

Industry	Financial
Bloomberg	CIFC IN
BSE CODE	511243

Robust AUM Growth Drives Healthy Earnings

RATING	BUY
CMP	1268
Price Target	1472
Potential Upside	16%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1760/1038
Mkt Capital (Rs Cr)	19837
Free float (%)	47%
Avg. Vol 1M (,000)	473
No. of Shares	16
Promoters Pledged %	

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Key Highlights -

- CHOLAFIN has grown at an average rate of 26% for the last few quarters; it has been one of the key beneficiaries of strong CV sales in the industry. AUM has grown at 18% CAGR backed by 17% CAGR in vehicle finance and 18% CAGR in home equity over last 5 years. We believe with the Government's effort to push infrastructure activity and revival in rural demand, CHOLAFIN is well placed to reap the benefit of rise in vehicle demand. We expect CHOLAFIN to register more than 26% loan CAGR over FY18-20.
- CHOLAFIN has a positive ALM of 29% up to one year time frame. Management has highlighted that it has enough cash liquidity to finance its incremental disbursement, we believe incremental borrowing amount to lower down going forward. CHOLAFIN has ties with 19 banks with tied up limit up to Rs 2825 Cr.
- Rise in the bond yield will be offset by rise in lending rate of the portfolio and rising share of higher yield portfolio, thus we expect NIM to stabilise around this level.
- Management has highlighted GNPL number to lower down as management expects higher recovery from SARFAESI in the upcoming quarter. In Home equity segment SARFAESI recovery stood at Rs 20 Cr for 2QFY19.

2Q FY19 Results-

CHOLAFIN reported strong 2QFY19 numbers. The NII grew by 17% YoY backed by healthy AUM growth of 31% YoY. NIM (reported) has decreased from 7.7% to 6.9% YoY. Operating expenses grown by 7% YoY, while total income grew at 17% YoY, which led the cost to income (C/I) ratio to fall to 36% vs 39% YoY. Operating Profit grew at 23% YoY. Provision as a percentage of AUM stood at 54 bps. Provision decreased by 45% YoY. PAT has increased at 49% YoY. Gross stage 3 GNPA stood at 3.4% with PCR of 37% as at 2QFY19.

View and Valuation

CHOLAFIN has been reporting strong performance in all the key metrics. AUM growth has bounced backed due to strong CVs sales in the industry. Infrastructure & mining development and recovery in rural economy have kept AUM growth robust. NIM will stabilize from here on as management's focus tilt towards high yielding portfolios. Asset quality is showing improvement with stable PCR. With number of SARFEASI preceding in line to resolved going ahead we expect asset quality to improve and credit cost to remain in the same levels. Stronger growth, rising cost efficiency, strong ALM, rising yields and lower credit cost will augur well for growth in CHOLAFIN. We increase our estimate by 3%/7% in FY19/FY20 factoring strong AUM growth. We value the stock at 3X P/BV FY20e to arrive at target price of Rs 1472 and maintain BUY.

Key Risks to our rating and target

- Increase in competition will impact the growth.
- NIM performance.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2127	2403	3195	3458	4075
PPP	1298	1416	1834	2328	2804
PAT	568	719	974	1316	1528
NIM %	7.7	7.5	8.3	7.2	7.0
EPS (Rs)	36	46	62	84	98
EPS growth (%)	20	26	35	35	16
ROE (%)	18.0	18.0	20.6	22.9	21.8
ROA (%)	2.2	2.5	2.8	2.7	2.4
BV	234	276	329	404	491
P/B (X)	3.0	3.5	4.4	3.0	2.4
P/E (x)	19.6	21.0	23.3	14.2	12.3

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2Q FY 19 Results In Line

NIM to stabilize

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,350	1,383	1,562	1,620	1,676	24.1%	3.4%	4,634	5,501	18.7%
Interest Exp.	656	590	720	802	864	31.7%	7.7%	2,231	2,305	3.3%
NII	694	793	842	818	812	17.0%	-0.8%	2,403	3,195	33.0%
Other Income	0	0	0	0	0	66.7%	-50.0%	26	1	-97.6%
Total Income	694	793	843	819	812	17.0%	-0.8%	2,430	3,197	31.5%
Ope Exp.	271	324	378	282	290	7.2%	3.0%	1,013	1,363	34.5%
PPP	424	469	465	537	522	23.2%	-2.8%	1,416	1,834	29.5%
Provisions	113	90	12	98	62	-45.1%	-36.6%	311	350	12.6%
PBT	310	379	453	439	460	48.2%	4.7%	1,106	1,484	34.2%
Tax	106	130	153	154	155	46%	0.9%	387	510	31.8%
Extra Items	-	-	-	-	-			-	-	
Net Profit	204	249	300	285	305	49.4%	6.8%	719	974	35%

Steady NIM

NII growth has been strong at 17% YOY, backed by a strong AUM of 31% growth and disbursement growth of 26%. NIM (reported) has decreased sequentially to 6.90% in H1FY19 from 7.40% on the back of rising share of lower yielding HCV vehicle and decline in yield of Home equity. The yield on advances has declined to 15.34% from 15.85% QoQ, while the cost of funds has increased by 11 bps to 9.38% QoQ which resulted in NIM contraction. NIM is expected to remain stable going ahead as the rising share of higher yield asset to offset rising cost of borrowings.

Healthy Growth

AUM grew by 31% YoY on the back of lower base and disbursement grew by 26% YoY. Growth was mainly driven by surge in HCV and LCV portfolio due to rise infra and construction activity. Vehicle segment growth was at 38% YoY, Home segment growth was at 11% YoY & Others segment grew at 37%. The Vehicle finance Portfolio was mainly dominated by LCV at 22%, HCVs at 19%, refinance at 13%, old vehicle at 13% and CAR & MUV at 16%. Home equity consists of 84% of self occupied residential property while commercial and others stood at 9% & 7% respectively. CHOLAFIN has enough liquidity to finance incremental disbursement so we expect incremental borrowing to remain non significant going ahead.

Assets quality

Asset quality has improved from 3.60% to 3.40% QoQ on the back healthy rising rural sentiment and infra/construction activity. PCR stands stable at 36% sequentially. Provision in percentage to AUM has decline from its 1% average as per its historical trend to 54 bps in 2QFY19. CIFC has repossessed 20 Cr from Home Equity GNPL.. Management expects NPA numbers to further reduce as the cases get resolved.

Other Details

885 branches across 27 states/Union territories: 879 VF, 177 HE (171 co-located with VF) and 139 HL (co-located with VF). 79% locations are in Tier-III, Tier-IV, Tier V and Tier-VI towns. Capital adequacy stood at 18.34% in 2QFY19.

Concall Highlights

- ❑ CHOLAFIN has taken PLR hike with regard to Home equity and Vehicle Finance (selectively in the portfolio). NIM with respect to decline in upfront assigned income and decline in NIM of Home Equity portfolio in 2QFY19. Yield and NIM to improve with rise in higher yield asset and lesser incremental borrowings. Yield of Home Equity has decline with fall in yield and pre-closure of high yield older loans.
- ❑ CP & CC presently at 15%, going ahead management has guided to increase share of CP & CC to 17-18%. Last borrowing raised was in September for Rs 5000 Cr while incremental borrowing is almost NIL, management has highlighted that it has enough liquidity to support one quarter disbursement. Incremental Cost of Borrowings to move upwards by 30-40 bps.
- ❑ Incremental disbursement will be more towards higher yield assets (used, tractor, 2W and 3W products). CV sales to boost in the upcoming festival season. LAP book provides growth opportunity with lower competition due to liquidity crisis. MCV industry outlook is positive for H2FY19; HCV has grown at 49% as at H1FY19 going ahead growth is expected to slow down.

Profitability Matrix

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	41.4	34.9	39.0	40.8	44.8	34.4	35.7	-3.25	1.33
Empl. Cost/ Tot. Exp. %	44.1	50.4	48.4	39.6	41.2	50.2	46.3	-2.17	-3.89
Other Exp/Tot. Exp.%	55.9	49.6	51.6	60.4	58.8	49.8	53.7	2.17	3.89
Provision/PPP %	13.5	25.0	26.8	19.2	2.5	18.3	11.9	-14.84	-6.35
Tax Rate %	35.0	35.3	34.2	34.3	33.8	35.0	33.7	-0.53	-1.29
Int Exp./Int Inc. (%)	45.4	48.8	48.6	42.7	46.1	49.5	51.6	2.96	2.06
Other Inc./NII %	1.0	0.0	-	0.0	0.0	0.0	-	0.00	-0.02
PPP/ Net Income %	58.6	65.1	61.0	59.2	55.2	65.6	64.3	3.25	-1.33
PAT/ Net Income %	33.0	31.6	29.4	31.4	35.6	34.8	37.5	8.14	2.68
NII Growth % (YoY)	10.0	19.9	18.4	31.3	27.8	23.3	17.0	-1.43	-6.38
PPP Growth YoY %	(1.1)	29.4	24.4	33.7	19.0	24.3	23.2	-1.23	-1.07
PAT Growth %	14.3	26.5	19.3	53	36.7	36.0	49.4	30.02	13.31

Margin Performance

Margin %	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.0	15.5	15.6	15.0	15.3	15.9	15.3	-0.30	-0.51
Cost Of Funds	9.1	9.7	13.2	8.6	8.6	9.3	9.4	-3.80	0.11
Spreads	5.9	5.8	2.5	6.3	6.7	6.6	6.0	3.50	-0.62
NIM	7.7	8.0	8.0	8.5	8.8	8.0	7.4	-0.61	-0.57

Exhibit: Yield and Cost

Stable Margins

■ Yield% (Cal.) ■ Cost of Fund % (Cal.)

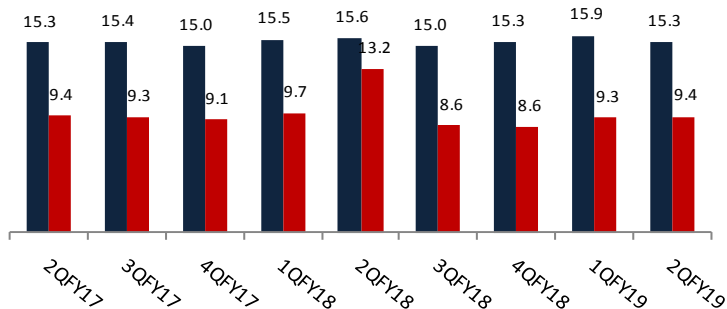
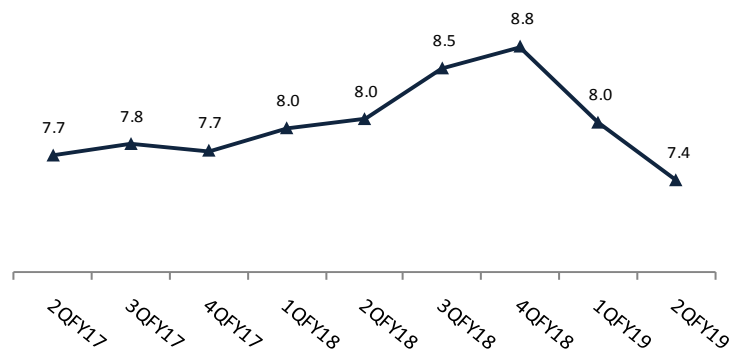


Exhibit: Net Interest Margin

NIM steady

▲ NIM % on AUM (Cal)



Asset & Borrowings Growth Trend

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Disbursements	4444	4373	5213	4853	5498	6761	8008	7014	6900
Growth YoY %	21	3	5	6	24	55	54	45	26
AUM	31892	32686	34167	34995	36490	39074	42879	45097	47722
Growth YoY %	19	17	15	14	14	20	25	30	31
Borrowings	24813	24896	24207	24658	26889	28298	31902	40520	46638
Growth YoY %	20	13	7	3	8	14	32	43	46

Exhibit: AUM Growth %

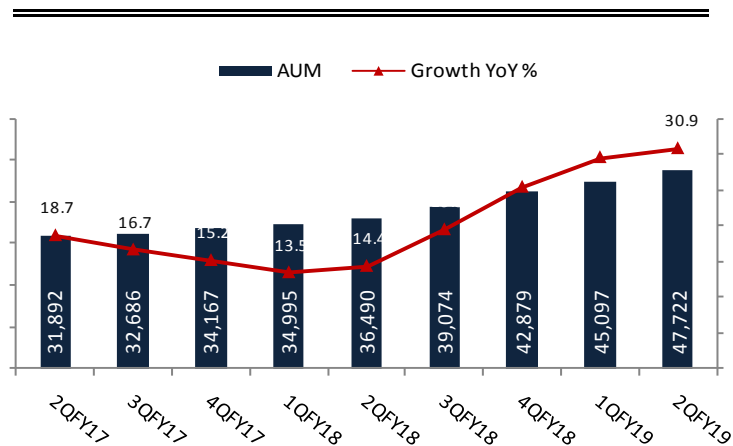
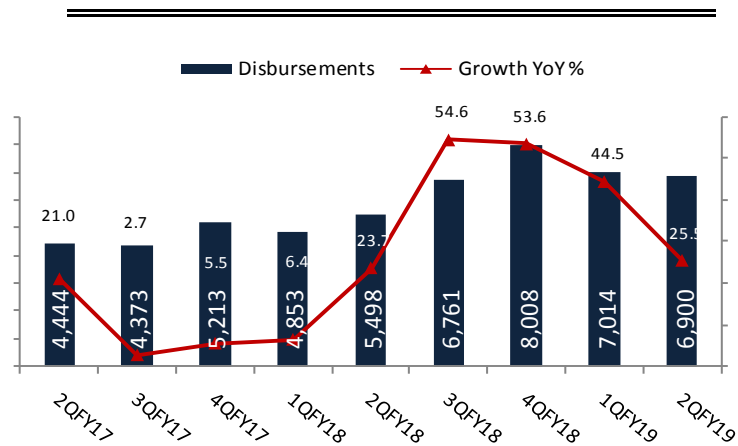


Exhibit: Disbursement Growth %



Asset Mix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
CAR & MUV	16	17	16	17	16	15	14	15	15
3WHRL & SCV	5	5	5	6	6	6	7	8	9
REFINANCE	19	18	17	17	18	17	16	13	14
OLDER VEHICLES	15	15	15	15	17	15	14	14	14
TRACTOR	8	8	8	9	7	7	7	7	7
CE	3	3	3	4	3	4	4	5	5
HCV	13	14	16	11	14	16	18	16	16
LCV	21	20	20	21	19	20	20	22	20

Asset Quality

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Calc.)	1,545	1,682	1,867	1,446	1,496	1,620	1,608	(74)	(12)
GNPA %	4.7	4.7	5.1	3.7	3.5	3.6	3.4	(1.3)	(0.2)
NNPA (Calc.)	1,033	1,120	1,247	899	953	1,029	1,017	(103)	(12)
NNPA %	3.2	3.2	3.5	2.3	2.2	2.3	2.2	(1.0)	(0.1)
Total Specific PCR %	33	33	33	38	36	36	37	3	0

Exhibit: Asset Quality

Improvement in asset quality

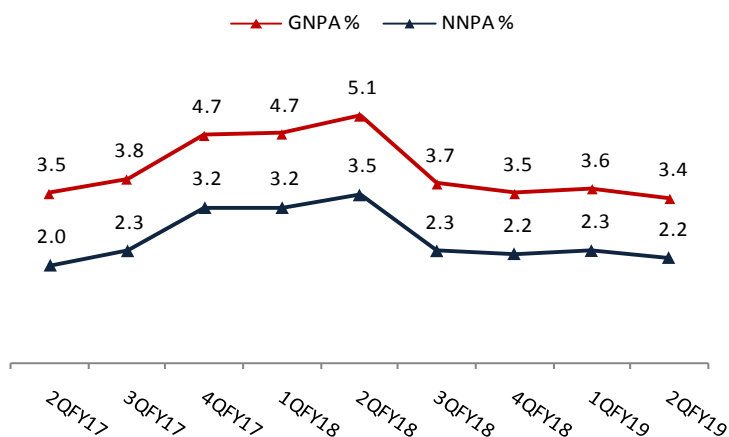


Exhibit: Provisions

PCR Stable

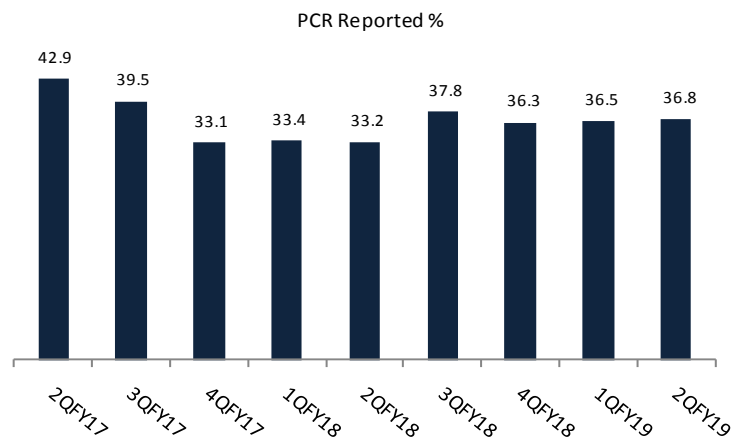


Exhibit: AUM Break Up

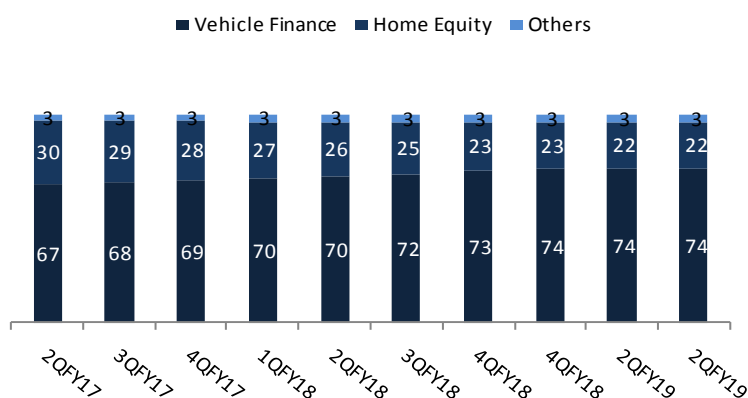
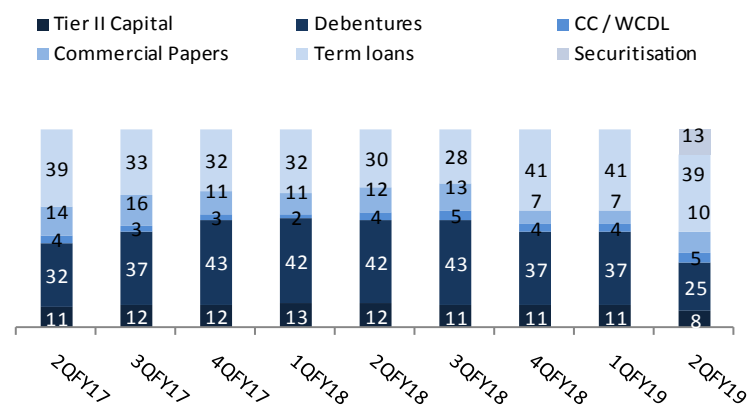


Exhibit: Liability Break Up



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Gross NPA (Stage 3)		1,867		1,496	1,620	1,608
Stage 3 Assets to Total Gross Asset		5.1		3.5	3.6	3.4
ECL provision - Stage 3		620		543	591	591
Coverage Ratio (%) Stage 3		33.2		36.3	36.5	36.8
Gross Stage 1 & 2		34741		41601	43623	46082
ECL provision-Stage 1 & 2		338		355	367	348
Coverage Ratio (%) - Stage 1 & 2		1%		0.90%	0.80%	0.80%
Total ECL Provision		957.0		899.0	958.0	939.0

*1QFY18 & 3QFY18 has not been stated

Home Equity

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Self Occupied Residential	89.0	88.0	88	87	82	81	81	84	84
Commercial	7.0	7.0	7.0	7.0	8.0	8.0	8.0	9.0	9.0
Others	4.0	5.0	5.0	5.0	10.0	11.0	11.0	7.0	7.0

Exhibit: Asset Quality

Lower Credit Cost

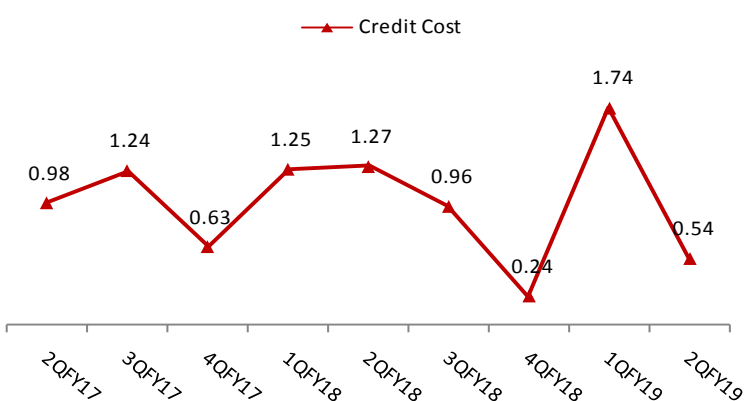
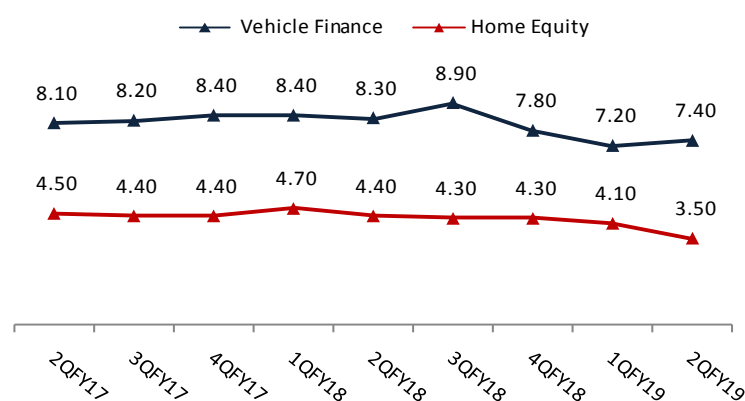


Exhibit: Provisions

NIM segment wise



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	143	143	644	156	156	156	156	156
>> Equity Capital	143	143	144	156	156	156	156	156
>> Preference Capital	-	-	500	-	-	-	-	-
Reserves & Surplus	1,809	2,151	2,529	3,501	4,156	4,994	6,165	7,515
Networth	1,953	2,295	2,673	3,657	4,313	5,150	6,322	7,671
Change (%)	39	18	16	37	18	19	23	21
Total Borrowings	15,289	18,093	19,475	22,576	24,207	31,902	48,336	60,766
Change (%)	34	18	8	16	7	32	52	26
Provisions	310	352	386	648	673	764	556	365
Other Liabilities	2,629	3,102	4,012	4,664	5,842	6,838	8,311	9,808
Total Liabilities	18,228	21,547	23,873	27,888	30,721	39,505	57,204	70,939
Investments	172	82	67	67	239	319	628	817
Loans	16,470	19,166	21,904	25,486	27,904	36,646	52,319	62,847
Change (%)	34	16	14	16	9	31	43	20
Fixed Assets	73	73	68	111	140	161	262	377
Other Assets	1,111	1,425	1,493	1,734	1,952	1,987	3,323	6,360
Cash Balances	404	801	341	490	487	393	672	538
Total Assets	18,228	21,547	23,873	27,888	30,721	39,505	57,204	70,939

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	2,518	3,232	3,664	4,177	4,634	5,501	7,016	8,681
Interest expended	1,411	1,771	1,960	2,051	2,231	2,305	3,558	4,606
Net Interest Income	1,107	1,461	1,704	2,127	2,403	3,195	3,458	4,075
Change (%)	46	32	17	25	13	33	8	18
Other Income	38	31	27	16	26	1	0	-
Change (%)	(14)	(17)	(14)	(39)	61	(98)	(52)	(100)
Total Net Income	1,145	1,492	1,731	2,143	2,430	3,196	3,458	4,075
Change (%)	43	30	16	24	13	32	8	18
Operating Expenses	570	658	749	845	1,013	1,363	1,131	1,271
Change (%)	30	16	14	13	20	34	(17)	12
>> Employee Expenses	153	188	222	254	403	542	568	652
Change (%)	39	22	18	15	59	35	5	15
>> Other Expenses	416	471	527	591	611	821	563	619
Pre-provisioning Profit	575	834	982	1,298	1,416	1,834	2,328	2,804
Change (%)	58	45	18	32	9	29	27	20
Provisions	124	283	325	427	311	350	330	489
Change (%)	213	128	15	32	(27)	13	(6)	48
PBT	451	550	657	871	1,106	1,484	1,998	2,315
Tax	144	186	222	302	387	510	682	787
Profit After Tax	307	364	435	568	719	974	1,316	1,528
Change (%)	78	19	20	31	26	35	35	16
Adjusted Profit After Tax	307	364	435	568	719	974	1,316	1,528
Change (%)	78	19	20	31	26	35	35	16

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
AUM	18,998	23,253	25,453	29,650	34,167	42,879	53,170	63,804
>> Off-Book AUM	2,529	4,087	3,548	4,164	6,263	6,234	851	957
AUM Growth (%)	41.0	22.4	9.5	16.5	15.2	25.5	24.0	20.0
Borrowing Growth (%)	33.6	18.3	7.6	15.9	7.2	31.8	51.5	25.7
Loan/Borrowing (%)	1.1	1.1	1.1	1.1	1.2	1.1	1.1	1.0
Disbursement (Rs Cr)	12,118	13,114	12,808	16,380	18,591	25,119	31,721	39,144
Disbursement Growth (%)	36.3	8.2	(2.3)	27.9	13.5	35.1	26.3	23.4
CRAR (%)	19.0	17.2	21.2	19.7	18.6	18.4	14.3	13.6
>> Tier 1 (%)	11.1	10.5	13.0	13.3	13.6	13.2	10.7	10.4
>> Tier 2 (%)	8.0	6.8	8.2	6.4	5.0	5.1	3.6	3.1
Debt/Equity(x)	7.8	7.9	7.3	6.2	5.6	6.2	7.6	7.9

Assets Quality Metrics

Gross NPA (Rs)	-	436	803	1,022	1,545	1,261	1,382	1,467
Gross NPA (%)	1.0	1.9	3.1	3.5	4.7	2.9	2.6	2.3
Net NPA (Rs)	-	174	523	598	1,033	712	760	807
Net NPA (%)	0.2	0.7	2.0	2.1	3.2	1.7	1.4	1.3
Specific Provision Coverage (%)	-	-	34.8	39.7	31.6	43.5	45.0	45.0
Provision/Average Advances (%)	0.8	1.3	1.3	1.6	1.0	0.9	0.7	0.8

Margin Metrics

Yield On Advances (%)	15.5	15.3	15.0	15.2	14.5	14.3	14.6	14.8
Cost Of Funds (%)	10.6	10.6	10.4	9.8	9.5	8.2	8.9	8.4
Spread (%)	5.0	4.7	4.6	5.4	5.0	6.1	5.7	6.4
NIM on AUM (%)	6.8	6.9	7.0	7.7	7.5	8.3	7.2	7.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	56.0	54.8	53.5	49.1	48.1	41.9	50.7	53.1
Other Income/NII (%)	3.4	2.1	1.6	0.8	1.1	0.0	0.0	-
Operating Profit/Net Income (%)	50.2	55.9	56.7	60.6	58.3	57.4	67.3	68.8
Net Profit/Net Income (%)	26.8	24.4	25.1	26.5	29.6	30.5	38.0	37.5
Cost to Income (%)	49.8	44.1	43.3	39.4	41.7	42.6	32.7	31.2
Employee Exp/Net Income (%)	13.4	12.6	12.8	11.9	16.6	16.9	16.4	16.0
Cost on Average Assets (%)	3.5	3.1	3.1	3.1	3.2	3.5	2.4	2.2
Provision/PPP (%)	21.6	34.0	33.1	32.9	21.9	19.1	14.2	17.4
Tax Rate (%)	32.0	33.8	33.8	34.7	35.0	34.4	34.1	34.0

Valuation Ratio Metrics

EPS (Rs)	21.4	25.4	30.3	36.4	46.0	62.3	84.2	97.7
Change (%)	64.6	18.7	19.1	20.2	26.3	35.4	35.1	16.2
ROAE (%)	18.3	17.1	17.5	18.0	18.0	20.6	22.9	21.8
ROAA (%)	1.9	1.8	1.9	2.2	2.5	2.8	2.7	2.4
Dividend Payout (%)	16.3	13.8	11.6	12.4	12.0	10.4	10.1	9.7
Dividend yield (%)	1.6	1.4	0.8	0.7	0.6	0.4	0.7	0.8
DPS	3.5	3.5	3.5	4.5	5.5	6.5	8.5	9.5
Book Value(Rs)	136.4	160.3	186.0	234.2	276.0	329.4	404.4	490.7
Change (%)	28.8	17.5	16.1	25.9	17.8	19.4	22.7	21.4
P/B (X)	2.0	1.8	3.2	3.0	3.5	4.4	3.0	2.4
P/E (X)	12.7	11.3	19.4	19.6	21.0	23.3	14.2	12.3

Financial Details

Exhibit: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	15.9	16.2	16.1	16.1	15.8	15.7	14.5	13.5
<i>Interest expended</i>	8.9	8.9	8.6	7.9	7.6	6.6	7.4	7.2
<i>Net Interest Income</i>	7.0	7.3	7.5	8.2	8.2	9.1	7.2	6.4
<i>Non-Fund Based Income</i>	0.2	0.2	0.1	0.1	0.1	0.0	0.0	-
<i>Total Income</i>	7.2	7.5	7.6	8.3	8.3	9.1	7.2	6.4
<i>Total Operating Expenses</i>	3.6	3.3	3.3	3.3	3.5	3.9	2.3	2.0
<i>>> Employee Expenses</i>	1.0	0.9	1.0	1.0	1.4	1.5	1.2	1.0
<i>>> Other Expenses</i>	2.6	2.4	2.3	2.3	2.1	2.3	1.2	1.0
<i>Operating Profit</i>	3.6	4.2	4.3	5.0	4.8	5.2	4.8	4.4
<i>Provisions</i>	0.8	1.4	1.4	1.7	1.1	1.0	0.7	0.8
<i>Others</i>	-	-	-	-	-	-	-	-
<i>PBT</i>	2.8	2.8	2.9	3.4	3.8	4.2	4.1	3.6
<i>Tax</i>	0.9	0.9	1.0	1.2	1.3	1.5	1.4	1.2
PAT/RoAA	1.9	1.8	1.9	2.2	2.5	2.8	2.7	2.4
<i>Equity Multiplier (x)</i>	9.5	9.4	9.1	8.2	7.4	7.4	8.4	9.2
ROAE	18.3	17.1	17.5	18.0	18.0	20.6	22.9	21.8

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*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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