



● **CHOLAMANDALAM FIN.**

RATING: **REDUCE**

Yet another strong showing by company

Estimates raised by 1-5%; softer business momentum to open up better entry points into quality stock

HIGH GROWTH, EXPENSE management and lower provisions have driven strong (36%) earnings growth for Chola. With peaking growth and NIM pressure, we expect the overall earnings momentum to moderate from current high levels even as expense-management measures and strong control over asset quality partially offset this. The impact of transition to Ind-AS is limited besides change in representation of accounts. We retain **Reduce** rating with TP of ₹1,500 (unchanged) and believe that a moderating business momentum will open up better entry points into this high-quality franchise.

Business momentum to moderate from current highs: Cholamandalam (Chola) has reported 30% growth in loans driven by 38% growth in vehicle finance and low (8%) but improving growth in home equity. We believe that a high base, slowdown in new CV sales and moderation in used vehicle loans will put pressure on growth in the vehicle finance business over the medium term. Higher contribution from the home equity business, which is limping back to double-digit growth and NPL recoveries therein, will provide a boost; net result, we expect loan growth to moderate to 25% in FY2019e with earnings growth at 21-23% over FY2019-21e.

Tweak estimate: We are raising our estimates by 1-5% to factor recent business trends and changes due to Ind-AS. Post the revision, we expect the company to deliver 24% EPS CAGR during FY19-21e and medium-term RoE of 21-22%. While we like the franchise, we await better entry points to get into the stock; moderation in its business momentum and NIM pressure will open up better entry points, we believe.

KOTAK INSTITUTIONAL EQUITIES

Company data

Forecasts/Valuations	2018	2019E	2020E
EPS (₹)	62.3	76.9	93.3
EPS growth (%)	35.5	23.5	21.4
P/E (X)	23.5	19.0	15.7
NII (₹ bn)	22.6	32.5	39.0
Net profits (₹ bn)	9.7	12.0	14.6
BVPS	313.4	375.5	451.5
P/B (X)	4.7	3.9	3.2
RoE (%)	20.6	21.2	21.4
Div. Yield (%)	0.4	0.6	0.8

Source: Company, Kotak Institutional Equities