

Stable quarter ahead

AUM growth is likely to remain strong on YoY basis across Auto NBFCs reporting in the range of 19% to 32% YoY and AHFCs in the range of 22% to 34% for 2QFY25 bolstered by favorable monsoon conditions and a resurgence in rural activity over the past few months. NIM trends are likely to improve sequentially across both Auto NBFCs and AHFCs as CoF has largely stabilized. We build in sequential increase in opex as business momentum and collection efforts remains strong. We expect stable/marginal improvement in credit costs this quarter as we do not witness any major deterioration in asset quality. However, we remain watchful of delinquencies in unsecured portfolio in Personal Loans and MSME segments. We expect earnings to improve across players sequentially with higher NIMs. We remain watchful on commentary on growth and margins after; (1) Possibility of rate cuts; (2) Higher festive offtake across product categories is anticipated. Our preferred pick is Shriram Finance due to inexpensive valuations, strong growth expected in AUM and cross-sell synergies. In AHFCs, our top pick is Home first finance and Aptus Value housing.

Healthy AUM growth expected in 2QFY25

H1 is seasonally weak quarter in autos, however multi product lines should support AUM growth for auto finance NBFCs. We build in AUM growth in the range of 19% to 32% for 2QFY25. Mahindra Finance reported provisional numbers for 2QFY25, recording disbursements of Rs132bn (down 1% YoY & up 4% QoQ) and business assets at Rs 1.12tn (up ~ 20% YoY & ~6% QoQ). The disbursement growth has decelerated over last 12 months and we expect slowdown to continue as co. remains focused on strengthening its internal underwriting processes. We expect AHFCs to report AUM growth of 22% to 34% YoY and 5 to 9% QoQ driven by deeper penetration and geographic expansion. We expect AUM growth momentum to remain strong for UGRO Capital (MSME focused NBFC), up 32% YoY.

NIMs to improve as CoB stabilized largely

We expect NBFCs/AHFCs CoF will be stable for the quarter. However, NIMs would expand due to increase in interest yields across NBFCs. For Auto/AHFCs the product mix is shifting towards higher yielding products. Hence, we expect NIMs to improve ~12-70bps sequentially across both Auto/AHFCs except for Aptus where we build in NIMs contraction due to continued impact of increase in risk rates by RBI. Reductions in interest rate is expected to take place post H2FY25. For UGRO we expect NIMs to improve by ~80bps

Operating profit to post healthy growth

We expect Opex to increase sequentially due to higher disbursements and collection efforts to maintain asset quality. However, strong growth should support expansion in operating profits sequentially across players. The NBFCs continue to invest in technology, digital transformation and branch expansions and it will be crucial to watch out on Opex trends for 2HFY25. We expect Auto NBFCs to report 2% to 16% growth sequentially. Affordable HFCs to report a growth of 4% to 16% sequentially. We build in strong 17% sequential growth in operating profits for UGRO.

Asset Quality to remain stable

AHFCs witnessed increase in 30+dpd bucket in 1QFY25 due to seasonal factors. For 2QFY25, we build in stable/marginal improvement in credit costs this quarter as we do not witness any major deterioration in asset quality. We remain watchful of unsecured portfolio in Personal Loans and MSME loans, however, do not expect any major impact to reflect on growth. Mahindra Fin reported Stage 2 & Stage 3 assets at 6.4%/ 3.8% for 2QFY25 in its provisional disclosures as against 6.1%/3.6% in 1QFY25. For 2QFY25 Collection Efficiency stood at 96% (YoY: 96% & QoQ: 95%) for Mahindra Fin. We build in 28bps/20bps YoY/QoQ increase in credit costs for Ugro to 1.65%.

Q2FY25 Results Preview

India I NBFC

4 October 2024

NIFTY 50: 25,250

BSE Sensex: 82,497

Institutional Research

Stock price performance (%)*

Company Name	1 Mth	3 Mth	6 Mth	1 Yr
Cholamandalam	1.1	5.6	26.6	20.9
Mahindra Fin	(0.9)	6.2	8.8	7.1
Shriram Fin	4.2	19.6	38.3	77.4
Sundaram Fin	5.8	12.1	22.5	63.7
Aavas Financiers	3.1	(4.3)	25.6	(1.1)
Aptus Value	5.9	(0.9)	1.6	14.4
Home First	4.7	5.4	25.0	42.0
UGRO Capital	3.8	(11.2)	2.6	(10.6)

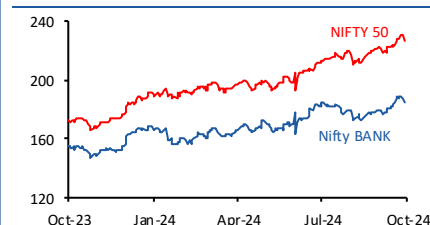
Source: Bloomberg, *as on 03 October 2024

Rating and Target prices

Company Name	Rating	TP (Rs)
Cholamandalam Inv	Add	1440
Mahindra Finance	Sell	251
Shriram Finance	Buy	3480
Sundaram Finance	Reduce	4317
Aavas Financiers	Add	1790
Aptus Value	Buy	390
Home First	Buy	1250
UGRO Capital	Buy	430

Source: Centrum Broking

Nifty 50 vs Nifty Bank



Source: Bloomberg



Shailesh Kanani

Research Analyst, NBFC

+91-022-4215 9001

shailesh.kanani@centrum.co.in

NBFC

Exhibit 1: Key monitorables

Sector	Comments
NBFC	1) Management commentary on growth.
	2) NIM trend for the year.
	3) Asset quality and Collection efficiency trends

Source: Company, Centrum Broking

Exhibit 2: Summary estimates

(Rsmn)	Net interest income			Pre-provision profit			PAT		
Auto NBFC's	2QFY25E	YoY (Δ)	QoQ (Δ)	2QFY25E	YoY (Δ)	QoQ (Δ)	2QFY25E	YoY (Δ)	QoQ (Δ)
Cholamandalam	27,230	35.1%	5.8%	18,870	32.8%	2.0%	10,284	34.9%	9.2%
Mahindra Finance	19,242	21.2%	7.9%	11,968	26.9%	5.5%	3,817	62.3%	-25.6%
Shriram Finance	56,149	22.2%	7.3%	41,818	20.1%	8.5%	21,705	24.0%	9.6%
Sundaram Finance	5,822	19.9%	9.9%	5,511	4.6%	15.9%	3,740	2.1%	21.6%
Affordable HFCs									
Aavas Financiers	3,207	19.3%	16.6%	1,969	20.8%	16.1%	1,471	20.9%	16.7%
Aptus Value	2,758	20.7%	5.6%	2,397	21.2%	6.4%	1,784	20.5%	3.9%
Home First	1,816	23.3%	9.4%	1,238	18.6%	4.0%	903	21.5%	2.8%
Others									
UGRO Capital	849	27.7%	-11.4%	886	35.5%	16.5%	347	20.1%	14.3%

Source: Centrum Broking, Company Data

Exhibit 3: Summary estimates

(Rsmn)	AUM/ Gross Advances (Rsmn)			Deposits & Borrowings (Rsmn)		
Auto NBFC's	2QFY25E	YoY (Δ)	QoQ (Δ)	2QFY25E	YoY (Δ)	QoQ (Δ)
Cholamandalam	16,42,561	32.2%	5.7%	15,84,030	32.6%	5.7%
Mahindra Finance	11,26,000	20.1%	5.9%	9,92,474	16.9%	4.1%
Shriram Finance	24,18,535	19.4%	3.6%	19,68,732	19.1%	2.7%
Sundaram Finance*	4,82,440	20.3%	5.6%	4,42,110	16.8%	4.5%
Affordable HFCs						
Aavas Financiers	1,86,511	21.7%	4.5%	1,31,798	18.3%	4.6%
Aptus Value	98,423	29.4%	8.5%	61,048	41.9%	10.6%
Home First	1,12,090	34.0%	7.0%	82,912	38.1%	5.0%
Others						
UGRO Capital*	100,100	31.8%	8.6%	53,404	41.1%	-

Source: Centrum Broking, Company Data; *Sundaram Finance and UGRO does not disclose BS in 1Q & 3Q

Exhibit 4: Summary estimates

(Rsmn)	NIMs (%)			Cost-to-income ratio (%)			Credit cost (%)		
Auto NBFC's	2QFY25E	YoY (Δ)	QoQ (Δ)	2QFY25E	YoY (Δ)	QoQ (Δ)	2QFY25E	YoY (Δ)	QoQ (Δ)
Cholamandalam	6.9%	3bps	-3bps	42.0%	200bps	300bps	1.3%	nm	-21bps
Mahindra Finance	7.3%	-6bps	21bps	42.0%	-170bps	70bps	2.6%	-29bps	83bps
Shriram Finance	10.2%	20bps	32bps	29.2%	-40bps	-50bps	2.1%	-20bps	Nm
Sundaram Finance*	4.9%	-6bps	23bps	34.0%	280bps	10bps	0.5%	-3bps	-15bps
Affordable HFCs*									
Aavas Financiers	7.0%	-15bps	77bps	43.5%	-97bps	-131bps	0.23%	2bps	-1bps
Aptus Value	11.7%	-8bps	-75bps	21.5%	5bps	58bps	0.41%	10bps	24bps
Home First	6.7%	-60bps	12bps	37.6%	248bps	210bps	0.32%	-15bps	6bps
Others									
UGRO Capital*	7.2%	-8bps	83bps	54.8%	-110bps	70bps	1.65%	28bps	20bps

Source: Centrum Broking, Company Data; *NIMs for Sundaram, Ugro and AHFCs calculated on AUM; Credit costs for Sundaram and UGRO is calculated on AUM

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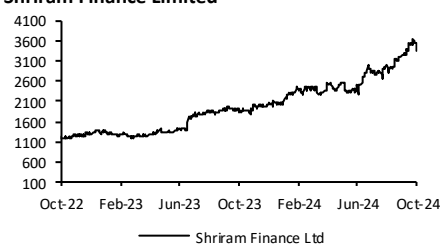
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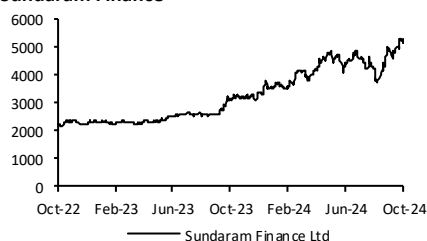
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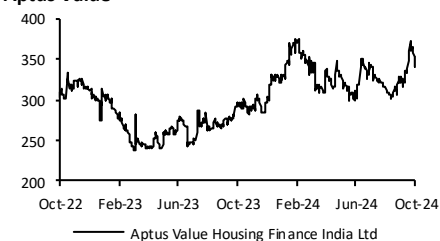
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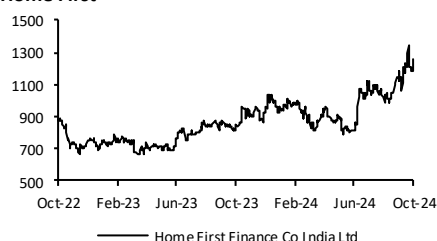
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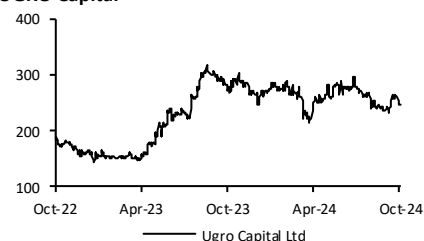
Aptus Value



Home First



UGRO Capital



Source: Bloomberg

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Ajay S Bendkhale

(022) 4215 9000/9023; Email ID: compliance@centrum.co.in

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Level -9, Centrum House, C.S.T. Road,
Vidyanagari Marg, Kalina,
Santacruz (East) Mumbai – 400098
Tel.: - +91 22 4215 9000