

Robust quarter with limited lockdown impact

We expect BAF, MUTH and MGFL to register strong AUM growth in Q4FY20 even as efficient opex and risk management keep profits buoyant. Given that the Covid-19 lockdown began only towards the end of March, it is unlikely to have a meaningful impact on Q4 growth or profits. HDFCAMC is expected to gain market share in liquid funds and maintain profitability. NAM, however, could see run-off in debt, arbitrage and tax-saver funds, and hence lower profits. Management comments on lockdown implications for the year ahead will be a key monitorable.

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Key expectations: We expect Bajaj Finance (BAF) to register a strong quarter with declared AUM growth of 27% YoY, though credit cost will be similar to Q3 at 230bps. Gold finance NBFCs, Muthoot Finance (MUTH)/Manappuram Finance (MGFL), are likely to post robust gold loan AUM growth of 17%/29% as 30-50% of disbursements are digital and thus unaffected by the lockdown. We see benign credit costs for both players. Among AMC's, our channel checks suggest HDFC AMC will gain market share in liquid funds, aiding profitability. We forecast a 7% YoY PAT decline for Nippon Life India AMC (NAM) due to fund outflows.

RECOMMENDATION SNAPSHOT

Ticker	Rating
BAF IN	BUY
MUTH IN	BUY
MGFL IN	BUY
HDFCAMC IN	BUY
NAM IN	SELL

FIG 1 – Q4FY20 EXPECTATIONS

NBFCs	Q4FY20E (Rs bn)	YoY (%)	QoQ (%)	Comments
BAF				
AUM	1,476	27.4	1.7	We expect stable spreads at ~11% levels and a 23% YoY rise in EBITDA. AUM growth was announced at 27% YoY vs. 32% estimated. Credit cost is projected at ~230bps, similar to Q3. Expect a 21% YoY increase in PAT.
NII	44	28.5	(3.8)	
PAT	14	21.4	(11.5)	
MUTH				
AUM	399	16.6	3.7	AUM is estimated to rise 17% YoY, maintaining its steady growth streak of the last seven quarters. NII should increase 20% YoY backed by stable spreads. With the cost/income ratio at 29%, we expect EBITDA to grow 32% YoY to Rs 10.8bn. Benign credit cost would aid 57% YoY PAT growth.
NII	15	20.0	(6.0)	
PAT	8	56.9	(0.1)	
MGFL				
AUM	167	28.6	2.7	Gold loan growth is estimated at 29% YoY – a secular growth trend for the last seven quarters. We forecast stable spreads and 11% YoY NII growth. With high expenses (collection efforts and new hires) but benign credit cost, we project a 5% YoY increase in PAT to Rs 2.2bn.
NII	7	10.7	(11.0)	
PAT	2	5.0	(33.0)	
AMCs				
HDFCAMC				
Investment Revenue	5	9.7	2.0	Revenue growth is estimated at ~10% YoY to Rs 5.4bn, largely driven by stable yields of 53-55bps on AAUM. Strong opex control should translate to EBITDA of Rs 4.1bn and PAT of Rs 3.4bn. Our channel checks suggest that HDFCAMC has gained market share in liquid funds.
EBITDA	4	15.0	(0.2)	
PAT	3	22.0	(5.0)	
NAM				
Investment Revenue	3	(10.0)	2.0	We expect run-off in debt, arbitrage funds and tax-saver funds due to the lack of alpha generation over the past five years. Revenue is estimated to drop 10% YoY to Rs 3.1bn, though yields should be flattish. EBITDA margins are likely to hold at 48-49%. PAT is forecast to decline 7% YoY to Rs 1.4bn.
EBITDA	2	7.0	3.0	
PAT	1	(6.5)	(5.0)	

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

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

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

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