

Cholamandalam Investment and Finance company

BSE Code	: 511243
Time Duration	: 18 months
CMP	: ₹1423 (as on 22 March, 2018)
Target Price	: ₹1812



**Swiftest Performers
Among Heavy Weights**

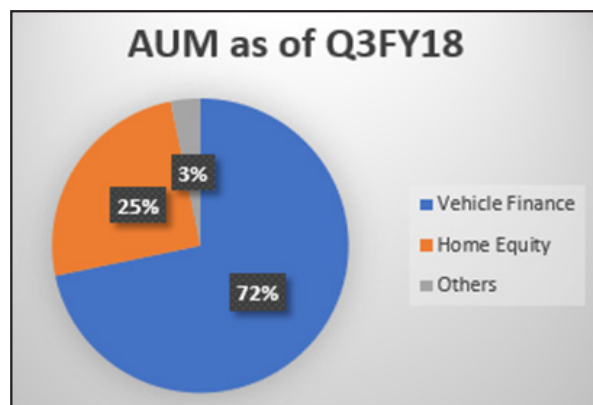
The Large Rhino for the month of March is Cholamandalam Investment and Finance Company. A Murugappa group company established in 1978, it is one of the leading NBFCs in the country. Its business is focused mainly on rural and semi-urban areas, with presence across vehicle finance, business finance, home equity loans, stock broking and distribution of financial products. It has pan-India presence, with 857 branches across 27 states.

Robust AUM's and disbursement growth.

The company's diversified business segments resonates its robust AUM growth over the years. Its has strong presence in tier-III, tier-IV, tier-V and tier-VI towns across the country. This provides significant growth potential due to lower penetration of banking activities in the rural areas. Its AUM has grown at 16 per cent CAGR over FY15-17 and crossed the Rs.40,000 crore mark in Q3FY18. Further, its disbursements have also grown at 20 per cent CAGR over FY15-17. The AUM's were largely contributed 72 per cent Vehicle finance, 25 per cent home equity and others 3 per cent.

Vehicle finance: Major growth driver

The company's deeper presence in rural and semi-urban cities and towns gives competitive edge over other peers. The vehicle finance segment continued to post stellar performance. The total disbursements in vehicle finance has grown at a rapid pace of 24 per cent CAGR over FY15-17 and now it stands at Rs 13,720 crore in Q3FY18. The HCV and LCV have seen heavy traction in the recent past in the economy. Further, buoyant outlook on CV sales provides strong potential for further growth. Also, revival in rural economy will lead to better demand for tractor finance in near future. The HCV and LCV together account for 40 per cent of vehicle finance, while older vehicle finance, tractor finance and other accounted for remaining 60 per cent. The company also boasts strong dealer-manufacturer relationship and offers customised products suitable for target customers. Further, the company's strong collection management ensures robust asset quality. The company majorly lends to agri-based customers, salaried persons and self-employed persons. The total disbursements for the recent quarter grew to Rs.6761 crore, an increase of 55 per cent YoY and 23 per cent QoQ.



Home equity to witness recovery

The home equity business is also showing signs of recovery in the business with improving asset quality. The disbursals for the quarter also witnessed strong traction at 29 per cent YoY to Rs 799 crore as against Rs 619 crore in the corresponding quarter previous year. The AUM has grown at 15 per cent CAGR over FY15-17. The GNPA's have marginally improved in home equity segment to 5.98 per cent and 6.03 per cent in June 2018. Further, the company envisages lower GNPA's with the implementation of SARFAESI and other legal measures. Further, the lesser loan losses led to better profits for the quarter.

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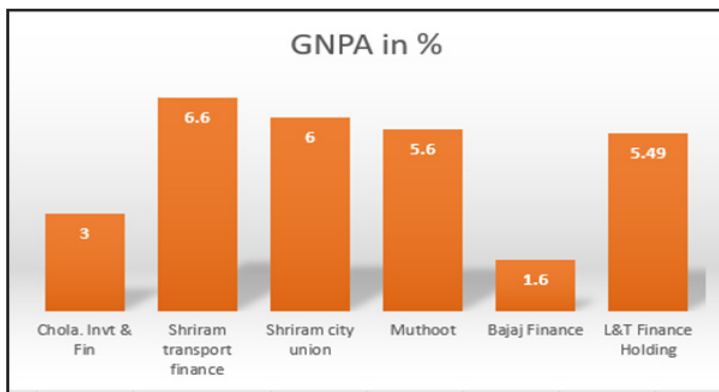
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CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

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Steady asset quality improvement

The company showed significant asset quality performance in recent quarters. The GNPA's and NNPA's for the quarter improved by 100 bps and 83 bps at 3.7 per cent and 2.34 per cent for Q3FY18 as compared with 4.34 per cent and 3.17 per cent in Q1FY18. This was on the back of robust improvement in vehicle finance business. The GNPA's and NNPA's in vehicle finance business improved by 139 bps and 107 bps, respectively. Further, with rising provisions coverage ratio at 36.83 per cent gives enough confidence for NPL reduction. The management also expects home equity business to show recovery with implementation of SARFAESI, which could result in lower GNPA's. Thereby, with strong vehicle business and recovery in home equity, we see steady asset quality improvement to continue. Also, as compared to its peers, the company's asset quality remains best in class.



Strong NIM expansion.

The net income margins (NIMs) of the company are one of the best in the industry. The NIMs have expanded by 120 bps over previous year to 9.6 per cent as against 8.4 per cent in Q3FY17 and remained same versus previous quarter. This was largely aided by judicious mix of borrowing profiles. Larger share of funding from debentures at 43 per cent ensured lower cost of funds

Financials

The company reported stellar performance in the recent quarter. The total NII for the quarter rose by 30 per cent YoY and 7.3 per cent QoQ to Rs 792 crore in Q3FY18 versus Rs 609 crore in the corresponding quarter previous year and Rs 739 crore in previous quarter. The provisions for the quarter declined 10 per cent QoQ to Rs 90 crore in Q3FY18 as against Rs.100 crore in the corresponding quarter previous year. The bottom-line for the quarter rose substantially by 54 per cent yoy and 9.7 per cent qoq to Rs.249 crore in Q3FY18 as against Rs.162in Q3FY17 and Rs.227 crore in Q2FY18.

Valuation and outlook

The company is trading at 4.5x as of December 2017 at book value of Rs.315 per share. Further, company's Capital adequacy of 18.6 per cent gives further growth confidence. Vehicle sales are expected to grow at 8-10 per cent for FY18-19, while M&HCV are expected to grow at 14-15 per cent in which company garners larger revenue share. Its larger presence in strong agrarian states like Tamilnadu, Kerala, Karnataka also bodes well for further growth in vehicle finance. Further, lower cost of funds and credit cost at their 12year lows provide opportunity for more Margin expansions. We see AUM's to grow at 20 per cent yoy by FY19E considering positive outlook for automobile sales and recovery in home equity business. We also see recovery in rural economy will aid better demand for tractor finance and improve the recovery of the loans. We believe company to post superior numbers in coming quarter and sustain its stellar margins. Hence, we see an upside of 30 per cent in 18 months with target price of Rs.1812.

Financials in Crores

	FY17	FY16	YTD Dec 16	YTD Sep 17	YTD Dec 17
AUM	34167	29650	32686	36490	39074
NIM %	8.6	8.7	8.4	8.4	9.6
Net Worth	4284	3657	4158	4660	4928.2

Annual

	FY17	FY16	YoY (%)
Interest Income	4666.1	3688.5	27
Interest Expenses	2227.9	1957.8	14
Net Interest Income	2438.2	1730.7	41
Provisions And Contingencies	316.0	324.9	-3
Net Profit	717.9	444.1	62
GNPA %	4.17	3.5	--

Quarterly

	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Interest Income	1383.3	1169.8	18	1295.9	7
Interest expenses	590.3	565.8	4	556.8	6
Net Interest Income	793.0	604.0	31	739.2	7
Provisions And Contingencies	90.2	100.3	-10	83.2	8
Net Profit	249.2	162.5	53	227.3	10
GNPA %	3.7	3.8	--	4.5	--

