

Current	Previous
CMP : Rs.392	
Rating : BUY	Rating : HOLD
Target : Rs.460	Target : Rs.400

Stellar performance continues as reported numbers beat our expectations with 35% y-o-y growth in retail credit; upgrade to BUY with revised price target of Rs 460/- (2.2x of FY17E)

Reported

Rs mn	Q3FY15	Q2FY15	Q3FY14	Q-o-Q %	Y-o-Y %	INSPL Q3FY15E	Variance (%)
NII	1,723	1,520	1,068	13	61	1,394	24
PPP	736	612	347	20	112	630	17
Net Profit	285	259	94	10	203	264	8
EPS (Rs)	3.31	3.08	1.32	7	151	3.10	7

Source: Company, IndiaNivesh Research; Standalone

Adjusted

Rs mn	Q3FY15	Q2FY15	Q3FY14	Q-o-Q %	Y-o-Y %	INSPL Q3FY15E	Variance (%)
NII	1,723	1,520	1,068	13	61	1,394	24
PPP	736	612	347	20	112	630	17
Net Profit	314	259	75	21	318	264	19
EPS (Rs)	3.65	3.08	1.32	18	176	3.10	18

Source: Company, IndiaNivesh Research; Standalone

Net Interest Income (NII) of CFL increased at a robust pace of 61% y-o-y (+13% q-o-q) to Rs 1.7 bn (our estimate: Rs 1.4 bn) in Q3FY15. Interest income grew 37% y-o-y (+9% q-o-q) to Rs 3.8 bn. However, interest expense increased at a much slower pace of 22% y-o-y (+6% q-o-q) to Rs 2.0 bn. NIM (calc.) also improved to 6.1% as against 5.6% in Q2FY15.

Due to robust business growth, operating expenses also increased at a faster pace of 37% y-o-y (+9% q-o-q) to Rs 987 mn in Q3FY15. Within operating expenses, employee expenses increased 24% y-o-y to Rs 356 mn. Pre Provisioning Profit (PPP) increased 112% y-o-y (+20% q-o-q) to Rs 736 mn (our estimate: 630 mn). The sharp increase in PPP was mainly due to change in accounting policy from FY13. The company started amortizing processing fees over the tenure of the loan as against earlier policy of booking the said fees at upfront. Hence, in the initial quarters after this change of accounting policy, the company reported lower profits compared to quarters prior to this change.

Total Provisions increased 74% y-o-y (+41% q-o-q) to Rs 303 mn in Q3FY15 which also helped the company to maintain its Net NPA at 0.01%. However, the company also made an additional provision of Rs 43.9 mn towards higher provisioning of standard assets as RBI recently asked NBFCs to increase the provisioning for standard assets in a phased manner. (At present, every NBFC is required to make a provision for standard assets at 0.25% of the outstanding. However, the provision for standard assets for NBFCs is being increased to 0.40%. The compliance to the revised norm will be in a phased manner and it should be 0.30% by FY16). As a result, Net profit of CFL increased 203% y-o-y (+10% q-o-q) to Rs 285 mn (our estimate: Rs 264 mn). However, if we adjust it with an addition provisions then the adjusted net profit of CFL increased 234% y-o-y to Rs 314 mn.

Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Kaushal Patel
Research Associate

Tel: +91 22 66188834
kaushal.patel@indianivesh.in

Rs mn	Q3FY15	Q2FY15	Q3FY14	% QoQ	% YoY	9MFY15	9MFY14	% YoY
Interest Income	3,761	3,442	2,746	9	37	10,443	7,707	35
Income from Operations	3,761	3,427	2,746	10	37	10,323	7,707	34
Other Operating Income	1	15	0	-93	na	120	0	na
Interest Expense	2,039	1,922	1,678	6	22	5,853	4,772	23
Net Interest Income	1,723	1,520	1,068	13	61	4,590	2,935	56
Other Income	0	0	1	na	-100	24	10	140
Total Net Income	1,723	1,520	1,069	13	61	4,614	2,945	57
Operating Expenses	987	907	722	9	37	2,726	2,180	25
Employee Benefits	356	328	288	9	24	1,013	957	6
Depreciation and Amortization	25	24	14	5	71	72	43	67
Amortised Loan Origination Cost	187	141	110	33	70	440	331	33
Legal and Professional Charges	154	165	91	-7	68	453	250	81
Other	265	250	218	6	21	748	598	25
Total Income	3,761	3,442	2,747	9	37	10,467	7,717	36
Total Expenses	3,025	2,830	2,400	7	26	8,579	6,952	23
Pre Provisioning Profit	736	612	347	20	112	1,888	765	147
Provisions	303	215	175	41	74	729	391	87
PBT and Exceptional Items	433	398	172	9	151	1,159	374	209
Exceptional Items	0	0	-20	na	na	0	-335	na
Profit Before Tax (PBT)	433	398	152	9	184	1,159	40	2819
Tax	148	139	58	7	153	395	110	258
Net Profit	285	259	94	10	na	764	-71	na
EPS- Diluted (Rs)	3.3	3.1	1.3	7	na	8.9	-1.0	na

Source: Company, IndiaNivesh Research; Standalone

AUM

Rs mn	Q3FY15	Q2FY15	Q3FY14	% QoQ	% YoY
Wholesale Credit Assets	18,712	17,675	18,142	6	3
Retail Credit Assets	98,238	92,795	72,568	6	35
Total	1,16,950	1,10,470	90,710	6	29

Source: Company, IndiaNivesh Research; Standalone

Key Ratios	Q3FY15	Q2FY15	Q3FY14	Q-o-Q	Y-o-Y
Gross NPA	0.6	0.6	0.5	7	14
Net NPA	0.0	0.0	0.2	0	-18
CAR	20.2	21.0	21.4	-80	-115

Source: Company, IndiaNivesh Research; Standalone

The Asset under Management (AUM) of the company increased 29% y-o-y (+6% q-o-q) to Rs 117 bn mainly led by 35% y-o-y increase in Retail credit assets. The company continue to focus on retail segment (which includes Consumer Durable Loans, Two wheeler Loans, Loan against Property, Mortgage, Gold Loans and Small Business Loans) and AUM of CFL has gradually moved towards retail from 10% in FY10 to 84% in Q3FY15.

CFL successfully continue to maintain its asset quality at one of the lowest levels in the industry. Gross NPA of the company increased by 7 bps q-o-q to 0.63% and Net NPA was stable sequentially at 0.01% in Q3FY15. We don't expect any significant deterioration in asset quality and expect it to remain broadly stable in Q4FY15E.

Valuation:

CFL's Q3FY15 result was way above our expectations. CFL's management has delivered their promises which have yielded in positive results. We believe the current growth momentum to continue over FY14-17E on the back of strong execution capabilities. CFL has emerged as one of the fastest growing NBFCs backed by increasing focus on retail segment. At CMP of Rs 392/-, CFL is trading at P/ABV of 2.1x and 1.9x for FY16E and FY17E respectively. We upgraded our rating to 'BUY' from 'HOLD' on the stock with revised price target of Rs 460/- (2.2x P/ABV for FY17E) as we roll over valuations to FY17.

Consolidated Financials:

Rs mn	Q3FY15	Q2FY15	Q3FY14	% QoQ	% YoY	9MFY15	9MFY14	% YoY
Interest Income	3,798	3,476	2,763	9	37	10,544	7,797	35
Income from Operations	3,789	3,454	2,763	10	37	10,403	7,797	33
Other Operating Income	9	22	0	-59	na	141	0	#DIV/0!
Interest Expense	2,046	1,928	1,668	6	23	5,870	4,736	24
Net Interest Income	1,752	1,548	1,095	13	60	4,675	3,061	53
Other Income	3	1	1	461	145	70	19	267
Total Net Income	1,755	1,548	1,096	13	60	4,745	3,080	54
Operating Expenses	996	913	745	9	34	2,813	2,275	24
Employee Benefits	360	330	297	9	21	1,022	1,005	2
Depreciation and Amortization	25	24	16	5	55	72	49	47
Amortised Loan Origination Cost	188	141	110	33	71	442	331	33
Legal and Professional Charges	155	165	92	-6	69	457	254	80
Other	268	252	230	6	17	821	636	29
Total Income	3,801	3,476	2,764	9	38	10,614	7,816	36
Total Expenses	3,042	2,841	2,413	7	26	8,683	7,011	24
Pre Provisioning Profit	759	635	351	20	116	1,932	805	140
Provisions	306	218	182	40	68	736	447	65
PBT and Exceptional Items	454	417	169	9	168	1,195	358	234
Exceptional Items	0	0	0	na	na	0	0	na
Profit Before Tax	454	417	169	9	168	1,195	358	234
Tax	154	146	68	5	126	417	130	221
Net Profit	299	270	101	11	196	778	228	241
EPS- Diluted (Rs)	3.5	3.2	1.4	8	145	9.1	3.2	184

Source: Company, IndiaNivesh Research; Consolidated

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IndiaNivesh Securities Private Limited

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in

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