

# Cholamandalam Investment and Fin Co - HOLD

## Growth headwinds

### Deceleration in disbursement growth and near-term uncertainty weighing on AUM growth

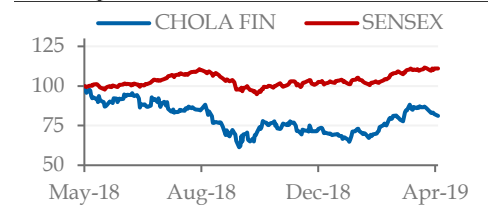
CIFC's disbursement growth decelerated sharply to 11% yoy in Q4 FY19 from 26% yoy in 9m FY19. This led to overall AUM growth coming-off to 26% yoy from 29% yoy in the preceding quarter. In the mainstay Vehicle Finance (VF) business segment, disbursement growth slid to 8% yoy (27% yoy for 9m FY19), attributable to weak OEM sales across products. However, one would have expected CIFC to have fared better considering strong positioning in rural/semi-urban markets, well-diversified product portfolio (including 25% share of used vehicle and refinance) and opportunity to grab market from liquidity-constrained NBFCs. In the Home Equity (HE) business, there was a material pick-up in disbursements (growth at 28% yoy v/s 18% yoy for 9m FY19) which led to stabilization of AUM growth at 15-16% yoy despite elevated run-offs.

In the wake of uncertainty stemming from elections and monsoon, the management was averse to paint a buoyant growth picture for FY20. In VF segment, it expects a 15% disbursement growth (could be upgraded later based on BS-VI pre-buying trend) and in HE business, CIFC expects a 15% AUM growth. The company is better-positioned than most other NBFCs on the liquidity front.

**CMP (Rs) 1,390**    **12-mts Target (Rs) 1,328**    **Downside 4.5%**  
**Stock data** (As on Apr 30, 2019)    **Sector: Financials**

Sensex:	39,032
52 Week h/l (Rs)	1,761/1,039
Market cap (Rs bn)	217
Enterprise value (Rs bn)	-
6m Avg t/o (Rs mn):	428
FV (Rs):	10
Div yield (%):	0.5
Bloomberg code:	CIFC IN
BSE code:	511243
NSE code:	CHOLAFIN

### Stock performance



### Shareholding pattern (As of Mar'19 end)

Promoter	53.1%
FII+DII	35.9%
Others	11.0%

### Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
Operating Income	18,853	18,262	3.2	14,559	29.5
Interest Expended	(9,864)	(9,508)	3.7	(7,126)	38.4
<b>Net Interest Income</b>	<b>8,989</b>	<b>8,754</b>	<b>2.7</b>	<b>7,433</b>	<b>20.9</b>
Other income	3	1	136.4	2	18.2
<b>Total Income</b>	<b>8,992</b>	<b>8,756</b>	<b>2.7</b>	<b>7,435</b>	<b>20.9</b>
Operating expenses	(3,820)	(3,158)	21.0	(3,144)	21.5
Provisions	(556)	(961)	(42.2)	6	-
PBT	4,616	4,636	(0.4)	4,297	7.4
Tax	(1,695)	(1,591)	6.5	(1,442)	17.5
<b>PAT</b>	<b>2,921</b>	<b>3,045</b>	<b>(4.1)</b>	<b>2,855</b>	<b>2.3</b>

Source: Company, YES Sec - Research

## Exhibit 2: Segmental Business Data

(Rs m)	Q4 FY19	Q3 FY19	% qoq	Q4 FY18	% yoy
<b>AUM</b>	<b>542,790</b>	<b>528,680</b>	<b>2.7</b>	<b>428,790</b>	<b>26.6</b>
Vehicle Finance	405,880	374,940	8.3	314,400	29.1
Home Equity	116,260	111,450	4.3	100,950	15.2
<b>Disbursements</b>	<b>88,930</b>	<b>76,440</b>	<b>16.3</b>	<b>80,070</b>	<b>11.1</b>
Vehicle Finance	73,600	62,400	17.9	68,200	7.9
Home Equity	10,340	9,540	8.4	8,060	28.3

Source: Company, YES Sec - Research

## Exhibit 3: Key Ratios

(%)	Q4 FY19	Q3 FY19	chg qoq	Q4 FY18	chg yoy
<b>Company</b>					
NIM (%)	6.8	6.8	-	7.4	(0.6)
RoTA - PBT (%)	3.5	3.6	(0.1)	4.3	(0.8)
Gross Stage 3 (%)	2.7	3.3	(0.6)	3.4	(0.7)
Coverage - Stage 3 (%)	38.0	35.0	3.0	34.3	3.7
CAR (%)	17.6	17.8	(0.2)	18.4	(0.8)
<b>Vehicle Finance</b>					
NIM	7.6	7.2	0.4	7.9	(0.3)
Expense Ratio	3.4	2.9	0.5	3.4	-
Credit Cost	0.4	0.9	(0.5)	0.2	0.2
RoTA - PBT	3.8	3.4	0.4	4.3	(0.5)
<b>Home Equity</b>					
NIM	4.9	5.3	(0.4)	4.3	0.6
Expense Ratio	2.0	0.7	1.3	2.3	(0.3)
Credit Cost	(0.1)	0.3	(0.4)	(0.4)	0.3
RoTA - PBT	3.0	4.4	(1.4)	2.4	0.6

Source: Company, YES Sec - Research.

## Stable NIM, spike in opex and improvement in asset quality

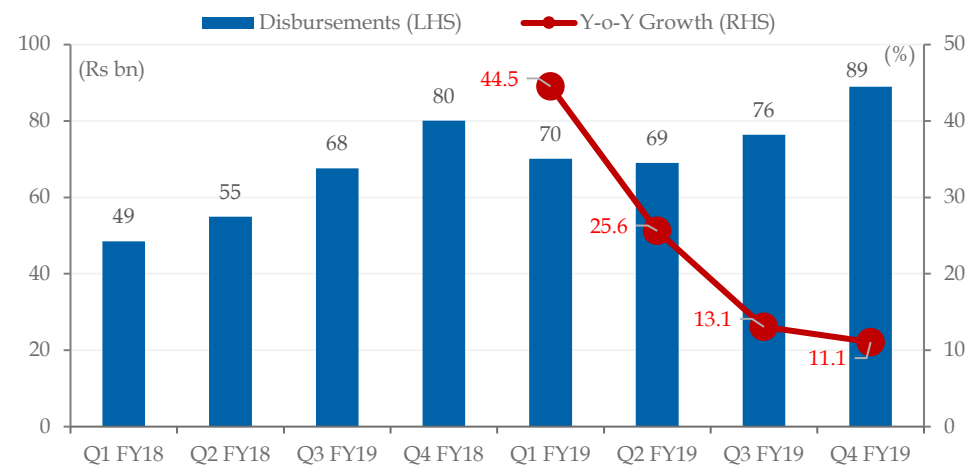
CIFC's NIM was flat qoq at 6.8%; both funding cost and portfolio yield inched up 10-20bps qoq. The company has been carrying a substantially higher cash balance since Dec 2018. In VF segment, the NIM sequentially improved by 40bps to 7.6% driven by lending rate hikes taken in the past six months across products. In HE business, NIM dipped 40bps qoq as income yield contracted due to lower upfront assignment income (Rs120mn v/s 310mn in Q3 FY19).

Opex ratio climbed to 2.9% in Q4 on account of investment being incurred on branch additions. CIFC plans to add about 100 branches (FY19 base of 900) in Q1 FY20, and the company has recruited resources to straightaway kick-start their operations. Company's Gross and Net Stage-3 assets declined by 12-16% qoq with their ratio falling by 40-50bps on sequential basis. As per I-GAAP, the Net NPL ratio at 1.1% was at an all-time low. Such sharp correction in asset quality was driven by seasonally stronger collections in VF business and encouraging NPL recoveries in HE segment realized through the SARFAESI process. The credit cost in both business segments declined by 40-50bps qoq. The mild fall in ECL coverage on Stage 1 & 2 assets can be construed to be driven by an improvement in early bucket collections.

## Macro uncertainty and near-full valuation caps upside

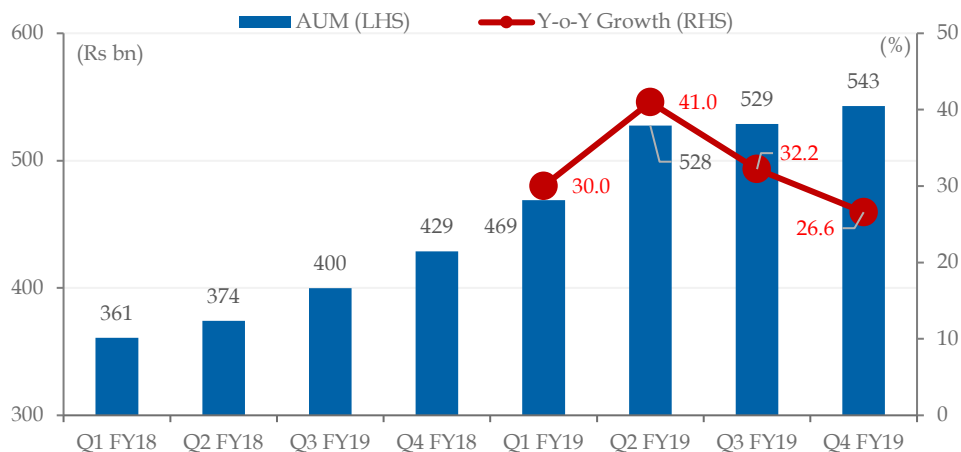
CIFC has historically demonstrated impressive growth and asset quality resilience through challenging phases. While the next couple of years could mark a sluggish period for VF business; the HE portfolio would likely improve on its growth rate with resurrection of operating model compete. In our view, NIM should stabilize as the company possesses the ability to pass-on any durable increase in funding cost. Credit cost should trend steadily if the monsoon is satisfactory and fuel cost remains under control. Post factoring conservative assumptions on growth and asset quality front, we estimate CIFC to deliver 15-16% earnings CAGR over FY19-21. The company trades at 2.9x FY21 P/ABV.

## Exhibit 5: Disbursement growth has come-off sharply



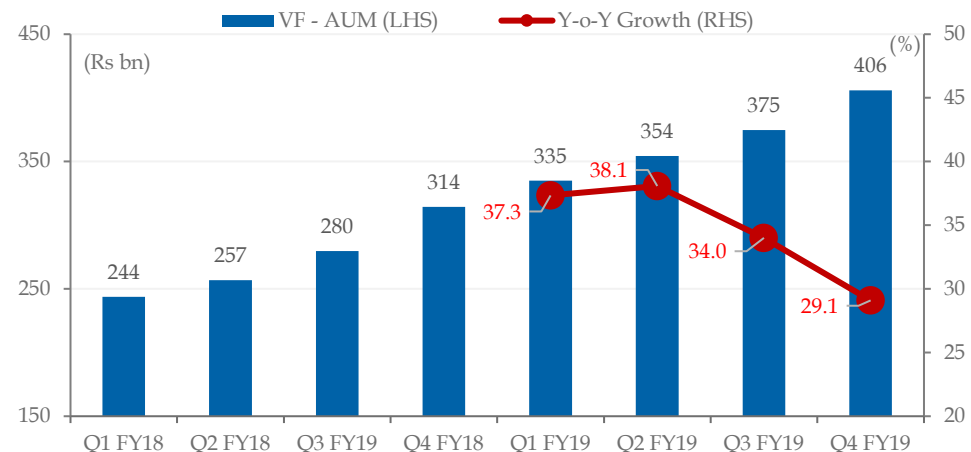
Source: Company, YES Sec - Research

## Exhibit 4: A notable deceleration in AUM growth



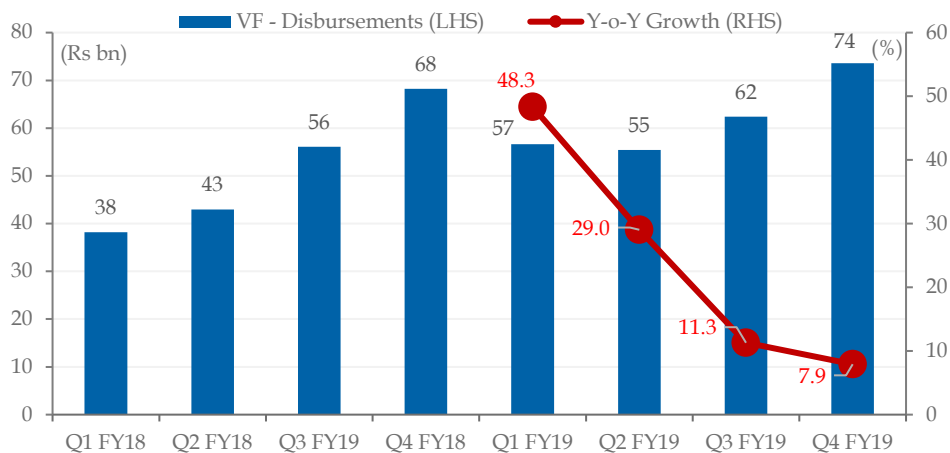
Source: Company, YES Sec - Research

## Exhibit 6: Vehicle Finance AUM growth moderates



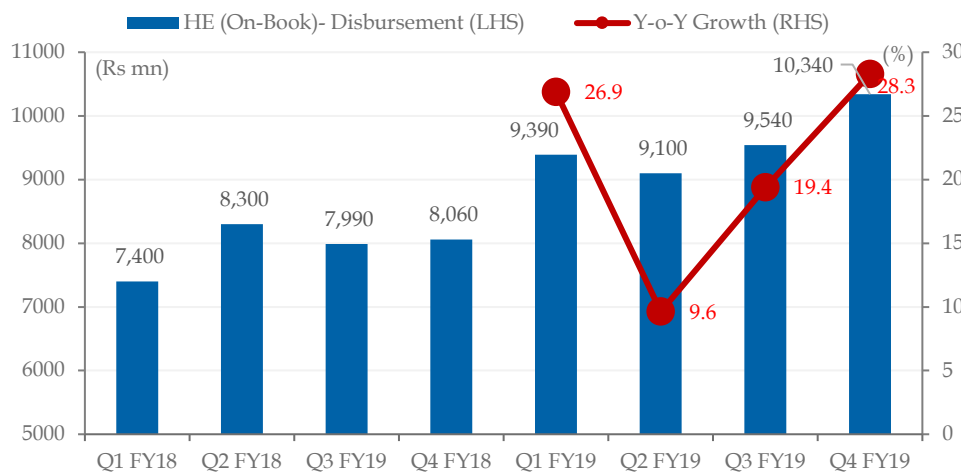
Source: Company, YES Sec - Research

### Exhibit 7: Vehicle Finance disbursement growth slides



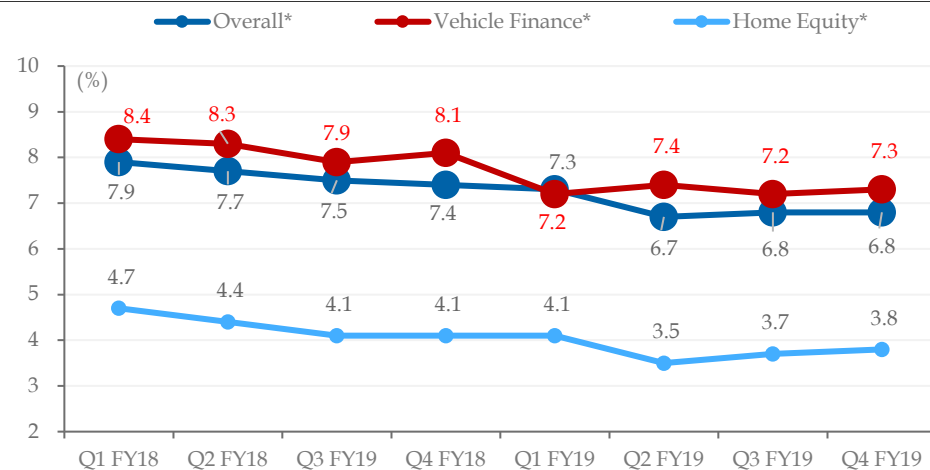
Source: Company, YES Sec - Research

### Exhibit 8: Home Equity disbursement growth pick-up further



Source: Company, YES Sec - Research

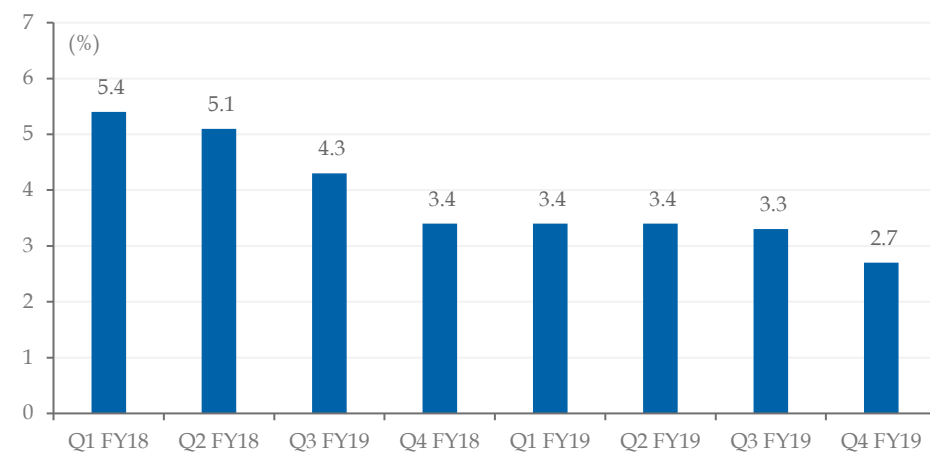
### Exhibit 9: NIM reset at lower levels



Source: Company, YES Sec - Research

\*Data is on a cumulative basis

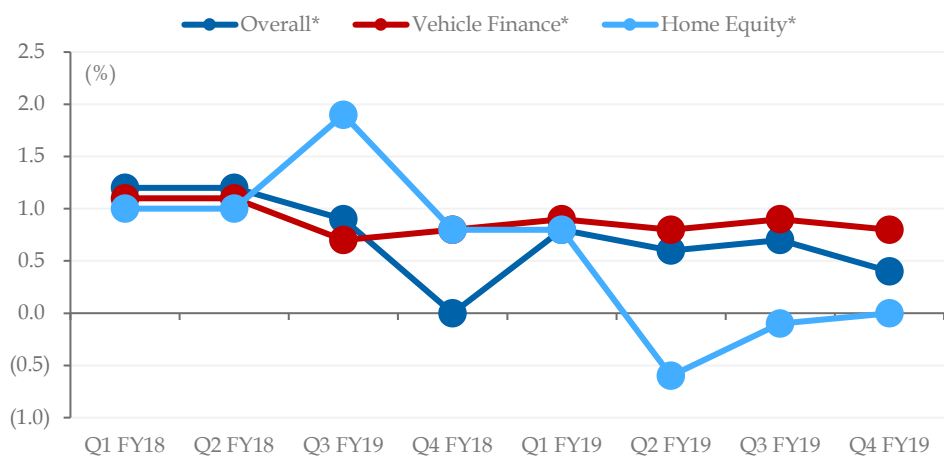
### Exhibit 10: Secular improvement in asset quality



Source: Company, YES Sec - Research

Note: Gross Stage-3/Total Gross Assets

### Exhibit 11: Credit Cost contained at benign levels

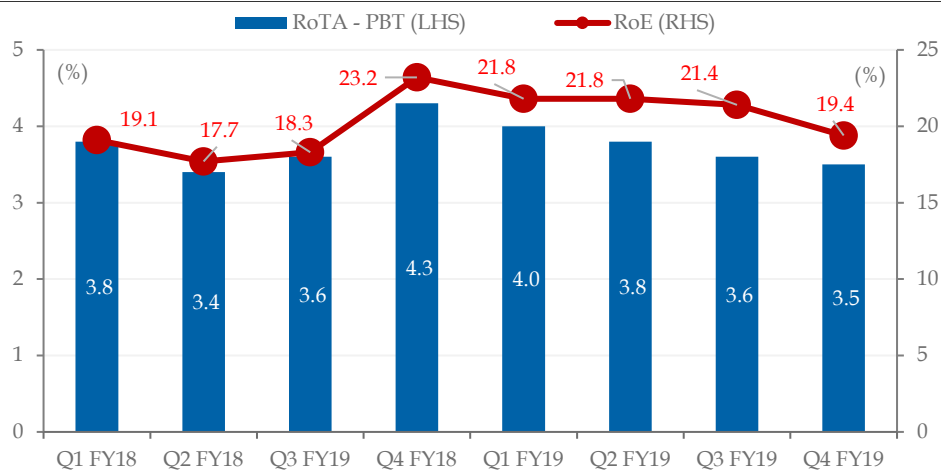


Source: Company, YES Sec – Research

Note: For Home Equity, it is based on on-book assets

\* Data is on a cumulative basis

### Exhibit 12: Profitability sustained at higher levels



Source: Company, YES Sec – Research

### Exhibit 13: Valuation Summary (Ind-AS)

Y/e 31 Mar (Rs. mn)	FY18	FY19	FY20E	FY21E
Total operating income	28,203	34,039	39,971	47,276
yoy growth (%)	-	20.7	17.4	18.3
Operating profit (pre-provisions)	17,051	21,344	25,054	30,046
Net profit	9,183	11,862	13,606	15,853
yoy growth (%)	-	29.2	14.7	16.5
EPS (Rs)	58.7	75.8	87.0	101.3
Adj.BVPS (Rs)	264.0	337.7	405.3	482.7
P/E (x)	23.7	18.3	16.0	13.7
P/Adj.BV (x)	5.3	4.1	3.4	2.9
ROE (%)	-	21.0	20.0	19.5
ROA (%)	-	2.3	2.2	2.2
CAR (%)	18.4	17.6	17.6	18.2

Source: Company, YES Sec – Research

## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY > 15%**

**ADD 5% to 15%**

**HOLD -15% to +5%**

**SELL > - 15%**

**NOT RATED**

**UNDER REVIEW**

**POSITIVE:** Positive is rating given to stocks we like but yet to be formally included in our coverage universe.

**NEGATIVE:** Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

**NEUTRAL:** Neutral rating is given to stocks that are not under our formal coverage yet, but we find current valuation fairly representing fundamentals.

## ABOUT YES SECURITIES (INDIA) LIMITED

YES SECURITIES (INDIA) LIMITED ("YSL") was incorporated on 14th March 2013 as a wholly owned subsidiary of YES BANK LIMITED. YSL does not have any other associates. YSL is a SEBI registered stock broker holding membership of NSE and BSE. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

### YES SECURITIES (INDIA) LIMITED

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre,  
Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.  
**Tel:** +91-22-71123123 | **Email:** research@yessecuritiesltd.in | **Website:** www.yesinvest.in

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Rajiv Mehta, Sachit Damani

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received compensation or other benefits from the subject company(ies) or third party in connection with this research report	No
6	Broking/Investment Banking/Merchant Banking relationship with the subject company at the time of publication of Research Report	No
7	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
8	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE & MCX:  
INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:  
INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338 |

**Details of Compliance Officer:** Name: Vaibhav Purohit,  
Email id: compliance@yessecuritiesltd.in, Contact No-+91-22-33479208