

Poonawalla Fincorp

Building a profitable Fintech at scale

The erstwhile Magma Fincorp, now Poonawalla Fincorp has seen perhaps, one of the fastest turnarounds in the BFSI sector. Poonawalla Fincorp (PFL) is now a tech led high growth NBFC backed by a strong promoter and having top-notch processes and best-in-class cost-of-funds. With digital as core for the new management, we expect robust growth, competitive cost of funds and tech savviness to drive a 38% loan CAGR over FY23-25e for the standalone unit. We retain our Buy stance on the company with a target price of Rs.417, valuing it at 3.0x FY25e standalone P/BV, derived using a multi-stage DDM method.

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Rating: Buy

Target Price: Rs.417

Current market price: Rs.286

Key data	POONAWAL IN
52-week high / low	Rs344 / 209
Sensex / Nifty	57960 / 17081
3-m average volume	\$8.3m
Market cap	Rs222bn / \$2691.3m
Shares outstanding	768m

Shareholding (%)	Dec'22	Sep'22	Jun'22
Promoters	62.1	61.5	61.5
- of which, Pledged	-	-	--
Free float	38.0	38.5	38.5
- Foreign institutions	7.3	7.5	7.4
- Domestic institution	4.5	5.2	5.7
- Public	26.2	25.9	25.5

Summary



Poonawalla Fincorp (PFL) is a tech led high growth NBFC backed by a strong promoter and having top-notch processes and best-in-class cost-of-funds. With digital at core for the new management, we expect robust growth, competitive cost of funds and tech savviness to drive a 38% loan CAGR over FY23-25e for the standalone unit. We retain our Buy stance on the company with a target price of Rs.417, valuing it at 3x FY25e standalone P/BV, derived using a multi-stage DDM method.

Journey to digital started well in 2015



After the erstwhile Magma Fincorp was taken over by the Poonawalla group in Q4 FY21, a major structural overhaul in management, strategy, processes and technology has been implemented. This transformation did not happen overnight. It was part of a well-thought-out strategy by Mr Bhutada, MD from 2015. Poonawalla Finance Pvt Ltd was already a well-established tech savvy fintech with a monthly disbursement of Rs1,500m prior to the acquisition. The systems and processes were implemented in PFL and now are ready at scale. We believe that its strong tech would allow faster product innovation and a low turnaround time. A best-in-class cost of funds and a strong capital base would buoy standalone AUM 38% CAGR over FY23-FY25

Low cost-of-funds and agile tech fuel customer mix to premium



A strong promoter has led to a steep, ~250bp, decline in cost of funds (post-takeover) for PFL in 18 months. A healthy balance sheet and competitive CoF (7.5% in Dec'22) will allow PFL to compete with larger NBFCs and banks. Magma had a DSA-heavy model, with high opex and prone to cyclical downturns. However, post-acquisition of Magma by PFL, its spending on tech has been comparable to the best in FY20 and FY21. We believe a competitive CoF advantage, tech-led model and superior customer experience would allow PFL to build a premium customer franchisee.

Conservative underwriting standards to keep credit cost benign



PFL has developed conservative underwriting practices(no new-to-credit) along with strong risk management, which resulted in 60+ DPD of sub-0.4% for the entire book (focused book) which originated over the last 15 months, including the Covid-19 period. Our channel checks suggests underwriting is prioritized over growth. Ahead, we expect credit cost to be benign, averaging ~1.1% of advances over FY24-FY25

Valuation

- PFL has the ability to grow its AUM 38%+ with sustainable RoAs of 3.8%+ in the medium to long run. With a strong parentage and focus on tech in place, it has resources to capture considerable market share. We have a Buy rating on it, with a TP of Rs417, derived using a multi-stage DDM method valuing it at 3.0x FY25e PBV(standalone).

Key risks

- Higher than expected slippages on account of slowdown in economy
- Increasing competition from banks in retail lending could impact loan growth

Financial Summary

Y/E March (Rs m)	FY21	FY22	FY23e	FY24e	FY25e
AUM	102,470	115,190	155,507	215,507	302,507
Net interest income	8,824	9,493	13,622	20,267	28,045
NIM (%)	7.6	8.7	10.1	10.9	10.8
PPOP	5,460	4,532	6,230	11,337	16,787
PAT (incl. extraordinary items)	-5,784	2,932	5,386	35,152	9,957
PAT (excl. extraordinary items)	(5,784)	2,932	5,386	7,429	9,957
EPS (Rs)	(21.5)	3.8	7.0	9.7	13.0
BV (Rs)	72.0	74.7	81.0	126.8	138.9
P/E (x)	(13.2)	73.6	40.1	29.1	21.7
P/BV (x)	3.9	3.8	3.5	2.2	2.0
Dividend yield (%)	-	0.1	0.2	0.1	0.3
RoA (%)	(5.0)	2.5	3.8	3.9	3.7
CRAR (%)	20.3	49.1	49.0	50.7	39.8

FY25e	Bear Case	Base Case	Bull case
AUM CAGR (FY22-25)	18%	38%	50%
BVPS (FY25)	115	139	155
PBV (multiple)	2.0x	3.0x	4.0x
Catalyst		<ul style="list-style-type: none"> Competitive CoF advantage Digital-focused model Strong underwriting 	

Tech journey starts in 2015

TAB Capital - a Profitable Fintech

- Mr Abhay Bhutada evolved from a channel partner in 2010 to a fintech in 2015 (TAB capital).
- This fintech dealt in a bouquet of retail and MSME loans with a monthly run-rate of Rs100m-150m.
- It was a profit-making fintech, as opposed to peers making losses.

Poonawalla Finance+ TAB Capital

- Mr. Abhay Bhutada joins Adar Poonawalla, decides to start a new venture named Poonawalla Finance
- Transferred business, team & technology of TAB Capital to Poonawalla Finance
- Mr Bhutada took charge as MD and CEO; Mr. Poonawalla as chairman
- The combined team started sourcing loans digitally with a run-rate of Rs1500m per month.
- In 2020 ,they reached AUM of Rs 10bn.

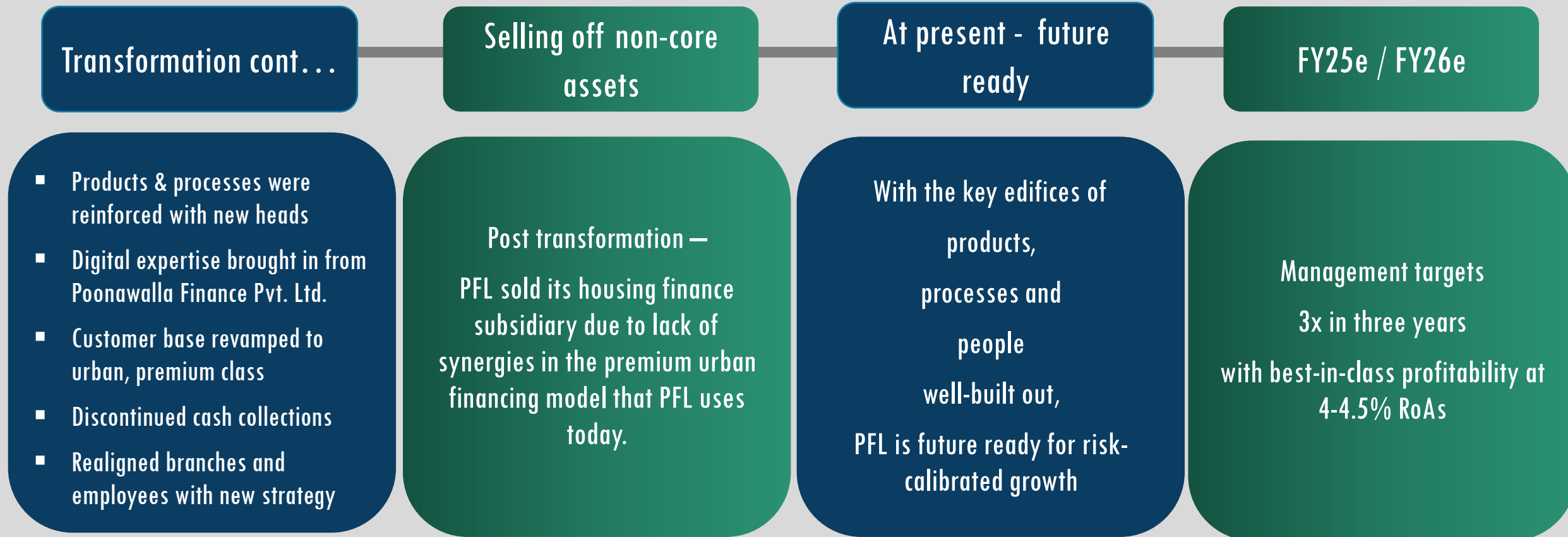
Poonawalla Group acquires Magma Fincorp

- Having got its tech and processes right, Poonawalla Finance realized that for scaling up, in-house collections and on-ground presence were necessary
- Magma provided the correct physical all-India infrastructure

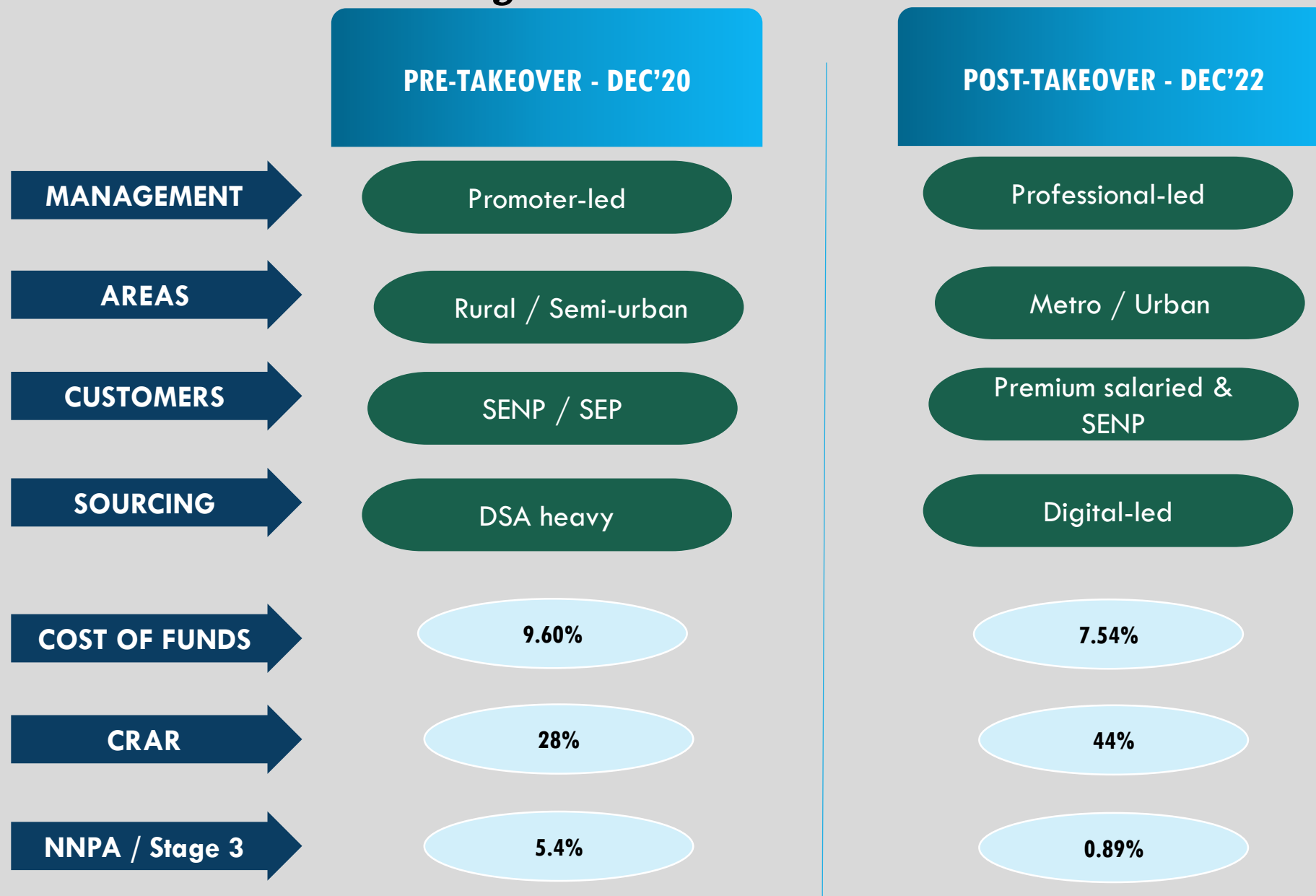
Transformation phase

- Post acquisition of Magma, rebranded itself as Poonawalla Fincorp Ltd
- Transferred business, team & technology of Poonawalla Finance to PFL
- PFL wrote off a substantial portion of delinquencies and over-dues of erstwhile Magma Fincorp to start with a clean state

The road ahead...



Transformation from fringe to frontline



Cost of funds	3QFY23
BAF	7.14%
PFL	7.54%
CIFC	7.70%
LTFH	7.54%

Vision 2025 to be among the top-3 NBFCs in consumer and MSMEs

VISION 2025

AUM

Risk-calibrated accelerated growth,
~3x FY21 AUM

Cost of funds

Among the lowest CoF in the industry,
~250bp reduction in CoF

NS3

Best-in-class asset quality;
NS3 < 1%

RoA

Sustainable RoA of 4-4.5%

PROGRESS (DEC'22)

AUM @ 1.3x FY21's,
Focused AUM @ 2.7x FY21's

Achieved — to continue to be the lowest cost
borrower

Achieved - NS3 @ 0.89%

Achieved 4.5% RoA

Agile tech and small team would drive rapid product augmentation

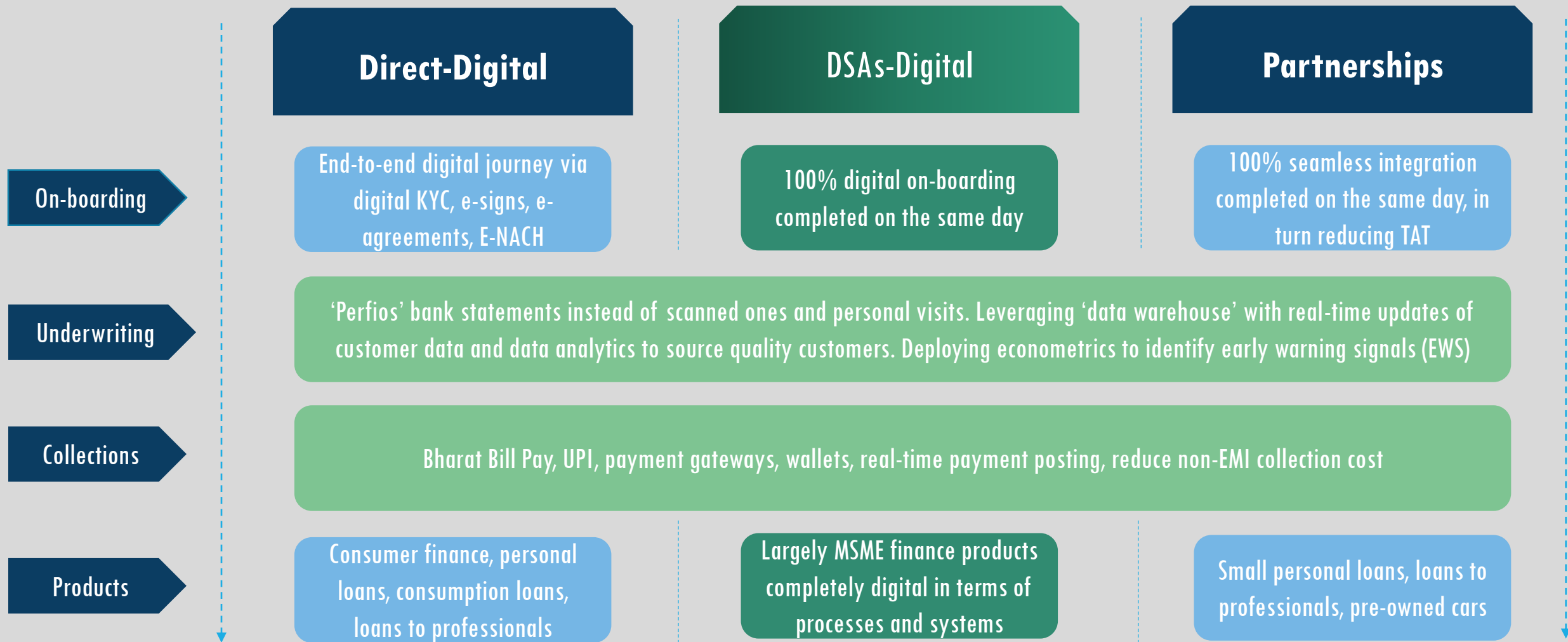
Existing products			Coming products
Digital business loans	Auto lease	Medical equipment loans	Credit cards
Digital personal loans	Machinery loans	Supply-chain finance	EMI cards
Digital loans to professionals	Digital consumption loan	Merchant cash advances	
Digital SME LAP	Pre-owned cars	Digital consumer finance	

Agile technology and processes allow PFL to create products and partnerships with a rapid TAT

Ahead, direct-digital sourcing will be the bigger pie, with sourcing through the super-app, Whatsapp, etc.

Changing DNA — Customer acquisition process at a glance

ANAND RATHI



Changing DNA - Enhanced customer service (360° view)

Self-service & FTR solutions	Customer interaction management	Customer insights	Promote & manage cross sell	Drive STP & FTR	STP servicing, process automation
Agent assist & customer 360	Omni-channel 360° view	NPS — VOC collections across lifecycle	Segmented campaign management in CRM	E-Nach status/curing/swapping	Unified Payment Platform
Loan details	Hyper-personalization for distinctive experience	NPS score addition & mapping in MSD CRM through all digital channels	STP fulfilment journey for pre-approved offers	E-Nach registration (tracking)	Real-time payment posting & receipting
One click send for customer requests	CRM to cloud telephony dialler integration	Customer sentiment analysis	Co-browser assisted journeys	CKYC/Re-KYC initiation	Proactive NOC issuance automation
Integration with insurance hub	Customer portal & mobile app	Building customer happiness quotient	Lead management & tracking	Personal data updation (email/mobile)	Closure & refund issuance automation
	Self serving kiosk at branches	Contextual hyper-personalized communication			
	Integrated communication hub				

Granular Product details

Pre-owned Cars

All-India operations;
110-120 branches

Monthly run-rate of
Rs1,800m

Digital sourcing (incl.
DSA and partnership
model)

Biggest partner of
POV

Yields of 14.5-15.5%

Auto lease

All-India operations;
110-120 branches

Monthly run-rate of
Rs300m

Business loans

All-India operations;
110-120 branches

Monthly run-rate of
Rs2,000m

DSA-digital sourcing

Yields of 18-19.5%

Personal loans

All-India operations;
110-120 branches

Monthly run-rate of
Rs6,000m

Direct-digital and
partnership sourcing

Yields of ~16%

LAP

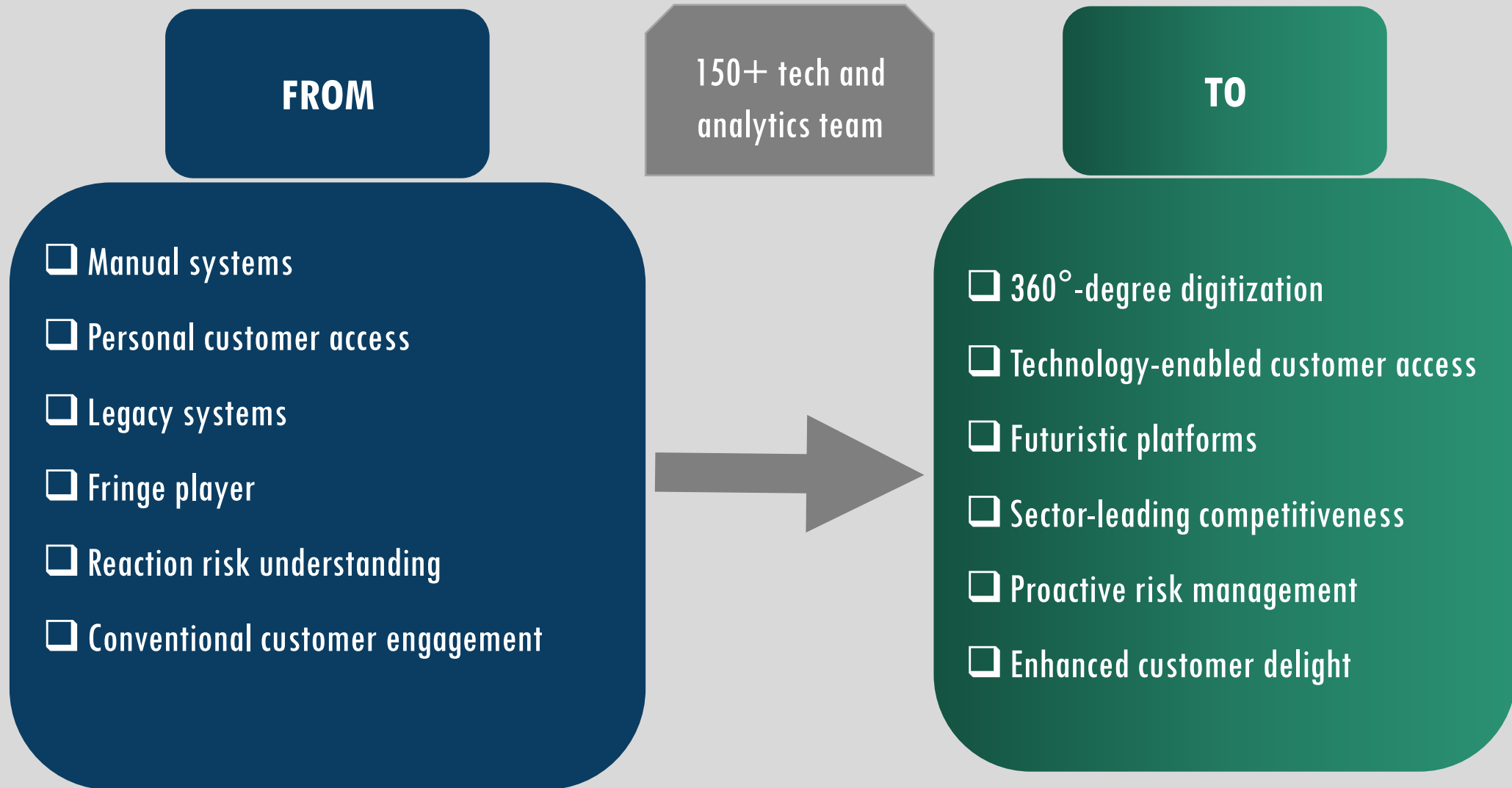
Operating at 30
locations

Monthly run-rate of
Rs2,000m

DSA-digital sourcing

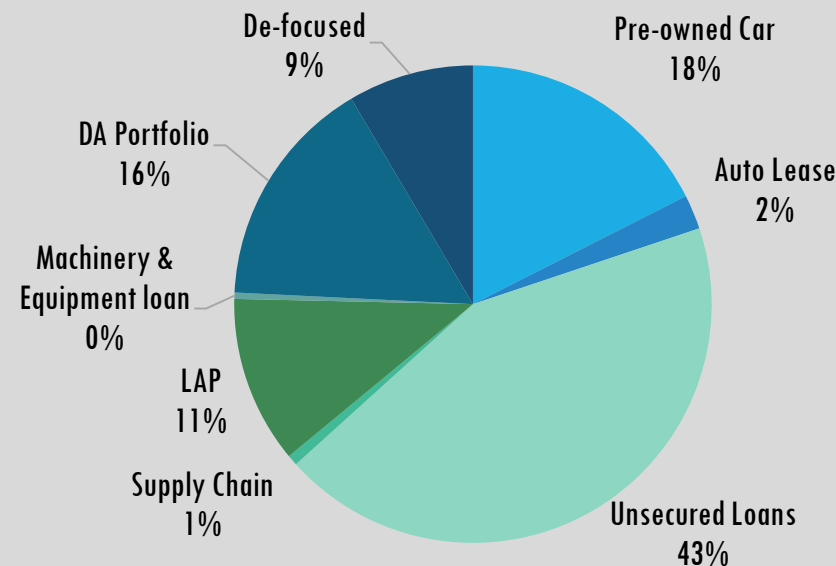
Yields of ~11-12%

Digital transformation objectives achieved

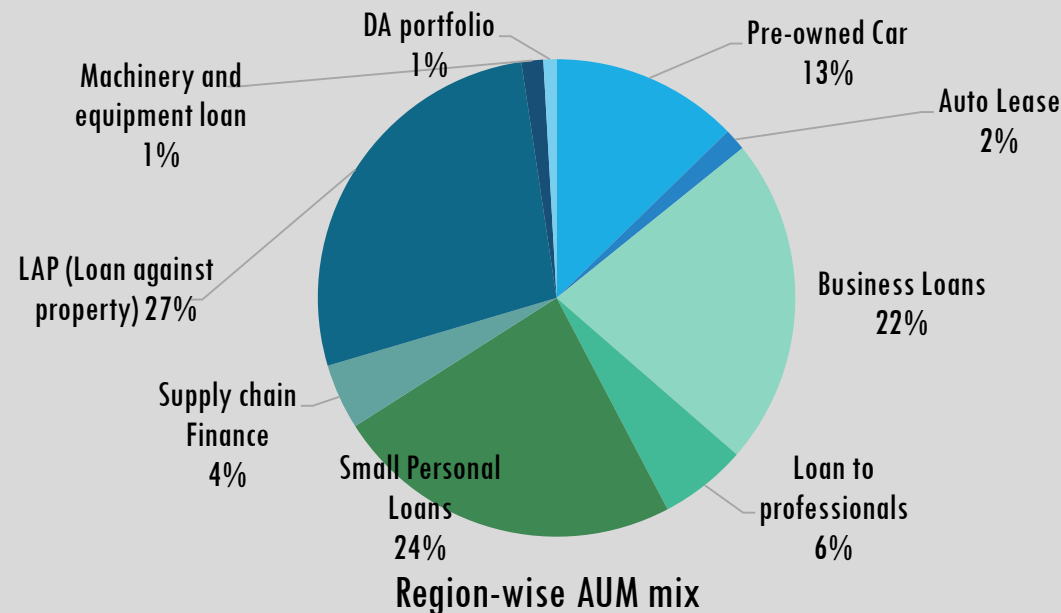


New products to drive growth

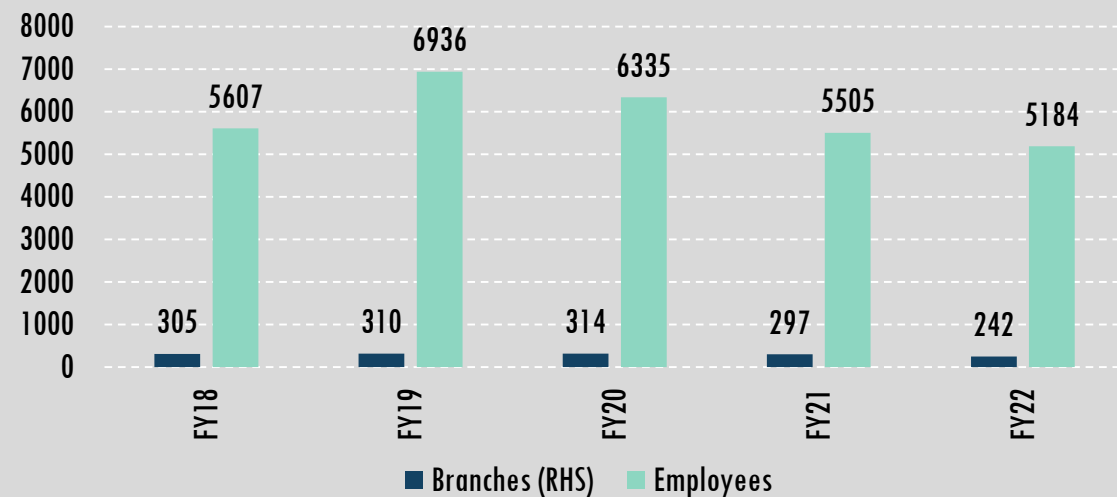
AUM mix in Q3 FY23



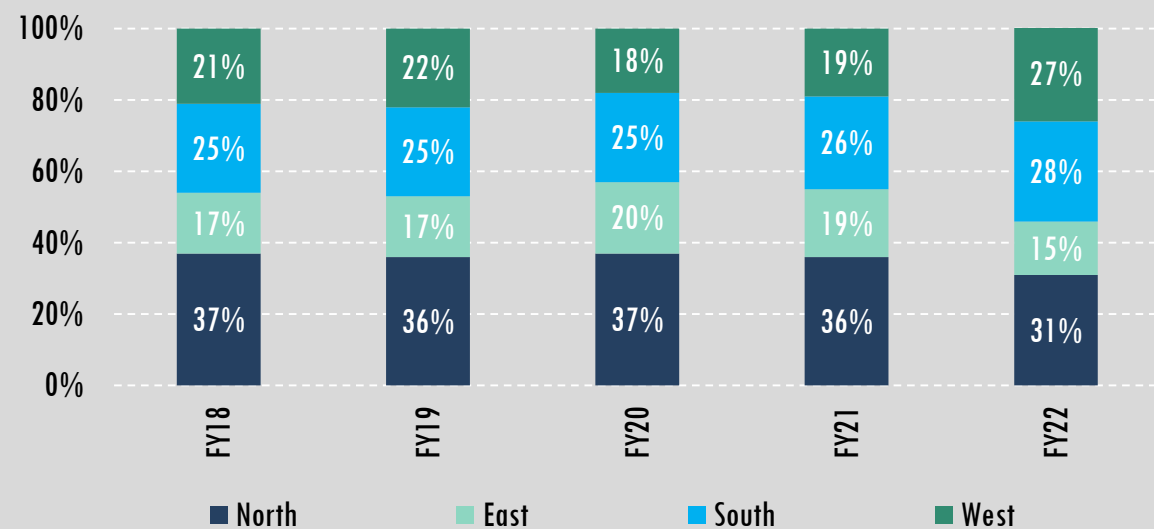
FY25e AUM mix –shift to more secured and business loans



Reducing reliance on branches & increasing reliance on tech workforce

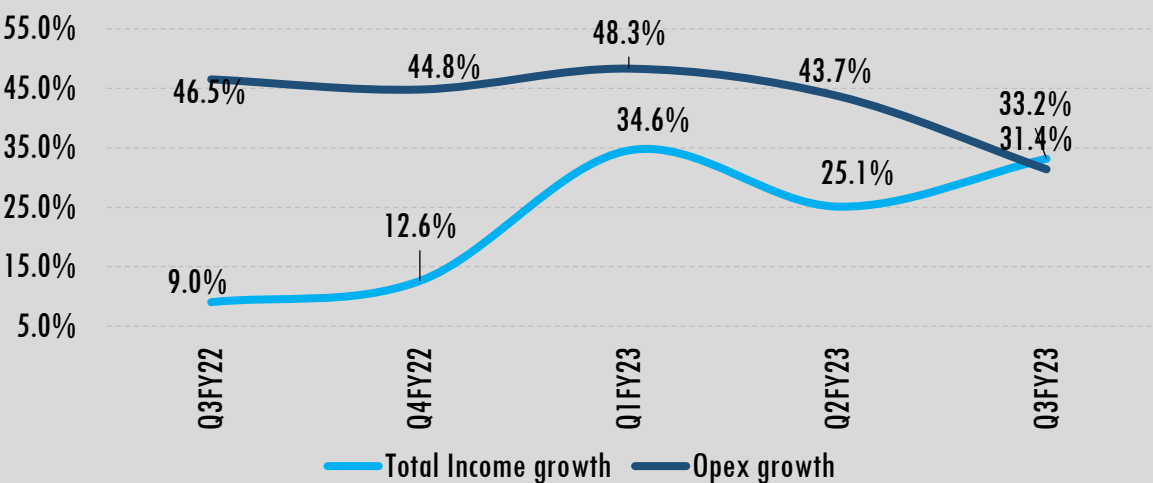


Region-wise AUM mix

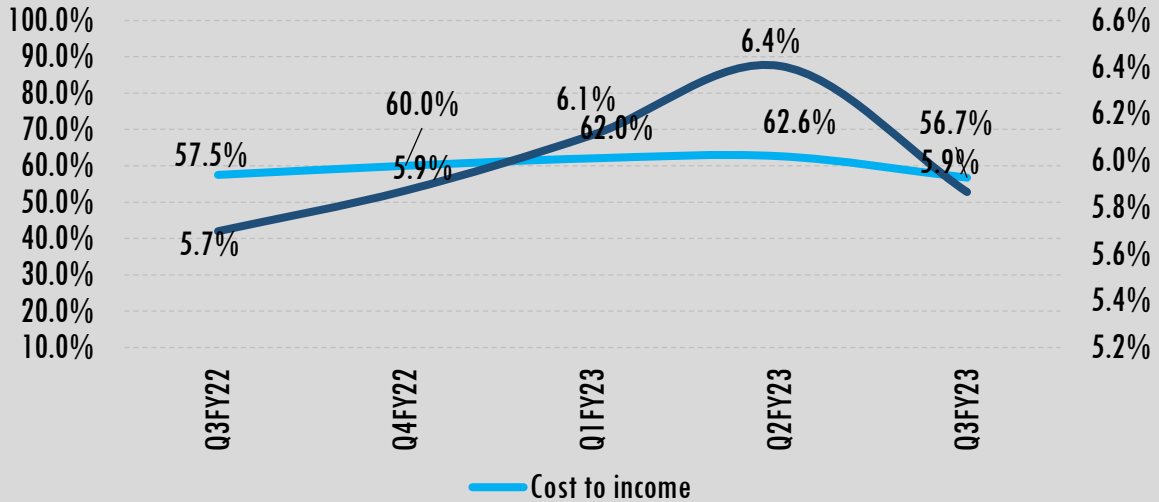


High NIM led by best-in-class CoF

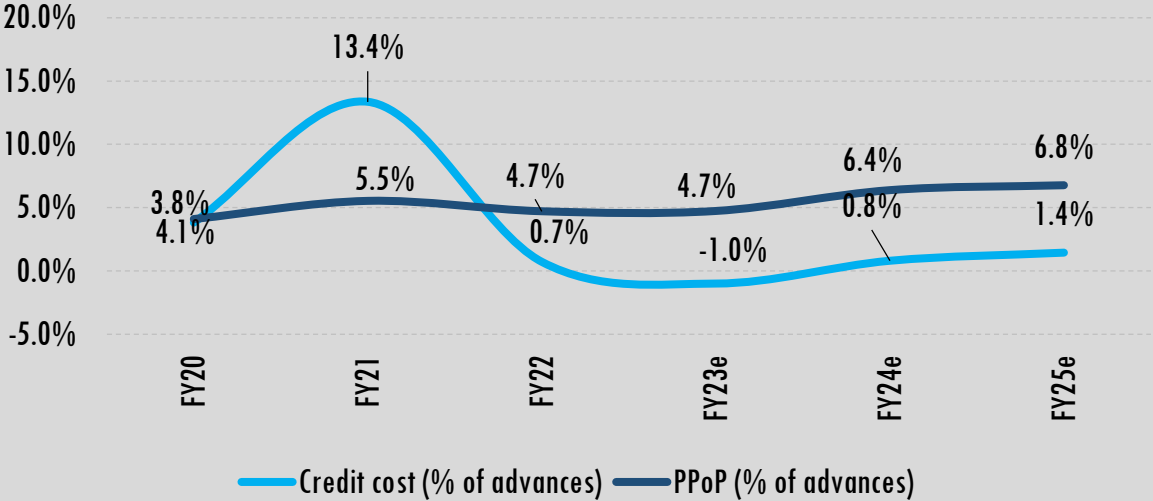
Income growth normalised



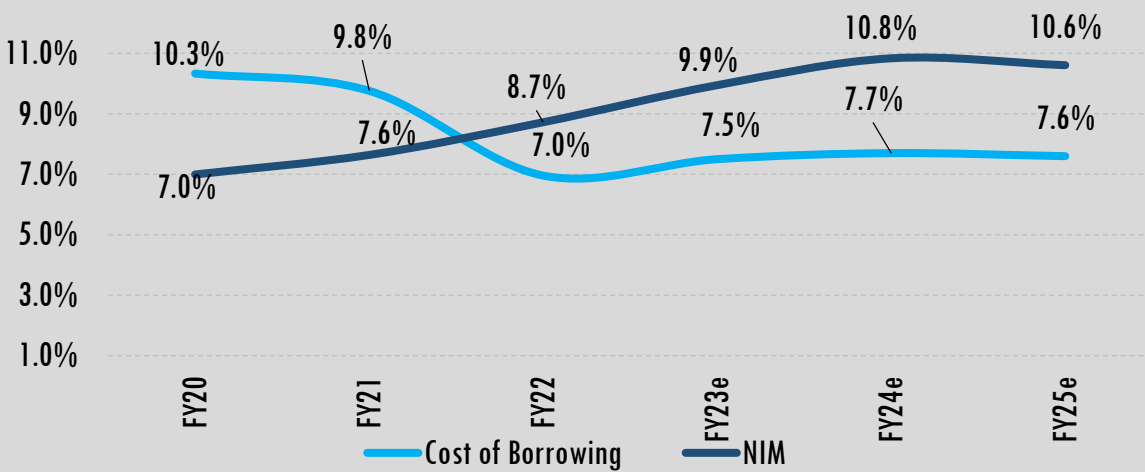
Operating leverage will start kicking in



Credit cost to stabilize

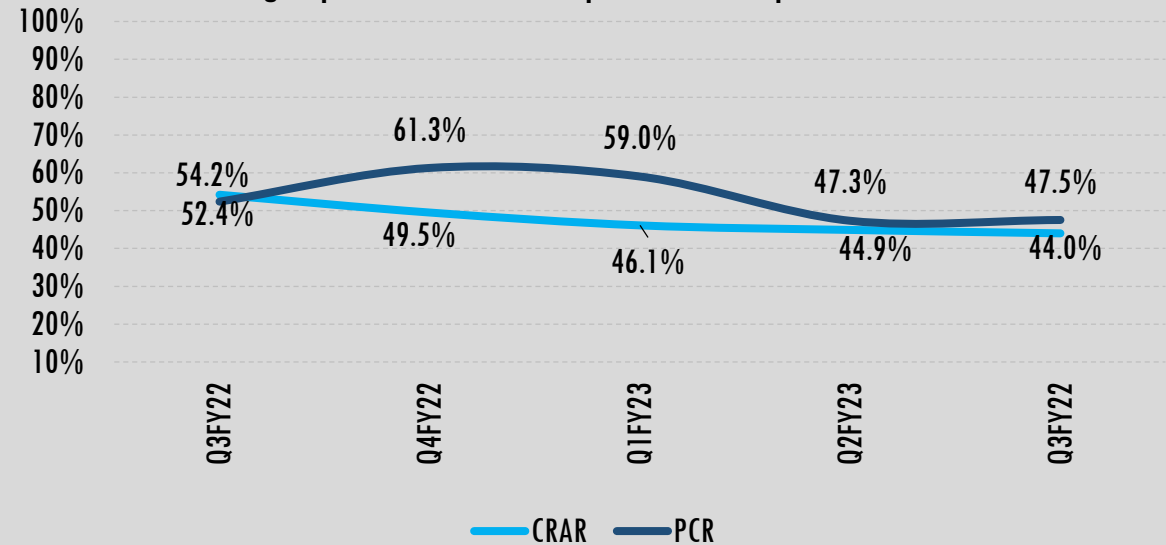


Best-in-class CoF with NIM on an upward trend

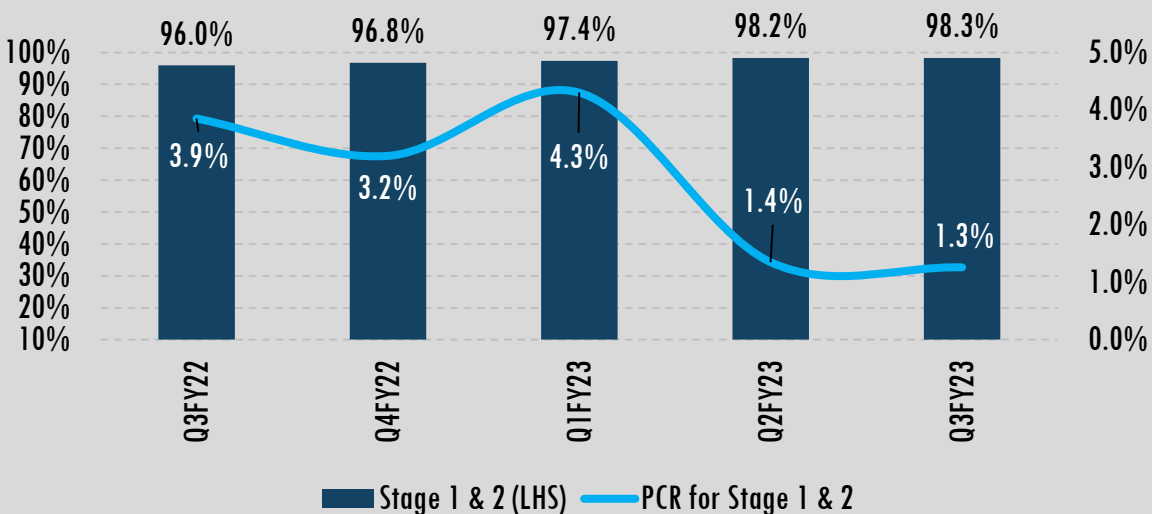


Strong asset quality improvement - likely to continue

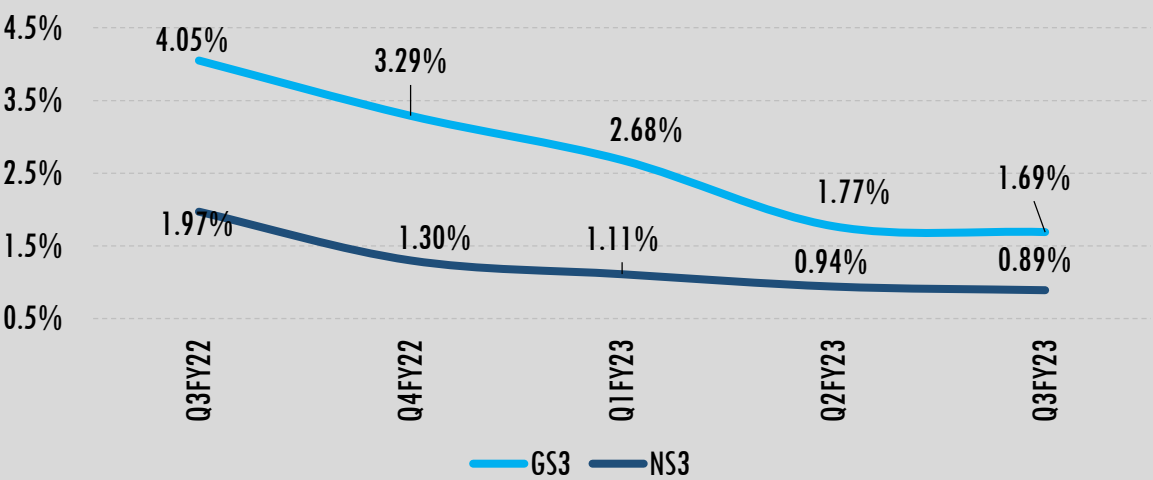
Strong capital buffer will improve with capital infusion



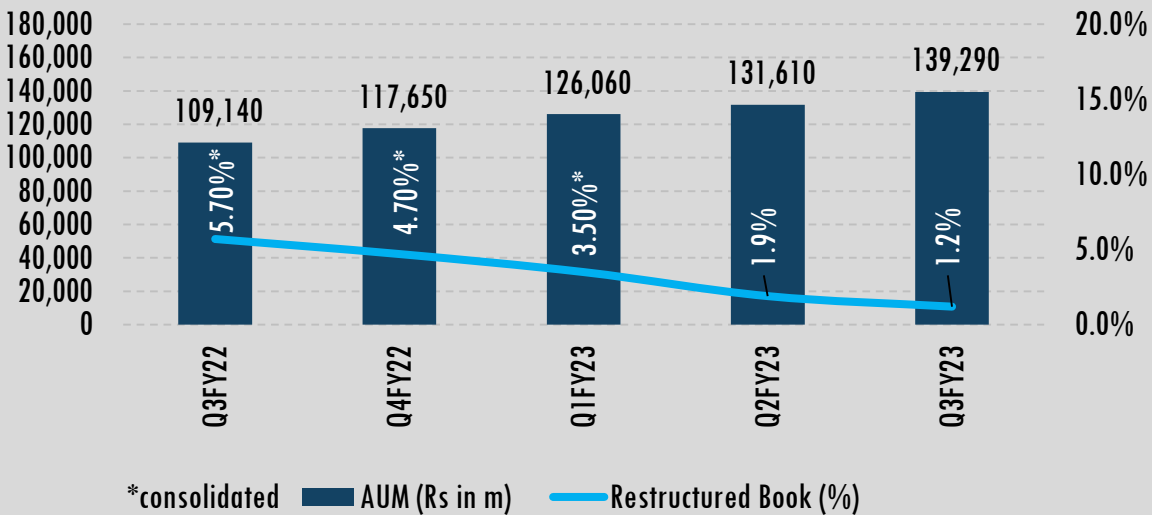
Stage 1 and 2 PCRs



Post cleanup; we expect asset quality improvement to endure



Restructured booking running down



Key Management

Name	Position	Background
Abhay Bhutada	Managing Director	Abhay is young and dynamic professional with 15 years of experience in the commercial and retail lending domain. He was last MD and CEO of Poonawalla Finance. Post a stint at BOI, Abhay started out on his own as a channel partner for Banks and NBFC in 2010. Having seen digital as the way forward, Abhay then launched his own fintech in 2015 (TAB Capital). As Chairman of TAB capital, he ensured that TAB capital was a profit- making entity as opposed to several peers.
Sanjay Miranka	CFO	Sanjay is a qualified Chartered Accountant and Company Secretary by qualification. He has more than 25 year of experience across a diverse set of industries like Financial services ,Edible Commodities and Telecom . Last he was with Aditya Birla Finance as the Chief Financial Officer. ABFL's long term credit rating moved up from "AA+" to "AAA" during his tenure.
Manish Choudhari	President & Chief of Staff	Manish has more than 20 years of experience in handling retail assets in various lending functions of Credit, Risk, Product, Sales, Strategy and Partnerships across institutions like ICICI Bank, Standard Chartered, GE, Chola mandalam, Reliance and Magma. In his last role he was Chief Strategy Officer at Poonawalla Finance with expertise in setting and scaling up businesses.
Rajendra Tathare	CRO	Rajendra has a rich experience of more than two and a half decades in Credit Risk and Policy function. 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.
Kandarp Kant	CTO	Kandarp is a seasoned professional with 23 years of experience in the lending industry. He has Rich experience in tech implementation with marquee companies, Sundaram Finance, Polaris Software Labs, Citi and Oracle. In his last role he was Chief Technology Officer of Poonawalla Finance

Key Management continued..

Name	Position	Background
Vineet Tripathi	CBO	He has more than 2 decades of experience in retail assets across the spectrum. Prior to joining Poonawalla Fincorp he has been associated with players like TATA Capital , ING , General Electric ,Citigroup & Bandhan. He is adept at building new businesses , cross—sell franchise , ensuring branch profitability and cost control.
Manoj Gujran	Chief Compliance Officer	Manoj is a qualified Company Secretary and comes with a long-standing experience of around 23 years in the areas of company law, NBFC compliance, listing regulations, contract management, litigations, FEMA & PMLA compliance, intellectual property rights. In the past he has worked at Poonawalla Finance and IIFL Wealth Finance Ltd.
Smita Mitra	Head — HR	Smita Mitra, Head — Human Resources, is a seasoned professional with over 18 years of rich experience across various domain. In her last role, she was leading the HR function for Poonawalla Finance Pvt. Ltd. and is a HOGAN-certified coach
Hiren Shah	Head — Investor Relations	Hiren has over 23 years of experience in the field of Strategic Finance & Investor Relations; Capital Markets; M&A; Corporate Strategy. Prior to joining Poonawalla Fincorp, he was Head IR at Bandhan Bank. Prior to that ,he was CFO & Head IR at Ujjivan Financial Services Ltd, spearheading its IPO and worked on key strategic initiative of conversion to Small Finance Bank.
Anup Agarwal	Chief Internal Auditor	He is a qualified Chartered Accountant, Cost Accountant and MBA Finance with around 2 decades of experience across multiple industries. He has worked at SBI, Kotak Mahindra Bank and Citibank across multiple divisions and geographies. He was last heading the Risk and Audit function at Poonawalla Finance.
Mahender Bagrodia	Head — Collections	Over the past 16 years in Magma, has been instrumental in developing operations across India. Currently, his role involves collections management.

Income statement (Rs m)	FY21	FY22	FY23e	FY24e	FY25e
Net interest income	8,824	9,493	13,622	20,267	28,045
Growth (%)		7.6	43.5	48.8	38.4
Other income	1,199	1,085	1,194	1,373	1,620
Total income	10,023	10,578	14,815	21,640	29,665
Growth (%)		5.5	40.1	46.1	37.1
Operating expenses	4,563	6,046	8,585	10,303	12,878
Salary	3,060	4,099	5,838	7,006	8,757
PPOP	5,460	4,532	6,230	11,337	16,787
PPOP growth (%)		-17.0	37.5	82.0	48.1
Provisions	13,186	686	(999)	1,365	3,475
PBT	(7,727)	3,846	7,229	9,972	13,312
Tax	(1,943)	914	1,843	2,543	3,355
PAT (adjusted for extraordinary items)	(5,784)	2,932	5,386	7,429	9,957
Growth (%)		150.7	83.7	37.9	34.0

Balance Sheet (Rs m)	FY21	FY22	FY23e	FY24e	FY25e
Share capital	539	1,530	1,530	1,530	1,530
Other equity	18,881	55,615	60,462	95,465	104,726
Net worth	19,421	57,145	61,992	96,995	106,255
Borrowings	79,148	67,258	89,453	123,446	190,106
Growth (%)		-15.0	33.0	38.0	54.0
Other liabilities	4,851	3,693	4,727	6,390	9,044
Total liabilities	103,420	128,097	156,173	226,831	305,405
Cash & Cash equivalents	6,124	5,372	4,292	9,867	2,118
Investments	4,289	8,197	11,476	10,902	10,357
Advances	85,653	106,784	143,066	198,266	284,356
Growth (%)		24.7	34.0	38.6	43.4
Other assets	7,353	7,744	(2,661)	7,796	8,574
Total Assets	103,420	128,097	156,173	226,831	305,405
AUM	102,470	115,190	155,507	215,507	302,507
RWA	111,870	122,603	132,747	197,343	274,865

Key Ratios

Key ratios	FY21	FY22	FY23e	FY24e	FY25e
NIM (%)	7.6	8.7	10.1	10.9	10.8
Cost-to-income (%)	45.5	57.2	57.9	47.6	43.4
Credit cost (%)	13.4	0.7	(0.8)	0.8	1.4
RoA (%)	(5.0)	2.5	3.8	3.9	3.7
RoE (%)	(26.0)	7.7	9.0	9.3	9.8
GNPA (%)	4.3	3.3	2.8	2.2	1.7
NNPA (%)	1.3	1.3	1.1	0.9	0.7
RWA / Assets (x)	1.1	1.0	0.9	0.9	0.9
CRAR (%)	20.3	49.1	49.0	50.7	39.8
Tier 1 (%)	17.4	46.6	46.7	49.2	38.7
EPS (Rs)	(21.5)	3.8	7.0	9.7	13.0
BVPS (Rs)	72.0	74.7	81.0	126.8	138.9
ABVPS (Rs)	68.8	73.4	79.6	125.2	137.1
Dividend Yield (%)	-	0.1	0.2	0.1	0.3
P/E (x)	(13.2)	73.6	40.1	29.1	21.7
P/B (x)	3.9	3.8	3.5	2.2	2.0
P/ABV (x)	4.1	3.8	3.5	2.3	2.1

Source: Company, Anand Rathi Research

Du Pont analysis (%)	FY21	FY22	FY23e	FY24e*	FY25e
Operating income	15.1	12.6	13.7	14.9	15.1
Interest expense	7.5	4.4	4.1	4.3	4.6
Net interest income	7.6	8.2	9.6	10.6	10.5
Other Income	1.0	0.9	0.8	0.7	0.6
Total income	8.6	9.1	10.4	11.3	11.1
Operating expenses	3.9	5.2	6.0	5.4	4.8
PPOP	4.7	3.9	4.4	5.9	6.3
Provisions	11.3	0.6	(0.7)	0.7	1.3
Tax	(1.7)	0.8	1.3	2.9	1.3
RoA	(5.0)	2.5	3.8	3.9	3.7
RoE	(26.0)	7.7	9.0	9.3	9.8

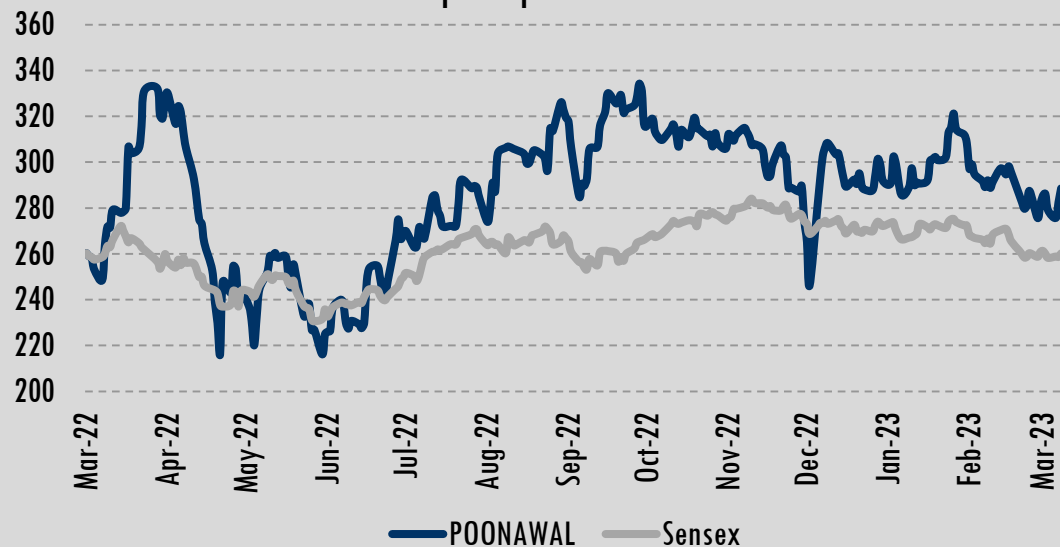
*; Adjusted for one time gains from divestment of Housing finance subsidiary

Valuation and Key financial assumptions

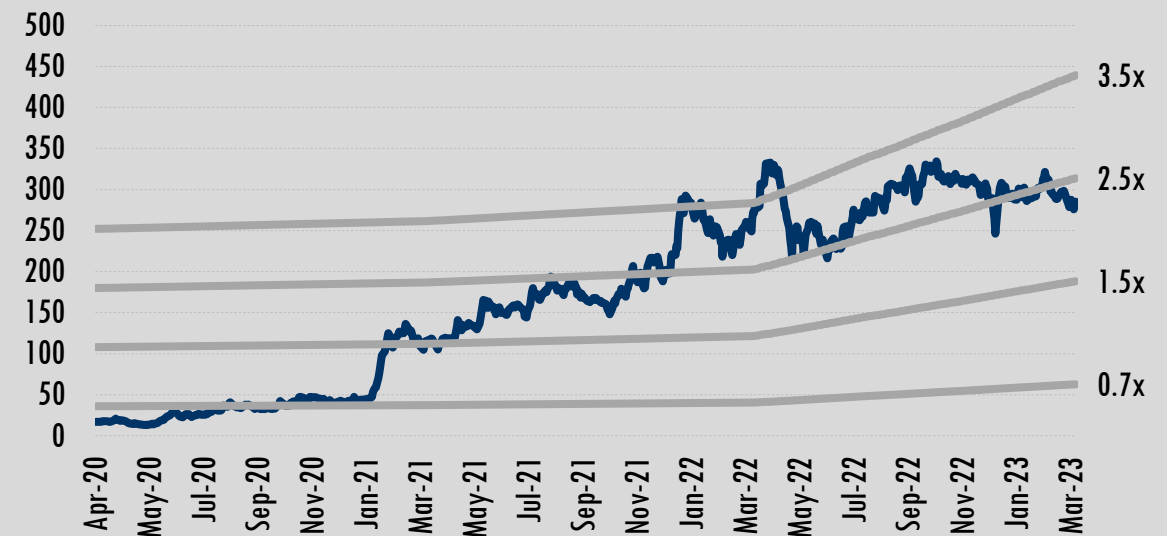
Assumptions

- We factor into FY24 estimates the stake sale of the housing finance subsidiary
- Post-stake sale, we expect PFL to grow faster with strong capital infusion on account of the stake sale
- Hence, we raise lending growth estimates from 34% CAGR to 38% CAGR over FY24-25 for the standalone entity
- The standalone entity will also have a higher RoA of +3.8%, driven by the improved cost of funds
- We value the NBFC now on a standalone basis. At our target price, the stock will trade at 3.0x FY25e BV. The premium valuations are justified on account of the high growth phase of the business.

Relative price performance



PB chart - 1yr forward (Apr'17)



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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
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