

Cholamandalam Investment & Finance

Firing all cylinders

CIFC's 2QFY21 PPOP was significantly ahead of our estimates, aided by strong margin expansion and controlled operating expenditure growth. The management prudently chose to insulate the balance sheet by creating further COVID-19 related provisions, which is always welcome. Business traction improved as disbursements reached ~88% of 2QFY20 levels and YoY AUM growth accelerated slightly. Even as CIFC witnessed a sustained improvement in collection efficiency, which is heartening, we conservatively factor in a rise in GNPA's in FY21E. We have upgraded our earnings estimates on the back of strong operating performance, as we build in an improvement in margins and operating efficiency. CIFC remains our top pick amongst the NBFCs within our coverage due to its demonstrated superior performance on multiple business parameters. Maintain BUY with a revised target price of Rs 319.

- **Collection efficiency and asset quality trends:** Reported GS-II dipped 12% QoQ (+6.3% YoY) to Rs 17.6bn (2.8%). Adjusted for the impact of the recent SC order, GS-III would have been ~3%. Until July, ~50% of customers had paid at least one instalment (including part of an instalment). This number improved to ~95% in October. Collection efficiency stood at ~87% (vs. the usual run rate of 100-105%). The management forecasted a reversion to pre-COVID-19 levels in the near term. In the worst case scenario, the management expects ~5% of the portfolio to be restructured but has identified only a fifth of this so far. Despite the sharp improvement in collection metrics, we expect a sharp rise in GNPA's to 4.8% by FY21E.
- **Non-tax provisions** registered a sharp rise (~3.4x/5.7x, 1.94% ann.) and included ~Rs 2.5bn of COVID-19 related provisions, which takes the total stock of such provisions to ~Rs 8bn (1.2% of AUM). This indicates the management's conservative approach to provisioning, which is always desirable. We have, in fact, lowered our provision estimates (even as they remain elevated vs. prior years) given the significant improvement in collection efficiency and high coverage.
- **Funding and liquidity:** CIFC remains one of the best-placed NBFCs on both these fronts. Borrowings grew 8.4/3.5%, slightly behind AUMs. Overseas borrowings, which grew ~22/33%, accounted for a significant portion of the net QoQ increase, followed by debentures, which grew ~14% QoQ. CIFC held cash and bank balances of ~Rs 68bn, together with undrawn lines, available liquidity was ~Rs 98bn (16.2% of borrowings). CIFC's comfort on these fronts, together with its superior asset quality and execution capabilities, will allow the company to capture resurgent growth.

Financial Summary

(Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Interest Inc.	11,728	8,643	35.7	9403	24.7	35,319	41,964	44,472	48,975
PPOP	8,996	6,185	45.5	6,371	41.2	24,831	29,958	31,488	34,119
PAT	4,319	3,070	40.7	4,309	0.2	10,524	15,926	17,005	19,302
EPS (Rs)	5.3	3.9	34.2	5.3	0.2	12.1	19.4	20.7	23.5
RoAE (%)						13.8	17.9	16.3	16.0
RoAA (%)						1.63	2.41	2.37	2.41
ABVPS (Rs)						84.2	96.5	120.9	142.7
P/ABV (x)						3.24	2.83	2.26	1.91
P/E (x)						22.6	14.1	13.2	11.6

Source: Company, HSIE Research

BUY

CMP (as on 30 Oct 2020)	Rs 273
Target Price	Rs 319
NIFTY	11,642

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 289	Rs 319
EPS %	FY21E	FY22E
	29.1%	21.1%

KEY STOCK DATA

Bloomberg code	CIFC IN
No. of Shares (mn)	820
MCap (Rs bn) / (\$ mn)	224/3,004
6m avg traded value (Rs mn)	2,258
52 Week high / low	Rs 349/117

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	27.6	71.4	(11.0)
Relative (%)	22.6	53.9	(9.9)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	51.7	51.6
FIs & Local MFs	25.8	27.1
FPIs	11.9	11.3
Public & Others	10.6	9.9
Pledged Shares	-	-

Source : BSE

Darpan Shah

darpan.shah@hdfcsec.com
+91-22-6171-7328

Aakash Dattani

aakash.dattani@hdfcsec.com
+91-22-6171-7337

Punit Bahlani

punit.bahlani@hdfcsec.com
+91-22-6171-7354

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com