

Poonawalla Fincorp reported disappointing Q2 numbers with the credit cost of Rs9.1bn (including Rs6.7bn one-time provisioning on the STPL book) leading to the company posting a Rs4.7bn loss. The management provided comfort by stating that review of the entire portfolio is complete and there should not be any need for additional provision. The company unveiled 6 new products and its omnichannel phygital distribution that shall help it deliver 5-6x AUM growth in the next 6 years. With the Poonawalla name, strong capital adequacy, AAA rating at his disposal, and past baggage likely cleaned up, the new CEO, Arvind, is trying to build the franchise by hiring competent top and middle management, expanding product and distribution, and tightening the risk management. However, this strategy should moderate profitability over the medium term on account of higher opex, and the execution of this ambitious plan amid tightening regulatory environment and heightened competition will be a daunting task. We reiterate our REDUCE rating on the stock with revised Sep-25E TP of Rs240 (vs Rs400 earlier), implying FY26E P/BV of 2x.

Poonawalla Fincorp: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	5,849	20,560	3,031	11,202	13,930
AUM growths (%)	40.1	54.9	31.0	35.0	35.0
NII growths (%)	28.7	59.5	31.2	28.9	28.6
NIMs (%)	8.8	9.5	8.9	8.6	8.2
PPOP growth (%)	35.0	127.1	8.9	33.2	29.4
Adj. EPS (Rs)	7.6	10.8	3.9	14.5	18.1
Adj. EPS growth (%)	86.8	41.8	(63.7)	269.6	24.3
Adj. BV (Rs)	83.7	105.3	108.7	121.0	136.4
Adj. BVPS growth (%)	12.0	25.9	3.2	11.4	12.7
RoA (%)	3.7	4.0	1.1	3.1	2.9
RoE (%)	9.3	11.5	3.7	12.7	14.0
P/E (x)	38.9	27.4	75.5	20.4	16.4
P/ABV (x)	3.6	2.8	2.7	2.5	2.2

Source: Company, Emkay Research

Clean up of the past and preparation for the future, cost dearly in the present

PFL reported a net loss of Rs4.7bn due to a sharp surge in credit cost to Rs9.1bn, owing to a one-time provision of Rs6.7bn on review of past STPL book. The operating expenses growing to 5.4% of AUM (from 3.9% a quarter earlier) were due to a one-time expense on investments for future growth of Rs0.7bn. GS3 spiked QoQ to 2.1% from 0.67%, but higher provisioning ensured NS3 remained flat QoQ to 0.33%. AUM growth moderated to 5% QoQ/40% YoY from 8%/52% in Q1, owing to a credit policy review reducing Personal Loan disbursements to 1/5th of the earlier run rate. (Exhibits 1 and 4)

Expanding people, product, and distribution to achieve ambitious growth plans

The management emphasized that they have done a comprehensive review of the entire portfolio and have decided to provide an additional one-time provision of Rs6.7bn on the STPL book. With the clean-up act done, the focus shifts toward building the organization for the future, which delivers 5-6x AUM growth profitably in the next 5 years. To achieve this ambitious target, the company has announced comprehensive plans to expand the product offering by adding 6 new products (Prime PL, Gold Loan, Consumer Durables, Shopkeeper Loan, Education Loan, and Used CV), adding branches for products (that require branch presence), and strengthening management and field-level manpower strength (already underway). To support growth, the management is also very clear about its Phygital strategy (a sharp departure from the earlier Digital only), focusing on ramping up branch infra for products like gold, while continuing to work with DSA, Call centre, App/Web-led Digital sourcing for many other products.

Material cut in estimates; reiterate REDUCE with revised TP of Rs240

To reflect the Q2 developments (credit cost and OpEx spike) and the management commentary on future growth and profitability (increased OpEx guidance), we have changed our estimates leading to 74%/28%/29% earnings cut over FY25/26/27E. We reiterate our REDUCE rating on the stock with revised downwards Sep-25E TP of Rs240 (Rs400 earlier), implying FY26E P/B of 2x. Despite the recent correction, the stocks are currently trading on relatively richer valuation of FY26E P/B of 2.5x. While we view the new management team and their plan as a more sustainable one, the investors will prefer to watch from the fences over the next few quarters as: 1. Execution of ambitious growth plan has to be observed closely for progress, as the competitive and regulatory landscape appear difficult; 2. Given the outcome of past scorching growth phase cycle leading to ~4% true credit cost over FY21-25E, the investors will take time before differentiating current growth from the past. Against this backdrop, PFL shares are likely going to underperform in the near-to-medium term.

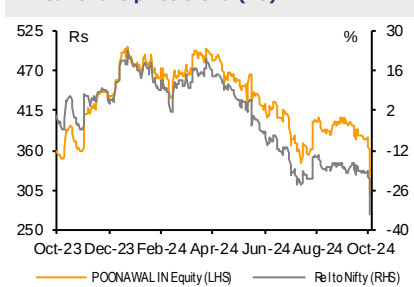
Target Price – 12M	Sep-25
Change in TP (%)	(40.0)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(19.2)
CMP (25-Oct-24) (Rs)	297.1

Stock Data	Ticker
52-week High (Rs)	520
52-week Low (Rs)	287
Shares outstanding (mn)	777.7
Market-cap (Rs bn)	231
Market-cap (USD mn)	2,748
Net-debt, FY24E (Rs mn)	1,588
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	900.2
ADTV-3M (USD mn)	10.7
Free float (%)	-
Nifty-50	24,181
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	61.9
FPIs/MFs (%)	7.7/10.6

Price Performance

(%)	1M	3M	12M
Absolute	(26.5)	(18.8)	(16.4)
Rel. to Nifty	(20.9)	(18.0)	(33.9)

1-Year share price trend (Rs)



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Exhibit 1: Actual vs estimate

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	Q2FY25	QoQ	YoY	2QFY25E	Var
NII	4,746	4,907	5,625	5,761	5,592	-2.9%	21.4%	6,146	-9.0%
Total income	5,292	5,501	6,407	6,758	6,449	-4.6%	27.7%	7,099	-9.2%
Opex	1,929	1,998	2,313	2,417	3,610	49.4%	25.3%	2,561	41.0%
PPOP	3,363	3,502	4,094	4,341	2,839	-34.6%	29.1%	4,538	-37.4%
Provision	288	(65)	239	445	9,144	1956.6%	54.4%	715	1178.7%
PBT	3,075	3,568	3,855	3,896	(6,305)	-261.8%	26.7%	3,823	-264.9%
PAT	12,589	2,651	3,317	2,916	(4,710)	-261.5%	-76.8%	2,841	-265.8%
Adj PAT	2,306	2,651	3,317	2,916	(4,710)	-261.5%	26.5%	2,841	-265.8%
AUM	202,150	219,460	250,030	269,720	283,960	5.3%	33.4%	291,298	-2.5%
Credit cost	0.61%	-0.12%	0.41%	0.68%	13.21%	1253bps	8bps	1.02%	1219bps
GS3	1.36%	1.33%	1.16%	0.67%	2.10%	143bps	-69bps	1.2%	90bps
NS3	0.72%	0.70%	0.59%	0.32%	0.33%	1bps	-40bps	0.6%	-29bps
PCR	47%	47%	49%	52%	84%	3205bps	504bps	50%	3429bps

Source: Company, Emkay Research

Exhibit 2: Changes in Estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
AUM	330,040	327,539	-0.8%	445,553	442,178	-0.8%	601,497	596,940	-0.8%
Disbursement	392,810	392,810	0.0%	479,228	479,228	0.0%	599,036	599,036	0.0%
Net Interest Income	28,124	25,573	-9.1%	36,786	32,951	-10.4%	47,888	42,370	-11.5%
Operating expenses	10,993	12,324	12.1%	14,060	15,218	8.2%	17,899	19,197	7.3%
PPOP	19,023	15,134	-20.4%	25,168	20,159	-19.9%	32,926	26,090	-20.8%
Credit cost	3,147	11,055	251.2%	4,353	5,082	16.7%	6,478	7,342	13.3%
PAT	11,796	3,031	-74.3%	15,465	11,202	-27.6%	19,651	13,930	-29.1%
Adj PAT	11,796	3,031	-74.3%	15,465	11,202	-27.6%	19,651	13,930	-29.1%
Adj EPS (Rs)	15.3	3.9	-74.3%	20.1	14.5	-27.6%	25.5	18.1	-29.1%
Networth	91,190	83,740	-8.2%	104,336	93,262	-10.6%	121,038.9	105,102	-13.2%
BVPS (Rs)	118.3	108.7	-8.2%	135.4	121.0	-10.6%	157.1	136.4	-13.2%
AUM growth	32.0%	31.0%	-100bps	35.0%	35.0%	0bps	35.0%	35.0%	0bps
NIM	9.7%	8.9%	-84bps	9.5%	8.6%	-92bps	9.1%	8.2%	-99bps
Opex-to-AUM ratio	3.8%	4.3%	48bps	3.6%	4.0%	33bps	3.4%	3.7%	28bps
Cost-to-Income ratio	36.6%	44.9%	826bps	35.8%	43.0%	717bps	35.2%	42.4%	717bps
Credit Cost	1.1%	3.8%	274bps	1.1%	1.3%	20bps	1.2%	1.4%	18bps
ROA	4.2%	1.1%	-315bps	4.2%	3.1%	-111bps	4.0%	2.9%	-114bps
ROE	13.7%	3.7%	-1001bps	15.8%	12.7%	-316bps	17.4%	14.0%	-339bps

Source: Company, Emkay Research

Exhibit 3: Valuation matrix

	CMP/TP (Rs)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs)			Adj EPS (Rs)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY24E	FY25E	FY26E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
At current market price	297	-19.2%	305.9	2.73	2.45	2.18	75.52	20.43	16.43	1.10	3.10	2.89	3.68	12.66	14.04	109	121	136	3.9	14.5	18.1
AT target price	240			2.21	1.98	1.76	61.02	16.51	13.28	1.10	3.10	2.89	3.68	12.66	14.04	109	121	136	3.9	14.5	18.1

Source: Company, Emkay Research

Exhibit 4: Quarterly result snapshot

Particulars (Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	QoQ chg	YoY chg
Interest Income	6,901	7,144	8,436	8,962	9,107	1.6%	32.0%
Interest Expenses	2,155	2,237	2,811	3,201	3,516	9.8%	63.1%
NII	4,746	4,907	5,625	5,761	5,592	-2.9%	17.8%
Other Income	547	594	782	997	858	-13.9%	56.9%
Net Operating Income	5,292	5,501	6,407	6,758	6,449	-4.6%	21.9%
Operating Expenses	1,929	1,998	2,313	2,417	3,610	49.4%	87.1%
PPOP	3,363	3,502	4,094	4,341	2,839	-34.6%	-15.6%
Provisions	288	(65)	239	445	9,144	1956.6%	3076.0%
Credit costs	0.61%	-0.12%	0.41%	0.68%	13.21%	1253bps	1261bps
Extraordinary items	12,212	-	-	-	-		
Profit Before Tax	15,287	3,568	3,855	3,896	(6,305)	-261.8%	-141.2%
Tax	2,698	916	538	980	(1,594)	-262.6%	-159.1%
Tax rate	17.7%	25.7%	13.9%	25.2%	25.3%		
PAT	12,589	2,651	3,317	2,916	(4,710)	-261.5%	-137.4%
Adj PAT	2,306	2,651	3,317	2,916	(4,710)	-261.5%	-304.3%
GS3	1.36%	1.33%	1.16%	0.67%	2.10%	143bps	74bps
NS3	0.72%	0.70%	0.59%	0.32%	0.33%	1bps	-39bps
PCR	47.2%	47.3%	49.4%	52.2%	84.3%	3205bps	3709bps
AUM	202,150	219,460	250,030	269,720	283,960	5.3%	40.5%
Disbursement	78,070	87,310	96,880	74,000		-100.0%	-100.0%
Networth	77,811	80,750	81,164	83,700	80,150	-4.2%	3.0%

Source: Company, Emkay Research

Exhibit 5: AUM Trend

(Rs bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
AUM (Rs bn)	126	132	139	161	178	202	219	250	270	284
Growth QoQ	7%	4%	6%	16%	10%	14%	9%	14%	8%	5%
Growth YoY	21%	17%	28%	37%	41%	54%	58%	55%	52%	40%

Source: Company, Emkay Research

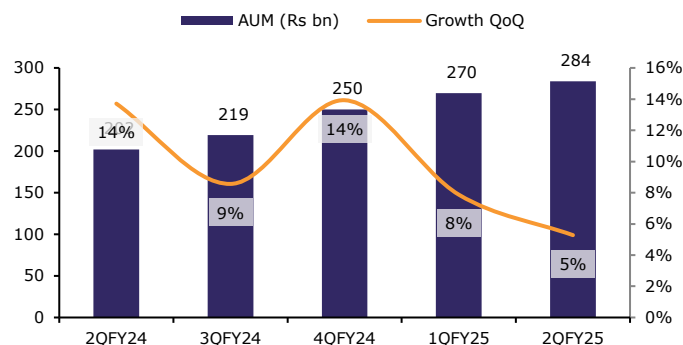
Exhibit 6: Disbursement trend

(Rs bn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Disbursement (Rs bn)	29	31	33.7	63.7	70.6	78.1	87.3	96.9	74.0	79.9
Growth QoQ	14%	7%	8%	89%	11%	11%	12%	11%	-24%	8%
Growth YoY	95%	42%	157%	151%	143%	151%	159%	52%	5%	2%

Source: Company, Emkay Research

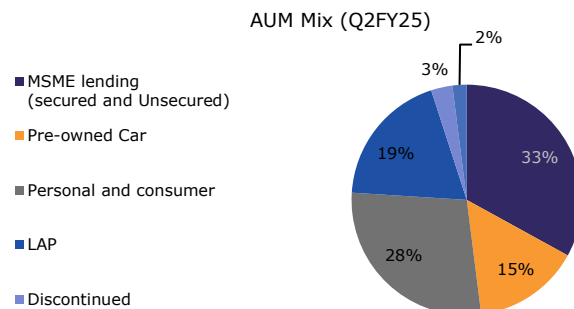
Result in charts

Exhibit 7: AUM grows by 5% QoQ



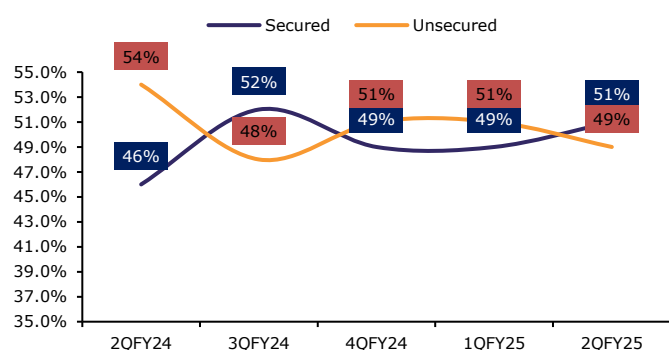
Source: Company, Emkay Research

Exhibit 8: AUM mix



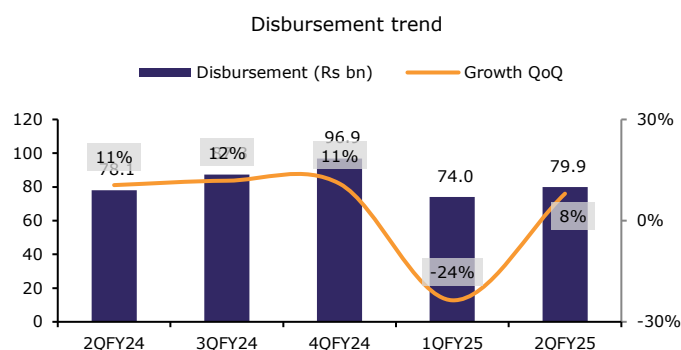
Source: Company, Emkay Research

Exhibit 9: Balanced secured and unsecured AUM mix



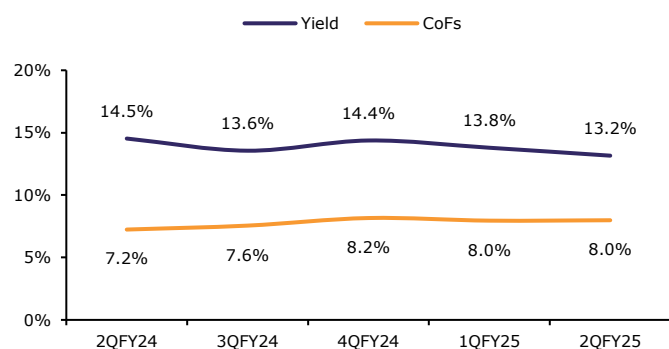
Source: Company, Emkay Research

Exhibit 10: Disbursement grew 8% QoQ



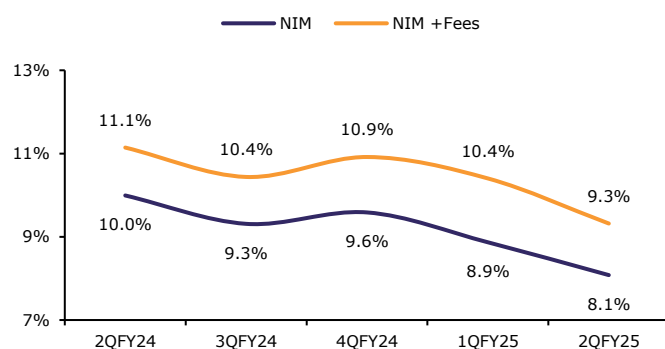
Source: Company, Emkay Research

Exhibit 11: Yields witness slight moderation

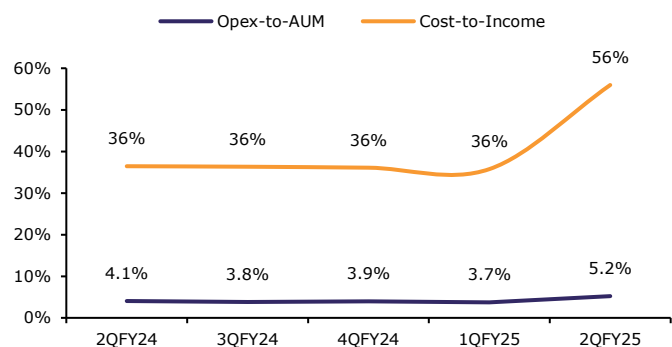


Source: Company, Emkay Research

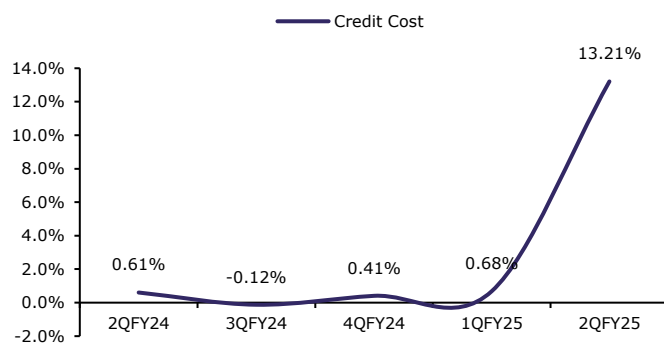
Exhibit 12: Margins dip during the quarter



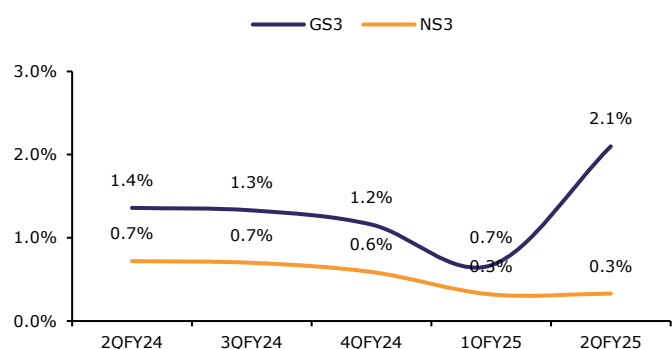
Source: Company, Emkay Research

Exhibit 13: Opex increases significantly on a sequential basis


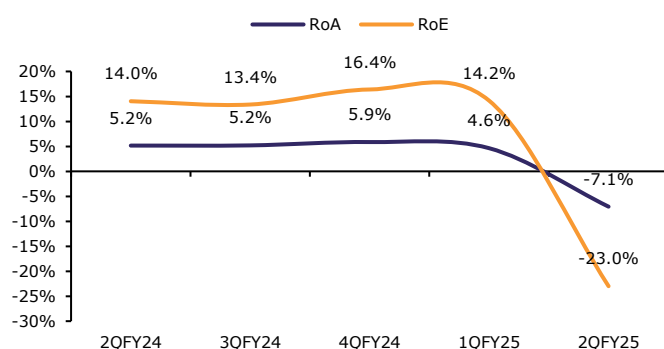
Source: Company, Emkay Research

Exhibit 14: Credit cost increased materially on a sequential basis


Source: Company, Emkay Research

Exhibit 15: Asset quality experiences deterioration


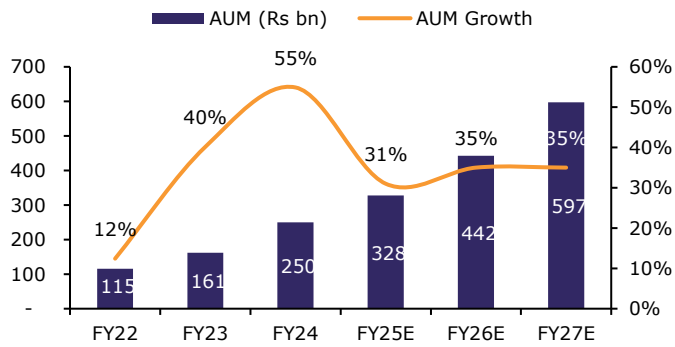
Source: Company, Emkay Research

Exhibit 16: ROA/ROE trend


Source: Company, Emkay Research

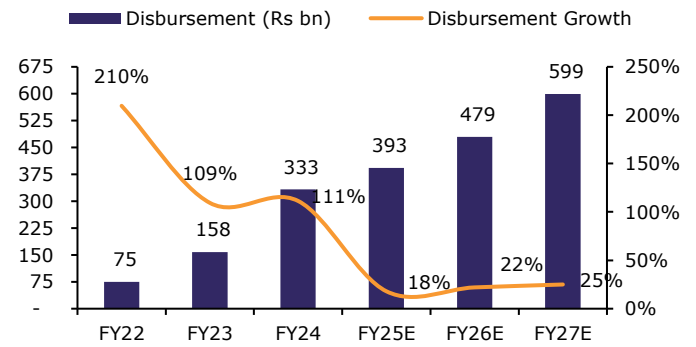
Story in charts

Exhibit 17: We expect AUM to grow in the 30-35% range over FY25-27E



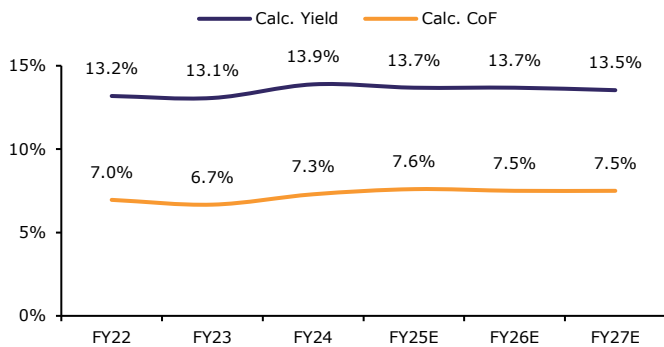
Source: Company, Emkay Research

Exhibit 18: Strong disbursement across the product segment



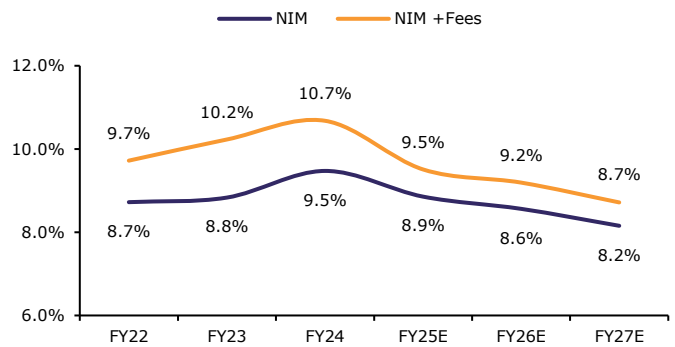
Source: Company, Emkay Research

Exhibit 19: Yield and CoFs expected to be stable



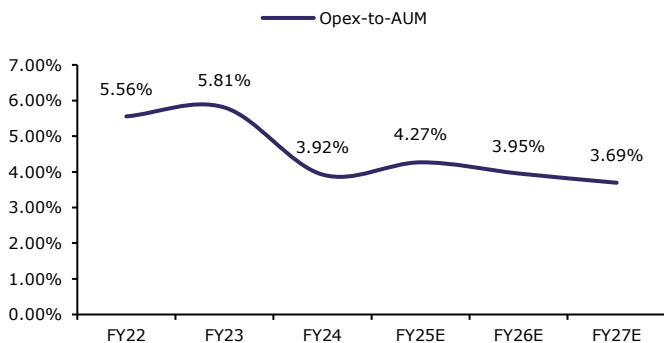
Source: Company, Emkay Research

Exhibit 20: We expect some impact on NIMs, as the company focus is on the prime and secured product going forward



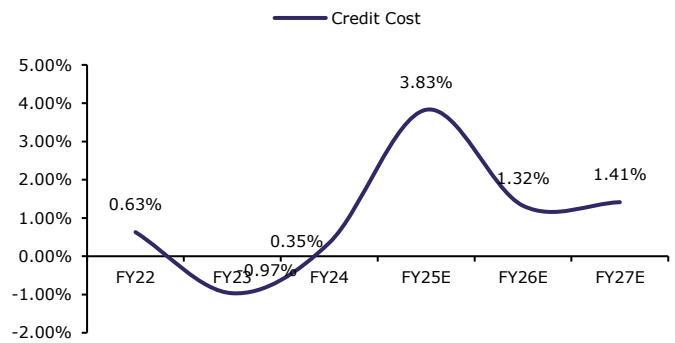
Source: Company, Emkay Research

Exhibit 21: Opex-to-AUM to see increase in margin as the company continues to invest in expansion and manpower



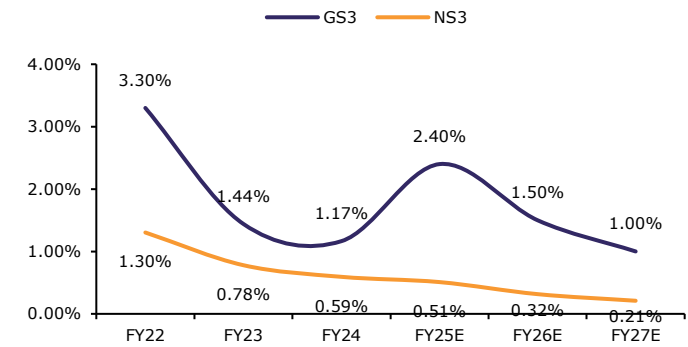
Source: Company, Emkay Research

Exhibit 22: We expect some pressure on credit cost owing to the unseasoned STPL book



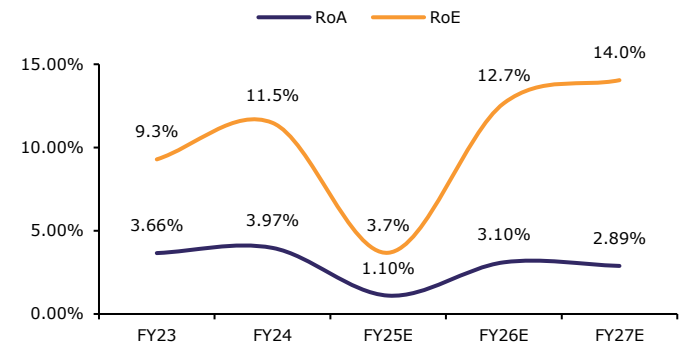
Source: Company, Emkay Research

Exhibit 23: Overall asset quality to improve in FY26-27E



Source: Company, Emkay Research

Exhibit 24: ROA/ROE trend



Source: Company, Emkay Research

Poonawalla Fincorp: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	18,169	29,041	39,518	52,665	70,318
Interest Expense	5,953	9,551	13,945	19,714	27,948
Net interest income	12,217	19,490	25,573	32,951	42,370
NII growth (%)	28.7	59.5	31.2	28.9	28.6
Non interest income	1,931	2,478	1,885	2,426	2,918
Total income	14,148	21,967	27,458	35,377	45,287
Operating expenses	8,031	8,074	12,324	15,218	19,197
PPOP	6,117	13,894	15,134	20,159	26,090
PPOP growth (%)	35.0	127.1	8.9	33.2	29.4
Provisions & contingencies	(1,337)	720	11,055	5,082	7,342
PBT	7,453	13,173	4,079	15,077	18,748
Extraordinary items	212	12,212	0	0	0
Tax expense	1,816	4,826	1,048	3,875	4,818
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,849	20,560	3,031	11,202	13,930
PAT growth (%)	99.5	251.5	(85.3)	269.6	24.3
Adjusted PAT	5,637	8,348	3,031	11,202	13,930
Diluted EPS (Rs)	7.4	26.9	4.0	14.6	18.2
Diluted EPS growth (%)	80.0	265.0	(85.3)	269.6	24.3
DPS (Rs)	2.0	2.0	0.6	2.2	2.7
Dividend payout (%)	26.3	7.5	15.0	15.0	15.0
Effective tax rate (%)	24.4	36.6	25.7	25.7	25.7
Net interest margins (%)	8.8	9.5	8.9	8.6	8.2
Cost-income ratio (%)	56.8	36.8	44.9	43.0	42.4
PAT/PPOP (%)	92.2	148.0	20.0	55.6	53.4
Shares outstanding (mn)	768.0	770.6	770.6	770.6	770.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,536	1,541	1,541	1,541	1,541
Reserves & surplus	62,711	79,623	82,199	91,721	1,03,561
Net worth	64,247	81,164	83,740	93,262	1,05,102
Borrowings	1,11,196	1,50,801	2,16,176	3,09,525	4,35,766
Other liabilities & prov.	4,775	8,397	9,237	10,160	11,176
Total liabilities & equity	180,218	240,362	309,153	412,947	552,045
Net loans	1,52,295	2,20,464	2,84,850	3,87,431	5,24,734
Investments	5,101	8,783	9,662	10,628	11,159
Cash, other balances	6,574	2,685	5,693	5,386	6,057
Interest earning assets	1,63,970	2,31,933	3,00,205	4,03,445	5,41,950
Fixed assets	2,117	1,944	2,138	2,352	2,587
Other assets	5,934	6,485	6,810	7,150	7,508
Total assets	1,72,021	2,40,362	3,09,153	4,12,947	5,52,045
BVPS (Rs)	83.7	105.3	108.7	121.0	136.4
Adj. BVPS (INR)	83.7	105.3	108.7	121.0	136.4
Gross loans	1,56,250	2,30,454	3,01,895	4,07,558	5,50,203
Total AUM	1,61,430	2,50,030	3,27,539	4,42,178	5,96,940
On balance sheet	1,56,250	2,30,454	3,01,895	4,07,558	5,50,203
Off balance sheet	5,180	19,576	25,645	34,620	46,737
Disbursements	1,57,510	3,32,890	3,92,810	4,79,228	5,99,036
Disbursements growth (%)	109.4	111.3	18.0	22.0	25.0
Loan growth (%)	42.6	44.8	29.2	36.0	35.4
AUM growth (%)	40.1	54.9	31.0	35.0	35.0
Borrowings growth (%)	65.3	35.6	43.4	43.2	40.8
Book value growth (%)	12.0	25.9	3.2	11.4	12.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	2,251	2,685	7,245	6,113	5,502
NNPL - Stage 3	1,210	1,359	1,449	1,223	1,100
GNPL ratio - Stage 3 (%)	1.4	1.2	2.4	1.5	1.0
NNPL ratio - Stage 3 (%)	0.8	0.6	0.5	0.3	0.2
ECL coverage - Stage 3 (%)	46.3	49.4	80.0	80.0	80.0
ECL coverage - 1 & 2 (%)	1.2	3.8	1.1	0.9	0.8
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	7.0	7.6	3.5	3.9	4.1
Total credit costs (%)	(1.0)	0.4	3.8	1.3	1.4
NNPA to networth (%)	1.9	1.7	1.7	1.3	1.0
Capital adequacy					
Total CAR (%)	38.9	0.0	0.0	0.0	0.0
Tier-1 (%)	37.7	0.0	0.0	0.0	0.0
Miscellaneous					
Total income growth (%)	33.7	55.3	25.0	28.8	28.0
Opex growth (%)	32.8	0.5	52.6	23.5	26.1
PPOP margin (%)	4.4	6.8	5.2	5.2	5.0
Credit costs-to-PPOP (%)	(21.9)	5.2	73.0	25.2	28.1
Loan-to-Assets (%)	84.5	91.7	92.1	93.8	95.1
Yield on loans (%)	13.1	14.1	13.7	13.7	13.5
Cost of funds (%)	6.7	7.3	7.6	7.5	7.5
Spread (%)	6.5	6.8	6.1	6.2	6.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	38.9	27.4	75.5	20.4	16.4
P/B (x)	3.6	2.8	2.7	2.5	2.2
P/ABV (x)	3.6	2.8	2.7	2.5	2.2
P/PPOP (x)	4.9	2.1	2.0	1.5	1.1
Dividend yield (%)	0.7	0.7	0.2	0.7	0.9
DuPont-RoE split (%)					
NII/avg AUM	8.8	9.5	8.9	8.6	8.2
Other income	1.2	0.7	0.7	0.6	0.6
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	2.1	1.8	2.0	1.9	1.9
Employee expense	3.7	2.2	2.2	2.0	1.8
PPOP	4.4	6.8	5.2	5.2	5.0
Provisions	(1.0)	0.4	3.8	1.3	1.4
Tax expense	1.3	2.3	0.4	1.0	0.9
RoAUM (%)	4.1	10.0	1.0	2.9	2.7
Leverage ratio (x)	2.3	2.8	3.5	4.3	5.2
RoE (%)	9.3	11.5	3.7	12.7	14.0
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	4,746	4,907	5,625	5,761	5,592
NIM(%)	10.0	9.3	9.6	8.9	8.1
PPOP	3,363	3,502	4,094	4,341	2,839
PAT	12,589	2,651	3,317	2,916	(4,710)
EPS (Rs)	16.39	3.45	4.30	3.79	(6.10)

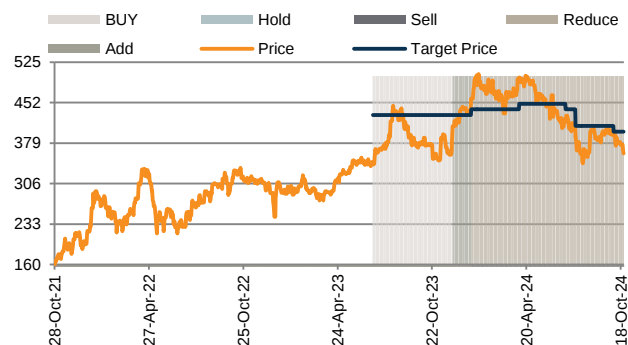
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Oct-24	395	400	Reduce	Avinash Singh
02-Sep-24	388	410	Reduce	Avinash Singh
20-Aug-24	400	410	Reduce	Avinash Singh
23-Jul-24	391	410	Reduce	Avinash Singh
04-Jul-24	419	440	Reduce	Avinash Singh
05-Jun-24	435	450	Reduce	Avinash Singh
30-Apr-24	491	450	Reduce	Avinash Singh
06-Apr-24	497	450	Reduce	Avinash Singh
18-Mar-24	472	440	Reduce	Avinash Singh
19-Jan-24	504	440	Reduce	Avinash Singh
05-Jan-24	459	440	Reduce	Avinash Singh
30-Nov-23	409	430	Add	Avinash Singh
21-Oct-23	377	430	Buy	Avinash Singh
25-Jul-23	380	430	Buy	Avinash Singh
08-Jul-23	362	430	Buy	Avinash Singh
30-Jun-23	341	430	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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