

CHOLAMANDALAM INVESTMENT AND FINANCE

BANKS & FINANCIAL SERVICES

22 FEB 2018

Quarterly Update

BUY

Target Price: Rs 1,550

Strong show on all fronts

CIFC posted a stellar Q3 with 53% YoY growth in PAT to Rs 2.5 bn (higher than our and consensus estimates). Strong earnings growth was backed by uptick in disbursements (up 55%/23% YoY/QoQ) and improvement in asset quality with ~80 bps QoQ decline in GNPA ratio to 3.7%. AUM growth at 20% YoY was highest in past 15 quarters.

NIM at 9.6% in Q3 will stay resilient going forward as increase in borrowing costs can be offset by changing the product mix in favor of higher yielding assets. Cost to income ratio declined by ~100 bps QoQ to 40.8% despite adding ~130/1,000 branches/employees in Q3. Management believes the same will structurally trend down in the longer run with improving operating leverage. **Maintain BUY.**

CMP : Rs 1,284
Potential Upside : 21%

MARKET DATA

No. of Shares : 156 mn
Free Float : 47%
Market Cap : Rs 201 bn
52-week High / Low : Rs 1,371 / Rs 913
Avg. Daily vol. (6mth) : 270,741 shares
Bloomberg Code : CIFC IB Equity
Promoters Holding : 53%
FII / DII : 24% / 13%

Q3FY18 highlights: (a) Incremental disbursements growth (23% QoQ) was primarily driven by 31% QoQ growth in vehicle finance (VF) segment, while home equity (HE) disbursements declined 4% QoQ. Management alluded that there is intense competition from HFCs/banks/new entrants in the home equity segment and it continues to witness stress in NCR/Punjab/Haryana market; (b) GNPA ratio in the HE segment remained stable at 6% but the same in the VF portfolio declined 100 bps to 2.78%. Asset quality in the HE segment is expected to improve going forward as CIFC has many cases under resolution through court/arbitration proceedings; (c) Tier-I ratio is comfortable at 13.8% and CIFC has no immediate plans to raise capital as growth over next 1-1.5 years can be fueled through internal accruals.

Maintain BUY with rolled forward TP of Rs 1,550 (valued at 3.6x FY20 ABV): We continue to like CIFC for its well-diversified vehicle finance (VF) book, voluntary slow-down in home equity (HE) portfolio, investments in tech (that will drive operating leverage) and newer products like trip finance and home loans (which yield results post a couple of years). At CMP, CIFC trades at 3.6x/ 3x FY19E/ FY20E ABV of Rs 356/ Rs 425.

Financial summary (Standalone)

Y/E March	FY17	FY18E	FY19E	FY20E
PAT (Rs mn)	7,187	9,887	11,278	13,189
EPS (Rs)	46	63	72	84
EPS chg (%)	26.3	37.6	14.1	16.9
Book value (Rs)	276	333	396	469
Adj. BV (Rs)	232	295	356	425
PE (x)	27.9	20.3	17.8	15.2
P/ABV (x)	5.5	4.4	3.6	3.0
RoE (%)	18.0	20.8	19.8	19.5
RoA (%)	2.5	2.9	2.8	2.8
Net NPA (%)	3.6	2.7	2.3	2.2

Source: Company, Axis Capital, CMP as on 31 Jan 2018

Note: GNPA's/NNPA's/other ratios are on calculated basis and may differ from reported numbers

Key drivers (%)

	Q4'17	Q1'18	Q2'18	Q3'18
Disbursement growth (YoY)	5	6	24	55
AUM growth (YoY)	15	14	14	20
GNPA ratio (AUM)	4.7	4.7	4.5	3.7

Price performance

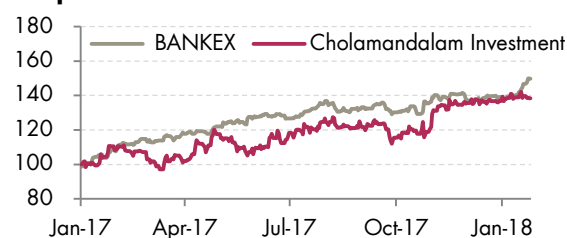
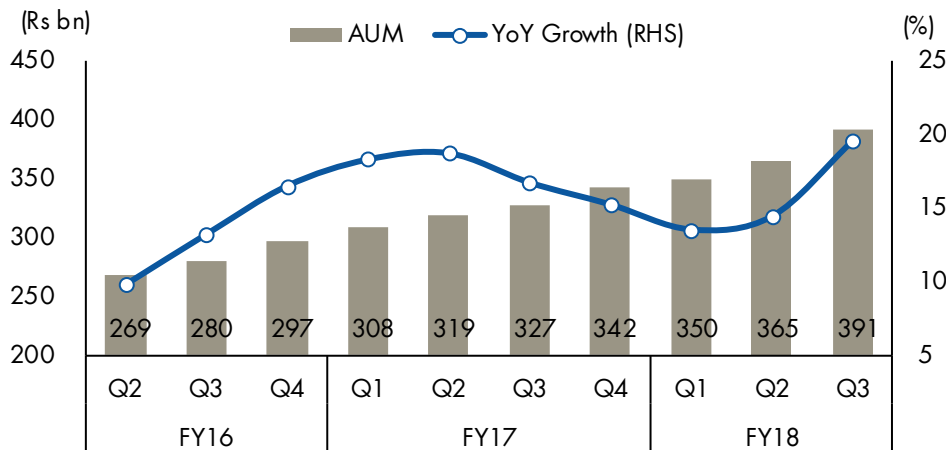
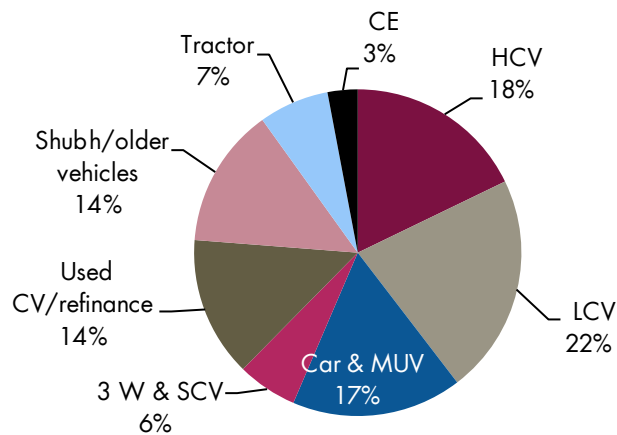


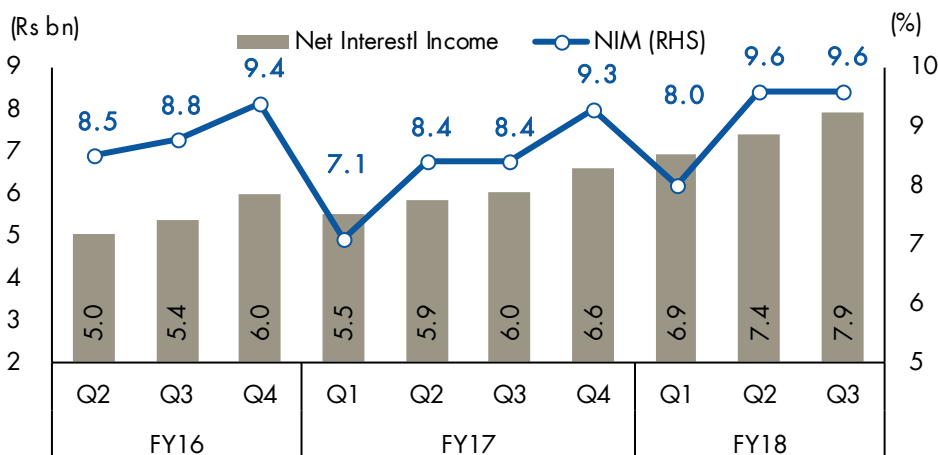
Exhibit 1: Growth in AUM led by vehicle portfolio


Source: Company, Axis Capital

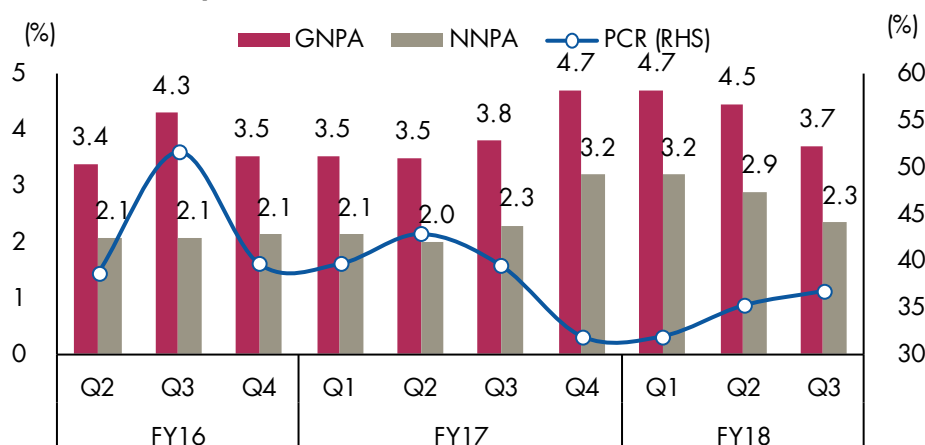
With robust capitalization (tier I capital at 13.8%) and transition to lower dpd NPL recognition behind, CIFC is well poised to benefit from an uptick in CV cycle

Exhibit 2: Product mix of VF portfolio


Source: Company, Axis Capital

Exhibit 3: NIM remained stable QoQ at 9.6%


Source: Company, Axis Capital

Exhibit 4: GNPA's improved QoQ


Headline asset quality improved primarily due to improvement in GNPA's of the vehicle finance portfolio

Source: Company, Axis Capital

Exhibit 5: Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	Mar-18E	Mar-17	% Chg
Interest Earned	13,833	11,698	18	12,959	7	54,893	46,341	18
Interest Expended	5,903	5,658	4	5,568	6	23,349	22,308	5
Net Interest Income	7,930	6,040	31	7,392	7	31,545	24,033	31
Other Income	1	60	(99)	1	33	282	262	7
Total Income	13,833	11,758	18	12,960	7	55,175	46,603	18
Total Net Income	7,931	6,100	30	7,392	7	31,827	24,295	31
Staff Expenses	1,281	1,000	28	1,297	(1)	5,194	4,026	29
Other operating expenses	1,956	1,589	23	1,792	9	7,799	6,107	28
Operating Profit	4,694	3,512	34	4,304	9	18,833	14,162	33
Provision & Contingencies	902	1,003	(10)	832	8	3,622	3,106	17
Provision for tax	1,300	884	47	1,199	8	5,324	3,868	38
Reported Profit	2,492	1,625	53	2,273	10	9,887	7,187	38
NIM (%)								
Net interest margin (on Assets)	9.6	8.4	120 bps	9.6	0 bps	10.0	8.7	128 bps
Asset quality (%)*								
Gross NPA	3.7	3.8	(10) bps	4.5	(76) bps	4.07	5.16	(108) bps
Business growth								
Disbursements	67,610	43,734	54.6	54,920	23	239,691	185,910	29
Vehicle Finance	56,069	34,908	61	42,945	31	188,123	144,710	30
Home Equity	7,986	6,190	29	8,298	(4)	36,672	30,560	20

Source: Company, Axis Capital

Note: GNPA's/NNPA's/other ratios are on calculated basis and may differ from reported numbers

Financial summary (Standalone)

Profit & loss (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Interest earned	46	55	65	77
Interest expended	(22)	(23)	(29)	(34)
Net interest income	24	32	36	42
Non interest income	-	-	-	-
Net income	24	32	37	43
Operating expenses	(10)	(13)	(15)	(17)
Staff expenses	(4)	(5)	(6)	(7)
Other operating expenses	(6)	(8)	(9)	(10)
Operating profit	14	19	21	26
Provisions & contingencies	(3)	(4)	(4)	(5)
Pre-tax profit	11	15	17	20
Tax expense	(4)	(5)	(6)	(7)
Profit after tax	7	10	11	13
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	7	10	11	13

Balance sheet (Rs bn)

Y/E March	FY17	FY18E	FY19E	FY20E
Total assets	307	364	432	507
Cash & Balances with RBI	5	11	11	11
Investments	2	3	3	3
Advances	284	333	400	473
Fixed assets	1	2	2	2
Other assets	11	12	13	14
Total liabilities	307	364	432	507
Equity capital	2	2	2	2
Preference capital	-	-	-	-
Reserves & surplus	42	50	60	72
Networth	43	52	62	73
Borrowings	242	289	345	408
Deposits	-	-	-	-
Other liabilities & prov.	22	23	25	26

Source: Company, Axis Capital

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
Per share data				
FDEPS (Rs)	46	63	72	84
BV (Rs)	276	333	396	469
Adj. BV (Rs)	232	295	356	425
DPS (Rs)	3	6	9	12
Dividend payout (%)	8	10	12	14
Yields & Margins (%)				
Yield on advances	17.1	17.8	17.7	17.6
Cost of deposit	-	-	-	-
Net interest margin	8.7	10.0	9.6	9.5
Asset quality (%)				
Gross NPAs	5.2	4.1	3.8	3.6
Net NPAs	3.6	2.7	2.3	2.2
Credit cost	1.1	1.1	1.1	1.2
Provisioning coverage	33.1	36.8	40.0	42.0
Capital (%)				
Tier-I	13.6	13.5	12.4	12.5
CAR	18.6	17.9	16.1	15.9
Efficiency (%)				
ROA	2.5	2.9	2.8	2.8
ROE	18.0	20.8	19.8	19.5
Cost to income	42	41	41	40
CASA	-	-	-	-
Effective tax rate	35	35	35	35
Growth (%)				
Net interest income	13	31	15	17
Fee income	-	-	-	-
Operating expenses	20	28	16	14
Profit after tax	26	38	14	17
Advances	10	17	20	18
Deposits	-	-	-	-
Total assets	10	19	19	17

Source: Company, Axis Capital

Note: NPAs in above table are calculated as a percentage of on-book loans

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, authors (Research team) and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associates do not have any material conflict of interest. I/we have not served as director, officer or employee in the subject company.

Research Team

Sr. No	Name	Designation	E-mail
1	Suvarna Joshi	Research Analyst	suvarna.joshi@axissecurities.in
2	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in

5. ASL or its associates has not received any compensation from the subject company in the past twelve months. ASL or its Research Analysts has not been engaged in market making activity for the subject company.

6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

- i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
- ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
- iii. Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 18002100808, Reg. off.- Axis House, 8th Floor, Wadia International Centre, Pandurang Budhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Anand Shaha, E-Mail ID: compliance.officer@axisdirect.in, Tel No: 022-42671582.