

Accumulate

Market Share Gains in CV, HE Healthy; At 3x, Maintain Accumulate

The NBFC reported a strong quarter, with a NII growth of 21% YoY, lower credit costs and improved asset quality. Its opex increased due to investments in 121 new branches. This is expected to improve traction in asset growth next year. We have factored an asset growth of CAGR 18% (reduced our asset growth estimates marginally by 200 bps against vehicles), driven by 15% and 18% in vehicles and LAP, respectively. The PAT is likely to grow at a CAGR 25% over FY19-21E and the ROA is expected to improve 10 bps to 2.3% by FY21E. The concerns about a slowing CV cycle is expected to be partly mitigated by market share gains in vehicles and traction in home equity. Maintain Accumulate at 3x FY21 E P/ABV (Target of ₹ 1550)

Consolidation in Vehicles to Mitigate Slowing Cycle

The disbursement in vehicles grew 18% QoQ (8% YoY on a high base). The share of HCV fell to 14% (as in last quarter) from a high of 18% last year. It has cautiously stayed away from the HCV segment, as the higher funding costs make the segment unattractive vis a vis banks. The NBFC continues to gain market share in other products, although the margin of gain dipped in the quarter. The CV cycle is expected to remain sluggish, however, we believe the company has a strong market position, and it is likely to capture share, given its differentiated pricing. Although NIMs are likely to fall on competitive pricing, it is likely to remain selective and ensure that credit costs are under control.

Home Equity – Healthy Traction to Continue

The disbursement in home equity grew 30% YoY, one of the highest ever. The AUM of the book grew 19% YoY. The expenses rose in the book (on branch additions), but a reversal of credit costs on healthy recovery under SARFESI aided the RoA. We are unperturbed by the rise in costs, as we believe the pricing power in the segment and healthy momentum is expected to fetch a quicker turnaround. Only 1/3 of its branches cater to this segment, and we expect further growth momentum

Maintain Accumulate, at ₹ 1550 - 3x FY21E P/ABV

Even with the concerns on the CV cycle, we believe the management's pedigree, market position in vehicles, and traction in home equity is likely to aid a PAT CAGR of 25% over FY19-21E and support these valuation. The share split is expected to improve participation too.

Q4FY19 Result (₹ Mn)

| Particulars | Q4FY19 | Q4FY18 | YoY (%) | Q3FY19 | QoQ (%) |
|-----------------------|--------|--------|----------|--------|---------|
| Interest earned | 18,850 | 14,560 | 29.5 | 18,260 | 3.2 |
| Interest expensed | 9,860 | 7,130 | 38.3 | 9,510 | 3.7 |
| Net interest income | 8,990 | 7,430 | 21.0 | 8,750 | 2.7 |
| Other income | 0 | 0 | | 0 | |
| Total Net Income | 8,990 | 7,430 | 21.0 | 8,750 | 2.7 |
| Operating expenses | 3,820 | 3,140 | 21.7 | 3,160 | 20.9 |
| Pre-provision profits | 5,170 | 4,290 | 20.5 | 5,590 | (7.5) |
| Provisions | 560 | (10) | (5700.0) | 960 | (41.7) |
| Tax expense | 1,690 | 1,440 | 17.4 | 1,590 | 6.3 |
| Extraordinary gains | 12 | 12 | | 12 | |
| Reported Net Profit | 2,943 | 2,860 | 2.9 | 3,040 | (3.2) |
| | | | (bps) | | (bps) |
| Advances | 26.6 | | | 31.5 | (488) |
| NIM (%) | 6.9 | 7.3 | (45) | 7.1 | (26) |
| RoA | 0.0 | 2.8 | (282) | 2.4 | (240) |
| RoE | 0.0 | 20.8 | (2078) | 21.4 | (2140) |
| Gross NPA (%) | 0.0 | 3.6 | (364) | 3.4 | (336) |

| | |
|-----------------|---------------|
| CMP | ₹ 1,389 |
| Target / Upside | ₹ 1,550 / 12% |
| BSE Sensex | 39,004 |
| NSE Nifty | 11,748 |

Scrip Details

| | |
|------------------|------------------|
| Equity / FV | ₹ 1,564mn / ₹ 10 |
| Market Cap | ₹ 217bn |
| | US\$ 3bn |
| 52-week High/Low | ₹ 1,760/₹ 1,040 |
| Avg. Volume (no) | 331,315 |
| NSE Symbol | CHOLAFIN |
| Bloomberg Code | CIFC IN |

Shareholding Pattern Mar'19(%)

| | |
|-----------------|------|
| Promoters | 53.1 |
| MF/Banks/FIs | 15.9 |
| FIIIs | 20.5 |
| Public / Others | 10.6 |

Valuation (x)

| | FY19E | FY20E | FY21E |
|-------|-------|-------|-------|
| P/E | 18.3 | 15.6 | 12.5 |
| P/ABV | 3.9 | 3.3 | 2.7 |
| ROAA | 2.2 | 2.2 | 2.3 |
| ROAE | 19.6 | 20.8 | 22.0 |

Estimates (₹ mn)

| | FY19E | FY20E | FY21E |
|--------|--------|--------|--------|
| NII | 34,040 | 40,207 | 48,230 |
| PPOP | 20,550 | 25,352 | 30,465 |
| PAT | 11,070 | 13,913 | 17,420 |
| Adj BV | 356.6 | 420.1 | 507.0 |

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Exhibit 1: Quarterly Performance

| Particulars | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|---|----------------|----------------|----------------|----------------|----------------|
| AUM (₹ mn) | 428,791 | 453,276 | 477,209 | 503,930 | 542,790 |
| YoY (%) | 25.5 | 29.5 | 30.8 | 31.5 | 26.6 |
| QoQ (%) | 11.9 | 5.7 | 5.3 | 5.6 | 7.7 |
| AUM mix (%) | | | | | |
| Vehicles | 73.5 | 73.9 | 74.3 | 74.4 | 74.8 |
| Home equity | 22.9 | 21.6 | 22.5 | 22.1 | 21.4 |
| Other | 3.7 | 4.5 | 3.3 | 3.5 | 3.8 |
| Borrowings (₹ mn) | | | | | |
| 409,793 | 344,366 | 405,516 | 407,256 | 444,816 | |
| YoY (%) | 69.3 | 41.9 | 31.2 | 25.2 | 386,990 |
| QoQ (%) | 44.8 | (16.1) | 17.8 | 0.4 | (5.6) |
| Borrowing mix (%) | | | | | |
| Banks | 32.1 | 48.1 | 50.9 | 45.0 | 53.0 |
| NCDs | 28.3 | 30.7 | 28.3 | 24.0 | 21.0 |
| Commercial paper | 9.0 | 13.5 | 11.4 | 10.0 | 7.0 |
| Others | 8.5 | 10.5 | 9.4 | 8.0 | 8.0 |
| Securitized book | 0.0 | 0.1 | 13.0 | 13.0 | 13.0 |
| Contribution Margins (%) | | | | | |
| Yields | 14.9 | 14.7 | 14.4 | 14.9 | 14.4 |
| Cost of funds | 7.2 | 8.5 | 9.2 | 8.5 | 9.2 |
| NIMs | 8.8 | 7.4 | 7.0 | 7.1 | 6.9 |
| Asset Quality | | | | | |
| Stage 3 assets (₹ mn) | 14,958 | 16,201 | 16,083 | 16,390 | 14,390 |
| Provision cover on stage 3 assets (%) | 36.3 | 36.5 | 36.8 | 36.9 | 38.0 |
| Stage 1 & 2 assets (₹ mn) | 416,013 | 436,232 | 460,822 | 482,610 | 521,020 |
| Provision cover on stages 1 & 2 assets (%) | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 |
| Total cover (%) as per Ind AS | 2.1 | 2.1 | 2.0 | 2.0 | 1.7 |
| Dupont analysis (as a % of average assets) | | | | | |
| Interest Income / Avg. Assets (%) | 15.3 | 13.9 | 12.5 | 13.6 | 13.5 |
| Interest Expense / Avg. Assets (%) | 6.3 | 6.9 | 6.4 | 7.1 | 7.1 |
| NII / Avg. Assets (%) | 9.0 | 7.0 | 6.1 | 6.5 | 6.5 |
| Non-Interest Inc. / Assets (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Op. Cost / Assets (%) | 2.8 | 2.3 | 2.1 | 2.2 | 2.7 |
| PPP / Assets (%) | 5.2 | 4.6 | 3.9 | 4.2 | 3.7 |
| Provisions / Assets (%) | 0.7 | 0.8 | 0.5 | 0.7 | 0.4 |
| PBT / Assets (%) | 4.4 | 3.8 | 3.4 | 3.4 | 3.3 |
| Core ROA (%) | 2.9 | 2.5 | 2.3 | 2.3 | 2.1 |

Source: DART, Company

| Particulars | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|-----------------------|--------|--------|--------|--------|--------|
| Vehicles | | | | | |
| NII / Avg. Assets (%) | 7.9 | 8.9 | 7.2 | 7.4 | 7.6 |
| Op. Cost / Assets (%) | 3.8 | 4.1 | 2.9 | 2.9 | 3.4 |
| PPP / Assets (%) | 0.7 | 0.9 | 0.9 | 0.8 | 0.4 |
| ROTA - PBT | 3.4 | 3.9 | 3.4 | 3.7 | 3.8 |
| Home Equity | | | | | |
| NII / Avg. Assets (%) | 4.1 | 4.4 | 4.1 | 3.5 | 4.9 |
| Op. Cost / Assets (%) | 1.2 | 1.3 | 1.0 | 0.9 | 2.0 |
| PPP / Assets (%) | 1.9 | 0.6 | 0.8 | (0.6) | (0.1) |
| ROTA - PBT | 1.1 | 2.5 | 2.2 | 3.2 | 3.0 |

Profit and Loss Account (₹ Mn)

| Particulars | FY18A | FY19P | FY20E | FY21E |
|--------------------------------|---------------|---------------|---------------|---------------|
| Interest Income | 54,800 | 69,930 | 83,997 | 99,283 |
| Interest expenses | 26,590 | 35,890 | 43,791 | 51,053 |
| Net interest income | 28,210 | 34,040 | 40,207 | 48,230 |
| Other incomes | 0 | 0 | 927 | 933 |
| Total expenses | 12,895 | 13,490 | 15,782 | 18,698 |
| - Employee cost | 5,277 | 6,083 | 6,615 | 7,761 |
| - Other | 7,619 | 7,406 | 9,167 | 10,936 |
| Pre provisioning profit | 15,315 | 20,550 | 25,352 | 30,465 |
| Provisions | 3,040 | 3,110 | 3,947 | 3,665 |
| Profit before taxes | 12,275 | 17,440 | 21,405 | 26,799 |
| Tax provision | 4,830 | 6,370 | 7,492 | 9,380 |
| Profit after tax | 7,445 | 11,070 | 13,913 | 17,420 |
| Adjusted profit | 7,445 | 11,070 | 13,913 | 17,420 |

Balance Sheet (₹ Mn)

| Particulars | FY18A | FY19P | FY20E | FY21E |
|--|----------------|----------------|----------------|----------------|
| Sources of Funds | | | | |
| Equity Capital | 1,564 | 1,564 | 1,564 | 1,564 |
| Reserves & Surplus | 49,938 | 59,717 | 70,604 | 84,524 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Net worth | 51,502 | 61,281 | 72,168 | 86,088 |
| Borrowings | 383,300 | 505,670 | 574,345 | 670,004 |
| - Deposits | 0 | 0 | 0 | 0 |
| - Other interest bearing liabilities | 0 | 0 | 0 | 0 |
| Current liabilities & provisions | 24,521 | 6,830 | 37,924 | 42,926 |
| Total Liabilities | 459,323 | 573,781 | 684,438 | 799,018 |
| Application of Funds | | | | |
| Cash and balances with RBI | 8,880 | 36,750 | 18,811 | 24,360 |
| Investments | 730 | 730 | 6,095 | 6,636 |
| Advances | 422,530 | 526,220 | 633,750 | 733,941 |
| Fixed assets | 1,650 | 1,760 | 2,750 | 3,575 |
| Other current assets, loans and advances | 7,110 | 8,800 | 23,032 | 30,506 |
| Total Assets | 440,900 | 574,260 | 684,438 | 799,018 |

E – Estimates

Important Ratios

| Particulars | FY18A | FY19P | FY20E | FY21E |
|---|---------|---------|---------|---------|
| (A) Margins (%) | | | | |
| Yield on advances | 14.2 | 14.4 | 14.0 | 14.1 |
| Yields on interest earning assets | 15.5 | 14.4 | 13.8 | 13.9 |
| Yield on investments | 0.0 | 0.0 | 0.0 | 100.0 |
| Costs of funds | 8.5 | 8.1 | 8.1 | 8.2 |
| Cost of deposits | 0.0 | 0.0 | 0.0 | 100.0 |
| NIMs | 7.3 | 7.0 | 6.7 | 6.8 |
| (B) Asset quality and capital ratios (%) | | | | |
| GNPA | 3.5 | 2.7 | 2.5 | 2.3 |
| NNPA | 1.5 | 1.2 | 1.0 | 0.9 |
| PCR | 36.3 | 37.9 | 38.0 | 40.0 |
| Slippages | (0.1) | 0.8 | 0.2 | 0.2 |
| NNPA to NW | 18.7 | 14.5 | 13.4 | 11.8 |
| CASA | 0.0 | 0.0 | 0.0 | 0.0 |
| CAR | 18.4 | 17.6 | 13.2 | 12.5 |
| Tier 1 | 13.2 | 12.6 | 10.6 | 10.7 |
| Credit - Deposit | 0.0 | 0.0 | 0.0 | 0.0 |
| (C) Dupont as a percentage of average assets | | | | |
| Interest income | 14.7 | 13.8 | 13.3 | 13.4 |
| Interest expenses | 7.1 | 7.1 | 7.0 | 6.9 |
| Net interest income | 7.6 | 6.7 | 6.4 | 6.5 |
| Non interest Income | 0.0 | 0.0 | 0.1 | 0.1 |
| Total expenses | 3.5 | 2.7 | 2.5 | 2.5 |
| - cost to income | 45.7 | 39.6 | 38.4 | 38.0 |
| Provisions | 0.7 | 0.5 | 0.6 | 0.5 |
| Tax | 1.3 | 1.3 | 1.2 | 1.3 |
| RoA | 2.0 | 2.2 | 2.2 | 2.3 |
| Leverage | 8.0 | 9.0 | 9.4 | 9.4 |
| RoE | 15.9 | 19.6 | 20.8 | 22.0 |
| RoRwa | 2.2 | 2.3 | 2.2 | 2.4 |
| (D) Measures of Investments | | | | |
| EPS - adjusted | 58.8 | 75.9 | 89.0 | 111.4 |
| BV | 326.0 | 394.9 | 461.4 | 550.4 |
| ABV | 285.1 | 356.6 | 420.1 | 507.0 |
| DPS | 8.5 | 11.0 | 16.0 | 18.5 |
| Dividend payout ratio | 17.4 | 17.5 | 21.8 | 20.1 |
| (E) Growth Ratios (%) | | | | |
| Net interest income | 17.4 | 20.7 | 18.1 | 20.0 |
| PPoP | 8.1 | 34.2 | 23.4 | 20.2 |
| Adj PAT | 3.6 | 48.7 | 25.7 | 25.2 |
| Advances | 48.7 | 24.5 | 20.4 | 15.8 |
| Total borrowings | 59.0 | 31.9 | 13.6 | 16.7 |
| Total assets | 44.1 | 30.2 | 19.2 | 16.7 |
| (F) Valuation Ratios | | | | |
| Market Cap (₹ mn) | 217,236 | 217,236 | 217,236 | 217,236 |
| CMP (₹) | 1389 | 1389 | 1389 | 1389 |
| P/E (x) | 23.6 | 18.3 | 15.6 | 12.5 |
| P/BV (x) | 4.3 | 3.5 | 3.0 | 2.5 |
| P/ABV (x) | 4.9 | 3.9 | 3.3 | 2.7 |
| Div Yield (%) | 0.6 | 0.8 | 1.2 | 1.3 |

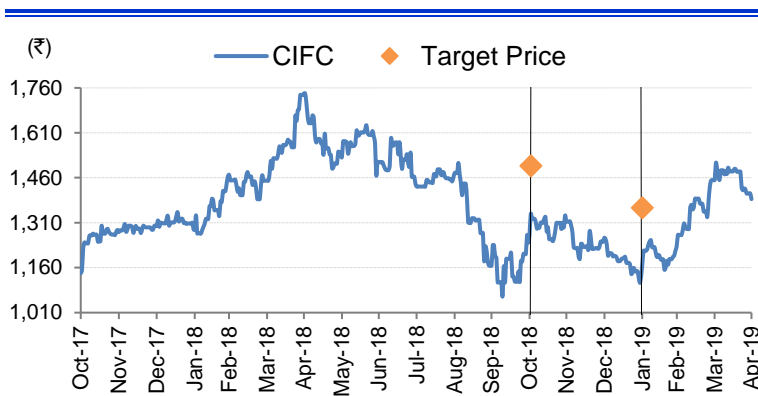
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|-------------------|------------------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (₹) | Price (₹) |
|--------|------------|--------|-----------|
| Nov-18 | xxxx | 1,500 | 1,339 |
| Jan-19 | Accumulate | 1,360 | 1,172 |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

*Price as on recommendation date

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