India Equity Analytics

Results Preview Q3FY20 - NBFC

Narnolia®

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Bajaj Finance Limited

BAF IN

Financials-Nbfc

CMP	**4248**
Target	**4197**
Upside	**-1%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	20.3%	22.5%	23.0%	22.9%
Roa%	3.6%	3.8%	4.3%	4.6%
Div Yield%	0.22%	0.17%	0.14%	0.14%
Book Value	287	341	562	699
P/B	6.2	8.9	7.6	6.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	82,422	1,15,889	1,52,973	2,06,514	1,09,931	1,35,533	1,45,659
AUM Growth%	*37%*	*41%*	*32%*	*35%*	*41%*	*38%*	*33%*
Borrowings	64,481	1,01,588	1,27,478	1,70,673	80,862	97,597	1,21,382
Borrowings Growth%	*31%*	*58%*	*25%*	*34%*	*40%*	*32%*	*50%*
GNPA%	1.5%	1.5%	1.7%	1.8%	1.6%	1.6%	1.6%
NNPA%	0.4%	0.6%	0.7%	0.7%	0.6%	0.7%	0.6%
Net Income	8,143	11,878	16,658	22,496	3,199	3,999	4,336
Net Inc. Gr%	*31%*	*46%*	*40%*	*35%*	*46%*	*47%*	*36%*
Opex	3,269	4,198	5,786	7,766	1,113	1,382	1,509
Opex Growth%	*27%*	*28%*	*38%*	*34%*	*30%*	*41%*	*36%*
Pre-provision Profit	4,874	7,681	10,873	14,730	2,086	2,617	2,827
PPP Gr%	*34%*	*58%*	*42%*	*35%*	*55%*	*50%*	*36%*
Provisions	1,030	1,501	2,395	3,117	451	594	615
Net Profits	2,496	3,995	6,147	8,690	1,059	1,506	1,655
Profit Gr%	*36%*	*60%*	*54%*	*41%*	*53%*	*63%*	*56%*
NIM% (Cal.)	11.4%	12.0%	12.3%	12.5%	13.4%	13.0%	13.1%
Cost to Income%	40%	35%	35%	35%	35%	35%	35%

Conso/Fig in Rs Cr

❑ Management continues to be conservative on growth front given the current environment. AUM growth is expected to be at 33% YoY to be driven by consumer lending segment. However there may be some slowdown in SME segment due to slowdown in the economy.

❑ NII growth is expected to be at 35% YoY on the account of high advances growth. The company is looking to add 200 new locations in 2HFY20 due to which we expect operating expenses to grow by 35% YoY in 3QFY20.

❑ The company has experienced an increase in 30dpd in certain products such as digital products financing and 2W/3W financing. Provisions are expected to grow at 37% YoY as credit cost is expected to be elevated in near term .Overall GNPA is expected to be maintained in 3QFY20.

❑ The company has successfully raised Rs 8500 Cr through QIP which is expected to further Support Company's growth in the coming period.

❑ Due to decline in cost of funds and capital raising margins are expected to improve in the near term.

Key Trackable this Quarter

❑ Credit cost trend may impact growth

❑ AUM growth across segments

We value the stock at 6x P/BV FY21E. NEUTRAL

Can Fin Homes Limited

CANF IN

Financials-Nbfc

CMP	**400**
Target	**450**
Upside	**13%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	24.9%	18.2%	20.2%	20.6%
Roa%	2.1%	1.7%	2.0%	2.1%
Div Yield%	0.6%	0.5%	0.5%	0.6%
Book Value	101	134	161	196
P/B	4.8	3.0	2.5	2.0

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	15,743	18,381	21,322	25,160	17,568	19,600	20,379
AUM Growth%	*18%*	*17%*	*16%*	*18%*	*17%*	*16%*	*16%*
Borrowings	13,925	16,694	19,209	22,464	15,500	17,256	18,359
Borrowings Growth%	*17%*	*20%*	*15%*	*17%*	*17%*	*15%*	*18%*
Disbursement (Rs Cr)	5,207	5,479	5,946	7,580	1,318	1,334	1,630
GNPA%	0.4%	0.6%	0.7%	0.7%	0.7%	0.8%	0.8%
NNPA%	0.2%	0.4%	0.5%	0.5%	0.4%	0.6%	0.6%
Net Interest Income	510	530	638	746	136	156	164
NII Gr%	*21%*	*4%*	*20%*	*17%*	*7%*	*19%*	*20%*
Opex	88	92	105	121	22	25	28
Opex Growth%	*10%*	*4%*	*15%*	*15%*	*3%*	*42%*	*30%*
Pre-provision Profit	453	471	570	676	120	137	147
PPP Gr%	*16%*	*4%*	*21%*	*19%*	*2%*	*13%*	*22%*
Provisions	22	1	26	23	-	6	7
Net Profits	286	297	396	489	74	98	104
Profit Gr%	*22%*	*4%*	*34%*	*23%*	*12%*	*27%*	*41%*
NIM% (Cal.)	3.5%	3.1%	3.2%	3.2%	3.3%	3.3%	3.4%
Cost to Income%	16.2%	16.3%	15.6%	15.2%	15.2%	15.4%	16.0%

Std/Fig in Rs Cr

❑ With focus on individual loan portfolio the company is expected to grow by 16% YoY in 3QFY20.There are some challenges from supplier side in developer segment in the industry in recent time but the company does not see any major impact.The management expects the growth to be much more than the industry growth going ahead. The demand is expected to pick up in Karnataka with Hyderabad and AP market also growing.

❑ Borrowings are expected to grow by 18% YoY. The company has Rs 2200 Cr of unutilised limits from the bank.

❑ GNPA has been higher in 2QFY20 QoQ, the reason being Semp group. Has been initiated under SARFAESI in 800 cases, the company repossessed Rs 26 Cr of properties in 2QFY20 60-70% of which are likely to be materialised in 3QFY20.The NPA trend is expected to remain same going ahead in 3QFY20.

❑ Margins are expected to be improving in 3QFY20 on the back of declining cost of fund.

❑ Non metro branches increased to 114 from 109 last quarter .Going ahead C/I ratio is expected to increase in 3QFY20 on the account of expansion plans to Kerala.

Key Trackable this Quarter

❑ GNPA trend

❑ Growth in Karnataka book

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

Cholamandalam Inv & Fin.

Financials-Nbfc

CIFC IN

CMP	**304**
Target	**353**
Upside	**16%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	20.6%	21.0%	20.6%	20.9%
Roa%	2.8%	2.3%	2.2%	2.3%
Div Yield%	-	-	0.45%	0.49%
BVPS	329	395	94	114
P/B	4.4	3.9	3.3	2.7

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	42,879	54,279	62,964	72,408	50,393	59,292	60,472
AUM Growth%	*25%*	*27%*	*16%*	*15%*	*29%*	*24%*	*20%*
Borrowings	38,293	50,567	59,400	68,310	47,234	55,903	56,516
Borrowings Growth%	*58%*	*32%*	*17%*	*15%*	*67%*	*19%*	*20%*
Disbursement	25,119	30,451	33,234	38,676	7,644	7,381	8,466
GNPA%	2.9%	2.7%	2.8%	2.6%	3.3%	3.2%	2.8%
NNPA%	1.7%	1.7%	1.8%	1.7%	2.1%	2.0%	0.0%
Net Income	2,820	3,403	4,145	4,880	875	1,020	1,068
Net Inc. Gr%	*17%*	*21%*	*22%*	*18%*	*22%*	*26%*	*22%*
Opex	1,115	1,270	1,599	1,936	316	402	419
Opex Growth%	*10%*	*14%*	*26%*	*21%*	*12%*	*38%*	*33%*
Pre-provision Profit	1,705	2,134	2,546	2,944	560	618	649
PPP Gr%	*20%*	*25%*	*19%*	*16%*	*29%*	*19%*	*16%*
Provisions	304	311	509	679	96	95	150
Net Profits	918	1,186	1,393	1,694	304	307	374
Profit Gr%	*28%*	*29%*	*17%*	*22%*	*39%*	*1%*	*23%*
NIM% (Cal.)	7.3%	7.0%	7.1%	7.2%	7.5%	7.4%	7.4%
Cost to Income%	40%	37%	39%	40%	36%	39%	39%

Std/Fig in Rs Cr

❑ Cholafin has been registering Healthy AUM growth and outperforming its peers amongst the Auto sector troubles . The AUM is expected to grow by 21%/3% on YoY/QoQ basis aided by its well diversified portfolio.

❑NII is expected to grow by 22% YoY with Healthy AUM growth. NIM is expected to be under pressure with low yields in both vechile finance and home equity segment and higher cost of fund due to increased bank borrowing. Management expects NIM to improve in Q4FY19 with drop in cost of funds.

❑Cholafin had been able to maintain healthy asset quality and is one of the best in the industry. We expect asset quality to improve going forward with strong recoveries.

❑Cost to income ratio is expected to be around 39% with company looking to expand its branch base to around 1200 by the end of the year.

❑Company has recently approved the issue of equity shares by way of the QIP for an amount not exceeding Rs 1000 Cr in one or more tranches

Key Trackable this Quarter

❑ AUM growth amid slowdown in the industry

❑ Assets quality trend

We value the stock at 3.10x P/BV FY21E. BUY

CreditAccess Grameen Ltd

Financials-Nbfc

CREDAG IN

CMP	**752**
Target	**918**
Upside	**22%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	20.0%	16.9%	16.5%	17.5%
Roa%	4.9%	5.2%	5.1%	5.0%
Div Yield%	-	-	-	-
Book Value	112	165	194	232
P/B	-	3.0	4.0	3.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	4,975	7,159	9,307	12,099	6,085	7,905	8,276
AUM Growth%	*62%*	*44%*	*30%*	*30%*	*49%*	*36%*	*36%*
Borrowings	3,603	4,886	6,508	8,461	4,260	5,642	5,668
Borrowings Growth%	*35%*	*36%*	*33%*	*30%*	*42%*	*45%*	*33%*
Disbursement	6,082	8,221	10,702	14,122	1,762	2,186	2,483
GNPA%	2.0%	0.6%	0.6%	0.7%	1.0%	0.5%	0.5%
NNPA%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Interest Income	506	802	1,026	1,240	210	246	261
NII Gr%	*34%*	*58%*	*28%*	*21%*	*70%*	*26%*	*24%*
Opex	203	294	384	451	77	102	93
Opex Growth%	*27%*	*45%*	*31%*	*17%*	*56%*	*41%*	*21%*
Pre-provision Profit	315	573	682	828	164	154	176
PPP Gr%	*40%*	*82%*	*19%*	*21%*	*106%*	*17%*	*8%*
Provisions	(13)	75	104	104	10	28	30
Net Profits	213	322	425	536	100	100	111
Profit Gr%	*182%*	*51%*	*32%*	*26%*	*55%*	*36%*	*11%*
NIM% (Cal.)	12.6%	13.2%	12.5%	11.6%	15.0%	13.7%	13.5%
Cost to Income%	39.2%	33.9%	36.0%	35.2%	31.9%	40.0%	34.5%

Conso/Fig in Rs Cr

❑ Margin is expected to remain under pressure as the incremental cost of borrowings is at a 10% range. NII growth is expected to 26% mainly on the back of healthy AUM growth.

❑ On the AUM growth front, management has guided CAGR growth of 30% for the next 5 years. The liquidity crisis has provided enough room for the required growth in market share.

❑ The C/I ratio is expected to improve going ahead as most of the targeted branches are opened in 1HFY20. With the rising efficiency of the existing branches and lower operating expenses, we expect the C/I ratio to decline to go ahead.

❑ We expect with provision to remain elevated on the back of flood situation in the state of Maharashtra and Karnataka state. Credit cost is expected to remain in the 1.40% range.

❑ The impact of DTA of around Rs 5-10 Cr is yet to have an impact on the P/L in the 2HFY20. We expect the Tax rate to remain in a 30% range.

❑ The merger approval of Madura microfinance is due. The consolidated book is expected to be around Rs 9958 Cr, with the total number of borrowers at 3699, Branches stood at 1317, Employees and Officer aggregating to 13129 & 8856.

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 4x P/BV FY21E. BUY

HDFC Limited

HDFC IN

CMP	**2466**
Target	**2559**
Upside	**4%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	20.9%	13.5%	21.9%	12.0%
Roa%	3.0%	2.2%	3.8%	2.0%
Div Yield%	1.0%	0.89%	0.76%	0.82%
Book Value	389	449	532	569
P/B	4.7	4.4	4.6	4.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	3,99,511	4,61,913	5,21,962	5,89,817	4,41,022	4,90,072	4,98,355
AUM Growth%	*18%*	*16%*	*13%*	*13%*	*15%*	*13%*	*13%*
Borrowings	3,20,656	3,65,266	4,14,255	4,68,108	3,54,728	3,88,976	3,98,684
Borrowings Growth%	*14%*	*14%*	*13%*	*13%*	*15%*	*14%*	*12%*
GNPA%	1.1%	1.2%	1.4%	1.5%	1.2%	1.3%	1.3%
NNPA%	0.8%	0.8%	1.0%	1.1%	0.9%	0.9%	0.9%
Net Interest Income	9,624	11,457	12,627	14,786	2,975	3,021	3,139
NII Gr%	*-3%*	*19%*	*10%*	*17%*	*21%*	*16%*	*6%*
Opex	2,405	2,065	2,796	2,214	534	559	1,165
Opex Growth%	*80%*	*-14%*	*35%*	*-21%*	*-22%*	*28%*	*118%*
Pre-provision Profit	15,305	14,054	25,355	16,225	2,985	5,285	11,439
PPP Gr%	*34%*	*-8%*	*80%*	*-36%*	*-61%*	*36%*	*283%*
Provisions	2,115	935	2,459	1,105	116	754	432
Net Profits	10,959	9,632	18,496	11,322	2,114	3,962	8,805
Profit Gr%	*47%*	*-12%*	*92%*	*-39%*	*-60%*	*61%*	*317%*
Spread%	2.6%	2.7%	2.6%	2.7%	2.8%	2.6%	2.6%
Cost to Income%	13.6%	12.8%	9.9%	12.0%	15.2%	9.6%	9.2%

Std/Fig in Rs Cr

❑ Management has guided to maintain NIM in the range of 2.2-2.3%. With no growth in the high yielding construction finance , we expect NIM to remain under pressure in the medium term.

❑ On de-recognition of the investment in GRUH, the corporation has recorded a fair value gain of Rs 9020 Cr through the statement of Profit and Loss. HDFC has received income from dividend of Rs 4 Cr compared to Rs 2 Cr YoY. As dividend income is exempted from taxation, the tax rate is expected to be in the 20% range.

❑ HDFC growth is expected to be driven by the individual segment on the back of strong approval rates in the affordable home loans. Loan growth of 13% is expected for 2QFY20.

❑ The delinquency in the non-individual loan is increasing as the last mile funding needs of projects, which were met by selling off the almost complete property is curtailed now as the customer preference is shifted towards complete projects. But we remain confident of lower credit cost as HDFC has hoarded surplus provision of Rs 7313 Cr of against regulatory requirement of Rs 3659 Cr by monetizing its subsidiaries.

❑ HDFC to infuse capital to increase its stake to 9.18% in HDFC Credila .

Key Trackable this Quarter

❑ Margin pressure on the back of higher competitive intensity

❑ Delinquency in the Non-Individual segment.

We value the stock at 4.5x P/BV FY21E. NEUTRAL

Indiabulls Housing Finance Ltd

Financials-Nbfc

IHFL IN

CMP	**352**
Target	
Upside	
Rating	**Under Review**

	FY18	FY19	FY20E	FY21E
Roe%	29.4%	26.5%	15.0%	11.7%
Roa%	3.3%	3.1%	2.2%	2.0%
Div Yield%	4.2%	4.7%	10.0%	10.0%
Book Value	337	386	409	422
P/B	3.7	2.2	0.7	0.7

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	1,22,600	1,20,525	98,831	1,05,749	1,24,271	1,06,330	99,417
AUM Growth%	*34%*	*-2%*	*-18%*	*7%*	*16%*	*-18%*	*-20%*
Borrowings	1,10,260	1,04,988	85,199	91,163	1,07,609	89,565	84,972
Borrowings Growth%	*29%*	*-5%*	*-19%*	*7%*	*6%*	*-26%*	*-21%*
Disbursement (Rs Cr)	48,060	32,231	36,301	39,268	3,853	7,000	9,942
GNPA%	0.8%	0.9%	1.5%	1.5%	0.8%	1.5%	1.6%
NNPA%	0.3%	0.7%	1.1%	1.1%	0.6%	1.1%	1.2%
Total Net Income	6,949	7,302	5,028	4,056	2,031	1,252	1,206
Net Income Gr%	*31%*	*5%*	*-31%*	*-19%*	*-4%*	*-26%*	*-41%*
Opex	951	1,120	965	771	336	268	228
Opex Growth%	*29%*	*18%*	*-14%*	*-20%*	*13%*	*-1%*	*-32%*
Pre-provision Profit	5,998	6,182	4,063	3,286	1,695	984	978
PPP Gr%	*32%*	*3%*	*-34%*	*-19%*	*-6%*	*-31%*	*-42%*
Provisions	1,120	578	826	511	308	237	231
Net Profits	3,895	4,091	2,550	2,086	985	710	560
Profit Gr%	*34%*	*5%*	*-38%*	*-18%*	*-14%*	*-32%*	*-43%*
NIM% (Cal.)	4.5%	4.8%	3.5%	2.7%	5.7%	3.6%	3.5%
Cost to Income%	13.7%	15.3%	19.2%	19.0%	16.5%	21.4%	18.9%

Conso/Fig in Rs Cr

❑ IBULHSFIN has decreased its dependence on short term borrowings, the liquidity stands at 18% of the balance sheet management has guided to keep the liquidity at that level. Management is getting incremental sanction at 8-9% range for onward lending for Home loan & LAP loans.

❑ As the incremental business is towards the retail segment, with only 1/3rd of the book being kept on the balance sheet and securitization and direct assignment to contribute another 2/3rd, we expect margin pressure to continue.

❑ The incremental disbursement is majorly towards Home loan & LAP (amounting up to 50%) while the rest is towards the pre-approved obligation of the company for the construction finance segment. The rundown in the corporate segment until Mar 20 is expected to be around Rs 10000 Cr and an additional Rs 5000 Cr is expected from domestic banks for growth capital in the retail segment.

❑ Various regulators are yet (SEBI, RBI, NHB, SFIO & ROC) to submit their affidavits concerning the 5 accounts (DLF, Amricorp, Vatika, ADRG and Chordia) the next hearing is due in the next Feb 28, till the financiers get a clean slate from the regulator we expect growth to remain muted.

Key Trackable this Quarter

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

❑ Next Court Hearing date is due on Feb 28.

The stock is under Review

IndoStar Capital Finance Limited

Financials-Nbfc

INDOSTAR IN

CMP	**196**
Target	**206**
Upside	**5%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	10.6%	10.0%	6.1%	11.0%
Roa%	3.3%	2.6%	1.6%	3.1%
Div Yield%		0.51%	1.0%	1.0%
Book Value	266	328	346	384
P/B		0.60	0.57	0.51

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	6,060	13,248	11,659	12,708	7,846	12,377	11,925
AUM Growth%	*32.1%*	*119%*	*-12%*	*9%*	*56%*	*59%*	*52%*
Borrowings	4,602	8,936	7,772	8,586	6,231	7,625	7,453
Borrowings Growth%	*36%*	*94%*	*-13%*	*10%*	*6893%*	*31%*	*20%*
Disbursement	2,174	2,028	1,749	1,906	854	661	1,193
GNPA%	1.3%	2.6%	3.3%	3.5%	0.9%	3.7%	3.5%
NNPA%	1.1%	1.7%	3.1%	3.4%	0.6%	3.0%	3.3%
Net Interest Income	461	616	798	887	165	204	215
NII Gr%	*14%*	*33%*	*30%*	*11%*	*60%*	*17%*	*30%*
Opex	141	207	274	295	57	66	71
Opex Growth%	*99%*	*46%*	*33%*	*8%*	*18%*	*23%*	*52%*
Pre-provision Profit	320	409	524	591	118	133	144
PPP Gr%	*-4%*	*28%*	*28%*	*13%*	*86%*	*14%*	*22%*
Provisions	(4)	16	259	96	5	72	67
Net Profits	212	255	189	371	75	46	55
Profit Gr%	*1%*	*20%*	*-26%*	*96%*	*77%*	*-35%*	*-27%*
NIM% (Cal.)	8.7%	6.4%	6.4%	7.3%	9.1%	7.0%	7.0%
Cost to Income%	31%	34%	34%	33%	29%	35%	33%

Std/Fig in Rs Cr

- The margin is expected to remain under pressure as the cost of the fund has not yet come down. The incremental cost of borrowings remains in the range of 9.75%. NII growth is expected to decline going ahead due to upfrontisation of assignment income. Higher provisioning and tax rate is expected to led to profit degrowth.

- Management has guided to bring down the corporate book to Rs 2800 Cr by Mar 20 (with Rs 2000 Cr book in real estate segment), we expect this to cater for incremental retail growth. Management plans to curtail the share of corporate to 25% (Rs 2800 Cr).

- Incremental lending is majorly through banks, securitization and co-origination agreement (partnership agreement of CV financing with ICICI Bank). We expect growth to decrease sequentially by 5% in 3QFY20 on the back of liquidity availability.

- We remain cautious on the asset quality front due to rising stress in the corporate segment and commercial vehicle segment. The coverage in the corporate book stands at 10% only, so we expect credit costs to remain elevated going ahead. INDOSTAR has Rs 145 Cr (aggregating to 172% PCR) of outstanding provision in vehicle finance which is expected to provide some cushioning.

Key Trackable this Quarter

- Delinquency on the corporate & CV portfolio.
- Management commentary on liquidity

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

L&T Finance Holdings Limited

Financials-Nbfc

LTFH IN

CMP	**121**
Target	**128**
Upside	**6%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	13.3%	18.0%	15.5%	18.6%
Roa%	1.6%	2.3%	1.9%	2.5%
Div Yield%	0.51%	0.66%	0.66%	0.66%
Book Value	57	67	77	91
P/B	2.7	2.3	1.6	1.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	83,654	99,122	1,09,034	1,22,118	86,720	1,00,257	98,861
AUM Growth%	*10%*	*18%*	*10%*	*12%*	*21%*	*20%*	*14%*
Borrowings	71,577	91,507	1,00,031	1,12,035	87,818	90,050	91,538
Borrowings Growth%	*30%*	*28%*	*9%*	*12%*	*28%*	*4%*	*4%*
Disbursement	22,664	12,774	13,157	13,552	13,682	9,779	11,630
GNPA%	4.8%	5.9%	5.8%	5.8%	6.7%	6.0%	6.2%
NNPA%	2.3%	2.4%	2.3%	2.3%	2.6%	2.8%	2.6%
Net Interest Income	3,188	4,781	5,607	6,501	1,284	1,373	1,417
NII Gr%	*5%*	*50%*	*17%*	*16%*	*64%*	*20%*	*10%*
Opex	1,423	2,305	2,345	2,451	489	547	701
Opex Growth%	*12%*	*62%*	*2%*	*5%*	*36%*	*4%*	*43%*
Pre-provision Profit	3,486	4,658	5,678	6,202	1,196	1,381	1,532
PPP Gr%	*31%*	*34%*	*22%*	*9%*	*42%*	*18%*	*28%*
Provisions	2,040	1,606	2,237	2,006	420	624	498
Net Profits	1,278	2,232	2,179	3,142	581	175	774
Profit Gr%	*23%*	*75%*	*-2%*	*44%*	*78%*	*-69%*	*33%*
NIM% (Cal.)	4.1%	5.4%	5.4%	5.6%	6.1%	5.7%	5.7%
Cost to Income%	29.0%	33.1%	29.2%	28.3%	29.0%	28.4%	31.4%

Conso/Fig in Rs Cr

❑ NIM is expected to improve as nanagement has been able to pass on the hike in cost of fund. The cash flow from de-focused business is expected to drive incremental growth. Liquidity buffer stood at Rs 11607 Cr. The sale L&TFH capital to IIFL wealth for Rs 250 Cr is expected to boost PAT by 30% YoY growth. NIM is expected to improve with higher share of retail segment.

❑ The fee income is expected to be led by the rural segment because of the cautious approach in the real estate business. Management is entering into newer geography due to over-leveraging in certain pockets thus C/I ratio is expected to remain buoyant in 3QFY20.

❑ The growth was majorly dragged by slowdown in the wholesale segment as the structured finance and DCM book is categorized as defocused (Rs 7203 Cr). We expect some pre-buying demand to come in Jan-April due to a 10-15% hike in the prices from 1st April 2020.

❑ The tax rate is expected to normalize to 25.12% for 2HFY20.

❑The drag in the rural portfolio on the back of the flood situation is expected to improve with good rabi crop harvest. We expect credit cost to remain elevated at 2% as at 2QFY20.

Key Trackable this Quarter

❑ Asset Quality Trend.

❑ Effect of corporate restructuring on the growth.

We value the stock at 1.4x P/BV FY21E. NEUTRAL

LIC Housing Finance Ltd

Financials-Nbfc

LICHF IN

CMP	**456.2**
Target	**508**
Upside	**11%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	15.8%	15.9%	15.3%	17.0%
Roa%	1.2%	1.3%	1.2%	1.4%
Div Yield%	1.3%	1.7%	1.8%	1.8%
Book Value	282	322	366	423
P/B	1.9	1.4	1.2	1.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	1,66,363	1,94,646	2,23,843	2,57,419	1,83,104	2,03,037	2,08,739
AUM Growth%	*15%*	*17%*	*15%*	*15%*	*17%*	*14%*	*14%*
Borrowings	1,45,339	1,70,629	1,97,218	2,26,801	1,60,291	1,78,849	1,83,911
Borrowings Growth%	*15%*	*17%*	*16%*	*15%*	*16%*	*16%*	*15%*
Disbursement (Rs Cr)	49,385	55,315	57,117	75,915	12,778	12,173	15,655
GNPA%	0.8%	1.5%	2.0%	2.0%	1.3%	2.4%	2.4%
NNPA%	0.4%	1.1%	1.0%	1.0%	0.9%	1.0%	1.2%
Net Interest Income	3,522	4,269	5,016	5,730	1,042	1,252	1,286
NII Gr%	*-3%*	*21%*	*17%*	*14%*	*41%*	*20%*	*23%*
Opex	440	473	585	692	117	140	145
Opex Growth%	*-28%*	*8%*	*24%*	*18%*	*-21%*	*34%*	*24%*
Pre-provision Profit	3,257	3,998	4,633	5,290	992	1,148	1,197
PPP Gr%	*1%*	*23%*	*16%*	*14%*	*42%*	*19%*	*21%*
Provisions	492	618	1,221	707	132	281	335
Net Profits	2,003	2,431	2,655	3,392	596	783	638
Profit Gr%	*4%*	*21%*	*9%*	*28%*	*26%*	*36%*	*7%*
NIM% (Cal.)	2.5%	2.5%	2.5%	2.5%	2.4%	2.6%	2.6%
Cost to Income%	11.9%	10.6%	11.2%	11.6%	10.6%	10.9%	10.8%

Std/Fig in Rs Cr

- ❑ Loan growth is expected to be at 14% YoY to be driven by individual loan portfolio. Disbursement growth has been high in individual loan portfolio in last quarter and is expected to be growing at 23% in 3QFY20.LIC Housing eyes to disburse Rs 55,000 Cr in FY19-20.
- ❑ Pre provisioning profit is expected to grow by 21% YoY however PAT is expected to be growing at 7% in 3QFY20 due to high provisions expected.
- ❑ Asset quality is largely expected to be impacted in near term on the account of delinquencies in all the segments however major stress comes from developer loan segment. Increase in LAP and Developer share is expected to impact the asset quality going ahead.Rs 2400 Cr of builder loans are in stage 2 assets.
- ❑ Margins are likely to remain stable QoQ on the account of low cost of funds due to expected refinancing of NCDs at lower rates in 2HFY20.

Key Trackable this Quarter

- ❑ Further deterioration of asset quality in project loans.
- ❑ Margins trend

We value the stock at 1.2x P/BV FY21E. BUY

M&M Financial Services Ltd

Financials-Nbfc

MMFS IN

CMP	**339**
Target	**375**
Upside	**11%**
Rating	**BUY**

	FY18	FY19	FY20E	FY21E
Roe%	13.4%	15.2%	10.5%	16.4%
Roa%	2.2%	2.6%	1.7%	2.5%
Div Yield%	0.86%	1.0%	1.5%	1.5%
Book Value	156	177	191	218
P/B	3.0	2.4	1.8	1.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	52,793	67,078	77,810	88,704	63,073	72,732	73,165
AUM Growth%	*13%*	*27%*	*16%*	*14%*	*30%*	*16%*	*16%*
Borrowings	39,556	53,112	60,318	69,300	50,052	56,706	56,717
Borrowings Growth%	*14%*	*34%*	*14%*	*15%*	*38%*	*21%*	*13%*
Disbursement	37,773	46,210	42,992	50,464	13,290	9,747	10,975
GNPA%	8.5%	5.9%	5.5%	5.3%	7.7%	7.2%	6.4%
NNPA%	3.8%	4.8%	4.4%	4.3%	5.8%	5.8%	5.6%
Net Income	3,552	4,778	5,290	6,099	1,228	1,339	1,359
Net Inc. Gr%	*7%*	*35%*	*11%*	*15%*	*21%*	*10%*	*11%*
Opex	1,434	1,848	2,178	2,445	483	520	534
Opex Growth%	*-1%*	*29%*	*18%*	*12%*	*37%*	*22%*	*11%*
Pre-provision Profit	2,170	3,018	3,240	3,776	744	819	825
PPP Gr%	*12%*	*39%*	*7%*	*17%*	*12%*	*4%*	*11%*
Provisions	568	635	1,517	1,021	225	361	310
Net Profits	1,011	1,557	1,188	2,061	319	252	385
Profit Gr%	*153%*	*54%*	*-24%*	*73%*	*-20%*	*-34%*	*21%*
NIM% (Cal.)	7.0%	7.8%	7.3%	7.3%	8.1%	7.5%	7.5%
Cost to Income%	39.8%	38.0%	40.2%	39.3%	39.4%	38.8%	39.3%

Std/Fig in Rs Cr

❑ AUM growth is expected to moderate down to 16% YoY with the slowdown in the industry. Management said that commercial vechile is most affected among the segments and is showing double digit growth. The management said disbursement growth expected is 3-5%.

❑ Asset quality is expected to improve during the quarter with moderation in asset quality during the H1FY20 being seasonal. The management said that collections in the tractor segments have picked up however the growth has not.

❑ NIM is expected to remain subdued with lower yield on advance and moderate loan growth.

❑ The cost to income ratio is expected to be around 39%. The profitability of the company is expected to be boosted on account of lower tax income tax .

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	**55**
Target	**57**
Upside	**4%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	11.4%	12.9%	3.4%	9.3%
Roa%	1.5%	1.9%	0.6%	1.5%
Div Yield%	0.50%	1.5%	2.3%	2.3%
Book Value	83	102	104	113
P/B	1.8	0.5	0.5	0.5

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	15,555	17,029	17,199	18,059	16,507	16,463	16,672
AUM Growth%	*-3%*	*9%*	*1%*	*5%*	*6%*	*-1%*	*1%*
Borrowings	9,829	12,185	13,437	14,333	12,017	12,658	13,025
Borrowings Growth%	*-3%*	*24%*	*10%*	*7%*	*0%*	*4%*	*8%*
Disbursement (Rs Cr)	2,233	2,586	2,752	3,070	2,133	1,015	2,501
GNPA%	7.0%	4.8%	7.5%	5.0%	6.1%	6.4%	7.0%
NNPA%	5.2%	3.1%	4.9%	3.2%	4.0%	4.2%	4.5%
Net Interest Income	1,009	1,128	1,044	1,049	273	259	254
NII Gr%	*-9%*	*12%*	*-7%*	*1%*	*-8%*	*-10%*	*-7%*
Opex	605	684	672	631	175	175	159
Opex Growth%	*-2%*	*13%*	*-2%*	*-6%*	*16%*	*2%*	*-9%*
Pre-provision Profit	605	707	627	641	172	160	159
PPP Gr%	*-7%*	*17%*	*-11%*	*2%*	*12%*	*-17%*	*-8%*
Provisions	316	265	486	261	52	123	116
Net Profits	235	303	103	285	74	30	32
Profit Gr%	*1753%*	*29%*	*-66%*	*176%*	*65%*	*-61%*	*-58%*
NIM% (Cal.)	6.4%	6.9%	6.1%	6.0%	6.8%	6.2%	6.0%
Cost to Income%	50.0%	49.2%	51.7%	49.6%	50.5%	52.1%	50.1%

Conso/Fig in Rs Cr

- The cost of borrowings has gone up by 120 bps but management has been able to pass on the entire rise in cost to the borrowers. As 80% of the book is fixed so it will take 4-6 quarters to normalize the spreads. Management has guided NIM to recoup by 3QFY20.
- With the liquidity crunch and slow down in the auto demand has affected MAGMA loan growth, we expect loan growth to remain muted in the medium term. It has entered into a co-origination agreement with ICICI Bank.
- We expect growth to be mainly tilted towards the used vehicle as to the EMI in the used vehicle is up to 40% cheaper than new vehicles and higher yield will offset NIM pressure.
- Repayment behavior in used vehicle is superior so we expect incremental portfolio is expected to have better credit performance. Longer than usual monsoon season has stalled the economic activities which translated to a rise in delinquencies on the back of higher repossessed vehicles.
- The credit rating outlook is revised to negative from stable with reduced collection efficiency in certain geographies and loan segments (CV & CE segment).

Key Trackable this Quarter

- Availability of liquidity
- Delinquency and repossessed assets

We value the stock at 0.5x P/BV FY21E. NEUTRAL

Manappuram Finance Limited

Financials-Nbfc

MGFL IN

CMP	**179**
Target	**196**
Upside	**10%**
Rating	**ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	18.9%	22.1%	28.4%	26.6%
Roa%	4.2%	4.9%	6.6%	6.5%
Div Yield%	0.49%	1.4%	1.4%	1.4%
Book Value	45	54	68	85
P/B	2.4	3.3	2.6	2.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	15,765	19,438	24,298	29,158	17,783	22,677	23,118
AUM Growth%	*15%*	*23%*	*25%*	*20%*	*21%*	*32%*	*30%*
Borrowings	12,607	15,295	19,755	23,514	14,317	18,346	18,949
Borrowings Growth%	*34%*	*21%*	*29%*	*19%*	*24%*	*31%*	*32%*
GNPA%	0.7%	0.5%	0.6%	0.6%	0.6%	0.6%	0.6%
NNPA%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Net Income	2,326	2,698	3,473	4,171	747	909	904
Net Inc. Gr%	*5%*	*16%*	*29%*	*20%*	*20%*	*28%*	*21%*
Opex	1,235	1,386	1,475	1,784	350	365	373
Opex Growth%	*28%*	*12%*	*6%*	*21%*	*3%*	*18%*	*17%*
Pre-provision Profit	1,214	1,473	2,094	2,473	397	544	531
PPP Gr%	*-5%*	*21%*	*42%*	*18%*	*31%*	*49%*	*34%*
Provisions	177	46	139	185	9	29	34
Net Profits	677	922	1,453	1,718	245	404	372
Profit Gr%	*-10%*	*36%*	*58%*	*18%*	*43%*	*82%*	*52%*
NIM% (Cal.)	15.8%	15.3%	15.9%	15.6%	17.3%	16.6%	16.6%
Cost to Income%	50.4%	48.5%	41.3%	41.9%	46.9%	40.2%	41.3%

Conso/Fig in Rs Cr

❑ Gold loan tonnage growth driven by high gold loan prices is expected to boost Gold loan AUM growth in 3QFY20 which is expected to drive the AUM growth of 30% YoY in 3QFY20.The company is getting around 4000-5000 customers a day in gold loan.The management sees some slowdown in rural, Semi urban market in microfinance growth.The company is turning cautious in lending in CV and affordable housing.Management expects CV growth to be around 40-45%YoY going ahead.

❑ Margins are expected to remain stable in 3QFY20 due to growth in gold loan portfolio expected driving the yields.But non gold loan segment to balance the margins to be stable.

❑ PAT growth is expected to be at 52% YoY due to expected pick up in advances growth.

❑ Assets quality is expected to be maintained going ahead. GNPA is expected to be maintained at 2.8% for Vehicle Finance segment going ahead.

❑ The company has approved the establishment of a medium term note programme to raise up to USD 750 Mn which is expected to be completed in FY20.

Key Trackable this Quarter

❑ Margin trend

❑ Growth in CV segment.

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

MAS Financial Services Ltd.

MASFIN IN

Financials-Nbfc

CMP	**864**
Target	**922**
Upside	**7%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	18.8%	18.1%	19.1%	19.9%
Roa%	4.4%	4.8%	4.5%	5.0%
Div Yield%	0.25%	0.41%	0.17%	0.17%
Book Value	142	166	193	231
P/B	4.2	5.2	4.5	3.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	4,114	5,338	6,619	7,943	4,915	5,894	6,143
AUM Growth%	*30%*	*30%*	*24%*	*20%*	*34%*	*26%*	*25%*
Borrowings	1,785	2,567	3,420	4,170	2,524	2,980	3,047
Borrowings Growth%	*18%*	*44%*	*33%*	*22%*	*57%*	*34%*	*21%*
Disbursement	3,891	4,772	5,696	6,836	1,242	1,360	1,490
GNPA%	1.2%	1.2%	1.3%	1.4%	1.3%	1.3%	1.3%
NNPA%	0.9%	0.9%	0.9%	1.0%	0.9%	1.1%	0.9%
Net Interest Income	269	352	390	500	99	91	100
NII Gr%	*42%*	*31%*	*11%*	*28%*	*30%*	*6%*	*2%*
Opex	73	77	86	108	20	22	21
Opex Growth%	*20%*	*7%*	*11%*	*26%*	*-48%*	*-11%*	*18%*
Pre-provision Profit	208	288	319	409	83	72	83
PPP Gr%	*60%*	*39%*	*11%*	*28%*	*51%*	*9%*	*0%*
Provisions	43	55	75	97	13	23	20
Net Profits	103	152	187	231	45	47	48
Profit Gr%	*54%*	*47%*	*23%*	*23%*	*51%*	*35%*	*6%*
NIM% (Cal.)	7.3%	7.1%	6.2%	6.5%	8.8%	6.7%	7.0%
Cost to Income%	25.9%	21.2%	21.2%	20.9%	19.8%	23.5%	20.5%

Std/Fig in Rs Cr

❑ With the slowdown in the CV vehicle segment, management has declined the number of CV sourcing intermediaries on a QoQ basis thus signifying management cautious approach on the CV segment.

❑ With almost 50% of the book mix as direct assignment & 37% of the book as securitization, MASFIN is expected to be in a slightly better position for incremental growth. The incremental cost of borrowings is 9.71%.

❑ Management remain confident in the demand part but lack of liquidity availability hinders portfolio growth. .The incremental growth is majorly driven by SME loans followed by MEL loans. The growth is expected to remains subdued in 2 wheelers and CV segments. We expect loan growth to be at a 25% range as of 3QFY20.

❑ Management states it prioritizes asset quality over loan growth. But we remain cautious on the asset quality front keeping in mind the rising stress in the CV segment, we have taken a provision growth up to 50% range in 3QFY20.

❑ Management focus remains on strengthening senior management bandwidth.

Key Trackable this Quarter

❑ Margin pressure with higher share of DA & securitisation.

❑ Credit cost trend going ahead

We value the stock at 4x P/BV FY21E. HOLD

Muthoot Finance Limited

Financials-Nbfc

MUTH

CMP	**768**
Target	**828**
Upside	**8%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	24.8%	22.4%	24.4%	20.5%
Roa%	5.8%	5.7%	6.5%	5.8%
Div Yield%	1.8%	1.0%	1.0%	1.0%
Book Value	196	245	302	361
P/B	2.1	3.1	2.5	2.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	29,138	34,246	38,356	42,958	32,470	35,731	35,717
AUM Growth%	*7%*	*18%*	*12%*	*12%*	*15%*	*11%*	*10%*
Borrowings	21,268	26,922	30,932	34,644	25,221	28,478	28,804
Borrowings Growth%	*1%*	*27%*	*15%*	*12%*	*20%*	*17%*	*14%*
GNPA%	7.0%	2.7%	3.4%	3.0%	2.0%	3.4%	3.3%
NNPA%	6.2%	0.9%	1.4%	1.2%	0.2%	1.5%	1.3%
Net Interest Income	4,335	4,641	5,293	5,562	1,128	1,467	1,292
NII Gr%	*30%*	*7%*	*14%*	*5%*	*2%*	*32%*	*15%*
Opex	1,317	1,539	1,622	1,716	344	397	411
Opex Growth%	*27%*	*5%*	*14%*	*5%*	*6%*	*8%*	*20%*
Pre-provision Profit	3,084	3,104	3,677	3,849	784	1,074	882
PPP Gr%	*41%*	*1%*	*18%*	*5%*	*-1%*	*44%*	*12%*
Provisions	240	28	121	131	2	26	45
Net Profits	1,778	1,972	2,674	2,752	485	858	636
Profit Gr%	*51%*	*11%*	*36%*	*3%*	*1%*	*77%*	*31%*
NIM% (Cal.)	15.4%	14.6%	14.6%	13.7%	14.4%	17.0%	14.6%
Cost to Income%	29.9%	33.2%	30.6%	30.8%	30.5%	27.0%	31.8%

Std/Fig in Rs Cr

- The incremental rate of the cost of the fund stood at 9.25-10% so we expect margin pressure to remain intact. NII growth is expected to grow at 15% on the back of strong recovery .
- Management has guided to incur advertisement expenses to adhere to a newer group of customers. So, we expect the C/I ratio to remain elevated at 32% 2HFY20.
- In liquidity pressure with lower availability of cash in hand, more and more people are using this opportunity to utilize idle assets. Thus Management is confident of 15-20% AUM growth for FY20. However we remain cautious of the growth on the back of lower incremental funding availability and expect growth to be mainly sustained by the collection amount. AUM growth is expected to be around 10% as at 3QFY20.
- Muthootfin has purchased an IDBI's AMC business for Rs 215 Cr, which will be serviced through the Muthoot branches, this is a business for cross-selling to its gold financing customers.
- MUTHOOTFIN has closed 43 branches with 166 employees dismissed we expect the impact will be pretty negligible as the average gold loan outstanding per Kerala branches is Rs 2.61 Cr per branches.

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. HOLD

Power Finance Corporation Ltd

Financials-Nbfc

POWF IN

CMP	**120**
Target	**131**
Upside	**9%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	11.9%	17.3%	15.8%	18.0%
Roa%	1.6%	2.2%	1.9%	2.1%
Div Yield%	9.1%	6.7%	7.6%	7.6%
Book Value	140	164	165	187
P/B	0.61	0.68	0.68	0.60

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	2,78,914	3,14,666	3,49,279	3,87,700	2,98,128	3,25,435	3,30,922
AUM Growth%	*14%*	*13%*	*11%*	*11%*	*14%*	*11%*	*11%*
Borrowings	2,29,539	2,75,692	3,06,385	3,43,097	2,49,117	2,82,262	2,90,283
Borrowings Growth%	*13%*	*20%*	*11%*	*12%*	*17%*	*16%*	*17%*
Disbursement (Rs Cr)	26,852	22,544	17,464	19,385	14,647	18,366	13,237
GNPA%	9.6%	9.4%	8.0%	7.0%	9.5%	9.1%	9.0%
NNPA%	7.4%	4.6%	3.8%	3.4%	4.6%	4.3%	4.3%
Net Interest Income	8,874	9,608	10,119	11,449	2,451	2,583	2,605
NII Gr%	*-10%*	*8%*	*5%*	*13%*	*27%*	*16%*	*6%*
Opex	382	405	473	531	95	110	126
Opex Growth%	*0%*	*6%*	*17%*	*12%*	*34%*	*-1%*	*33%*
Pre-provision Profit	8,236	8,944	10,770	12,185	2,463	2,119	2,887
PPP Gr%	*-19%*	*9%*	*20%*	*13%*	*40%*	*7%*	*17%*
Provisions	2,391	(871)	1,277	905	(295)	390	410
Net Profits	4,387	6,953	6,850	8,347	2,074	1,157	1,833
Profit Gr%	*106%*	*58%*	*-1%*	*22%*	*72%*	*-15%*	*-12%*
NIM% (Cal.)	3.4%	3.2%	3.0%	3.1%	3.4%	3.3%	3.2%
Cost to Income%	4%	4%	4%	4%	4%	5%	4%

Std/Fig in Rs Cr

❑ We expect the margin to slightly come under pressure however availability of lower cost is expected to provide some relief. NII is expected to remain muted on the back of muted growth and margin pressure

❑ Out of the total due of Rs 85952 Cr, almost Rs 68546 Cr is overdue from states likes Rajasthan, Tamil Nadu, Uttar Pradesh, Andhra Pradesh, and Telangana. The government is considering extending loans to State discom for clearing their dues to power generation plants at a concessional rate.

❑ Disbursment growth has revived from negative to 5% in 2QFY20, We expect the loan growth in 3QFY20 to remain in an 11% range driven by distribution and generation segment with a higher share of govt. sector.

❑ The asset quality is improving with the rising number of resolutions. We remain optimistic about the credit cost on the back of a strong 53% PCR on the stage 3 assets for the private sector.

❑ PFC has Rs 1364 Cr of loan exposure to Mytrah energy through its subsidiaries in Andhra Pradesh, which has received a court stay order from being categorizing as NPA.

Key Trackable this Quarter

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

❑ PFC & REC merger synergy going ahead

We value the stock at 0.7x P/BV FY21E. HOLD

PNB Housing Finance Ltd.

PNBHOUSI IN

CMP	**493**
Target	**494**
Upside	**0%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	13.9%	15.4%	13.9%	14.8%
Roa%	1.6%	1.5%	1.3%	1.4%
Div Yield%	0.43%	1.2%	1.2%	1.2%
Book Value	397	449	508	581
P/B	3.5	1.1	1.0	0.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	62,252	84,722	93,194	1,02,514	79,737	89,471	90,900
AUM Growth%	*50%*	*36%*	*10%*	*10%*	*38%*	*22%*	*14%*
Borrowings	54,268	72,362	76,389	86,876	69,166	71,457	74,508
Borrowings Growth%	*52%*	*33%*	*6%*	*14%*	*36%*	*12%*	*8%*
Disbursement (Rs Cr)	33,195	36,079	23,650	23,885	9,345	4,970	5,454
GNPA%	0.3%	0.5%	0.9%	0.6%	0.5%	0.8%	0.8%
NNPA%	0.3%	0.4%	0.8%	0.5%	0.4%	0.7%	0.7%
Net Interest Income	1,585	1,930	2,401	2,594	504	603	593
NII Gr%	*87%*	*22%*	*24%*	*8%*	*23%*	*36%*	*18%*
Opex	441	551	518	514	139	122	126
Opex Growth%	*23%*	*25%*	*-6%*	*-1%*	*31%*	*-7%*	*-9.7%*
Pre-provision Profit	1,511	1,767	2,138	2,339	451	544	544
PPP Gr%	*67%*	*17%*	*21%*	*9%*	*17%*	*47%*	*21%*
Provisions	277	189	680	541	70	152	180
Net Profits	842	1,081	1,102	1,331	267	342	273
Profit Gr%	*61%*	*28%*	*2%*	*21%*	*16%*	*64%*	*2%*
NIM% (Cal.)	3.1%	2.6%	2.7%	2.7%	2.8%	2.8%	2.7%
Cost to Income%	22.6%	23.8%	19.5%	18.0%	23.6%	18.3%	18.8%

Std/Fig in Rs Cr

❑ PNBHOUSING is incrementally resorting to securitization for incremental growth going ahead. Management has been able to pass on the rise in the cost to customers especially in construction finance and home loan segment. Management has guided to increase the spreads by 13-14 bps in the next quarter.

❑ AUM growth is expected to remain in 14% range on the cautious approach of the corporate segment. Management has optimistically guided to maintain the level of disbursement with higher share of retail segment.

❑ The ALM mismatch from the more than 6 months bucket has declined significantly. The recently raised Rs 2500 Cr NCD of 10 year tenure is expected to improve the ALM position further.

❑ PNBHOUSING has exposure to OMAXE group which has recently defaulted in its loan repayment. PNBHOUSING has Rs 650 Cr of loan sanctioned to the group out of which Rs 635 Cr is disbursed while the principle outstanding is at Rs 456 Cr. 5 stressed accounts were identified with an exposure amounting to Rs 833 Cr with 33% provision. We remain cautious on the asset quality has expect credit cost to trend in 80 bps range in 2HFY20 as the PCR stands at a lower level of 22% range.

Key Trackable this Quarter

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

❑ Availability of incremental fund with strong ALM mismatch.

We value the stock at 0.8x P/BV FY21E. NEUTRAL

Rural Electrification Corp Ltd

Financials-Nbfc

RECL IN

CMP	**143**
Target	**156**
Upside	**9%**
Rating	**HOLD**

	FY18	FY19	FY20E	FY21E
Roe%	13.5%	17.3%	17.9%	19.3%
Roa%	2.0%	2.1%	2.0%	2.1%
Div Yield%	7.3%	6.4%	7.5%	7.0%
Book Value	164	174	195	223
P/B	0.76	0.88	0.73	0.64

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	2,39,449	2,81,210	3,26,204	3,78,396	2,69,170	3,00,716	3,12,237
AUM Growth%	*18.6%*	*17%*	*16%*	*16%*	*20%*	*17%*	*16%*
Borrowings	1,98,791	2,39,286	2,78,806	3,23,416	2,27,192	2,57,412	2,66,869
Borrowings Growth%	*19%*	*20%*	*17%*	*0%*	*25%*	*19%*	*17%*
Disbursement (Rs Cr)	22,285	19,896	19,572	20,812	19,727	17,981	18,734
GNPA%	7.2%	7.2%	6.5%	5.0%	7.6%	6.9%	6.6%
NNPA%	5.7%	3.8%	3.3%	2.5%	4.0%	3.5%	3.3%
Net Interest Income	8,752	9,329	10,490	11,895	2,544	2,690	2,653
NII Gr%	*-8%*	*7%*	*12%*	*13%*	*13%*	*18%*	*4%*
Opex	356	489	466	511	107	116	122
Opex Growth%	*1%*	*37%*	*-5%*	*10%*	*18%*	*-22%*	*15%*
Pre-provision Profit	8,181	8,341	9,619	11,484	1,856	2,140	2,752
PPP Gr%	*-18%*	*2%*	*15%*	*19%*	*16%*	*-17%*	*48%*
Provisions	2,297	240	662	700	26	300	230
Net Profits	4,420	5,764	6,520	7,980	1,275	1,307	1,867
Profit Gr%	*-29%*	*30%*	*13%*	*22%*	*16%*	*-26%*	*46%*
NIM% (Cal.)	4.0%	3.6%	3.5%	3.4%	4.0%	3.8%	3.6%
Cost to Income%	4%	6%	5%	4%	5%	5%	4%

Std/Fig in Rs Cr

❑ We expect the margin pressure to decline with the availability of lower cost foreign funds. NII is expected to remain muted on the back decline in the approval & disbursement growth.

❑ Loan growth is expected to remain in the 16% range driven refinancing demand, investment in renewables and capacity addition by state utilities. The share of renewable segment has increased to 5% from 1% in 4QFY18. The share of the government sector is at 81% of the total portfolio.

❑ The government is considering extending loans to State discom for clearing their dues to power generation plants at a concessional rate. Out of the total due of Rs 85952 Cr, almost Rs 68546 Cr is overdue from states likes Rajasthan, Tamil Nadu, Uttar Pradesh, Andhra Pradesh, and Telangana.

❑ The asset quality has improved on a QoQ basis on the management has guided 7-8 resolution plan amounting Rs 8000 Cr (40% of NPL) over the next few months, while balance 60% is expected to be tackled by NCLT route. As PCR stands at 50%, we expect credit costs to remain in 20 bps range going ahead.

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 0.7x P/BV FY21E. HOLD

Satin Creditcare Network Ltd

SATIN IN

CMP	**226**
Target	**237**
Upside	**5%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	9.8%	19.8%	15.6%	14.2%
Roa%	1.4%	3.1%	2.8%	2.7%
Div Yield%	0.0%	0.0%	0.0%	0.0%
Book Value	185	235	275	316
P/B	2.2	0.98	0.84	0.73

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	5,757	7,067	7,775	8,708	6,192	7,139	7,182
AUM Growth%	*42%*	*23%*	*10%*	*12%*	*38%*	*18%*	*16%*
Borrowings	4,411	5,200	5,553	6,220	5,200	5,200	4,972
Borrowings Growth%	*14%*	*18%*	*7%*	*12%*	*18%*	*4%*	*-12%*
Disbursement (Rs Cr)	6,386	7,762	6,987	6,520	1,633	1,946	2,046
GNPA%	4.4%	2.9%	2.7%	2.6%	4.1%	2.8%	3.1%
NNPA%	2.6%	1.3%	1.2%	1.1%	0.8%	1.2%	1.5%
Net Interest Income	425	544	357	373	134	96	88
NII Gr%	*79%*	*28%*	*-34%*	*5%*	*44%*	*-30%*	*-34%*
Opex	337	437	454	439	106	116	126
Opex Growth%	*25%*	*30%*	*4%*	*-3%*	*36%*	*20%*	*19%*
Pre-provision Profit	160	368	338	357	90	84	91
PPP Gr%	*66%*	*130%*	*-8%*	*6%*	*116%*	*9%*	*1%*
Provisions	44	52	69	80	18	20	16
Net Profits	75	201	193	205	46	41	54
Profit Gr%	*201%*	*-169%*	*-4%*	*6%*	*-37%*	*47%*	*18%*
NIM% (Cal.)	8.7%	8.5%	7.1%	6.4%	9.4%	5.8%	5.1%
Cost to Income%	67.8%	54.3%	57.3%	55.1%	54.0%	58.0%	58.1%

Std/Fig in Rs Cr

❑ NIM is expected to remain under pressure as the cost of the fund has not come down significantly. NII is expected to remain muted sequentially as management is resorting to BC & DA cumulating up to 25% of the portfolio.

❑ Management is making many structural changes. The rejection rates are up by 35-40%, but with operational efficiency C/I ratio has not increased. We expect operational efficiency to come along with the maturity of the newly opened branches in the 4QFY20.

❑ Management is able to increase the level of liquidity from 45 to 90 days at Rs 1400-1500 Cr and it remains confident of incremental disbursement in 2HFY20. We expect AUM growth to remain in the 16% range.

❑ We remain cautious on the asset quality front as delinquencies have increased in Assam, MP, Bhopal, and Indore. Though, it has managed to keep the collection efficiency at a 99.6% level. Management has revised the credit cost guidance from 1.7% to 2.5% for FY20

❑ Management is focusing on diversifying its loan portfolio geographically and has guided to bring every district down to about less than 1%.

Key Trackable this Quarter

❑ Asset Quality concerns.

❑ Liquidity availability may impact the growth.

We value the stock at 0.75x P/BV FY21E. NEUTRAL

Shriram City Union Finance Ltd.

Financials-Nbfc

SCUF IN

CMP	**1387**
Target	**1410**
Upside	**2%**
Rating	**NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	12.6%	16.6%	16.2%	16.1%
Roa%	2.6%	3.5%	3.6%	3.5%
Div Yield%	0.84%	1.2%	1.6%	1.6%
Book Value	842	968	1110	1261
P/B	2.5	1.9	1.3	1.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	27,461	29,582	31,061	33,546	28,795	29,722	29,947
AUM Growth%	*19%*	*8%*	*5%*	*8%*	*10%*	*0%*	*4%*
Borrowings	20,421	22,572	23,396	24,879	22,395	21,396	22,347
Borrowings Growth%	*20%*	*11%*	*4%*	*6%*	*13%*	*-6%*	*0%*
Disbursement (Rs Cr)	6,632	6,610	6,833	7,380	4,583	5,201	5,091
GNPA%	9.4%	8.9%	8.6%	8.4%	9.6%	8.7%	8.6%
NNPA%	5.0%	5.0%	4.7%	4.6%	5.0%	4.9%	4.9%
Net Interest Income	3,416	3,697	3,615	3,791	883	893	895
NII Gr%	*18%*	*8%*	*-2%*	*5%*	*-3%*	*-9%*	*1%*
Opex	1,362	1,499	1,488	1,558	361	377	368
Opex Growth%	*20%*	*10%*	*-1%*	*5%*	*-6%*	*-5%*	*2%*
Pre-provision Profit	2,071	2,302	2,263	2,337	536	574	552
PPP Gr%	*17%*	*11%*	*-2%*	*3%*	*-6%*	*-8%*	*3%*
Provisions	1,054	782	767	747	134	197	186
Net Profits	665	989	1,109	1,176	259	298	277
Profit Gr%	*20%*	*49%*	*12%*	*6%*	*2%*	*19%*	*7%*
NIM% (Cal.)	13.5%	13.0%	11.9%	11.7%	12.4%	12.1%	12.0%
Cost to Income%	40%	39%	40%	40.0%	39%	40%	40%

Std/Fig in Rs Cr

❑ Management has guided there is an improvement in liquidity on the term loan front. We expect this higher share of liquidity will lead to margin pressure. The incremental cost of funds is at 9.8% range. NIM is expected to 12% range.

❑ PAT growth is expected to 7% remain muted majorly on the back slow portfolio growth.

❑ AUM is expected to remain muted sequentially at 4% YoY. The growth is expected to be mainly driven by 2W loans. We expect disbursement growth to remain muted as management states there is liquidity issue in the SME segment while there is a demand-side issue in the 2W segment. Management priorities repayment of liability over disbursement.

❑ Asset quality has shown improvement as management is increasingly focusing on the collection front. We expect credit costs to remain lower. Management has guided GNPL ratio to remain in 7-7.5% in the next 12-18 months. Provision is expected to remain almost muted on a YoY basis.

Key Trackable this Quarter

❑ Availability of liquidity

❑ Assets Quality Trend

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

Shriram Transport Finance

SHTF IN

CMP	**1160**
Target	**1334**
Upside	**15%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	13.1%	19.6%	16.7%	17.7%
Roa%	1.9%	2.5%	2.6%	2.9%
Div Yield%	0.92%	0.94%	0.95%	0.95%
Book Value	554	698	810	953
P/B	2.6	1.8	1.4	1.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
AUM	95,306	1,04,482	1,12,841	1,22,997	1,03,818	1,08,120	1,10,047
AUM Growth%	*21%*	*9%*	*8%*	*9%*	*14%*	*4%*	*6%*
Borrowings	63,320	87,968	94,824	1,03,358	89,546	90,593	91,223
Borrowings Growth%	*19%*	*7%*	*8%*	*9%*	*16%*	*3%*	*3%*
Disbursement (Rs Cr)	50,730	48,733	51,062	71,507	9,550	13,120	12,105
GNPA%	9.2%	8.4%	8.6%	7.8%	8.8%	8.8%	8.7%
NNPA%	2.8%	5.7%	5.8%	5.4%	5.9%	6.2%	5.9%
Net Interest Income	6,735	7,808	8,192	9,138	2,027	2,037	2,056
NII Gr%	*22%*	*15%*	*5%*	*12%*	*16%*	*-1%*	*1%*
Opex	1,489	1,750	1,885	2,060	433	493	465
Opex Growth%	*21%*	*17%*	*8%*	*9%*	*14%*	*8%*	*7%*
Pre-provision Profit	5,494	6,158	6,436	7,197	1,620	1,588	1,619
PPP Gr%	*26%*	*12%*	*5%*	*12%*	*17%*	*-2%*	*0%*
Provisions	3,122	2,382	2,600	2,415	636	661	682
Net Profits	1,568	2,562	2,864	3,539	635	765	713
Profit Gr%	*25%*	*4%*	*12%*	*24%*	*17%*	*25%*	*12%*
NIM% (Cal.)	7.7%	7.8%	7.5%	7.7%	8.0%	7.7%	7.7%
Cost to Income%	21.3%	22.1%	22.7%	22.3%	21.1%	23.7%	22.3%

Std/Fig in Rs Cr

❑ NIM is expected to remain under pressure as it has majorly resorted to foreign borrowings for incremental funding. It has been able to pass on a partial hike in the cost of funds to the customers.

❑ We expect the C/I ratio to remain in the higher range as management has been continuously expanding into newer geography. Management has previously guided to open 250 branches with 124 branches opened in 1HFY20.

❑ NII is expected to remain subdued on the back of muted growth for subdued demand related issues. Loan growth is expected to remain 6% YoY. Slow economic growth and weaker economic activity are affecting utilization levels of the vehicle thus leading to a decline in the cash flows of road transport operators thus affecting their EMI repayment.

❑ Credit rating agencies have revised the rating to negative on account of a higher share of repossession of vehicles. Provisioning growth is expected to be around 9% YoY..

❑ We remain cautious on the asset quality front, though management has reduced the LTV level of financing used vehicle. We expect credit costs to range in 2.5% range going ahead.

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 1.4x P/BV FY21E. BUY

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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