

## CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LTD

**BUY**

02-Nov-17

INDUSTRY - NBFC  
BLOOMBERG - CIBC IN  
BSE Code - 511243  
NSE Code - CHOLAFIN  
NIFTY - 10440

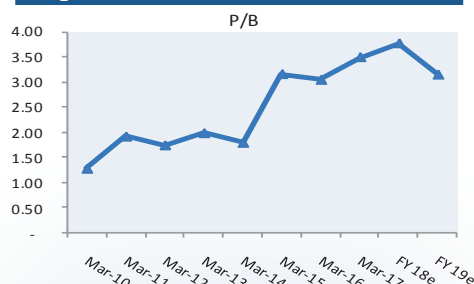
### Company Data

CMP	1222
<b>Target Price</b>	<b>1372</b>
Previous Target Price	1358
<b>Upside</b>	<b>12%</b>
Change from Previous	1%
52wk Range H/L	1270/805
Mkt Capital (Rs Cr)	19099
Av. Volume (,000)	140

### Share Holding Pattern %

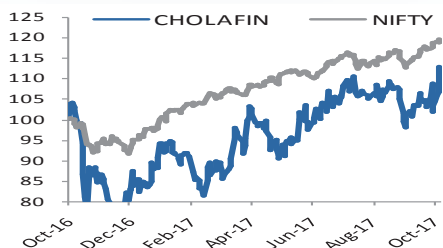
	2QFY18	1QFY18	4QFY17
Promoters	53.1	53.1	53.1
DII	15.6	15.1	15.9
FII	21.6	21.5	20.7
Others	9.8	10.4	10.3

**CHOLAFIN is trading at its higher range of P/B**



### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	11.3	2.0	4.4
Rel.to Nifty	5.3	3.6	21.2



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### Key Highlights of the report:

- ✓ CHOLAFIN has well diversified assets portfolio into vehicle financing (70%), home equity segment (27%) and newer segment-MSME/Home loan (3%).
- ✓ It has well presence of its network across the region with highest of 29% in south market. It has over 725 branches pan India.
- ✓ AUM is growing at 20% CAGR backed by 19% CAGR in vehicle finance and 25% in home loan, while earning has grown by 34% CAGR during the same period.
- ✓ Assets quality remains one of the best among peers with GNPA at 4.5%.
- ✓ Opex has been under control with significant improvement of 8% in cost to income ratio over FY13-17 despite of continuous branch expansion.
- ✓ **We maintain BUY with the target price of Rs 1372 (3.5x BVPS FY19).**

### Financials/Valuation

	FY15	FY16	FY17	FY18E	FY19E
NII	1704	2127	2403	2988	3535
PPP	982	1298	1416	1763	2102
PAT	435	568	719	915	1115
NIM %	7.0	7.7	7.5	8.0	8.0
EPS (Rs)	30.3	36.4	46.0	58.5	71.3
EPS growth (%)	19.1	20.2	26.3	27.3	21.8
ROE (%)	17.5	18.0	18.0	19.5	19.9
ROA (%)	1.9	2.2	2.5	2.7	2.8
BV	186	234	276	326	390
P/B (X)	3.2	3.0	3.5	3.8	3.1
P/E (x)	19.4	19.6	21.0	21.0	17.2

### Recent Development : Key Highlights of Result Update

- ✓ Disbursement picked up strongly during the quarter with 24% YoY growth on the back of healthy 32% growth in vehicle portfolio. AUM registered healthy growth of 14.4% YoY.
- ✓ Assets quality has shown a sign of improvement with GNPA declining by 27 bps QoQ to 4.46% and NNPA declining 31 bps to 2.89% QoQ.
- ✓ Reported NIM for the half year increased to 9.5% against 8.4% a year back. NIM expansion was benefited from decline in cost of fund as well as higher yield product mix.
- ✓ Due to focus on various technologies and collection efficiency, Opex is expected to remain elevated at current levels in FY18.
- ✓ India Ratings and Research (Ind-Ra) & Care Ratings Ltd. have announced an upgrade on the long term debt rating of Cholamandalam Investment and Finance Co. Ltd.

## CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LTD

### Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Interest Inc.	1,156	1,170	1,207	1,235	1,296	12.1%	4.9%	4,177	4,634	10.9%
Interest Exp.	569	566	548	541	557	-2.2%	2.9%	2,051	2,231	8.8%
NII	586	604	659	694	739	26.1%	6.5%	2,127	2,403	13.0%
Other Income	7	6	7	0	0	-99.1%	-14.3%	16	26	61.2%
Total Income	593	610	666	694	739	24.6%	6.5%	2,144	2,430	13.3%
Ope Exp.	253	259	275	278	309	22.2%	11.2%	845	1,013	19.9%
PPP	341	351	390	416	430	26.4%	3.4%	1,298	1,416	9.1%
Provisions	77	100	53	98	83	7.8%	-15.2%	427	311	-27.3%
PBT	263	251	338	318	347	31.8%	9.1%	871	1,106	27.0%
Tax	92	88	118	112	120	29.8%	7.5%	302	387	28.0%
Exceptional Item	-	-	-	-	-				-	
Net Profit	171	163	220	207	227	32.9%	10.0%	568	719	26.4%

### Strong all round performance with margin expansion.

CHOLAFIN reported 2Q FY18 result in line with our expectation. PAT registered healthy growth of 33% backed by strong operating profit growth which grew by 26% YoY.

NII also grew by 26% YoY on the back of NIM expansion and healthy AUM growth.

Improved assets quality has led to control in credit cost under 1%.

Reported NIM for the half year increased to 9.5% against 8.4% a year back. NIM expansion was benefited from decline in cost of fund as well as higher yield product mix.

Recently credit rating of CHOLAFIN was upgraded by two credit rating agency which should result in cost benefit going forward.

Profitability Metrix	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
C/I Ratio %	42.6	42.4	41.4	40.0	41.8	-0.82	1.76	39.4	41.7	2.28
Empl. Cost/ Tot. Exp. %	43.3	38.6	44.1	41.4	42.0	-1.30	0.63	30.1	39.7	9.68
Other Exp/Tot. Exp.%	56.7	61.4	55.9	58.6	58.0	1.30	-0.63	69.9	60.3	-9.68
Provision/PPP %	22.7	28.5	13.5	23.6	19.3	-3.33	-4.24	32.9	21.9	-10.98
Tax Rate %	35.1	35.2	35.0	35.1	34.5	-0.55	-0.52	34.7	35.0	0.27
Int Exp./Int Inc. (%)	49.3	48.4	45.4	43.8	43.0	-6.30	-0.85	49.1	48.1	-0.95
Other Income/NII %	1.2	1.0	1.0	0.0	0.0	-1.17	0.00	0.9	1.2	0.37
PPP/ Net Income %	57.4	57.6	58.6	60.0	58.2	0.82	-1.76	60.6	58.3	-2.28
PAT/ Net Income %	28.8	26.6	33.0	29.8	30.7	1.93	0.97	26.5	29.6	3.06
NII Growth % (YoY)	16.6	12.2	10.0	25.3	26.1	9.43	0.72	24.8	13.0	-11.80
PPP Growth YoY %	14.3	7.0	(1.1)	24.6	26.4	12.08	1.81	32.2	9.1	-23.08
PAT Growth % YoY	41.9	11.2	14.3	24.6	32.9	-8.95	8.29	30.6	26.4	-4.19

## CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LTD

### Opex remained elevated.

Operating expenses grew by 22% YoY which resulted in sequential increase in cost to income ratio to 42% against 40%.

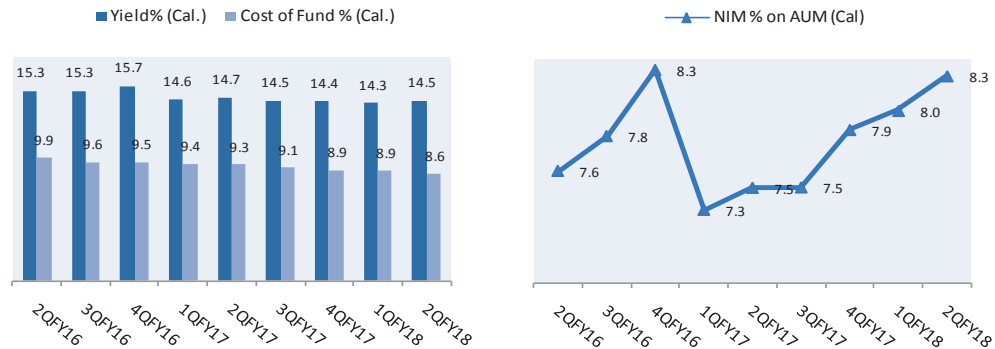
Higher expense during the quarter was led by employee expenses. Focus of management on collection efficiency and technology has led to increase in cost.

Opex is expected to remain elevated in FY18, however FY19 should see some cost reduction due to investment in technology and improved productivity level.

### Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
Aveg Yield (Cal.)	14.7	14.5	14.4	14.3	14.5	-0.24	0.22	15.2	14.5	-0.64
Avg Cost of Fund (Cal)	9.3	9.1	8.9	8.9	8.6	-0.70	-0.22	9.8	9.5	-0.22
Spread (Cal)	5.4	5.4	5.5	5.4	5.9	0.46	0.44	5.4	5.0	-0.42
NIM % on AUM (Cal)	7.5	7.5	7.9	8.0	8.3	0.79	0.25	7.7	7.5	-0.19

Declining Cost of fund coupled with focus on higher yield product is helping NIM to expand.



### Strong AUM growth backed by healthy disbursements.

- ✓ Disbursement picked up strongly during the quarter with 24% YoY growth on the back of healthy growth in vehicle demand.
- ✓ Disbursement in vehicle portfolio grew by 32% YoY on the back of pent up demand and festive
- ✓ Impacted by demonetization, disbursement in home equity segment declined by 8% YoY, however it picked up sequentially to registered 12% QoQ growth signifying the recovery in the sector.
- ✓ Home loan portfolio grew by 80%, impact of low base while MSME declined 10% YoY mainly slowdown as a strategy by management due to GST.
- ✓ Healthy disbursement led the AUM growth of 14.4% YoY. Vehicle portfolio AUM grew by 20% while home equity AUM grew just under 15 YoY. New business segment grew with a healthy rate of 37% as a effect of lower base.
- ✓ Growth in vehicle portfolio was led by healthy demand in HCV and older vehicle segment.
- ✓ Management has maintained the earlier guidance of 18-20% AUM growth in FY18.

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### Improvement in assets quality.

- ✓ Assets quality has shown a sign of improvement with GNPA declining by 27 bps QoQ to 4.46% and NNPA declining 31 bps to 2.89% QoQ. Overall PCR has increased to 35% from 33% a quarter back.
- ✓ GNPA in vehicle portfolio declined to 3.78% against 4.17% sequentially. NNPA is at 2.43% against 2.74% a quarter back.
- ✓ GNPA and NNPA at home equity is at 5.98% and 3.97% against 6.03% and 4.17% sequentially.
- ✓ Annualized credit cost declined to 93 bps against 113 bps a quarter back.
- ✓ Management is confident of further reduction in GNPA level in FY18.

### Assets Quality Performance

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY %
GNPA %	3.5	3.8	4.7	4.7	4.5	0.96	-0.27	3.5	4.7	1.20
NNPA %	2.0	2.3	3.2	3.2	2.9	0.89	-0.31	2.1	3.2	1.10

### Other Highlights

- ✓ Securitized assets declined to 16% against 19% sequentially.
- ✓ CRAR is at 19.3% of which Tier I is at 13.9% and Tier 2 is at 5.3%.
- ✓ Branch network increased by 22 to 725 across the geographies.

### View and Valuation

After a slowdown due to demonetization and BS4 norm, recent result has shown the strong sign of revival in disbursement. With the well diversification of AUM portfolio as well as geographically, we

- ✓ believe CHOLAFIN is well placed to reap the benefit of rise in growth of vehicle demand. Festive season, crop season as well as infra push by Government will boost the vehicle demand. Home Equity segment is reviving after demonetization.
- ✓ Strong vehicle demand coupled with its reviving home equity finance we expect CHOLAFIN to register 18% CAGR kind of AUM growth over FY17-19. Newer segment MSME loan with small base is likely to support the AUM growth and NIM expansion. Recent upgrade in credit rating by two rating agencies is likely to provide cost benefit in near future.
- ✓ CHOLAFIN has superior assets quality among its peers with GNPA at 4.5% on 90 dpd. We expect assets quality to improve further and hence credit cost would be under control.
- ✓ Improvement in productivity level has led the cost to income ratio in declining trend over last 5 years.
- ✓ CHOLAFIN has been continuously expanding the branch network with strict cost control. With the focus on technology and productivity, opex is expected to further moderate going forward to boost the RoE.

We increase our earnings estimate for FY17/FY19 by 2%/3% respectively on the back of improved margin and expect RoE in the range of 19%-20% and RoA of 2.8% in FY19. **We increase our price target to Rs 1372 (3.5x BVPS FY19) and maintain BUY.**

## CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LTD

### Concall Highlights :

- ✓ HCV, LCV, mini vehicle and older vehicle saw good demand during the quarter. Growth was backed by pent up demand.
- ✓ Expect NPA to decline further from current levels till FY18.
- ✓ Long term borrowing was upgraded by two rating agencies. Expect one more credit rating agency to upgrade it sooner further which will in cost benefit.
- ✓ Will be able to maintain business growth of trend of last 3 to 4 years.
- ✓ Will be able to maintain NIM at current levels.
- ✓ No need of immediate capital to grow at 20-22% range.
- ✓ Collection efficiency in vehicle finance has improved to 98% in 2Q FY18.
- ✓ There is a special focus on collection efficiency to improve assets quality.

### Performance in Charts and Graphs

#### Business Analysis (Rs in Cr)

	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Disbursements	3672	4260	4941	4561	4444	4373	5213	4853	5498
>> Growth YoY %	21.2	38.2	40.8	30.0	21.0	2.7	5.5	6.4	23.7
AUM	26864	28004	29650	30826	31892	32686	34167	34995	36490
>> Growth YoY %	9.8	13.2	16.5	18.3	18.7	16.7	15.2	13.5	14.4
Borrowings	20637	22078	22576	23948	24813	24896	24207	24658	26889
>> Growth YoY %	3.4	-2.4	15.9	16.2	20.2	12.8	7.2	3.0	8.4

#### AUM Composition %

Vehicle Finance	67.7	67.5	67.8	67.5	67.4	67.8	69.2	69.7	70.4
Home Equity	30.1	30.3	29.9	30.0	30.0	29.5	28.1	27.4	26.4
Others	2.2	2.3	2.4	2.5	2.6	2.7	2.8	2.9	3.2

#### AUM Profile %

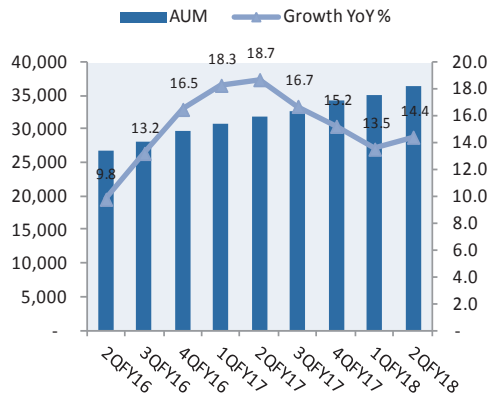
On Book Loan Port %	86.1	88.7	86.0	86.7	86.0	86.5	81.7	81.1	84.4
Off Book Loan Port %	13.9	11.3	14.0	13.3	14.0	13.5	18.3	18.9	15.6

#### Disbursements Break-up (Rs in Crore)

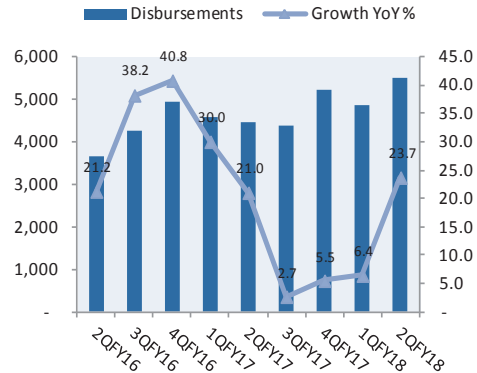
Vehicle Finance	2791	3245	3760	3326	3247	3491	4407	3819	4295
Home Equity	770	882	994	991	901	619	544	740	830
MSME	58	83	130	165	177	167	157	158	160
Home Loans	40	45	56	75	78	73	100	122	143
Others	14	4	1	4	41	24	5	15	70

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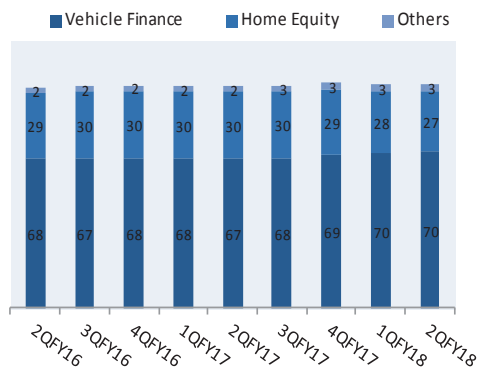
## AUM growth trend



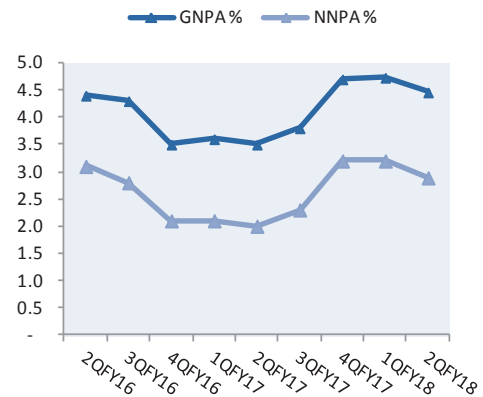
## Disbursement growth picked up



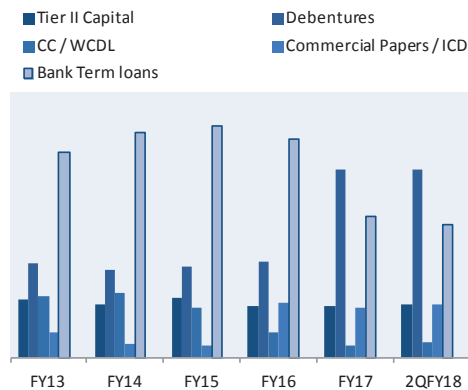
## Assets Mix trend



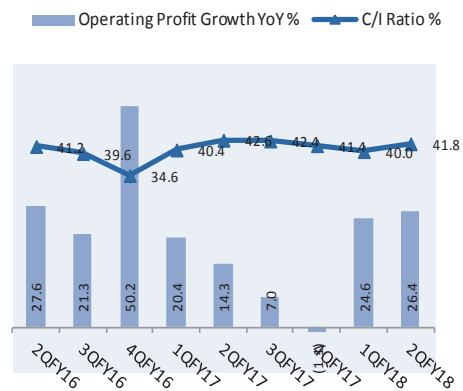
## Improving Assets Quality



## Borrowing Mix Trend



## Opex remain elevated



# CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LTD

## Financials Snap Shot

### Balance Sheet

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
<b>Share Capital</b>	156	156	156	156
>> <i>Equity Capital</i>	156	156	156	156
>> <i>Preference Capital</i>	-	-	-	-
Reserves & Surplus	3,501	4,156	4,931	5,933
<b>Networth</b>	<b>3,657</b>	<b>4,313</b>	<b>5,087</b>	<b>6,089</b>
<i>Change (%)</i>	36.8	17.9	18.0	19.7
Total Borrowing	22,576	24,207	29,558	35,240
<i>Change (%)</i>	15.9	7.2	22.1	19.2
Provisions	648	673	680	811
Other Liability	4,664	5,842	6,752	7,827
<b>Total Liabilities</b>	<b>27,888</b>	<b>30,721</b>	<b>36,989</b>	<b>43,878</b>
<b>Assets Side</b>				
Investments	67	239	323	381
Loans	25,486	27,904	33,463	39,487
<i>Change (%)</i>	16.4	9.5	19.9	18.0
Fixed Assets	111	140	168	198
Other Assets	1,734	1,952	2,477	3,072
Cash Balance	490	487	558	740
<b>Total Assets</b>	<b>27,888</b>	<b>30,721</b>	<b>36,989</b>	<b>43,878</b>

### Income Statement

Rs in Crores

Y/E March	FY16	FY17	FY18E	FY19E
Interest income	4,177	4,634	5,268	6,100
Interest expended	2,051	2,231	2,280	2,565
<b>Net Interest Income</b>	<b>2,127</b>	<b>2,403</b>	<b>2,988</b>	<b>3,535</b>
<i>Change (%)</i>	24.8	13.0	24.3	18.3
Other Income	16	26	8	18
<i>Change (%)</i>	(39.5)	61.2	(69.9)	123.6
Total Net Income	2,143	2,430	2,996	3,553
<i>Change (%)</i>	24	13	23	19
Operating Expenses	845	1,013	1,233	1,451
<i>Change (%)</i>	12.8	19.9	21.6	17.7
> Employee Expenses	254	403	515	616
<i>Change (%)</i>	14.5	58.6	27.8	19.7
> Other Expenses	591	611	718	835
<b>Pre-provisioning Profit</b>	<b>1,298</b>	<b>1,416</b>	<b>1,763</b>	<b>2,102</b>
<i>Change (%)</i>	32.2	9.1	24.5	19.2
Provisions	427	311	358	387
<i>Change (%)</i>	31.6	(27.3)	15.2	8.0
PBT	871	1,106	1,405	1,715
Tax	302	387	491	600
<b>Profit After Tax</b>	<b>568</b>	<b>719</b>	<b>915</b>	<b>1,115</b>
<i>Change (%)</i>	30.6	26.4	27.3	21.8
<b>Adjusted PAT</b>	<b>568</b>	<b>719</b>	<b>915</b>	<b>1,115</b>
<i>Change (%)</i>	30.6	26.4	27.3	21.8

### Key Ratios & Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
<b>Balance Sheet Metrics</b>				
AUM	29,650	34,167	40,317	47,574
> Off-Book AUM	4,164	6,263	6,854	8,088
AUM Growth (%)	16.5	15.2	18.0	18.0
Borrowing Growth (%)	15.9	7.2	22.1	19.2
Loan/Borrowing Ratio	1.1	1.2	1.1	1.1
Disbursement (Rs Cr)	16,380	18,591	23,095	27,715
<i>Disbursement Growth (%)</i>	27.9	13.5	24.2	20.0
CRAR (%)	19.7	18.6	17.7	17.3
>> Tier 1 (%)	13.3	13.6	13.5	13.7
>> Tier 2 (%)	6.4	5.0	4.2	3.5
Debt/Equity (x)	6.2	5.6	5.8	5.8

### Assets Quality Metrics

Gross NPA (Rs)	1,022	1,545	1,693	1,855
Gross NPA (%)	3.50	4.70	4.20	3.90
Net NPA (Rs)	598	1,033	1,067	1,113
Net NPA (%)	2.10	3.20	2.65	2.34
Specific Prov. Coverage (%)	39.7	31.6	37.0	40.0
Prov. Exp/Average Loan (%)	1.6	1.0	1.0	0.9

### Margin Metrics

Yield On Advances (%)	15.2	14.5	14.1	13.9
Cost Of Funds (%)	9.8	9.5	8.5	7.9
Spread (%)	5.4	5.0	5.7	6.0
NIM (%)	7.7	7.5	8.0	8.0

### Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	49.1	48.1	43.3	42.0
Other Income/NII (%)	0.8	1.1	0.3	0.5
Op. Profit/ Net Income (%)	60.6	58.3	58.9	59.1
Net Profit/Net Income (%)	26.5	29.6	30.5	31.4
Cost to Income (%)	39.4	41.7	41.1	40.9
Employee Exp/ Net Income (%)	11.9	16.6	17.2	17.3
Cost on Average Assets (%)	3.1	3.2	3.3	3.3
Provisions/PPP (%)	32.9	21.9	20.3	18.4
Tax Rate (%)	34.7	35.0	34.9	35.0

### Valuation Ratio Metrics

EPS (Rs)	36.4	46.0	58.5	71.3
<i>Change (%)</i>	20.2	26.3	27.3	21.8
ROAE (%)	18.0	18.0	19.5	19.9
ROAA (%)	2.2	2.5	2.7	2.8
Dividend Payout (%)	12.4	12.0	9.4	8.4
Dividend yield (%)	0.7	0.6	0.4	0.5
DPS	4.5	5.5	5.5	6.0
Book Value (Rs)	234	276	326	390
<i>Change (%)</i>	25.9	17.8	18.0	19.7
P/B (X)	3.0	3.5	3.8	3.1
P/E (X)	19.6	21.0	21.0	17.2