

# Cholamandalam Investment & Finance

**BUY**

<b>INDUSTRY</b>	<b>NBFCs</b>
<b>CMP (as on 27 Jul 2018)</b>	<b>Rs 1,463</b>
<b>Target Price</b>	<b>Rs 1,764</b>
Nifty	11,278
Sensex	37,337

<b>KEY STOCK DATA</b>	
Bloomberg	CIFC IN
No. of Shares (mn)	156
MCap (Rsbn) / (\$ mn)	229/ 3,330
6m avg traded value (Rsmn)	500

<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 1,761/1,052</b>		
	3M	6M	12M
Absolute (%)	(15.7)	11.9	24.2
Relative (%)	(22.5)	8.4	8.9

<b>SHAREHOLDING PATTERN (%)</b>	
Promoters	53.06
FIs & Local MFs	16.07
FPIs	20.68
Public & Others	10.16

Source : BSE

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## On auto pilot, for some time..

CIFC's business momentum sustained through 1Q even though reporting changes (under IND AS) created some ambiguity. Disbursement growth (+45% YoY) continued to dazzle, with VF leading the way. Though a higher share of lower-yielding HCV business (18% of VF disbursements vs. 11% YoY) dented margins partially, the 47bps dip could largely be attributed to the IND AS shift. Management's attribution of lower costs to increasing opelev (~50bps improvement) was a key positive.

The exit of the MD & CEO is certainly a setback, but we feel the board (and promoter group) can depend on CIFC's top mgt to steer operations smoothly till a new CEO is appointed. While, the VF slice should sustain its growth, visible uptick in the HE business (AUM growth and asset quality healing) is perhaps the next trigger. We remain constructive despite rich valuations, as best-in-class return ratios will continue to inch up (14bps over FY18-20E). Maintain BUY with a TP of Rs 1,764 (4x Mar-20 ABV of Rs 441).

### FINANCIAL SUMMARY

(Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	7,952	6,636	19.8	8424.3	(5.6)	17,372	19,720	24,678	28,535	33,647
PPOP	5,370	4,322	24.3	4,647	15.6	12,980	14,162	18,284	22,505	26,633
PAT	3,003	2,011	49.3	2,948	1.9	5,685	7,187	9,741	12,422	15,146
EPS (Rs)	19.2	12.9	49.2	18.8	1.9	36.4	46.0	62.3	79.4	96.8
ROAE (%) (ex revaluations)						18.0	18.0	20.6	21.8	22.0
ROAA (%)						2.20	2.45	2.77	2.85	2.91
Adj. BVPS (Rs)						195.9	209.7	287.5	354.6	440.9
P/ABV (x)						7.48	6.99	5.10	4.13	3.32
P/E (x)						40.3	31.9	23.5	18.5	15.1

Source: Company, HDFC sec Inst Research

HDFC securities Institutional Research is also available on Bloomberg HSLB &lt;GO&gt; &amp; Thomson Reuters

### Highlights of the quarter

- Overall asset quality was largely stable as G/NNPAs expanded 5bps each to 2.99/1.71%. Despite some increase in the VF business (2.18%, up 14bps QoQ), healing in the HE segment was encouraging. The dip (5.15%, down 21bps QoQ) was driven by repossession and sale of properties through SARFAESI. The stock of properties (45 with an ATS of 150-200mn) provides visibility of further healing. Despite an improved show in the HE slice, we have conservatively factored in LLPs of 62bps over FY18-20E.
- Though the 32% QoQ drop in opex is misleading, mgt attributed a partial reduction to better efficiencies. However, a larger part is due to the reclassification of business origination expenses (netted against interest income under IND AS vs opex under I GAAP). We have adjusted our estimates for the same. This leads to ~10% cut in NII and a 19% fall in opex.
- Near-term outlook:** Despite the resignation of the MD&CEO, the stock should do well given the robust business performance.

- Overall AUMs jumped ~30/5% YoY/QoQ to ~Rs 451bn primarily driven by ~38/6% YoY/QoQ growth in VF AUM. Consequently, share of the VF slice expanded ~430bps YoY to form ~74% of total AUM. Growth in the HE AUM remained subdued at 7/3% YoY/QoQ while other segments (HL, MSME etc.) grew ~47/6% YoY/QoQ (albeit on a smaller base).
- Overall repayments inched up to ~11.2% of the opening AUM (vs. 10.8% in 4Q). With higher repayments in the HE segment (6.6% vs 6.2% QoQ and 8.1% YoY) AUM growth was restricted to ~7/3% YoY/QoQ even as disbursements grew 27/16% YoY/QoQ to Rs 9.4bn (8-qtr high). After being cautious for over 2 years, the mgt expects uptick in disbursements in HE business with expansion in distribution network (adding 15-18 branches/qtr from the current levels of 168) and gradual healing in asset quality.
- The mgt believes that various tailwinds (overloading ban and relaxed scrappage policy in the CV industry should keep growth intact. Revival in the HE segment will further boost growth prospects. Consequently, we have factored AUM CAGR of 21% over FY18-20E.
- Overall borrowings jumped ~32/8% YoY/QoQ to ~Rs 413bn (as per IND AS). This also includes borrowings against the securitised portfolio, which stood at ~Rs 58.8bn (down 11% YoY). The share of bank borrowings continued to rise and now stands at 36.1% (vs 25.5% YoY). The mgt indicated the CIFC will incrementally avoid borrowing through debentures and utilize unused bank limits owing to marginally lower costs. As a chunk of these lines are linked to 1 year MCLR, resets will also kick in with a delay creating a CoF advantage for CIFC
- Reported margins dipped ~50bps YoY to ~7.2%. The mgt attributed this dip to (1) netting of business origination expenses from interest income leading to a drop in NII (2) a larger chunk of disbursements going to the HCV segment which come at relatively lower yields and (3) lower collection of penal charges as asset quality has improved. NIMs should remain lower in the (when compared to I GAAP numbers) subsequent quarters as the adjustment weighs on NII. We have adjusted our numbers for the transition to IND AS and our NIM forecasts are reduced to xx% over FY1/-20E against xx% earlier
- While overall provisioning normalised to ~Rs 983mn (down 9% YoY), CIFC has not provided additional details (PD and LGD) on the ECL model.

**Five Quarters At A Glance**

(Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY Growth	QoQ Growth
Net Interest Income	6,636	7,392	7,931	8,424	7,952	19.8%	-5.6%
Non-interest Income	1	1	1	2	2	185.7%	-13.0%
Total Income	6,637	7,392	7,932	8,427	7,954	19.8%	-5.6%
Operating expenses	2,315	3,089	3,237	3,779	2,584	11.6%	-31.6%
Pre Provision Profits	4,322	4,304	4,695	4,647	5,370	24.3%	15.6%
Provisions	1,080	832	902	116	983	-9.0%	749.2%
PBT	3,242	3,472	3,793	4,532	4,388	35.3%	-3.2%
Tax	1,145	1,199	1,300	1,531	1,535	34.1%	0.3%
PAT	2,097	2,273	2,493	3,001	2,853	36.0%	-4.9%
OCI	(86)			(53)	150	-275.8%	-382.0%
PAT (incl OCI)	2,011	2,273	2,493	2,948	3,003	49.3%	1.9%
<b>Other details</b>							
Disbursements (Rs bn)	48.5	54.9	67.6	80.1	70.1	44.5%	-12.4%
VF	38.2	43.0	56.1	68.2	56.7	48.3%	-16.9%
HE	7.4	8.3	8.0	8.1	9.4	26.9%	16.5%
AUM (Rs bn)	347.9	364.9	390.7	428.8	451.0	29.6%	5.2%
VF	242.4	257.0	280.2	315.1	333.5	37.6%	5.9%
HE	95.5	96.3	98.0	100.0	102.8	7.6%	2.8%
On Books	281.6	307.9	326.9	366.5	392.1	39.3%	7.0%
Off Books	66.3	57.0	63.9	62.3	58.8	-11.2%	-5.6%
Borrowings (Rs bn)	312.9	268.9	283.0	381.4	412.9	32.0%	8.3%
Bank Borrowings	79.9	80.5	78.8	131.4	149.0	86.5%	13.5%
CRAR (%)	19.4	19.3	18.5	18.4	18.2	-122 bps	-25 bps
Tier I (%)	14.3	14.0	13.8	13.3	13.4	-86 bps	11 bps
<b>Profitability</b>							
Yield On Advances (%) (calc.)	15.04	14.55	14.65	15.25	14.52	-52 bps	-73 bps
Cost Of Funds (%) (calc.)	9.12	7.66	8.56	8.67	8.08	-104 bps	-59 bps
Spreads	5.92	6.89	6.09	6.58	6.45	53 bps	-14 bps
NIM (calc.) (%)	7.70	8.30	8.40	8.22	7.23	-47 bps	-99 bps
Cost-Income Ratio (%)	34.9	41.8	40.8	44.8	32.5	-239 bps	-1237 bps
Tax rate (%)	35.3	34.5	34.3	33.8	35.0	-33 bps	121 bps
<b>Asset Quality</b>							
Gross NPA (Rs mn)	16,830	16,520	14,457	12,606	13,952	-17.1%	10.7%
Net NPA (Rs mn)	11,260	10,700	9,143	7,118	7,979	-29.1%	12.1%
Gross NPAs (%)	4.73	4.46	3.70	2.94	2.99	-174 bps	5 bps
Net NPAs (%)	3.17	2.89	2.34	1.66	1.71	-146 bps	5 bps
Coverage Ratio (%)	32.98	35.20	36.76	43.5	42.8	983 bps	-73 bps
GNPA VF (%)	4.17	3.78	2.78	2.04	2.18	-199 bps	14 bps
GNPA HE (%)	6.03	5.98	5.98	5.36	5.15	-88 bps	-21 bps

Impacted owing to IND AS, even as AUM growth was healthy at 30%

Impacted as the business origination charges are now been book under Interest income

Comparable Provisions dipped ~9% YoY (89bps vs. 125bps YoY)

Robust growth driven by VF (+48%), HE (+27%) YoY; HE Disbursals were at 8-qtr high

Healthy AUM growth at a 19-qtr high

Bank borrowings form ~36% vs. 25.5% YoY and 34.4% QoQ given lower incremental cost; NCD Share dips to ~25.6% (from 30.4% QoQ)

Yields/ NIM impacted due to higher proportion of low yielding vehicles (HCV) and shift to IND AS and lower penal charges

Led by shift to IND AS, comparable oplev improved ~50bps QoQ

Stable asset quality as G/NNPA increased only 5bps sequentially. VF GNPA increased ~14bps, while HE dipped ~21bps sequentially Coverage ratio dipped ~73bps QoQ

Source: HDFC sec Inst Research; Note: 2Q/3QFY18 as per IGAAP

**Disbursements grew ~44% YoY led by ~48% rise in VF and 27% rise in HE**

**Disbursements were down 12% sequentially led by VF 17% even as HE disbursements jumped ~16% QoQ**

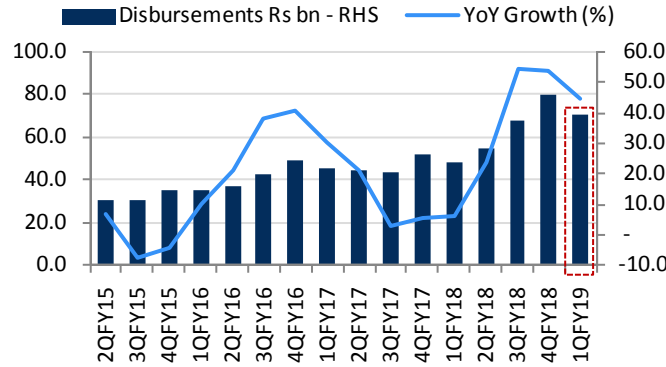
**Disbursal growth was spread across the VF portfolio, driven by HCVs (+116% YoY), LCVs (+55% YoY) and car & 3W (+54%)**

**HE disbursements at Rs 9.4bn were at 8-qtr high**

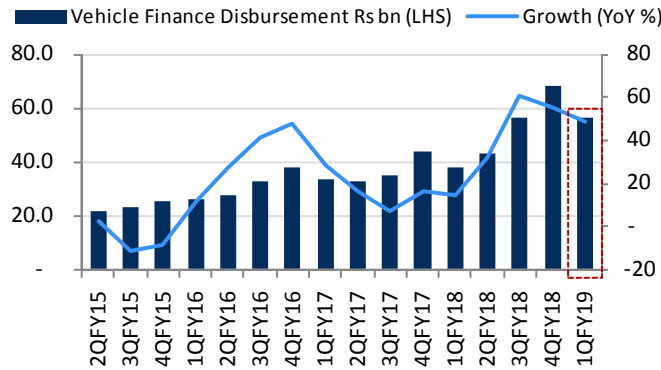
**21 HE branches added during the qtr**

**AUM growth of ~30/5% YoY/QoQ was led by a ~38/6% rise in the VF business; HE AUM grew ~8/3% YoY/QoQ**

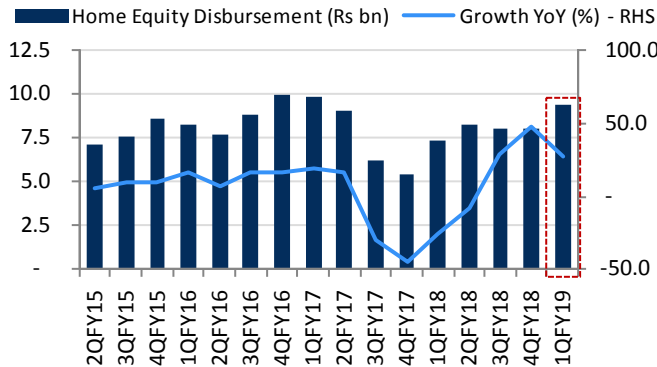
**Disbursements: Jumped ~44% YoY**



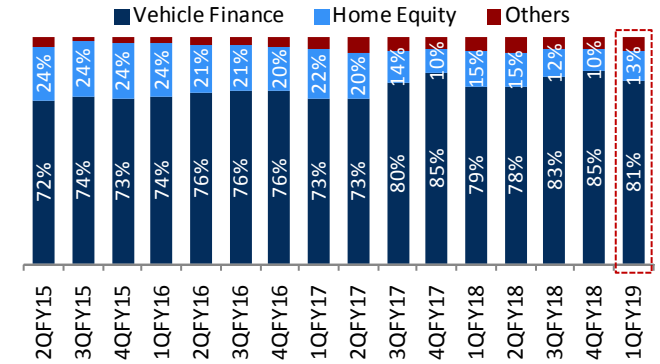
**VF Disbursements: Up ~48% YoY**



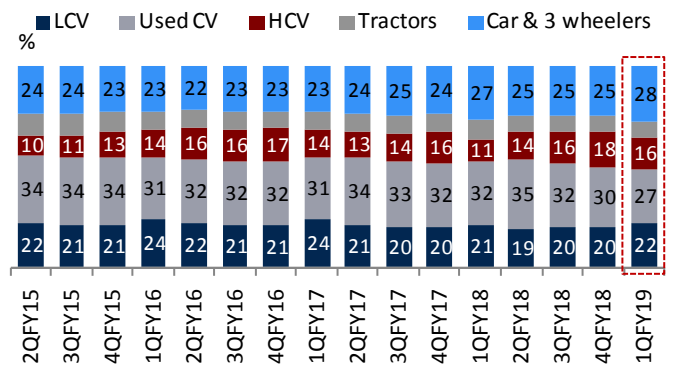
**HE Disbursements: Up 27/17% YoY/QoQ**



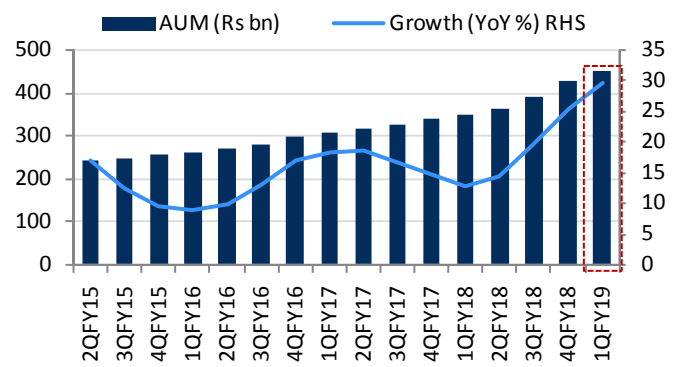
**Disbursements Business-wise: VF Dips QoQ**



**Segment-wise Disbursements: Stable QoQ**



**AUM Growth: Rise Driven By VF Segment**



Source : Company, HDFC sec Inst Research

**AUM skewed towards the VF segment (~74% vs. 69.7% YoY and 73.5% QoQ)**

**The share of HE segment continues to dip (~22.8% vs. 23.3% QoQ and 27.5% YoY)**

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

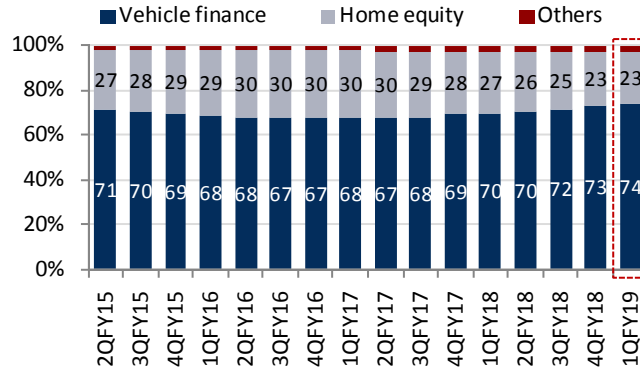
**HE AUM grew ~7/3% YoY/QoQ**

**Bank's share in the funding mix improved to ~36.1%**

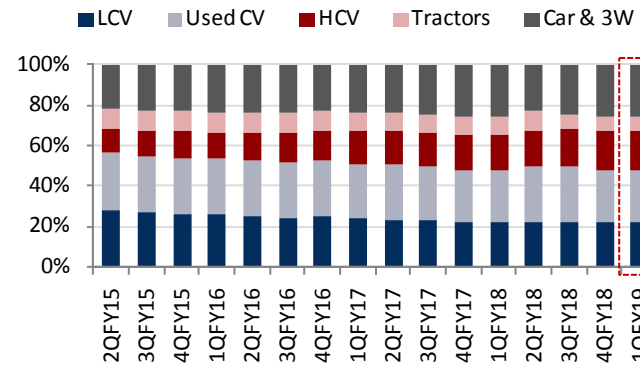
**The share of NCDs dipped to 25.6% while CPs share increased to 11.3% (+520bps QoQ)**

**Securitization forms part of funding mix post Ind-AS and contribute ~14.3%**

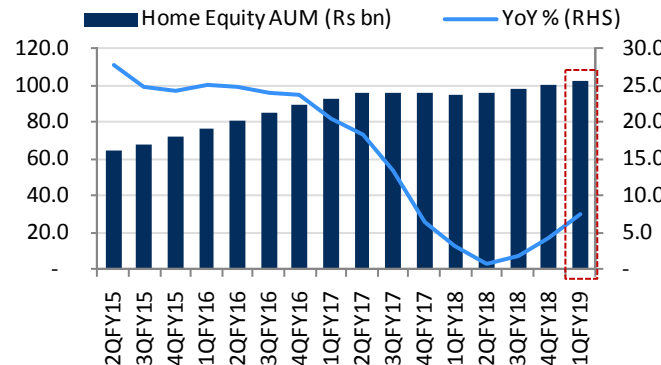
**AUM Break-up: VF Share Jumps ~50bps QoQ**



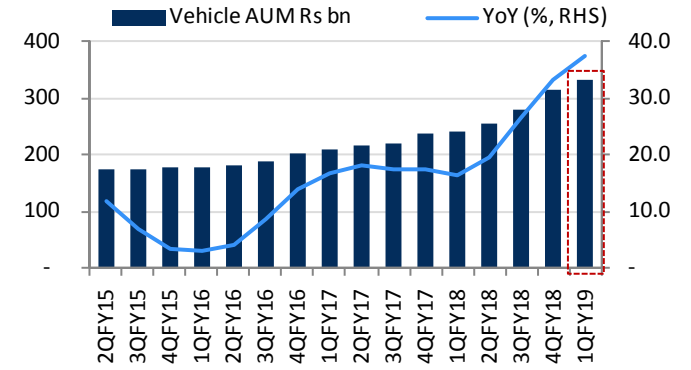
**Segment-wise VF AUM**



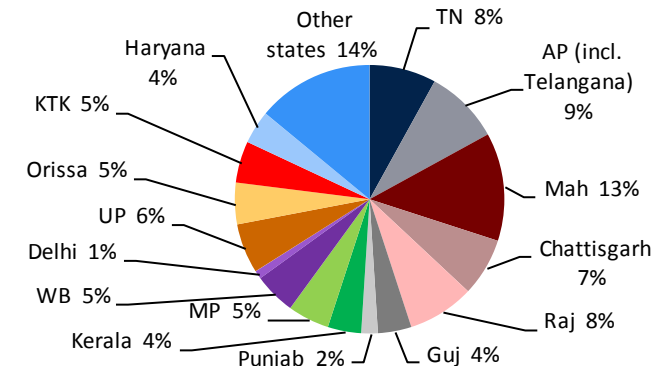
**Home Equity AUM: Up ~8/3% YoY/QoQ**



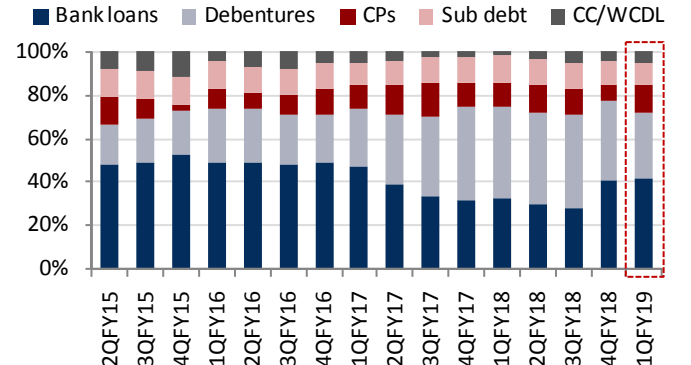
**VF AUM: Strong Growth of ~38/6% YoY/QoQ**



**State-wise VF AUM: Geographically Well-diversified**



**Borrowings: Banks' Share Jumps To 36.1% vs. 34.4%**



Source : Company, HDFC sec Inst Research

**Yield/ NIM compression due to the tilt towards low yielding assets and shift to IND AS**

**Reported margins dropped 200bps for the VF segment; while HE margins dropped 20bps QoQ**

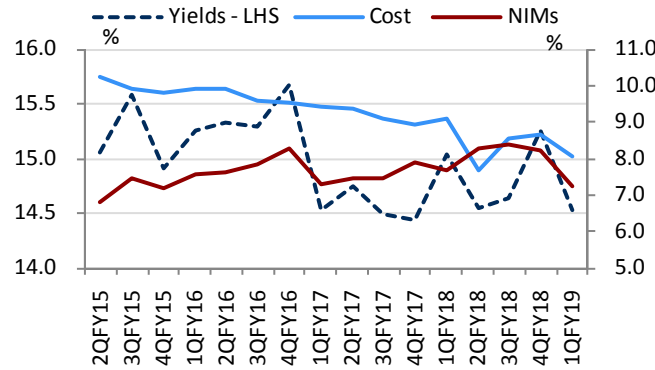
**C-I ratio improved ~240/1240bpsYoY/ QoQ to ~32.5%, due to sharp drop in other expense by 32% sequentially (largely to do with the shift to IND AS)**

**Core C-I improved 50bps due to oplev**

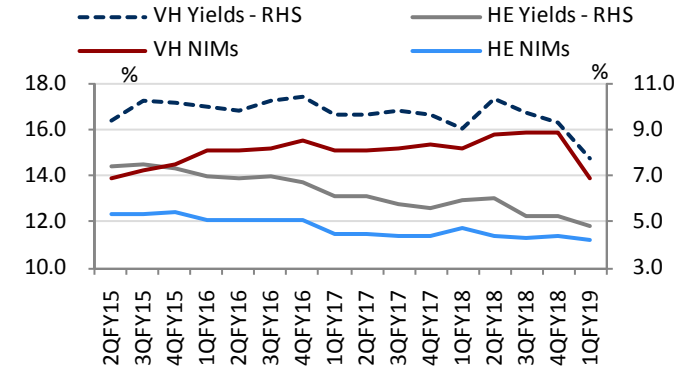
**HE expenses ratio dipped ~30bps QoQ to 1.0% and VF expenses ratio dipped ~150bps QoQ to 2.6%**

**Overall asset quality remained stable, with GNPA at 2.9% and NNPA at 1.7%. VF GNPA increased 14bps QoQ to 2.18%, while LAP GNPA's dipped 21bps to 5.2%**

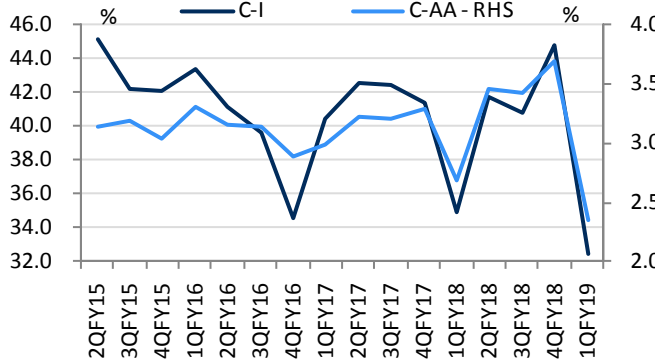
**NIM: Drop 47/99bps YoY/QoQ**



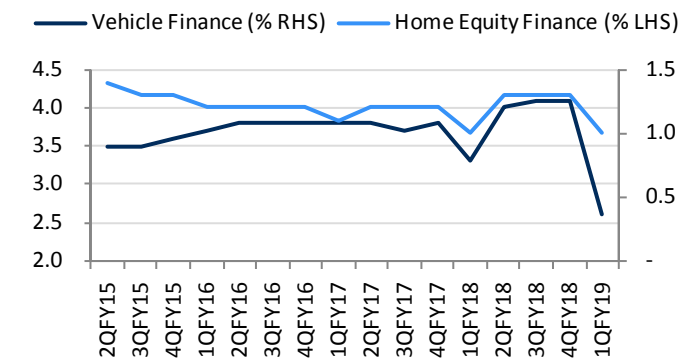
**VF/HE NIM dropped 200/20bps QoQ**



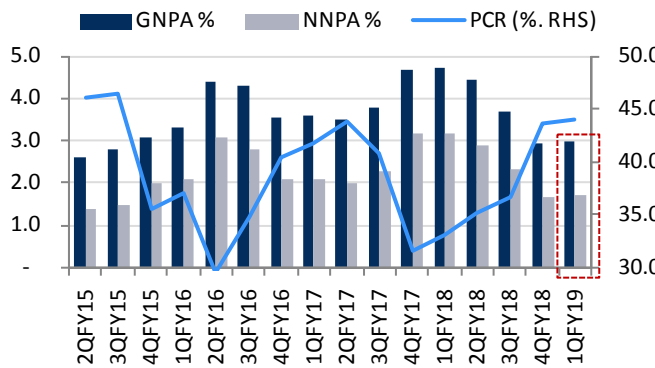
**Efficiency Ratio: Sequential Improvement**



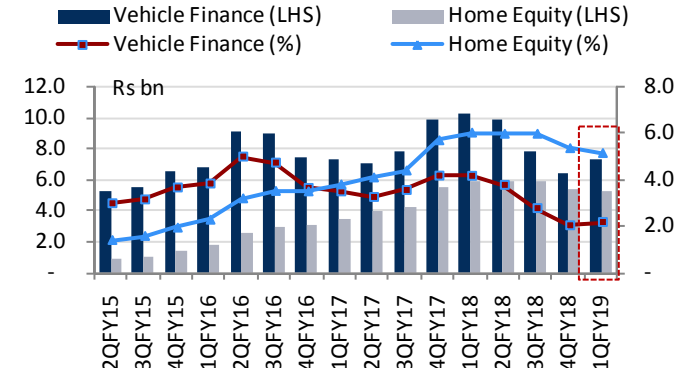
**Expenses Ratio: HE And VF Improved QoQ (Optically)**



**Asset Quality: Stable Sequentially**



**Segmental Asset Quality: VF/HE GNPA's Up/Dip QoQ**



Source : Company, HDFC sec Inst Research

**Provisions dipped ~9% YoY as CIFC had shifted to 90DPD norms at the end of FY17**

**Provisioning norms will now be as per the ECL model stated under IND AS**

**We have factored in LLPs of 68bps over FY18-20E**

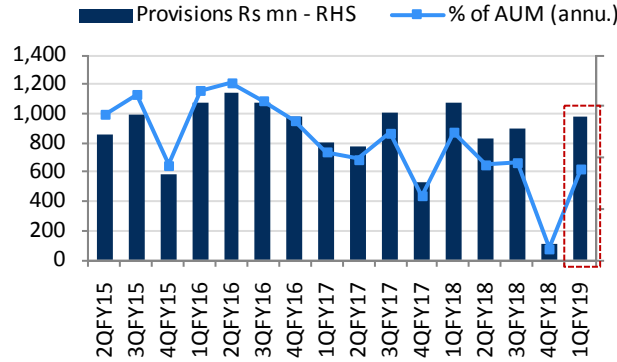
**VF provisions flat QoQ at ~90 bps while HE provisions increased 20bps sequentially**

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

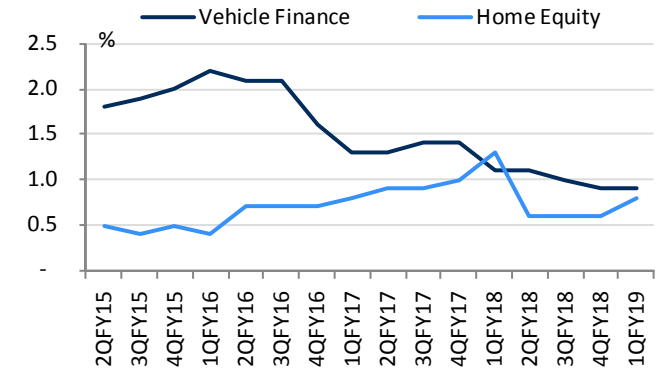
**CIFC has a current stock of 45 repossessed properties**

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

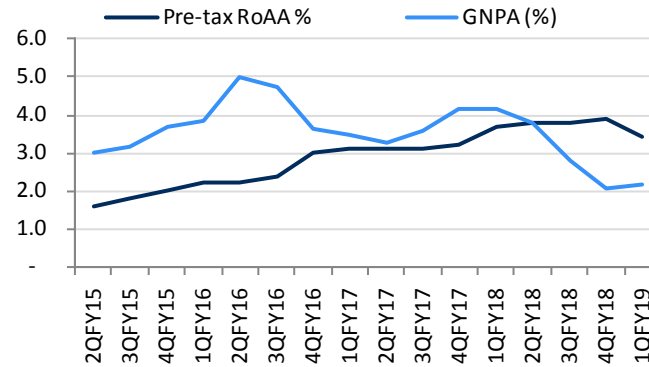
**Provisions Down ~9% YoY**



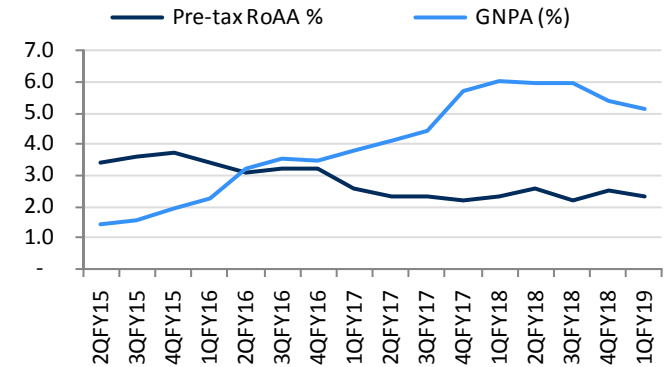
**Segmental Provisions: HE Provisions Up QoQ**



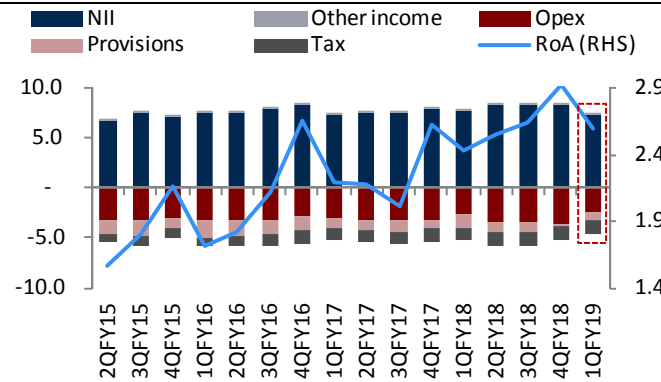
**VF: Pre-Tax RoAA Dipped 50bps sequentially**



**HE: GNPA Dips 21bps QoQ; Pre-tax RoAA Dips 20bps**



**RoAA Dip Led By Lower Margins**



Source : Company, HDFC sec Inst Research

**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	321	1,414	BUY	1,679	499	601	709	20.5	13.4	11.0	2.83	2.35	1.99	12.7	16.7	17.7	1.92	2.51	2.63
MMFS #	318	517	BUY	590	119	142	163	34.4	21.2	18.0	4.18	3.52	3.05	11.3	14.8	15.7	1.78	2.45	2.44
LICHF	271	536	BUY	636	237	275	318	13.6	11.4	9.6	2.26	1.95	1.69	16.7	17.4	17.8	1.23	1.29	1.33
<b>CIFIC</b>	<b>229</b>	<b>1,463</b>	<b>BUY</b>	<b>1,764</b>	<b>284</b>	<b>353</b>	<b>442</b>	<b>23.5</b>	<b>18.5</b>	<b>15.0</b>	<b>5.16</b>	<b>4.15</b>	<b>3.31</b>	<b>20.6</b>	<b>21.8</b>	<b>22.1</b>	<b>2.77</b>	<b>2.85</b>	<b>2.92</b>
SCUF	127	1,929	BUY	2,274	702	845	1,002	19.1	14.3	11.2	2.75	2.28	1.93	12.5	15.0	16.8	2.48	2.80	3.04
REPCO	39	623	BUY	683	192	232	273	18.9	15.7	13.6	3.24	2.69	2.28	16.7	17.3	17.0	2.17	2.30	2.25

Source: Company, HDFC sec Inst Research;



### Income Statement

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Interest Earned	37,880	42,028	47,757	58,035	69,759
Interest Expended	20,508	22,308	23,078	29,500	36,112
<b>Net Interest Income</b>	<b>17,372</b>	<b>19,720</b>	<b>24,678</b>	<b>28,535</b>	<b>33,647</b>
Other Income	4,057	4,576	6,501	6,290	7,459
<b>Total Income</b>	<b>21,429</b>	<b>24,295</b>	<b>31,179</b>	<b>34,826</b>	<b>41,106</b>
<b>Total Operating Exp</b>	<b>8,449</b>	<b>10,133</b>	<b>12,895</b>	<b>12,321</b>	<b>14,474</b>
PPOP	12,980	14,162	18,284	22,505	26,633
Provisions & Contingencies	4,272	3,106	3,451	3,540	3,509
<b>PBT</b>	<b>8,708</b>	<b>11,056</b>	<b>14,833</b>	<b>18,965</b>	<b>23,124</b>
Provision for Tax	3,023	3,868	5,092	6,543	7,978
<b>PAT</b>	<b>5,685</b>	<b>7,187</b>	<b>9,741</b>	<b>12,422</b>	<b>15,146</b>

Source: Company, HDFC sec Inst Research

### Balance Sheet

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,562	1,563	1,564	1,564	1,564
Reserves	35,012	41,563	49,938	60,689	73,709
Net worth	36,574	43,127	51,502	62,253	75,273
Borrowings	225,762	242,067	319,022	391,811	467,987
Other Liabilities	16,547	22,018	24,523	21,887	22,796
<b>Total liabilities</b>	<b>278,883</b>	<b>307,211</b>	<b>395,047</b>	<b>475,951</b>	<b>566,055</b>
<b>APPLICATION OF FUNDS</b>					
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
<b>Total assets</b>	<b>278,883</b>	<b>307,211</b>	<b>395,047</b>	<b>475,951</b>	<b>566,055</b>

Source: Company, HDFC sec Inst Research

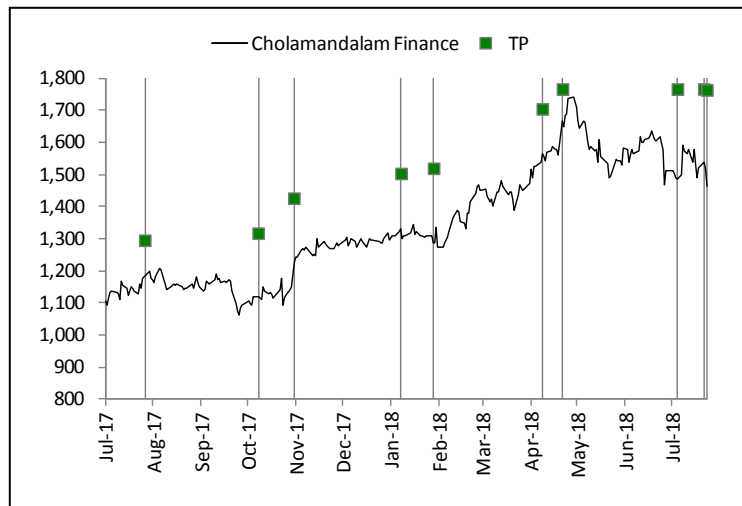
## Key Ratios

	FY16	FY17	FY18	FY19E	FY20E
<b>Valuation Ratios</b>					
EPS (Rs)	36.4	46.0	62.3	79.4	96.8
Earnings Growth (%)	30.7	26.4	35.5	27.5	21.9
BVPS (Rs)	234.1	275.8	329.3	398.0	481.3
Adj. BVPS (Rs)	195.9	209.7	287.5	354.6	440.9
DPS (Rs)					
ROAA (%)	2.2	2.5	2.8	2.9	2.9
ROAE (%)	18.0	18.0	20.6	21.8	22.0
P/E (x)	40.3	31.9	23.5	18.5	15.1
P/ABV (x)	7.5	7.0	5.1	4.1	3.3
P/PPOP (x)	17.6	16.2	12.5	10.2	8.6
Dividend Yield (%)	0.3	0.3	0.4	0.6	0.8
<b>Profitability</b>					
Yield On Advances (%)	13.75	13.17	12.40	12.18	12.16
Cost Of Funds (%)	9.75	9.54	8.23	8.30	8.40
Core Spread (%)	3.99	3.63	4.17	3.88	3.76
NIM (%)	6.30	6.18	6.41	5.99	5.86
<b>Operating Efficiency</b>					
Cost/Avg. Asset Ratio (%)	3.1	3.2	3.3	2.6	2.5
Cost-Income Ratio	39.4	41.7	41.4	35.4	35.2
<b>Balance Sheet Structure Ratios</b>					
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	18.0	17.7
Tier I CAR	13.3	13.6	13.2	13.1	13.0

	FY16	FY17	FY18	FY19E	FY20E
<b>Asset Quality</b>					
Gross NPLs (Rs mn)	10,218.5	15,450.2	12,097.7	14,626.1	16,062.2
Net NPLs (Rs mn)	5,978.3	10,334.3	6,541.1	6,798.0	6,316.0
Gross NPLs (%)	3.50	4.66	2.94	2.79	2.57
Net NPLs (%)	2.10	3.02	1.53	1.30	1.01
Coverage Ratio (%)	40.0	35.1	48.1	53.5	60.7
Provision/Avg. Loans (%)	1.44	0.91	0.80	0.68	0.56
<b>RoAA Tree</b>					
Net Interest Income	6.71%	6.73%	7.03%	6.55%	6.46%
Non-interest Income	1.57%	1.56%	1.85%	1.44%	1.43%
Operating Cost	3.26%	3.46%	3.67%	2.83%	2.78%
Provisions	1.65%	1.06%	0.98%	0.81%	0.67%
Tax	1.17%	1.32%	1.45%	1.50%	1.53%
ROAA	2.20%	2.45%	2.77%	2.85%	2.91%
Leverage (x)	7.58	7.35	7.42	7.66	7.58
ROAE	16.64%	18.04%	20.59%	21.84%	22.03%

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
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
6-Jul-18	1,494	BUY	1,767
24-Jul-18	1,539	BUY	1,767
27-Jul-18	1,463	BUY	1,764

**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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**Any holding in stock –No**

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