

CMP: INR 284

Rating: Not Rated

Stock Info

BSE	524000
NSE	POONAWALLA
Bloomberg	POONAWAL:IN
Reuters	MAGM.BO
Sector	NBFC
Face Value (INR)	2
Equity Capital (INR cr)	153
Mkt Cap (INR cr)	22,100
52w H/L (INR)	344 / 141
Avg Yearly volume (in 000')	4,727

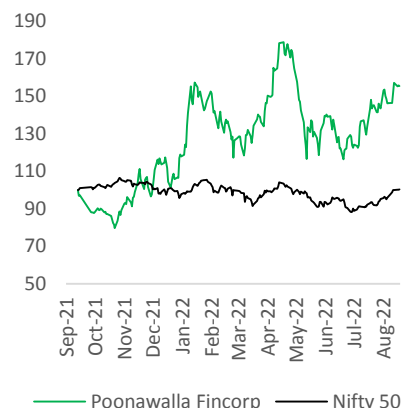
Shareholding Pattern %

(As on June, 2022)

Promoters	61.5
FII	7.4
DII	5.7
Public & Others	25.4

Stock Performance (%)	3m	YTD	12m
Poonawalla Fincorp	14.1	26.8	47.3
Nifty 50	8.1	1.3	6.9

PSL Vs Nifty



Raju Barnawal
raju.b@arihantcapital.com
022 67114870

Poonawalla Fincorp Ltd (PFL) (earlier known as Magma Fincorp) is a technology led NBFC company focused into Consumer Finance and MSME lending. It is a subsidiary of Rising Sun Holding Pvt Ltd (RSHPL), which is owned and controlled by Mr. Adar Poonawalla. RSHPL had invested INR 3,456 cr for a 60% stake in the erstwhile Magma Fincorp Ltd in Feb'21. Company had started its operations in 1988, offering wide range of services including loans for utility vehicles & cars, construction equipment, used CV, agricultural finance, and SME loans. Now, company is focusing into Business loans, Personal Loans, Pre-owned car loans, Credit card and General Insurance. It also operates in the affordable housing finance segment through its wholly-owned subsidiary Poonawalla Housing Finance Limited (PHFL) and has a presence in general insurance business in partnership with HDI through Magma HDI general Insurance (MHDI) since 2012. As of FY22, PFL operates through 242 branches in 21 states and employee count of 8,024 people. It has a total loan book of INR 17,660 cr.

Below are the key highlights of the meeting:

- **Vision 2025:** The management has laid out the Vision for FY25. Goals are: a) Company wants to be amongst the Top 3 NBFCs in consumer and MSMEs financing, b) to achieve ~3x growth of FY21 AUM of INR 14,225 cr, c) NNPA to be at less than 1% (Q1FY23 NNPA was at 0.95%) and d) value unlocking through IPO in PHFL.
- **Focusing into new business strategy:** The Company is discontinuing used CV/CE, tractors and auto lease financial businesses, which has higher delinquencies. The new strategy and product lines are more focused towards consumers and MSMEs, with higher CIBILs and creditworthiness. Pre-owned car financing, personal loans to professional, affordable housing, LAP and business loans will be near-term growth drivers.
- **Disbursements:** In Q1FY23, organic disbursements growth was at 27% QoQ to INR 2,738 cr. Company is targeting for INR 1,000 cr monthly run rate of disbursements.
- **Digital:** Company is focusing to strengthen its distribution through Digital, Direct and Partnership (DDP) model. DDP contribution has increased ~2x QoQ to 34.1% of the total Q1FY23 disbursement. Company is looking to Digitalized end to end process 100% by the end of the year. 100% digital journey capability for customers across all products via Digital KYC, Digital Onboarding (E-sign , E-agreement, E-NACH).
- **Margin Outlook:** Company is targeting to maintain NIM of 8.5%. As on Q1FY23, NIM was 9.5%. Company has passed on the rate hike to the customers. Cost of borrowings was at 6.9% as on Q1FY23, which is expected to increase slightly going ahead.
- **AUM mix by geography:** North: 28%, West: 27% and East at 15%.
- Company has launched Supply Chain Finance and Machinery Loan during the quarter.
- **Asset quality and Provision:** Asset quality on new business segments remained better than management expectations, with 30+ book at <0.3%. Company has already achieved its guidance of NNPA below 1%. PFL reported an exceptional gain of INR 240 cr on the sale of JV stake in Magma HDI, but this was offset by one-time management overlay provision of INR 223 cr towards discontinued book. As management carries a sufficient provision, credit cost is likely to remain in the range over the medium term. Discontinued book AUM has declined from INR 5,163 cr in Jun'21 to INR 2,281 cr in Jun'22 and this is expected to run down completely by the end of current financial year. The restructured book reduced to INR 619 cr (3.5% of AUM) as on Jun22 from INR 786 cr in Mar'22 (4.7% of AUM).
- **CTI ratio:** Cost to income ratio as on Q1FY23 was at 59.4%. CTI is expected to be below 50% in the next 3 years.

Exhibit 1: Disbursement (in cr.)

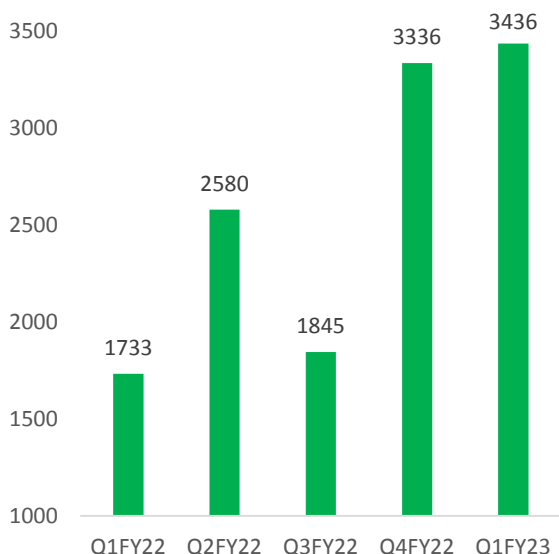


Exhibit 2: AUM over the quarter (in cr.)

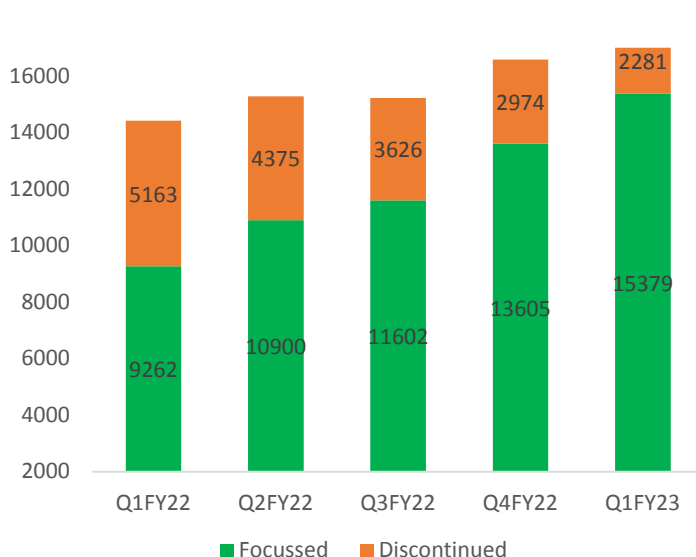


Exhibit 3: Asset quality trend over the quarter

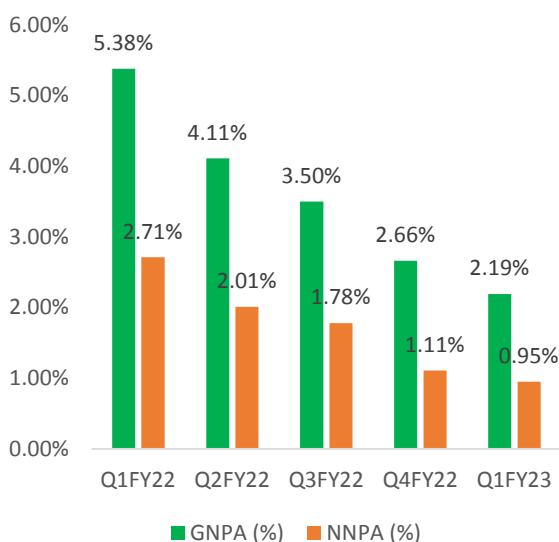


Exhibit 4: Borrowings cost (%)

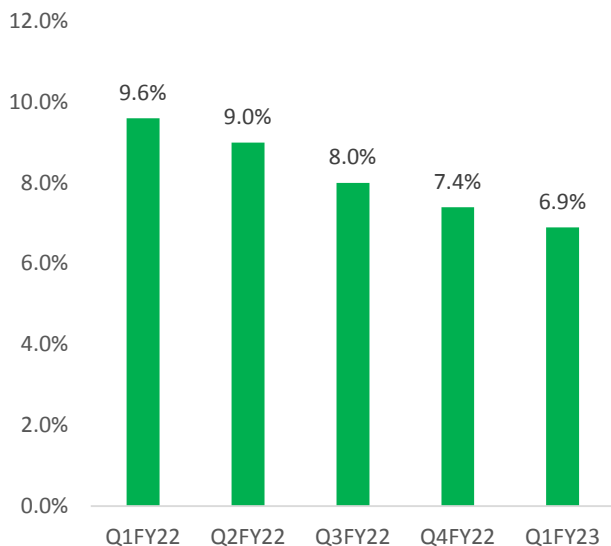


Exhibit 5: Key Financials

in cr.	FY20	FY21	FY22
NII	1,264	1,252	1,325
PPOP	588	710	583
PAT	27	(559)	375
AUM	16,134	14,225	16,579
GNPA	6.4%	3.7%	2.7%
NNPA	4.2%	1.2%	1.1%
Cost of funds	10.1%	9.7%	8.6%
NIM	7.6%	8.2%	8.9%
RoA	0.2%	-3.7%	2.5%

Source: Company, Arianth Research

Valuation and Outlook:

PFL is on consolidating phase as business transformation strategy is underway. Company is focusing into the new business lines in consumer finance, MSME, supply chain finance, personal loans and pre-owned car financing. It is investing heavily in technology to scale up the franchise and rollout of new products with entire focus into making end to end process digitally by end of the year. Company has strong visibility on the growth front and expecting to achieve annual AUM growth of 30-40%. Management's target of growing higher yielding business and better credit underwriting may lead to NIM expansion and lower credit cost.

The re-rating in the stock will be triggered by strong business execution into new areas, improved market positioning in focused segments, business scale up through digital mode and consistent earnings delivery.

At CMP of INR 284, stock is trading at 3x P/BV to its FY24E (Bloomberg estimate).

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880