

NBFCs

What Kind of Results To Expect?

We have held the view that non-banking finance companies (NBFCs) are one of the brightest spots in the market along with micro-finance institutions (MFIs), thanks to the terrible financial condition of public sector banks which have virtually stopped lending, especially to small borrowers. According to Kotak Securities, NBFCs are likely to do well in the second half of the year, even though some of them had a disappointing first quarter. Kotak expects a visible impact of the decrease in bond yield which has benefited the AAA rated NBFCs and small players. Overall, Kotak expects an earnings growth of around 20%-84% year-on-year (y-o-y). Among the NBFCs, the core earnings of



Bajaj Finance and Bharat Financial Inclusion manage to remain high, on the back of higher loan growth. Cholamandalam Finance's performance is expected to stay strong as well because of the expanding net interest margin (NIM) and control over credit costs. With a pick-up in business loans and supported by gold business, Shriram City Union Finance's (SCUF's) business is eventually gaining traction, says Kotak. It also estimates that consumption demand for the festive season is mostly positive due to normal monsoon and strong urban demand.

The first quarter of FY16-17 saw the best trends in collections for commercial vehicles finance companies but there have been delinquencies in 2Q; "this may be an indication of weak haulage demand and poses potential concern."

Seasonally, the first quarter is weak and business picks up gradually, says Kotak. However, momentum has been weak during the second quarter. The overall prospect for housing remains muted. Consumption demand has picked up in select pockets. A sharp rally in the bond market was the key



STOCK WATCH

- ▶ positive trend observed during the quarter. The large AAA-NBFCs saw a decline in marginal borrowing cost by 20-25 basis points (bps)

What to Expect

Bajaj Finance's 2Q was a weak. But Independence Day sale has boosted revenues to some extent. The festive season brings stronger revenues.

Bharat Financial Inclusion may report a 9% quarter-on-quarter (q-o-q) loan growth which will mean 67% y-o-y growth.

Cholamandalam will have improved loan growth (to 17%) as the vehicles finance business continues to perform well.

Dewan Housing raised Rs14,000 crore of retail debt during the quarter at about 50bps-70bps lower than its bank borrowing rate. This brings the benefit of liquidity, but also a reduction in earnings growth,

bringing it down to 8%.

HDFC's mortgage business will continue to deliver steady loan growth of about 15%. Its NIM is likely to stay stable y-o-y.

LIC Housing Finance may report a 16% profit growth, backed by 15% growth in individual loans.

Magma Fincorp will, most likely, be reporting stable q-o-q loan book. On a low base, margin improvement in NIM and lower q-o-q credit cost will drive earnings.

Muthooth Finance will report strong loan book growth. NIM will remain strong, leading to one of its best quarterly performance.

Shriram Transport Finance's loan growth is likely to remain strong at 22% y-o-y. NIM is expected to stay stable at 7.5% q-o-q.

Shriram City Union Finance (SCUF) will be delivering strong results, backed by increasing loan growth and 60bps q-o-q; NIM is likely to expand to 14%. ■