

EMKAY CALLS A 'BUY' ON CHOLAMANDALAM INVESTMENT

CMP: Rs. 796 Target Rs. 1000

Cholamandalam Finance (CIFC) surprised positively in Q4FY16 with a very robust recovery performance which led to a strong beat to our as well as street estimates. Importantly, the beat has come in after taking a hit of an accelerated provision to the tune of Rs548m towards loans which are overdue for more than 90 days

Asset quality continued its improving trend in Q4 as gross NPLs fell to 3.5% from 4.3% in Q3FY16 on a 120-dpd basis. While the company continues to report NPLs on a 120-dpd basis, the expected provisioning costs on migration from 120 to 90-dpd NPL recognition have been upfronted. Provision coverage ratio improved further to 40% from 35% in Q3

Core operating performance remained strong as 1) AUMs grew 17% yoy (+7% qoq), vehicle finance disbursements grew 47% yoy (+16% qoq), 2) calculated NIMs expanded 45bp qoq to 8.3% led by a mix of improvement in yields and lower cost of funds and 3) opex remained under control with cost-to-income ratio at 35%

An uptick in auto disbursements, steady improvement in NIMs and a sharp improvement in asset quality are the key positives. With the regulatory costs being largely behind, we believe CIFC can positively surprise on its return ratios. We raise our earnings estimates for FY17E/18E by 9%/10% respectively. We maintain our BUY rating on the stock and raise our target price to Rs1,000 (3x FY18E BV) as well roll forward our model to FY18