



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**ESG Disclosure Score** NEW

**ESG RISK RATING** **26.52**  
Updated Feb 08, 2022

**High Risk**

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

**Company details**

Market cap:	Rs. 52,232 cr
52-week high/low:	Rs. 770/470
NSE volume: (No of shares)	26.8 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	39.8 cr

**Shareholding (%)**

Promoters	51.6
FII	17.6
DII	23.0
Others	7.8

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-9.4	-2.0	-0.2	9.7
Relative to Sensex	-1.4	2.8	9.2	-2.3

Sharekhan Research, Bloomberg

**Cholamandalam Investment and Finance Company**  
Strong growth drivers going ahead

<b>NBFC</b>	<b>Sharekhan code: CHOLAFIN</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 637</b>	<b>Price Target: Rs. 740</b> ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Q4FY22 PAT beat our estimate and stood at Rs. 690 crore versus Rs. 584 crore, rising ~184% y-o-y and ~32% q-o-q aided by lower provisioning. The company had provision write back of Rs.17 crore versus Rs. 248 crore in Q3FY22.
- It clocked strong disbursements growth of ~58% y-o-y and ~22% q-o-q to Rs. 12,718 crore in Q4FY22 led by robust growth in vehicle finance (up by 43% y-o-y) and mortgage book (up by 57% y-o-y).
- Asset quality improved with stage-III assets at 4.37% in Q4FY22 from 5.85% in Q3FY22, down by ~150 bps q-o-q, due to better collection efficiency. Management stated that there were strong signs of recovery in auto and mortgage segments and new businesses launched in December 2021 too witnessed significant disbursements.
- The stock trades at 3.6x/2.9x its FY2023E/FY2024E BVPS. We maintain our Buy rating with a revised PT of Rs. 740.

Cholamandalam Investment Finance Company (CIFIC) reported a healthy PAT growth of 184% y-o-y and 32% q-o-q to Rs. 690 in Q4FY22. This was primarily driven by lower provisions. NII grew by 10% y-o-y and was flat sequentially. NIM expanded by ~40 bps q-o-q and had an impact of Rs. 50 crore towards the adjustment of written off loans. Operating expenses were up by 26% y-o-y and 22% q-o-q, led investments in new businesses, scaling up of collections and talent hires. Pre-provision operating profit (PPOP) was up by ~3% y-o-y and down by ~6% q-o-q. Its asset quality improved with stage 3 assets at 4.37% in Q4FY22 from 5.85% in Q3FY22, down by ~150 bps q-o-q due to better collection efficiency during the quarter. PCR stood at 39.7% in Q4FY22 versus 38.8% in Q3FY22. The company carries management overlay of Rs. 500 crore as on March 2022. Disbursements grew strongly by ~58% y-o-y and ~22% q-o-q to Rs. 12,718 crore. This was aided by robust growth in vehicle finance (up by 43% y-o-y) and mortgage book (up by 57% y-o-y).

**Key positives**

- Disbursements rose by ~58% y-o-y and ~22% q-o-q led by a strong pick-up in the vehicle finance book and LAP segment.
- New businesses too saw significant disbursements of Rs. 1,515 crore in Q4FY22 and Rs. 2,619 crore FY22.
- Strong collections led to improvement of 150 bps q-o-q in asset quality to 4.37%.

**Key negatives**

- Cost to income ratio was higher at 41.6% versus 35.4% in Q3FY22.
- GNPA and NNPA ratios deteriorated as per the revised RBI norms of NPA recognition and stood at 8.53% and 5.76%, respectively.

**Management Commentary**

- Management foresees strong disbursement trends in housing, vehicle finance along with the new businesses.
- Growth in new businesses saw disbursements on expected lines and would see similar trend going ahead.
- It plans to focus on professional loans & business loans and micro & small businesses going forward.
- RoA for the new businesses is higher or equal to the vehicle finance business.
- It plans to improve its GNPA ratio to < 4% by FY23E.

**Our Call**

**Valuation:** The stock trades at 3.6x/2.9x its FY2023E/FY2024E ABVPS. The premium valuation as compared to its peers is due to its high earnings growth prospects with better management of the pandemic. The company has witnessed a sharp recovery in the disbursements and collections during the quarter which we believe to improve further going ahead. However, AUM growth was moderate but is likely to pick-up up FY2023-FY2024E and can see double digit growth. Further, with investments in payment processing firms and partnerships with fintech players, the company plans to deliver on growth and profitability. CIFIC, parentage of the Murugappa Group, is well diversified across product segments – vehicle finance, small business finance, and housing finance, which will enable it to deliver in terms of growth, risk, and return. We maintain our Buy rating with a revised price target (PT) of Rs. 740.

**Key Risks**

Decline in margin and risks of asset quality deterioration in the loan against property (LAP) segment.

**Valuation**

Particulars	FY21	FY22	FY23E	FY24E
PAT	1,515	2,147	2,658	3,033
EPS (Rs.)	18.5	26.2	31.2	34.1
BVPS (Rs.)	116.6	142.8	168.1	207.3
P/E (x)	34.7	24.5	20.6	18.8
P/BVPS (x)	5.5	4.5	3.8	3.1
ROE (%)	17.1	20.2	19.5	20.9
ROA (%)	2.2	2.7	2.7	3.0

Source: Company; Sharekhan estimates

## Key Conference call takeaways

- ◆ **Robust disbursements:** Aggregate disbursements grew by 58% y-o-y and by 36% y-o-y in FY22. Vehicle finance disbursements were up by 43% y-o-y in Q4FY22 and 26% y-o-y in FY22. LAP including affordable LAP rose by 66% y-o-y in Q4FY22 and 62% y-o-y in FY22. The foresees strong demand from the residential housing segment. New businesses -consumer and small enterprise loans (CSEL), secured business and personal loans (SBPL) launched in Dec'21 too witnessed strong growth with of Rs. 1,515 crore in Q4 and Rs. 2,619 crore in FY22. The company expects a similar trends in disbursements from the new businesses going forward. Further it foresees secured business and personal loans to take up some time to pick up. It intends to focus on financing of commercial, passenger, two- wheelers, tractors and construction equipments both in new and used vehicles. It foresees new vehicles demand picking going ahead.
- ◆ **Moderate AUM growth:** Its AUM grew by 8% y-o-y. This was largely because of run-off on the book.
- ◆ **Strong liquidity:** It continues to have a total liquidity position of Rs. 13,246 crore including the undrawn sanctioned lines.
- ◆ **Improvement in asset quality:** With continued focus on its collection efficiency, the company saw improvement in the asset quality. As per revised RBI norms, Gross NPA and net NPA stood at 6.82% and 4.75 % respectively, as of March 2022.
- ◆ **New businesses growth:** New businesses launched by the company in Dec'21 saw significant disbursements. In consumer and small enterprise loans (CSEL) were launched in 50 locations and over 1.3 lakh customers were acquired in Q4FY22. Secured business and personal loans (SBPL) was launched with focus in South and Western markets. For SME business there are 35 locations and business is done through traditional and Fintech partnerships.

Results					Rs cr	
Particulars	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)	
<b>Income from operations</b>	<b>2,580</b>	<b>2,461</b>	<b>2,530</b>	<b>4.8</b>	<b>2.0</b>	
Interest expenses	1,071	1,120	1,046	(4.3)	2.4	
<b>Net interest income</b>	<b>1,368</b>	<b>1,249</b>	<b>1,363</b>	<b>9.5</b>	<b>0.3</b>	
Other income	51	56	17	(8.4)	199.4	
<b>Net Operating income</b>	<b>1,561</b>	<b>1,398</b>	<b>1,501</b>	<b>11.7</b>	<b>4.0</b>	
Employee cost	295	269	219	9.7	34.7	
Depreciation	27	25	23	10.8	17.3	
Other expenditure	326	220	289	48.3	12.7	
<b>Operating expenses</b>	<b>649</b>	<b>514</b>	<b>532</b>	<b>26.2</b>	<b>22.0</b>	
<b>Pre-provisioning profit (PPoP)</b>	<b>912</b>	<b>884</b>	<b>970</b>	<b>3.2</b>	<b>(5.9)</b>	
Provisions and loan losses	(17)	559	265	(103.1)	(106.6)	
<b>PBT</b>	<b>929</b>	<b>324</b>	<b>704</b>	<b>186.5</b>	<b>32.0</b>	
Tax	240	81	180	195.4	32.9	
Tax Rate	26	25	26	3.1	0.7	
<b>PAT</b>	<b>690</b>	<b>243</b>	<b>524</b>	<b>183.5</b>	<b>31.7</b>	

Source: Company, Sharekhan Research

Key Ratios					Rs cr
Other Key Ratios	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
Disbursement	12,718	8,071	10,430	57.6	21.9
Total AUM	76,907	69,996	72,724	9.9	5.8
-Vehicle	52,881	50,415	50,675	4.9	4.4
-Home Equity	17,115	14,777	16,218	15.8	5.5
-Home Loans	5,269	4,345	5,039	21.3	4.6
-Others	1,642	459	792	257.7	107.3
NIM (Reported) (YTD)	8.1	7.7	8.2	39bps	-10bps
Tier I	16.5	15.1	16.8	135bps	-32bps
Tier II	-	3.9	3.0	-393bps	-299bps
CAR (%)	19.6	19.1	19.8	55bps	-17bps
GNPA (%)	4.4	4.0	5.9	40bps	-149bps
NNPA (%)	2.6	2.2	3.6	42bps	-95bps
Provisioning Coverage	39.7	44.3	38.8	-459bps	85bps

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Notwithstanding near-term challenges, rural segment a bright spot

The NBFC sector is witnessing an improved long-term outlook, helped by lower borrowing costs (supported by continued accommodative monetary policy stance). Financial services companies are reporting an incremental pickup in credit demand, especially in retail and rural segments, post the unlocking of the economy. Leading indicators show recovery in economic activity, which will be positive.

### ■ Company Outlook – Strong fundamentals make it attractive

CIFC has established itself as a strong and well-run vehicle financing (that forms 70% of AUM) NBFC with attractive return ratios, steady NIM, and strong operating metrics, which underline its high pedigree among peers. The company's other lending activities include home equity (LAP 22% of AUM), home loans, and MSME (8% of AUM). Business benefits from a strong parentage and rigorous risk-management practices provide long-term visibility, while healthy capitalisation at 19.8% (Q4FY2022) and scope for improving operating leverage lend additional comfort. We believe while the vehicle financing business will continue to be the mainstay for the company, home equity (LAP) has also been a significant contributor to the company's growth and profitability. The home loan business is the rising star and has a great potential to be built into a solid portfolio, considering the company's expertise in handling typical customer profiles. The company's robust collection mechanism aided by strong credit risk assessment framework will help it to drive growth. CIFC is an attractive pick due to its demonstrated superior performance on multiple business parameters.

### ■ Valuation – Maintain our Buy rating with a revised PT of Rs. 740

The stock trades at 3.6x/2.9x its FY2023E/FY2024E ABVPS. The premium valuation as compared to its peers is due to its high earnings growth prospects with better management of the pandemic. The company has witnessed a sharp recovery in the disbursements and collections during the quarter which we believe to improve further going ahead. However, AUM growth was moderate but is likely to pick-up up FY2023-FY2024E and can see double digit growth. Further, with investments in payment processing firms and partnerships with fintech players, the company plans to deliver on growth and profitability. CIFC, parentage of the Murugappa Group, is well diversified across product segments – vehicle finance, small business finance, and housing finance, which will enable it to deliver in terms of growth, risk, and return. We maintain our Buy rating with a revised price target (PT) of Rs. 740.

#### Peer Comparison

Company	CMP	MCAP	P/BVPS		P/EPS		ROE (%)		ROA (%)	
	(Rs/Share)	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Cholamandalam Investment Finance Co.	637	52,232	3.8	3.1	20.4	18.7	19.5	20.9	2.7	3.0
Mahindra Finance	176	21,665	1.4	1.4	23.4	11.3	11.4	11.9	2.3	2.4

Source: Company, Sharekhan estimates

## About company

CIFC was incorporated in 1978 as the financial services arm of the Murugappa Group. CIFC commenced business as an equipment financing company and today has emerged as a comprehensive financial services provider offering vehicle finance, home equity loans, home loans, SME loans, wealth management, stock broking, and a variety of other financial services to customers. CIFC operates from 1,140 branches across India with AUM above Rs. 70,023 crore.

## Investment theme

CIFC is a leading mid-cap vehicle financier expanding its presence into housing finance. The company has been gaining market share in the LCV/SCV segment, which it views attractive. Business benefits from a strong parentage and rigorous risk management practices provide long-term visibility, while healthy capitalisation at 19.6% (Q2FY2022) and scope for improving operating leverage lend additional comfort. We believe while the vehicle financing business will continue to be the mainstay for the company, home equity (LAP) has also been a significant contributor to the company's growth and profitability. The home loans segment is also attractive and has a great potential to be built into a solid portfolio considering the expertise of the company in handling typical customer profiles.

## Key Risks

Decline in margin and risks of asset quality deterioration in the LAP segment

## Additional Data

### Key management personnel

Mr. Vellayan Subbiah	Chairman and Non- Executive Director
Mr. Arul Selvan	Chief Financial Officer
Mr. Ravindra Kumar Kundu	Executive Director
Ms. P Sujatha	Secretary/Compliance Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management CO Ltd	4.5
2	Ambadi Investments Ltd	4.1
3	HDFC Asset Management Co Ltd	3.3
4	Capital Group Cos Inc	2.6
5	SBI Funds Management Pvt Ltd	2.1
6	BlackRock Inc	1.7
7	Aditya Birla Sun Life Asset Management	1.6
8	Vanguard Group Inc	1.6
9	DSP Investment Managers Pvt Ltd	1.4
10	HDFC Life Insurance Co Ltd	1.0

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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