DIVERSIFIED FINANCIALS | Q1FY21 Preview | 16 July 2020

Expect only gold finance NBFCs to shine

We expect MUTH and MGFL to register strong AUM growth of 19% and 30% YoY respectively in Q1FY21 as a secular credit crunch and run-up in gold prices act as tailwinds. With BAF, CIFC and MMFS focusing more on collections than disbursements, their AUM growth is likely to slow. HDFCAMC is expected to gain market share in liquid funds and maintain profitability. NAM could see some bounce back in equity and hybrid funds. Management comments on incremental provisions for Covid-19 will be a key monitorable.

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Key expectations: We expect Bajaj Finance (BAF) to register a tepid quarter with declared AUM growth of 7% YoY and higher credit cost as management intends to make accelerated provisions for Covid-19. Gold finance NBFCs Muthoot Finance (MUTH)/Manappuram Finance (MGFL) are likely to post robust gold loan AUM growth of 19%/30% YoY as 30-50% of disbursals are digital and thus unaffected by the lockdown. We see benign credit costs for MUTH. As MGFL operates its vehicle finance business on the standalone book, credit cost is likely to inch up.

Among AMCs, our channel checks suggest HDFC AMC will gain market share in liquid funds, aiding profitability. We forecast a 24% YoY PAT increase for Nippon Life India AMC (NAM) assuming an uptick in equity and hybrid fund flows.

RECOMMENDATION SNAPSHOT

Ticker	Rating
BAF IN	BUY
MUTH IN	BUY
MGFL IN	BUY
CIFC IN	BUY
MMFS IN	ADD
HDFCAMC IN	BUY
NAM IN	SELL

FIG 1 – Q1FY21E EXPECTATIONS

NBFCs	Q1FY21E (Rs bn)	YoY (%)	QoQ (%)	Expectations
BAF				We expect stable spreads at ~11% levels and a 10% YoY rise in NII. AUM growth was announced at 7% YoY. Credit cost is projected at ~420bps as the company has indicated accelerated provisioning for anticipated pandemic-related delinquencies. Expect a 33% YoY decline in PAT.
AUM	1,380.0	7.1	(6.2)	
NII	40.6	10.0	(13.2)	
PAT	8.1	(32.6)	(15.0)	
MUTH				AUM is estimated to rise 19% YoY, maintaining its steady growth streak of the last eight quarters. NII should increase 36% YoY backed by stable spreads. With the cost/income ratio at 27%, we expect operating profit to grow 46% YoY to Rs 12bn. Benign credit cost would aid 66% YoY PAT growth.
AUM	426.5	19.1	2.5	
NII	16.5	35.6	1.1	
PAT	8.8	65.6	7.7	
MGFL				Gold loan growth is estimated at 30% YoY – a secular growth trend for the last eight quarters. We forecast stable spreads and 23% YoY NII growth. With high expenses but benign credit cost, we project a 61% YoY increase in PAT to Rs 3.5bn.
AUM	173.1	30.2	2.0	
NII	7.8	23.3	1.0	
PAT	3.5	60.5	4.0	
CIFC				We expect tepid disbursements to mute AUM growth at 5% YoY as the company has been focusing on collections rather than growth. We forecast NII growth of 10% led by stable spreads. Credit costs are likely to be higher due to accelerated provisioning for Covid-19, inducing a 20% YoY decline in PAT to Rs 2.5bn.
AUM	602.5	4.8	(0.5)	
NII	10.4	9.9	2.0	
PAT	2.5	(19.4)	NM	
MMFS				As ~75% of AUM is under moratorium, we expect a slow rundown of AUM, leading to 7% YoY growth. We forecast stable spreads, aiding 6% YoY growth in NII. Credit cost is likely to weigh on profit; we thus project PAT of Rs 0.5bn.
AUM	691.1	6.6	1.5	
NII	13.6	5.7	(2.0)	
PAT	0.5	(33.4)	(79.4)	

AMCs	Q1FY21E (Rs bn)	YoY (%)	QoQ (%)	Expectations
HDFCAMC				
Investment Revenue	5.1	1.5	7.5	Revenue growth is estimated at ~2% YoY to Rs 5.1bn. Strong opex control should translate to EBITDA of Rs 4bn and PAT of Rs 3.3bn. HDFCAMC is likely to have gained market share in liquid funds in the ongoing turmoil.
EBITDA	4.0	1.1	7.6	
PAT	3.3	12.1	31.0	
NAM				
Investment Revenue	3.1	(5.0)	12.5	Revenue is estimated to drop 5% YoY to Rs 3.1bn, though yields should be flattish. EBITDA margins are likely to hold at 49-50%. PAT is forecast to increase 24% YoY to Rs 1.6bn.
EBITDA	1.7	6.8	2.1	
PAT	1.6	24.4	NM	

Source: BOBCAPS Research | Note: AUM is actual for BAF; AUM for MUTH and MGFL refers to gold AUM

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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