

# Cholamandalam Investment

## BUY

Strong AUM growth guided; Asset quality improved

### Summary

CIFC's AUM growth picked up to 21% YoY vs 10% YoY (FY22) led by strong growth in disbursements (up 267% YoY). Management guided for 20% AUM growth for FY23. Asset quality improved with GS3 at 4.16% vs 4.37% led by better collection efficiency. Also, GNPA (as per RBI norms) stood at 6.31% vs 6.82%; it remains high which needs to be watch out for. Restructured assets stood at 4.3% vs 4.9% QoQ. Management overlay provisions stood at Rs.5.3bn (0.6% of AUM) which should support credit cost. NII grew by 18% YoY led by improvement in NIMs; PPoP grew by 6% YoY led by increase in operating expenses (up 57% YoY). However, PAT grew by 73% YoY led by lower provisions (down 47% YoY). We revised estimates upwards (up 3% FY24ABV) and upgrade to "BUY" with a TP of Rs.840 (earlier Rs.720) based on P/BV of 4.0x FY24E (earlier 3.5x).

### Key Highlights and Investment Rationale

- AUM growth picks up; highest ever disbursements:** AUM growth improved to 20% YoY as against 10% YoY (FY22). VF (69% of AUM) growth improved to 14% YoY (5% FY22) while Home Equity (HE) portfolio (23% AUM) grew by 25% YoY (16% FY22). Disbursements grew by 267% YoY; highest ever for the company. Management guided for 20% AUM growth in FY23; backed by strong growth in new business portofolio. We expect AUM to grow at 18% CAGR (FY22-24E).
- Margins declined sequentially:** NIMs declined by 10bps QoQ to 8.0% due to portoflio mix. VF portfolio NIMs declined by 40bps QoQ while HE portfolio NIMs improved by 50bps QoQ.
- Asset quality improved; restructured assets at 4.3%:** Asset quality improved as Stage 3 assets declined by 21bps QoQ to 4.16%; Restructured assets stood at 4.3% vs 4.9% QoQ. We would be watchful of slippages from restructured assets in FY23. GNPA (as per RBI norms) stood at 6.3% seems to be high.

TP **Rs.840**

CMP **Rs.701**

Potential upside/downside +20%

Previous Rating Hold

### Price Performance (%)

	-1m	-3m	-12m
Absolute	9.3	(5.3)	47.2
Rel to Sensex	0.5	(6.2)	37.7

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	31.9	38.7
Consensus	30.0	36.4
% difference	6.3	6.4

### Key Stock Data

Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	821
Market cap. (Rs mn)	575,551
3-m daily average value (Rs mn)	54.6
52-week high / low	Rs770 / 470
Sensex / Nifty	54,836 / 16,411

### Shareholding Pattern (%)

Promoters	51.5
FII	18.0
DII	19.2
Public	11.3

### Financial snapshot

(Rs mn)

Year	FY2020	FY2021	FY2022	FY2023E	FY2024E
NII	35,320	46,483	52,680	59,501	69,826
Change (yoy, %)		32%	13%	13%	17%
Net Profit	10,524	15,149	21,467	26,225	31,807
Change (yoy, %)		44%	42%	22%	21%
EPS (Rs)	12.8	18.5	26.2	31.9	38.7
Change (yoy, %)		44%	42%	22%	21%
ABV (Rs)	90.3	107.1	133.1	146.6	178.9
PER (x)	49.6	37.9	26.8	21.9	18.1
P/ABV (x)	7.0	6.5	5.3	4.8	3.9
ROE (%)	14.7	17.1	20.2	20.2	20.2
ROA (%)	1.7	2.2	2.7	3.0	3.1
GNPA (%)	3.8	4.0	4.4	4.0	3.8
NNPA (%)	2.3	2.3	2.7	2.5	2.5
CAR (%)	20.7	19.1	18.0	16.5	15.8

Source: IDBI Capital Research;

## Conference Call Highlights

### Asset Quality

- Total provisions carried against the overall book are around 2.92% in Q1FY23 as against normal provision levels of around 1.75% carried prior to Covid-19.
- Management overlay stood at 528 Crs as on 30th June'22.
- Carrying additional provisions of around 736 Crs under Ind AS over the IRAC requirements.
- The moratorium provided under the restructured book was very small ranging between 1-3 months.
- During Q1FY23, the company has moved around 50 Crs to stage 1 as the borrowers paid more than 30% of the outstanding amount on the date of restructuring. The same exercise shall be done every qtr.

### Business:

- If the industry grows at around 30%, Chola has the opportunity to grow at around 35%.
- Shifting product mix towards high yield products and that is expected to drive the yield going forward over next 6-9 months.
- Commercial Vehicle industry is witnessing a growth of 115% and passenger vehicle of 41%, 2W around 54%, 3W around 224% around, tractor around 16% while CE at 61%.
- In affordable housing the company was operating majorly in southern part of the country and has now started expanding to other parts as well.

### Other

- Expecting pretax RoTA to be in the range of 3.5-4% in FY23 and sustainable RoE of around 20%.
- Borrowing from Commercial Paper can be in the range of 10-12% from current 7%. The maximum level of the borrowing from commercial papers is capped at 15%.
- Credit Cost which currently is around 1.2% is expected to be in the range of 1-1.5% in FY23.
- Expecting one more qtr. of run off and second half of FY23 to witness stronger growth.

**Exhibit 1: Quarterly Snapshot (Rs mn)**

Year-end: March	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)
Interest Income	27,451	24,668	25,803	11.3	6.4
Interest Expenses	11,309	11,038	10,712	2.5	5.6
<b>Net Interest Income</b>	<b>16,142</b>	<b>13,630</b>	<b>15,092</b>	<b>18.4</b>	<b>7.0</b>
<b>NIM (%)</b>	<b>8.1</b>	<b>7.9</b>	<b>8.1</b>	<b>22 bps</b>	<b>6 bps</b>
Fee & Other Income	258	113	514	128.2	-49.8
Operating Income	16,401	13,743	15,606	19.3	5.1
Staff Cost	2,461	1,521	2,950	61.8	-16.6
Other Op Exp	3,336	2,185	3,536	52.7	-5.7
Total Operating Expenses	5,797	3,705	6,486	56.5	-10.6
Cost to Income (%)	35.3	27.0	41.6	839 bps	-621 bps
Cost to AUM (%)	2.9	2.2	3.5	77 bps	-55 bps
<b>Operating Profit</b>	<b>10,604</b>	<b>10,038</b>	<b>9,120</b>	<b>5.6</b>	<b>16.3</b>
Provisions	2,986	5,631	-174	-47.0	-1,816.2
Credit Cost (%)	0.4	0.9	0.0	-50 bps	40 bps
<b>PBT</b>	<b>7,617</b>	<b>4,407</b>	<b>9,294</b>	<b>72.9</b>	<b>-18.0</b>
Tax	1,961	1,139	2,398	72.1	-18.2
-effective tax rate	25.7	25.8	25.8	-11 bps	-7 bps
<b>PAT</b>	<b>5,657</b>	<b>3,268</b>	<b>6,896</b>	<b>73.1</b>	<b>-18.0</b>
EPS (Rs)	6.9	4.0	8.4	73.1	-18.0
BV (Rs)	150.2	120.6	142.8	24.6	5.2
Loans	7,94,750	6,39,660	7,41,492	24.2	7.2
AUM	8,19,250	6,78,210	7,69,070	20.8	6.5
Disbursement	1,33,290	36,350	1,27,190	266.7	4.8

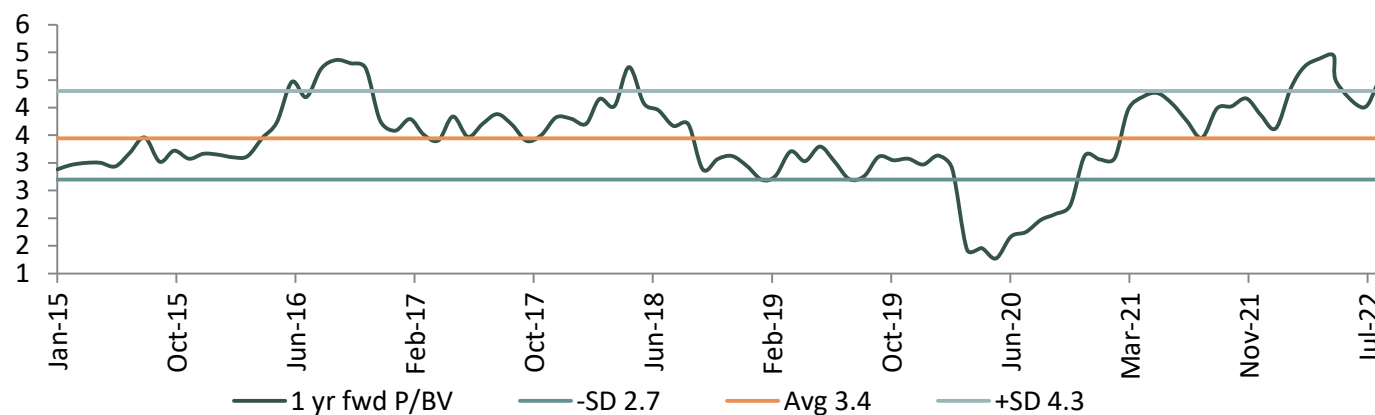
Source: Company; IDBI Capital Research

### Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22	FY23E	FY24E
<b>NII</b>	<b>5.8</b>	<b>6.7</b>	<b>6.7</b>	<b>6.8</b>	<b>6.9</b>
Other Income	0.9	0.5	0.7	0.6	0.6
<b>Net Revenue</b>	<b>6.7</b>	<b>7.2</b>	<b>7.4</b>	<b>7.4</b>	<b>7.5</b>
Op.Exp	2.6	2.3	2.6	2.6	2.4
<b>Op.Profit</b>	<b>4.1</b>	<b>4.9</b>	<b>4.8</b>	<b>4.8</b>	<b>5.0</b>
Provisions	1.5	2.0	1.1	0.8	0.9
PBT	2.6	2.9	3.7	4.0	4.2
Tax	0.9	0.8	0.9	1.0	1.1
<b>PAT</b>	<b>1.7</b>	<b>2.2</b>	<b>2.7</b>	<b>3.0</b>	<b>3.1</b>
Leverage (x)	8.5	7.8	7.4	6.8	6.5
<b>ROE</b>	<b>14.7</b>	<b>17.1</b>	<b>20.2</b>	<b>20.2</b>	<b>20.2</b>

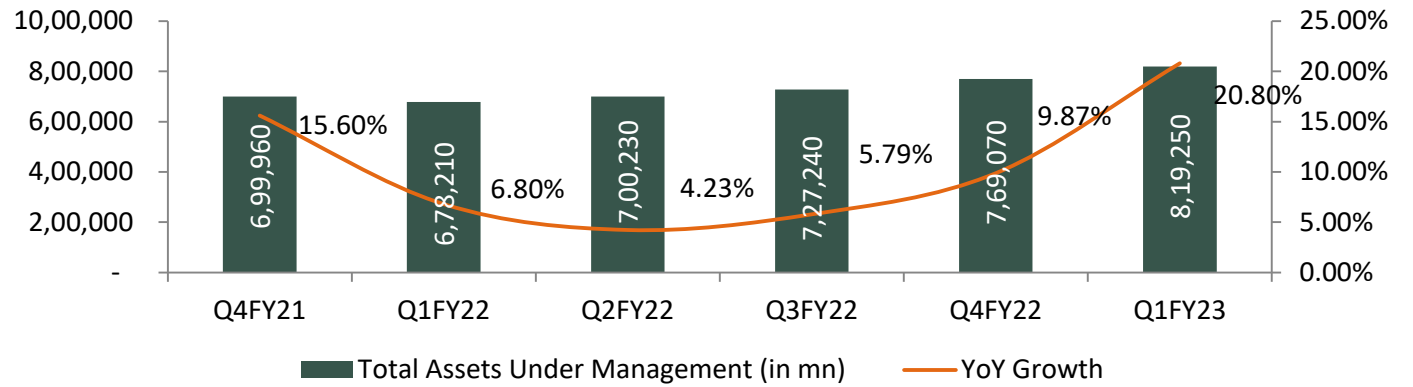
Source: Company; IDBI Capital Research

### Exhibit 3: One-year forward P/ABV



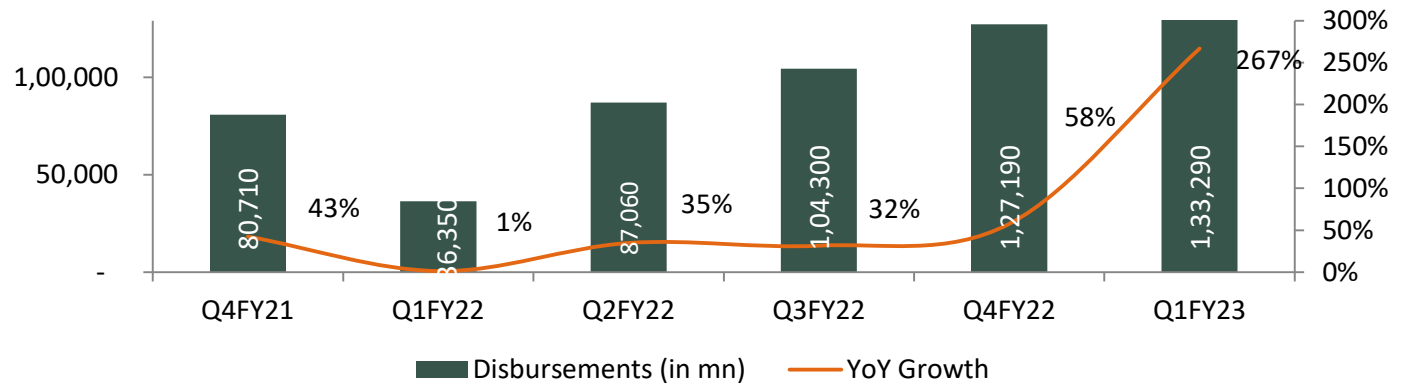
Source: Company; IDBI Capital Research

**Exhibit 4: AUM growth starts improving steadily**



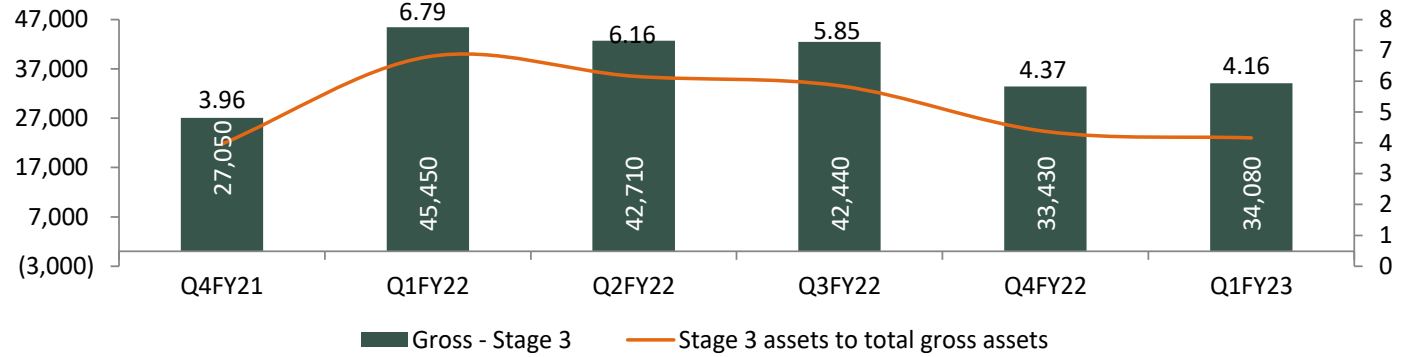
Source: Company; IDBI Capital Research

**Exhibit 5: Disbursements growth rebounds**



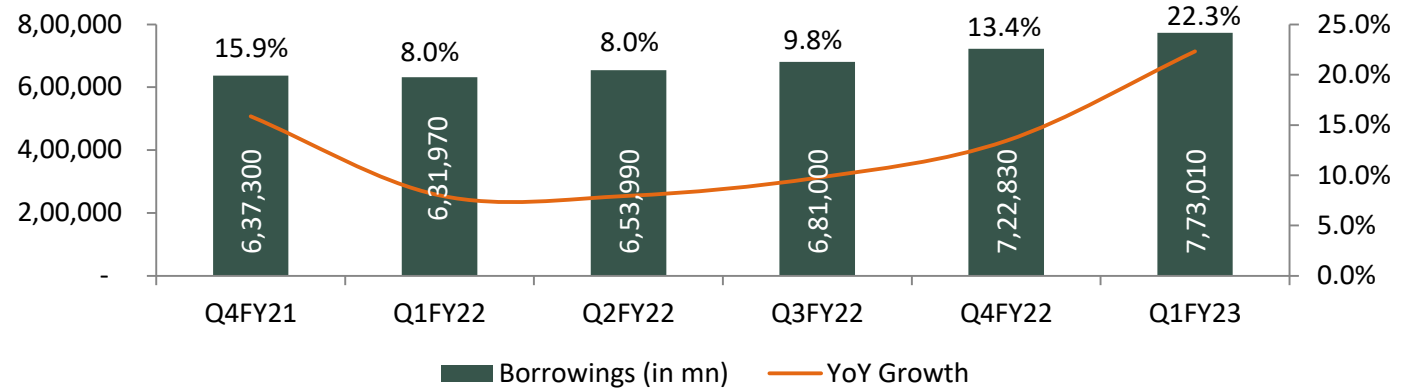
Source: Company; IDBI Capital Research

**Exhibit 6: Asset quality improved during the quarter**



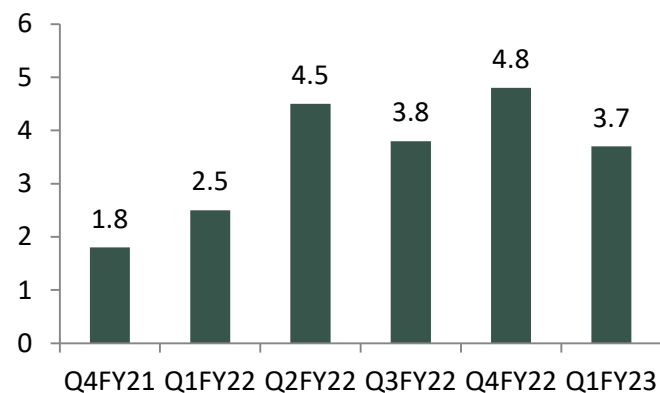
Source: Company; IDBI Capital Research

**Exhibit 7: Borrowings continued to grow strong**



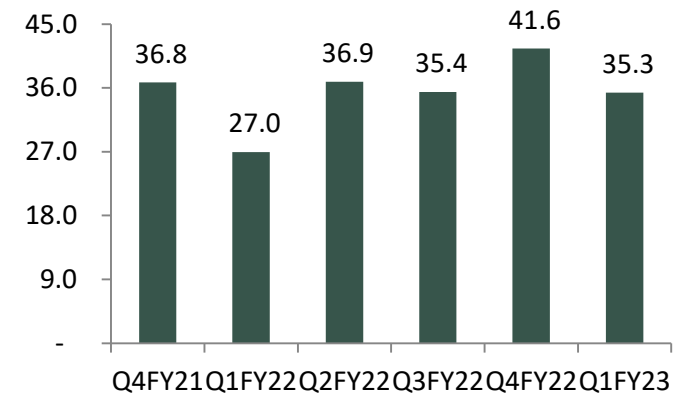
Source: Company; IDBI Capital Research

**Exhibit 8: ROA (PBT) declined QoQ**



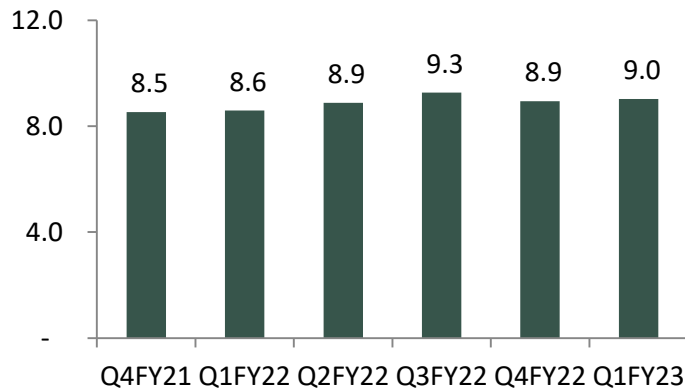
Source: Company; IDBI Capital Research

**Exhibit 9: Cost to Income Ratio softened QoQ**



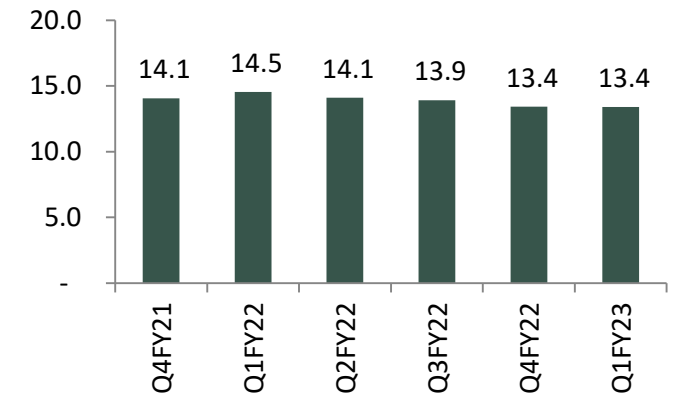
Source: Company; IDBI Capital Research

**Exhibit 10: Cost of Funds remained stable**



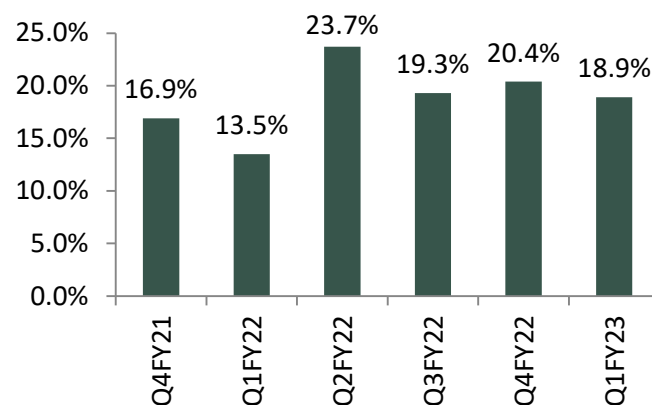
Source: Company; IDBI Capital Research

**Exhibit 11: Yields remained stable QoQ**



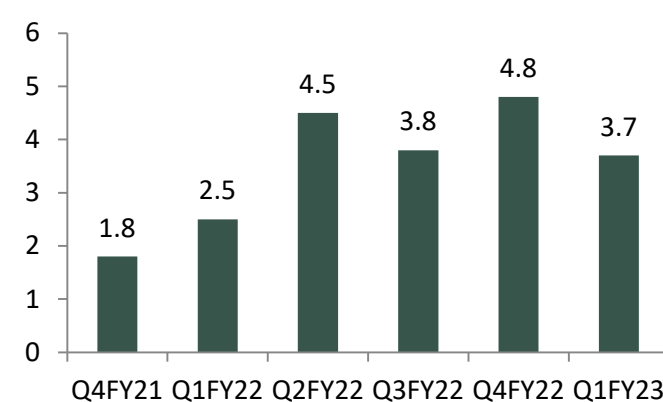
Source: Company; IDBI Capital Research

**Exhibit 12: Return on Equity witnessed downtick QoQ**



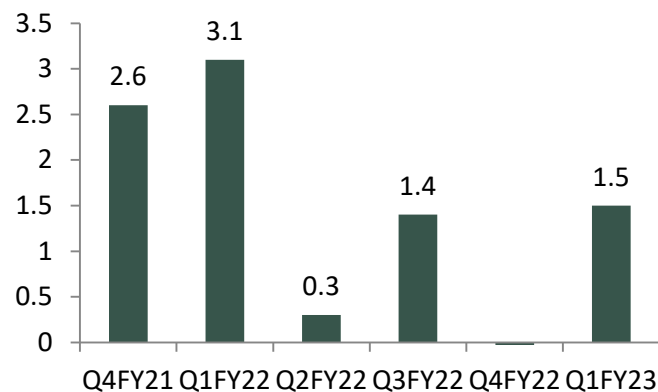
Source: Company; IDBI Capital Research

**Exhibit 13: ROTA-PAT witnessed downtick QoQ**



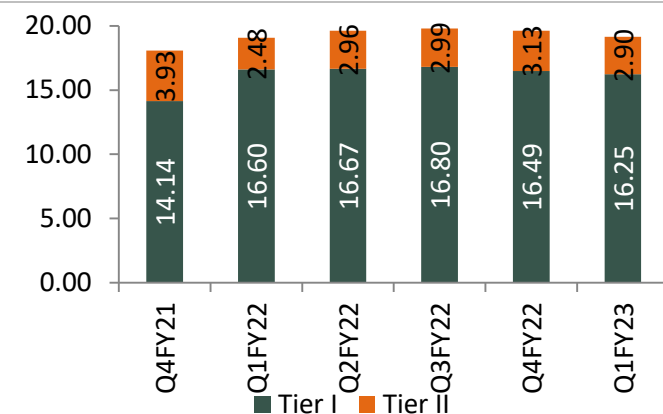
Source: Company; IDBI Capital Research

**Exhibit 14: Losses and provisions - after additional provision**



Source: Company; IDBI Capital Research

**Exhibit 15: CAR remains comfortable**

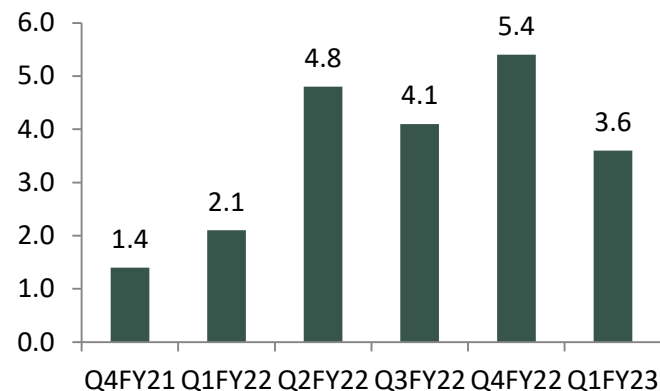


Source: Company; IDBI Capital Research



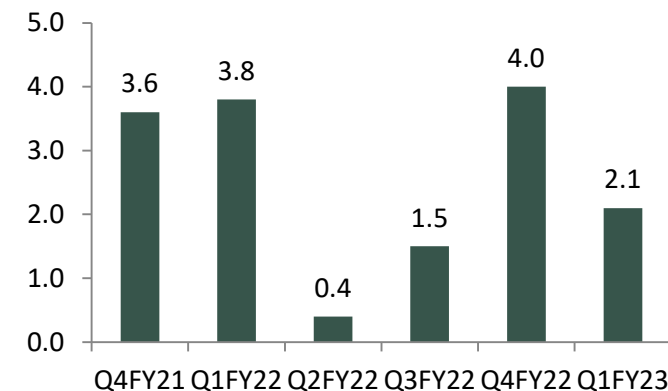
### Asset Ratios - Vehicle Finance PF

**Exhibit 16: ROTA–PBT witnessed downtrend**



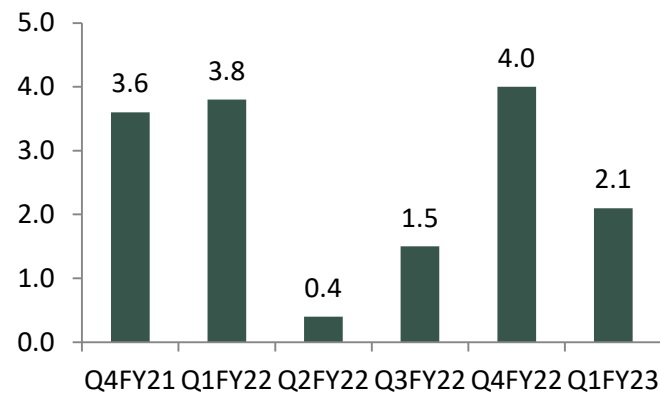
Source: Company; IDBI Capital Research

**Exhibit 17: Losses and provisions decline QoQ**



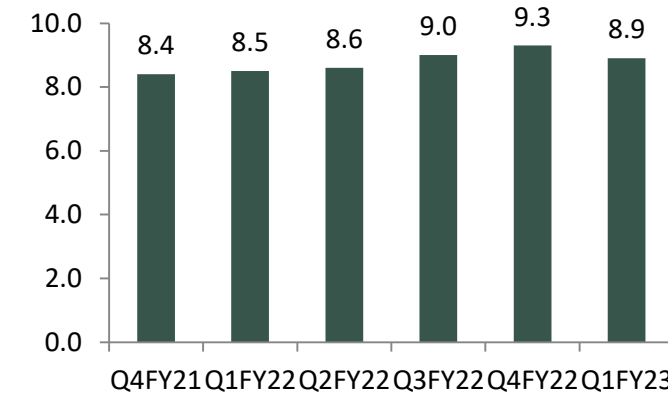
Source: Company; IDBI Capital Research

**Exhibit 18: Expenses Ratio inched down**



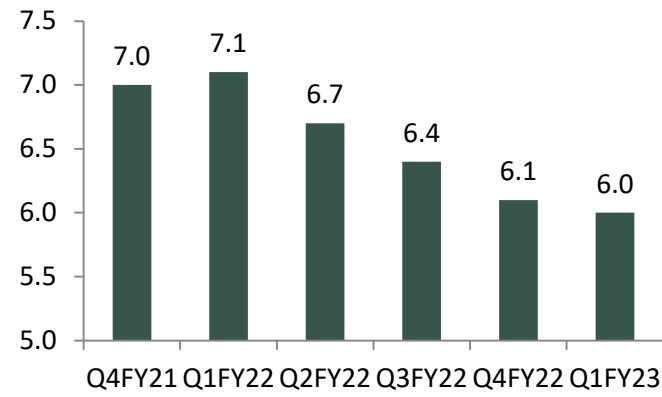
Source: Company; IDBI Capital Research

**Exhibit 19: Net Income Margin remained range bound**



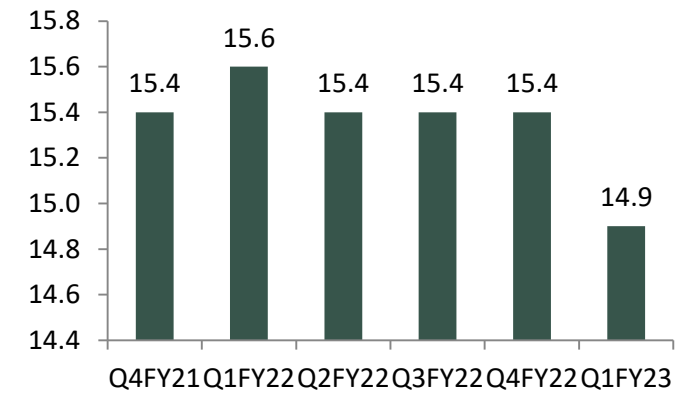
Source: Company; IDBI Capital Research

**Exhibit 20: Cost of Funds continue to decline**



Source: Company; IDBI Capital Research

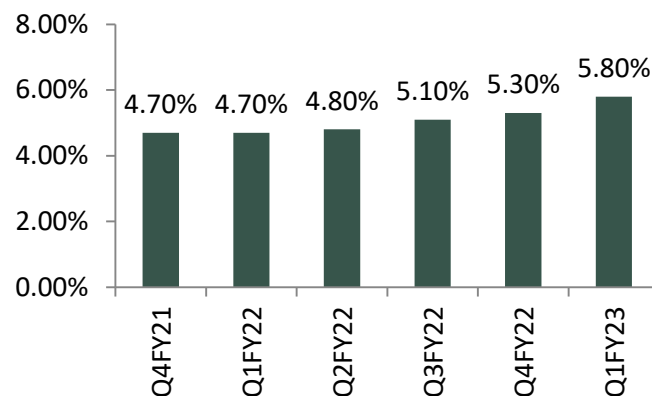
**Exhibit 21: Yields declined QoQ**



Source: Company; IDBI Capital Research

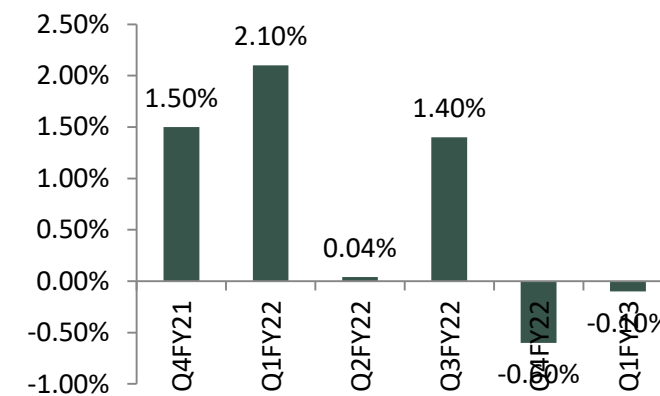
### Asset Ratios - Home Equity PF

**Exhibit 22: ROTA–PBT showing significant improvement**



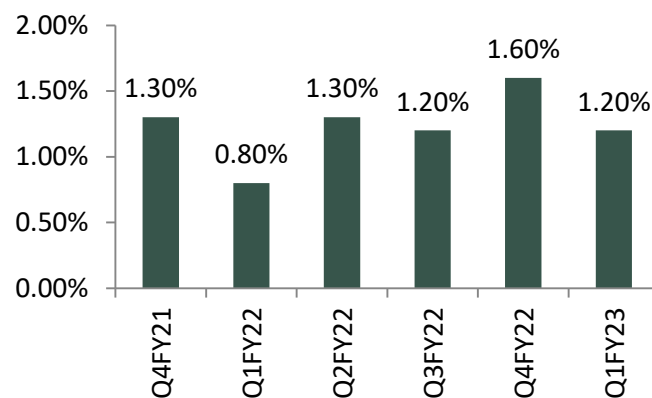
Source: Company; IDBI Capital Research

**Exhibit 23: Losses and provisions negligible during the quarter**



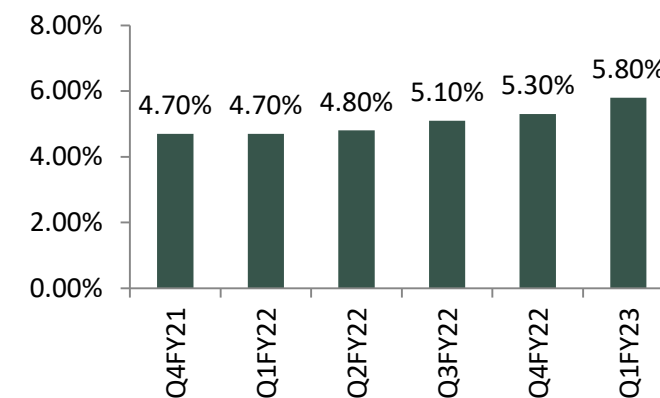
Source: Company; IDBI Capital Research

**Exhibit 24: Expenses Ratio softened QoQ**



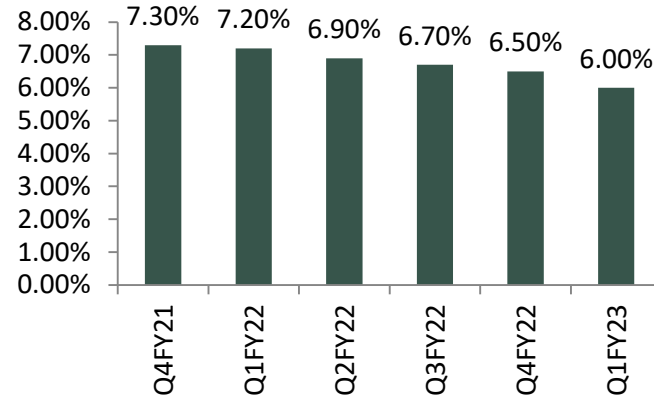
Source: Company; IDBI Capital Research

**Exhibit 25: Net Income Margin improved QoQ**



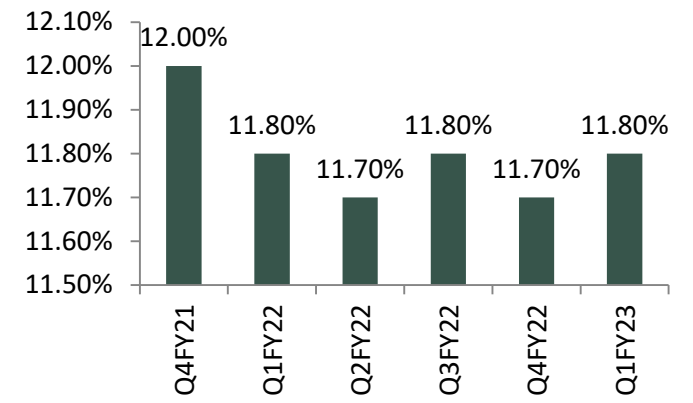
Source: Company; IDBI Capital Research

**Exhibit 26: Cost of Funds trending down**



Source: Company; IDBI Capital Research

**Exhibit 27: Yields improved QoQ**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net interest income</b>	<b>29,765</b>	<b>35,320</b>	<b>46,483</b>	<b>52,680</b>	<b>59,501</b>	<b>69,826</b>
<i>Change (yoy, %)</i>		19%	32%	13%	13%	17%
Other Income	4,274	5,287	3,514	5,720	5,333	6,261
Net Revenue	34,039	40,607	49,996	58,400	64,833	76,087
Operating expenses	12,696	15,776	15,834	20,687	22,749	24,805
Employee expenses	5,906	6,550	7,485	8,945	9,680	10,490
Other expenses	6,790	9,226	8,349	11,742	13,070	14,315
<b>Pre-Provision Profit</b>	<b>21,344</b>	<b>24,831</b>	<b>34,162</b>	<b>37,713</b>	<b>42,084</b>	<b>51,282</b>
<i>Change (yoy, %)</i>		16%	38%	10%	12%	22%
Provision	3,112	8,973	13,778	8,803	7,037	8,776
PBT	18,231	15,858	20,384	28,910	35,047	42,506
Taxes	6,370	5,334	5,235	7,442	8,821	10,699
<i>Effective tax rate (%)</i>	35%	34%	26%	26%	25%	25%
<b>Net profit</b>	<b>11,861</b>	<b>10,524</b>	<b>15,149</b>	<b>21,467</b>	<b>26,225</b>	<b>31,807</b>
<i>Change (yoy, %)</i>		-11%	44%	42%	22%	21%
EPS	15.2	12.8	18.5	26.2	31.9	38.7
Return on Equity (%)	21.0	14.7	17.1	20.2	20.2	20.2
Return on Assets (%)	2.3	1.7	2.2	2.7	3.0	3.1

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	1,564	1,640	1,641	1,642	1,643	1,644
Reserves & Surplus	60,193	80,079	93,962	1,15,434	1,40,428	1,71,002
Shareholder's Funds	61,757	81,719	95,603	1,17,076	1,42,070	1,72,646
Borrowings	4,63,081	5,05,999	5,95,400	6,53,256	7,51,431	8,96,613
Sub-ordinated debt	42,587	44,055	41,901	38,479	32,707	27,801
<b>Total liabilities</b>	<b>5,74,263</b>	<b>6,40,024</b>	<b>7,45,486</b>	<b>8,23,634</b>	<b>9,34,349</b>	<b>10,99,094</b>
Cash	36,749	69,592	52,321	42,201	41,649	42,149
Advances	5,26,223	5,54,027	6,58,393	7,41,492	8,50,575	10,11,889
Investments	729	729	16,188	20,762	20,762	20,762
Fixed Assets	1,561	2,839	2,294	2,916	2,660	2,786
Other Assets	9,002	12,837	16,290	16,264	18,703	21,508
<b>Total assets</b>	<b>5,74,263</b>	<b>6,40,025</b>	<b>7,45,486</b>	<b>8,23,634</b>	<b>9,34,349</b>	<b>10,99,094</b>

## Financial Ratios

(%)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Growth</b>						
Advances	24.5	5.3	18.8	12.6	14.7	19.0
NII	15.5	18.7	31.6	13.3	12.9	17.4
Pre-Provision Profit	25.2	16.3	37.6	10.4	11.6	21.9
Net Profit	29.2	-11.3	43.9	41.7	22.2	21.3
<b>Spreads</b>						
Yield on Loans	13.3	13.7	13.7	12.5	13.1	13.2
Cost of Borrowings	8.1	8.7	7.7	6.5	7.2	7.3
NIM (on AAUM)	7.4	8.0	7.0	7.2	7.1	7.1
Spread	5.2	5.0	6.0	6.0	5.9	6.0
<b>Operating Efficiency</b>						
Cost-to-Income	37.3	38.9	31.7	35.4	35.1	32.6
Cost-to-AUM	2.6	2.7	2.4	2.8	2.7	2.5
<b>Asset Quality</b>						
GNPA	2.7	3.8	4.0	4.4	4.0	3.8
NNPA	1.8	2.3	2.3	2.7	2.5	2.5
Provision Coverage	34.3	41.5	44.3	39.7	40.0	37.0
Credit Cost	0.6	1.5	2.0	1.1	0.8	0.8
<b>Capital Adequacy</b>						
CAR	17.4	20.7	19.1	18.0	16.5	15.8
Tier I	12.4	15.3	15.1	15.1	15.0	15.4
<b>Valuation</b>						
EPS	15.2	12.8	18.5	26.2	31.9	38.7
ABV	72.0	90.3	107.1	133.1	146.6	178.9
P/E	41.9	49.6	37.9	26.8	21.9	18.1
P/BV	8.1	6.4	6.0	4.9	4.1	3.3
ROE	21.0	14.7	17.1	20.2	20.2	20.2
ROA	2.3	1.7	2.2	2.7	3.0	3.1
ROAAUM	2.4	1.8	2.3	2.9	3.1	3.2

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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