

Cholamandalam Investment & Finance Company Ltd.



Cholamandalam Inv & Fin Co. Ltd.

Financials supported by higher AUM and strong rural presence

CMP INR 203	Target INR 223	Potential Upside 10.2%	Market Cap (INR Mn) INR 165,436	Recommendation ACCUMULATE	Sector NBFC
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Result Highlights:

- CIFC's Net Interest Income (NII) increased 13.8% YoY to INR 940 Cr. in Q1FY21 (up 3.3% QoQ) while PPOP grew 7.5% YoY/up 3.8% QoQ to INR 637 Cr, led by increase in asset under management.
- Provisions stood at INR 56 Cr. in Q1FY21 versus INR 557 Cr. in Q4FY20 (down ~90% QoQ) and INR 110 Cr. in Q1FY20 (down ~49% YoY)
- Net Profit increased 37% YoY to INR 431 Cr. in Q1FY21, while net profit in Q4FY20 was INR 43 Cr. due to COVID-19 related one-time provisioning.
- Aggregate disbursements declined 58% YoY to INR 3,589 Cr. in Q1FY21. However, disbursements started to pick up after lockdown relaxation post 15th May 2020.
- Assets under management (AUM) grew by 10.4% YoY at INR 63,501 Cr. in Q1FY21 as compared to INR 57,494 Cr. in Q1FY20.
- ROA for the quarter was at 3.6% as against 3.4% in Q1FY20.

MARKET DATA

Shares outs (Mn)	820
Equity Cap (INR Mn)	81,718
Mkt Cap (INR Mn)	165,436
52 Wk H/L (INR)	349/117
Volume Avg (3m K)	13,775
Face Value (INR)	2
Bloomberg Code	CIFC IN

KEY FINANCIALS

Particulars (INR Crores)	FY18	FY19	FY 20	FY 21E	FY 22E
NII	2,576	2,987	3,532	3,743	3,938
PPOP	1,705	2,134	2,483	2,596	2,749
PAT	918	1,186	1,052	1,051	1,390
EPS	11.74	15.31	13.39	12.83	16.96
NIM	7.3%	6.3%	6.5%	6.4%	6.0%
Advances Growth	49.0%	24.4%	5.2%	10.9%	14.6%

Source: Company, KRChoksey Research

Loan disbursements declined in Q1FY21; situation worsen with lockdown in April and May:

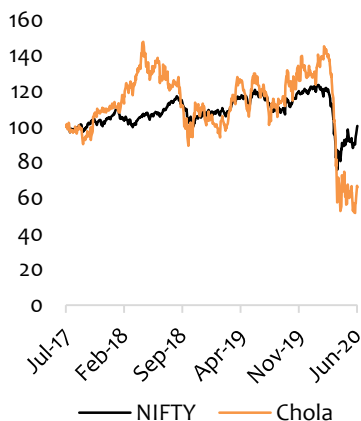
CIFC's total disbursements for the quarter was ~67.6% lower on QoQ basis and declined ~58.1% on YoY basis attributed to lockdown. Vehicle Finance (VF) reported a decline of 53% YoY with disbursements of INR 3,231 Cr. in Q1FY21; the disbursements were predominantly in Tractors, Two-wheelers, construction equipment and Used business segments. LAP business disbursed INR 119 Cr. in Q1FY21, registering a decline of 89% YoY. Home Loan disbursed INR 190 Cr. in Q1FY21, a decline of 55% YoY. Despite macro challenges, the company was able to increase its AUM by 10.4% YoY in Q1FY21 mainly due to its diversified product mix and better footprint in semi urban and rural areas.

Improved asset quality coupled with increased provisioning to manage Covid-19 related risks:

CIFC Asset quality for Stage 3 Assets had improved to 3.3% (3.8% in Q4FY20) with adequate provision coverage of 41.6% (36.2% in Q1FY20). Total ECL provision stood at INR 1,437 Cr. in Q1FY21 compared to INR 983 Cr. in Q1FY20. Besides, total Covid-19 related provisions stood at INR 551 Cr. (INR 534 Cr. as of Mar 20). Given 20.42% of CAR ratio (i.e. above regulatory requirement of 15%) aided by fund equity raise of INR 1,200 Cr. in the previous quarter; incremental Covid-19 provisions may not have significant impact on cashflow position in the near-term.

Strong balance sheet offers comfort: About 76% of the customers in terms of value have opted for moratorium 1 of which 50% of them are repaying partial or full installments in Jun 2020. Most of these customers are into Vehicle Finance. The Company is confident that 90% of these customers were regular payors before Covid-19. Besides, ~INR 6,000 Cr. worth of liabilities are maturing till Dec 20 for which the Company has enough liquidity (INR 7,169 Cr. of cash balance) in the balance sheet. Going forward, fueled by Treasury income, digitalization of disbursement processes, early identification of stresses assets through analytics, we believe, balance sheet of CIFC will remain resilient.

SHARE PRICE PERFORMANCE

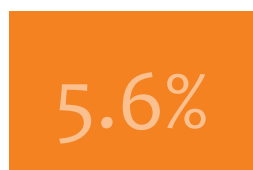


MARKET INFO

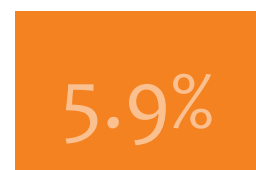
SENSEX	37,607
NIFTY	11,073

SHARE HOLDING PATTERN (%)

Particulars	Jun-20	Mar-20	Dec-19
Promoters	51.7	51.7	52.9
FIIIs	11.9	12.2	16.6
DIIIs	27.9	27.0	21.5
Others	8.7	9.1	9.0
Total	100	100	100



NII CAGR between FY20 and FY22E



PPOP CAGR between FY20 and FY22E

ANALYST

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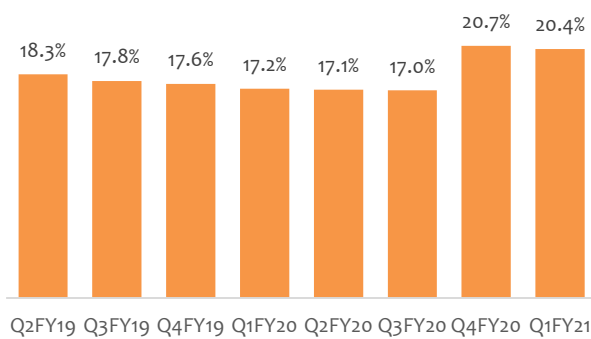
Conference Call Highlights:

i) 74% of customers availed moratorium, however 50% of moratorium customers have paid their dues. ii) In moratorium 2.0, some customers who were earlier in non moratorium have moved to moratorium and vice versa. iii) Provisions made are adequate for both moratorium periods, while the company will evaluate further and provide provisioning as per requirement. iv) Disbursements in June 2020 were 75% of June 2019 level while the company is seeing improving trend going forward. v) Provision will be maintained in range of 42% in FY21. vi) Opex were lower due to lower business activity and also from one-time reduction in rent as renegotiated rental agreement. vii) Customer profile in Vehicle Finance business are more rural oriented with general purpose vehicle applications. viii) After BSVI, demands for used vehicle have gone up. ix) CV: current freight availability is a problem and operating expenses are slightly higher. Post lockdown, the company expects transportation activity to increase from October onwards and freight availability will improve.

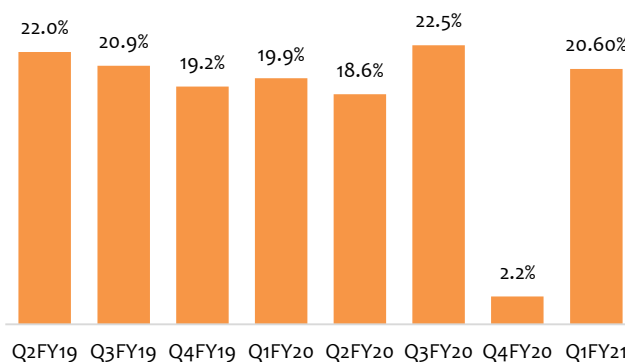
Valuation and view

Considering the economic slowdown, poor auto sector sales and complete shutdown in April and May 2020, it was a stressed-out quarter for the NBFC industry. The management has also indicated slow recovery in heavy as well as light commercial vehicles and construction equipment segment. However, the increase in demand from rural economy and a good Rabi harvest offered decent cushion to CIFC. Thus, CIFC is likely to benefit from the demand in rural areas, where the NBFC has a better foothold in vehicle financing against large banks. We expect CIFC to deliver NII growth of 6% YoY in FY21E with recovery from H2FY21 onwards. With effective cost management, CIFC reduced OPEX ratio to 2.2% in Q1FY21 from 2.6% in the previous quarter. CIFC has also launched process transformation initiatives for VF and LAP business. **Since our last recommendation on 5th June 2020, the stock has advanced 43.4% and we believe the stock demands superior P/B multiple considering improved asset quality and stable balance sheet. On the valuation front, CIFC is currently trading at P/Adj.BV multiple 1.9x/1.7x on FY21E/22E respectively and we see opportunities for the company to expand in rural market through its diversified presence across geography. We are assigning a P/B multiple of 2.3x (previous multiple 1.5x) to the FY22 adj. BVPS of INR 99.2 to arrive at a revised target price of INR 223/share (previously TP: INR 148); an upside of 10.2% over the CMP. Accordingly, we have upgraded our rating to “ACCUMULATE” (previous rating “HOLD”) on the shares of CIFC.**

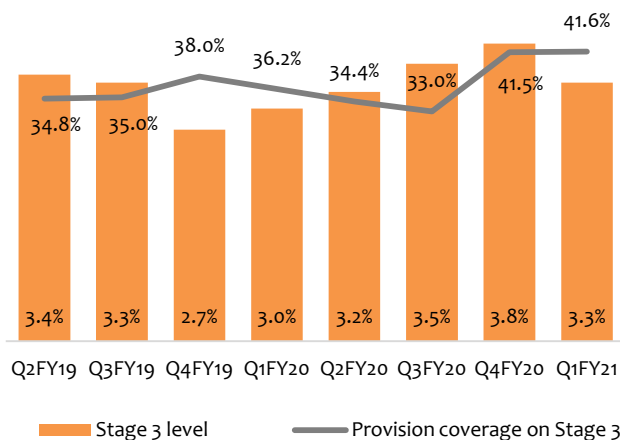
Stable Capital Adequacy Ratio



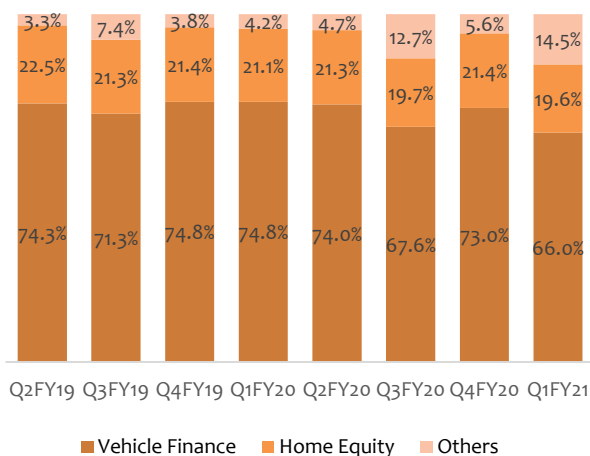
RoE: Back to normal



Asset Quality: Well managed despite challenging macro environment



Business AUM Mix



Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Standalone)

INR Crores	FY 18	FY 19	FY 20	FY 21E	FY 22E
Interest Income	5,236	6,576	8,124	8,288	9,118
Interest Expense	2,659	3,589	4,592	4,545	5,181
Net Interest Income	2,576	2,987	3,532	3,743	3,938
Non interest income	244	417	529	542	589
Operating income	2,820	3,404	4,061	4,285	4,527
- Employee expense	537	591	655	688	736
- Other operating expense	578	679	923	969	1,007
Operating Expense	1,115	1,270	1,578	1,656	1,743
PPOP	1,705	2,134	2,483	2,628	2,784
Provisions	304	311	897	1,194	896
PBT	1,401	1,823	1,586	1,434	1,888
Tax Expense	483	637	534	359	472
PAT	918	1,186	1,052	1,076	1,416
Diluted EPS (INR)	11.74	15.31	13.39	13.12	17.28

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 2: Balance Sheet (Standalone)

INR Crores	FY18	FY19	FY 20	FY 21E	FY 22E
Source of Funds					
Share capital	156	156	164	164	164
Reserves & Surplus	4,942	6,019	8,008	8,717	9,640
Networth	5,098	6,176	8,172	8,881	9,804
Borrowings	24,207	38,330	55,005	59,442	66,916
Other liabilities & provisions	661	684	816	872	830
Total Equity & Liabilities	44,090	57,426	63,993	69,195	77,549
Uses of Funds					
Cash & bank balances	888	3,675	6,959	6,301	5,671
Deferred Tax Assetes	362	453	687	687	687
Net investments	73	73	73	106	121
Loans & advances	42,347	52,666	55,411	61,457	70,430
Fixed assets	140	143	284	188	217
Other assets	280	417	579	456	424
Total Assets	44,090	57,426	63,993	69,195	77,549

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY18	FY19	FY 20	FY 21E	FY 22E
Growth Rates					
Advances (%)	49.0%	24.4%	5.2%	10.9%	14.6%
Borrowings (%)	58.3%	31.9%	8.8%	8.1%	12.6%
Total assets (%)	43.5%	30.2%	11.4%	8.1%	12.1%
NII (%)	27.3%	15.9%	18.3%	6.0%	5.2%
Pre-provisioning profit (%)	20.4%	25.2%	16.3%	5.9%	5.9%
PAT (%)	27.8%	29.2%	-11.3%	2.3%	31.6%
B/S Ratios					
Credit/Deposit (%)	110.5%	104.2%	100.7%	103.4%	105.3%
Advances/Total assets (%)	96.0%	91.7%	86.6%	88.8%	90.8%
Leverage - Total Assets to Equity	8.6	9.3	7.8	7.8	7.9
Operating efficiency					
Cost/income (%)	39.5%	37.3%	38.9%	38.7%	38.5%
Opex/total assets (%)	2.5%	2.2%	2.5%	2.4%	2.2%
Opex/total interest earning assets	3.1%	2.7%	2.9%	2.8%	2.6%
Profitability					
NIM (%)	7.3%	6.3%	6.5%	6.4%	6.0%
RoA (%)	2.1%	2.1%	1.6%	1.6%	1.8%
RoE (%)	18.0%	19.2%	12.9%	12.1%	14.4%
Asset quality					
Gross NPA (%)	3.4%	2.7%	3.8%	3.9%	3.9%
Net NPA (%)	2.2%	1.7%	2.2%	2.3%	2.4%
PCR (%)	35.3%	37.0%	42.1%	42.1%	42.1%
Credit cost (%)	0.7%	0.6%	1.6%	1.9%	1.3%
Per share data / Valuation					
EPS (INR)	11.7	15.8	13.4	13.1	17.3
BVPS (INR)	65.2	79.0	99.7	108.4	119.6
ABVPS (INR)	53.1	67.2	83.4	91.9	99.2
P/E (x)	17.2	13.2	15.1	15.4	11.7
P/BV (x)	3.1	2.6	2.0	1.9	1.7
P/ABV (x)	3.8	3.0	2.4	2.2	2.0
Profitability					
Return on Capital	2.6%	2.4%	1.8%	1.6%	2.0%
Return on Equity	18.0%	19.2%	15.2%	12.1%	14.4%

Source: Company, KRChoksey Research

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Cholamandalam Inv & Fin Co. Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
31-Jul-20	203	223	ACCUMULATE	Buy	More than 15%
5-Jun-20	143	148	HOLD	Accumulate	5% – 15%
18-Apr-20	180	185	HOLD	Hold	0 – 5%
24-Jan-20	331	352	ACCUMULATE	Reduce	-5% – 0
07-Nov-19	302	329	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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