

# Cholamandalam Investment BUY

Restructured assets at 5.4%; Asset quality expected to improve

## Summary

CIFC's asset quality deteriorated (surprised negatively) with gross stage 3 assets increased to 6.79% vs 3.96% QoQ (3.34% YoY). Also, restructured assets increased to 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; July at 114% vs June at 101% vs May at 84%. Further, Covid-19 related provisions stood at 1.0% of AUM which should support credit cost for FY22. NIMs remain stable at 7.6% QoQ. AUM growth declined to 7% YoY (16% FY21) led by slower growth in disbursements (up 1% YoY) and higher repayments. NII grew by 39% YoY led by improvement in NIMs; PPOP grew by 56% YoY. We believe that CIFC with lower dependency on single vehicle product (LCV highest at ~15% of AUM) and lower dependency on single state (Maharashtra state highest at 12%) should augur well through tough times. We revised the estimates lower due to lower AUM growth and have 'BUY' with a new TP of Rs.605 (earlier Rs.610) based on P/BV of 3.5x FY23E as expected to traverse through second wave of Covid-19 better.

## Key Highlights and Investment Rationale

- AUM growth slowdown; disbursements grew by 1% YoY:** AUM growth slowed down to 7% YoY as against 16% YoY (FY21). VF (71% of AUM) growth declined to 3.4% YoY (14% FY21) while Home Equity (HE) portfolio (22% AUM) grew by 8.5% YoY (14% FY21). Disbursements grew by 1% YoY on lower base; second wave impacted vehicle sales. However, disbursements are expected to pick up in H2FY22. AUM growth expected to slight inch up from Q1FY22 levels; but lowers than FY21 (16% YoY) growth levels as repayment ratio would normalize in FY22.
- Margins remain stable sequentially:** NIMs remain stable at 7.6% QoQ due to decline in yields by 30bps QoQ compensated by decline in cost of funds (down 20bps QoQ). VF portfolio NIMs improved sequentially by 10bps QoQ while HE portfolio reported stable NIMs QoQ.. CIFC has maintained higher liquidity on the balance sheet which resulted in negative carry on balance sheet.
- Asset quality deteriorated; restructured assets at 5.4%:** Asset quality deteriorated as Stage 3 assets increased by 283bps QoQ to 6.79%; PCR declined by 876bps QoQ to 35.5%. Restructured assets increased to 5.4% vs 2% of loan book. Collection efficiency declined to 84% in May month; however improved to 114% in July month. We would be watchful of slippages from restructured assets in FY22.

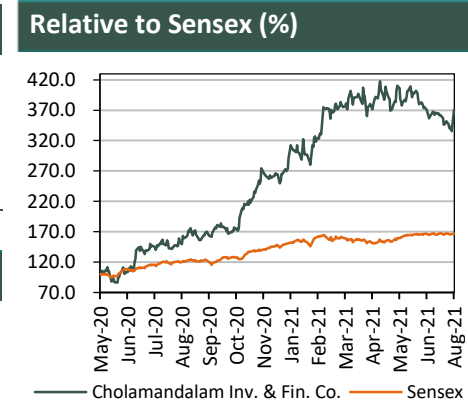
TP	Rs605
CMP	Rs526
Potential upside / downside	+15%

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	26.3	30.8
Consensus	25.0	31.2
% difference	5.3	(1.2)

Shareholding Pattern (%)	
Promoters	51.6
FII	18.9
DII	18.0
Public	11.5

Price Performance (%)			
	-1m	-3m	-12m
Absolute	3.2	(8.0)	159.9
Rel to Sensex	2.3	(16.6)	119.1

Key Stock Data	
Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	820
Market cap. (Rs mn)	431,748
Market cap. (US\$ mn)	5,802
3-m daily average value (Rs mn)	901.0
52-week high / low	Rs601/197
Sensex / Nifty	52,951 / 15,885



## Financial snapshot

	(Rs mn)				
Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
NII	29,765	35,320	46,483	49,575	54,045
Net Profit	11,861	10,524	15,149	21,565	25,282
EPS (Rs)	15.2	12.8	18.5	26.3	30.8
BV (Rs)	79.0	99.6	116.5	141.5	169.9
PER (x)	34.7	41.0	28.5	20.0	17.1
P/BV (x)	6.7	5.3	4.5	3.7	3.1
ROE (%)	21.0	14.7	17.1	20.4	19.8
ROA (%)	2.3	1.7	2.2	2.8	3.0
Stage 3 (%)	2.7	3.8	4.0	4.5	4.0
Net stage 3 (%)	1.8	2.3	2.3	2.8	2.5
CAR	17.4	20.7	19.1	18.8	17.6

Source: IDBI Capital Research;

## Conference Call Highlights

### Conference Call Highlights

#### Restructuring Book-

- Restructuring 2.0 stands at 3.86% of the book (June 21). Total restructuring stands at 5.44% of the book.
- Under restructured account, 80% of customers paying less than two months EMI. Of this, 60% paying one month EMI and 20% paying two months EMI.
- Under the LAP segment, restructuring stands at 2.95% of the portfolio.

#### Asset quality-

- Stage 1 PD (pre-covid level) decline in a covid year, stage 2 slightly gone up while LGD had improved.
- Stage 0 to stage 1 roll forward is 1.45%, stage 2 and stage 3- ~80% customer paying current month due.
- VF Stage 2 stands at Rs22.50bn, and LAP Stage 3 stands at 8.83%.

#### Other highlights-

- Liquidity front, cash balances of Rs80bn (incl. Rs15bn in Gsec) till June'21. Total liquidity stands at 164bn (incl. undrawn lines).
- ECLGS- ECLGS 1.0- Rs20bn (VF- Rs12bn, LAP- Rs8bn) and in Q1FY22 done Rs0.07bn.
- Management overlay provision was Rs11bn. of this, reversed Rs4bn in Q1FY22 and total stands at Rs7bn.
- Each year company does repossession of 0.1% of overall assets. Under Stage 3 book is 2%.
- Repossession losses were Rs0.70bn in Q1FY22.
- VF Collection efficiency in April stood at 93% (of billing collection), May -84%, June- 101%, and July-114%.

## Exhibit 1: Quarterly Snapshot

(Rs mn)

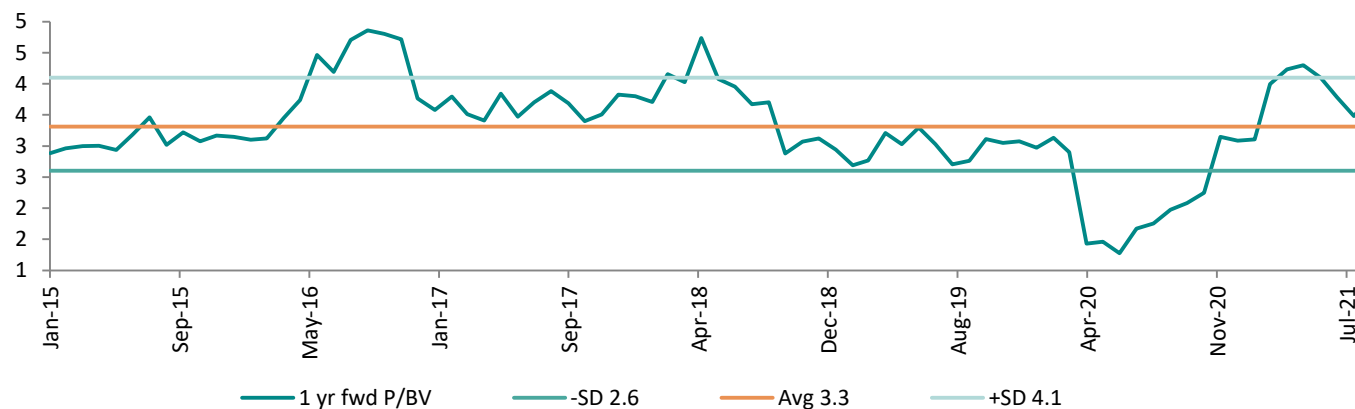
Year-end: March	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)
Interest Income	24,668	21,137	24,611	16.7	0.2
Interest Expenses	11,038	11,307	11,197	(2.4)	(1.4)
<b>Net Interest Income</b>	<b>13,630</b>	<b>9,830</b>	<b>13,414</b>	<b>38.7</b>	<b>1.6</b>
<b>NIM (%)</b>	<b>7.9</b>	<b>6.3</b>	<b>7.7</b>	<b>157 bps</b>	<b>18 bps</b>
Non-Interest Income	1	0	2	400.0	(44.4)
<b>Operating Income</b>	<b>13,631</b>	<b>9,830</b>	<b>13,416</b>	<b>38.7</b>	<b>1.6</b>
Staff Cost	1,523	1,562	2,690	(2.5)	(43.4)
Other Op Exp	2,182	1,896	2,447	15.1	(10.8)
Total Operating Expenses	3,705	3,458	5,137	7.1	(27.9)
Cost to Income (%)	27.2	35.2	38.3	(800 bps)	(1111 bps)
Cost to AUM (%)	2.2	2.2	3.0	(8 bps)	(81 bps)
<b>Operating Profit</b>	<b>9,926</b>	<b>6,372</b>	<b>8,279</b>	<b>55.8</b>	<b>19.9</b>
Provisions	5,519	562	5,035	882.0	9.6
Credit Cost (%)	0.9	0.1	0.8	77 bps	10 bps
<b>PBT</b>	<b>4,407</b>	<b>5,810</b>	<b>3,244</b>	<b>(24.1)</b>	<b>35.9</b>
Tax	1,139	1,501	812	(24.1)	40.3
-effective tax rate	25.8	25.8	25.0	1 bps	81 bps
<b>PAT</b>	<b>3,268</b>	<b>4,309</b>	<b>2,432</b>	<b>(24.2)</b>	<b>34.4</b>
EPS (Rs)	4.0	5.3	3.0	(24.2)	34.4
BV (Rs)	120.6	104.8	116.6	15.0	3.4
AUM	678,210	635,010	699,960	6.8	(3.1)

Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY19	FY20	FY21	FY22E	FY23E
<b>NII</b>	<b>5.9</b>	<b>5.8</b>	<b>6.7</b>	<b>6.4</b>	<b>6.4</b>
Other Income	0.8	0.9	0.4	0.7	0.7
<b>Net Revenue</b>	<b>6.7</b>	<b>6.7</b>	<b>7.1</b>	<b>7.1</b>	<b>7.1</b>
Op.Exp	2.5	2.6	2.3	2.3	2.3
<b>Op.Profit</b>	<b>4.2</b>	<b>4.1</b>	<b>4.9</b>	<b>4.8</b>	<b>4.8</b>
Provisions	0.6	1.5	1.9	1.0	0.8
PBT	3.6	2.6	2.9	3.7	4.0
Tax	1.3	0.9	0.8	0.9	1.0
<b>PAT</b>	<b>2.3</b>	<b>1.7</b>	<b>2.2</b>	<b>2.8</b>	<b>3.0</b>
Leverage (x)	9.0	8.5	7.8	7.3	6.6
<b>ROE</b>	<b>21.0</b>	<b>14.7</b>	<b>17.1</b>	<b>20.4</b>	<b>19.8</b>

Source: Company; IDBI Capital Research

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

Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Interest Income	81,242	92,242	98,808	108,273
Interest Expended	(45,922)	(45,759)	(49,233)	(54,228)
<b>Net Interest Income</b>	<b>35,320</b>	<b>46,483</b>	<b>49,575</b>	<b>54,045</b>
Non-Interest Income	5,287	2,954	5,296	5,863
<b>Operating Income</b>	<b>40,607</b>	<b>49,437</b>	<b>54,871</b>	<b>59,909</b>
Operating Expenses	(15,776)	(15,835)	(17,966)	(19,543)
Employee expenses	(6,550)	(7,494)	(8,906)	(9,626)
Other expenses	(9,226)	(8,341)	(9,059)	(9,917)
<b>Pre-Provision Profit</b>	<b>24,831</b>	<b>33,602</b>	<b>36,905</b>	<b>40,366</b>
Provision	(8,973)	(13,218)	(8,087)	(6,580)
<b>PBT</b>	<b>15,858</b>	<b>20,384</b>	<b>28,819</b>	<b>33,785</b>
Taxes	(5,334)	(5,235)	(7,254)	(8,504)
<b>Net profit</b>	<b>10,524</b>	<b>15,149</b>	<b>21,565</b>	<b>25,282</b>

### Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Capital	1,640	1,641	1,641	1,642
Reserves	80,079	93,963	114,461	137,895
<b>Networth</b>	<b>81,719</b>	<b>95,604</b>	<b>116,102</b>	<b>139,537</b>
Borrowings	550,054	637,301	678,853	754,242
Other liabilities	8,251	12,579	6,734	2,304
<b>Total Liab. &amp; Equity</b>	<b>640,024</b>	<b>745,484</b>	<b>801,689</b>	<b>896,083</b>
Advance	554,027	658,393	697,850	788,948
Investments	729	16,188	16,188	16,188
Cash	69,592	52,319	67,501	68,003
Fixed Assets	2,839	2,294	2,231	2,337
Other Assets	12,837	16,290	17,919	20,607
<b>Total assets</b>	<b>640,024</b>	<b>745,484</b>	<b>801,689</b>	<b>896,083</b>

### Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Growth</b>				
Advances	5.3	18.8	6.0	13.1
NII	18.7	31.6	6.7	9.0
Pre-Provision Profit	16.3	35.3	9.8	9.4
Net Profit	(11.3)	43.9	42.4	17.2
<b>Spreads</b>				
Yield on Assets	13.7	13.7	13.1	13.0
Cost of Funds	8.7	7.7	7.5	7.6
NIM	8.0	7.0	6.7	6.7
<b>Operating Efficiency</b>				
Cost-to-Income	38.9	32.0	32.7	32.6
Cost-to-Assets	2.7	2.4	2.5	2.4
<b>Asset Quality</b>				
GNPA	3.8	4.0	4.5	4.0
NNPA	2.3	2.3	2.8	2.5
Provision Coverage	41.5	44.3	44.0	43.0
Credit Cost	1.5	1.9	1.1	0.8
<b>Capital Adequacy</b>				
CAR	20.7	19.1	18.8	17.6
Tier I	15.3	15.1	15.1	15.5
<b>Valuation</b>				
EPS	12.8	18.5	26.3	30.8
BV	99.6	116.5	141.5	169.9
P/E	41.0	28.5	20.0	17.1
P/BV	5.3	4.5	3.7	3.1
ROE	14.7	17.1	20.4	19.8
ROA	1.7	2.2	2.8	3.0
RORWA	1.8	2.3	3.0	3.1

Source: Company; IDBI Capital Research



# Notes

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