India Equity Analytics

Results Preview Q2FY20 - NBFC

Narnolia®

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Bajaj Finance Limited

BAF IN

Financials-Nbfc

CMP	**4050**
Target	**4232**
Upside	**4%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	20.3%	22.5%	27.0%	26.6%
Roa%	3.6%	3.8%	4.2%	4.1%
Div Yield%	0.2%	0.1%	0.1%	0.1%
Book Value	287	341	438	564
P/B	6.2	11.9	9.2	7.2

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	82,422	115,889	152,973	198,866	100,217	128,898	137,297
AUM Growth%	*37%*	*41%*	*32%*	*30%*	*38%*	*41%*	*37%*
Borrowings	64,481	101,588	133,020	172,178	73,822	94,462	119,389
Borrowings Growth%	*31%*	*58%*	*31%*	*29%*	*40%*	*40%*	*62%*
GNPA%	1.5%	1.5%	1.7%	1.8%	1.5%	1.6%	1.7%
NNPA%	0.4%	0.6%	0.7%	0.7%	0.5%	0.6%	0.7%
Net Income	8,143	11,878	16,217	19,814	2,729	3,695	3,901
Net Inc. Gr%	*31%*	*46%*	*37%*	*22%*	*42%*	*43%*	*43%*
Opex	3,269	4,198	5,614	6,840	980	1,293	1,338
Opex Growth%	*27%*	*28%*	*34%*	*22%*	*25%*	*36%*	*37%*
Pre-provision Profit	4,874	7,681	10,603	12,974	1,749	2,402	2,563
PPP Gr%	*34%*	*58%*	*38%*	*22%*	*53%*	*48%*	*47%*
Provisions	1,030	1,501	2,326	2,592	315	551	566
Net Profits	2,496	3,995	6,070	7,683	923	1,195	1,598
Profit Gr%	*36%*	*60%*	*52%*	*27%*	*54%*	*43%*	*73%*
NIM% (Cal.)	11.4%	12.0%	12.0%	11.2%	12.2%	13.0%	12.7%
Cost to Income%	40%	35%	35%	35%	36%	35%	34%

Conso/Fig in Rs Cr

❑ AUM growth is expected to be at 37% YoY led by strong growth in consumer lending business. Rural lending growth is also expected to remain strong due to small base. However, other segment like commercial segment, SME and mortgage lending may face incremental slowdown due to rising concern over the slowdown in the economy.

❑ Total Net income is expected to grow around 45% YoY in 2Q FY20. On account of reduced corporate taxes, we have factored Rs 280 Cr of excess PAT in 2QFY20 and Rs 634 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 43% yoy for 2QFY20 and 36% YoY for FY20.

❑ BAF experienced an increase in overdue in certain products, such as digital product financing and 2W/3W financing which may increase the credit cost in near term. Overall assets quality remained stable for the company..

❑ Company in a steady basis continued to add new locations, added 65 locations in 1Q to below 1900 and management expects the cross 2000 by March 2020. We expect total operating expenses to grow by 37% YoY.

Key Trackable this Quarter

❑ Equity capital raising plan

❑ Assets quality trend across the segment.

We value the stock at 7.5x P/BV FY21E. HOLD

Can Fin Homes Limited

CANF IN

Financials-Nbfc

CMP	**393**
Target	**495**
Upside	**26%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	24.9%	18.2%	20.7%	21.2%
Roa%	2.1%	1.7%	2.0%	2.0%
Div Yield%	0.6%	0.5%	0.5%	0.6%
Book Value	101	134	162	198
P/B	4.8	2.9	2.4	2.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	15,743	18,381	22,425	27,358	16,935	19,000	19,983
AUM Growth%	*18%*	*17%*	*22%*	*22%*	*17%*	*17%*	*18%*
Borrowings	13,925	16,694	20,294	24,759	15,000	16,823	17,842
Borrowings Growth%	*17%*	*20%*	*22%*	*22%*	*17%*	*37%*	*19%*
Disbursement (Rs Cr)	5,207	5,479	6,383	8,085	1,443	1,276	1,599
GNPA%	0.4%	0.6%	0.6%	0.6%	0.6%	0.7%	0.7%
NNPA%	0.2%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%
Net Interest Income	510	530	641	785	130	148	154
NII Gr%	*21%*	*4%*	*21%*	*22%*	*2%*	*17%*	*18%*
Opex	88	92	107	127	18	23	26
Opex Growth%	*10%*	*4%*	*17%*	*19%*	*-14%*	*16%*	*50%*
Pre-provision Profit	453	471	575	711	122	132	138
PPP Gr%	*16%*	*4%*	*22%*	*24%*	*4%*	*17%*	*13%*
Provisions	22	1	21	25	-	9	5
Net Profits	286	297	408	508	77	81	106
Profit Gr%	*22%*	*4%*	*37%*	*25%*	*8%*	*11%*	*39%*
NIM% (Cal.)	3.5%	3.1%	3.1%	3.2%	3.3%	3.3%	3.3%
Cost to Income%	16.2%	16.3%	15.7%	15.2%	12.7%	15.0%	16.1%

Std/Fig in Rs Cr

- Despite liquidity pressure in HFCs, CANFIN is expected to report good set of numbers. AUM is expected to grow by 18% YoY in 2Q FY20 driven by growth in individual loan portfolio and better growth in non-Karnataka portfolio, the management expects Karnataka book to do well in the remaining quarter with RERA and GST stabilization and growth will pick up. Management expects loan growth to be Rs 23000 Cr in FY20.

- The takeover of loan and balance transfers have improved significantly which will improve growth and margins going ahead.

- Margins are expected to be stable with upward bias on the account of decline in cost going ahead.On account of reduced corporate taxes, we have factored Rs 18 Cr of excess PAT in 2QFY20 and Rs 42 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 14% YoY for 2QFY20 and 23% YoY for FY20.

- Management planning to open few branches in outskirts of Karnataka and near to Bangalore where growth will take place. We expect operating cost to increase significantly due to lower base in corresponding quarters last year.

Key Trackable this Quarter

- Growth improvement in Karnataka book.
- Appointment of MD & CEO

We value the stock at 2.2x P/BV FY21E. BUY

Cholamandalam Inv & Fin.

Financials-Nbfc

CIFC IN

CMP	**308**
Target	**317**
Upside	**3%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	20.6%	21.0%	23.0%	23.8%
Roa%	2.8%	2.3%	2.5%	2.7%
Div Yield%	0.4%	2.1%	0.5%	0.5%
BVPS	329	395	97	122
P/B	4.4	3.7	3.2	2.5

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	42,879	54,279	65,135	76,208	47,722	57,494	58,220
AUM Growth%	*25%*	*27%*	*20%*	*17%*	*31%*	*27%*	*22%*
Borrowings	38,293	50,567	61,739	71,894	47,061	55,122	54,925
Borrowings Growth%	*58%*	*32%*	*22%*	*16%*	*48%*	*35%*	*17%*
Disbursement	25,119	30,451	35,855	41,412	6,900	8,572	8,442
GNPA%	2.9%	2.7%	2.7%	2.3%	3.4%	3.0%	3.0%
NNPA%	1.7%	1.7%	1.6%	1.4%	2.2%	1.9%	1.9%
Net Income	2,820	3,403	4,097	4,919	811	943	998
Net Inc. Gr%	*17%*	*21%*	*20%*	*20%*	*17%*	*15%*	*23%*
Opex	1,115	1,270	1,503	1,695	290	350	376
Opex Growth%	*10%*	*14%*	*18%*	*13%*	*7%*	*24%*	*30%*
Pre-provision Profit	1,705	2,134	2,594	3,224	521	593	622
PPP Gr%	*20%*	*25%*	*22%*	*24%*	*23%*	*10%*	*19%*
Provisions	304	311	453	490	61	110	130
Net Profits	918	1,186	1,586	2,037	305	314	403
Profit Gr%	*28%*	*29%*	*34%*	*28%*	*49%*	*10%*	*32%*
NIM% (Cal.)	7.3%	7.0%	6.9%	7.0%	7.4%	7.2%	7.2%
Cost to Income%	39.5%	37.3%	36.7%	34.4%	35.8%	37.1%	37.7%

Std/Fig in Rs Cr

❑ Amid the slowdown in the auto sales, CHOLAFIN has registered strong AUM growth driven by ease in competitions from the peers. AUM is expected to grow by 22%/1% on YoY/QoQ.

❑ Despite problem in the industry assets quality remains one of the best in the industry. However, we remain cautious with the decline in resale value to repossessed assets and increased our credit cost estimate.

❑ NII is expected to grow by 15.2% YoY aided by healthy AUM growth. NIM is expected to remain under pressure with lower yield in both vehicle finance and home equity. Management expects NIM improvement from Q3 onwards with improvement cost of fund.

❑ The cost to income ratio is expected to be around 38% with company looking to expand branches to 1200 from current 999 in FY20. On account of reduced corporate taxes, we have factored Rs 89 Cr of excess PAT in 2QFY20 and Rs 178 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 6.5% yoy for 2QFY20 and 19% % for FY20.

Key Trackable this Quarter

❑ AUM growth amid slowdown in the industry

❑ Assets quality trend

We value the stock at 2.60x P/BV FY21E. HOLD

CreditAccess Grameen Ltd

Financials-Nbfc

CREDAG IN

CMP	**655**
Target	**749**
Upside	**14%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	20.0%	16.9%	17.8%	17.2%
Roa%	4.9%	5.2%	5.5%	4.9%
Div Yield%	-	-	-	-
Book Value	112	165	197	234
P/B	-	3.0	3.3	2.8

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	4,975	7,159	9,307	12,099	5,794	7,619	7,880
AUM Growth%	*62%*	*44%*	*30%*	*30%*	*47%*	*39%*	*36%*
Borrowings	3,603	4,886	6,508	8,461	3,903	5,100	5,360
Borrowings Growth%	*35%*	*36%*	*33%*	*30%*	*16%*	*25%*	*37%*
Disbursement	6,082	8,221	10,880	14,112	1,571	2,310	2,364
GNPA%	2.0%	0.6%	0.6%	0.7%	1.0%	0.6%	0.5%
NNPA%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%
Net Interest Income	506	802	1,056	1,240	195	241	257
NII Gr%	*34%*	*58%*	*32%*	*17%*	*58%*	*29%*	*32%*
Opex	203	294	386	447	73	89	95
Opex Growth%	*27%*	*45%*	*31%*	*16%*	*56%*	*44%*	*31%*
Pre-provision Profit	315	573	706	822	131	164	168
PPP Gr%	*40%*	*82%*	*23%*	*16%*	*66%*	*30%*	*29%*
Provisions	(13)	75	73	104	17	15	17
Net Profits	213	322	463	531	73	96	115
Profit Gr%	*182%*	*51%*	*44%*	*15%*	*21%*	*33%*	*56%*
NIM% (Cal.)	12.6%	13.2%	12.8%	11.6%	15.3%	14.4%	14.3%
Cost to Income%	39.2%	33.9%	35.3%	35.2%	35.7%	35.4%	36.0%

Conso/Fig in Rs Cr

❑ Credit access has been easily passing on some rise in the cost to the customer but the cost of borrowings has not yet declined for the MFI players. In the liquidity tightness, management plans to increase foreign borrowings. We expect margins to remain at a 10.8% range in the medium term.

❑ Management has plans to open branches by H1FY20 so that it can capitalize on the branches during the 2nd half of the year. Credit access has one of the highest operating efficiency in the MFI sector so we expect a very marginal upbeat of the cost to income ratio & remain in the 35% range for 2QFY20. We have account Rs 15 Cr & Rs 45 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 36% & 30% for 2QFY20 & FY20.

❑ Loan growth is expected to remain strong driven by healthy rural consumption further aided by a good monsoon. The loan growth is expected to remain unhindered at 36% YoY as at 2QFY20 by capitalizing on limited competition & strong parentage.

❑ We remain cautious about the recent Karnataka flood & expects a slight rise in delinquency in the MFI portfolio. We have increased the credit cost by 90 bps for 2QFY20.

Key Trackable this Quarter

❑ Impact of flood on assets quality

❑ C/I ratio would be in focus due to aggressive expansion

We value the stock at 3.2x P/BV FY21E. ACCUMULATE

HDFC Limited

HDFC IN

Financials-Nbfc

CMP	**1977**
Target	**2226**
Upside	**13%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	20.9%	13.5%	14.1%	13.4%
Roa%	3.0%	2.2%	2.3%	2.1%
Div Yield%	1.0%	0.9%	0.9%	1.0%
Book Value	389	449	491	530
P/B	4.7	4.4	4.0	3.7

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	399,511	461,913	526,581	602,935	430,200	475,933	486,126
AUM Growth%	*18%*	*16%*	*14%*	*15%*	*17%*	*13%*	*13%*
Borrowings	320,656	365,266	423,978	484,674	340,636	373,629	382,776
Borrowings Growth%	*14%*	*14%*	*16%*	*14%*	*13%*	*12%*	*12%*
GNPA%	1.1%	1.2%	1.4%	1.5%	1.1%	1.3%	1.4%
NNPA%	0.8%	0.8%	1.0%	1.1%	0.8%	0.9%	0.9%
Net Interest Income	9,624	11,457	13,107	16,256	2,594	3,079	3,187
NII Gr%	*-3%*	*19%*	*14%*	*24%*	*16%*	*12%*	*23%*
Opex	2,405	2,065	2,215	2,307	436	561	683
Opex Growth%	*80%*	*-14%*	*7%*	*4%*	*-31%*	*-11%*	*57%*
Pre-provision Profit	15,305	14,054	17,690	16,976	3,890	4,875	5,670
PPP Gr%	*34%*	*-8%*	*26%*	*-4%*	*47%*	*58%*	*46%*
Provisions	2,115	935	2,417	1,118	401	890	902
Net Profits	10,959	9,632	11,443	11,735	2,467	3,203	3,480
Profit Gr%	*47%*	*-12%*	*19%*	*3%*	*25%*	*46%*	*41%*
Spread%	2.6%	2.7%	2.7%	2.9%	2.5%	2.7%	2.7%
Cost to Income%	13.6%	12.8%	11.1%	12.0%	10.1%	10.3%	10.8%

Std/Fig in Rs Cr

❑ HDFC is expected to gain market share due to liquidity crisis. The loan growth is expected at 13% backed by individual segment as it remains cautious in the non-individual segment.

❑ Going forward margin is expected to sustain on the back of the lower cost of fund, however, the spreads in the nonindividual segment are under tad pressure. The incremental cost stands at around 7.15%.

❑ The sale of GRUH has provided it with sufficient liquidity. HDFC has sold 6.74 Cr shares of GRUH finance, so the corporation is entitled to 9.9% of the share capital of Bandhan Bank post effectiveness of the scheme. The one-off income is expected to be around Rs 1700 Cr as at 2QFY20. GRUH has declared a final dividend of Rs 2, HDFC BANK has declared a final dividend of Rs 15 & a special dividend of Rs 5 while HDFC AMC has declared a final dividend of Rs 12 aggregating to the total of Rs 1078 Cr.

❑ The rise in delinquency in the non-individual segment makes us cautious in the asset quality front. The rising delinquency has increased the ECL/EAD thus we expect credit cost to remain higher in 70 bps range as at 2QFY20.

Key Trackable this Quarter

❑ Impact on margins due to banks adopting external benchmarking interest rate for home loan.

❑ Delinquency in the Non-Individual segment.

We value the stock at 4.2x P/BV FY21E. ACCUMULATE

Indiabulls Housing Finance Ltd

Financials-Nbfc

IHFL IN

CMP	**256**
Target	
Upside	
Rating	**Under Review**

	FY18	FY19	FY20E	FY21E
Roe%	29.4%	26.5%	16.5%	16.5%
Roa%	3.3%	3.1%	2.3%	2.5%
Div Yield%	4.2%	4.7%	11.7%	11.7%
Book Value	337	386	416	451
P/B	3.7	2.2	0.6	0.6

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	122,600	120,525	118,115	129,926	128,900	113,189	113,432
AUM Growth%	*34%*	*-2%*	*-2%*	*10%*	*29%*	*-10%*	*-12%*
Borrowings	110,260	104,988	102,708	112,979	120,310	98,226	98,637
Borrowings Growth%	*29%*	*-5%*	*-2%*	*10%*	*25%*	*-15%*	*-18%*
Disbursement (Rs Cr)	48,060	32,231	43,564	48,228	11,034	7,500	10,209
GNPA%	0.8%	0.9%	1.5%	1.5%	0.8%	1.5%	1.5%
NNPA%	0.3%	0.7%	1.1%	1.1%	0.6%	1.1%	1.1%
Total Net Income	6,949	7,302	5,652	5,662	1,699	1,523	1,447
Net Income Gr%	*31%*	*5%*	*-23%*	*0%*	*10%*	*-12%*	*-15%*
Opex	951	1,120	988	960	272	270	253
Opex Growth%	*29%*	*18%*	*-12%*	*-3%*	*16%*	*0%*	*-7%*
Pre-provision Profit	5,998	6,182	4,663	4,702	1,427	1,254	1,194
PPP Gr%	*32%*	*3%*	*-25%*	*1%*	*9%*	*-15%*	*-16%*
Provisions	1,120	578	839	624	40	148	227
Net Profits	3,895	4,091	2,835	3,049	1,044	802	723
Profit Gr%	*34%*	*5%*	*-31%*	*8%*	*21%*	*-24%*	*-31%*
NIM% (Cal.)	4.5%	4.8%	3.5%	3.1%	4.7%	3.8%	3.9%
Cost to Income%	13.7%	15.3%	17.5%	16.9%	16.0%	17.7%	17.5%

Conso/Fig in Rs Cr

❑ The credit rating downgrade is expected to further raise the cost of the fund thus putting pressure on NIM. Low yielding housing loan is expected to keep the margin in the lower range as management has been selling off its commercial real estate exposure (CRE).

❑ Management has guided that it will limit incremental long term borrowing as they wait for regulatory approval on the impending merger with Lakshmi Vilas Bank (LVB). IBULHSGFIN priorities maintenance of liquidity buffer to improve CAR of LVB bank on its merger.

❑ Loan growth is expected to remain marginally steady on the back of slower disbursement & refinancing of the CRE book, the major part of run down has already hit the book. Incremental disbursement will be majorly driven-by the retail segment (84% presently).

❑ We remain cautious of the real estate environment, as management is proactively recognizing CRE exposure as NPA on account of fall in collateral value even though they are not more than 90 dpd. IBULHSGFIN has guided to receive around Rs 121 Cr recovery this quarter with no haircut on the exposure. We expect credit cost to trend in the 80 bps range going ahead.

Key Trackable this Quarter

❑ Asset quality risk rising from subdued sales and funding challenges in the real estate sector.

❑ Progress on Merger plan approval with Lakshmi Vilas Bank.

The stock is under Review

IndoStar Capital Finance Limited

Financials-Nbfc

INDOSTAR IN

CMP	**219**
Target	**235**
Upside	**7%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	10.6%	10.0%	7.0%	12.0%
Roa%	3.3%	2.6%	1.6%	2.5%
Div Yield%	-	0.5%	0.9%	0.9%
Book Value	266	328	349	392
P/B	-	0.7	0.6	0.6

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	6,060	13,248	14,573	18,216	7,767	13,002	12,970
AUM Growth%	*32.1%*	*119%*	*10%*	*25%*	*76%*	*74%*	*1%*
Borrowings	4,602	8,936	11,210	14,013	5,803	9,861	9,977
Borrowings Growth%	*36%*	*94%*	*25%*	*25%*	-	*85%*	*72%*
Disbursement	2,174	2,028	2,186	2,732	1,305	1,236	1,686
GNPA%	1.3%	0.7%	3.0%	3.5%	0.9%	2.9%	3.1%
NNPA%	1.1%	0.5%	2.9%	3.4%	0.6%	2.5%	3.0%
Net Interest Income	461	616	826	997	174	179	199
NII Gr%	*14%*	*33%*	*34%*	*21%*	*42%*	*64%*	*14%*
Opex	141	207	274	314	47	57	66
Opex Growth%	*99%*	*46%*	*32%*	*15%*	*101%*	*46%*	*13%*
Pre-provision Profit	320	409	556	683	117	114	138
PPP Gr%	*-4%*	*28%*	*36%*	*23%*	*21%*	*76%*	*19%*
Provisions	(4)	16	259	259	11	61	63
Net Profits	212	255	218	314	71	35	56
Profit Gr%	*1%*	*20%*	*-15%*	*44%*	*0%*	*-9%*	*-20%*
NIM% (Cal.)	8.7%	6.4%	5.9%	6.1%	10.6%	6.9%	7.0%
Cost to Income%	31%	34%	33%	32%	33%	37%	32%

Std/Fig in Rs Cr

❑ NIM is expected to remain under pressure due to the higher cost of funds for this quarter. With the acquisition of 36% high yielding vehicle finance & management ability to pass on the rise in cost. NII is expected to grow at 14% as at 2QFY20 but PAT is expected to remain subdued due to a higher share of provisioning due to NPA associated with the CV segment.

❑ Loan growth is expected to remain muted on the back of the management cautious approach in the corporate segment. As 70% of the vehicle segment is used we expect a slight rise in the ticket size with the implementation of BS-VI. We expect implementation of BS-VI vehicles will increase the scrappage value of BS-IV vehicles.

❑ We remain cautious of the rising defaults by the corporate sector. We have included the minimum NPA of Rs 200 Cr associated with CV in our estimates. We expect credit costs to fall in the higher range of 60 bps as of 2QFY20. We have accounted Rs 6 Cr & Rs 21 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 43% & -23% for 2QFY20 & FY20.

❑ INDOSTAR is expected to build 161 branches in FY20 so we expects C/I ratio to trend on the higher range of 35-40% going ahead.

Key Trackable this Quarter

❑ Delinquency on the acquired CV portfolio.

❑Management commentary on liquidity

We value the stock at 0.6x P/BV FY21E. NEUTRAL

L&T Finance Holdings Limited

Financials-Nbfc

LTFH IN

CMP	**85**
Target	**92**
Upside	**8%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	13.3%	18.0%	16.4%	18.4%
Roa%	1.6%	2.3%	2.1%	2.4%
Div Yield%	0.5%	0.7%	0.7%	0.7%
Book Value	57	67	78	92
P/B	2.7	2.3	2.0	1.6

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	83,654	99,122	112,999	126,559	83,376	99,902	100,051
AUM Growth%	*10%*	*18%*	*14%*	*12%*	*22%*	*16%*	*20%*
Borrowings	71,577	91,507	103,669	116,109	86,789	92,887	93,506
Borrowings Growth%	*30%*	*28%*	*13%*	*12%*	*32%*	*45%*	*8%*
Disbursement	22,664	12,774	13,157	13,552	16,736	9,608	17,238
GNPA%	4.8%	5.9%	5.8%	5.8%	7.1%	5.7%	6.0%
NNPA%	2.3%	2.4%	2.3%	2.3%	2.8%	2.5%	2.6%
Net Interest Income	3,188	4,781	5,631	6,521	1,145	1,341	1,396
NII Gr%	*5%*	*50%*	*18%*	*16%*	*54%*	*23%*	*22%*
Opex	1,423	2,305	2,276	2,444	527	444	590
Opex Growth%	*12%*	*62%*	*-1%*	*7%*	*86%*	*-11%*	*12%*
Pre-provision Profit	3,486	4,658	5,340	6,184	1,171	1,337	1,290
PPP Gr%	*31%*	*34%*	*15%*	*16%*	*35%*	*23%*	*10%*
Provisions	2,040	1,606	2,130	2,011	373	595	500
Net Profits	1,278	2,232	2,375	3,130	559	549	584
Profit Gr%	*23%*	*75%*	*6%*	*32%*	*62%*	*2%*	*5%*
NIM% (Cal.)	4.1%	5.4%	5.3%	5.4%	5.7%	5.8%	5.8%
Cost to Income%	29.0%	33.1%	29.9%	28.3%	31.0%	24.9%	31.4%

Conso/Fig in Rs Cr

- ❑ NIM is expected to remain under pressure even though management has been able to pass on the rise in the cost to customers. Management has sufficient liquidity of Rs 13133 Cr .The landed cost of the ECB is at par with weighted average cost so not much decline is expected. IIFL wealth will acquire 100% of L&T Capital Markets for Rs 250 Cr which is expected to have a small 2-3% impact on the PAT.

- ❑ The loan book is expected to grow at 20% as at 2QFY20 majorly driven by retailization (rural & housing portfolio). However, the slowdown in the HONDA OEM (contributing 40% of the 2W business) along with other OEM makes us cautious for 2-wheeler growth. Management has been growing slowly in the tractor and microloans for the last 2 quarters on the back of the over-leveraging of rural customers. Further classification of DCM & structured finance segment as defocused will hamper wholesale portfolio growth.

- ❑ We remain cautious on the asset quality front due to slow down in the sectors. The credit rating downgrades in the solar and wind projects in the state of Andhra Pradesh may further accelerate asset quality pain. We expect credit cost to remain in 2% range as at 2QFY20.

Key Trackable this Quarter

- ❑ Asset Quality Trend.
- ❑ Effect of corporate restructuring on the growth.

We value the stock at 1x P/BV FY21E. NEUTRAL

LIC Housing Finance Ltd

Financials-Nbfc

LICHF IN

CMP	**376**
Target	**559**
Upside	**49%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	15.8%	15.9%	16.0%	17.9%
Roa%	1.2%	1.3%	1.3%	1.4%
Div Yield%	1.3%	2.0%	2.1%	2.1%
Book Value	282	322	368	430
P/B	1.9	1.2	1.0	0.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	166,363	194,646	225,789	259,658	175,953	197,768	204,105
AUM Growth%	*15%*	*17%*	*16%*	*15%*	*16%*	*17%*	*16%*
Borrowings	145,339	170,629	198,933	228,773	154,451	173,025	179,040
Borrowings Growth%	*15%*	*17%*	*17%*	*15%*	*16%*	*34%*	*16%*
Disbursement (Rs Cr)	49,385	55,293	63,904	76,681	14,272	10,262	16,328
GNPA%	0.8%	1.5%	2.0%	2.0%	1.2%	2.0%	2.0%
NNPA%	0.4%	1.1%	1.1%	1.1%	0.0%	1.1%	1.1%
Net Interest Income	3,522	4,269	5,150	6,052	1,047	1,154	1,251
NII Gr%	*-3%*	*21%*	*21%*	*18%*	*20%*	*18%*	*19%*
Opex	440	473	601	730	105	110	141
Opex Growth%	*-28%*	*8%*	*27%*	*21%*	*-25%*	*31%*	*35%*
Pre-provision Profit	3,257	3,998	4,776	5,589	965	1,094	1,164
PPP Gr%	*1%*	*23%*	*19%*	*17%*	*12%*	*15%*	*21%*
Provisions	492	618	1,011	714	219	253	251
Net Profits	2,003	2,431	2,784	3,607	574	611	685
Profit Gr%	*4%*	*21%*	*15%*	*30%*	*12%*	*8%*	*19%*
NIM% (Cal.)	2.5%	2.5%	2.6%	2.6%	2.5%	2.5%	2.6%
Cost to Income%	11.9%	10.6%	11.2%	11.6%	9.8%	9.2%	10.8%

Std/Fig in Rs Cr

❑ Total loan book is expected to grow by 16% YoY driven by 13% growth in individual loan portfolio. Disbursements are expected to grow by 14% YoY. Borrowings growth is expected to be better at 16% YoY despite liquidity issue in the system. Strong parentage support will help in sailing liquidity problem..

❑ Due to funding problem in developer segment and tepid sales in real estate, delinquencies in the developer segment is expected to increase. LICHSGFIN has 7% of the book exposure towards developer which can get impacted which can increase the GNPA in near term..

❑ Spreads and margins are expected to be stable with the decline in cost of fund. The cost funds were lower in 1QFY20 and are expected to further reduce going ahead. However, banks shifting its retail portfolio rates towards external benchmarking can heighten the competition going ahead.On account of reduced corporate taxes, we have factored Rs 82 Cr of excess PAT in 2QFY20 and Rs 242 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 5% YoY for 2QFY20 and 5% YoY for FY20.

Key Trackable this Quarter

❑ NPAs in developer loans

❑ Management commentary on impact on margins due to competitions from banks.

We value the stock at 1.3x P/BV FY21E. BUY

M&M Financial Services Ltd

MMFS IN

Financials-Nbfc

CMP	**328**
Target	**390**
Upside	**19%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	13.4%	15.2%	14.7%	16.8%
Roa%	2.2%	2.6%	2.4%	2.9%
Div Yield%	0.9%	1.0%	1.5%	1.5%
Book Value	156	177	199	229
P/B	3.0	2.4	1.6	1.4

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	52,793	67,078	75,798	85,652	59,473	71,406	71,665
AUM Growth%	*13%*	*27%*	*13%*	*13%*	*26%*	*22%*	*21%*
Borrowings	39,556	53,112	58,306	65,886	46,707	55,004	55,554
Borrowings Growth%	*14%*	*34%*	*10%*	*13%*	*25%*	*28%*	*27%*
Disbursement	37,773	46,210	50,215	56,851	10,855	10,598	11,466
GNPA%	8.5%	5.9%	5.5%	5.3%	9.0%	7.4%	7.0%
NNPA%	3.8%	4.8%	4.3%	4.2%	6.0%	5.7%	5.3%
Net Income	3,552	4,778	5,661	6,524	1,212	1,284	1,408
Net Inc. Gr%	*7%*	*35%*	*18%*	*15%*	*51%*	*18%*	*16%*
Opex	1,434	1,848	2,361	2,634	425	560	571
Opex Growth%	*-1%*	*29%*	*28%*	*12%*	*28%*	*45%*	*34%*
Pre-provision Profit	2,170	3,018	3,406	4,021	787	724	838
PPP Gr%	*12%*	*39%*	*13%*	*18%*	*66%*	*3%*	*6%*
Provisions	568	635	1,116	1,050	231	620	224
Net Profits	1,011	1,557	1,706	2,213	381	68	467
Profit Gr%	*153%*	*54%*	*10%*	*30%*	*133%*	*-75%*	*22%*
NIM% (Cal.)	7.0%	7.8%	7.9%	8.1%	8.5%	7.8%	8.1%
Cost to Income%	39.8%	38.0%	40.9%	39.6%	35.1%	43.6%	40.5%

Std/Fig in Rs Cr

- ❑ Amid the slowdown in auto industry and rural consumption, AUM growth for M&MFIN is likely to slow down to 21% in 2Q FY20. Management expect disbursement growth of 10% and AUM growth of 15% towards the end of FY20.YoY/QoQ.
- ❑ Asset quality is expected to improve with rise in Q1FY20 being seasonal. Management is confident of bringing asset quality to the ideal position with increased focus on collection efficiency. Credit cost was higher in 1QFY20 due to excessive provision taken under LGD norm. However, management expects credit cost to improve in the coming quarters.
- ❑ NIM is expected to be subdued during Q2FY20 with lower yield on advance. Management said that dip in NIM was because of the change in product mix and increasing cost of fund but currently they are seeing reducing cost of money which can support NIM.Key trackable.
- ❑ On account of reduced corporate taxes, we have factored Rs 61 Cr of excess PAT in 2QFY20 and Rs 195 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 6.3% yoy for 2QFY20 and -3 % for FY20.

Key Trackable this Quarter

- ❑ Outlook on auto sales growth
- ❑ Assets quality trend

We value the stock at 1.70x P/BV FY21E. BUY

Magma Fincorp Ltd

MGMA IN

Financials-Nbfc

CMP	**52**
Target	**54**
Upside	**4%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	11.4%	12.9%	8.0%	11.9%
Roa%	1.5%	1.9%	1.3%	1.9%
Div Yield%	0.5%	1.5%	2.3%	2.3%
Book Value	83	102	109	122
P/B	1.8	0.5	0.5	0.4

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	15,555	17,029	18,562	20,232	15,873	17,029	17,312
AUM Growth%	*-3%*	*9%*	*9%*	*9%*	*0%*	*8%*	*9%*
Borrowings	9,829	12,185	14,731	16,057	11,844	13,401	13,560
Borrowings Growth%	*-3%*	*24%*	*21%*	*9%*	*-3%*	*9%*	*14%*
Disbursement (Rs Cr)	2,233	2,586	2,970	3,439	1,840	2,586	2,066
GNPA%	7.0%	4.8%	4.7%	4.7%	8.8%	4.8%	5.1%
NNPA%	5.2%	3.1%	3.0%	3.0%	4.4%	3.1%	3.3%
Net Interest Income	1,009	1,128	1,082	1,147	321	291	272
NII Gr%	*-9%*	*12%*	*-4%*	*6%*	*9%*	*10%*	*-15%*
Opex	605	684	630	600	167	172	177
Opex Growth%	*-2%*	*13%*	*-8%*	*-5%*	*15%*	*2%*	*6%*
Pre-provision Profit	605	707	618	753	173	168	146
PPP Gr%	*-7%*	*17%*	*-13%*	*22%*	*7%*	*9%*	*-16%*
Provisions	316	265	309	255	85	41	129
Net Profits	235	303	227	369	68	85	11
Profit Gr%	*1753%*	*29%*	*-25%*	*62%*	*76%*	*7%*	*-84%*
NIM% (Cal.)	6.4%	6.9%	6.1%	5.9%	8.2%	7.0%	6.5%
Cost to Income%	50.0%	49.2%	50.5%	44.3%	49.1%	50.6%	54.9%

Conso/Fig in Rs Cr

- NIM is expected to remain compressed as at 2QFY20, management has guided that it will take another 2 quarters for the cost of funds to settle down. Management expects a rising share of a used vehicle, focus on fee income and rising share of the direct business will provide some margin relief in the long term. We expect NIM is expected to remain under 4% in the medium term.

- We have account Rs 9 Cr & Rs 23 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is -19% & -33% for 2QFY20 & FY20.

- Liquidity remains an issue for MAGMA, it has entered into a Co-origination arrangement with ICICI Bank Limited. We expect loan growth to remain muted at 8% as at 2QFY20 on the back of a slowdown in the consumption demand of the auto sector in the rural economy. Accompanying with the slowdown, the relaxation in the axle norm has made people reluctant to switch to newer vehicles in the near term so, demand is expected to remain impacted.

- We remain very cautious of the rising delinquency due to lower realization value from the repossessed assets & significant movement in the hard bucket. We expect credit cost to trend in 1.6% range in 2QFY20.

Key Trackable this Quarter

- Availability of liquidity
- Delinquency and repossessed assets

We value the stock at 0.45x P/BV FY21E. NEUTRAL

Manappuram Finance Limited

Financials-Nbfc

MGFL IN

CMP	**141**
Target	**154**
Upside	**9%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	18.9%	22.1%	25.6%	24.4%
Roa%	4.2%	4.9%	6.0%	5.9%
Div Yield%	0.5%	1.8%	1.8%	1.8%
Book Value	45	54	66	81
P/B	2.4	2.6	2.1	1.7

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	15,765	19,438	23,326	27,991	17,191	20,186	20,629
AUM Growth%	*15%*	*23%*	*20%*	*20%*	*25%*	*21%*	*20%*
Borrowings	12,607	15,295	18,811	22,574	11,354	11,312	13,753
Borrowings Growth%	*34%*	*21%*	*23%*	*20%*	*30%*	*10%*	*21%*
GNPA%	0.7%	0.5%	0.6%	0.6%	0.7%	0.7%	0.5%
NNPA%	0.3%	0.3%	0.3%	0.3%	0.2%	0.4%	0.3%
Net Income	2,326	2,698	3,306	3,819	710	805	828
Net Inc. Gr%	*5%*	*16%*	*23%*	*16%*	*19%*	*23%*	*17%*
Opex	1,235	1,386	1,468	1,693	344	354	369
Opex Growth%	*28%*	*12%*	*6%*	*15%*	*11%*	*23%*	*19%*
Pre-provision Profit	1,214	1,473	1,901	2,208	366	451	459
PPP Gr%	*-5%*	*21%*	*29%*	*16%*	*28%*	*39%*	*25%*
Provisions	177	46	148	175	16	37	36
Net Profits	677	922	1,293	1,509	222	270	339
Profit Gr%	*-10%*	*36%*	*40%*	*17%*	*39%*	*36%*	*52%*
NIM% (Cal.)	15.8%	15.3%	15.5%	14.9%	17.4%	16.6%	16.6%
Cost to Income%	50.4%	48.5%	43.6%	43.4%	48.4%	44.0%	44.6%

Conso/Fig in Rs Cr

- Growth in tonnage along with surge in gold price is expected to boost the gold loan growth from 2QFY20. Growth in the CV segment is expected to take hit due to slower demand. However, management is confident of 20% consolidated AUM growth in FY20.
- Due to the movement towards lower yield asset mix, Margins are expected to decline going ahead. Liquidity problem in the NBFC space has resulted in higher cost of borrowing. Despite rate cut in the system we don't expect much benefit for the NBFCs.
- PAT growth is expected to be at 52% YoY.On account of reduced corporate taxes, we have factored Rs 59 Cr of excess PAT in 2QFY20 and Rs131 Cr in FY20. Adjusted PAT growth excluding excess tax benefit is 26% YoY for 2QFY20 and 26% YoY for FY20.
- Asset quality is expected to improve going ahead. The management expects credit cost to be maintained in FY20, FY21.

Key Trackable this Quarter

- Incremental cost of borrowings.
- Growth in CV segment.

We value the stock at 1.9x P/BV FY21E. HOLD

MAS Financial Services Ltd.

MASFIN IN

CMP	**676**
Target	**761**
Upside	**13%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	18.8%	18.1%	19.7%	19.2%
Roa%	4.4%	4.8%	4.6%	4.7%
Div Yield%	0.3%	0.5%	0.2%	0.2%
Book Value	142	166	195	230
P/B	4.2	4.1	3.5	2.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	4,114	5,338	6,619	7,943	4,625	5,578	5,782
AUM Growth%	*30%*	*30%*	*24%*	*20%*	*33%*	*29%*	*25%*
Borrowings	1,785	2,567	3,538	4,314	2,226	2,959	3,090
Borrowings Growth%	*18%*	*44%*	*38%*	*0%*	*25%*	*56%*	*39%*
Disbursement	3,891	4,772	5,733	6,879	1,163	1,201	1,396
GNPA%	1.2%	1.2%	1.3%	1.4%	1.4%	1.2%	1.2%
NNPA%	0.9%	0.9%	0.9%	1.0%	1.0%	0.8%	0.8%
Net Interest Income	269	352	401	486	86	91	99
NII Gr%	*42%*	*31%*	*14%*	*21%*	*24%*	*16%*	*15%*
Opex	73	77	85	105	20	19	21
Opex Growth%	*20%*	*7%*	*10%*	*24%*	*0%*	*-21%*	*-16%*
Pre-provision Profit	208	288	331	398	66	76	81
PPP Gr%	*60%*	*39%*	*15%*	*20%*	*27%*	*25%*	*23%*
Provisions	43	55	66	97	13	13	15
Net Profits	103	152	195	223	35	41	50
Profit Gr%	*54%*	*47%*	*28%*	*15%*	*42%*	*34%*	*46%*
NIM% (Cal.)	7.3%	7.1%	6.3%	6.4%	8.2%	7.1%	7.3%
Cost to Income%	25.9%	21.2%	20.5%	20.9%	23.2%	20.3%	20.4%

Std/Fig in Rs Cr

❑ We expect NIM to remain under pressure on the back of compression in the spreads of assignment loans, as the assignment comprises of 47% of the liability profile. Along with it, higher cost of funds due to risk averseness of bank towards small NBFCs will contain margins. However, management is confident of completely passing on the rise in the cost & recouping the margin by 2QFY20.

❑ Management plans of continued expansion of branches, in spite of this, we expect C/I ratio to remain stable in the early 20% range. We have account Rs 3 Cr & Rs 20 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 55% & 15% for 2QFY20 & FY20.

❑ The loan book is expected to grow at the rate of 25% 2QFY20, lower from its historic average of 32%, driven majorly by micro-enterprise loans. management is resorting to on-lending with PSB for additional growth.

❑ As the 58% of the loan asset is sourced through NBFCs, which are partially guaranteed in case of default. So we expect the Gross stage to remain in the 1.20% range as at 2QFY20.

Key Trackable this Quarter

❑ The spread in the assignment book.

❑ Sluggishness in the SME book.

We value the stock at 3.3x P/BV FY21E. ACCUMULATE

Muthoot Finance Limited

MUTH

Financials-Nbfc

CMP	**677**
Target	**828**
Upside	**22%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	24.8%	22.4%	22.9%	22.0%
Roa%	5.8%	5.7%	6.0%	6.0%
Div Yield%	1.8%	1.2%	1.2%	1.2%
Book Value	196	245	298	360
P/B	2.1	2.8	2.3	1.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	29,138	34,246	39,041	44,506	32,319	35,816	36,843
AUM Growth%	*7%*	*18%*	*14%*	*14%*	*17%*	*16%*	*14%*
Borrowings	21,268	26,922	30,985	35,322	24,334	28,149	29,241
Borrowings Growth%	*1%*	*27%*	*15%*	*14%*	*9%*	*21%*	*20%*
GNPA%	7.0%	2.7%	3.4%	3.0%	1.9%	3.2%	3.3%
NNPA%	6.2%	0.9%	1.4%	1.2%	0.1%	1.3%	1.3%
Net Interest Income	4,335	4,641	5,137	5,872	1,109	1,215	1,269
NII Gr%	*30%*	*7%*	*11%*	*14%*	*-5%*	*8%*	*14%*
Opex	1,317	1,539	1,648	1,811	367	397	409
Opex Growth%	*27%*	*5%*	*11%*	*14%*	*18%*	*6%*	*11%*
Pre-provision Profit	3,084	3,104	3,494	4,064	748	820	861
PPP Gr%	*41%*	*1%*	*13%*	*16%*	*-13%*	*8%*	*15%*
Provisions	240	28	115	167	3	3	36
Net Profits	1,778	1,972	2,478	2,884	484	530	627
Profit Gr%	*51%*	*11%*	*26%*	*16%*	*9%*	*8%*	*30%*
NIM% (Cal.)	15.4%	14.6%	14.0%	14.1%	14.7%	14.4%	14.6%
Cost to Income%	29.9%	33.2%	32.0%	30.8%	32.9%	32.6%	32.2%

Std/Fig in Rs Cr

❑ NIM is expected remain under pressure due to higher cost. Recoveries and write off is expected to remain strong driven by opulent gold prices. NII is expected to increase by 15% YoY while PAT growth 11% YoY as at 2QFY20.

❑ C/I ratio is expected to increase slightly as almost 300 branches are facing difficulty in disbursing additional loan since Aug 26, 2019. But we do not expect any major deviance due to closure of branches as muthoot finance has closed 300 branches in the last 3 years.

❑We have account Rs 91 Cr & Rs 247 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 11% & 13% for 2QFY20 & FY20.

❑ Loan growth is expected to remain strong at 14% YoY mainly on the back of surge in gold price which has grown at a similar level QoQ. The 43 branches where the outstanding is at Rs 101 Cr, is expected to stop disbursing loan further.

❑ We remain little cautious in the asset quality trend due to number of floods affecting India. Due to the sudden closing of Kerala branches, it may incur some losses to settle the accounts in an immediate basis.

Key Trackable this Quarter

❑ The hindrance in the AUM growth due to Kerala strike.

❑ The fluctuation in the gold prices may increase quantum of losses.

We value the stock at 2.3x P/BV FY21E. BUY

Power Finance Corporation Ltd

Financials-Nbfc

POWF IN

CMP	**99**
Target	**103**
Upside	**4%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	11.9%	17.3%	16.3%	17.8%
Roa%	1.6%	2.2%	2.0%	2.1%
Div Yield%	9.1%	7.6%	8.6%	8.6%
Book Value	140	164	166	188
P/B	0.61	0.61	0.60	0.53

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	278,914	314,666	349,279	387,700	292,647	316,886	324,838
AUM Growth%	*14%*	*13%*	*11%*	*11%*	*13%*	*11%*	*11%*
Borrowings	229,539	275,692	306,385	343,097	243,485	280,618	287,467
Borrowings Growth%	*13%*	*20%*	*11%*	*12%*	*17%*	*20%*	*18%*
Disbursement (Rs Cr)	26,852	22,544	17,464	19,385	17,506	10,467	12,994
GNPA%	9.6%	9.4%	8.0%	7.0%	9.7%	9.6%	10.0%
NNPA%	7.4%	4.6%	3.8%	3.4%	4.7%	4.7%	5.0%
Net Interest Income	8,874	9,608	9,687	11,416	2,237	2,211	2,328
NII Gr%	*-10%*	*8%*	*1%*	*18%*	*-9%*	*7%*	*4%*
Opex	382	405	449	532	111	81	100
Opex Growth%	*0%*	*6%*	*11%*	*19%*	*-56%*	*18%*	*-10%*
Pre-provision Profit	8,236	8,944	10,550	12,151	1,982	2,162	2,261
PPP Gr%	*-19%*	*9%*	*18%*	*15%*	*-12%*	*6%*	*14%*
Provisions	2,391	(871)	880	905	(74)	221	241
Net Profits	4,387	6,953	7,103	8,322	1,355	1,383	1,495
Profit Gr%	*106%*	*58%*	*2%*	*17%*	*10%*	*1%*	*10%*
NIM% (Cal.)	3.4%	3.2%	2.9%	3.1%	3.2%	2.9%	3.0%
Cost to Income%	4%	4%	4%	4%	5%	4%	4%

Std/Fig in Rs Cr

❑ NIM is expected to remain under pressure as the incremental disbursements are towards state-guaranteed exposure and low yielding renewable exposure. Margin is also under pressure due to Rs 14500 Cr investment in RECLTD.

❑ Loan growth is expected to grow at 10% YoY majorly driven by distribution and generation segment. The disbursement is expected to revive as management was deliberately slowing down the disbursement as it funded 70% of REC exposure through internal accruals.

❑ Credit cost is expected to be normalized as management has already provided a 52% provision for its stress assets. Credit cost of 30 bps is expected as at 2QFY20.

❑ We have account Rs 162 Cr & Rs 720 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is -2% & -8% for 2QFY20 & FY20.

❑ The recent credit rating downgrade of the Mytrah project (Rs 2455 Cr) in the state of Andhra Pradesh will lead to higher delinquency. The resolution of Rs 982 Cr in the GMR Chhattisgarh exposure is expected to come off in this quarter, where the haircut is 50% with provisioning of 51% already provided.

Key Trackable this Quarter

❑ Delinquency due to dishonouring of renewable PPA agreements by AP state government.

❑ Management commentary on PFC & REC merger going ahead

We value the stock at 0.55x P/BV FY21E. NEUTRAL

PNB Housing Finance Ltd.

PNBHOUSI IN

Financials-Nbfc

CMP	**583**
Target	**598**
Upside	**3%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	13.9%	15.4%	14.8%	16.6%
Roa%	1.6%	1.5%	1.3%	1.5%
Div Yield%	0.4%	1.0%	1.0%	1.0%
Book Value	397	449	513	598
P/B	3.5	1.3	1.1	1.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	62,252	84,722	99,972	117,967	73,482	88,333	91,118
AUM Growth%	*50%*	*36%*	*18%*	*18%*	*43%*	*29%*	*24%*
Borrowings	54,268	72,362	81,944	99,972	63,627	72,261	73,482
Borrowings Growth%	*52%*	*33%*	*13%*	*22%*	*41%*	*20%*	*15%*
Disbursement (Rs Cr)	33,195	36,079	34,355	35,410	8,405	7,634	9,112
GNPA%	0.3%	0.5%	1.0%	0.6%	0.5%	0.9%	1.0%
NNPA%	0.3%	0.4%	0.9%	0.5%	0.4%	0.7%	0.9%
Net Interest Income	1,585	1,930	2,422	2,879	444	584	587
NII Gr%	*87%*	*22%*	*25%*	*19%*	*23%*	*38%*	*32%*
Opex	441	551	554	611	132	141	131
Opex Growth%	*23%*	*25%*	*0%*	*10%*	*50%*	*11%*	*-0.3%*
Pre-provision Profit	1,511	1,767	2,194	2,622	370	650	529
PPP Gr%	*67%*	*17%*	*24%*	*19%*	*5%*	*67%*	*43%*
Provisions	277	189	573	555	65	164	135
Net Profits	842	1,081	1,183	1,530	208	368	296
Profit Gr%	*61%*	*28%*	*9%*	*29%*	*10%*	*57%*	*42%*
NIM% (Cal.)	3.1%	2.6%	2.6%	2.6%	2.7%	2.9%	2.7%
Cost to Income%	22.6%	23.8%	20.2%	18.9%	26.3%	17.8%	19.9%

Std/Fig in Rs Cr

❑ NIM to remain under pressure due to the higher cost of fund & liquidity buffer. CARE has downgraded rating from 'stable 'to 'negative'. On the contrary, the 175$ mn ECB raised is 50 bps lower than the domestic borrowings thus it is expected to provide some cushioning to NIM. But recently banks are linking MCLR with repo rate which is expected to increase competitive pressure in the medium term. Management has guided to improve the operating efficiency FY20, so no branches opening plan this year.

❑ We have account Rs 35 Cr & Rs 113 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 25% & -1% for 2QFY20 & FY20.

❑ Loan Growth to decline from an average run rate of 40% to 24% as at 2QFY20.

❑ We remain cautious on the asset quality front due to rising in the construction finance delinquency . With highest share of the non-housing portfolio in comparison to the industry the stock is trading at a lower valuation.

❑ Management has approved raising equity sh. upto Rs 2000 Cr. Its existing investors i.e. Carlyle Group, Varde Partner and General Atlantic are expected to increase their stake .

Key Trackable this Quarter

❑ Rise in delinquency due to increased stress in real estate segment

❑ Loan book growth guidance

We value the stock at 1x P/BV FY21E. NEUTRAL

Rural Electrification Corp Ltd

Financials-Nbfc

RECL IN

CMP	**123**
Target	**146**
Upside	**19%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	13.5%	17.3%	18.5%	19.7%
Roa%	2.0%	2.1%	2.1%	2.2%
Div Yield%	7.3%	6.4%	8.7%	8.1%
Book Value	164	174	196	225
P/B	0.76	0.88	0.63	0.55

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	239,449	281,210	326,204	378,396	256,968	291,069	303,222
AUM Growth%	*18.6%*	*17%*	*16%*	*16%*	*19%*	*20%*	*18%*
Borrowings	198,791	239,286	278,806	323,416	215,603	246,896	259,164
Borrowings Growth%	*19%*	*20%*	*17%*	*0%*	*23%*	*23%*	*20%*
Disbursement (Rs Cr)	22,285	19,896	19,572	20,812	24,226	15,625	18,193
GNPA%	7.2%	7.2%	7.0%	6.0%	7.9%	7.2%	7.0%
NNPA%	5.7%	3.8%	3.9%	3.3%	4.3%	3.7%	3.8%
Net Interest Income	8,752	9,329	10,095	11,661	2,283	2,399	2,467
NII Gr%	*-8%*	*7%*	*8%*	*16%*	*3%*	*14%*	*8%*
Opex	356	489	496	607	148	109	120
Opex Growth%	*1%*	*37%*	*1%*	*22%*	*122%*	*-12%*	*-19%*
Pre-provision Profit	8,181	8,341	9,472	11,626	2,590	2,075	2,307
PPP Gr%	*-18%*	*2%*	*14%*	*23%*	*15%*	*-7%*	*-11%*
Provisions	2,297	240	282	526	64	(28)	74
Net Profits	4,420	5,764	6,747	8,214	1,764	1,501	1,653
Profit Gr%	*-29%*	*30%*	*17%*	*22%*	*25%*	*2%*	*-6%*
NIM% (Cal.)	4.0%	3.6%	3.3%	3.3%	3.8%	3.5%	3.4%
Cost to Income%	4%	6%	5%	5%	5%	5%	5%

Std/Fig in Rs Cr

❑ In the liquidity crisis scenario, fewer names were able to raise liability but at a slightly higher rate like REC. Margin is expected to remain under pressure however incrementally REC is resorting to taxable bonds (82% of the fundraised) which is expected to provide some cushioning to margins. REC is frequently raising borrowings on the back of higher maturities of borrowings so we expect NIM to remain under. NII is expected to grow at 8% YoY on the back of moderate loan book growth and margin pressure.

❑ We expect strong sanctions to drive loan book growth of 18% YoY as of 2QFY20. The disbursement is expected to grow strong backed by the T&D segment (62% sanctions).

❑ Not much credit cost is envisioned going ahead the recent default of Nagai power has already been provided for 42% while the total stress asset is provided up to 48%.

❑ We expect a lesser impact of foreign exchange loss and premium on the derivative transaction on the back of the nominal exchange rate movement. We have account Rs 179 Cr & Rs 681 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is -16% & 5% for 2QFY20 & FY20.

Key Trackable this Quarter

❑ Assets quality trend due to due to dishonouring of renewable PPA agreements by Andhra Pradesh state government.

❑ Loan book growth

We value the stock at 0.65x P/BV FY21E. BUY

Satin Creditcare Network Ltd

SATIN IN

CMP	**313**
Target	**306**
Upside	**-2%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	9.8%	19.8%	18.5%	18.6%
Roa%	1.4%	3.1%	3.2%	3.3%
Div Yield%	0.0%	0.0%	0.0%	0.0%
Book Value	185	235	283	341
P/B	2.2	1.3	1.1	0.9

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	5,757	7,067	8,340	9,841	6,192	7,139	7,306
AUM Growth%	*42%*	*23%*	*18%*	*18%*	*38%*	*18%*	*18%*
Borrowings	4,411	5,200	6,088	7,184	5,200	5,200	5,333
Borrowings Growth%	*14%*	*18%*	*17%*	*18%*	*18%*	*4%*	*-6%*
Disbursement (Rs Cr)	6,386	7,762	6,540	7,106	1,633	1,946	1,461
GNPA%	4.4%	2.9%	2.7%	2.6%	4.1%	2.8%	2.9%
NNPA%	2.6%	1.3%	1.2%	1.1%	0.8%	1.2%	1.2%
Net Interest Income	425	544	474	522	134	96	122
NII Gr%	*79%*	*28%*	*-13%*	*10%*	*44%*	*-30%*	*-9%*
Opex	337	437	486	484	106	122	122
Opex Growth%	*25%*	*30%*	*11%*	*0%*	*36%*	*26%*	*15%*
Pre-provision Profit	160	368	384	471	90	79	95
PPP Gr%	*66%*	*130%*	*4%*	*23%*	*116%*	*2%*	*5%*
Provisions	44	52	65	87	18	15	16
Net Profits	75	201	234	284	46	41	60
Profit Gr%	*201%*	*-169%*	*16%*	*21%*	*-37%*	*47%*	*30%*
NIM% (Cal.)	8.7%	8.5%	6.2%	5.7%	9.4%	5.8%	7.1%
Cost to Income%	67.8%	54.3%	55.9%	50.6%	54.0%	60.6%	56.3%

Std/Fig in Rs Cr

❑ We expect NIM to remain under pressure due to the higher cost of fund but management remains confident of passing on the entire rise of the cost of funds to customers.The recently raised ECB cost a total of 11.5% including the hedging cost, which is a tad higher than the domestic borrowings so we do not see much relief to the margins in the near term. NII is expected to grow at the rate of 20% mainly on the back of expansion streak.

❑ We expect the growth to remain muted at 18% at 2QFY20 lower than its average run rate of 30% due to lack of liquidity availability. The subsidiaries are expected to grow at a much higher rate than the MFI book.

❑ We have account Rs 8 Cr & Rs 24 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 13% & 4% for 2QFY20 & FY20.

❑ C/I ratio is expected to remain steady at 52% range for the next 1 year as management has plans to continue expanding to have a pan India presence.

❑ Management remains confident that the FANI cyclone & Bihar flood will not have much impact on the asset quality of the portfolio however we remain cautious in the rising flood situation.

Key Trackable this Quarter

❑ Margin performance.

❑ Liquidity availability may impact the growth.

We value the stock at 0.9x P/BV FY21E. NEUTRAL

Shriram City Union Finance Ltd.

Financials-Nbfc

SCUF IN

CMP	**1340**
Target	**1410**
Upside	**5%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	12.6%	16.6%	16.6%	17.5%
Roa%	2.6%	3.5%	3.6%	3.6%
Div Yield%	0.8%	1.2%	1.7%	1.7%
Book Value	842	968	1115	1282
P/B	2.5	1.9	1.2	1.0

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	27,461	29,582	32,540	35,794	29,748	30,352	31,235
AUM Growth%	*19%*	*8%*	*10%*	*10%*	*18%*	*11%*	*5%*
Borrowings	20,421	22,572	24,746	27,435	22,686	22,226	23,348
Borrowings Growth%	*20%*	*11%*	*10%*	*11%*	*25%*	*3%*	*3%*
Disbursement (Rs Cr)							
GNPA%	9.4%	8.9%	8.6%	8.4%	0.1%	0.1%	8.8%
NNPA%	5.0%	5.0%	4.7%	4.6%	0.0%	0.1%	5.1%
Net Interest Income	3,416	3,697	3,762	4,062	977	919	926
NII Gr%	*18%*	*8%*	*2%*	*8%*	*13%*	*-1%*	*-5%*
Opex	1,362	1,499	1,500	1,601	396	370	369
Opex Growth%	*20%*	*10%*	*0%*	*7%*	*25%*	*0%*	*-7%*
Pre-provision Profit	2,071	2,302	2,338	2,530	624	577	572
PPP Gr%	*17%*	*11%*	*2%*	*8%*	*15%*	*2%*	*-8%*
Provisions	1,054	782	783	795	251	193	192
Net Profits	665	989	1,143	1,284	249	253	289
Profit Gr%	*20%*	*49%*	*16%*	*12%*	*6%*	*10%*	*16%*
NIM% (Cal.)	13.5%	13.0%	12.1%	11.9%	14.1%	12.4%	12.3%
Cost to Income%	40%	39%	39%	38.7%	39%	39%	39%

Std/Fig in Rs Cr

❑ We expect NIM pressure to continue as management has not yet taken any hike in the PLR rate. The cost of the fund has remained at a higher range at 9.85% range. Management has guided for a 10-15 bps increase in the cost of borrowing in the short term. Management has approved the ECB raising plan but the issue is expected to come through in October.

❑ Management has guided C/I to remain steady in the range of 38-39% going head. We expect loan growth to remain controlled at 5% YoY as at 2QFY20 on the back of a deliberate slowdown in the large ticket SME loans along with the 2W market. But the slower disbursement in the 2-wheeler sales is expected to be offset by rise in ticket size.

❑ Management is optimistic about the credit cost to remain on the back of higher write-offs due to recovery. However, we remain slightly cautious on the stock due to continued weakness in the MSME market. We have account Rs 38 Cr & Rs 117 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 1% & 4% for 2QFY20 & FY20.

❑ Piramal enterprise has expressed its interest to sell its entire stake in Shriram Capital Limited, it holds 9.97% of stake in Shriram city union.

Key Trackable this Quarter

❑ AUM growth

❑ Assets Quality Trend

We value the stock at 1.1x P/BV FY21E. NEUTRAL

Shriram Transport Finance

SHTF IN

CMP	**1070**
Target	**1254**
Upside	**17%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	13.1%	19.6%	17.7%	18.0%
Roa%	1.9%	2.5%	2.8%	3.0%
Div Yield%	0.9%	0.9%	1.0%	1.0%
Book Value	554	698	818	965
P/B	2.6	1.8	1.3	1.1

	FY18	FY19	FY20E	FY21E	2QFY19	1QFY20	2QFY20E
AUM	95,306	104,482	113,886	125,274	104,380	106,343	108,555
AUM Growth%	*21%*	*9%*	*9%*	*10%*	*21%*	*5%*	*4%*
Borrowings	63,320	87,968	95,702	105,272	88,202	90,601	91,223
Borrowings Growth%	*19%*	*7%*	*9%*	*10%*	*21%*	*6%*	*3%*
Disbursement (Rs Cr)	50,730	48,733	62,094	72,921	13,799	12,296	15,740
GNPA%	9.2%	8.4%	8.2%	7.8%	8.6%	8.5%	8.4%
NNPA%	2.8%	5.7%	5.7%	5.4%	6.0%	6.0%	5.8%
Net Interest Income	6,735	7,808	8,174	9,285	2,055	1,962	1,982
NII Gr%	*22%*	*15%*	*5%*	*14%*	*25%*	*7%*	*-4%*
Opex	1,489	1,750	1,848	2,093	457	446	446
Opex Growth%	*21%*	*17%*	*6%*	*13%*	*29%*	*2%*	*-2%*
Pre-provision Profit	5,494	6,158	6,440	7,313	1,623	1,543	1,560
PPP Gr%	*26%*	*12%*	*5%*	*14%*	*23%*	*9%*	*-4%*
Provisions	3,122	2,382	2,289	2,402	684	561	578
Net Profits	1,568	2,562	3,044	3,634	610	634	747
Profit Gr%	*25%*	*4%*	*19%*	*19%*	*23%*	*11%*	*22%*
NIM% (Cal.)	7.7%	7.8%	7.5%	7.8%	8.4%	7.5%	7.5%
Cost to Income%	21.3%	22.1%	22.3%	22.3%	22.0%	22.4%	22.3%

Std/Fig in Rs Cr

- ❑ NIM is expected to remain under pressure due to higher cost of fund & liquidity buffer. Management has partially been able to pass on the rise in the cost to the customer. Management is resorting to raising foreign borrowings for incremental growth which comes at 30-40 bps higher than the domestic fund. NII is expected to be muted with sluggish growth & margin pressure.

- ❑ Management plans to add 200 branches in FY20 with 40 already added in 1QFY20. C/I ratio is expected to be in 22% range in FY20. The rise in axle norms has increased the capacity of the older vehicle thus dampening newer HCV demand. But with BS-VI implementation the resale value of older value is expected to increase. Management expect used vehicle demand to remained buoyant driven by LCV & HCV segment.

- ❑ We have account Rs 98 Cr & Rs 303 Cr of excess PAT in 2QFY20 & FY20. Adjusted PAT growth excluding TAX benefit is 6% & 7% for 2QFY20 & FY20.

- ❑ We remain cautious on the asset quality due to loss in value of repossessed asset . Mngt has lowered down the LTV to offset the loss & has guided for below 2% credit cost.

Key Trackable this Quarter

- ❑ Pre-buying due demand to BS-VI implementation.
- ❑ The resale value of Used Vehicle can impact asset quality

We value the stock at 1.3x P/BV FY21E. BUY

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