

June 4, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		BUY	
Target Price	189		229	
NII (Rs.)	34,735	44,354	36,254	52,307
% Chng.	(4.2)	(15.2)		
PPoP (Rs.)	17,643	25,683	16,676	30,056
% Chng.	5.8	(14.6)		
EPS (Rs.)	3.6	17.8	9.5	19.5
% Chng.	(62.0)	(8.8)		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Int.Inc. (Rs m)	34,032	40,604	34,735	44,354
Growth (%)	20.7	19.3	(14.5)	27.7
Op. Profit (Rs m)	21,344	24,831	17,643	25,683
PAT (Rs m)	11,701	10,523	3,052	15,027
EPS (Rs.)	15.0	12.8	3.6	17.8
Gr. (%)	27.4	(14.2)	(71.9)	392.4
DPS (Rs.)	7.0	7.5	8.0	8.0
Yield (%)	4.9	5.3	5.6	5.6
Margin (%)	6.7	6.7	5.2	6.0
RoAE (%)	20.8	14.6	3.5	15.6
RoAA (%)	2.3	1.7	0.5	2.0
PE (x)	9.5	11.1	39.5	8.0
P/BV (x)	1.8	1.4	1.3	1.2
P/ABV (x)	2.0	1.6	1.6	1.4

Key Data

CHLA.NS | CIFIC IN

52-W High / Low	Rs.349 / Rs.117
Sensex / Nifty	33,981 / 10,029
Market Cap	Rs.117bn / \$ 1,546m
Shares Outstanding	820m
3M Avg. Daily Value	Rs.3112.25m

Shareholding Pattern (%)

Promoter's	51.65
Foreign	12.21
Domestic Institution	27.03
Public & Others	9.11
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.6	(52.7)	(53.2)
Relative	(6.1)	(43.2)	(44.8)

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Structural levers weaken, downgrade to Accumulate

Quick Pointers:

- 79% VF, 66% HE AUMS under morat; 76% morat AUMs expected in round 2
- Prudential provs of Rs2.5bn in anticipation of increased LGD for Stage 3

CIFIC Q4FY20 earnings disappointed on several counts: (a)76% customers falling under morat, similar percentage expected in round 2; (b)Rs2.5bn additional provisions over & above Rs2.8bn contingency provisions in anticipation of increased LGDs for stage 3 assets (current Stage 3 at 3.8%) (c)steep 24%QoQ decline in disbursements led by 21%QoQ vehicle finance (VF) and 35%QoQ home equity (HE) decline. While liquidity sufficiency (Rs65bn cash on BS, Rs100bn sanctioned pipe-line) is expected to maintain ALM positioning over morat period, our apprehensions emerge from elongated asset quality downcycle led by meaningful morat quantum (~Rs450bn) spread across 6 months and bleak outlook on transport activity uptick post complete lockdown lift. Against this backdrop, we build weak growth cycle (4-12%), NIM compression (5-6%) and NPA jump (4-5%) over FY21-22E. To that effect our EPS estimates stand down by 60% for FY21 & 6% for FY22. While FY21 return profile takes a beating (RoE:4%/RoA:~1%), CIFIC's continued focus on right product positioning and conservative strategy place the Co. on revival mode. Resultantly, FY22 RoE/RoA bounce back to 16%/2% levels respectively. While unique pandemic challenges are calling for weakness in structural growth levers, we downgrade the stock to ACCUMULATE (earlier BUY). We assign a target multiple of 1.8x PBV FY22E arriving at a price target of Rs189 (earlier Rs229).

- Growth anemic; recovery distant:** Continued macro headwinds and CIFIC's conservative strategy have led to anemic growth trends for quite sometime now. As COVID challenges exasperate across most product segments (barring tractors & refinancing; marginally better used CV), growth recovery is expected to be a long-drawn-out process. Q4 saw steep disbursements decline (36% de-growth YoY; 9MFY20 9% growth). HE disbursements de-growth stood stark with 43% YoY decline followed by 36% decline in VF disbursements. AUMs stood flattish QoQ at 605bn [PLe:Rs626bn]. Against this backdrop, we prune our growth estimates down to 4% for FY21 (earlier 15%) and 12% for FY22 (earlier 16%).
- Asset quality woes come to fore:** While growth and collections take a toll, asset quality risks have surfaced with palpable COVID challenges. Gross Stage 3 inched higher to 3.8% vs 3.5% a quarter ago [PLe: 3.55%]. Absolute Stage 3 assets jumped 74%YoY in FY20 with slippage ratio climbing to 166bps YoY. Management's indication towards likelihood of higher LGDs for Stage 3 assets and 76% customers coming back to avail morat in round 2 call for lengthening of asset quality downcycle. Against this backdrop, we estimate 214bps YoY increase in slippages to 3.8% in FY21 resulting into NPA of 5%. The same is expected to improve to 3.6% in FY22.

PAT declines sharply by - 85% YoY/89%QoQ to Rs.427mn [PLe: Rs3323mn] due to elevated COVID provisioning (Rs5.3bn in total) in the nature of

(a) contingency provision of Rs 2.8bn against morat loans

(b) macro prudential provisions of Rs2.5bn

NII growth stood in-line at Rs10.2bn [PLe: Rs10.4bn] reporting 6% de-growth QoQ on account of steep disbursements decline (36% de-growth YoY; 9MFY20 9% growth).

HE disbursements de-growth stood stark with 43% YoY decline followed by 36% decline in VF disbursements. AUMs stood flattish QoQ at 605bn [PLe:Rs626bn]

Subsequently, PPOp declined 7% QoQ to Rs6.1bn [PLe: Rs5.9bn]

Gross Stage 3 inched higher to 3.8% vs 3.5% a quarter ago [PLe: 3.55%]

Exhibit 1: Elevated provisioning and poor growth dent earnings

Y/e March (Rs mn)	Q4FY20	Q4FY19	YoY gr.	Q3FY20	QoQ gr.
Interest Income	21,513	18,851	14.1%	22,749	-5.4%
Interest Expenses	11,359	9,864	15.2%	11,924	-4.7%
Net Interest Income	10,154	8,987	13.0%	10,825	-6.2%
Other Income	1.2	2.6	-53.8%	0.4	200.0%
Total Income	10,156	8,989	13.0%	10,825	-6.2%
Total Operating Expenses	4,016	3,820	5.1%	4,244	-5.4%
Operating Profit (PPP)	6,140	5,169	18.8%	6,581	-6.7%
Provisions & Write Offs	5,567	556	901.8%	1,360	309.4%
PBT	573	4,614	-87.6%	5,221	-89.0%
Reported Profit	427	2,919	-85.4%	3,885	-89.0%
AUM	6,05,490	5,42,790	11.6%	6,07,780	-0.4%
Credit costs - On Loans	3.68%	0.41%	3.3%	0.89%	2.78%
Stage 3 Assets to Total Gross Assets	3.80%	2.70%	1.10%	3.50%	0.30%
Assets Under Management	6,05,490	5,42,790	11.6%	6,07,780	-0.4%
NIM - calc	6.70%	6.73%	0.0%	7.21%	-0.52%
AUM Mix (%)					
Vehicle Finance	73.0%	74.8%	-1.8%	73.4%	-0.36%
Home Equity	21.4%	21.4%	0.0%	21.4%	0.01%
Others	5.6%	3.8%	1.8%	5.2%	0.34%

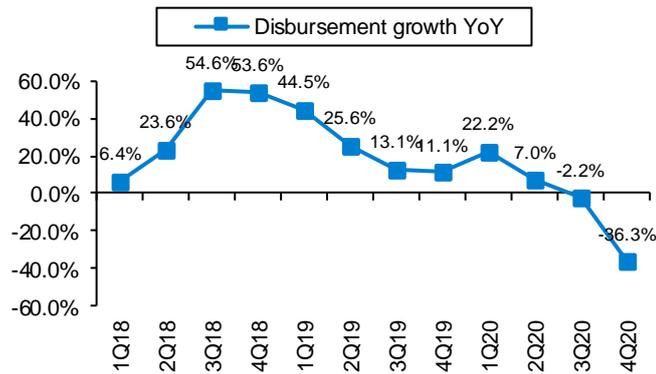
Source: Company, PL

Conference Call Highlights:

- **Industry:** Quick revival in rural market will increase tractor demand. LCV: Pick up segment to perform well. Used vehicle segment to perform well due to increase in asset prices from shift of BS4 to BS6 and extra vehicles with large operators will be in market for sale due to subdued macro environment. Passenger vehicles, HCV and CE to remain subdued in Q1 & Q2 FY21. Entry level 2W and Car to perform well.
- **Liquidity:** Cash worth Rs. 64bn and sanctioned lines worth Rs. 45 bn at the end of FY20. As of May'20 Rs. 100 bn worth of liquidity including sanctioned lines. Enough liquidity to pay all dues till September'20. Rs. 9 bn capital was raised in Q4FY20 by issuing shares at price of Rs. 320; oversubscribed by 4 times. No intention of raising capital in near term.
- **Collection:** Met VF customers twice post lockdown for collections. 7000 collection aggregators and sales and credit department is also directed towards collection. Collected Rs. 6 bn as against Rs. 27bn in April.
- **Morat from lenders:** Not availed any moratorium from banks and no intention of taking it as will not help in huge improvement of ALM. Instead will borrow for long term and pay dues.
- **Morat to borrowers:** In March 46% of customers availed moratorium and 76% in April and May. Same level is expected in Moratorium 2.
- **Maruti Suzuki Scheme:** 2 month holiday on EMI payment, higher than usual 40 days. Underwriting norms remains stringent and is for entry level cars in rural areas.
- **NRRB:** Normalized or roll back customers. If customers pays 1 EMI its considered as a roll back, 2 EMIs paid is considered a normalized customer. Bucket 1-2 performance is improving for morat non delinquent customer with 11% NRRB in Feb'20 inching up to 26% in May'20. Roll forwards also declining from 6% in Feb'20 to 1.6% in May'20.
- **Home Loans:** 73% of customers opted for morat. ~93% of customers are self employed. Focused on middle income segment in Tier 2,3 and 4 cities. Reached to 200 branches to scale up this business.
- **Operations:** 90% of branches have commenced their operations. Improvement in cost to assets as employee country was reduced in mid year and further steps are being taken for cost control. Benefits of which will be visible in FY21.

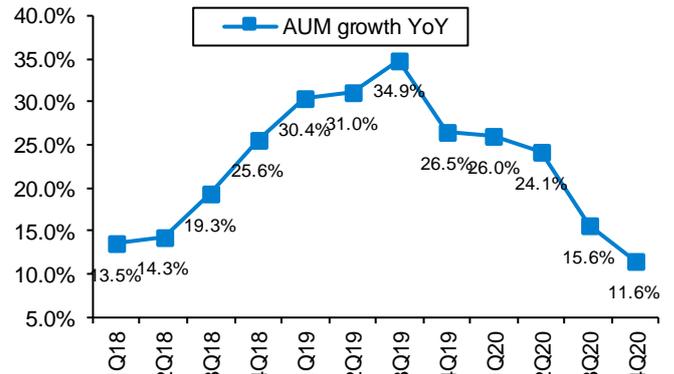


Exhibit 2: Disbursements decline sharply



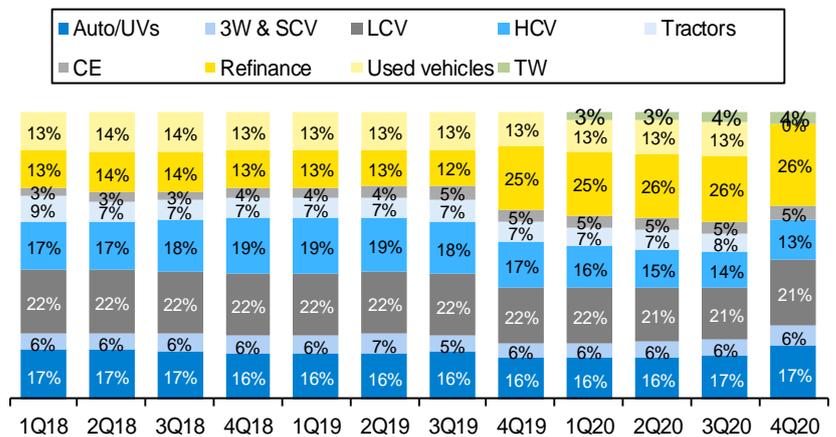
Source: Company, PL

Exhibit 3: Dismal AUM growth rate



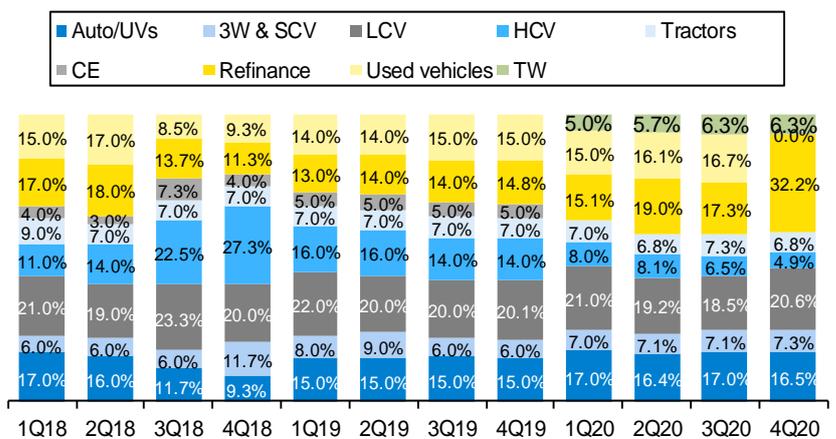
Source: Company, PL

Exhibit 4: Higher yielding businesses continued to support disbursements



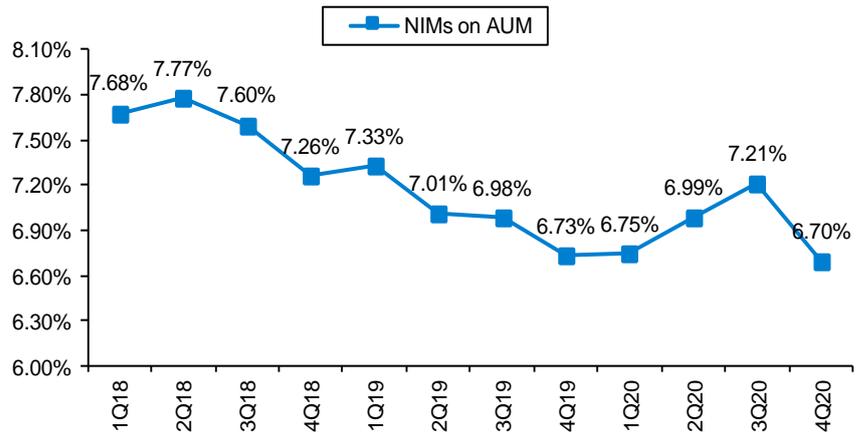
Source: Company, PL

Exhibit 5: 44% of the book stand higher yielding



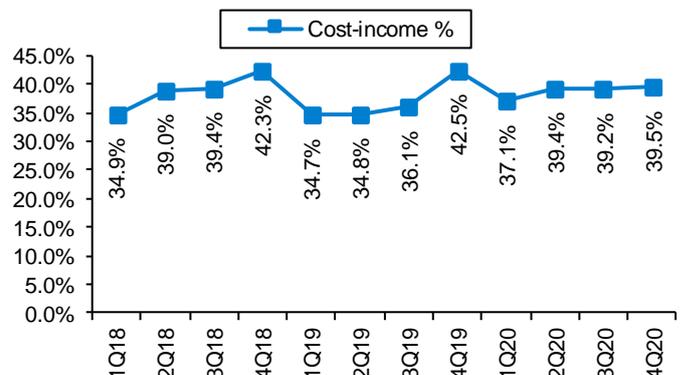
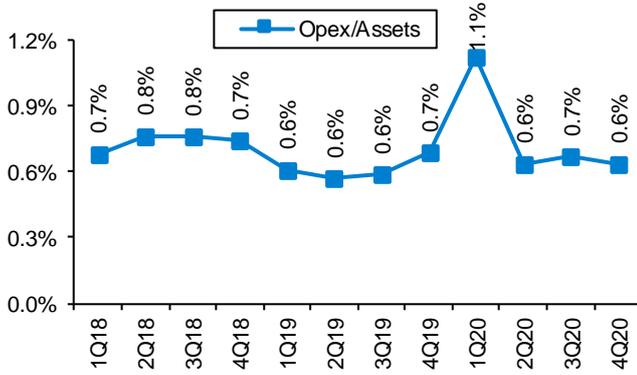
Source: Company, PL

Exhibit 6: NIM compression stood stark



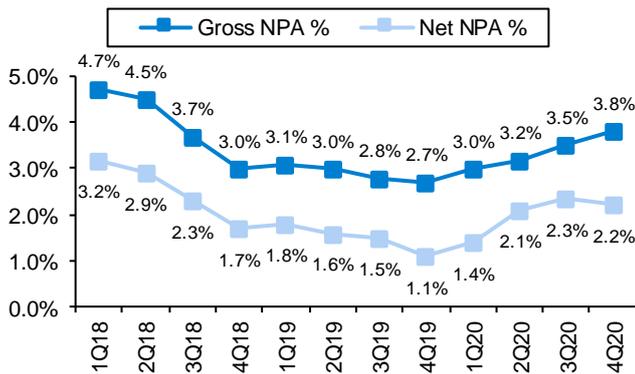
Source: Company, PL

Exhibit 7: Cost efficiencies in place



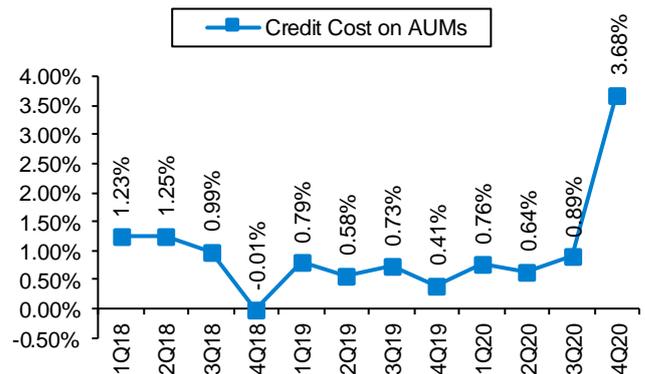
Source: Company, PL

Exhibit 8: NPA spike led by COVID challenges



Source: Company, PL

Exhibit 9: Elevated credit costs due to COVID challenges



Source: Company, PL

Exhibit 10: Decline in Stage 3 provisions with control over LGDs

Particular (Rs mn)	Stagewise assets and provisions					% to GA				
	FY18 Normal	FY19 Normal	FY20 Normal	Addn	FY20 Total	FY18 Normal	FY19 Normal	FY20 Normal	Addn	FY20 Total
Gross	430790	535540	569260		569260	100.00%	100.00%	100.00%		100.00%
Stage 1	396390	500380	527420		527420	92.01%	93.43%	92.65%		92.65%
Stage 2	19640	20770	20210		20210	4.56%	3.88%	3.55%		3.55%
Stage 3	14760	14390	21630		21630	3.43%	2.69%	3.80%		3.80%
Provision	8620	9300	9880	5340	15230	2.00%	1.74%	1.74%	0.94%	2.68%
Stage 1	1700	1870	1500	2410	3910	0.43%	0.37%	0.28%	0.46%	0.74%
Stage 2	1850	1970	1650	680	2330	9.42%	9.50%	8.19%	3.36%	11.55%
Stage 3	5070	5460	6730	2250	8980	34.34%	37.98%	31.12%	10.40%	41.52%
Net	422160	526220	559370		554030	98.00%	98.26%	98.26%		97.32%
Stage 1	394680	498510	525920		523510	91.62%	93.09%	92.39%		91.96%
Stage 2	17790	18790	18550		17870	4.13%	3.51%	3.26%		3.14%
Stage 3	9690	8920	14900		12650	2.25%	1.67%	2.62%		2.22%

Source: Company, PL

Exhibit 11: Higher provisions in early buckets

DPD Freeze	Moratorium Status	Asset (Rs mn)	Normal Provisions (Rs mn)	Additional		Total additional Provisions (Rs mn)	Total Provisions (Rs mn)	Total PCR (%)
				For COVID (Rs mn)	Macro (Rs mn)			
Stage 1	Non Moratorium	112850	290	0	0	0	290	0.25%
Stage 1 (0 overdues)	Moratorium	377760	1080	0	0	0	1080	0.29%
Stage 1 (No past history of flows)	Moratorium	24,460	90	1150	0	1150	1240	5.07%
Stage 1 (Past history of flow to Stage 2)	Moratorium	12,060	50	1130	40	1170	1220	10.04%
Stage 1 (Past history of flow to Stage 3)	Moratorium	290	0	90	10	100	100	34.47%
Total Stage 1		527420	1500	2360	50	2410	3910	0.74%
Stage 2	Non Moratorium	1400	120	0	0	0	120	8.72%
Stage 2 (No past history of flows)	Moratorium	17,350	1420	220	110	330	1750	10.08%
Stage 2 (Past history of flow to Stage 3)	Moratorium	1460	120	260	80	340	460	31.81%
Total Stage 2		20,210	1650	480	200	680	2330	11.55%
Stage 3	Non Moratorium	16,210	3760	0	1900	1900	5660	34.88%
Stage 3	Moratorium	2680	590	0	350	350	940	35.14%
Stage 3 - Legal	Non Moratorium	2740	2390	0	0	0	2390	87.05%
Total Stage 3		21,630	6730	0	2250	2250	8980	41.52%
Total		5,69,260	9880	2840	2500	5340	15220	2.68%

Source: Company, PL

Exhibit 12: Change in Estimates

Rs mn	Old			Revised			% Change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Net Interest Income	40,855	36,254	52,307	40,604	34,735	44,354	-0.6%	-4.2%	-15.2%
Operating Profit	24,598	16,676	30,056	24,831	17,643	25,683	0.9%	5.8%	-14.6%
Net Profit	13,433	7,772	16,024	10,523	3,052	15,027	-21.7%	-60.7%	-6.2%
EPS (Rs)	16.8	9.5	19.5	13.1	3.7	17.8	-21.7%	-61.3%	-9.0%
ABVPS (Rs)	96.0	101.2	115.6	87.8	88.6	104.9	-8.6%	-12.4%	-9.2%
Price Target (Rs)		229			189			-17.3%	
Reco		BUY			Accumulate				

Source: PL

Exhibit 13: Downgrade to ACCUMULATE, fair value multiple now 1.8x

PT calculation and upside	
Fair price – EVA	220
Fair price - P/ABV	159
Average of the two	189
Target P/ABV	1.8
Target P/E	22.5
Current price, Rs	143
Upside (%)	18%
Dividend yield (%)	5.6%
Total return (%)	24%

Source: Company, PL

Exhibit 14: Multiple de-rating on expected lines



Source: Company, PL



Income Statement (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Int. Inc. / Opt. Inc.	70,800	86,526	83,774	95,872
Interest Expenses	35,887	45,922	49,039	51,518
Net interest income	34,032	40,604	34,735	44,354
Growth(%)	20.7	19.3	(14.5)	27.7
Non-interest income	7	3	5	8
Growth(%)	55.8	(61.2)	75.0	80.0
Net operating income	34,039	40,607	34,739	44,362
Expenditures				
Employees	5,906	6,550	6,943	7,498
Other Expenses	6,235	8,151	8,884	9,861
Depreciation	555	1,075	1,269	1,320
Operating Expenses	12,141	14,701	15,827	17,360
PPP	21,344	24,831	17,643	25,683
Growth(%)	25.2	16.3	(28.9)	45.6
Provisions	3,112	8,973	13,569	5,601
Profit Before Tax	18,232	15,857	4,075	20,081
Tax	6,530	5,334	1,023	5,054
Effective Tax rate(%)	35.8	33.6	25.1	25.2
PAT	11,701	10,523	3,052	15,027
Growth(%)	27.4	(10.1)	(71.0)	392.4

Balance Sheet (Rs. m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Source of funds				
Equity	1,564	1,640	1,690	1,690
Reserves and Surplus	60,193	80,079	88,127	1,01,532
Networth	61,757	81,718	89,817	1,03,222
Growth (%)	21.1	32.3	9.9	14.9
Loan funds	5,05,667	5,50,054	5,96,809	6,47,538
Growth (%)	31.9	8.8	8.5	8.5
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	-	-	-	-
Other Liabilities	6,838	8,158	10,514	20,809
Total Liabilities	5,74,263	6,39,930	6,97,140	7,71,568
Application of funds				
Net fixed assets	1,759	2,839	3,039	3,799
Advances	5,26,223	5,54,027	5,76,188	6,45,331
Growth (%)	24.5	5.3	4.0	12.0
Investments	729	729	744	855
Current Assets	38,427	74,311	76,540	80,107
Net current assets	38,427	74,311	76,540	80,107
Other Assets	7,126	8,024	1,126	1,185
Total Assets	5,74,263	6,39,930	6,97,140	7,71,569
Growth (%)	30.2	11.4	8.9	10.7
Business Mix				
AUM	5,42,790	6,05,490	6,93,286	8,04,212
Growth (%)	26.5	11.6	14.5	16.0
On Balance Sheet	5,26,080	5,60,690	5,82,445	6,76,101
% of AUM	96.92	92.60	84.01	84.07
Off Balance Sheet	16,710	44,810	1,10,841	1,28,111
% of AUM	3.08	7.40	15.99	15.93

Profitability & Capital (%)

Y/e Mar	FY19	FY20	FY21E	FY22E
NIM	6.7	6.7	5.2	6.0
ROAA	2.3	1.7	0.5	2.0
ROAE	20.8	14.6	3.5	15.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Int. Inc. / Operating Inc.	20,295	21,970	22,749	21,513
Income from securitization	-	-	-	-
Interest Expenses	10,870	11,769	11,924	11,359
Net Interest Income	9,425	10,200	10,825	10,154
Growth (%)	16.3	24.6	23.7	13.0
Non-Interest Income	1	1	-	1
Net Operating Income	9,425	10,201	10,825	10,156
Growth (%)	16.2	24.6	23.7	13.0
Operating expenditure	3,500	4,016	4,244	4,016
PPP	5,925	6,185	6,581	6,140
Growth (%)	84.0	105.6	108.2	77.7
Provision	1,095	952	1,360	5,567
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	4,830	5,233	5,221	573
Tax	1,688	2,163	1,336	147
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	34.9	41.3	25.6	25.6
PAT	3,142	3,070	3,885	427
Growth	10	1	28	(85)
AUM	5,74,940	5,92,920	6,07,780	6,05,490
YoY growth (%)	26.0	24.1	15.6	11.6
Borrowing	5,51,220	5,59,030	5,49,410	5,50,054
YoY growth (%)	29.5	18.0	16.3	8.8

Key Ratios

Y/e Mar	FY19	FY20	FY21E	FY22E
CMP (Rs)	143	143	143	143
EPS (Rs)	15.0	12.8	3.6	17.8
Book value (Rs)	79.0	99.7	106.3	122.2
Adj. BV(Rs)	71.0	87.8	88.6	104.9
P/E(x)	9.5	11.1	39.5	8.0
P/BV(x)	1.8	1.4	1.3	1.2
P/ABV(x)	2.0	1.6	1.6	1.4
DPS (Rs)	7.0	7.5	8.0	8.0
Dividend Payout Ratio(%)	11.2	14.0	53.2	10.8
Dividend Yield(%)	4.9	5.3	5.6	5.6

Asset Quality

Y/e Mar	FY19	FY20	FY21E	FY22E
Gross NPAs(Rs m)	12,450	21,630	35,534	29,105
Net NPA(Rs m)	6,260	9,734	14,924	14,552
Gross NPAs to Gross Adv.(%)	2.7	3.8	5.1	3.6
Net NPAs to net Adv.(%)	1.2	2.2	2.6	2.2
NPA coverage(%)	49.7	55.0	58.0	50.0

Du-Pont as a % of AUM

Y/e Mar	FY19	FY20	FY21E	FY22E
NII	6.3	6.7	5.0	5.5
NII INCl. Securitization	6.4	6.7	5.0	5.5
Total income	6.4	6.7	5.0	5.5
Operating Expenses	2.3	2.6	2.5	2.3
PPOP	4.1	4.1	2.5	3.2
Total Provisions	0.6	1.5	2.0	0.7
RoAA	2.3	1.7	0.4	1.9
Avg. Assets/Avg. net worth	10.4	11.8	12.4	12.0
RoAE	20.8	14.6	3.5	15.6

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	17-Apr-20	BUY	229	177
2	23-Jan-20	BUY	353	324
3	03-Jan-20	BUY	354	303
4	06-Nov-19	BUY	354	317
5	03-Oct-19	BUY	356	287
6	31-Jul-19	BUY	322	260
7	04-Jul-19	BUY	331	292

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	3,000	1,965
2	Cholamandalam Investment and Finance Company	BUY	229	177
3	HDFC	Accumulate	1,992	1,516
4	L&T Finance Holdings	Sell	50	53
5	LIC Housing Finance	Reduce	282	278
6	Mahindra & Mahindra Financial Services	Reduce	171	168
7	Manappuram Finance	Accumulate	142	123
8	SBI Cards and Payment Services	BUY	643	570
9	Shriram Transport Finance	BUY	940	802

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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