

Impact of Covid 2.0 on **Vehicle Finance NBFCs**

Impact Note July 2021



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No solicitation or Investment Advice

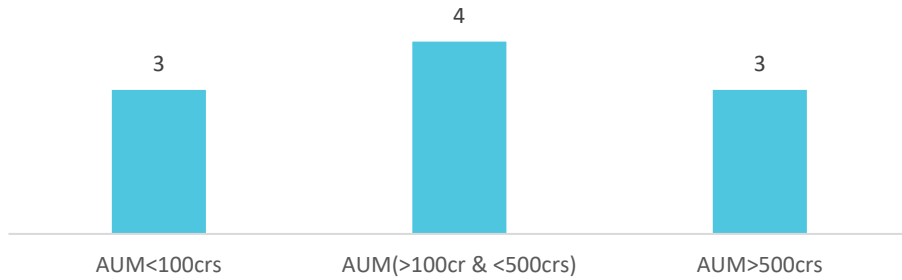
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Covid-1.0 Vs Covid 2.0

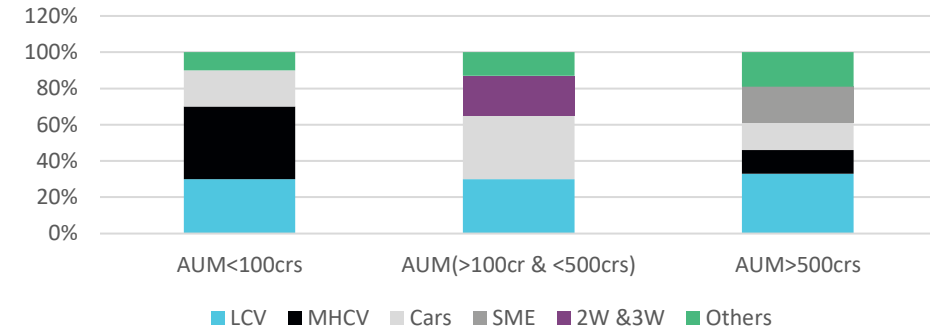
| NBFC Operations | Covid 1.0 | Covid 2.0 |
|-------------------------------|---|--|
| Lockdown Impact on Businesses | Lockdown was nation-wide, sudden and complete resulting in taking people by surprise | Taking lessons from Covid 1.0, the lockdown was differentiated, decided by local administration with most business segments being open for restricted hours (manufacturing, transport and other essential services) reducing the impact of the clamp-down |
| Rural Economy | The infection had largely left rural India untouched | Covid 2.0 impacted rural India but given the lower population density and partial opening allowed for essential services, earnings was impacted more by fear of venturing out than closing of businesses |
| Collection Trend | Was deeply impacted because of strict lockdown and also on account of regulatory moratorium | Has been impacted, but the partial operations allowed even during lock-down has helped stem the drop in collections; NBFCs with multi state operations (North-South divide of covid wave) have been able to rely on the opening in Southern India when Northern India was closed and vice-versa currently |
| Disbursement Trend | NBFC operations were in disarray trying to cope with moratorium requests, lockdown related inability to reach customers and sharp reduction in disbursements given the newness of the first wave. | NBFCs have been better prepared in Covid 2.0 with staff operating till 2:00PM initially in April / May and now till 5:00PM in many regions in central and northern India with incremental relaxation in lockdown except some geographies (TN, Karnataka, AP) ; Disbursements have not come to a halt; |
| Moratorium and Restructuring | NBFCs opted for moratorium between Mar'20- Aug'20 whereas restructuring was 5% on average for FY-21 | Since there is no moratorium, restructuring is expected to be higher between 5%-10% on an average as a result of Covid 2.0 impact |

Commercial Vehicle Finance NBFCs

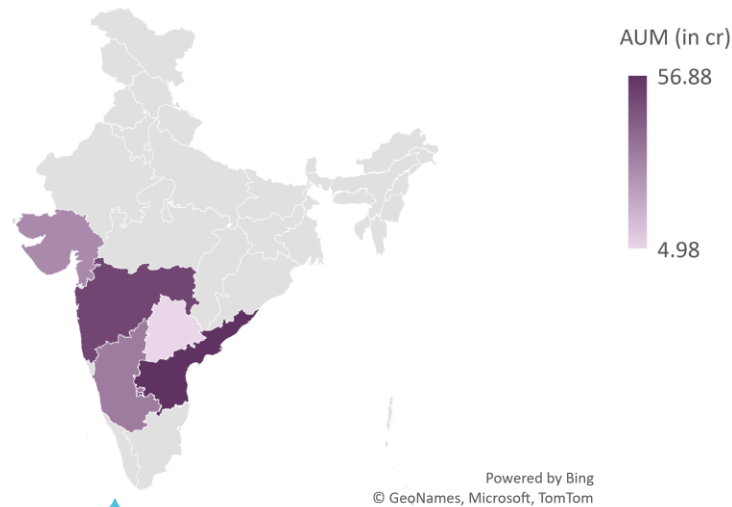
No. of entities in AUM segments



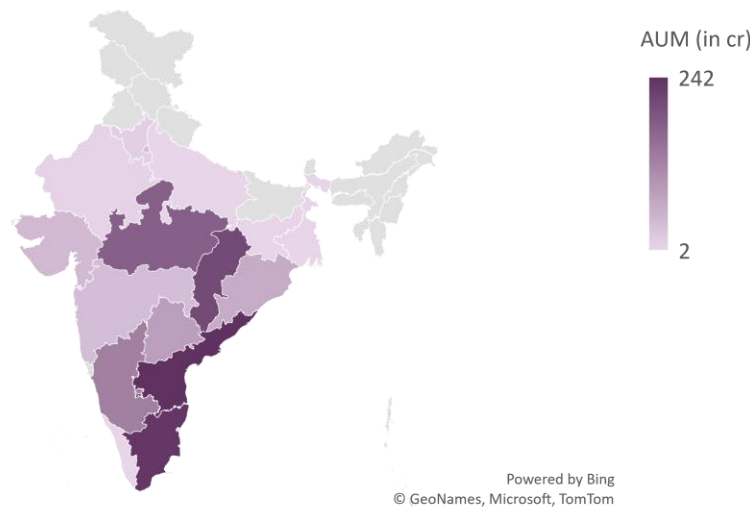
Product Categories across Aum segments



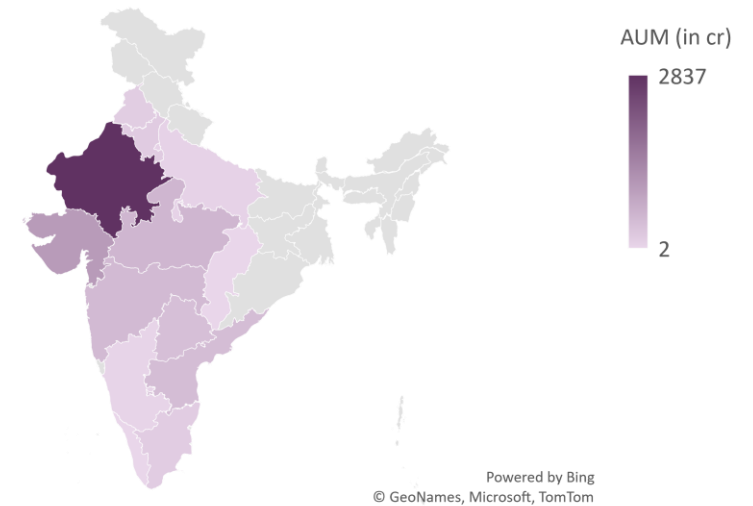
AUM < 100 cr



AUM (100 cr & < 500 cr)



AUM > 500 cr



Three maps have been represented above to show how the geographic coverage changes from a large Aum entity (INR > 500 crs) to a mid sized AUM entity (> 100 crs & < 500 crs) and to a smaller AUM entity (< 100 crs). It is depicted in the form of gradient - darker the shade, higher the portfolio concentration in that State. As evident, larger and smaller AUM entities are mainly operating in Western and southern belt respectively while mid segment is largely in southern and central regions. AUM depicted in charts is the cumulative amount of POS of all entities concentrated in that particular state.

Impact of Second Wave on CV NBFC Operations

Earnings Impact

- Covid Second wave(2021) impact was felt with greater intensity in rural districts in India as compared to covid first wave(2020) which was more in urban areas
- Due to most state governments enforcing lockdowns, vehicles were forced to operate at lower capacity due to lower demand in both LCV and HCV segments. This affected the earnings of customers who were forced to use their savings.
- Customers were also forced to use their savings in medical emergencies for themselves/families which led to higher bounce rates in the month of May
- Vehicle deployment was at 50% of capacity with most vehicles being used either for essential goods movement

Collections Impact

- NBFCs were able to collect 85% of current demand on average in month of April which fell to 80% in month of May as severity of covid cases increased in May all across India
- Around 60-65% of above collections happened through regular NACH/cheque payments while a small part(5%) were done through digital means like UPI transfer. Remaining was cash collected in branches.
- Most of the people paid through their savings from the good rabi harvest and partly from the deployment of vehicles.
- July looks positive for VF clients as most of the states in north India have started opening up while NBFCs in south India will see positive impact from July onwards

Business Volume Impact

- Most of the NBFCs have preserved liquidity since lockdown and impact on Covid on their own employees resulted in lower disbursements across the states
- Another contributor to lower disbursements was the irregular functioning of Government offices like RTOs which is critical for these NBFCs to hypothecate and have a secured book
- Disbursements are expected to pick up June onwards as Kharif sowing will start across India and tractors and other CVs will be deployed for different usages in rural India

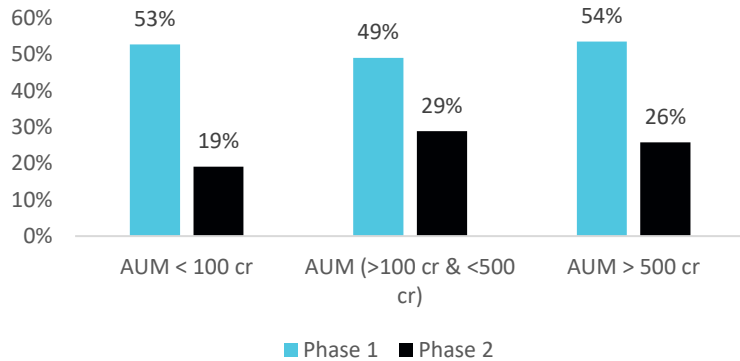
Rural Operations Impact

- NBFC branches in rural areas were largely open across states for most of the period in April and May since essential services were allowed as per lockdown guidelines
- Industrial Units and Manufacturing activity continued while agricultural mandis were closed in most states which resulted in low economic activity in rural India
- Although branches were open, NBFC staff faced difficulty in reaching out to customers since there were restrictions on people movement and different states had different timings for people movement. Collections were also impacted since lot of NBFC staff and customers in rural India contracted covid and were quarantined/hospitalized
- Tractor product exhibited a good CE as compared to other products like passenger vehicles and HCV due to good Rabi harvest in rural India

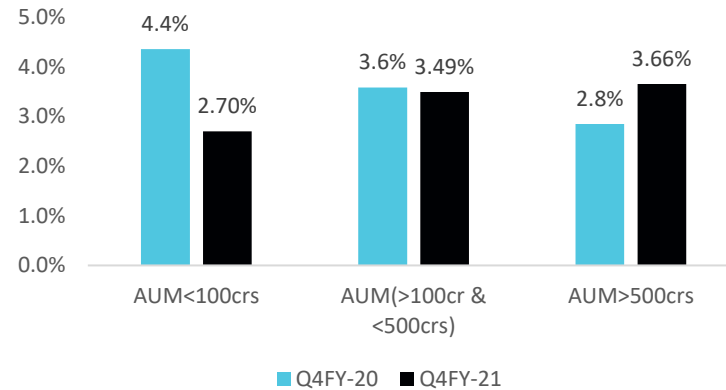
Collection Efficiencies reached Pre-Covid 1.0 levels Before Covid 2.0 Struck

- Within product segments HCV, commercial cars used in tours and travel businesses and three-wheeler saw slowest recoveries while LCV/SCVs/Cars are reporting better CEs
- Companies have given lower phase-2 moratorium; however, restructuring has been in the range of 4-5%
- PAR 90 on average has been at acceptable levels ignoring restructuring

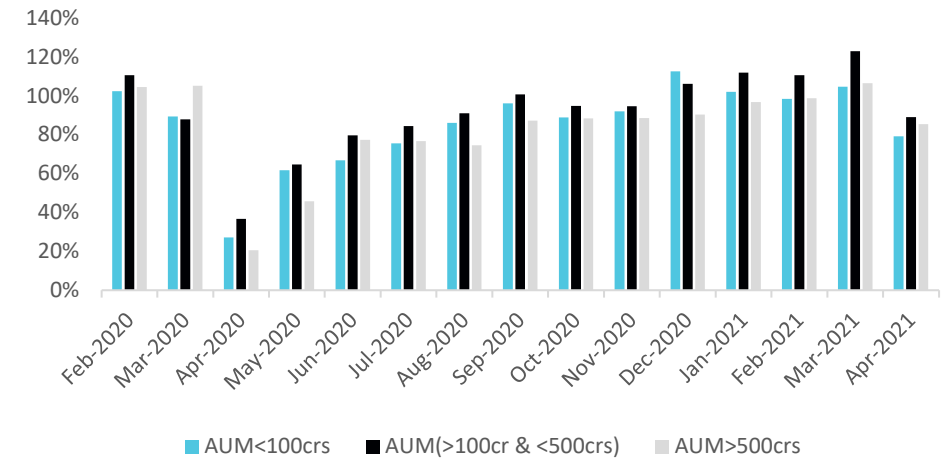
Moratorium % between Mar'20-Aug'20



PAR >90: VF Portfolio

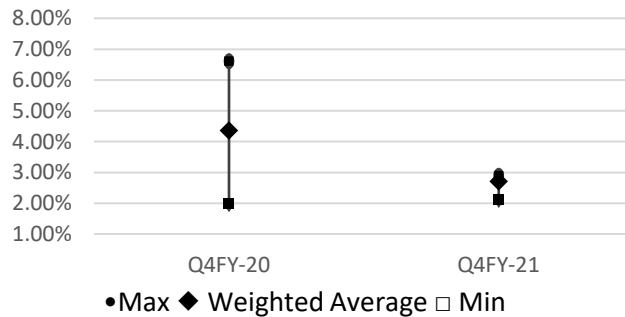


Collection Efficiency Trends

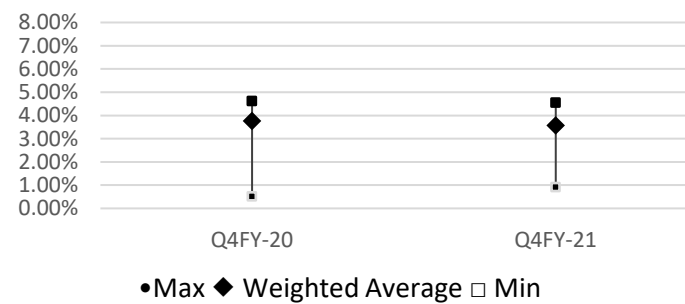


*PAR 90 is the weighted average of all entities in particular AUM segment

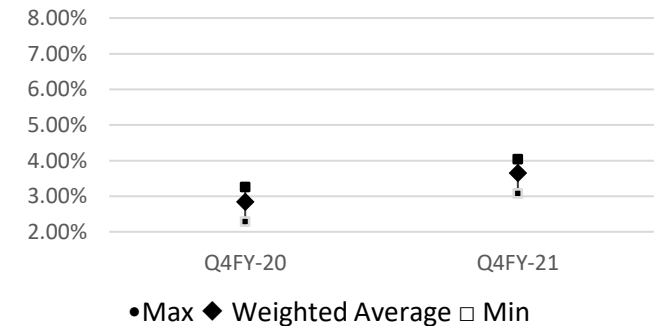
AUM< 100crs PAR 90 Trends



AUM>100crs&<500crs PAR 90 Trends



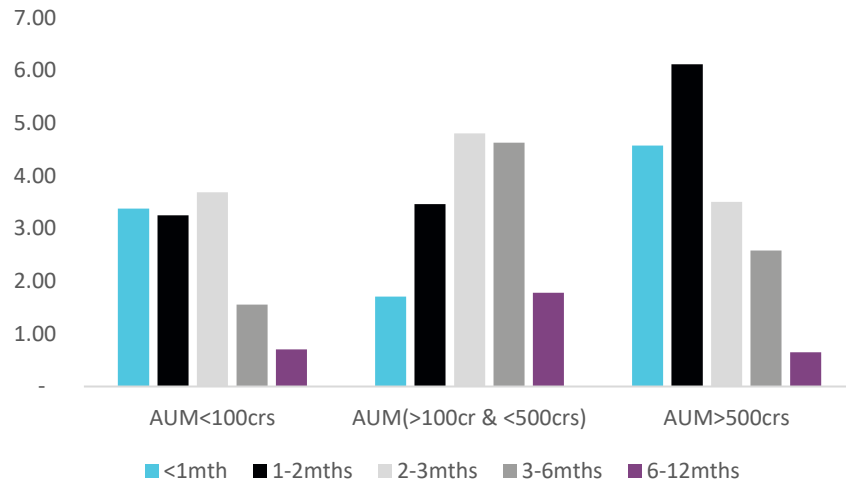
AUM>500crs PAR 90 Trends



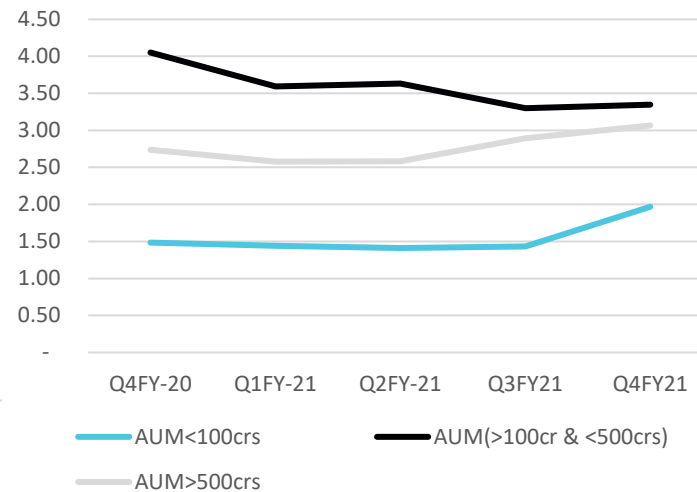
Adequate debt raise has ensured companies have enough liquidity

- CV Finance companies have adequate liquidity as of Mar'21 to address any mismatch arising out of lower collections due to Covid 2.0.
- Companies in mid and larger AUM segment have been able to raise funds which has helped in maintaining adequate liquidity.
- Leverage for small NBFCs (less than 100crs) and large NBFCs (greater than 500crs) has been below 3.5x in the previous 5 quarters which shows that companies are maintaining prudence in terms of gearing.
- Q4FY-21 saw a spike in disbursement growth rate over previous quarter with the situation normalizing although disbursements have taken a hit in Q1FY22 owing to Covid 2.0.

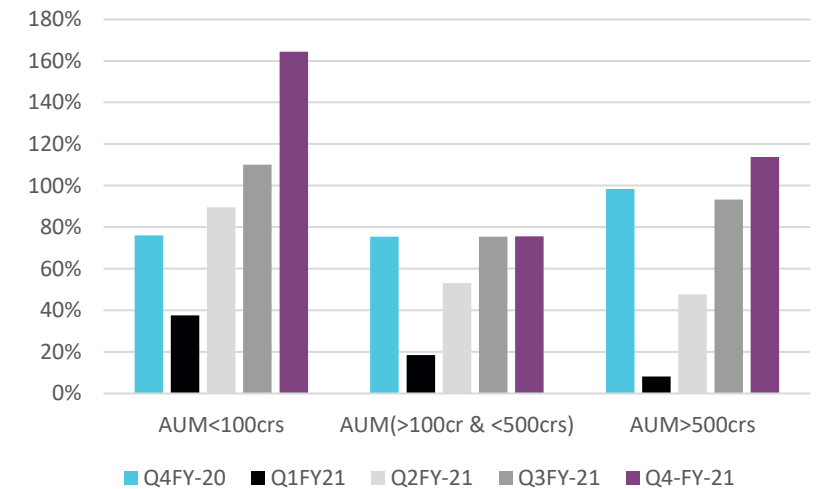
Cumulative gap as multiple of outflows as of Mar'21



Leverage



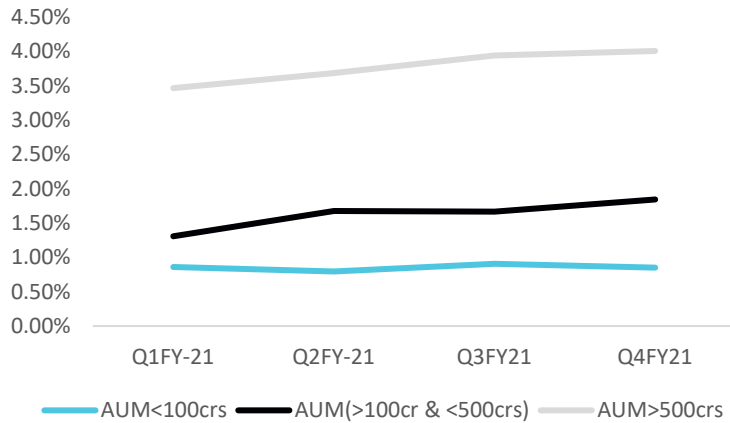
Disbursements as % of Q3FY-20



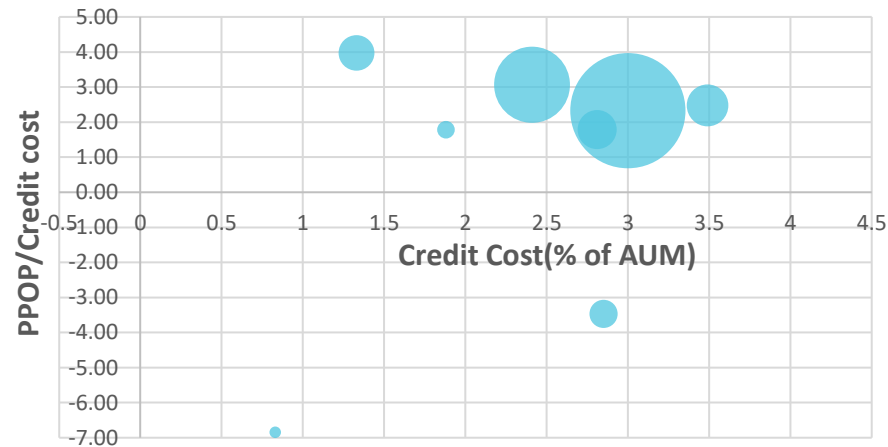
More Proactive Provisioning by Large NBFCs

- Larger AUM segment (greater than 500crs) have maintained a higher provision which has further increased as companies have provided more during covid period.
- Larger companies(AUM>500crs) have made adequate provisions compared to mid-sized vehicle finance NBFCs
- Pre-operating Profit to Credit cost multiple is low for smaller sized NBFC in Q4FY21 as they are into initial stages of growth.

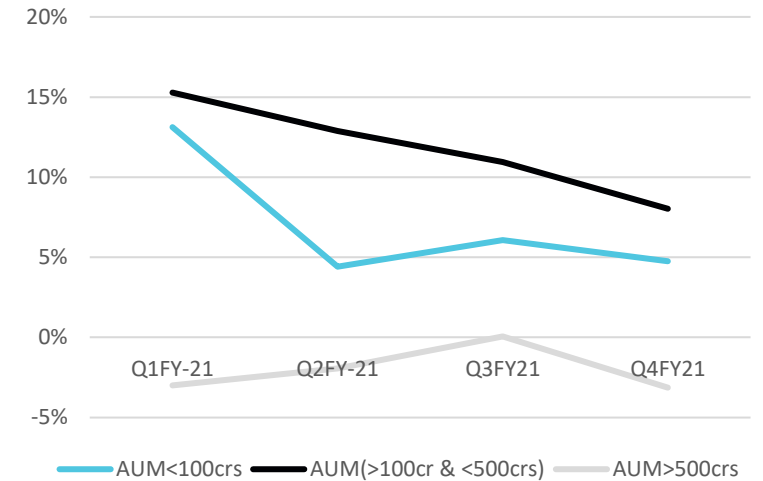
Loan Loss Provisions(%)



PPOP to Credit cost (Bubble size signifies AUM)

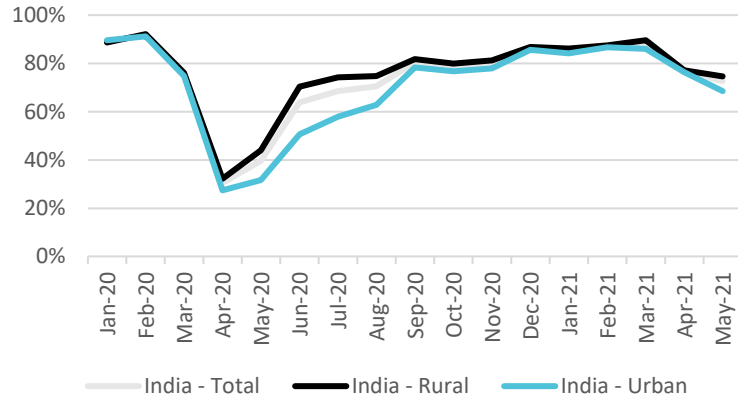


(PAR 90-LLP)/NW

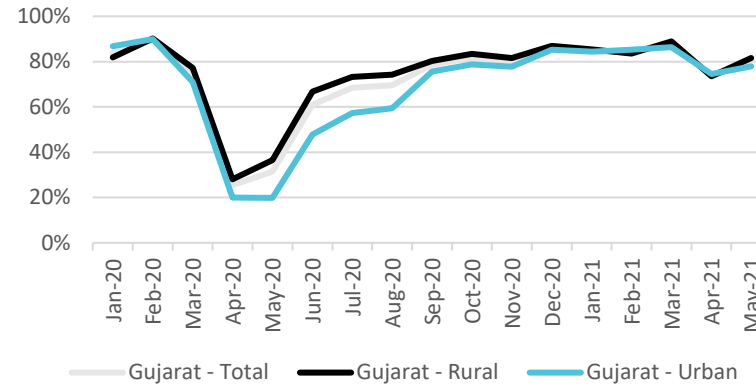


Rural India not worse off than Urban India despite widespread Covid infections

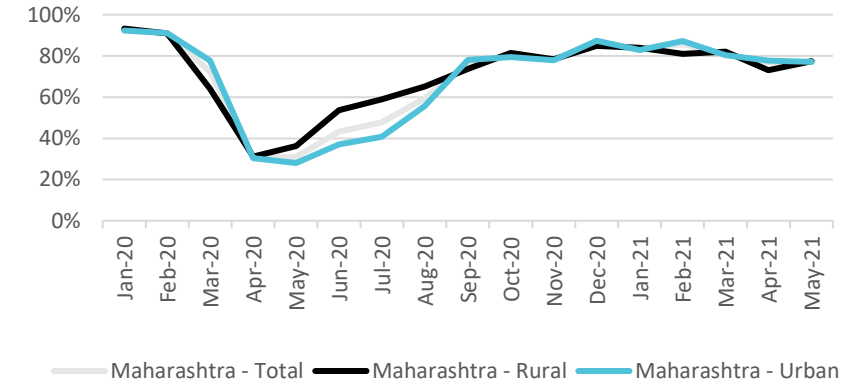
VEHICLE FINANCE - PAN INDIA



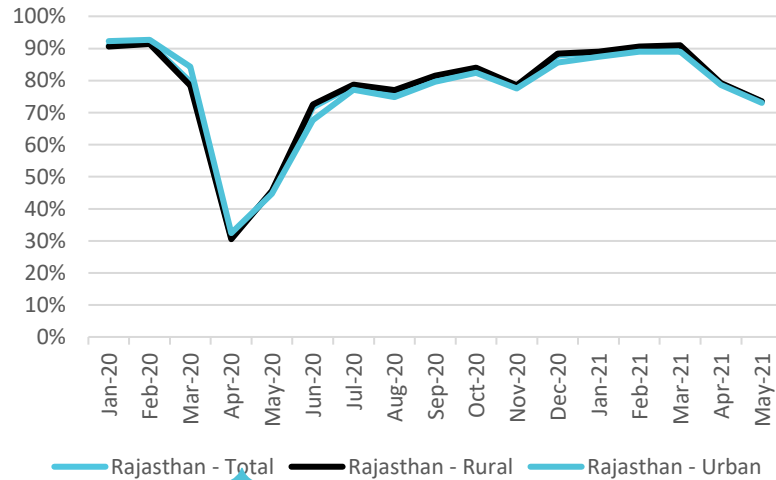
VEHICLE FINANCE - GUJARAT



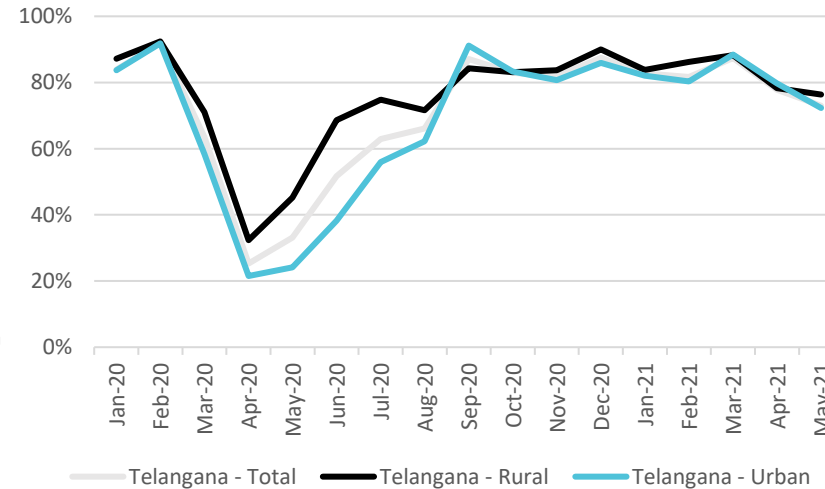
VEHICLE FINANCE - MAHARASHTRA



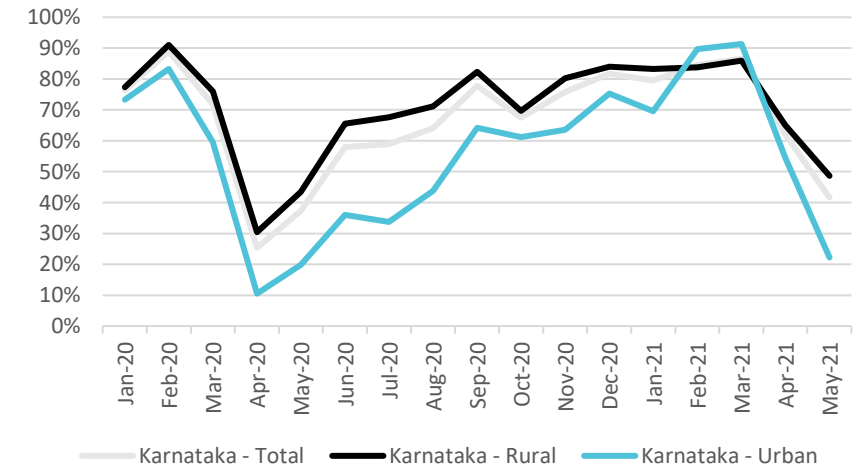
VEHICLE FINANCE - RAJASTHAN



VEHICLE FINANCE - TELANGANA



VEHICLE FINANCE - KARNATAKA





Thank you.

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IFMR Capital