KRChoksey RESEARCH by DEVEN CHOKSEY

Q4FY24
Poonawalla Fincorp Ltd

Result Update

09th May 2024

Poonawalla Fincorp Ltd

Consumer segment continues to drive robust business growth

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 469*	**INR 555**	**18.3%**	**3,65,820**	**BUY**	**NBFC**

Result Highlights:

- Poonawalla Fincorp reported a decent set of numbers with continued robust business momentum and improvement in asset quality. Net Interest Income (NII) for Q4FY24 increased by 48.1% YoY (+14.6% QoQ) to INR 5,625 Mn.
- The Profit after tax for Q4FY24 has shown a significant increase of 83.6% YoY (25.1% QoQ) to INR 3,317 Mn. However, the net profit was higher than our estimates, primarily due to a lower tax rate.
- In view of the future growth of the Company, the Board of Directors has decided to conserve capital and therefore, no final dividend was declared for FY24.
- **We assign a P/ABV multiple of 4.0x to FY26E ABVPS of INR 138.7 per share and revise our target price to INR 555/share (Previous target: INR 580), as we reduce our Adj. Book value by 2.1% for FY26E. Thus, the potential upside is 18.3%, and accordingly, we have retained our "BUY" rating for Poonawalla Fincorp Ltd.**

MARKET DATA

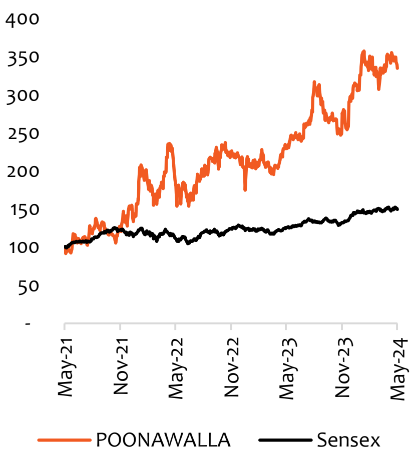
Shares outs (Mn)	775
Net Worth (INR Mn)	81,164
Mkt Cap (INR Mn)	3,65,820
52 Wk H/L (INR)	520/ 319
Volume Avg (3m K)	2,079
Face Value (INR)	2.0
Bloomberg Code	POONAWAL

KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
NII	9,493	12,217	19,490	28,052	36,744
PPOP	4,532	6,008	13,894	21,159	28,877
PAT	2,932	5,637	20,560	14,535	19,488
Adjusted PAT	2,932	5,637	8,348	14,535	19,488
Adj EPS (INR)	4.1	7.6	10.9	18.8	25.2
ABVPS (INR)	72.8	82.1	103.8	118.1	138.7
Advances Growth	11.4%	37.2%	40.7%	33.4%	37.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Higher disbursement continued to support the robust AUM growth during the quarter with a focus on maintaining a healthy balance between the secured and unsecured mix:

- As of March 31, 2024, AUM reported a 54.9% YoY/ 13.9% QoQ growth to INR 2,50,030 Mn based on higher disbursements led by continued focus on customer acquisition. POONAWAL reported its highest-ever quarterly disbursement of INR 96,880 Mn, up 52.1% YoY/ 11.0% QoQ. The legacy/ discontinued AUM segment has declined by 19.6% QoQ and is expected to see a further run-down in the next two years.
- The secured to unsecured book stood at 49.0% to 51.0% as of March 31, 2024. The secured book is witnessing steady growth as disbursement in LAP, POC, and MSME continues to grow. Despite NBFC's decision to sell, POONAWAL has been able to maintain a ratio of approximately 50-50 towards the secured and unsecured book. With a longer tenure of the LAP book, the NBFC expects the secured book to continue to grow. The NBFC's guidance on the secured to unsecured mix is 50.0% each in the medium to long term.
- The tenure mix of the AUM book showed that short-term loans up to 12 months tenor accounted for 15.0% of the book, as per the NBFC's guidance. Medium- to long-term loans of more than 12 months were at 85.0%. The tenure mix has been helping POONAWAL improve its profitability while keeping the AUM growth in place.
- POONAWAL has maintained its guidance of growing its AUM in the range of 30.0–40.0% with a sustained focus on improving its margins and profitability.
- POONAWAL has successfully obtained regulatory approval for its credit card with a co-branding partnership with IndusInd Bank. It will launch the credit card within the coming 2-3 weeks, i.e., in Q1FY25E. POONAWAL will source the customers and receive a one-time payout. Thus, the guidelines set forth by regulations will govern revenue sharing.

MARKET INFO

SENSEX	73,466
NIFTY	22,303

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	Sep-23
Promoters	62.1	62.1	62.1
FIIs	7.8	7.8	7.9
DIIs	5.8	5.6	7.0
Others	24.3	24.5	23.0
Total	100.0	100.0	100.0

37.3%

NII CAGR between FY24 and FY26E

52.8%

Adj PAT CAGR between FY24 and FY26E

*Based on previous closing

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Poonawalla Fincorp Ltd

NIMs saw sequential improvement; Cost-to-income ratio remained under control despite higher investment in products and technology:

- While the cost increased by 18 bps, POONAWAL passed it on to the customers, which improved NIMs by four bps QoQ from 11.02% to 11.06%.
- The NBFC continued to be among the lowest-cost fundraisers in the industry. The majority of its portfolio on the lending side is on a fixed-rate basis, while the borrowings are on a variable rate.
- POONAWAL will continue diversifying its liability franchise to optimize the cost of borrowing further.
- Opex to AUM ratio further improved to 3.99% in Q4FY24 compared to 5.43% in Q4FY23. The reduction in the OpEx ratio signifies productivity enhancement. This ratio is expected to be optimized further in the coming quarters.
- The quarter's cost-to-income ratio stood at 36.1%, an improvement of 1449 bps YoY/ 23 bps QoQ, driven by robust operating income growth of 57.0% YoY/ 16.5%. Thus, this resulted in a Pre-Provision Operating Profit (PPOP) growth of 103.1% YoY (+16.9% QoQ) in Q4FY24 to INR 4,094 Mn,.

Continued to see improvement in the asset quality:

- GNPA and NNPA reduced to 1.16% and 0.59%, respectively, compared to 1.33% and 0.70% as of December 31, 2023, and 1.44% and 0.78% in Q4FY23. The Provision Coverage Ratio (PCR %) stood at 49.4% as of March 31, 2024.
- As the NBFC builds up its portfolio with greater resilience, the asset quality reflects its prudent credit policy and proper customer selection.
- POONAWAL expects Net NPAs to remain in the range of 0.5%- 0.9% in the medium-to-long term, led by a strong risk mechanism.

Key Concall Highlights:

- As predicted by Skymet, the monsoon season is expected to be normal. Agriculture production could remain stable, thereby controlling food inflation. A normal monsoon is crucial as it directly impacts inflation and growth rates. The agricultural sector's outlook, which is heavily dependent on the monsoon, also bears significance for the RBI's policy framework.
- The volatile nature of crude oil prices, intensified by geopolitical tension, presents an external challenge for the economy. With crude oil prices expected to remain elevated, one will need to account for the impact of higher energy costs on inflation and the current account deficit.
- The Reserve Bank of India's monetary policy decided to keep the repo rate unchanged at 6.5% as retail inflation exceeded its target of 4%. According to RBI, India's GDP is projected to grow by 7% in FY25E, while retail inflation will likely be 4.5%. In the Post-Monetary Policy Press Conference, the RBI Governor mentioned that inflation is moderating, and GDP growth is robust.
- Retail inflation is expected to average 4.5% this fiscal year, much lower than 5.4% in FY24. With rural demand catching up, consumption is expected to support economic growth in FY25E. Strong rural demand, moderating inflationary pressure, and sustained momentum in the manufacturing and services sector will boost private consumption.
- The headwinds from geopolitical tension and increased reception in trade routes may pose risk to the outlook. However, there may be a slight adjustment in interest rates over the next couple of quarters to support economic growth while keeping inflation in check.
- On the ALM side, POONAWAL remains comfortable with a positive cumulative mismatch across all buckets and carries a surplus liquidity of INR 39,320 Mn as of March 31, 2024. The LCR stood at 130.45% against the regulatory requirement of 85.0%.
- The NBFC is constantly working on broadening its customer funnel through a phygital model while maintaining superior risk management aided by data accessibility and technology.
- POONAWAL has developed multiple customer service touch points to ensure quick and effective service delivery, such as WhatsApp, app-based self-service, call centres, and branch-based customer touch points.
- On the collection side, POONAWAL has built a robust digital infrastructure in addition to a strong in-house workforce of more than 400 employees. More than 95.0% of its total collections are through digital models, which has helped it be cost-effective and efficient on the ground.
- As POONAWAL is in the last leg of its Vision 2025, it has already started work towards the "Next". It is well positioned and confident of delivering a consistently superior performance based on a strong foundation built over the last three years.

Valuation and view:

POONAWAL reported a stellar performance in terms of robust growth in the business trajectory and operating metrics. The overall operating performance, however, met our expectations. The earnings beat was on the back of the lower tax rate at 14.0% during the quarter. The realignment and restructuring strategy in terms of product mix and higher focus on digital initiatives support POONAWAL's robust t growth across metrics. The NBFC will maintain a balance between the secured and unsecured loan portfolios to reduce the concentration risk and improve its asset quality further. We believe POONAWAL will continue to deliver NIMs above 9.0% in FY25E/ FY26E on the back of optimization of its borrowing mix, which resulted in a stable cost of funds on a QoQ basis. Leveraging from the digital initiatives, we believe POONAWAL will continue to see improvement in the cost ratios. We continue to be positive on POONAWAL's long-term business outlook, backed by a) realignment of products and distribution mix, b) strong digital footprint, c) improving operating leverage, d) adequate capital and provision buffer, and e) industry tailwinds led by multiple factors.

We have increased our PAT assumption for FY25E by 3.7%, considering a decline in credit costs, but lowered our FY26E PAT assumption by 2.8% by slightly lowering our investment income assumption. The stock is currently trading at P/ABV multiples of 4.0x/ 3.4x based on FY25E/FY26E ABVPS. We assign P/ABV multiple of 4.0x to FY26E ABVPS of INR 138.7 per share and revise our target price to INR 555/share (Previous target: INR 580) with an upside of 18.3% over the CMP and retain our "BUY" rating on Poonawalla Fincorp Ltd.

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Poonawalla Fincorp Ltd

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Interest Income	14,586	18,169	29,041	44,792	62,477
Interest Expense	5,093	5,953	9,551	16,740	25,733
Net Interest Income	**9,493**	**12,217**	**19,490**	**28,052**	**36,744**
Non-interest income	1,085	1,931	2,478	2,973	3,568
Operating income	10,578	14,148	21,967	31,025	40,312
- Employee expense	4,099	5,148	4,444	4,889	5,280
- Other operating expense	1,948	2,883	3,629	4,978	6,155
Net loss on derecognition of financial instrument	0	109	0	0	0
Operating Expense	6,046	8,139	8,074	9,866	11,435
PPOP	**4,532**	**6,008**	**13,894**	**21,159**	**28,877**
Provisions	686	-1,445	720	2,034	3,234
PBT	3,846	7,454	13,173	19,125	25,642
Tax Expense	914	1,816	4,826	4,590	6,154
Exceptional Item	-	-	12,212		
PAT	**2,932**	**5,637**	20,560	14,535	19,488
Adjusted PAT	**2,932**	**5,637**	8,348	14,535	19,488
Diluted EPS (INR)	4.1	7.6	26.8	18.8	25.2
Adjusted EPS	4.1	7.6	10.9	18.8	25.2

Source: Company, KRChoksey Research

Exhibit 2: Balance Sheet

INR Mn	FY22	FY23	FY24	FY25E	FY26E
Source of Funds					
Share capital	1,530	1,536	1,541	1,541	1,541
Reserves & Surplus	55,615	62,711	79,623	92,414	109,563
Networth	**57,145**	**64,247**	**81,164**	**93,955**	**111,104**
Borrowings	67,734	112,092	152,157	241,721	343,121
Other liabilities & provisions	3,217	3,880	7,041	7,278	7,575
Total Equity & Liabilities	**128,097**	**180,218**	**240,362**	**342,954**	**461,800**
Uses of Funds					
Cash & bank balances	5,372	6,574	2,685	3,352	4,772
Deferred Tax Assetes	2,038	459	1,634	1,634	1,634
Net investments	8,197	3,109	8,783	9,222	9,407
Loans & advances	106,784	152,295	220,464	321,900	439,092
Fixed assets	1,748	2,117	1,944	1,994	2,044
Other assets	3,959	15,665	4,851	4,851	4,851
Total Assets	**128,097**	**180,218**	**240,362**	**342,954**	**461,800**

Source: Company, KRChoksey Research

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Exhibit 3: Ratio Analysis

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
Growth Rates					
AUM (%)	11.4%	37.2%	40.7%	33.4%	37.8%
Borrowings (%)	-14.8%	65.5%	35.7%	58.9%	41.9%
Total assets (%)	23.9%	40.7%	33.4%	42.7%	34.7%
NII (%)	7.6%	28.7%	59.5%	43.9%	31.0%
Pre-provisioning profit (%)	-17.0%	32.6%	131.2%	52.3%	36.5%
PAT (%)	-150.7%	92.3%	264.7%	-29.3%	34.1%
B/S Ratios					
Credit/Borrowings (%)	157.7%	135.9%	144.9%	133.2%	128.0%
Advances/Total assets (%)	83.4%	84.5%	91.7%	93.9%	95.1%
Leverage - Total Assets to Equity	2.2	2.8	3.0	3.7	4.2
Operating efficiency					
Cost/income (%)	57.2%	57.5%	36.8%	31.8%	28.4%
Opex/total assets (%)	5.2%	5.3%	3.8%	3.4%	2.8%
Opex/total interest earning assets	5.7%	5.3%	1.4%	1.4%	1.3%
Profitability					
NIM (%)	9.9%	9.4%	10.8%	10.3%	9.7%
RoA (%)	2.5%	3.8%	9.8%	5.0%	4.8%
RoE (%)	7.7%	9.6%	28.3%	16.6%	19.0%
Asset quality					
Gross NPA (%)	3.3%	1.4%	1.2%	1.1%	1.0%
Net NPA (%)	1.3%	0.8%	0.6%	0.8%	0.8%
PCR (%)	61.2%	46.4%	49.3%	29.6%	17.6%
Credit cost (%)	0.7%	-1.1%	0.6%	0.8%	0.9%
Per share data / Valuation					
EPS (INR)	4.1	7.6	26.8	18.8	25.2
BVPS (INR)	74.7	83.7	105.6	121.3	143.4
ABVPS (INR)	72.8	82.1	103.8	118.1	138.7
P/E (x)	66.5	38.3	17.4	25.1	18.7
P/BV (x)	3.6	3.5	4.4	3.9	3.3
P/ABV (x)	3.7	3.6	4.5	4.0	3.4
Profitability					
Return on Capital	2.6%	3.7%	10.0%	5.1%	4.9%
Return on Equity	7.7%	9.6%	28.3%	16.6%	19.0%

Source: Company, KRChoksey Research

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Poonawalla Fincorp Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
09-May-24	469	555	BUY
31-Jan-24	490	580	BUY
04-Dec-23	420	485	BUY
29-Aug-23	348	435	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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