

February 1, 2021

Q3FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	501		492	
NII (Rs.)	54,100	64,778	54,100	64,778
% Chng.	-	-	-	-
PPoP (Rs.)	37,033	43,962	35,010	42,245
% Chng.	5.8	4.1	-	-
EPS (Rs.)	22.1	26.5	20.6	25.3
% Chng.	7.3	4.7	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Int.Inc. (Rs m)	40,604	44,182	54,100	64,778
Growth (%)	19.3	8.8	22.4	19.7
Op. Profit (Rs m)	24,831	29,339	37,033	43,962
PAT (Rs m)	10,523	15,249	18,681	22,391
EPS (Rs.)	13.1	18.3	22.1	26.5
Gr. (%)	(13.4)	39.4	20.7	19.9
DPS (Rs.)	7.5	8.0	8.0	8.0
Yield (%)	1.7	1.8	1.8	1.8
Margin (%)	6.7	6.6	7.2	7.8
RoAE (%)	14.6	16.5	16.9	17.3
RoAA (%)	1.7	2.3	2.5	2.7
PE (x)	33.7	24.2	20.0	16.7
P/BV (x)	4.4	3.7	3.1	2.7
P/ABV (x)	5.3	4.2	3.5	2.9

Key Data

CHLA.NS | CIFIC IN

52-W High / Low	Rs.465 / Rs.117
Sensex / Nifty	48,601 / 14,281
Market Cap	Rs.363bn/ \$ 4,972m
Shares Outstanding	820m
3M Avg. Daily Value	Rs.4713.43m

Shareholding Pattern (%)

Promoter's	51.64
Foreign	13.17
Domestic Institution	27.37
Public & Others	7.82
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.7	118.7	39.1
Relative	6.1	69.3	13.7

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Shock absorbers in place

Quick Pointers:

- Watchlist pool: NPA: 3.75%, Stage 2: 5%, Restructured book: 2%

While CIFIC maintained steady business momentum (13%YoY/2%QoQ) for Q3FY21, the asset quality did deteriorate (3.75% NPA vs PLe: 3.34%) much to our expectations. Industrial production led transport and school bus segments that also saw increased share into ECLGS disbursements (Rs15bn) led to slippage of Stage 2, 3 assets. Yet restructured book stands capped at 2% for the year. Moreover, 45% ECL, 16% Stage 2 provisioning, 2.5% credit costs, PPoP at 1.5% of AUMs and CAR at 19% are existing shock absorbers for CIFIC. With major front-loading on provisions done in 9MFY21, we prune down our credit costs estimates to 1.55% (earlier 1.9%), resultantly our EPS estimates stands higher by 14% higher for FY21, 4-7%. For FY22-23. Said that, our FY21 still factors sufficient conservatism in the nature of (a) incremental mere 2% AUM growth (but 16% YoY) in Q4FY21 with normalization coming through post festive demand, (b) 4.6% NPA (c) modest margins at (6.6%). CIFIC's continued focus on right product positioning and broad-level strategy on creating financing ecosystem make it a constructive long term bet. 2.7% RoA and 17%+ RoE by FY22 only corroborates our confidence in the business model and hence we reiterate BUY recommendation on the stock with marginal uptick in price target to Rs501 valuing the Co. at 3.6x PABV Mar'23E.

- Steady business momentum buoyed by used VF, tractors and LAP:** festive season demand, ECLGS disbursements coupled with right product mix leading to market share maintenance for certain key products for CIFIC enabling healthy 13%YoY/2%QoQ AUM growth to Rs 688bn. VF and LAP reported 11-12% YoY growth followed by HL at 8%. While LAP disbursements stood stark at 39% YoY growth, these primarily stood higher on account of ECLGS and these remain small ticket. Used vehicles and tractors (marginal increase in market share to 5.4% from 5.1% earlier) continue to remain 2 engines of vehicle finance growth with used VF share at 27% steady-state of overall VF business mix. 26% to AUMs and tractors contributing 19% to disbursements and 9% to AUMs. Higher yielding mix (3/2 wheeler, used vehicles, tractor & mini LCV) now contributes 47% (45% in Q2FY21) to overall AUMs. We expect healthy business momentum at 16% and 19-21% for FY21 and FY22-23 respectively.
- Asset quality slips on expected lines; provisions beefed up:** As against our estimates fo 3.34% GNPA, the NPA (Stage 3 exclusive of standstill accounts) stood at 3.75% for Q3FY21. Besides, Stage 2 at 5% and restricted book at 2% will be closely watched going forward. Said that, CIFIC has sufficient shock absorbers in place in the nature of 45% ECL, 16% Stage 2 provisioning, 2.5% credit costs, PPoP at 1.5% of AUMs and CAR at 19%. With major front-loading on provisions done in 9MFY21, we prune down our credit costs estimates to 1.55% (earlier 1.9%) but maintain our conservative forecasts on NPA at 4.6% for FY21. Near term challenges stand largely factored in our estimates and we expect CIFIC to clock 2.7% RoA / 17% RoR for FY23.

Exhibit 1: Higher provisions lead to slight miss on PAT; PPOP remains strong

PAT at Rs4.09bn stood below our estimates [vs. PLe of Rs5.37bn] declining 5%QoQ (but increased 5%YoY) due to higher than expected provisioning for the quarter.

Provisions at Rs4.4bn stood much higher than our expectations [PLe: Rs1.9bn] jumping 40%QoQ/200%+ YoY led by Rs. 2160 mn addn provisions this qtr totalling to overall provs of Rs7510 mn. To that effect PCR climbs to 45% (second highest in our coverage universe and highest in CV financing space), credit costs jumped to 2.5%

Stage 3 declined by 97bps YoY/18 bpsQoQ to 2.57% vs PLe of 3.34%, excl SC 3.75% V 2.75% IN q2

NII growth was better at Rs13.6bn [vs. PLe of Rs12.8bn] with 9%QoQ/26%YoY led by healthy disbursals (6%YoY growth) and lower interest costs.

AUM reported strong traction with YoY/QoQ growth of 14.9%/12.8% at Rs.758bn led by VF 12% YoY, LAP 11% and HL 8% YoY growth.

PPoP stood healthy at Rs10.bn [vs. PLe of Rs9.1bn] growing 11%QoQ/51% YoY

Y/e March (Rs mn)	Q3FY21	Q3FY20	YoY gr.	Q2FY21	QoQ gr.
Interest Income	25,048	22,749	10.1%	24,364	2.8%
Interest Expenses	11,404	11,924	-4.4%	11,852	-3.8%
Net Interest Income	13,644	10,825	26.0%	12,512	9.0%
Other Income	0.3	0.4	-25.0%	33.8	-99.1%
Total Income	13,644	10,825	26.0%	12,546	8.8%
Total Operating Expenses	3,688	4,244	-13.1%	3,551	3.9%
Operating Profit (PPP)	9,956	6,581	51.3%	8,996	10.7%
Provisions & Write Offs	4,446	1,360	226.9%	3,176	40.0%
PBT	5,511	5,221	5.6%	5,820	-5.3%
Reported Profit	4,089	3,885	5.2%	4,319	-5.3%
AUM	6,87,450	6,07,780	13.1%	6,71,820	2.3%
Credit costs	2.59%	0.89%	1.7%	1.89%	0.70%
Stage 3 Assets to Total Gross Assets	2.57%	3.54%	-0.97%	2.75%	-0.18%
Assets Under Management	6,87,450	6,07,780	13.1%	6,71,820	2.3%
NIM - calc	8.03%	7.21%	0.8%	7.66%	0.37%
AUM (Rs mn)					
Vehicle Finance	4,99,360	4,45,890	12.0%	4,92,640	1.4%
Auto/ Utility vehicles	84,730	75,820	11.8%	83,800	1.1%
3W & SCV	29,660	28,100	5.6%	30,490	-2.7%
LCV	1,02,090	94,130	8.5%	1,03,170	-1.0%
HCVs	50,410	60,430	-16.6%	54,530	-7.6%
Tractors	48,130	34,030	41.4%	45,510	5.8%
CE	28,820	21,830	32.0%	27,180	6.0%
Refinance	1,34,300	1,15,790	16.0%	1,27,440	5.4%
TW	21,230	15,760	34.7%	20,510	3.5%
Home Equity	1,48,770	1,32,780	12.0%	1,42,880	4.1%
Others	39,320	29,110	35.1%	36,300	8.3%
AUM Mix (%)					
Vehicle Finance	72.6%	73.4%	-0.7%	73.3%	-0.69%
Home Equity	21.6%	21.8%	-0.2%	21.3%	0.37%
Others	5.7%	4.8%	0.9%	5.4%	0.32%

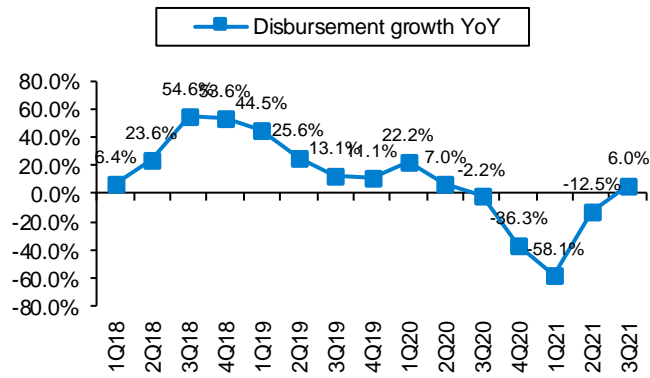
Source: Company, PL

Conference Call Highlights:

- **Demand:** Replacement cycle for used HCV is going to start hence there will be pick up in HCV disbursement going ahead.
- **Market share:** Lost market share in Car(from 2.6% to 1.9%) and MUV. Entry level car market share has increased. Tractor market share saw an increase in MS from 5.1% to 5.4%.
- **LAP:** Rs. 3bn disbursement every month, however it has not increased with addition of new branches (from 125 branches to 215 branches) due to COVID. Capacity utilisation has now started picking up and witnessing demand from tier 3 and 4 cities as situation is better there compared to metros and tier 1 cities. Focusing on lending to retail segment.
- **Collection efficiency:** VF: Billing at 87%/103%/105%/108% in Sept/Oct/Nov/Dec. Stage 1 collection efficiency at 93%/95%/97%/98% in Sept/Oct/Nov/Dec.
- **Stage 2:** Collection efficiency at over 90% hence flow through stage 3 will be lower.
- **Stage 3:** Proforma GNPA at 3.75%; VF/LAP/HL Proforma GNPA at 2.78%/7.3%/3.8% respectively.
- **Provisioning:** Additional Rs.2160mm COVID provisions during the qtr (total Rs.7500mn). PCR at 44.94%. Provision to AUM at 2.5% vs 1.9% pre COVID level. Will reverse COVID led provisions but would keep management overlay (Rs.2500mn) going ahead.
- **Restructuring:** 2% of AUM has been restructured. Doesn't expect more restructuring in Q4FY21. Given to bus operators and car aggregators. Has 10% provisions against it.
- **ECLGS:** Rs.15bn disbursed during the qtr. Mostly disbursed to new vehicle segment working for industrial production.
- Rs. 129bn worth of liquidity and comfortable ALM with no negative balance in any bucket.
- **Leadership/strategy:** Will wait on clarity from RBI, based on its direction will take a call on fulfilling MD/CEO position. Broader biz strategy moves towards creating a financing ecosystem clarity of which to emerge in Q4FY21.
- Co lending to start from Q4FY21.

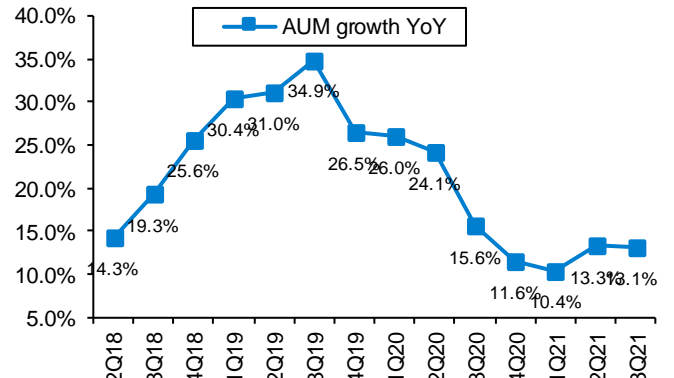


Exhibit 2: Improvement in the disbursements



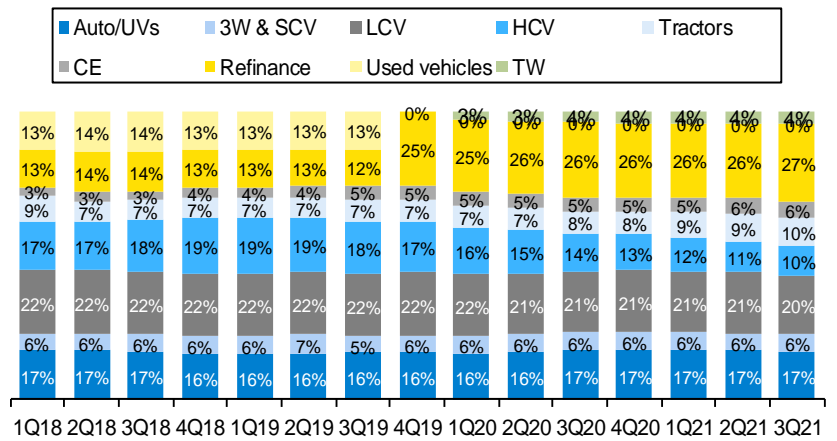
Source: Company, PL

Exhibit 3: Decent AUM growth rate



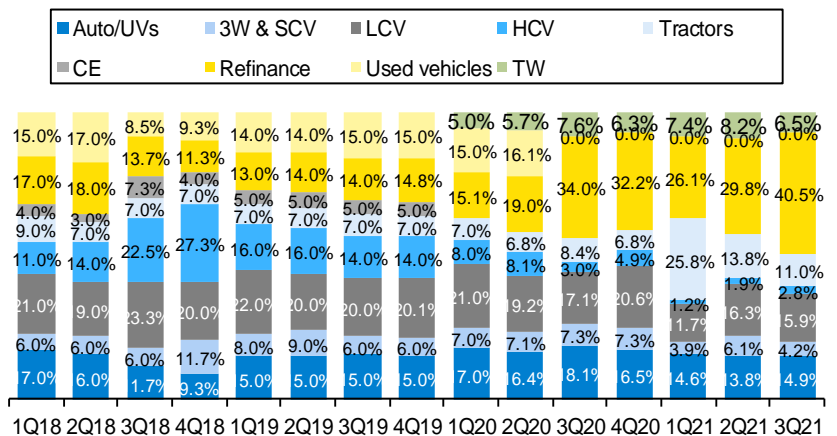
Source: Company, PL

Exhibit 4: Stable AUM mix



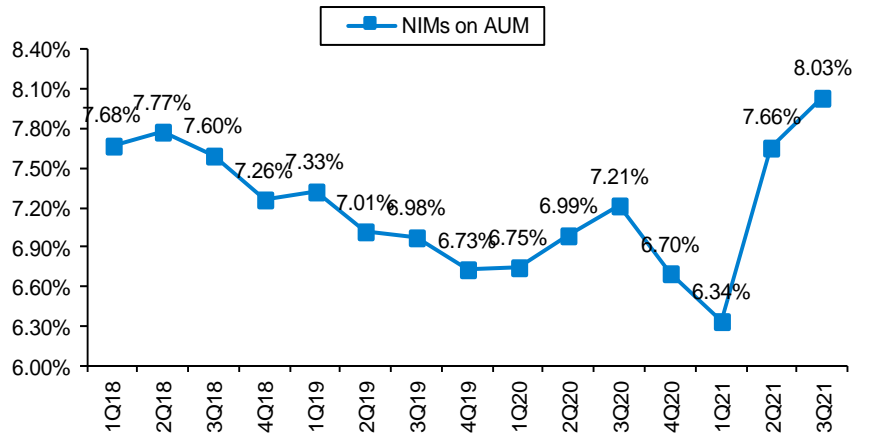
Source: Company, PL

Exhibit 5: Used Vehicle continue to dominate disbursements



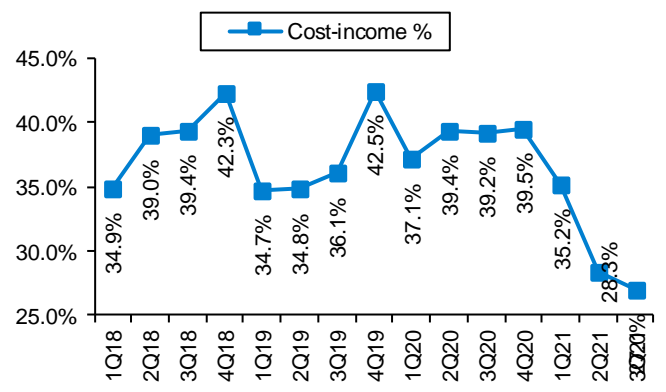
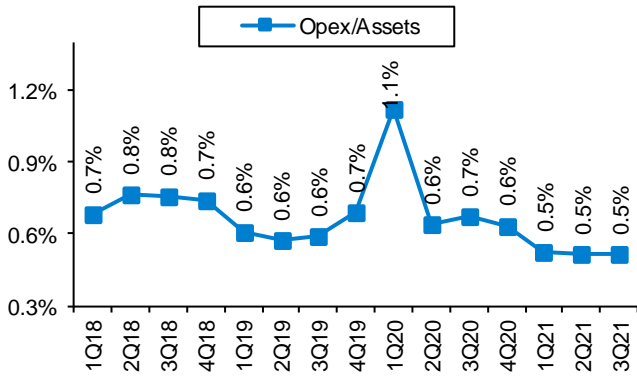
Source: Company, PL

Exhibit 6: Marginal improvement in NIMs during the qtr



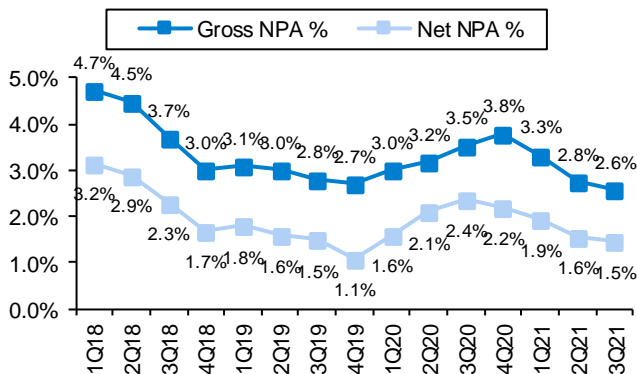
Source: Company, PL

Exhibit 7: Cost efficiencies in place



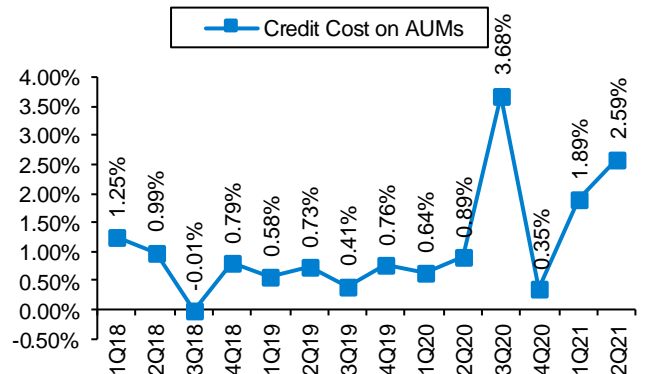
Source: Company, PL

Exhibit 8: Improvement in GNPA's due to SC Standstill



Source: Company, PL

Exhibit 9: Elevated credit costs due to additional provisions



Source: Company, PL



Exhibit 10: ECL Summary considering roll forward

(Rs mn)	Q3FY20	Q4FY20			Q3FY21		
		Normal	COVID	Total	Normal	COVID	Total
Gross Assets	570960	569260		569260	662410		662410
Stage 1	524340	527420		527420	602850		602850
Stage 2	26390	20210		20210	34690		34690
Stage 3	20240	21630		21630	24860		24860
% of Gross assets							
Stage 1	91.8%	92.7%		92.7%	91.0%		91.0%
Stage 2	4.6%	3.6%		3.6%	5.2%		5.2%
Stage 3	3.5%	3.8%		3.8%	3.8%		3.8%
Provision	10580	9880	5340	15220	12940	7500	20440
Stage 1	1740	1500	2410	3910	2840	1170	4010
Stage 2	2170	1650	680	2330	2970	2640	5610
Stage 3	6670	6730	2250	8980	7130	3690	10820
% of Gross assets							
Stage 1	0.3%	0.3%	0.5%	0.7%	0.5%	0.2%	0.7%
Stage 2	8.2%	8.2%	3.4%	11.5%	8.6%	7.6%	16.2%
Stage 3	33.0%	31.1%	10.4%	41.5%	28.7%	14.8%	43.5%
Net Assets	560380	559380		554040	649470		641970
Stage 1	522600	525920		523510	600010		598840
Stage 2	24220	18560		17880	31720		29080
Stage 3	13570	14900		12650	17730		14040
% of Gross assets	98.1%	98.3%		97.3%	98.0%		96.9%
Stage 1	91.5%	92.4%		92.0%	90.6%		90.4%
Stage 2	4.2%	3.3%		3.1%	4.8%		4.4%
Stage 3	2.4%	2.6%		2.2%	2.7%		2.1%

Source: Company, PL

Exhibit 11: ECL provisions upped for the quarter

(Rs mn)	Q3FY21							
	Asset	Provisions	Addn Provisions	Total Provisions	Asset (%)	PCR (%)	Addn pcr (%)	Total PCR (%)
Stage 1	583080	1730	0	1730	88.0%	0.3%	0.0%	0.3%
Stage 1 (Covid Restructuring)	10730	1080	420	1500	1.6%	10.1%	3.9%	14.0%
Stage 1 (Past history of flow)	9740	30	750	780	1.5%	0.3%	7.7%	8.0%
Total Stage 1	602850	2840	1170	4010	91.0%	0.5%	0.2%	0.7%
Stage 2	31750	2690	2460	5150	4.8%	8.5%	7.7%	16.2%
Stage 2 (Covid Restructuring)	2430	240	120	360	0.4%	9.9%	4.9%	14.8%
Total Stage 2	34690	2970	2640	5610	5.2%	8.6%	7.6%	16.2%
Total Stage 3	24860	7130	3690	10820	3.8%	28.7%	14.8%	43.5%
Total	662410	12940	7510	20450	100.0%	2.0%	1.1%	3.1%

(Rs mn)	Q4FY20							
	Asset	Provisions	Addn Provisions	Total Provisions	Asset (%)	PCR (%)	Addn pcr (%)	Total PCR (%)
Stage 1	515060	1450	1150	2600	77.76%	0.28%	0.22%	0.51%
Stage 1 (Past history of flow)	12350	50	1260	1310	1.87%	0.39%	10.22%	10.61%
Total Stage 1	527420	1500	2410	3910	79.62%	0.28%	0.46%	0.74%
Total Stage 2	20210	1650	680	2330	3.05%	8.19%	3.36%	11.55%
Total Stage 3	21630	6730	2250	8980	3.27%	31.12%	10.40%	41.52%
Total	569260	9890	5340	15230		1.74%	0.94%	2.68%

Source: Company, PL

Exhibit 12: Change in Estimates due to frontloading on provisioning and ability to grow with steady market share

Rs mn	Old			Revised			% Change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Interest Income	44,182	54,100	64,778	44,182	54,100	64,778	0.0%	0.0%	0.0%
Operating Profit	27,107	35,010	42,245	29,339	37,033	43,962	8.2%	5.8%	4.1%
Net Profit	13,360	17,404	21,378	15,249	18,681	22,391	14.1%	7.3%	4.7%
EPS (Rs)	16.1	20.6	25.3	18.3	22.1	26.5	14.1%	7.3%	4.7%
ABVPS (Rs)	102.3	121.2	145.2	104.5	125.0	150.2	2.2%	3.1%	3.4%
Price Target (Rs)		492			501			1.9%	
Reco		BUY			BUY				

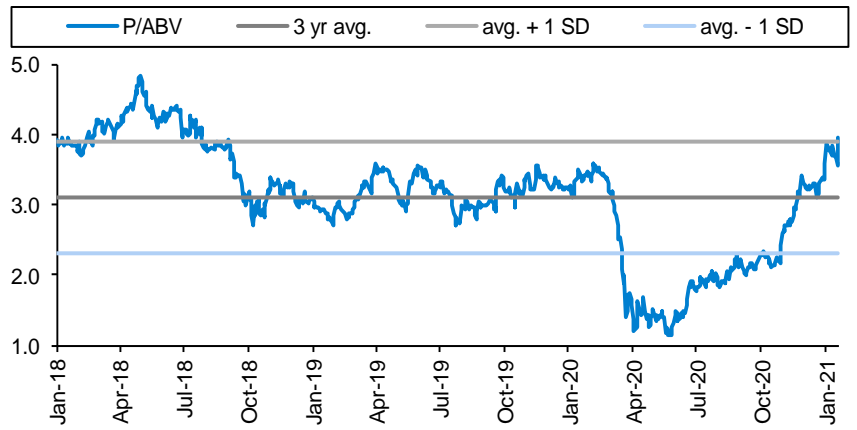
Source: PL

Exhibit 13: Maintain BUY, fair value multiple at 3.6x PABV MAR'23E

PT calculation and upside	
Fair price – EVA	540
Fair price - P/ABV	462
Average of the two	501
Target P/ABV	3.6
Target P/E	31.9
Current price, Rs	443
Upside (%)	13%
Dividend yield (%)	1.8%
Total return (%)	15%

Source: Company, PL

Exhibit 14: CIFIC to maintain premium valuations



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Int. Inc. / Opt. Inc.	86,526	94,347	1,09,459	1,25,853
Interest Expenses	45,922	50,165	55,359	61,075
Net interest income	40,604	44,182	54,100	64,778
Growth(%)	19.3	8.8	22.4	19.7
Non-interest income	3	5	8	15
Growth(%)	(61.2)	75.0	80.0	80.0
Net operating income	40,607	44,187	54,108	64,793
Expenditures				
Employees	6,550	6,616	7,608	9,282
Other Expenses	8,151	8,232	9,467	11,550
Depreciation	1,075	-	-	-
Operating Expenses	14,701	14,848	17,075	20,831
PPP	24,831	29,339	37,033	43,962
Growth(%)	16.3	18.2	26.2	18.7
Provisions	8,973	8,980	12,069	14,039
Profit Before Tax	15,857	20,359	24,964	29,922
Tax	5,334	5,110	6,284	7,531
Effective Tax rate(%)	33.6	25.1	25.2	25.2
PAT	10,523	15,249	18,681	22,391
Growth(%)	(11.3)	44.9	22.5	19.9

Balance Sheet (Rs. m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Source of funds				
Equity	1,640	1,690	1,690	1,690
Reserves and Surplus	80,079	1,00,325	1,17,383	1,38,152
Networth	81,718	1,02,014	1,19,073	1,39,842
Growth (%)	32.3	24.8	16.7	17.4
Loan funds	5,50,054	5,96,809	6,47,538	7,02,578
Growth (%)	8.8	8.5	8.5	8.5
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	8,158	8,952	22,411	37,905
Total Liabilities	6,39,930	7,07,775	7,89,021	8,80,326
Application of funds				
Net fixed assets	2,839	3,039	3,799	4,748
Advances	5,54,027	6,03,890	6,88,434	7,91,700
Growth (%)	5.3	9.0	14.0	15.0
Investments	729	744	855	984
Current Assets	74,311	52,610	44,237	26,664
Net current assets	74,311	52,610	44,237	26,664
Other Assets	8,024	2,946	3,964	4,974
Total Assets	6,39,931	7,07,775	7,89,022	8,80,325
Growth (%)	11.4	10.6	11.5	11.6
Business Mix				
AUM	6,05,490	7,01,199	8,34,427	10,09,656
Growth (%)	11.6	15.8	19.0	21.0
On Balance Sheet	5,60,690	5,90,358	7,05,672	8,59,327
% of AUM	92.60	84.19	84.57	85.11
Off Balance Sheet	44,810	1,10,841	1,28,755	1,50,329
% of AUM	7.40	15.81	15.43	14.89

Profitability & Capital (%)

Y/e Mar	FY20	FY21E	FY22E	FY23E
NIM	6.7	6.6	7.2	7.8
ROAA	1.7	2.3	2.5	2.7
ROAE	14.6	16.5	16.9	17.3

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Int. Inc. / Operating Inc.	21,513	21,136	24,364	25,048
Income from securitization	-	-	-	-
Interest Expenses	11,359	11,307	11,852	11,404
Net Interest Income	10,154	9,830	12,512	13,644
Growth (%)	13.0	4.3	22.7	26.0
Non-Interest Income	1	-	34	-
Net Operating Income	10,156	9,830	12,546	13,644
Growth (%)	13.0	4.3	23.0	26.0
Operating expenditure	4,016	3,458	3,551	3,688
PPP	6,140	6,372	8,996	9,956
Growth (%)	77.7	6.3	(6.6)	(22.5)
Provision	5,567	562	3,176	4,446
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	573	5,810	5,820	5,511
Tax	147	1,501	1,501	1,422
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.6	25.8	25.8	25.8
PAT	427	4,309	4,319	4,089
Growth	(85)	37	41	5
AUM	6,05,490	6,35,010	6,71,820	6,87,450
YoY growth (%)	11.6	10.4	13.3	13.1
Borrowing	5,50,054	5,85,130	6,05,180	6,20,470
YoY growth (%)	8.8	6.2	8.3	12.9

Key Ratios

Y/e Mar	FY20	FY21E	FY22E	FY23E
CMP (Rs)	443	443	443	443
EPS (Rs)	13.1	18.3	22.1	26.5
Book value (Rs)	99.7	120.7	140.9	165.5
Adj. BV(Rs)	84.2	104.5	125.0	150.2
P/E(x)	33.7	24.2	20.0	16.7
P/BV(x)	4.4	3.7	3.1	2.7
P/ABV(x)	5.3	4.2	3.5	2.9
DPS (Rs)	7.5	8.0	8.0	8.0
Dividend Payout Ratio(%)	14.0	10.6	8.7	7.2
Dividend Yield(%)	1.7	1.8	1.8	1.8

Asset Quality

Y/e Mar	FY20	FY21E	FY22E	FY23E
Gross NPAs(Rs m)	21,630	32,586	26,991	25,885
Net NPA(Rs m)	12,650	13,686	13,495	12,943
Gross NPAs to Gross Adv.(%)	3.8	4.6	3.2	2.6
Net NPAs to net Adv.(%)	2.2	2.3	1.9	1.5
NPA coverage(%)	41.5	58.0	50.0	50.0

Du-Pont as a % of AUM

Y/e Mar	FY20	FY21E	FY22E	FY23E
NII	6.7	6.3	6.5	6.4
NII INCL. Securitization	6.8	6.5	6.7	6.6
Total income	6.8	6.5	6.7	6.6
Operating Expenses	2.6	2.1	2.0	2.1
PPOP	4.2	4.4	4.7	4.6
Total Provisions	1.5	1.3	1.4	1.4
RoAA	1.7	2.3	2.5	2.7
Avg. Assets/Avg. net worth	11.8	13.1	13.2	12.8
RoAE	14.6	16.5	16.9	17.3

Source: Company Data, PL Research

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Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	BUY	492	431
2	30-Oct-20	BUY	310	273
3	12-Oct-20	Accumulate	283	253
4	31-Jul-20	Accumulate	240	203
5	13-Jul-20	Accumulate	239	208
6	04-Jun-20	Accumulate	189	143
7	17-Apr-20	BUY	229	177

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Accumulate	5,340	4,982
2	Cholamandalam Investment and Finance Company	BUY	492	431
3	HDFC	Accumulate	2,895	2,653
4	L&T Finance Holdings	Reduce	97	105
5	LIC Housing Finance	Hold	420	396
6	Mahindra & Mahindra Financial Services	Reduce	160	155
7	Manappuram Finance	Accumulate	193	156
8	Muthoot Finance	BUY	1,471	1,283
9	SBI Cards and Payment Services	Accumulate	1,081	979
10	Shriram Transport Finance	Accumulate	1,386	1,111

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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