

November 3, 2022

## Q2FY23 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	792		792	
NII (Rs.)	73,978	80,919	73,978	80,919
% Chng.	-	-	-	-
PPoP (Rs.)	48,649	53,811	48,649	53,811
% Chng.	-	-	-	-
EPS (Rs.)	37.7	41.9	37.7	41.9
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	57,495	64,972	73,978	80,919
Growth (%)	16.4	13.0	13.9	9.4
Op. Profit (Rs m)	37,712	41,931	48,649	53,811
PAT (Rs m)	21,466	26,686	30,954	34,389
EPS (Rs.)	26.2	32.5	37.7	41.9
Gr. (%)	41.6	24.2	16.0	11.1
DPS (Rs.)	8.0	8.0	8.0	574.0
Yield (%)	1.1	1.1	1.1	77.1
Margin (%)	7.3	7.1	6.8	7.0
RoAE (%)	20.2	20.6	19.7	19.4
RoAA (%)	2.7	2.9	2.9	2.7
PE (x)	28.5	22.9	19.8	17.8
P/BV (x)	5.2	4.3	3.6	3.1
P/ABV (x)	6.3	4.9	4.0	3.4

### Key Data

CHLA.NS | CIFIC IN

52-W High / Low	Rs.818 / Rs.469
Sensex / Nifty	60,906 / 18,083
Market Cap	Rs.612bn / \$ 7,391m
Shares Outstanding	822m
3M Avg. Daily Value	Rs.1122.92m

### Shareholding Pattern (%)

Promoter's	51.50
Foreign	18.69
Domestic Institution	21.91
Public & Others	7.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.7	(0.2)	22.1
Relative	(4.1)	(6.7)	20.4

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## Strong AUM Growth, New Businesses Ramping Up Very Well

### Quick Pointers:

- Stage-3 Assets at 3.8% vs 4.2% in Q1FY23; as per RBI norms GNPA at 5.84%.
- Highest ever disbursement of Rs 146 bn in a quarter up 68% YoY/9.7%QoQ.

**CIFIC reported strong earnings in Q2FY23 with AUM of Rs 876.6bn (7.0% QoQ/25.2% YoY) above our estimate of Rs 860bn. The company's higher than expected opex and interest expense led to miss in PAT which came in at Rs5.6bn (-0.4% QoQ/-7.1%YoY). Increase in opex on expected lines due to growth in disbursements in the new segments. Asset quality improved with Stage-3 at 3.84% vs 4.2% in Q1'23 and Stage-3 as per RBI norms stood at 5.84% vs 6.31% in Q1'23.**

**Going ahead, we expect 22% AUM CAGR between FY22-24 along with improvement in asset quality with GNPA at 3.2%/2.7% for FY24/25. NIMs are anticipated to be at 7.1%/6.8% for FY23/24, however they may moderate marginally due to rising cost of funds. Funding cost is expected to increase by 50-60bps in FY23 over FY22 according to company (we are factoring in 100bps increase in our estimates). CIFIC has guided for 22% to 23% AUM growth in FY23, mainly driven by growth in its new businesses. Overall, the company is expected to deliver strong return profile for FY24 (19.7%/2.9% RoE/RoA) and hence would continue to command rich valuations. We maintain our estimates. We value CIFIC at 4.2x PABV Sep'24E and maintain our price target of Rs792. Maintain 'BUY'.**

- Good AUM growth, new businesses see 62.2% QoQ jump in AUM:** AUM grew strongly at 7.0%QoQ/25.2% YoY, led by strong disbursements - up 68% YoY. Vehicle Finance (65.7% of AUM) grew by 16.9%/4% YoY/QoQ. LAP (21.5% of portfolio) grew by 18.0%/4% YoY/QoQ and new business including home loans grew by 135.4%/33% YoY/QoQ. New businesses and home loans share in AUM mix is up to 12.8% in Q2'23 from 10.3% in Q1'23. NIM's fell by 36bps QoQ to 7.77% from 8.13% in Q1'23 as cost of funds increased by 67bps to 7%.
- Improvement in Stage-3 assets on QoQ and YoY basis:** Asset quality improved, as Stage-3 came at 3.84% down (PL: 4.1%) 32bps QoQ and Stage-2 at 6.06% vs 7.03% in Q1'23. GNPA as per RBI norms stood marginally elevated at 5.8% vs 6.3% in Q1FY23. We maintain our asset quality forecasts (4%/3.2%: FY23/24).
- New Businesses update:** CIFIC's AUM growth is expected to be driven by three new businesses 1) Consumer & small enterprise loans (CESL), 2) Secured business & personal loans (SBPL) and 3) Small & medium enterprise loan business (SME). financing, LAS etc. The new businesses (CSEL, SBPL and SME) launched last year saw exponential growth, recording disbursements of INR 31.3bn up 48% QoQ. New business share is currently around 5% of total AUM. It is likely to go up gradually in the near term

PAT at Rs Rs5.6bn stood lower than estimates [vs. PLe of Rs6.3bn] de-growing 0.4% QoQ and 7.1% YoY due to higher opex and interest expense.

There was a reduction in provisions on a QoQ basis and came in at Rs2.7bn [vs PLe: Rs 3.0bn]

NII at Rs 16.4bn stood below our estimates [PLe: Rs17.3bn] growing 2%QoQ/18.3%YoY as company recorded strong AUM growth but higher interest expense lead to miss in estimates. NIM showed QoQ decline on higher interest expense and came in 7.7% vs 8.07% in Q1'23

Total AUM stood at Rs876.6bn above our estimates [Rs860bn]. AUM growth was strong across segments as vehicle finance, LAP and other business recorded 4.0%, 4.0% and 33% QoQ growth respectively. Biggest positive of the result was the strong disbursement and growth in AUM of new businesses that include consumer, business, sme and personal loans that grew by a strong 62.2% on a QoQ basis from Rs 29.37bn to 47.65 bn in Q2'23.

Opex at Rs6.6bn stood above our estimates [PLe: Rs5.9bn] showing a 14.0% QoQ growth. Higher opex should be due to strong disbursements and expanding new business.

PPoP at Rs10.3bn stood below our estimates [Rs11.6bn] falling 2.3%QoQ and rising 16.9%YoY due to higher opex and interest expense

GNPA at 3.84% vs 4.2% in Q1'23 showed improvement. As per RBI norms GNPA at 5.84% vs 6.31% in Q1'23..

**Exhibit 1: Strong AUM growth compensates for miss in PAT estimates**

Y/e March (Rs mn)	Q2FY23	Q2FY22	YoY gr.	Q1FY23	QoQ gr.
Interest Income	29,880	24,706	20.9%	27,451	8.8%
Interest Expenses	13,404	10,778	24.4%	11,309	18.5%
<b>Net Interest Income</b>	<b>16,476</b>	<b>13,928</b>	<b>18.3%</b>	<b>16,142</b>	<b>2.1%</b>
Other Income	497.7	113.0	340.4%	258.3	92.7%
<b>Total Income</b>	<b>16,974</b>	<b>14,041</b>	<b>20.9%</b>	<b>16,401</b>	<b>3.5%</b>
Total Operating Expenses	6,611	5,179	27.6%	5,797	14.0%
<b>Operating Profit (PPP)</b>	<b>10,362</b>	<b>8,861</b>	<b>16.9%</b>	<b>10,604</b>	<b>-2.3%</b>
Provisions & Write Offs	2,782	584	376.2%	2,986	-6.8%
<b>PBT</b>	<b>7,581</b>	<b>8,277</b>	<b>-8.4%</b>	<b>7,617</b>	<b>-0.5%</b>
<b>Reported Profit</b>	<b>5,634</b>	<b>6,065</b>	<b>-7.1%</b>	<b>5,657</b>	<b>-0.4%</b>
AUM	8,76,680	7,00,230	25.2%	8,19,250	7.0%
<b>Credit costs</b>	<b>1.3%</b>	<b>0.33%</b>	<b>94</b>	<b>1.5%</b>	<b>-19</b>
Stage 3 Assets to Total Gross Assets	3.84%	6.2%	-232	4.2%	-32
Assets Under Management	8,76,680	7,00,230	25.2%	8,19,250	7.0%
<b>NIM – calc</b>	<b>7.77%</b>	<b>8.08%</b>	<b>-31</b>	<b>8.07%</b>	<b>-30</b>
<b>AUM (Rs mn)</b>					
<b>Vehicle Finance</b>	<b>5,76,060</b>	<b>4,92,850</b>	<b>16.9%</b>	<b>5,53,760</b>	<b>4.0%</b>
<b>LAP</b>	<b>1,88,430</b>	<b>1,59,710</b>	<b>18.0%</b>	<b>1,81,160</b>	<b>4.0%</b>
<b>Others</b>	<b>1,12,190</b>	<b>47,650</b>	<b>135.4%</b>	<b>84,340</b>	<b>33.0%</b>
<b>AUM Mix (%)</b>					
Vehicle Finance	65.7%	70.4%	-4.7%	67.6%	-1.88%
LAP	21.5%	22.8%	-1.3%	22.1%	-0.62%
Others	12.8%	6.8%	6.0%	10.3%	2.50%

Source: Company, PL

## Conference Call Highlights:

### Businesses Update:

- Achieved highest ever quarterly disbursements backed by growth in new business, Housing loans, LAPs etc. and expects to sustain momentum with Oct'22 month also registering highest disbursements.
- Share of new business in total AUM is expected to go up as it expands to all the existing branches.

### Liquidity and Asset Quality:

- Liquidity position stands at Rs. 65.7bn including Rs. 44.81bn of cash balance and comfortable ALM position with no negative cumulative mismatches.
- Management overlay is same as previous quarter at Rs. 5.28bn as on 30th Sept'22. Decision regarding the same will be taken by year end.
- Carrying additional provisions of around Rs7.7bn under Ind AS over the IRAC requirements.
- Total provisions carried against the overall book are around 2.73% in Q2FY23, as against normal provision levels of around 1.75% carried prior to Covid-19. Write-off for the quarter were appx. Rs .8bn

### Others:

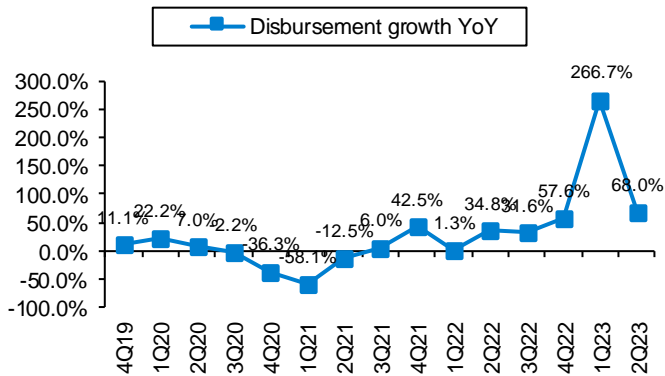
- Increase in Cost of Funds for the year is expected to be around 50-60bps as compared to FY22.
- Increase lending rates is done in a staggered manner with 40bps increase in floating rate in June'22 and Sept'22 respectively and another 40bps hike in Nov'22. Impact will be seen from next quarter.
- PAT was down Y-o-Y due to base effect as there was rollback of credit provisions in Q2FY22 which were made in Q1FY22 due to impact of covid wave.

### Guidance:

- Overall AUM growth guidance remains at 22-23%
- Management targets to achieve consistent ROTA of 3.5%
- Opex are expected to remain high with increasing share of high yielding products. Expected opex to be at 3% of Avg. Assets at year end.

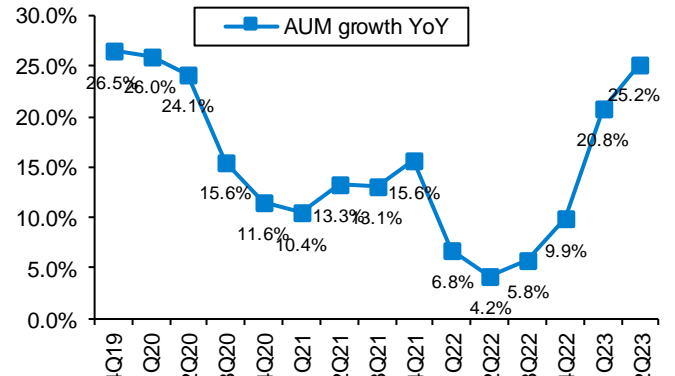


Exhibit 2: Highest quarterly disbursements up 68% YoY



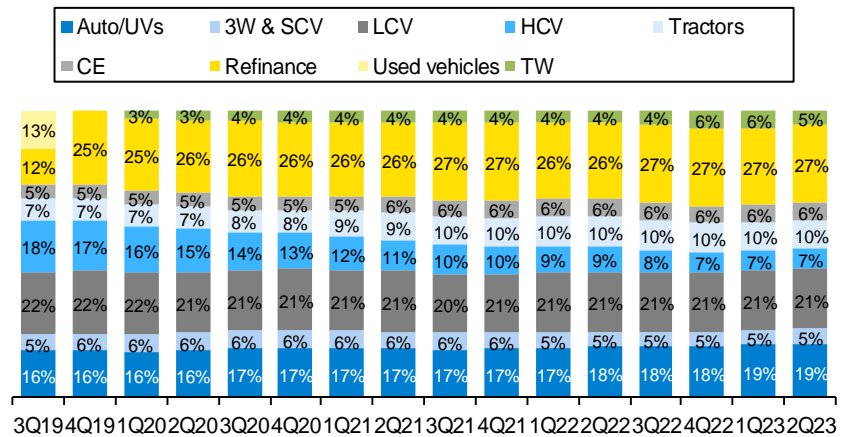
Source: Company, PL

Exhibit 3: Future AUM growth to be led by new businesses



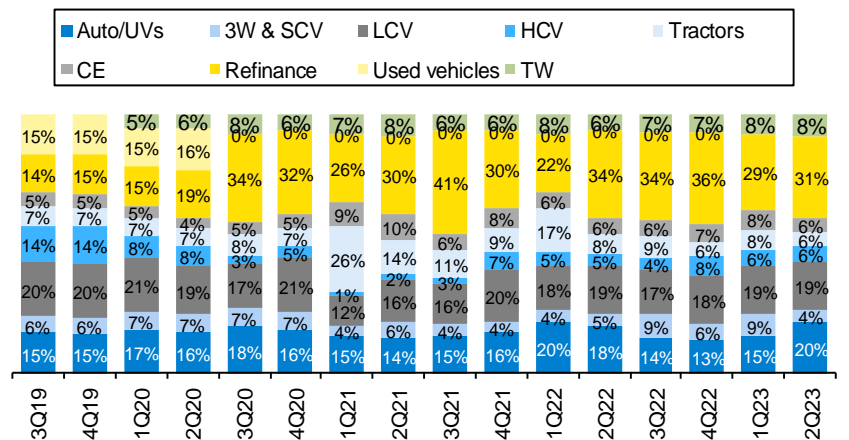
Source: Company, PL

Exhibit 4: New business and home loans mix in AUM up to 12.8%



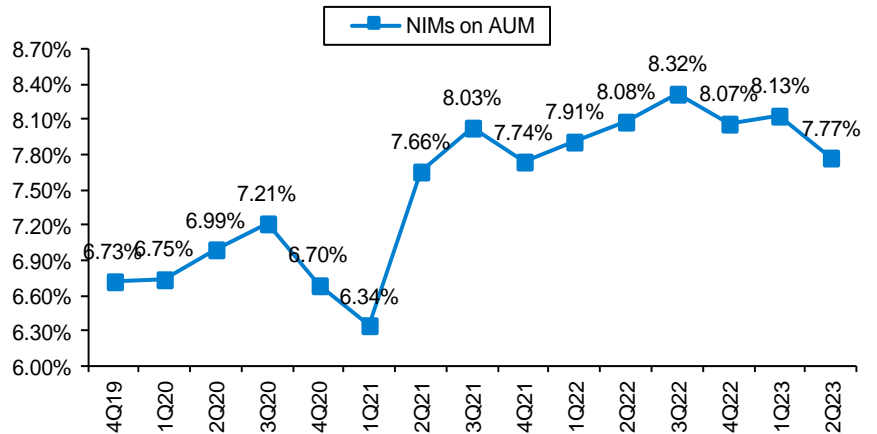
Source: Company, PL

Exhibit 5: Disbursement in new business shows strong traction



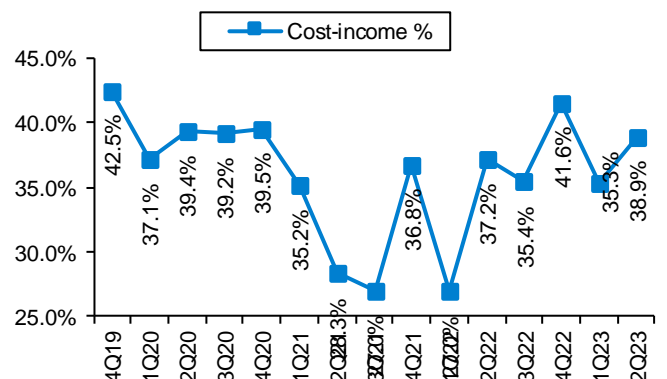
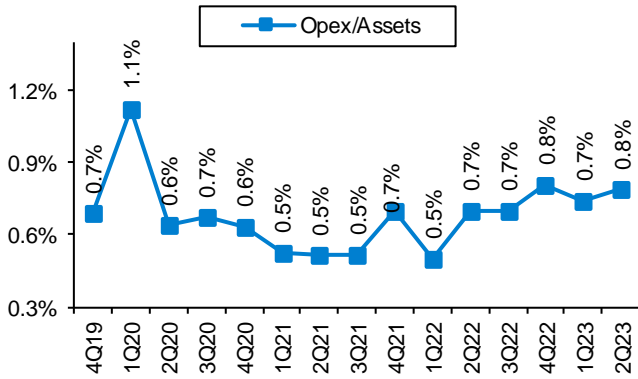
Source: Company, PL

Exhibit 6: Margins fall sequentially on higher cost of funds



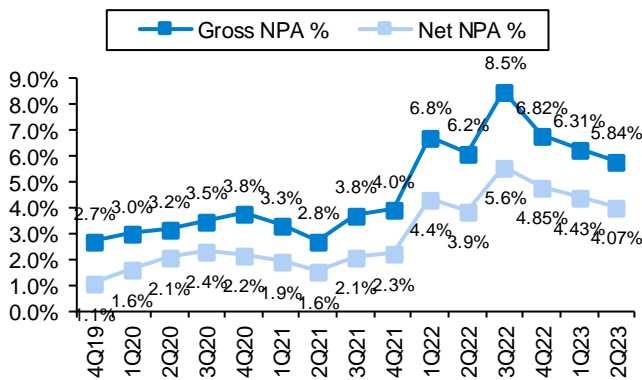
Source: Company, PL

Exhibit 7: Opex sequentially rises on QoQ basis due to new businesses; cost to income rise on higher opex



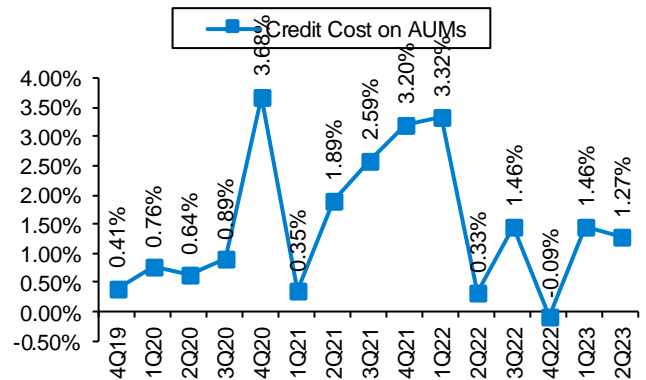
Source: Company, PL

Exhibit 8: GNPA, NPA both reduce on better collections



Source: Company, PL

Exhibit 9: Credit costs see QoQ fall



Source: Company, PL

**Exhibit 10: No change in estimates, TP maintained at Rs 792, maintain BUY rating**

Rs mn	Old			Revised			% Change		
	FY22E	FY23E	FY25E	FY22E	FY23E	FY25E	FY22E	FY23E	FY25E
Net Interest Income	64,972	73,978	80,919	64,972	73,978	80,919	0.0%	0.0%	0.0%
Operating Profit	41,931	48,649	53,811	41,931	48,649	53,811	0.0%	0.0%	0.0%
Net Profit	26,686	30,954	34,389	26,686	30,954	34,389	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
EPS (Rs)	32.5	37.7	41.9	32.5	37.7	41.9	0.0%	0.0%	0.0%
ABVPS (Rs)	150.5	188.0	218.0	150.5	188.0	218.0	0.0%	0.0%	0.0%
<b>Price Target (Rs)</b>		<b>792</b>			<b>792</b>				
<b>Reco</b>		<b>BUY</b>			<b>BUY</b>				

Source: PL

**Exhibit 11: Maintain BUY rating, fair value multiple at 4.2x PABV SEP'24E**

PT calculation and upside	
Fair price – EVA	739
Fair price - P/ABV	846
<b>Average of the two</b>	<b>792</b>
<b>Target P/ABV</b>	<b>4.2</b>
<b>Target P/E</b>	<b>22.6</b>
Current price, Rs	745
<b>Upside (%)</b>	<b>6%</b>
Dividend yield (%)	0.3%
<b>Total return (%)</b>	<b>7%</b>

Source: Company, PL



**Income Statement (Rs. m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	1,00,483	1,20,336	1,40,914	1,59,309
Interest Expenses	42,988	55,364	66,937	78,390
<b>Net interest income</b>	<b>57,495</b>	<b>64,972</b>	<b>73,978</b>	<b>80,919</b>
Growth(%)	16.4	13.0	13.9	9.4
Non-interest income	904	1,627	2,929	5,272
Growth(%)	2,404.2	80.0	80.0	80.0
Net operating income	58,399	66,600	76,907	86,191
<b>Expenditures</b>				
Employees	8,945	10,734	12,345	14,196
Other Expenses	10,768	12,922	14,860	17,089
Depreciation	974	1,012	1,053	1,095
Operating Expenses	19,714	23,656	27,205	31,285
<b>PPP</b>	<b>37,712</b>	<b>41,931</b>	<b>48,649</b>	<b>53,811</b>
Growth(%)	12.2	11.2	16.0	10.6
Provisions	8,803	6,269	7,283	7,854
<b>Profit Before Tax</b>	<b>28,909</b>	<b>35,662</b>	<b>41,366</b>	<b>45,957</b>
Tax	7,442	8,976	10,412	11,567
Effective Tax rate(%)	25.7	25.2	25.2	25.2
<b>PAT</b>	<b>21,466</b>	<b>26,686</b>	<b>30,954</b>	<b>34,389</b>
Growth(%)	41.7	24.3	16.0	11.1

**Balance Sheet (Rs. m)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Source of funds</b>				
Equity	1,643	1,643	1,643	1,643
Reserves and Surplus	1,15,434	1,40,543	1,69,920	2,04,309
Networth	1,17,077	1,42,186	1,71,563	2,05,952
Growth (%)	22.5	21.4	20.7	20.0
Loan funds	6,91,735	7,88,073	8,80,940	9,74,691
Growth (%)	8.5	13.9	11.8	10.6
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	14,821	19,404	22,840	67,793
<b>Total Liabilities</b>	<b>8,23,633</b>	<b>9,49,663</b>	<b>10,74,065</b>	<b>12,47,159</b>
<b>Application of funds</b>				
Net fixed assets	2,916	4,748	5,935	7,419
Advances	7,41,492	8,52,716	9,80,623	11,27,717
Growth (%)	12.6	15.0	15.0	15.0
Investments	20,762	23,876	27,457	31,576
Current Assets	46,690	60,243	48,801	65,870
<b>Net current assets</b>	<b>46,690</b>	<b>60,243</b>	<b>48,801</b>	<b>65,870</b>
Other Assets	11,774	8,079	11,249	14,577
<b>Total Assets</b>	<b>8,23,633</b>	<b>9,49,663</b>	<b>10,74,066</b>	<b>12,47,160</b>
Growth (%)	10.5	15.3	13.1	16.1
<b>Business Mix</b>				
AUM	7,62,956	9,23,177	11,44,740	13,96,583
Growth (%)	9.0	21.0	24.0	22.0
On Balance Sheet	6,37,857	7,77,190	9,98,752	1
% of AUM	83.60	84.19	87.25	-
Off Balance Sheet	1,25,099	1,45,987	1,45,987	13,96,581
% of AUM	16.40	15.81	12.75	100.00

**Profitability & Capital (%)**

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	7.3	7.1	6.8	7.0
ROAA	2.7	2.9	2.9	2.7
ROAE	20.2	20.6	19.7	19.4

Source: Company Data, PL Research

**Quarterly Financials (Rs. m)**

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Int. Inc. / Operating Inc.	25,301	25,803	27,451	29,880
Income from securitization	-	-	-	-
Interest Expenses	10,460	10,712	11,309	13,404
<b>Net Interest Income</b>	<b>14,841</b>	<b>15,092</b>	<b>16,142</b>	<b>16,476</b>
Growth (%)	8.8	12.5	18.4	18.3
Non-Interest Income	172	514	258	498
<b>Net Operating Income</b>	<b>15,012</b>	<b>15,606</b>	<b>16,401</b>	<b>16,974</b>
Growth (%)	10.0	11.7	19.3	21.9
Operating expenditure	5,317	6,486	5,797	6,611
<b>PPP</b>	<b>9,696</b>	<b>9,120</b>	<b>10,604</b>	<b>10,362</b>
Growth (%)	(3.9)	10.8	12.8	21.2
Provision	2,653	(174)	2,986	2,782
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	7,043	9,294	7,617	7,581
Tax	1,805	2,398	1,961	1,947
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	25.6	25.8	25.7	25.7
<b>PAT</b>	<b>5,238</b>	<b>6,896</b>	<b>5,657</b>	<b>5,634</b>
Growth	28	184	73	(7)
AUM	7,27,240	7,69,070	8,19,250	8,76,680
YoY growth (%)	5.8	9.9	20.8	25.2
Borrowing	6,58,060	6,91,735	-	-
YoY growth (%)	6.1	8.5	-	-

**Key Ratios**

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	745	745	745	745
EPS (Rs)	26.2	32.5	37.7	41.9
Book value (Rs)	142.5	173.1	208.9	243.0
Adj. BV(Rs)	118.2	150.5	188.0	218.0
P/E(x)	28.5	22.9	19.8	17.8
P/BV(x)	5.2	4.3	3.6	3.1
P/ABV(x)	6.3	4.9	4.0	3.4
DPS (Rs)	8.0	8.0	8.0	574.0
Dividend Payout Ratio(%)	7.3	5.9	5.1	-
Dividend Yield(%)	1.1	1.1	1.1	77.1

**Asset Quality**

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	39,977	37,142	37,150	39,217
Net NPA(Rs m)	19,989	18,571	18,575	19,608
Gross NPAs to Gross Adv.(%)	6.8	4.0	3.2	-
Net NPAs to net Adv.(%)	4.9	2.4	1.9	1.9
NPA coverage(%)	50.0	50.0	50.0	50.0

**Du-Pont as a % of AUM**

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	7.5	7.0	6.5	5.8
NII INCL. Securitization	7.6	7.2	6.6	5.8
Total income	7.8	7.3	6.8	6.2
Operating Expenses	2.7	2.7	2.5	2.3
PPOP	5.1	4.7	4.4	3.9
Total Provisions	1.2	0.7	0.6	0.6
RoAA	2.7	2.9	2.9	2.7
Avg. Assets/Avg. net worth	13.9	14.0	13.7	13.5
RoAE	20.2	20.6	19.7	19.4

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	792	736
2	02-Aug-22	BUY	792	734
3	07-Jul-22	BUY	743	644
4	08-May-22	BUY	743	637
5	12-Apr-22	Accumulate	743	744
6	02-Feb-22	BUY	742	639
7	11-Jan-22	BUY	721	562

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	8,953	7,432
2	Cholamandalam Investment and Finance Company	BUY	792	736
3	L&T Finance Holdings	BUY	88	80
4	Mahindra & Mahindra Financial Services	Hold	200	201
5	Manappuram Finance	BUY	126	99
6	Muthoot Finance	BUY	1,431	1,042
7	SBI Cards and Payment Services	Accumulate	1,013	858
8	Shriram Transport Finance	BUY	1,521	1,198

## PL's Recommendation Nomenclature (Absolute Performance)

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





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