

Cholamandalam Investment

BUY

Strong AUM growth; NIMs stable QoQ

Summary

CIFC's AUM growth picked up further to 31% YoY vs 25% YoY (Q2FY23) led by strong growth in disbursements (up 38% YoY). Management revised guidance to 27-30% AUM growth for FY23. Asset quality improved with GS3 at 3.51% vs 3.84% led by better collection efficiency. Also, GNPA (as per RBI norms) stood at 5.4% vs 5.8%; it remains high. Management overlay provisions stood at Rs.5bn (0.5% of AUM) which should support credit cost going forward. NII grew by 8% QoQ led by stable NIMs; PPOP grew by 4% QoQ led by increase in operating expenses (up 14% QoQ). However, PAT grew by 22% QoQ led by decline in provisions (down 43% QoQ). We have moved to FY25E estimates and maintain "BUY" with a TP of Rs.930 (earlier Rs.840) based on P/BV of 3.7x FY25E.

Key Highlights and Investment Rationale

- **AUM growth picks up; highest ever disbursements:** AUM growth improved to 31% YoY as against 25% YoY (Q2FY23). VF (64% of AUM) growth improved to 21% YoY (17% Q2FY23) while Home Equity (HE) portfolio (21% AUM) grew by 23% YoY (22% Q2FY23). Disbursements grew by 38% YoY; highest nine month disbursement for the company. Management revised guidance to 27-30% (earlier 20-22%) AUM growth in FY23; backed by strong growth in new business portfolio. We expect AUM to grow at 18% CAGR (FY23-25E).
- **Margins stable QoQ; Cost to income ratio remain elevated:** NIMs remain stable QoQ at 7.6% due to higher treasury income. VF portfolio NIMs declined by 40bps QoQ; while HE portfolio NIMs improved by 10bps QoQ. Cost to income ratio increased to 41% (vs 35% YoY) led by higher opex.
- **Asset quality improved:** Asset quality improved as Stage 3 assets declined by 33bps QoQ to 3.51% led by better collection efficiency. However, GNPA (as per RBI norms) stood at 5.3% seems to be high.

TP Rs.930

CMP Rs.750

Potential upside/downside 24%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	3.7	5.7	19.2
Rel to Sensex	5.5	7.4	16.2

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	28.4	38.5	46.7
Consensus	29.7	36.5	44.0
% difference	(4.4)	5.5	6.1

Key Stock Data

Bloomberg / Reuters CIFC IN /CHLA.BO

Sector Finance

Shares o/s (mn) 822

Market cap. (Rs mn) 616,085

3-m daily average value (Rs mn) 36.7

52-week high / low Rs818 / 594

Sensex / Nifty 59,708 / 17,616

Shareholding Pattern (%)

Promoters	51.5
FII	19.4
DII	19.6
Public	9.5

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023E	FY2024E	FY2025E
NII	46,483	52,680	63,324	78,330	93,282
Change (yoy, %)	32%	13%	20%	24%	19%
Net Profit	15,149	21,467	23,344	31,625	38,407
Change (yoy, %)	44%	42%	9%	35%	21%
EPS (Rs)	18.5	26.2	28.4	38.5	46.7
Change (yoy, %)	44%	42%	9%	35%	21%
BV (Rs)	116.5	142.6	169.5	206.3	251.4
PER (x)	40.6	28.7	26.4	19.5	16.1
P/BV (x)	6.4	5.3	4.4	3.6	3.0
ROE (%)	17.1	20.2	18.2	20.5	20.4
ROA (%)	2.2	2.7	2.5	2.8	2.8
GNPA (%)	4.0	4.4	4.0	3.8	3.8
NNPA (%)	2.3	2.7	2.5	2.4	2.4
CAR (%)	19.1	18.0	13.8	13.4	13.1

Source: IDBI Capital Research;

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Conference Call Highlights

Operational Performance:

- NII for Q3FY23 stood at 1,832 Crs (up by 22% YoY) while PAT stood at 648Crs (up by 31% YoY).
- Opex growth is higher due to higher variable pay on increased disbursements.
- Disbursement for Q3FY23 stood at 17,559 Crs (vs. 10,430Crs in Q3FY22), up by 68% YoY led by strong growth in Vehicle Finance (at 10,446Crs vs. 7,647Crs in Q3FY22), LAP (at 2,255Crs vs. 1,661Crs in Q3FY22), Home Loan (at 1,072Crs vs. 539Crs in Q3FY22) and New business disbursement at (at 3,787Crs vs. 5847Crs in Q3FY22).
- In case of new business segment (disbursement of 1,868Crs), around 2/3rd is from traditional source (around 1,300Crs) while 1/3rd is from partnership mode (around 568Crs).

Asset Quality:

- Stage 3 assets stood at around 3.51% in Q3FY23 (vs. 3.84% in Q2FY23) with PCR of 40.96%. Total provision carried against the book stood at around 2.45% (vs. 1.75% levels carried prior to covid).
- Carrying excess provision of around 726 Crs under Ind AS over IRAC.
- Restructured book stood at around 2,800 Crs in Q3FY23 (out of which around 500 Crs is in stage 3).
- GNPA and NNPA as per revised RBI circular stood at around 5.37% and 3.69% respectively.

Other

- Continued to hold strong liquidity position with Cash balance of around 70,396Crs and total liquidity position (including undrawn limit) of around 10,000 Crs.
- Expecting AUM growth to be in the range of 27-30% in FY23 and ROTA of 3.5%.
- Expecting NIMs to be impacted in the range of 40-50bps YoY due to increase in cost of borrowing.
- Focusing on bringing the RoA of Vehicle Finance to around 3.5%.
- Constantly negotiating with banks to bring down the cost of funds.

Exhibit 1: Quarterly Snapshot (Rs mn)

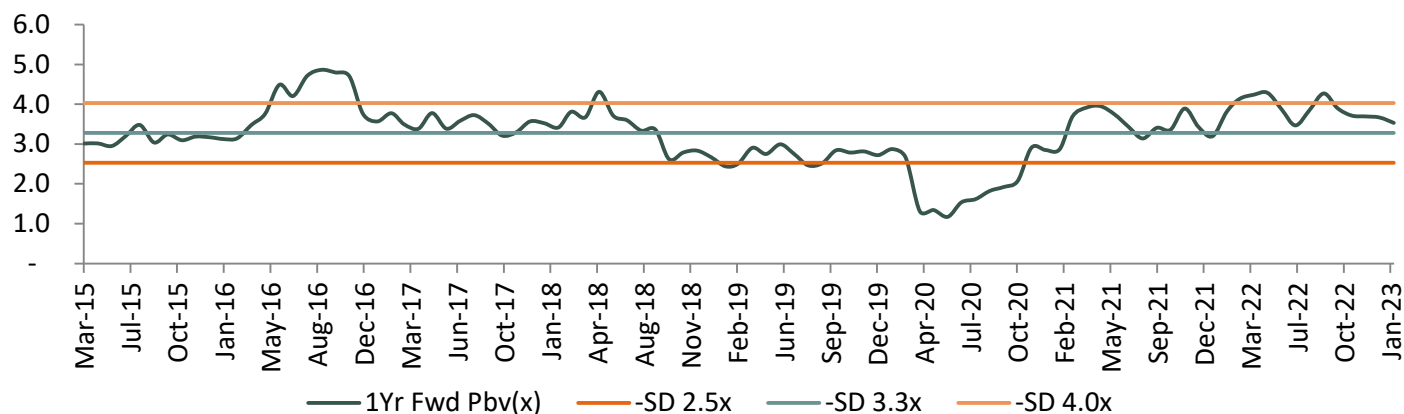
Year-end: March	Q3FY23	Q3FY22	Q2FY23	YoY (%)	QoQ (%)
Interest Income	33,231	25,301	29,880	31.3	11.2
Interest Expenses	15,433	10,460	13,404	47.5	15.1
Net Interest Income	17,798	14,841	16,476	19.9	8.0
NIM (%)	7.8	8.3	7.8	-54 bps	0 bps
Fee & Other Income	519	172	498	202.3	4.3
Operating Income	18,317	15,012	16,974	22.0	7.9
Staff Cost	3,494	2,190	2,910	59.6	20.1
Other Op Exp	4,027	3,127	3,702	28.8	8.8
Total Operating Expenses	7,520	5,317	6,611	41.4	13.8
<i>Cost to Income (%)</i>	<i>41.1</i>	<i>35.4</i>	<i>38.9</i>	<i>564 bps</i>	<i>211 bps</i>
<i>Cost to AUM (%)</i>	<i>3.3</i>	<i>3.0</i>	<i>3.1</i>	<i>31 bps</i>	<i>17 bps</i>
Operating Profit	10,797	9,696	10,363	11.4	4.2
Provisions	1,589	2,653	2,782	-40.1	-42.9
Credit Cost (%)	0.2	0.4	0.3	-21 bps	-16 bps
PBT	9,208	7,043	7,581	30.7	21.5
Tax	2,365	1,805	1,947	31.1	21.5
<i>-effective tax rate</i>	<i>25.7</i>	<i>25.6</i>	<i>25.7</i>	<i>6 bps</i>	<i>1 bps</i>
PAT	6,843	5,238	5,634	30.6	21.5
EPS (Rs)	8.3	6.4	6.9	30.6	21.5
BV (Rs)	165.0	135.0	156.7	22.2	5.3
Loans	9,35,460	6,96,000	8,54,769	34.4	9.4
AUM	9,54,680	7,27,240	8,76,680	31.3	8.9
Disbursement	1,75,600	1,04,300	1,46,230	68.4	20.1

Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

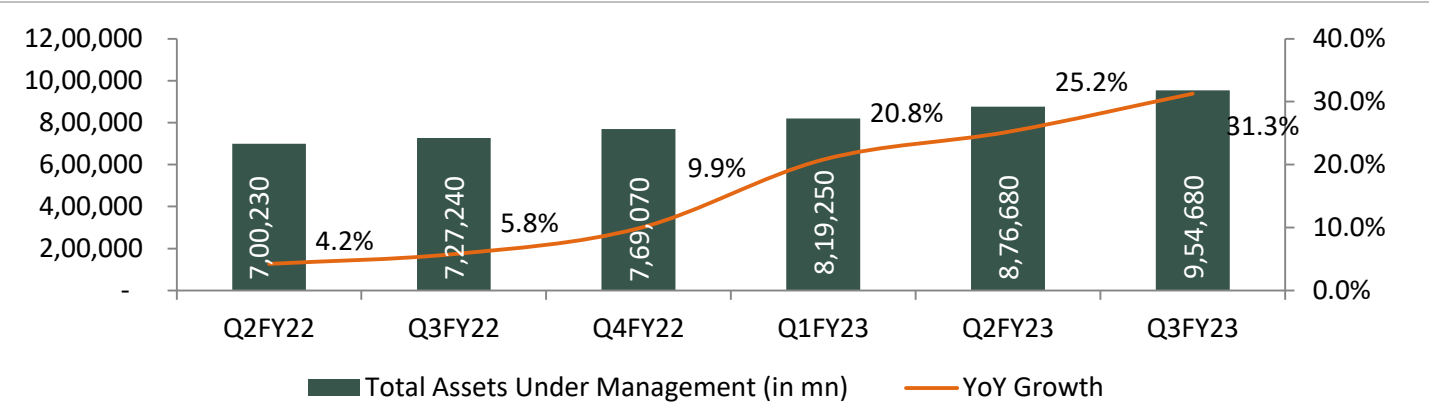
(%)	FY21	FY22	FY23E	FY24E	FY25E
NII	6.7	6.7	6.7	6.8	6.9
Other Income	0.5	0.7	0.6	0.6	0.6
Net Revenue	7.2	7.4	7.3	7.4	7.5
Op.Exp	2.3	2.6	2.8	2.7	2.7
Op.Profit	4.9	4.8	4.6	4.7	4.9
Provisions	2.0	1.1	1.3	1.1	1.1
PBT	2.9	3.7	3.3	3.7	3.8
Tax	0.8	0.9	0.8	0.9	1.0
PAT	2.2	2.7	2.5	2.8	2.8
Leverage (x)	7.8	7.4	7.3	7.4	7.2
ROE	17.1	20.2	18.2	20.5	20.4

Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV

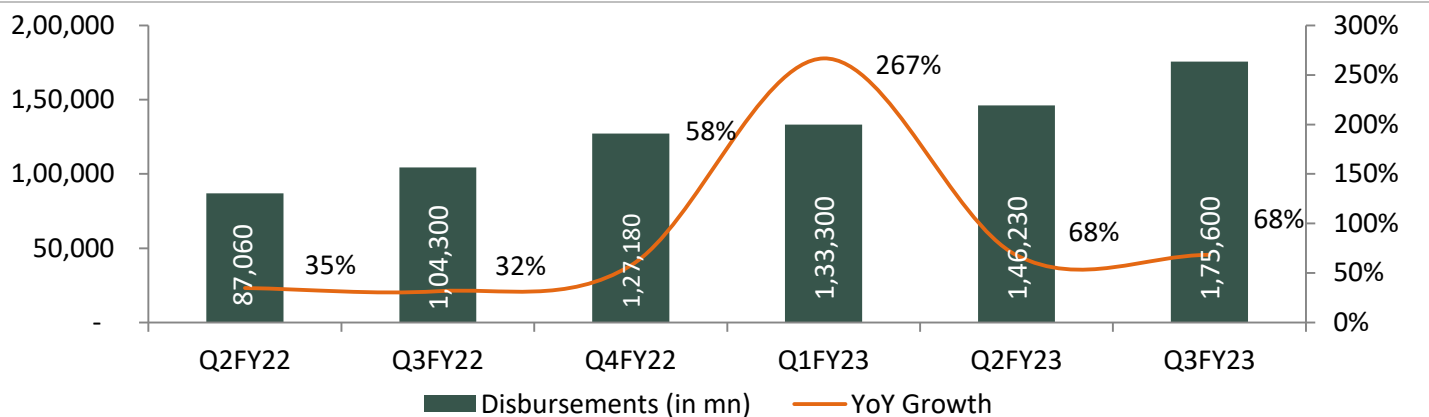
Source: Company; IDBI Capital Research

Exhibit 4: AUM growth continued strong growth momentum

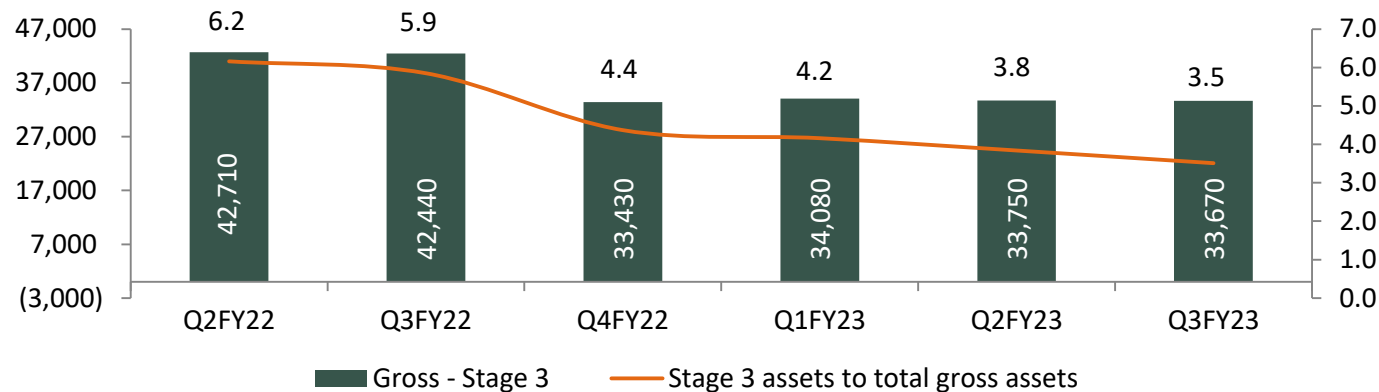


Source: Company; IDBI Capital Research

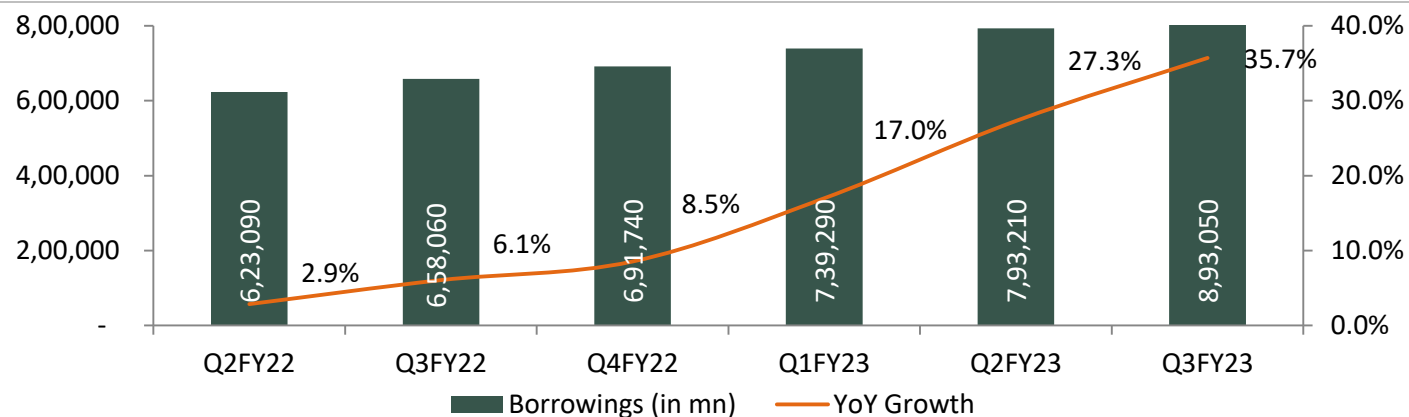
Exhibit 5: Disbursements growth rebounds on a QoQ basis



Source: Company; IDBI Capital Research

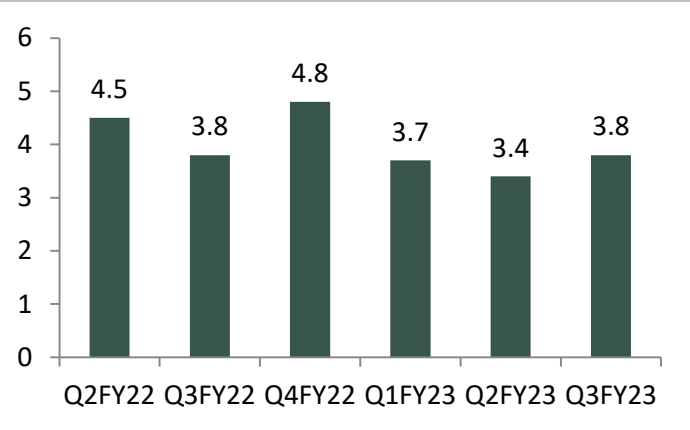
Exhibit 6: Asset quality continued to improve sequentially

Source: Company; IDBI Capital Research

Exhibit 7: Borrowings continued to grow strong QoQ

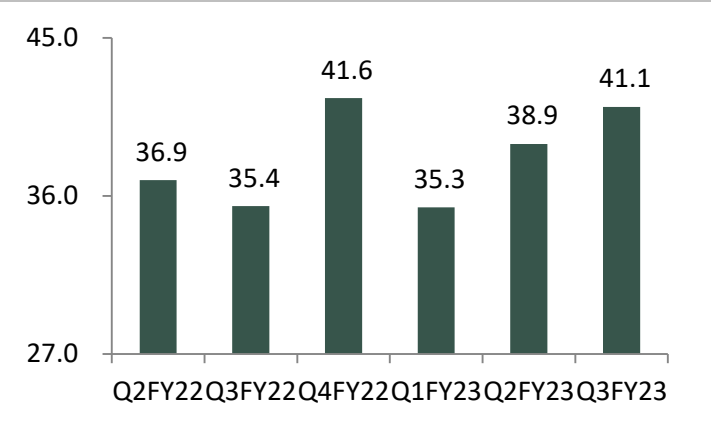
Source: Company; IDBI Capital Research

Exhibit 8: ROA (PBT) improved sequentially



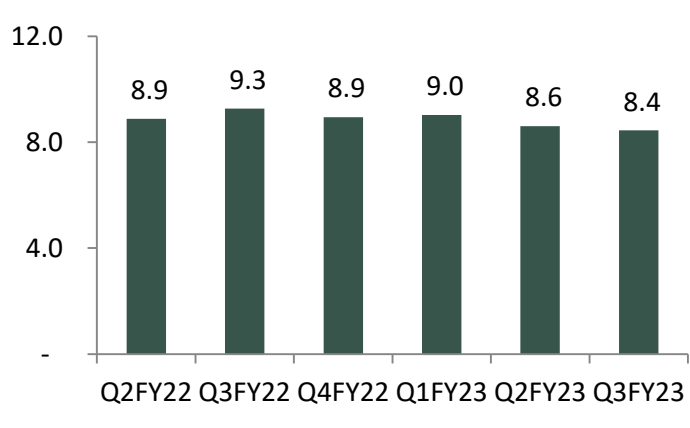
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Income Ratio hardened QoQ



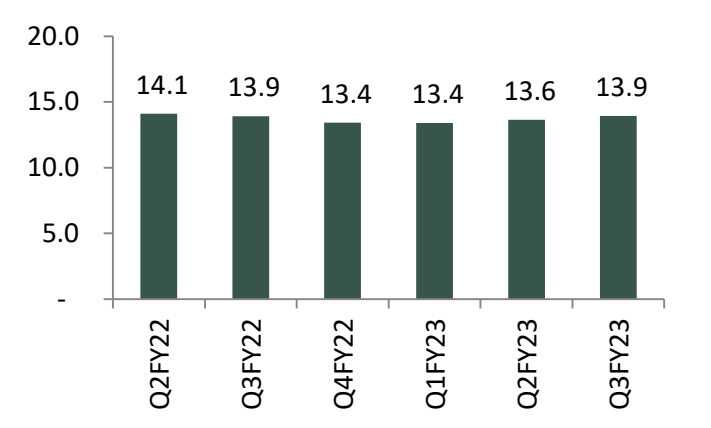
Source: Company; IDBI Capital Research

Exhibit 10: Cost of Funds remained declined QoQ

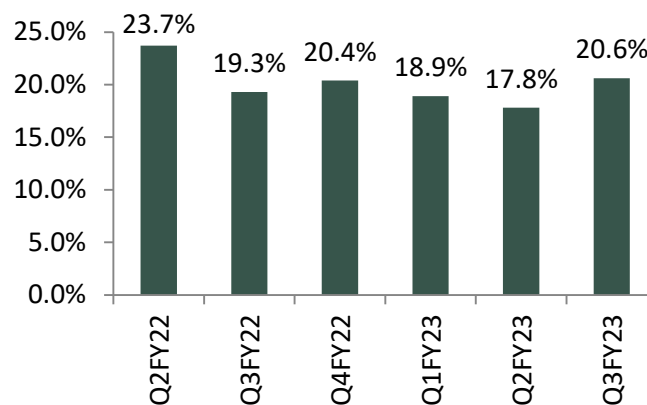


Source: Company; IDBI Capital Research

Exhibit 11: Yields remained range bound



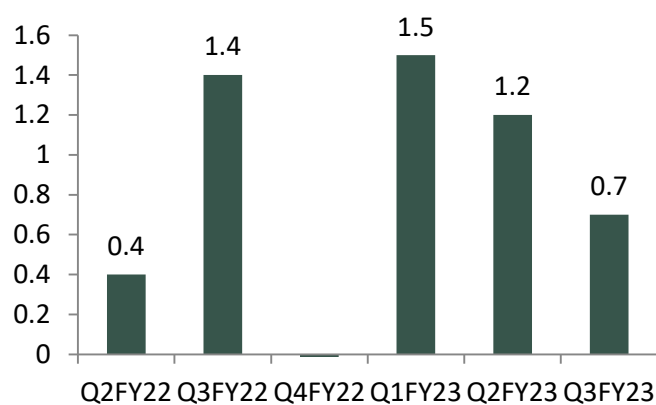
Source: Company; IDBI Capital Research

Exhibit 12: Return on Equity witnessed uptick QoQ

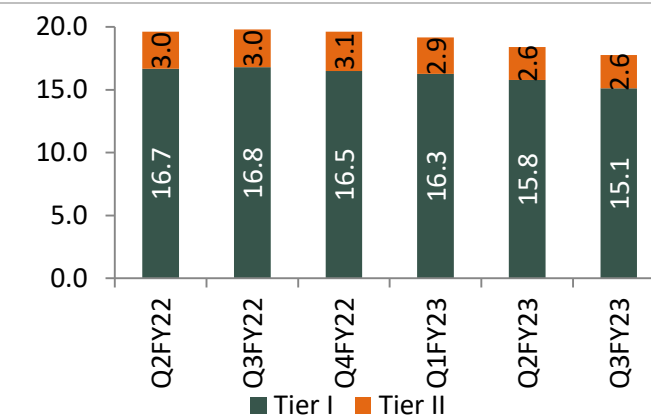
Source: Company; IDBI Capital Research

Exhibit 13: ROTA-PAT improved sequentially

Source: Company; IDBI Capital Research

Exhibit 14: Losses and provisions - after additional provision

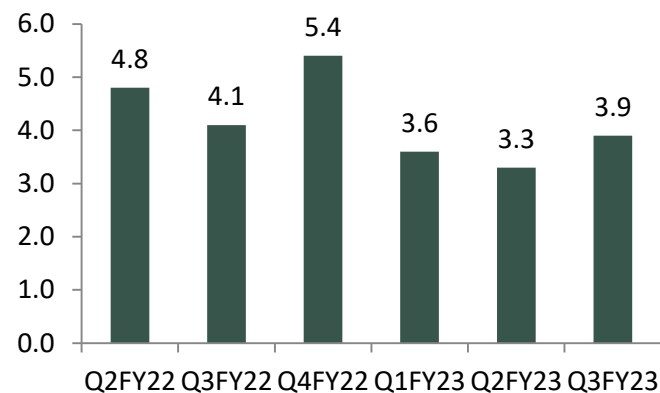
Source: Company; IDBI Capital Research

Exhibit 15: CAR remains comfortable

Source: Company; IDBI Capital Research

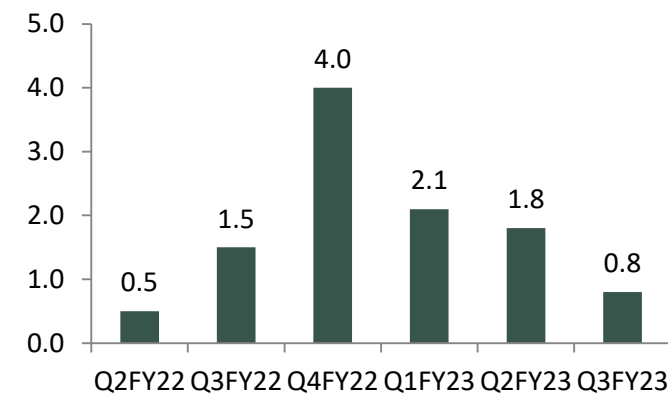
Asset Ratios - Vehicle Finance PF

Exhibit 16: ROTA–PBT witnessed uptick sequentially



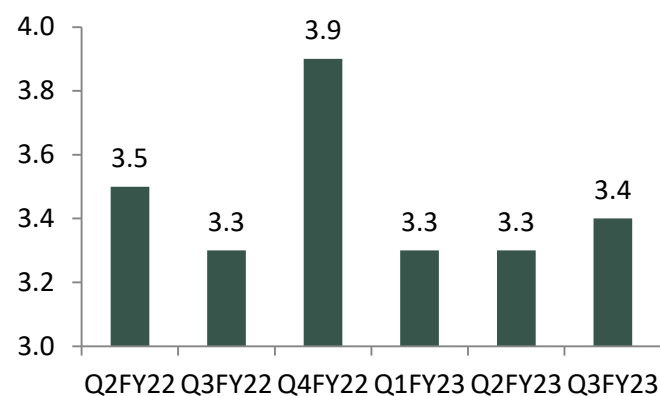
Source: Company; IDBI Capital Research

Exhibit 17: Losses and provisions continued to decline QoQ



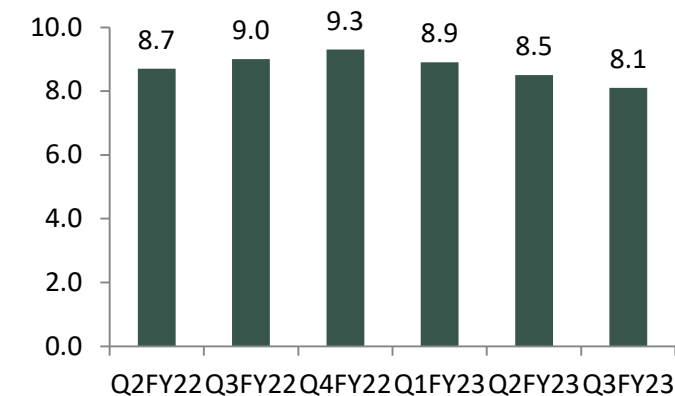
Source: Company; IDBI Capital Research

Exhibit 18: Expenses Ratio remained stable QoQ



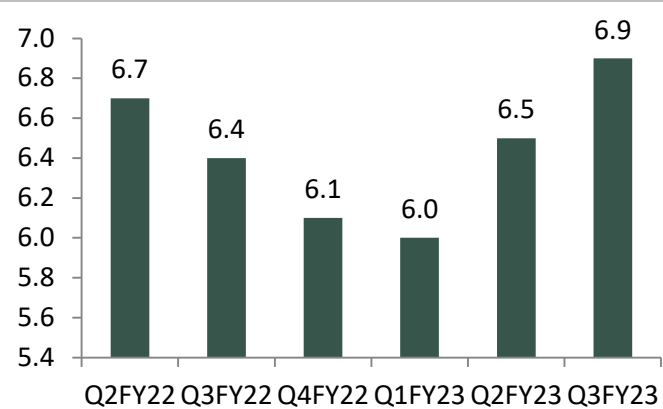
Source: Company; IDBI Capital Research

Exhibit 19: Net Income Margin witnessed downtick QoQ



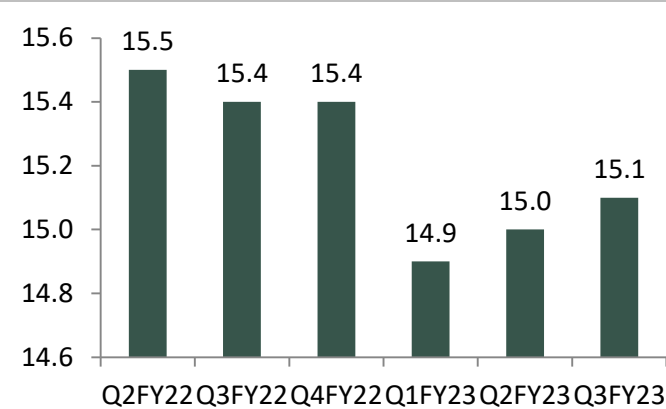
Source: Company; IDBI Capital Research

Exhibit 20: Cost of Funds inched up QoQ



Source: Company; IDBI Capital Research

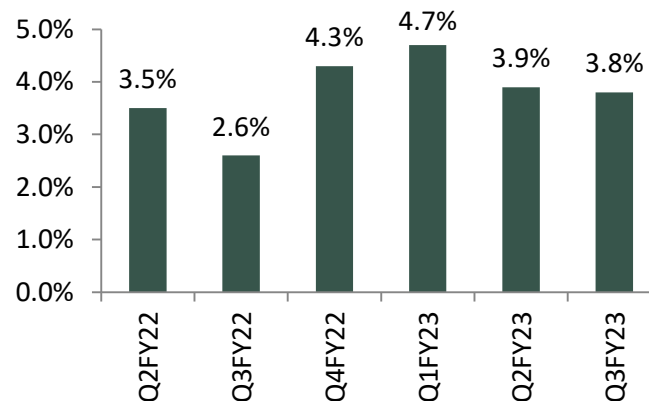
Exhibit 21: Yields continued to improve sequentially



Source: Company; IDBI Capital Research

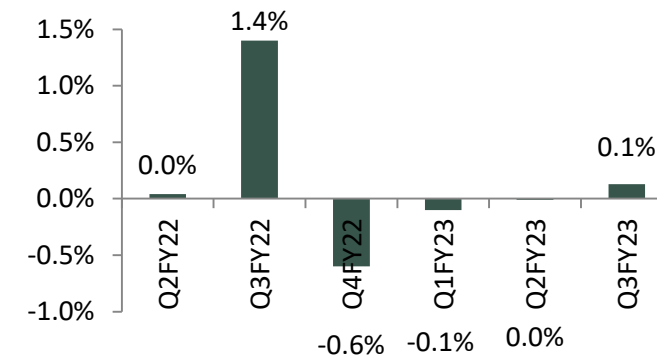
Asset Ratios - Home Equity PF

Exhibit 22: ROTA–PBT remained stable QoQ



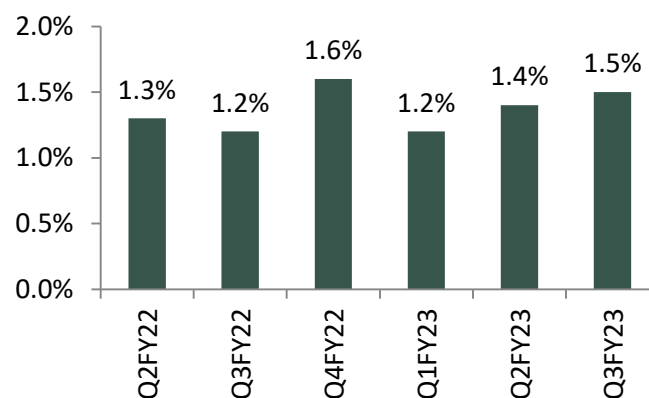
Source: Company; IDBI Capital Research

Exhibit 23: Losses and provisions remained negligible during the quarter



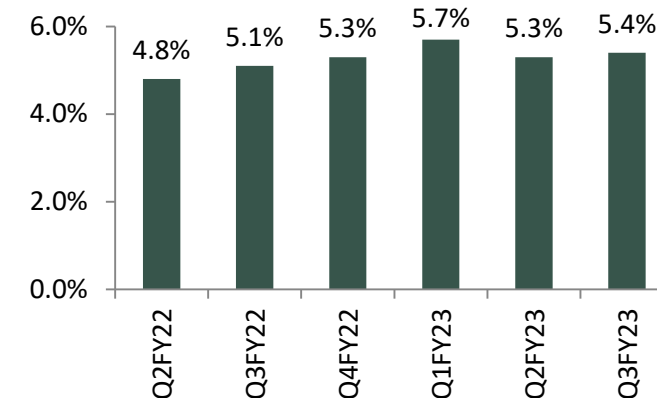
Source: Company; IDBI Capital Research

Exhibit 24: Expenses Ratio continued to harden QoQ



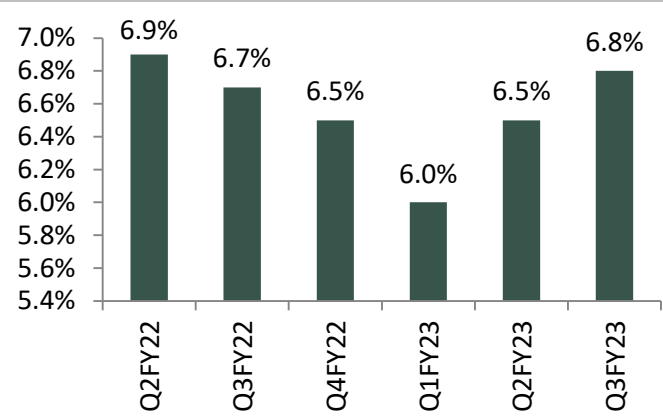
Source: Company; IDBI Capital Research

Exhibit 25: Net Income Margin remained range bound



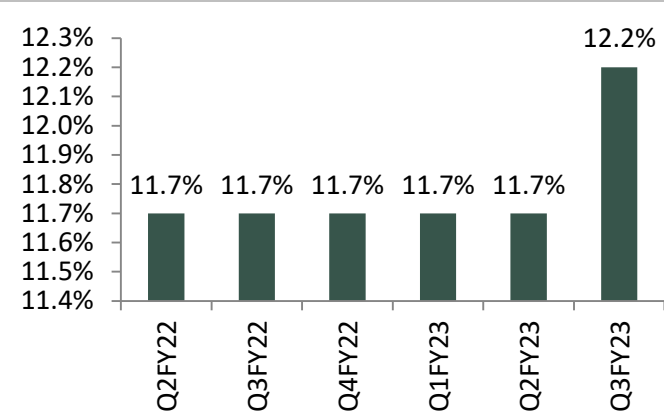
Source: Company; IDBI Capital Research

Exhibit 26: Cost of Funds inched up in QoQ



Source: Company; IDBI Capital Research

Exhibit 27: Yields inched up sequentially



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	35,320	46,483	52,680	63,324	78,330	93,282
<i>Change (yoy, %)</i>	19%	32%	13%	20%	24%	19%
Other Income	5,287	3,514	5,720	5,845	7,142	8,485
Net Revenue	40,607	49,996	58,400	69,169	85,472	1,01,767
Operating expenses	15,776	15,834	20,687	26,156	30,937	35,793
Employee expenses	6,550	7,485	8,945	12,548	15,411	18,065
Other expenses	9,226	8,349	11,742	13,608	15,527	17,727
Pre-Provision Profit	24,831	34,162	37,713	43,014	54,535	65,974
<i>Change (yoy, %)</i>	16%	38%	10%	14%	27%	21%
Provision	8,973	13,778	8,803	11,817	12,273	14,649
PBT	15,858	20,384	28,910	31,197	42,262	51,326
Taxes	5,334	5,235	7,442	7,852	10,637	12,919
<i>Effective tax rate (%)</i>	34%	26%	26%	25%	25%	25%
Net profit	10,524	15,149	21,467	23,344	31,625	38,407
<i>Change (yoy, %)</i>	-11%	44%	42%	9%	35%	21%
EPS	12.8	18.5	26.2	28.4	38.5	46.7
Return on Equity (%)	14.7	17.1	20.2	18.2	20.5	20.4
Return on Assets (%)	1.7	2.2	2.7	2.5	2.8	2.8

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Capital	1,640	1,641	1,642	1,643	1,644	1,645
Reserves & Surplus	80,079	93,962	1,15,434	1,37,547	1,67,939	2,05,112
Shareholder's Funds	81,719	95,603	1,17,076	1,39,189	1,69,582	2,06,757
Borrowings	5,05,999	5,95,400	6,53,256	8,64,040	10,20,897	12,20,970
Sub-ordinated debt	44,055	41,901	38,479	32,707	27,801	23,631
Total liabilities	6,40,024	7,45,486	8,23,633	10,59,470	12,37,186	14,63,348
Cash	69,591	52,321	42,200	41,649	42,149	42,649
Advances	5,54,027	6,58,393	7,41,492	9,75,696	11,49,981	13,72,285
Investments	729	16,188	20,762	20,762	20,762	20,762
Fixed Assets	2,839	2,294	2,916	2,660	2,786	2,918
Other Assets	12,837	16,290	16,264	18,703	21,508	24,735
Total assets	6,40,024	7,45,486	8,23,633	10,59,470	12,37,186	14,63,348

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth						
Advances	5.3	18.8	12.6	31.6	17.9	19.3
NII	18.7	31.6	13.3	20.2	23.7	19.1
Pre-Provision Profit	16.3	37.6	10.4	14.1	26.8	21.0
Net Profit	-11.3	43.9	41.7	8.7	35.5	21.4
Spreads						
Yield on Loans	13.7	13.7	12.5	13.1	13.2	13.3
Cost of Borrowings	8.7	7.7	6.5	7.2	7.3	7.3
NIM (on AAUM)	8.0	7.0	7.2	7.0	7.0	7.0
Spread	5.0	6.0	6.0	5.9	5.9	6.0
Operating Efficiency						
Cost-to-Income	38.9	31.7	35.4	37.8	36.2	35.2
Cost-to-AUM	2.7	2.4	2.8	2.9	2.7	2.7
Asset Quality						
GNPA	3.8	4.0	4.4	4.0	3.8	3.8
NNPA	2.3	2.3	2.7	2.5	2.4	2.4
Provision Coverage	41.5	44.3	39.7	41.0	41.0	41.0
Credit Cost	1.5	2.0	1.1	1.1	1.0	1.0
Capital Adequacy						
CAR	20.7	19.1	18.0	13.8	13.4	13.1
Tier I	15.3	15.1	15.1	12.8	13.3	13.6
Valuation						
EPS	12.8	18.5	26.2	28.4	38.5	46.7
BV	99.6	116.5	142.6	169.5	206.3	251.4
P/E	58.4	40.6	28.7	26.4	19.5	16.1
P/BV	7.5	6.4	5.3	4.4	3.6	3.0
ROE	14.7	17.1	20.2	18.2	20.5	20.4
ROA	1.7	2.2	2.7	2.5	2.8	2.8
ROAAUM	1.8	2.3	2.9	2.6	2.8	2.9

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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