

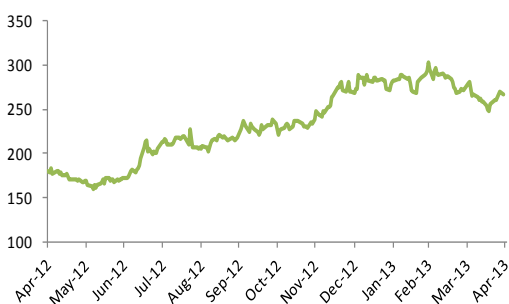
## Cholamandalam Investment &amp; Finance

Recommendation	HOLD
CMP (02/05/2013)	Rs.269
Target Price	Rs.317
Sector	NBFC

## Stock Details

BSE Code	511243
NSE Code	CHOLAFIN
Bloomberg Code	CIFC IN
Market Cap (Rs cr)	3,771
Free Float (%)	42.29
52- wk HI/Lo (Rs)	308/160
Avg. volume BSE (Quarterly)	41,684
Face Value (Rs)	10
Dividend (FY 13)	35%
Shares o/s (Cr)	13.26

Relative Performance	1Mth	3Mth	1Yr
<b>CIFC</b>	-1.9%	-1.7%	48.1%
<b>Sensex</b>	2.9%	-3.6%	11.9%

Shareholding Pattern 31<sup>st</sup> March 13

Promoters Holding	57.71%
Institutional (Incl. FII)	35.47%
Corporate Bodies	1.27%
Public & others	5.55%

Silky Jain – Research Analyst  
 (+91 22 3926 8178) [silky.jain@nirmalbang.com](mailto:silky.jain@nirmalbang.com)

## Another stable quarter

Cholamandalam Investment and Finance (CIFC) reported results in line with expectations with strong growth in NII driven by higher disbursements and benefit of capital raising done in the quarter. Improving product mix towards higher yielding segment and presence in LCV segments has helped the company to maintain growth momentum. Despite addition in branches and higher employee base cost to income ratio of the company stood within targeted levels. Provisions were on the higher side which was due to provision for loan loss asset during the quarter. PAT stood at Rs 86 cr up 59% YoY and 5.3% QoQ in Q4FY13. For FY13, PAT stood at Rs 307 cr up 77.7%.

We are impressed with the strategy of Management to maintain growth without compromising on the asset quality. In order to maintain asset quality company has not been focusing on increasing the gold loan portfolio considering the overall concerns in the sector. Even though the CV industry is not doing good CIFC is a safe player as its focus is more towards the LCV segment which has not yet seen any significant signs of stress and is performing satisfactorily. Moreover, company also focuses on high yielding and growing segment of used CVs and tractor financing. This will ensure that the company continues to maintain its growth momentum. Improving productivity of branches will lead to an improvement in cost to income ratio. We believe that margins will continue to remain strong with easing interest rate cycle as most of the loans of the company are at fixed rate.

The above initiatives with a revamped business model will lead to a sustainable and profitable growth in CIFC's business and expect PAT to grow at a CAGR of 28.7% over FY13-FY15E. We expect CIFC to report an improvement in its RoE from 18.3% in FY13 to 20.2% in FY15E and RoA (post tax) to improve from 1.9% in FY12 to 2% in FY15E. **At CMP the stock is trading at 1.69x FY14E and 1.43x FY15E ABV and 9.65x FY14E and 7.58x FY15E EPS respectively. Based on our estimated BV of Rs.159 per share for FY14E and P/ABV target multiple of 2.0x we arrive at a target price of Rs.317. We continue to maintain our positive outlook on the stock and recommend investors to HOLD the stock for a further upside of 18% from current levels.**

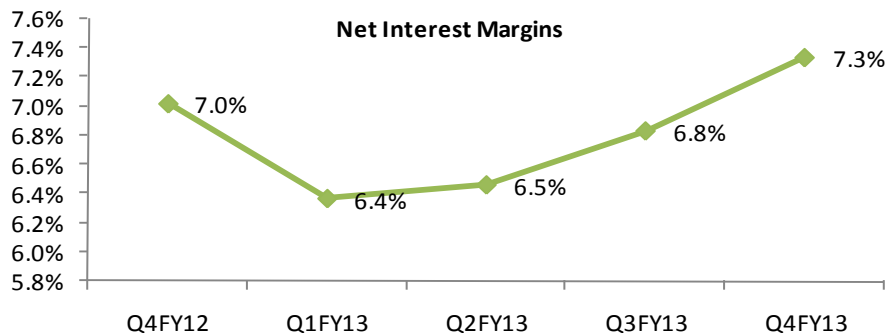
- CIFC reported strong growth in AUM at 41.1% YoY and 10.9% QoQ to Rs 18,998 cr in Q4FY13.
- Disbursements growth remained robust at 32.6% YoY and 22.3% QoQ to Rs 3,808 cr during Q4FY13.
- CIFC opened 12 branches in Q4FY13 taking the total branch network to 518 branches in line with expectations and added 1,416 employees during the quarter. Despite this the cost to income ratio was broadly stable during the quarter at 48.8% reflecting improving productivity.
- Gross NPA stood at 1.0% as compared to 1.17% in Q3FY13. Net NPA stood at 0.2% vs 0.63% QoQ.

Year	NII (Rs crs)	Growth (%)	PBP (Rs crs)	PAT (Rs crs)	Margin	EPS (Rs)	PE (x)	Adj BVPS (Rs)	P/ABV (x)	RoE
FY12A	727	27.7%	363	206	11.5%	15.5	17.32	105	2.57	14.0%
FY13A	1,077	48.1%	575	307	12.0%	23.1	11.64	135	1.99	18.3%
FY14E	1,371	27.3%	769	399	13.1%	27.9	9.65	159	1.69	18.8%
FY15E	1,709	24.7%	962	508	13.5%	35.5	7.58	188	1.43	20.2%

## Cholamandalam Investment & Finance

### Net Interest Income witnesses significant increase

Net Interest Income witnessed a sharp increase on QoQ basis resulting from higher disbursement growth and lower cost of funds resulting from capital raising of Rs 300 cr done during the quarter. We believe that in an easing interest rate cycle; CIFIC stands to benefit due to re-pricing of liabilities whereas its most of the loans are at fixed rate.

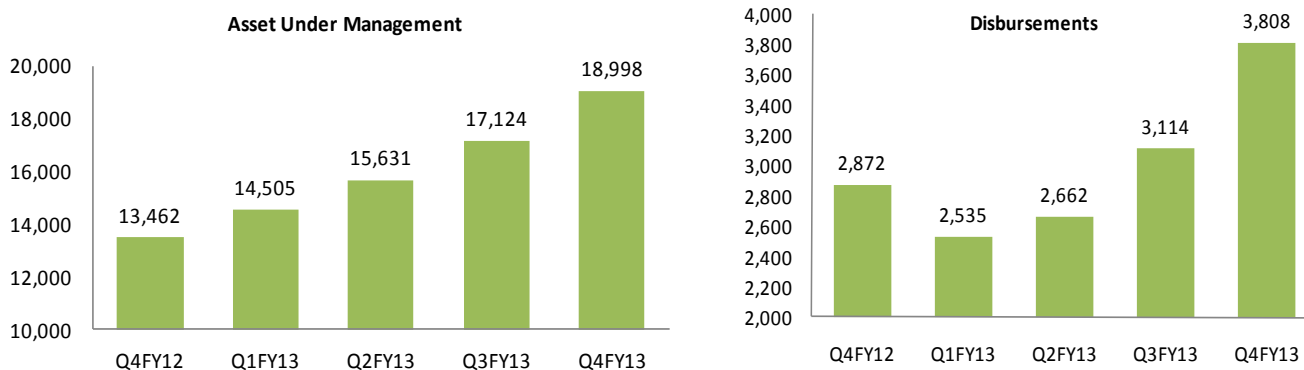


Source: Company data, Nirmal Bang Research

### Strong growth in AUM

CIFIC reported strong growth in AUM at 41.1% YoY and 10.9% QoQ to Rs 18,998 cr in Q4FY13. Vehicle finance AUM increased 46% YoY and 12.1% QoQ to Rs 14,369 cr in Q4FY13 and constituted 75.6% of the total AUM book whereas Home equity increased 40.7% YoY and 9.6% QoQ to Rs 4,337 cr and constituted 22.8%.

Disbursements growth remained robust at 32.6% YoY and 22.3% QoQ to Rs 3,808 cr during Q4FY13. Disbursements in the Home Equity business increased 42.6% YoY and in Vehicle Finance it witnessed an increase of 32.5% YoY.



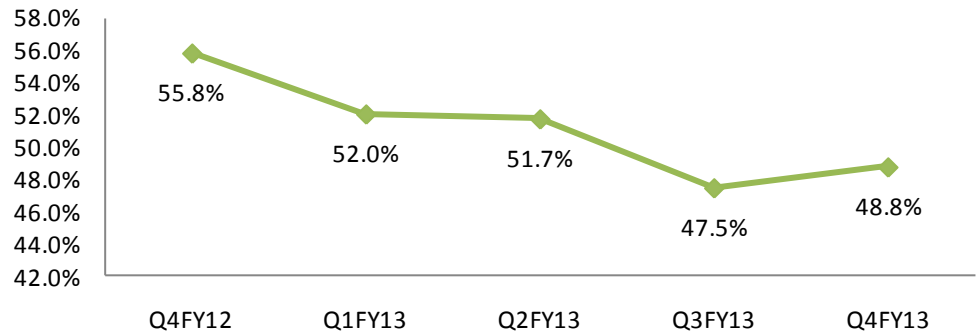
Source: Company data, Nirmal Bang Research

### Cost to income ratio remains stable

CIFIC opened 12 branches in Q4FY13 taking the total branch network to 518 branches in line with expectations and added 1,416 employees during the quarter. Despite this the cost to income ratio was broadly stable during the quarter at 48.8% reflecting improving productivity. CIFIC intends to add another 100 branches in FY14E and targets to take its overall branch network to 750 branches in next 2-3 years.

**Cholamandalam Investment & Finance**

**Cost to Income ratio**

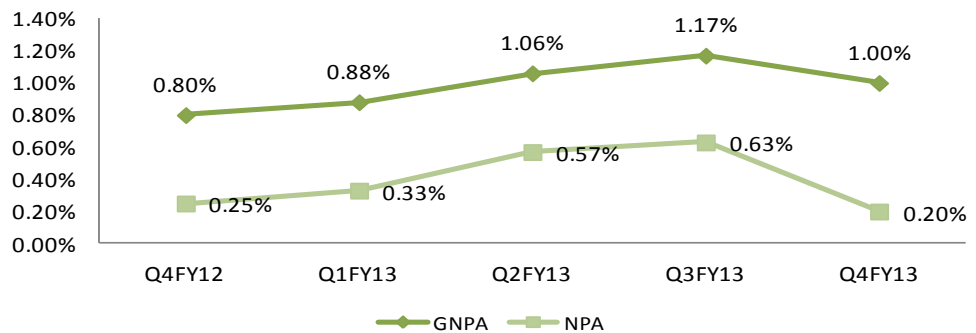


Source: Company data, Nirmal Bang Research

**Asset quality witnesses improvement**

Gross NPA stood at 1.0% as compared to 1.17% in Q3FY13. Net NPA stood at 0.2% vs 0.63% QoQ. The company increased its provision costs in order to provide for a loan asset resulting in lower net NPA. Going forward, we have factored in higher credit cost for FY14E and FY15E on account of write-offs in Orissa, stringent NPA classification norms and higher delinquencies on a slowing economy.

**Movement of NPA**



Source: Company data, Nirmal Bang Research

**Capital Adequacy Ratio**

The capital adequacy ratio of the company stood at 19.04% in March 2013 with Tier I ratio at 11.07%. The company raised Rs 300 cr via QIP at Rs 285 per share in Q4FY13.

## Cholamandalam Investment &amp; Finance

Income Statement (Rs cr)	Q4FY13	Q4FY12	YoY (%)	Q2FY13	QoQ (%)	FY13	FY12	YoY (%)
Interest Earned	711	507	40.2%	654	8.8%	2,488	1,715	45.1%
Interest Expended	380	283	34.4%	374	1.6%	1,411	988	42.8%
<b>Net interest income</b>	<b>331</b>	<b>225</b>	<b>47.5%</b>	<b>280</b>	<b>18.4%</b>	<b>1,077</b>	<b>727</b>	<b>48.1%</b>
Other income	14	15	(5.4%)	12	19.2%	68	73	(7.4%)
Total income	346	240	44.1%	292	18.5%	1,145	800	43.1%
Payment to employees	46	29	57.5%	38	20.3%	153	110	38.7%
Business Origination Outsourcing	52	39	33.2%	43	21.4%	174	127	37.4%
Other operating expenses	64	63	1.7%	53	21.2%	222	191	16.4%
Depreciation	7	3	123.2%	5	41.2%	20	9	128.2%
Total operating expenses	169	134	25.9%	138	21.7%	570	437	30.4%
<b>Profit before provisioning</b>	<b>177</b>	<b>106</b>	<b>67.2%</b>	<b>153</b>	<b>15.6%</b>	<b>575</b>	<b>363</b>	<b>58.3%</b>
Provisions	55	3	N/A	31	77.0%	124	40	213.3%
Exceptional items	0	-12	N/A	0	N/A	0	-33	N/A
Profit before tax	122	91	34.0%	122	0.0%	451	290	55.4%
Tax	37	38	(2.2%)	41	(10.4%)	144	118	22.7%
<b>Profit after tax</b>	<b>86</b>	<b>54</b>	<b>59.2%</b>	<b>81</b>	<b>5.3%</b>	<b>307</b>	<b>173</b>	<b>77.7%</b>
Adj PAT	86	65	31.2%	81	5.3%	307	206	48.8%
Adj EPS	6.0	4.9	21.5%	6.1	(2.4%)	21.4	15.5	37.8%

Source: Company data, Nirmal Bang Research

- The company's wealth management business made a profit of Rs 1 cr as against loss of Rs 3 cr in FY12.
- Cholamandalam Factoring made a profit of Rs 1 cr against loss of Rs 61 cr in FY12.
- The company has declared final dividend of Rs 1 per share in addition to interim dividend of Rs 2.5 per share.
- The company is considering merger of Chola Factoring with the parent company.

## Cholamandalam Investment &amp; Finance

## Financials

Profitability (Rs. Crs)	FY12	FY13	FY14E	FY15E
Interest earned	1,715	2,488	2,957	3,658
Interest expended	988	1,411	1,586	1,949
<b>Net interest income</b>	<b>727</b>	<b>1,077</b>	<b>1,371</b>	<b>1,709</b>
Non interest income	73	68	82	94
<b>Total income</b>	<b>800</b>	<b>1,145</b>	<b>1,453</b>	<b>1,804</b>
<b>Operating expenses</b>	<b>437</b>	<b>570</b>	<b>685</b>	<b>842</b>
Staff costs	110	153	190	233
Other Op Exp	326	416	495	608
<b>Operating profit</b>	<b>363</b>	<b>575</b>	<b>769</b>	<b>962</b>
Provisions	40	124	155	181
Extra ordinary item	-33	0	0	0
<b>Profit before tax</b>	<b>290</b>	<b>451</b>	<b>613</b>	<b>781</b>
Taxes	118	144	215	273
<b>Net profit</b>	<b>173</b>	<b>307</b>	<b>399</b>	<b>508</b>
Adjusted PAT	206	307	399	508

Quarterly (Rs. Crs)	June.12	Sep.12	Dec.12	Mar.13
<b>Net Operating income</b>	223	243	280	331
Non interest income	22	18	12	14
<b>Total income</b>	244	262	292	346
Operating expenses	127	135	138	169
<b>Operating profit</b>	117	126	153	177
Provisions	14	23	31	55
Profit before tax	103	103	122	122
Taxes	33	33	41	37
<b>Net profit</b>	70	70	81	86

Profitability Ratios	FY12	FY13E	FY14E	FY15E
Cost / Income Ratio	54.6%	49.8%	47.1%	46.7%
Cost/Total assets	3.8%	3.6%	3.3%	3.3%
Net profit margin	11.5%	12.0%	13.1%	13.5%
RONW	14.0%	18.2%	18.7%	20.2%
Return on Assets (PAT)	1.5%	1.9%	1.9%	2.0%
Return on Assets (PBT)	2.8%	2.9%	3.0%	3.0%

Growth Ratios	FY12	FY13E	FY14E	FY15E
Disbursement Growth	55.1%	31.7%	29.8%	27.9%
Receivable growth	43.3%	34.9%	28.0%	25.3%
NII Growth	27.7%	48.1%	27.3%	24.7%
Non int income growth	13.8%	-7.4%	22.0%	14.4%
PAT Growth	177.4%	77.7%	30.1%	27.3%
Pre prov growth	31.8%	58.3%	33.7%	25.1%

Balance Sheet (Rs. Crs)	FY12	FY13	FY14E	FY15E
Equity capital	133	143	143	143
Reserves and Surplus	1,285	1,822	2,156	2,585
Pref. capital	0	0	0	0
<b>Net worth</b>	<b>1,417</b>	<b>1,965</b>	<b>2,299</b>	<b>2,729</b>
Borrowings	11,444	14,844	18,468	22,912
Current liabilities	561	1,376	2,044	3,007
Total liabilities	12,005	16,220	20,512	25,920
<b>Total liab and equity</b>	<b>13,423</b>	<b>18,185</b>	<b>22,811</b>	<b>28,648</b>
Fixed assets	53	71	92	115
Investments	62	225	253	287
Receivables	12,322	16,626	21,281	26,667
Vehicle Finance	8,822	12,221	15,702	19,613
Home Equity	3,000	3,946	5,110	6,134
Others	500	458	469	921
Loans and advances- CA	75	67	75	83
Cash and Bank Balance	258	389	267	603
Other current assets	652	808	844	893
<b>Total assets</b>	<b>13,422</b>	<b>18,185</b>	<b>22,811</b>	<b>28,648</b>

Key Ratios	FY12	FY13	FY14E	FY15E
<b>Yield Ratios</b>				
Avg Yield on Assets	16.7%	15.9%	15.6%	15.3%
Cost of Funds	10.2%	9.6%	9.5%	9.4%
Spreads	6.5%	6.3%	6.1%	5.8%
Net Income Margin	7.5%	7.9%	7.7%	7.5%
<b>Balance Sheet Ratios</b>				
Gross NPA	0.8%	1.0%	1.1%	1.1%
Net NPA	0.3%	0.2%	0.2%	0.2%
CAR	18.1%	19.0%	18.0%	16.9%
Tier I	11.0%	11.1%	10.8%	10.2%

Per share data	FY12	FY13	FY14E	FY15E
EPS	15.5	21.4	27.9	35.5
BVPS	107	137	161	191
Adjusted BVPS	105	135	159	188
Dividend per share	2.5	3.5	4.5	5.5

Valuation Ratios	FY12	FY13E	FY14E	FY15E
P/BV	2.52	1.96	1.67	1.41
P/ABV	2.57	1.99	1.69	1.43
P/E	17.32	12.56	9.65	7.58

Source: Company data, Nirmal Bang Research

## NOTES

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B-2, 301/302, Marathon Innova,  
Opp. Peninsula Corporate Park  
Off. Ganpatrao Kadam Marg  
Lower Parel (W), Mumbai-400013  
Board No. : 91 22 3926 8000/8001  
Fax. : 022 3926 8010