

CHOLAMANDALAM INVESTMENT AND FINANCE COMPANY LIMITED

Industry
Bloomberg
BSE Code
NSE Code

FINANCIAL
CIBC IN
511243
CHOLAFIN

Wednesday, April 25, 2018

RATING	ACCUMULATE
CMP	1650
Price Target	1822
Previous Target	1557
Potential Upside	10%

Stock Info

52wk Range H/L	1714/986
Mkt Capital (Rs Cr)	25788
Free float (%)	47%
Avg. Vol 1M (,000)	192
No. of Shares (Crore)	16
Promoters Pledged %	-

All round remarkable performance

Key Highlights

- ✓ CHOLAFIN has well diversified assets portfolio into vehicle financing (74%), home equity segment (23%) and newer segment-MSME/Home loan (3%). AUM has growing at 18% CAGR backed by 17% CAGR in vehicle finance and 18% CAGR in home equity over last 5 years.
- ✓ It has been one of the key beneficiaries from strong CV sales in the industry. 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 18% loan CAGR over FY18-20.
- ✓ CHOLAFIN has shown remarkable improvement across all key parameters- growth, NIM and assets quality. Its assets quality and margin is among the best in the industry. AUM growth ahead of peers signals gain in market share. EPS CAGR of 29% (FY12-17) was the highest among peers. We expect the same trajectory in FY18 and going forward.
- ✓ We expect other segment (home loan and MSME, although very small at 3%) to contribute meaningfully numbers in long run due to synergistic scaling up the business.

4Q FY18 Result:

CHOLAFIN reported strong 4QFY18 numbers beating our PAT estimates by 7% which was led by much higher AUM growth of 26% than that of our expectation. Net Interest Income (NII) grew by 31% yoy led by improved NIM and healthy AUM growth during the quarter. However opex was also higher which grew by 38% yoy, while operating profit grew at 31% yoy, which led to rise in the cost to income (C/I) ratio from 41% to 43% yoy. PAT has registered 32.6% YoY growth. GNPA improved significantly by 76 bps to 2.94% while NNPA improved by 64 bps QoQ.

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. Despite the intensive competition on pricing front, management has able to upheld the yield due to focus on higher yielding assets. Asset quality has been continuously improving due to increased collection efforts. We increase our earnings estimate for FY19/FY20 by 7%/8% respectively factoring stable NIM and higher AUM growth. We expect company to report RoE/RoA of 21%/2.8% in FY20. **We assign 4X multiple to FY20e BV of CHOLAFIN and arrive at a target price of Rs 1822. Recommend ACCUMULATE.**

Key Risks to our rating and target

- ♦ Slow down in infrastructure activity pushed by Government and any negative impact on recovery of rural economy.
- ♦ Intensive competition and significant increase in bond yield will impact NIM.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2127	2403	3195	3848	4482
PPP	1298	1416	1834	2247	2644
PAT	568	719	974	1223	1444
NIM %	7.7	7.5	8.3	8.2	8.0
EPS (Rs)	36	46	62	78	92
EPS growth (%)	20.2	26.3	35.4	25.6	18.0
ROE (%)	18.0	18.0	20.6	21.5	21.0
ROA (%)	2.2	2.5	2.8	2.8	2.8
BV	234	276	329	398	479
P/B (X)	3.0	3.5	4.4	4.1	3.4
P/E (x)	19.6	21.0	23.3	21.1	17.9

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4Q FY 18 Results Above Expectation

Strong Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,207	1,235	1,296	1,383	1,511	25.2%	9.3%	4,634	5,501	18.7%
Interest Exp.	548	541	557	590	620	13.2%	5.0%	2,231	2,305	3.3%
NII	659	694	739	793	891	35.2%	12.4%	2,403	3,195	33.0%
Other Income	7	0	0	0	0			26	1	-97.6%
Total Income	666	694	739	793	892	33.9%	12.4%	2,430	3,197	31.5%
Ope Exp.	275	278	309	324	379	37.7%	17.2%	1,013	1,363	34.5%
PPP	390	416	430	469	512	31.2%	9.2%	1,416	1,834	29.5%
Provisions	53	98	83	90	74	39.4%	-18.3%	311	350	12.6%
PBT	338	318	347	379	439	30.0%	15.7%	1,106	1,484	34.2%
Tax	118	112	120	130	148	25.1%	13.6%	387	510	31.8%
Extraordinary	-	-	-	-	-			-	-	
Net Profit	220	207	227	249	291	32.6%	16.8%	719	974	35.5%

NIM expanded further.

NII growth has been strong at 35% YOY, backed by strong AUM growth and expansion in NIM. NIM has increased to 9.70% from 8.60% in 4qfy18. Yield on AUM increased by 40 bps yoy to 16.90% while the cost of funds has fallen by 68 bps yoy to 8.24%. Increase in share of used vehicle has helped stabilizing the yield despite pricing pressure in certain segment. NIM on Vehicle Finance segment has increased from 8.40% to 8.90% and the same on Home Equity has remained stable at 4.40%.

Healthy AUM growth

Strong disbursement led to strong loan book growth. Loan Book Growth was strong at 26%, with 33% growth in Vehicle Finance. Home equity segment recovered with 4% YoY growth. Others Portfolio grew at the rate of 46% yoy. The share of vehicle finance has increased significantly from 69% a year back to 74% this quarter, Share of Home equity has decreased from 30% to 23% yoy and others portfolio has increased from 2.8% to 3.2% yoy. Disbursement in vehicle finance has a robust growth of 55% on the back of higher demand of HCV, LCV and Used vehicles.. The healthy growth in vehicle finance is due to uptick in CVs demand, the Home Equity portfolio has also revived from the effects of demonetization with a strong disbursement of 48% yoy.

Going forward we expect AUM CAGR of 18% over FY17-20 as we are positive on revival of CV industry. Management has been aggressively expanding the branches which will also support the growth. On the home equity too management is expanding network to cash the revival of rural economy.

Improving assets quality

Assets quality has shown a significant improvement with GNPA declining by 76 bps QoQ to 2.94% and NNPA declining 64 bps to 1.66% QoQ. Overall PCR has increased from 37% to 44% QoQ. GNPA in vehicle portfolio declined to 2.04% against 2.78% sequentially. NNPA is at 1.13% against 1.67% a quarter back. This happened due to the increased effort of management on collection efficiency. In home equity segment GNPA has improved from 5.98% to 5.36% qoq and NNPA has decreased from 4.10% to 3.21% QOQ. PCR of Home equity has also increased from 40% to 44% qoq.

Operating efficiency

Cost to income ratio has increased from 41% to 43% YOY. Operating expenses has grown at 38% yoy. Higher expense during the quarter was led by business outsourcing. Focus of management is on collection efficiency and technology up gradation. CHOLAFIN added 15 branches during the quarter and total of 170 during FY18 to reach at extensive network of 873. We expect scaling of the other new products will have synergy effect from existing branches and hence will help in reducing C/I ratio in long run.

Concall Highlights

- >> CHOLAFIN to leveraging securitization cost to reduce cost of fund.
- >> Marginal cost of borrowing is around 8.2%-8.3%.
- >> Pent up demand and hub spoke model is increasing sale of LCV.
- >> East & North india registering higher growth in cv segment.
- >> Ban on overloading, increase in hub and spoke model , huge demand of dipper and construction vehicles, improving GDP are the reason of growth.

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Profitability Matrix

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
C/I Ratio %	42.6	42.4	41.4	40.0	41.8	40.8	42.5	1.17	1.72
Empl. Cost/ Tot. Exp. %	43.3	38.6	44.1	41.4	42.0	39.6	40.9	-3.25	1.28
Other Exp/Tot. Exp.%	56.7	61.4	55.9	58.6	58.0	60.4	59.1	3.25	-1.28
Provision/PPP %	22.7	28.5	13.5	23.6	19.3	19.2	14.4	0.84	-4.84
Tax Rate %	35.1	35.2	35.0	35.1	34.5	34.3	33.7	-1.31	-0.62
Int Exp./Int Inc. (%)	49.3	48.4	45.4	43.8	43.0	42.7	41.0	-4.35	-1.66
Other Inc./NII %	1.2	1.0	1.0	0.0	0.0	0.0	0.0	-0.96	0.02
PPP/ Net Income %	57.4	57.6	58.6	60.0	58.2	59.2	57.5	-1.17	-1.72
PAT/ Net Income %	28.8	26.6	33.0	29.8	30.7	31.4	32.6	-0.33	1.22
NII Growth % (YoY)	16.6	12.2	10.0	25.3	26.1	31.3	35.2	25.20	3.91
PPP Growth YoY %	14.3	7.0	(1.1)	24.6	26.4	33.7	31.2	32.35	-2.42
PAT Growth %	41.9	11.2	14.3	24.6	32.9	53.3	32.6	18.25	-20.75

Margin Performance

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
Yield on Advances	14.7	14.5	14.4	14.3	14.5	14.6	14.8	0.31	0.11
Cost Of Funds	9.3	9.1	8.9	8.9	8.6	8.6	8.2	-0.68	-0.32
Spreads	5.4	5.4	5.5	5.4	5.9	6.1	6.5	0.99	0.43
NIM	7.5	7.5	7.9	8.0	8.3	8.4	8.7	0.81	0.31

Exhibit: Yield and Cost

Growing Margins

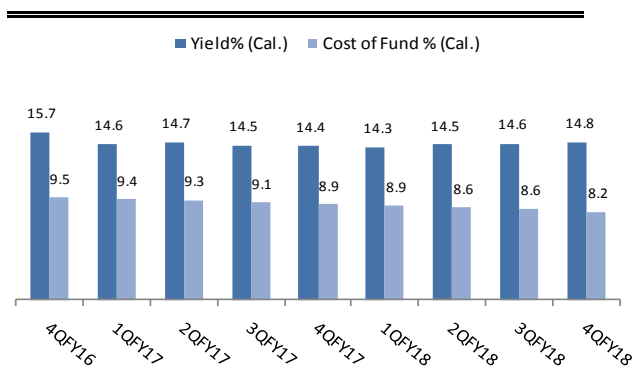
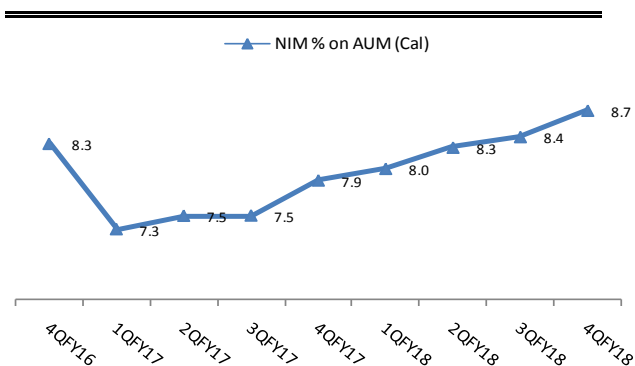


Exhibit: Net Interest Margin

NIM has Expanded



Asset & Borrowings Growth Trend

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Disbursements	4941	4561	4444	4373	5213	4853	5498	6761	8008
Growth YoY %	41	30	21	3	5	6	24	55	54
AUM	29650	30826	31892	32686	34167	34995	36490	39074	42879
Growth YoY %	16	18	19	17	15	14	14	20	25
Borrowings	22576	23948	24813	24896	24207	24658	26889	28298	31902
Growth YoY %	16	16	20	13	7	3	8	14	32

Asset Composition %

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Vehicle Finance	68	68	67	68	69	70	70	72	73
Home Equity	30	30	30	29	28	27	26	25	23
Others	2	2	3	3	3	3	3	3	3

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Exhibit: AUM Growth %

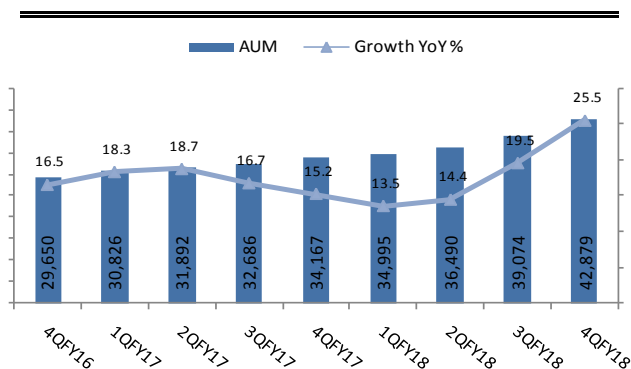
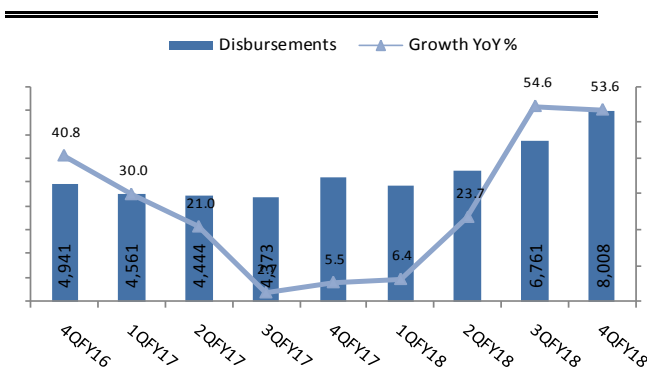


Exhibit: Disbursement Growth %



Borrowing Mix

	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Tier II Cap	12	11	11	12	12	13	12	11	11
Debentures	21	27	32	37	43	42	42	43	37
CC/WCDL	6	5	4	3	3	2	4	5	4
Commercial Papers	12	10	14	16	11	11	12	13	7
Term Loans	49	47	39	33	32	32	30	28	41

Disbursement Break up (Rs in Cr)

Vehicle Finance	3,760	3,326	3,247	3,491	4,407	3,819	4,295	5,607	6,820
Home Equity	994	991	901	619	544	740	830	799	806
MSME	130	165	177	167	157	158	160	164	147
Home Loan	56	75	78	73	100	122	143	149	193
Others	1	4	41	24	5	15	70	43	41

Asset Quality

	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY (+/-)	QoQ (+/-)
GNPA %	3.5	3.8	4.7	4.7	4.5	3.7	2.9	-1.76	-0.76
NNPA %	2.0	2.3	3.2	3.2	2.9	2.3	1.7	-1.54	-0.64
NNPA Vehicle Finance %			2.8	2.7	2.4	1.7	1.1	-1.69	-0.54
NNPA Home Equity %			4.0	4.2	4.0	4.1	3.2	-0.83	-0.89
Total Specific PCR %			31.6	33.1	35.1	36.8	43.5	11.90	6.70

Exhibit: Asset Quality

Improved assets quality

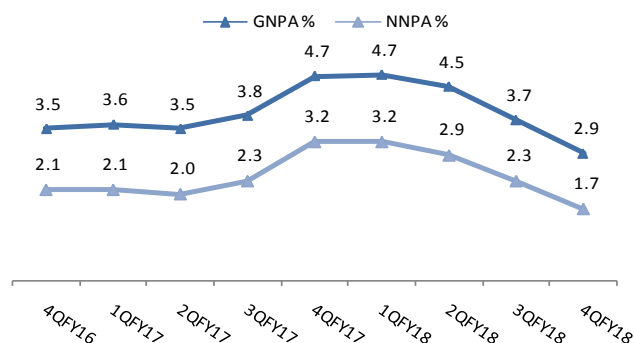
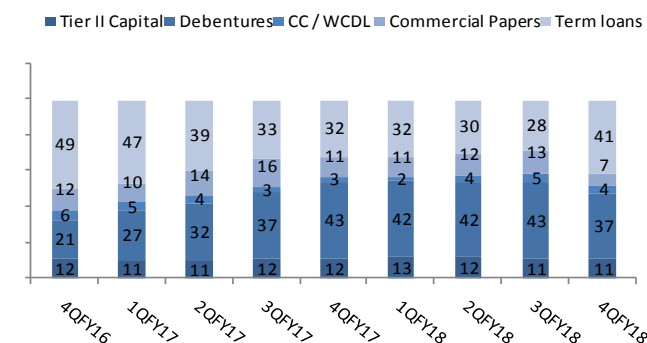


Exhibit: Provisions

Borrowing Profile



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	6,073	7,339
Networth	1,953	2,295	2,673	3,657	4,313	5,150	6,230	7,495
Change (%)	39.1	17.5	16.5	36.8	17.9	19.4	21.0	20.3
Total Borrowing	15,289	18,093	19,475	22,576	24,207	31,902	38,115	43,752
Change (%)	33.6	18.3	7.6	15.9	7.2	31.8	19.5	14.8
Provisions	310	352	386	648	673	764	800	1,094
Other Liability	2,629	3,102	4,012	4,664	5,842	6,838	8,151	9,874
Total Liabilities	18,228	21,547	23,873	27,888	30,721	39,505	47,066	54,720
Investments	172	82	67	67	239	319	411	410
Loans	16,470	19,166	21,904	25,486	27,904	36,646	43,222	50,570
Change (%)	34.5	16.4	14.3	16.4	9.5	31.3	17.9	17.0
Fixed Assets	73	73	68	111	140	161	190	228
Other Assets	1,111	1,425	1,493	1,734	1,952	1,987	2,664	3,002
Cash Balances	404	801	341	490	487	393	580	510
Total Assets	18,228	21,547	23,873	27,888	30,721	39,505	47,066	54,720

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	6,649	7,798
Interest expended	1,411	1,771	1,960	2,051	2,231	2,305	2,800	3,315
Net Interest Income	1,107	1,461	1,704	2,127	2,403	3,195	3,848	4,482
Change (%)	46.4	31.9	16.7	24.8	13.0	33.0	20.4	16.5
Other Income	38	31	27	16	26	1	-	-
Change (%)	(14.3)	(17.2)	(13.8)	(39.5)	61.2			
Total Net Income	1,145	1,492	1,731	2,143	2,430	3,196	3,848	4,482
Change (%)	43	30	16	24	13	32	20	16
Operating Expenses	570	658	749	845	1,013	1,363	1,602	1,838
Change (%)	30	16	14	13	20	34	18	15
Employee Expenses	153	188	222	254	403	542	653	757
Change (%)	38.7	22.5	18.3	14.5	58.6	34.5	20.6	15.9
Other Expenses	416	471	527	591	611	821	948	1,081
Pre-provisioning Profit	575	834	982	1,298	1,416	1,834	2,247	2,644
Change (%)	58.3	44.9	17.8	32.2	9.1	29.5	22.5	17.7
Provisions	124	283	325	427	311	350	379	440
Change (%)	213.3	128.0	14.6	31.6	(27.3)	12.6	8.4	16.0
PBT	451	550	657	871	1,106	1,484	1,868	2,204
Tax	144	186	222	302	387	510	644	760
Profit After Tax	307	364	435	568	719	974	1,223	1,444
Change (%)	77.7	18.7	19.5	30.6	26.4	35.5	25.6	18.0
Adjusted Profit	307	364	435	568	719	974	1,223	1,444
Change (%)	77.7	18.7	19.5	30.6	26.4	35.5	25.6	18.0

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	51,455	60,202
Off Book AUM	2,529	4,087	3,548	4,164	6,263	6,234	8,233	9,632
AUM Growth (%)	41.0	22.4	9.5	16.5	15.2	25.5	20.0	17.0
Borrowing Growth (%)	33.6	18.3	7.6	15.9	7.2	31.8	19.5	14.8
Loan to Borrowing Ratio (%)	1.1	1.1	1.1	1.1	1.2	1.1	1.1	1.2
Disbursement	12,118	13,114	12,808	16,380	18,591	25,119	32,203	36,623
Disbursement Growth	36	8	(2)	28	13	35	28	14
CRAR (%)	19.0	17.2	21.2	19.7	18.6	18.4	17.2	17.4
>> Tier 1 (%)	11.1	10.5	13.0	13.3	13.6	13.2	12.9	13.3
>> Tier 2 (%)	8.0	6.8	8.2	6.4	5.0	5.1	4.3	4.1
Debt-Equity ratio	7.8	7.9	7.3	6.2	5.6	6.2	6.1	5.8

Assets Quality Metrics

Gross NPA	-	436	803	1,022	1,545	1,261	1,338	1,385
Gross NAP (%)	1.0	1.9	3.1	3.5	4.7	2.9	2.6	2.3
Net NPA	-	174	523	598	1,033	712	736	762
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	0.8	0.8

Margin Metrics

Yield On Aum (%)	15.5	15.3	15.0	15.2	14.5	14.3	14.1	14.0
Cost Of Funds (%)	10.6	10.6	10.4	9.8	9.5	8.2	8.0	8.1
Spread (%)	5.0	4.7	4.6	5.4	5.0	6.1	6.1	5.9
NIM (%)	6.8	6.9	7.0	7.7	7.5	8.3	8.2	8.0

Profitability & Efficiency Metrics

Int. Expended/Int.Earned (%)	56	55	53	49	48	42	42	43
Other Income/NII (%)	3	2	2	1	1	0	-	-
Operating Profit/ Net Income (%)	50	56	57	61	58	57	58	59
Net Profit/Net Income (%)	27	24	25	27	30	30	32	32
Cost to Income (%)	50	44	43	39	42	43	42	41
Employee Exp/ Net Income (%)	13	13	13	12	17	17	17	17
Cost on Average Assets (%)	4	3	3	3	3	4	3	3
Provisions/PPP (%)	22	34	33	33	22	19	17	17
Tax Rate (%)	32	34	34	35	35	34	35	35

Valuation Ratio Metrics

EPS (Rs)	21	25	30	36	46	62	78	92
Change (%)	64.6	18.7	19.1	20.2	26.3	35.4	25.6	18.0
ROAE (%)	18.3	17.1	17.5	18.0	18.0	20.6	21.5	21.0
ROAA (%)	1.9	1.8	1.9	2.2	2.5	2.8	2.8	2.8
Dividend Payout (%)	16.3	13.8	11.6	12.4	12.0	10.4	10.9	10.3
Dividend yield (%)	1.6	1.4	0.8	0.7	0.6	0.4	0.5	0.6
Dividend Per Share	3.5	3.5	3.5	4.5	5.5	6.5	8.5	9.5
Book Value (Rs)	136	160	186	234	276	329	398	479
Change (%)	28.8	17.5	16.1	25.9	17.8	19.4	21.0	20.3
P/B (X)	2.0	1.8	3.2	3.0	3.5	4.4	4.1	3.4
P/E (X)	12.7	11.3	19.4	19.6	21.0	23.3	21.1	17.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest Income	16.2	16.1	16.1	15.8	15.7	15.4	15.3
Interest expended	8.9	8.6	7.9	7.6	6.6	6.5	6.5
Net Interest Income	7.3	7.5	8.2	8.2	9.1	8.9	8.8
Other Income	0.2	0.1	0.1	0.1	0.0	-	-
Total Income	7.5	7.6	8.3	8.3	9.1	8.9	8.8
Total Operating Expenses	3.3	3.3	3.3	3.5	3.9	3.7	3.6
>> Employee Expenses	0.9	1.0	1.0	1.4	1.5	1.5	1.5
>> Other Expenses	2.4	2.3	2.3	2.1	2.3	2.2	2.1
Operating Profit	4.2	4.3	5.0	4.8	5.2	5.2	5.2
Provisions	1.4	1.4	1.7	1.1	1.0	0.9	0.9
Others	-	-	-	-	-	-	-
PBT	2.8	2.9	3.4	3.8	4.2	4.3	4.3
Tax	0.9	1.0	1.2	1.3	1.5	1.5	1.5
PAT/RoA	1.8	1.9	2.2	2.5	2.8	2.8	2.8
>> Equity Multiplier (x)	9.4	9.1	8.2	7.4	7.4	7.6	7.4
RoE	17.1	17.5	18.0	18.0	20.6	21.5	21.0



Narnolia Securities Ltd

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