

Mixed Bag Result !!!

PAT came in at INR 1.6 bn, up by 11.6% yoy and de-growth of 13.8% on qoq basis. Key highlights for the quarter were - 1) loan growth moderated (15.7% yoy) and disbursements grew at slower pace (INR 20.2 bn in Q2 vs. average of ~INR 23 bn seen in last 5 quarters) 2) this was compensated by higher margins which was up by 32 bps qoq to 3.8% levels 3) provisioning burden was higher at INR 72.2 cr led by Amabala related fraud. Going forward, the NBFC is targeting ROA of 2% in FY24. We assign ACCUMULATE rating to the stock with TP of INR 866.

Outlook

- AUMs to grow by 18% in FY24 and disbursements by INR 10000 cr (~4000 cr achieved in H1FY24). Disbursement are likely to grow by 18-20% in next 2-3 years time
- ROA is aimed to be at 2%
- The company is expecting spreads of 2.5% and margins of 3.5% in FY24
- In H2FY24, it is likely to add 9 branches (vs. 3 branch addition done in Q2FY24)
- Credit cost on normalized levels excluding one-offs like Ambala related fraud is expected to be ~10 bps

Valuations - It is currently, trading at 2.4x/2x FY24e/FY25e ABV on ROE/ROA of 18-19%/2%. Strategy of the NBFC has changed in terms of business growth; it is chasing higher ticket sized loans INR 25-50 lakhs and > INR 50 lakhs as it witnessing slowdown in the lower ticket sized affordable loans. Also, relative margins in higher ATS is less as lending rates are competitive due to competition from banks and other NBFCs. Given this, management is aiming to have ROA of not less than 2% going forward. Current quarter loan growth was moderated and hence, burden to grow at elevated rates in second half is high. Near-term profitability will also be driven by lower credit & opex cost. In FY24, profits growth will be muted at 12.2% due to higher provisioning cost occurring from Ambala fraud related event. Given all this in context, we do not expect material re-rating in the stock from the current levels. **We assign ACCUMULATE rating with revised TP to INR 866, upside of 15% from the current levels, discounting its FY25 ABV by 2.35x.**

Financial Summary

(Rs.bn)	FY21	FY22	FY23	FY24E	FY25E
NII (Rs)	798.0	816.2	1014.6	1193.9	1430.0
PAT (Rs)	456.3	471.1	621.2	697.2	882.8
EPS	34	35	47	52	66
ROE (%)	19.2	16.6	18.5	17.6	18.8
ROA (%)	2.1	1.9	2.0	1.9	2.0
P/E	22.0	21.3	16.2	14.4	11.4
P/ABV	4.1	3.4	2.8	2.4	2.0

Source: Dalal & Broacha Research, Company

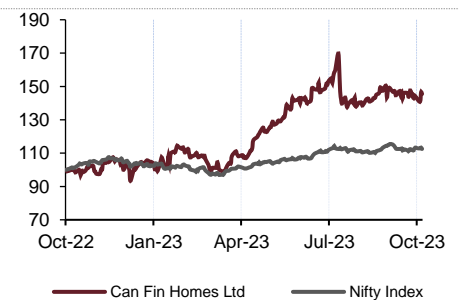
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	866	14

Market data

Current price	Rs	763
Market Cap (Rs.Bn)	(Rs Bn)	102
Market Cap (US\$ Mn)	(US\$ Mn)	1,220
Face Value	Rs	2
52 Weeks High/Low	Rs	678 / 407
Average Daily Volume	('000)	1,647
BSE Code		511196
Bloomberg		CANF.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	30	30
Public	70	70
Total	100	100

Source: Bloomberg

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Key Financial Highlights

- PAT came in at INR 1.6 bn, up by 11.6% yoy and down by 13.8% qoq. Key main highlights for the quarter were – a) margin expanded by 32 bps on qoq basis to 3.8% levels b) loan book growth has moderated to 15.7% yoy (2.6% qoq) vs. 18-22% growth seen in the previous quarters d) provisions for NPAs escalated to INR 72.2 cr (vs. INR 13.7 cr in Q1FY24)
- **Outstanding loan book showed a growth of 15.7% yoy and 2.6% qoq to INR 333.6 bn.** Growth looks moderated vs. 18-22% growth seen in the previous quarters. Disbursements growth was up by 2.7% qoq (-10.1% yoy) to INR 2019 cr.
- **Margins for the quarter improved by 32 bps qoq to 3.8% levels** which was led by expansion in the yields (30 bps higher on qoq basis to 10.1%). Management had indicated in the last quarter that INR 12500 cr worth of loans are expected to reprice at higher rates. Of this, NR 6500 cr worth of assets have got repriced and another INR 6500 cr are likely to get repriced by higher rates. On the liabilities side, cost of funds were stable at 7.3% levels.
- **Asset quality marginally disappointed during the quarter** – GNPLs increased by 24% yoy to INR 254 cr. In % terms, GNPA/NNPA to 0.76%/0.43% vs. 0.63%/0.34% qoq. Also, provisions were higher at INR 72.2 cr (vs. INR 13.7 cr in Q1) which included provisions for Ambala INR 39.7 cr, management overlay INR 17.3 cr, provisions for NPAs INR 16.4 cr and drawdown of standard asset provisioning amounting to INR 1.2 cr.

Concall Highlights

- Management is expecting disbursement growth to pick up in the second half of the current fiscal. For the full year, disbursement are expected to be at INR 10000 cr vs. INR 3985 cr achieved in H1FY24. Over the next 3 years, the management is aiming for disbursement growth of ~20%.
- AUM is likely to grow by 18% in FY24
- The company is targeting for the higher ticket size segment loans of >INR 25-50 lacs and upwards of INR 50 lacs. Over the next 2-3 years time, average ticket size of the entire book will increase to INR 27-30 lakhs vs. current ATS of INR 22 lakhs. Also, it is seeing slowdown in the affordable lower ticket size segment. Hence, incremental growth is chased from higher ticket sized loans
- Given increase in the ATS where the relative lending rates are less and competition is higher, management is expecting the spreads & margins for the full year FY24 to be lower at 2.5% and 3.5% respectively
- The NBFC has total restructured book of INR 685 cr, of this, INR 460 cr has come out of restructuring until June 2023, INR 63 cr has moved into NPA and balance ~200 cr is the current outstanding restructured book. It is expecting 10% of this book will slip into NPAs and for that, incremental provisioning will not be required much as is already carrying sufficient provision buffers
- Post Ambala fraud, the company has tightened the systems & processes, disbursements are now centralized and given adequate training programmes at all the branches.
- The NBFC is planning to add ~9 more branches in H2FY24 (3 added in Q2FY24). Hence, because Cost/Income ratio is likely to be 18-20% in FY24
- NHB borrowings will increase in H2FY24 as in H1 drawdowns were minimal
- Capital requirements – With the current capital position, it can grow comfortably upto 18% AUM loan growth. For any higher demand, capital raising will become essential

- Credit cost on normalized levels (excluding one-offs like Ambala related fraud) is expected to be at 10 bps

Outlook & Valuations

It is currently, trading at 2.4x/2x FY24e/FY25e ABV on ROE/ROA of 18-19%/2%. Strategy of the NBFC has changed in terms of business growth; it is chasing higher ticket sized loans INR 25-50 lakhs and > INR 50 lakhs as it witnessing slowdown in the lower ticket sized affordable loans. Also, relative margins in higher ATS is less as lending rates are competitive due to competition from banks and other NBFCs. Given this, management is aiming to have ROA of not less than 2% going forward. Current quarter loan growth was moderated and hence, burden to grow at elevated rates in second half is high. Near-term profitability will also be driven by lower credit & opex cost. In FY24, profits growth will be muted at 12.2% due to higher provisioning cost occurring from Ambala fraud related event. Given all this in context, we do not expect material re-rating in the stock from the current levels. We assign ACCUMULATE rating with revised TP to INR 866, upside of 15% from the current levels, discounting its FY25 ABV by 2.35x

Quarterly Financials (Q1FY24)

Particulars (INR cr)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ
Interest Earned	462.6	502.0	555.8	606.5	652.2	704.6	752.1	818.1	865.2	32.7	5.8
Interest Expended	270.8	296.1	318.5	356.1	401.0	452.9	490.8	533.0	548.4	36.8	2.9
NII	191.8	205.9	237.3	250.4	251.2	251.7	261.3	285.1	316.8	26.1	11.1
Other Income	5.3	6.4	5.5	5.1	5.4	5.1	12.2	6.0	5.8	7.9	-3.1
Net Income	197.1	212.4	242.8	255.5	256.6	256.8	273.5	291.1	322.6	25.7	10.8
Opex	34.2	40.3	48.2	40.5	40.5	43.8	51.7	43.5	52.4	29.5	20.4
PPOP	162.8	172.0	194.6	215.0	216.1	212.9	221.8	247.6	270.2	25.0	9.1
Provisions	-6.2	16.4	30.2	-3.7	13.2	8.4	23.8	13.7	72.2	445.6	426.7
PBT	169.0	155.7	164.3	218.7	202.9	204.5	198.0	233.9	198.0	-2.4	-15.3
Tax	45.4	40.0	41.4	56.5	61.1	53.0	32.2	50.4	39.9	-34.7	-20.9
PAT	123.6	115.7	122.9	162.2	141.7	151.5	165.8	183.5	158.1	11.6	-13.8
Balance sheet (INR Cr)											
	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ
New Approvals	2288	2762	3018	1751	2348	2585	2769	2071	2123	-9.6	2.5
Disbursements	2208	2472	2705	1722	2245	2444	2538	1966	2019	-10.1	2.7
Outstanding loan book	23584	25091	26711	27538	28823	30115	31563	32505	33359	15.7	2.6
Key Ratios (%)											
	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24		
Gross NPAs (Rs)	185	177	171	180	179	181	174	205	254		
Net NPAs (Rs)	110	97	81	82	101	89	83	110	142		
GNPA (%)	0.8	0.7	0.6	0.7	0.6	0.6	0.6	0.63	0.76		
NNPA (%)	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.34	0.43		
PCR (%)	40.4	45.2	52.7	54.4	43.4	50.7	62.1	53.4	56.0		
C/I Ratio (%)	17.4	19.0	19.8	15.8	15.8	17.1	18.9	14.9	16.2		
ROA (%) (Reported)	2.1	2.0	2.0	2.4	2.1	2.2	2.3	2.2	1.8		
ROE (%) (Reported)	16.4	15.8	16.0	20.0	16.8	17.3	17.0	19.2	16.0		
EPS (Rs)	17.5	8.7	9.2	12.2	10.6	11.4	12.5	13.8	11.9		
NIM (%) (Reported)	3.4	3.7	4.2	3.6	3.6	3.5	3.37	3.48	3.80		
Yield (%) (Reported)	8.0	8.1	8.1	8.5	8.6	8.9	9.9	9.8	10.1		
Cost (%) (Reported)	5.6	5.6	5.6	5.8	6.0	6.6	7.5	7.3	7.3		
Spread (%) (Reported)	2.4	2.5	2.6	2.7	2.5	2.2	2.4	2.5	2.8		
Avg. Business Per Branch	120.3	127.9	136.1	146.5	143.8	146.9	154.0	160.4	162.1		
Avg. Business per Employee	26.8	27.6	30.0	30.8	31.5	32.7	32.4	33.9	34.2		

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Interest income	1,344.2	2,006.4	1,969.7	2,715.4	3,294.0	3,952.8
Interest expense	674.7	1,208.3	1,153.5	1,700.8	2,100.1	2,522.8
NII	669.5	798.0	816.2	1,014.6	1,193.9	1,430.0
Non-interest income	14.9	12.4	18.8	27.7	38.9	43.9
Net revenues	684.4	810.4	835.0	1,042.3	1,232.8	1,473.9
Operating expenses	107.6	124.0	153.0	176.5	169.2	198.2
PPOP	576.7	686.4	682.0	865.8	1,063.6	1,275.7
Provisions	60.3	68.5	46.9	41.8	137.7	103.3
PBT	516.4	617.9	635.1	824.0	925.9	1,172.4
Tax	143.9	161.5	164.0	202.8	228.7	289.6
PAT	372.5	456.3	471.1	621.2	697.2	882.8
growth (% yoy)		22.5	3.2	31.9	12.2	26.6
Balance sheet (Rs.cr)	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	26.6	26.6	26.6	26.6	26.6	26.6
Reserves & surplus	2,123.4	2,583.2	3,040.0	3,620.6	4,264.6	5,087.5
Net worth	2,150.1	2,609.8	3,066.6	3,647.3	4,291.3	5,114.2
Borrowings	18,645.5	19,190.0	24,544.9	28,965.2	34,673.4	41,774.6
Other liability	248.0	273.9	332.8	458.0	798.7	912.8
Total liabilities	21,043.6	22,073.7	27,944.3	33,070.5	39,763.3	47,801.6
Cash	392.4	21.5	324.1	309.5	451.3	721.2
Investments	24.3	49.6	1,126.0	1,459.0	1,750.8	2,013.5
Loans	20,525.7	21,891.5	26,378.1	31,193.3	37,432.0	44,918.4
Fixed assets	37.9	45.5	47.7	45.4	49.9	54.9
Other assets	63.3	65.7	68.5	63.1	79.3	94.0
Total assets	21,043.6	22,073.7	27,944.3	33,070.4	39,763.4	47,801.9
Ratios	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth (%)						
NII	24.0	19.2	2.3	24.3	17.7	19.8
PPOP	22.5	19.0	-0.6	26.9	22.9	19.9
PAT	25.4	22.5	3.2	31.9	12.2	26.6
Advances	12.6	6.7	20.5	18.3	20.0	20.0
Spread (%)						
Yield on Funds	10.4	9.4	8.0	9.0	9.2	9.2
Cost of Funds	7.6	6.4	5.3	6.4	6.6	6.6
Spread	2.8	3.1	2.7	2.7	2.6	2.6
NIM	3.4	3.7	3.3	3.3	3.3	3.3
Asset quality (%)						
Gross NPAs	0.8	0.9	0.6	0.6	0.7	0.8
Net NPAs	0.5	0.6	0.3	0.3	0.3	0.5
Provisions	29	34	53	52	50	43
Return ratios (%)						
RoE	19.2	19.2	16.6	18.5	17.6	18.8
RoA	1.9	2.1	1.9	2.0	1.9	2.0
Per share (Rs)						
EPS	28	34	35	47	52	66
BV	161	196	230	274	322	384
ABV	153	186	224	268	313	369
Valuation (x)						
P/E	27	22	21	16	14	11
P/BV	4.7	3.8	3.3	2.8	2.3	2.0
P/ABV	4.9	4.1	3.4	2.8	2.4	2.0
Cost/Income ratio	15.7	15.3	18.3	16.9	13.7	13.4
CD ratio	110.1	114.1	107.5	107.7	108.0	107.5

Source: Dalal & Broacha Research, Company

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