

Cholamandalam Inv. & Finance

Estimate change

TP change

Rating change



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Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USD\$)	116.9 / 1.7
52-Week Range (INR)	349 / 117
1, 6, 12 Rel. Per (%)	-7/-36/-38
12M Avg Val (INR M)	741

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Total Income	40.6	40.9	43.6
PPP	24.8	24.8	26.3
PAT	10.5	7.8	10.6
EPS (INR)	12.8	9.5	12.9
EPS Gr. (%)	-15.4	-25.9	35.6
BV (INR)	98	105	116

Valuations

NIM (%)	6.5	6.7	6.9
C/I ratio (%)	38.9	39.3	39.7
RoAA (%)	1.7	1.2	1.6
RoE (%)	15.0	9.4	11.6
Payout (%)	11.7	16.8	13.2

Valuations

P/E (x)	11.1	15.0	11.1
P/BV (x)	1.5	1.4	1.2
Div. Yield (%)	1.0	1.1	1.2

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.7	52.9	53.1
DII	27.0	21.5	17.0
FII	12.2	16.6	18.9
Others	9.1	9.0	11.0

FII Includes depository receipts

CMP: INR143

TP: INR200 (+40%)

Buy

INR5b COVID-19 provisions; 76% moratorium rate

- CIFC's 4QFY20 PAT declined 85% YoY to INR427m (88% miss), weighed by an 8% operating profit miss and coupled with higher-than-expected provisions. **The company took INR5b one-time provisions (0.9% of loans) for the COVID-19 impact.** ~76% of CIFC's customers have been granted moratorium.

Muted growth; Yield down sequentially

- Disbursements declined 36% YoY to INR57b, driven by similar decline in VF and LAP.** The muted performance was due to (a) underlying weakness in CV demand, despite the migration to BS6, and (b) the lack of vehicle supply at dealer level. Hence, AUM was flat QoQ (up 12% YoY) at INR606b.
- While the company benefited from lower cost of funds (down 30bp QoQ to 8.3%), it also witnessed some yield pressure (down 60bp QoQ to 14.4%).** This, coupled with lower assignment income (INR330m v/s est. INR660m), caused the 7% miss on total income v/s our estimates.

INR100b in cash and undrawn lines

- As of 31st May'20, the company had INR100b in cash and undrawn sanctioned lines.** Hence, the company is comfortable to meet all fixed obligations up to Sep'20 without availing moratorium from its lenders.

GNPL ratio inches up; 76% of customers have availed moratorium

- The GNPL ratio increased 30bp QoQ to 3.8%. This is slightly negative given that the 4Q is typically a strong season and the company granted moratorium to customers in Mar'20. We await further clarity on the same.
- ~76% of customers have been granted moratorium.**
- For full-year FY20, the company has delivered 1.8% RoA and 15% RoE.**

Key management call highlights

- Some customers who were overdue on 29th Feb'20 and had taken moratorium have cleared EMIs for 1-2 months. Also, among non-moratorium customers, the slippage rate into higher buckets has been lower. However, not many moratorium customers are paying dues.
- CIFC is re-planning product-wise and geography-wise disbursements, revamping credit policies and strengthening its collections teams.

Valuation and view

Demand recovery in FY21 is expected to be divergent, with the tractor segment being the first to recover while M&HCVs should be the last. The home equity segment is likely to remain muted too. Hence, we assume flattish AUM in FY21 and 7-8% CAGR thereafter. While most customers have availed moratorium, the overall collection efficiency would be a key monitorable. Given the bleak but gradually improving outlook, **we expect credit costs to jump to 2.6%/2.1% in FY21/22E with NNPL ratio increasing to 4% from 2.3% currently.** As a result, we have cut our estimates by 15% for FY21/22E. Maintain **Buy** with a TP of INR200 (1.7x FY22E BVPS).

Quarterly performance

(INR m)

Y/E March	FY19				FY20				FY19	FY20	4QFY20E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Income from Operations	16,057	16,751	18,261	18,851	20,295	21,970	22,749	21,513	69,926	86,529	22,581	-5
Interest Expenses	7,950	8,565	9,508	9,864	10,870	11,769	11,924	11,359	35,887	45,922	11,671	-3
Net Interest Income	8,107	8,185	8,753	8,987	9,425	10,200	10,825	10,154	34,039	40,607	10,909	-7
YoY Growth (%)	22.2	17.9	22.2	20.9	16.3	24.6	23.7	13.0	22.9	19.3	21.4	
Total Income	8,109	8,186	8,754	8,989	9,425	10,201	10,825	10,156	34,046	40,609	10,911	-7
YoY Growth (%)	22.2	17.9	22.2	20.9	16.2	24.6	23.7	13.0	22.9	19.3	21.4	
Operating Expenses	2,816	2,901	3,158	3,820	3,500	4,016	4,244	4,016	12,696	15,776	4,262	-6
Operating Profit	5,293	5,285	5,596	5,169	5,925	6,185	6,581	6,140	21,350	24,833	6,649	-8
YoY Growth (%)	22.5	24.8	28.8	20.5	11.9	17.0	17.6	18.8	29.0	16.3	28.6	
Provisions & Loan Losses	905	690	961	556	1,095	952	1,360	5,567	3,112	8,973	1,764	216
Profit before Tax	4,388	4,595	4,635	4,614	4,830	5,233	5,221	573	18,238	15,860	4,885	-88
Tax Provisions	1,535	1,549	1,591	1,695	1,688	2,163	1,336	147	6,370	5,334	1,210	-88
Net Profit	2,852	3,047	3,044	2,919	3,142	3,070	3,885	427	11,868	10,526	3,675	-88
YoY Growth (%)	36.0	49.4	38.7	2.3	10.2	0.8	27.6	-85.4	36.6	-11.3	25.9	
Key Parameters (Calc., %)												
Yield on loans	14.7	14.0	14.3	14.0	14.1	14.6	15.0	14.5	13.9	15.0		
Cost of funds	8.0	7.8	8.1	8.1	8.2	8.5	8.6	8.3	8.1	8.7		
Spread	6.7	6.3	6.3	5.9	5.9	6.1	6.4	6.2	5.8	6.3		
NIM	6.8	6.5	6.4	6.2	6.1	6.2	6.6	6.5	6.3	6.5		
C/I ratio	34.7	35.4	36.1	42.5	37.1	39.4	39.2	39.5	37.3	38.9		
Credit cost	0.8	0.6	0.8	0.4	0.8	0.7	0.9	3.7	0.6	1.6		
Tax rate	35.0	33.7	34.3	36.7	34.9	41.3	25.6	25.6	34.9	33.6		
Balance Sheet Parameters												
Disbursements (INR b)	70.1	69.0	75.3	88.9	85.7	73.8	74.8	56.6	304.5	290.9		
Growth (%)	44.5	25.6	11.3	11.1	22.2	7.0	-0.7	-36.3	21.3	-4.5		
AUM (INR b)	453.3	477.2	503.9	542.8	574.9	592.9	607.8	605.5	542.8	605.8		
Growth (%)	29.5	30.9	29.3	26.5	26.8	24.2	20.6	11.6	26.5	11.6		
AUM mix (%)												
Vehicle finance	73.4	74.2	74.4	74.8	74.8	74.0	73.4	73.0	74.8	72.8		
Home Equity	22.7	22.5	22.2	21.4	21.1	21.3	21.4	21.4	21.4	21.6		
Others	3.9	3.3	3.5	3.8	4.2	4.7	5.2	5.6	3.8	5.6		
Borrowings (INR b)	412.9	470.6	472.3	505.7	551.2	559.0	549.4	550.1	505.7	550.1		
Growth (%)	32.3	44.4	36.2	32.6	33.5	18.8	16.3	8.8	31.9	8.8		
Asset Quality Parameters												
GS 3 (INR B)	16.2	16.2	16.5	14.4	16.7	18.0	20.2	21.6	11.7	21.6		
GS 3 (%)	3.6	3.4	3.3	2.7	3.0	3.2	3.5	3.8	2.2	3.9		
- Vehicle finance	2.6	2.3	0.0	1.8	2.0	2.3	2.7		1.8			
- Home Equity	6.2	6.0	0.0	5.5	5.6	5.9	6.0		5.5			
NS 3 (INR B)	10.5	10.5	10.4	8.9	10.7	11.8	13.6	12.7	8.9	12.7		
NS 3 (%)	2.4	2.2	2.1	1.7	1.9	2.1	2.4	2.3	1.0	2.3		
PCR (%)	35.0	35.5	36.7	37.9	36.1	34.4	33.0	41.5	53.1	41.5		
Total ECL (%)	2.1	1.9	2.0	1.7	1.7	1.8	1.9	2.7	1.7	2.7		
Vehicle finance AUM mix (%)												
LCV	22.0	22.0	21.5	21.5	21.6	21.3	21.1	21.3				
Cars & MUV	16.0	16.0	16.0	16.0	16.3	16.5	17.0	17.2				
3W & SCV	6.0	7.0	5.4	5.6	5.8	6.1	6.3	6.4				
Used CV	13.0	13.0	12.5	12.6	12.6	12.9	13.3	26.0				
Tractor	7.0	7.0	7.5	7.3	7.4	7.4	7.6	7.7				
HCV	19.0	19.0	18.0	17.4	16.4	15.3	13.6	12.7				
Refinance	13.0	13.0	12.4	12.4	12.4	12.6	12.7	0.0				
CE	4.0	4.0	4.6	4.9	4.9	4.9	4.9	5.0				
Two wheeler	0.0	0.0	2.0	2.3	2.6	3.1	3.5	3.7				

Source: Company, MOFSL



Highlights from management commentary

Business Updates

- CIFIC is re-planning product-wise and geography-wise disbursements, revamping credit policies and strengthening its collections' teams. In the digital space, the company is working on end-to-end digital integration with auto OEMs and channel partners, setting up alternative digital collection modes and remote investigation of field assets using video PD, digital KYC, etc.
- Reached out to all 1m+ VF customers to understand cash flows and vehicle status.
- Tractor sales in May'20 were flat YoY.
- Do not expect to raise further equity capital.
- **7,000+ collections executives and a similar number in sales. Currently, sales and credit managers are also working on collections.**

Asset Quality/Moratorium

- CIFIC chose to not give moratorium to 180dpd+ customers.
- **Only a few non-delinquent moratorium customers are paying back right now.**
- Number of customers taking Moratorium 2.0 will be similar.
- Moratorium rate across product segments: VF – 79%, HE – 66%.
- **GNPL ratio: VF – 2.7% (INR13.56b).**
- PCR has declined to 31% due to lower LGDs.
- 93% of self-employed customers have opted for moratorium.

Data points on collections

- **NRRB (Normalizing and rolling back):** Customers who honour one of the overdue EMIs are rolled back, and the ones who honour all overdue EMIs are normalized. Higher the ratio, better is the asset quality. Currently no billing is happening for these customers as they have opted for the moratorium, hence the ratio is improving as they are clearing past dues.
- **Roll Forward Customers:** Since the current month billing is not happening, there are no roll forwards, and hence, the ratio is reducing.

Please refer to the exhibits below for details

Demand outlook

- LCV comprises three segments – Pick-up segment, 4-7ton segment and LCVs. Within these, the Pick-up segment would do well due to last-mile transportation.
- Expect used CVs to do better. Prices are up ~20% due to the BS6 transition of new vehicles.
- 3Ws/SCVs – Demand would be the least impacted.
- HCVs and CE – Expect recovery to be sluggish.
- Entry level 2W sales would improve while other 2W sales may not.

Others

- **New scheme with Maruti – 2-month holiday period before EMI starts. For instance, if a customer avails a loan in Jun'20, payment of EMIs would commence from Aug'20 (instead of Jul'20 as is the norm).**
- In Mar'20, only 45% of customers had taken the moratorium.
- Headcount has reduced over the past 12 months.
- Collections in Apr'20 – INR6b.
- ALM table given in PPT is adjusted for moratorium.
- Refinancing of existing customer is business-as-usual (for working capital needs). However, this depends on the principal outstanding too.
- 73% home loan customers have taken a moratorium.
- MSME scheme – Have to register as MLI first.
- AN NBFC can provide moratorium to a Stage 3 asset, but the dpd freeze is not applicable to those accounts.

Exhibit 1: NRRM data (% of beginning AUM that moved into lower bucket in the month)

Bucket	Value on Feb 29	Value on May 31
1-2m	11%	26%
2-3m		34%
3-4m	21%	31%

Source: MOFSL, Company; Includes moratorium customers only

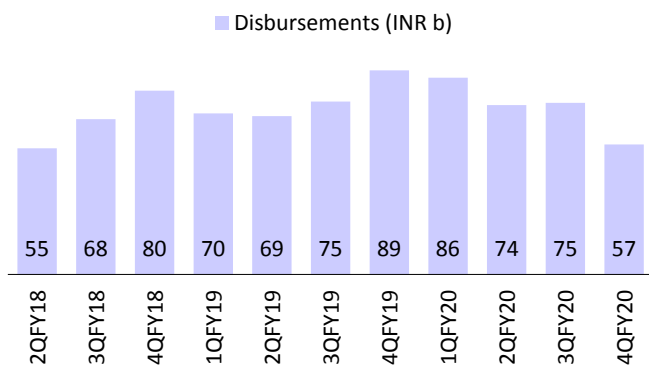
Exhibit 2: Roll forward data (% of AUM that moved into higher bucket in the month)

Bucket	Value on Feb 29	Value on May 31
1 to 2m	6%	2%
2 to 3m	19%	3%
3 to 4m	13%	5%

Source: MOFSL, Company; Includes non-moratorium customers only

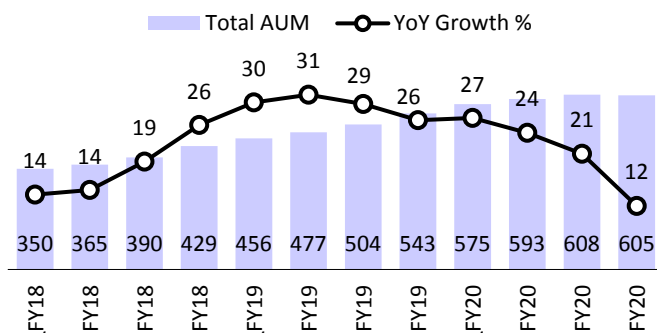
Key Exhibits

Exhibit 3: Overall disbursements decline sharply...



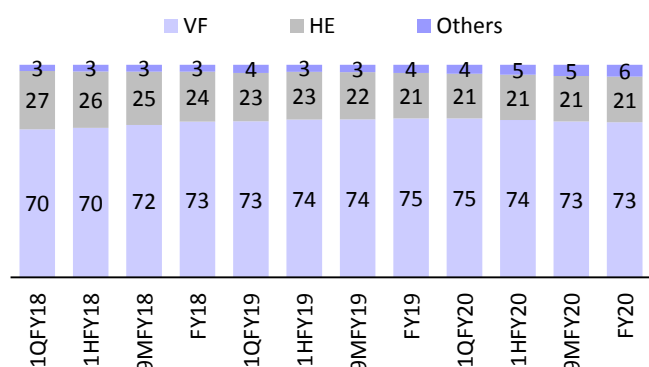
Source: MOFSL, Company

Exhibit 4: ...resulting in sequentially flat AUM



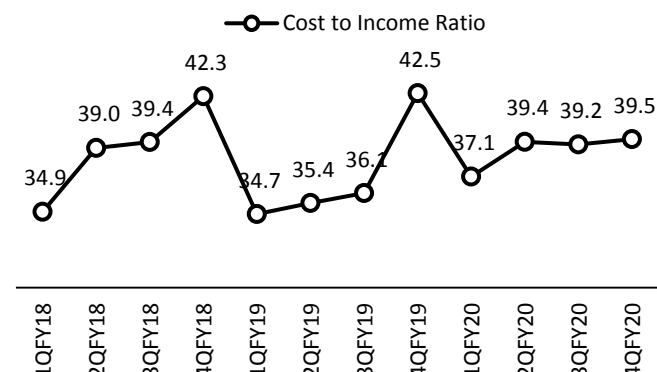
Source: MOFSL, Company

Exhibit 5: AUM mix largely stable (%)



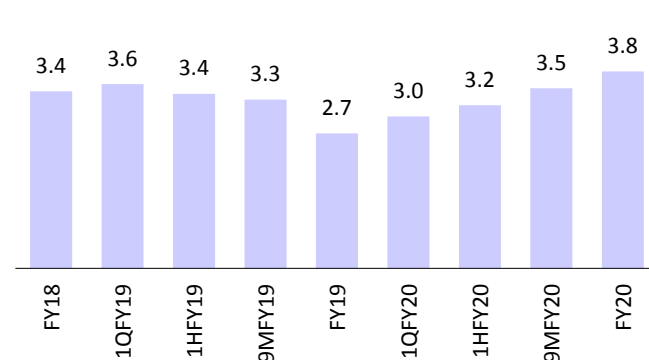
Source: MOFSL, Company

Exhibit 6: C/I ratio down 300bp YoY



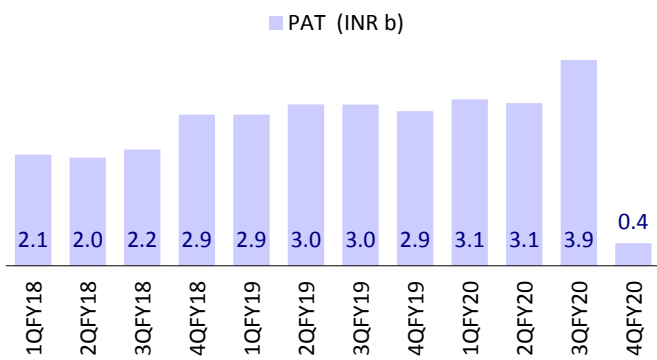
Source: MOFSL, Company, GS3% on loans

Exhibit 7: Gross stage 3 up 30bp QoQ



Source: MOFSL, Company

Exhibit 8: PAT down sharply due to COVID-19 provisions



Source: MOFSL, Company

Valuation and view

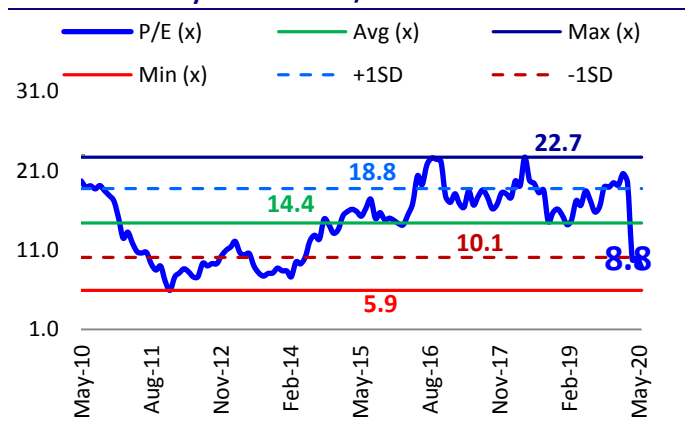
- There are two aspects of CIFIC's vehicle finance business that stand out compared to most peers: (i) it is well diversified across product segments, and (ii) there is no state-level concentration – the largest state accounts for only 11% of the total portfolio.
- While the company started FY20 on a strong note with 20%+ disbursement and AUM growth, growth started to moderate in 2HFY20. Given the business headwinds in the near-to-medium term, we expect AUM to be flat YoY in FY21E and then deliver 7-8% CAGR FY22E onwards.
- **Strong asset quality has been a hallmark for CIFIC. The company has typically maintained low credit costs (sub-100bp) compared to peers like SHTF and MMFS (200bp+).** In the current environment, while most customers have availed moratorium, the overall collection efficiency would be a key monitorable. Given the bleak but gradually improving outlook, **we expect credit costs to jump to 2.6%/2.1% in FY21/FY22E with NNPL ratio increasing to 4% from 2.3% currently.**
- As a result, we have cut our estimates by 15% for FY21/FY22E. Maintain **Buy** with a TP of INR200 (1.7x FY22E BVPS).

Exhibit 9: We cut our EPS estimates by ~15% to factor in asset quality pressure

INR B	Old Est.		New Est.		% change	
	FY21	FY22	FY21	FY22	FY21	FY22
Total Income	39.4	43.1	40.9	43.6	3.8	1.1
Operating Expenses	16.9	18.4	16.1	17.3	-4.8	-5.8
Operating Profits	22.5	24.7	24.8	26.3	10.3	6.2
Provisions	10.2	8.1	14.4	12.1	41.3	50.4
PBT	12.3	16.7	10.4	14.1	-15.4	-15.2
Tax	3.1	4.2	2.6	3.6	-15.4	-15.2
PAT	9.2	12.5	7.8	10.6	-15.4	-15.2
RoA (%)	1.4	1.8	1.2	1.6		
RoE (%)	11.0	13.4	9.4	11.6		
AUM	635	687	615	655	-3.0	-4.7

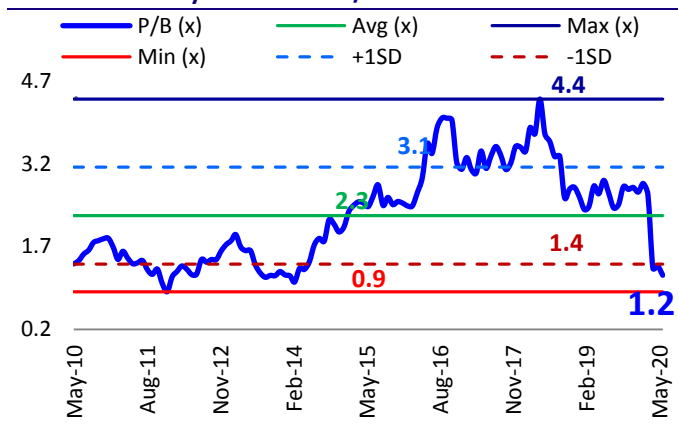
Source: MOFSL, Company

Exhibit 10: One-year forward P/E



Source: MOFSL, Company

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,764	41.8	16.5	12.4	1.8	1.3	1.6	1.5	11.2	11.0
LICHF	Buy	245	1.7	5.4	4.5	0.6	0.6	1.0	1.1	12.0	13.0
PNBHF	Neutral	205	0.4	4.0	3.1	0.4	0.3	1.1	1.4	9.6	11.5
REPCO	Buy	98	0.1	2.2	2.0	0.3	0.3	2.3	2.4	14.4	13.6
Vehicle fin.											
SHTF	Buy	613	1.9	8.2	5.2	0.7	0.6	1.6	2.4	9.0	12.7
MMFS	Buy	149	1.3	18.7	10.4	0.8	0.7	0.7	1.2	4.2	7.2
CIFC	Buy	143	1.7	12.7	9.4	1.3	1.2	1.4	1.8	11.0	13.4
Diversified											
BAF	Neutral	2,313	18.4	34.5	22.6	3.9	3.3	2.4	3.4	11.8	15.9
SCUF	Buy	633	0.6	4.7	4.1	0.5	0.5	3.0	3.4	11.4	11.8
LTFH	Buy	58	1.6	6.8	5.0	0.7	0.7	1.6	2.1	11.3	13.8
MUTH	Neutral	910	4.9	11.4	10.1	2.7	2.3	7.1	7.2	25.8	24.4
MAS	Buy	604	0.5	19.6	16.2	3.0	2.6	4.2	4.7	16.2	17.2

Financials and Valuations

Income Statement						(INR M)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	39,163	43,717	51,862	65,755	81,242	82,667	86,213	93,108
Interest Expenses	20,508	22,308	26,593	35,887	45,922	45,031	46,118	49,825
Net Interest Income	18,655	21,409	25,268	29,868	35,319	37,636	40,095	43,283
Change (%)	24.4	14.8	18.0	18.2	18.3	6.6	6.5	8.0
Income from assignments	2,053	2,103	0	867	2,473	1,236	1,236	1,236
Other Operating Income	708	776	2,931	3,298	2,812	2,049	2,254	2,479
Other Income	12	8	4	7	3	3	3	3
Total Income	21,429	24,295	28,203	34,039	40,607	40,924	43,588	47,002
Change (%)	23.8	13.4	16.1	20.7	19.3	0.8	6.5	7.8
Total Operating Expenses	8,449	10,133	11,153	12,696	15,776	16,076	17,313	18,904
Change (%)	12.8	19.9	10.1	13.8	24.3	1.9	7.7	9.2
Employee Expenses	2,539	4,027	5,368	5,906	6,550	6,550	7,009	7,569
Business Origination Expenses	2,258	1,784	775	1,525	1,982	1,883	2,071	2,278
Other Operating Expenses	3,652	4,323	5,010	5,265	7,244	7,643	8,234	9,057
Operating Profit	12,980	14,162	17,051	21,344	24,831	24,848	26,274	28,097
Change (%)	32.2	9.1	20.4	25.2	16.3	0.1	5.7	6.9
Total Provisions	4,272	3,106	3,037	3,112	8,973	14,421	12,135	7,494
% of Operating Profit	32.9	21.9	17.8	14.6	36.1	58.0	46.2	26.7
PBT	8,708	11,056	14,014	18,232	15,857	10,427	14,139	20,603
Tax Provisions	3,023	3,868	4,831	6,370	5,334	2,628	3,563	5,192
Tax Rate (%)	34.7	35.0	34.5	34.9	33.6	25.2	25.2	25.2
PAT	5,685	7,187	9,183	11,862	10,524	7,799	10,576	15,411
Change (%)	30.6	26.4	27.8	29.2	-11.3	-25.9	35.6	45.7
Proposed Dividend	703	860	1,017	1,017	1,230	1,312	1,394	1,394

Balance Sheet						(INR M)		
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	1,562	1,564	1,564	1,564	1,640	1,640	1,640	1,640
Reserves & Surplus	35,012	40,062	48,194	58,973	78,603	84,828	93,732	107,470
Net Worth for Equity Shareholders	36,574	41,626	49,758	60,537	80,243	86,468	95,371	109,110
Borrowings	225,762	302,001	383,303	505,667	550,054	541,596	576,423	631,448
Change (%)	15.9	33.8	26.9	31.9	8.8	-1.5	6.4	9.5
Total Liabilities	278,883	350,372	440,897	574,263	639,930	628,064	671,795	740,558
Investments	666	697	729	729	729	5,416	5,764	6,314
Change (%)	-1.3	4.6	4.7	0.0	0.0	642.7	6.4	9.5
Loans	259,732	332,244	422,532	526,223	554,027	566,877	602,115	660,368
Change (%)	16.8	27.9	27.2	24.5	5.3	2.3	6.2	9.7
Net Fixed Assets	1,113	1,417	1,646	1,759	2,839	1,302	919	418
Total Assets	278,883	350,372	440,897	574,263	639,930	628,064	671,795	740,558

E: MOFSL Estimates

Financials and Valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Avg. Yield on Loans	16.2	14.8	13.7	13.9	15.0	14.8	14.8	14.8
Avg Cost of Funds	9.8	8.5	7.8	8.1	8.7	8.3	8.3	8.3
Int. Spread on Financing Portfolio	6.5	6.3	6.0	5.8	6.3	6.5	6.5	6.5
NIM (on loans)	7.7	7.2	6.7	6.3	6.5	6.7	6.9	6.9
Profitability Ratios (%)								
RoE	16.6	18.4	20.1	21.5	15.0	9.4	11.6	15.1
RoA	2.2	2.3	2.3	2.3	1.7	1.2	1.6	2.2
Int. Expended / Int.Earned	52.4	51.0	51.3	54.6	56.5	54.5	53.5	53.5
Other Inc. / Net Income	3.4	3.2	10.4	9.7	6.9	5.0	5.2	5.3
Efficiency Ratios (%)								
Op. Exps. / Net Income	39.4	41.7	39.5	37.3	38.9	39.3	39.7	40.2
Empl. Cost/Op. Exps.	30.1	39.7	48.1	46.5	41.5	40.7	40.5	40.0
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	115.0	110.0	110.2	104.1	100.7	104.7	104.5	104.6
Net NPAs to Net Adv.	2.3	3.2	1.6	1.0	2.3	5.0	4.0	3.6
Assets/Equity	7.6	8.4	8.9	9.5	8.0	7.3	7.0	6.8
Valuations								
Book Value (INR)	46.8	53.2	63.6	77.4	97.9	105.5	116.3	133.1
BV Growth (%)	6.0	13.7	19.5	21.6	26.4	7.8	10.3	14.4
Price-BV (x)					1.5	1.4	1.2	1.1
EPS (INR)	7.3	9.2	11.7	15.2	12.8	9.5	12.9	18.8
EPS Growth (%)	20.1	26.3	27.7	29.1	-15.4	-25.9	35.6	45.7
Price-Earnings (x)					11.1	15.0	11.1	7.6
Dividend per share	0.9	1.1	1.3	1.3	1.5	1.6	1.7	1.7
Dividend Yield (%)					1.0	1.1	1.2	1.2

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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