ANALYSTS ASDVISE investors to be choosy in bottom-fishing cos whose prices have decline up to 72%

Fallen NBFCs Good Bets for Long Term

Ranjit Shinde @timesgroup.com

ET Intelligence Group: After the recent sharp fall in stock prices, valuations of nonbanking finance companies (NBFCs) look attractive once again. But investors need to be selective.

NBFCs with strong parentage, prudent practices and efficient return ratios can be considered for long term investments. However, housing finance companies may take some more time to stabilise and therefore analysts advise investors to avoid them until clarity on their asset quality and liquidity emerges.

The stocks of Bajaj Finance, Bajaj Finserv, Cholamandalam Investment and Finance Company, M&M Financial Services, and Shriram Transport Finance have fallen by 23-27% from their respective three-month peak prices. Housing finance companies (HFCs) including Can Fin Homes, Dewan Housing Finance, Indiabulls Housing Finance, and PNB Housing Finance reported an even sharper drop of 35-72%.

Falling liquidity or availability of funds and doubts over the quality of loan assets has intensified the current turmoil in the NBFC sector.

"FIIs (foreign institutional investors) have been in the selling mode for the past few months whereas domestic banks and mutual funds have turned cautious while lending to NBFCs. This has reduced liquidity thereby making it difficult for NBFCs to rollover their short term borrowings," said Deepak Jasani, head of retail research, HDFC Securities. According to him FIIs have been net sellers in seven out of ten months in the bond market and sellers in six out of 10 months in equity in 2018.

The situation may not improve anytime soon according to some industry trackers.

"Low liquidity has increased the default risk Also, sub-par underwriting by some of the NBFCs in the past will likely increase credit risk. The turbulence will continue for at least six months," said Dhananjay Sinha, head of research, economist and strategist, Emkay Global Financial Services.

The sharp fall in prices has resulted in cheaper valuations for majority of the NBFCs. But, experts caution against getting caught in a valuation trap.

Continued on ▶▶ SMART INVESTING

On a Decline

	Current m-cap (₹ cr)	FY18 P/B	Current P/B	CMP (₹)	YTD % chg
HDFC	2,98,904	5.7	4.9	1,740.4	1.8
Bajaj Finance	1,33,652	6.8	7.7	2,312.6	31.6
Indiabulls Hsg. Fin.	31,690.7	4.2	2.4	742.7	-37.8
M&M Fin. Serv.	24,794	3.2	2.5	401.4	-15.0
Shriram Trans. Fin.	23,847.4	2.9	1.9	1,051.0	-29.0
LIC Hsg. Fin.	20,804.7	2.4	1.6	412.3	-26.8
Cholamandalam Invst.	18,499.5	4.9	3.6	1,183.2	-8.6
Sundaram Finance	15,610.1	3.9	3.9	1,393.9	-25.0
PNB Hsg. Fin.	12,259.3	3.7	1.9	732.1	-45.4
Dewan Hsg. Fin.	5,966.9	2.1	0.7	190.2	-67.4

Current market price (CMP), price-book (P/B) multiple, and market cap as on October 24, 2018; YTD= Year-to-date change