

Chola Invest & Fin: On road to recovery

The home equity segment of this non-banking finance company has turned around its overall performance.

Cholamandalam Investment and Finance (CIF), the financial services arm of the Murugappa Group, is slowly improving its overall performance and the turn around in its home equity—loan against property—segment is the main reason for this. After four quarters of continuous decline, the disbursement under this segment grew 36% quarter-on-quarter in the first quarter of 2017-18.

Still, the disbursement was down 25% year on year (y-o-y). Since the gross NPA from this segment is still at a higher level of 6%—the highest among peers—the company may take some more quarters to come out of the woods.

CIF's vehicle finance segment, on the other hand, continues to do well and has reported a 17% y-o-y growth in disbursements. And, with this, the segment has increased its share in the company's overall disbursement to 83%. The pre-tax return on assets (RoA) of this segment has also improved to 3.5% due to stable asset quality and lower provisioning costs, steady disbursement, continued AUM growth, improving efficiency, etc.

The delayed turnaround in the economy has put NBFCs under pressure. However, CIF is better placed compared to its peers due to its diversified portfolio and reasonably strong control on the asset quality. Though not a big player, the company is also into home loans, SME loans, investment advisory services, stock broking, etc. Overall pick up in the capital market should also help CIF generate fee-based income.

Since CIF's customers mostly come from the unorganised sector, it enjoys a high net interest margin (NIM). With the company slowly replacing bank borrowings with market borrowings, its cost of borrowing is also coming down and this in turn will help improve its NIM further. Analysts are hopeful that CIF will be able to maintain its NIM above the 8% mark in the coming years.

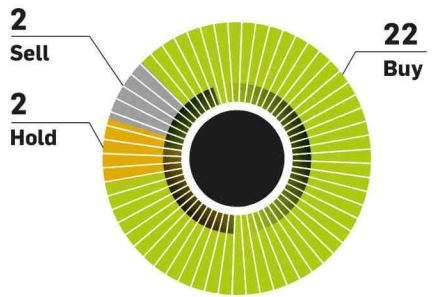
While most NBFCs were out performing markets in the last one year, CIF's home equity segment dragged its performance. However, with its home equity segment on a steady recovery, the company should report better return ratios in the future. CIF is expected to improve its return on assets to more than 2.5% and return on equity to over 20% in the coming years and this can be the trigger for re-rating in the counter.

Selection Methodology: We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst

rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

Analysts' views



Bettering performance of the company's vehicle finance segment, a diversified portfolio and overall pick up in the capital markets has made CIF analysts' top pick.

Fundamentals

	Actual		Consensus estimate	
	2015-16	2016-17	2017-18	2018-19
Revenue (₹ cr)	4,213.86	4,693.58	5,162.80	5,782.40
Operating profit (₹ cr)	879.78	1,107.43	1,279.00	1,539.80
Net profit (₹ cr)	572.78	719.43	845.80	1,015.00
EPS (₹)	37.94	46.05	54.10	64.92

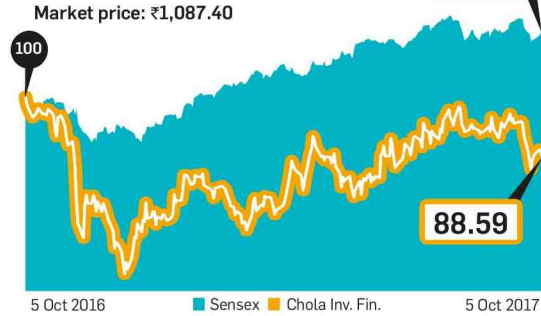
Valuation

	PBV	PE	Dividend yield (%)
Cholamandalam Inv and Fin.	3.93	22.38	0.51
Edelweiss Financial Services	5.29	34.42	0.47
L & T Finance Holdings	4.27	30.81	0.40
Mahindra & Mahindra Fin. Services	3.40	51.20	0.57
Shriram Transport Finance Company	2.11	23.30	0.95

Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
29 Sep '17	Motilal Oswal Securities	Buy	1,400
29 Sep '17	Axis Capital	Buy	1,370
19 Sep '17	Spark Capital Advisors	Buy	1,356
14 Sep '17	Dolat Capital Market	Buy	1,376
24 Aug '17	Phillip Securities	Buy	1,360

Relative performance



Performance of Chola Inv & Fin compared with Sensex. Stock prices and index values normalised to a base of 100. Source: ETIG Database & Bloomberg