

Chola Finance: Re-rating possible

The company has strong fundamentals and is employing innovative methods to spur growth.

Though most non-banking finance companies (NBFCs) are facing intense competition from banks in the prime segments of auto financing, Cholamandalam Investments and Finance (CIFIC) is expected to sustain its profitability and growth. This is primarily because of its competitive strengths in the light commercial vehicle (LCV) and old commercial vehicle financing. Also, since the NBFC is not promoted by a vehicle manufacturer, auto companies are not scared to tie-up with it. CIFIC will be a big beneficiary of the evolution of Indian logistics space, from a fragmented model to a hub-and-spoke model, and the resultant increase in LCV sales. It is putting up a stiff challenge to competitors old commercial vehicle financing, using its strength in collections, and also by cross selling to its captive customer base.

Its loan-against-property segment is relatively insulated from the troubles that are going on in the real estate sector. With a smaller average ticket size—₹50 lakh compared to the industry average of ₹1.2 crore—and a higher residential exposure—89% compared to the industry average of 70%—CIFIC is placed much better than its peers. To spur growth, it is also trying innovative methods. For instance, it recently partnered with mobile app-based taxi service provider, Ola, to offer loans to cab drivers on its platform. Such a loan will have to be repaid in daily instalments as against the current practice of EMI payments. CIFIC has also received a payment bank licence from the Reserve Bank of India. Since the NBFC belongs to the Murugappa Group, it will be able to leverage the group's strength to enter this segment. It has already start-

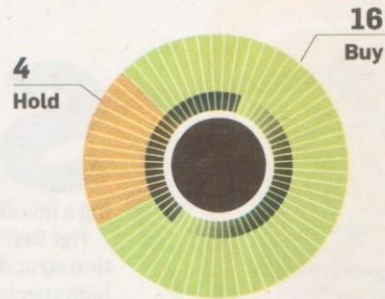
ed focusing on the opportunities in agri-based lending through its group companies such as Coromandel International. CIFIC's return on assets is also expected to improve by 30 basis points in the next three years due to a fall in the cost of funds, owed to the structural fall in interest rates and CIFIC's migration to the wholesale market from bank funding. Improving net interest margins should help the company mitigate the small increase expected in credit costs.

Though the counter is not trading cheap, CIFIC is a quality company. It has 5,534 branches in India, a 7.5 lakh-strong customer base and assets under management of more than ₹25,000 crore. CIFIC boasts of a strong capital adequacy ratio of 21%. It has also witnessed a ratings upgrade—from AA- in 2010 to AA in 2015. CIFIC could improve its performance against the macro headwinds and, therefore, will be in a sweet spot once the expected macro recovery happens.

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



Strong fundamentals, competitive moats, and employment of innovative methods by CIFIC to boost growth have made it analysts top pick.

Fundamentals

	Actual		Consensus estimate	
	2013-14	2014-15	2015-16	2016-17
Revenues (₹ cr)	1,546.91	1,795.86	4,138.30	4,531.40
Operating profit (₹ cr)	593.84	705.50	2,926.50	3,169.30
Net profit / loss (₹ cr)	368.28	444.14	509.00	574.00
EPS (₹)	25.73	30.95	35.39	39.91

Valuation

	PBV	PE	Dividend yield (%)
Cholamandalam Investment	2.95	20.39	0.58
Shriram Transport Finance	2.29	20.57	1.07
Sundaram Finance	5.53	38.24	0.71
Mahindra & Mahindra Financial	2.42	16.10	1.66

Latest brokerage calls

Reco date	Research house	Advice	Target price (₹)
16 Oct '15	Axis Capital Limited	buy	760
16 Oct '15	Quantum Securities	accumulate	725
08 Oct '15	HDFC Securities	buy	728
08 Oct '15	Ambit Capital	buy	740

Relative performance



Performance of CIFIC compared with the Sensex. Figures are normalised to a base of 100. Source: ETIG Database & Bloomberg