Cholamandalam Investment and Finance Company (CIFC IN)

Rating: BUY | CMP: Rs1,451 | TP: Rs1,881

Bulwark of CV financing

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August 29, 2018

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Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	**BUY**		**-**	
Target Price	**1,881**		**-**	
NII (Rs.)	37,220	44,224	-	-
% Chng.			-	-
PPoP (Rs.)	24,119	27,982	-	-
% Chng.			-	-
EPS (Rs.)	81.7	99.7	-	-
% Chng.			-	-

Key Financials(Standalone)

	FY17	FY18	FY19E*	FY20E*
Net Int. Inc.	24,288	31,175	37,220	44,224
Growth (%)	*13.0*	*27.0*	*21.9*	*18.8*
Op. Profit	14,162	18,284	24,119	27,982
PAT	7,187	9,741	12,779	15,589
EPS (Rs.)	46.0	62.3	81.7	99.7
Gr. (%)	*26.3*	*35.5*	*31.2*	*22.0*
DPS (Rs.)	3.5	6.5	7.0	7.5
Yield (%)	*0.2*	*0.4*	*0.5*	*0.5*
Margin (%)	*7.5*	*7.9*	*7.9*	*7.7*
RoAE (%)	*18.0*	*20.7*	*22.4*	*22.3*
RoAA (%)	*2.5*	*2.6*	*2.6*	*2.6*
PE (x)	31.6	23.3	17.8	14.6
P/BV (x)	5.3	4.4	3.6	2.9
P/ABV (x)	6.9	5.1	4.0	3.2

***** INDAS**

Key Data	**CHLA.NS | CIFC IN**
52-W High / Low	Rs. 1,761 / Rs. 1,052
Sensex / Nifty	38,897 / 11,739
Market Cap	Rs. 227bn / $ 3,235m
Shares Outstanding	156m
3M Avg. Daily Value	Rs. 977.25m

Shareholding Pattern (%)

Promoter's	53.06
Foreign	20.68
Domestic Institution	16.07
Public & Others	10.19
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(0.8)	(1.3)	25.1
Relative	(4.8)	(13.2)	2.1

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Bulwark of CV financing

We initiate coverage on CIFC with BUY recommendation given that the company has doubled its AUMs defying business cycles, GNPAs averaged at <3% levels (barring demo impact in FY17) translating into steady 17%+ RoE's for past five years. We expect current cyclical recovery to enable 15% CAGR in CV volumes aiding CIFC to grow its AUM at 20% CAGR over FY18-20. Lower credit costs at 80bps and improvement in HE business will enable 27% PAT CAGR over same period. We expect premium valuations to sustain on the back of CIFC's diversified vehicle finance book, secular home equity and resilient balance sheet. We assign a P/ABV multiple of 4.2x FY20E and arrive at a price target of Rs1,881. BUY.

- **Current CV cycle has stood the test of time:** Current CV cycle (that started in 2016) has stood the test of time (especially post aftermath of GST, demonetization) marked by policy changes, bettering fleet metrics and economic uptick and hence sustaining. On the back of GoI's impetus towards rural/infra sectors and stringent enforcement of regulatory norms, coupled with replacement demand for LCVs led by e-commerce and logistics upturn, CV financing market stands poised to put up ~Rs900bn MHCV financing market growing at 18% CAGR and ~Rs560bn LCV financing market at 23% CAGR. Catching these emerging macro trends early on, diversified businesses like that of CIFC and cyclical plays with product expertise such as Shriram Transport Finance (SHTF) should prove as greater beneficiaries.

- **CIFC business to grow 1.5x, earnings CAGR at 27% over FY18-20:** Post restructuring business fabric back in FY10, scaling up between FY11-FY15, CIFC has been improving its operational efficiencies and enhancing core businesses. Focus on cyclical vehicle finance (VF) business, coupled with steady-state home equity (HE) segment, has subsequently yielded 20% AUM CAGR and 30%+ earnings CAGR over FY16-18. Riding the cyclical recovery, we reckon CIFC to deliver robust 27% earnings CAGR over FY18-20E, driven by strong AUM traction (1.5x increase in AUM), decent margins (7.7% on AUM), enhanced operating efficiencies (36% cost-income) and lower credit costs (0.8%) by FY20E. Given strong earnings momentum, we envisage RoE to rise to 22% levels (best-in-class) and RoA to stabilize to 2.6% (despite IND AS challenges) by FY20E.

- **Preferred bet despite premium valuations:** CIFC is our top pick in the asset finance space. Market is according premium to its ability to grow at better rate than industry underscored by diversified CV book and secular HE business, resilient balance sheet and strong earnings potential, we reckon. While its immediate competition, SHTF, MMFS, stand on recovery mode, their outperformance over CIFC largely hinge upon mending the asset quality and bettering return profile. SHTF has observed low return profile (RoA/RoE at 1.9%/13% of FY18), high GNPA at 9% (IND AS) in the recent quarter. MMFS, on other hand, with rural focus has observed ~10% GNPAs, 11% RoEs (Q1FY19) under IND AS. CIFC continues to score on consistency on afore mentioned key parameters justifying superior multiple.

Investment thesis

A structural play on VF+HE market opportunity

Diversification allows AUM to grow even when environment is not conducive

Established in 1978 as one of India' leading NBFCs, CIFC, the retail finance arm of the Chennai-based Murugappa Group, focused on rural/semi-urban markets, started business as an equipment finance company. Post restructuring the business fabric back in 2009-10 (smart exit off the loss-making consumer finance JV and AMC) and the period between FY11-FY15, CIFC had strategically engaged in scaling-up its business verticals, improving operational efficiencies and improvising on the quality development of VF and HE business. The rich distribution network of 883 (3x branch increase over FY13-FY17) and 79% of network being entrenched into beyond Tier II towns at marked down costs coupled with strong OEM and customer relationships make CIFC positioning stronger.

CIFC's diversified product mix (new and used CV; smart foray into higher yielding used CV in FY13 and tractor segment in FY12-13 followed by CE in FY14-15, and cars and MUVs; strategic clampdown in HE in FY17), coupled with cross-sell expertise have boded well across cycles

CIFC is a structural play on emerging growth opportunity in VF (74% of total AUMs), HE (23% of AUM) market with a book size of Rs451bn. While the management intends to reduce over-dependence on these two, the other new business segments such as home loans, MSME loans, rural financing, two-wheeler financing, construction equipment (CE) financing have been launched in recent periods, stand in nascent stages and hence together form 3% (or Rs15bn) of the total asset base.

Exhibit 1: CIFC's diversified product offering

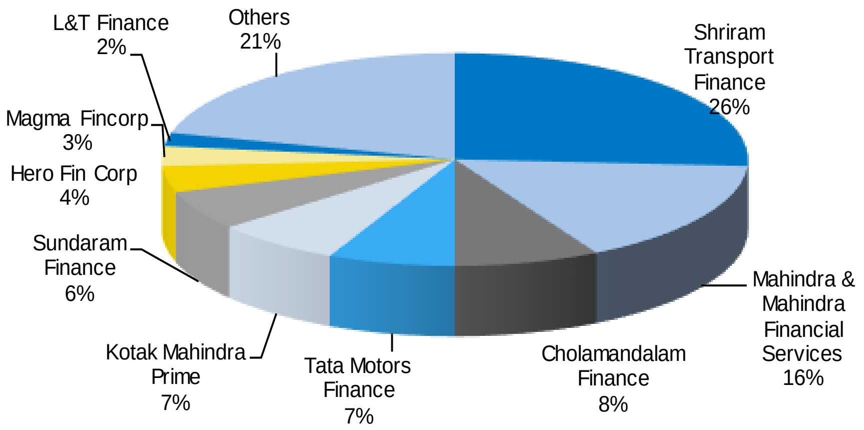
Business Segment	Commencement year	Product offerings	Share in AUM (%)	Average tenure (years)	Average yields (%)	LTV (%)	Borrower profile	Area of operations
Vehicle Finance	FY92	Vehicle financing for new and Used HCVs, LCVs, SCVs, MLCVs, MUVs, tractors and cars	74	2 to 3	17	65-90	SME and agri-based customers account for 65% of disbursements	Tier II/II/III
Home Equity	FY07	Self employed residential property loans	23	4 to 5	14-15	50	Primarily self employed individuals	Tier II/II/III
Others	FY13-14	Business Finance Funding, MSME, Gold loans, Home Loans and Rural finance	3	2 to 10	-	-	Self employed individuals, SME	Tier I/II/II/III

Source: Company, PL

Much of CIFC's business success can be attributed to defacto focus on product lines leading to better margins, niche target market and hence, better customer service (wider product offerings, quick approvals and simple documentation aided by technology resulting in a sharp improvement in customer retention and referral business), maintenance of superior portfolio behavior and consequently, steady strong growth at high profitability as compared to peer set.

CIFC stands third in order amongst top 9 players – top 9 call for 80% of the market share in vehicle finance space, top 3 account for 50%

Exhibit 1: CIFC is third in order amongst top 9 VF players



Source: Company, PL

AUM CAGR 23%, Earnings CAGR 27%, RoEs at 23%

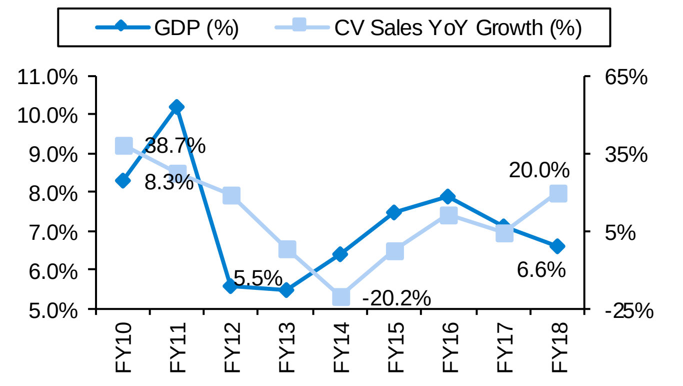
Creating a judicious mix of products leading to top-line growth and healthy profitability over the years, CIFC has sailed smooth across macro headwinds, given the cyclical CV book and secular HE business. Buoyed by anticipated CV demand, steady traction for HE, uptick in MSME and rural, CIFC's strong business visibility stands in place.

We expect CIFC to deliver ~20% AUM CAGR over FY18-20E on the back of robust 23% AUM CAGR in VF portfolio and steady ~12% AUM CAGR in the HE business over FY18-20E (factoring lackluster FY18 for HE, given the demo aftermath; however, we strongly believe that the management will surpass our expectations). ***Riding the cyclical recovery, driven by strong AUM traction, imminent credit costs improvement, gradual enhancement in operating efficiencies and capital sufficiency, we reckon CIFC to deliver stellar 27% earnings CAGR over FY18-20E. Given the strong earnings momentum, we envisage RoE to rise to 22% levels and RoA to stabilize to 2.6% over FY18-20E.***

Current CV cycle has stood test of time

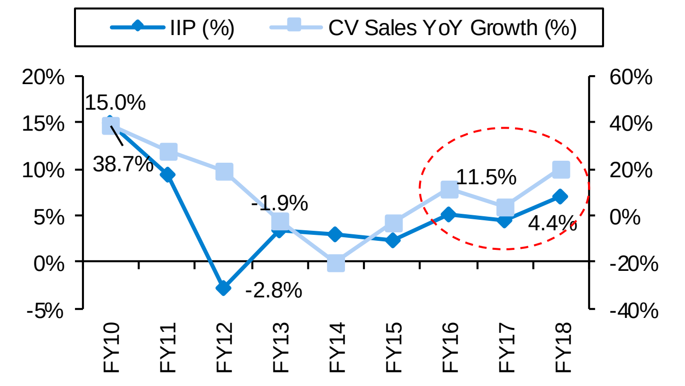
Macros supportive of vehicle financing momentum

Exhibit 2: CV cycle catches up with GDP



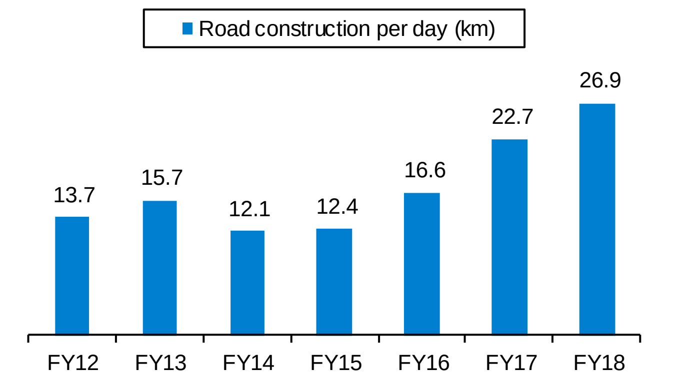
Source: Company, PL

Exhibit 3: CV sales traction in-line with IIP



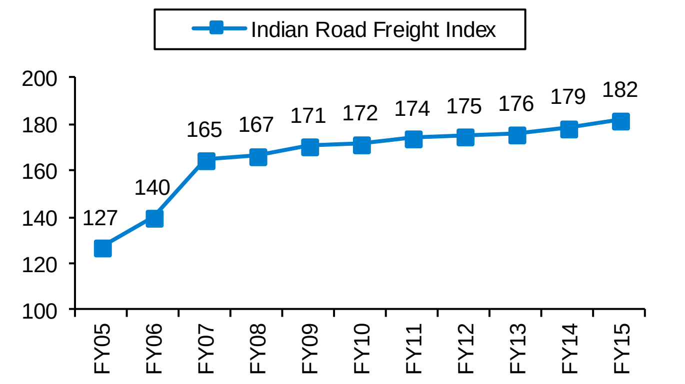
Source: Company, PL

Exhibit 4: Road construction/infra pick-up –



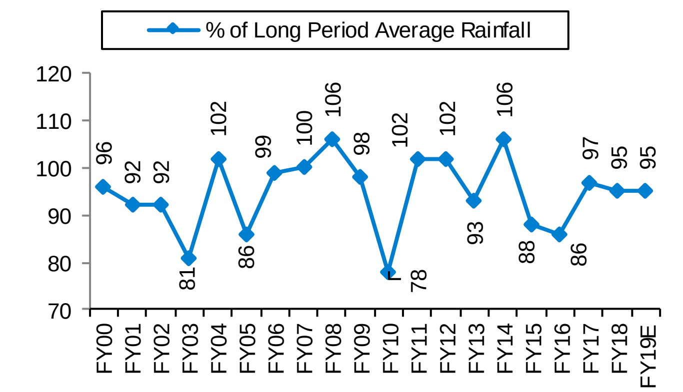
Source: Company, PL

Exhibit 5: & stabilizing road freight trends bode well for CVs



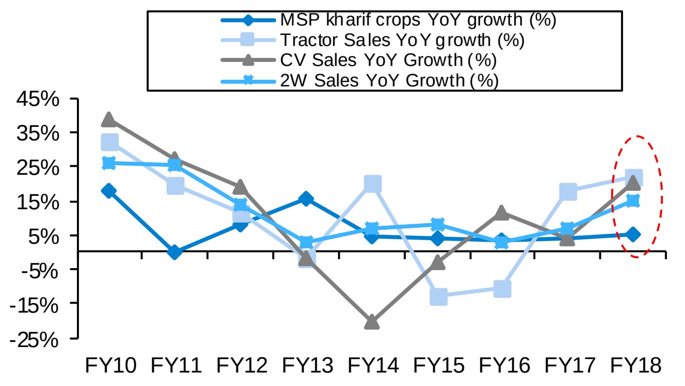
Source: Company, PL

Exhibit 6: Third consecutive year of normal monsoon



Source: Company, PL

Exhibit 7: & increase in MSP augurs well for tractor/CV

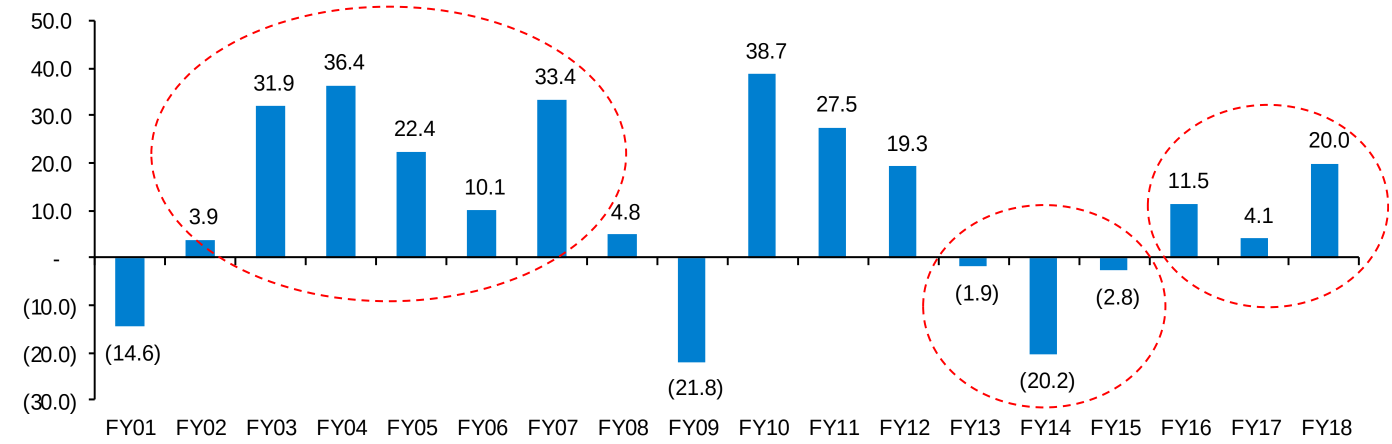


Source: Company, PL

Current CV cycle influenced by structural reforms

Over the years, CV cycles have undergone a radical change. While the period 2003-2011 witnessed strong growth except in FY08/09 due to global financial crisis, the period 2013-2015 stood culpable. This down-cycle was marked by **(1)** an economic setback **(2)** mining ban impacting freight availability and **(3)** steep increase in diesel prices without adequate pass-through in freight rates impacting fleet economics. The current CV upcycle (2016 onwards) stands influenced by policy changes (especially post aftermath of GST, demonetization), improving fleet efficiency metrics and economic uptick.

Exhibit 8: Exhibit 6: Domestic CV sales – encompassing three cycles



Source: Company, PL

Exhibit 9: Current cycle stands more enduring

Previous Cycle (2013-15)	Current Cycle (2016-onwards)
Slowdown in manufacturing, mining ban and infrastructure bottlenecks impacting freight availability	Improving economy, lifting of mining ban and thrust on infra/construction aiding CV upturn
Sub-optimal rainfall for two consecutive years (FY14 and FY15)	Two consecutive years of normal monsoon (FY17, FY18)
Increased fuel costs	While fuel price increases have impacted operator profitability, stricter implementation of rated overload and efficiency norms have improved vehicle efficiencies
Competitive intensity impacted OEMs pricing power denting profitability	Improving fleet operator economics on account of GST leading to proliferation of hub and spoke transportation model, change in warehousing patterns and logistics
Tepid sales leading to high discounts marred operator cash flows	Discounts continue to persist, but truck efficiencies improving
Continued higher utilization levels for CVs (40%) also impacted operators	Capacity utilization of PV increased to 77% in FY18 from 68% in FY16 and is expected to continue rising in FY19 as well. UV and small cars are expected to outperform.
VF GNPAs jumped from 1.5% in FY12 to 4.4% in FY13	For VF, asset quality out of woods (90dpd migration now behind, demo impact waning)

Source: Company, PL

Stronger demand from consumption-driven sectors and e-commerce focused logistic companies is expected to fuel the growth

Structural reforms likely to sustain CV demand

While there is no denying the fact that the rising replacement demand on the back of higher affordability, competitively priced launches and easy availability of finance should spur vehicle sales, structural reforms should help sustain CV demand.

- Stricter emission norms (fast tracking migration to BSVI regime by April 2020, four years prior to the original plan) and scrapping 15-year-old vehicles (CRISIL reports estimates that this policy can translate into incremental sales of 4,40,000 heavy CVs over FY19-FY21 and additional 2,00,000 CVs will be replaced over this period) to trigger replacement demand.
- Regulatory restrictions on overloading of vehicles and phasing out of old diesel vehicles will shift demand to higher tonnage vehicles
- Government has announced two ambitious infrastructure projects, Bharatmala (India's biggest highway construction project) and Sagarmala (India's largest port and coastal transport project). Implementation of these projects will help increase the demand for tippers and construction equipment
- GST roll-out has led to changes in warehousing pattern, increasing adoption of hub-and-spoke model and improving logistics which should improve fleet economics
- Higher axle load norms have, however, led to near-term demand uncertainty with subsequent impact to be borne by new MHCVs. Over longer term, these should only bring discipline normalizing CV demand outlook
- Fuel price increase pressures remain but should be compensated with the rapid step-up in infra activities.

CIFC commentary on axle norms change: *Increasing axle weight is not getting implemented immediately as OEMs will have to modify vehicles before bringing it on roads. If it comes retrospectively, it will actually improve the cash flow of the transporter; will improve the transporters who are actually operating in the long-haul and will be beneficial for the financer in terms of repayment.*

Source: Q1FY19 Conference Call

Vehicle financing market continues to stay upbeat

Vehicle finance (VF) market offers strong potential

Commercial vehicles (CV) cycle is back in the reckoning and NBFCs, which are focused on auto financing, stand at an inflection point. NBFCs, in recent periods, have increased their VF market share on the back of controlled operating costs, wider reach, strong risk management capabilities to check and control bad debt and better understanding of customers. Banks largely lend to large fleet operators, whereas NBFCs cater to customers with relatively weaker credit profiles, focusing on faster processing, lower documentation and greater flexibility in borrower appraisal. Despite higher interest rate charged for used small CV finance by NBFCs (avg. interest at 20-24%), auto financiers continue to be preferred over banks due to ease of doing business with the former.

VF business, however, stands prone to cyclical swings. Said that, historical data suggests that regardless of cyclicality in CV volumes, business traction in the VF segment for the major players have remained intact. Moreover, with asset quality out of woods (90dpd migration now behind, demo impact waning), scalable operating metrics and strong earnings visibility across VF sector, promises superior return profile for auto financiers. Catching these emerging macro trends early-on, diversified businesses like that of CIFC, cyclical plays with product expertise such as SHTF and rural focused MMFS stand clear beneficiaries.

Exhibit 10: Healthy growth in asset base for top vehicle financiers across CV cycles

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY11-FY18 CAGR %	FY16-FY18 CAGR %
GDP (growth %)	*8.6*	*5.6*	*5.5*	*6.4*	*7.5*	*7.9*	*7.1*	*6.5*		
Total CV VOLUMES (*000 units)	**684.0**	**809.4**	**792.9**	**632.7**	**614.9**	**684.1**	**714.2**	**856.7**	***3.3***	***11.9***
Total CV volume growth %	***28.7***	***18.3***	***-2.0***	***-20.2***	***-2.8***	***11.2***	***4.4***	***20.0***		
CIFC (VF AUM in mn)	60.1	98.5	143.7	170.6	173.7	201.0	236.3	315.1	*26.7*	*25.2*
CIFC AUM growth %	***53.6***	***63.8***	***45.9***	***18.8***	***1.8***	***15.7***	***17.5***	***33.3***		
SHTF (VF AUM in mn)	361.9	402.2	495.9	531.0	591.1	727.6	787.6	953.1	*14.8*	*14.4*
SHTF AUM growth %	***24.1***	***11.1***	***23.3***	***7.1***	***11.3***	***23.1***	***8.2***	***21.0***		
MMFS (VF AUM in mn)	151.6	206.4	279.1	341.3	368.8	384.8	430.3	484.9	*18.1*	*12.3*
MMFS AUM growth %	***41.0***	***36.2***	***35.2***	***22.3***	***8.0***	***4.3***	***11.8***	***12.7***		

Source: Company, PL

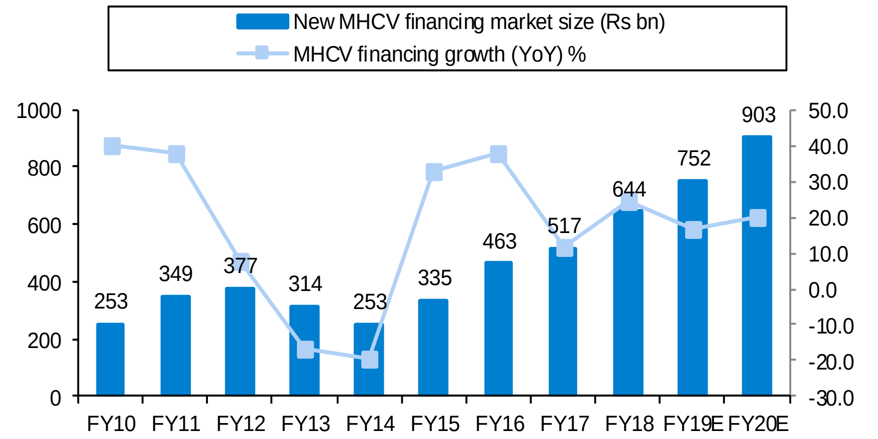
While the current CV cycle that stands influenced by certain policy measures might lead to deferment of CV purchases in the near term as OEMs gear up to the new norms, uptick in macro-economic indicators leading to improvement in capacity utilization of the industry, acceleration in logistics demand and rural pick-up should continue to aid vehicle financing trajectory. Therefore, the VF potential across key products such as LCVs, SCVs and tractors stands very much intact. Also, with increased demand from small road transport operators (SRTOs), first time users (FTUs) and higher proportion of lower age vehicles coming up for sale, used CV market demand too stands upbeat.

(Refer to our note Channel Checks wherein we have incorporated the feedback from transport operators, industry experts and financiers with respect to CV demand and more).

MHCV financing market poised to climb to ~ Rs900bn backed by GoI impetus on infra, economic uptick and stricter regulatory norms creating pent-up demand

Vehicle Finance Market potential across key segments

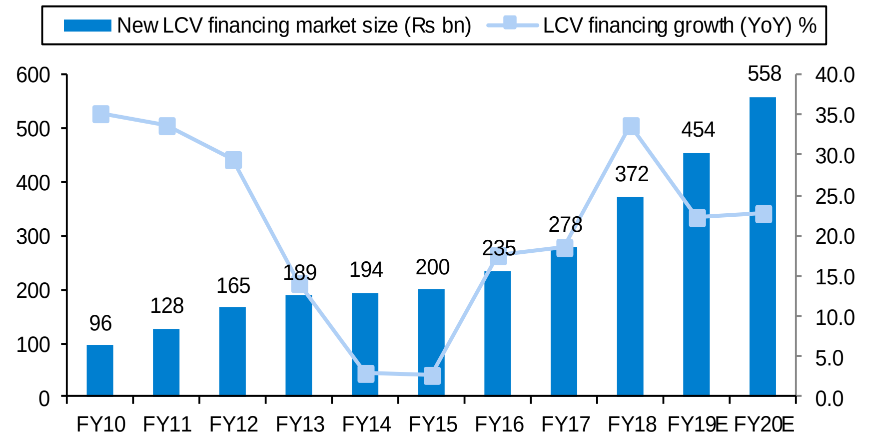
Exhibit 11: MHCV financing market poised to grow 1.4x by FY20E



Source: Company, PL

LCV financing market geared to climb to ~ Rs560bn by FY20E led by replacement demand, consumption driven sectors, e-commerce led logistic companies

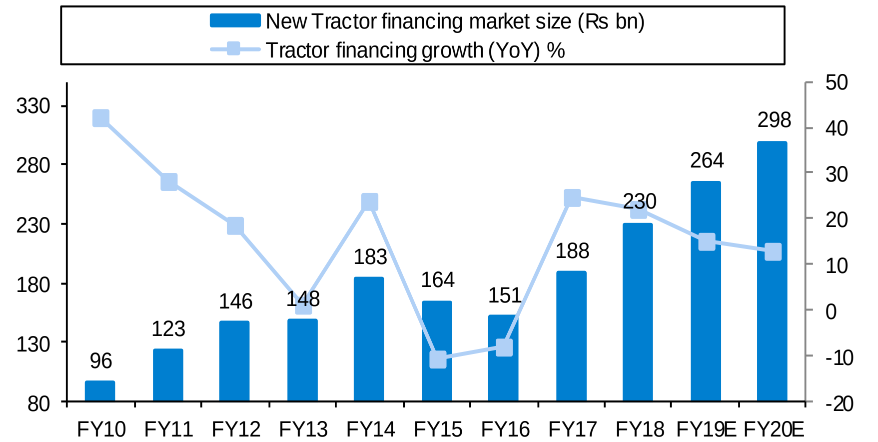
Exhibit 12: LCV financing market proving larger beneficiary of current cycle



Source: Company, PL

Tractor financing poised to be ~ Rs300bn market by FY20 due to normal monsoons, improving agri output, increased MSPs

Exhibit 13: Tractor financing growth to stabilize over FY18-20E



Source: Company, PL

(Kindly refer to annexures for our assumptions into evaluating financing market potential)

CIFC's VF business is characterized by (1) competitive market positioning (2) strong dealer n/w (3) diversified geographic and product presence (4) robust IT/digital initiatives (5) Good credit

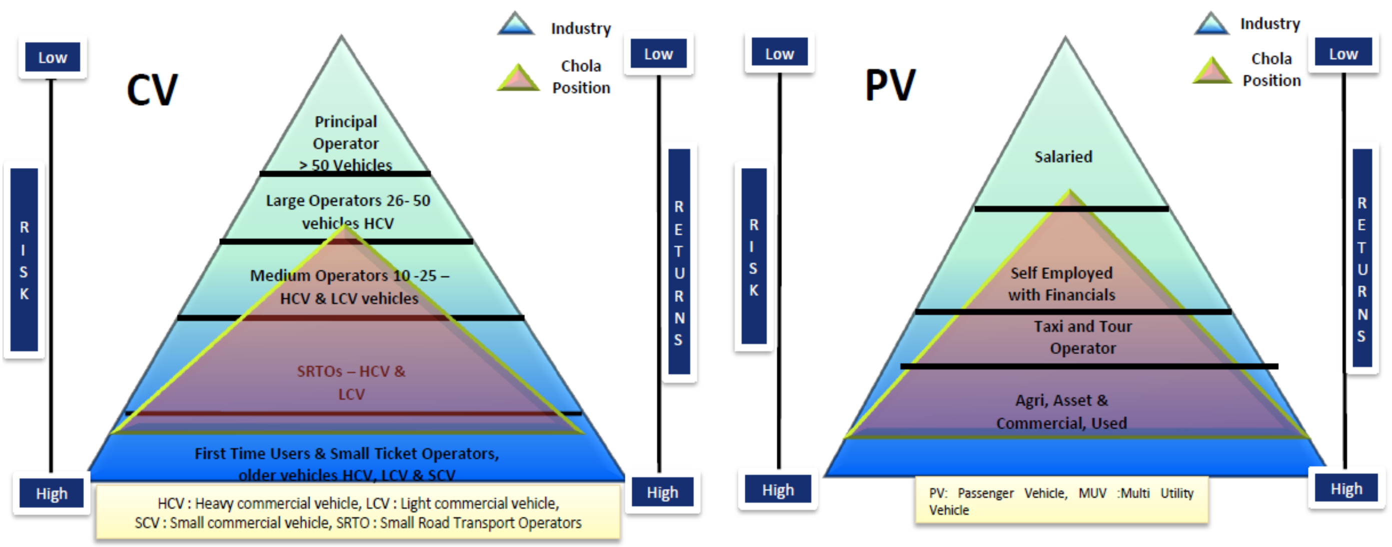
CIFC well placed to capture growth in VF market

Commencing operations in 1992, CIFC's VF business contributed as high as 81% to the total disbursements and 74% to the overall AUMs as at the end of June 2018. With healthy record of 27% AUM CAGR followed by robust 24% disbursements CAGR over FY11-FY18, the VF AUMs today stand at Rs334bn.

CIFC caters to niche mid-market

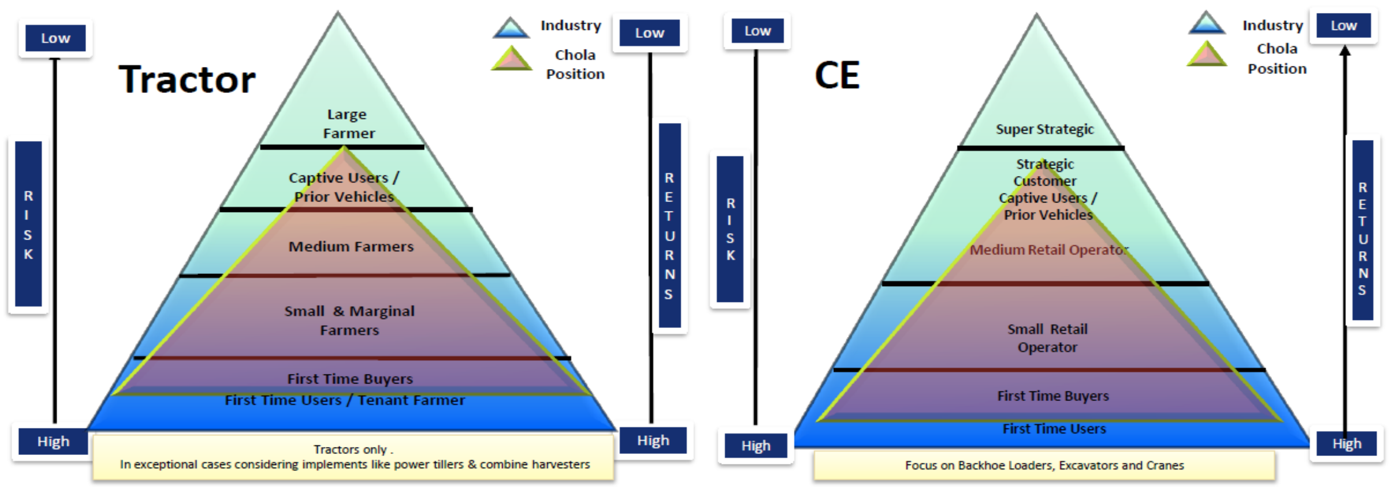
Serving the under-penetrated hinterland India with 79% branch network spread across Tier II/III/IV/V/VI towns, CIFC has carved its own niche in the acute competitive retail finance market. Characterized by limited history and erratic cash flows, CIFC's customer base comprises of small and medium road transport operators, small ticket fleet operators, in turn, capturing the latent demand arising of the current cyclical upturn.

Exhibit 14: Competitive market positioning (HCVs, LCVs & PV segment: Commercial operators, self-employed)



Source: Company, PL

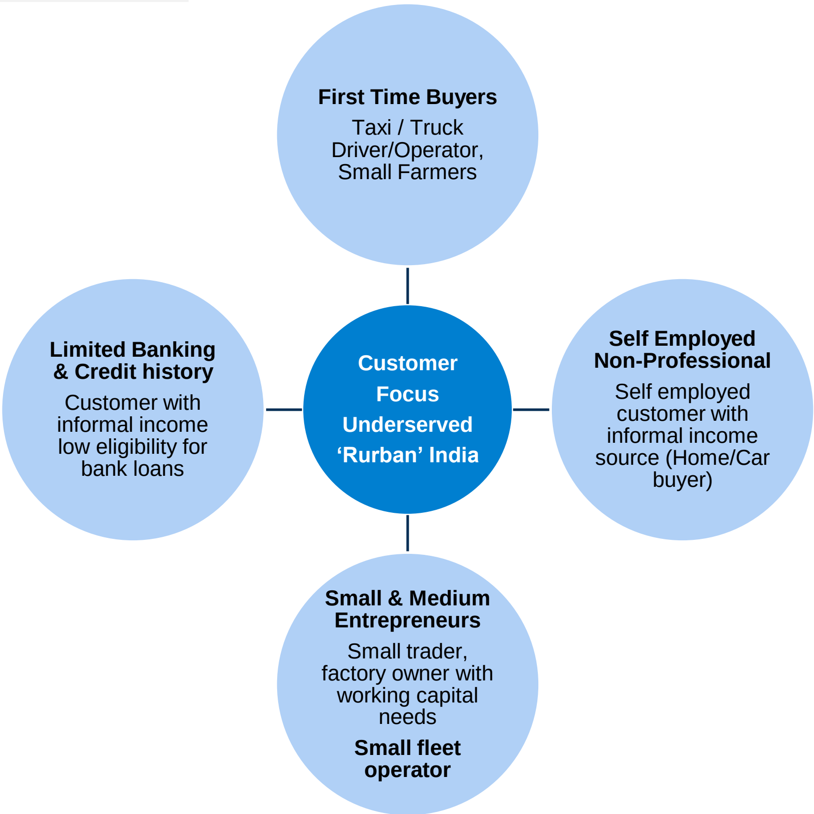
Exhibit 15: ...across tractor and CE segments – first time buyers, small & marginal operators, captive users



Source: Company, PL

Positioned itself in the middle of the CV operator pyramid, CIFC caters to the small and medium road transport operators for new and used CVs and MUVs and tapping the higher level of the bottom of the pyramid focusing on first-time users for SCVs and older CVs. MSME and agri-based customer segment contributes 65% of the overall disbursements. CIFC engages itself in financing five to ten-year-old vehicles, particularly, LCVs and HCVs which fall in the range of 7.5-16.5 tonnage targeting drivers of these vehicles with sufficient cash flows and relatively lower operating expenses. The company focuses on used CV financing, targeting the seasoned customer base who would be buying the second order truck.

Exhibit 16: CIFC largely focuses on smaller business segment



Source: Company, PL

GST roll-out and resultant emergence of key hubs in major locations have led to increased freight load erasing cost advantages that unorganized SRTOs historically enjoyed. Capturing this market potential, CIFC caters to small and medium fleet operators both on used and new CV side. While the lending yields for the SRTOs in the used CV segment at 14.5-16.0% exceed the new CV yields at 11.0-12.5% due to the inherent risky nature of the former portfolio, the yields for FTUs particularly the used CV and SCV segment stand highest at 17-20%.

Exhibit 17: ...dominated by SRTOs and medium CV operators

Target market	Vehicles	RoI	New/used	Losses	Lenders
First-time users	1 to 3	20%+	Primarily used	2.5%	Money lenders, SHTF
SRTOs	4 to 10	16-18%	Primarily used	2.0%	CIFC, L&T Fin, Magma, SHTF
Medium CV operators	11 to 25	15-18%	Used & New CVs	1.25%	CIFC, IIB, Magma
Large CV operators	26 to 50	12-15%	Primarily new CVs	1.0%	CIFC, IIB, Magma
Principal owners	Over 50	10.5-13%	Mostly new CVs	0.5%	Pvt bks (Axis, HDFC B, Kotak, others)

Source: Company, PL

Robust dealer network and strong OEM relationships is a key to VF business success. CIFC shares unique arrangement and preferred financier tie-ups with certain OEMs.

Banks on strong dealer relationships

CIFC enjoys strong OEM support and superior dealer service. The company *engages in consulting and interactions at manufacturer level which also forms* integral part of expansion of VF distribution network.

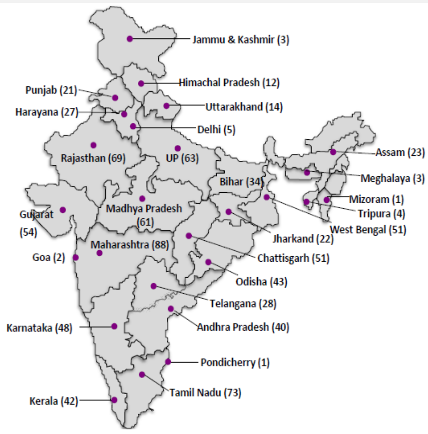
Exhibit 18: Key partnerships - strong dealer-manufacturer relationships

Relationship building	Key Tie-ups
Developing relationships with	Tata Motors Limited
Manufacturer/OEM	Mahindra & Mahindra Limited
OEMs at the regional level	Ashok Leyland Limited
Dealership owners	SML Isuzu Limited
Sales force executives at the dealership	Force Motors Limited
	Daimler India Commercial Vehicles
	Eicher Polaris
	John Deere India
	Mahindra Gujarat Tractors Limited
	Sany India
	Hyundai Construction Equipment India
	Escorts Construction Equipment
	Action Construction Equipment Limited
	Terex India
	Royal Enfield India

Source: Company, PL

Strategic combination of direct + external sourcing mechanism

CIFC's distinct strategy with sourcing coming through combination of external agencies and direct sales teams forms its USP. 63% of the VF finance mix stands dominated by key products such as HCV, LCV, Cars and MUV and three-wheelers where sourcing strategy plays a key role in fundamentally driving the business traction. While HCV financing stands entirely sourced by internal staff with little reliance on external agencies, it being a relationship-based business, LCVs, cars and three-wheelers are sourced through a combination of external agencies and direct sales teams.



Lower geographic concentration risks

Not a single state exposure of CIFC stands at more than average 25% of the overall branch location mix, thereby, reducing geographic concentration risks.

Exhibit 19: Reduced dependence on South; CIFC a pan-India play now

Zones	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
- West	26.0%	21.0%	24.0%	24.0%	26.0%	26.0%	24.0%	23.0%
- South	36.0%	40.0%	35.0%	33.0%	27.0%	27.0%	29.0%	26.0%
- North	22.0%	23.0%	24.0%	24.0%	26.0%	26.0%	24.0%	24.0%
- East	**16.0%**	**15.0%**	**17.0%**	**19.0%**	**21.0%**	**21.0%**	**23.0%**	**27.0%**

Source: Company, PL

With Pan-India expansion, CIFC has been moving off home turf and foraying into newer geographies; such as East – capitalizing on improving industry drivers (mining activity pick-up, asset quality improving)

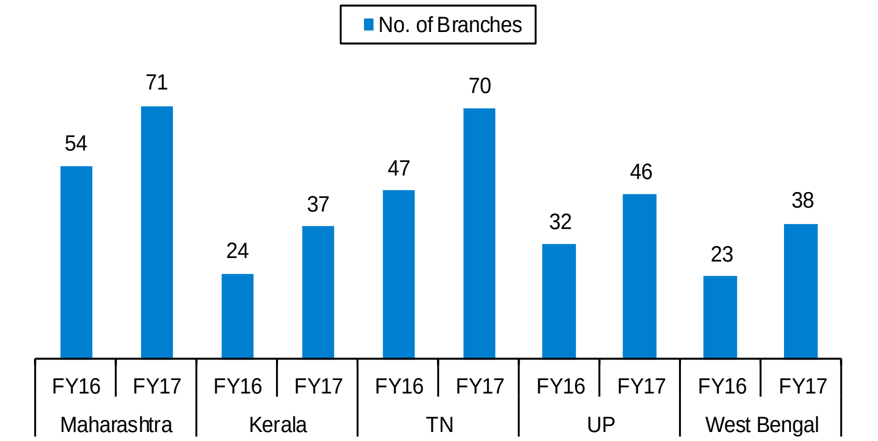
CIFC has presence in growing markets of Maharashtra (West), Kerala, Tamil Nadu (South), UP (North) and West Bengal (East)

Exhibit 20: CIFC has superior geographic diversification

Zones	CIFC	SHTF	SUF	MGMA	SCUF
West	23.0	26.4	12.5	27.0	23.0
South	26.0	35.8	64.5	20.0	67.0
North	24.0	13.4	19.4	35.0	10.0
East	27.0	24.5	3.6	18.0	0.0

Source: Company, PL, Note: SCUF: East region has 22 branches, which are combined with North region

Exhibit 21: CIFC has presence in high growth regions



Source: Company, PL

Supported by diversified VF mix

CIFC leverages upon the potential available in the broad-based product offerings under the VF segment. The company's VF business reviews its product mix based on evaluation criteria that takes into consideration the market size, product category risks, competitive intensity, financial viability and the ability to enhance customer value. CIFC's product portfolio expansion strategy is mapped to customer profile giving it edge against peers.

Exhibit 22: CIFC is backed by better business mix on a seasoned book

Business segments mix % (FY18)	SHTF	MMFS	CIFC	SUF	SCUF	MGMA
Auto/UVs	-	27.0	-	-	13.1	-
HCVs	47.0	-	14.0	52.8	-	7.9
LCVs	20.7	-	16.2	-	-	-
SCVs	-	-	4.4	-	18.3	-
PVs/cars	23.3	22.0	11.8	29.2	-	23.6
Tractors	4.1	17.0	5.1	4.8	-	16.4
CE	0.4	14.0	2.9	8.4	-	6.3
Pre-owned/Used	NA	8.0	19.1	-	-	15.7
Home Equity	-	-	23.3	-	-	17.6
SME/Others	4.9	12.0	3.2	4.8	68.6	12.5

Source: Company, PL

83% of SHTF business emerge from used CV segment

CIFC lays greater thrust on lucrative high margin LCV, tractor and used CV segments

Exhibit 23: CIFC portfolio is shifting towards high yielding segment

Portfolio Mix (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Car & MUV	7.0	8.0	8.0	12.0	15.0	16.0	17.0	16.0	16.0	16.5
3W & SCV	14.0	11.0	11.0	9.0	8.0	7.0	6.0	6.0	5.5	5.0
LCV	**36.0**	**33.0**	**34.0**	**29.0**	**26.0**	**25.0**	**22.0**	**22.0**	**23.0**	**23.0**
HCV	16.0	15.0	14.0	12.0	13.0	14.0	17.0	19.0	17.5	17.0
Tractors	**0.0**	**4.0**	**6.0**	**9.0**	**10.0**	**10.0**	**9.0**	**7.0**	**7.0**	**7.5**
CE	0.0	0.0	0.0	0.0	0.0	0.0	3.0	4.0	3.5	3.0
Refinance	**0.0**	**0.0**	**11.0**	**16.0**	**15.0**	**15.0**	**13.0**	**13.0**	**14.0**	**14.5**
Used vehicles	**27.0**	**29.0**	**16.0**	**13.0**	**13.0**	**13.0**	**13.0**	**13.0**	**13.5**	**13.5**

Source: Company, PL

Backed by key IT initiatives in VF business

While traditionally CIFC has been primarily focusing on VF and HE side of business, the robust technological initiatives have enabled a shift to diversified offerings. Over the years, CIFC has been leapfrogging technological and digital ride, in turn, driving the business. Few such initiatives have been enlisted here:

- Introduction of White Data Systems India (WDSI) provides a holistic and comprehensive range of services, providing tangible benefits to truck operators, booking agents, brokers and load providers at an optimal price. Through its e-commerce platform called i-Loads, CIFC helps truckers and transport owners towards arranging return loads for their trips saving time, resources and money. It aids resolving empty truck dilemma for the operators.

- Launch of *Chola APP* for faster loan processing, TAT and improved digital customer service.

- CIFC is in the process of developing a robust dealer management system, *Dealer plus*, to be empanelled with used car dealers. Such a system should throw insight on dealers' transactions and network, thereby, aiding right identification of the right dealers for inventory funding. CIFC engages with car portals to fund their used car dealers helping faster penetration and maintaining a healthy portfolio.

- Creation of virtual branch network trough tablet initiative enabling speedier collections, seamless loan delivery to customers and easing out routines for the workforce making them more productive.

- Launch or pre-paid loyalty cards, *Chola Vishesh*, providing revolving credit for WC and exigency needs of customers facilitating higher customer retention supporting loan traction.

- Launch of *GAADI Bazaar APP* that brings brokers/dealers, transporters, drivers and anyone wanting to buy and sell used CV on one single platform.

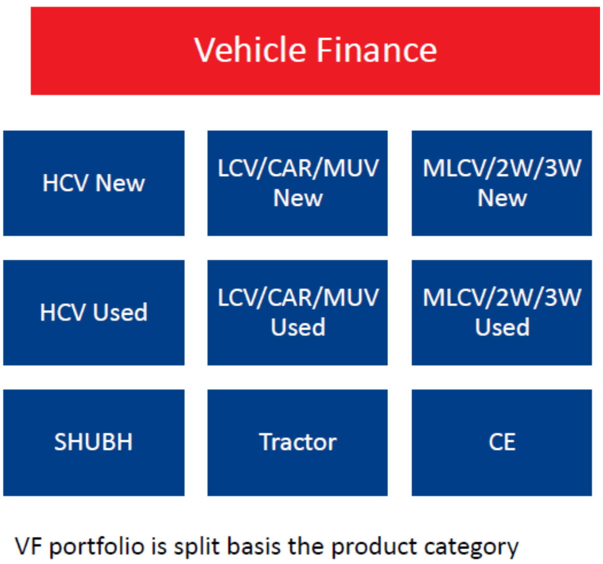
Through aggressive collection efforts, VF business witnessed reduction in GNPA from 4.2% (FY17) to 2.0% (FY18) with an absolute reduction of Rs 3.54bn. The net credit losses (NCL) to avg assets have come down to 0.9% from 1.4 % in the same period

Credit Quality – a boost to RoA

The sharp improvement in VF portfolio over FY18 can be attributed to the following key factors:

- A new initiative and organization restructuring, coupled with top management focus, has been driving down NPAs for last 6-7 months. Consequently, Q1FY19 saw GNPA at 2.2% compared to 4.2% in Q1FY18.
- Implementation of tablet-based system for business origination and collections have helped VF scale up disbursements and maintain asset quality.
- CIFC exercises rejection at two levels, one at the sourcing or sales executive level and then at the underwriting level. Technological initiatives have enabled quicker decisions with respect to early rejections.
- Aggressive collection efforts on the back of new initiatives on the underwriting side and collection side have enhanced collection efficiency in vehicle finance side of business. CIFC's collection efficiency in the 1st bucket has improved significantly and before time alongside higher buckets.
- Delivery mechanisms have been strengthened in hinterland markets wherein the major VF business emerges and wherein customer
- Pooling of product portfolios hinging upon respective product LGDs, PDs and recovery potential have led to better study of basic account conduct leading to faster assessment of expected credit loss – the technique CIFC exercises right the initial stage of product/geography launch.

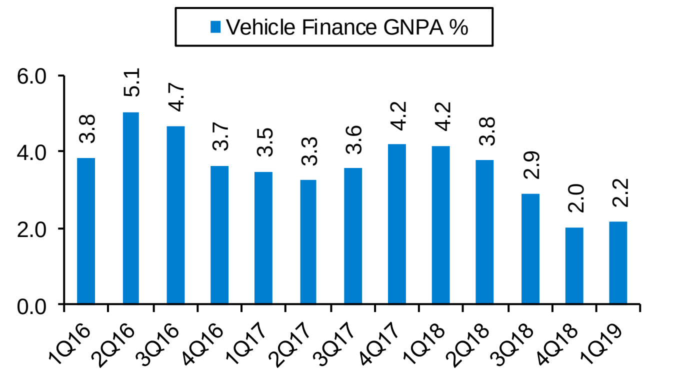
Exhibit 24: Portfolio segmentation under IND AS



Source: Company, PL

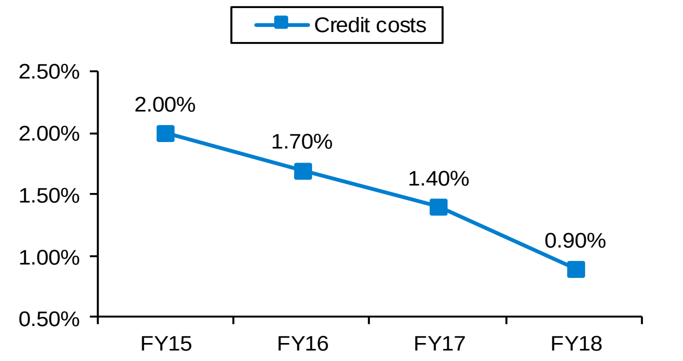
For Q1FY19, VF segment saw stable asset quality as GNPA increased only increased only ~14 bps QoQ to 2.18% with VF provisions standing flat at ~90 bps QoQ.

Exhibit 25: VF GNPAs halved over past one year



Source: Company, PL

Exhibit 26: ...with sharp decline in credit costs in FY18



Source: Company, PL

CIFC has seen 25.2% AUM CAGR over FY16-18

CIFC curbed disbursements turning cautious in the FY13-FY16 down-cycle (economic downturn, mining ban impacting freight availability, diesel prices spike, strained operator cash flows), only to pick-up at 25% CAGR over FY16-FY18 led by effective tie-ups, organizational restructuring, faster TAT (led by digitalization of sourcing new loans and customer on-boarding), in-house sourcing team, profitable business mix and effective underwriting leading to lower delinquencies.

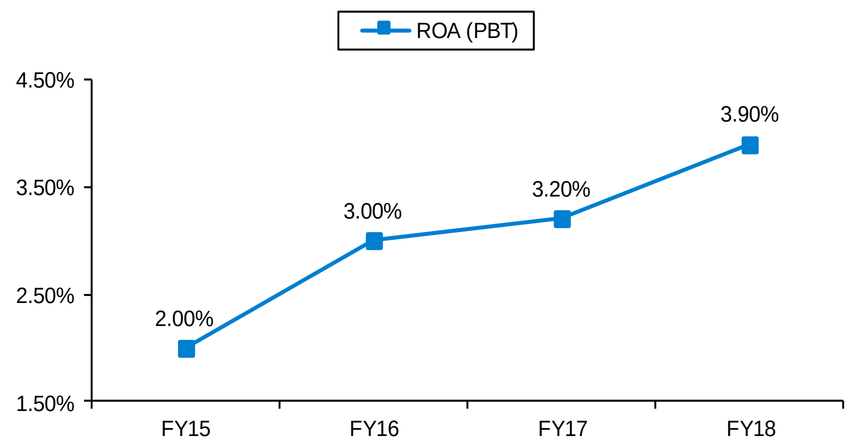
Exhibit 27: Robust VF business trajectory vis-à-vis industry CV sales growth

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY11-FY18 CAGR %	FY16-FY18 CAGR %
Industry Total CV VOLUMES (*000 units)	684.0	809.4	792.9	632.7	614.9	684.1	714.2	856.7	**3.3**	**11.9**
Total CV volume growth %	**28.7**	**18.3**	**-2.0**	**-20.2**	**-2.8**	**11.2**	**4.4**	**20.0**		
CIFC VF AUM (Rs bn)	60.1	98.5	143.7	170.6	173.7	201.0	236.3	315.1	**26.7**	**25.2**
CIFC VF AUM growth %	**33.2**	**47.6**	**41.0**	**22.4**	**9.5**	**16.5**	**15.2**	**25.5**		
CIFC VF disbursements (Rs bn)	45.0	73.1	98.8	101.3	93.6	123.8	144.7	205.4	**24.2**	**28.8**
CIFC VF disbursements growth %	**57.1**	**62.5**	**35.3**	**2.5**	**-7.6**	**32.3**	**16.9**	**41.9**		

Source: Company, PL

Consistent reduction in incremental delinquencies and sharp decline in credit costs have translated into healthy PBT-RoTA of close to 4% and this should stand maintained ahead.

Exhibit 28: CIFC has healthy VF PBT- RoTA of ~4%



Source: Company, PL

Home equity (HE) – regaining lost momentum

HE finance business is the second largest contributor to the AUM and the revenue mix and key engine of growth for CIFC. Commencing operations in FY07, CIFC's HE business contributed 23% to the total AUM and 13% to the overall disbursements as at the end of June 2018. With robust record of 24% AUM CAGR followed by healthy 14%+ disbursements CAGR over FY11-FY18, the VFHE AUMs today stands at Rs103bn.

HE market potential intact; 17% CAGR over last 10 years

Driven by sustained demand for credit from self-employed non-professionals to expand their businesses and the awareness amidst borrowers with respect to lower interest rates of HE loans as against MSME businesses, HE segment stands on a strong footing. A prudent HE business, focused on long tenure collateralized assets, aid harmonizing balance sheet given the spread-out repayment period over a longer time frame.

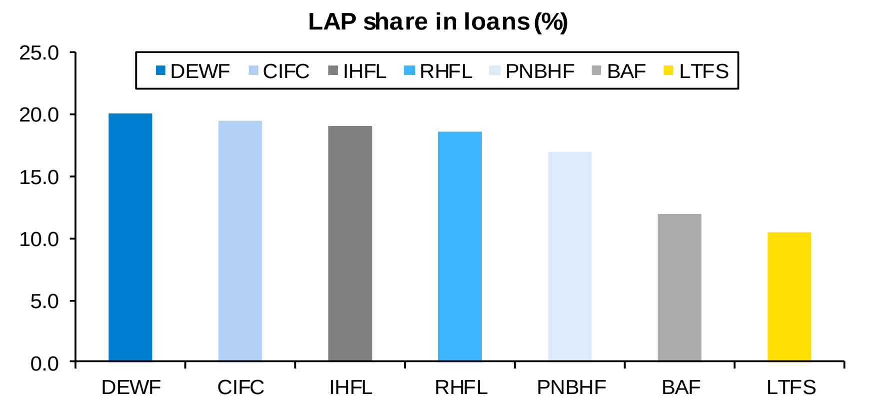
Quality LAP still remains an attractive market

HE or LAP market has recorded rapid growth with AUMs rising 17% to Rs1.7tn in FY17 from Rs1.5tn in FY06 led by a higher number of balance -transfer cases, rising property prices, higher risk appetite of NBFCs in terms of higher LTV ratios, better product awareness, higher capital requirement among small businesses and greater focus by financiers. With corporate credit going sluggish, banks too participated in the growth run.

Period between FY17-FY18, however, saw slowdown in LAP market on account of rising risks with increased pressure on yields, rising LTVs, spike in commercial property mortgages followed by demo and GST rollout/RERA implementation complications. FY19 would see trend reversal with increase in self-employed borrower profiles, higher finance penetration from organized channels in smaller towns, increasing customer awareness for credit off-take, favorable risk-return equation and competitive interest rates. CRISIL research expects LAP portfolio to grow at 13-15% in FY19 to Rs4,259bn and 15% by FY20. Spreads, however, continue to narrow between LAP and home loan products due to intense competition led by aggression of new lenders in the small ticket market.

CIFC stands as one of the major players in HE market

Exhibit 29: CIFC is second largest player in LAP market



Source: Company, PL

HE Business strategy for low risk and high return market potential:

(a) Going interiors i.e. in the Tier III/IV

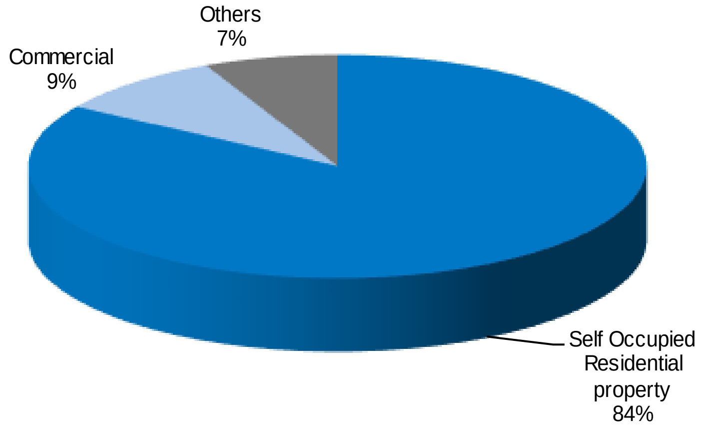
(b) Shift of focus to lower ticket lending

(c) Reduction of DSA dependence

CIFC's HE (LAP) is a low-risk product

CIFC's HE (mortgage portfolio) stands peculiar with focus on secured lending, restricted LTVs and incremental geographic expansion only into Tier III/IV towns which offer low risk and high potential. CIFC has ~20k customers in the LAP segment. With thrust on self-occupied non-professionals (for meeting their capacity utilization, working capital, debt repayment needs, etc), which stand relatively safer as loans are secured by residential or commercial property, these account for 70-75% of CIFC's disbursements.

Exhibit 30: CIFC's HE mix stands largely dominated by SORP



Source: Company, PL

The HE product carries a lower interest rate compared to personal loans and hence popular amongst small business professionals. With an LTV of 50-60% (50% LTV at origination) and average ticket size of Rs0.5mn, HE loans tend to be stickier with average tenure of 5-7 years vis-à-vis vehicle loans with a shorter tenure of 3-5 years. Long tenure loans are serviced across 169 locations (164 co-located with VF) of CIFC with pricing standing in-line with industry. Combating the aggressive pricing pressures, balance transfer than genuine cases, CIFC has laid thrust on the collateralized-base lending (against residential/commercial property) with floating rate loans (yields ranging between 14-16%) on a vintage book.

Decline in DSA dependence – implies good credit augmentation

CIFC has put various checks and verification in place and the responsibility of the same rests with independent field investigation agents while credit underwriting remains centralized with in-house expertise in place. With capable internal team on the job, the DSA sourcing has reduced to 41% today from the highs of 60% earlier ensuring augmentation of quality fresh credit and not mere balance transfer cases. The company aims for 70% of the business from incremental branch addition from direct channel in FY19.

HE GNPA concerns peaked, credit costs down

HE GNPAs have peaked and should improve hereon drastically, especially with following measures in place:

- With greater focus on analytics and automation in underwriting process, customer behavior, efficiency of sourcing channels and collection analytics, thereby, strengthening customer and channel partner relationships.
- CIFC exercises higher rejection backed by extensive use of bureau yet solely not dependent on CIBIL data and avoidance of risky profiles (builders, contractors).
- For HE credit appraisal, CIFC has set up separate verticals with each vertical having independent targets vis-à-vis their functions, with convergence of verticals at senior levels. Moreover, personal visits by credit manager on every case, assessment of both collateral and repayment capacity continues to ensure credit quality.

Shift of focus towards low ticket LAP

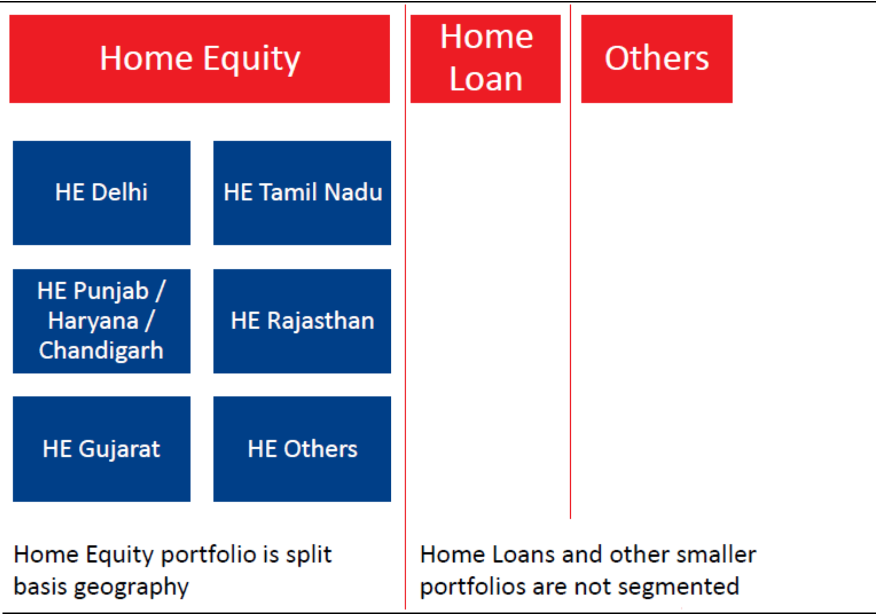
GNPA levels have dropped to 5.36% in FY18 from 5.77% in FY17

- The company should benefit from shift of focus towards lower ticket size loans (>Rs1mn), given higher competition from banks in Rs 2-3mn ticket size wherein interest rate sensitivity of buyer is higher, and asset quality tends to be shaky.

SARFAESI resolutions have started to yield results particularly from Q4FY18 and better resolutions in pipe-line during FY19 indicating bettering asset quality trends ahead

- SARFAESI resolutions have started to yield results particularly in Q4FY18 and the business expects to see better resolutions during FY19. CIFC has referred ~170 cases to SARFAESI over past 6-12 years; current repossessed property stock stand at 45 (ATS: Rs 150 to 200 mn) and ready for auction. This is indicative of anticipated asset quality improvement.
- INDAS migration led to company demarcating the HE and likewise home loan portfolio geography-wise as per Expected Credit Loss approach. PD term structure and LGDs are computed for each segment separately.

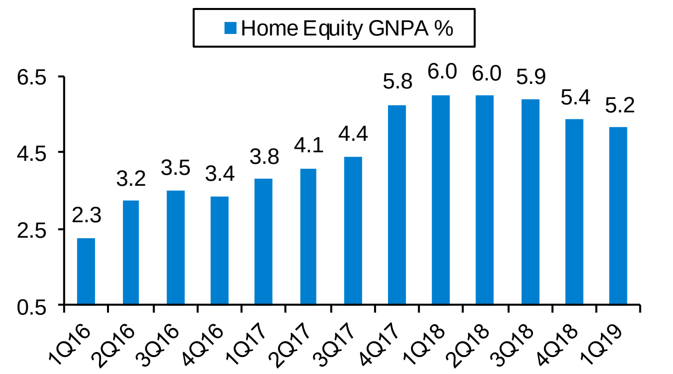
Exhibit 31: Portfolio segmentation under IND AS



Source: Company, PL

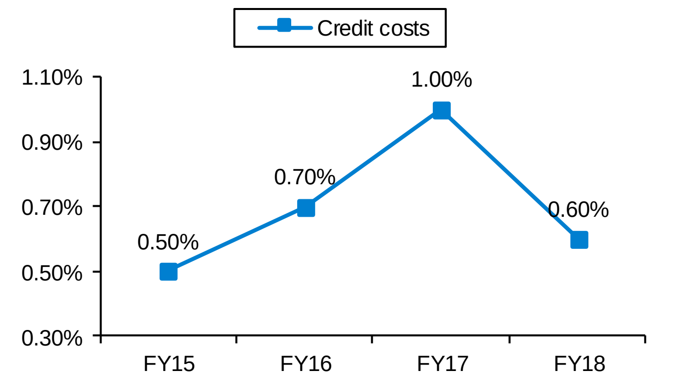
Q1FY19 witnessed both growth and quality for HE segment with disbursements standing highest since past 7 quarters at Rs 9.4bn and NPAs beginning to decelerate. For the quarter gone by, 40% of HE GNPAs stand under SARFAESI at various stages. CIFC has a current stock of 45 repossessed properties and with clear resolution on cards, there lies further scope for asset quality improvement.

Exhibit 32: HE NPAs declined 80 bps over 1 year



Source: Company, PL

Exhibit 33: Credit costs declined 60 bps in FY18



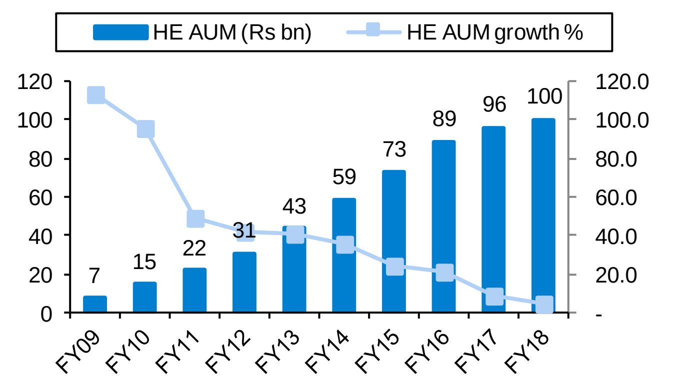
Source: Company, PL

Challenging times (demo, GST implementation, competition) called for business consolidation

CIFC HE AUM at 6% CAGR over FY16-18 on cautious stance

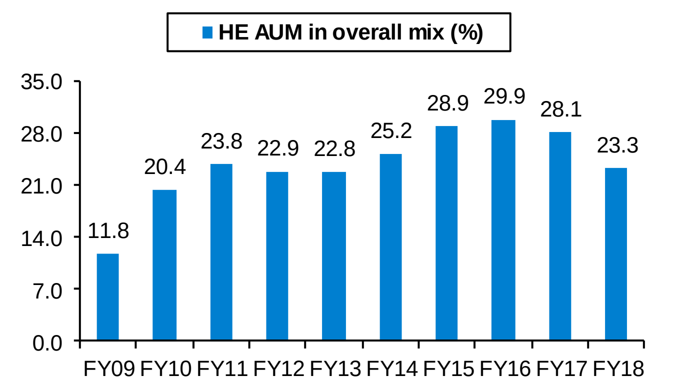
Growing at healthy 39% CAGR over FY11-FY14 and another steady 18% CAGR over FY14-FY17; the HE AUM traction decelerated thereafter and stood tepid at 6% CAGR for FY16-FY18. De-growth in the economy after GST and demonetization impact led to slowdown in credit offtake (led by higher pre-closures) and deteriorating credit quality. Therefore, CIFC had strategically chosen to curb disbursements or restrict aggression, resultantly, growth remained flat in FY18. These tough times called for cautious business strategy and subsequently, HE business stood on consolidation mode. HE's AUMs stood tepid at 4% growth YoY in FY18, given the cautious stance underpinned by tough market conditions. Resultantly, HE's share in overall mix dipped to 23% IN FY18 v/s 30% in FY16.

Exhibit 34: HE business traction decelerated



Source: Company, PL

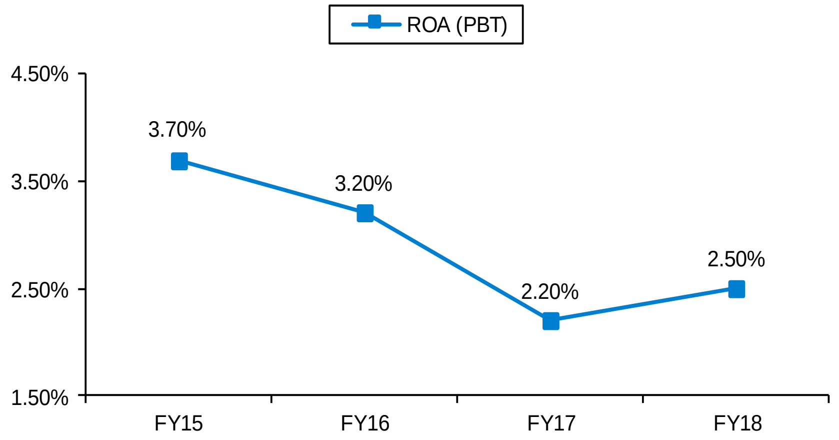
Exhibit 35: HE as a share of business declined



Source: Company, PL

Post decline for three consecutive years, improvement in PBT-RoTA

Exhibit 36: PBT RoTA back on improvement mode since FY18



Source: Company, PL

Financial Analysis

CIFC's AUM to expand 1.5x over FY18-20E

Steady VF AUM growth over past six years barring the downturn in FY14-FY16 and cautious HE traction boosted overall AUMs

Ever since CIFC has embarked on a transformation exercise (FY10) followed by diversification and building up scalability, the AUMs have grown at 25% CAGR over FY11-FY18, with VF and HE recording 27%/24%+ AUM CAGR each. The trend was maintained with distinguished focus on cyclical VF business, coupled with cautious HE segment (macro challenges: demo, GST transition, pre-closures on dropping lending rates in the market), translating into yet another healthy 20% overall AUM CAGR and 30%+ earnings CAGR over FY16-18.

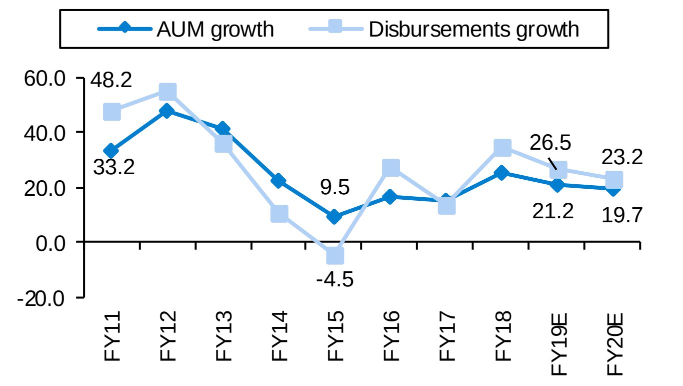
Exhibit 37: CIFC has demonstrated consistent healthy business trajectory placing it ahead of peer set

AUM Growth YoY (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CIFC	**33.2%**	**47.6%**	**41.0%**	**22.4%**	**9.5%**	**16.5%**	**15.2%**	**25.5%**
SHTF	24.1%	11.1%	23.3%	7.1%	11.3%	23.1%	8.2%	21.0%
MMFS	41.0%	36.2%	35.2%	22.3%	8.0%	11.0%	14.3%	17.8%
SUF	17.1%	25.0%	12.1%	3.6%	3.6%	10.0%	15.9%	19.3%
MGFL	17.1%	25.8%	34.9%	10.1%	9.5%	-7.1%	-11.5%	-0.3%
SCUF	53.4%	67.9%	17.8%	-7.3%	14.0%	17.1%	18.2%	18.7%

Source: Company, PL

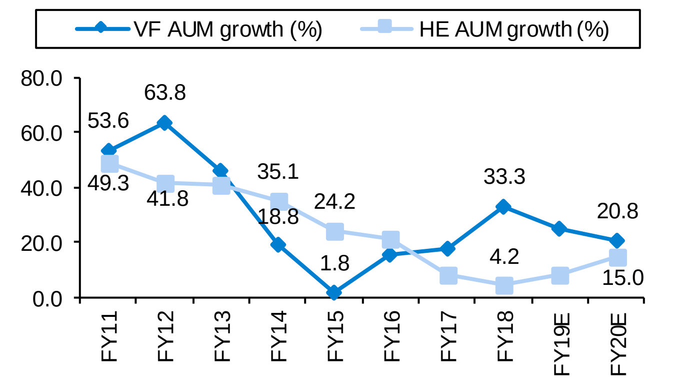
With core businesses continue to stay on an upward trajectory (robust 26% VF AUM CAGR and steady ~15% HE AUM CAGR), overall AUMs to grow at ~20% CAGR over FY18-20E.

Exhibit 38: CIFC poised for robust AUM CAGR at 20%



Source: Company, PL

Exhibit 39: .. led by strengthening of core businesses



Source: Company, PL

Exhibit 40: 23% VF AUM CAGR to lead to 20% overall AUM CAGR, HE to grow at 11.7% CAGR over FY18-20E

Business (Rs bn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY11-15 CAGR %	FY16-18 CAGR %	FY18-20E CAGR %
Total AUM	91	135	190	233	255	297	342	429	519	622	29.2	20.3	20.4
VF AUM	60	98	144	171	174	201	236	315	394	476	30.4	25.2	22.9
HE AUM	22	31	43	59	73	89	96	100	108	125	35.3	6.3	11.7

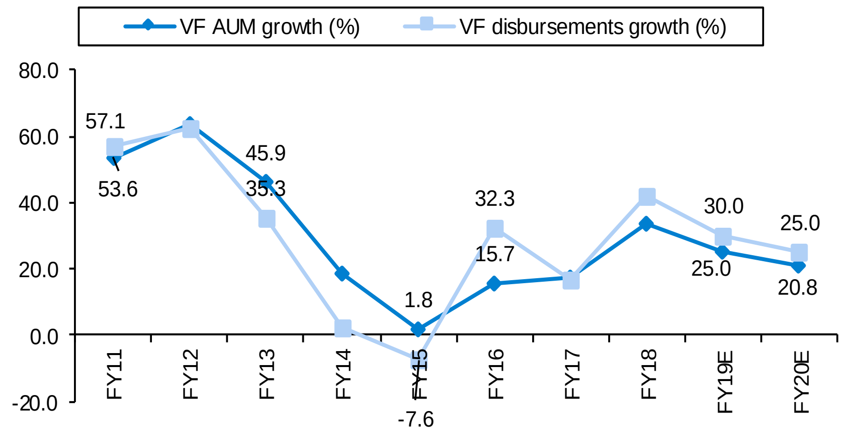
Source: Company, PL

VF division has recorded healthy 27% AUM CAGR followed by robust 24% disbursements CAGR over FY11-FY18) led by LCVs, used CV

VF AUM to report a steady 23% CAGR over FY18-20

Barring challenging periods of FY13-FY16, LCV sales growth has stood stronger than other segments over the years. By virtue of CIFC's VF mix dominated by LCV segment (7.5-12 tonnage), the overall VF AUM traction continues to stay healthy.

Exhibit 41: Expect another 23% AUM CAGR in VF over FY18-20E



Source: Company, PL

Exhibit 42: CIFC to outgrow competitors in VF business

AUM Growth YoY (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
CIFC	**53.6%**	**63.8%**	**45.9%**	**18.8%**	**1.8%**	**15.7%**	**17.6%**	**33.3%**	**25.0%**	**20.8%**
SHTF	24.1%	11.1%	23.3%	7.1%	11.3%	23.1%	8.2%	21.0%	20.0%	19.4%
MMFS	41.0%	36.2%	35.2%	22.3%	8.0%	11.0%	14.3%	17.8%	17.8%	17.9%

Source: Company, PL

With macros turning, AQ concerns are behind; HE growth pick-up stand imminent: 15% AUM and 12% disbursements growth for FY20

Worst seems over, HE business AUM to grow at 15% CAGR

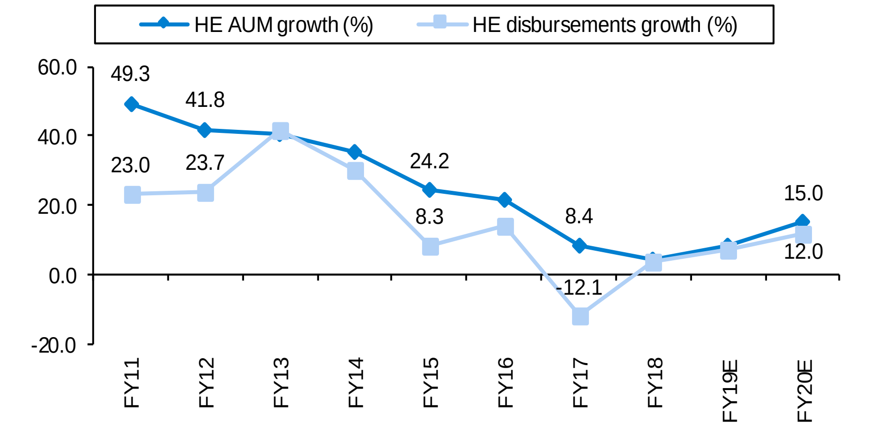
Banking on CIFC's business expertise (>10 years into HE segment), the company maintained a cautious stance in these times towards business scale-up and laid greater thrust on lower ticket size loans (not higher than Rs1mn) as against competitive Rs 2-3 mn ticket size (flocked largely by banks). Going forward, with challenging times behind, the anticipated growth should stand commensurate with the expanding network (current 139 branch network, expected to climb to 200+ over the next two quarters) in turn gradually improving HE AUM trajectory.

Exhibit 43: HE loan book to scale up-to ~Rs125bn book by FY20

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY11-FY14 CAGR %	FY15-FY18 CAGR %
HE AUM (Rs bn)	7	15	22	31	43	59	73	90	96	100	108	125	39.2	11.1
% growth	*113.4*	*96.1*	*49.3*	*41.8*	*40.7*	*35.1*	*24.2*	*23.8*	*6.4*	*4.2*	*8.5*	*15.0*		

Source: Company, PL

Exhibit 44: HE: growth back in reckoning



Source: Company, PL

Operating leverage to play out

Historically, cost-income (C/I) metrics have stood at elevated levels for CIFC. While this has been largely in commensurate with network expansion and technological investments, persistent cost rationalization measures and robust AUM traction have already set the improvement tone.

Exhibit 45: CIFC has potential for C/I improvement

C/I Ratio (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CIFC	**54.60%**	**49.76%**	**44.12%**	**43.27%**	**39.43%**	**41.71%**	**41.36%**
SHTF	22.82%	22.37%	24.75%	26.40%	25.73%	22.59%	21.32%
MMFS	35.36%	32.60%	33.03%	32.61%	36.07%	42.93%	39.74%
SUF	33.49%	32.60%	33.30%	34.00%	36.20%	36.90%	36.60%
MGFL	66.70%	59.50%	58.50%	59.40%	48.00%	48.65%	50.34%
SCUF	37.70%	37.90%	38.30%	42.70%	42.40%	39.50%	40.00%

Source: Company, PL

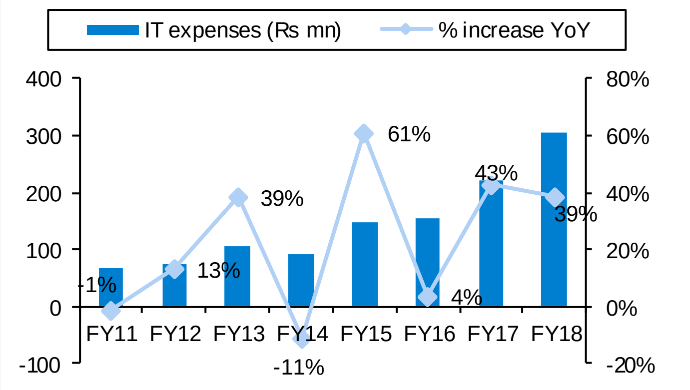
So, the period between FY11-FY14 had witnessed 2.5x+ increase in total branch network with commensurate cost-income spike to average 50% levels. However, with branch rationalization in place, network expansion normalized during FY14-FY18 led by consolidation of gold loan business (closure of the stressed 40 gold loan branches in FY15), cost-income declined 118bps (said period).

Demonetisation, technological expenses marred operating leverage

Barring FY17 (year of demo impact), employee costs over the years have stood at manageable levels; however, the non-employee share only accentuated. The recent trend indicates that CIFC has witnessed non-employee cost increase exceeding that of employee costs. Technology-led initiatives and aggressive collection efforts stemming from demo-related and market pressures during the downturn weighed upon the operating leverage from FY15 until recent periods. Recovery costs more than doubled from Rs650mn in FY13 to Rs1.4bn in FY15, standing flat in FY16 with slight moderation in FY17 at Rs1.2bn, thus, adding to the overall spike in non-employee costs. Non-employee costs per branch have been declining at a rapid pace FY16 onwards – the time period when both branch and technology related expenditure began normalizing.

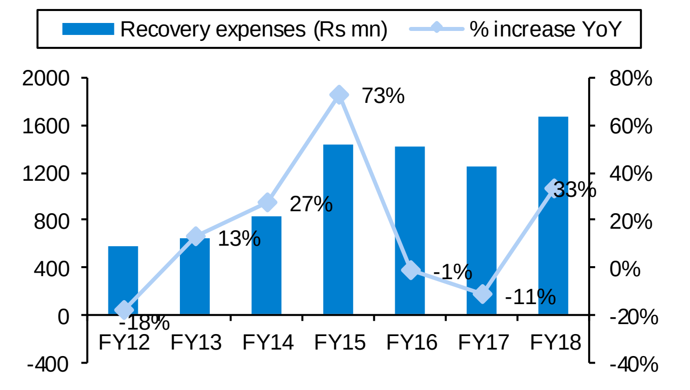
While FY18 too closed on a higher note with opex growth at 22% YoY, the jump has been largely due to investments in analytics team, additional hiring for collections and channel expansion.

Exhibit 46: Elevated IT expenses…



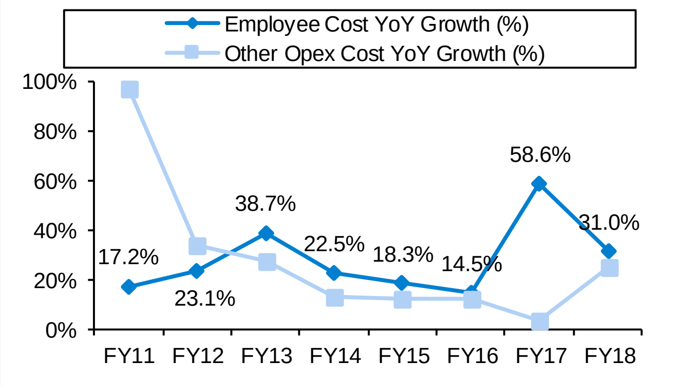
Source: Company, PL

Exhibit 47: …and recovery expenses in past 4 years



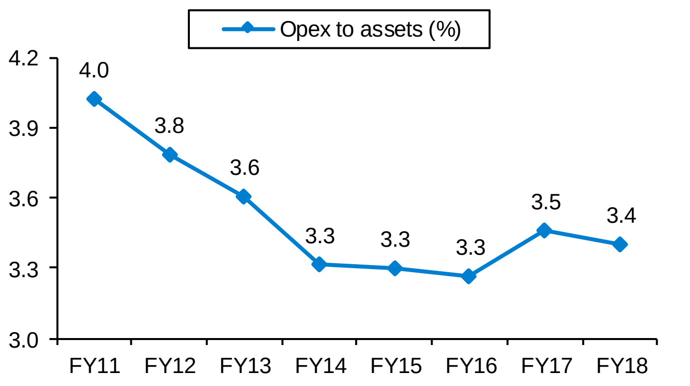
Source: Company, PL

Exhibit 48: …have proved a drag on cost metrics for CIFC



Source: Company, PL

Exhibit 49: opex to assets – spiked in recent periods



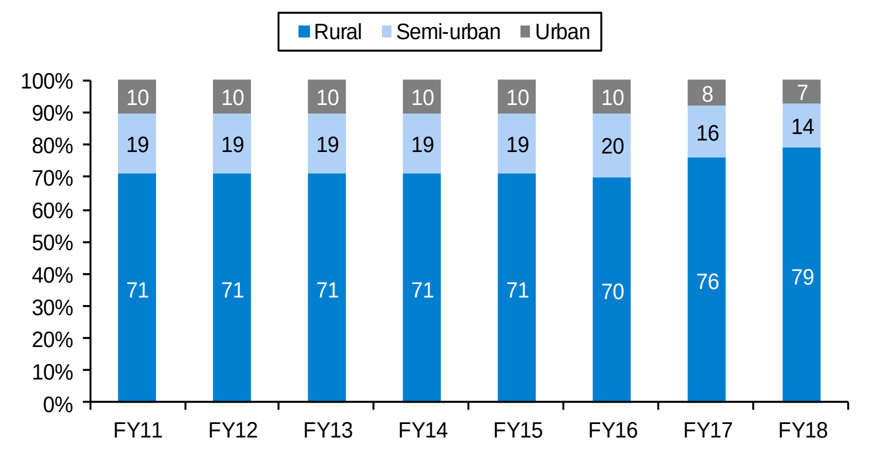
Source: Company, PL

CIFC's primary focus is to acquire new customers in rural market, to provide better reach enabling repeat business and to proximity for better collection.

However, incremental network coming at marked down costs

The company's strategy to penetrate into hinterlands not only offer pricing power but also comes at lower costs. The incremental branches in rural areas for CIFC account for ~Rs1-1.5mn p.a. costs per branch with 70-80% of these branches breaking even within the first year of their operations. This has enabled CIFC to exercise greater degree of opex control despite business traction (CIFC improved its expense ratio by 132 bps to over FY12-18).

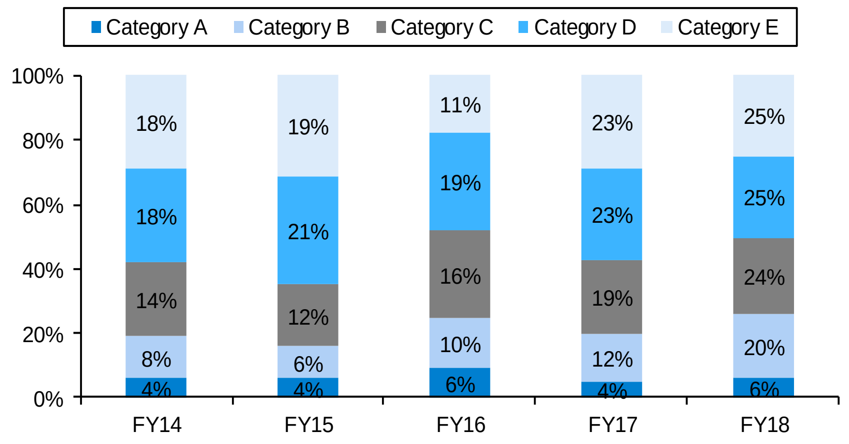
Exhibit 50: Rural presence on the rise



Source: Company, PL

Recent periods show branches maturing rapidly with 'B' & 'C' count growing bringing in operating efficiencies. With 50% of the network falling into 'D' and 'E' category, move to matured stage in forthcoming periods should pace up.

Exhibit 51: Branches maturing faster

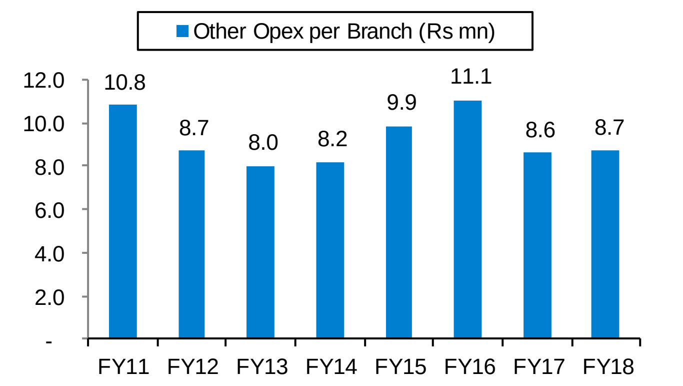


Source: Company, PL, Note: 'A': most matured, 'E': least matured/new branch

Branch productivity on uptrend mode

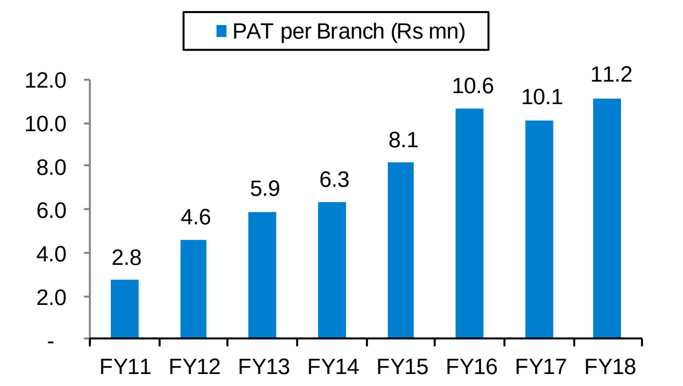
With business traction remaining upbeat and technological investments already yielding results, branch productivity has been gradually catching up.

Exhibit 52: With rapid decline in other opex per branch



Source: Company, PL

Exhibit 53: .. branch productivity improving

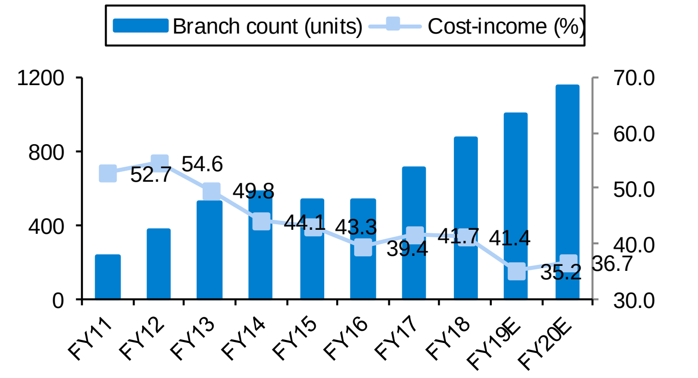


Source: Company, PL

…gradually operating leverage to play out

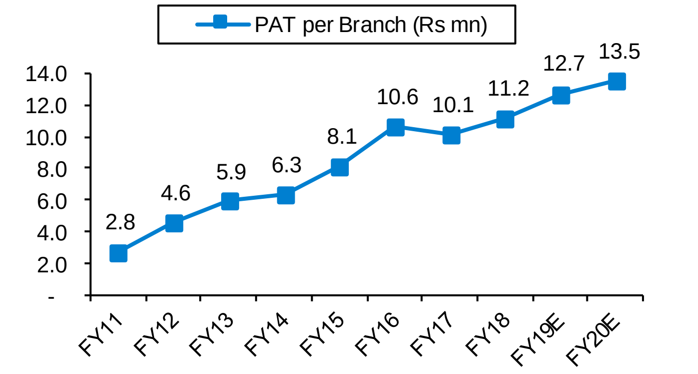
Focus on leaner organizational structure (branch consolidation back of the stressed gold loan branches in FY12), incremental branch expansion at marked down costs, leveraging upon technological initiatives across business areas (lucrative mobile/tab - based solutions) and cross-sell expertise (more products per employee/branch) have aided improved productivity and reduction in turnaround time (TAT) for CIFC. Against this backdrop, we envisage 462bps cost-income decline, cost-assets reduction to 2.7% (while INDAS accounting aiding improvement, cost rationalization yielding results too) and improved profitability per branch rising 234bps to 13.5% over FY18- FY20E.

Exhibit 54: .. incremental branch coming at lower costs



Source: Company, PL

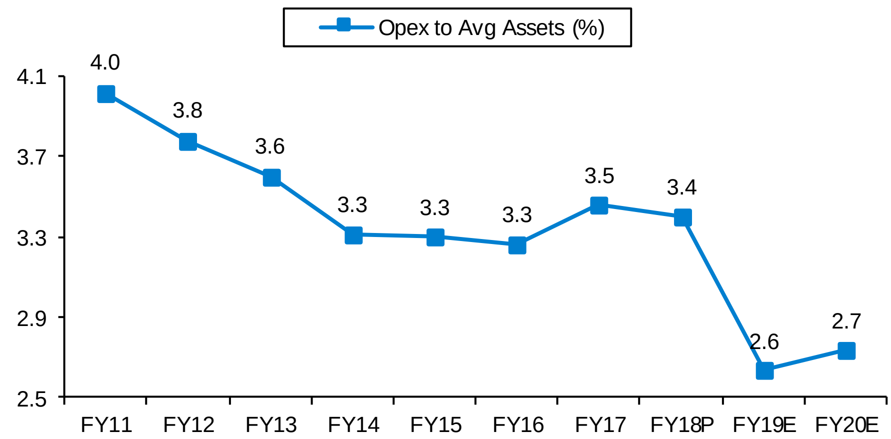
Exhibit 55: … coupled with improved branch profitability



Source: Company, PL

While IND AS accounting aided costs decline, cost rationalization measures are yielding results too

Exhibit 56: Opex to assets to decline 70bps over FY18-20



Source: Company, PL

IND AS, higher disbursements and cost pressure should keep NIMs soft.

Margins to stay soft; yet expect a decent show

Decent margins in challenging periods

CIFC has maintained consistent margins over the past seven years on the back of **(1)** diversified vehicle loan mix (rising proportion of high-yielding sub-segments, i.e. Tractors and used CVs), **(2)** floating rate HE portfolio and **(3)** favorable interest rate cycle that augured well for funding costs

Exhibit 57: NIM trends across key players

NIM (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CIFC	**7.76%**	**6.89%**	**7.04%**	**7.06%**	**7.10%**	**7.77%**	**7.61%**	**8.09%**
SHTF	8.73%	8.53%	7.45%	7.45%	7.20%	7.20%	7.16%	7.33%
MMFS	10.71%	9.64%	9.19%	8.82%	8.34%	8.06%	7.47%	8.11%
MGFL	5.00%	3.80%	5.48%	5.51%	6.16%	6.97%	7.43%	8.80%
SCUF	12.30%	10.30%	11.20%	12.10%	13.60%	13.40%	13.50%	13.50%

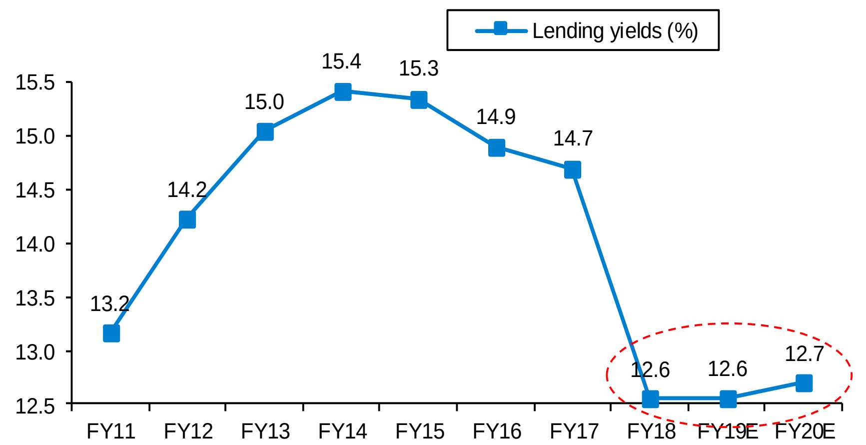
Source: Company, PL

While FY18 NIMs clearly peaked out (FY18 NIMs stood best on back of robust disbursements and improving HE outlook) at 8.1%, challenges in the nature of IND AS implications, higher interest rate cycle, price war and volatile bond yields stand at play.

Yields to stabilize around 12.6%

CIFC has maintained an average of 14.7% yields for past seven years. FY18 yields saw a steep decline to 12.6% on a growing asset base. As demonstrated in the past, the diversified mix should continue to aid CIFC and these lending yields should hold on to 12.6-12.7% over FY19-FY20E, especially in light of new IND AS norms requiring up-fronting of entire securitization income.

Exhibit 58: Post fall, yields to settle in a range of 12.6-12.7%



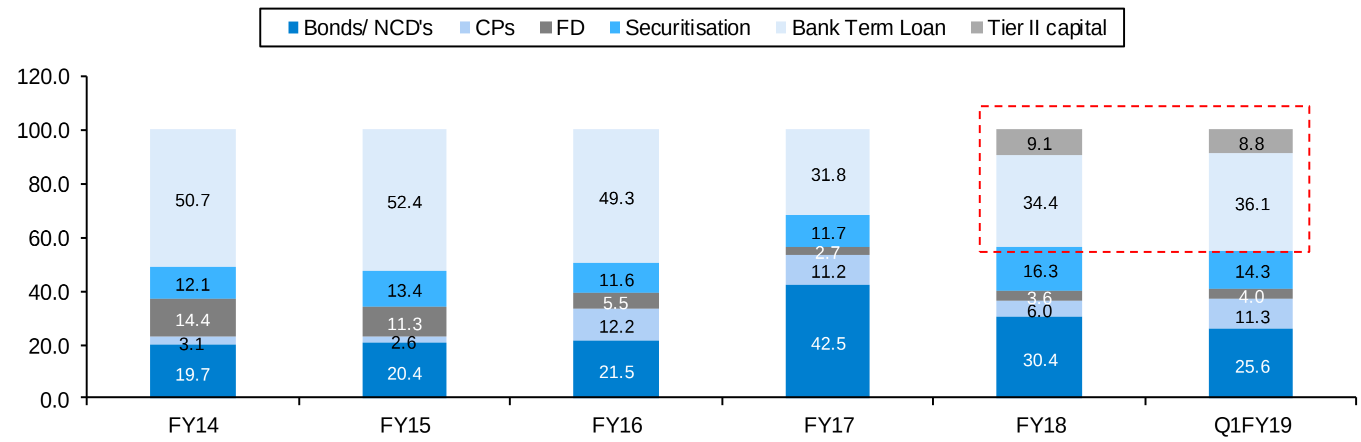
Source: Company, PL

IND AS and higher disbursements run should keep NIMs soft.

Smart liability management to compensate for spike in market rates

The period between FY14 to FY17 witnessed significant changes in the liability mix characterized by increased low cost borrowings such as CPs (up by 80bps) and NCDs (up by 228bps) and decline in share of long dated bank term loans (down by 189bps). With bond markets turning volatile, CIFC reduced reliance on wholesale borrowings and prudently used securitization income to improve funding costs, in turn, supportive of margins. Therefore, FY18 witnessed 121bps decline in NCDs, with increased share of securitization and masala bonds aiding cost pressure reductions. With company's sizeable assets qualifying for PSL, securitized portion can definitely step-up to 20% of mix proving cost advantageous. Thus, robust funding profile enables CIFC to take risk lending with ease, counter higher interest rates and serve the riskier borrower profile.

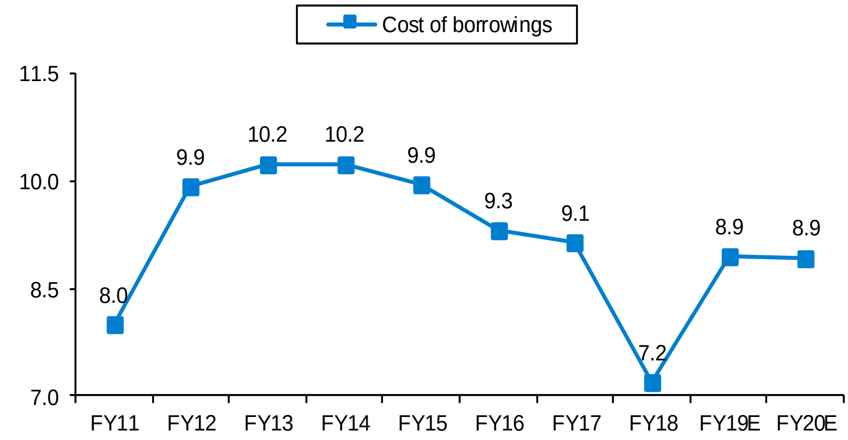
Exhibit 59: FY14-FY17 saw NCDs/CPs, up by 228/80bps, bank loans declining 189bps



Source: Company, PL

While bond yields continue to head north and with banks tightening interest rates, the funding costs for NBFCs have come under pressure. With bank borrowings turning expensive, the share now stands at 36% of overall mix for CIFC; these can be reset towards the year-end. With NCD coupons raised at 8.9-10.2% maturing in FY19, the marginal cost of borrowings stands at 7.5-8% and the blended costs should come at 9%. We believe a 174bps increase (incorporating INDAS accounting) from FY18 levels stand imminent over FY19-20E, given the twin pressures of IND AS accounting (amortization of biz origination costs) and major portion CIFC's VF book being at fixed rate. CIFC would absorb the same through adequate risk-based pricing.

Exhibit 60: Funding costs to spike post sharp decline in FY18



Source: Company, PL

Shift in loan mix towards high margin segments

With changing times and responding to market challenges, on the diversified VF mix, the swift focus towards high-yielding Mini LCV or SCV and tractors had offset the yield pressures, thereby, enabling margins sustenance over the down-cycles. With market dynamics turning favorable, the used + refinancing mix stands higher at 26% today, tractor share catching up at 7.5%+ supporting margins.

Exhibit 61: Incremental shift to higher yielding category

Vehicle AUM Mix (%)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Auto/ UVs	8.0%	12.0%	15.0%	16.0%	17.0%	16.0%	16.0%	16.5%
3W & SCV	11.0%	9.0%	8.0%	7.0%	6.0%	6.0%	5.5%	5.0%
LCV	**34.0%**	**29.0%**	**26.0%**	**25.0%**	**22.0%**	**22.0%**	**23.0%**	**23.0%**
HCV	14.0%	12.0%	13.0%	14.0%	17.0%	19.0%	17.5%	17.0%
Tractors	6.0%	9.0%	10.0%	10.0%	9.0%	7.0%	7.0%	7.5%
CE	0.0%	0.0%	0.0%	0.0%	3.0%	4.0%	3.5%	3.0%
Refinance	**16.0%**	**16.0%**	**15.0%**	**15.0%**	**13.0%**	**13.0%**	**14.0%**	**14.5%**
Used vehicles	**11.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.0%**	**13.5%**	**13.5%**

Source: Company, PL

Ratings upgrades shows improving balance sheet

CIFC's ability to significantly strengthen funding and liquidity profile, improve equity buffer, stable credit costs across cycle in core segments and establishing leadership in core product segments has translated into superior ratings over the years. Q3FY18 quarter also witnessed ratings upgrade from CARE and India Ratings on long-term instruments with reiteration of stable ratings outlook across debt instruments. Superior ratings provide greater room for effective liability management which CIFC can bank upon in current challenging phase.

Exhibit 62: India Ratings and CARE upgraded Long term rating to AA+; supportive of NIMs

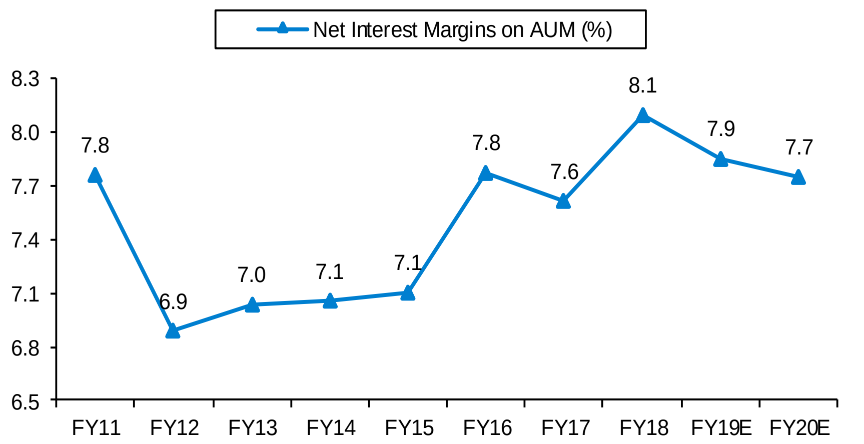
Rating Agency	Term	Instrument Type	FY17		FY18	
			Rating	Outlook	Rating	Outlook
ICRA	LT	NCD / SD / CC / TL	[ICRA]AA	Positive	[ICRA]AA	Positive
	LT	PD	[ICRA]AA-	Positive	[ICRA]AA-	Positive
	ST	CP / WCDL	[ICRA]A1+		[ICRA]A1+	
CRISIL	ST	CP	[CRISIL]A1+		[CRISIL]A1+	
	LT	SD	[CRISIL]AA	Stable	[CRISIL]AA	Stable
CARE	**LT**	**SD/NCD**	**CARE AA**		**CARE AA +**	
	LT	PD	CARE AAINDIA		CARE AA	
INDIA Ratings	**LT**	**NCD / SD**	**IND AA**	**Stable**	**IND AA+**	**Stable**
	LT	PD	**IND AA-**	**Stable**	**IND AA**	Stable
Brickwork Ratings	LT	NCD	BWR AA+	Stable	BWR AA+	Stable

Source: Company, PL

Expect NIMs to move to 7.7%

The quarter gone by already witnessed margin pressures which can largely be attributed **(a)** higher base of FY18 **(b)** lumpy disbursements towards lower yielding HCV business and **(c)** IND AS accounting requiring netting of business origination expenses against NII. Going forward, incorporating IND AS impact and factoring the positives w.r.t. incremental focus on higher yielding used CV, anticipated positive write-backs from *improving* HE credit quality, we reckon NIMs (on AUMs) to stay at 7.7% by FY20E.

Exhibit 63: Stabilizing yields compensating costs pressures should imply 7% NIMs; yet decent

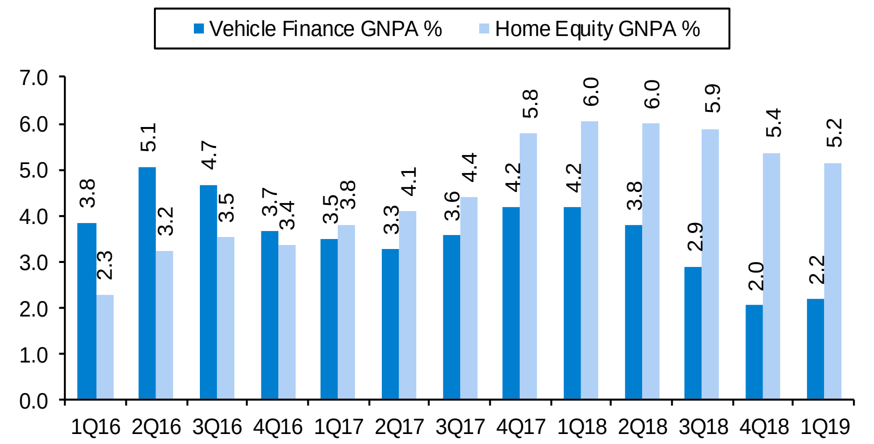


Source: Company, PL

90 dpd/ IND AS migration smooth; credit costs to decline

Notwithstanding the superior appraisal norms and collection mechanism, CIFC's gross NPA ratio deteriorated from 1.0% in FY12 to 3.6% in FY15. Tough macros (CV down cycle: FY13-FY16, challenging HE period: FY13-FY18), under-penetrated target segment and migration to new NPA recognition norms had accentuated the asset quality pain over the years.

Exhibit 64: GNPA halved for VF, HE improvement underway



Source: Company, PL

On a comparable basis, across cycles, regulatory changes (migration to 90 dpd), CIFC asset quality stands maintained

Over the years, CIFC has clearly demonstrated superior control over its delinquencies and credit costs as against peers. CIFC has GNPA of 3.5-4.6% over FY16-18 as against 6.2-9.3% for major competitors like SHTF and MMFS. Similarly, credit cost ranged between 0.9-1.5% as against 2.7-3.3% for SHTF and MMFS.

Exhibit 65: Superior asset quality than peer set

GNPA (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CIFC	**2.61**	**0.93**	**1.05**	**1.86**	**3.15**	**3.50**	**4.66**	**3.70**
SHTF	2.60	3.10	3.20	3.86	3.80	6.18	8.17	9.15
MMFS	4.27	3.09	3.11	4.62	6.14	8.34	9.27	8.74
SUF	0.80	0.60	1.00	1.23	1.45	2.08	1.54	1.29
MGFL	0.00	0.60	1.63	2.70	3.90	7.40	8.80	7.00
SCUF	1.90	1.60	2.20	2.70	2.70	5.15	7.34	9.00

Source: Company, PL

Exhibit 66: Credit costs lowest amongst peers

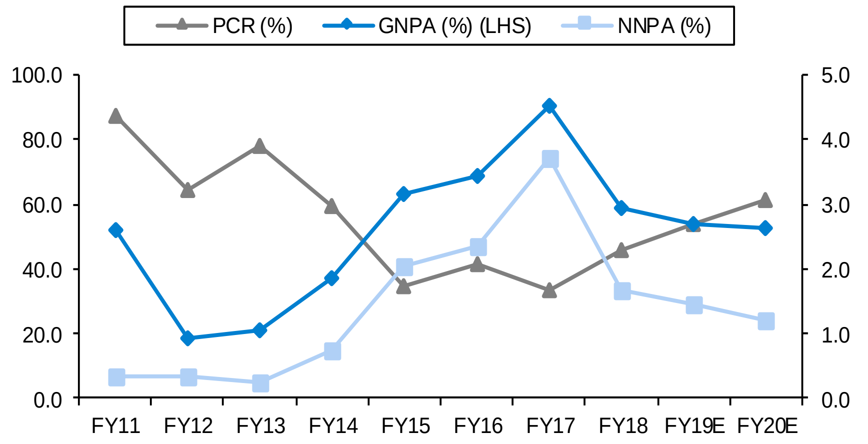
Credit Costs (%)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
CIFC	**2.2**	**0.4**	**0.8**	**1.3**	**1.3**	**1.5**	**1.0**	**0.9**
SHTF	1.5	1.9	1.7	2.2	2.2	2.9	3.1	3.3
MMFS	1.2	0.9	1.2	1.6	2.3	2.7	3.0	2.4
MGFL	0.4	0.6	0.9	1.4	1.3	2.0	3.7	2.4
SCUF	1.5	1.3	2.4	2.5	2.9	3.2	4.3	4.2

Source: Company, PL

Driven by organizational restructuring on VF side supported by superior collection mechanism, prudent HE portfolio (lower LTVs at 50%) and pull-back on disbursements during downturn, coupled with early shift to 90dpd NPA recognition norms and front runner in aggressive provisioning, the portfolio delinquencies stand well under control.

Going forward, with significant investments in collection team, considerable usage of credit analytics tool, early warning signals and online credit scoring model and risk-based pricing should imply enhancement of credit quality. Moreover, with HE growth back in reckoning, VF GNPAs halving (during FY18), credit costs are on declining trend (expect 80 bps: FY20), we expect overall GNPAs to decline to 2.6% levels by FY20E. Such a superior credit quality places CIFC well ahead of peer set (SHTF GNPA at 7%, MMFS at same 7%+ for FY20E) and hence, would continue to command superior valuations.

Exhibit 67: 2.6% GNPAs, 80 bps credit costs imply healthy loan profile



Source: Company, PL

Robust earnings visibility translating into superior return profile

With 73% of CIFC's business being dominated by VF, we drew earnings trajectory comparison vis-à-vis CV volumes' trends. Despite hiccups in the CV volume trends, the company performance has stood robust across cycles. Post business restructuring in FY10-11, CIFC has recorded 28% earnings CAGR

Exhibit 68: Consistent earnings profile across CV cycles

Particulars	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
GDP (growth %)	8.6	5.6	5.5	6.4	7.5	7.9	7.1	6.5
Total CV VOLUMES (*000 units)	**684.0**	**809.4**	**792.9**	**632.7**	**614.9**	**684.1**	**714.2**	**856.7**
Total CV volume growth %	**28.7**	**18.3**	**-2.0**	**-20.2**	**-2.8**	**11.2**	**4.4**	**20.0**
CIFC Earnings Growth %	**304.6**	**177.5**	**77.7**	**18.7**	**19.5**	**30.6**	**26.4**	**35.5**

Source: Company, PL

The twin objective of growth with profitability drives the return profile for CIFC. With core profitability metrics remaining intact, the operating level RoAs have been witnessing strengthening trends even with INDAS adoption.

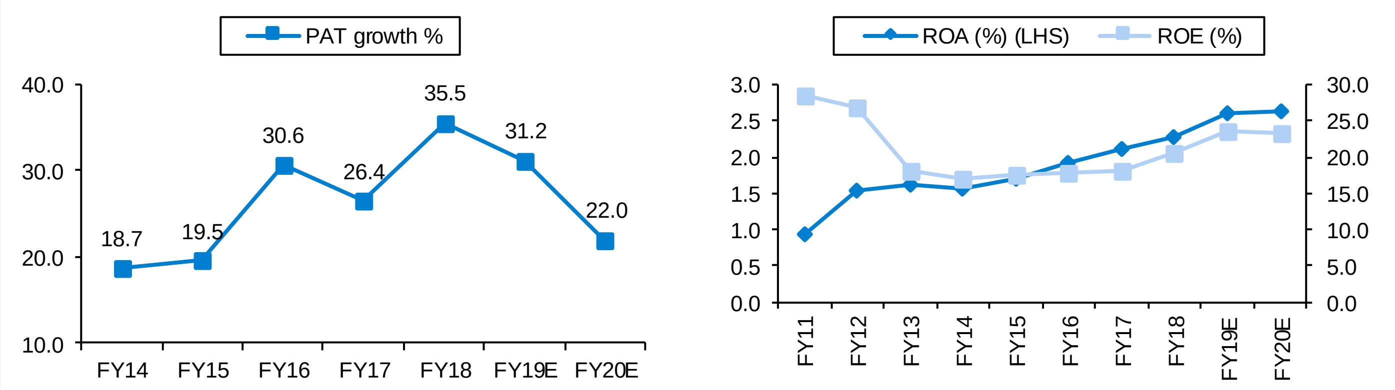
Exhibit 69: Crystal ball gazing of PBT-RoA metrics of CIFC

	VF						HE						Overall				
	FY15	FY16	FY17	FY18	Q1'19		FY15	FY16	FY17	FY18	Q1'19		FY15	FY16	FY17	FY18	Q1'19
NIM	7.5%	8.5%	8.4%	8.9%	6.9%	+	5.40%	5.10%	4.40%	4.40%	4.2%	=	7.9%	8.7%	8.6%	9.7%	7.2%
Expenses Ratio	3.6%	3.8%	3.8%	4.1%	2.6%		1.30%	1.20%	1.20%	1.30%	1.0%		3.4%	3.4%	3.6%	4.0%	2.3%
Provisions	2.0%	1.7%	1.4%	0.9%	0.9%		0.50%	0.70%	1.00%	0.60%	0.8%		1.5%	1.7%	1.1%	1.1%	0.9%
ROA (PBT)	2.0%	3.0%	3.2%	3.9%	3.4%		3.70%	3.20%	2.20%	2.50%	2.3%		3.0%	3.6%	3.9%	4.6%	4.0%

Source: Company, PL

Going forward, backed by strong business momentum (22% AUM CAGR), gradual operating efficiencies offsetting NIM pressures (expect 460 bps decline in C/I; NIMs to be restricted to <8% levels by FY20E) and steady credit costs (~80 bps by FY20E), a robust 27% earnings CAGR over FY18-20E stand imminent. Riding on cyclical recovery, such a strong earnings visibility should translate into CIFC clocking 22%+ RoE and 2.6%+ RoAs by FY20E.

Exhibit 70: With 26% earnings CAGR, CIFC should clock 22%+ RoE and 2.6%+ RoAs over FY18-FY20E



Source: Company, PL

Initiate "BUY" on CIFC (bulwark of CV financing)

By virtue of strong industry drivers, niche business focus and product diversification strategy, CIFC stands at the point of inflection.

Defying business cycles, CIFC's AUMs have doubled, GNPAs have been restricted to average <3% levels (barring demonetization year of FY17), coupled with zero write-off policy, the company has reported consistent 17%+ RoEs for past five years. We expect CIFC to deliver robust 27% earnings CAGR over FY18-20E driven by strong AUM traction, imminent margins stability, enhanced operating efficiencies and capital sufficiency. Given the strong earnings momentum, we envisage RoE to improve to 22%+ levels by FY20E. RoAs, on similar lines, should stack up to 2.6%+ by FY20-end.

CIFC is our top pick in the asset finance space. Market is according premium to the company's ability to grow at better rate than industry underscored by diversified CV book and secular HE business, resilient balance sheet and strong earnings potential (only CV player with consistent 17%+ RoEs for the past four years), we reckon.

While its immediate competition, SHTF and MMFS, too stand on recovery mode, their outperformance over CIFC largely hinge upon mending the asset quality and bettering the return profile. SHTF has observed decadal low return profile (RoA/RoE at 1.9%/13% of FY18) and high GNPA at 9% (IND AS) in recent quarter. MMFS, on other hand, with rural focus has observed 9% GNPAs, 11% RoEs (Q1FY19) under IND AS. While monsoon-led rural recovery leading to improving growth and bettering collections with reducing incremental stress accretion are underway, it should be gradual. CIFC continues to score on consistency on all above parameters justifying superior multiples.

Exhibit 71: CIFC v/s peer set

Particulars	CIFC			SHTF			MMFS		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
AUM (Rs bn)	428.8	519.5	621.9	953.1	1152.4	1376.0	517.4	609.5	718.9
AUM (growth YoY %)	25.5	21.2	19.7	21.0	20.9	19.4	19.4	17.8	17.9
Lending yields (%)	13.6	13.2	13.2	14.3	14.4	14.4	14.8	14.2	14.4
Cost of liabilities (%)	8.2	8.3	8.3	8.8	8.7	8.6	8.1	8.4	8.5
NIM (%)	8.09	7.85	7.75	8.49	8.60	8.86	8.14	8.51	8.54
Credit costs (%)	1.0	1.1	0.83	1.8	1.9	1.6	2.5	1.7	1.5
GNPA (%)	2.9	2.7	2.6	9.2	8.2	7.1	8.7	7.7	6.7
RoA (%)	2.6	2.6	2.6	1.9	2.4	2.7	1.8	2.5	2.7
Total assets/Total equity (x)	7.7	8.0	8.0	7.0	7.0	6.8	5.8	6.3	6.6
RoE (%)	20.6	22.3	22.3	13.1	16.9	18.3	11.3	15.4	17.7
Capital Adequacy Ratio (%)	18.4	15.9	14.8	16.9	17.6	17.8	22.0	17.9	16.8
Price/ Adj. Book value (x)	5.0	4.0	3.2	2.5	2.6	2.1	3.9	3.6	3.1
P/E (x)	23.0	17.5	14.4	16.9	14.3	11.1	31.0	19.4	15.3

Source: Company, PL

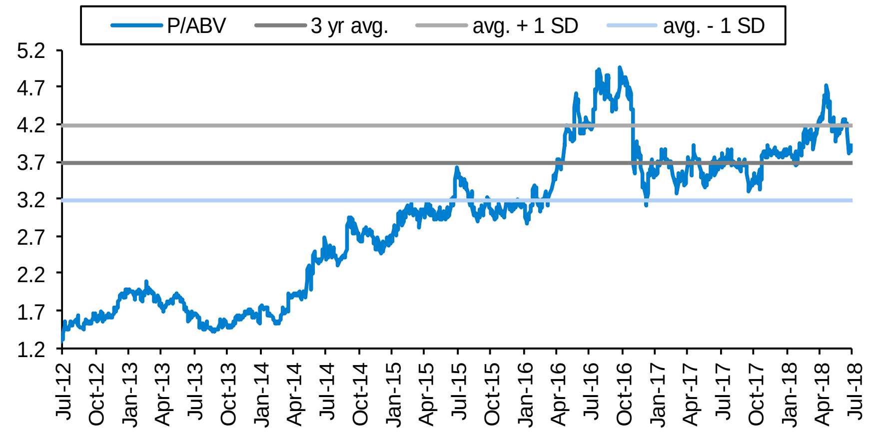
Our confidence stands further reinforced with the sustainability of strong business/profitability metrics underpinned by strong earnings/growth visibility (27%/20%CAGR), lower NPA at 2.6% (as against ~7% for MMFS and SHTF for FY20) and 22%+ RoEs over FY18-20E. **Such a well-managed asset financier riding on cyclical recovery continues to command premium valuations; hence, we assign P/ABV multiple of 4.2x to FY20 estimates arriving at a price target of Rs1,881, recommending "*BUY*" on CIFC.**

Exhibit 72: Initiate 'BUY' on CIFC with TP of Rs 1,860 on 4.7x P/ABV FY20E

PT calculation and upside	
Fair price - EVA	2,352
Fair price - P/ABV	1,409
Average of the two	**1,881**
Target P/ABV	**4.2**
Target P/E	18.9
Current price, Rs	**1,451**
Upside (%)	**29%**
Dividend yield (%)	0.5%
Total return (%)	**30%**

Source: Company, PL

Exhibit 73: CIFC trades at premium; valuations justified



Source: Company, PL

Company Background

Retail finance arm of the Chennai-based *Murugappa Group*, CIFC caters predominantly to the SRTOs, self-employed non-professionals and MSME businesses in semi-urban and rural India. Besides focusing on vehicle and HE finance, the company has ventured into segments like home loans, MSME loans, two-wheeler loans, CE financing and rural financing. It also provides wealth management, broking and retail distribution services through subsidiaries. Post restructuring the business model back in 2009-10, CIFC has been strategically engaged in scaling up its business verticals and improving operational efficiencies. The right blend of company's portfolio mix comprising of cyclical VF business, coupled with steady-state HE segment should ensure staunch business growth and profitability ahead. With the much anticipated macro recovery round the corner, CIFC stands at the point of inflection. CIFC is poised to deliver superior growth.

Rich management pedigree

The parent Murugappa Group, established in 1900 and headquartered in Chennai, India, is a US$2bn (Rs8,500cr) conglomerate with interests in engineering, abrasives, sanitaryware, fertilisers, finance, bio-products and plantations. It has 29 companies with a combined strength of 28,000 employees, of which, eight are listed and actively traded on the National Stock Exchange and the Bombay Stock Exchange. CIFC derives significant operational and financial benefits from its parent group.

Key leadership team in place

In July 2018, the MD & CEO Mr N Srinivasan expressed his desire to step down (resignation effective date: 18 Aug, 2018), a year prior to his tenure-end due to personal reasons. In the interim, Mr. Arun Alagappan, Executive Director (effective 19 August, 2017) (age: 41 years) has been entrusted the responsibility of top leadership. Mr. Alagappan already holds position on CIFC's subsidiary and other group companies.

Exhibit 74: Management bandwidth

Name of Person	Designation
Mr. M M Murugappan	Executive Chairman
Mr. V Srinivasa Rangan	Independent Director
Ms. Bharati Rao	Independent Director
Mr. Ashok Barat	Independent Director
Mr. Arun Alagappan	Executive Director
Mr. D. Arul Selvan	Chief Financial Officer

Source: Company, PL

Scaling up other businesses

While scaling-up rapid growth over the last three years, CIFC has strategically entered and developed many new businesses, spread to multiple locations and created functions that operate across various levels. It has reached a scale where operational synergies become paramount in order to optimize resources – people, time and funds. With a belief that operational synergy is the key to sustained profitability, CIFC has been strengthening its operational framework in recent years.

The company's VF business reviews its product mix based on evaluation criteria that takes into consideration the size of the market, the risk levels associated with the product category, the intensity of competition, financial viability and the company's ability to enhance customer value. While CIFC's product portfolio expansion strategy is mapped to customer profile, the VF diversification into two-wheeler segment has been restricted to select two products, namely, *Royal Enfield* and *Honda* (ones with good resale value, robust customer profile).

Other business Initiatives of CIFC that help in spurring business growth and income levels are:

Home Loans: (1) Focus on PMAY business (2) A step-down subsidiary housing a separate HFC underway – NHB approval pending

Home Loans business: Launched in FY13 in Tamil Nadu, CIFC's home loan business primarily focuses on the self-employed non-professionals with loan ticket size of Rs1mn. In FY18, the business started growing aggressively and is expected to grow at this rate. The business is at present operating from 127 branches in Tamil Nadu, Karnataka, Andhra Pradesh, Gujarat, Rajasthan and Maharashtra. The business will continue to expand into newer markets during this year as well. The diversified product offerings, namely, home loans for self-construction, loans for purchase of plots, loans for purchase of ready to occupy homes and balance transfer of existing loans provides a wider basket. With total AUM amounting to Rs9,840mn (90% YoY growth) (FY18), CIFC is poised to expand the home loan segment capitalizing on the robust growth opportunity for mortgage lending in India.

Corporate Finance: Leveraging upon MSME relationships

Corporate Finance: CIFC operates its business loan portfolio through the existing HE branch network, primarily catering to the underserved MSME sector in India. The diversified product offerings, namely, term loans, bill discounting, working capital loans and even refinancing of existing debt provides a wider basket. The ticket size of MSME loans falls in the range of Rs1mn to Rs10mn, available at both floating and fixed rate of interest. The AUMs stood at Rs2,920mn as at the end of FY18.

Rural Finance: Banking on rural dynamics

Rural Finance: CIFC commenced the rural financing business operations in FY14. Leveraging on the widespread rural network of the parent Murugappa group's Coromandel (India's leading phosphatic fertilizer company), CIFC's rural lending portfolio offers syndicated loans for purchase of tractors, farm equipments and other allied agricultural activities. CIFC started direct lending under this segment in FY15.

Trip loans: akin to working capital financing (in this case for truck drivers)

Trip loans: Trip loan is targeted at the trucking community by extending short-term credit for the freight/transportation process and is aimed at moving this lending product from the unorganized segment to the organized segment. These loans facilitate all the financial requirements of the truck drivers on their trip journeys which include fuel, servicing, toll fee, etc. The primary borrower of Trip Loans is the transport owner, ranging from large fleet operators to single truck owners. They are either directly associated with load providers or indirectly through fleet owners/ intermediate load providers and brokers.

Exhibit 75: Trip Loans – at nascent stage- potential yet to be harnessed

Definition	How it works	Benefits
It facilitates financial requirements that truck drivers will need on their trip journeys which include fuel, servicing, toll fee, etc	Empanelment of Load Providers/Logistic Agents/ Fleet Owners/Transport Owners with Chola and WDSI	Advance Money Disbursements
	Credit Limit Setting	Quick Sanctions
	Signing the agreement	Attractive Rates of Interest
	Fitment of GPS	Easy Repayment
	Trip Loan Request	
	Disbursement	
	Repayment	

Source: Company, PL

Annexure

Vehicle finance Market size

We believe 3 key determinants define the CV/tractor finance pool: (a) Proportion of vehicle value financed (b) average ticket size (c) average LTV

Exhibit 76: MHCV financing market poised to grow 1.4x between FY18-20E on the back of GST, GoI impetus towards infra/rural sectors and stricter enforcement of regulatory norms

Parameters	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
MHCV Volumes (units)	244,770	322,880	348,775	268,304	200,527	232,740	302,372	302,448	340,505	364,340	400,474
MHCV vols. Growth (YoY) %	*34.0*	*31.9*	*8.0*	*-23.1*	*-25.3*	*16.1*	*29.9*	*0.0*	*12.6*	*7.0*	*10.0*
Proportion of Vehicle Financed	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Avg LTV (%)	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*	*0.9*
Avg Ticket Size (Rs mn)	1.15	1.2	1.2	1.3	1.4	1.6	1.7	1.9	2.1	2.25	2.35
New MHCV financing market size (Rs mn)	**253,337**	**348,710**	**376,677**	**313,916**	**252,664**	**335,146**	**462,629**	**517,186**	**643,554**	**737,789**	**847,638**
MHCV financing growth (YoY) %	***40.1***	***37.6***	***8.0***	***-16.7***	***-19.5***	***32.6***	***38.0***	***11.8***	***24.4***	***14.6***	***14.9***

Source: Company, PL

Exhibit 77: LCV financing market poised to expand 1.5x over FY18-20E on the back of replacement-led demand, consumption-driven sectors, e-commerce led logistic companies

Parameters	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
LCV Volumes (units)	286,794	354,742	459,436	524,616	431,890	382,216	383,332	411,706	516,231	593,666	670,842
LCV vols. growth (YoY) %	*42.9*	*23.7*	*29.5*	*14.2*	*-17.7*	*-11.5*	*0.3*	*7.4*	*25.4*	*15.0*	*13.0*
Proportion of Vehicle Financed	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Avg LTV (%)	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*
Avg Ticket Size (Rs mn)	0.37	0.4	0.4	0.4	0.5	0.58	0.68	0.75	0.8	0.85	0.9
New LCV financing market size (Rs mn)	**95,502**	**127,707**	**165,397**	**188,862**	**194,351**	**199,517**	**234,599**	**277,902**	**371,686**	**454,154**	**543,382**
LCV financing growth (YoY) %	***35.2***	***33.7***	***29.5***	***14.2***	***2.9***	***2.7***	***17.6***	***18.5***	***33.7***	***22.2***	***19.6***

Source: Company, PL

Exhibit 78: Tractor financing market geared to climb 1.24x over FY18-20E on the back of normal monsoons, improving agri production and increased MSPs

Parameters	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Tractor Volumes (units)	4,02,586	4,82,286	5,36,891	5,27,768	6,34,151	5,51,463	4,93,764	5,82,844	7,11,400	8,18,110	8,83,559
Tractor vols. Growth (YoY) %	*32.2*	*19.8*	*11.3*	*-1.7*	*20.2*	*-13*	*-10.5*	*18.0*	*22.1*	*15.0*	*8.0*
Proportion of Vehicle Financed	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Avg LTV (%)	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*	*0.65*
Avg Ticket Size (Rs mn)	0.28	0.3	0.32	0.33	0.34	0.35	0.36	0.38	0.38	0.38	0.38
New Tractor financing market size (Rs mn)	**95,815**	**1,22,983**	**1,46,034**	**1,48,039**	**1,83,270**	**1,64,060**	**1,51,092**	**1,88,259**	**2,29,782**	**2,64,250**	**2,85,389**
Tractor financing growth (YoY) %	***42.3***	***28.4***	***18.7***	***1.4***	***23.8***	***-10.5***	***-7.9***	***24.6***	***22.1***	***15.0***	***8.0***

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY17	FY18	FY19E*	FY20E*
Int. Inc. / Opt. Inc.	46,596	54,253	76,075	90,267
Interest Expenses	22,308	23,078	38,144	45,261
Net interest income	**24,288**	**31,175**	**37,220**	**44,224**
Growth(%)	*13.4*	*28.4*	*19.4*	*18.8*
Non-interest income	8	4	5	5
Growth(%)	*(35.9)*	*(45.1)*	*5.0*	*7.0*
Net operating income	24,295	31,179	37,225	44,229
Expenditures				
Employees	4,026	5,277	7,123	9,260
Other Expenses	5,726	7,122	5,465	6,449
Depreciation	381	497	517	537
Operating Expenses	9,752	12,398	12,589	15,710
PPP	**14,162**	**18,284**	**24,119**	**27,982**
Growth(%)	*9.1*	*29.1*	*31.9*	*16.0*
Provisions	3,106	3,451	4,758	4,362
Profit Before Tax	**11,056**	**14,833**	**19,362**	**23,620**
Tax	3,868	5,092	6,583	8,031
Effective Tax rate(%)	*35.0*	*34.3*	*34.0*	*34.0*
PAT	**7,187**	**9,741**	**12,779**	**15,589**
Growth(%)	*26.4*	*35.5*	*31.2*	*22.0*

Balance Sheet (Rs. m)

Y/e Mar	FY17	FY18*	FY19E*	FY20E*
Source of funds				
Equity	1,563	1,564	1,564	1,564
Networth	43,127	51,060	62,967	77,149
Growth (%)	*17.9*	*18.4*	*23.3*	*22.5*
Loan funds	2,42,068	2,72,275	3,29,453	3,88,754
Growth (%)	*7.2*	*12.5*	*21.0*	*18.0*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	22,015	1,27,834	1,51,576	1,77,453
Total Liabilities	**3,07,210**	**4,51,169**	**5,43,996**	**6,43,357**
Application of funds				
Net fixed assets	1,400	1,608	2,170	2,778
Advances	2,84,152	4,27,257	5,09,571	5,98,569
Growth (%)	*9.7*	*50.4*	*19.3*	*17.5*
Investments	2,385	2,383	2,859	4,096
Current Assets	9,022	8,705	13,486	16,417
Net current assets	**9,022**	**8,705**	**13,486**	**16,417**
Other Assets	10,251	11,218	15,910	21,496
Total Assets	**3,07,211**	**4,51,169**	**5,43,996**	**6,43,356**
Growth (%)	*10.2*	*46.9*	*20.6*	*18.3*
Business Mix				
AUM	3,41,670	4,28,791	5,19,495	6,21,982
Growth (%)	*15.2*	*25.5*	*21.2*	*19.7*
On Balance Sheet	2,79,037	3,66,455	4,39,698	5,26,227
% of AUM	*81.67*	*85.46*	*84.64*	*84.60*
Off Balance Sheet	52,338	55,627	73,289	88,271
% of AUM	*15.32*	*12.97*	*14.11*	*14.19*

Profitability & Capital (%) (on AUM basis)

Y/e Mar	FY17	FY18	FY19E*	FY20E*
NIM	7.5	7.9	7.9	7.7
ROAA	2.5	2.6	2.6	2.6
ROAE	18.0	20.7	22.4	22.3

Source: Company Data, PL Research

**** INDAS***

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY18*	Q3FY18	Q4FY18	Q1FY19*
Int. Inc. / Operating Inc.	12,962	13,833	15,622	15,970
Income from securitization	-	-	-	-
Interest Expenses	6,326	5,903	7,198	8,018
Net Interest Income	**6,636**	**7,930**	**8,424**	**7,952**
Growth (%)	*19.9*	*30.0*	*26.5*	*19.8*
Non-Interest Income	1	1	2	2
Net Operating Income	**6,637**	**7,931**	**8,427**	**7,954**
Growth (%)	*18.4*	*30.0*	*26.5*	*19.8*
Operating expenditure	2,315	3,237	3,630	2,457
PPP	**4,322**	**4,694**	**4,647**	**5,370**
Growth (%)	*29.4*	*33.7*	*19.0*	*24.3*
Provision	1,080	902	116	983
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	3,242	3,792	4,532	4,388
Tax	1,145	1,300	1,531	1,535
Prov. for deferred tax liability		-	-	-
Effective Tax Rate	35.3	34.3	33.8	35.0
PAT	**2,097**	**2,492**	**3,001**	**2,853**
Growth	*27*	*53*	*37*	*36*
AUM	3,47,854	3,90,742	4,35,812	4,50,974
YoY growth (%)	12.8	19.5	27.6	29.6
Borrowing	3,24,628	2,82,983	2,72,275	4,25,704
YoY growth (%)	*35.6*	*13.7*	*12.5*	*31.1*

Key Ratios

Y/e Mar	FY17	FY18	FY19E*	FY20E*
CMP (Rs)	1,451	1,451	1,451	1,451
EPS (Rs)	46.0	62.3	81.7	99.7
Book value (Rs)	276	326	403	493
Adj. BV(Rs)	210	285	361	453
P/E(x)	32	23	18	15
P/BV(x)	5	4	4	3
P/ABV(x)	7	5	4	3
DPS (Rs)	3	6	7	8
Dividend Payout Ratio(%)	*9.2*	*12.6*	*10.3*	*9.0*
Dividend Yield(%)	*0.2*	*0.4*	*0.5*	*0.5*

Asset Quality

Y/e Mar	FY17	FY18	FY19E*	FY20E*
Gross NPAs(Rs m)	15,450	12,098	14,017	16,280
Net NPA(Rs m)	10,334	6,541	6,448	6,349
Gross NPAs to Gross Adv.(%)	4.5	2.9	2.7	2.6
Net NPAs to net Adv.(%)	3.7	1.7	1.5	1.2
NPA coverage(%)	33.1	45.9	54.0	61.0

Du-Pont (on average assets)

Y/e Mar	FY17	FY18	FY19E*	FY20E*
NII	7.0	7.1	7.2	7.1
NII INCI. Securitization	7.1	7.3	7.3	7.2
Total income	7.1	7.3	7.3	7.2
Operating Expenses	3.0	3.0	**2.5**	2.6
PPOP	4.1	4.3	4.8	4.6
Total Provisions	0.9	0.8	0.9	0.7
RoAA	2.1	2.3	2.6	2.6
Avg. Assets/Avg. net worth	11.7	11.0	11.0	11.3
RoAE	18.0	20.7	23.7	23.4

Source: Company Data, PL Research

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PL's Recommendation Nomenclature

Buy	:	Over 10% Outperformance to Sensex over 12-months
Hold	:	-5% to 10% Outperformance to Sensex over 12-months
Sell	:	> -5% Underperformance to Sensex over 12-months
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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