

Cholamandalam Investment & Finance

BUY

INDUSTRY	NBFCs
CMP (as on 31 Jan 2019)	Rs 1,172
Target Price	Rs 1,611
Nifty	10,831
Sensex	36,257

KEY STOCK DATA	
Bloomberg	CIFC IN
No. of Shares (mn)	156
MCap (Rsbn) / (\$ mn)	183/ 2,575
6m avg traded value (Rsmn)	459

STOCK PERFORMANCE (%)			
52 Week high / low	Rs 1,761/1,038		
	3M	6M	12M
Absolute (%)	(7.7)	(18.1)	(8.8)
Relative (%)	(13.0)	(14.5)	(9.7)

SHAREHOLDING PATTERN (%)	
Promoters	53.06
FIs & Local MFs	16.84
FPIs	19.35
Public & Others	10.75

Source : BSE

Good show in tough times

CIFC's 3Q performance is commendable, given the adversities faced by NBFCs in the qtr. Healthy growth, led by an uptick in disbursements and a tight leash on asset quality are the key highlights. VF disbursements were sequentially higher (even as OEM sales were muted) and asset quality improved further. Pre-tax RoA at ~3.4% was lower due to NIM compression and higher provisions.

Sequentially, HE disbursements and AUMs grew ~19% and 14% (highest in 8 qtrs as expected) respectively. Margins improved and resolutions drove provision reversals.

Atypical to the sector, CIFC is diversified across products and geographies; a virtue which we believe has enabled it to navigate the NBFC crisis with relative ease. The quarter's performance fortifies our belief in the mgt quality, growth prospects, asset quality and thus return ratios. Maintain BUY with TP of Rs 1,611 (3.25xDec-20E ABV of Rs 496).

FINANCIAL SUMMARY

(Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E	FY21E
Net Interest Income	8,746	7,164	22.1	8106.9	7.9	19,720	24,678	27,648	31,989	37,373
PPOP	5,588	4,345	28.6	5,207	7.3	14,162	18,284	21,795	25,437	30,141
PAT	3,012	2,332	29.2	3,074	(2.0)	7,187	9,741	11,692	14,064	16,696
EPS (Rs)	19.3	14.9	29.1	19.7	(2.0)	46.0	62.3	74.8	89.9	106.8
ROAE (%)						18.0	20.6	20.6	20.7	20.5
ROAA (%)						2.45	2.77	2.50	2.40	2.45
Adj. BVPS (Rs)						209.7	287.5	353.1	431.3	517.1
P/ABV (x)						5.58	4.07	3.31	2.71	2.26
P/E (x)						25.5	18.8	15.7	13.0	11.0

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Asset quality was stable as gross stage III stood at ~Rs 16.4bn i.e. 3.3% (vs. 3.4% QoQ) with a stark improvement across segments. The VF NPAs dipped further to 1.95% (best amongst peers) and HE NPAs reduced gradually (4.47% vs. 4.6% QoQ). Continued improvement in early delinquencies in the VF business and resolutions (HE book) augur well for asset quality. Our overall provisions cost stands at 68bps over FY18-21E, provide an upside risk.
- AUMs jumped ~29% YoY driven by ~34% growth in VF AUMs (74.4% of AUM). HE AUM growth improved to ~14/4% YoY/QoQ (vs. sub-11% in 2Q). The growth in other loans (+40/13%) sustained (albeit on a smaller base). We expect healthy growth in the VF business and an uptick in the HE AUM to drive AUM CAGR of 19% over FY19-21E.
- Near-term outlook: Healthy business momentum and asset quality performance should keep stock in limelight.

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- Despite higher disbursements growth (~19% YoY) in the HE business, the inch up in repayments (5% vs. 4.5% QoQ) restricted the AUM growth to ~14%. After subdued growth over the last 2-2.5yrs, we expect an uptick in HE AUMs to be led by an expansion in the distribution network (adding 15-18 branches/qtr from the current levels of 198) and lower pre-payments. Gradual improvement in HE asset quality should follow.
- While the VF AUM growth has been impressive over 9M, the higher base of 2HFY18 compels us to maintain our disbursements growth estimates at ~18% in FY19 and ~16% over FY19-21E. Further, the revival in the HE segment and faster growth in other businesses will boost overall growth prospects. Consequently, we have factored in an AUM CAGR of 19% over FY19-21E.
- CIFC's borrowings jumped ~15% QoQ in 2Q, enabling it to maintain excess liquidity in the qtr. In 3Q, the borrowings were sequentially flat at ~Rs 468bn. After a steep rise in bank borrowings in 2Q, the overall borrowing mix was stable in 3Q with bank borrowings at ~39% and NCDs at ~24%. The mgt intends to maintain the share of CPs at ~15% of total borrowings (vs. ~10% of the borrowings in 3Q).
- Overall reported margins dipped ~70bps YoY to ~6.80% as yields fell ~30bps due to higher competition in HE and rising share of HCVs) while the CoF rose ~40bps in line with general interest rates. The higher share of low yielding HCVs and stiff competition in the HE business led to 40bps (in VF) and 40bps (in HE) drop yields. With this margins in the VF business (7.2%) dipped ~70bps YoY (-20bps QoQ) and 40bps in the HE business (3.7%, +20bps). Sequentially, NIMs dipped ~10bps even as assignment income of ~Rs 300mn was included in interest income. Adjusted for the same, the pressure on NIMs appears to be greater.
- Yield hikes over the past 6-9 months, coupled with an increase in the share of higher yielding assets (used CVs and L&MCVs) and improving yields in the HE business, will cushion NIMs here on. CoF may increase marginally on a/c of re-pricing of existing floating rate liabilities. Given the excess liquidity on the B/S and steep rise in overall rates, we have factored calc. NIMs of 5.7% over FY19-21E.
- Provision costs jumped sequentially to ~Rs 953mn (+56% QoQ) i.e. 78bps ann. led by higher provisions in the VF book (Rs 810mn; +20% QoQ) even as write backs (~Rs 40mn) in the HE book continued. While the VF asset quality has improved sequentially in 3Q, the provisions increased due to losses on repossessed vehicles. The reversals in HE provisions were due to higher resolutions (36 cases worth Rs 300mn vs. Rs 500mn in 1H). We have factored in overall provision costs at ~ 68bps over FY19-21E.

Five Quarters At A Glance

(Rs mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY Growth	QoQ Growth
Net Interest Income	7,164	8,424	6,953	8,107	8,746	22.1%	7.9%
Non-interest Income	1	2	1,233	1	1	37.5%	10.0%
Total Income	7,165	8,427	8,186	8,108	8,747	22.1%	7.9%
Operating expenses	2,820	3,779	2,816	2,901	3,158	12.0%	8.9%
Pre Provision Profits	4,345	4,647	5,370	5,207	5,588	28.6%	7.3%
Provisions	969	116	983	612	953	-1.6%	55.9%
PBT	3,376	4,532	4,388	4,595	4,635	37.3%	0.9%
Tax	1,182	1,531	1,535	1,549	1,591	34.6%	2.8%
PAT	2,194	3,001	2,852	3,047	3,044	38.7%	-0.1%
PAT (incl OCI)	2,332	2,948	3,003	3,074	3,012	29.2%	-2.0%
Other details							
Disbursals (Rs bn)	67.6	80.1	70.1	69.0	76.4	13.1%	10.8%
VF	56.1	68.2	56.7	55.4	62.4	11.3%	12.6%
HE	8.0	8.1	9.4	9.1	9.5	19.4%	4.8%
AUM (Rs bn)	390.7	428.8	451.0	477.2	503.9	29.0%	5.6%
VF	280.2	315.1	333.5	354.4	374.9	33.8%	5.8%
HE	98.0	100.0	102.8	107.3	111.5	13.7%	3.9%
Borrowings (Rs bn)	342.2	377.3	405.2	466.4	468.1	36.8%	0.4%
Bank Borrowings	78.8	131.4	149.0	183.6	182.6	131.7%	-0.6%
CRAR (%)	18.5	18.4	18.2	18.3	17.8	-67 bps	-51 bps
Tier I (%)	13.8	13.3	13.4	13.1	13.1	-71 bps	-4 bps
Profitability							
Yield On Advances (%)	14.50	15.25	14.60	14.30	14.20	-30 bps	-10 bps
Cost Of Funds (%)	7.00	8.72	7.20	7.40	7.40	40 bps	0 bps
NIM (%)	7.50	8.22	7.40	6.90	6.80	-70 bps	-10 bps
Cost-Income Ratio (%)	39.4	44.8	34.4	35.8	36.1	-325 bps	33 bps
Tax rate (%)	35.0	33.8	35.0	28.6	34.3	-67 bps	573 bps
Asset Quality (I-GAAP)							
Gross NPA (Rs mn)	14,457	12,779	13,768	13,472	13,750	-4.9%	2.1%
Net NPA (Rs mn)	9,143	7,222	7,782	7,506	7,530	-17.6%	0.3%
Gross NPAs (%)	3.70	2.94	2.99	2.80	2.70	-100 bps	-10 bps
Net NPAs (%)	2.34	1.66	1.71	1.60	1.50	-84 bps	-10 bps
Coverage Ratio (%)	36.76	43.5	43.5	44.3	45.2	848 bps	95 bps
Asset Quality (IND-AS)							
Gross Stage III (Rs mn)	16,680	14,958	16,201	16,083	16,390	-1.7%	1.9%
Gross Stage III (%)	4.30	3.50	3.60	3.40	3.30	-100 bps	-10 bps
Stage III Provisions	5,980	5,434	5,912	5,915	6,040	1.0%	2.1%
PCR (%)	35.9	36.3	36.5	36.8	36.9	100 bps	7 bps

Led by a ~29% growth in AUM while NIMs compressed ~70bps

Includes ~Rs 300mn towards assignment income recognised in the qtr

Led by VF provisions (towards repossession), even as GNPA's dipped; HE provisions reversals continued on a/c of resolutions

Driven by used CVs (+17% QoQ, flat YoY), cars and 3 wheelers (~29/13%) and tractors (11/13%) after a QoQ dip in 2Q. HCV disbursals dipped ~3/2%

After a 15% QoQ rise in 2Q, borrowings were flat, the overall mix was stable sequentially with bank borrowings at ~39% and CPs at ~10%

VF NIMs dipped ~10bps QoQ to ~7.2% while HE NIMs increased ~10bps to ~3.7%

VF GNPA's dipped further to 1.95% (best amongst peers) and HE GNPA's reduced gradually (4.47% vs. 4.6% QoQ).

Coverage increased QoQ on a/c of higher provisions

Source: HDFC sec Inst Research; Note: 3QFY18 as per IGAAP

After QoQ drop in 2Q, disbursals jumped 11% QoQ led by VF

VF disbursals jumped ~13% QoQ in spite of slower sales by OEMs

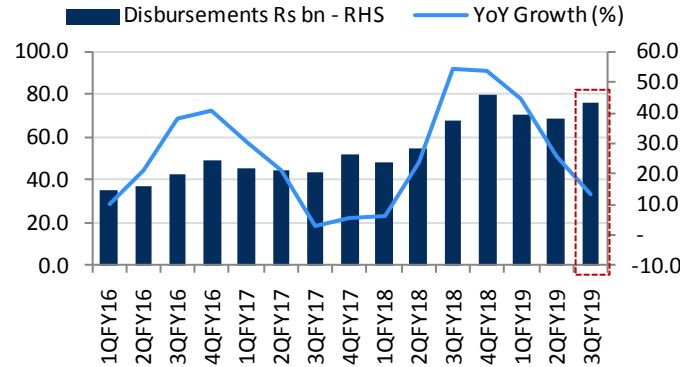
HE disbursals grew ~19/5% YoY/QoQ

The share of high yielding used CV disbursals increased QoQ to 29%

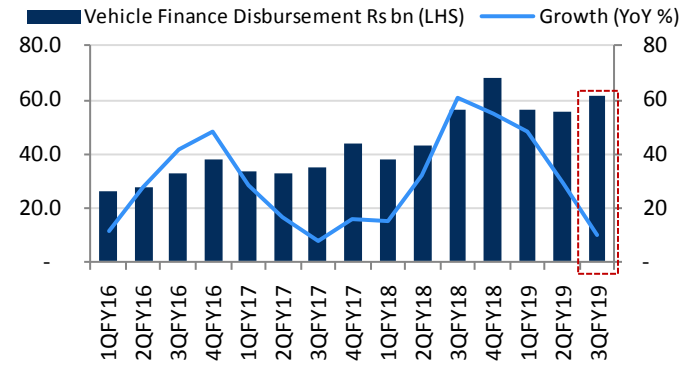
AUM growth sustained at ~29/6% YoY/ QoQ led by VF at 34/6% and Other Loans at 40/12%

HE AUMs grew 14/4% YoY/QoQ

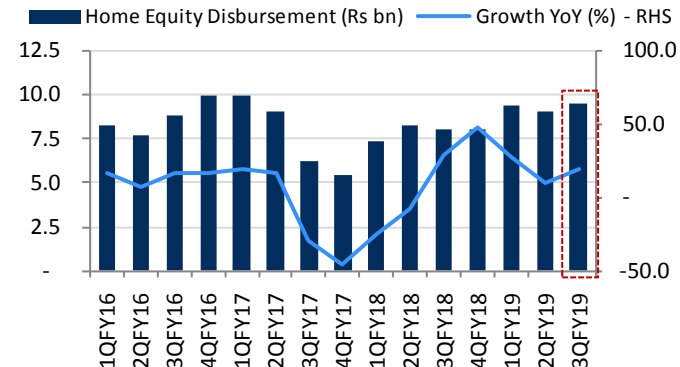
Overall Disbursals: Jump ~13/11% YoY/QoQ



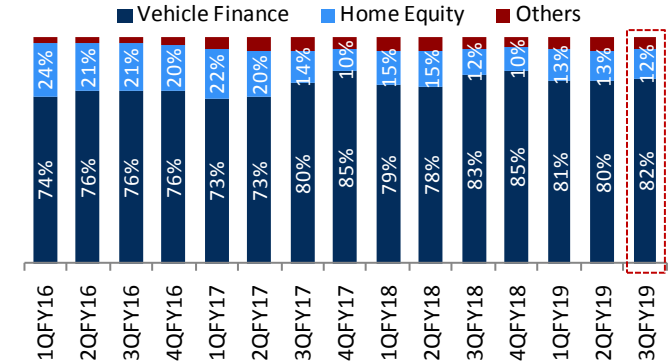
VF Disbursals: Up ~13% QoQ



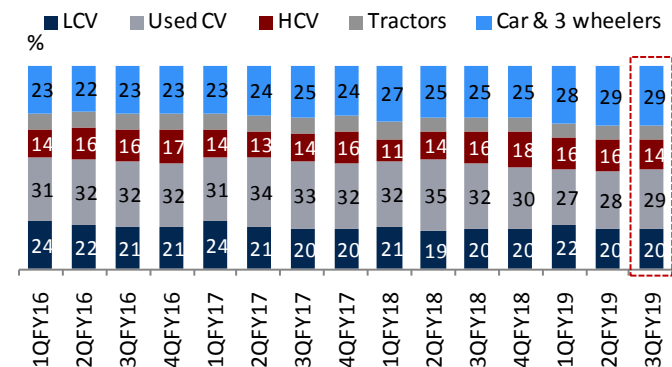
HE Disbursals: Up ~5% QoQ



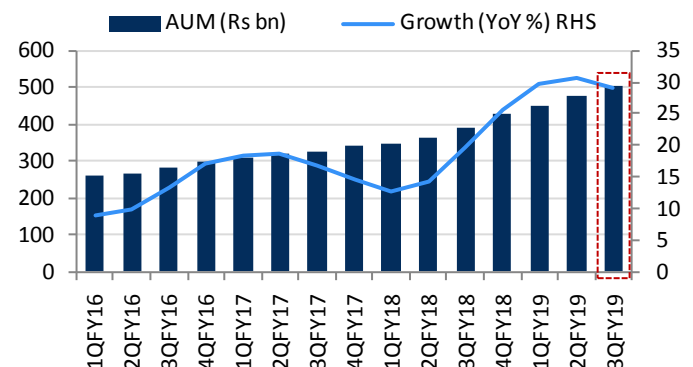
Disbursal Mix: Share of VF Inches Up To ~82%



Vehicle Disbursals: Used CV Marginally Inches Up



AUM Growth: Led By VF Segment



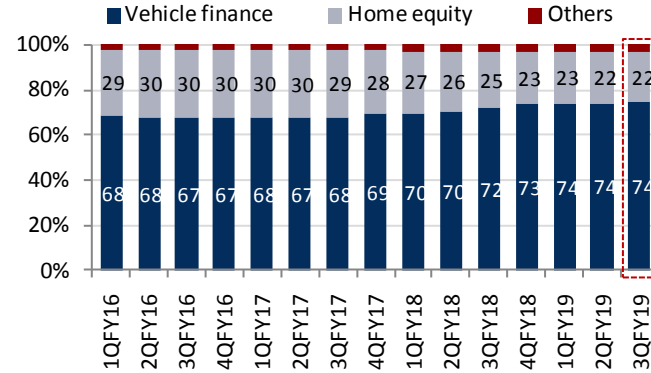
Source : Company, HDFC sec Inst Research

The AUM Mix remained stable as VF constituted ~74.4% and HE formed ~22.1%

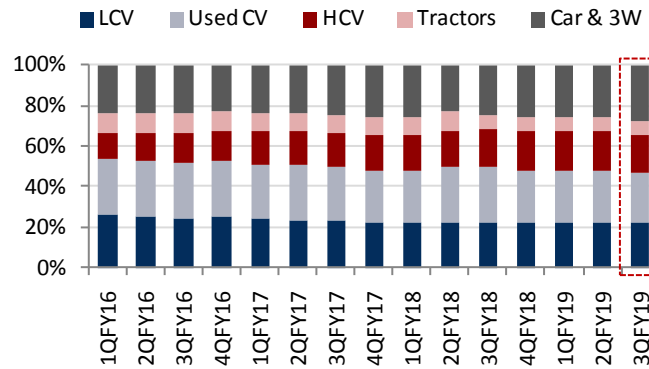
The Vehicle Finance Portfolio remained stable across products and geographies

After a 15% QoQ rise in 2Q, borrowings were flat, the overall mix was stable sequentially with bank borrowings at ~39% and CPs at ~10%

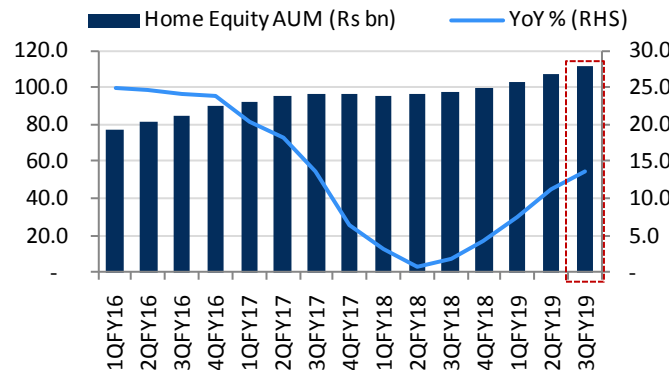
AUM Break-up: Sequentially Stable



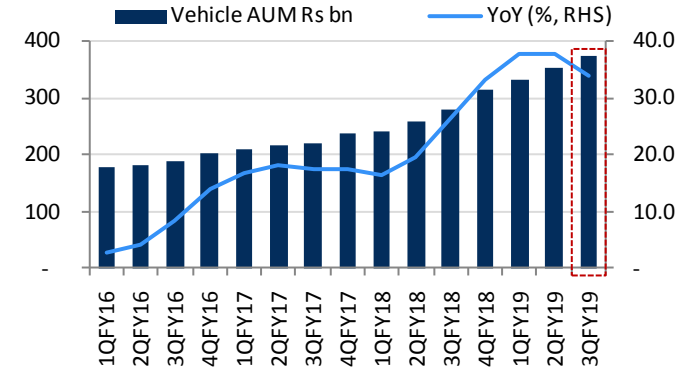
Segment-wise VF AUM: Largely Stable



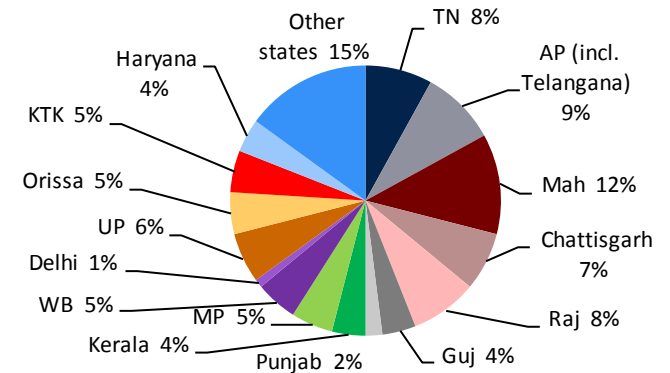
Home Equity AUM: Up ~4% Sequentially



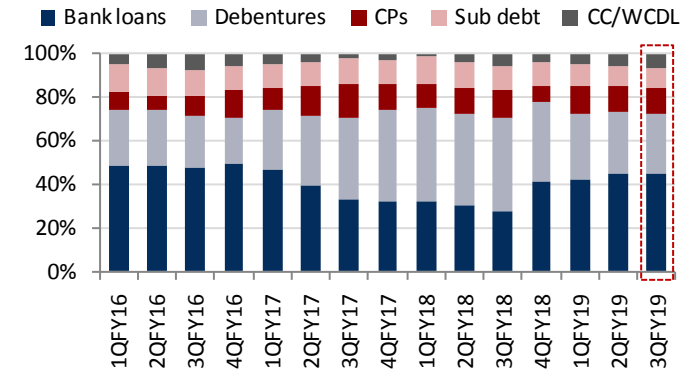
VF AUM: Growth sustained at ~34/6% YoY/QoQ



State-wise VF AUM: Well-diversified



Borrowings: Share of CC/WCDL Increases



Source : Company, HDFC sec Inst Research

NIMs continued to slide downwards to ~6.80% (-70/-10bps YoY/QoQ)

While VF margins dipped 70/20bps YoY/QoQ to 7.20% HE margins improved 10bps QoQ to 3.7% (down 40bps YoY)

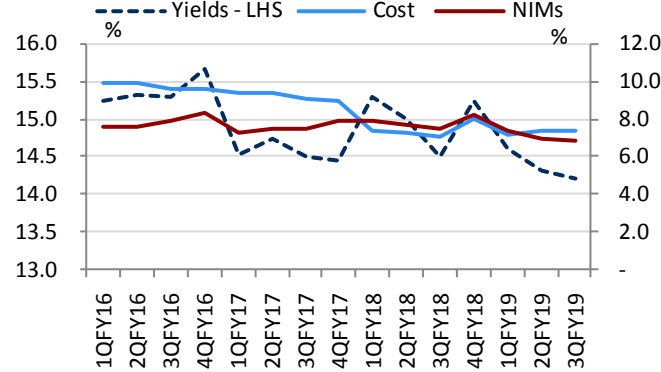
C-I Ratio rose 30bps sequentially to ~36.1% and C-AA inched up ~8bps to 2.58%

The expense ratio across segments was flat QoQ as AUM grew in line with opex

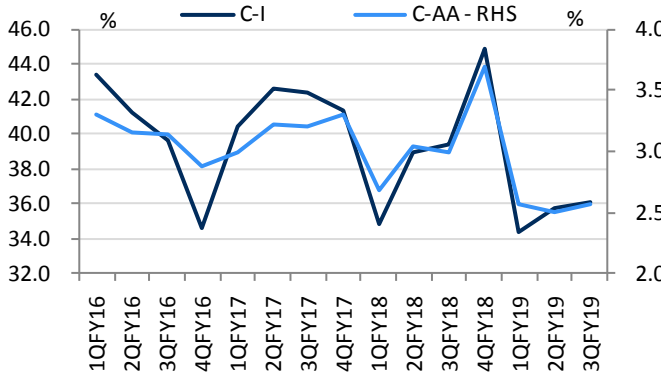
Asset quality was stable sequentially as GNPA's increased ~2% to Rs 13.75bn (2.7%) while NNPA's were flat QoQ at ~Rs 7.5 bn (1.5%)

PCR improved ~95bps to ~45.2%

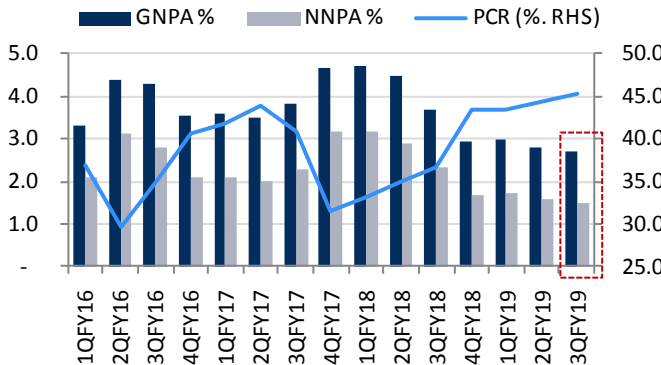
NIMs: Fall 70/10bps YoY/QoQ



Efficiency Ratio: C-I Ratio Rises QoQ

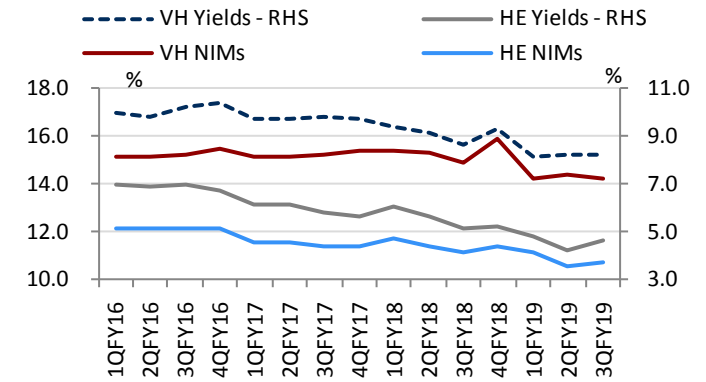


Asset Quality: Stable QoQ

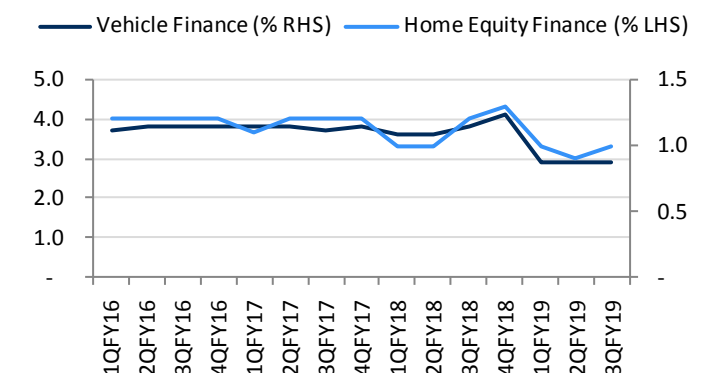


Source : Company, HDFC sec Inst Research

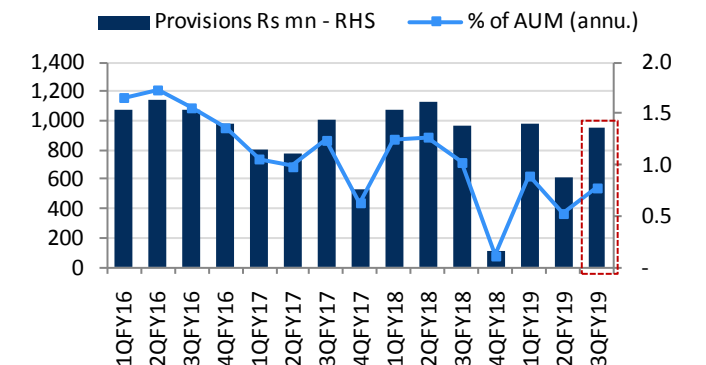
VF/HE NIMs Drop 70/40bps YoY



Expenses Ratio: Sequentially Flat Across Segments



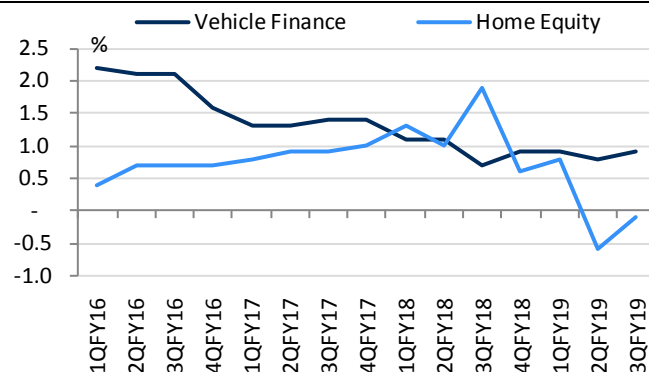
Provisions Jump QoQ (Flat YoY)



Provisions jumped sequentially as VF provisions increased ~20% QoQ to ~Rs 810mn while HE write-backs were ~Rs40mn vs. ~Rs 153mn QoQ

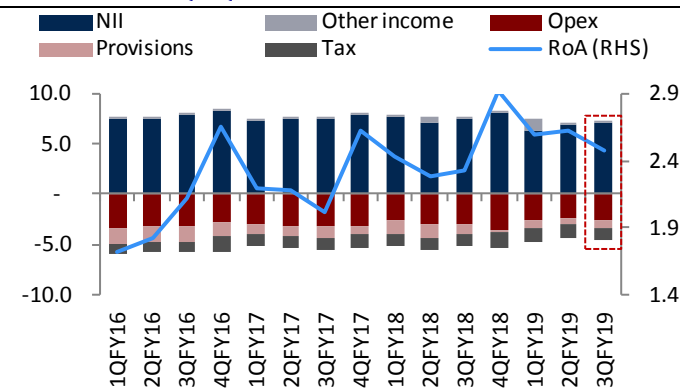
Higher VF provisions were due to loss on repossessed vehicles even as the overall GNPA's dipped

Segment Provisions: HE Write-backs Continue



Source : Company, HDFC sec Inst Research

RoAA: Down QoQ



Change in Estimates

Rs mn	FY19E			FY20E			FY21E		
	Old	New	Change	Old	New	Change	Old	New	Change
NII	27,454	27,648	0.7%	31,786	31,989	0.6%	37,397.4	37,373	-0.1%
PPOP	21,593	21,795	0.9%	25,176	25,437	1.0%	30,021.3	30,141	0.4%
PAT	11,688	11,692	0.0%	14,226	14,064	-1.1%	16,784.1	16,696	-0.5%
Adj. BVPS (Rs)	353	353	0.0%	432	431	-0.3%	519.0	517.1	-0.4%

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 (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
MMFS#	249	406	BUY	498	143	159	180	16.7	13.6	11.9	2.72	2.45	2.26	14.5	16.0	17.1	2.40	2.50	2.54
SHTF	231	1,017	BUY	1,486	566	669	765	10.0	8.3	7.3	1.80	1.52	1.33	17.1	17.8	17.7	2.45	2.54	2.46
CIFC	183	1,172	BUY	1,611	353	431	517	15.7	13.0	11.0	3.31	2.71	2.26	20.6	20.7	20.5	2.50	2.40	2.45
LICHF	227	450	BUY	527	265	312	364	9.5	8.5	7.5	1.70	1.44	1.24	17.5	17.1	16.8	1.30	1.27	1.24
REPCO	25	400	BUY	583	223	262	303	10.4	9.4	8.3	1.79	1.53	1.32	16.8	15.9	15.6	2.27	2.20	2.19

Source: Company, HDFC sec Inst Research;

Income Statement

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Interest Earned	42,028	47,757	59,279	74,181	88,300
Interest Expended	22,308	23,078	31,631	42,192	50,927
Net Interest Income	19,720	24,678	27,648	31,989	37,373
Other Income	4,576	6,501	6,210	7,352	8,701
Total Income	24,295	31,179	33,858	39,341	46,074
Total Operating Exp	10,133	12,895	12,063	13,904	15,933
PPOP	14,162	18,284	21,795	25,437	30,141
Provisions & Contingencies	3,106	3,451	3,945	3,964	4,651
PBT	11,056	14,833	17,850	21,472	25,490
Provision for Tax	3,868	5,092	6,158	7,408	8,794
PAT	7,187	9,741	11,692	14,064	16,696

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	1,563	1,564	1,564	1,564	1,564
Reserves	41,563	49,938	60,193	72,530	87,175
Net worth	43,127	51,502	61,757	74,094	88,739
Borrowings	242,067	319,022	440,888	551,860	612,192
Other Liabilities	22,018	24,523	36,491	4,766	31,214
Total liabilities	307,211	395,047	539,136	630,720	732,145
APPLICATION OF FUNDS					
Advances	284,663	372,012	492,757	582,519	684,215
Investments	2,385	3,190	3,509	3,860	4,323
Fixed assets	1,401	1,608	1,769	1,946	2,140
Other Assets	18,762	18,237	41,101	42,395	41,467
Total assets	307,211	395,047	539,136	630,720	732,145

Source: Company, HDFC sec Inst Research

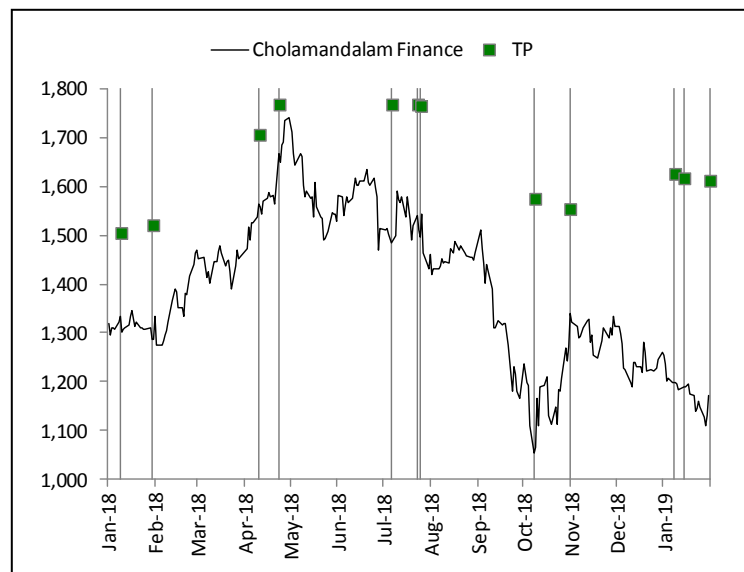
Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
Valuation Ratios					
EPS (Rs)	46.0	62.3	74.8	89.9	106.8
Earnings Growth (%)	26.4	35.5	20.0	20.3	18.7
BVPS (Rs)	275.8	329.3	394.9	473.7	567.4
Adj. BVPS (Rs)	209.7	287.5	353.1	431.3	517.1
DPS (Rs)					
ROAA (%)	2.5	2.8	2.5	2.4	2.5
ROAE (%)	18.0	20.6	20.6	20.7	20.5
P/E (x)	25.5	18.8	15.7	13.0	11.0
P/ABV (x)	5.6	4.1	3.3	2.7	2.3
P/PPOP (x)	12.9	10.0	8.4	7.2	6.1
Dividend Yield (%)	0.5	0.6	0.7	0.8	1.0
Profitability					
Yield On Advances (%)	13.17	12.40	12.51	13.11	13.24
Cost Of Funds (%)	9.54	8.23	8.33	8.50	8.75
Core Spread (%)	3.63	4.17	4.19	4.61	4.49
NIM (%)	6.18	6.41	5.84	5.65	5.61
Operating Efficiency					
Cost/Avg. Asset Ratio (%)	3.2	3.3	2.55	2.46	2.39
Cost-Income Ratio	41.7	41.4	35.6	35.3	34.6
Balance Sheet Structure Ratios					
Loan Growth (%)	15.2	25.5	21.0	18.2	17.5
Borrowing Growth (%)	7.2	31.8	38.2	25.2	10.9
Equity/Assets (%)	14.0	13.0	11.5	11.7	12.1
Equity/Loans (%)	12.6	12.0	11.9	12.1	12.3
Total Capital Adequacy Ratio (CAR)	18.6	18.4	17.6	17.0	17.1
Tier I CAR	13.6	13.2	12.7	12.4	12.5

	FY17	FY18	FY19E	FY20E	FY21E
Asset Quality					
Gross NPLs (Rs mn)	15,450.2	12,097.7	14,339.3	16,364.2	19,849.4
Net NPLs (Rs mn)	10,334.3	6,541.1	6,535.6	6,641.5	7,863.3
Gross NPLs (%)	4.66	2.94	2.76	2.67	2.76
Net NPLs (%)	3.02	1.53	1.26	1.08	1.09
Coverage Ratio (%)	35.1	48.1	54.4	59.4	60.4
Provision/Avg. Loans (%)	0.91	0.80	0.76	0.65	0.65
RoAA Tree					
Net Interest Income	6.73%	7.03%	5.92%	5.47%	5.48%
Non-interest Income	1.56%	1.85%	1.33%	1.26%	1.28%
Operating Cost	3.46%	3.67%	2.58%	2.38%	2.34%
Provisions	1.06%	0.98%	0.84%	0.68%	0.68%
Tax	1.32%	1.45%	1.32%	1.27%	1.29%
ROAA	2.45%	2.77%	2.50%	2.40%	2.45%
Leverage (x)	7.35	7.42	8.25	8.61	8.37
ROAE	18.04%	20.59%	20.65%	20.71%	20.51%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jan-18	1,308	BUY	1,504
31-Jan-18	1,284	BUY	1,520
10-Apr-18	1,564	BUY	1,705
24-Apr-18	1,663	BUY	1,767
6-Jul-18	1,494	BUY	1,767
24-Jul-18	1,539	BUY	1,767
27-Jul-18	1,463	BUY	1,764
9-Oct-18	1,055	BUY	1,574
31-Oct-18	1,270	BUY	1,553
8-Jan-19	1,199	BUY	1,625
15-Jan-19	1,190	BUY	1,616
31-Jan-19	1,172	BUY	1,611

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

Disclosure:

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