

Cholamandalam Inv & Fin

Industry	Financial
Bloomberg	CIFC IN
BSE CODE	511243

Shifting to high yield assets segments to drive margin expansion

RATING	BUY
CMP	1250
Price Target	1447
Potential Upside	16%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1760/1038
Mkt Capital (Rs Cr)	19837
Free float (%)	46%
Avg. Vol 1M (,000)	273
No. of Shares (Cr)	16
Promoters Pledged %	

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3QFY19 Result Update

- ❑ NII was in line with our estimate while PAT missed our estimate due to higher OPEX & provision. NII has grown at the rate of 22% YoY on the back of strong asset growth of 29% YoY. PAT has grown strong at 39% YoY.
- ❑ Margins have remained under pressure due to rising cost of fund. Management has hiked 40-50 bps in the vehicle finance segment while 50 bps in the home loan segment. Yield has remained stable at 14.20% while cost of fund has marginally increased from 7.3% to 7.4% QoQ which led to slight decline in NIM from 6.9% to 6.8% QoQ.
- ❑ C/I are expected to trend higher as management has plans for continuous geographical expansion plans. 6 new branches were added in 3QFY19. Management expects growth to continue on the BS-VI pre-buying implementation. Housing finance branches are expected to reach to 200 by FY20.
- ❑ AUM has grown at the rate of 29% while disbursement has grown at 13% YoY; the growth was mainly driven by HCV, LCV and Car & MUV segment. Home equity has registered highest ever growth of 14% YoY.
- ❑ Gross stage 3 has improved 3.40% to 3.30% QoQ; Net stage 3 has declined from 2.16% to 2.10% QoQ. PCR has remained stable QoQ at 37%. In Home equity segment SARFAESI recovery stood at Rs 30 Cr for 3QFY19.

View and Valuation

CHOLAFIN has been reporting strong performance in all the key metrics. Strong AUM & disbursement growth is testimony of CHOLAFIN strong brand & well diversified portfolio. Infrastructure & mining development and recovery in rural economy have kept AUM growth robust. NIM may remain under pressure in the medium term but it is expected to stabilize as portfolio mix tilts towards high yielding portfolios. Growth in higher yielding portfolio may lead to higher OPEX & credit cost. Asset quality is showing improvement with rising rural cash flow & stable PCR. With number of SARFEASI preceding in line to being resolved going ahead we expect home equity asset quality to improve. Stronger growth, increasing efficiency, strong ALM, rising yields will augur well for growth in CHOLAFIN. The stock is currently 2.6x BVPS FY20e. We maintain BUY with same target price from Rs 1447.

Key Risks to our rating and target

- ❑ Higher operating expense to drive C/I ratio.
- ❑ Increased credit cost with growth in high risk segment.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	2127	2403	3195	3432	4276
PPP	1298	1416	1834	2209	2802
PAT	568	719	974	1221	1520
NIM %	7.7	7.5	8.3	7.1	7.1
EPS (Rs)	36	46	62	78	97
EPS growth (%)	20	26	35	25	24
ROE (%)	18.0	18.0	20.6	21.5	22.0
ROA (%)	2.2	2.5	2.8	2.5	2.3
BV	234	276	329	398	484
P/B (X)	3.0	3.5	4.4	3.1	2.6
P/E (x)	19.6	21.0	23.3	16.0	12.9

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3QFY19 Results PAT Missed Our Expectations

Strong Growth

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,389	1,562	1,620	1,676	1,831	31.8%	9.2%	4,634	5,501	18.7%
Interest Exp.	673	720	802	864	956	42.1%	10.7%	2,231	2,305	3.3%
NII	716	842	818	812	875	22.1%	7.7%	2,403	3,195	33.0%
Other Income	0	0	0	0	0	37.5%	10.0%	26	1	-97.6%
Total Income	716	843	819	812	875	22.1%	7.7%	2,430	3,197	31.5%
Ope Exp.	282	378	282	290	316	12.0%	8.9%	1,013	1,363	34.5%
PPP	435	465	537	522	559	28.6%	7.1%	1,416	1,834	29.5%
Provisions	97	12	98	62	95	-1.6%	53.0%	311	350	12.6%
PBT	338	453	439	460	464	37.3%	0.9%	1,106	1,484	34.2%
Tax	118	153	154	155	159	35%	2.8%	387	510	31.8%
Extra Items	-	-	-	-	-			-	-	
Net Profit	219	300	285	305	304	38.7%	-0.1%	719	974	35%

Room for Margin Improvement

NII growth has been strong at 22% YOY, backed by a strong AUM of 29% growth and disbursement growth of 13%. NIM (reported) has decreased sequentially to 7% in 9MFY19 from 7.60% on the back of continuous rise cost of fund. The yield on advances has remained stable at 14.20% QoQ, while the cost of funds has increased from 7.3% to 7.4% QoQ which resulted in NIM contraction. NIM is expected to remain improve going ahead as the share of higher yield asset rises & interest rate hike resets into the portfolio.

Healthy Growth

AUM grew by 29% YoY on the back of healthy growth in home equity & others segment. Disbursement grew by 13% YoY. Growth was mainly driven by surge in HCV and LCV portfolio due to strong infra and construction activity. Vehicle segment growth was at 34% YoY, Home segment growth was at 14% YoY & Others segment grew at 41%. The Vehicle finance Portfolio was mainly dominated by LCV at 20%, CAR & MUV at 15%, HCVs at 14%, refinance at 13% and older vehicle at 15%. Home equity consists of 83% of self occupied residential property while commercial and others stood at 10% & 7% respectively. Management is shifting its focus from the HCVs towards high yielding products like used, tractor, two-wheeler, three-wheeler & small commercial vehicle.

Assets quality

Asset quality has improved from 3.40% to 3.30% QoQ on the back healthy rural cash flow due to growth of infra/construction activity. PCR stands stable at 37% sequentially. Provision in percentage to AUM has decline from its 1% average as per its historical trend to 78 bps in 3QFY19. CIFC has repossessed Rs 30 Cr from Home Equity GNPL. Management expects NPA numbers to further reduce as the cases get resolved (Rs 8-10 Cr).

Other Details

CHOLAFIN has 891 branches across 27 states/Union territories
879 branches of VF & 204 branches of HE (198 co-located with VF) and 145 HL (139 co-located with VF). 79% locations are in Tier-III, Tier-IV, Tier V and Tier-VI towns.
Capital adequacy stood at 18.4% in 3QFY19.

Concall Highlights

- Incremental yield has increased by 100 bps. Yields are improved by around 40-50 bps across sub products in the vehicle finance portfolio, but the interest rate hike is confined to the incremental disbursement. While management has raised 50 bps increase in the Home Loan portfolio which is a floating rate portfolio. Excess cash to the tune of Rs 4000-5000 Cr has resulted in lower income by Rs 30-40 Cr. Balance transfer has reduced during the quarter. NIM will improve as the yield resets into the portfolio & share of higher yield segment improve.
- Assignment income stood at Rs.30 Cr in this quarter. Total securitization was Rs 1,300 Cr, of which assignment is around Rs.750 Cr. Management has not yet reached Rs 4000 Cr securitization target for the year. Securitization spread was about 100-150 bps.
- In Home Equity segment there are 36 SARFAESI resolutions were made to the extent of around Rs.30 Cr. Going ahead management expects few more resolution to come through. Loss percentage on the resolution has been slightly higher than expected; CHOLAFIN has taken higher NCL hit. Out of Rs 150 Cr target of resolution Rs 50 was received in 1QFY19 & Rs 30 Cr in 2QFY19.
- Management expects to maintain higher liquidity in hand for next few quarters.
- Management is cautiously controlling Vehicle Finance growth to the level of 13% to 15% and focus more on the credit quality. Management is shifting its focus from the HCVs towards high yielding products like used, tractor, two-wheeler, three-wheeler & small commercial vehicle.
- AUM growth is expected to be at 25%. On the HL front management expects moving into a new company which is Chola mandalam Home Finance and the home equity will continue to grow with all the problems there out of the way.
- Gross NPA on vehicle finance is 1.9% and the home equity is around 4.47%, Stage III of Rs 822 Cr for VF and Rs 650 Cr for HE.
- Management expects pre-buying will happen for all HCV, LCV, small commercial vehicles, altogether and it will continue to maintain our market share in HCV and increase share in light commercial vehicles.
- Management plans to enter into tier-3, tier-4 market where products get a high ROTA.

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	34.9	39.0	39.4	44.8	34.4	35.7	36.1	-3.25	0.38
Empl. Cost/ Tot. Exp. %	50.4	48.4	47.3	41.2	50.2	46.3	44.9	-2.41	-1.42
Other Exp/Tot. Exp.%	49.6	51.6	52.7	58.8	49.8	53.7	55.1	2.41	1.42
Provision/PPP %	25.0	26.8	22.3	2.5	18.3	11.9	17.1	-5.24	5.12
Tax Rate %	35.3	34.2	35.0	33.8	35.0	33.7	34.3	-0.67	0.63
Int Exp./Int Inc. (%)	48.8	48.6	48.4	46.1	49.5	51.6	52.2	3.79	0.68
PPP/ Net Income %	65.1	61.0	60.6	55.2	65.6	64.3	63.9	3.25	-0.38
PAT/ Net Income %	31.6	29.4	30.6	35.6	34.8	37.5	34.8	4.17	-2.72
NII Growth % (YoY)	19.9	18.4	18.6	27.8	23.3	17.0	22.1	3.47	5.12
PPP Growth YoY %	29.4	24.4	23.7	19.0	24.3	23.2	28.6	4.89	5.43
PAT Growth %	26.5	19.3	35.0	37	36.0	49.4	38.7	3.69	-10.65

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.5	15.6	15.0	15.3	15.9	15.3	15.7	0.75	0.40
Cost Of Funds	9.7	13.2	8.6	8.6	9.3	9.4	8.9	0.25	-0.49
Spreads	5.8	2.5	6.3	6.7	6.6	6.0	6.9	0.50	0.89
NIM	8.0	8.0	8.5	8.8	8.0	7.4	7.5	-1.03	0.09

Exhibit: Yield and Cost

Stable Margins

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

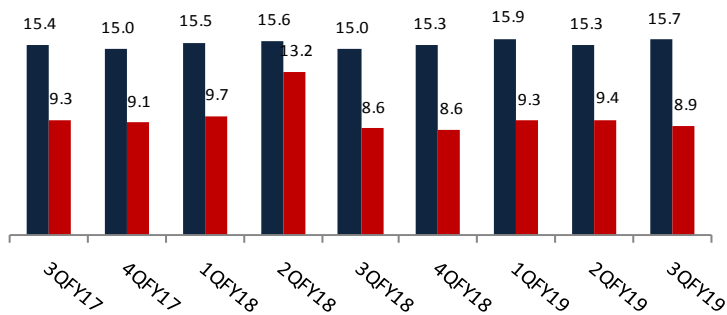
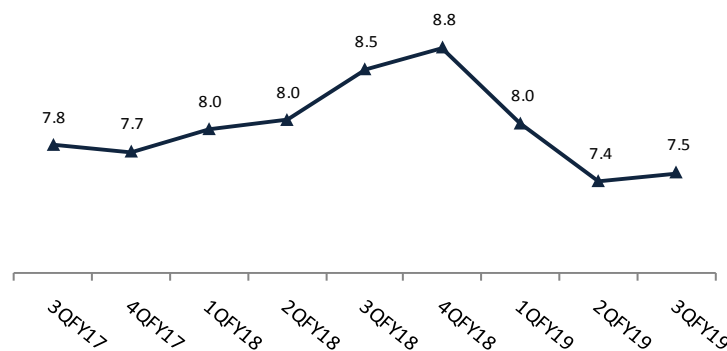


Exhibit: Net Interest Margin

NIM steady

▲ NIM % on AUM (Cal)



Asset & Borrowings Growth Trend

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Disbursements	4373	5213	4853	5498	6761	8008	7014	6900	7644
Growth YoY %	3	5	6	24	55	54	45	26	13
AUM	32686	34167	34995	36490	38980	42879	45097	47722	50393
Growth YoY %	17	15	14	14	19	25	30	31	29
Borrowings	24896	24207	24658	26889	28298	31902	40520	46638	46811
Growth YoY %	13	7	3	8	14	32	43	46	53

Exhibit: AUM Growth %

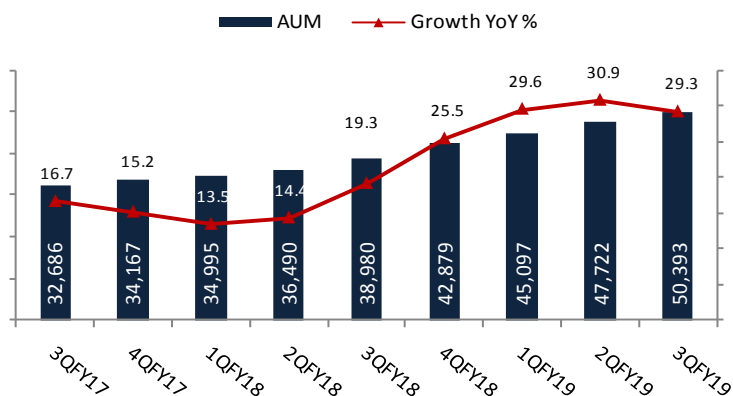
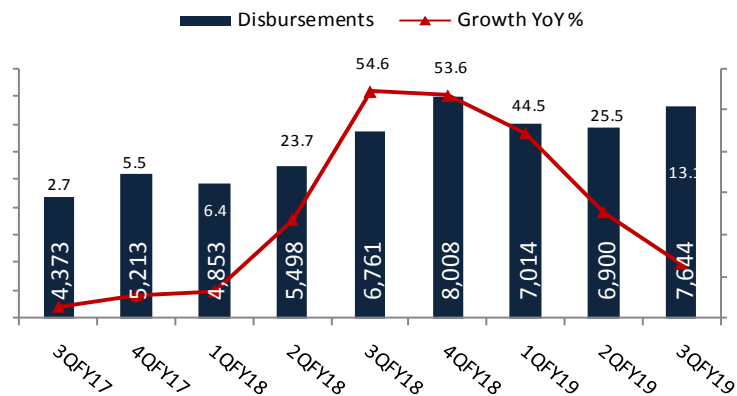


Exhibit: Disbursement Growth %



Asset Mix

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
CAR & MUV	17	16	17	16	15	14	15	15	16
3WHRL & SCV	5	5	6	6	6	7	8	9	7
REFINANCE	18	17	17	18	17	16	13	14	12
OLDER VEHICLES	15	15	15	17	15	14	14	14	13
TRACTOR	8	8	9	7	7	7	7	7	7
CE	3	3	4	3	4	4	5	5	5
HCV	14	16	11	14	16	18	16	16	18
LCV	20	20	21	19	20	20	22	20	22

Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Calc.)	1,682	1,867	1,668	1,496	1,620	1,608	1,639	(29)	31
GNPA %	4.7	5.1	4.3	3.5	3.6	3.4	3.3	(1.0)	(0.1)
NNPA (Calc.)	1,120	1,247	1,070	953	1,029	1,017	1,035	(35)	18
NNPA %	3.2	3.5	10.5	2.2	2.3	2.2	2.1	(8.4)	(0.1)
Total Specific PCR %	33	33	36	36	37	37	37	1	0

Exhibit: Asset Quality

Improvement in asset quality

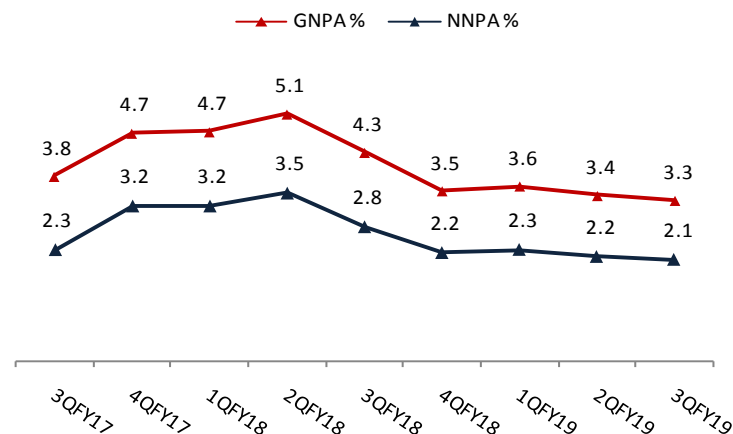


Exhibit: Provisions

PCR Stable

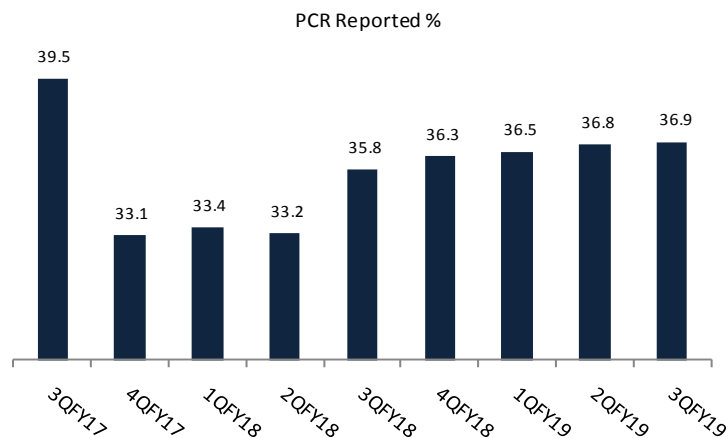


Exhibit: AUM Break Up

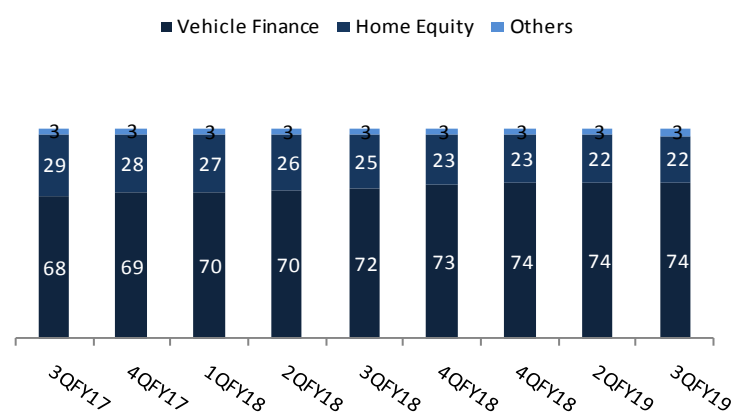
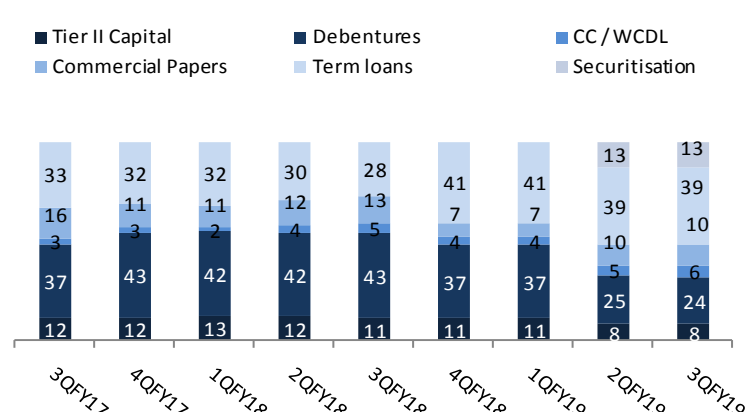


Exhibit: Liability Break Up



Asset Quality

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Gross NPA (Stage 3)	1,867	1,668	1,496	1,620	1,608	1,639
Stage 3 Assets to Total Gross Asset	5.1	4.3	3.5	3.6	3.4	3.3
ECL provision - Stage 3	620	598	543	591	591	604
Coverage Ratio (%) Stage 3	33.2	35.8	36.3	36.5	36.8	36.9
Gross Stage 1 & 2	34741	37534	41601	43623	46082	48261
ECL provision-Stage 1 & 2	338	359	355	367	348	371
Coverage Ratio (%) - Stage 1 & 2	1%	0.01	0.90%	0.80%	0.80%	0.80%
Total ECL Provision	957.0	957.0	899.0	958.0	939.0	975.0

Home Equity

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Self Occupied Residential	88	88	87	82	81	81	84	84	83
Commercial	7.0	7.0	7.0	8.0	8.0	8.0	9.0	9.0	10.0
Others	5.0	5.0	5.0	10.0	11.0	11.0	7.0	7.0	7.0

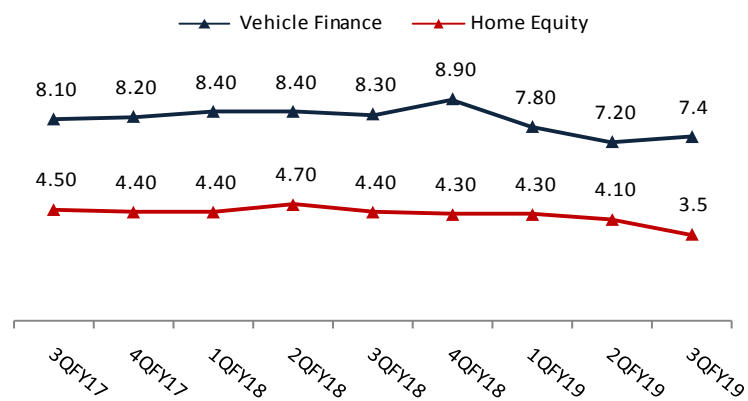
Exhibit: Asset Quality

Lower Credit Cost



Exhibit: NIM

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	6,071	7,412
Networth	1,953	2,295	2,673	3,657	4,313	5,150	6,227	7,568
Change (%)	39	18	16	37	18	19	21	22
Total Borrowings	15,289	18,093	19,475	22,576	24,207	31,902	48,674	63,379
Change (%)	34	18	8	16	7	32	53	30
Provisions	310	352	386	648	673	764	633	634
Other Liabilities	2,629	3,102	4,012	4,664	5,842	6,838	8,184	9,781
Total Liabilities	18,228	21,547	23,873	27,888	30,721	39,505	57,491	73,794
Investments	172	82	67	67	239	319	532	779
Loans	16,470	19,166	21,904	25,486	27,904	36,646	53,163	64,925
Change (%)	34	16	14	16	9	31	45	22
Fixed Assets	73	73	68	111	140	161	266	454
Other Assets	1,111	1,425	1,493	1,734	1,952	1,987	3,107	6,626
Cash Balances	404	801	341	490	487	393	423	1,009
Total Assets	18,228	21,547	23,873	27,888	30,721	39,505	57,491	73,794

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	7,075	8,976
Interest expended	1,411	1,771	1,960	2,051	2,231	2,305	3,644	4,700
Net Interest Income	1,107	1,461	1,704	2,127	2,403	3,195	3,432	4,276
Change (%)	46	32	17	25	13	33	7	25
Other Income	38	31	27	16	26	1	0	-
Change (%)	(14)	(17)	(14)	(39)	61	(98)	(34)	(100)
Total Net Income	1,145	1,492	1,731	2,143	2,430	3,196	3,432	4,276
Change (%)	43	30	16	24	13	32	7	25
Operating Expenses	570	658	749	845	1,013	1,363	1,223	1,474
Change (%)	30	16	14	13	20	34	(10)	21
>> Employee Expenses	153	188	222	254	403	542	570	684
Change (%)	39	22	18	15	59	35	5	20
>> Other Expenses	416	471	527	591	611	821	652	790
Pre-provisioning Profit	575	834	982	1,298	1,416	1,834	2,209	2,802
Change (%)	58	45	18	32	9	29	20	27
Provisions	124	283	325	427	311	350	353	500
Change (%)	213	128	15	32	(27)	13	1	42
PBT	451	550	657	871	1,106	1,484	1,857	2,303
Tax	144	186	222	302	387	510	636	783
Profit After Tax	307	364	435	568	719	974	1,221	1,520
Change (%)	78	19	20	31	26	35	25	24
Adjusted Profit After Tax	307	364	435	568	719	974	1,221	1,520
Change (%)	78	19	20	31	26	35	25	24

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	54,028	65,914
>> Off-Book AUM	2,529	4,087	3,548	4,164	6,263	6,234	864	989
AUM Growth (%)	41.0	22.4	9.5	16.5	15.2	25.5	26.0	22.0
Borrowing Growth (%)	33.6	18.3	7.6	15.9	7.2	31.8	52.6	30.2
Loan/Borrowing (%)	1.1	1.1	1.1	1.1	1.2	1.1	1.1	1.0
Disbursement (Rs Cr)	12118.3	13114.2	12807.6	16380.2	18591.3	25119.2	31012.6	40122.1
Disbursement Growth (%)	36.3	8.2	(2.3)	27.9	13.5	35.1	23.5	29.4
CRAR (%)	19	17	21	20	19	18	14	13
>> Tier 1 (%)	11.1	10.5	13.0	13.3	13.6	13.2	10.5	9.9
>> Tier 2 (%)	8.0	6.8	8.2	6.4	5.0	5.1	3.5	3.0
Debt/Equity(x)	7.8	7.9	7.3	6.2	5.6	6.2	7.8	8.4

Assets Quality Metrics

Gross NPA (Rs)	-	436	803	1,022	1,545	1,261	1,621	1,780
Gross NPA (%)	1.0	1.9	3.1	3.5	4.7	2.9	3.0	2.7
Net NPA (Rs)	-	174	523	598	1,033	712	1,021	979
Net NPA (%)	0.2	0.7	2.0	2.1	3.2	1.7	1.9	1.5
Specific Provision Coverage (%)	-	-	35	40	32	44	37	45
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	15.0
Cost Of Funds (%)	10.6	10.6	10.4	9.8	9.5	8.2	9.0	8.4
Spread (%)	5.0	4.7	4.6	5.4	5.0	6.1	5.6	6.6
NIM on AUM (%)	6.8	6.9	7.0	7.7	7.5	8.3	7.1	7.1

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	56.0	54.8	53.5	49.1	48.1	41.9	51.5	52.4
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	64.4	65.5
Net Profit/Net Income (%)	26.8	24.4	25.1	26.5	29.6	30.5	35.6	35.5
Cost to Income (%)	49.8	44.1	43.3	39.4	41.7	42.6	35.6	34.5
Employee Exp/Net Income (%)	13.4	12.6	12.8	11.9	16.6	16.9	16.6	16.0
Cost on Average Assets (%)	3.5	3.1	3.1	3.1	3.2	3.5	2.5	2.5
Provision/PPP (%)	21.6	34.0	33.1	32.9	21.9	19.1	16.0	17.8
Tax Rate (%)	32.0	33.8	33.8	34.7	35.0	34.4	34.2	34.0

Valuation Ratio Metrics

EPS (Rs)	21.4	25.4	30.3	36.4	46.0	62.3	78.1	97.2
Change (%)	64.6	18.7	19.1	20.2	26.3	35	25.4	24.5
ROAE (%)	18.3	17.1	17.5	18.0	18.0	20.6	21.5	22.0
ROAA (%)	1.9	1.8	1.9	2.2	2.5	2.8	2.5	2.3
Dividend Payout (%)	16.3	13.8	11.6	12.4	12.0	10.4	10.9	9.8
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	398.3	484.1
Change (%)	29	17	16	26	18	19	21	22
P/B (X)	2.0	1.8	3.2	3.0	3.5	4.4	3.1	2.6
P/E (X)	12.7	11.3	19.4	19.6	21.0	23.3	16.0	12.9

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	14.6	13.7
<i>Interest expended</i>	8.9	8.9	8.6	7.9	7.6	6.6	7.5	7.2
<i>Net Interest Income</i>	7.0	7.3	7.5	8.2	8.2	9.1	7.1	6.5
<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	7.1	6.5
<i>Total Operating Expenses</i>	3.6	3.3	3.3	3.3	3.5	3.9	2.5	2.2
<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	1.3	1.2
<i>Operating Profit</i>	3.6	4.2	4.3	5.0	4.8	5.2	4.6	4.3
<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	3.8	3.5
<i>Tax</i>	0.9	0.9	1.0	1.2	1.3	1.5	1.3	1.2
PAT/RoAA	1.9	1.8	1.9	2.2	2.5	2.8	2.5	2.3
<i>Equity Multiplier (x)</i>	9.5	9.4	9.1	8.2	7.4	7.4	8.5	9.5
ROAE	18.3	17.1	17.5	18.0	18.0	20.6	21.5	22.0

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