



GreenEdge
Wealth Services

BFSI – The evergreen, emerging and struggling!

Presented by:

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Part 1 – Big picture!

Winners of last 10 years will become compounding candidates!

Compounders

- *HDFC Bk = 5.0x*
- *ICICI Bk = 4.5x*
- *Axis Bk = 3.5x*
- *Kotak Bk = 6.0x*
- *SBI = 4.0x*
- *Sundaram = 4.0x*

Multi-baggers

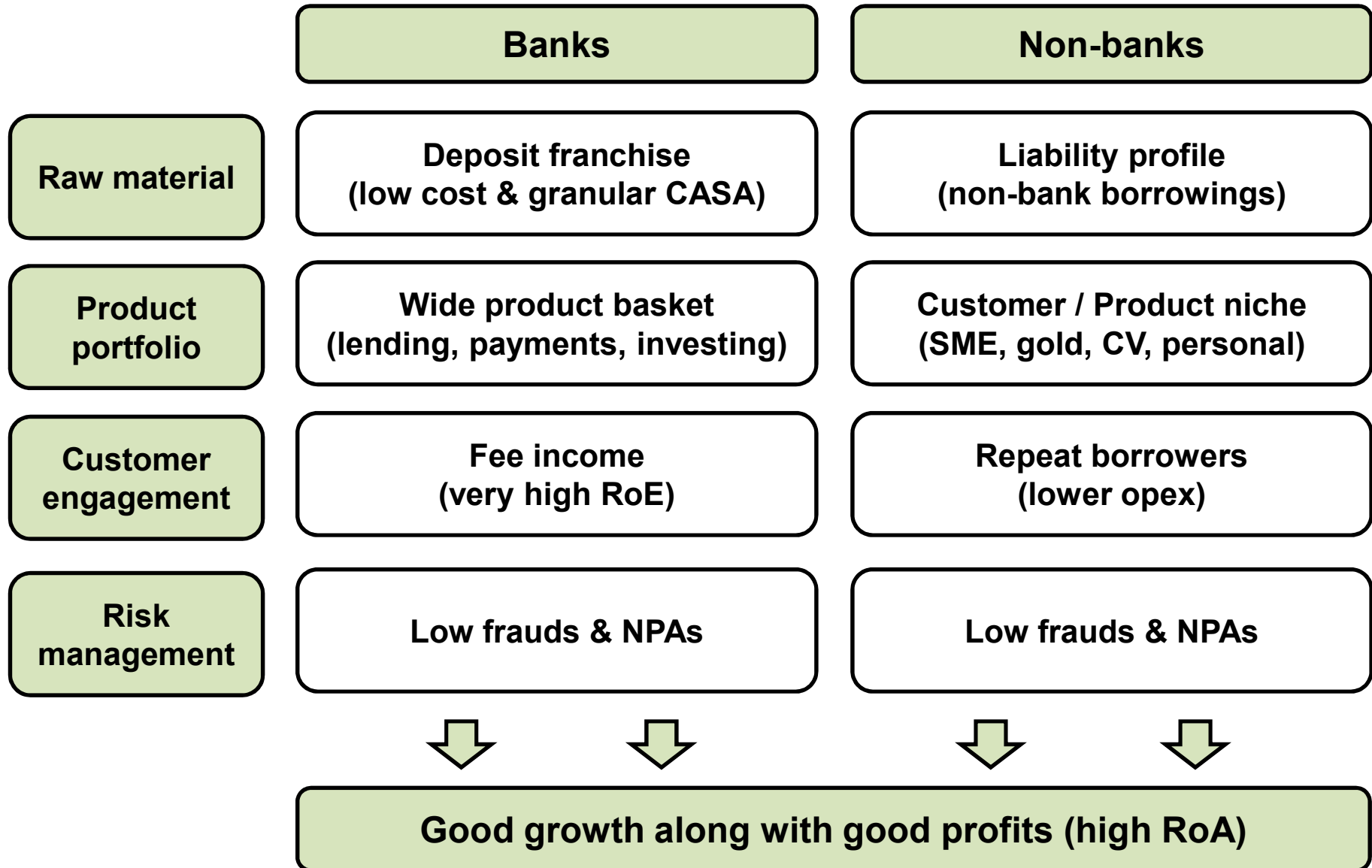
- *Bajaj Fin = 40x*
- *Chola = 20x*
- *CanFin = 20x*
- *Muthoot Fin = 10x*
- *Arman = 10x*

Others!

- Piramal, JM, Edel, IIFL, L&T Fin
- LIC HF, PNB HF, Repco, GIC
- Manappuram
- MMFS, Shriram, Indostar, Magma
- CUB, SIB, IDFC, etc
- Equitas, Ujjivan, Suryoday, Satin, Bandhan, Spandana



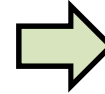
Business basics



Lending basics!

1.

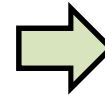
Ability to reach the customer at low cost



Traditional: Branch, Field visits, agent tie-ups
New age: Digital channels

2.

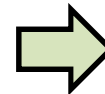
Quick but thorough appraisal of customer & collateral



Traditional: Bureau, Field agencies, internal analytics
New age: External APIs, cloud based CRMs

3.

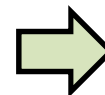
Offer reasonable rate of interest



Traditional: Depends on liability profile
New age: Depends on liability profile

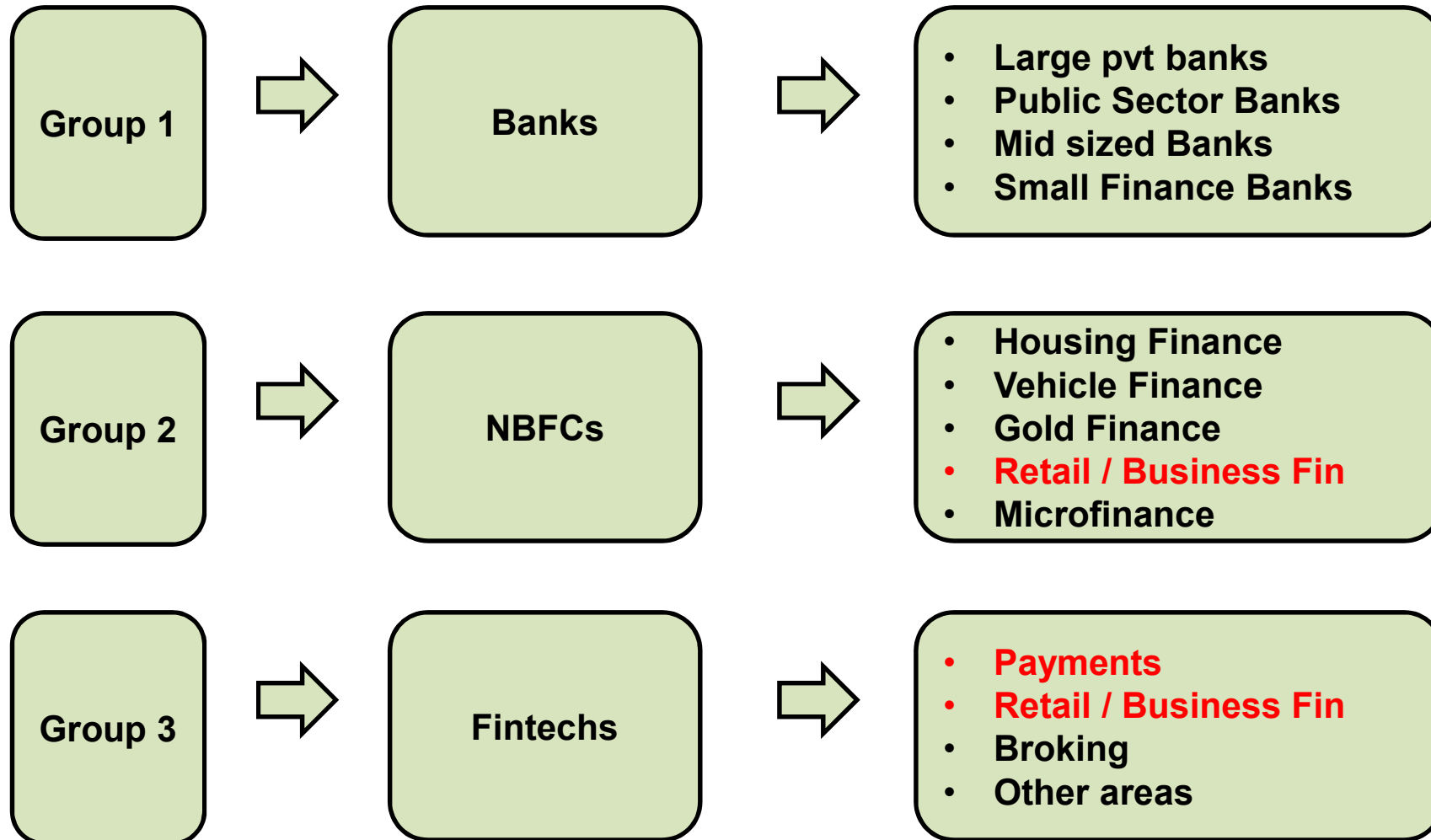
4.

Collect / service the customer at a reasonable cost



Traditional: Call centers, physical visits
New age: App based

The BFS universe in silos!



Part 2 – Payments & Personal loans

Payments

Story so far -- Payments is loss making, use platform for cross sell

UPI mkt share

- PhonePe = 45%
- GPay = 35%
- Paytm = 18%

Active users

- PhonePe = 12cr
- GPay = 10cr
- Paytm = 8cr

Revenue model

- P2P = Zero
- Small P2M = Zero
- Large P2M = 1.2%
- Gross yield = ~5bps

Revenue model

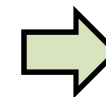
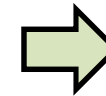
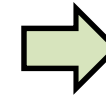
- PhonePe (FY22) = 1650cr
- Paytm (FY23) = 4700cr

Fixed costs

- Tech & platform
- Promotions
- Employees
- To keeps users active

Fixed costs

- PhonePe = 3500cr
- Paytm = ~7000cr



Failed

- E-commerce
- Travel
- Food orders
- Broking

Part success

- Advertising
- Bill payment
- Recharge

Promising

- **Loans**
- Insurance

PL & BL - Landscape

Customer type

- Govt employee
- Cat "A" corporate
- Professionals

•Cat "B", "C", "D" corporate

- Proprietors

- Self employed
- Partly employed
- Shoppers

Segment economics

- Rates = 10-14%
- Ticket = 5 lac
- Opex = Low
- Loss = Very Low

- Rates = 14-20%
- Ticket = 3 lac
- Opex = Moderate
- Loss = Low

- Rates = 20-40%
- Ticket = Upto 1 lac
- Opex = High
- Loss = High

Players

- SBI = 288,000cr
- HDFC = 171,000cr
- ICICI, Axis = 100,000cr

- Bajaj Fin = 60,000cr
- HDB, Fullerton, Poonawala, Shriram

- Paytm = ~5,000cr
- Navi = 8,500cr
- Early Salary = 1500cr

PL & BL – Winners v/s New comers

| | Sourcing the customer | Credit appraisal | Pre tax RoA |
|-----------|--------------------------|------------------------|---------------------|
| HDFC Bank | Captive base | Deep analytics | $(11-5-1-1) = 4\%$ |
| IDFC Bank | Mostly DSAs | Bureau & customer docs | $(15-7-4-2) = 2\%$ |
| Bajaj Fin | Captive + DSA | Deep analytics | $(18-8-1-2) = 7\%$ |
| Poonawala | Mostly DSAs | Bureau & customer docs | $(18-8-4-3) = 3\%$ |
| Paytm | Captive base | Online analytics | $(36-14-7-5) = 9\%$ |
| Navi | Own mkting + online DSAs | Online analytics | $(24-11-9-3) = 1\%$ |

*The RoA calculations are only for purpose of illustration and may be different from actuals

PL & BL - Bajaj Fin's success story

Bajaj Finance was smart & lucky & for a long time!

Calculated risks over 2012-18

- *Middle class (20-50k monthly income) wants better phones, TVs, Fridges*
- *Bureau data not rich; take small risk of 40-50k based on surrogates*
- *Customers paid nothing extra; Dealers got extra sales; OEMs subsidized Bajaj*

Competition never bothered till 2018

- *Bajaj become important & dominant for electronic dealers*
- *Banks made half hearted attempt in 2018, that too at large dealers*
- *Bajaj silently collected data for 3cr Indians, enriched it and used it for cross sell*

Customer acquiring engine too became profitable!

- *BAF's B2B business generated 2.5% RoA! For a new comer, it would be loss making!*
- *The cross sell engine generates 6-7% RoAs on personal & business loans!*
- *Paytm has to spend 5000crs just to keep users engaged!*

PL & BL - Bajaj Fin's success story

Unit economics work only if you dominate the store!

Store dynamics, small electronics dealer (2015)

- *Avg selling price = 36,000*
- *EMI = 6000 * 6 months*

- *No of units = 90*
- *People opting EMI = 30*

Unit economics for Bajaj Fin

- *OEM subvention @ 24% = Rs2,400*
- *Processing fee = Rs200*

- *Cost of funds @ 8% = Rs1,020*
- *Credit cost @ 3% = Rs540*

- *Gross profit per unit = Rs1040*

Store economics for BAF @ 100% dominance

- *Gross profit = Rs31,000*
- *Emp salary = Rs15,000*
- *Overheads = Rs10,000*
- *PBT = Rs6000*

- *Pre tax RoA = 1.6%*

Low financing volumes created initial “barrier to entry”!

PL & BL – Paytm story

Recent excitement is driven by initial success in Loans!

Paytm's loan business

- Avg ticket = Rs10,000
- Avg duration = 4 months
- Avg IRRs = 36%
- Loan type = BNPL, Personal, Merchant
- Loan partners = AB Capital, Piramal, Clix

Paytm has positively surprised on loan distribution by a wide margin

-Macquarie's Feb23 upgrade report

| INR cr | FY22 | FY23e | FY26e | % growth |
|------------------|--------|--------|----------|----------|
| Revenue | 4,974 | 7,895 | 15,787 | 217% |
| Pmt & Cloud | 4,670 | 6,301 | 10,529 | 125% |
| Lending | 304 | 1,594 | 5,258 | 1630% |
| Expenses | 7,311 | 9,704 | 14,771 | 102% |
| EBITDA | -2,337 | -1,809 | 1,016 | |
| Panacea | | | | |
| Loans originated | 7,600 | 32,000 | 1,28,500 | 1591% |
| No of loans (cr) | | 4.0 | 8.6 | |
| Take rate | | 4.4% | 4.0% | |

PL & BL – Paytm story

Everyone is happy right now!

| | EMI | Principal | Interest | Paytm's share | NBFC's share |
|--------------|---------------|---------------|------------|---------------|--------------|
| Month 1 | 2,690 | 2,500 | 190 | 100 | 90 |
| Month 2 | 2,690 | 2,500 | 190 | 100 | 90 |
| Month 3 | 2,690 | 2,500 | 190 | 100 | 90 |
| Month 4 | 2,690 | 2,500 | 190 | 100 | 90 |
| Total | 10,760 | 10,000 | 760 | 400 | 360 |
| IRR | 36% | | | | 18% |

NBFC (annualize)

- Asset = ~6,000
- Income = 1080
- Interest Exp = 540
- **Opex & CC = 0**
- PBT = 540
- PAT = 400
- RoA = 6.5%

Paytm (annualize)

- Income = 1200
- Interest Exp = 0
- **Opex = 400**
- Credit loss = 180
- PBT = 620
- PAT = 450
- Profit margin = 35%

Customer (annualize)

- He gets instant, frictionless loan despite low CIBIL
- IRRs of 36% look high but absolute cost is bearable due to small ticket

*The above calculations are only for purpose of illustration and may be different from actuals

PL & BL – Paytm story

But RBI remains the biggest risk to this story!

**B/S support
from
Regulated
Entities (RE)**

- RBI's discomfort to grant B/S permissions to non-RE's
- RE's act in unison during bad times

Grey areas can invite RBI scrutiny

- FLDG
- Decision algorithm
- Customer control

**Competition
& take rates**

- PhonePe, Gpay, RazorPay, etc are eyeing the same line of business
- Competition can bring down take rates

Can non B/S entity scale to size of 1Lac cr disburseals?

- There are no precedents beyond 10-15,000cr in DSAs

**New age players have the will & capability for “digital”; Some winners will emerge;
But not a linear story till RBI gets comfort**

PL & BL – Conclusion

Winners

Will remain fast growing & highly profitable if you control

- **Customer acquisition cost**
- **Credit Cost**

Pvt Banks & Bajaj Finance will remain dominant players

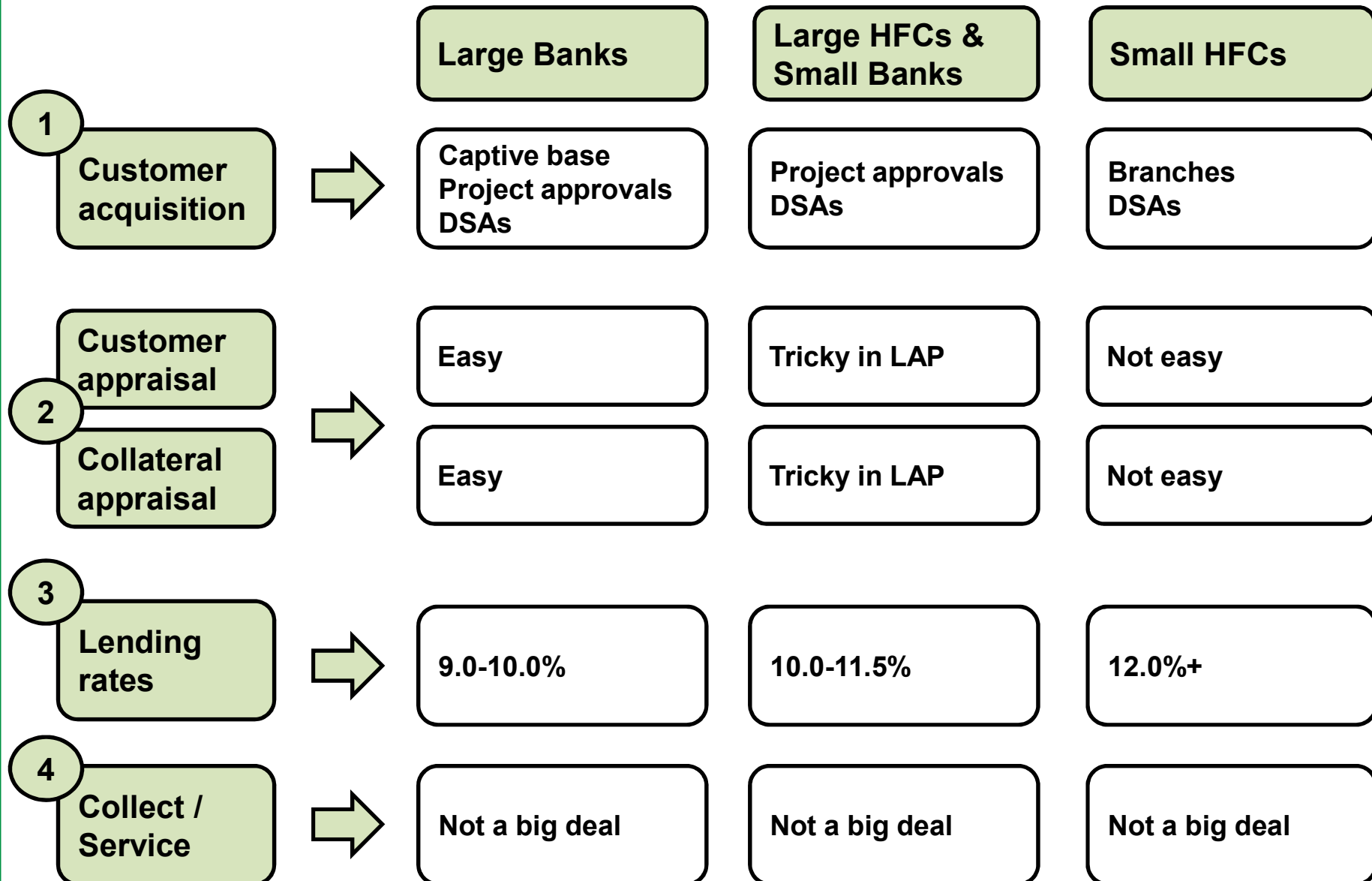
Capable PSU Banks can become large, like SBI

Emerging players

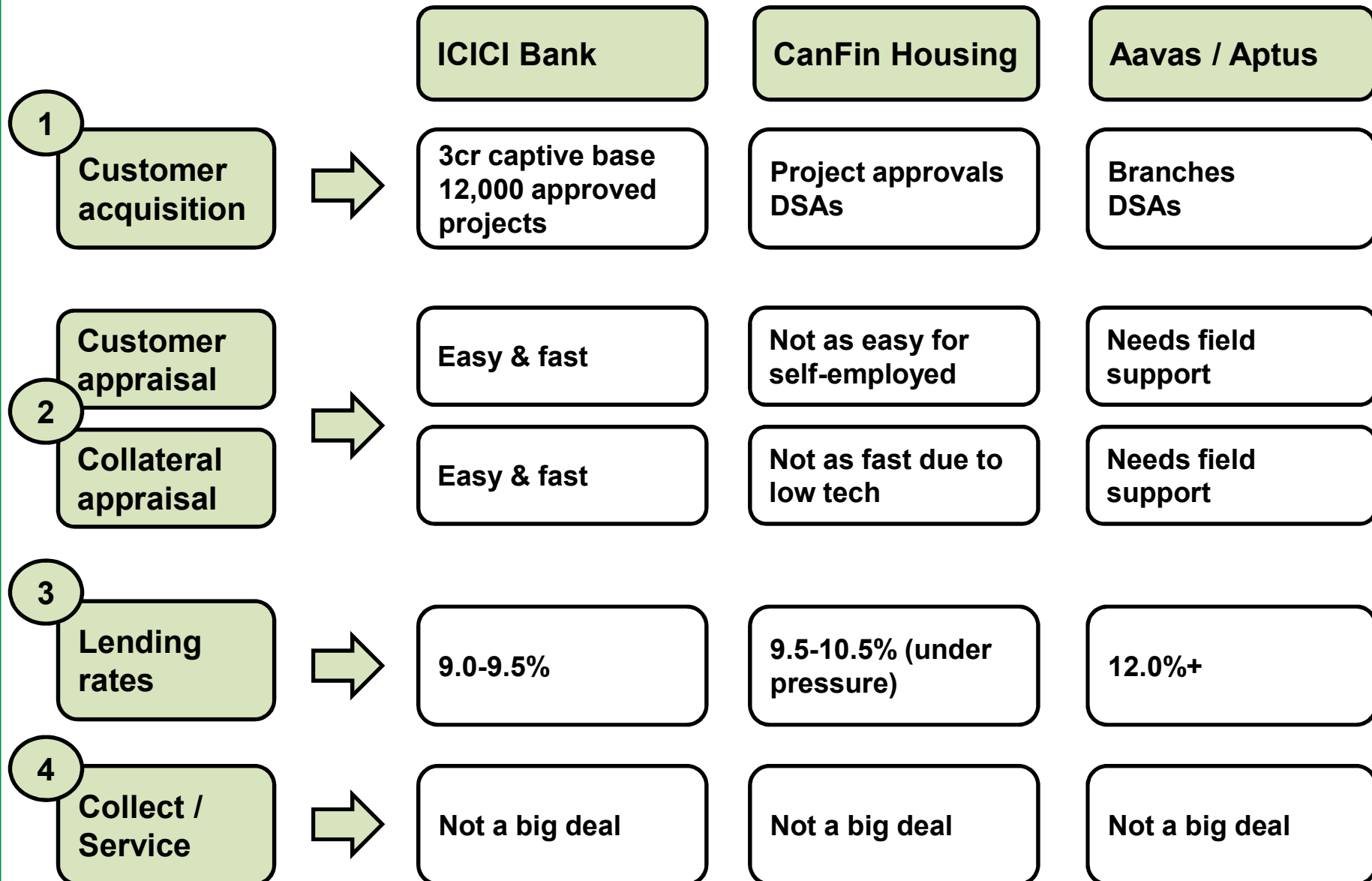
- **Not easy for new comers like IDFC, Poonawala, Piramal, AB Capital, etc**
- **Paytm, PhonePe can make it big, if RBI barrier is solved**
- **Fintech NBFCs like Navi, Early Salary, etc have yet to figure out low cost acquisition & credit costs.**

Part 3 – Housing Finance

Housing Finance - Framework



Housing Finance- Example



Housing Finance - Conclusion

Large Banks

- 1) Everyone has good CoFs
- 2) Ability to pre-approve more projects & cloud based life-cycle mgmt will differentiate

ICICI, SBI, Axis, HDFC will remain dominant

Large HFCs

- 1) Banks are slowly encroaching; have to do LAP & builder loans to earn margins
- 2) Mistakes increase CoF and it becomes vicious cycle

LIC HF and PNB HF will always be cyclical

Canfin needs some transformation

Small HFCs

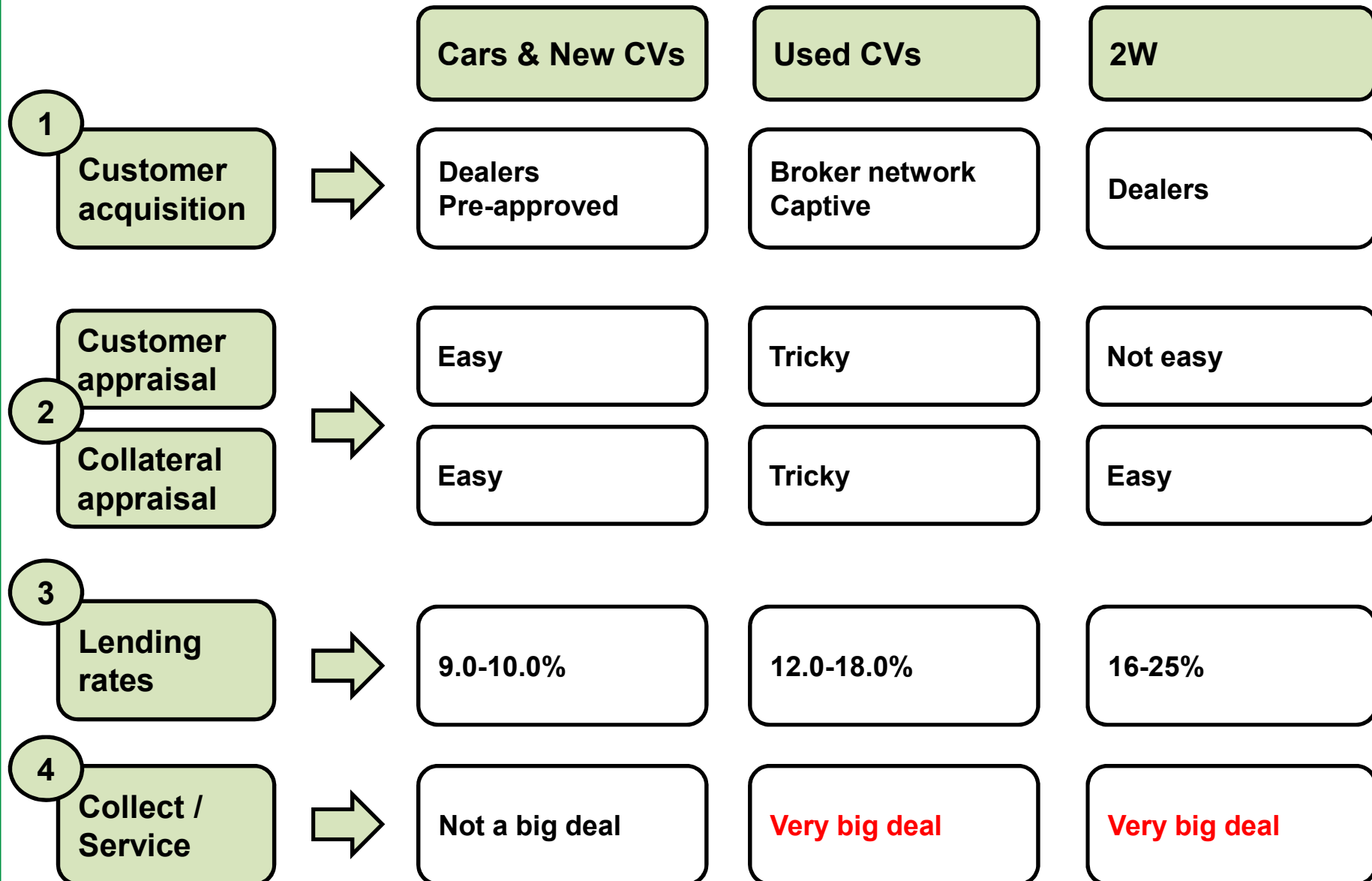
- 1) Have to keep going to deeper geographies all the time
- 2) Mistakes can easily turn into vicious cycle (RepcO, Aspire, Sundaram)

Aavas, Home First, Aptus doing well so far, but just a mistake away from de-rating!

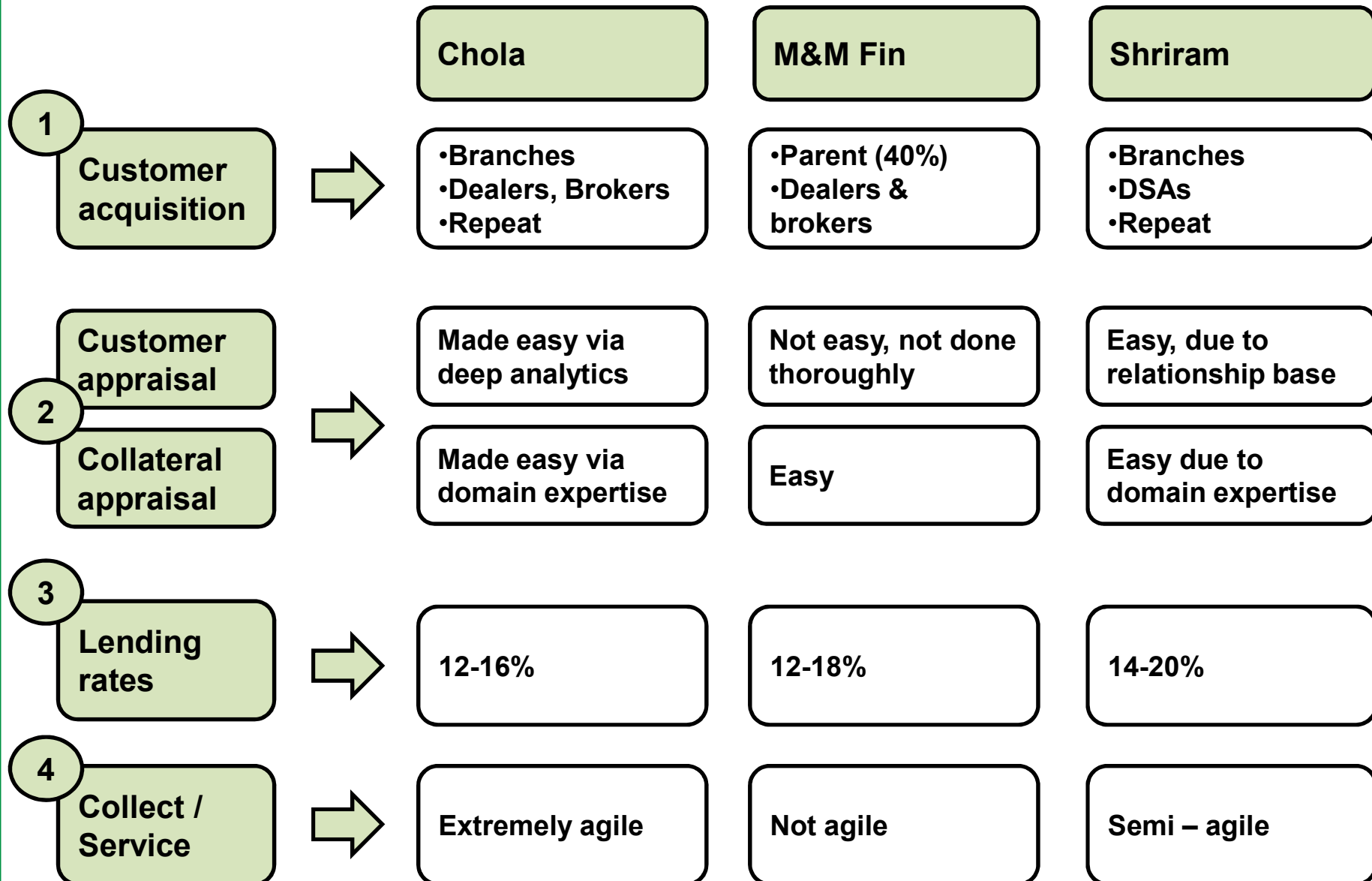
RepcO, will struggle

Part 4 – Vehicle Finance

Vehicle Finance - Framework



Vehicle Finance- Example



Vehicle Finance - Conclusion

Large Banks

- 1) Will remain restricted to cars and new CVs
- 2) Do not want to enter the “collections heavy” used CV business

HDFC, ICICI, Sundaram, will remain dominant players

Large NBFCs

- 1) Each has unique strengths and will sustain their current positions
- 2) Mistakes increase CoF and it becomes vicious cycle

- Chola = 15% CAGR
- Shriram = 12% CAGR
- M&M can turnaround
- IndusInd will maintain

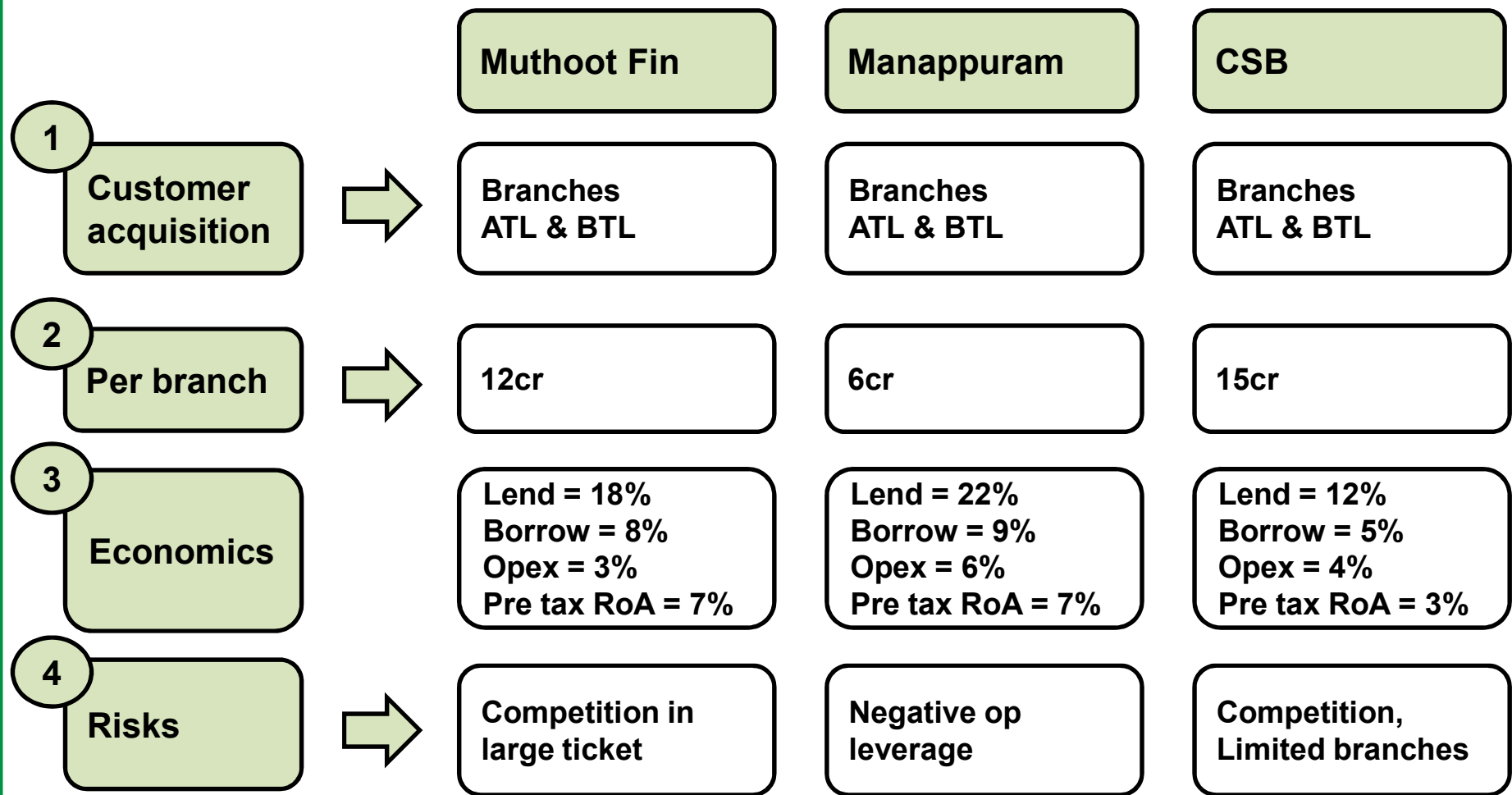
New NBFCs

- 1) Used CVs is the only white space, but needs large physical investments
- 2) New entrants have to think like incumbents

Kogta & SK Finance are scaling up, Indostar is yet to find its feet!

Part 5 – Gold Finance

Gold Finance - Framework



Gold loan in an operationally tiring business! Sanity will return in 2024!

*The above calculations are only for purpose of illustration and may be different from actuals

Part 6 – Micro & rural finance

Microfinance companies

| | Credit Access | Spandana | MAS | Arman |
|----------------------------|--|--|---|---|
| Liability profile | Fund availability = Very good | Fund availability = Improving | Fund availability = Moderate | Fund availability = Good |
| Business niche | Rural focus, good control on business operations | Rural focus, survivor of AP crisis, investing in re-building | Relationship with PSU banks; lending to smaller NBFCs | Small but niche and highly profitable business |
| Weakness | Cyclical business | Cyclical business High yields & CoFs | Competition, under investments in ppl | High leverage, small book size |
| Growth, Profits, Valuation | CMP = 980 P/B = 3.2x Loan CAGR = 35% RoA range = 5.3-2.4% | CMP = 590 P/B = 1.4x Loan CAGR = 36% RoA range = 6.0-1.0% | CMP = 690 P/B = 2.0x Loan CAGR = 6% RoA range = 2.4-2.7% | CMP = 1450 P/B = 4.0x Loan CAGR = 43% RoA range = 5.5-1.3% |
| Verdict | LT = Emerging ST = Strong growth | LT = Struggling ST = Strong growth | LT = Struggling ST = Strong earnings | LT = Emerging ST = Strong growth |

Small Finance Banks

| | Bandhan | Equitas | Ujjivan | Suryoday |
|----------------------------|--|---|---|---|
| Deposit profile | CASA = 41% Peak SA rate = 6% Granularity = Low | CASA = 44% Peak SA rate = 7% Granularity = Low | CASA = 27% Peak SA rate = 7% Granularity = Low | CASA = 21% Peak SA rate = 6.25% Granularity = Low |
| Business niche | Microfinance dominance in East | Success in many high yield products; Invested in tech, ppl | Well diversified microfinance operations | No identifiable business niche |
| Weakness | Weak risk mgmt; Under investments banking products | High opex creates volatility; Mgmt transition | High opex; Inefficient capital allocation in past | Heavy MFI dependence; little progress on banking |
| Growth, Profits, Valuation | CMP = 225 P/B = 2.2x Loan CAGR = 23% RoA range = 5.3-1.0% | CMP = 70 P/B = 2.0x Loan CAGR = 27% RoA range = 1.0-2.5% | CMP = 28 P/B = 1.4x Loan CAGR = 23% RoA range = (3)-2.7% | CMP = 91 P/B = 0.6x Loan CAGR = 43% RoA range = (2)-2.5% |
| Verdict | LT = Struggling ST = Cyclical rebound | LT = Emerging ST = Strong growth | LT = Struggling ST = Cyclical rebound | LT = Struggling ST = Cyclical rebound |

Note 1: Prices as on 2nd week of August; Book value as on Mar'22; Loan CAGR & RoA range is for 4 to 5 years, based on data availability

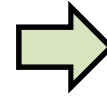
Note 2: LT = Long Term, ST = Short Term;

Part 7 – Full scale banks

Questions that you should ask!

1.

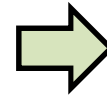
Is this A/C the primary transacting account?



Sticky CASA, ability to cross sell

2.

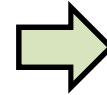
What % of fee comes from “non-lending” sources?



Underscores customer engagement and diversity in products & services

3.

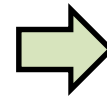
What is the mkt share in new areas (Fastag, CC, Personal loans)



Top 5 banks lead in each of these areas...meaning they are technologically fine

4.

How is the leadership?



Ability to navigate macro & micro cycles (RoA stability)

Large private banks



Deposit profile

Low cost CASA = 46%
Cost of Funds = 3.7%
Granularity = V. High

Low cost CASA = 47%
Cost of Funds = 3.5%
Granularity = V. High

Low cost CASA = 44%
Cost of Funds = 3.9%
Granularity = High

Low cost CASA = 58%
Cost of Funds = 3.6%
Granularity = High

Lending portfolio

Corporate = 26%
Business Bk = 20%
High yield = 21%

Corporate = 23%
Business Bk = 11%
High yield@ = 14%

Corporate = 32%
Business Bk = 11%
High yield# = 13%

Corporate = 35%
Business Bk = 24%
High yield = 7%

Fee profile

Fees = 24% of Net Inc
Profile = Very diverse

Fees = 25% of Net Inc
Profile = Very diverse

Fees = 28% of Net Inc
Profile = Diverse

Fees = 21% of Net Inc
Profile = Diverse

Consistency

P/Adj B = 2.9x
Loan CAGR = 20%
RoA range = 1.8-2.0%

P/Adj B = 2.8x
Loan CAGR = 13%
RoA range = 0.4-1.9%

P/Adj B = 1.9x
Loan CAGR = 13%
RoA range = 0.2-1.2%

P/Adj B = 3.5x
Loan CAGR = 10%
RoA range = 1.7-1.9%

Subsidiary

Securities, HDB
Financial
Value = Rs 100/share

PruLife, Lombard,
Securities, AMC,
Value = Rs 200/share

Securities, AMC
Value = Rs 80/share

Life, Securities, AMC,
Prime
Value = Rs 600/share

Note 1: Prices as on 2nd week of August; Loan CAGR & RoA range is for 4 to 5 years, based on data availability

Public sector banks



Deposit profile

Low cost CASA = 44%
Cost of Funds = 4%
Granularity = V. High

Low cost CASA = 38%
Cost of Funds = 4%
Granularity = High

Low cost CASA = 34%
Cost of Funds = 4%
Granularity = High

Lending portfolio

Corporate = 31%
SME = 11%
Retail = 36%

Corporate = 41%
SME = 12%
Retail = 17%

Corporate = 39%
SME = 16%
Retail = 17%

Fee profile

Fees = 16% of Net inc
Profile = Diverse

Fees = 15% of Net inc
Profile = Asset Heavy

Fees = 14% of Net inc
Profile = Asset heavy

Consistency

CMP = 520
P/Adj B = 1.1x
Loan CAGR = 10%
RoA = 0.0% to 0.7%

CMP = 124
P/Adj B = 0.9x
Loan CAGR < 10%
RoA = 0.0% to 0.6%

CMP = 230
P/Adj B = 0.9x
Loan CAGR < 10%
RoA = 0.0% to 0.5%

Subsidiary

Life, general, MF, Cards, Caps
Value = Rs 220/share

Not meaningful

Not meaningful

Note 1: Prices as on 2nd week of August; Loan CAGR & RoA range is for 4 to 5 years, based on data availability

Mid sized pvt banks

| | IndusInd | IDFC First | AU SFB |
|-------------------|---|---|--|
| Deposit profile | <p>CASA = 36%</p> <p>Peak SA rate = 5.5%</p> <p>Granularity = Low</p> <p>Cost of funds = 6.0%</p> | <p>CASA = 32%</p> <p>Peak SA rate = 6.0%</p> <p>Granularity = Low</p> <p>Cost of funds = 5.5%</p> | <p>CASA = 35%</p> <p>Peak SA = 5.5%</p> <p>Granularity = Low</p> <p>Cost of funds = 6.1%</p> |
| Lending portfolio | <p>Corporate = 46%</p> <p>CV & MFI = 40%</p> | <p>Retail & Commercial Secured = 38%</p> <p>Unsecured = 62%</p> | <p>Corporate = 16%</p> <p>CV & SME = 70%</p> |
| Fee profile | <p>Fees = 24% of Net inc</p> <p>Profile = Asset heavy</p> | <p>Fees = 22% of Net inc</p> <p>Profile = Asset heavy</p> | <p>Fees = 17% of Net inc</p> <p>Profile = Asset heavy</p> |
| Volatility | <p>CMP = 1050</p> <p>P/Adj B = 1.7x</p> <p>Loan CAGR = 15%</p> <p>RoA = 1.8% to 1.1%</p> | <p>CMP = 45</p> <p>P/Adj B = 1.4x</p> <p>Loan CAGR = 31%</p> <p>RoA = 0.0% to 1.0%</p> | <p>CMP = 650</p> <p>P/Adj B = 5.6x</p> <p>Loan CAGR = 36%</p> <p>RoA = 1.5% to 2.0%</p> |
| Verdict | <p>LT = Struggling</p> <p>ST = Cyclical rebound</p> | <p>LT = Struggling</p> <p>ST = Turnaround</p> | <p>LT = Emerging</p> <p>ST = Strong growth</p> |

Note 1: Prices as on 2nd week of August; Loan CAGR & RoA range is for 4 to 5 years, based on data availability

Note 2: LT = Long Term, ST = Short Term;

Regional pvt banks

| | Federal | DCB | KVB |
|-------------------|---|---|---|
| Deposit profile | <p>CASA = 35%</p> <p>Peak SA rate = 2.75%</p> <p>Granularity = High</p> <p>Cost of funds = 4.4%</p> | <p>CASA = 20%</p> <p>Peak SA rate = 4.0-5.0%</p> <p>Granularity = Low</p> <p>Cost of funds = 5.5%</p> | <p>CASA = 35%</p> <p>Peak SA = 3.2%</p> <p>Granularity = High</p> <p>Cost of funds = 4.4%</p> |
| Lending portfolio | <p>Corporate = 46%</p> <p>Retail = 33%</p> | <p>Corporate = 30%</p> <p>Retail & SME = 65%</p> | <p>Corporate = 22%</p> <p>SME = 32%</p> <p>Retail = 23%</p> |
| Fee profile | <p>Fees = 26% of Net inc</p> <p>Profile = Best</p> | <p>Fees = 26% of Net inc</p> <p>Profile = Avg</p> | <p>Fees = 19% of Net inc</p> <p>Profile = Worst</p> |
| Volatility | <p>CMP = 114</p> <p>P/Adj B = 1.3x</p> <p>Loan CAGR = 12%</p> <p>RoA = 0.8% to 1.0%</p> | <p>CMP = 95</p> <p>P/Adj B = 0.8x</p> <p>Loan CAGR = 12%</p> <p>RoA = 0.9% to 1.1%</p> | <p>CMP = 70</p> <p>P/Adj B = 0.9x</p> <p>Loan CAGR = 5%</p> <p>RoA = 0.3% to 0.9%</p> |
| Verdict | <p>LT = Emerging</p> <p>ST = Cyclical rebound</p> | <p>LT = Struggling</p> <p>ST = Rebound</p> | <p>LT = Struggling</p> <p>ST = Cyclical rebound</p> |

Note 1: Prices as on 2nd week of August; Loan CAGR & RoA range is for 4 to 5 years, based on data availability

Note 2: LT = Long Term, ST = Short Term;

Sub-segments within BFS universe

Banks

Large Pvt Banks

1. HDFC, ICICI
2. Axis, Kotak

Public Sector Banks

1. SBI
2. BoB, Canara

Regional Banks

1. Federal, CUB, CSB
2. DCB, KVB

Unclassified private banks

1. Indus, IDFC, AU
2. RBL, Yes

Small Finance Banks

1. Equitas
2. Ujjivan, Suryoday, Bandhan

Non-banks

Housing Finance

1. CanFin, Aavas, Aptus, HFF
2. PNB, LIC, Repco

Vehicle Finance

1. Chola, Sundaram
2. Shriram, MMFS
3. Indostar, MCSL

Gold Loans

1. Muthoot Fin
2. Manappuram, IIFL

Microfinance

1. CreditAcc, Arman
2. Spandana, MAS
3. Satin

Multi product

1. Bajaj Fin
2. Poonawala, JM
3. LTFH, AB Cap, Piramal



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