Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Updated July 08, 2022	26.52

Medium Risk

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

Source: Morningstar

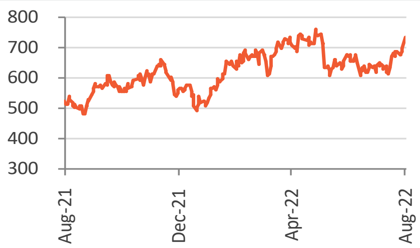
Company details

Market cap:	Rs. 60,281 cr
52-week high/low:	Rs. 770/470
NSE volume: (No of shares)	23.1 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	39.8 cr

Shareholding (%)

Promoters	51.5
FII	18.0
DII	22.4
Others	8.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.4	-1.7	14.8	39.4
Relative to Sensex	3.3	-3.7	17.3	29.7

Sharekhan Research, Bloomberg

Stock Update

Result Update

Cholamandalam Investment and Finance Company

Strong growth levers ahead

NBFC	Sharekhan code: CHOLAFIN

Reco/View: Buy	↔	CMP: Rs. 734	Price Target: Rs. 830	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- For Q1FY23, Cholamandalam Investment Finance Company's PAT lagged our estimates at Rs. 566 crore versus Rs. 595 crore, on account of higher provisions. PAT grew by 73% y-o-y and was down by 18% q-o-q.
- Disbursements increased by 267% y-o-y (5% q-o-q), Q1FY22 being a lower base. It recorded highest quarterly disbursement of Rs. 13,329 crore. The company witnessed overall improvement in the consumer confidence, which drove disbursements higher during the quarter.
- Asset quality improved sequentially by 21bps with stage-3 assets at 4.16%. GNPAs, as per revised RBI norms, was at 6.31% in Q1FY23 as against 6.82% in Q4FY22.
- Stock trades at 4.2x/3.5x its FY2023E/FY2024E BVPS. We maintain a Buy on Cholamandalam Investment Finance Co. with a revised PT of Rs. 830.

Cholamandalam Investment Finance Company (CIFC) reported strong PAT growth of 73% y-o-y and was down by 18% q-o-q to Rs. 566 crore. NII grew by ~17% y-o-y and ~8% q-o-q, on a healthy growth in AUMs. NIMs fell by 10 bps q-o-q (up 40 bps y-o-y). For LAP and home loans, yields are likely to expand as these are floating rate loans. In the vehicle finance portfolio, which is largely a fixed-rate book, the company expects to expand yields by changing its product mix and foresees margins to improve in coming six to nine months. AUM rose by ~21% y-o-y and ~7% q-o-q, aided by housing loans. Disbursements increased by 267% y-o-y (5% q-o-q), Q1FY22 being a lower base. It recorded highest quarterly disbursement of Rs. 13,329 crores in Q1FY23. Its operating expenses were up by 57% y-o-y and was down by 11% q-o-q. PPoP rose by ~6% y-o-y and down by ~16% q-o-q. Asset quality improved sequentially by 21bps with Stage-3 assets at 4.16% in Q1FY23. GNPA as per revised RBI norms was at 6.31% in Q1FY23 as against 6.82% in Q4FY22.PCR stood at 40.7% versus 39.7% in Q4FY22. The company carries management overlay of Rs. 528 crore as on June 2022.

Key positives

- Aggregate disbursements stood at Rs. 13,329, up by 267% y-o-y and ~5% q-o-q, aided by LAP segment.
- New businesses too saw significant disbursements with Consumer and Small Enterprise Loans (CSEL) and Secured Business and Personal Loans (SBPL) disbursements at Rs. 1,055 crore and Rs. 36 crore, respectively in Q1FY23.
- GNPAs, as per RBI norms was at 6.31% in Q1FY23 as against 6.82% in Q4FY22.

Key negatives

- Disbursements in used vehicle, heavy commercial vehicles and commercial equipment segments fell sequentially.
- NIMscontracted by 10bps q-o-q.

Management Commentary

- Management intends to stay cautious on tractor segment (constitutes ~10% of vehicle finance book) on account of uneven rainfall on four states with crop fall and irregular cash flows.
- Growth in new businesses saw disbursements on expected lines and trend is expected to sustain going ahead. The management expects these businesses to achieve pre-tax ROA at 3.5% to 4% going forward.
- Credit cost stood at 1.5% (annualised) in Q1FY23 and it guided the credit cost to be in the range of 1-% going ahead.
- It plans to improve its GNPA ratio to < 4% by FY23E.

Revision in estimates – We have marginally lowered our earnings estimates for FY2023 and FY2024 on account of higher borrowings cost and would keenly watch the performance of the newly-formed segments for further earnings drivers.

Our Call

Valuation: Stock trades at 4.2x/3.5x its FY2023E/FY2024E ABVPS. The premium valuation as compared to its peers is due to its high earnings growth prospects with better management asset quality across cycles. The company has witnessed significant growth in the disbursements and collections during the quarter which we believe to improve further going ahead. AUM growth is likely to be in single digits in FY2022E, followed by pickup up FY2023-FY2024E and can see double digit growth. CIFC, with the 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. 830.

Key Risks

Slowdown in the economy and resultant decline in the loan book and risks of asset quality deterioration in the loan against property (LAP) segment.

Valuation Rs cr

Particulars	FY21	FY22	FY23E	FY24E
PAT	1,515	2,147	2,676	3,042
EPS (Rs.)	18.5	26.2	32.6	37.1
BVPS (Rs.)	116.6	142.8	173.8	208.6
P/E (x)	39.7	28.0	22.5	19.8
P/BVPS (x)	6.3	5.1	4.2	3.5
ROE (%)	17.1	20.2	20.6	19.4
ROA (%)	2.2	2.7	2.8	3.0

Source: Company; Sharekhan estimates

Key Concall Highlights

- **Robust disbursements:** Aggregate disbursements grew by 267% y-o-y and 5% q-o-q in Q1FY23 on a lower base. Vehicle finance disbursements were up by 201% y-o-y and declined by 3% q-o-q. LAP including affordable LAP rose by 462% y-o-y and 16% q-o-q. Housing loans grew by 140% y-o-y and declined by 13% q-o-q. SME business witnessed disbursements of Rs. 1,030 crore versus Rs. 204 crore in Q1FY22. New businesses -consumer and small enterprise loans (CSEL), secured business and personal loans (SBPL) launched in Dec'21 too witnessed strong growth with disbursements of Rs. 1,030 crore in Q1FY23 versus Rs. 204 crore in Q1FY22. Used vehicles, heavy commercial vehicles and commercial equipment segments disbursements fell sequentially.
- **Healthy AUM growth:** Its AUM grew by 21% y-o-y and ~7% q-o-q primarily aided by housing portfolio. Management intends to keep cautious stance on tractor segment (constitutes ~10% of vehicle book) on account of uneven rainfall in four states with crop fall and irregular cash flows. LAP increased by ~25% y-o-y and ~6% q-o-q in Q1FY23 with highest-ever disbursements in June 2022. This largely on the back of improved demand which is expected to continue going ahead.
- **Strong liquidity position:** It continues to have a total liquidity position of Rs. 11,324 crore including the undrawn sanctioned lines.
- **Improvement in asset quality:** With continued focus on its collection efficiency, asset quality improved. As per revised RBI norms, GNPA as per revised RBI norms improved to 6.31% in Q1FY23 from 6.82% in Q4FY22. Its net NPA was at 4.35% versus 4.75% in Q4FY22.
- **New businesses growth:** New businesses launched by the company in December 2021 saw significant disbursements during the quarter. Consumer and small enterprise loans (CSEL) are now offered in 127 locations and has over 2.1 lakh customers. Secured business and personal loans (SBPL) was launched with focus in South and Western markets. For SME business there are 24 locations and business is done through traditional and Fintech partnerships.

Results Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Income from operations	**2,612**	**2,371**	**10.2**	**2,439**	**7.1**
Interest expenses	1,131	1,104	2.5	1,071	5.6
Net interest income	**1,481**	**1,267**	**16.9**	**1,368**	**8.3**
Net Operating income	**1,640**	**1,374**	**19.3**	**1,561**	**5.1**
Employee cost	246	152	61.8	295	(16.6)
Depreciation	27	24	12.8	27	(1.6)
Other expenditure	307	195	57.6	326	(6.0)
Operating expenses	**580**	**371**	**56.5**	**649**	**(10.6)**
Pre-provisioning profit (PPoP)	**1,060**	**1,004**	**5.6**	**912**	**16.3**
Provisions and loan losses	299	563	(47.0)	(17)	
PBT	**762**	**441**	**72.8**	**929**	**(18.0)**
Tax	196	114	72.1	240	(18.2)
Tax Rate	26	26	(0.4)	26	(0.3)
PAT	**566**	**327**	**73.1**	**690**	**(18.0)**

Source: Company, Sharekhan Research

Other Key Ratios Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Disbursement	13,329	3,635	266.7	12,718	4.8
Total AUM	81,925	67,821	20.8	76,907	6.5
-Vehicle	55,376	48,403	14.4	52,881	4.7
-Home Equity	18,116	14,509	24.9	17,115	5.8
-Home Loans	5,497	4,402	24.9	5,269	4.3
-Others	2,936	507	479.1	1,642	78.8
NIM (Reported)	8.0	7.6	40bps	8.1	-10bps
Tier I	16.3	16.6	-36bps	16.5	-24bps
Tier II	2.9	2.5	41bps	3.1	-24bps
CAR (%)	19.2	19.1	6bps	19.6	-48bps
GNPA (%)	4.2	6.8	-264bps	4.4	-21bps
NNPA (%)	2.5	4.4	-192bps	2.6	-17bps
Provisioning Coverage	40.7	35.5	518bps	39.7	103bps

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. Increased MSPs, improved Kharif sowing, good monsoons and adequate water storage position are leading to higher tractor demand and overall resilience of the rural economy andtherefore, rural economy continues to be a bright spot at these times as well.

■ 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 NIMand 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 19.2% (Q1FY2023) and scope for improving operating leverage lend additional comfort. We believe while the vehicle financing business will remain 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. A 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

Stock trades at 4.2x/3.5x its FY2023E/FY2024E ABVPS. The premium valuation as compared to its peers is due to its high earnings growth prospects with better management asset quality across cycles. The company has witnessed significant growth in the disbursements and collections during the quarter which we believe to improve further going ahead. AUM growth is likely to be in single digits in FY2022E, followed by pickup up FY2023-FY2024E and can see double digit growth. CIFC, with the 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. 830.

Peer Comparison

Companies	CMP (Rs/ Share)	MCAP (Rs Cr)	P/BVPS (x)		P/E (x)		ROE (%)		ROA (%)	
			FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY22E
Cholamandalam Investment Finance Co.	735	57,554	4.5	3.6	23.3	22.3	20.8	20.9	2.7	3.0
Mahindra Finance	191	23,080	1.4	1.3	15.1	13.7	11.2	12.7	2.1	2.3

Source: Company; Sharekhan Research

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 19.2% (Q1FY2023) 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

Slowdown in the economy and resultant decline in the loan book and risks of asset quality deterioration in the loan against property (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	Secreatary/Compliance Officer

Source: Company

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

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 detoriating 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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