

Cholamandalam Investment – Q1FY16 Result Review

Tailwinds ahead...
CMP INR: 682
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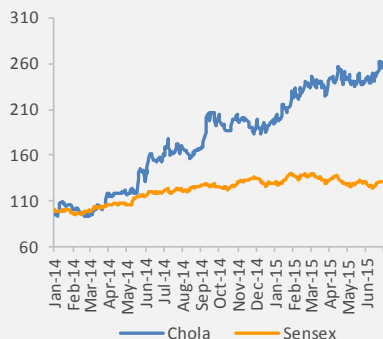
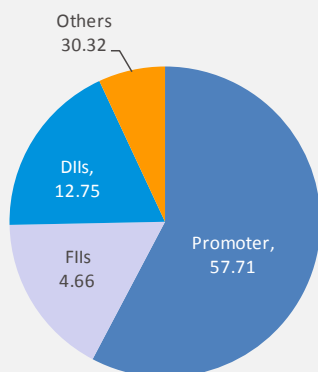
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| Bloomberg: | CIBC:IN |
|-------------------------------------|-----------|
| 52-week range (INR): | 744 / 380 |
| Share in issue (Cr): | 14.3 |
| M cap (INR cr): | 9,806 |
| Avg. Daily Vol. BSE/NSE :(‘000): | 388 |

SHARE HOLDING PATTERN (%)

 Date: 4th August, 2015

Cholamandalam Investment and Finance Ltd. (CFL) has reported stable set of numbers for Q1FY16. The company's AUM grew by 9% YoY, from INR 23,911 cr in Q1FY15 to INR 25,945 cr in Q1FY16. PAT increased to INR 110 cr in Q1FY16 from INR 93 cr in Q1FY15, representing a growth of 18% YoY. Disbursement growth remained muted with 10% growth YoY, mainly due to marginal growth of 12% in vehicle disbursements (69% of AUM). The asset quality deteriorated marginally, with Gross NPA in vehicle segment, on 150 day classification basis, deteriorated marginally from 3.67% in Q4FY15 to 3.84% in Q1FY16. There is a discernible change in sentiment at the ground level but it will take few quarters to reflect the same in the company's financials. We maintain our bullish stance on the stock from a long-term perspective.

Muted loan growth

CFL's AUM increased by 9% YoY from INR 23,911 cr in Q1FY15 to INR 25,945 cr in Q1FY16. The loan book mix changed, with the vehicle financing book ratio as % of total AUM coming down from 72% in Q1FY15 to 69% in Q1FY16. At the same time, home equity book ratio as % of total AUM increased by 390bps. The ratio is expected to move further in favor of home equity going forward. And, although the vehicle finance book has higher NIMs vis-à-vis home equity book, the latter has higher return on assets (RoA).

Return ratios to stabilize

During Q1FY16, CFL reported RoE of 13.7%. Due to a weak macroeconomic environment, growth in vehicle financing book remained low. There is a discernible change in sentiment at the ground level but it will take few quarters before growth comes back on a sustainable basis. At the company level, there has been constant focus on reducing costs. The cost-to-income ratio has reduced from 43.7% in Q1FY15 to 43.4% in Q1FY16. The company targets to achieve RoE of 18-20% through change in product mix, reduction in funding cost and controlling operating costs.

Asset quality seeing improvement

CFL has reported marginal deterioration in asset quality, with gross NPA in vehicle finance segment increasing marginally to 3.84% in Q1FY16 from 3.67% in Q4FY15. The provision coverage ratio at aggregate stood at 37.5% in Q1FY16 compared to 54.2% in Q1FY15. There has been improvement in collections performance. The roll forward in buckets has started coming down. On home equity front the average loan to value ratio is around 50% compared to industry average of 60%.

Well capitalized

Currently, the capital adequacy ratio is at 20.56% and Tier-II ratio is at 7.14%. The company is well capitalized for the next two years.

Valuations

We believe that CFL will be able to sustain growth in excess of 20% and RoE of ~18% in the coming years on the back of strong growth (5-year PAT CAGR of 40%), robust business model and efficient operations. At the current market price of INR 682, the stock is trading at 2.5x FY17E P/BV. **We re-iterate "BUY".**

| Year to March | Q1FY16 | Q1FY15 | Growth (%) | Q4FY15 | Growth (%) | FY15 | FY16E | FY17E |
|-----------------------------------|--------|--------|------------|--------|------------|-------|-------|-------|
| Net Interest Income + OI (INR Cr) | 490 | 394 | 25% | 452 | 8% | 1,731 | 1,969 | 2,307 |
| Net Profit after tax | 110 | 93 | 18% | 136 | -19% | 435 | 537 | 642 |
| Adjusted BV per share | | | | | | 203 | 234 | 270 |
| Basic EPS (Rs.) | 7.7 | 6.5 | 18% | 9.4 | -19% | 30.3 | 34.4 | 41.2 |
| Gross NPA ratio (%) | 3.3 | 2.4 | | 3.1 | | 3.1 | 2.5 | 2.1 |
| Net NPA ratio (%) | 2.1 | 1.1 | | 2.0 | | 2.0 | 1.3 | 0.9 |
| Price/Adj. Book Value(x) | | | | | | 3.4 | 2.9 | 2.5 |
| Price/Earnings (x) | | | | | | 22.5 | 19.8 | 16.6 |

Q1FY16 Result Highlights

| Income statement | | | | (INR Cr) | |
|------------------------------|--------|--------|--------|----------|--------|
| | Q1FY16 | Q1FY15 | Growth | Q4FY15 | Growth |
| Interest income | 938 | 847 | 11% | 965 | -3% |
| Interest charges | 486 | 454 | 7% | 500 | -3% |
| Net interest income | 452 | 393 | 15% | 465 | -3% |
| Fee & other income | 0 | 1 | -74% | 0 | 100% |
| Net revenues | 452 | 394 | 15% | 465 | -3% |
| Operating expense | 190 | 172 | 11% | 197 | -3% |
| - Employee exp | 58 | 44 | 33% | 61 | -4% |
| - Depreciation /amortisation | 8 | 8 | 0% | 8 | 6% |
| - Other opex | 124 | 120 | 3% | 128 | -3% |
| Preprovision profit | 261 | 222 | 18% | 268 | -3% |
| Provisions | 58 | 84 | -31% | 100 | -42% |
| PBT | 203 | 138 | 48% | 169 | 21% |
| Taxes | 68 | 47 | 45% | 57 | 18% |
| PAT | 135.7 | 90.7 | 50% | 111 | 22% |
| Basic number of shares (cr.) | 14 | 14 | 3% | 14 | 0% |
| Basic EPS (INR) | 9.4 | 6.5 | 46% | 7.7 | 22% |

Financials

| Income statement | | | | | (INR cr) |
|--------------------------------|-------|-------|-------|-------|----------|
| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
| Interest income | 2,518 | 3,230 | 3,664 | 4,154 | 4,927 |
| Income from Financing activity | 2,432 | 3,058 | 3,461 | 3,961 | 4,699 |
| Other Operating Income | 86 | 171 | 177 | 193 | 228 |
| Interest charges | 1,411 | 1,771 | 1,960 | 2,250 | 2,698 |
| Net interest income | 1,107 | 1,459 | 1,704 | 1,904 | 2,229 |
| Fee & other income | 38 | 33 | 27 | 65 | 78 |
| Net revenues | 1,145 | 1,492 | 1,731 | 1,969 | 2,307 |
| Operating expense | 570 | 658 | 749 | 805 | 934 |
| - Employee exp | 153 | 187 | 222 | 238 | 277 |
| - Depreciation /amortisation | 20 | 24 | 29 | 31 | 36 |
| - Other opex | 396 | 447 | 498 | 535 | 621 |
| Preprovision profit | 575 | 834 | 982 | 1,165 | 1,373 |
| Provisions | 124 | 283 | 325 | 363 | 414 |
| PBT | 451 | 550 | 657 | 801 | 959 |
| Taxes | 144 | 186 | 222 | 264 | 316 |
| PAT | 307 | 364 | 435 | 537 | 642 |
| Extraordinaries | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 307 | 364 | 435 | 537 | 642 |
| Basic number of shares (cr.) | 14.3 | 14.3 | 14.4 | 15.6 | 15.6 |
| Basic EPS (INR) | 21.4 | 25.4 | 30.3 | 34.4 | 41.2 |
| Diluted number of shares (cr.) | 14.3 | 14.3 | 14.4 | 15.6 | 15.6 |
| Diluted EPS (INR) | 21.4 | 25.4 | 30.3 | 34.4 | 41.2 |
| Growth ratios (%) | | | | | |
| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
| NII growth | 46.7 | 31.8 | 16.8 | 11.8 | 17.1 |
| Net revenues growth | 43.4 | 30.3 | 16.0 | 13.8 | 17.2 |
| Opex growth | 30.4 | 15.6 | 13.8 | 7.4 | 16.1 |
| PPP growth | 59.0 | 44.9 | 17.8 | 18.6 | 17.9 |
| Provisions growth | 213.9 | 128.0 | 14.6 | 11.9 | 14.0 |
| PAT growth | 49.9 | 18.7 | 19.6 | 23.4 | 19.7 |
| Operating ratios (%) | | | | | |
| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
| Yield on advances | 17.4 | 17.9 | 17.6 | 17.3 | 17.3 |
| Cost of funds | 10.6 | 10.6 | 10.4 | 10.5 | 10.5 |
| Spread | 6.8 | 7.3 | 7.2 | 6.7 | 6.8 |
| Net interest margins | 7.4 | 7.9 | 8.0 | 7.8 | 7.7 |
| Cost-income | 49.8 | 44.1 | 43.3 | 40.9 | 40.5 |
| Tax rate | 32.0 | 33.8 | 33.8 | 33.0 | 33.0 |

| Balance sheet | | | | | (INR cr) |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| As on 31st March | FY13 | FY14 | FY15 | FY16E | FY17E |
| Liabilities | | | | | |
| Equity capital | 143 | 143 | 144 | 156 | 156 |
| Reserves | 1,822 | 2,151 | 3,030 | 3,490 | 4,055 |
| Net worth | 1,965 | 2,295 | 3,173 | 3,646 | 4,211 |
| Secured loans | 12,435 | 15,347 | 16,519 | 19,713 | 23,854 |
| Unsecured loans | 2,854 | 2,746 | 2,956 | 3,527 | 4,268 |
| Total borrowings | 15,289 | 18,093 | 19,475 | 23,240 | 28,122 |
| Total liabilities | 17,254 | 20,388 | 22,649 | 26,886 | 32,333 |
| Assets | | | | | |
| Loans | 16,626 | 19,428 | 22,184 | 25,955 | 31,146 |
| Investments | 225 | 82 | 67 | 260 | 311 |
| <i>Current assets</i> | <i>1,195</i> | <i>1,834</i> | <i>1,370</i> | <i>3,420</i> | <i>4,921</i> |
| <i>Current liabilities</i> | <i>931</i> | <i>1,159</i> | <i>1,225</i> | <i>3,056</i> | <i>4,398</i> |
| Net current assets | 264 | 675 | 146 | 363 | 523 |
| Fixed assets (net block) | 71 | 73 | 68 | 88 | 108 |
| Deferred tax asset | 69 | 130 | 184 | 219 | 225 |
| Total assets | 17,254 | 20,388 | 22,649 | 26,885 | 32,314 |
| Balance sheet ratios (%) | | | | | |
| Loan growth | 34.8 | 16.9 | 14.2 | 17.0 | 20.0 |
| EA growth | 34.2 | 18.1 | 11.1 | 17.9 | 20.3 |
| Disbursement growth | 36.3 | 8.2 | (2.3) | 21.3 | 27.8 |
| Gross NPA ratio | 1.0 | 1.9 | 3.1 | 2.5 | 2.1 |
| Net NPA ratio | 0.2 | 0.7 | 2.0 | 1.3 | 0.9 |
| Provision coverage | 80.0 | 63.2 | 35.5 | 48.0 | 57.1 |
| CAR | 19.0 | 17.2 | 21.2 | 18.5 | 16.9 |
| RoE decomposition (%) | | | | | |
| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
| Net interest income/Assets | 7.4 | 7.9 | 8.0 | 7.8 | 7.7 |
| Other Income/Assets | 0.3 | 0.2 | 0.1 | 0.3 | 0.3 |
| Net revenues/Assets | 7.7 | 8.0 | 8.2 | 8.1 | 8.0 |
| Operating expense/Assets | 3.8 | 3.5 | 3.5 | 3.3 | 3.2 |
| Provisions/Assets | 0.8 | 1.5 | 1.5 | 1.5 | 1.4 |
| Taxes/Assets | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 |
| Total costs/Assets | 5.6 | 6.1 | 6.1 | 5.9 | 5.7 |
| ROA | 2.1 | 2.0 | 2.0 | 2.2 | 2.2 |
| Equity/Assets | 11.4 | 11.5 | 12.9 | 14.0 | 13.5 |
| ROAE | 18.1 | 17.1 | 15.9 | 15.7 | 16.4 |
| Valuation metrics | | | | | |
| Year to March | FY13 | FY14 | FY15 | FY16E | FY17E |
| Diluted EPS (INR) | 21.4 | 25.4 | 30.3 | 34.4 | 41.2 |
| <i>EPS growth (%)</i> | <i>65.6</i> | <i>18.9</i> | <i>19.2</i> | <i>13.6</i> | <i>19.7</i> |
| Book value per share (INR) | 137.3 | 160.2 | 203.4 | 233.7 | 269.9 |
| Diluted P/E (x) | 31.9 | 26.8 | 22.5 | 19.8 | 16.6 |
| Price/ BV (x) | 5.0 | 4.3 | 3.4 | 2.9 | 2.5 |
| Price/ Earning (x) | 31.9 | 26.8 | 22.5 | 19.8 | 16.6 |

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