

Cholamandalam Investment & Finance

BUY

Tough to beat

CIFC outperformed peers on growth and asset quality in 4QFY19, meriting an upgrade in our valuation multiple. Maintain BUY with a TP of Rs 1,671 (3.5x Mar-21E ABV).

HIGHLIGHTS OF THE QUARTER

- Surprisingly AUMs grew ~27/8% to ~Rs 543bn, led by a ~29/8% growth in the VF segment. The HE book grew ~16/4%, highest in the last 10 qtrs. Disbursals grew ~11/16% to ~Rs 89bn. VF disbursals grew ~8/18% while HE (incl. others) disbursals grew ~28/4%. CIFC's growth is contextually impressive, given the liquidity tightness faced by NBFCs (albeit easing). The auto industry, too, is reeling under a slowdown. Further, disbursal growth sustained (+54% YoY) on the high 4QFY18 base of Rs 80 bn. We have baked in AUM CAGR of 16% over FY19-21E (vs. 18% earlier).
- G/NNPAs dipped ~40bps each QoQ to ~2.3/1.1% (VF GNPAs 1.7%, HE 3.8%). The qtr saw recoveries of ~Rs 1bn in the HE segment, which has been a pain point. CIFC's VF asset quality is the best among asset financiers, a key driver for our multiple upgrade. We have factored in GNPAs of 2.6% over FY19-21E.

- NIMs were sequentially flat at 6.8% but dipped 60bps YoY due to a ~40bps YoY rise in CoF (systemic squeeze on liquidity) and flattish yields. Also, CIFC maintained excess liquidity (Rs 29.8bn) which affected NIMs. Shift to higher yielding products and rate hikes within VF contributed to a ~20bps QoQ rise in VF yields. HE yields dipped ~40bps QoQ optically, as assignment income bumped up 3Q yields. We have built in stable NIMs of 6.1% over FY19-21E.

- Near-term outlook:** Relatively high confidence on growth and asset quality will keep the stock buoyant.

STANCE

Despite the liquidity squeeze on NBFCs, upcountry macro sluggishness and weak headline auto vols, CIFC has grown its Vehicle Finance portfolio and improved asset quality via superior field practices and underwriting. Strong parentage gives it steady access to funds. The sustained improvement in HE asset quality (aided by SARFAESI) is an additional positive. We believe CIFC deserves a slightly higher valuation multiple (3.5x vs. 3.25x).

FINANCIAL SUMMARY

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY17	FY18	FY19P	FY20E	FY21E
Net Interest Income	8,987	7,431	20.9	8,753	2.7	19,720	25,765	29,765	35,647	41,947
PPOP	5,169	4,289	20.5	5,596	(7.6)	14,162	17,051	21,344	25,191	29,543
PAT	2,919	2,853	2.3	3044	(4.1)	7,187	9,183	11,862	13,922	16,371
EPS (Rs)	18.0	18.7	(3.8)	19.3	(6.6)	46.0	59.1	76.1	89.0	104.7
ROAE (%)						18.0	19.6	21.1	20.5	20.1
ROAA (%)						2.45	2.47	2.34	2.26	2.33
Adj. BVPS (Rs)						209.7	284.1	354.8	421.7	514.1
P/ABV (x)						6.72	4.96	3.97	3.34	2.74
P/E (x)						30.7	23.9	18.5	15.8	13.5

Source: Company, HDFC sec Inst Research

INDUSTRY	NBFCs
CMP (as on 26 Apr 2019)	Rs 1,408
Target Price	Rs 1,671
Nifty	11,755
Sensex	39,067

KEY STOCK DATA

Bloomberg	CIFC IN
No. of Shares (mn)	156
MCap (Rsbn) / (\$ mn)	220/ 3,145
6m avg traded value (Rsmn)	429

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,761/1,038		
	3M	6M	12M
Absolute (%)	22.6	16.7	(16.7)
Relative (%)	14.2	(0.4)	(29.2)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	53.1	53.1
FIs & Local MFs	16.8	17.6
FPIs	19.4	18.9
Public & Others	10.8	12.4
Pledged Shares	Nil	Nil

Source : BSE

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- **Diversification Drives Growth:** Healthy disbursal growth in the car and 3-W segment (30/22% YoY/QoQ), followed by LCVs and tractors (8/18% each) drove overall VF disbursals up 8/18%. HCV disbursals were down ~16% YoY (albeit up ~18% QoQ). The varying pattern of growth across sub-segments and quarters within VF indicates that co is well insulated from a downturn in any single segment. HE disbursals at ~Rs 10.3bn, up 28/8% hit a record high. We have modeled disbursals growth of ~15% CAGR vs. 18% earlier factoring slower growth in VF disbursals (13% vs. 16% earlier), even as HE disbursals momentum sustains.
- VF AUMs (Rs 406bn, +29/8% YoY/QoQ; 74.8%) drove overall AUM growth. Within the VF portfolio, Cars and 3-W (+41/13%) and CE (+61/8%, on a small base) AUMs grew the fastest. LCV and used CV growth remained healthy at ~29/24% YoY. HCV growth lagged at 15/2%, as expected. With healthy disbursals growth, HE AUMs grew 16%, highest in last 10qtrs. As we expect disbursals growth to moderate, we have reduced our AUM growth assumptions to 16% vs. 18% earlier.
- **Bank Loans Fund Growth:** After remaining flat in 3Q, borrowings grew ~32/7% to ~Rs 506bn. Bank borrowings were the largest incremental source of borrowings, growing ~85/35% to form ~49% of borrowings vs. 35/39% YoY/QoQ. The co chose to draw down on limits, so they are not cancelled later. Debentures and CPs declined ~10/25% sequentially. The increasing reliance on bank vs. market borrowings signals a shift to a more stable source of funds. This shift resulted in the bump in the CoF (+40bps YoY) as the full impact of the MCLR increase was felt. As banks cut their MCLRs, NIMs will be cushioned for CIFC. We expect the reliance on bank borrowings to increase further, as with most NBFCs.
- **Comfortable Liquidity:** The liquidity position as at Mar-19 indicates surpluses for time brackets up to 3 years. In addition, the shift to more stable sources of borrowing will insulate the co against any near term liquidity shocks.
- **C-I Inches Up:** Opex grew ~21% YoY/QoQ to ~Rs 3.8bn, driven by a ~35/22% rise in other opex. Staff cost grew ~11/22%. Consequently, the CI ratio jumped ~640bps QoQ to ~43%. CIFC added 27/9 branches in the year/qtr taking the branch count to 900 branches. Investments in new branches were responsible for the bump up in staff costs and other opex. Expense ratios increased across verticals, with the VF segment recording a 50bps rise QoQ. The HE segment reported a 130bps jump. The overall expense ratio was ~2.92%. We have factored in C-I and C-AA ratios of 37.5/2.6% over FY19-21E.
- **Provisions Dip QoQ:** After a 57% rise in 3Q, provisions dipped 42% QoQ to ~Rs 560mn (42bps). The co prudently provided ~Rs 500mn in anticipation of macro-economic stress. In spite of this, VF provisions halved sequentially to ~Rs 400mn and the HE segment witnessed write-backs of ~Rs 20mn. The overall coverage increased 420bps QoQ to ~49%, way ahead of peers like MMFS. While we remain confident on CIFC's asset quality, and have factored in a higher LLP of ~65bps over FY19-21 vs. 57bps in FY17.

Five Quarters At A Glance

(Rs mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY Growth	QoQ Growth
Net Interest Income	7,431	6,953	8,107	8,753	8,987	20.9%	2.7%
Non-interest Income	2	1,233	1	1	3	18.2%	136.4%
Total Income	7,433	8,186	8,108	8,754	8,989	20.9%	2.7%
Operating expenses	3,144	2,816	2,901	3,158	3,820	21.5%	21.0%
Pre Provision Profits	4,289	5,370	5,207	5,596	5,169	20.5%	-7.6%
Provisions	(6)	983	612	961	556	NA	-42.2%
PBT	4,295	4,388	4,595	4,635	4,614	7.4%	-0.5%
Tax	1,442	1,535	1,549	1,591	1,695	17.5%	6.5%
PAT	2,853	2,852	3,047	3,044	2,919	2.3%	-4.1%
PAT (incl OCI)	2,925	3,003	3,074	3,012	2,815	-3.8%	-6.5%
Other details							
Disbursals (Rs bn)	80.1	70.1	69.0	76.4	88.9	11.1%	16.3%
VF	68.2	56.7	55.4	62.4	73.6	7.9%	17.9%
HE	8.1	9.4	9.1	9.5	10.3	28.3%	8.4%
AUM (Rs bn)	428.8	451.0	477.2	503.9	542.8	26.6%	7.7%
VF	315.1	333.5	354.4	374.9	405.9	28.8%	8.3%
HE	100.0	102.8	107.3	111.5	116.3	16.3%	4.3%
Borrowings (Rs bn)	382.9	409.8	470.6	472.3	505.7	32.1%	7.1%
Bank Borrowings	134.0	147.5	183.5	184.2	247.8	84.9%	34.5%
CRAR (%)	18.4	18.2	18.3	17.8	17.6	-85 bps	-28 bps
Tier I (%)	13.3	13.4	13.1	13.1	12.6	-73 bps	-52 bps
Profitability							
Yield On Advances (%)	14.40	14.60	14.30	14.20	14.30	-10 bps	10 bps
Cost Of Funds (%)	7.10	7.20	7.40	7.40	7.50	40 bps	10 bps
NIM (%)	7.40	7.40	6.90	6.80	6.80	-60 bps	0 bps
Cost-Income Ratio (%)	42.3	34.4	35.8	36.1	42.5	20 bps	642 bps
Tax rate (%)	33.6	35.0	33.7	34.3	36.7	316 bps	240 bps
Asset Quality (I-GAAP)							
Gross NPA (Rs mn)	13,250	14,480	14,280	14,500	12,450	-6.0%	-14.1%
Net NPA (Rs mn)	7,400	8,120	7,920	7,900	6,260	-15.4%	-20.8%
Gross NPAs (%)	2.94	2.99	2.80	2.70	2.30	-64 bps	-40 bps
Net NPAs (%)	1.66	1.71	1.60	1.50	1.10	-56 bps	-40 bps
Coverage Ratio (%)	44.2	43.9	44.5	45.5	49.7	557 bps	420 bps
Asset Quality (IND-AS)							
Gross Stage III (Rs mn)	14,760	16,170	16,230	16,480	14,390	-2.5%	-12.7%
Gross Stage III (%)	3.40	3.60	3.40	3.30	2.70	-70 bps	-60 bps
Stage III Provisions	5,070	5,550	5,660	5,760	5,460	7.7%	-5.2%
PCR (%)	34.3	34.3	34.9	35.0	37.9	359 bps	299 bps

Led by a ~27% growth in AUM while NIMs compressed ~60bps

Staff cost jumped 22% QoQ as branch related investments continued, other opex too

VF provisions halved QoQ, HE provisions reversals continued on a/c of resolutions; Provided ~Rs 500mn in anticipation of macro stress

Driven by strong growth across segments (in the range of ~24-60% YoY); HCV growth was muted at ~15/2% YoY/QoQ, as expected

The borrowing mix tilted towards bank borrowings from bank borrowings

VF NIMs jumped ~40bps QoQ to ~7.6% while HE NIMs dipped ~40bps to ~4.90% as assignment income dipped

VF GNPA's dipped further to 1.7% (best amongst peers) and HE GNPA's reduced gradually (3.8% vs. 4.5% QoQ).

Coverage increased sequentially in spite of lower provisions, best amongst peers

Source: HDFC sec Inst Research

Surprisingly, disbursements jumped ~16% QoQ led by VF (+18% QoQ) and an 8% rise in HE disbursements

VF disbursements jumped in spite of slower sales by OEMs

Highest ever HE disbursements at Rs 10.3bn

Car and 3-W disbursements grew ~41/13%

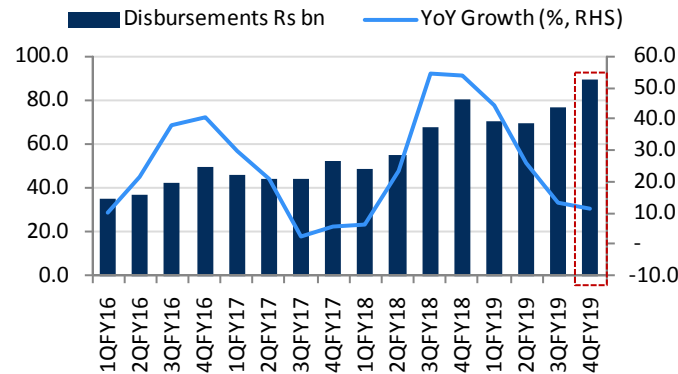
CE disbursements grew ~61/8% on a small base

The share of car and 3-W disbursements increased to ~30% of VF disbursements

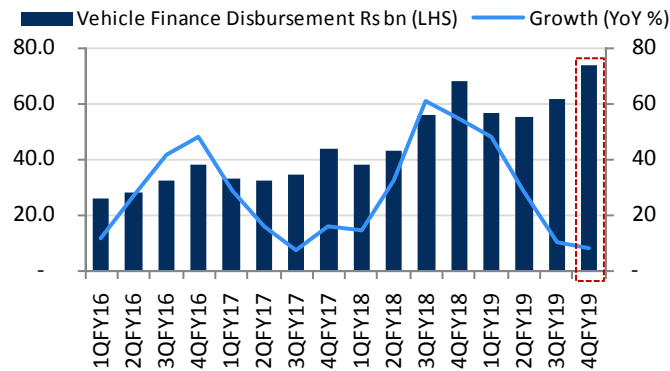
AUM growth sustained at ~27/8% YoY/ QoQ led by VF at 29/8% and Other Loans (HE, HL etc) at 16/4%

The mgt guided for ~15% growth in disbursements

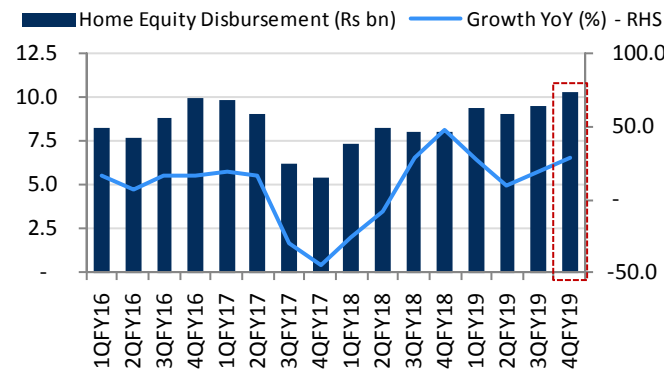
Overall Disbursements: Jump ~11/16% YoY/QoQ



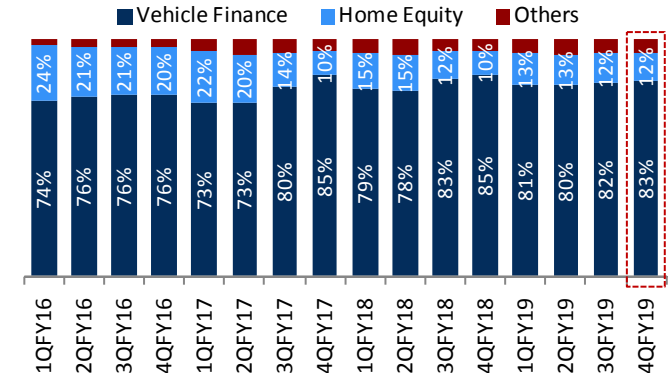
VF Disbursements: Up ~18% QoQ



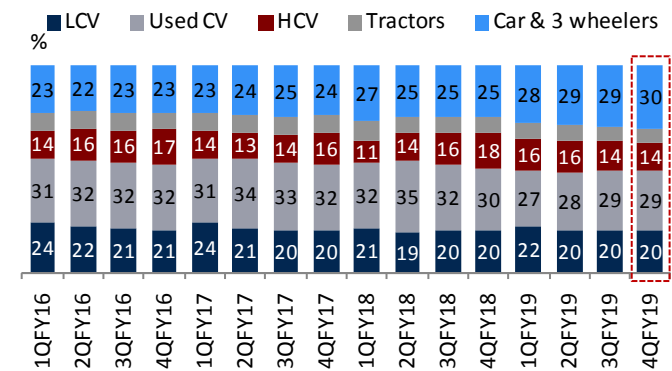
HE Disbursements: Up ~8% QoQ



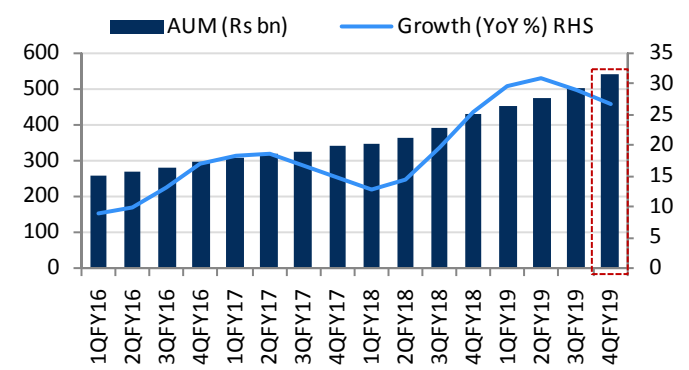
Disbursal Mix: Share of VF Inches Up To ~83%



Vehicle Disbursements: Share of Cars & 3-W Up



AUM Growth: Led By The VF Segment



Source : Company, HDFC sec Inst Research

As VF disburseals and AUMs continued to outpace HE, the share of VF AUMs inched up ~40bps QoQ to 74.8%

The share of HE in total AUMs was 21.4% while other segments constituted ~3.8%

The Vehicle Finance Portfolio remained largely stable across products and geographies

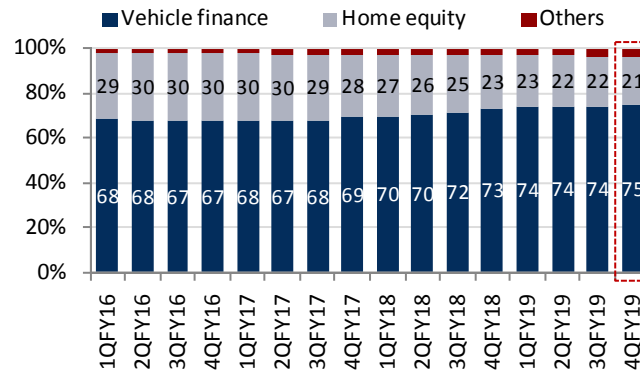
After remaining flat in 3Q, borrowings grew 32/7% YoY/QoQ

Bank borrowings were the largest incremental source of funds, growing ~85/35% YoY/QoQ

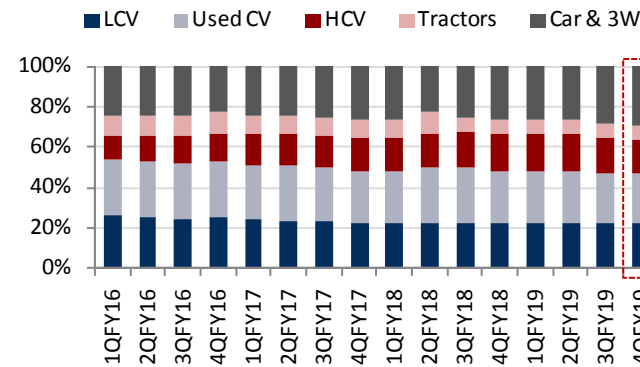
The mgt chose to utilise undrawn bank lines in the qtr

The share of mkt sources of borrowings like NCDs and CPs dipped

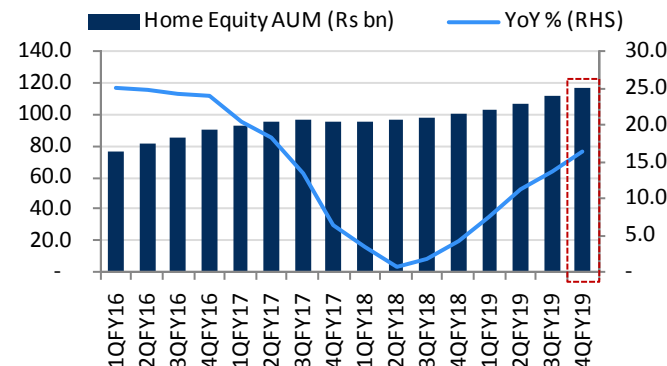
AUM Break-up: VF Continues to Inch Up



Segment-wise VF AUM: Cars & 3 W Rises

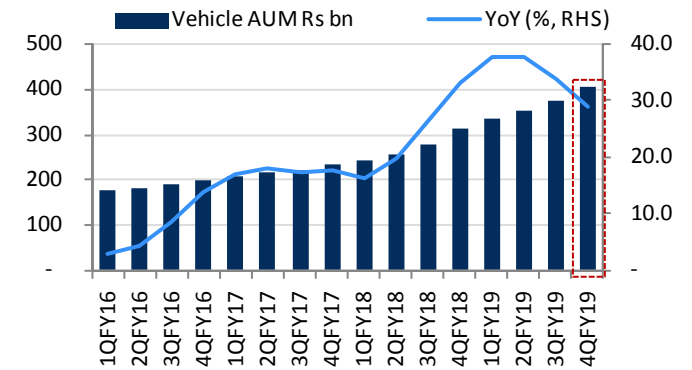


Home Equity AUM: Up ~4% Sequentially

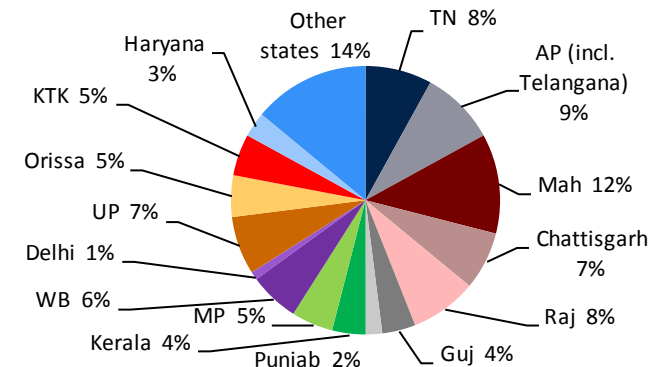


Source : Company, HDFC sec Inst Research

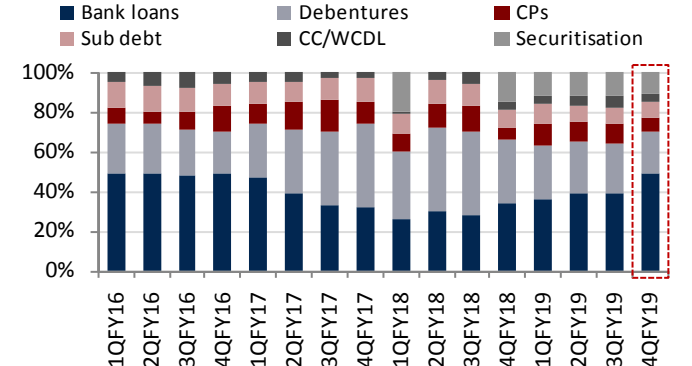
VF AUM: Up 29/8% YoY/QoQ



State-wise VF AUM: Well-diversified



Borrowings: Share of Bank Loans Up



NIMs were sequentially stable, albeit down ~60bps YoY

VF yields dipped were up 20bps QoQ while HE yields were down ~40bps

As 3Q incl assignment gains, HE yields dipped QoQ

The C-I ratio was up ~640bps QoQ to 42% while the C-AA ratio was up ~30bps to 2.92%

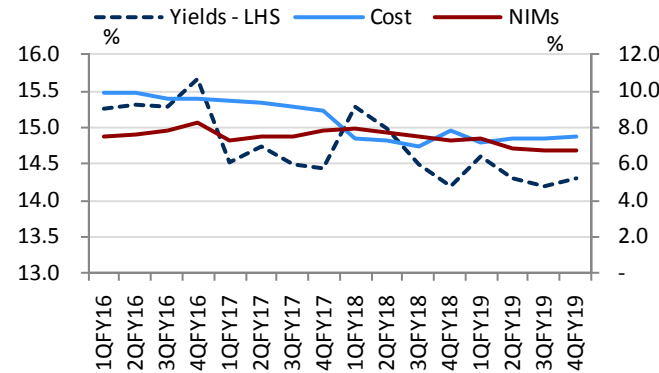
The expense ratio increased across segments sequentially, with a ~130bps rise in the HE segment and a 50bps rise in the VF segment

Asset quality improved sequentially as G/NNPAs dipped ~14/21% QoQ

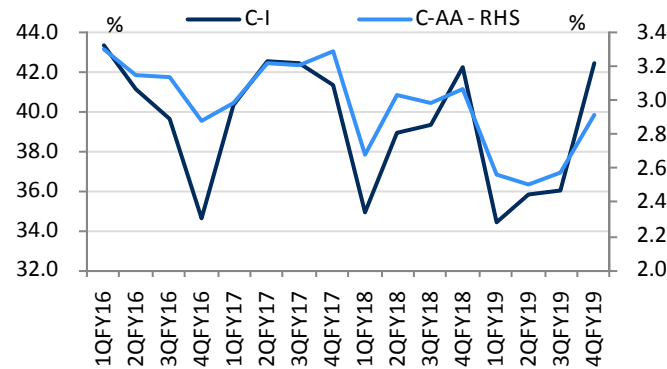
Even as provisions dipped QoQ, the PCR increased ~400bps to ~49%

HE recoveries for the qtr were ~Rs 1bn, across 119 cases

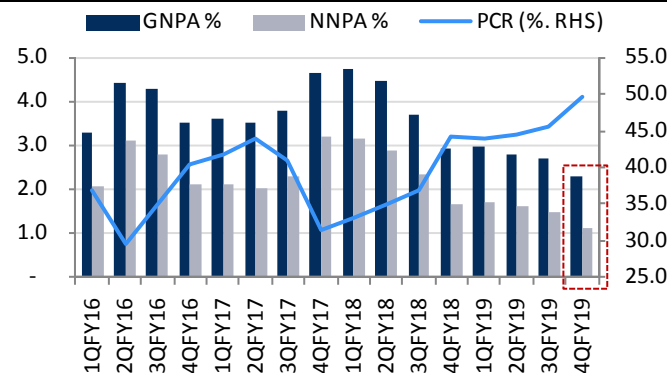
NIMs: Stable QoQ



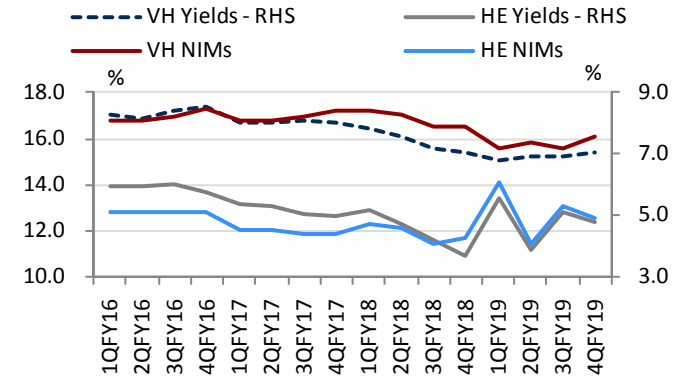
Efficiency Ratio: C-I Ratio Jumps QoQ



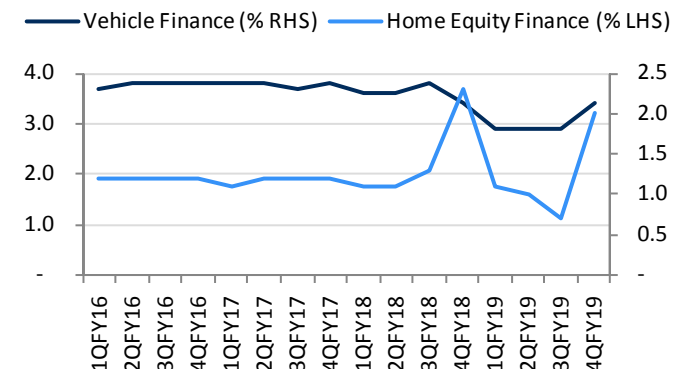
Asset Quality: Improves QoQ



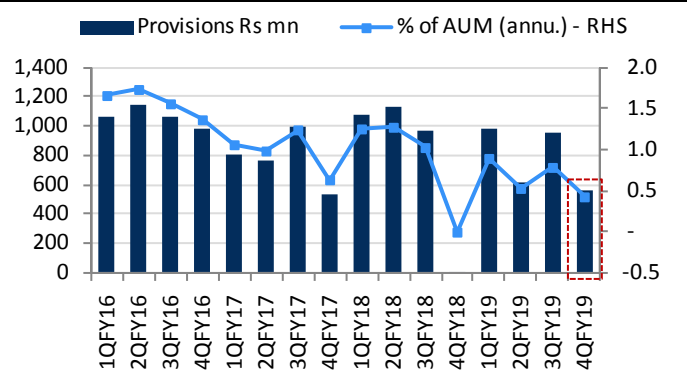
HE Yields Down ~40bps QoQ



Expenses Ratio: Deteriorates Across Segments



Provisions Dip QoQ

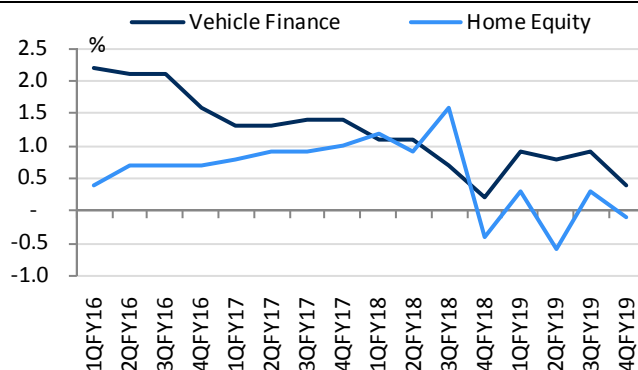


Source : Company, HDFC sec Inst Research

Provisions dipped ~42% sequentially to ~Rs 560mn as HE saw writebacks of ~Rs 20mn

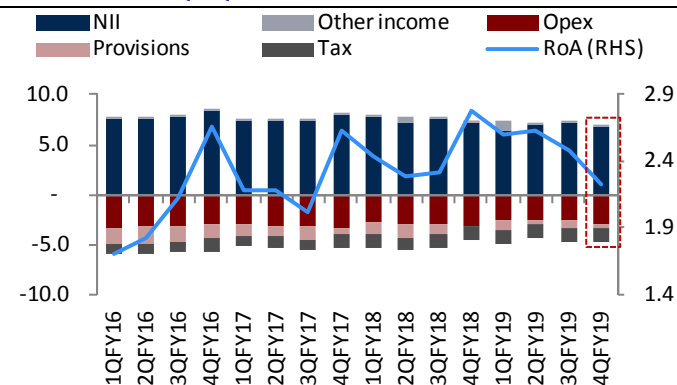
Provisions in anticipation of macroeconomic stress were ~Rs 500mn

Segmental Provisions: HE Write-backs Continue



Source : Company, HDFC sec Inst Research

RoAA: Down QoQ



Change in Estimates

Rs mn	FY20E			FY21E		
	Old	New	Change	Old	New	Change
NII	31,989	35,647	11.4%	37,372.8	41,947	12.2%
PPOP	25,437	25,191	-1.0%	30,140.5	29,543	-2.0%
PAT	14,064	13,922	-1.0%	16,695.8	16,371	-1.9%
Adj. BVPS (Rs)	431	422	-2.2%	517.1	514.1	-0.6%

Source : HDFC sec Inst Research

Peer Set Comparison

NBFC	MCAp (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E	FY19P	FY20E	FY21E
SHTF	258	1,136	BUY	1,530	566	669	765	11.2	9.3	8.1	2.01	1.70	1.49	17.1	17.8	17.7	2.45	2.54	2.46
MMFS#	255	414	BUY	504	124	152	177	15.6	13.4	12.0	3.19	2.61	2.24	15.2	15.7	15.8	2.60	2.54	2.49
LICHF	253	502	NEU	546	265	312	364	10.6	9.5	8.3	1.90	1.61	1.38	17.5	17.1	16.8	1.30	1.27	1.24
CIFC	220	1,408	BUY	1,671	355	422	514	18.7	16.0	13.6	4.01	3.38	2.77	21.1	20.5	20.1	2.34	2.26	2.33
INDOSTAR	37	403	BUY	549	324	332	366	14.8	11.0	6.9	1.24	1.21	1.10	9.7	10.5	14.9	2.98	2.49	2.60
REPCO	27	428	BUY	591	214	253	295	11.2	10.0	8.9	2.00	1.69	1.45	16.7	16.0	15.5	2.26	2.21	2.16

Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Interest Earned	42,028	52,358	65,653	80,724	93,771
Interest Expended	22,308	26,593	35,887	45,077	51,824
Net Interest Income	19,720	25,765	29,765	35,647	41,947
Other Income	4,576	2,439	4,274	4,726	5,343
Total Income	24,295	28,203	34,039	40,373	47,290
Total Operating Exp	10,133	11,153	12,696	15,182	17,747
PPOP	14,162	17,051	21,344	25,191	29,543
Provisions & Contingencies	3,106	3,037	3,112	3,936	4,549
PBT	11,056	14,014	18,232	21,255	24,994
Provision for Tax	3,868	4,831	6,370	7,333	8,623
PAT	7,187	9,183	11,862	13,922	16,371

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	1,563	1,564	1,564	1,564	1,564
Reserves	41,563	49,417	60,193	72,695	87,397
Net worth	43,127	50,981	61,757	74,259	88,961
Borrowings	242,067	384,999	507,743	578,455	655,451
Other Liabilities	22,017	4,920	4,760	4,368	920
Total liabilities	307,211	440,900	574,260	657,082	745,331
APPLICATION OF FUNDS					
Advances	284,663	422,530	526,220	613,416	702,789
Investments	2,385	730	730	803	899
Fixed assets	1,401	1,650	1,760	1,936	2,130
Other Assets	18,762	15,990	45,550	40,927	39,513
Total assets	307,211	440,900	574,260	657,082	745,331

Source: Company, HDFC sec Inst Research

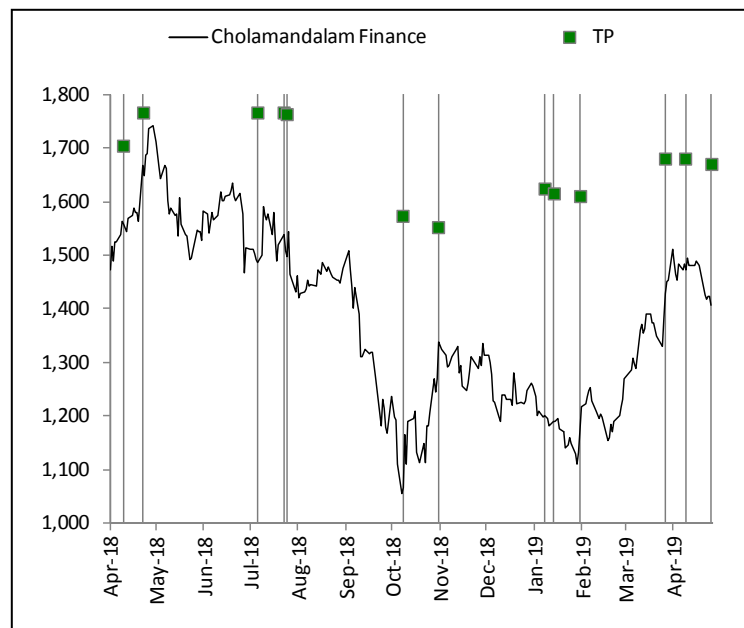
Key Ratios

	FY17	FY18	FY19P	FY20E	FY21E
Valuation Ratios					
EPS (Rs)	46	59	76	89	105
Earnings Growth (%)	26	28	29	17	18
BVPS (Rs)	276	326	395	475	569
Adj. BVPS (Rs)	210	284	355	422	514
DPS (Rs)	5.5	6.5	6.5	7.7	9.1
ROAA (%)	2.5	2.5	2.3	2.3	2.3
ROAE (%)	18.0	19.6	21.1	20.5	20.1
P/E (x)	30.7	23.9	18.5	15.8	13.5
P/ABV (x)	6.7	5.0	4.0	3.3	2.7
P/PPOP (x)	15.6	12.9	10.3	8.8	7.5
Dividend Yield (%)	0.4	0.5	0.5	0.5	0.6
Profitability					
Yield On Advances (%)	13.17	13.59	13.51	13.70	13.75
Cost Of Funds (%)	9.54	8.51	8.08	8.30	8.40
Core Spread (%)	3.63	5.08	5.44	5.40	5.35
NIM (%)	6.18	6.69	6.13	6.05	6.15
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	3.2	2.9	2.61	2.58	2.60
Cost-Income Ratio	41.7	39.5	37.3	37.6	37.5
Balance Sheet Structure Ratios					
Loan Growth (%)	15.2	25.5	26.6	17.1	14.6
Borrowing Growth (%)	7.2	59.0	31.9	13.9	13.3
Equity/Assets (%)	14.0	11.6	10.8	11.3	11.9
Equity/Loans (%)	12.6	11.9	11.4	11.7	12.2
Total Capital Adequacy Ratio (CAR)	18.6	18.4	17.6	16.6	17.0
Tier I CAR	13.6	13.2	12.6	11.9	12.3

	FY17	FY18	FY19P	FY20E	FY21E
Asset Quality					
Gross NPLs (Rs mn)	15,450.2	12,097.7	12,450.0	16,287.5	18,729.5
Net NPLs (Rs mn)	10,334.3	6,541.1	6,260.0	8,301.4	8,554.9
Gross NPLs (%)	4.66	2.94	2.30	2.56	2.57
Net NPLs (%)	3.02	1.53	1.15	1.31	1.17
Coverage Ratio (%)	35.1	48.1	49.9	49.0	54.3
Provision/Avg. Loans (%)	0.91	0.71	0.57	0.62	0.62
RoAA Tree					
Net Interest Income	6.73%	6.89%	5.86%	5.79%	5.98%
Non-interest Income	1.56%	0.65%	0.84%	0.77%	0.76%
Operating Cost	3.46%	2.98%	2.50%	2.47%	2.53%
Provisions	1.06%	0.81%	0.61%	0.64%	0.65%
Tax	1.32%	1.29%	1.25%	1.19%	1.23%
ROAA	2.45%	2.45%	2.34%	2.26%	2.33%
Leverage (x)	7.35	7.95	9.00	9.05	8.59
ROAE	18.04%	19.52%	21.04%	20.47%	20.06%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Apr-18	1,564	BUY	1,705
24-Apr-18	1,663	BUY	1,767
6-Jul-18	1,494	BUY	1,767
24-Jul-18	1,539	BUY	1,767
27-Jul-18	1,463	BUY	1,764
9-Oct-18	1,055	BUY	1,574
31-Oct-18	1,270	BUY	1,553
8-Jan-19	1,199	BUY	1,625
15-Jan-19	1,190	BUY	1,616
31-Jan-19	1,172	BUY	1,611
28-Mar-19	1,430	BUY	1,681
9-Apr-19	1,471	BUY	1,681
30-Apr-19	1,408	BUY	1,671

Rating Definitions

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

Disclosure:

We, **Darpin Shah, MBA**, and **Aakash Dattani, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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