

Cholamandalam Investment & Finance

BUY

A mostly good show

2QFY20 saw disbursements dip QoQ (albeit up ~7% YoY), resilient AUM growth (~24%) and slight NIM expansion at CIFIC. The bump-up in opex and GS-III were disappointing but excusable. Maintain BUY. Our TP is Rs 404 at 3.5x Sept-21E ABV.

HIGHLIGHTS OF THE QUARTER

- AUM growth slowed** to ~24/3% YoY/QoQ but was contextually impressive, given the sectoral headwinds. CIFIC's wholesale liability franchise and diversification across asset segments (and geographies) helped. While VF growth slowed to ~24/2%, growth in HE AUMs (+17/4%) sustained/ supported. We've built an AUM CAGR of ~16% over FY20-22E.
- Asset quality deteriorated slightly**, as GNPA's increased ~9% QoQ to ~Rs 16.5bn (~2.8%), led by VF GNPA's, which increased ~23/24bps YoY/QoQ to 2.26%. This increase is excusable and not too alarming. HCVs contributed disproportionately to VF GNPA's. HE GNPA's fell ~15bps QoQ to 4.03% (-57bps YoY). A conscious focus on smaller ticket loans over the past two years and recoveries under SARFAESI continue to aid this improvement. We have slightly increased overall GNPA

FINANCIAL SUMMARY

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY20E	FY21E	FY22E
Net Interest Income	10,200	8,185	24.6	9,424.8	8.2	29,765	35,960	42,902	49,191
PPOP	6,185	5,285	17.0	5,925	4.4	21,344	25,170	30,108	34,283
PAT (incl. OCI)	2,871	3,074	(6.6)	3,065	(6.3)	11,862	14,559	18,639	21,196
EPS (Rs)	3.7	3.9	(6.6)	3.9	(6.3)	15.2	18.6	23.8	27.1
ROAE (%)						21.1	21.3	22.4	21.0
ROAA (%)						2.34	2.34	2.57	2.54
Adj. BVPS (Rs)						72.0	83.4	103.0	127.7
P/ABV (x)						4.17	3.60	2.91	2.35
P/E (x)						19.7	16.1	12.6	11.1

Source: Company, HDFC sec Inst Research

estimates to ~2.9% by FY22E.

- Overall NIMs improved** ~20bps QoQ to 6.7% (albeit ~20bps lower YoY), as yields increased ~10/40bps to 14.4% while CoF (interestingly) inched up ~30/20bps to 7.7%. The QoQ yield increase is possibly due to the rising proportion of higher yielding loans. The higher CoF owes to changes in the funding mix. With a significant proportion of floating rate bank loans (49%) and a largely fixed rate VF book (74%), NIMs will inevitably improve. We expect (calc.) NIMs of 6.2% over FY20-22E.

STANCE

2QFY20 is mostly in line with our positive thesis on CIFIC. Diversification across segments/geographies and better access to funds (via parentage and strong credit practices) is enabling it to withstand sectoral headwinds. Even though VF GNPA's have risen, they remain best in class and nowhere near alarming. While we have increased our opex estimates, in view of the faster opex growth over the past few qtrs, current efficiency levels are acceptable. The leadership clarity is welcome. CIFIC remains our top-pick amongst asset financiers.

INDUSTRY	NBFCs
CMP (as on 06 Nov 2019)	Rs 300
Target Price	Rs 404
Nifty	11,966
Sensex	40,470

KEY STOCK DATA	
Bloomberg	CIFIC IN
No. of Shares (mn)	782
MCap (Rsbn) / (\$ mn)	236/ 3,329
6m avg traded value (Rsmn)	433

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 325/218		
	3M	6M	12M
Absolute (%)	12.7	16.9	17.2
Relative (%)	3.3	12.0	1.5

SHAREHOLDING PATTERN (%)		
	June-19	Sept-19
Promoters	52.9	52.9
FIs & Local MFs	18.5	18.4
FPIs	18.9	18.0
Public & Others	9.6	10.7
Pledged Shares	Nil	Nil

Source : BSE

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- **Disbursals Dip QoQ:** Disbursals fell ~14% QoQ (+7% YoY), with a 17% fall in VF disbursals (+3% YoY) while HE disbursals provided some support (-3% QoQ/ +17% YoY). The fall in VF disbursals, was led by a ~48/16% fall in the HCV segment (8% of disbursals). Newer segments, such as used CVs (incl. refinance) (+20% YoY/ -10% QoQ), cars and 3-wheelers (+15% YoY/ -20% QoQ) and 2-wheelers (2xYoY on a small base) sustained YoY growth. Growth in newer segments and geographies is supporting disbursal momentum and resulting in market share gains.
- **Sharp Increase In Term Borrowing:** While overall borrowings were flat QoQ (+19% YoY), bank term loans increased ~49/16% to form ~49% of borrowings and NCDs (~14% of borrowings, -300bps QoQ) dipped ~36/17%. The trend of increasing reliance on bank vs. market borrowings continued. This may have contributed to the QoQ increase in CoF (+20bps QoQ). MCLR cuts should limit future increases as a significant chunk of bank borrowings are eligible for re-pricing in 2HFY20.
- **Management Assures On Liquidity Position:** The latest disclosures suggest a sharp tightening of CIFC's ALM profile. While the co maintained liquidity surpluses across buckets up to 1 year, they have reduced sharply over 2QFY20. CIFC reported cumulative positive gaps of ~Rs 61mn (~Rs 1.93bn), ~Rs 69mn (~Rs 2.4bn) and ~Rs 90mn (~Rs 2.8bn) up to 1M, 2M and 3M respectively (figures in brackets are as per 1QFY20). However, ~Rs 70bn of undrawn bank lines (from large PSBs), are not included in the above computation should lay to rest any concerns on liquidity.
- **Sharp Rise In Opex:** 2QFY20 saw a sharp increase in operating expenses (+38/15%), led by a ~47/12% increase in other opex while staff costs increased ~28/18%. Management attributed the bump up in costs to wage hikes (effective Jul-19) and higher IT spends. Interestingly, FY19 employee costs do not exhibit this trend, while prior periods do. Faster opex growth over the trailing five quarters may be a consequence of disbursals tilting towards smaller ticket sizes. We have increased our opex growth estimates and model a C-I ratio of 38% over FY20-22E as higher opex may well sustain.
- **Provisions Fall QoQ:** Overall provisions dipped ~13% QoQ to ~Rs 952mn (+38% YoY) i.e. 65 bps ann. While VF provisions dipped ~8% QoQ to ~Rs 940mn (+39% YoY), the HE segment saw write-backs of ~Rs 60mn. We model LLPs of 70bps over FY20-22E.
- **Fund-Raise In Store:** While current capital levels (CRAR at 17.1% and Tier 1 at ~12.9%) do not necessitate an immediate fund-raise, it would be prudent for CIFC to raise equity capital in the medium term. Commentary suggests ongoing board-level talks in this regard. This move will obviously be book-accretive, but we have not built it into our estimates.

Five Quarters At A Glance

(Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY Growth	QoQ Growth
Net Interest Income	8,185	8,753	8,987	9,425	10,200	24.6%	8.2%
Non-interest Income	1	1	3	1	1	-50.0%	0.0%
Total Income	8,186	8,754	8,989	9,425	10,201	24.6%	8.2%
Operating expenses	2,901	3,158	3,820	3,500	4,016	38.4%	14.7%
Pre Provision Profits	5,285	5,596	5,169	5,925	6,185	17.0%	4.4%
Provisions	690	961	556	1,095	952	37.9%	-13.1%
PBT	4,595	4,635	4,614	4,830	5,233	13.9%	8.3%
Tax	1,549	1,591	1,695	1,688	2,163	39.7%	28.2%
PAT	3,047	3,044	2,919	3,142	3,070	0.8%	-2.3%
PAT (incl OCI)	3,074	3,012	2,815	3,065	2,871	-6.6%	-6.3%
Other details							
Disbursals (Rs bn)	69.0	76.4	88.9	85.7	73.8	7.0%	-13.9%
VF	56.1	62.4	72.4	69.4	57.7	2.9%	-16.9%
HE	9.1	9.5	10.3	11.0	10.6	16.9%	-3.4%
AUM (Rs bn)	477.2	503.9	542.8	574.9	592.9	24.2%	3.1%
VF	355.1	374.9	405.9	429.8	439.0	23.6%	2.1%
HE	107.4	111.5	116.3	121.2	126.1	17.4%	4.1%
Borrowings (Rs bn)	470.6	472.3	505.7	551.2	559.0	18.8%	1.4%
Bank Borrowings	183.5	184.2	222.5	237.0	273.9	49.2%	15.6%
CRAR (%)	18.3	17.8	17.4	17.2	17.1	-125 bps	-7 bps
Tier I (%)	13.1	13.1	12.4	12.9	12.9	-26 bps	1 bps
Profitability							
Yield On Advances (%)	14.30	14.20	14.30	14.00	14.40	10 bps	40 bps
Cost Of Funds (%)	7.40	7.40	7.50	7.50	7.70	30 bps	20 bps
NIM (%)	6.90	6.80	6.80	6.50	6.70	-20 bps	20 bps
Cost-Income Ratio (%)	35.4	36.1	42.5	37.1	39.4	393 bps	224 bps
Tax rate (%)	33.7	34.3	36.7	34.9	41.3	764 bps	640 bps
Asset Quality (I-GAAP)							
Gross NPA (Rs mn)	14,280	14,500	12,450	15,170	16,510	15.6%	8.8%
Net NPA (Rs mn)	7,920	7,900	6,260	8,080	9,390	18.6%	16.2%
Gross NPAs (%)	2.80	2.70	2.30	2.62	2.75	-5 bps	13 bps
Net NPAs (%)	1.60	1.50	1.10	1.40	1.60	0 bps	20 bps
Coverage Ratio (%)	44.5	45.5	49.7	46.7	43.1	-141 bps	-361 bps
Asset Quality (IND-AS)							
Gross Stage III (Rs mn)	16,230	16,480	14,390	16,710	18,030	11.1%	7.9%
Gross Stage III (%)	3.40	3.30	2.70	2.97	3.18	-22 bps	21 bps
Stage III Provisions	5,660	5,760	5,460	6,040	6,210	9.7%	2.8%
PCR (%)	34.9	35.0	37.9	36.1	34.4	-43 bps	-170 bps

Slightly ahead of estimates, led by ~24% AUM growth

Staff cost jumped 22% QoQ as branch related investments continued, other opex too

VF provisions dipped ~8% QoQ to ~Rs 940mn while HE provisions saw write-backs of ~Rs 60mn

DTA mark-down impact of ~Rs 800mn

NCDs dipped ~36/17% and bank borrowings formed ~49% of total borrowings

Commentary suggests the possibility of a fund-raise in the medium term

Yields on on-book VF AUMs increased ~40bps QoQ to ~15.4% and yields on on-book HE AUMs dipped ~30bps QoQ to 12.5%

VF GNPA's increased ~24bps QoQ to ~2.3% while HE GNPA's decreased ~15bps QoQ to ~4%

VF Stage III inched up to ~2.34% vs. 2.0% QoQ and HE Stage III to 5.8% vs. 5.55% QoQ Difference in the GNPA and GS-III movement is surprising Stage II assets at 4.68% vs. 4.4% QoQ and ~5.6% YoY

Source: HDFC sec Inst Research

No of contracts disbursed increased YoY
VF 158k vs. 120k YoY
HE 3,040 vs. 2,300 YoY

Commentary suggested improvement in retail vehicle sales and reduction in dealer inventory levels

The mgt expects VF disbursals to pick up in 2HFY20, except for the HCV segment

The share of 2-wheelers increased to ~6% of disbursals

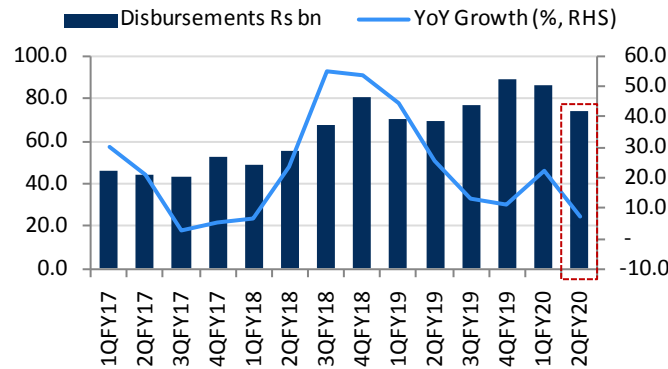
HCV disbursals were ~48/16% lower

Disbursals across VF sub-segments fell QoQ

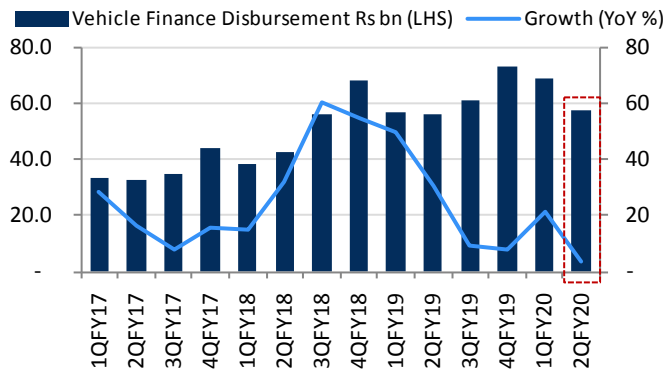
Only Used CV (+20%), Cars & 3-wheelers (+15%) and 2-wheeler disbursals (+98%) grew YoY

HE AUMs grew ~17/4%

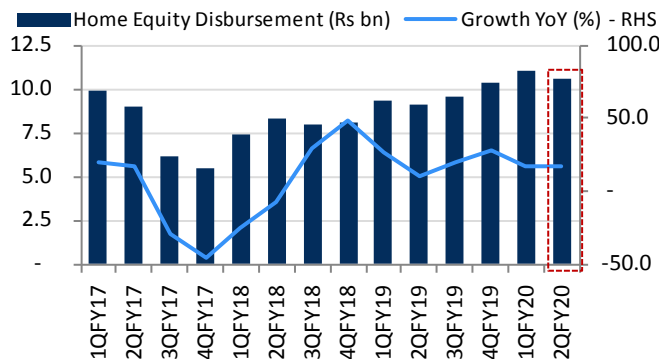
Disbursals Fall ~14% QoQ



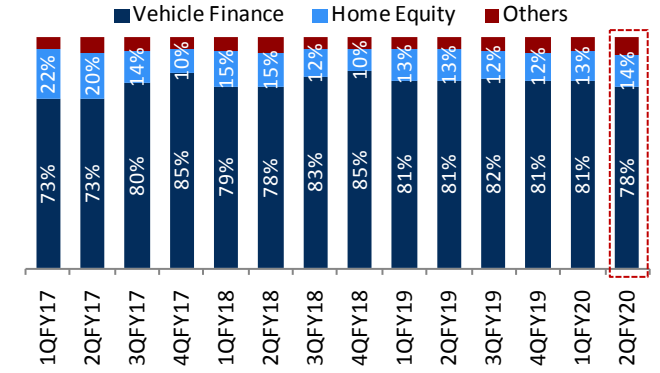
VF Disbursals: Down ~17% QoQ (Up ~3% YoY)



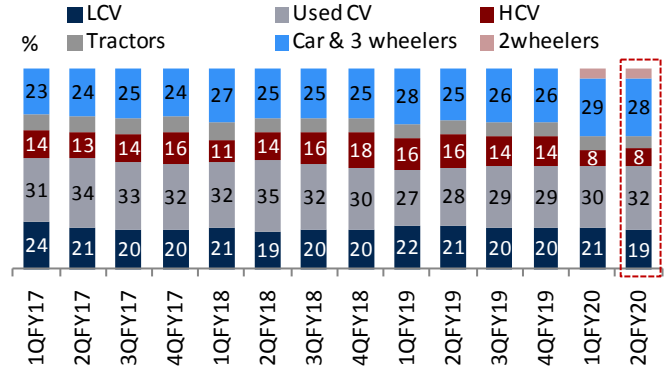
HE Disbursals: Down ~3% QoQ (Up ~17% YoY)



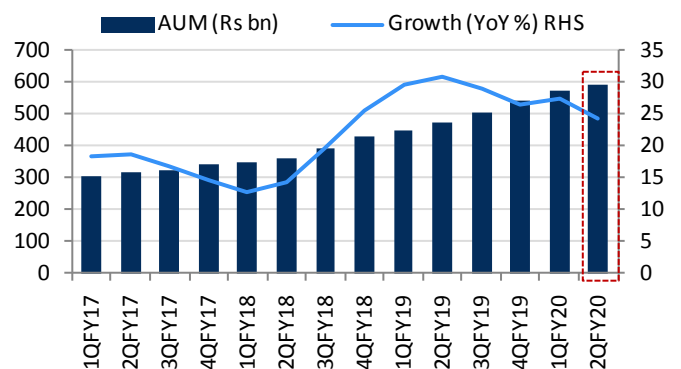
Disbursal Mix: Share Of HE And Other Segments Up



Vehicle Disbursals: Share Of Used Increases



AUM Growth: Supported By HE and Other Segments



Source : Company, HDFC sec Inst Research

The share of other loans increased ~50bps QoQ to 4.7% of AUMs

HCV loans dipped ~5% QoQ to form ~15% of VF AUMs

LCV AUMs were flat QoQ (+22% YoY)

The mgt expects LCV disbursals and AUM growth to accelerate in 2HFY20

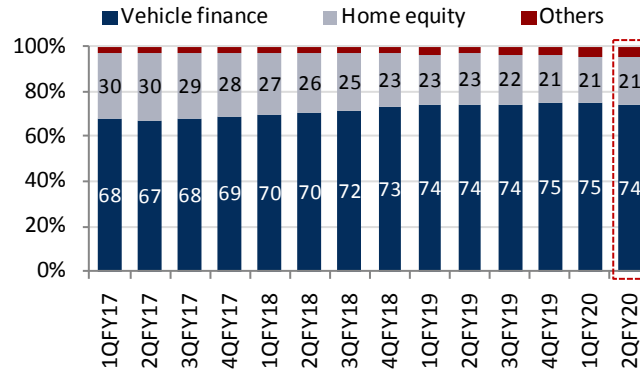
Borrowings grew ~18/1%

Bank term loans were the largest source of overall (~49%) and incremental borrowings

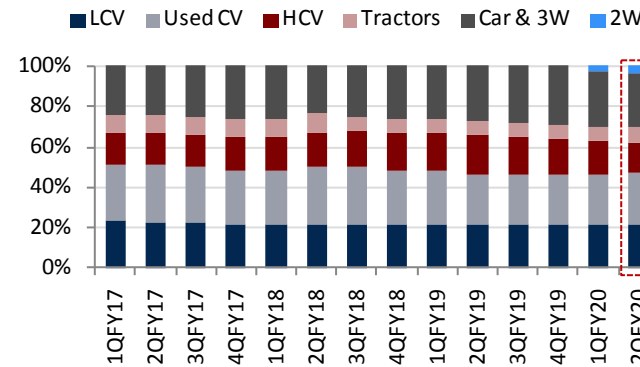
The share of bank borrowings continued to trend upwards while that of market borrowings continued to decline

CIFC had undrawn bank lines of ~Rs 70bn from 2 large PSBs, it has utilised ~Rs 20bn so far

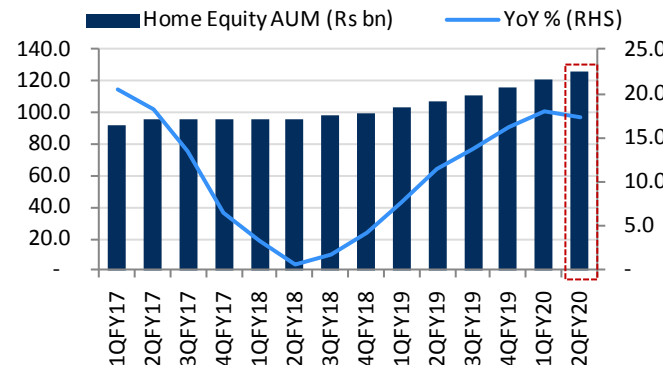
AUM Break-up: VF Dips Marginally QoQ



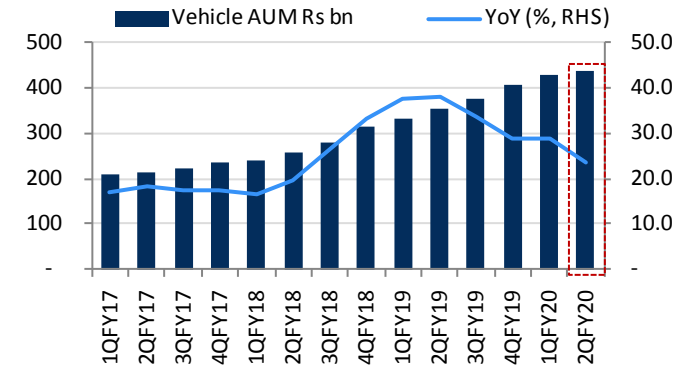
Segment-wise VF AUM Mix: HCVs Dip



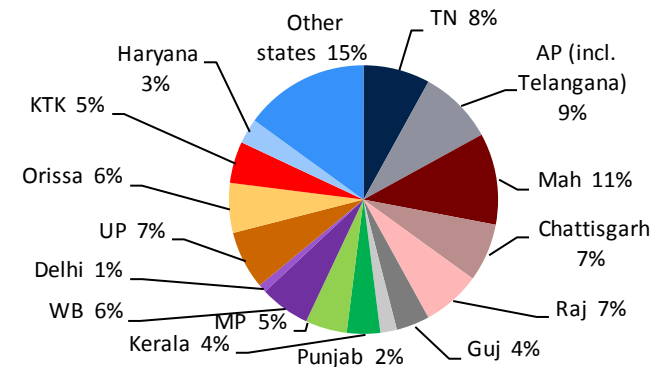
Home Equity AUM: Up ~4% Sequentially



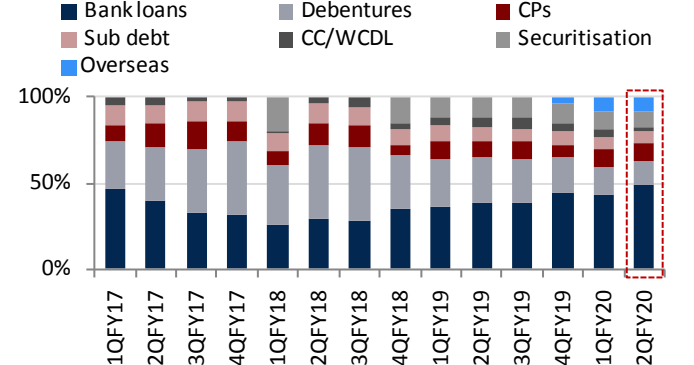
VF AUM Growth Slows To ~24/2%



State-wise VF AUM: Well-diversified



Borrowings: Share of Bank Loans Increases



Source : Company, HDFC sec Inst Research

NIMs improved ~20bps QoQ, aided by a ~40bps improvement in yields as CoF rose ~20bps QoQ

The rise in yields may be attributed to the changing loan mix and newer loans being disbursed at higher rates

The re-pricing of a substantial chunk of bank borrowings may provide relief on the margin front

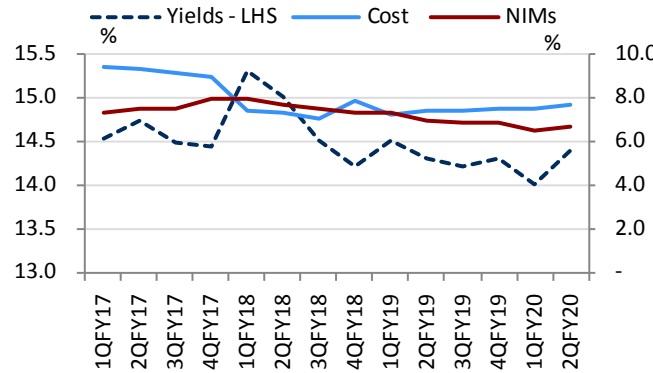
The C-I ratio increased ~390/220bps to ~39%, as opex increased ~38/15%

CIFC saw wage hikes w.e.f. Jul-19 and higher IT related spends in 2Q

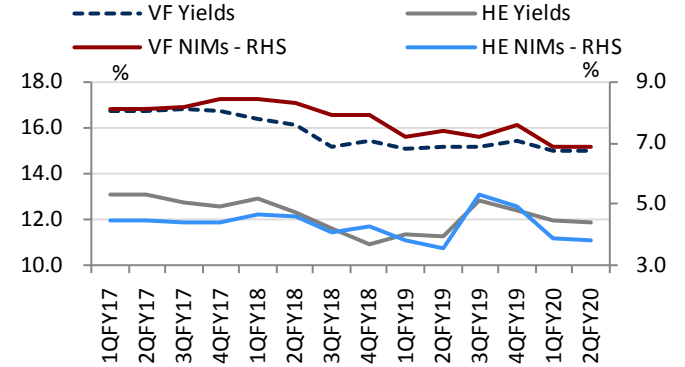
The expense ratio increased across segments

GS-III increased ~9% QoQ to ~Rs 18bn (~3.18%), led by QoQ deterioration in the VF (2.34% vs. 2% QoQ) and HE (5.8% vs. 5.55%) segment

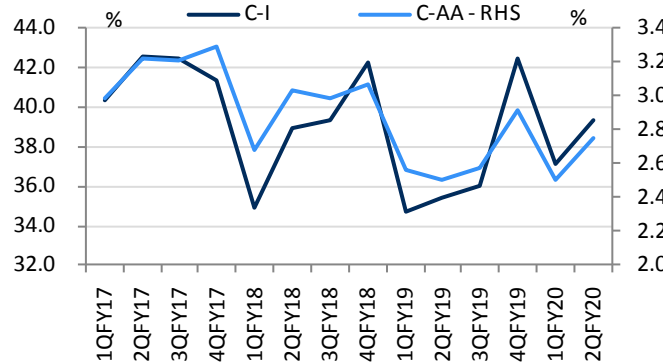
NIMs Improve QoQ



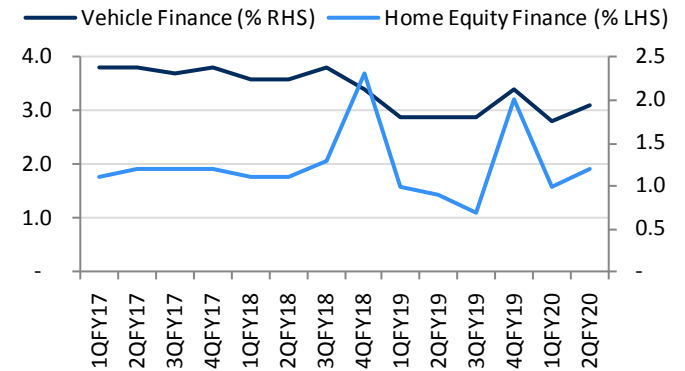
VF Yields Improve QoQ



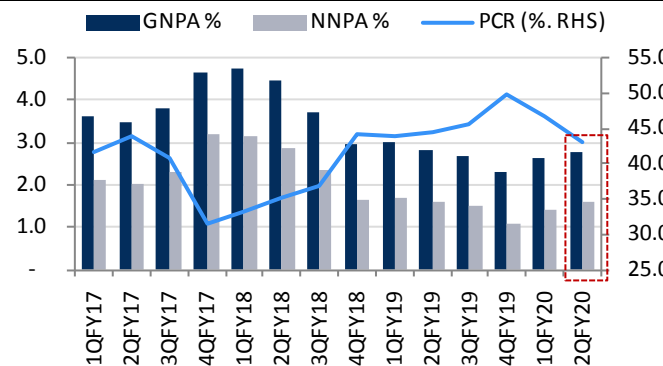
Efficiency: C-I Ratio Deteriorates QoQ



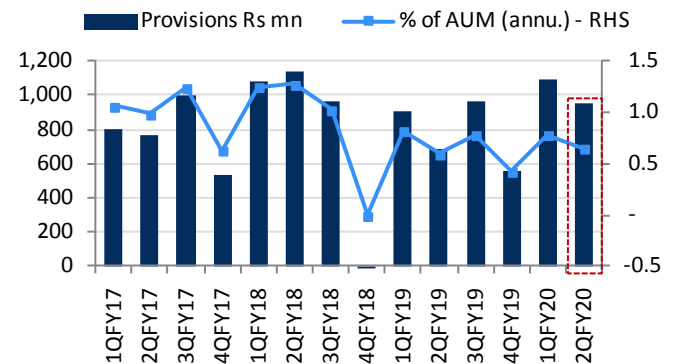
Expenses Ratio: Deterioration Across Segments



Asset Quality: Deteriorates QoQ

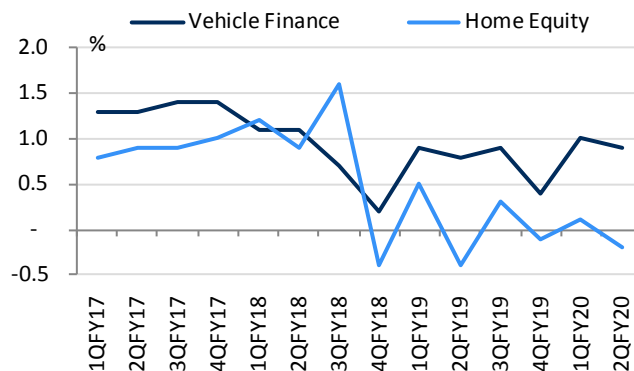


Provisions Lower QoQ



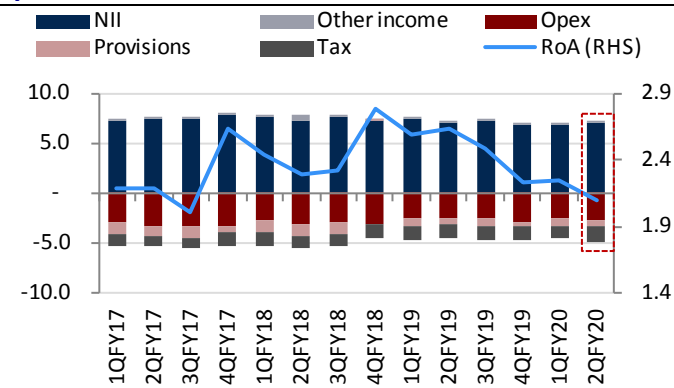
Source : Company, HDFC sec Inst Research

Segmental Provisions: HE Sees Writebacks



Source : Company, HDFC sec Inst Research

Opex And Taxes Dent RoAA



Change in Estimates

Rs mn	FY20E			FY21E		
	Old	New	Change	Old	New	Change
NII	36,046	35,960	-0.2%	42,864	42,902	0.1%
PPOP	25,848	25,170	-2.6%	30,702	30,108	-1.9%
PAT	16,109	14,559	-9.6%	19,139	18,639	-2.6%
Adj. BVPS (Rs)	86.2	83.4	-3.3%	105.7	103.0	-2.6%

Source : HDFC sec Inst Research

Peer Set Comparison

NBFC	MCAp (Rs bn)	CMP (Rs)	Rating	TP (Rs)	ABV (Rs)			P/E (x)			P/ABV (x)			ROAE (%)			ROAA (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
SHTF	258	1,139	BUY	1,524	597	776	964	8.3	7.5	6.6	1.91	1.47	1.18	18	17.2	16.8	2.76	2.71	2.72
CIFC	236	300	BUY	404	83	103	128	16.1	12.6	11.1	3.59	2.91	2.35	21.3	22.4	21	2.34	2.57	2.54
LICHF	215	425	NEU	457	289	336	395	8.2	7.3	6.5	1.47	1.27	1.08	15.1	14.9	14.9	1.22	1.2	1.19
MMFS #	212	344	BUY	417	141	163	192	14.5	11.6	10.1	2.32	2.00	1.70	12.1	13.8	14.3	1.94	2.17	2.23
REPCO	19	297	BUY	419	247	296	355	6.5	5.6	4.9	1.20	1.00	0.84	17.3	16.9	16.7	2.43	2.44	2.48
INDOSTAR	18	198	BUY	524	281	349	425	5.1	3.4	2.5	0.70	0.57	0.47	11.2	14.9	17.1	2.54	2.84	2.87

Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Interest Earned	52,358	65,653	80,906	94,322	107,472
Interest Expended	26,593	35,887	44,946	51,420	58,281
Net Interest Income	25,765	29,765	35,960	42,902	49,191
Other Income	2,439	4,274	4,867	5,288	5,756
Total Income	28,203	34,039	40,827	48,190	54,947
Total Operating Exp	11,153	12,696	15,657	18,082	20,664
PPOP	17,051	21,344	25,170	30,108	34,283
Provisions & Contingencies	3,037	3,112	4,370	5,199	5,957
PBT	14,014	18,232	20,799	24,908	28,326
Provision for Tax	4,828	6,370	6,240	6,269	7,130
PAT	9,186	11,862	14,559	18,639	21,196

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	1,564	1,564	1,564	1,564	1,564
Reserves	49,417	60,193	73,268	90,005	109,093
Net worth	50,981	61,757	74,832	91,569	110,658
Borrowings	384,999	507,743	595,235	682,286	774,738
Other Liabilities	4,920	4,760	2,027	5,847	2,903
Total liabilities	440,900	574,260	672,095	779,703	888,298
APPLICATION OF FUNDS					
Advances	422,530	526,220	615,981	707,964	806,062
Investments	730	730	803	899	1,034
Fixed assets	1,650	1,760	1,936	2,130	2,449
Other Assets	15,990	45,550	53,375	68,710	78,753
Total assets	440,900	574,260	672,095	779,703	888,298

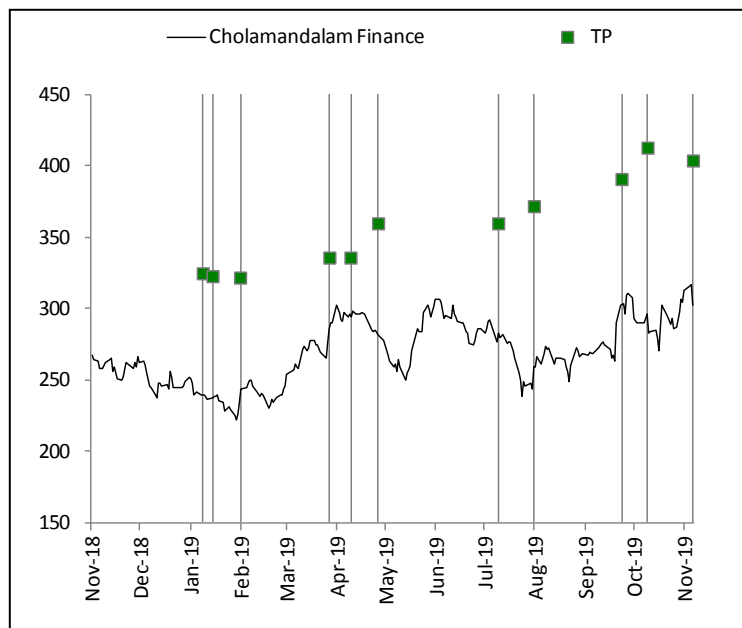
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratios					
EPS (Rs)	11.8	15.2	18.6	23.8	27.1
Earnings Growth (%)	27.8	28.7	22.3	28.0	13.7
BVPS (Rs)	65.2	79.0	95.7	117.1	141.5
Adj. BVPS (Rs)	56.6	72.0	83.4	103.0	127.7
DPS (Rs)	1.3	1.3	1.6	2.0	2.3
ROAA (%)	2.47	2.34	2.34	2.57	2.54
ROAE (%)	19.6	21.1	21.3	22.4	21.0
P/E (x)	25.0	19.4	15.8	12.4	10.9
P/ABV (x)	5.2	4.1	3.5	2.9	2.3
P/PPOP (x)	13.5	10.8	9.2	7.7	6.7
Dividend Yield (%)	0.4	0.4	0.5	0.7	0.8
Profitability					
Yield On Advances (%)	13.59	13.51	13.70	13.75	13.70
Cost Of Funds (%)	8.51	8.08	8.15	8.05	8.00
Core Spread (%)	5.08	5.44	5.55	5.70	5.70
NIM (%)	6.69	6.13	6.09	6.25	6.27
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	2.9	2.61	2.65	2.64	2.63
Cost-Income Ratio	39.5	37.3	38.4	37.5	37.6
Balance Sheet Structure Ratios					
Loan Growth (%)	25.5	26.6	17.6	14.9	13.9
Borrowing Growth (%)	59.0	31.9	17.2	14.6	13.6
Equity/Assets (%)	11.6	10.8	11.1	11.7	12.5
Equity/Loans (%)	11.9	11.4	11.7	12.5	13.2
Total Capital Adequacy Ratio (CAR)	18.4	17.6	17.5	17.5	17.4
Tier I CAR	13.2	12.6	12.8	13.0	13.1

	FY18	FY19	FY20E	FY21E	FY22E
Asset Quality					
Gross NPLs (Rs mn)	12,569.3	11,661.3	17,641.8	21,511.5	24,091.8
Net NPLs (Rs mn)	6,715.7	5,466.2	9,615.2	11,037.9	10,767.9
Gross NPLs (%)	2.94	2.30	2.76	2.93	2.88
Net NPLs (%)	1.57	1.01	1.51	1.50	1.29
Coverage Ratio (%)	46.7	56.2	45.5	48.7	55.3
Provision/Avg. Loans (%)	0.71	0.57	0.68	0.71	0.71
RoAA Tree					
Net Interest Income	6.89%	5.86%	5.77%	5.91%	5.90%
Non-interest Income	0.65%	0.84%	0.78%	0.73%	0.69%
Operating Cost	2.98%	2.50%	2.51%	2.49%	2.48%
Provisions	0.81%	0.61%	0.70%	0.72%	0.71%
Tax	1.29%	1.25%	1.00%	0.86%	0.85%
ROAA	2.46%	2.34%	2.34%	2.57%	2.54%
Leverage (x)	7.95	9.00	9.12	8.72	8.25
ROAE	19.52%	21.04%	21.32%	22.40%	20.96%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
8-Jan-19	240	BUY	325
15-Jan-19	238	BUY	323
31-Jan-19	234	BUY	322
28-Mar-19	286	BUY	336
9-Apr-19	294	BUY	336
30-Apr-19	282	BUY	360
9-Jul-19	276	BUY	360
31-Jul-19	259	BUY	372
22-Sep-19	291	BUY	391
9-Oct-19	295	BUY	413
7-Nov-19	300	BUY	404

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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