Result Update

Cholamandalam Investment

Refer to important disclosures at the end of this report

Collection efficiency holds the key

CMP: Rs 203 as of (July 31, 2020)	TP: Rs 230 (▲) 12 months	Rating: BUY (■)	Upside: 13.4 %

We appreciate your support in the Asiamoney Brokers Poll 2020

- CIFC reported ~58.1% yoy and 37.9% qoq decline in disbursements to Rs35.9bn as the lockdown impacted overall demand and management preferred conservative underwriting during this volatile period. AUM growth was steady at ~10.4% yoy (+4.9% qoq) on a fall in repayments to 1.1% from average 9-10% due to elevated moratorium.
- Moratorium remained elevated at 74%; however, the company has indicated that roughly ~50% of the customers under moratorium have started paying, with ~34% of customers under moratorium paying more than one EMI already. Overall provisioning charges remained low at Rs562mn (~36bps of AUM) vs. Rs5.5bn during the last quarter.
- We like CIFC due to its diversified product portfolio (within the vehicle finance), strong liability franchise and efficient underwriting and recovery practices. Though NPA trends are expected to remain volatile due to Covid-19-related lockdowns, CIFC is well-placed to regain growth momentum and manage asset quality with its strong collection efficiency.
- We are raising our disbursement numbers and provisioning charges spread across FY21-22E, leading to ~9.1%/14.1% increase in our FY22/23E earnings. We roll forward valuations to Sept'22E. Maintain Buy and raise TP from Rs190 to Rs230 (~1.6x P/Sept'22E Book). We are EW on CIFC in sector EAP.

What we like about CIFC results

- Operational performance was healthy amid slowing growth and volatile markets. Margins are expected to improve with the easing in liquidity and the completion of moratorium.
- Opex during the quarter declined ~1.2% yoy (-13.9% qoq), resulting in Cost-to-Average Assets improving to ~2.2% – a historic low for the company.
- CIFC has cash-in-hand and sanctioned lines of around Rs100bn as of May 31, 2020. This adequately covers the needs of the ALM.

Where we remain concerned

- AUM growth was backed by lower repayments amid elevated moratorium levels. However, weak disbursements should gradually get reflected in AUM growth as well.
- Lower provisioning raises concern among investors as most lenders have been increasing coverage to avoid volatility in future earnings.
- CIFC, however, seems to have adopted the other route and remains confident of its collection efficiency, and expects limited credit loss after the completion of moratorium.

Please see our sector model portfolio (Emkay Alpha Portfolio): BFSI-NBFCs (page 7)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	34,039	40,607	41,009	46,792	52,962
Net profit	11,862	10,524	12,952	15,111	17,807
EPS (Rs)	15.2	13.4	15.8	18.4	21.7
ABV (Rs)	73.3	91.8	105.5	122.5	141.4
RoA (%)	2.3	1.7	1.9	2.1	2.3
RoE (%)	21.0	14.7	14.8	15.0	15.4
PE (x)	13.4	15.2	12.8	11.0	9.3
P/ABV	2.8	2.2	1.9	1.7	1.4

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY21E/FY22E (%)	1/8
Target Price change (%)	20.9
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates	FY21E	FY22E
Emkay	15.8	18.4
Consensus	12.5	17.8
Mean Consensus TP (12M)		Rs 215

Stock Details

Bloomberg Code	CIFC IN
Face Value (Rs)	2
Shares outstanding (mn)	820
52 Week H/L	349 / 117
M Cap (Rs bn/USD bn)	166 / 2.22
Daily Avg Volume (nos.)	1,70,69,360
Daily Avg Turnover (US$ mn)	39.4

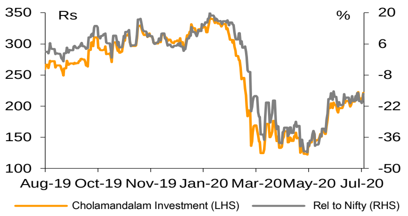
Shareholding Pattern Jun '20

Promoters	51.7%
FIIs	11.9%
DIIs	27.8%
Public and Others	8.7%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	27	(38)	(22)
Rel. to Nifty	(1)	13	(33)	(22)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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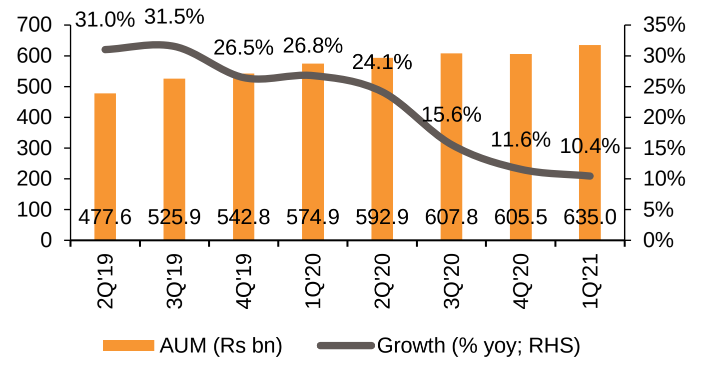
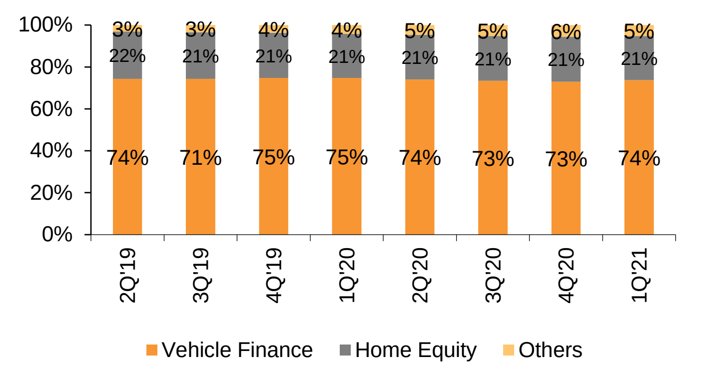
Story in Charts

Exhibit 1: AUM growth sequentially flat due to moratorium



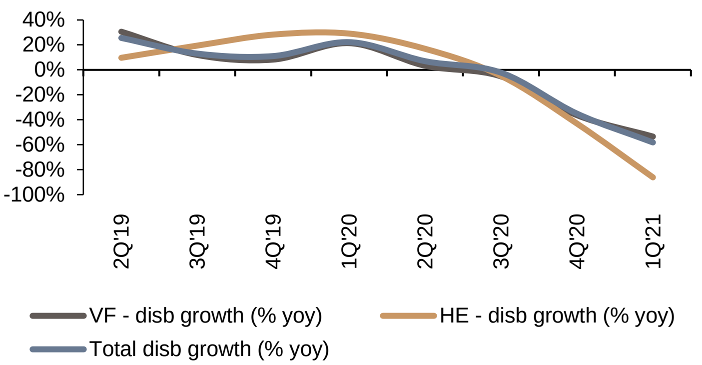
Source: Company, Emkay Research

Exhibit 2: VF makes 74% of the loan book



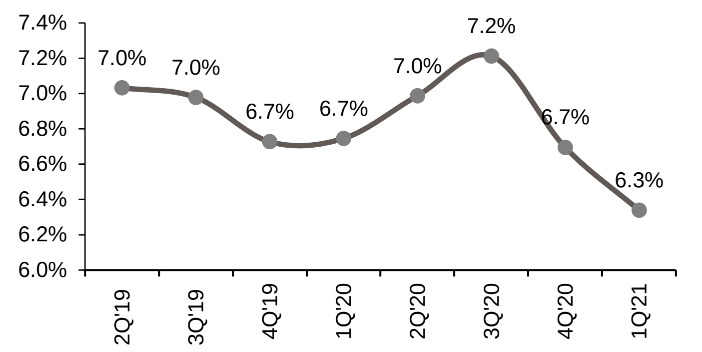
Source: Company, Emkay Research

Exhibit 3: VF disbursement outdoes large ticket-size items like home equity



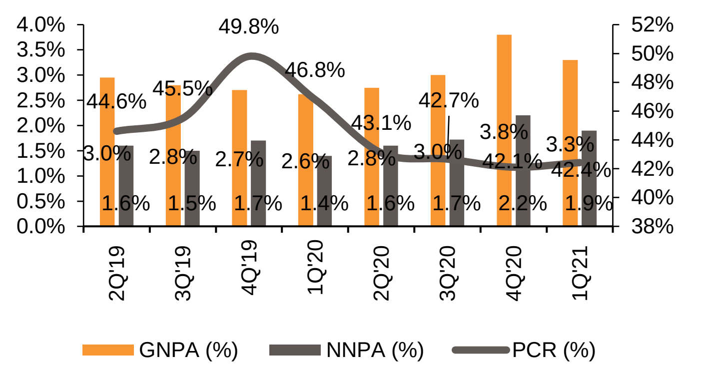
Source: Company, Emkay Research

Exhibit 4: NIMs come under pressure due to cash drag



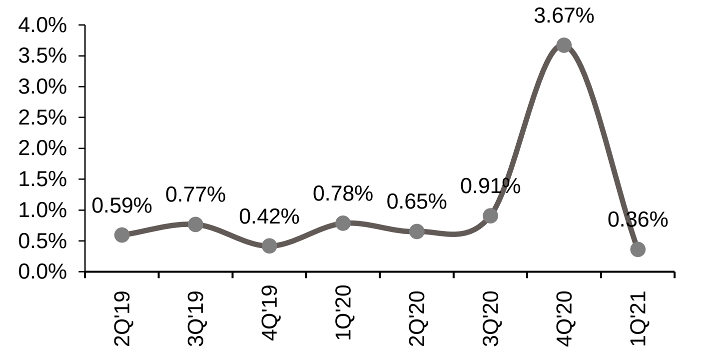
Source: Company, Emkay Research

Exhibit 5: NPAs under check due to asset standstill



Source: Company, Emkay Research

Exhibit 6: Low credit costs accelerates PAT



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates (Q1FY21)

Rs mn	Actual	Estimate (Emkay)	Consensus (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net income	9,830	9,778	9,792	0.5%	0.4%	In line with estimates
PPOP	6,372	5,562	6,460	14.6%	-1.4%	Better opex control than anticipated
PAT	4,309	2,110	2,077	104.2%	107.5%	Lower provisioning than anticipated

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Net Interest Income	9,425	10,200	10,825	10,154	9,830	4.3%	-3.2%	40,604	41,009	1.0%
Other Income	1	1	0	1	0	-60.0%	-83.3%	3	2	-11.5%
Total Income	9,425	10,201	10,825	10,156	9,830	4.3%	-3.2%	40,607	41,011	1.0%
Operating Expenses	3,500	4,016	4,244	4,016	3,458	-1.2%	-13.9%	15,776	15,734	-0.3%
Operating Profit	5,925	6,185	6,581	6,140	6,372	7.5%	3.8%	24,831	25,277	1.8%
Provisions	1,095	952	1,360	5,567	562	-48.7%	-89.9%	8,973	8,440	-5.9%
% of operating profit	*18.5%*	*15.4%*	*20.7%*	*90.7%*	*8.8%*			*36.1%*	*33.4%*	
PBT	4,830	5,233	5,221	573	5,810	20.3%	913.6%	15,857	16,837	6.2%
Tax	1,688	2,163	1,336	147	1,501	-11.1%	923.7%	5,334	5,147	-3.5%
Tax rate (%)	34.9%	41.3%	25.6%	25.6%	25.8%			33.6%	30.6%	
PAT	3,142	3,070	3,885	427	4,309	37.1%	910.2%	10,524	11,691	11.1%
Disbursements	85,720	73,810	74,750	57,750	35,890	-58.1%	-37.9%	2,92,030	2,42,200	-17.1%
Total AUM	5,74,940	5,92,920	6,07,780	6,05,490	6,35,010	10.4%	4.9%	6,05,490	6,35,010	4.9%

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/e Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	39,797	41,006	3.0%	44,011	46,788	6.3%	48,969	52,958	8.1%
PPOP	24,957	25,878	3.7%	27,298	29,313	7.4%	28,160	32,595	15.7%
PAT	12,896	12,952	0.4%	13,851	15,111	9.1%	15,608	17,807	14.1%
EPS (Rs)	15.7	15.8	0.6%	17.0	18.4	8.4%	19.2	21.7	13.1%
BV (Rs)	114	114	0.7%	129	131	1.8%	150	151	0.9%

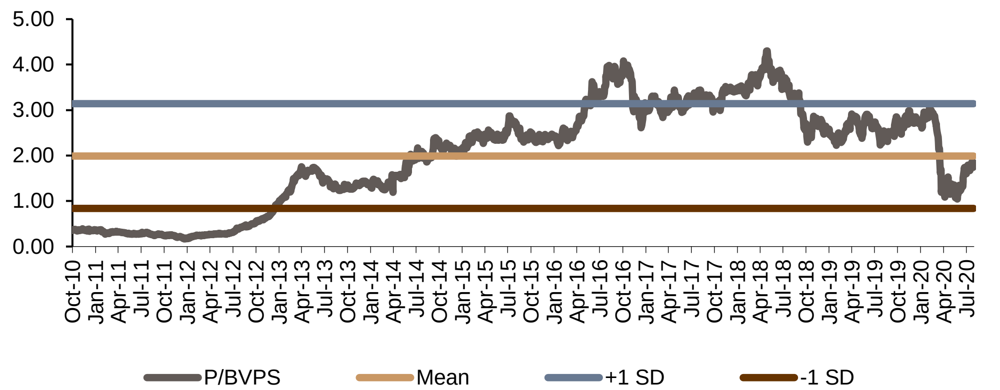
Source: Emkay Research

Exhibit 10: Key assumptions

(in %)	FY20	FY21E	FY22E	FY23E
AUM growth	11.6%	6.7%	13.8%	13.5%
Borrowings growth	8.8%	9.1%	4.2%	11.0%
Yield on average loans	16.0%	15.0%	14.5%	14.0%
Cost of average int. liabilities	8.7%	8.0%	7.7%	7.6%
GNPA (Stage 3)	3.6%	3.7%	3.7%	3.6%

Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 1.9x 1-year forward P/B



Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	**34,032**	**40,604**	**41,006**	**46,788**	**52,958**
Other income	**7**	**3**	**3**	**4**	**4**
Net income	34,039	40,607	41,009	46,792	52,962
Operating expenses	**12,696**	**15,776**	**15,131**	**17,479**	**20,367**
Pre provision profit	**21,344**	**24,831**	**25,878**	**29,313**	**32,595**
Provisions	**3,112**	**8,973**	**8,446**	**8,975**	**8,629**
Profit before tax	18,232	15,857	17,432	20,338	23,966
Tax	**6,370**	**5,334**	**4,480**	**5,227**	**6,159**
Tax rate	35	34	26	26	26
Profit after tax	11,862	10,524	12,952	15,111	17,807

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	1,564	1,640	1,640	1,640	1,640
Reserves	60,193	80,079	92,071	1,06,031	1,22,495
Net worth	**61,757**	**81,718**	**93,711**	**1,07,671**	**1,24,135**
Borrowings	5,05,667	5,50,050	6,00,270	6,25,306	6,93,999
Total liabilities	**5,74,263**	**6,39,930**	**7,02,519**	**7,42,466**	**8,28,648**
Cash and bank	36,749	69,591	79,078	34,117	26,165
Investments	730	729	600	625	694
Loans	5,26,223	5,54,027	6,06,220	6,89,962	7,82,772
Others	8,806	12,744	13,498	14,327	15,239
Total assets	**5,74,266**	**6,39,930**	**7,02,519**	**7,42,466**	**8,28,648**

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	7.0	7.1	6.6	6.8	6.8
RoA	2.3	1.7	1.9	2.1	2.3
RoAE	21.0	14.7	14.8	15.0	15.4
GNPA (%)	2.2	3.6	3.7	3.7	3.6
NNPA (%)	1.1	2.1	1.5	1.4	1.4

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	15.2	13.4	15.8	18.4	21.7
BVPS	78.9	103.7	114.3	131.3	151.4
ABVPS	73.3	91.8	105.5	122.5	141.4
DPS	6.5	1.7	5.0	6.0	7.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	13.4	15.2	12.8	11.0	9.3
P/BV	2.6	2.0	1.8	1.5	1.3
P/ABV	2.8	2.2	1.9	1.7	1.4
Dividend Yield (%)	3.2	0.8	2.5	3.0	3.5

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	22.5	19.3	1.0	14.1	13.2
PPOP	25.1	16.3	4.2	13.3	11.2
PAT	29.2	(11.3)	23.1	16.7	17.8
Loans	24.5	5.3	9.4	13.8	13.5

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	9,425	10,200	10,825	10,154	9,830
NIM(%)	6.7	7.0	7.2	6.7	6.3
PPOP	5,925	6,185	6,581	6,140	6,372
PAT	3,142	3,070	3,885	427	4,309
EPS (Rs)	4.02	3.92	4.97	0.52	5.26

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	52.9	52.9	52.9	51.7	51.7
FIIs	19.0	18.0	16.6	12.2	11.9
DIIs	16.9	20.3	21.5	27.0	27.8
Public and Others	11.2	8.7	9.0	9.1	8.7

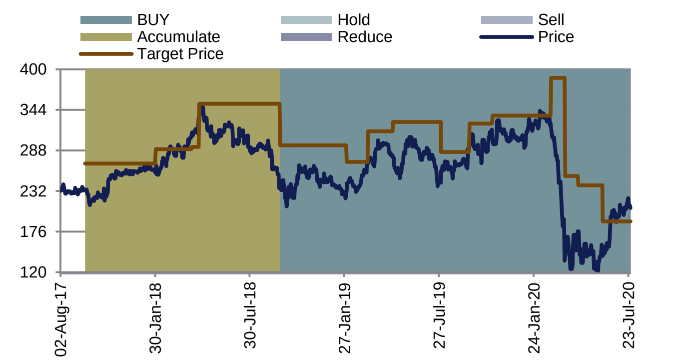
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Jun-20	155	190	12m	Buy	Jignesh Shial
04-Jun-20	143	190	12m	Buy	Jignesh Shial
14-May-20	148	240	12m	Buy	Jignesh Shial
05-May-20	142	240	12m	Buy	Jignesh Shial
19-Apr-20	177	240	12m	Buy	Jignesh Shial
18-Apr-20	177	240	12m	Buy	Jignesh Shial
11-Apr-20	172	253	12m	Buy	Jignesh Shial
05-Apr-20	125	253	12m	Buy	Jignesh Shial
30-Mar-20	161	253	12m	Buy	Jignesh Shial
24-Mar-20	143	253	12m	Buy	Jignesh Shial
08-Mar-20	281	388	12m	Buy	Jignesh Shial
26-Feb-20	318	388	12m	Buy	Jignesh Shial
19-Nov-19	325	336	12m	Buy	Jignesh Shial
06-Nov-19	302	336	12m	Buy	Jignesh Shial
05-Nov-19	317	325	12m	Buy	Jignesh Shial
23-Sep-19	302	325	12m	Buy	Jignesh Shial
28-Aug-19	266	286	12m	Buy	Jignesh Shial
31-Jul-19	260	286	12m	Buy	Jignesh Shial
26-Jun-19	283	327	12m	Buy	Jignesh Shial
25-May-19	297	327	12m	Buy	Jignesh Shial
30-Apr-19	278	327	12m	Buy	Jignesh Shial
13-Mar-19	271	314	12m	Buy	Jignesh Shial
15-Feb-19	237	272	12m	Buy	Jignesh Shial
31-Jan-19	234	272	12m	Buy	Jignesh Shial
31-Oct-18	254	295	12m	Buy	Jignesh Shial
19-Oct-18	223	295	12m	Buy	Jignesh Shial
26-Sep-18	243	295	12m	Buy	Jignesh Shial
24-Sep-18	236	352	12m	Accumulate	Jignesh Shial
27-Jul-18	293	352	12m	Accumulate	Jignesh Shial
29-May-18	309	352	12m	Accumulate	Jignesh Shial
24-Apr-18	330	352	12m	Accumulate	Jignesh Shial
10-Apr-18	313	293	12m	Accumulate	Jignesh Shial
31-Jan-18	257	290	12m	Accumulate	Umang Shah
01-Nov-17	245	270	12m	Accumulate	Umang Shah
18-Sep-17	234	270	12m	Accumulate	Umang Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs

Analyst: Jignesh Shial

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Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	**7.39**	**7.33**	**-1%**	**-6**	**100.00**
Bajaj Finance	1.34	1.35	1%	2	18.31
Cholamandalam Investment	0.14	0.13	-3%	0	1.82
Edelweiss Financial Services	0.07	0.00	-100%	-7	0.00
HDFC	5.23	5.36	2%	13	72.53
L&T Finance Holdings	0.06	0.00	-100%	-6	0.00
LIC Housing Finance	0.13	0.14	2%	0	1.85
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.13	0.07	-45%	-6	0.97
Nippon Life	0.07	0.07	2%	0	0.95
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.22	0.20	-7%	-1	2.72
Cash	**0.00**	**0.06**	**NA**	**6**	**0.9**

Source: Emkay Research

** Not under coverage: Equal Weight*

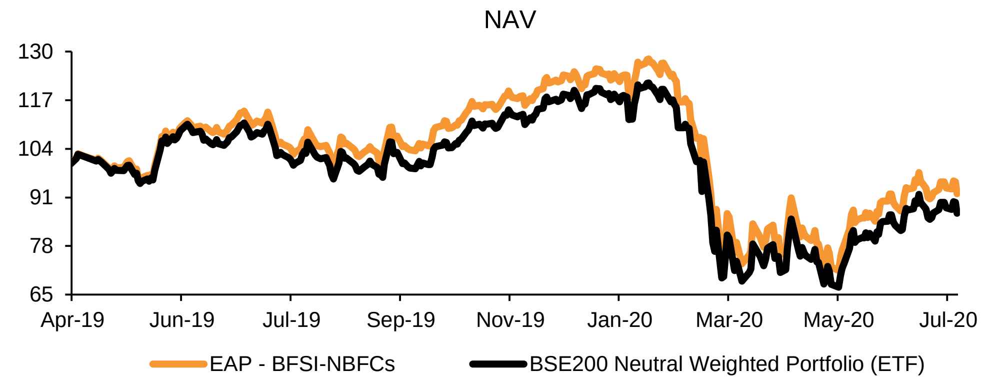
High Conviction/Strong Over Weight   High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Oct-19	30-Jan-20	30-Apr-20	30-Jun-20	30-Jul-20
EAP - BFSI-NBFCs	100.0	109.6	123.8	90.9	87.6	92.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	104.3	118.0	85.2	82.4	86.7

**Performance measurement base date 1st April 2019*
Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): SMID

Please see our model portfolio (Emkay Alpha Portfolio): Nifty

"Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals"

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 31 Jul 2020 21:59:39 (SGT)
Dissemination Date: 31 Jul 2020 22:00:39 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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