Cholamandalam Investment — BUY

Restructured assets at 6.9%; AUM growth slows down

TP	Rs720
CMP	Rs589
Potential upside / downside	+22%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	26.3	30.8	38.6
Consensus	24.1	31.0	36.9
% difference	*9.2*	*(0.8)*	*4.6*

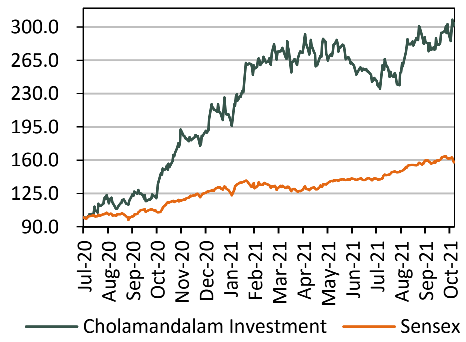
Key Stock Data

Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	821
Market cap. (Rs mn)	482,994
Market cap. (US$ mn)	6,443
3-m daily average value (Rs mn)	118.8
52-week high / low	Rs634 / 249
Sensex / Nifty	60,138 / 17,930

Shareholding Pattern (%)

Promoters	51.6
FII	17.9
DII	18.3
Public	12.2

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	5.4	23.6	115.5
Rel to Sensex	3.0	9.3	63.7

Summary

CIFC's restructured assets increased to 6.9% vs 5.4% of loan book; higher than its peers which is the key concern. However, Management is quite confident of recovery in coming quarters which is visible in improvement in collection efficiency; Oct at 116% vs Sept at 115%. Asset quality improved with gross stage 3 assets declined to 6.16% vs 6.79% QoQ (2.98% YoY). Further, Covid-19 related provisions stood at 1.0% of AUM which should support credit cost for H2FY22. NIMs improved by 10bps QoQ to 7.7%. AUM growth further declined to 4% YoY (7% Q1FY22) led by higher repayments although strong growth in disbursements (up 35% YoY). NII grew by 11% YoY led by improvement in NIMs; PPoP declined by 3% YoY led by increase in operating expenses (up 46% YoY; 40% QoQ). However, PAT grew by 40% YoY led by lower provisions (down 82% YoY; 89% QoQ). We have moved to FY24E estimates and have 'BUY' with a new TP of Rs.720 (earlier Rs.605) based on P/BV of 3.5x FY24E.

Key Highlights and Investment Rationale

- **AUM growth slowdown; disbursements grew by 35% YoY:** AUM growth slowed down to 4% YoY as against 7% YoY (Q1FY22). VF (70% of AUM) growth declined to 0% YoY (3.4% Q1FY22) while Home Equity (HE) portfolio (23% AUM) grew by 11% YoY (8.5% Q1FY22). Disbursements grew by 35% YoY on lower base; second wave impact reduces. Also, disbursements are expected to pick up in H2FY22. AUM growth expected to slight inch up from Q2FY22 levels; but lowers than FY21 (16% YoY) growth levels as repayment ratio would normalize in FY22.

- **Margins improved sequentially:** NIMs improved to 7.7% vs 7.6% QoQ due to decline in yields by 10bps QoQ compensated by decline in cost of funds (down 20bps QoQ). VF portfolio NIMs improved by 20bps QoQ while HE portfolio NIMs improved by 10bps QoQ.

- **Asset quality improved; restructured assets at 6.9%:** Asset quality improved as Stage 3 assets declined by 63bps QoQ to 6.16%; PCR improved by 100bps QoQ to 36.5%. Restructured assets increased to 6.9% vs 5.4% of loan book. Collection efficiency improved to 116% in Oct month. We would be watchful of slippages from restructured assets in FY22.

Financial snapshot (Rs mn)

Year	FY2020	FY2021	FY2022E	FY2023E	FY2024E
NII	35,320	46,483	49,583	54,068	62,972
Net Profit	10,524	15,149	21,564	25,294	31,687
EPS (Rs)	12.8	18.5	26.3	30.8	38.6
BV (Rs)	99.6	116.5	141.5	170.0	206.2
PER (x)	45.7	31.8	22.3	19.1	15.2
P/BV (x)	5.9	5.0	4.1	3.5	2.8
ROE (%)	14.7	17.1	20.4	19.8	20.5
ROA (%)	1.7	2.2	2.8	3.0	3.3
Stage 3 (%)	3.8	4.0	4.5	4.0	4.0
Net stage 3 (%)	2.3	2.3	2.8	2.5	2.1
CAR	20.7	19.1	18.8	17.6	17.3

Source: IDBI Capital Research;

Conference Call Highlights

Disbursements

- Disbursements stood at INR87.1bn for the quarter (Vehicle Finance – INR61.6bn), (LAP- INR20.5bn) and Home Loan (INR – 4.94bn)
- Tax collections, power, vehicle registrations, toll have supported disbursements for the quarter (Despite supply side concerns).
- ECLGS related disbursement at INR25 cr (during the quarter)
- Tractor disbursement at the highest level (industry also doing good)

Margins

- Yield are varied for the portfolio as it caters to broad range of products (from ~9%-18%).
- ROTA a better measure (balances out difference in NIM and OPEX).
- NIM expansion on account of lower cost, better yield in Tier-2 cities.

Asset Quality

- Billing compared to cash flow for (September -115%, October – 116%)
- Stage 1 roll forward rate improved (1.6%), LAP – (from 8.86% to 8.17), Home loan (from 4.29 to 4.19)
- LAP restructuring is at 4.38% of Gross AUM
- For restructuring, the total book is INR4749 cr (6.85% of the book). Restructuring 1.0 stands at 1.27% and Restructuring 2.0 stands at and 5.58%.
- Out of total restructuring, for Vehicle (INR4200 cr), LAP (INR600 cr), Home Loan (INR300 cr)
- Customers able to pay one EMI (unable to pay 2-3 EMIs, in order to roll back account from Stage 2 to Stage 1 account). Supply of vehicles in October has been 20% higher than September and constraints are gradually being addressed.
- Stage 1 collection efficiency at 98.25% (can move towards ~99-99.5%) (Collection focus was kept during the quarter).

- Stage 2 assets are elevated as it includes restructured book (if it moves up, additional provisions to be created from the current levels).
- Stage 3, for Vehicle finance (5.73%), 8.17% for LAP, 4.2% for HL

OPEX

- In second quarter, salary increment given (last year not given, however, it was provided in the fourth quarter).
- Credit cost to be at similar level (except if Covid 3 related issues.
- Overall OPEX to AUM should be ~2.5%.

Digital Transformation

- Company is plans to build 3 ecosystems (broadly which include Vehicle/Vehicle Finance, SME and the consumer)
- For the consumer ecosystem, company plans to build partnership (in the next 12-18 months)
- In terms of technology, it is carved into two categories the tech (sourcing development) and the analytics team (new Head joined during the quarter).

Business Outlook:

- Capacity utilization, for HCV is good (replacement demand is largely driven by them), Small fleet operator and medium fleet operators having lower capacity utilization in Tier-1 towns (replacement demand getting delayed)
- In Tier-2 and Tier-3 towns, for HCV, utilization dependent on transportation of agricultural goods, bricks transport etc.
- For Small fleet operator and medium fleet operators, in Tier-2 and Tier-3 towns (have seen growth by 80-85% level, in 2018 it was 100%)
- It should improve in the next quarter as mining, road and infrastructure development picks up pace.
- Crops to reach the market in November, which should improve demand.
- Used vehicle demand looking good and new vehicle demand orders have been spending.

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q2FY22	Q2FY21	Q1FY22	*YoY (%)*	*QoQ (%)*
Interest Income	24,706	24,364	24,668	*1.4*	*0.2*
Interest Expenses	10,778	11,852	11,038	*-9.1*	*-2.4*
Net Interest Income	**13,928**	**12,512**	**13,630**	***11.3***	***2.2***
NIM (%)	***8.1***	***7.7***	***7.9***	***42 bps***	***17 bps***
Fee & Other Income	1	34	1	*-97.1*	*0.0*
Operating Income	**13,929**	**12,546**	**13,631**	***11.0***	***2.2***
Staff Cost	2,288	1,700	1,523	*34.6*	*50.2*
Other Op Exp	2,904	1,852	2,190	*56.8*	*32.6*
Total Operating Expenses	5,192	3,552	3,713	*46.2*	*39.8*
Cost to Income (%)	*37.3*	*28.3*	*27.2*	*896 bps*	*1003 bps*
Cost to AUM (%)	*3.0*	*2.2*	*2.2*	*83 bps*	*86 bps*
Operating Profit	**8,737**	**8,994**	**9,918**	***-2.9***	***-11.9***
Provisions	584	3,176	5,519	*-81.6*	*-89.4*
Credit Cost (%)	0.1	0.5	0.9	*-42 bps*	*-77 bps*
PBT	**8,153**	**5,818**	**4,399**	***40.1***	***85.3***
Tax	2,100	1,501	1,139	*39.9*	*84.4*
-effective tax rate	*25.8*	*25.8*	*25.9*	*-4 bps*	*-13 bps*
PAT	**6,053**	**4,317**	**3,260**	***40.2***	***85.7***
EPS (Rs)	7.4	5.3	4.0	*40.4*	*85.6*
BV (Rs)	127.1	109.6	120.6	*16.0*	*5.4*
Loans	6,65,154	6,22,572	6,39,660	*6.8*	*4.0*
AUM	7,00,230	6,71,820	6,78,210	*4.2*	*3.2*
Disbursement	87,060	64,570	36,350	*34.8*	*139.5*

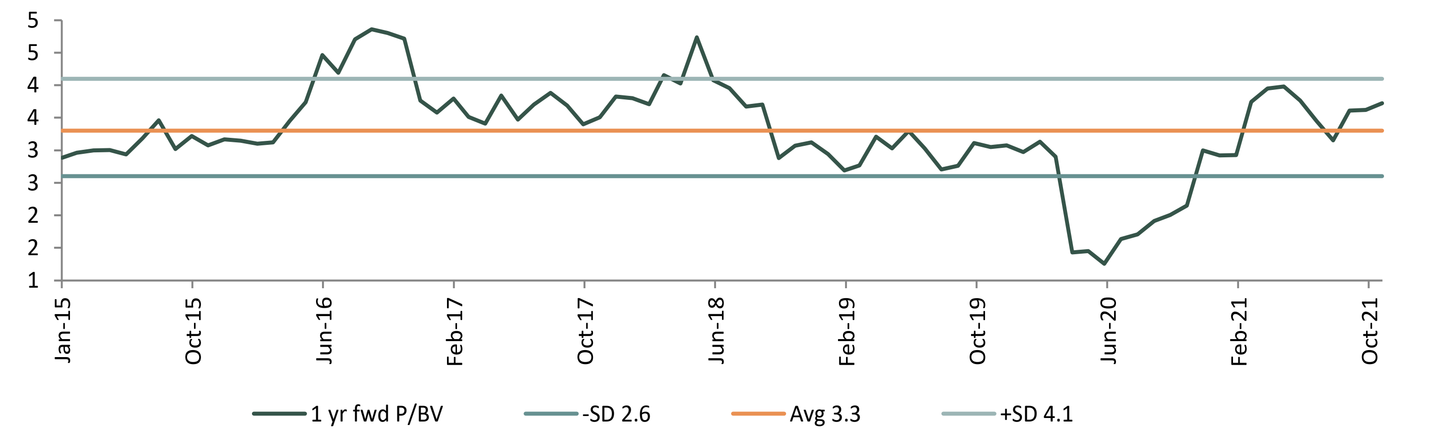
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22E	FY23E	FY24E
NII	**5.8**	**6.7**	**6.4**	**6.4**	**5.8**
Other Income	0.9	0.4	0.7	0.7	0.9
Net Revenue	**6.7**	**7.1**	**7.1**	**7.1**	**6.7**
Op.Exp	2.6	2.3	2.3	2.3	2.6
Op.Profit	**4.1**	**4.9**	**4.8**	**4.8**	**4.1**
Provisions	1.5	1.9	1.0	0.8	1.5
PBT	2.6	2.9	3.7	4.0	2.6
Tax	0.9	0.8	0.9	1.0	0.9
PAT	**1.7**	**2.2**	**2.8**	**3.0**	**1.7**
Leverage (x)	8.5	7.8	7.3	6.6	8.5
ROE	**14.7**	**17.1**	**20.4**	**19.8**	**14.7**

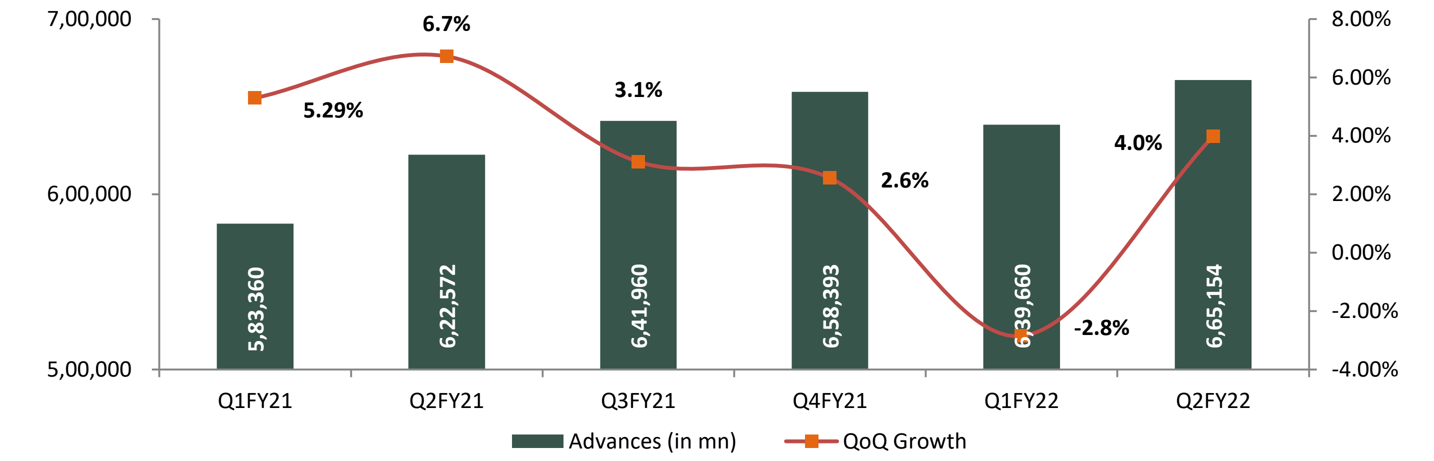
Source: Company; IDBI Capital Research

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



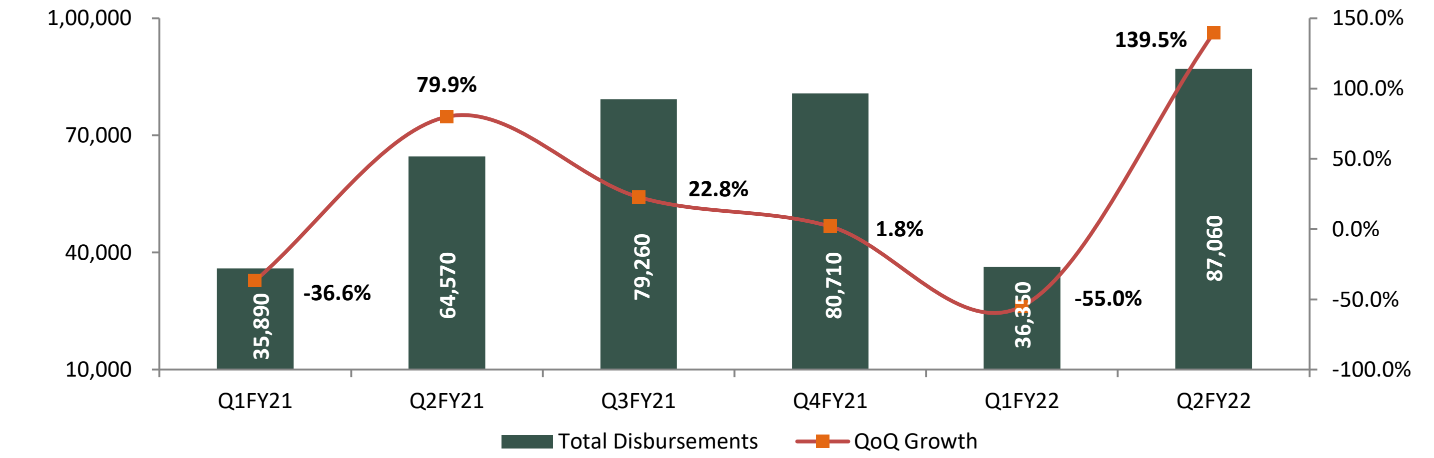
Source: Company; IDBI Capital Research

Exhibit 4: Advances growth took a sharp spike



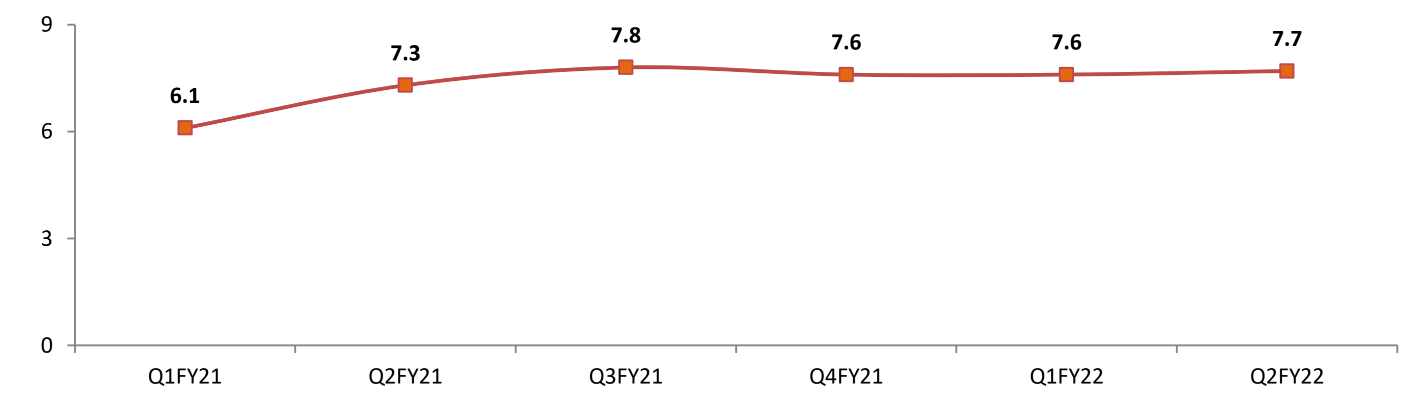
Source: Company; IDBI Capital Research

Exhibit 5: Disbursements growth rebounds



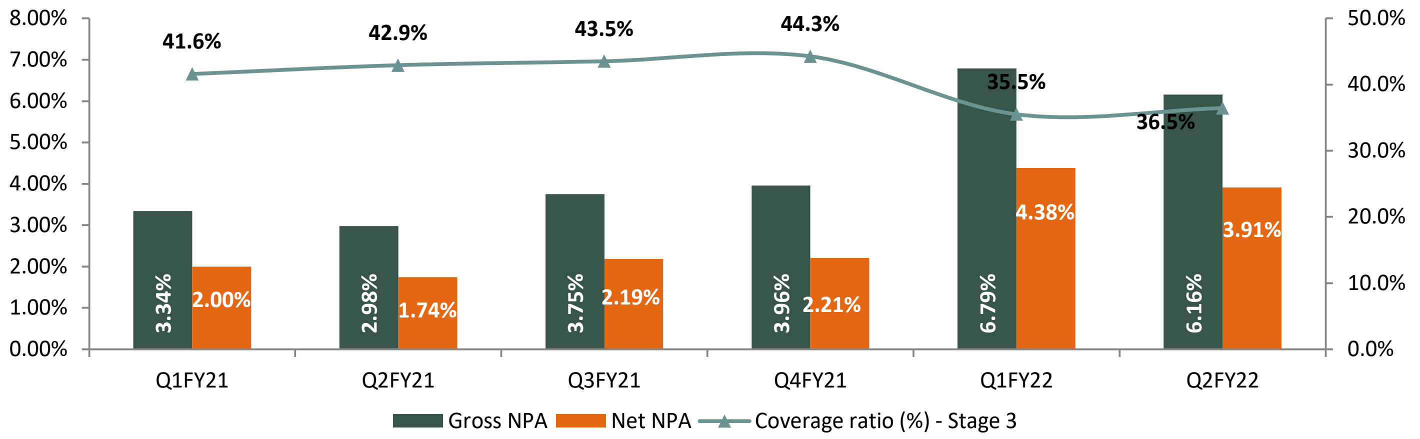
Source: Company; IDBI Capital Research

Exhibit 6: Net Interest margins have remained flat



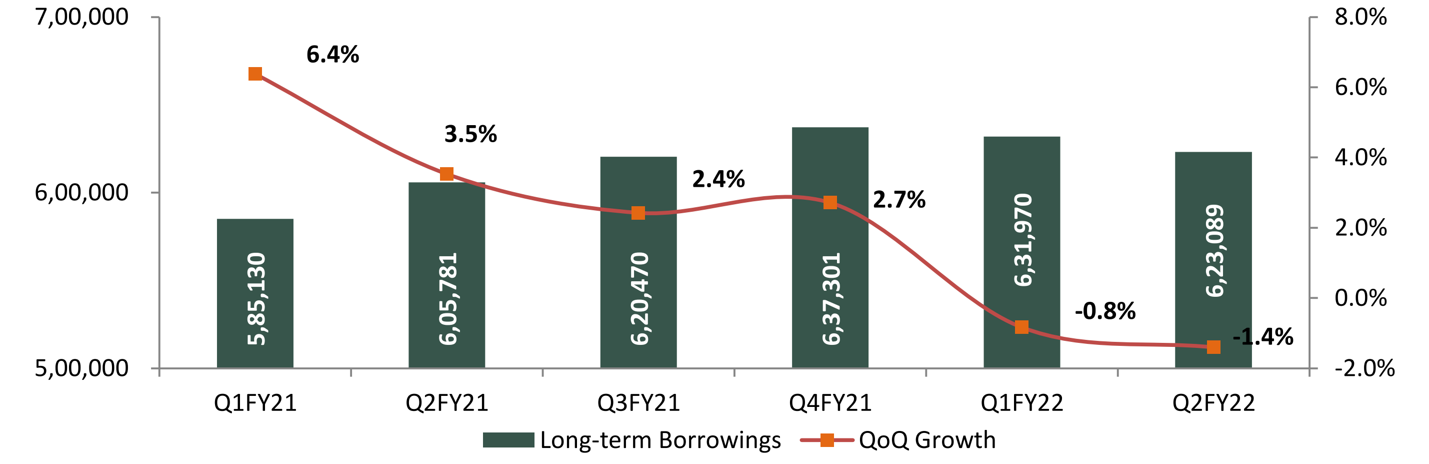
Source: Company; IDBI Capital Research

Exhibit 7: Asset quality improved while impacted by second wave in last quarter (Q1FY22)



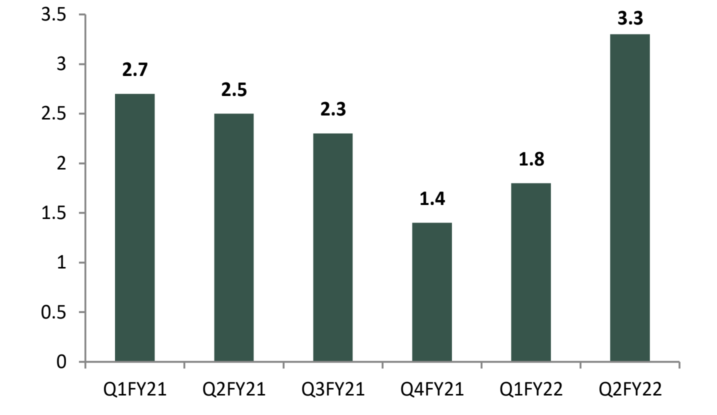
Source: Company; IDBI Capital Research

Exhibit 8: Borrowings have been declining with lower liquidity



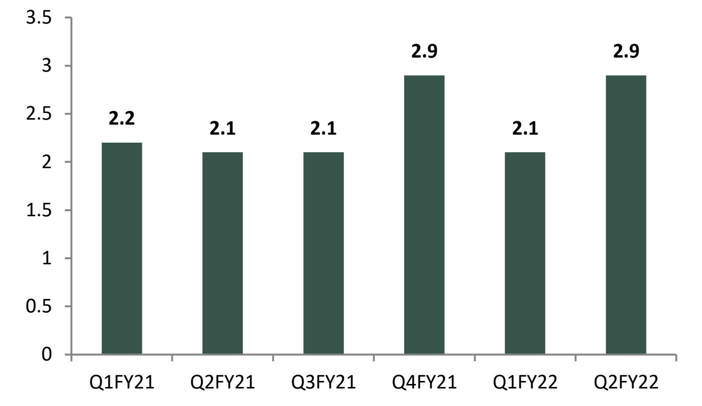
Source: Company; IDBI Capital Research

Exhibit 9: ROTA (PAT) has been improving sequentially



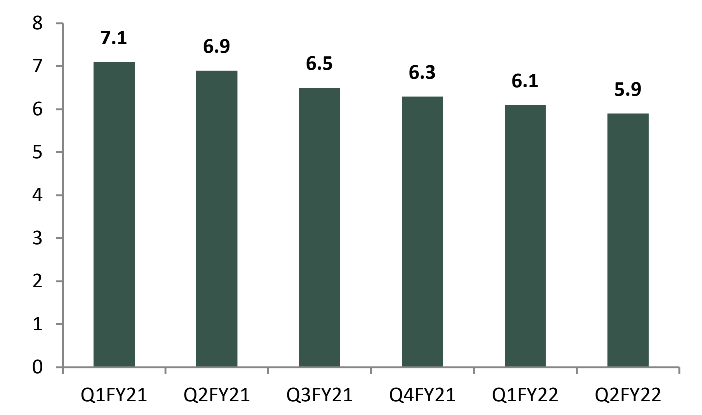
Source: Company; IDBI Capital Research

Exhibit 10: Expenses Ratio inched up



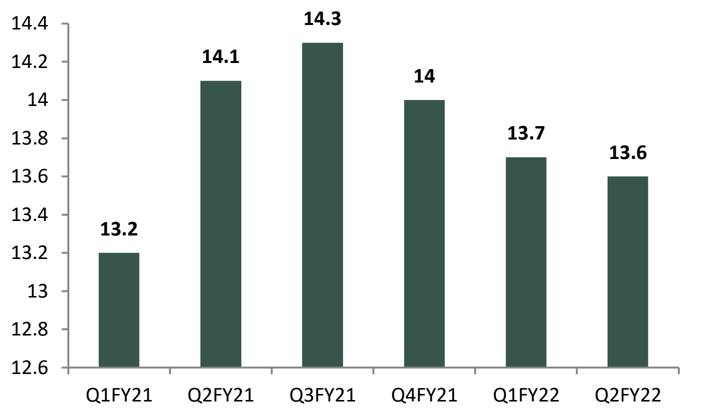
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Funds improving sequentially



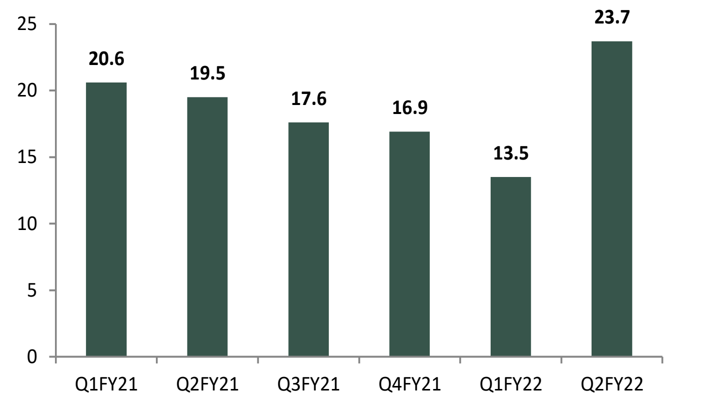
Source: Company; IDBI Capital Research

Exhibit 12: Yields decline with change in Mix



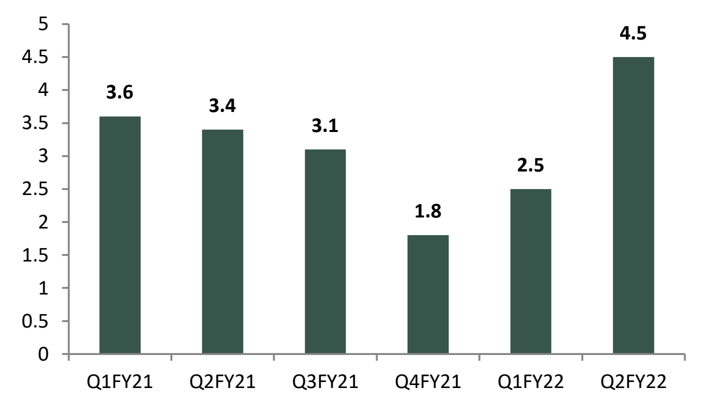
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity improved

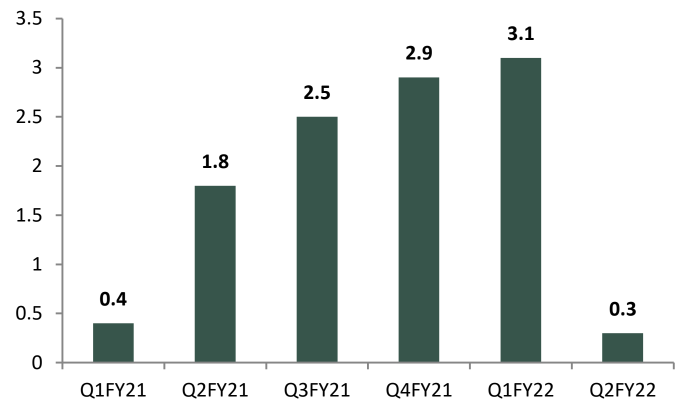
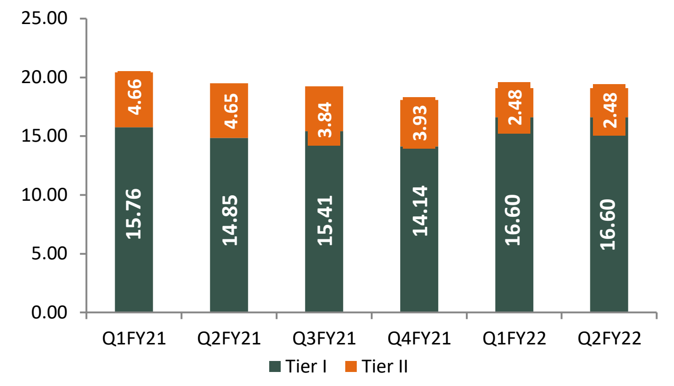


Source: Company; IDBI Capital Research

Exhibit 14: ROTA-PBT at high levels

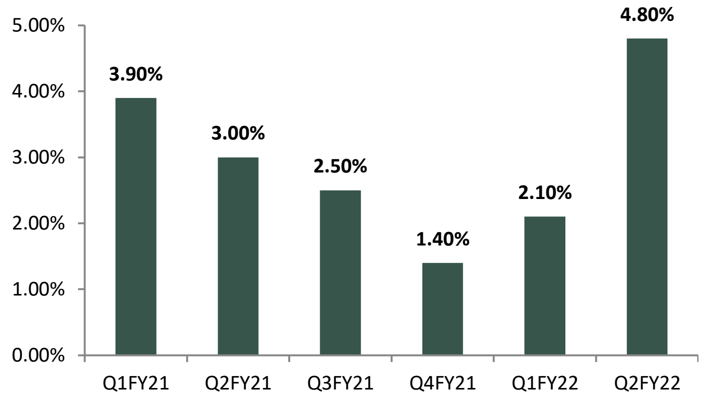


Source: Company; IDBI Capital Research

Exhibit 15: Losses and provisions - after additional provision	Exhibit 16: CAR remains comfortable
	
Source: Company; IDBI Capital Research	*Source: Company; IDBI Capital Research*

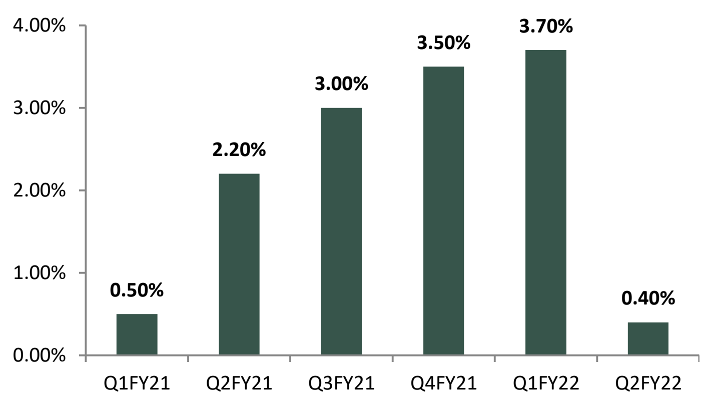
Asset Ratios - Vehicle Finance PF

Exhibit 17: ROTA–PBT showing significant improvement



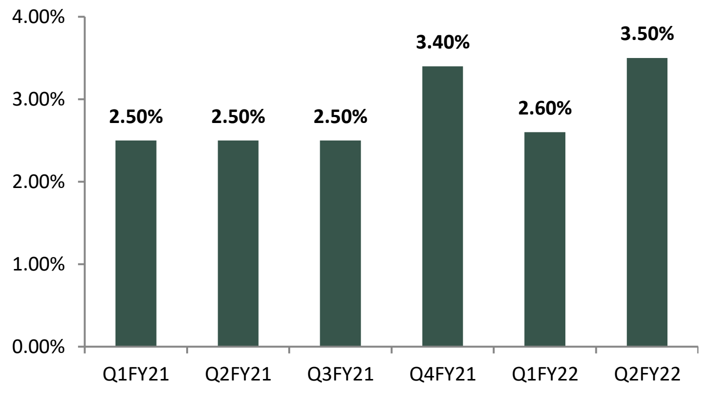
Source: Company; IDBI Capital Research

Exhibit 18: Losses and provisions declined



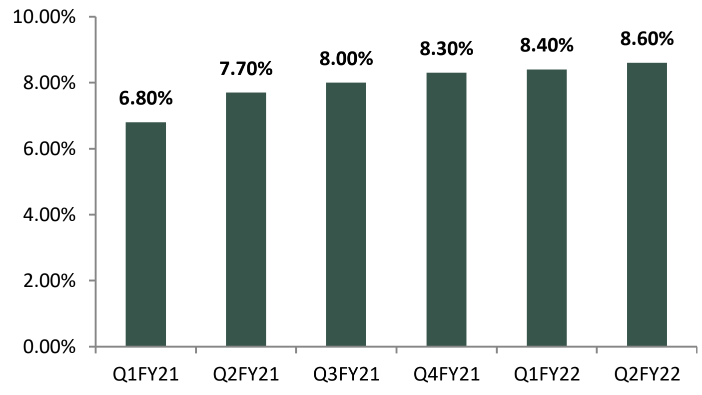
Source: Company; IDBI Capital Research

Exhibit 19: Expenses Ratio inched up



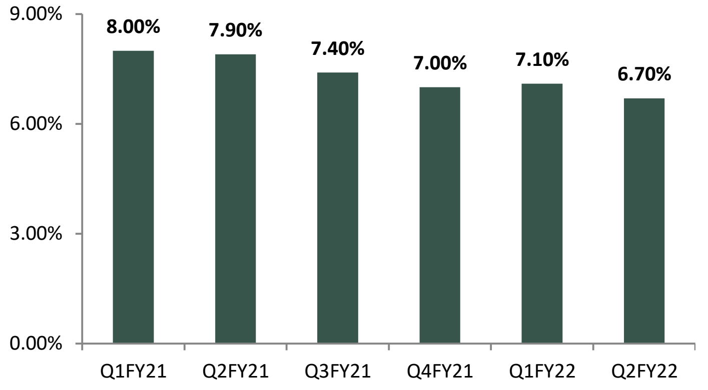
Source: Company; IDBI Capital Research

Exhibit 20: Net Income Margin at all-time high



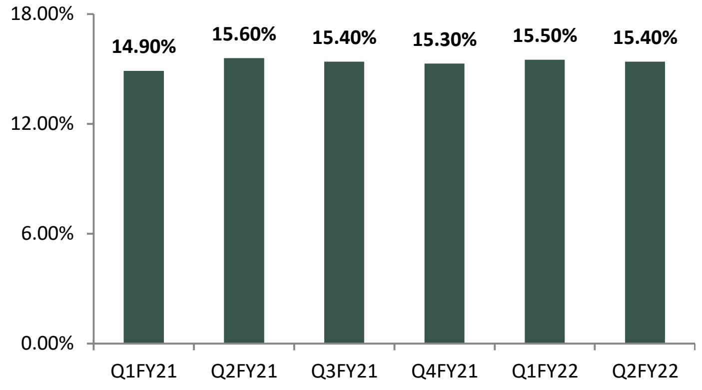
Source: Company; IDBI Capital Research

Exhibit 21: Cost of Funds continue to decline



Source: Company; IDBI Capital Research

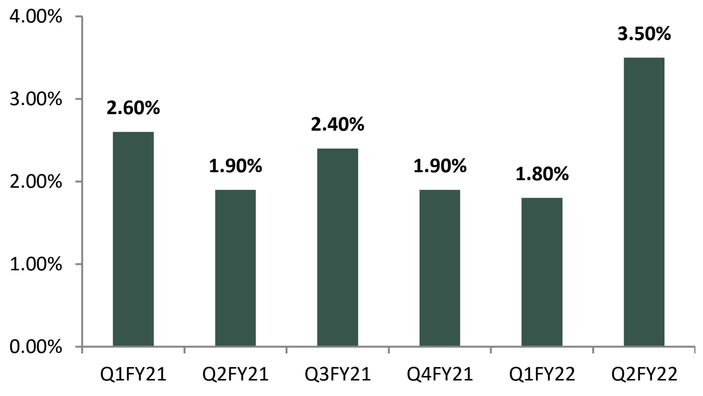
Exhibit 22: Yields remain range bound



Source: Company; IDBI Capital Research

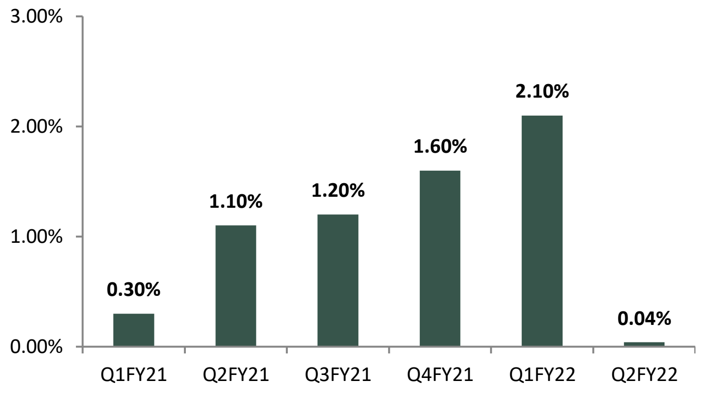
Asset Ratios - Home Equity PF

Exhibit 23: ROTA–PBT showing significant improvement



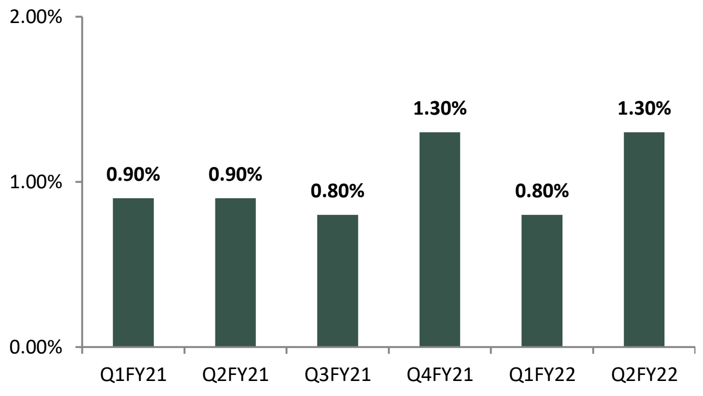
Source: Company; IDBI Capital Research

Exhibit 24: Losses and provisions negligible during the quarter



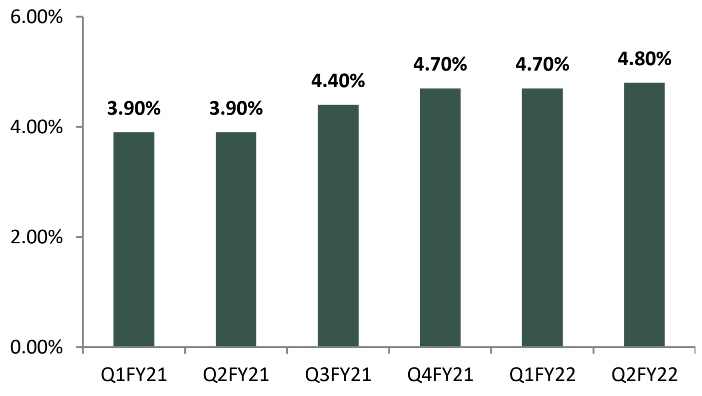
Source: Company; IDBI Capital Research

Exhibit 25: Expenses Ratio inched up



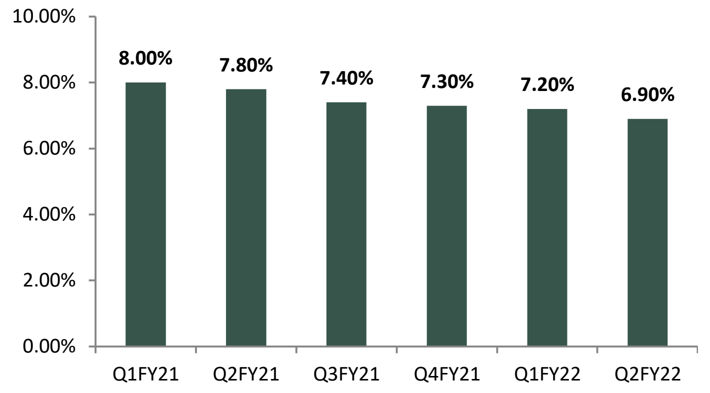
Source: Company; IDBI Capital Research

Exhibit 26: Net Income Margin improved QoQ



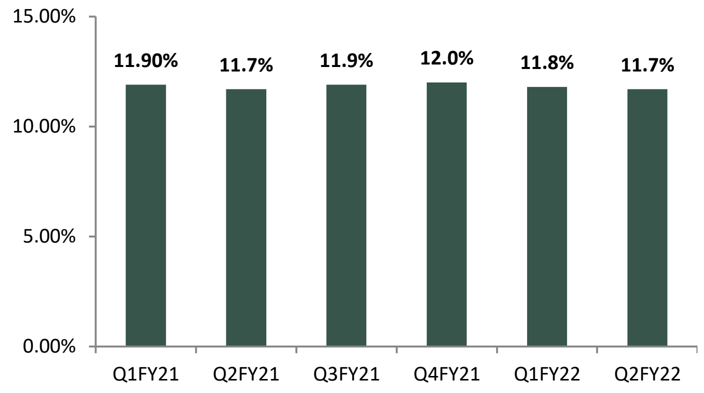
Source: Company; IDBI Capital Research

Exhibit 27: Cost of Funds trending down



Source: Company; IDBI Capital Research

Exhibit 28: Yields decline



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Interest Income	92,242	98,824	1,08,319	1,24,209
Interest Expended	45,759	49,241	54,251	61,237
Net Interest Income	**46,483**	**49,583**	**54,068**	**62,972**
Other Income	2,954	5,297	5,866	6,751
Net Revenue	**49,437**	**54,880**	**59,934**	**69,722**
Operating Expenses	15,835	17,966	19,543	21,204
Employee expenses	7,494	8,906	9,626	10,346
Other expenses	8,341	9,059	9,917	10,858
Pre-Provision Profit	**33,602**	**36,914**	**40,391**	**48,518**
Provision	13,218	8,097	6,589	6,173
PBT	**20,384**	**28,817**	**33,802**	**42,345**
Taxes	5,235	7,253	8,508	10,658
Net profit	**15,149**	**21,564**	**25,294**	**31,687**

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Capital	1,641	1,641	1,642	1,643
Reserves	93,963	1,14,460	1,37,907	1,67,745
Networth	95,604	1,16,101	1,39,549	1,69,388
Borrowings	5,95,400	6,35,081	7,17,238	8,32,335
Other liabilities	12,579	6,734	2,311	(5,427)
Total Liab. & Equity	**7,45,484**	**8,01,913**	**8,96,494**	**10,28,083**
Advance	6,58,393	6,98,074	7,89,359	9,17,245
Investments	16,188	16,188	16,188	16,188
Cash	52,319	67,501	68,003	68,503
Fixed Assets	2,294	2,231	2,337	2,449
Other Assets	16,290	17,919	20,607	23,698
Total assets	**7,45,484**	**8,01,913**	**8,96,494**	**10,28,083**

Source: Company; IDBI Capital Research

Financial Ratios

(%)

Year-end: March	FY21	FY22E	FY23E	FY24E
Growth				
Advances	18.8	6.0	13.1	16.2
NII	31.6	6.7	9.0	16.5
Pre-Provision Profit	35.3	9.9	9.4	20.1
Net Profit	43.9	42.3	17.3	25.3
Spreads				
Yield on Assets	13.7	13.1	13.0	13.2
Cost of Funds	7.7	7.5	7.6	7.6
NIM	7.0	6.7	6.7	6.6
Operating Efficiency				
Cost-to-Income	32.0	32.7	32.6	30.4
Cost-to-AUM	2.4	2.5	2.4	2.3
Asset Quality				
GNPA	4.0	4.5	4.0	4.0
NNPA	2.3	2.8	2.5	2.1
Provision Coverage	44.3	44.0	43.0	43.0
Credit Cost	1.9	1.1	0.8	0.6
Capital Adequacy				
CAR	19.1	18.8	17.6	17.3
Tier I	15.1	15.1	15.5	16.2
Valuation				
EPS	18.5	26.3	30.8	38.6
BV	116.5	141.5	170.0	206.2
P/E	31.8	22.3	19.1	15.2
P/BV	5.0	4.1	3.5	2.8
ROE	17.1	20.4	19.8	20.5
ROA	2.2	2.8	3.0	3.3
RORWA	2.3	2.9	3.1	3.4

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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