

Cholamandalam Finance**INR843****KRChoksey** INSTITUTIONAL**Robust quarter****BUY**

Compelling recovery in the CV finance business coupled with sustained home equity finance demand led to put up a healthy Q4 quarter of FY16 for Cholamandalam Finance (CIFIC). PAT at INR 1.9 bn exceeded our estimates reporting 42% Y-o-Y growth on the back of robust NII that was up 33% and improved asset quality. CIFIC happens to be the largest beneficiary of the CV cycle recovery. Maintain BUY.

Business momentum strong; top-line robust : The upturn in CV cycle supported by replacement demand, improved utilization levels of vehicles and strengthening of dealership networks led to robust 47% Y-o-Y disbursements growth and 14% Y-o-Y AUM growth in vehicle finance segment during the quarter gone by. While the MHCV segment is already back on the positive growth territory since a year, the laggards such as LCVs and SCVs lately have also seen the light of the day. Home equity finance portfolio, on the other hand, witnessed 16% Y-o-Y growth in disbursements and 24% Y-o-Y AUM growth on the back of steady-state demand for the quarter. While the pace of disbursements picked-up in the sticky home loan portfolio (96% Y-o-Y growth), the company maintains a conservative stance on the highly competitive LAP segment. That said, the entire home equity portfolio should continue to maintain healthy growth trajectory ahead given the sustained demand for LAP products from the MSME and the self-employed segment and the improving home loan market.

Thus, the strong business momentum, right blend of AUM mix aided NII upsurge of 33% Y-o-Y during 4QFY16. Going forward, we envisage a 19% advances CAGR translating into robust 33% NII CAGR over FY16-18E.

Margins expand; operating efficiencies maintained: The higher yielding and fixed rated vehicle finance book that augurs well in a falling interest rate scenario and steady home equity mix of floating loans coupled with increased skewness towards low cost market borrowings have helped the company to maintain margins. Moreover, robust fee and other income primarily emerging from higher disbursements, shortfall collection income, finance charges and interest income reversals (INR 42.6 mn) have aided the margins expansion. While the overall net income margins have improved to 8.7% as at the end of March 2016 as against 7.9% a year ago, the yields too have observed marginal uptick to 17.1% levels. Vehicle Finance segment continues to witness higher net income margins and these stood at 8.5% during FY16 as against 7.5% a year ago. Home equity segment, on the other hand, witnessed margins pressure with net income margins falling to 5.1% (FY16) from 5.4% a year ago.

Expense ratio on the other hand stood stable at 3.4% for the quarter and 4% for FY16 as CIFIC increases focus on branch utilization levels, productivity and adopts leaner structure. Therefore, the company should continue to derive benefits from operating leverage with expense ratio looking down ahead. Consequently, declining expense ratio, controlled credit costs and improved cross sell should imply margins sustenance ahead. We reckon CIFIC should continue to clock better yields at 17.5%+ by FY18E and improved cost scenario.

Asset quality improves: In what came as a positive surprise, the Gross NPA for CIFIC came down sequentially at 3.5% levels as against 4.3% in Q3FY16. The net NPAs stood at 1.4% during Q4FY16 as against 1.5% a quarter ago. On 120 dpd recognition norm, CIFIC stands best placed in terms of asset quality vis-à-vis its peers.

The vehicle finance segment reported gross NPAs at 3.65% (as against 4.6% earlier) and net NPAs at 2.05% whereas the home equity segment reported gross NPAs at 3.36% and net NPAs at 2.3%. Barring few, the CIFIC has witnessed reduction in delinquencies across regions especially in the vehicle finance segment. With viability issues for truck operators subsiding, utilization levels improving coupled with increased collection efforts of CIFIC should imply controlled delinquencies ahead. On the home equity front, conservative LTVs at 50% (home equity lending) and legal action against errant borrowers especially post SARFAESI implementation should restrict severe deterioration in asset quality ahead. Moreover, we derive confidence from CIFIC's peculiar lending process structure with separate verticals for sales, credit and experienced in-house sales and collection team and consistent process improvisation.

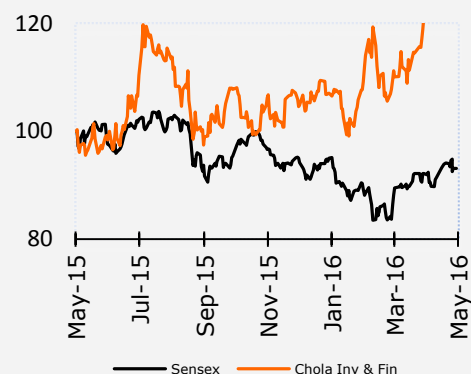
Besides, on the grounds of prudence, CIFIC created additional provision to the tune of INR 540 mn on standard assets for complying the requirement of movement to 3rd month overdue. The company also adopted Accelerated provisioning of 4th month overdue and accelerated standard asset provisioning @ 0.35%.

Target Price (INR): 975 ↑**Potential : 16.0%****Previous TP (INR): 870****Market Data**

Shares outs (Mn)	156.1
EquityCap (INR Mn)	1561.5
Mkt Cap (INR Mn)	132942
52 Wk H/L (INR)	860/552
Volume Avg (3m K)	98.94
Face Value (INR)	10
Bloomberg Code	CIFIC IN

Market Info:

SENSEX	25229
NIFTY	7747

Price Performance**Share Holding pattern (%)**

Particulars	Mar16	Dec15	Sep15
Promoters	53.16	53.15	57.71
FIIs	16.30	15.69	16.97
DIIs	23.47	24.72	18.39
Others	7.08	6.45	6.94
Total	100	100	100

Source: BSE**Shweta Daptardar**shweta.daptardar@krchoksey.com

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Going forward, while the NPAs for CIFIC stand well manageable even as the company migrates to 90 dpd, we continue to maintain conservative stance incorporating higher NPAs in the range of 4.5%-5.0% by FY18E into our estimates.

Valuation & Recommendation

With macro recovery now round the corner and increasing demand for home equity space coupled with right mix of cyclical vehicle finance portfolio and steady home equity business mix should ensure staunch business growth and profitability ahead. Moreover, we also derive comfort from the robust capital base at healthy 19.7% (Tier I at 13.3%) and the early shift to 120 dpd NPA recognition norms.

With robust 20%+ earnings CAGR over FY16-18E and RoE poised to expand to 18% levels on the back of cyclical recovery and steady home finance book, we reckon, CIFIC as one of the strong plays in the retail finance space justifying higher valuations. Against this backdrop, we maintain BUY recommendation on the stock. While the recent run-up helped achieve our target price of INR 870, we now tweak multiple and value the company at 3.5x P/ABV FY18E with a revised target price of INR 975 factoring higher business and earnings CAGR. At CMP, the stock is trading at 3.0x P/ABV FY18E.

Key Financials

INR mn	FY14	FY15	FY16E	FY17E	FY18E
Net Interest Income	14,587	17,036	21,267	25,619	31,767
Pre-provision profits	8,335	9,819	12,980	15,214	19,626
Net Profit	3640	4352	5685	7019	8442
EPS (INR)	25.4	30.1	34.9	45.0	54.1
EPS growth	18.7	18.4	16.0	28.9	20.3
BVPS (INR)	152.1	160.8	205.9	243.1	278.2
Price to earnings (x)	33.2	28.0	24.1	18.7	15.6
Price to book (x)	5.5	5.2	4.1	3.5	3.0

Source: Company, KRChoksey Research

Q4FY16 Earnings

INR in mn	Q4FY16	Q3FY16	Q4FY15	Q-o-Q	Y-o-Y
Income Statement					
Interest income	11,324	10,491	9,359	7.9%	21.0%
Interest expense	5,330	5,109	4,861	4.3%	9.7%
Net interest income	5,994	5,382	4,498	11.4%	33.3%
Non interest income	41	48	21	-15.3%	90.1%
Total Net Income	6,034	5,430	4,519	11.1%	33.5%
-- Employee costs	682	595	581	14.5%	17.2%
-- Other operating expenses	1,405	1,556	1,323	-9.7%	6.2%
Operating expenses	2,086	2,151	1,904	-3.0%	9.6%
Pre-provision profits	3,948	3,279	2,615	20.4%	51.0%
Provisions	986	1070	581	-7.8%	69.7%
Profit before tax	2,962	2,209	2,034	34.0%	45.6%
Tax expense	1,041	752	677	38.4%	53.7%
Net profit	1,920	1,457	1,356	31.8%	41.6%
Balance Sheet summary					
Networth	35,012	35,493	25,289	-1.4%	38.4%
Borrowings	109,347	127,205	124,475	-14.0%	-12.2%
Advances	259,101	252,825	221,835	2.5%	16.8%

Source: KRChoksey Research

Financials

INR in mn	FY14	FY15	FY16	FY17E	FY18E
Income Statement					
Net interest income	14,587	17,036	21,267	25,619	31,767
Non-interest income	331	272	163	399	445
Operating income	14,918	17,308	21,429	26,018	32,212
Operating expenses	6,582	7,489	8,449	10,804	12,585
Pre-provisioning profits	8,335	9,819	12,980	15,214	19,626
Provisions for contingencies	2,833	3,247	4,272	4,721	6,894
PBT	5,502	6,572	8,708	10,493	12,732
Tax	1,862	2,221	3,023	3,474	4,291
PAT	3,640	4,352	5,685	7,019	8,442
Balance sheet					
Equity capital	1433	1444	1562	1560	1560
Reserve & Surplus	21,514	25,289	35,012	41,079	48,699
Net worth	22,947	26,733	36,574	42,639	50,260
Preference Capital	0	5,000	0	0	0
Borrowings	180,932	194,752	149,092	253,519	295,029
Current liabilities and provisions	11,589	12,247	93,218	30,867	54,416
Total	215,468	238,732	278,883	327,025	399,704
Loan book	194,281	221,835	259,101	300,020	366,894
Investments	824	675	666	990	1096
Fixed assets	729	683	1113	1196	1360
Deferred tax assets	8008	3407	4905	5000	7000
Current assets, loans and advances	11,625	12,132	13,098	19,819	23,354
Total	215,468	238,732	278,883	327,025	399,704

Source: KRChoksey Research

Growth (Y-o-Y)					
Borrowed funds	18.3%	7.6%	-23.4%	70.0%	16.4%
Advances	16.9%	14.2%	16.8%	15.8%	22.3%
Total assets	18.5%	10.8%	16.8%	17.3%	22.2%
NII	31.7%	16.8%	24.8%	20.5%	24.0%
Non-interest income	-11.6%	-17.9%	-40.1%	144.9%	11.6%
Operating expenses	15.6%	13.8%	12.8%	27.9%	16.5%
Operating profits	44.9%	17.8%	32.2%	17.2%	29.0%
Provisions including write-offs	127.9%	14.6%	31.6%	10.5%	46.0%
Reported PAT	18.8%	19.5%	30.6%	23.5%	20.3%

	FY14	FY15	FY16	FY17E	FY18E
Spreads / margins					
Lending spread	4.7%	4.7%	4.9%	4.9%	4.7%
NIM	6.9%	7.0%	7.7%	7.8%	7.9%

Profitability					
ROA	1.8%	1.9%	2.2%	2.3%	2.3%
ROE	17.1%	17.5%	18.0%	17.7%	18.2%
Cost/income	44.1%	43.3%	39.4%	41.5%	39.1%

Asset quality

Gross NPAs	2.2%	3.6%	3.5%	4.3%	5.0%
Net NPAs	0.9%	2.4%	2.1%	2.3%	2.8%

Capital adequacy

Tier I (%)	10.5%	13.0%	13.3%	11.7%	11.5%
CAR (%)	17.2%	21.2%	19.7%	18.5%	17.9%

Du Pont analysis

NII / assets	7.3%	7.5%	8.2%	8.5%	8.7%
Other income / assets	0.2%	0.1%	0.1%	0.1%	0.1%
Total income / assets	7.5%	7.6%	8.3%	8.6%	8.9%
Cost to assets	3.3%	3.3%	3.3%	3.6%	3.5%
Provisions / assets	1.4%	1.4%	1.7%	1.6%	1.9%
ROA	1.8%	1.9%	2.2%	2.3%	2.3%

Per share Data

Earnings per share (Rs)	25.4	30.1	34.9	45.0	54.1
Dividend per share (Rs)	3.5	3.5	4.0	4.5	4.5
Book value per share (Rs)	152.1	160.8	205.9	243.1	278.2
Price to earnings (x)	33.2	28.0	24.1	18.7	15.6
Price to book (x)	5.5	5.2	4.1	3.5	3.0
Dividend yield (%)	0.4	0.4	0.5	0.5	0.5

Source: KRChoksey Research

LIC HOUSING FINANCE

Date	Rating	CMP (INR)	Target (INR)
20-Apr-16	BUY	843	975
05-Apr-16	BUY	740	870

Rating Legend

Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 - 5%
Reduce	-5% - 0
Sell	Less than -5%

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