

Cholamandalam Investment

Refer to important disclosures at the end of this report

Near-term headwinds; long-term growth story still intact

- Despite in-line NII, CIFIC reported lower-than-expected PAT of Rs2.4bn (-40.5% qoq, +470% yoy) in Q4FY21 due to elevated employee charges (+68.2% yoy, +74.5% qoq) and additional management overlay of Rs3.5bn. These expenses were exceptional and related to the ongoing pandemic, and they would not affect future earnings.
- The company reported normalcy in disbursements (+43% yoy to Rs80.7bn). Though we expect some disruption in growth in Q1FY22 amid fresh lockdowns, it would be compensated by growth acceleration in H2FY22. CIFIC continues to hold strong liquidity position with Rs64.3bn, considering recent uncertainties.
- On asset quality, Stage 3 assets inched up to ~3.96% vs. ~3.75% last quarter; however, the overall coverage improved to ~44.3%. The company has invested heavily in the collection mechanism in the past year, which should improve recoveries when things stabilize. Management overlay of Rs11bn (~1.4% of AUM) provides further comfort.
- We raise our earnings and Adj. BV estimates by ~6.7% and 2.2%, respectively, for FY23 and introduce FY24 estimates. We maintain Buy (OW in EAP) with a revised TP of Rs650 (Rs598 previously) at ~3.7x P/Mar'23E ABV (~3.5x earlier). We expect the company to deliver +20% RoEs (for the first time) in coming years, leading to multiple expansion.

What we like about CIFIC results

- We continue to like CIFIC due to its best-in-class underwriting practices, sufficient liquidity buffer to support growth and robust collection mechanism.
- Disbursement momentum remained healthy at Rs80.7bn (+43% yoy, flat sequentially) during Q4FY21. FY21 disbursements were at Rs260.4bn (-10% yoy) due to sluggish H1FY21 (H1FY21 disbursements stood at Rs100.5bn).
- The company holds Covid-19-related management overlay of Rs11bn (~1.4% of AUM), which provides further comfort. This is in addition to regular provisions of Rs13.4bn (1.76% of AUM).

Where we remain concerned

- Asset quality trends are expected to remain volatile due to lockdowns amid the second wave of Covid-19. However, we remain confident that CIFIC management can handle such volatility.
- Opex surged ~27.9% yoy (+39.3% qoq) in Q4FY21 due to high employee charges, resulting in a spike in Cost to Average Assets to ~3%.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	40,607	49,437	59,254	70,402	87,388
Net profit	10,524	15,149	22,926	29,571	38,973
EPS (Rs)	13.4	18.5	27.9	36.0	47.5
ABV (Rs)	91.8	102.4	131.9	173.5	214.5
RoA (%)	1.7	2.2	2.8	3.1	3.5
RoE (%)	14.7	17.1	21.5	22.3	23.5
PE (x)	41.5	30.0	19.8	15.4	11.7
P/ABV	6.2	5.6	4.3	3.3	2.7

Source: Company, Emkay Research

CMP	Target Price
Rs 554 as of (May 10, 2021)	Rs 650 (▲) 12 months
Rating	Upside
BUY (■)	17.3 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	2.1/6.7
Target Price change (%)	8.7
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	27.9	36.0
Consensus	26.7	31.7
Mean Consensus TP (12M)	Rs 586	

Stock Details

Bloomberg Code	CIFIC IN
Face Value (Rs)	2
Shares outstanding (mn)	820
52 Week H/L	601 / 120
M Cap (Rs bn/USD bn)	454 / 6.20
Daily Avg Volume (nos.)	5,284,892
Daily Avg Turnover (US\$ mn)	38.6

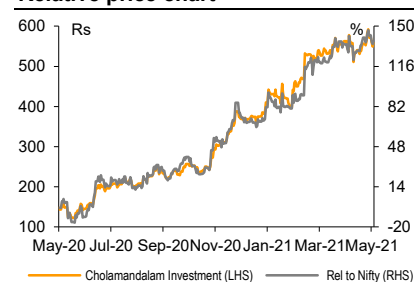
Shareholding Pattern Mar '21

Promoters	51.6%
FIIs	16.5%
DIIIs	24.4%
Public and Others	7.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	18	77	285
Rel. to Nifty	(1)	20	50	138

Relative price chart



This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

Jignesh Shial
jignesh.shial@emkayglobal.com
+91 22 6624 2468

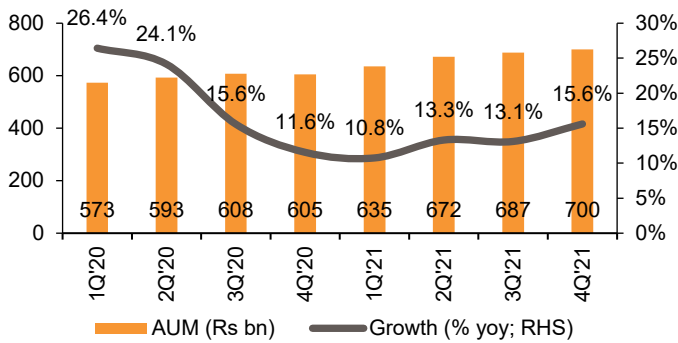
Anand Dama
anand.dama@emkayglobal.com
+91 22 6624 2480

Aman Jain
aman.jain@emkayglobal.com
+91 22 6612 1285

Shrishti Jagati
shrishti.jagati@emkayglobal.com
+91 22 6624 2485

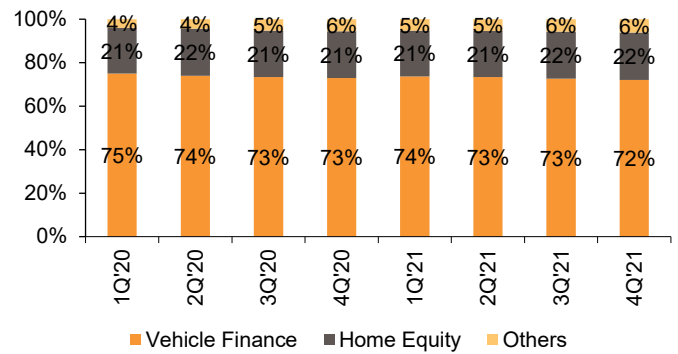
Story in Charts

Exhibit 1: AUM grows on normalizing disbursements



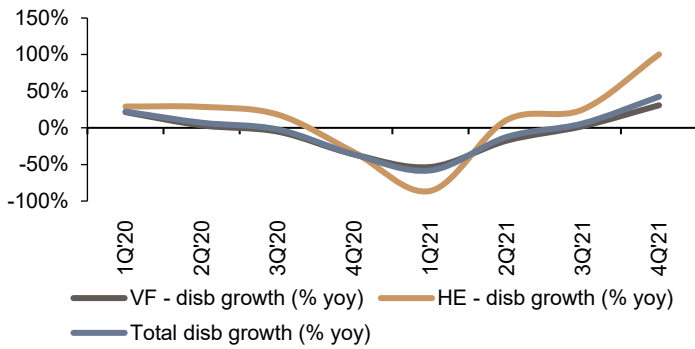
Source: Company, Emkay Research

Exhibit 2: Share of Home Equity stabilizes at 22% in the loan book



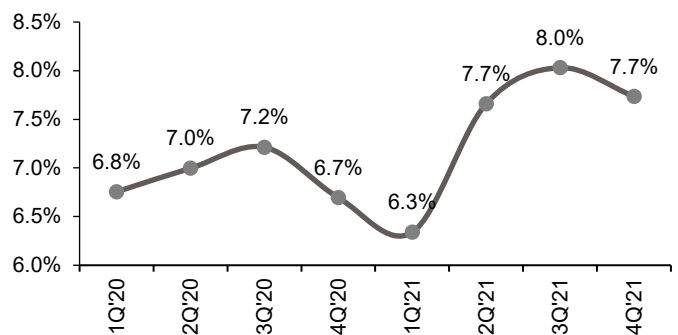
Source: Company, Emkay Research

Exhibit 3: Home equity disbursement growth spikes on ECLGS loans



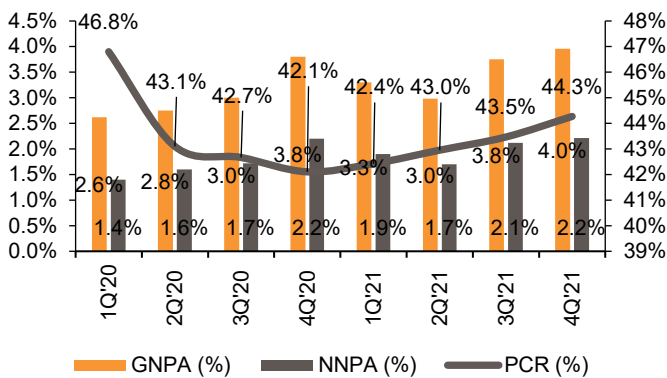
Source: Company, Emkay Research

Exhibit 4: NIMs decline due to lower yields



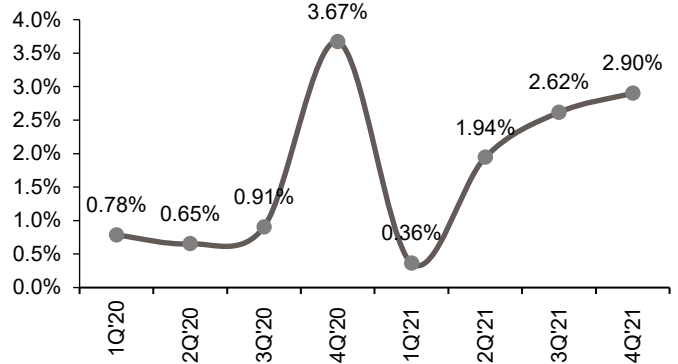
Source: Company, Emkay Research

Exhibit 5: Asset quality deteriorates further in Q4



Source: Company, Emkay Research

Exhibit 6: Credit costs continue to remain elevated



Source: Company, Emkay Research

Exhibit 7: Actual vs. Estimates for Q4FY21

Rs mn	Actual	Estimates (Emkay)	Consensus (Bloomberg)	% variation		Comments
				Emkay	Consensus	
Net income	13,417	13,784	13,332	-2.7%	0.6%	In line with estimates
PPOP	8,279	9,956	13,655	-16.8%	-39.4%	Lower than estimates due to elevated Covid-19-led charge
PAT	2,432	4,213	4,558	-42.3%	-46.6%	Lower than estimates due to elevated Covid-19-led charge

Source: Company, Emkay Research

Exhibit 8: Quarterly financials

Rs mn	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net Interest Income	10,154	9,830	12,512	13,644	13,415	32.1%	-1.7%	40,604	49,401	21.7%
Other Income	1	0	34	0	2			3	36	1288.5%
Total Income	10,156	9,830	12,546	13,644	13,417	32.1%	-1.7%	40,607	49,437	21.7%
Operating Expenses	4,016	3,458	3,551	3,688	5,138	27.9%	39.3%	15,776	15,834	0.4%
Operating Profit	6,140	6,372	8,996	9,956	8,279	34.8%	-16.8%	24,831	33,603	35.3%
Provisions	5,567	562	3,176	4,446	5,035	-9.5%	13.3%	8,973	13,218	47.3%
% of operating profit	90.7%	8.8%	35.3%	44.7%	60.8%			36.1%	39.3%	
PBT	573	5,810	5,820	5,511	3,244	465.9%	-41.1%	15,857	20,384	28.5%
Tax	147	1,501	1,501	1,422	812	453.8%	-42.9%	5,334	5,235	-1.8%
Tax rate (%)	25.6%	25.8%	25.8%	25.8%	25.0%			33.6%	25.7%	
PAT	427	4,309	4,319	4,089	2,432	470.1%	-40.5%	10,524	15,149	44.0%
Disbursements	56,630	35,890	64,570	79,260	80,710	42.5%	1.8%	2,90,910	2,60,430	-10.5%
Total AUM	6,05,490	6,35,000	6,71,820	6,87,450	6,99,960	15.6%	1.8%	6,05,490	6,99,960	15.6%

Source: Company, Emkay Research

Exhibit 9: Revision in estimates

Y/e Mar (Rs mn)	FY22E			FY23E			FY24E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest income	57,202	59,212	3.5%	68,496	70,355	2.7%	87,333
PPOP	40,406	40,868	1.1%	49,303	49,225	-0.2%	63,094
PAT	22,413	22,926	2.3%	27,662	29,571	6.9%	38,973
EPS (Rs)	27.3	27.9	2.1%	33.7	36.0	6.7%	47.5
BV (Rs)	146	144	-1.7%	179	179	0.1%	226
ABV (Rs)	137	132	-3.5%	170	174	2.2%	215

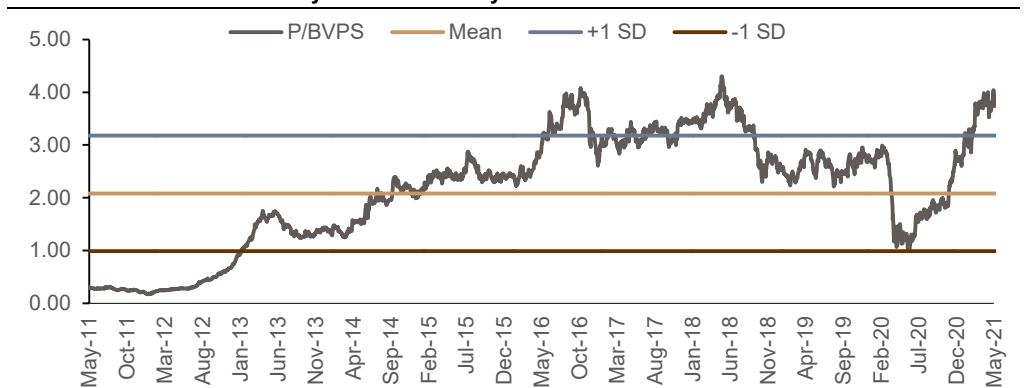
Source: Emkay Research

Exhibit 10: Key assumptions

(%)	FY21	FY22E	FY23E	FY24E
AUM growth	15.6%	16.0%	23.3%	26.0%
Borrowings growth	15.9%	16.1%	13.9%	19.1%
Yield on average loans	15.7%	15.5%	15.0%	14.5%
Cost of average int. liabilities	7.7%	7.5%	7.4%	7.3%
GNPA (Stage 3)	4.0%	3.5%	2.5%	2.7%

Source: Company, Emkay Research

Exhibit 11: The stock currently trades at 3.9x 1-year forward P/B



Source: Company, Emkay Research

Con-Call highlights

- Collection efficiency (CE) of the overall portfolio was 93% in Apr'21 compared to 116% in Mar'21. CE for the first bucket was 95% (with roll forward of 4.57%) in Apr'21 compared to 99% (with roll forward of 1.42%) in Mar'21. CE is on the similar level for all segments. Cumulative CE was 50% in Apr'21 compared to 62% in Mar'21.
- Restructured loans were >2% of the overall book as of Mar'21-end; no overlap between ECLGS and restructured loan accounts.
- Restructuring was close to Rs.11bn in VF – portfolio of school buses and transport very small and the majority of the portfolio is HCV.
- Stage 3 assets: Vehicle finance - 3%, LAP - 7.2% and Home finance - 3.2% as of FY21.
- Stage 2 assets of Rs42.3bn include restructured assets of Rs15bn, Stage 2 VF Rs35bn, LAP Rs4.4bn and Home finance Rs3bn; Write off – Rs600mn for Q4.
- CIFC has a total Covid-19-related provision of Rs11bn as of FY21, which provides comfort in the stress scenario of the second Covid-19 wave. Management is more worried about the second wave than the first wave.
- Asset quality in used vehicles portfolio is better than that of the new vehicle portfolio. This is specific to CIFC as the used vehicle portfolio is well diversified across geographies and used CV is mainly for transportation of agriculture goods, hardware, etc. in tier 2 & 3 cities – which was not highly impacted.
- CIFC maintained market share in 2W and CV at the same level, and gained little market share in construction and tractors. It is working with all manufacturers across geographies.
- LAP: CIFC has presence in West, North and South market, and is entering East markets. The average ticket size is Rs50lac.
- Employee expenses were higher in Q4 as the company gave promotions, incentives and increments. Collection man power also added in Q4. Management guided for the operating expense-to-asset ratio to be in the range of 2.6-2.9%.
- Outlook for FY21: Management expects that Apr-May'21 will be affected by the second wave of Covid-19, and expects the situation to improve from Jun'21.
- Strategy: Management is looking to broaden the product portfolio, but not change it significantly from the current strategy. It will come up with a detailed plan next quarter.
- Improvement of costs through frontline productivity (sales and collection), talent management, process improvement (lean implementation).
- Impact of interest reversal – Rs350mn charged to interest income.

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net interest income	40,604	49,401	59,212	70,355	87,333
Other income	3	36	42	48	55
Net income	40,607	49,437	59,254	70,402	87,388
Operating expenses	15,776	15,834	18,385	21,177	24,294
Pre provision profit	24,831	33,603	40,868	49,225	63,094
PPP excl treasury	24,831	33,603	40,868	49,225	63,094
Provisions	8,973	13,218	10,013	9,426	10,641
Profit before tax	15,857	20,384	30,855	39,799	52,453
Tax	5,334	5,235	7,930	10,228	13,480
Tax rate	34	26	26	26	26
Profit after tax	10,524	15,149	22,926	29,571	38,973

Balance Sheet

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	1,640	1,641	1,641	1,641	1,641
Reserves	80,079	93,962	116,430	145,410	183,604
Net worth	81,718	95,603	118,071	147,051	185,245
Borrowings	550,050	637,300	739,938	843,108	1,003,923
Total liabilities	639,930	745,484	877,285	1,018,446	1,227,438
Cash and bank	69,591	52,319	71,315	40,165	652
Investments	729	16,188	14,799	16,862	20,078
Loans	554,027	658,393	772,040	941,714	1,186,399
Others	12,744	16,554	16,999	17,467	17,959
Total assets	639,930	745,484	877,285	1,018,446	1,227,438

Key Ratios (%)

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	7.1	7.6	7.8	7.8	7.7
RoA	1.7	2.2	2.8	3.1	3.5
RoAE	14.7	17.1	21.5	22.3	23.5
GNPA (%)	3.8	4.0	3.5	2.5	2.7
NNPA (%)	2.2	2.2	1.7	0.6	1.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	13.4	18.5	27.9	36.0	47.5
BVPS	103.7	116.4	143.8	179.1	225.6
ABVPS	91.8	102.4	131.9	173.5	214.5
DPS	1.7	2.0	2.8	3.6	4.7

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	41.5	30.0	19.8	15.4	11.7
P/BV	6.0	5.4	4.2	3.2	2.6
P/ABV	6.2	5.6	4.3	3.3	2.7
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.9

Source: Company, Emkay Research

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
NII	19.3	21.7	19.9	18.8	24.1
PPOP	16.3	35.3	21.6	20.4	28.2
PAT	(11.3)	44.0	51.3	29.0	31.8
Loans	5.3	18.8	17.3	22.0	26.0

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
NII	10,154	9,830	12,512	13,644	13,415
NIM (%)	6.7	6.3	7.7	8.0	7.7
PPOP	6,140	6,372	8,996	9,956	8,279
PAT	427	4,309	4,319	4,089	2,432
EPS (Rs)	0.52	5.26	5.27	4.99	2.97

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	51.7	51.7	51.7	51.6	51.6
FIIIs	12.2	11.9	11.3	13.2	16.5
DIIIs	27.0	27.8	29.1	27.4	24.4
Public and Others	9.1	8.7	7.9	7.8	7.5

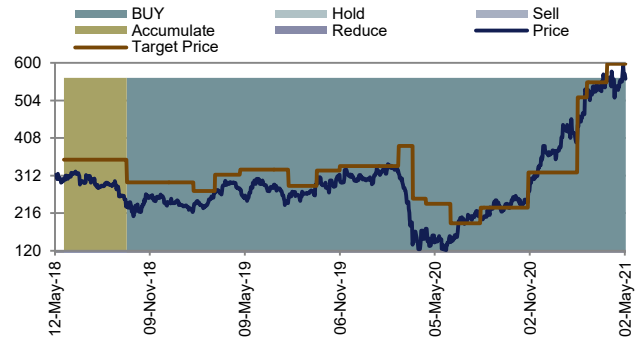
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Mar-21	555	598	12m	Buy	Jignesh Shial
19-Feb-21	530	550	12m	Buy	Jignesh Shial
01-Feb-21	442	512	12m	Buy	Jignesh Shial
30-Oct-20	272	320	12m	Buy	Jignesh Shial
16-Sep-20	238	230	12m	Buy	Jignesh Shial
31-Jul-20	202	230	12m	Buy	Jignesh Shial
16-Jun-20	155	190	12m	Buy	Jignesh Shial
04-Jun-20	142	190	12m	Buy	Jignesh Shial
14-May-20	148	240	12m	Buy	Jignesh Shial
05-May-20	142	240	12m	Buy	Jignesh Shial
19-Apr-20	176	240	12m	Buy	Jignesh Shial
18-Apr-20	176	240	12m	Buy	Jignesh Shial
11-Apr-20	171	253	12m	Buy	Jignesh Shial
05-Apr-20	124	253	12m	Buy	Jignesh Shial
30-Mar-20	160	253	12m	Buy	Jignesh Shial
24-Mar-20	143	253	12m	Buy	Jignesh Shial
08-Mar-20	280	388	12m	Buy	Jignesh Shial
26-Feb-20	316	388	12m	Buy	Jignesh Shial
19-Nov-19	323	336	12m	Buy	Jignesh Shial
06-Nov-19	300	336	12m	Buy	Jignesh Shial
05-Nov-19	314	325	12m	Buy	Jignesh Shial
23-Sep-19	300	325	12m	Buy	Jignesh Shial
28-Aug-19	264	286	12m	Buy	Jignesh Shial
31-Jul-19	257	286	12m	Buy	Jignesh Shial
26-Jun-19	280	327	12m	Buy	Jignesh Shial
25-May-19	294	327	12m	Buy	Jignesh Shial
30-Apr-19	275	327	12m	Buy	Jignesh Shial
13-Mar-19	268	314	12m	Buy	Jignesh Shial
15-Feb-19	235	272	12m	Buy	Jignesh Shial
31-Jan-19	231	272	12m	Buy	Jignesh Shial
31-Oct-18	251	295	12m	Buy	Jignesh Shial
19-Oct-18	220	295	12m	Buy	Jignesh Shial
26-Sep-18	240	295	12m	Buy	Jignesh Shial
24-Sep-18	233	352	12m	Accumulate	Jignesh Shial
27-Jul-18	289	352	12m	Accumulate	Jignesh Shial
29-May-18	304	352	12m	Accumulate	Jignesh Shial

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-NBFCs



Analyst: Jignesh Shial

Contact Details

jignesh.shial@emkayglobal.com
+91 22 6624 2468

Sector

NBFCs/AFCs

Analyst bio

Jignesh Shial is a CA and has total 12 years of research experience. His team currently covers 11 NBFCs/AFCs.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-NBFCs	8.04	8.04	0%	0	100.00
Bajaj Finance	1.73	1.73	0%	0	21.53
Cholamandalam Investment	0.27	0.27	3%	1	3.41
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	5.35	5.36	0%	1	66.61
L&T Finance Holdings	0.08	0.08	0%	0	1.01
LIC Housing Finance	0.15	0.16	8%	1	2.04
Magma Fincorp	0.00	0.00	NA	0	0.00
Mahindra Finance	0.11	0.07	-37%	-4	0.85
Nippon Life	0.06	0.06	0%	0	0.76
Shriram City Union Finance	0.00	0.00	NA	0	0.00
Shriram Transport Finance	0.29	0.30	5%	2	3.78
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	7-May-20	6-Nov-20	5-Feb-21	8-Apr-21	7-May-21
EAP - BFSI-NBFCs	100.0	81.3	108.6	144.1	135.1	136.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	76.2	101.9	135.4	127.0	127.8

*Performance measurement base date 1st April 2019

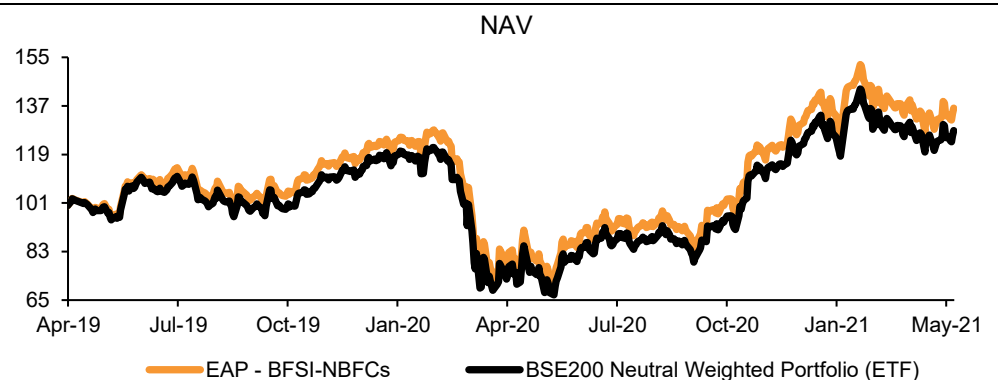
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	0.8%	-5.5%	25.4%	67.4%
BSE200 Neutral Weighted Portfolio (ETF)	0.6%	-5.6%	25.5%	67.7%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 11 May 2021 00:04:16 (SGT)

Dissemination Date: 11 May 2021 00:05:16 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com