

May 1, 2019

## Q4FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	1,665		1,666	
NII (Rs.)	35,531	42,340	41,310	49,407
% Chng.	(14.0)	(14.3)		
PPoP (Rs.)	25,134	30,433	25,615	30,048
% Chng.	(1.9)	1.3		
EPS (Rs.)	89.3	107.4	89.9	102.4
% Chng.	(0.7)	4.8		

### Key Financials

	FY18	FY19	FY20E	FY21E
Net Int.Inc. (Rs m)	25,765	29,765	35,531	42,340
Growth (%)	7.2	15.5	19.4	19.2
Op. Profit (Rs m)	17,051	21,344	25,134	30,433
PAT (Rs m)	9,183	11,862	13,975	16,794
EPS (Rs.)	58.7	75.8	89.3	107.4
Gr. (%)	32.4	29.1	17.8	20.2
DPS (Rs.)	6.5	7.0	7.5	8.0
Yield (%)	0.5	0.5	0.5	0.6
Margin (%)	6.7	6.1	6.0	6.0
RoAE (%)	19.5	21.0	20.5	20.5
RoAA (%)	2.4	2.3	2.3	2.4
PE (x)	23.7	18.3	15.5	12.9
P/BV (x)	4.3	3.5	2.9	2.4
P/ABV (x)	5.0	3.9	3.2	2.7

### Key Data

CHLA.NS | CIFC IN

52-W High / Low	Rs.1,761 / Rs.1,038
Sensex / Nifty	39,032 / 11,748
Market Cap	Rs.217bn/ \$ 3,117m
Shares Outstanding	156m
3M Avg. Daily Value	Rs.875.74m

### Shareholding Pattern (%)

Promoter's	49.90
Foreign	10.58
Domestic Institution	19.26
Public & Others	20.26
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.4)	9.3	(20.3)
Relative	(5.3)	(4.6)	(28.5)

Shweta Daptardar

shwetadaptardar@plindia.com | 91-22-66322245

Prabal Gandhi

prabalgandhi@plindia.com | 91-22-66322258

## Resilient at all times

### Quick pointers

- HE growth and asset quality throw positive surprise, NIMs stay under pressure

**Amidst auto industry slowdown and liquidity tightness, CIFC yet again records superior AUMs at Rs 543bn growing 27% YoY/8% QoQ led by diversified VF product (grew 29% YoY/8% QoQ) and cautious healthy HE lending (strong 16% YoY/4% QoQ). While consolidation times have paved way for proliferation of quality LAP, pacing up of SARFAESI resolutions, increased recoveries (Rs 1bn in HE business) and subsiding balance transfer cases led to best in past 4 years GNPA (2.3% vs 2.8% in Q3FY19 vs. PLe of 2.7%), an all-time low NNPA (of 1.1%) and industry best credit costs (at 0.4% vs PLe at 0.66%). However, PAT was restricted at 2.3% growth YoY to Rs2.92bn [ vs. PLe of Rs3.55bn] due to increased provisions at Rs 556mn as against write-backs a year ago yet lower than our estimates of Rs 824mn, higher than expected interest costs (60bps+ increase in CoF QoQ,36bps YoY), high tax rate (37% vs usual 34%).**

**The high growth exhibited in Q4 might not repeat ahead; we build in adequate conservatism into our 3-year estimates. Said that, CIFC has sufficient levers in place to stack up overall RoAs to 2.3-2.4% over FY20-21E largely led by lower credit costs trends (0.9%-1.0%) and steady 17-18% AUM traction that should cushion NIMs (6% NIMs on AUMs) over FY20-21E. We reiterate BUY, reckon CIFC as one of the better placed auto financiers sailing successfully across credit and liquidity cycles with clear execution skills, prudent Management cognizant of portfolio quality and strategic product placement aiding growth and margins. At Sep-21 PABV, we value the company at 3.2x arriving at TP of Rs 1,665 (unchanged).**

- Growth in challenging times:** On a positive note, disbursements recorded 16% QoQ growth buoyed by VF growing 18% QoQ despite OEMs retracing growth and highest HE disbursements at Rs 10.3bn at 8% growth. Buoyancy in VF portfolio was backed by cars and 3-w AUMs growing 41% YoY/13%QoQ and CE 61%YoY/8% QoQ followed by healthy LCV and used CV growth at 29% and 24% YoY respectively. Slowdown in HCV reflected in the growth rate at 15% YoY/2% QoQ. HE AUM growth run-rate at 16% YoY stood on higher side and against this backdrop we expect 17% AUM growth for FY20-21E.
- Best-in-class asset quality:** GNPA stood at 2.3% vs 2.8% in Q3FY19 [vs. PLe of 2.7%] best in past 4 years and an all-time low of 1.1% Net NPA. Credit costs at 0.4% vs PLe at 0.66% also stood best in industry. SARFEASI recoveries across 119 cases at over Rs1bn cash recoveries aided the stark improvement in HE asset quality for Q4FY19. Ahead, we expect GNPA at 2.6-2.8% over FY20-21E as Management stands confident of further improvement, credit costs maintained at 0.9-1% on conservative side over same period. We factor more Macro Prudential provisions ahead into our estimates as one in Q4FY19 of Rs 500mn.
- NIMs down, opex up:** 27 new branches were added during the year and these investments in network distribution pushed staff costs and other opex higher; cost-income climbed to 43% for Q4FY19. Higher than expected interest costs (60bps+ increase in CoF QoQ,36bps YoY) led to somber NIMs at 7%.

**Exhibit 1: PAT somber, growth strong, asset quality improved (Rs mn)**

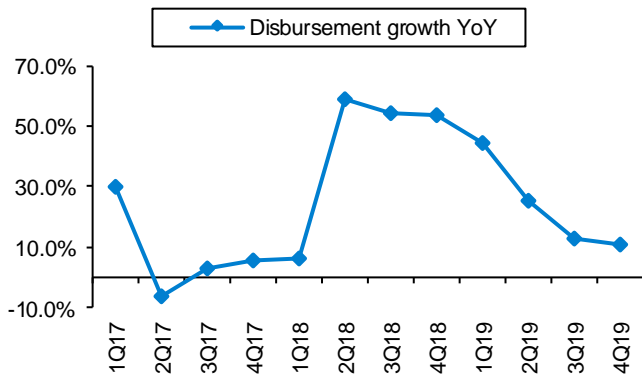
Y/e March	Q4FY19	Q4FY18	YoY gr.	Q3FY19	QoQ gr.
Interest Income	18,851	14,557	29.5%	18,261	3.2%
Interest Expenses	9,864	7,126	38.4%	9,508	3.7%
<b>Net Interest Income</b>	<b>8,987</b>	<b>7,431</b>	<b>20.9%</b>	<b>8,753</b>	<b>2.7%</b>
Other Income	3	2	18.2%	1	136.4%
<b>Total Income</b>	<b>8,989</b>	<b>7,433</b>	<b>20.9%</b>	<b>8,754</b>	<b>2.7%</b>
Total Operating Expenses	3,820	3,144	21.5%	3,158	21.0%
<b>Operating Profit (PPP)</b>	<b>5,169</b>	<b>4,289</b>	<b>20.5%</b>	<b>5,596</b>	<b>-7.6%</b>
Provisions & Write Offs	556	-6	-9849.1%	961	-42.2%
<b>PBT</b>	<b>4,614</b>	<b>4,295</b>	<b>7.4%</b>	<b>4,635</b>	<b>-0.5%</b>
<b>Reported Profit</b>	<b>2,919</b>	<b>2,853</b>	<b>2.3%</b>	<b>3,044</b>	<b>-4.1%</b>
<b>Balance sheet Details</b>					
Total Borrowed Funds	447,959	349,190	28.3%	437,460	2.4%
Loans & Advances & others	526,658	421,980	24.8%	489,250	7.6%
Total Assets	526,658	443,010	18.9%	540,500	-2.6%
<b>Asset Quality</b>					
Gross NPAs	12,450	13,250	-6.0%	14,500	-14.1%
Net NPAs	6,260	7,400	-15.4%	7,900	-20.8%
Gross NPA (%)	2.30%	3.00%	-0.7%	2.80%	-0.5%
Net NPA (%)	1.10%	1.70%	-0.6%	1.50%	-0.4%
Coverage (%)	49.72%	44.15%	5.6%	45.52%	4.2%
<b>Credit costs - On Loans</b>	<b>0.42%</b>	<b>-0.01%</b>	<b>0.4%</b>	<b>0.79%</b>	<b>-0.36%</b>
Assets Under Management	542,790	435,812	24.5%	503,930	7.7%
<b>NIM - calc</b>	<b>6.87%</b>	<b>7.20%</b>	<b>-0.3%</b>	<b>7.14%</b>	<b>-0.27%</b>
<b>AUM (Rs mn)</b>					
<b>Vehicle Finance</b>	<b>405,880</b>	<b>312,985</b>	<b>29.7%</b>	<b>374,940</b>	<b>8.3%</b>
Auto/ Utility vehicles	64,941	50,078	29.7%	56,241	15.5%
3W & SCV	32,470	18,779	72.9%	33,745	-3.8%
LCV	89,294	68,857	29.7%	74,988	19.1%
HCVs	69,000	59,467	16.0%	52,492	31.4%
Tractors	28,412	21,909	29.7%	26,246	8.3%
CE	20,294	12,519	62.1%	18,747	8.3%
Refinance	48,706	40,688	19.7%	52,492	-7.2%
Used vehicles	52,764	40,688	29.7%	56,241	-6.2%
Home Equity	116,260	99,781	16.5%	111,450	4.3%
Others	20,650	-	NA	17,530	17.8%
<b>AUM Mix (%)</b>					
Vehicle Finance	74.8%	71.8%	3.0%	74.4%	0.37%
Home Equity	21.4%	22.9%	-1.5%	22.1%	-0.70%
Others	3.8%	0.0%	3.8%	3.5%	0.33%

Source: Company, PL

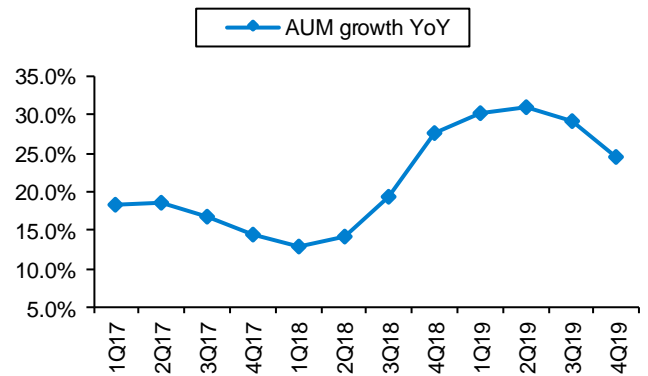


Exhibit 2: Disbursements trends slow given cautious stance

Exhibit 3: AUM growth better than industry

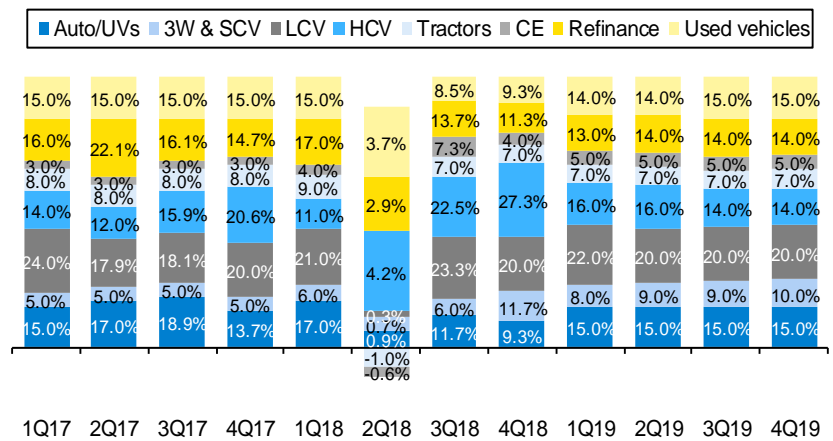


Source: Company, PL



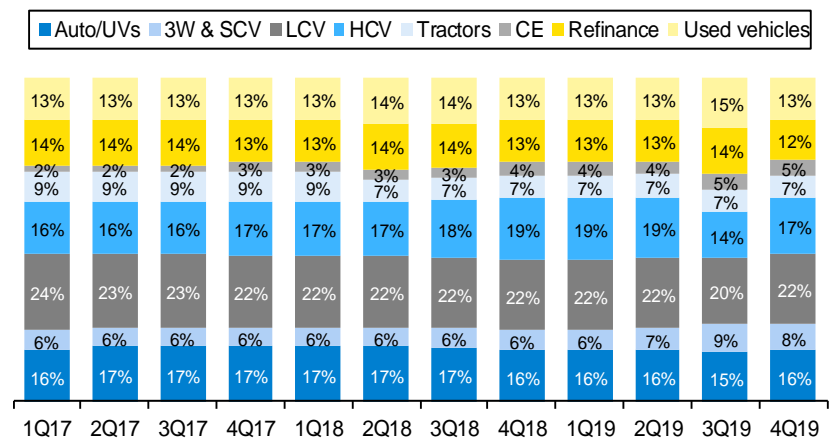
Source: Company, PL

Exhibit 4: Shift of mix to higher yielding assets



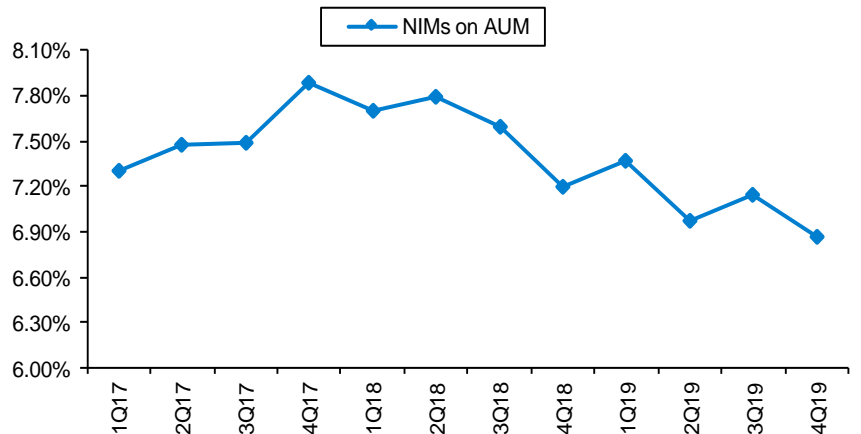
Source: Company, PL

Exhibit 5: Used, CE, LCV dominate AUM mix



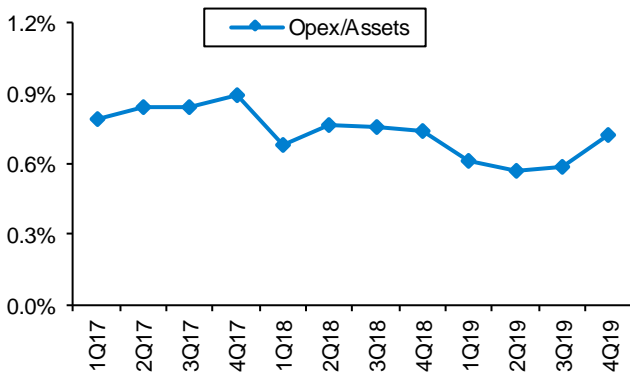
Source: Company, PL

Exhibit 6: NIMs stay under pressure



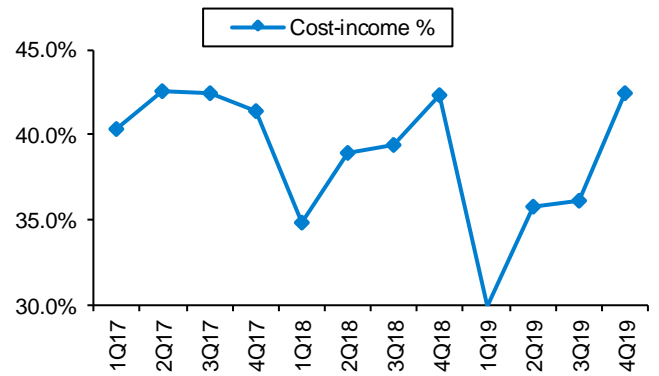
Source: Company, PL

Exhibit 7: Scope for opex/assets to improve



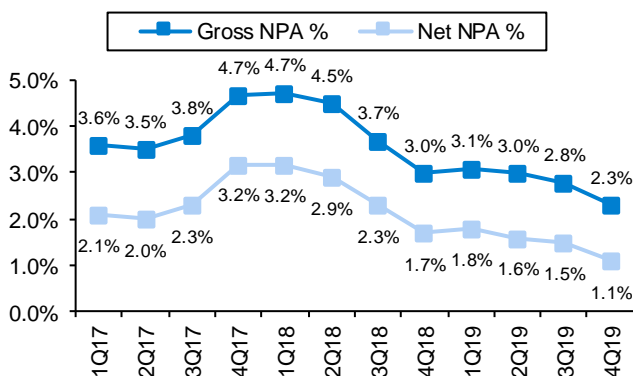
Source: Company, PL

Exhibit 8: Distribution network investments keep costs high



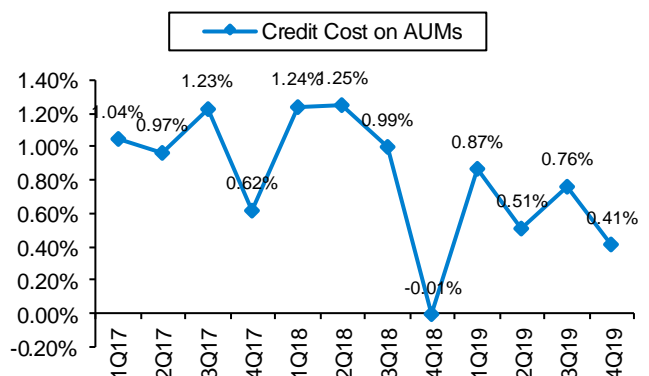
Source: Company, PL

Exhibit 9: Lowest ever NPA record



Source: Company, PL

Exhibit 10: Credit costs trend lower



Source: Company, PL

**Exhibit 11: Premium valuations justified, CIFIC better placed auto financier**

**PT calculation and upside**

Fair price - EVA	2,019
Fair price - P/ABV	1,311
<b>Average of the two</b>	<b>1,665</b>
<b>Target P/ABV</b>	<b>3.2</b>
<b>Target P/E</b>	<b>16.9</b>
Current price, Rs	1,389
<b>Upside (%)</b>	<b>12%</b>
Dividend yield (%)	0.6%
<b>Total return (%)</b>	<b>13%</b>

Source: PL



**Income Statement (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
Int. Inc. / Opt. Inc.	54,792	69,920	85,482	99,216
Interest Expenses	26,593	35,887	45,214	51,523
<b>Net interest income</b>	<b>25,765</b>	<b>29,765</b>	<b>35,531</b>	<b>42,340</b>
Growth(%)	7.2	15.5	19.4	19.2
Non-interest income	2,439	4,274	4,748	5,373
Growth(%)	30,592.3	75.3	11.1	13.2
Net operating income	28,203	34,039	40,279	47,713
<b>Expenditures</b>				
Employees	5,368	5,906	7,087	8,150
Other Expenses	5,288	6,235	7,482	8,529
Depreciation	497	555	577	600
Operating Expenses	11,153	12,696	15,146	17,279
<b>PPP</b>	<b>17,051</b>	<b>21,344</b>	<b>25,134</b>	<b>30,433</b>
Growth(%)	22.6	25.2	17.8	21.1
Provisions	3,037	3,112	3,960	4,793
<b>Profit Before Tax</b>	<b>14,014</b>	<b>18,232</b>	<b>21,174</b>	<b>25,640</b>
Tax	4,831	6,370	7,199	8,846
Effective Tax rate(%)	34.5	34.9	34.0	34.5
<b>PAT</b>	<b>9,183</b>	<b>11,862</b>	<b>13,975</b>	<b>16,794</b>
Growth(%)	32.5	29.2	17.8	20.2

**Balance Sheet (Rs. m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Source of funds</b>				
Equity	1,564	1,564	1,564	1,564
Reserves and Surplus	49,417	60,193	72,760	88,052
Networth	50,981	61,757	74,324	89,617
Growth (%)	18.2	21.1	20.3	20.6
Loan funds	384,069	505,752	581,614	663,040
Growth (%)	58.7	31.7	15.0	14.0
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	5,847	6,754	(75)	(588)
<b>Total Liabilities</b>	<b>440,897</b>	<b>574,263</b>	<b>655,863</b>	<b>752,069</b>
<b>Application of funds</b>				
Net fixed assets	1,646	1,759	2,374	3,039
Advances	423,472	526,658	617,764	725,865
Growth (%)	49.0	24.4	17.3	17.5
Investments	729	729	860	990
Current Assets	14,217	42,988	32,838	20,869
<b>Net current assets</b>	<b>14,217</b>	<b>42,988</b>	<b>32,838</b>	<b>20,869</b>
Other Assets	833	2,130	2,663	3,169
<b>Total Assets</b>	<b>440,897</b>	<b>574,263</b>	<b>655,863</b>	<b>752,069</b>
Growth (%)	41.3	30.2	14.2	14.7
<b>Business Mix</b>				
AUM	428,791	542,790	646,568	762,084
Growth (%)	25.5	26.6	19.1	17.9
On Balance Sheet	366,455	542,790	546,674	645,037
% of AUM	85.46	100.00	84.55	84.64
Off Balance Sheet	55,627	-	91,871	107,740
% of AUM	12.97	-	14.21	14.14

**Profitability & Capital (%)**

Y/e Mar	FY18	FY19	FY20E	FY21E
NIM	6.7	6.1	6.0	6.0
ROAA	2.4	2.3	2.3	2.4
ROAE	19.5	21.0	20.5	20.5

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Int. Inc. / Operating Inc.	16,203	16,716	18,261	18,851
Income from securitization	1,231	-	-	-
Interest Expenses	8,018	8,609	9,508	9,864
<b>Net Interest Income</b>	<b>9,416</b>	<b>8,107</b>	<b>8,753</b>	<b>8,987</b>
Growth (%)	41.9	8.1	22.2	20.9
Non-Interest Income	2	1	1	3
<b>Net Operating Income</b>	<b>9,418</b>	<b>8,108</b>	<b>8,754</b>	<b>8,989</b>
Growth (%)	41.9	8.1	22.2	20.9
Operating expenditure	2,816	2,901	3,158	3,820
<b>PPP</b>	<b>6,601</b>	<b>5,207</b>	<b>5,596</b>	<b>5,169</b>
Growth (%)	30.9	9.7	12.0	0.5
Provision	983	612	961	556
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	5,619	4,595	4,635	4,614
Tax	1,535	1,549	1,591	1,695
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	27.3	33.7	34.3	36.7
<b>PAT</b>	<b>4,084</b>	<b>3,047</b>	<b>3,044</b>	<b>2,919</b>
Growth	95	17	39	2
AUM	453,280	477,210	503,930	542,790
YoY growth (%)	30.1	30.9	29.3	24.5
Borrowing	425,704	476,043	437,460	447,959
YoY growth (%)	31.1	77.0	37.9	28.3

**Key Ratios**

Y/e Mar	FY18	FY19	FY20E	FY21E
CMP (Rs)	1,389	1,389	1,389	1,389
EPS (Rs)	58.7	75.8	89.3	107.4
Book value (Rs)	326.0	394.8	475.1	572.9
Adj. BV(Rs)	278.7	354.8	428.6	512.5
P/E(x)	23.7	18.3	15.5	12.9
P/BV(x)	4.3	3.5	2.9	2.4
P/ABV(x)	5.0	3.9	3.2	2.7
DPS (Rs)	6.5	7.0	7.5	8.0
Dividend Payout Ratio(%)	13.3	11.1	10.1	8.9
Dividend Yield(%)	0.5	0.5	0.5	0.6

**Asset Quality**

Y/e Mar	FY18	FY19	FY20E	FY21E
Gross NPAs(Rs m)	13,250	12,450	16,157	20,981
Net NPA(Rs m)	7,400	6,260	7,271	9,441
Gross NPAs to Gross Adv.(%)	2.9	2.3	2.5	2.8
Net NPAs to net Adv.(%)	1.7	1.2	1.3	1.5
NPA coverage(%)	44.2	49.7	55.0	55.0

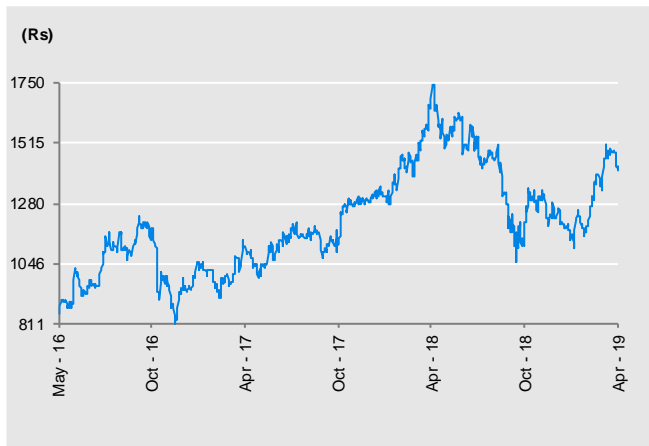
**Du-Pont**

Y/e Mar	FY18	FY19	FY20E	FY21E
NII	6.0	5.5	5.5	5.6
NII INCI. Securitization	6.6	6.3	6.2	6.3
Total income	6.6	6.3	6.2	6.3
Operating Expenses	2.6	2.3	2.3	2.3
PPOP	4.0	3.9	3.9	4.0
Total Provisions	0.7	0.6	0.6	0.6
RoAA	2.1	2.2	2.2	2.2
Avg. Assets/Avg. net worth	11.0	10.4	10.5	10.8
RoAE	19.5	21.0	20.5	20.5

Source: Company Data, PL Research



## Price Chart



## Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-Aug-18	BUY	1,881	1,451
2	5-Oct-18	BUY	1,597	1,193
3	31-Oct-18	BUY	1,561	1,271
4	7-Jan-19	BUY	1,597	1,198
5	1-Feb-19	BUY	1,562	1,172
6	5-Apr-19	BUY	1,666	1,484

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandam Investment and Finance Company	BUY	1,666	1,484
3	Edelweiss Capital	NR	-	276
4	HDFC	BUY	2,275	2,059
5	L&T Finance Holdings	Accumulate	177	145
6	LIC Housing Finance	Accumulate	597	550
7	Mahindra & Mahindra Financial Services	Accumulate	527	436
8	Shriram Transport Finance	BUY	1,568	1,213

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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