

Poonawalla Fincorp

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	POONAWAL IN
Equity Shares (m)	765
M.Cap.(INRb)/(USDb)	222.2 / 2.7
52-Week Range (INR)	344 / 209
1, 6, 12 Rel. Per (%)	16/-1/1
12M Avg Val (INR M)	1253

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Net Total Income	14.2	20.7	28.7
PPOP	6.0	12.9	20.2
PAT	5.7	9.3	13.1
EPS (INR)	7.5	12.1	17.1
EPS Gr. (%)	95.4	62.0	40.9
Standalone BV (INR)	82	134	151

Ratios

NIM (%)	9.4	10.2	10.2
C/I ratio (%)	57.7	37.5	29.8
RoAA (%)	3.8	4.6	4.8
RoE (%)	9.6	11.2	12.0
Payout (%)	10.7	8.2	11.7

Valuations

P/E (x)	38.7	23.9	17.0
P/BV (x)	3.5	2.2	1.9
Div. Yield (%)	0.3	0.3	0.7

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	62.1	61.5	68.3
DII	4.5	5.2	6.6
FIIFII	7.3	7.5	5.8
Others	26.2	25.9	19.4

FII Includes depository receipts

CMP: INR290

TP: INR350 (+21%)

Buy

Steady performance; sequential NIM expansion of 30bp

Profitability buoyed by continued provision write-backs

- PFL's 3QFY23 standalone PAT grew 88% YoY to ~INR1.5b (inline). The healthy operational performance was driven by ~33bp QoQ expansion in margins and provision write-backs of ~INR450m. 9MFY23 PAT grew ~98% YoY to ~INR4b.
- 3QFY23 NII grew 24% YoY to INR3b, while PPOP grew 36% YoY to INR1.56b (inline). The company is focused on improving productivity, supported by digitization and is reasonably confident of scaling up its businesses without incurring additional manpower expenses.
- PFL has laid down a robust foundation for sustainable profitability through initiatives that will lead to lower operating costs (as a % of AUM), higher business volumes and robust asset quality. We model a standalone AUM/PAT CAGR of ~40%/51%, respectively, over FY23-FY25E and expect PFL to deliver a RoA/RoE of 4.8%/12%, respectively, in FY25.
- The company has strong moats on the liability front, supported by its strong parentage. At its current size (one-fifth to one-tenth of peers in similar segments), a huge opportunity beckons in its target product segments and with a healthy capital position we believe PFL has a strong and long runway for growth ahead. **We reiterate our Buy rating on the stock with a TP of INR350 (premised on 2.3x FY25E BVPS).**

Healthy disbursement growth, aided by improving DDP mix

- Standalone AUM grew 28%/6% YoY/QoQ to INR139.3b. Focused AUM grew 75% YoY and contributes ~91% to AUM mix (PY: 67%).
- Standalone disbursements were at the highest-ever and grew 157% YoY to INR33.7b. 9MFY23 disbursements grew 88% YoY to ~INR94b.
- Unsecured professional, personal, and business loans contributed 68% to the disbursement mix and ~43% to the standalone AUM at ~INR61b.
- The company continued to focus on diversified product segments with accelerated customer acquisitions and lower acquisition costs, supported by Direct, Digital and partnerships (DDP). Sourcing through DDP increased to 66% in 3QFY23 (v/s 54% in 2QFY23).

Strong risk management driving healthy asset quality

- Asset quality remains pristine with GS3/NS3 at 1.7%/0.9%, respectively, and the PCR on S3 loans improving ~50bp QoQ to ~48%. Sustenance of healthy asset quality was driven by high credit bureau score portfolio, superior collection infrastructure, and close monitoring of early warning signals.
- The defocused book currently at ~INR8b (on-book) is estimated to run-down to INR5b by Mar'23 and become insignificant by Jun'23. Recoveries from the written-off book should translate into continued write-backs over the next two quarters.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- On a steady state basis, the management guided for NIM of 10% and credit costs of 0.8%-1.2%.
- Guided for INR300m quarterly reduction in employee expenses and INR200m quarterly reduction in ESOP charge from 1QFY24 onwards.
- Guided for a mix of 70% Unsecured and 30% Secured products over a period of two-three years.

Valuation and view

- Consumer and small business finance – the segments targeted by PFL – have a huge market opportunity. While the early green shoots of a transformed company are slowly becoming visible, PFL has laid down a robust foundation for sustainable profitability through initiatives that will lead to lower operating costs (as a % of AUM), higher business volumes, and robust asset quality.
- We believe that the company has levers to maintain margins of ~10.2% over FY24-FY25. We expect recoveries from the legacy written-off portfolio to continue in 4QFY23 and even in early FY24. We model credit costs of 1.2% in FY25E.
- Strong leadership team across functions, realignment of the customer and product segments, and focus on leveraging technology/analytics position PFL well to build scale and deliver superior risk-adjusted returns. We **reiterate our Buy rating with a TP of INR350 (premised on 2.3x FY25E BVPS)**.
- **Key downside risks:** a) Inability to execute its articulated strategy despite a new management team and investments in technology and processes and b) aggressive competitive landscape leading to pressure on spreads/margins and/or deterioration in asset quality.

Quarterly Performance (Standalone)

(INR M)

Y/E March	FY22				FY23E				FY22	FY23E	3QFY23E	v/s Est.
	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23				
Interest Income	3,581	3,727	3,675	3,602	3,857	4,179	4,605	5,237	14,586	17,878	4,745	-3
Interest Expenses	1,468	1,282	1,239	1,104	1,187	1,441	1,593	1,853	5,093	6,074	1,709	-7
Net Interest Income	2,113	2,445	2,437	2,498	2,670	2,738	3,012	3,384	9,493	11,803	3,037	-1
YoY Growth (%)	-1.6	4.1	12.1	15.9	26.3	12.0	23.6	35.5	7.6	24.3	24.6	
Other Income	193	244	267	381	434	627	588	767	1,085	2,416	639	
Total Income	2,306	2,690	2,704	2,879	3,103	3,365	3,600	4,151	10,578	14,219	3,676	-2
YoY Growth (%)	-1.2	0.4	9.0	12.6	34.6	25.1	33.2	44.2	5.5	34.4	35.9	
Operating Expenses	1,298	1,466	1,555	1,727	1,926	2,107	2,043	2,127	6,046	8,202	2,150	-5
Operating Profit	1,008	1,223	1,149	1,152	1,178	1,257	1,558	2,024	4,532	6,017	1,526	2
YoY Growth (%)	-13.7	-19.1	-19.0	-15.5	16.8	2.8	35.6	75.8	-17.0	32.8	32.8	
Provisions & Loan Losses	379	240	81	-14	-164	-482	-452	-406	686	-1,505	-400	13
Profit before Tax	629	984	1,068	1,165	1,550	1,740	2,010	2,221	3,846	7,521	1,926	4
Tax Provisions	130	243	266	274	313	438	506	533	914	1,790	481	5
Net Profit	498	740	802	891	1,237	1,302	1,504	1,688	2,932	5,731	1,444	4
YoY Growth (%)	84.6				148.2	75.8	87.5	89.4	-150.7	95.5	80.0	
Key Parameters (Calc., %)												
Yield on loans		16.0	15.0	14.1	13.9	14.1	14.6	14.7				
Cost of funds		9.1	8.0	7.5	7.0	7.2	7.5	8.0				
Spread		6.9	7.0	6.6	6.9	6.9	7.1	6.7				
NIM on loans		10.5	9.9	9.8	9.7	9.2	9.6	0.0				
C/l ratio	56.3	54.5	57.5	60.0	62.1	62.6	56.7	51.2				
Credit cost		0.2	0.1	0.0	-0.1	-0.4	-0.3	-0.3				
Tax rate	20.7	24.7	24.9	23.5	20.2	25.2	25.2	24.0				
Balance Sheet Parameters												
Disbursements (INR b)	14.8	21.9	13.1	25.4	29.0	31.1	33.7	40.1				
Growth (%)	1,688.0	289.0	56.7	169.5	95.5	42.0	157.2	58.0				
AUM (INR b)	104	113	109	118	126	132	139	153				
Growth (%)	-17.1	-6.2	-3.4	14.8	21.5	16.8	27.6	29.8				
AUM mix (%)												
Focused		61.2	66.8	74.7	81.9	88.3	91.4					
Discontinued		38.8	33.2	25.3	18.1	11.7	8.6					
Asset Quality Parameters												
GS 3 (INR m)	6,380	5,090	4,200	3,720	3,270	2,240	2,230					
GS 3 (%)	6.4	4.8	4.0	3.3	2.7	1.8	1.7					
NS 3 (INR m)	3,040	2,340	2,000	1,440	1,340	1,180	1,170					
NS 3 (%)	3.2	2.3	2.0	1.3	1.1	0.9	0.9					
PCR (%)	52.4	54.0	52.4	61.3	59.0	47.3	47.5					

E: MOFSL estimates



Highlights from the management commentary

Performance update

- PAT grew 88% YoY/16% QoQ to INR1.5b; RoA stood at 4.0%
- Delivered the higher-ever standalone quarterly disbursements
- Standalone AUM grew 28% YoY to INR139b, despite a sharp reduction in the legacy book. Focused AUM grew 75% YoY.
- Continued to focus on diversified product segments. DDP has accelerated the customer acquisition and lowered the acquisition costs.
- NIM stood at 10.7% in 3QFY23 (94bp YoY/33bp QoQ)
- Average CoB increased ~38bp QoQ to 7.54% despite the rising rate environment. Long-term credit rating of AAA by CARE further helped the CoB.

Margins

- Average blended yields stood at 15%
- The company increased lending rates by 1.5%-2.0% and started focusing on a lot of cross-selling and fee-based income.
- There is enough buffer for short-term loans to offset the impact on CoB in this rising rate environment.

Operating Expenses

- The company is in the process of consolidation of both manpower and branches. It has already executed the manpower consolidation and it is expected to be completed in the next one-two quarters
- Branches are used mostly for collections and customer servicing. In the medium term, it will only have a physical network of ~100 branches spread across 22 States.
- Focus is on improving productivity. Further, business scale-up will not lead to additional manpower requirement.
- The management guided for INR300m quarterly reduction in employee expenses and INR200m quarterly reduction in ESOP charge from 1QFY24.

Asset Quality

- The company continued to have recoveries from the write-off pool and expects the same in the near future as well.
- DA acquired loan book of INR22b has 90+ dpd <1%
- Total value of SRs: INR2b and these are all from the sales of the legacy book.
- INR8b of write-off pool and expects recoveries of ~INR1.50b over the next two quarters. The company expects provision write-backs to continue for the next one-two quarters.

Product offerings

- The company plans to further expand the product offerings within the next two quarters - Consumer finance and transaction credit.
- PFL is working on the cards-based product, which is expected to take another two-three quarters

Guidance

- Long-term guidance on financial metrics: AUM growth of 35-40%; PAT growth of 30-35%
- On a steady state basis, the management guided for NIM of 10%
- ESOP charge is expected to decline to ~INR800m in FY24 and ~INR200-300m in FY25
- The management guided for a mix of 70% Unsecured (Small business loans and Consumer Loans) and 30% Secured products (Pre-owned Cars, LAP and Machinery Loans) over a period of two to three years.
- The management guided for steady-state credit costs of 0.8%-1.2%

Sourcing and Origination

- Partnerships: Cars24, KreditBee, and UGRO Capital
- Sourcing Mix: Direct: 80% and Partnerships: 20%

- Market share in Loans to professionals: Penetrated >3% of the total chartered accountants.

Sale of the HFC business

- The management expects to receive all regulatory approvals within the next three to four months
- The company does not foresee itself entering into the wholesale or mid-Corporate Segment for at least the next five years.
- There is no need for any inorganic acquisition and organic disbursements should suffice for delivering 35-40% AUM CAGR

Others

- The company recently launched consumer finance at the pan-India level
- 100-110 branches over the next 4-5 years; 80-85% of the business will be covered through these 100 branches
- Pre-owned CARS / LAP - Require physical interventions; all other products are digital native
- 400-500 people will be employed in collections across 20-22 states. PFL does not cater to new-to-credit customers. They are all credit-tested customers. 500 people will do 1-90 bucket collections and the 90+dpd collections will be outsourced.
- Legacy Book will be <INR5b by Mar'23 and insignificant by Jun'23
- DA book will be there for the next 18 months, by when, the management expects majority of the DA book to run down
- Active borrowers: >1.0m; Total customers served till date >2.0m. The management expects to cross INR10m customer base within the next three years.

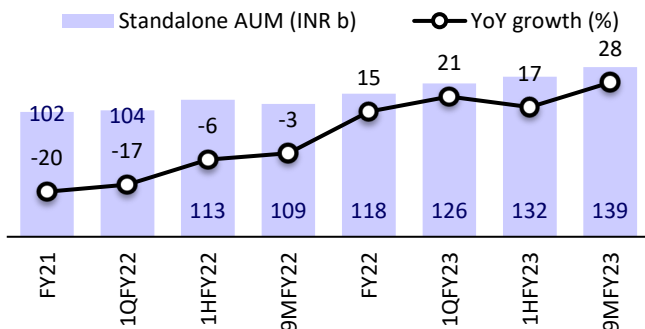
Product-wise details

Product	Outstanding AUM (INR b)	Quarterly disbursements (INR b)
Professional, personal and business loans	60.8	23.0
LAP	15.9	4.2
Existing acquired	22.0	0.0
Magma legacy book	11.9	0.0
Auto lease	3.3	1.0
Pre-owned cars	24.6	5.0
Supply Chain	1.0	0.2
Machinery and Equipment	0.6	0.3
Total	139.3	33.7

Product	IRR (%)	Credit costs (%)	Recovery (%)
Business loans	18.5 (excl. 2% processing fees and insurance income)	1.5%	25%
Small Business loans	21%	2%-2.5%	25%
Digital consumption and small personal loans	18%-19%	1.25%	
Pre-owned cars	15.5%	1%	

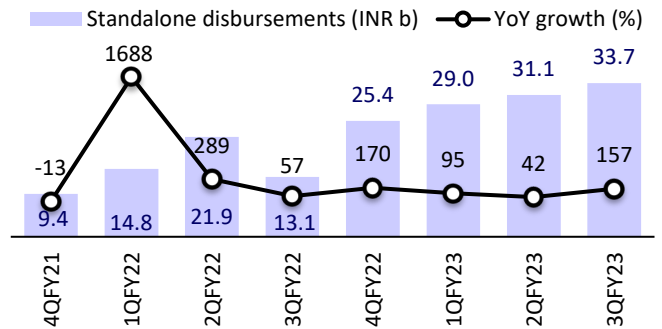
Story in charts

Exhibit 1: AUM growth healthy at 28% YoY (%)



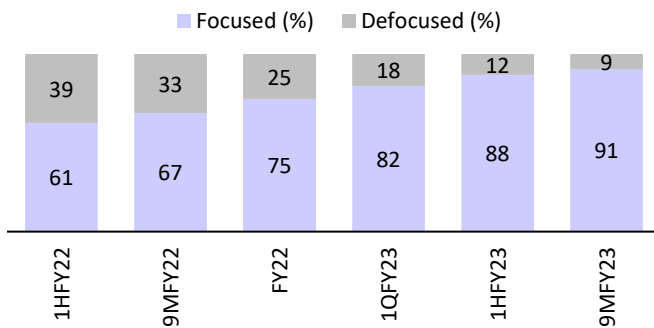
Source: MOFSL, Company

Exhibit 2: PFL recorded the highest ever quarterly disbursements



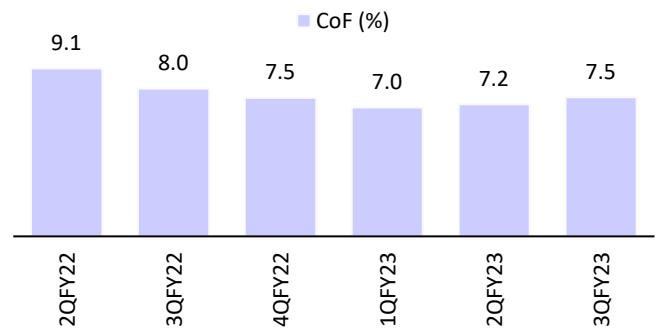
Source: MOFSL, Company

Exhibit 3: Contribution of focused book improving gradually



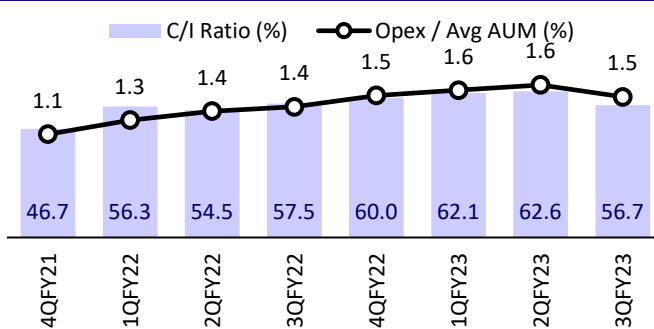
Source: MOFSL, Company

Exhibit 4: CoF increased ~40bp sequentially (%)



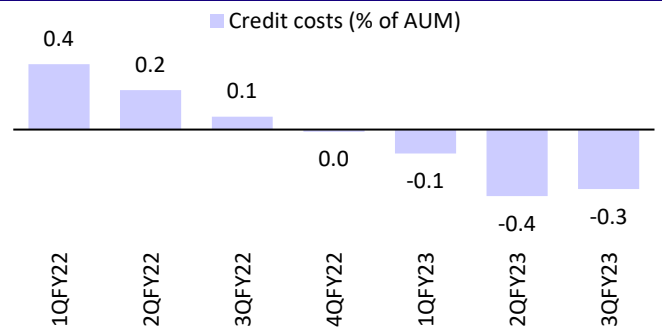
Source: MOFSL, Company

Exhibit 5: Improvement in cost ratios driven by operating leverage (%)



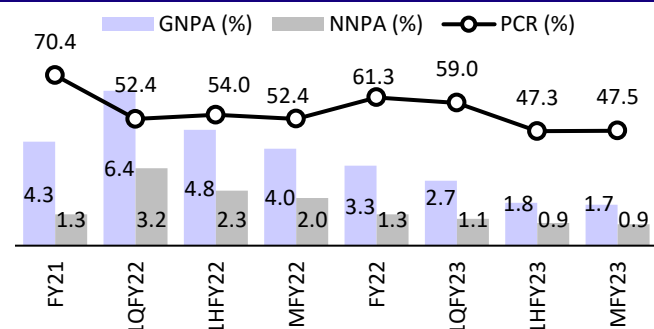
Source: MOFSL, Company

Exhibit 6: Provision write-backs drove steady profitability



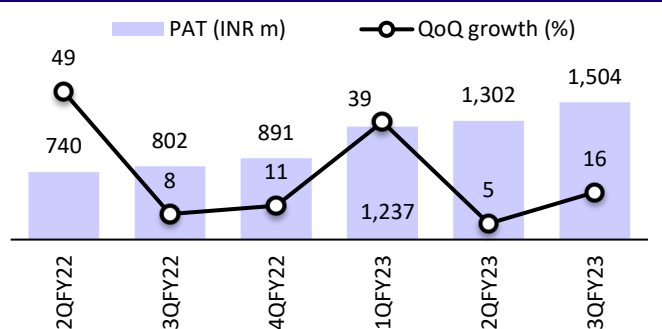
Source: MOFSL, Company

Exhibit 7: Asset quality largely stable sequentially (%)



Source: MOFSL, Company

Exhibit 8: PAT grew ~88% YoY (%)



Source: MOFSL, Company

Exhibit 9: Our FY23/FY24E EPS estimates remain largely unchanged

INR B	Old Est.			New Est.			% change		
	FY23	FY24	FY25	FY23	FY24	FY25	FY23	FY24	FY25
NII (incl. assignments)	12.4	18.6	26.4	11.8	18.1	25.6	-4.7	-2.8	-3.1
Other Income	2.2	2.8	3.4	2.4	2.6	3.2	10.5	-7.5	-5.5
Total Income	14.6	21.4	29.7	14.2	20.7	28.7	-2.4	-3.4	-3.3
Operating Expenses	8.4	8.3	9.4	8.2	7.8	8.6	-2.3	-7.0	-9.0
Operating Profits	6.2	13.1	20.3	6.0	12.9	20.2	-2.5	-1.1	-0.7
Provisions	-1.3	0.8	3.0	-1.5	0.8	3.0	11.9	-8.4	-0.6
PBT	7.5	12.3	17.3	7.5	12.2	17.2	0.0	-0.7	-0.7
Tax	1.8	2.9	4.1	1.8	2.9	4.1	0.0	-0.7	-0.7
PAT	5.7	9.3	13.2	5.7	9.3	13.1	0.0	-0.7	-0.7
AUM	154	215	299	153	214	297	-0.6	-0.4	-0.5
Loans	144	211	293	144	210	292	-0.6	-0.4	-0.5
Borrowings	104	125	197	104	124	196	-0.6	-0.4	-0.5
NIM	9.9	10.5	10.5	9.4	10.2	10.2			
Credit Cost	-1.0	0.5	1.2	-1.2	0.4	1.2			
RoA	3.8	4.6	4.8	3.8	4.6	4.8			
RoE	9.6	11.3	12.1	9.6	11.2	12.0			

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR M)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	19,319	20,365	20,228	17,570	14,586	17,878	26,754	38,033
Interest Expenses	10,126	10,176	11,240	8,746	5,093	6,074	8,672	12,456
Net Interest Income	9,193	10,189	8,988	8,824	9,493	11,803	18,082	25,577
Change (%)		10.8	-11.8	-1.8	7.6	24.3	53.2	41.4
Non-interest income and Other Income	1,666	2,308	1,962	1,199	1,085	2,416	2,606	3,173
Net Total Income	10,859	12,497	10,951	10,023	10,578	14,219	20,688	28,749
Change (%)		15.1	-12.4	-8.5	5.5	34.4	45.5	39.0
Total Operating Expenses	5,522	6,018	5,968	4,563	6,046	8,202	7,752	8,570
Change (%)		9.0	-0.8	-23.5	32.5	35.7	-5.5	10.5
Employee Expenses	3,306	3,804	3,741	3,060	4,099	5,328	4,476	4,834
Depreciation	490	502	716	522	495	579	637	701
Other Operating Expenses	1,726	1,712	1,487	981	1,453	2,295	2,639	3,035
PPoP	5,337	6,479	4,982	5,460	4,532	6,017	12,936	20,180
Change (%)		21.4	-23.1	9.6	-17.0	32.8	115.0	56.0
Total Provisions	2,966	2,450	4,640	13,186	686	-1,505	755	3,013
PBT	2,371	4,029	342	-7,727	3,846	7,521	12,181	17,166
Tax Provisions	359	1,278	442	-1,943	914	1,790	2,899	4,086
Tax Rate (%)	15.1	31.7	129.3	25.1	23.8	23.8	23.8	23.8
PAT	2,012	2,751	-100	-5,784	2,932	5,731	9,282	13,081
Change (%)						95.5	62.0	40.9

Balance Sheet						(INR M)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	474	539	539	539	1,530	1,530	1,530	1,530
Reserves & Surplus	17,634	25,019	24,614	18,881	55,615	61,040	1,01,310	1,13,626
Net Worth	18,108	25,558	25,153	19,421	57,145	62,571	1,02,840	1,15,156
Borrowings	1,10,980	1,17,497	1,00,595	79,487	67,734	1,03,859	1,24,340	1,96,277
Change (%)								
Other liabilities	6,593	6,820	3,803	4,512	3,217	4,022	5,228	6,535
Total Liabilities	1,35,681	1,49,876	1,29,552	1,03,420	1,28,097	1,70,451	2,32,408	3,17,968
Loans	1,21,544	1,31,379	1,11,749	85,653	1,06,784	1,43,575	2,10,282	2,91,779
Change (%)	0.0	8.1	-14.9	-23.4	24.7	34.5	46.5	38.8
Cash and Bank Balances	3,978	9,327	6,484	6,124	5,372	10,195	12,832	15,965
Fixed Assets	1,921	1,871	2,267	1,715	1,748	1,888	2,039	2,243
Investments	3,056	3,024	4,024	4,289	8,197	8,197	0	0
Other assets	5,182	4,275	5,028	5,638	5,996	6,596	7,256	7,981
Total Assets	1,35,681	1,49,876	1,29,552	1,03,420	1,28,097	1,70,451	2,32,408	3,17,968

E: MOFSL Estimates

Financials and valuations

AUM								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM (INR b)	139.9	138.7	128.5	102.5	117.7	152.7	214.4	297.4
YoY growth (%)	-5	-1	-7	-20	15	30	40	39
Disbursements (INR b)	67.5	76.7	50.5	24.2	75.2	133.9	180.8	222.4
YoY growth (%)		14	-34	-52	210	78	35	23

E: MOFSL Estimates

Ratios								
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)								
Avg. Yield on Loans	15.7	15.8	16.3	17.5	14.9	14.0	14.7	14.8
Avg Cost of Funds	9.5	8.9	10.3	9.7	6.9	7.1	7.6	7.8
Spread on loans	6.1	6.9	6.0	7.8	8.0	6.9	7.1	7.0
NIM (on loans)	7.6	8.1	7.4	8.9	9.9	9.4	10.2	10.2

Profitability Ratios (%)								
RoE	11.7	12.6	-0.4	-26.0	7.7	9.6	11.2	12.0
RoA	1.5	1.9	-0.1	-5.0	2.5	3.8	4.6	4.8
Int. Expended / Int.Earned	52.4	50.0	55.6	49.8	34.9	34.0	32.4	32.8
Other Inc. / Net Income	15.3	18.5	17.9	12.0	10.3	17.0	12.6	11.0

Efficiency Ratios (%)								
Op. Exps. / Net Income	50.9	48.2	54.5	45.5	57.2	57.7	37.5	29.8
Opex/ Avg AUM	3.9	4.3	4.5	4.0	5.5	6.1	4.2	3.3
Empl. Cost/Op. Exps.	59.9	63.2	62.7	67.1	67.8	65.0	57.7	56.4

Asset-Liability Profile (%)								
Loans/Borrowings Ratio	1.1	1.1	1.1	1.1	1.6	1.4	1.7	1.5
Debt/Equity (x)	6.1	4.6	4.0	4.1	1.2	1.7	1.2	1.7
Assets/Equity (x)	7.5	5.9	5.2	5.3	2.2	2.7	2.3	2.8

Asset quality								
GNPA (INR m)				4,190	3,720	2,346	3,001	3,866
GNPA (%)				4.3	3.3	1.6	1.4	1.3
NNPA (INR m)				1,240	1,440	1,173	1,441	1,778
NNPA (%)				1.3	1.3	0.8	0.7	0.6
PCR (%)				70.4	61.3	50.0	52.0	54.0
Credit costs (%)	2.4	1.9	3.8	13.4	0.7	-1.2	0.4	1.2

Valuations								
	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (INR)	76	95	93	72	75	82	134	151
BV Growth (%)	11.0	24.2	-1.7	-22.8	3.7	9.5	64.4	12.0
Price-BV (x)	3.8	3.1	3.1	4.0	3.9	3.5	2.2	1.9
EPS (INR)	8.5	10.2	-0.4	-21.5	3.8	7.5	12.1	17.1
EPS Growth (%)		20.3	-103.6	5,675.2	-117.9	95.4	62.0	40.9
Price-Earnings (x)	34.2	28.4	-780.8	-13.5	75.7	38.7	23.9	17.0
Dividend per share	0.0	0.0	0.0	0.0	0.4	0.8	1.0	2.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.7

E: MOFSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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