

Industry
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BSE CODE

Financial
CIBC IN
511243

Moderation in advance growth along with Asset quality Pressure

RATING	HOLD
CMP	320
Price Target	341
Potential Upside	7%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	349/226
Mkt Capital (Rs Cr)	25853
Free float (%)	47%
Avg. Vol 1M (,000)	2226
No. of Shares (Crs)	80
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	3403	4161	4918
PPP	2134	2556	2967
PAT	1186	1385	1604
NIM %	7.0	7.1	7.2
EPS (Rs)	76	17	20
EPS growth (%)	22	-77	16
ROE (%)	21	19	18
ROA (%)	2.3	2.2	2.2
BV	395	103	122
P/B (X)	3.9	3.1	2.6
P/E (x)	20	18	16

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3QFY20 Result Update

- NII during the quarter grew by 24% YoY while Pat during the quarter grew by 28% YoY even after higher credit cost.
- AUM grew by 20% YoY with vehicle finance growing by 19% YoY and Home equity segment growing by 16% YoY. The disbursement during the quarter stood at 7475 Cr v/s Rs 7644 Cr in Q3FY19.
- Asset quality during the quarter was affected during the quarter with GNPA at 3.54% v/s 3.2% QoQ on account of the stress in the Commercial vehicle segment.
- Capital adequacy of the company was 17.04% v/s 17.80% in Q3FY19. The provision coverage ratio stood at 33%.

Healthy NII growth

NII during the quarter grew by 24% YoY on the back of healthy AUM growth on account of growth in all segments. NIM improved to 7% from 6.8% with Yield on advance at 14.6% v/s the 14.1% YoY while the cost of fund stood at 7.7% v/s 7.4% YoY. Cost to income ratio stood at 39% while the operating expense increase by 34% YoY with employee expense growing by 25% YoY and other expense growing by 35% YoY. The operating expense increase was primarily on account of the increased focus of company towards the collection thus more. NIM during the quarter improved on account of the direct assignment of receivables done by the company and it has booked some upfront profit on it.

Moderation in AUM growth

AUM grew by 20% YoY with vehicle finance growing by 19% YoY and Home equity segment growing by 16% YoY. However the majority of growth was account of growth in other segment which growing by 55% YoY. The growth in the Commercial Vehicle segment is expected to be moderate for next 8-9 months as per the management. The disbursements for quarter ended Dec 2019 was at Rs 7,475 Cr as against Rs 7,644 Cr for the quarter ended Dec 2018. The disbursement in Vehicle finance segment were Rs 5949 Cr v/s Rs 6277 Cr in Q3FY19 while the disbursement in Home equity was Rs 908 Cr v/s Rs 954 Cr in Q3FY19.

Assets Quality Deteriorates

Asset quality during the quarter was affected during the quarter with GNPA at 3.54% v/s 3.2% QoQ. The Commercial vehicle segment continues to face weakness and management expects it to be under pressure for next 8 to 9 months. The GNPA in vehicle finance is 2.7% and GNPA in Home equity is 6%.

View and Valuation

AUM growth was impacted by slowdown in auto industry sales. Margin is expected to remain steady in the medium however the lower marginal cost of borrowing will provide some support in the long run. Asset quality is being impacted due to lower utilization level of vehicle in the economy however management stated that it has improved QoQ but will take another 8 to 9 months for the situation to normalize for the CV. Management has improved collection effort in this stress environment thus OPEX is expected to remain elevated in the near term. Growth is likely to get impacted with the BS-VI implementation in the near term as the focus of dealers remains on declining BS-IV inventory. We turn cautious on the growth and asset quality front on the Commercial vehicle slowdown and reduce our FY21 estimates by 5% and downgrade our rating to HOLD with target price of Rs 341 at 2.8x BVFY21e after factoring in recent QIP.

Key Risks to our rating and target

- Continuous macro slowdown can impact the growth.
- Asset quality pressure on account of Commercial Vehicle Segment

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3QFY20 Results

PAT INLINE

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,831	1,885	2,030	2,197	2,275	24.3%	3.5%	5,479	6,992	27.6%
Interest Exp.	956	986	1,087	1,177	1,192	24.7%	1.3%	2,659	3,589	34.9%
NII	875	899	943	1,020	1,082	23.8%	6.1%	2,820	3,403	20.7%
Other Income	0	0	0	0	0	-63.6%	-20.0%	0	1	55.8%
Total Income	875	899	943	1,020	1,082	23.8%	6.1%	2,821	3,405	20.7%
Ope Exp.	316	382	350	402	424	34.4%	5.7%	1,115	1,270	13.8%
PPP	559	517	593	618	658	17.8%	6.4%	1,705	2,134	25.2%
Provisions	95	56	110	95	136	42.6%	42.9%	304	311	2.5%
PBT	464	461	483	523	522	12.6%	-0.2%	1,401	1,823	30.1%
Tax	159	169	169	216	134	-16%	-38.2%	483	637	31.9%
Net Profit	304	292	314	307	389	27.6%	26.6%	918	1,186	29%

Concall Highlights

- GNPA in Vehicle Finance is 2.7% and GNPA in Home Equity is 6%. The Commercial Vehicle segment continuous to remains under stress and management expect it to continue for 8 to 9 months.
- The Operating cost increase on account of increase in focus on the collection thus more manpower is being recruited.
- The Tier one capital is around 15% and Tier 2 is around 5% after the recent QIP Raise. The given capital should be sufficient for 2 years. The board of directors have approved issue of equity shares by way of preferential issue to cholamandalam financial holding limited upto amount not exceeding Rs 300 Cr in one or more tranches.
- Company is looking to create a separate focus around the housing finance company and will look to create housing as a separate business unit within the group and separate licence for HFC has been applied for.
- The improvement in NIM on sequential basis was on account of Direct assignment of receivables done by the company and it booked some upfront profit on it and the impact of Product Mix change has not yet reflected yet.
- There is no change in sourcing strategy for the two wheelers and three wheelers.
- The disbursement in used vehicle segment is expected to improve going forward.
- Marginal cost of borrowing was around 8.5% and it has come down to around 8.2-8.3% as of now.
- The slowdown in disbursement is on account of industry de growth in the commercial vehicle segment. Dealers are planning to reduce their inventory with movement from BSIV to BSVI which might impact disbursement in Q4FY20 and Q1FY21.
- The Ticket size in the Home equity business is expected to go down going forward from 54 to 55 lakhs to around 40-42 lakhs with company moving from Tier 1 to tier 2 and tier 3 city. The growth is expected to improve as and when economy improves.
- Vehicles sales are falling short as the manufacturer focuses on the reduction of the inventory & finance company are not taking funding for cap chassis only full built vehicles are being funded for which registration is not possible before 31st march.
- Company has tied up with two OEM in regards to Three wheelers and has loss sharing agreement with them in case of loss going beyond a level they will compensate the loss.

Profitability Matrix

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	34.4	35.7	36.1	42.5	37.1	39.4	39.2	3.10	-0.16
Empl. Cost/ Tot. Exp. %	50.2	46.3	44.9	45.4	41.7	42.9	41.7	-3.13	-1.13
Other Exp/Tot. Exp. %	49.8	53.7	55.1	54.6	58.3	57.1	58.3	3.13	1.13
Provision/PPP %	18.3	11.9	17.1	10.8	18.5	15.4	20.7	3.60	5.27
Tax Rate %	35.0	33.7	34.3	36.7	34.0	18.0	25.6	-8.75	7.59
Int Exp./Int Inc. (%)	49.5	51.6	52.2	52.3	53.6	53.6	52.4	0.19	-1.15
PPP/ Net Income %	65.6	64.3	63.9	57.5	62.9	60.6	60.8	-3.10	0.16
PAT/ Net Income %	34.8	37.5	34.8	32.5	33.3	30.1	35.9	1.09	5.80
NII Growth % (YoY)	23.3	17.0	22.1	20.9	15.2	25.8	23.7	1.58	-2.16
PPP Growth YoY %	24.3	23.2	28.6	20.5	10.3	18.8	17.6	-11.02	-1.19
PAT Growth %	36.0	49.4	38.7	2	10.2	0.8	27.6	-11.07	26.89

Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	15.9	15.3	15.7	15.3	15.5	15.9	15.7	-0.04	-0.17
Cost Of Funds	9.3	9.4	8.9	8.6	8.7	9.0	8.8	-0.08	-0.21
Spreads	6.6	6.0	6.9	6.7	6.8	6.9	6.9	0.04	0.03
NIM	8.0	7.4	7.5	7.3	7.2	7.4	7.5	-0.05	0.10

Exhibit: Yield and Cost

Decrease in both Yield & COF

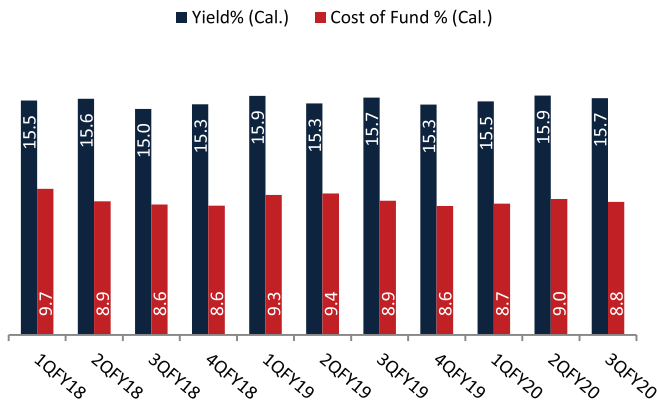
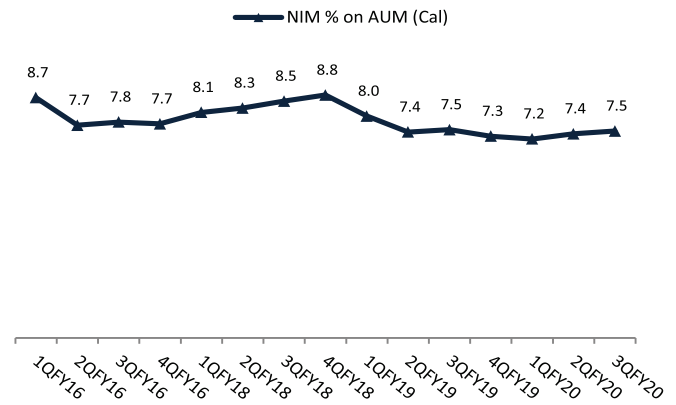


Exhibit: Net Interest Margin

NIM under pressure



Asset & Borrowings Growth Trend

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Disbursements	6761	8007	7014	6900	7644	8893	8572	7381	7475
Growth YoY %	55	54	45	26	13	11	22	7	-2
AUM	38980	42924	45097	47722	50753	54279	57494	59292	60778
Growth YoY %	19	26	30	31	30	26	27	24	20
Borrowings	28298	38293	40980	47061	47234	50567	55122	55903	54941
Growth YoY %	15	42	45	48	55	59	95	46	34

Exhibit: AUM Growth %

Slowdown in AUM growth

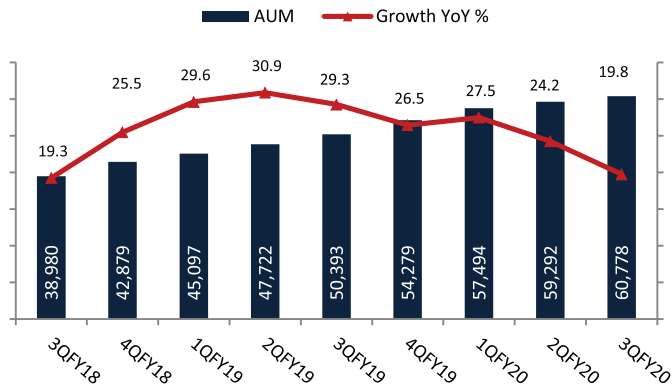
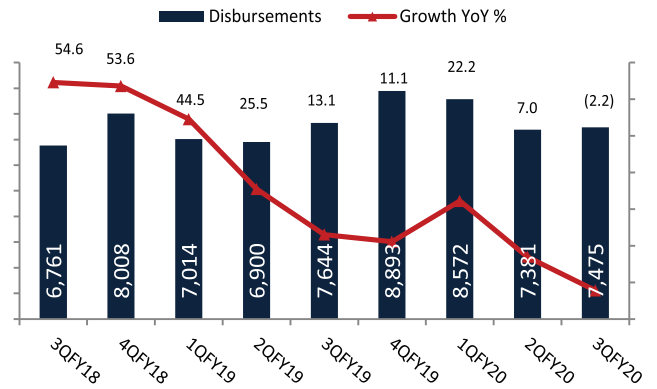


Exhibit: Disbursement Growth %

Disbursement growth affected



Asset Mix

Fig in Rs Cr

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
CAR & MUV	17	16	16	16	15	16	16	16	17
3WHRL & SCV	6	6	6	7	9	8	6	6	6
TRACTOR	7	7	7	7	7	7	7	7	8
CE	3	4	4	4	5	5	5	5	5
Mini LCV									
HCV	18	19	19	19	14	17	16	15	14
LCV	22	22	22	22	20	22	22	21	21
REFINANCE	14	13	13	13	14	12	12	13	13
Shubh(OLD vehicle)	14	13	13	13	15	13	13	13	13
TW							3	3	4

Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Calc.)	1,620	1,608	1,639	1,439	1,671	1,803	2,024	385	221
GNPA %	3.6	3.4	3.3	2.7	3.0	3.2	3.5	0.2	0.3
NNPA (Calc.)	1,029	1,017	1,035	893	1,067	1,182	1,357	322	175
NNPA %	2.3	2.2	2.1	1.7	1.9	2.0	2.2	0.1	0.2
Total Specific PCR %	37	37	37	38	36	34	33	(4)	(1)

Exhibit: Asset Quality

Asset quality deteriorated

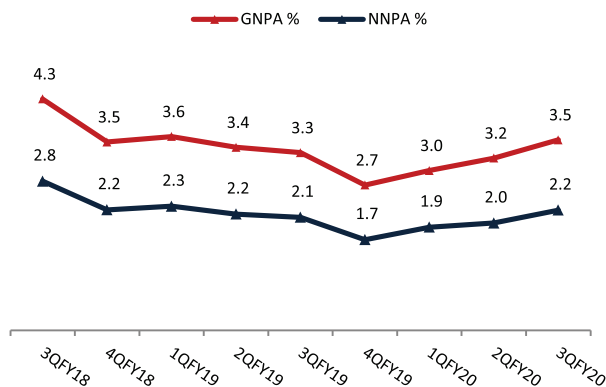


Exhibit: Provisions

PCR went down

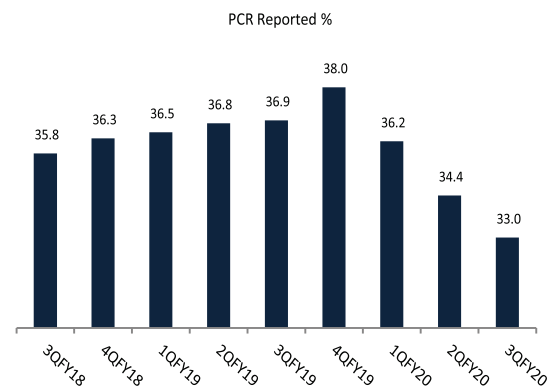


Exhibit: AUM Break Up

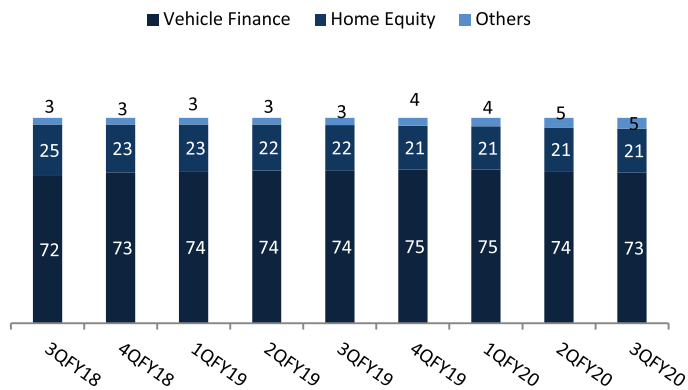
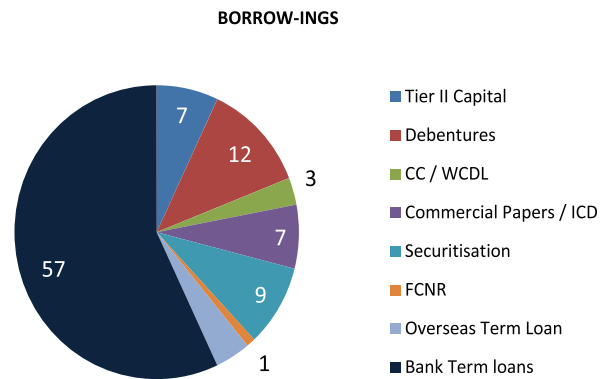


Exhibit: Liability Break Up



Asset Quality

Fig in Rs Cr

	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Gross NPA (Stage 3)	1,623	1,648	1,439	1,671	1,803	2,024
Stage 3 Assets to Total Gross Asset	3.4	3.3	2.7	3.0	3.2	3.5
ECL provision - Stage 3	566	576	546	604	621	667
Coverage Ratio (%) Stage 3	34.8	35.0	38.0	36.2	34.4	33.0
Gross Stage 1 & 2	46083	48261	52102	54597	54907	55072
ECL provision-Stage 1 & 2	348	371	384	379	389	391
Coverage Ratio (%) - Stage 1 & 2	0.80%	0.80%	0.70%	0.70%	70.00%	0.70%
Total ECL Provision	913	947	931	983	1,010	1,058

Fig in Rs Cr

HOME EQUITY	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Self Occupied Residential	81.0	81.0	84.0	84.0	83.0	82.0	80.0	80.0	80.0
Commercial	8.0	8.0	9.0	9.0	10.0	10.0	11.0	11.0	11.0
Others	11.0	11.0	7.0	7.0	7.0	8.0	8.0	8.0	8.0

Exhibit: Asset Quality

Increase in Credit Cost

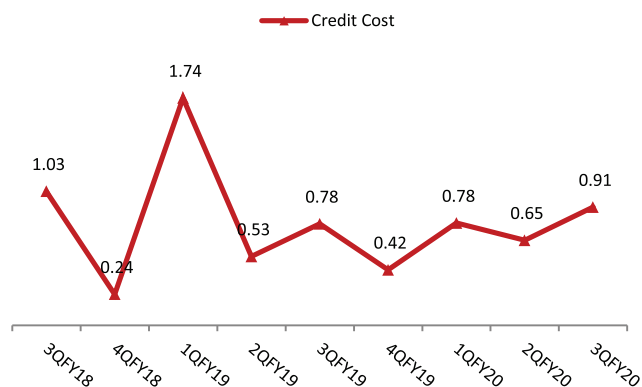
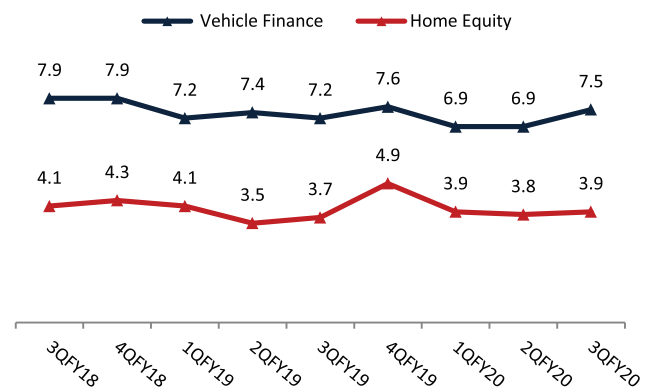


Exhibit: NIM

NIM segment wise



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	143	644	156	156	156	156	159	159
Equity Capital	143	144	156	156	156	156	159	159
Preference Capital	-	500	-	-	-	-	-	-
Reserves & Surplus	2,151	2,529	3,501	4,156	4,942	6,019	8,069	9,530
Networth	2,295	2,673	3,657	4,313	5,098	6,176	8,228	9,689
Change (%)	18	16	37	18	18	21	33	18
Total Borrowings	18,093	19,475	22,576	24,207	38,293	50,567	59,912	69,498
Change (%)	18	8	16	7	58	32	18	16
Provisions	352	386	648	673	63	74	121	131
Other Liabilities	807	1,340	1,007	1,529	635	610	540	626
Total Liabilities	21,547	23,873	27,888	30,721	44,090	57,426	68,801	79,944
Investments	82	67	67	239	73	73	77	80
Loans	19,166	21,904	25,486	27,904	42,253	52,622	62,554	72,562
Change (%)	16	14	16	9	51	25	19	16
Fixed Assets	73	68	111	140	165	176	188	218
Other Assets	1,425	1,493	1,734	1,952	1,345	1,416	2,381	2,769
Cash Balances	801	341	490	487	254	3,139	3,602	4,314
Total Assets	21,547	23,873	27,888	30,721	44,090	57,426	68,801	79,944

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	3,232	3,664	4,177	4,634	5,479	6,992	8,868	10,382
Interest expended	1,771	1,960	2,051	2,231	2,659	3,589	4,707	5,465
Net Interest Income	1,461	1,704	2,127	2,403	2,820	3,403	4,161	4,918
Change (%)	32	17	25	13	17	21	22	18
Other Income	31	27	16	26	0	1	0	-
Change (%)	(17)	(14)	(39)	61	(98)	56	(85)	(100)
Total Net Income	1,492	1,731	2,143	2,430	2,820	3,404	4,161	4,918
Change (%)	30	16	24	13	16	21	22	18
Operating Expenses	658	749	845	1,013	1,115	1,270	1,605	1,950
Change (%)	16	14	13	20	10	14	26	22
Employee Expenses	188	222	254	403	537	591	680	885
Change (%)	22	18	15	59	33	10	15	30
Other Expenses	471	527	591	611	578	679	925	1,065
Pre-provisioning Profit	834	982	1,298	1,416	1,705	2,134	2,556	2,967
Change (%)	45	18	32	9	20	25	20	16
Provisions	283	325	427	311	304	311	527	823
Change (%)	128	15	32	(27)	(2)	2	69	56
PBT	550	657	871	1,106	1,401	1,823	2,030	2,145
Tax	186	222	302	387	483	637	645	540
Profit After Tax	364	435	568	719	918	1,186	1,385	1,604
Change (%)	19	20	31	26	28	29	17	16
Adjusted Profit After Tax	364	435	568	719	918	1,186	1,385	1,604
Change (%)	19	20	31	26	28	29	17	16

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
AUM	23,253	25,453	29,650	34,167	42,879	54,279	63,506	73,667
Off-Book AUM	4,087	3,548	4,164	6,263	626	1,657	953	1,105
AUM Growth (%)	22.4	9.5	16.5	15.2	25.5	26.6	17.0	16.0
Borrowing Growth (%)	18.3	7.6	15.9	7.2	58.2	32.1	18.5	16.0
Loan/Borrowing (%)	1	1	1	1	1	1	1	1
Disbursement (Rs Cr)	13114	12808	16380	18591	25119	30451	33310	39100
Disbursement Growth (%)	8.2	(2.3)	27.9	13.5	35.1	21.2	9.4	17.4
CRAR (%)	17	21	20	19	18	18	17	17
Tier 1 (%)	10.5	13.0	13.3	13.6	13.2	12.6	13.5	13.7
Tier 2 (%)	6.8	8.2	6.4	5.0	5.1	5.0	3.8	3.2
Debt/Equity(x)	7.9	7.3	6.2	5.6	7.5	8.2	7.3	7.2
Assets Quality Metrics								
Gross NPA (Rs)	436	803	1,022	1,545	1,261	1,439	2,159	2,063
Gross NPA (%)	1.9	3.1	3.5	4.7	2.9	2.7	3.4	2.8
Net NPA (Rs)	174	523	598	1,033	712	893	1,425	1,361
Net NPA (%)	0.7	2.0	2.1	3.2	1.7	1.7	2.2	1.8
Specific Provision Coverage (%)	60	35	40	32	44	38	34	34
Provision/Average Advances (%)	1.3	1.3	1.6	1.0	0.8	0.6	0.9	1.2
Margin Metrics								
Yield On Advances (%)	15.3	15.0	15.2	14.5	14.2	14.4	15.1	15.1
Cost Of Funds (%)	10.6	10.4	9.8	9.5	9.5	8.7	8.5	8.4
Spread (%)	4.7	4.6	5.4	5.0	4.7	5.7	6.5	6.7
NIM on AUM (%)	6.9	7.0	7.7	7.5	7.3	7.0	7.1	7.2
Profitability & Efficiency Metrics								
Int. Expense/Int.Income (%)	54.8	53.5	49.1	48.1	48.5	51.3	53.1	52.6
Other Income/NII (%)	2.1	1.6	0.8	1.1	0.0	0.0	0.0	-
Operating Profit/Net Income (%)	55.9	56.7	60.6	58.3	60.5	62.7	61.4	60.3
Net Profit/Net Income (%)	24.4	25.1	26.5	29.6	32.6	34.8	33.3	32.6
Cost to Income (%)	44.1	43.3	39.4	41.7	39.5	37.3	38.6	39.7
Employee Exp/Net Income (%)	12.6	12.8	11.9	16.6	19.0	17.4	16.3	18.0
Cost on Average Assets (%)	3.1	3.1	3.1	3.2	2.9	2.6	2.7	2.8
Provision/PPP (%)	34.0	33.1	32.9	21.9	17.8	14.6	20.6	27.7
Tax Rate (%)	33.8	33.8	34.7	35.0	34.5	34.9	31.8	25.2
Valuation Ratio Metrics								
EPS (Rs)	25.4	30.3	36.4	46.0	62.3	75.9	17.4	20.2
Change (%)	18.7	19.1	20.2	26.3	35.4	22	(77.1)	15.8
ROAE (%)	17.1	17.5	18.0	18.0	20.6	21.0	19.2	17.9
ROAA (%)	1.8	1.9	2.2	2.5	2.8	2.3	2.2	2.2
Dividend Payout (%)	13.8	11.6	12.4	12.0	11.1	8.6	8.0	7.4
Dividend yield (%)							0.4	0.5
DPS	3.5	3.5	4.5	5.5	6.5	6.5	1.4	1.5
Book Value(Rs)	160.3	186.0	234.2	276.0	329.4	395.0	103.4	121.7
Change (%)	17	16	26	18	19	20	(74)	18
P/B (X)	1.4	2.5	2.5	3.3	4.4	3.9	3.1	2.6
P/E (X)	8.9	15.5	16.0	19.8	23.3	20.5	18.4	15.9

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	16.2	16.1	16.1	15.8	14.6	13.8	14.1	14.0
Interest expensed	8.9	8.6	7.9	7.6	7.1	7.1	7.5	7.3
Net Interest Income	7.3	7.5	8.2	8.2	7.5	6.7	6.6	6.6
Non-Fund Based Income	0.2	0.1	0.1	0.1	0.0	0.0	0.0	-
Total Income	7.5	7.6	8.3	8.3	7.5	6.7	6.6	6.6
Total Operating Expenses	3.3	3.3	3.3	3.5	3.0	2.5	2.5	2.6
Employee Expenses	0.9	1.0	1.0	1.4	1.4	1.2	1.1	1.2
Other Expenses	2.4	2.3	2.3	2.1	1.5	1.3	1.5	1.4
Operating Profit	4.2	4.3	5.0	4.8	4.6	4.2	4.1	4.0
Provisions	1.4	1.4	1.7	1.1	0.8	0.6	0.8	1.1
Others	-	-	-	-	-	-	-	-
PBT	2.8	2.9	3.4	3.8	3.7	3.6	3.2	2.9
Tax	0.9	1.0	1.2	1.3	1.3	1.3	1.0	0.7
PAT/RoAA	1.8	1.9	2.2	2.5	2.5	2.3	2.2	2.2
Equity Multiplier (x)	9.4	9.1	8.2	7.4	7.9	9.0	8.8	8.3
ROAE	17.1	17.5	18.0	18.0	19.5	21.0	19.2	17.9

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