MOTILAL OSWAL | MOSt mid-cap Research

3 May 2016

4QFY16 Result Update | Sector: NBFC

Cholamandalam Invst. & Fin.

BSE SENSEX	S&P CNX
25230	7747

Equity Shares (cr)	15.6
52-Week Range (Rs)	860/552
1,6,12 Abs.Perf.(%)	16/35/44
M.Cap. (Rs cr)	12,170
M.Cap. (US$ b)	182

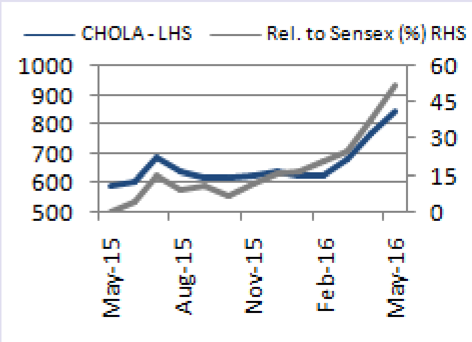
CMP: INR846 TP: INR1000 (+18%) BUY

YEAR END	NET INC (INRCr)	PAT (INRCr)	EPS (INRCr)	EPS Gr.(%)	PE (X)	ABV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
FY16	2142	567	36	31	23.3	221	3.6	3.9	2.3	16.7
FY17E	2630	768	49	36	17.2	268	3.0	3.2	2.6	19.0
FY18E	3136	986	63	28	13.4	331	2.5	2.6	2.7	20.1

Result Highlights: Above est; Acceleration in AUM growth & low OPEX leads to strong beat in profits (+42% YoY); Strong disbursement growth of 41%

- Chola's Net Income grew by 33% to INR 602cr backed by AUM growth of 17% to INR 29,815cr and 150bp expansion in NIM to 9.4%. PAT has grown by 41% YoY to INR 148cr aided by lower OPEX growth at 11%.
- A recovery in the CV industry (50% of Chola's AUM) has translated into resumption of growth for Chola. Disbursements growth bounced back to a strong 41% which is a 14 quarter high led by 47% growth in Vehicle Finance and 16% growth in Home Equity (LAP). Consequently AUM growth was at a 6 quarter high of 17%. The LCV/SCV loan book (35% of Chola's AUM) witnessed 8% growth in AUM after declining for 5 quarters. We expect the turnaround in AUM growth for LCV/SCV to sustain going forward as the industry comes out of a three year downturn combined with transport operators witnessing highest capacity utilisation since FY12. GNPAs declined QoQ to 3.5% against 4.3% on 4 month basis.

INRCr	4QFY15	3QFY16	4QFY16	YoY	QoQ	FY15	FY16	YoY
Net Income	452	543	602	33	11	1,729	2,142	24
Operating Expenses	190	215	208	9	(3)	749	845	13
Operating Profit	261	328	395	51	20	980	1,296	32
Provisions	58	107	99	70	(8)	325	427	32
Profit Before Tax	203	221	296	46	34	655	869	33
Tax Provisions	68	75	104	54	38	222	302	36
Net Profit	136	146	192	42	32	433	567	31
Loan Growth (%)	9	14	17			9	24	
Disbursements (%)	-4	38	41			-2	21	
NIMs (%)	7.9	8.5	9.4			7.9	8.7	
C/I Ratio (%)	42	40	34			43	39	
Gross NPAs (%) - 4m	NA	4.3	3.5			2.4	3.5	
ROA (%)	2.0	2.1	2.8			2.0	2.3	
ROE (%)	17.6	16.7	21.5			15.8	16.7	



Valuation and view

- Chola's branch network (534) has gone up over 3x since FY10 and is up 53% since FY12 whereas, peers have increased their branches by 18% over the same period. This is reflected in Chola's higher cost/income ratio at 39% vs peer group average of 32%. However, with the recovery in the CV cycle (especially LCVs), Chola shall enjoy higher operating leverage which would enable it to grow its profits at a higher rate of 32% CAGR over FY16-18E as against its peer group.
- The management expects home loans business to grow aggressively in coming years and reach the size of its Home Equity business (LAP) over a five year period, thereby lowering Chola's dependence on vehicle finance business.
- Diversification of loan book towards home loans, normalization of credit costs and reduction of GNPAs / provisioning from the current cyclical peaks should transform the business to 3.0% ROA from current ROA of 2.3% in coming years. Improvement in ROA should translate into a rerating opportunity for the business. We raise our earnings estimates for FY17/18 by 9% and also raise our target P/B multiple to 3.0x (in line with Sundaram Finance; earlier 2.3x) and arrive at a target of INR 1,000 (earlier INR 700).

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