

Cholamandalam Investment

BUY

Strong AUM growth; NIMs declined QoQ

Summary

CIFC's AUM growth picked up further to 25% YoY vs 21% YoY (Q1FY23) led by strong growth in disbursements (up 68% YoY). Management guided for 20-22% AUM growth for FY23. Asset quality improved with GS3 at 3.84% vs 4.16% led by better collection efficiency. Also, GNPA (as per RBI norms) stood at 5.8% vs 6.3%; it remains high which needs to be watch out for. Management overlay provisions stood at Rs.5.3bn (0.6% of AUM) which should support credit cost going forward. NII grew by 18% YoY lower than AUM growth due to decline in NIMs; PPOp grew by 17% YoY led by increase in operating expenses (up 28% YoY). However, PAT declined by 7% YoY led by higher provisions (up 300% YoY). We maintain "BUY" with a TP of Rs.840 based on P/BV of 4.0x FY24E.

Key Highlights and Investment Rationale

- AUM growth picks up; highest ever disbursements:** AUM growth improved to 25% YoY as against 21% YoY (FY22). VF (66% of AUM) growth improved to 17% YoY (14% Q1FY23) while Home Equity (HE) portfolio (21% AUM) grew by 22% YoY (22% Q1FY23). Disbursements grew by 68% YoY; highest half yearly disbursement for the company. Management guided for 20 - 22% AUM growth in FY23; backed by strong growth in new business portfolio. We expect AUM to grow at 20% CAGR (FY22-24E).
- Margins declined sequentially:** NIMs declined by 40bps QoQ to 7.6% due to rise in cost of funds. VF portfolio NIMs declined by 40bps QoQ; HE portfolio NIMs also declined by 40bps QoQ.
- Asset quality improved; restructured assets at 2.8%:** Asset quality improved as Stage 3 assets declined by 32bps QoQ to 3.84%; Restructured assets stood at 2.8% vs 4.3% QoQ. We would be watchful of slippages from restructured assets in FY23. GNPA (as per RBI norms) stood at 5.84% seems to be high.

TP	Rs.840
CMP	Rs.709
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.2)	(3.3)	20.5
Rel to Sensex	(9.6)	(8.5)	18.9

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	30.9	36.8
Consensus	30.5	37.0
% difference	1.3	(0.5)

Key Stock Data

Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	822
Market cap. (Rs mn)	582,837
3-m daily average value (Rs mn)	55.6
52-week high / low	Rs818 / 470
Sensex / Nifty	61,121 / 18,145

Shareholding Pattern (%)

Promoters	51.5
FII	18.7
DII	20.7
Public	9.1

Financial snapshot

(Rs mn)

Year	FY2020	FY2021	FY2022	FY2023E	FY2024E
NII	35,320	46,483	52,680	59,418	70,617
Change (yoy, %)		32%	13%	13%	19%
Net Profit	10,524	15,149	21,467	25,417	30,239
Change (yoy, %)		44%	42%	18%	19%
EPS (Rs)	12.8	18.5	26.2	30.9	36.8
Change (yoy, %)		44%	42%	18%	19%
BV (Rs)	99.6	116.5	142.6	172.0	207.2
PER (x)	55.3	38.4	27.1	22.9	19.3
P/BV (x)	7.1	6.1	5.0	4.1	3.4
ROE (%)	14.7	17.1	20.2	19.7	19.4
ROA (%)	1.7	2.2	2.7	2.9	2.9
GNPA (%)	3.8	4.0	4.4	4.0	3.8
NNPA (%)	2.3	2.3	2.7	2.5	2.4
CAR (%)	20.7	19.1	18.0	16.0	15.1

Source: IDBI Capital Research;

Conference Call Highlights

Operational Performance:

- NII for Q2FY23 stood at around 1,697 Crs (up by 21% YoY) and for H1FY23 at 3,337 Crs (up by 20% YoY).
- Disbursement in VF stood at 8,502 Crs (up by 38% YoY), LAP at 2,246 Crs (up by 38% YoY), Home Loan at 743 Crs (up by 23% YoY), SME Loan at 1,473 Crs (up by 367% YoY), consumer and small enterprise loan at 1,579 Crs (traditional channel of around 1,108 Crs and partnership loan of around 471 Crs) while secured business and personal loans at 81 Crs.
- Yields on floating rated loans on LAP by 40bps in June and Sept and expecting to do the same in Nov. Similar revisions were done in home loan portfolio as well.
- Vehicle Finance is fixed rated loans while LAP and housing loans are floating rated.

Asset Quality:

- Stage 3 assets as on 30th Sept'22 stood at around 3.84% (vs. 4.16% in Q1FY23) with PCR improving from 40.69% in Q1FY23 to 41.48% in Q2FY23.
- GNPA and NNPA as per RBI revised guidelines stood at 5.84% and 3.99% as on Q2FY23.
- Carrying excess provision of around 771 Crs in IND AS as compared to the IRAC requirements.
- Management overlay held at 528 Crs level during Q2FY23.
- Write off during Q2FY23 stood at around 80 Crs.

Other

- Cost of fund is expected to increase by 50-60bps in FY23 as compared to FY22.
- Not expecting to increase the management overlay and would wait for another 2-3 qtrs. to evaluate the same.
- Will continue to be dependent on banks as a source of funding to a large extent until the credit rating of the company improves to AAA (current AA+).

Exhibit 1: Quarterly Snapshot (Rs mn)

Year-end: March	Q2FY23	Q2FY22	Q1FY23	YoY (%)	QoQ (%)
Interest Income	29,880	24,710	27,451	20.9	8.8
Interest Expenses	13,404	10,778	11,309	24.4	18.5
Net Interest Income	16,476	13,932	16,142	18.3	2.1
NIM (%)	7.8	8.1	8.1	-31 bps	-36 bps
Fee & Other Income	498	106	258	370.4	92.7
Operating Income	16,974	14,037	16,401	20.9	3.5
Staff Cost	2,910	2,285	2,461	27.3	18.2
Other Op Exp	3,702	2,894	3,336	27.9	11.0
Total Operating Expenses	6,611	5,179	5,797	27.6	14.0
Cost to Income (%)	38.9	36.9	35.3	205 bps	360 bps
Cost to AUM (%)	3.1	3.0	2.9	11 bps	20 bps
Operating Profit	10,363	8,858	10,604	17.0	-2.3
Provisions	2,782	693	2,986	301.6	-6.8
Credit Cost (%)	0.3	0.1	0.4	22 bps	-5 bps
PBT	7,581	8,165	7,617	-7.2	-0.5
Tax	1,947	2,100	1,961	-7.3	-0.7
<i>-effective tax rate</i>	25.7	25.7	25.7	-4 bps	-6 bps
PAT	5,634	6,065	5,657	-7.1	-0.4
EPS (Rs)	6.9	7.4	6.9	-7.1	-0.4
BV (Rs)	156.7	127.1	150.2	23.3	4.3
Loans	8,54,769	6,65,154	7,94,750	28.5	7.6
AUM	8,76,680	7,00,230	8,19,250	25.2	7.0
Disbursement	1,46,230	87,060	1,33,290	68.0	9.7

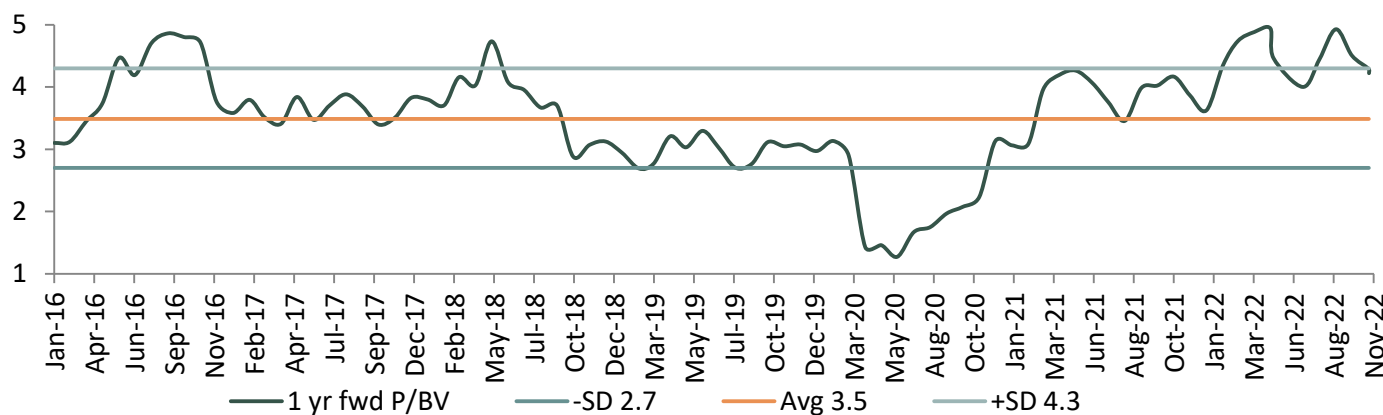
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY20	FY21	FY22	FY23E	FY24E
NII	5.8	6.7	6.7	6.7	6.8
Other Income	0.9	0.5	0.7	0.6	0.6
Net Revenue	6.7	7.2	7.4	7.3	7.4
Op.Exp	2.6	2.3	2.6	2.6	2.5
Op.Profit	4.1	4.9	4.8	4.7	4.9
Provisions	1.5	2.0	1.1	0.9	1.0
PBT	2.6	2.9	3.7	3.8	3.9
Tax	0.9	0.8	0.9	1.0	1.0
PAT	1.7	2.2	2.7	2.9	2.9
Leverage (x)	8.5	7.8	7.4	6.9	6.7
ROE	14.7	17.1	20.2	19.7	19.4

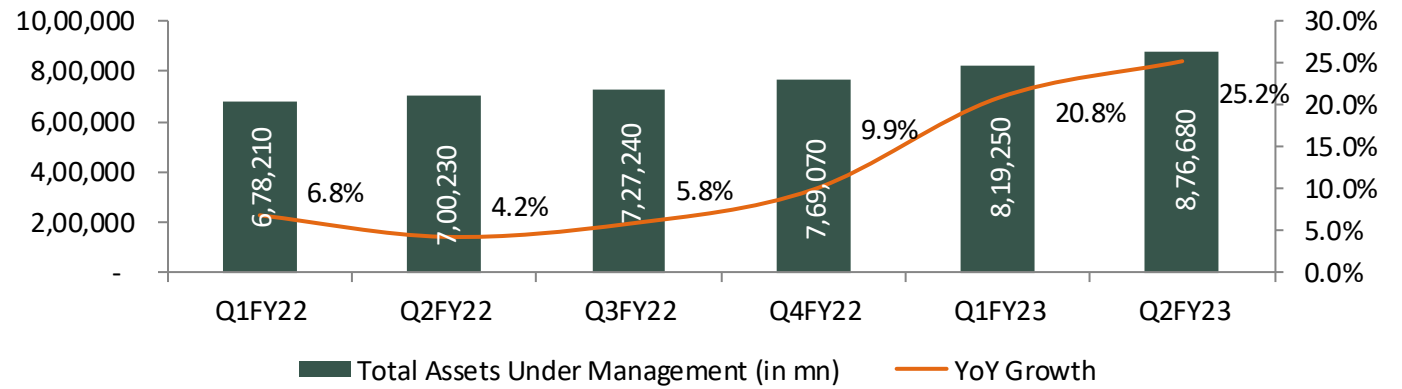
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



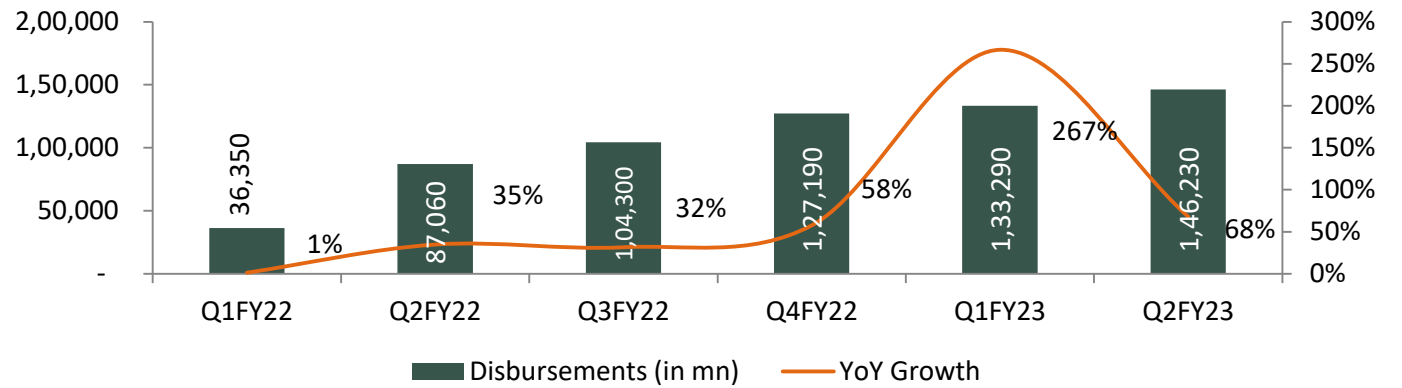
Source: Company; IDBI Capital Research

Exhibit 4: AUM growth continued strong growth momentum



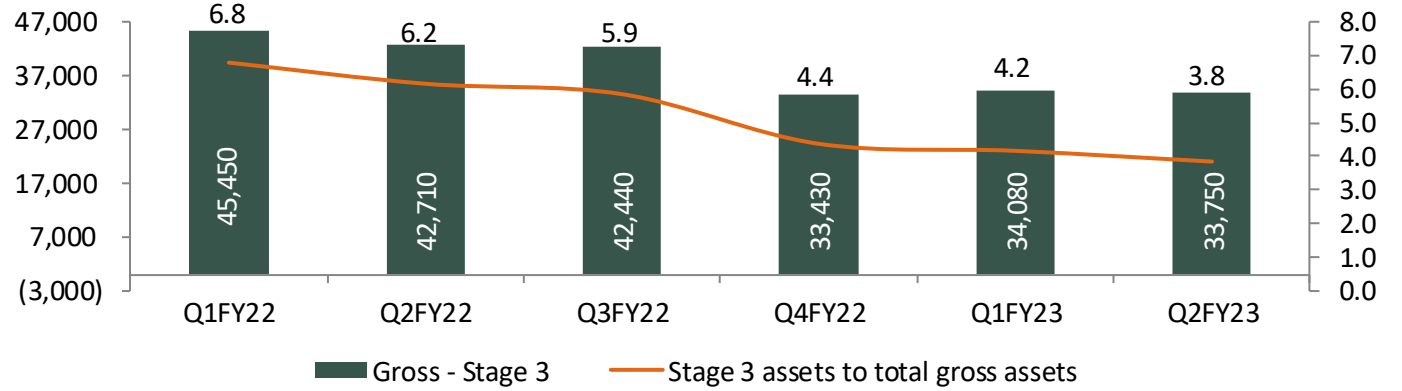
Source: Company; IDBI Capital Research

Exhibit 5: Disbursements growth rebounds on a QoQ basis



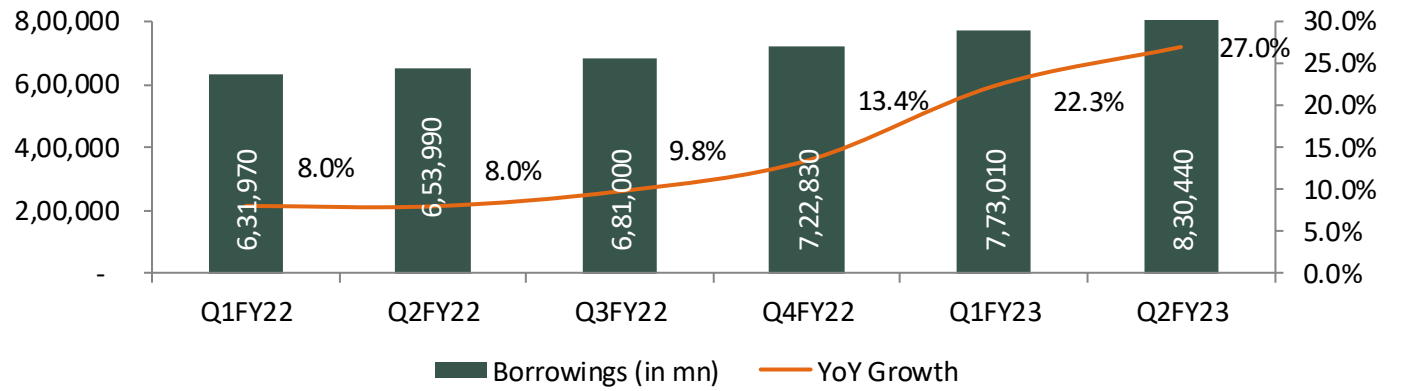
Source: Company; IDBI Capital Research

Exhibit 6: Asset quality improved during the quarter



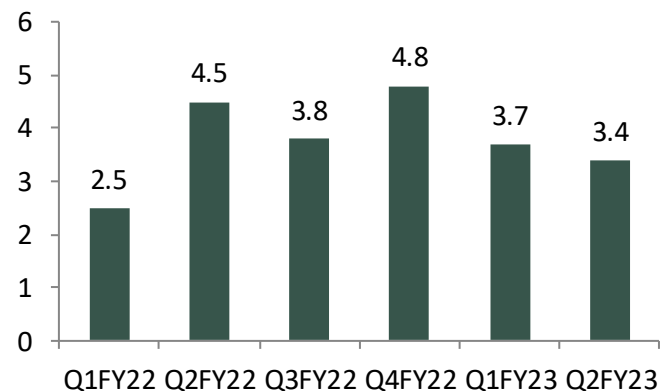
Source: Company; IDBI Capital Research

Exhibit 7: Borrowings continued to grow strong QoQ



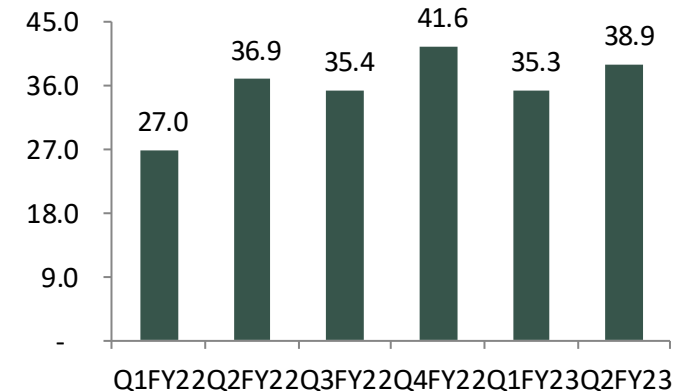
Source: Company; IDBI Capital Research

Exhibit 8: ROA (PBT) continued to declined QoQ



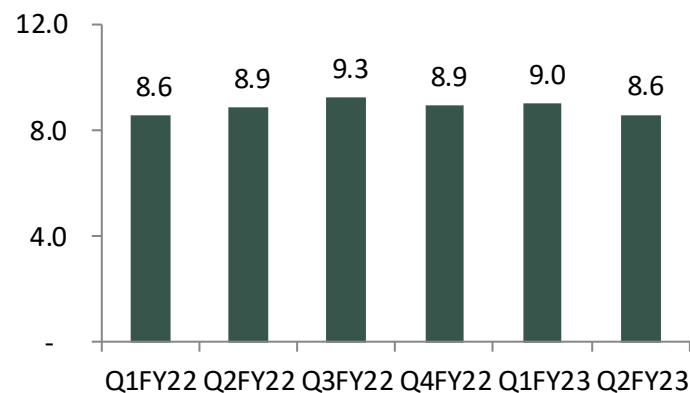
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Income Ratio hardened QoQ



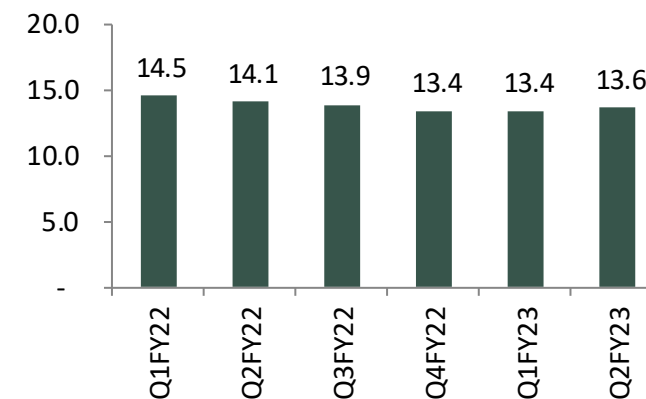
Source: Company; IDBI Capital Research

Exhibit 10: Cost of Funds remained declined QoQ



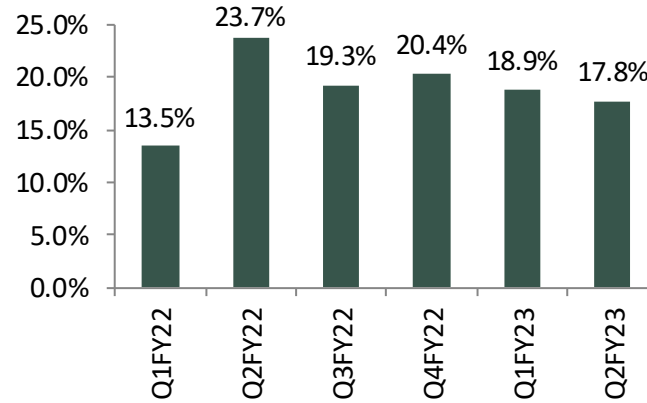
Source: Company; IDBI Capital Research

Exhibit 11: Yields remained range bound



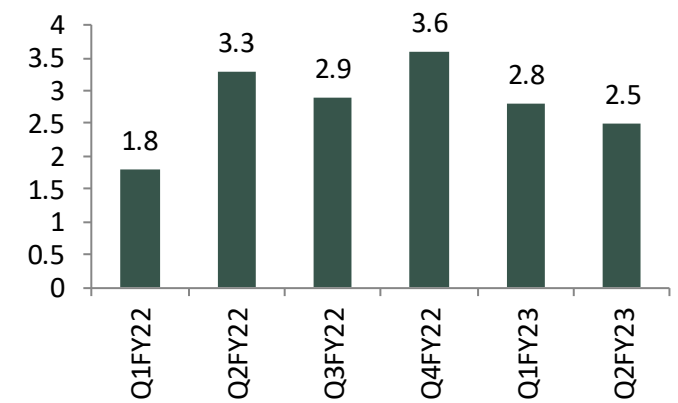
Source: Company; IDBI Capital Research

Exhibit 12: Return on Equity witnessed downtick QoQ



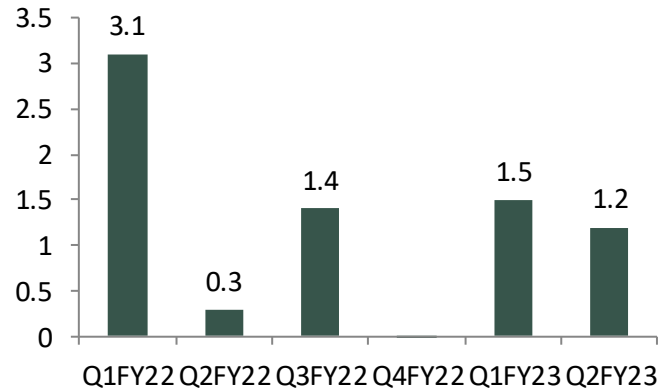
Source: Company; IDBI Capital Research

Exhibit 13: ROTA-PAT continued to witness downtick QoQ



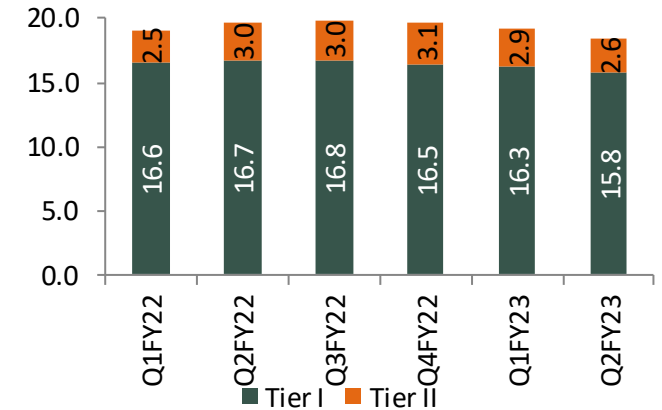
Source: Company; IDBI Capital Research

Exhibit 14: Losses and provisions - after additional provision



Source: Company; IDBI Capital Research

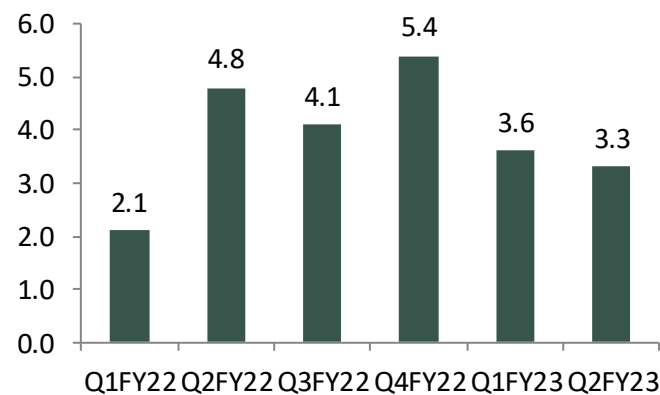
Exhibit 15: CAR remains comfortable



Source: Company; IDBI Capital Research

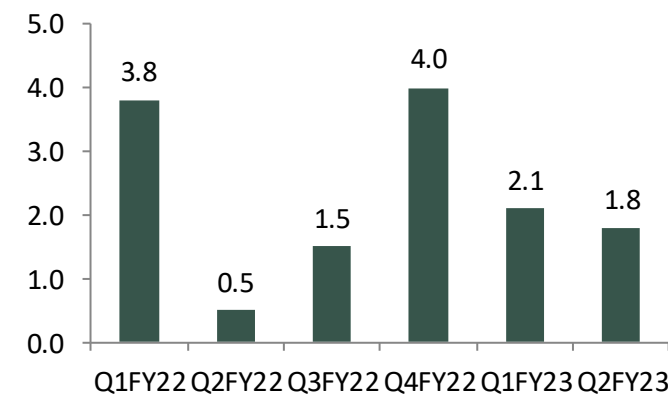
Asset Ratios - Vehicle Finance PF

Exhibit 16: ROTA–PBT witnessed downtrend



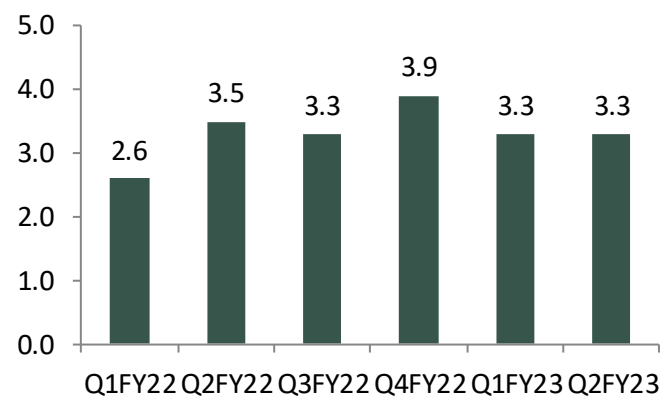
Source: Company; IDBI Capital Research

Exhibit 17: Losses and provisions continued to decline QoQ



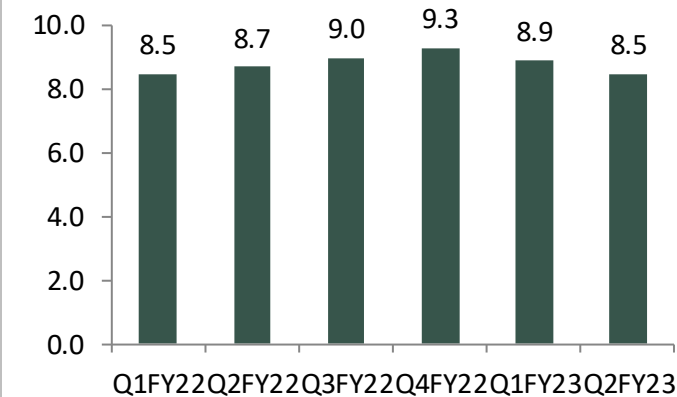
Source: Company; IDBI Capital Research

Exhibit 18: Expenses Ratio remained stable QoQ



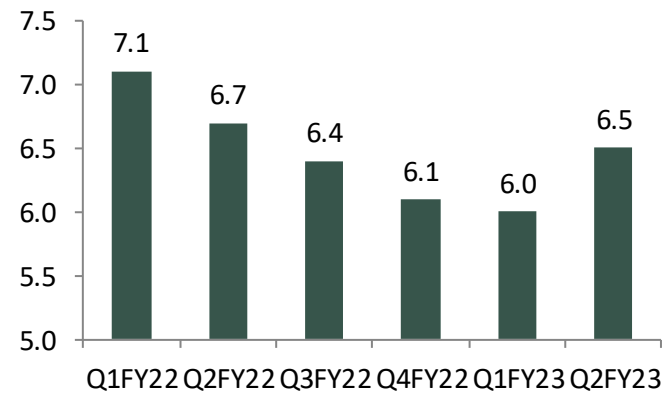
Source: Company; IDBI Capital Research

Exhibit 19: Net Income Margin remained range bound



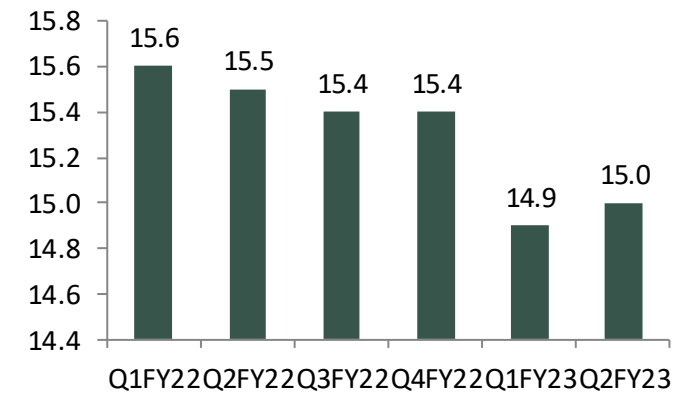
Source: Company; IDBI Capital Research

Exhibit 20: Cost of Funds inched up QoQ



Source: Company; IDBI Capital Research

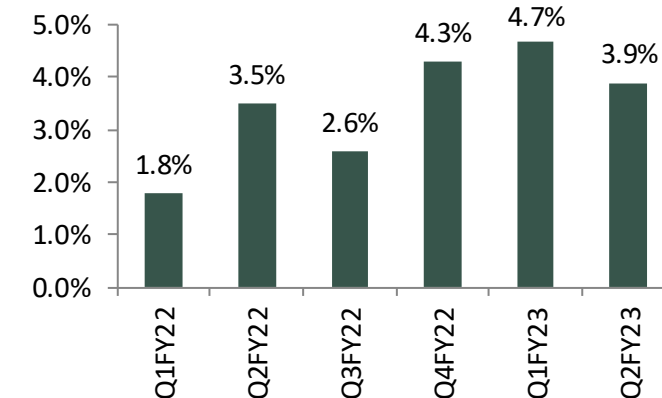
Exhibit 21: Yields improved QoQ



Source: Company; IDBI Capital Research

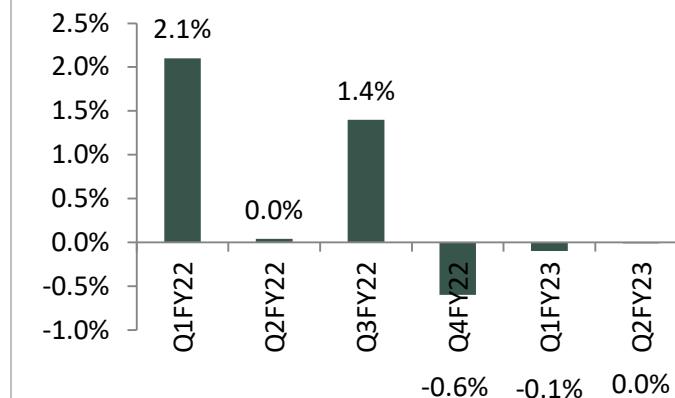
Asset Ratios - Home Equity PF

Exhibit 22: ROTA–PBT witnessed downtick QoQ



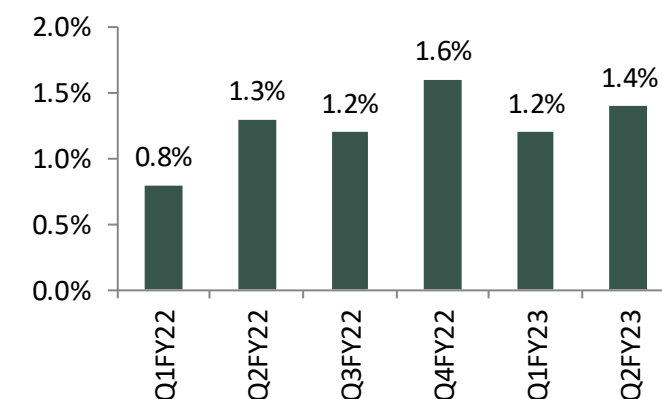
Source: Company; IDBI Capital Research

Exhibit 23: Losses and provisions remained negligible during the quarter



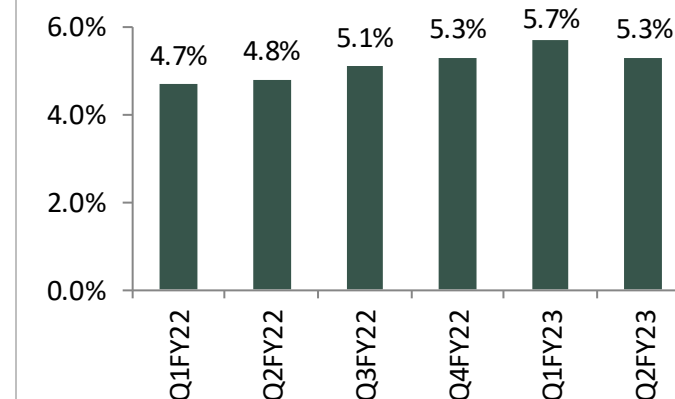
Source: Company; IDBI Capital Research

Exhibit 24: Expenses Ratio hardened QoQ



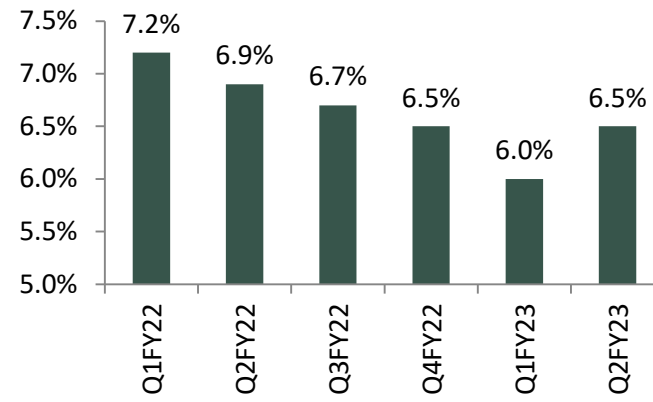
Source: Company; IDBI Capital Research

Exhibit 25: Net Income Margin remained range bound



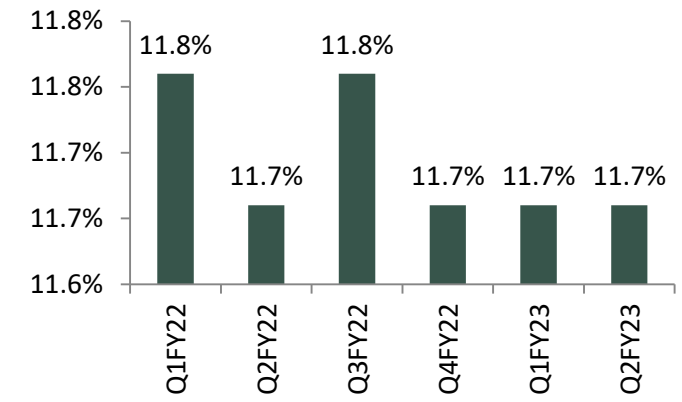
Source: Company; IDBI Capital Research

Exhibit 26: Cost of Funds inched up in QoQ



Source: Company; IDBI Capital Research

Exhibit 27: Yields remained stable QoQ



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net interest income	29,765	35,320	46,483	52,680	59,418	70,617
<i>Change (yoy, %)</i>		19%	32%	13%	13%	19%
Other Income	4,274	5,287	3,514	5,720	5,412	6,423
Net Revenue	34,039	40,607	49,996	58,400	64,831	77,040
Operating expenses	12,696	15,776	15,834	20,687	22,773	26,174
Employee expenses	5,906	6,550	7,485	8,945	9,703	11,267
Other expenses	6,790	9,226	8,349	11,742	13,070	14,908
Pre-Provision Profit	21,344	24,831	34,162	37,713	42,058	50,866
<i>Change (yoy, %)</i>		16%	38%	10%	12%	21%
Provision	3,112	8,973	13,778	8,803	8,091	10,456
PBT	18,231	15,858	20,384	28,910	33,966	40,410
Taxes	6,370	5,334	5,235	7,442	8,549	10,171
<i>Effective tax rate (%)</i>	35%	34%	26%	26%	25%	25%
Net profit	11,861	10,524	15,149	21,467	25,417	30,239
<i>Change (yoy, %)</i>		-11%	44%	42%	18%	19%
EPS	15.2	12.8	18.5	26.2	30.9	36.8
Return on Equity (%)	21.0	14.7	17.1	20.2	19.7	19.4
Return on Assets (%)	2.3	1.7	2.2	2.7	2.9	2.9

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	1,39,619	1,68,625
Shareholder's Funds	61,757	81,719	95,603	1,17,076	1,41,262	1,70,269
Borrowings	4,63,081	5,05,999	5,95,400	6,53,256	7,68,832	9,21,179
Sub-ordinated debt	42,587	44,055	41,901	38,479	32,707	27,801
Total liabilities	5,74,263	6,40,024	7,45,486	8,23,633	9,53,683	11,26,390
Cash	36,749	69,591	52,321	42,200	41,649	42,149
Advances	5,26,223	5,54,027	6,58,393	7,41,492	8,69,909	10,39,184
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
Total assets	5,74,263	6,40,024	7,45,486	8,23,633	9,53,683	11,26,390

Financial Ratios

(%)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth						
Advances	24.5	5.3	18.8	12.6	17.3	19.5
NII	15.5	18.7	31.6	13.3	12.8	18.8
Pre-Provision Profit	25.2	16.3	37.6	10.4	11.5	20.9
Net Profit	29.2	-11.3	43.9	41.7	18.4	19.0
Spreads						
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	7.0	7.0
Spread	5.2	5.0	6.0	6.0	5.8	5.9
Operating Efficiency						
Cost-to-Income	37.3	38.9	31.7	35.4	35.1	34.0
Cost-to-AUM	2.6	2.7	2.4	2.8	2.7	2.6
Asset Quality						
GNPA	2.7	3.8	4.0	4.4	4.0	3.8
NNPA	1.8	2.3	2.3	2.7	2.5	2.4
Provision Coverage	34.3	41.5	44.3	39.7	41.0	41.0
Credit Cost	0.6	1.5	2.0	1.1	0.9	1.0
Capital Adequacy						
CAR	17.4	20.7	19.1	18.0	16.0	15.1
Tier I	12.4	15.3	15.1	15.1	14.6	14.7
Valuation						
EPS	15.2	12.8	18.5	26.2	30.9	36.8
BV	79.0	99.6	116.5	142.6	172.0	207.2
P/E	46.8	55.3	38.4	27.1	22.9	19.3
P/BV	9.0	7.1	6.1	5.0	4.1	3.4
ROE	21.0	14.7	17.1	20.2	19.7	19.4
ROA	2.3	1.7	2.2	2.7	2.9	2.9
ROAAUM	2.4	1.8	2.3	2.9	3.0	3.0

Source: Company; IDBI Capital Research



Notes

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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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