

# Cholamandalam Invest. & Finance

ADD

CMP Rs554

Target Rs620

Upside 12.0%

## Result Highlights

- ✓ CIFIC carried forward its strong growth momentum into the Q4 FY21 - AUM growth accelerated to 16% yoy on the back of robust 42% disbursement growth. Vehicle Finance (VF - 72% of AUM) disbursements grew 31% yoy, while originations doubled in LAP (22%) and Home Loans (6%).
- ✓ Within the VF segment, while incremental growth became more broad-based with revival in HCV business, the strong traction in LCVs, Used Vehicles, Cars, Tractors and Construction Equipment continued. CIFIC gained further market share in Tractors and Construction Equipment, and has maintained its market position in most of the other products.
- ✓ Due to interest reversals from slippages and interest refund, the NIM came-off sequentially despite 20 bps reduction in the cost of funds.
- ✓ As the company distributed annual increments and incentives in Q4 FY21, the higher employee cost caused a significant decline in PPOP.
- ✓ Restructuring stood at near 2% of AUM, comprising mainly of loans from VF segment (CV and Bus operators both); and these loans were prudentially classified as Stage-2 assets. There was a mild 20 bps increase in Stage-3 assets. ECL cover on both Stage 2 & 3 assets was maintained at elevated levels (2x of normal times).
- ✓ Credit cost was higher in Q4 with co. making additional provisions of Rs3.5bn in the light of second wave; overall management overlay stood at Rs11bn (1.5% of AUM).

**Our view - Best play in vehicle finance; but higher valuation and second wave uncertainties could weigh on near-term stock performance:** A strong market position, large rural presence, diversified product portfolio and proven growth execution make CIFIC the best play in vehicle finance space. As demonstrated in the first wave (16% AUM growth and 44% earnings growth in FY21), we believe that company will overcome the headwinds from second pandemic wave (has a large provision buffer). We expect 25%+ earnings CAGR on 16-18% AUM CAGR over FY21-24, as RoA reaches 3% on normalization of credit cost. We remain structurally positive on the stock, but high valuation (3.7x FY23 P/ABV) could cap upside in the coming 3-6 months. Retain ADD rating.

## Exhibit 1: Result table

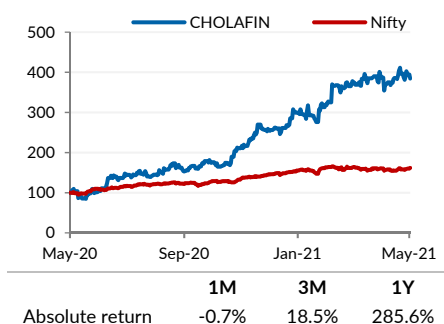
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Operating Income	24,612	25,048	(1.7)	21,513	14.4
Interest expended	(11,197)	(11,404)	(1.8)	(11,359)	(1.4)
Net Interest Income	13,415	13,644	(1.7)	10,154	32.1
Other income	2	0	500.0	1	50.0
Total Income	13,417	13,644	(1.7)	10,156	32.1
Operating expenses	(5,138)	(3,688)	39.3	(4,016)	27.9
PPOP	8,279	9,956	(16.8)	6,140	34.8
Provisions	(5,035)	(4,446)	13.3	(5,567)	(9.5)
PBT	3,244	5,511	(41.1)	573	465.9
Tax	(812)	(1,422)	(42.9)	(147)	453.8
PAT	2,432	4,089	(40.5)	427	470.1

Source: Company, YES Sec - Research

## Stock data (as on May 10, 2021)

Sensex:	14,942
52 Week h/l (Rs)	601 / 120
Market cap (Rs/USD mn)	454422 / 6195
Outstanding Shares	820
6m Avg t/o (Rs mn):	2,549
Div yield (%):	0.4
Bloomberg code:	CIFIC IN
NSE code:	CHOLAFIN

## Stock performance



## Shareholding pattern

Promoter	51.6%
FII+DII	40.5%
Others	7.9%

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	620	305

## Financial Summary

	FY22E	FY23E	FY24E
Op. income	57,345	68,324	82,633
Core PPOP	37,235	45,197	56,038
Net profit	20,009	27,242	34,038
Growth (%)	32.1	36.1	24.9
EPS (Rs)	24.4	33.2	41.5
ABVPS (Rs)	119.6	147.6	183.9
P/E (x)	22.5	16.6	13.3
P/adj.BV (x)	4.6	3.7	3.0
ROE (%)	19.2	21.7	22.2
ROA (%)	2.5	2.9	3.1
CAR (%)	19.6	19.7	19.9

## RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in

+91 98925 92827



MANUJ OBEROI, Associate

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

## CON-CALL HIGHLIGHTS

- ✓ March collection efficiency at 115% (Rs24.7bn collected on billing of Rs21.2bn) – cumulative collection efficiency was at 62% on the overall collectible pool (all customer dues added) and this was in-line with pre-Covid times.
- ✓ Roll fwd. in the 1st bucket was 1.4% in March implying 99% collection efficiency - Roll fwd. in the 1st bucket was 4.6% in April implying 95% collection efficiency (though collections were unimpacted till April 10) - lockdowns have affected customers' earnings potential and collection capability/reach of the co.
- ✓ ECLGS disbursements at Rs20bn in Vehicle Finance (VF) segment and Rs8bn in LAP segment.
- ✓ Restructured loans at <2% of overall book (Rs15bn) - no overlap b/w this and ECLGS - a large part of restructured book by volume will be VF customers.
- ✓ Restructuring of Rs11bn in VF portfolio - portfolio to school and staff bus operators is a small part of overall book - bulk of restructuring is CV loans and 25-30% would be the Bus operators.
- ✓ Segment-wise Stage-3 assets at 3% in VF, 1.2% in LAP and 3.2% in Home Loans - Stage-2 assets at company level is around Rs42bn, includes Rs35bn in VF segment and Rs4.4bn LAP loans (restructured loans prudentially classified as Stage-2).
- ✓ Co. typically repossess vehicle when customer intention to pay in not there - rate of repossession and loss on sale remains the same.
- ✓ LAP customers are small businesses where SORP is collateral - ATS at 0.5mn – portfolio primarily located in North, West and South regions - tenor offered 15 years, but loans typically stay for 9 years.
- ✓ Employee expenses were higher in Q4 on account of distribution of annual incentives, promotions and increments, and augmentation of collection manpower through the year (in-line with increased collectible pool).
- ✓ CIFC will add manpower going forward for business and collections both, but would strive to keep overall opex/avg. assets in a tight range.
- ✓ Co. maintained market share in VF segment (drop in MHCV financing though) and gaining market share in Tractor and Construction Equipment space on the back of regional expansion - branch expansion will continue.
- ✓ Management more worried about the second wave impact as against the impact of the first wave.
- ✓ There is headroom to raise CP share within borrowings to keep funding cost under check.

### Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
AUM	699,960	687,450	1.8	605,490	15.6
Vehicle Finance	504,150	499,360	1.0	442,060	14.0
Home Equity	152,360	148,770	2.4	129,600	17.6
Disbursements	80,710	79,260	1.8	56,630	42.5
Vehicle Finance	61,530	60,840	1.1	47,030	30.8
Home Equity	11,910	12,650	(5.8)	5,890	102.2

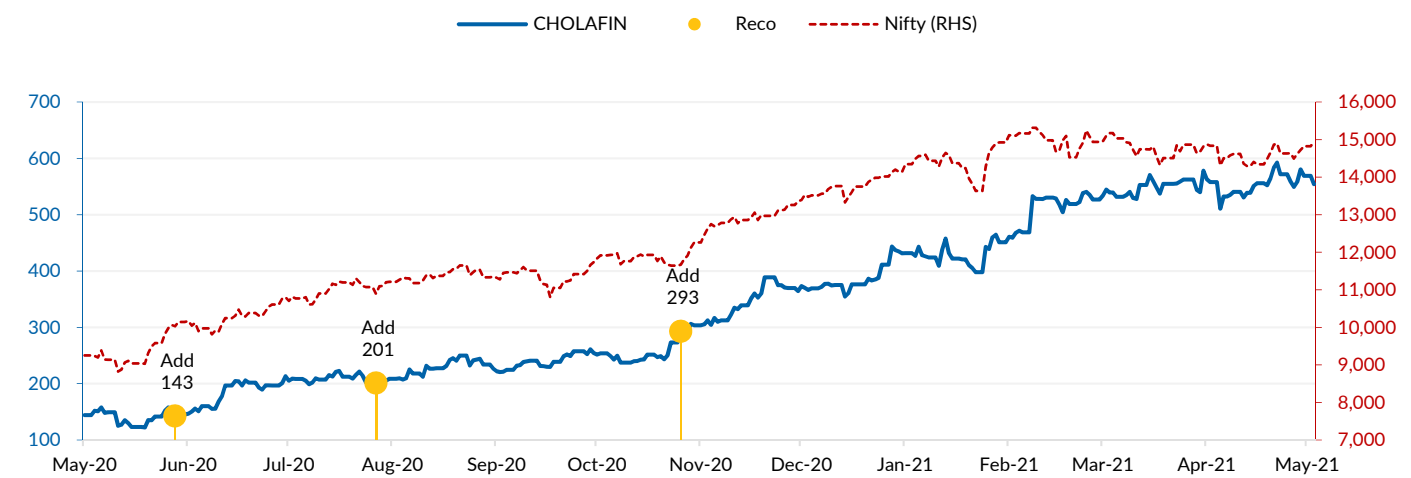
Source: Company, YES Sec – Research

### Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM (%)	7.6	7.8	(0.2)	6.6	1.0
RoTA - PBT (%)	1.8	3.1	(1.3)	0.4	1.4
Gross Stage 3 (%)	4.0	2.6	1.4	3.8	0.2
Coverage Ratio - S3 (%)	44.3	44.9	(0.6)	41.5	2.8
CAR (%)	19.1	19.3	(0.2)	20.7	(1.6)
<b>Vehicle Finance</b>					
NIM (%)	8.3	8.0	0.3	7.1	1.2
Expense Ratio (%)	3.4	2.5	0.9	3.0	0.4
Credit Cost (%)	3.5	3.0	0.5	4.0	(0.5)
RoTA - PBT (%)	1.4	2.5	(1.1)	0.1	1.3
<b>Home Equity</b>					
NIM (%) Reported	4.7	4.4	0.3	3.6	1.1
Expense Ratio (%)	1.3	0.8	0.5	1.0	0.3
Credit Cost (%)	1.6	1.2	0.4	3.1	(1.5)
RoTA - PBT (%)	1.9	2.4	(0.5)	(0.5)	2.4

Source: Company, YES Sec - Research

### Recommendation Tracker



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### YES Securities (India) Limited

**Registered Office:** Unit No. 602 A, 6th Floor, Tower 1 & 2, One International Center, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Email: [research@ysil.in](mailto:research@ysil.in) | Website: [www.yesinvest.in](http://www.yesinvest.in)

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**Details of Compliance Officer:** Name: Vaibhav Purohit, Email id: [compliance@ysil.in](mailto:compliance@ysil.in), Contact No-+91-22-33479208

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