

Company Overview

Formerly known as Magma Fincorp Ltd. (pre-acquisition), Poonawalla Fincorp Ltd. (PFL) is the flagship financial arm (NBFC) of the Cyrus Poonawalla group that focuses on consumer and MSME financing. The company enjoys a pure retail portfolio and offers a diverse array of products across its multiple business segments which include Business loans, Pre-owned car loans, Personal and Consumer loans, Loans against property, Asset-backed financing, Supply chain financing, and Auto lease to its customers, primarily in urban areas. This is in complete contrast to the company's earlier engagement in offering commercial and agriculture vehicle financing in rural and semi-urban areas before the acquisition. On the way ahead, to cater to the rising demand for unsecured financing and to lever its cost of capital, the management guided on expanding its unsecured portfolio to 60% and growing its short-term tenure mix in the range of 20-25%. Moreover, the company with its Vision 2025 strategy outlined various targets it strives to achieve which encompasses its goal to be amongst the top three NBFC players within the consumer and MSME financing space, grow its AUM to 3x of FY21 AUM levels, reduce its average cost of borrowings by 250bps and keep its net non-performing assets below the 1% range.

Investment Rationale

Robust growth momentum across all key parameters

In Q4FY23, PFL posted a stellar set of numbers, registering a 151% YoY / 89% QoQ disbursements growth, with 81% of disbursements through its direct digital program compared to 24% in Q4FY22. Through a higher focus on its digital channel, the company aims to cut down on its customer acquisition cost as compared to the traditional distribution model and promote a branch light model moving ahead. As on 31st March 2023, the company effectively brought down its manpower to 2,452 from 5,184 in the previous year and consolidated its business in its top 100 branches. This move is in adherence to its long-term guidance of achieving 35-40% AUM growth and 30-35% profit growth along with moderating its operational costs. In FY23, the company's AUM stood at Rs. 16,143 crores, registering a 37% YoY growth / 16% QoQ growth despite a reduction in its discontinued legacy book. Through the company's move to shift its focus on prime customer segments with a bureau score of greater than 700, there has been a notable improvement in its asset quality. The Gross NPA reduced to 1.44% in Q4FY23 as compared to 1.69% in Q3FY23 and Net NPA down at 0.78% compared to 0.89% in Q3FY23. This is in line with the company's guidance of having its GNPA within the 1.3-1.8% range and its Net NPA constrained to a 0.5-0.9% level. Taking into consideration the management's commentary on its discontinued legacy book becoming insignificant by Q2FY24 we expect a further improvement in the company's asset quality on the way ahead.

Strong parental lineage supporting the business

Adar Poonawalla-led Rising Sun Holdings Private Ltd. (RSHPL) infused a fresh capital of Rs. 3,206 crores in the business, resulting in the company leveraging its liquidity position and becoming one of the best-capitalized NBFCs in the market. Following this, the standalone net worth of the company increased to Rs. 6,425 crores in FY23 as against Rs. 1,942 crores in FY21. Moreover, the company's move to sell its housing subsidiary 'Poonawalla Housing Finance Ltd.' to TPG at a valuation of Rs. 3,900 crores will bolster its capital position in the business. The change in the ownership to the Cyrus Poonawalla group has also resulted in PFL getting broader access to funding and attaining a significant improvement in its cost. Another positive trigger for the business is the credit rating firm, CRISIL, upgrading the company's long-term rating to AAA which asserts confidence in the new management's revised product focus and a healthier financial risk profile. Consequently, PFL can further reduce its borrowing cost which bodes well for its strategy to shift away its focus from the 'high yield-high credit cost' customer segment to 'high credit quality' customer, allowing it to enhance the overall risk-adjusted returns due to the inherently lower opex requirements of the latter.

Valuation and Outlook

PFL's move to strengthen its digital-first, technology focus has resulted in the overall decline of its operational costs. Along with this, the company's shift towards high-credit quality customers has resulted in the improvement of its ROA to 5% in Q4FY23 compared to 3.2% in Q4FY22. Additionally, this led to a lower cost-to-income ratio of 48.1% in Q4FY23 compared to 56.7% in Q3FY23, and its NIM expanding to 10.7% in FY23 from 9.8% in FY22. With this strategic focus, we feel the company is in a comfortable position to sustain its ROA in a 4-4.5% range. Another strength of the company is its prudent underwriting standards and its execution capabilities owing to which the company can maintain its asset quality. **On the valuation front, we assign a P/BV multiple of 3.5x of FY24E book value and arrive at a target price of Rs. 375 (Upside 15%). We, thus, have a Buy rating on the stock.**

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	325
Target Price (INR)	375
NSE Symbol	POONAWALLA
BSE Code	524000
Bloomberg	POONAWAL IN
Reuters	POON.BO

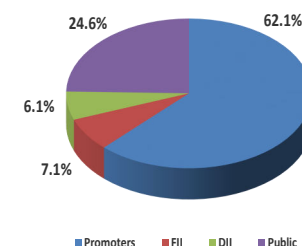
Key Data

Nifty	18,315
52WeekH/L(INR)	338 / 209
O/s Shares (Mn)	768
Market Cap (INR bn)	250
Face Value (INR)	2

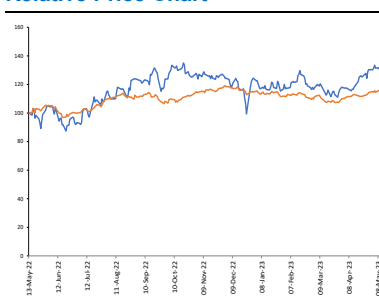
Average volume

3 months	24,21,660
6 months	28,39,380
1 year	38,06,490

Share Holding Pattern (%)



Relative Price Chart



Key Financials (Standalone)

YE March (Rs. Crs.)	FY21	FY22	FY23
Total Assets	10,342	12,810	18,022
<i>Growth (Y-o-Y)</i>		23.9%	40.7%
Total Income	1,877	1,567	2,010
<i>Growth (Y-o-Y)</i>		(16.5%)	28.3%
Profit After Tax	(578)	293	585
<i>Growth (Y-o-Y)</i>		150.7%	99.7%
EPS	(21.5)	3.8	7.6
<i>Growth (Y-o-Y)</i>		117.7%	100.0%

Key Ratios

GNPA (%)	4.3%	3.3%	1.4%
NNPA (%)	1.3%	1.3%	0.8%
RoA (%)	-5.0%	2.5%	4.0%
BV per Share (INR.)	72	75	84

Valuation Ratios

P/E (x)	NM	85.6x	42.8x
P/BV (x)	4.5x	4.3x	3.9x

Source: Company, BP Equities Research

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