

Cholamandalam Investment & Finance

BUY

INDUSTRY	NBFCs		
CMP (as on 23 Apr 2018)	Rs 1,663		
Target Price	Rs 1,767		
Nifty	10,585		
Sensex	34,451		
KEY STOCK DATA			
Bloomberg	CIFIC IN		
No. of Shares (mn)	156		
MCap (Rsbn) / (\$ mn)	261/ 3,924		
6m avg traded value (Rsmn)	398		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,715/985		
	3M	6M	12M
Absolute (%)	27.1	46.0	58.1
Relative (%)	31.8	40.0	40.8
SHAREHOLDING PATTERN (%)			
Promoters	53.06		
FIs & Local MFs	16.53		
FPIs	20.25		
Public & Others	10.16		
<i>Source : BSE</i>			

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Solid core, now shining

CIFIC ended FY18 on a high, with a strong beat in 4Q. The 18% sequential acceleration in disbursements (especially in the Vehicle Finance slice), coupled with the steady NIM uptick (8.70%, +30bps QoQ) led to a core earnings beat of ~6%. Though costs were at a multi-qtr high, justification was visible in the stark reduction in GNPA to 2.94% (higher incentives paid for collection) and the rapid expansion in reach (170 in the past 12 months). PCR is now at 43.5% (+680bps QoQ) despite lower provisions (-19% QoQ), indicative of a vastly improved healing trajectory.

With the CV cycle on the cusp of growth, CIFIC is geared up to capitalise on the opportunity given its well capitalized B/S, strong accruals, wide presence and motivated workforce. RoAAs are set to expand 15bps over FY18-20E as oplev benefits flow in. With best-in-class return ratios, premium valuations are justified. Maintain BUY with a TP of Rs 1,767 (4x Mar-20 ABV of Rs 442)

FINANCIAL SUMMARY

(Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY16	FY17	FY18P	FY19E	FY20E
Net Interest Income	8,917	6,594	35.2	7,931	12.4	17,372	19,720	26,063	31,555	37,218
PPOP	5,127	3,905	31.3	4,695	9.2	12,980	14,162	18,283	22,450	26,740
PAT	2,913	2,196	32.7	2,493	16.9	5,685	7,187	9,740	12,399	15,235
EPS (Rs)	18.6	14	32.6	15.9	16.8	36.4	46.0	62.3	79.3	97.4
ROAE (%) (ex revaluations)						18.0	18.0	20.6	21.8	22.1
ROAA (%)						2.20	2.45	2.77	2.85	2.92
Adj. BVPS (Rs)						194.3	206.1	283.8	353.0	441.7
P/ABV (x)						8.56	8.07	5.86	4.71	3.77
P/E (x)						45.7	36.2	26.7	21.0	17.1

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- After a stellar 3Q, CIFIC delivered dazzling growth as disbursements jumped ~54/18% YoY/QoQ to ~Rs 80bn. This was led by broad based growth across the VF slice with HCVs (+74%), Cars & 3W (+61%) and LCVs (+55%) leading the pack. Though HE disbursements were flat sequentially, the mgt's improving outlook is encouraging. Given the strong show in FY18, we have factored in growth of 20% over FY18-20E - which provide upside risk.
- Improvement in asset quality trends sustained as GNPA continued to tread downwards (2.94%, down 172/76bps YoY/QoQ). This was owing to a steady reduction in VF GNPA (2.04% vs 4.18% YoY) and some progress in the HE segment. With sequential (+680bps) jump in calc PCR, NNPA dipped 68bps QoQ to 1.66%. Though we have conservatively factored in LLPs of 65bps over FY18-20E, faster than expected healing in the HE provides an upside risk.
- Near-term outlook:** After the spurt post results, we expect the stock to remain range-bound.

- Overall AUMs jumped ~26/10% YoY/QoQ to ~Rs 429bn primarily driven by ~33/12% YoY/QoQ growth in VF AUM. Consequently, share of the VF slice expanded ~430bps YoY to form ~73.4% of the total AUM. Growth in the HE AUM remained subdued at 4/2% YoY/QoQ while other segments (HL, MSME etc.) grew ~46/10% YoY/QoQ (albeit on a smaller base).
- Overall repayments dipped to ~10.8% of the opening AUM (vs. 11.4% in 3Q). Despite lower repayments in the HE segment (6.2% vs 6.6% QoQ and 8.1% YoY) AUM growth was restricted to ~4/2% YoY/QoQ as disbursements growth remained flat sequentially. After being cautious for over 2 years, the mgt expects uptick in disbursals in HE business with expansion in distribution network (increasing offering to 200 branches vs 150) and gradual healing in asset quality.
- We have factored AUM CAGR of 21% over FY18-20E.
- Cost escalation (+37/17% YoY/QoQ) stood at a multi quarter high driven by higher staff costs (~28/21% YoY/QoQ) mainly towards the collections and rapid branch expansion (added 170 branches in the past 12 months). Business origination expenses more than doubled (+103% YoY) as disbursals gather pace. Hence the C-I ratio deteriorated ~170bps sequentially to 42.5% while cost/AAUM stood at 3.70% (vs. 3.43% QoQ).
- With branch expansion nearly complete we expect opex growth to be lower vs. AUM growth. With this we expect costs will stabilize over FY18-20E as oplev benefits start to flow in. Hence, we have factored in a C-I improvement of 130bps over FY18-20E.
- Overall borrowings jumped ~32/13% YoY/QoQ to ~Rs 319bn. However, CIFC cleverly beefed up bank borrowings (+71/68% YoY/QoQ) given the erratic movements in interest rates. Hence, the share jumped to ~41.2% (vs 27.8% in 3Q) of total borrowings. The share of NCDs dipped 650bps sequentially to ~36.4%. CIFCs appropriate toggling between sources of funds in reflective of intelligent ALM management. It also augurs well for a reduction in funding costs and a better NIM trajectory.
- NIM expansion continued as calc NIMs inched up for the 8th consecutive quarter to 8.70% (vs 8.40% QoQ to 7.89% YoY). The uptick was aided by (1) improvement in yields (+33/11bps YoY/QoQ) coupled with a drop in CoF (down 68/32bps YoY/QoQ), (2) rising share of the high yielding and fixed rate VF book (73.4% vs 69.2% YoY) and (3) better asset quality.
- We believe NIMs will peak out at these levels given the recent rise in interest rates and improving outlook on the HE (lower yielding) segment. We have factored in NIMs of 6.56% over FY18-20E
- Our NIM estimates face upside risks from (1) a continued uptick in the proportion of high yielding VF loans and (2) intelligent ALM management through borrowing diversification (masala bonds and timely securitization)

Five Quarters At A Glance

(Rs mn)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY Growth	QoQ Growth
Net Interest Income	6,594	6,938	7,392	7,931	8,917	35.2%	12.4%
Non-interest Income	65	1	1	1	2	-96.5%	187.5%
Total Income	6,659	6,939	7,392	7,932	8,920	34.0%	12.5%
Operating expenses	2,754	2,777	3,089	3,237	3,793	37.7%	17.2%
Pre Provision Profits	3,905	4,162	4,304	4,695	5,127	31.3%	9.2%
Provisions	529	981	832	902	737	39.4%	-18.3%
PBT	3,376	3,181	3,472	3,793	4,390	30.0%	15.8%
Tax	1,181	1,116	1,199	1,300	1,477	25.1%	13.6%
PAT	2,196	2,066	2,273	2,493	2,913	32.7%	16.9%
Other details							
Disbursements (Rs bn)	52.1	48.5	54.9	67.6	80.1	53.6%	18.4%
VF	44.1	38.2	43.0	56.1	68.2	54.8%	21.6%
HE	5.4	7.4	8.3	8.0	8.1	48.0%	0.9%
AUM (Rs bn)	341.7	350.0	364.9	390.7	428.8	25.5%	9.7%
VF	236.3	243.9	257.0	280.2	315.1	33.3%	12.4%
HE	95.9	95.8	96.3	98.0	100.0	4.2%	2.0%
On Books	279.0	283.7	307.9	326.9	366.5	31.3%	12.1%
Off Books	62.6	66.3	57.0	63.9	62.3	-0.5%	-2.4%
Borrowings (Rs bn)	242.1	246.6	268.9	283.0	319.0	31.8%	12.7%
Bank Borrowings	77.1	79.9	80.5	78.8	131.4	70.5%	66.7%
CRAR (%)	18.6	19.4	19.3	18.5	18.4	-24 bps	-10 bps
Tier I (%)	13.6	14.3	14.0	13.8	13.3	-31 bps	-50 bps
Profitability							
Yield On Advances (%) (calc.)	14.44	14.28	14.50	14.65	14.76	31 bps	11 bps
Cost Of Funds (%) (calc.)	8.92	8.86	8.64	8.56	8.24	-68 bps	-32 bps
Spreads	5.52	5.43	5.86	6.09	6.52	100 bps	43 bps
NIM (calc.) (%)	7.89	8.03	8.27	8.40	8.70	81 bps	31 bps
Cost-Income Ratio (%)	41.4	40.0	41.8	40.8	42.5	116 bps	171 bps
Tax rate (%)	35.0	35.1	34.5	34.3	33.6	-132 bps	-63 bps
Asset Quality							
Gross NPA (Rs mn)	15,922	16,830	16,520	14,457	12,606	-20.8%	-12.8%
Net NPA (Rs mn)	10,899	11,260	10,700	9,143	7,118	-34.7%	-22.2%
Gross NPAs (%)	4.66	4.73	4.46	3.70	2.94	-172 bps	-76 bps
Net NPAs (%)	3.19	3.17	2.89	2.34	1.66	-153 bps	-68 bps
Coverage Ratio (%)	31.55	32.98	35.20	36.76	43.5	1199 bps	678 bps
GNPA VF (%)	4.18	4.17	3.78	2.78	2.04	-214 bps	-74 bps
GNPA HE (%)	5.70	6.03	5.98	5.98	5.36	-34 bps	-62 bps

Ahead of estimates (~6%), driven by robust AUM growth (~25/10% YoY/QoQ) and an uptick in calc NIMs (+30bps).

Largely due to branch expansion (170 in 12 months) and higher employee costs (28/21% YoY/QoQ) due to higher incentives to collection executives

Lower provisioning (-19% QoQ) and strong core earnings growth to a ~9% beat

Driven by robust VF disbursement growth (+55/22% YoY/QoQ), even as HE disbursals were flat QoQ

The borrowing mix significantly changes as the share of bank borrowings jumped 1330bps QoQ to 41.2%. Consequently, the share of NCD's dropped 36.4%

NIMs treaded upwards for the 8th consecutive quarter owing to the jump in yields and a drop in funding costs

We expect NIMs to peak out at these levels

There was an improvement all around as VF and HE GNPA's dipped 74bps and 62bps sequentially to 2.04% and 5.36% respectively.

Source: HDFC sec Inst Research

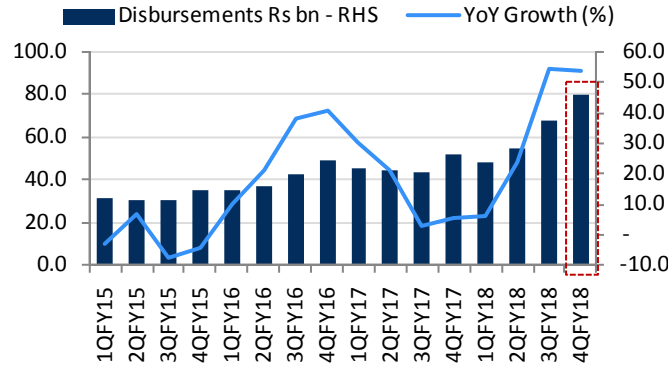
Disbursements grew ~54/18% YoY/QoQ led by a ~55/22% YoY/QoQ rise in VF disbursements, HE disbursements was flat sequentially

Other segments' (HL, MSME and Agri.) disbursements grew 46/7% YoY/QoQ

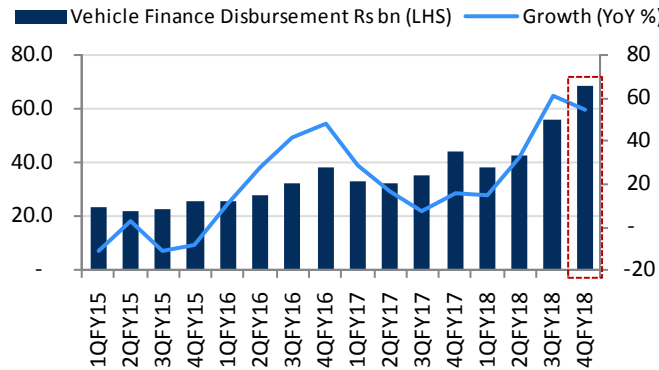
Growth was spread across the VF portfolio, driven by used HCVs (+74% YoY), Car & 3W (+61%) and LCVs (+55% YoY)

AUM growth of ~26/10% YoY/QoQ was led by a ~33/12% rise in the VF business. HE AUM grew ~4/2% YoY/QoQ.

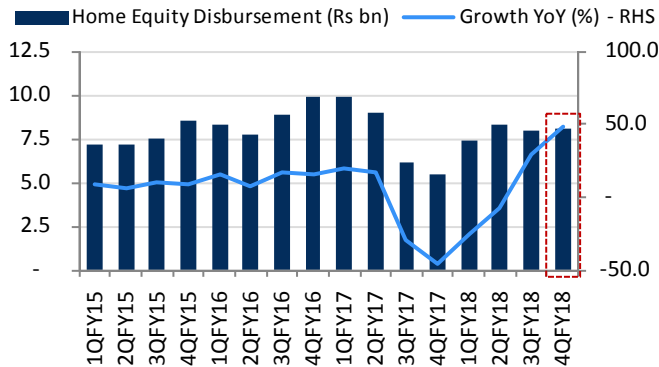
Disbursements: Jumped ~54/18% YoY/QoQ



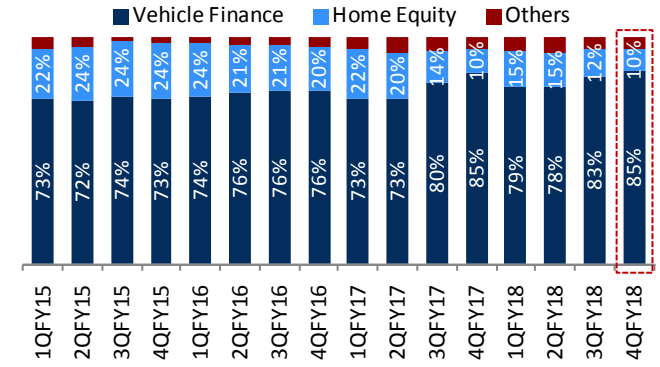
VF Disbursements: Up ~55/22% YoY/QoQ



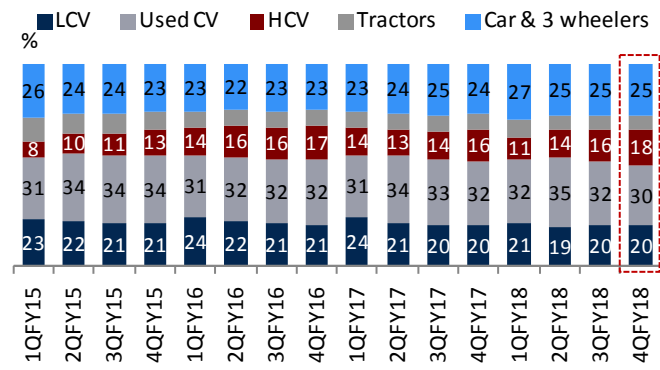
HE Disbursements: Flat Sequentially



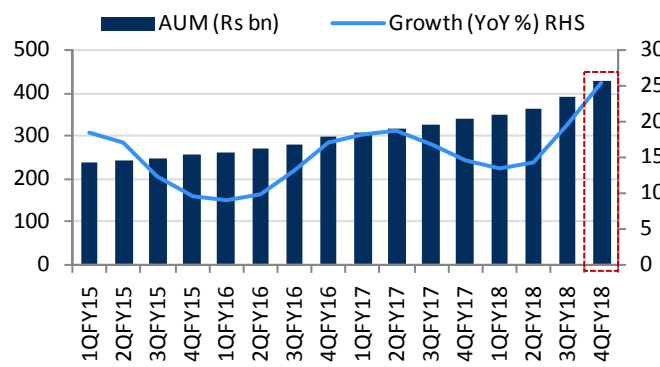
Disbursements Business-wise: HE Dips QoQ



Segment-wise Disbursements: HCV Share Rises



AUM Growth: Rise Driven By VF Segment



Source : Company, HDFC sec Inst Research

The AUM is skewed towards the VF segment and stands at ~73.5% (vs. 69.2% YoY) of AUM

The share of HE segment continues to dip (at ~23.3% vs 25.1% QoQ and 28.1% YoY)

Within the VF AUM, the share of HCV jumped ~200bps sequentially

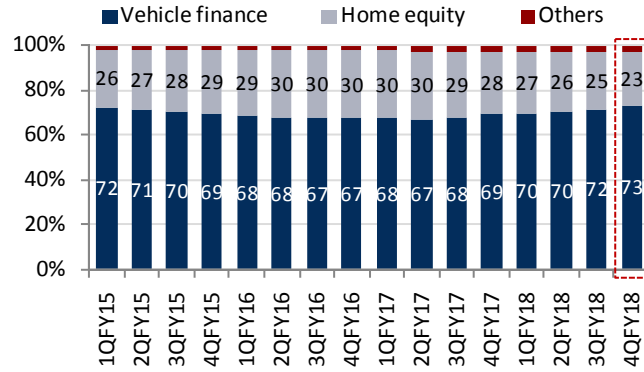
The Vehicle Finance portfolio remains well-diversified across products and geographies

HE AUM grew merely ~4/2% YoY/QoQ

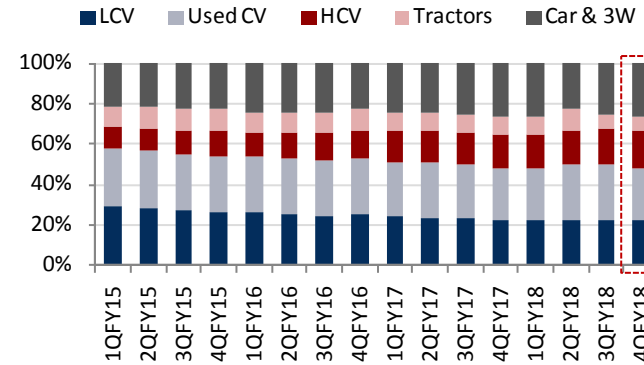
Bank's share in the funding mix improved to ~41.2% which resulted in reduction in CoF.

The share of debentures and CPs dipped to 36.4% and 7.2% (vs .42.9 and 12.7 % QoQ)

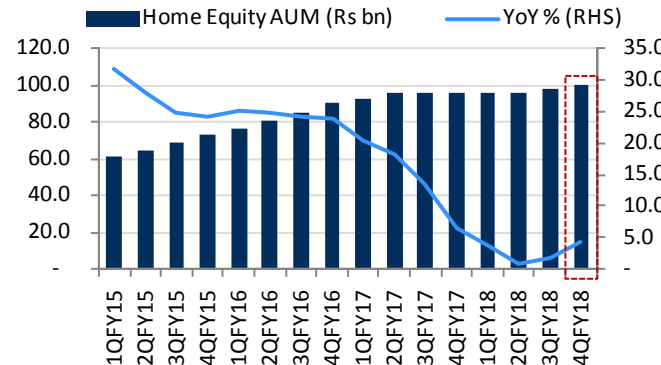
AUM Break-up: VF Share Jumps 180bps QoQ



Segment-wise VF AUM

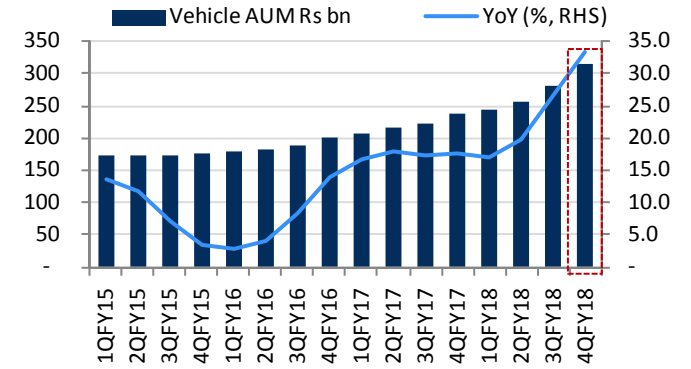


Home Equity AUM: Up ~4/2% YoY/QoQ

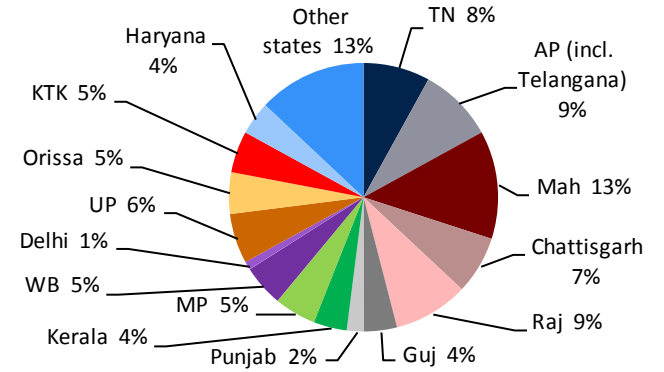


Source : Company, HDFC sec Inst Research

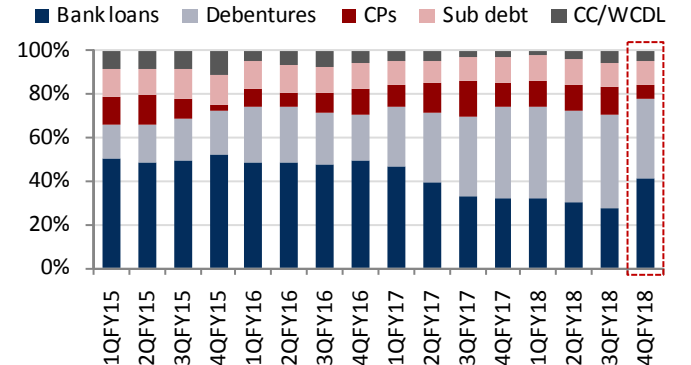
VF AUM: Strong Growth of ~33/12% YoY/QoQ



State-wise VF AUM: Geographically Well-diversified



Borrowings: Banks' Share Jumps To 41.2% vs. 27.8%



NIM improvement was led by a jump in yields and a fall in CoF

Reported margins jumped 10bps for the VF segment; HE margins were flat QoQ

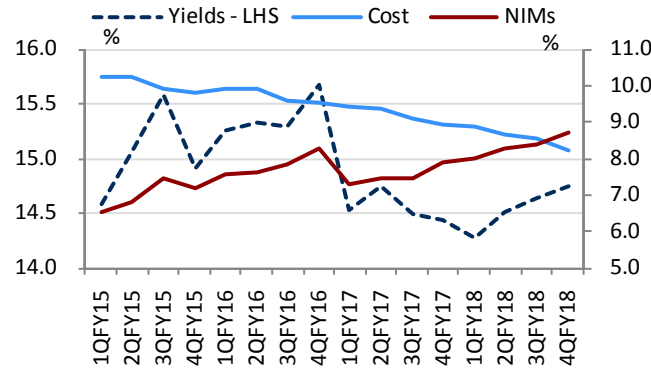
With a drop in CoF, sustained yields and a higher proportion of fixed rate loans, calc NIMs jumped ~81/31bpsYoY/QoQ

C-I ratio deteriorated ~170bps QoQ to ~42.5%, while C-AA also worsened ~30bps QoQ to ~3.70%.

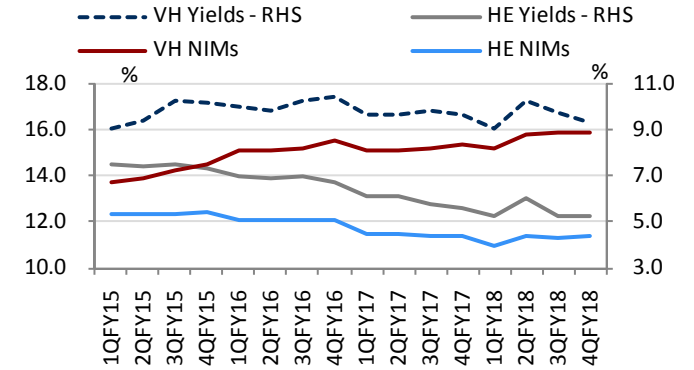
Overall asset quality improved QoQ, with GNPA at 2.9% and NNPA at 1.7%. VF GNPA also dropped 74bps QoQ to 2.04%, while the LAP NPAs dipped 62bps to 5.4%

With a jump in provisions, PCR rose ~680bps QoQ to ~43.5%

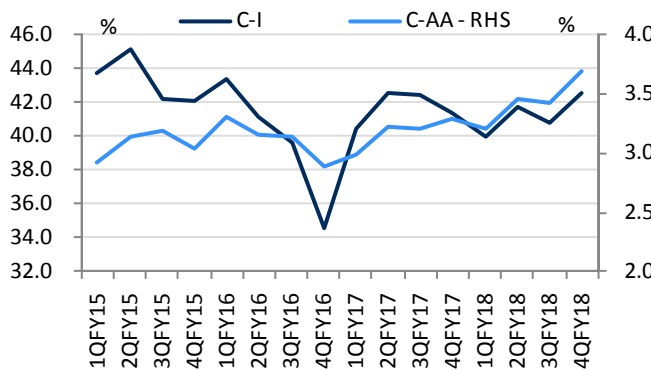
NIM: Up 81/31bps YoY/QoQ



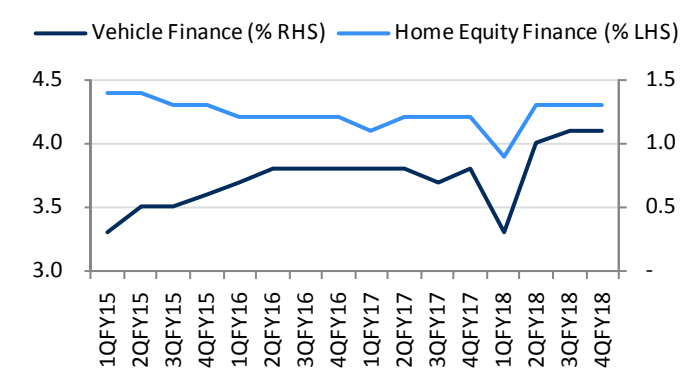
VF NIM flat QoQ, HE NIM Jumps 10bps QoQ



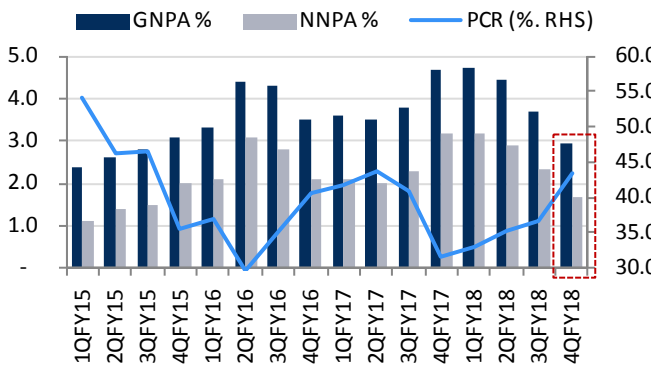
Efficiency Ratio: Sequential Deterioration



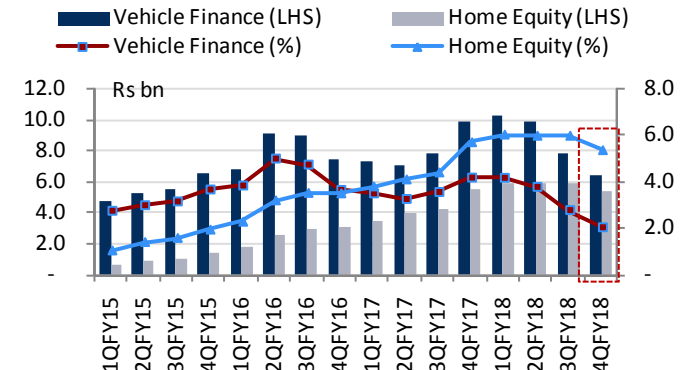
Expenses Ratio: HE And VF Stable QoQ



Asset Quality: Improves Sequentially



Segmental Asset Quality: VF And HE GNPA's Dip QoQ



Source : Company, HDFC sec Inst Research

Provisions were down ~18% sequentially (albeit up 39% YoY) to ~Rs 737mn

We have lowered our LLP assumption to 65bps vs. 70bps earlier over FY18-20E

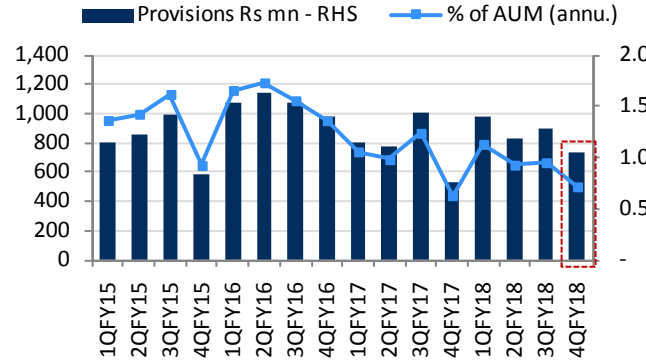
VF provisions dipped 10bps QoQ to 1% while HE provisions were stable sequentially at 60bps

About 40% of the HE GNPA's are under SARFAESI at various stages.

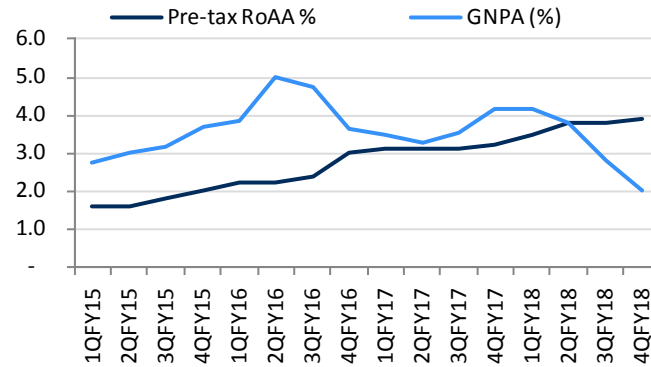
The management expects the NPA numbers to further reduce as cases get resolved

ROAA improved ~10bps owing to strong core earnings and opelev

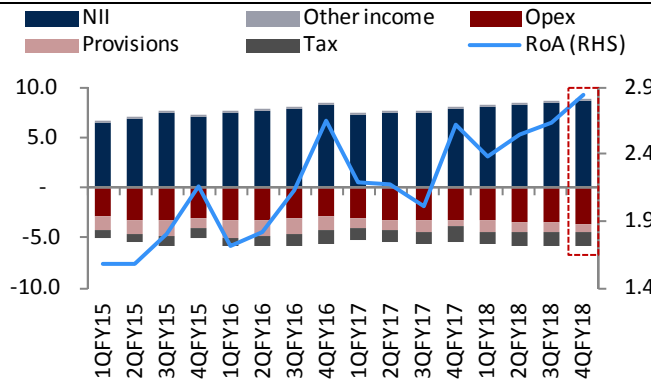
Provisions Down ~18% QoQ, Albeit Up ~39% YoY



VF: Pre-Tax RoAA Sustains At Peak

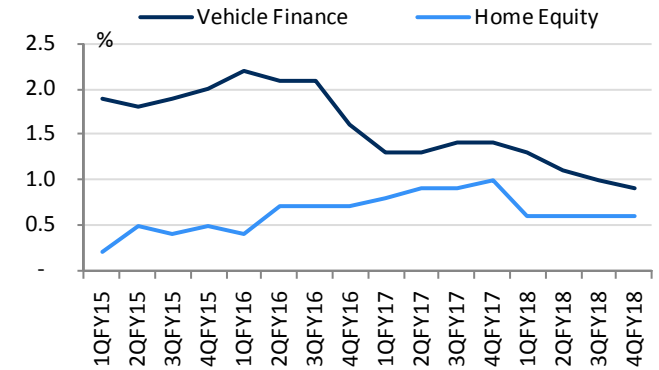


RoAA Rise Led By NII Growth

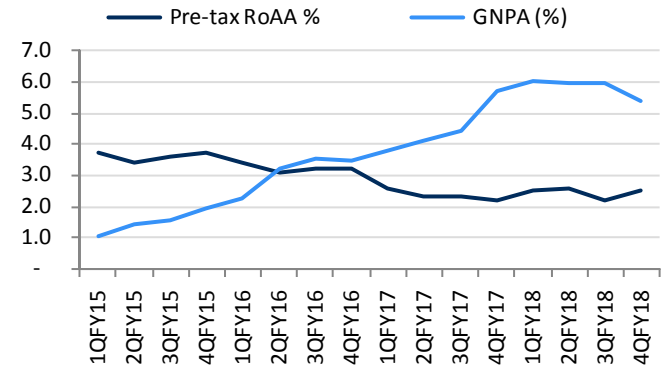


Source : Company, HDFC sec Inst Research

Segmental Provisions: VF Provisions Dip QoQ



HE: GNPA Dips QoQ; Pre-tax RoAA Improves 30bps



Peer Valuations

NBFC	MCAp (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
SHTF	361	1,589	BUY	1,738	442	532	632	21.9	17.0	13.6	3.60	2.99	2.51	13.8	15.8	17.3	2.06	2.29	2.42
MMFS #	314	512	BUY	548	116	132	151	37.9	28.6	23.3	4.26	3.75	3.26	10.2	11.1	12.5	1.61	1.84	1.94
LICHF	278	550	BUY	635	237	280	323	14.1	12.0	10.2	2.32	1.97	1.71	16.6	17.1	17.4	1.21	1.24	1.25
CIFIC	261	1,663	BUY	1,767	284	353	442	26.7	21.0	17.1	5.86	4.71	3.77	20.6	21.8	22.1	2.77	2.85	2.92
DHFL	182	581	BUY	700	260	286	319	16.8	13.7	10.7	2.23	2.03	1.82	13.0	14.6	16.9	1.30	1.28	1.40
SCUF	152	2,310	BUY	2,536	738	863	1,014	22.1	17.0	13.6	3.13	2.68	2.28	13.0	15.0	16.4	2.63	2.96	3.19
REPCO	38	613	BUY	750	199	243	278	19.1	16.4	13.6	3.07	2.52	2.21	16.4	16.4	16.9	2.11	2.14	2.18

Source: Company, HDFC sec Inst Research;

Income Statement

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
Interest Earned	37,880	42,028	49,141	61,055	73,330
Interest Expended	20,508	22,308	23,079	29,500	36,112
Net Interest Income	17,372	19,720	26,063	31,555	37,218
Other Income	4,057	4,576	5,115	6,263	7,421
Total Income	21,429	24,295	31,178	37,818	44,639
Total Operating Exp	8,449	10,133	12,895	15,367	17,899
PPOP	12,980	14,162	18,283	22,450	26,740
Provisions & Contingencies	4,272	3,106	3,451	3,521	3,480
PBT	8,708	11,056	14,832	18,930	23,259
Provision for Tax	3,023	3,868	5,092	6,531	8,024
PAT	5,685	7,187	9,740	12,399	15,235

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18P	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	1,562	1,563	1,564	1,564	1,564
Reserves	35,012	41,563	49,938	60,669	73,764
Net worth	36,574	43,127	51,502	62,233	75,328
Borrowings	225,762	242,067	319,022	391,811	467,987
Other Liabilities	16,547	22,018	24,523	21,907	22,740
Total liabilities	278,883	307,211	395,047	475,951	566,055
APPLICATION OF FUNDS					
Advances	259,101	284,663	372,012	447,859	533,505
Investments	666	2,385	3,190	3,509	3,860
Fixed assets	1,113	1,401	1,608	1,849	2,127
Other Assets	18,003	18,762	18,237	22,733	26,563
Total assets	278,883	307,211	395,047	475,951	566,055

Source: Company, HDFC sec Inst Research

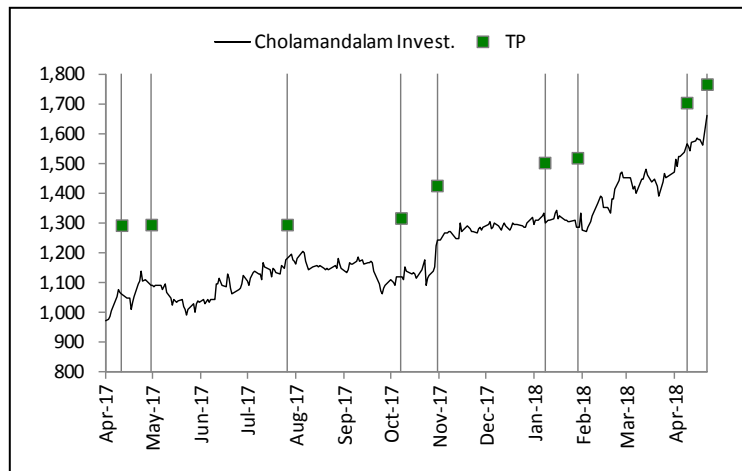
Key Ratios

	FY16	FY17	FY18E	FY19P	FY20E
Valuation Ratios					
EPS (Rs)	36.4	46.0	62.3	79.3	97.4
Earnings Growth (%)	30.7	26.4	35.5	27.3	22.9
BVPS (Rs)	234.1	275.8	329.3	397.9	481.6
Adj. BVPS (Rs)	194.3	206.1	283.8	353.0	441.7
DPS (Rs)	5.0	5.0	6.5	9.5	11.8
ROAA (%)	2.2	2.5	2.8	2.8	2.9
ROAE (%)	18.0	18.0	20.6	21.8	22.1
P/E (x)	45.7	36.2	26.7	21.0	17.1
P/ABV (x)	8.6	8.1	5.9	4.7	3.8
P/PPOP (x)	20.0	18.4	14.2	11.6	9.7
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.7
Profitability					
Yield On Advances (%)	13.75	13.17	12.76	12.82	12.78
Cost Of Funds (%)	9.75	9.54	8.23	8.30	8.40
Core Spread (%)	3.99	3.63	4.53	4.52	4.38
NIM (%)	6.30	6.18	6.77	6.62	6.49
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	3.1	3.2	3.3	3.2	3.1
Cost-Income Ratio	39.4	41.7	41.4	40.6	40.1
Balance Sheet Structure Ratios					
Loan Growth (%)	16.5	15.2	25.5	22.2	19.1
Borrowing Growth (%)	15.9	7.2	31.8	22.8	19.4
Equity/Assets (%)	13.1	14.0	13.0	13.1	13.3
Equity/Loans (%)	12.3	12.6	12.0	11.9	12.1
Total Capital Adequacy Ratio (CAR)	19.7	18.6	18.4	17.8	17.6
Tier I CAR	13.3	13.6	13.2	12.9	12.9

	FY16	FY17	FY18P	FY19E	FY20E
Asset Quality					
Gross NPLs (Rs mn)	10,378.4	15,921.8	12,606.5	14,928.6	16,847.5
Net NPLs (Rs mn)	6,227.1	10,899.0	7,117.9	7,030.8	6,248.7
Gross NPLs (%)	3.50	4.66	2.94	2.85	2.70
Net NPLs (%)	2.10	3.19	1.66	1.34	1.00
Coverage Ratio (%)	40.0	31.5	43.5	52.9	62.9
Provision/Avg. Loans (%)	1.44	0.91	0.80	0.67	0.56
RoAA Tree					
Net Interest Income	6.71%	6.73%	7.42%	7.25%	7.14%
Non-interest Income	1.57%	1.56%	1.46%	1.44%	1.42%
Operating Cost	3.26%	3.46%	3.67%	3.53%	3.44%
Provisions	1.65%	1.06%	0.98%	0.81%	0.67%
Tax	1.17%	1.32%	1.45%	1.50%	1.54%
ROAA	2.20%	2.45%	2.77%	2.85%	2.92%
Leverage (x)	7.58	7.35	7.42	7.66	7.57
ROAE	16.64%	18.04%	20.59%	21.80%	22.15%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
13-Apr-17	1,070	BUY	1,294
2-May-17	1,112	BUY	1,296
29-Jul-17	1,180	BUY	1,296
9-Oct-17	1,118	BUY	1,318
1-Nov-17	1,225	BUY	1,427
9-Jan-18	1,308	BUY	1,504
31-Jan-18	1,284	BUY	1,520
10-Apr-18	1,564	BUY	1,705
24-Apr-18	1,663	BUY	1,767

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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