

Poonawalla Fincorp | BUY

Correction an opportunity to add

Poonawalla Fincorp (PFL) has corrected over the past month (-9% vs +5% for NIFTY FIN SERVICES, +5% for NIFTY). We believe this is an opportunity to add exposure to the name given continued momentum on business and its strong profitability profile. We observe PFL's digital lending app is already functional (can be downloaded for iOS and Android users) and should see incremental traction w.r.t to new originations. In our view, this should reduce the origination through fintech partnership mode meaningfully over the coming quarters. We expect 51% CAGR in AUM for PFL over FY23-25E. In addition, as the proceeds of the sale from Poonawalla Housing Finance accrue, it would be prudent from a risk management perspective that some part of such gains are utilized for creating future buffers against exigencies. This would impart comfort to future earnings sustainability in our view. Overall, given stability in mgmt. team led by Mr. Bhutada, we expect PFL to continue delivering on its stated medium-term objectives w.r.t to growth and profitability (EPS CAGR of 50% over FY23-25) and avg RoAs of 4.5% over this period. Maintain BUY with INR480 (valuing PFL at 24x FY25 P/E and 3.0x FY25E P/B).

- App launch to accelerate organic origination:** Poonawalla's current origination mix stands at 61% through partnerships, 14% through branch/DSA route and balance 25% through direct digital and non-partnership channels. We believe the launch of its own app should see acceleration of organic acquisition of customers. This will assuage medium term customer acquisition worries in our view. We expect meaningful reduction in partnership led acquisition going ahead as app usage scales up.
- Housing proceed sales to aid NIMs:** PFL had sold Poonawalla Housing Finance last year to TPG, the proceeds of which will accrue in 2QFY24. We expect post-tax gains of INR ~30bn to accrue from this sale. We believe this will help improve NIMs and at the same time, we believe it will be prudent on the management's part to create some provision buffers for future exigencies and/or legacy portfolio. Mgmt. indicated that the overall interest cost would benefit at the extent of INR 180-200mn from the proceeds of housing sub sale. In addition, the company also started raising short term funds via CPs which would further benefit CoFs by 10-20bps in the coming quarters.
- Valuations reasonable; maintain BUY:** We believe PFL's strong business model, solid operational execution aided by benign credit environment and CoF benefits from the sale of housing sub can deliver PAT of 50% CAGR over FY23-25 and achieve ROA/RoEs of 4.85%/ 13.3% in FY25. In our view, its quality focus, strong balance sheet and long growth trajectory should see the stock re-rate further. We maintain our BUY rating on PFL with a revised target price of INR480 (values PFL at 24x FY25E P/E and 3.0x FY25E P/B).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	480
Upside/(Downside)	23.4%
Previous Price Target	450
Change	6.7%

Key Data – POONAWAL IN

Current Market Price	INR389
Market cap (bn)	INR298.8/US\$3.6
Free Float	0%
Shares in issue (mn)	764.9
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,016.1/US\$12.2
52-week range	452/243
Sensex/Nifty	67,839/20,192
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	-9.3	35.3	24.0
Relative*	-13.1	15.7	7.6

* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

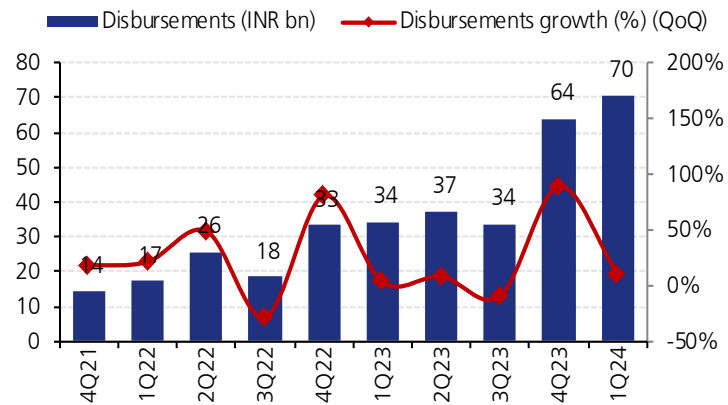
(INR mn)

Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E
Net Profit	-5,644	3,739	6,850	10,642	15,476
Net Profit (YoY) (%)	-2,111.5%	-166.2%	83.2%	55.4%	45.4%
Assets (YoY) (%)	-13.3%	24.5%	41.2%	18.4%	31.8%
ROA (%)	-3.9%	2.5%	3.5%	4.2%	4.9%
ROE (%)	-22.6%	9.1%	10.6%	12.0%	13.3%
EPS	-20.7	4.9	8.9	13.9	20.2
EPS (YoY) (%)	-2,165.4%	-123.7%	81.8%	55.4%	45.4%
P/E (x)	-18.8	79.3	43.6	28.1	19.3
BV	81	79	89	142	160
BV (YoY) (%)	-20.2%	-2.7%	12.9%	59.1%	12.8%
P/BV (x)	4.78	4.91	4.35	2.74	2.43

Source: Company data, JM Financial. Note: Valuations as of 15/Sep/2023

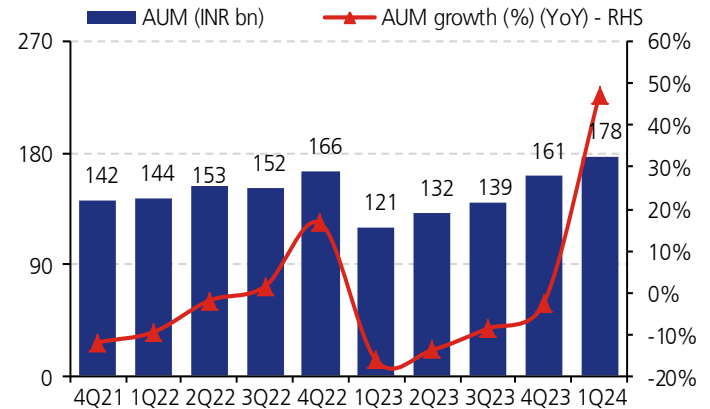
PFL - Quarterly Trends

Exhibit 1. Healthy disbursements trends



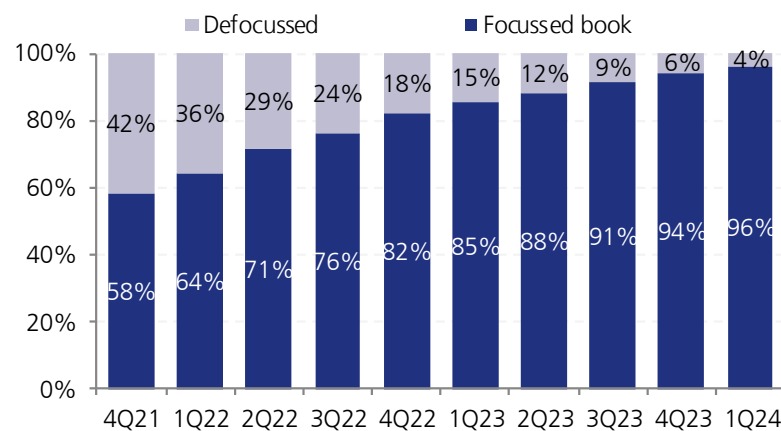
Source: Company, JM Financial; Note: Standalone numbers considered since 3QFY23

Exhibit 2. AUM growth remains strong book



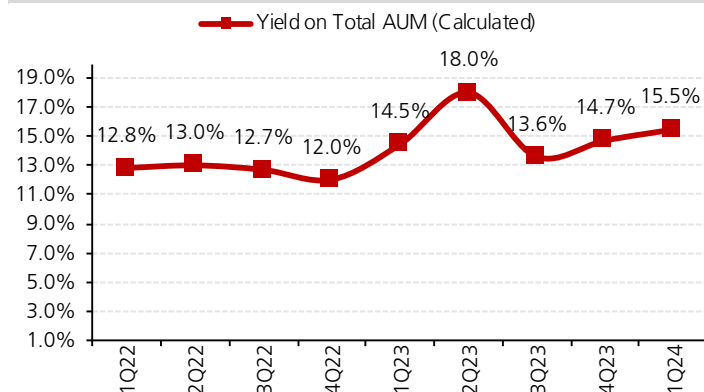
Source: Company, JM Financial; Note: Standalone numbers considered since 3QFY23

Exhibit 3. Focussed book share sharply jumped over the last few quarters



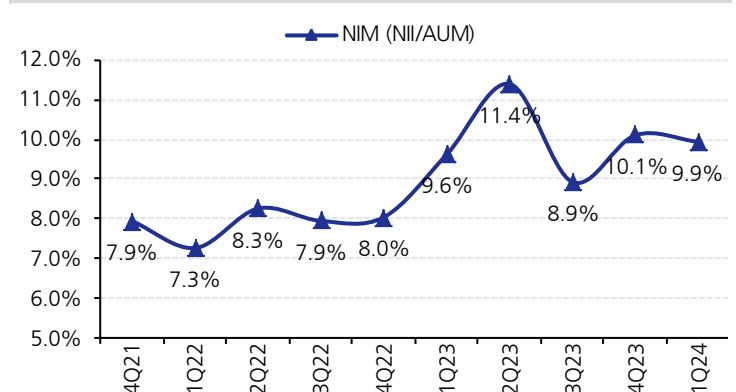
Source: Company, JM Financial; Note: Standalone numbers considered since 3QFY23

Exhibit 4. Yield on AUM



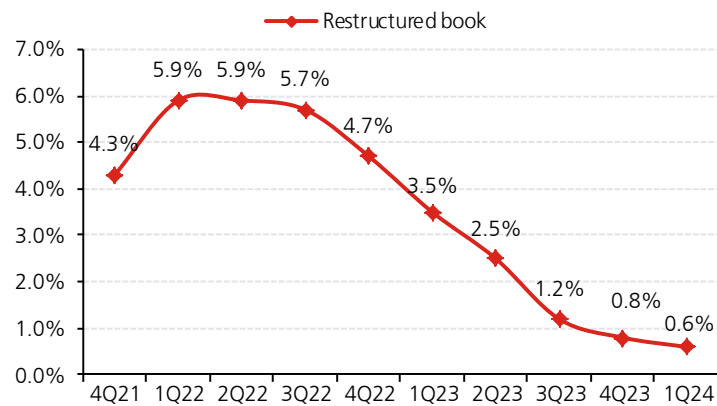
Source: Company, JM Financial

Exhibit 5. Trends in NIM



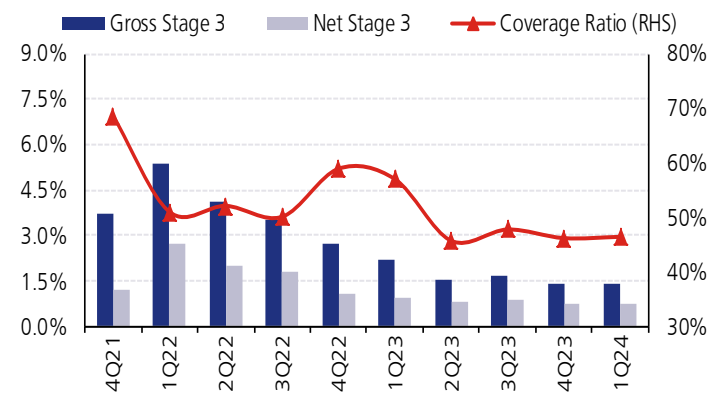
Source: Company, JM Financial

Exhibit 6. Restructured book is sharply declining



Source: Company, JM Financial

Exhibit 7. GS3 ratio steeply declined over the last few quarters



Source: Company, JM Financial

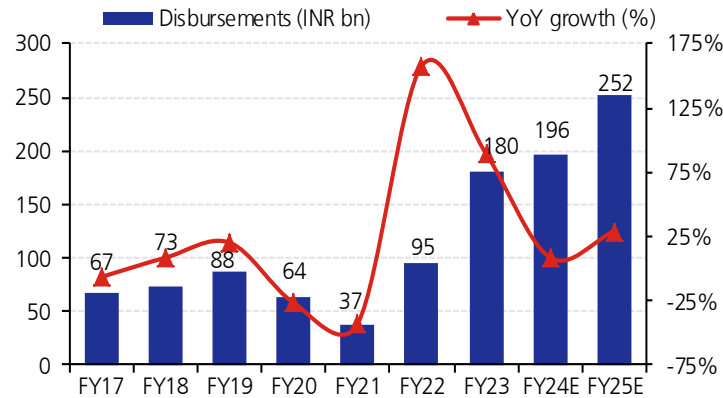
Exhibit 8. Du-pont: Quarterly trend

Du-pont as per AUM (annualized)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24
Interest income / Avg. AUM (%)	12.8%	13.0%	12.7%	12.0%	14.5%	18.0%	13.6%	14.7%	15.5%
Interest Expense / Avg. AUM (%)	5.6%	4.8%	4.8%	4.0%	4.8%	6.6%	4.7%	4.6%	5.5%
NII / Avg. AUM (%)	7.3%	8.3%	7.9%	8.0%	9.6%	11.4%	8.9%	10.1%	9.9%
Other income / Avg. AUM (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Income / Avg. AUM (%)	7.3%	8.3%	7.9%	8.0%	9.6%	11.4%	8.9%	10.1%	9.9%
Employee Cost to AUM (%)	3.3%	3.3%	3.6%	3.6%	4.5%	5.7%	3.8%	3.2%	2.5%
Other Cost to AUM (%)	1.1%	1.5%	1.6%	1.9%	2.1%	2.8%	2.2%	2.0%	1.8%
Cost to AUM (%)	4.4%	4.8%	5.2%	5.5%	6.6%	8.5%	6.0%	5.2%	4.3%
PPP / Avg. AUM (%)	2.9%	3.4%	2.8%	2.6%	3.0%	2.9%	2.9%	4.9%	5.6%
Provisions / Avg. AUM (%)	1.4%	0.9%	0.0%	-0.2%	-0.5%	-2.3%	-1.3%	-0.7%	0.6%
PBT / Avg. AUM (%)	2.1%	3.3%	3.6%	3.9%	4.9%	6.9%	5.9%	6.3%	6.3%
ROAvg.AUM (%)	1.8%	2.6%	2.5%	3.0%	3.9%	5.2%	4.4%	4.8%	4.7%

Source: Company, JM Financial; Note: Standalone numbers considered since 3QFY23

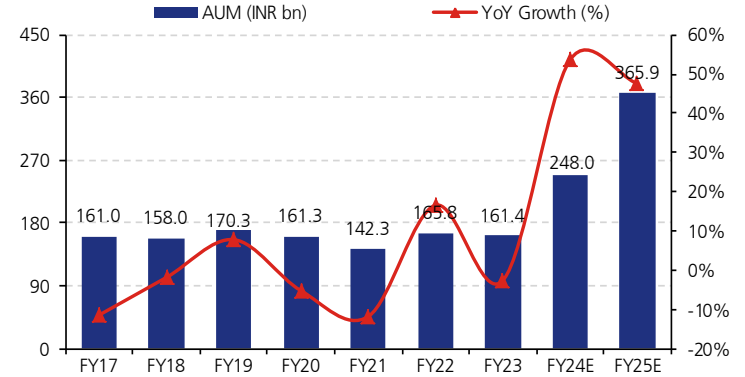
PFL – Annual trends*

Exhibit 9. Trends Disbursement



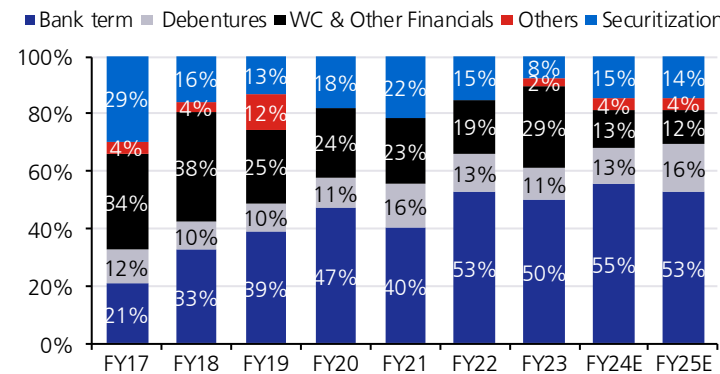
Source: Company, JM Financial

Exhibit 10. Trends in AUM



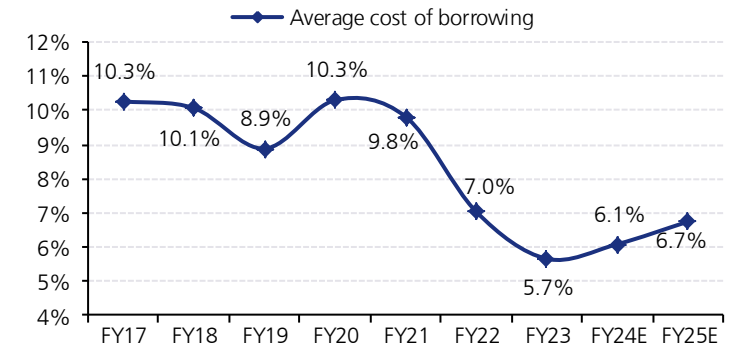
Source: Company, JM Financial

Exhibit 11. Liability franchise



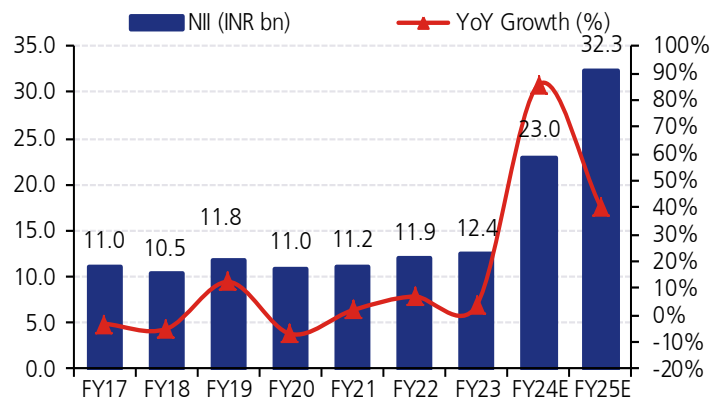
Source: Company, JM Financial

Exhibit 12. Trends in COB



Source: Company, JM Financial

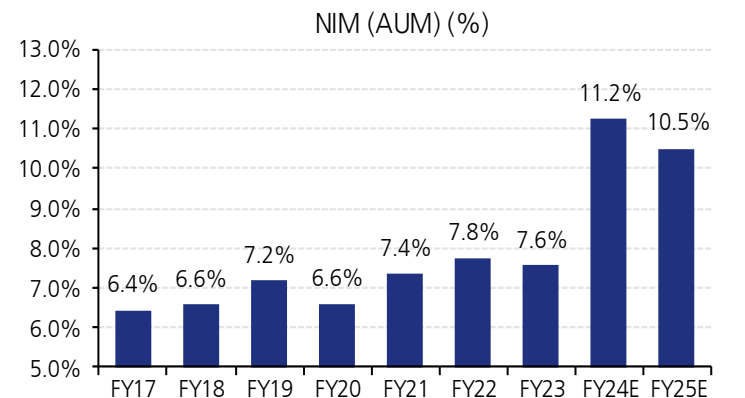
Exhibit 13. Trends in NII



Source: Company, JM Financial

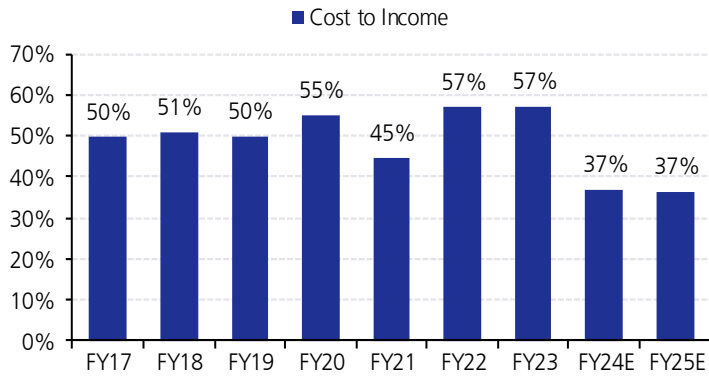
*Standalone FY24E onwards

Exhibit 14. Trends in NII/AUM



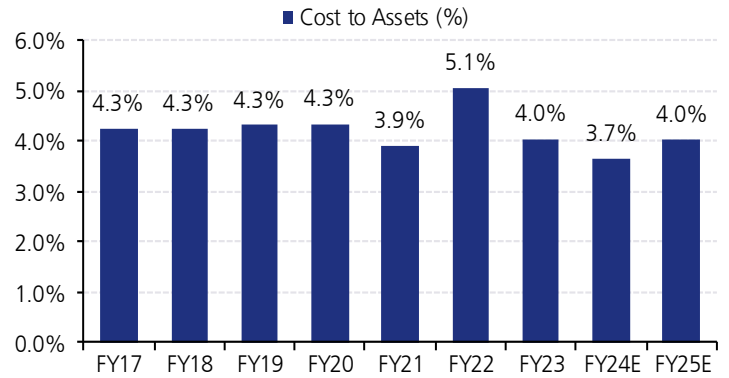
Source: Company, JM Financial

Exhibit 15. Trends in cost to income



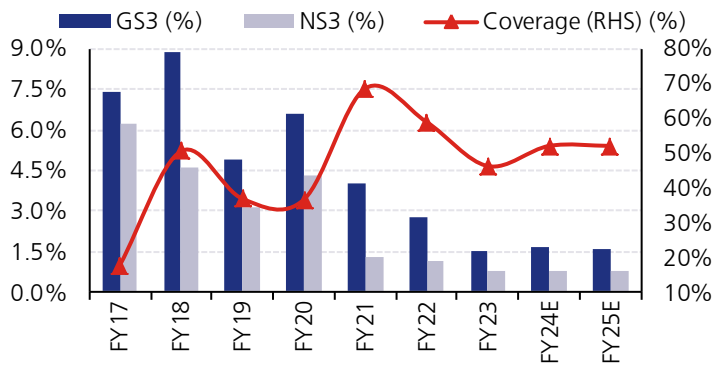
Source: Company, JM Financial

Exhibit 16. Trends in cost to assets



Source: Company, JM Financial

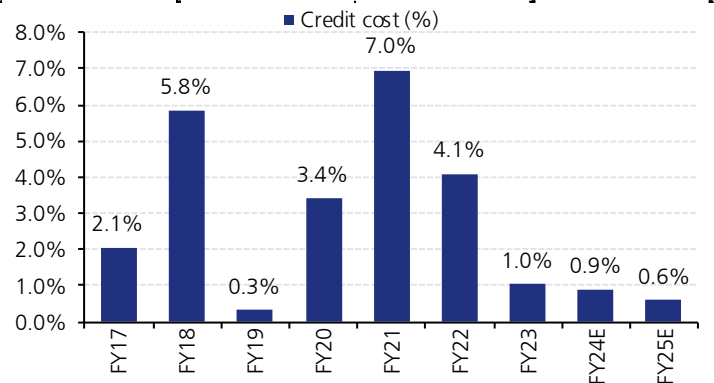
Exhibit 17. Asset quality trends



Source: Company, JM Financial

*Standalone FY24E onwards

Exhibit 18. Credit cost trends



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Net Interest Income (NII)	11,165	11,943	12,387	23,014	32,264	
Non Interest Income	1,355	1,251	1,634	2,124	2,885	
Total Income	12,520	13,194	14,021	25,138	35,149	
Operating Expenses	5,583	7,517	8,031	9,279	12,847	
Pre-provisioning Profits	6,937	5,677	5,991	15,859	22,302	
Loan-Loss Provisions	5,636	-5,153	-4,393	1,669	1,667	
Others Provisions	8,809	6,133	2,949	0	0	
Total Provisions	14,480	776	-1,445	1,669	1,667	
PBT	-7,543	4,902	7,436	14,190	20,635	
Tax	-1,898	1,163	1,812	3,547	5,159	
PAT (Pre-Extra ordinaries)	-5,644	3,739	5,624	10,642	15,476	
Extra ordinaries (Net of Tax)	0	0	1,226	0	0	
Reported Profits	-5,644	3,739	6,850	10,642	15,476	
Dividend	55	321	1,536	1,075	1,536	
Retained Profits	-5,699	3,418	5,314	9,567	13,940	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY21A	FY22A	FY23A	FY24E	FY25E	
Equity Capital	539	1,530	1,536	1,536	1,536	
Reserves & Surplus	21,404	59,030	67,078	1,07,645	1,21,586	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	1,04,330	99,088	1,11,196	1,57,898	2,28,952	
Deferred tax liabilities	0	0	0	0	0	
Preference Shares	5,848	4,779	52,396	7,956	10,488	
Current Liabilities & Provisions	0	0	0	0	0	
Total Liabilities	1,32,122	1,64,427	2,32,206	2,75,036	3,62,562	
Net Advances	1,13,612	1,48,507	1,52,185	2,20,689	3,25,614	
Investments	1,774	0	3,109	2,207	6,512	
Cash & Bank Balances	7,747	5,970	6,574	15,448	19,537	
Loans and Advances	129	140	207	0	0	
Other Current Assets	3,959	5,693	67,394	31,598	4,229	
Fixed Assets	1,816	2,004	2,117	2,200	2,900	
Miscellaneous Expenditure	0	0	0	0	0	
Deferred Tax Assets	2,942	1,970	477	2,750	3,626	
Total Assets	1,32,122	1,64,427	2,32,206	2,75,036	3,62,562	

Source: Company, JM Financial

Key Ratios		FY21A	FY22A	FY23A	FY24E	FY25E
Growth (YoY) (%)						
Borrowed funds	-13.0%	-5.0%	12.2%	42.0%	45.0%	
Advances	-16.1%	30.7%	2.5%	45.0%	47.5%	
Total Assets	-13.3%	24.5%	41.2%	18.4%	31.8%	
NII	1.8%	7.0%	3.7%	85.8%	40.2%	
Non-interest Income	-19.4%	-7.7%	30.7%	30.0%	35.9%	
Operating Expenses	-19.8%	34.6%	6.8%	15.5%	38.5%	
Operating Profits	22.0%	-18.2%	5.5%	164.7%	40.6%	
Core Operating profit	20.9%	-17.8%	4.4%	166.6%	40.6%	
Provisions	198.1%	-94.6%	-286.3%	-215.5%	-0.1%	
Reported PAT	-2,111.5%	-166.2%	83.2%	55.4%	45.4%	
Yields / Margins (%)						
Interest Spread	6.77%	6.71%	5.92%	9.50%	8.61%	
NIM	7.36%	7.75%	7.57%	11.24%	10.51%	
Profitability (%)						
ROA	-3.93%	2.53%	3.45%	4.20%	4.85%	
ROE	-22.6%	9.1%	10.6%	12.0%	13.3%	
Cost to Income	44.6%	57.0%	57.3%	36.9%	36.6%	
Asset quality (%)						
Gross NPA	3.98%	2.74%	1.47%	1.66%	1.56%	
LLP	6.95%	4.10%	3.26%	1.70%	1.46%	
Capital Adequacy (%)						
Tier I	17.36%	46.61%	37.69%	50.63%	43.53%	
CAR	20.29%	49.06%	38.91%	55.10%	47.26%	

Source: Company, JM Financial

Dupont Analysis		FY21A	FY22A	FY23A	FY24E	FY25E
NII / Assets	7.85%	8.05%	6.25%	9.07%	10.12%	
Other Income / Assets	0.95%	0.84%	0.82%	0.84%	0.91%	
Total Income / Assets	8.80%	8.90%	7.07%	9.91%	11.03%	
Cost / Assets	3.92%	5.07%	4.05%	3.66%	4.03%	
PPP / Assets	4.88%	3.83%	3.02%	6.25%	7.00%	
Provisions / Assets	10.18%	0.52%	-0.73%	0.66%	0.52%	
PBT / Assets	-5.30%	3.31%	3.75%	5.59%	6.47%	
Tax rate	25.2%	23.7%	24.4%	25.0%	25.0%	
ROA	-3.93%	2.53%	3.45%	4.20%	4.85%	
Leverage	6.0	2.7	3.4	2.5	2.9	
ROE	-22.6%	9.1%	10.6%	12.0%	13.3%	

Source: Company, JM Financial

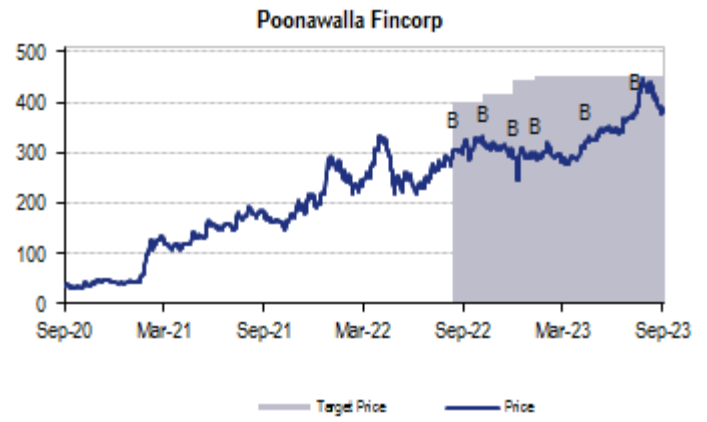
Valuations		FY21A	FY22A	FY23A	FY24E	FY25E
Shares in Issue	269.6	764.9	768.0	768.0	768.0	
EPS (INR)	-20.7	4.9	8.9	13.9	20.2	
EPS (YoY) (%)	-2,165.4%	-123.7%	81.8%	55.4%	45.4%	
P/E (x)	-18.8	79.3	43.6	28.1	19.3	
BV (INR)	81	79	89	142	160	
BV (YoY) (%)	-20.2%	-2.7%	12.9%	59.1%	12.8%	
P/BV (x)	4.78	4.91	4.35	2.74	2.43	
DPS (INR)	0.0	0.4	2.0	1.4	2.0	
Div. yield (%)	0.0%	0.1%	0.5%	0.4%	0.5%	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Aug-22	Buy	400	
21-Oct-22	Buy	415	3.8
15-Dec-22	Buy	445	7.2
23-Jan-23	Buy	450	1.1
27-Apr-23	Buy	450	0.0
25-Jul-23	Buy	450	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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