5,153	1,270	1,621	1,951	
Others Provisions	8,809	6,133	0	0	0	
Total Provisions	14,480	776	1,270	1,621	1,951	
PBT	-7,543	4,902	7,011	9,790	15,721	
Tax	-1,898	1,163	1,767	2,467	3,962	
PAT (Pre-Extra ordinaries)	-5,644	3,739	5,244	7,323	11,760	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	-5,644	3,739	5,244	7,323	11,760	
Dividend	0	306	765	1,071	1,530	
Retained Profits	-5,644	3,433	4,479	6,252	10,230	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E	
Equity Capital	539	1,530	1,530	1,530	1,530	
Reserves & Surplus	21,404	59,030	63,509	69,761	79,991	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	104,330	99,088	145,660	214,120	304,050	
Deferred tax liabilities	0	0	0	0	0	
Preference Shares	5,848	4,779	6,300	8,526	11,509	
Current Liabilities & Provisions	0	0	0	0	0	
Total Liabilities	132,122	164,427	216,999	293,937	397,080	
Net Advances	113,612	148,507	198,867	271,892	369,530	
Investments	1,774	0	994	2,719	3,695	
Cash & Bank Balances	7,747	5,970	7,955	8,157	11,086	
Loans and Advances	129	140	0	0	0	
Other Current Assets	3,959	5,693	5,134	5,735	5,479	
Fixed Assets	1,816	2,004	1,736	2,351	3,177	
Miscellaneous Expenditure	0	0	0	0	0	
Deferred Tax Assets	2,942	1,970	2,170	2,939	3,971	
Total Assets	132,122	164,427	216,999	293,937	397,080	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Growth (YoY) (%)					
Borrowed funds	-13.0%	-5.0%	47.0%	47.0%	42.0%
Advances	-16.1%	30.7%	33.9%	36.7%	35.9%
Total Assets	-13.3%	24.5%	32.0%	35.5%	35.1%
NII	1.8%	7.0%	39.0%	31.1%	33.4%
Non-interest Income	-19.4%	-7.7%	41.6%	38.3%	39.6%
Operating Expenses	-19.8%	34.6%	34.2%	26.9%	15.5%
Operating Profits	22.0%	-18.2%	45.9%	37.8%	54.9%
Core Operating profit	20.9%	-17.8%	45.3%	37.8%	54.9%
Provisions	198.1%	-94.6%	63.8%	27.6%	20.4%
Reported PAT	nm	nm	40.3%	39.6%	60.6%
Yields / Margins (%)					
Interest Spread	6.77%	6.71%	6.74%	6.89%	7.03%
NIM	7.36%	7.75%	8.47%	8.14%	7.97%
Profitability (%)					
ROA	-3.93%	2.53%	2.75%	2.87%	3.40%
ROE	-22.6%	9.1%	8.4%	10.7%	15.4%
Cost to Income	44.6%	57.0%	54.9%	52.9%	45.6%
Asset quality (%)					
Gross NPA	3.98%	2.74%	1.87%	1.67%	1.59%
LLP	6.95%	4.10%	3.25%	1.37%	1.28%
Capital Adequacy (%)					
Tier I	17.36%	46.61%	37.05%	30.19%	25.78%
CAR	20.29%	49.06%	42.20%	34.37%	29.19%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
NII / Assets	7.85%	8.05%	8.70%	8.52%	8.41%
Other Income / Assets	0.95%	0.84%	0.93%	0.96%	0.99%
Total Income / Assets	8.80%	8.90%	9.63%	9.48%	9.40%
Cost / Assets	3.92%	5.07%	5.29%	5.01%	4.28%
PPP / Assets	4.88%	3.83%	4.34%	4.47%	5.11%
Provisions / Assets	10.18%	0.52%	0.67%	0.63%	0.56%
PBT / Assets	-5.30%	3.31%	3.68%	3.83%	4.55%
Tax rate	25.2%	23.7%	25.2%	25.2%	25.2%
ROA	-3.93%	2.53%	2.75%	2.87%	3.40%
Leverage	6.0	2.7	3.3	4.1	4.9
ROE	-22.6%	9.1%	8.4%	10.7%	15.4%

Source: Company, JM Financial

Valuations					
Y/E March	FY21A	FY22A	FY23E	FY24E	FY25E
Shares in Issue	269.6	764.9	764.9	764.9	764.9
EPS (INR)	-20.7	4.9	6.9	9.6	15.4
EPS (YoY) (%)	nm	nm	39.7%	39.6%	60.6%
P/E (x)	-13.5	56.8	40.7	29.1	18.1
BV (INR)	81	79	85	93	107
BV (YoY) (%)	-20.2%	-2.7%	7.4%	9.6%	14.3%
P/BV (x)	3.43	3.52	3.28	2.99	2.62
DPS (INR)	0.0	0.4	1.0	1.4	2.0
Div. yield (%)	0.0%	0.1%	0.4%	0.5%	0.7%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

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