

Cholamandalam Finance

Refer to important disclosures at the end of this report

Better among equals

CMP	Target Price
Rs 1,244 as of (October 31, 2018)	Rs 1,475 (■) 12 months
Rating	Upside
BUY (■)	18.6 %

- Cholamandalam Finance (CIFIC) delivered healthy performance in Q2FY19, with disbursements growth of 25.6% yoy and AUM growth of 30.9% yoy, mainly driven by consistency in demand from the vehicle finance segment. The base effect of last year would impact incremental growth number, yet CIFIC would perform better than industry.
- NIMs contracted to ~7% sequentially, as the company front loaded its borrowings as well as in the absence of assignment income during the quarter,. Though incremental cost of funds would remain high, considering increasing share of better yield product and granularity in borrowing program, we maintain our margin estimates at ~7.2% for FY19/ FY20E.
- CIFIC's gross NPLs continued to improve steadily at 2.8% vs. 2.99% last quarter. Provisioning costs for the quarter declined to ~0.5% on write-backs in the home equity segment. We expect steady-state credit costs to be ~0.9% and coverage ratio to rise.
- We remain confident on the growth front (~25% CAGR for FY18-20E), in line with the industry. Margins be supported by the shift to higher-yield products, limited borrowing in Q3, and lower repayments. Maintain Buy with a TP of Rs1,475 (~3.6x FY20E P/Book).

- Vehicle finance business on track – new axle norms supported HCV portfolio:** Total AUM for the company grew 30.9% yoy and 5.3% qoq in Q2FY19, mainly driven by the strong momentum in vehicle finance (VF) segment which grew 37.9% yoy. The momentum in the VF business was driven by industry-wide growth in HCVs, LCVs, SCVs, tractors (new and used assets). Management expects growth in H2 to soften in comparison with H1, due to the higher base of last year, and to be in line with the industry.
- NIMs to sustain at ~7% ex-assignment income; prudent borrowing policy to protect NIMs:** CIFIC's calculated NIMs declined ~79bps yoy (-44bps qoq) to 7.0%, in the absence of assignment income during the quarter and product mix (higher HCV volumes). Similarly, opex witnessed a sequential decline as costs involved with the loan origination were also lower due to the product mix. In addition, with the overall cost of funds heading northward (especially for shorter-duration liabilities), management has guided to limit its borrowings in the near term and push higher-yield products to protect NIMs. Some rate hike is already implemented in the home equity segment, while the rate hike in vehicle finance book is on a selective basis and is gradual in nature. We have maintained our margin estimates at ~7.2% for FY19/20E.
- Asset-quality trend remains stable; steady rise in provision coverage:** CIFIC's gross NPLs continued to improve steadily at 2.8% vs. 2.99% last quarter. Provisioning costs declined for the quarter to ~0.5% on write-backs in the home equity segment. Going forward, we expect the overall asset quality trend to remain stable and steady-state credit costs to be ~0.9% and coverage ratio to rise.
- Valuation and view:** CIFIC trades at ~3.0x FY20E Adjusted Book for average ROEs of ~20% over FY18-20E. While CIFIC trades at a premium to some of its larger peers, one needs to view its valuation premium in the context of the superior earnings growth, better ROEs, and the stellar execution track record of management. We remain confident on the growth front (~25% CAGR for FY18-20E), in line with the industry. Margins should be supported by the shift to higher-yield products, limited borrowing in Q3, and lower repayments. Maintain Buy with a TP of Rs1,475 (~3.6x FY20E P/Book).

Change in Estimates

EPS Chg FY19E/FY20E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	68.6	87.6
Consensus	77.9	95.6
Mean Consensus TP (12M)	Rs 1,555	

Stock Details

Bloomberg Code	CIFIC IN
Face Value (Rs)	10
Shares outstanding (mn)	156
52 Week H/L	1,761 / 1,038
M Cap (Rs bn/USD bn)	194 / 2.64
Daily Avg Volume (nos.)	404,282
Daily Avg Turnover (US\$ mn)	7.0

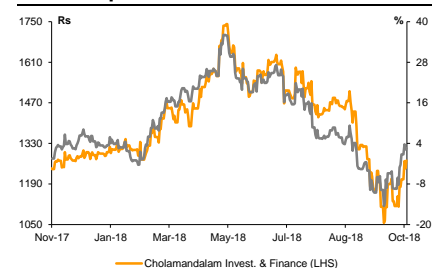
Shareholding Pattern Sep '18

Promoters	53.1%
FIIs	20.5%
DIIIs	15.9%
Public and Others	10.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(14)	(29)	9
Rel. to Nifty	14	(4)	(25)	11

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net income	21,429	24,295	31,179	35,222	43,654
Net profit	5,685	7,187	9,741	10,736	13,702
EPS (Rs)	37.6	46.0	62.3	68.6	87.6
ABV (Rs)	214.4	227.9	299.9	336.2	414.9
RoA (%)	2.2	2.5	2.8	2.4	2.4
RoE (%)	18.0	18.1	20.6	19.1	20.4
PE (x)	33.1	27.0	20.0	18.1	14.2

Source: Company, Emkay Research

Exhibit 1: Actuals vs. estimates

Rs m	Actual	Estimate		% variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	8,119	8,592	8,425	-5.5%	-3.6%	Demand-led shift in product mix led to lower NII
PPOP	5,207	5,564	5,506	-6.4%	-5.4%	Lower opex due to product mix
PAT	3,047	2,968	2,914	2.7%	4.6%	Largely in line as lower credit costs offset lower PPOP

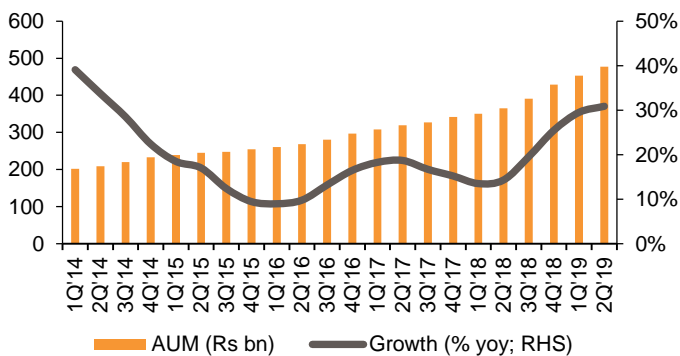
Source: Bloomberg, Company, Emkay Research

Exhibit 2: Quarterly results summary

Particulars (Rs m)	2QFY19	2QFY18	% yoy	1QFY19	% qoq	H1FY19	H1FY18	% yoy
Net Interest Income	8,119	6,941	17.0%	8,184	-0.8%	16,303	13,577	20.1%
Other Income	1	1	66.7%	2	-50.0%	3	1	130.8%
Total Income	8,120	6,942	17.0%	8,186	-0.8%	16,306	13,578	20.1%
Operating Expenses	2,913	2,706	7.6%	2,816	3.4%	5,729	5,021	14.1%
Operating Profit	5,207	4,236	22.9%	5,370	-3.0%	10,577	8,558	23.6%
Provisions	612	1,135	-46.1%	983	-37.8%	1,594	2,215	-28.0%
% of operating profit	11.7%	26.8%		18.3%		15.1%	25.9%	
PBT	4,595	3,101	48.2%	4,388	4.7%	8,983	6,343	41.6%
Tax	1,549	1,062	45.9%	1,535	0.9%	3,084	2,207	39.7%
Tax rate (%)	33.7%	34.2%		35.0%		34.3%	34.8%	
PAT	3,047	2,039	49.4%	2,852	6.8%	5,899	4,136	42.6%
Total AUM (Rs bn)	477,208	364,565	30.9%	453,276	5.3%	477,208	364,565	30.9%
On-Books (Rs bn)	467,521	356,500	31.1%	442,849	5.6%	467,521	356,500	31.1%
% of AUM	98.0%	97.8%		97.7%		98.0%	97.8%	
Off-Books (Rs bn)	9,687	8,065	20.1%	10,427	-7.1%	9,687	8,065	20.1%
% of AUM	2.0%	2.2%		2.3%		2.0%	2.2%	
Gross NPA (%)	2.8%	4.5%		3.0%		2.8%	4.5%	
Net NPA (%)	1.6%	2.9%		1.7%		1.6%	2.9%	
Provision coverage ratio (%)	44.3%	35.2%		42.8%		44.3%	35.2%	

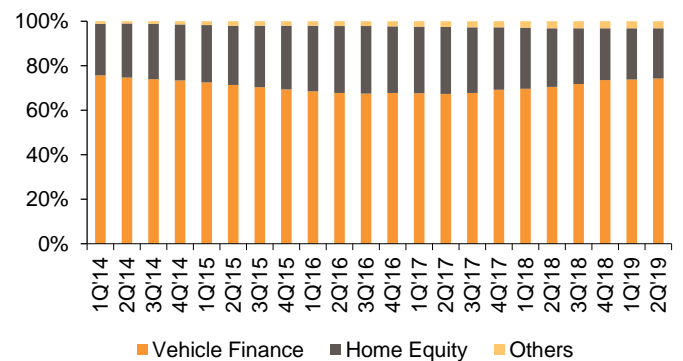
Source: Company, Emkay Research

Exhibit 3: AUM growth healthy at 30.9% yoy to Rs477bn



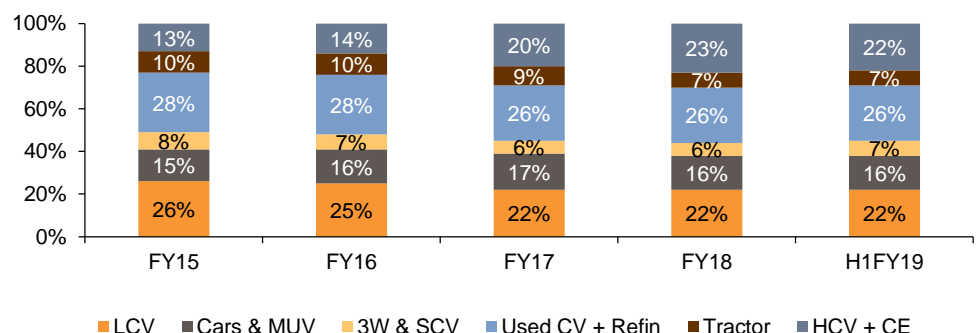
Source: Company, Emkay Research

Exhibit 4: AUM mix skewed in favor of Vehicle Finance segment



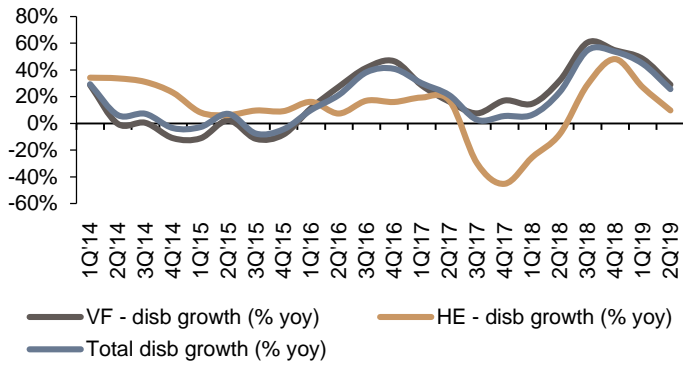
Source: Company, Emkay Research

Exhibit 5: AUMs mix for the Vehicle Finance segment



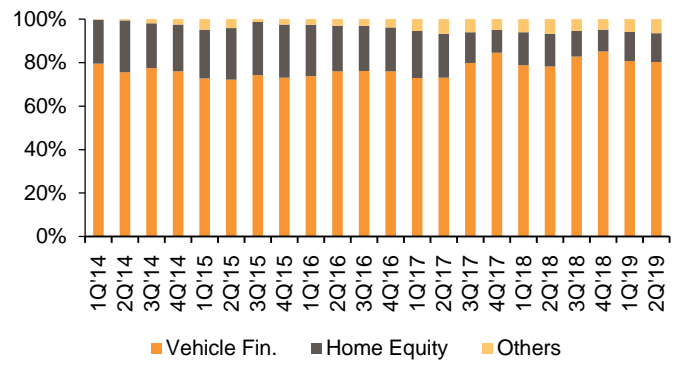
Source: Company, Emkay Research

Exhibit 6: Disbursements growth normalizes on higher base



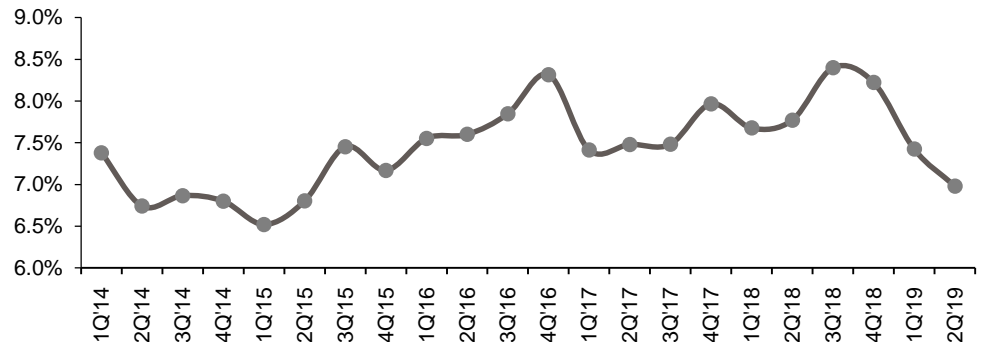
Source: Company, Emkay Research

Exhibit 7: Disbursements mix dominated by Vehicle Finance



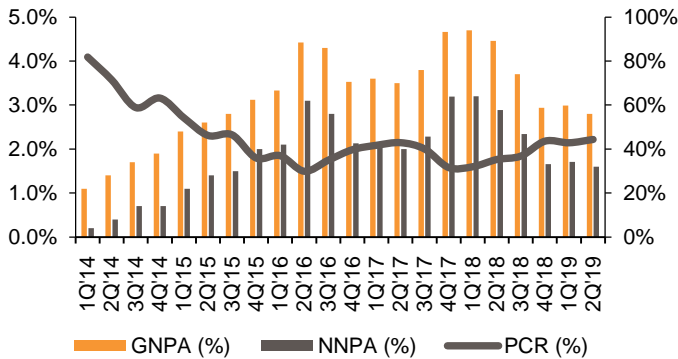
Source: Company, Emkay Research

Exhibit 8: Fall in calculated NIMs on a sequential basis to 7.0% on absence of assignment income



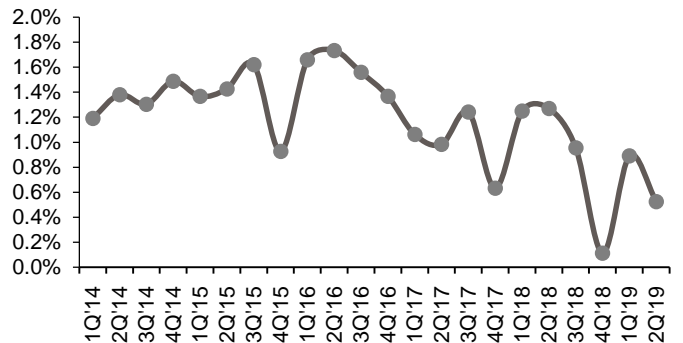
Source: Company, Emkay Research

Exhibit 9: Asset quality stable with steady rise in PCR



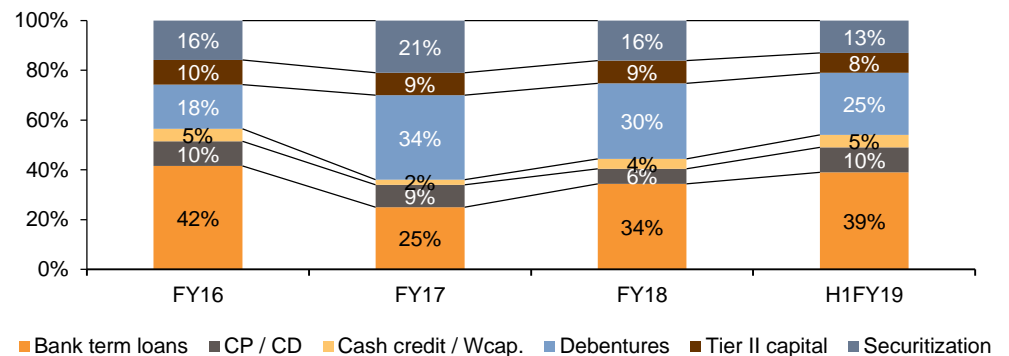
Source: Company, Emkay Research

Exhibit 10: Credit Cost plunges to ~53bps



Source: Company, Emkay Research

Exhibit 11: Borrowing mix skews in favor bank loans and CP / CD as on end-Sep'18



Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net interest income	21,346	24,152	30,667	34,607	42,917
Other income	83	143	512	614	737
Fee income	0	0	0	0	0
Net income	21,429	24,295	31,179	35,222	43,654
Operating expenses	8,449	10,133	12,895	15,260	18,217
Pre provision profit	12,980	14,162	18,284	19,962	25,436
PPP excl treasury	12,980	14,162	18,284	19,962	25,436
Provisions	4,272	3,106	3,451	3,620	4,580
Profit before tax	8,708	11,056	14,833	16,341	20,856
Tax	3,023	3,868	5,092	5,605	7,154
Tax rate	35	35	34	34	34
Profit after tax	5,685	7,187	9,741	10,736	13,702

Balance Sheet

Y/E Year End (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity	1,562	1,563	1,564	1,564	1,564
Reserves	35,012	41,286	49,938	59,394	71,632
Net worth	36,574	42,849	51,502	60,958	73,196
Deposits	0	0	0	0	0
Borrowings	225,762	241,091	319,023	415,823	521,582
Total liabilities	278,883	305,948	395,046	505,255	626,470
Cash and bank	4,905	4,706	3,925	5,801	10,153
Investments	666	2,386	3,190	4,158	5,216
Loans	260,146	285,828	374,132	480,457	595,118
Others	12,053	11,627	12,191	13,071	14,038
Total assets	278,883	305,948	395,046	505,255	626,470

Key Ratios (%)

Y/E Year End	FY16	FY17	FY18	FY19E	FY20E
NIM	7.8	7.6	8.1	7.3	7.3
RoA	2.2	2.5	2.8	2.4	2.4
RoAE	18.0	18.1	20.6	19.1	20.4
GNPA (%)	3.7	5.0	3.1	2.5	2.2
NNPA (%)	2.1	3.4	1.7	2.4	1.9

Per Share Data (Rs)	FY16	FY17	FY18	FY19E	FY20E
EPS	37.6	46.0	62.3	68.6	87.6
BVPS	242.1	274.2	329.2	389.6	467.8
ABVPS	214.4	227.9	299.9	336.2	414.9
DPS	4.5	5.5	6.5	7.0	8.0

Valuations (x)	FY16	FY17	FY18	FY19E	FY20E
PER	33.1	27.0	20.0	18.1	14.2
P/BV	5.1	4.5	3.8	3.2	2.7
P/ABV	5.8	5.5	4.1	3.7	3.0
Dividend Yield (%)	0.4	0.4	0.5	0.6	0.6

Source: Company, Emkay Research

Growth (%)	FY16	FY17	FY18	FY19E	FY20E
NII	24.9	13.1	27.0	12.8	24.0
PPOP	32.2	9.1	29.1	9.2	27.4
PAT	30.6	26.4	35.5	10.2	27.6
Loans	16.8	9.9	30.9	28.4	23.9

Quarterly (Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
NII	6,941	7,930	8,424	8,184	8,119
NIM (%)	7.8	8.4	8.2	7.4	7.0
PPOP	4,236	4,694	4,647	5,370	5,207
PAT	2,039	2,492	3,001	2,852	3,047
EPS (Rs)	13.04	15.94	19.19	18.24	19.48

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	53.1	53.1	53.1	53.1	53.1
FII	21.6	19.3	20.3	20.7	20.5
DII	15.6	17.1	16.5	16.1	15.9
Public and Others	9.8	10.5	10.2	10.2	10.6

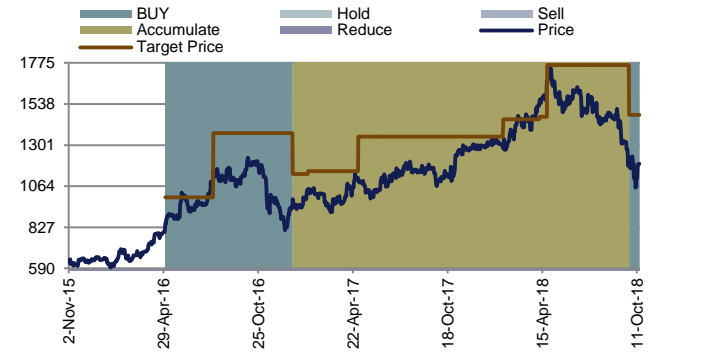
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
26-Sep-18	1,216	1,475	12m	Buy	Jignesh Shial
24-Sep-18	1,181	1,762	12m	Accumulate	Jignesh Shial
27-Jul-18	1,463	1,762	12m	Accumulate	Jignesh Shial
29-May-18	1,543	1,762	12m	Accumulate	Jignesh Shial
24-Apr-18	1,650	1,762	12m	Accumulate	Jignesh Shial
10-Apr-18	1,564	1,464	12m	Accumulate	Jignesh Shial
31-Jan-18	1,286	1,450	12m	Accumulate	Umang Shah
1-Nov-17	1,225	1,350	12m	Accumulate	Umang Shah
18-Sep-17	1,169	1,350	12m	Accumulate	Umang Shah
28-Jul-17	1,180	1,350	12m	Accumulate	Umang Shah
2-May-17	1,092	1,350	12m	Accumulate	Umang Shah
27-Jan-17	1,048	1,150	12m	Accumulate	Umang Shah
29-Dec-16	988	1,135	12m	Accumulate	Umang Shah
28-Oct-16	1,185	1,370	12m	Buy	Umang Shah
6-Sep-16	1,109	1,370	12m	Buy	Umang Shah
1-Aug-16	1,152	1,370	12m	Buy	Umang Shah
2-May-16	851	1,000	12m	Buy	Umang Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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