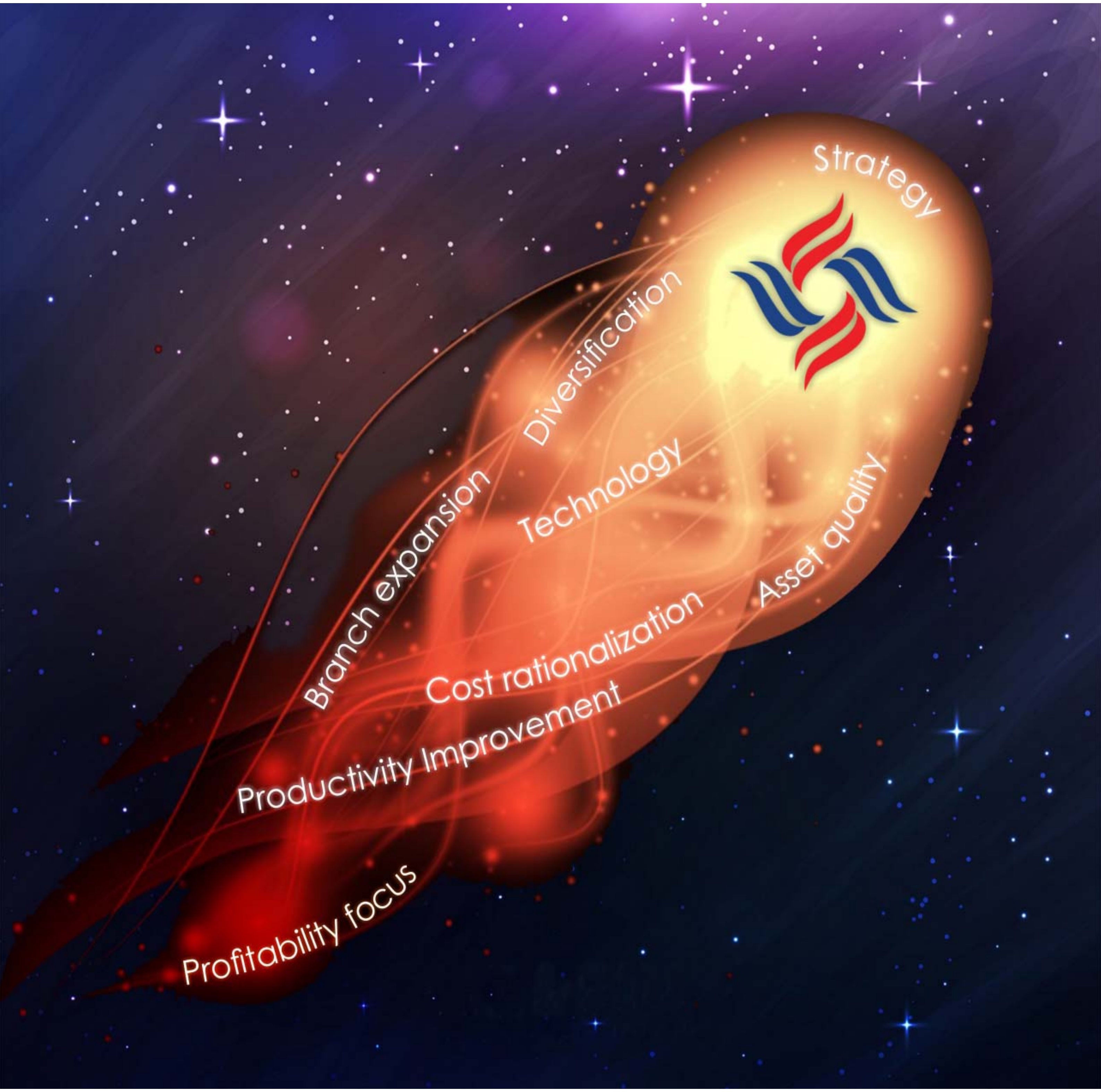
Initiating Coverage | 13 June 2017
Sector: Financials - NBFC

Cholamandalam Finance



Prepared, Equipped and Armed

Piran Engineer (Piran.Engineer@MotilalOswal.com); +91 22 3980 4393
Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com); +91 22 3982 5415

Contents | Cholamandalam Investment & Finance

Cholamandalam Investment & Finance

CMP: INR1,040 TP: INR1,250 (+20%) BUY

BSE Sensex	S&P CNX
31,213	9,647

Stock Info

Bloomberg	CIFC IN
Equity Shares (m)	156.3
52-Week Range (INR)	1244 / 805
1, 6, 12 Rel. Per (%)	-1/17/-4
M.Cap. (INR b)	163
M.Cap. (USD b)	2.5
Avg Val, INRm	361
Free float (%)	46.9

Financial Snapshot (INR b)

Y/E March	2017	2018E	2019E
NII	23,473	28,492	33,870
PPP	14,162	18,035	22,200
Adj. PAT	7,187	8,861	11,044
EPS (INR)	46.0	56.7	70.6
EPS Gr. (%)	26.3	23.3	24.6
BV (INR)	274	323	386
RoAA (%)	2.6	2.8	3.0
RoE (%)	18.1	19.0	19.9
Valuations			
P/E (x)	22.8	18.5	14.9
P/BV (x) Div.	3.8	3.2	2.7
Yield (%)	0.5	0.6	0.7

Shareholding pattern (%)

As On	Mar-17	Dec-16	Mar-16
Promoter	53.1	53.1	53.1
DII	15.9	16.7	24.4
FII	20.7	17.8	15.3
Others	10.3	12.5	7.2

FII Includes depository receipts

Cholamandalam Investment & Finance

Prepared, Equipped and Armed

Piran Engineer
+91 22 3980 4393
Piran.Engineer@motilaloswal.com

Please click here for Video Link

Prepared, Equipped and Armed

On path to become one of India's finest multi-product lenders

- **From a niche vehicle financier, Cholamandalam Investment and Finance Corporation (CIFC) has transformed into a diversified asset finance play, with vehicle finance (VF) now comprising 69% of the loan book, followed by home equity (HE; 28%) and new business segments (home loan/MSME financing; ~3%).**
- **Over the past five years, CIFC has delivered 20% AUM CAGR, driven by 19% CAGR in VF and 25% in HE. However, EPS compounded at 30% over the same time period. We believe CIFC has built the foundation to achieve 19% AUM CAGR and 23% PAT CAGR over FY17-20.**
- **CIFC also improved its expense ratio by 60bp to 3.2% over FY12-17, driven by better use of technology. We believe CIFC is well poised to reap further benefits of operating leverage due to better employee productivity, enhanced use of technology for loan sourcing and moderation in recovery expenses. We expect the expense ratio to decline from 3.2% to 2.7% over FY17-20.**
- **The structural decline in opex ratios following productivity improvement should elevate RoA/RoE from 2.6%/18% in FY17 to 3.0%/20% in FY20. The stock price has consolidated over the past year, which provides an attractive entry point. We initiate coverage with a Buy rating and a target price of INR1,250 (3.2x FY19E BV).**

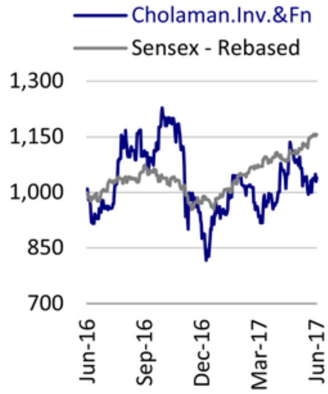
Strong foundation to deliver 18-20% AUM growth over the foreseeable future

CIFC was an early entrant in the loans against property (LAP) business, which has helped it to navigate the downturn in the CV cycle over 2012-14. The LAP book has now grown to INR96b (28% of AUM). Conversely, the subsequent pick-up in the vehicle finance segment over the past 6-8 quarters has helped it to navigate the slowdown in LAP. CIFC has also started MSME financing and home loans. Both these segments are growing at a fast pace (albeit off a low base – INR9b cumulative). Given the sheer market opportunity in home loans, combined with the fact that most financiers focus on the salaried segment, management believes that the home loan book could be as big as the home equity book in five years. **We believe CIFC has enough levers to maintain 18-20% AUM growth over the foreseeable future without compromising on underwriting standards**.

Structural decline in opex ratios to drive improvement in RoA/RoE to 3%/20%

Despite investing in branch expansion and technology, CIFC improved its expense ratio by 60bp to 3.2% over FY12-17. However, **employee productivity, as measured by disbursements per employee, declined from INR15.6m in FY13 to INR11.4m in FY15, given increased focus on recoveries. Recovery costs more than doubled from INR650m in FY13 to INR1.4b in FY15.** However, with stable asset quality, we expect moderation in recovery costs. Employee productivity has also picked up over the past two years, but is still below FY13 levels. CIFC has been able to cut down on overhead expenses with the use of technology. **We expect further decline in the expense ratio from 3.2% to 2.7% over FY17-20.**

Stock Performance (1-year)



Diversified asset finance play; ~20% market share in LCV financing

CIFC has emerged a significant player in the commercial vehicle (CV) finance market by carving a niche in light commercial vehicle (LCV) finance**. It is the largest player in the LCV finance market, with a market share of ~20%, as per our calculations**. CIFC has built a diversified vehicle finance portfolio across M&HCVs, LCVs, tractors, used CVs, etc., making it one of India's most diversified vehicle finance players. In addition to product diversification, the overall loan portfolio is also geographically well spread out, with presence across 25 states – the largest state accounts for just 12% of its loan book. Such diversification provides flexibility in re-orienting the portfolio based on market opportunity.

Asset quality superior to most peers; NPL recognition ahead of schedule

CIFC enjoys excellent asset quality; **its GNPL ratios of 4.2% in VF and 5.7% in LAP (90dpd) are better than most of its asset financing peers**. This is due to its conservative underwriting standards, stringent loan appraisals, and proactive default detection and action upon early warning signals. CIFC disburses home equity loans at an average LTV of 55%, lower than most of its peers. With rising stress in this market in north India, CIFC has scaled back on disbursements there. While the shift to 90dpd NPA recognition has increased headline NPAs, we do not expect any significant impact on net credit losses. Additionally, **CIFC is now authorized to use SARFAESI for defaulters in its LAP segment and has already sent 100+ notices. We expect resolution of many of these cases in FY18. As a result, credit cost should remain stable at ~1% over FY18-20.**

Valuation and view: Strong performance to support premium valuation

CIFC is set to deliver 18-20% AUM growth over FY17-20, driven by its diversification into newer segments and geographies. **The structural decline in opex ratios following productivity improvements, along with stable credit costs, should elevate RoA from 2.6% in FY17 to 3.0% in FY20.** Asset quality would remain largely stable and better than most peers. The housing finance business, which is at a nascent stage, would be a key value driver over the next 3-5 years. The stock has witnessed some consolidation over the past year, which provides an attractive entry point. We use an RI model with Rf of 7%, CoE of 13% and terminal growth rate of 5% to arrive at a target price of INR1,250 (3.2x FY19E BV). Initiate with a **Buy** rating.

Exhibit 1: Valuation comparison

	Price	RoA			RoE			P/B			P/E		
		FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
SCUF	2,433	2.7	3.6	3.9	11.8	16.2	17.8	3.2	2.8	2.4	28.8	18.7	14.8
STF	987	2.0	2.6	2.9	11.7	14.5	16.3	2.0	1.8	1.6	17.8	12.9	10.2
BAF	1,363	3.3	3.5	3.6	21.7	24.0	26.2	7.8	6.3	5.0	40.6	29.0	21.4
MMFS	351	1.0	1.7	1.8	6.4	10.9	12.9	3.1	2.9	2.7	49.5	27.1	21.4
CIFC	**1,040**	**2.6**	**2.8**	**3.0**	**18.1**	**19.0**	**19.9**	**3.8**	**3.2**	**2.7**	**22.6**	**18.4**	**14.7**

Source: Company, MOSL

Well positioned to deliver high growth

Strong branch expansion and new product addition to drive growth

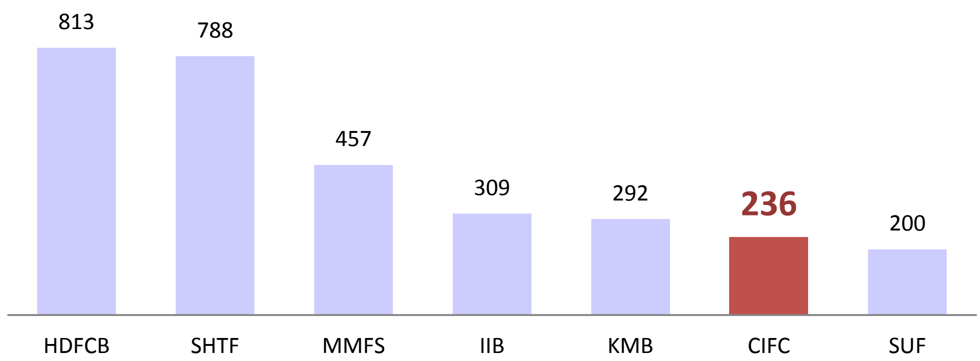
- **CIFC has built a diversified portfolio within vehicle financing with presence across the spectrum. In addition, the LAP portfolio offers further loan book diversification and helped the company during the years of the CV industry downturn (FY13-14). The company disburses LAP from only 123 branches (out of 703), thus providing immense scope for growth without further branch expansion.**
- **While the company curtailed its branch expansion over FY13-16, it has now adding to its branch network, especially in rural areas. It expects to take the total branch count to 800 from 703 in FY18.**
- **While demonetization impacts disbursements in the near term, the medium-term growth story is structurally intact. Growth in the medium term will also be aided by new products, namely SME financing and home loans.**

With an AUM of more than INR235b, CIFC is among the largest players in the vehicle financing industry

Diversified vehicle finance exposure protects it from cyclicality

CIFC is among the largest commercial vehicle financiers with a diversified product suite with presence across M&HCVs, LCVs, tractors, used CVs, passenger cars, three-wheelers, MUVs as well as used vehicles. It is the largest player in the light commercial vehicle (LCV) segment, with ~20% market share. In addition, it has increased its market share in the M&HCV segment from 3% to 6% over the past five years. It is now the third largest vehicle finance player among NBFCs in India.

Exhibit 2: Vehicle Finance (ex-2W) AUM of key players (INR b)



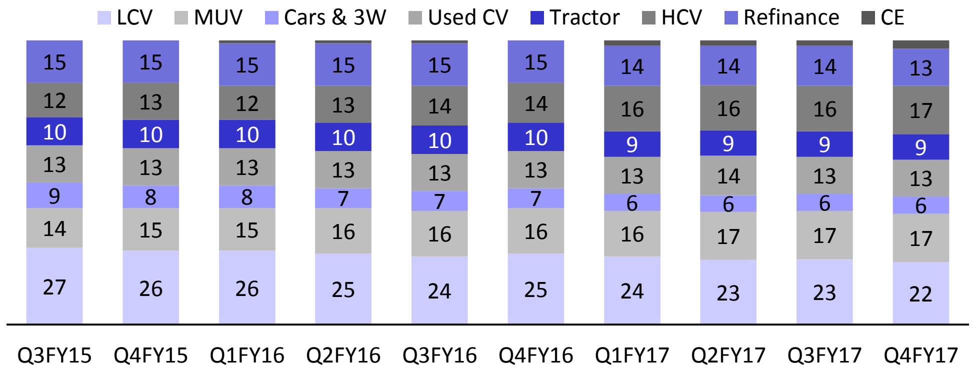
Source: MOSL, Company; Note: KMB numbers are consolidated

CIFC is well-diversified geographically with no state accounting for more than 12% of AUM

CIFC has aggressively expanded its branch network and is geographically well diversified with presence across 25 states and no single state accounting for more than 12% of the loan book. We believe this is one the biggest strengths of CIFC versus other peers that are more concentrated in particular regions. Such diversification provides flexibility in reorienting the portfolio based on market opportunity and optimizes the risk-return profile. In addition, over 90% of its branches are in semi-urban and rural areas. CIFC has strategically positioned itself in the middle-to-lower end of the opportunity pyramid by targeting small road transport operators (SRTO) for new vehicles, first-time users and small-ticket operators (for used vehicles).

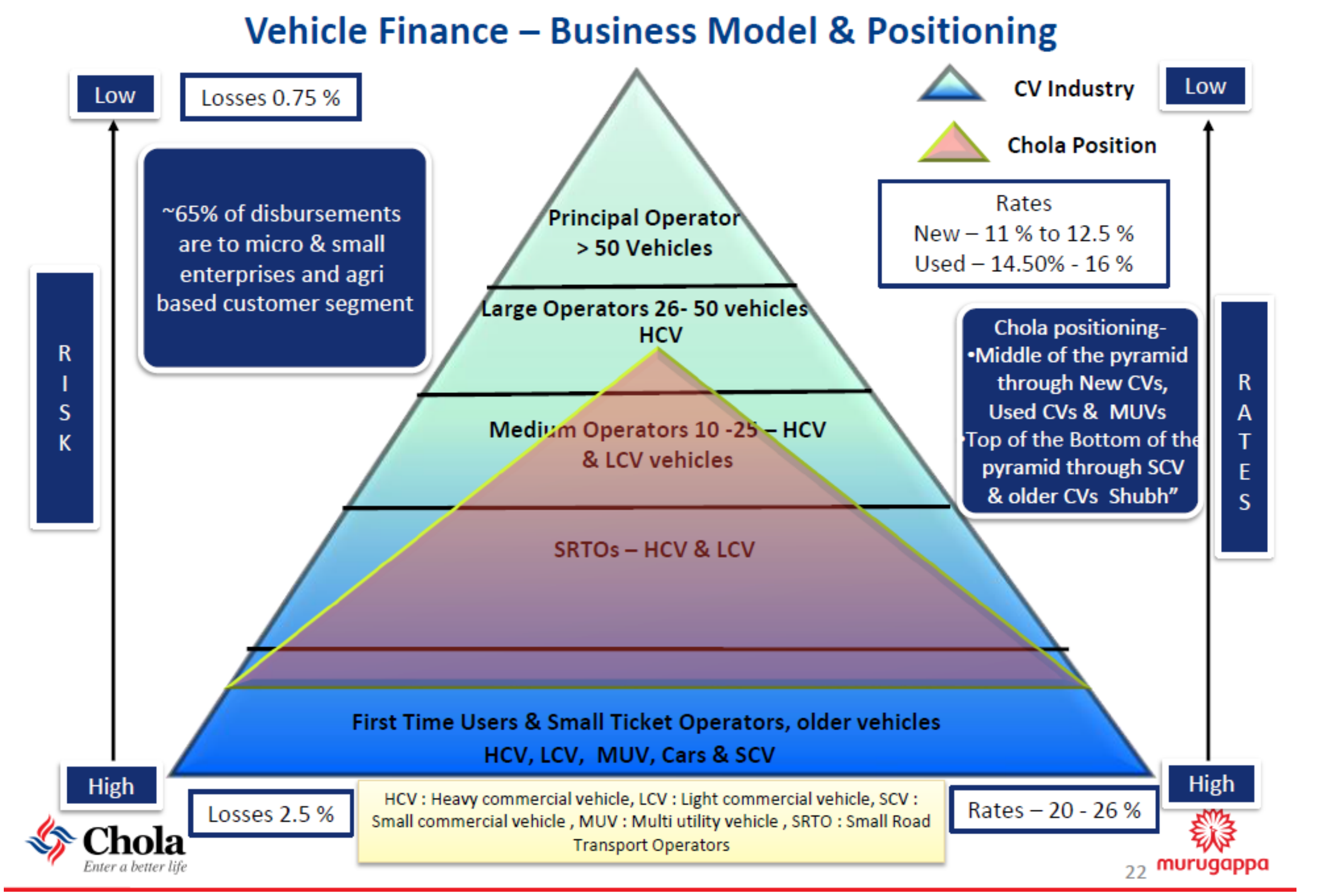
Well-diversified VF loan book provides greater stability

Exhibit 3: Diversified loan book provides greater stability in down-cycles



Source: MOSL, Company

Exhibit 4: Competitive positioning in the vehicle finance segment



Source: MOSL, Company

Underwriting is conservative with 80-85% LTV for new vehicles and 70% for used vehicles

Exhibit 5: Vehicle financing snapshot

Category	% of Portfolio	% of disbursement	Avg ticket size (INR m)
LCV	22	20	0.45
MUV	17	16	0.40
Cars & 3W	6	5	0.40
Used CV	13	15	0.18
Tractor	9	8	0.38
HCV	17	16	1.20
Refinance	13	17	NA

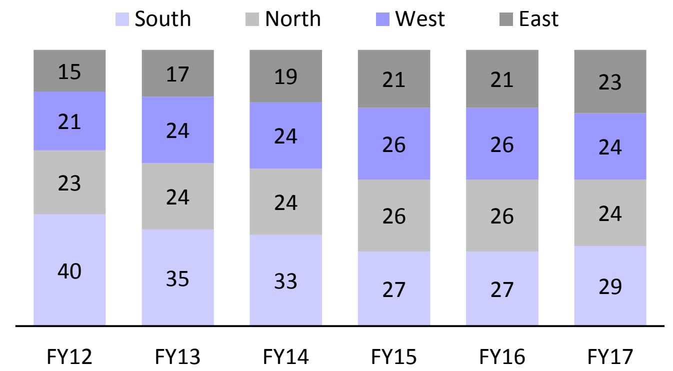
Source: MOSL, Company

90%+ of branches are in rural and semi-urban areas

Pan-India presence with 90%+ branches in Tier-II and III cities

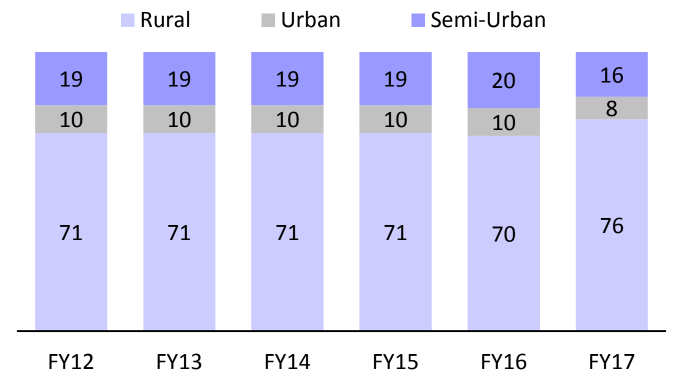
As of March 2017, the company has 703 branches across 25 states in India. Currently, over 90% of CIFC's branches are based in semi-urban and rural areas, where it has operated for more than two decades and carved a niche in vehicle financing. CIFC has a strong presence in southern, northern and western regions, and is also expanding its footprint in the eastern markets.

Exhibit 6: Geographically well-spread branch network



Source: MOSL, Company

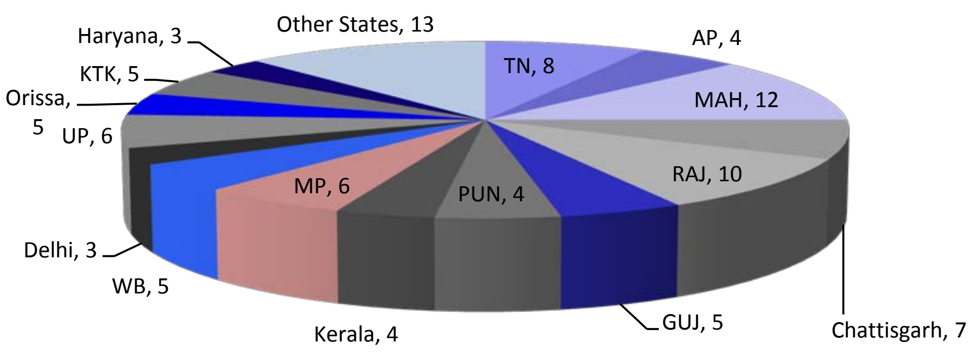
Exhibit 7: 90%+ branches are in semi-urban and rural areas



Source: MOSL, Company

No state accounts for more than 12% of AUM

Exhibit 8: Loan book well spread geographically



Source: MOSL, Company

The LCV segment has begun to witness a turnaround in the past few quarters

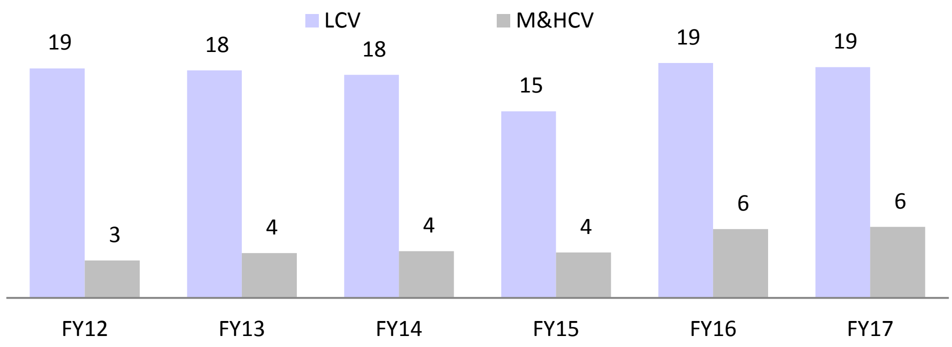
The turnaround in HCV sales volumes in the past year, the gradual pickup in industrial activity with the government's thrust on infrastructure (such as improved road development) will likely provide significant opportunities for CIFC in the vehicle finance segment. CIFC's LCV segment, which witnessed declining AUM in FY15/16, has begun to turnaround in the past 4-5 quarters. Generally, a turnaround in the LCV segment comes with a lag over the M&HCV segment. We believe sustained pick-up in the HCV segment and stabilization in fuel costs should likely lead to a turnaround in the LCV segment too.

Market leader in Light Commercial Vehicles (LCV)

LCV has historically been an important segment for the company. However, the segment's contribution to overall AUM has dropped to 22% in FY17 from 29% in FY14. Yet, the portfolio grew at 2% Cagr, which comfortably exceeds the volume decline of 5% for auto manufacturers in the segment over the same time period.

CIFC is a leader in LCV financing and has maintained its market share over the years

Exhibit 9: Market share in LCV and M&HCV



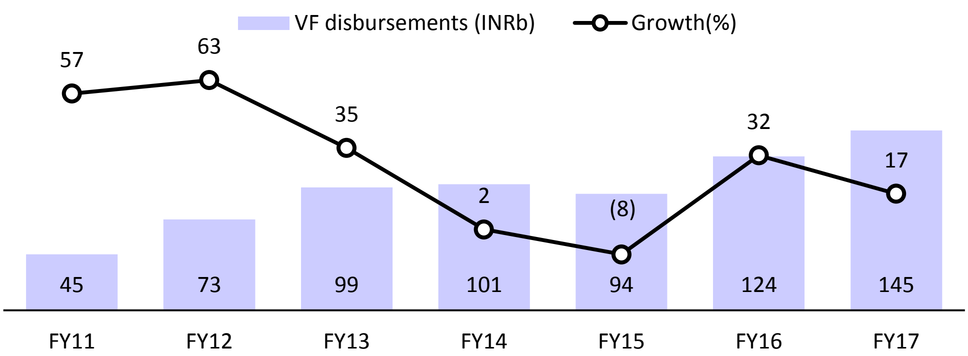
Source: MOSL, Company

Several indicators point to sustained pick-up in vehicle financing

While disbursements in the vehicle financing business grew at 31% Cagr over FY08-13, it came to a grinding halt over the next two years driven by the down-cycle in the CV industry. Disbursements contracted 5% over FY13-15, with LCV disbursements contracting over 30% over the two-year period. However, with the government's thrust on infrastructure, M&HCV volumes turned, leading to a 16% CAGR in HCV disbursements over FY15-17. With stable freight rates, significant focus on road construction and pick-up in mining activity, we expect CV volumes to continue to deliver robust growth over the medium term.

Sharp slowdown in VF disbursements in FY14 and FY15 due to lack of industrial capex and impact of mining ban

Exhibit 10: VF disbursements has witnessed a pick-up in the past two years



Source: MOSL, Company

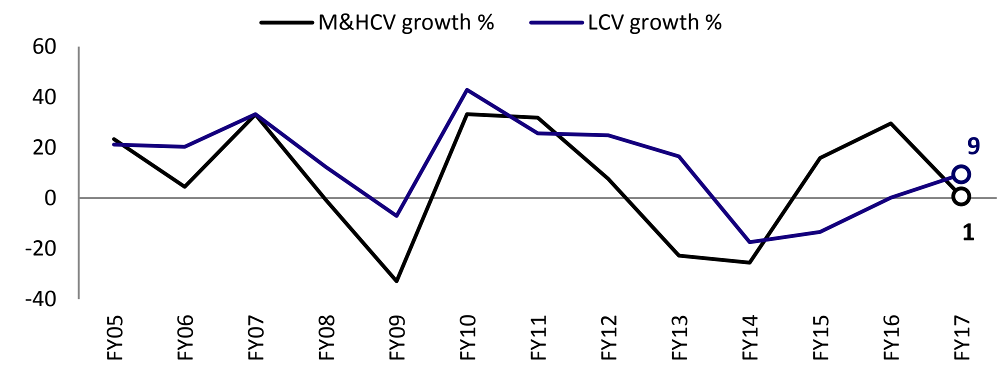
Government's thrust on infrastructure (especially road construction and affordable housing) bodes well for the CV industry

One of the significant focus areas of the current Union Government has been on road building. Road construction target has increased from less than 10km/day in 2014 when the current government was elected to 40km/day. Recently, the government also cleared a proposal wherein the NHAI/Govt Agency would have to pay 75% of dues payable to road contractors in matters of arbitration. This would help contractors deleverage their balance sheets as well as bid for new road projects. We believe this is a significant step towards increasing private sector participation in infrastructure development. We believe the CV industry is a direct beneficiary of increased investments in infrastructure.

Pickup in LCV segment comes with a lag

While growth in M&HCV sales has picked up smartly over the past two years, the LCV sales have lagged it. It has been observed that generally, a pick-up in LCV sales happens with a lag over M&HCV sales. In addition, the ratio of LCVs sold to M&HCVs sold in India was 1.4x in FY17, significantly below the average of 3.0x in developed countries. While the ratio has gradually improved over the past decade, it is still below its peak of 2.2x in FY14. With a fourth of the VF book comprising LCV financing, we expect CIFC to be a key beneficiary of the expected growth in LCVs over the medium term, due to reasons mentioned above.

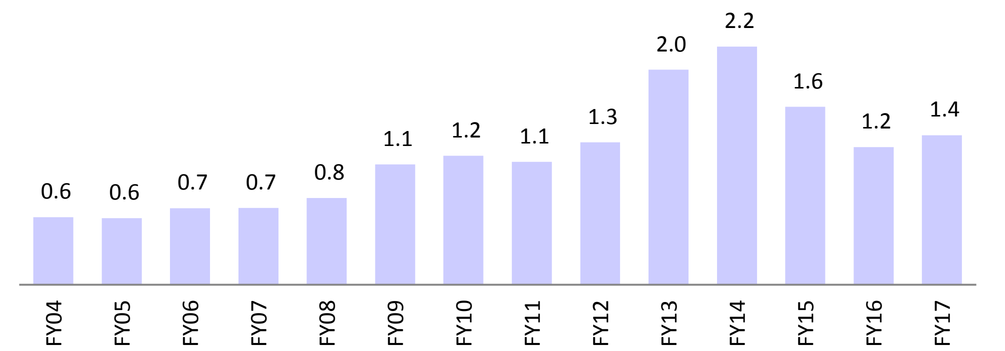
Exhibit 11: LCV growth has lagged M&HCV growth in the recent past



Source: MOSL, Company

Ratio of LCVs to M&HCVs sold at 1.4x is way below historical average

Exhibit 12: Sales of LCVs per M&HCV – Long-term trend on an upswing (x)



Source: MOSL, Company, SIAM

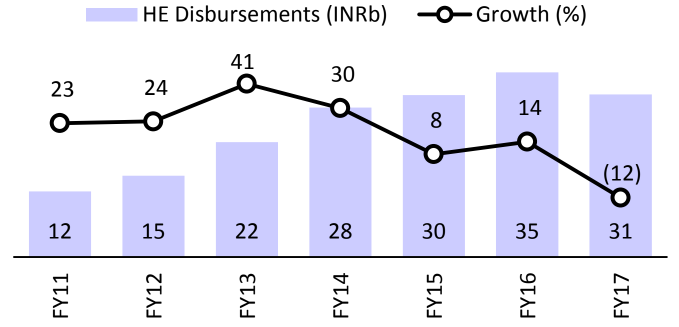
Early entrant in the Home Equity (LAP) segment

CIFC entered the Home Equity (LAP) segment in 2007, in order to diversify the business

CIFC entered the home equity (loans against property) business in 2007 in order to provide stability to its loan growth and earnings. Over the past few years, the company has built capabilities in assessing underlying assets and cash flows of borrowers. The company has been operating in this segment for the past nine years and has grown steadily without much asset quality issues.

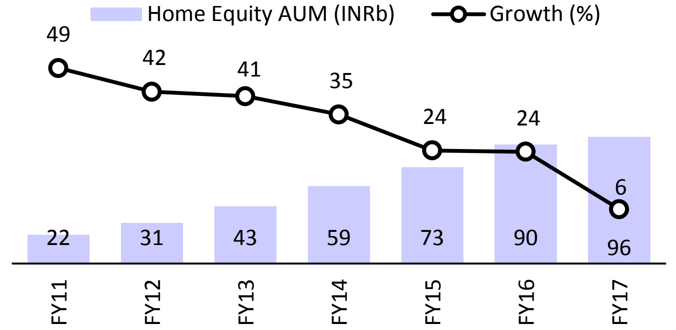
Over FY11-16, the home equity portfolio grew at more than 33% CAGR, driven by the disbursement CAGR of 23%. With the slowdown in the vehicle finance segment, the home equity proportion in CIFC's AUM mix increased from 22% to 29% over the same time period. Management took a cautious stance in LAP in FY17 (given early signs of stress) resulting in 12% YoY decline in disbursements in FY17. However, management is confident of a return to normalcy in 1-2 quarters. We expect the share of LAP to remain largely stable going forward. In addition, of the 703 branches, home equity loans are disbursed from only 123 branches. This provides immense opportunity to scale up the HE business without geographic concentration.

Exhibit 13: HE disbursements up almost 3x over FY11-16



Source: MOSL, Company

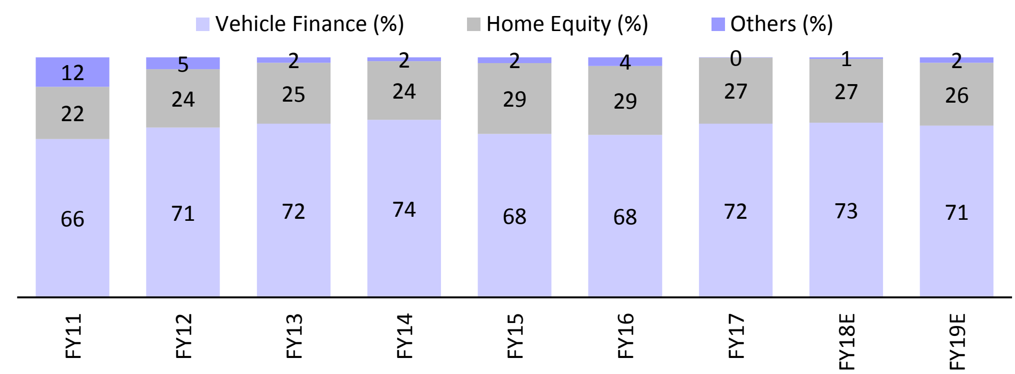
Exhibit 14: Resulting in >30% CAGR in HE AUM over FY11-16



Source: MOSL, Company

The share of HE loan book increased from 22% in FY11 to 27% in FY17

Exhibit 15: Loan book mix trend

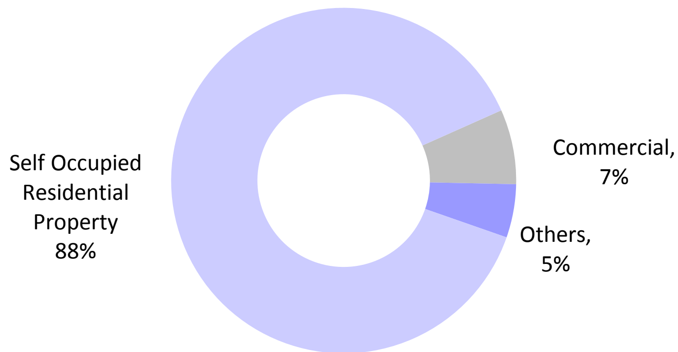


Source: MOSL, Company

CIFC is a conservative player in LAP, offering loans with average ticket size of INR5m at LTV of 50-60% with yields of 14-15%

CIFC offers its home equity products through 109 branches and primarily targets self-employed non-professional individuals in the middle socio-economic class with self-occupied residential properties. The loans carry yield of ~13% incrementally, with LTVs in the range of 50-60%, tenures of 5-7 years and the average ticket size of INR5m. The focus is predominantly on self-occupied residential properties (88% of AUM).

Exhibit 16: 88% of portfolio comprises self-occupied residential property

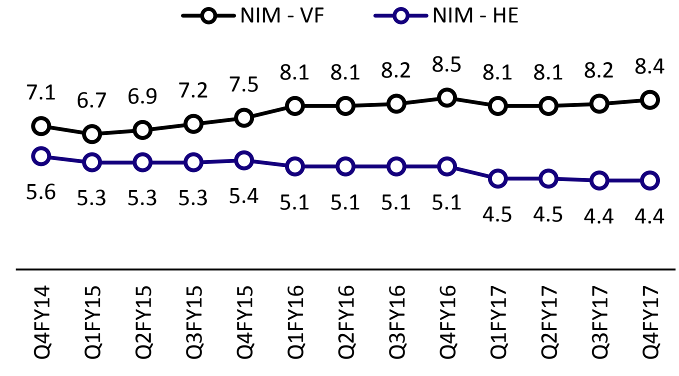


Source: MOSL, Company

Home Equity loans have a lower yield than VF loans; however, operating costs as well as credit costs are lower too

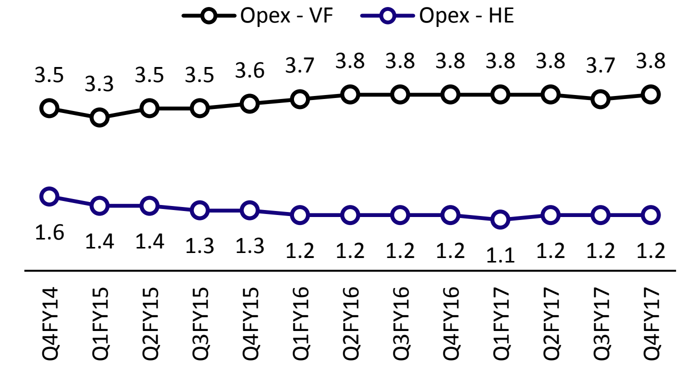
Home equity loans are sticky (with higher tenure of up to 7 years vs 3 years for vehicle finance) and hence help the company to build scale. Yields in the home equity loans business are lower than those in the vehicle finance business - however, this is compensated by lower operating costs, led by a larger ticket size and lower collection costs. The foray into this business has particularly benefited credit costs, which, despite hardening, are significantly lower than the vehicle finance business.

Exhibit 17: Lower NIMs in HE….



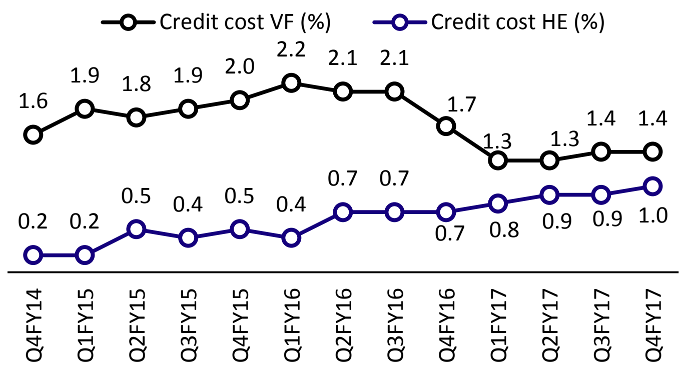
Source: MOSL, Company

Exhibit 18: … compensated by lower expense ratio



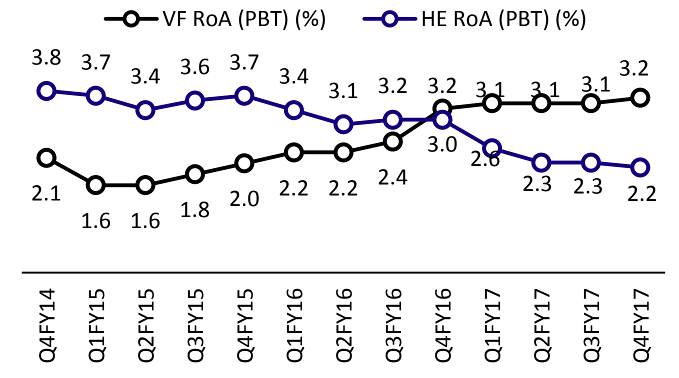
Source: MOSL, Company

Exhibit 19: Lower credit cost in HE



Source: MOSL, Company

Exhibit 20: RoA depressed in near term due to yield pressure



Source: MOSL, Company

Expertise in assessing cash flows of borrowers

65-70% of credit decisions in home equity are taken at the branch level

CIFC does not rely solely on the assessment of the collateralized asset for credit sanction. Rather, the appraisal of the business and its cash flows are key factors of the appraisal exercise. Most SMEs do not disclose their entire income in the financial statements and assessing cash flows thus becomes challenging. The appraisal team at CIFC forecasts cash flows of businesses with analysis done via site visits, local intelligence and reference checks. Moreover, the company has not restricted itself to any particular segment, but has developed expertise in understanding business dynamics of several SME segments. Around 65-70% of credit decisions are taken at the branch level. Generally credit decisions for cases with large ticket sizes, high LTVs or specific industries which branch level credit managers do not have strong understanding of, are taken at the head office levels.

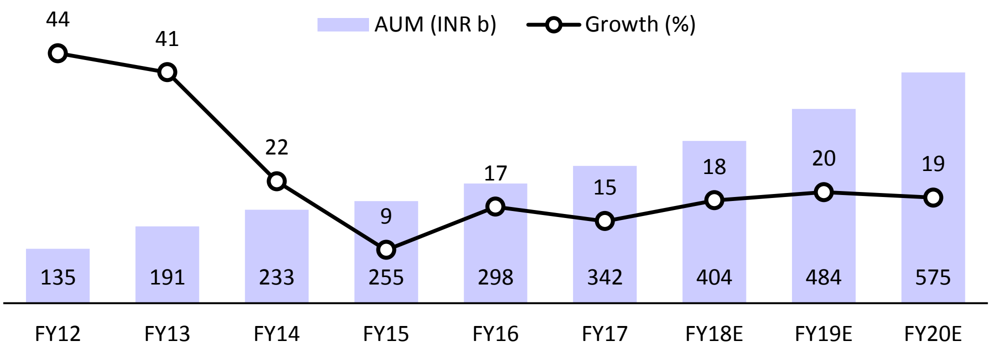
Slowdown in growth due to hyper-competitive environment

Over the past few years, several new players entered the home equity market, given the high risk-adjusted returns it offered. Our interaction with management suggests that the northern markets have now started to witness early signs of stress. Chola has been proactive in scaling back from these markets resulting in AUM growth in the LAP segment declining from 25% a few quarters back to 14% in 3QFY17. There has been pressure on yields in the past few quarters for CIFC as the company has been unwilling to compromise on underwriting standards. Demonetization, too, has had an impact on growth as well as collections in this segment. Management believes that recovery is still another 2-3 quarters away.

Pick up in loan growth from FY18 onwards

We expect sustained turnaround in the CV segment, scale-up of home equity in new geographies and thrust on new segments (home loan and MSME financing) to drive loan book CAGR of 19% over FY17-FY20E.

Exhibit 21: CIFC's AUM should pick up in FY18 and grow at 18%+ YoY



Source: MOSL, Company

SWOT analysis

Strength

- Unique and sound business model, presence in high yield, high growth business segments and superior sustainable returns
- Most diversified asset financier both in term of products as well as geographies, which helps mitigate risks
- CIFC has invested heavily on technology as a strategic enabler which has helped it to race ahead of peers.

Weaknesses

- Operates in a high risk segments particularly in pre-owned commercial vehicles. Asset quality in these segments remain susceptible to volatility
- Dependence on wholesale funding is high. The company is trying to reduce this by exploring the NCD route
- The customer segment it caters too does not have adequate documentation

Opportunities

- Operates in business segments with huge growth potential and is adequately capitalized to maintain business momentum
- Forayed into SME and home loan segment, both of which offer huge potential

Threats

- CIFC operates in lucrative high yielding segments which could attract stiff competition from small finance banks and other specialized NBFCs.
- In case of economic slowdown or dip in income levels, NPA accretion could be high
- Changes in regulatory guidelines could impact the business performance

Structural improvement in operating expenses

Significant productivity gains to lower costs over medium term

- **Over FY11-14, CIFC more than doubled its branch count as well as employee base. It also spent heavily on upgrading its technology. As a result operating expenses grew at ~40% CAGR over FY111-14.**
- **Over FY14-16, branch count was largely stable as the company focused more on recoveries and deepening penetration. The company has just started growing its branch network in FY17, particularly in rural areas. However, with low set-up costs and 3-4 employees per branch, growth in operating expenses is expected to moderate significantly. Recovery expenses, too, are expected to remain stable going forward.**
- **With strong AUM growth over the medium term coupled with moderate growth in operating expenses, we expect expense ratio to decline 50bps to 2.7% over FY17-20.**

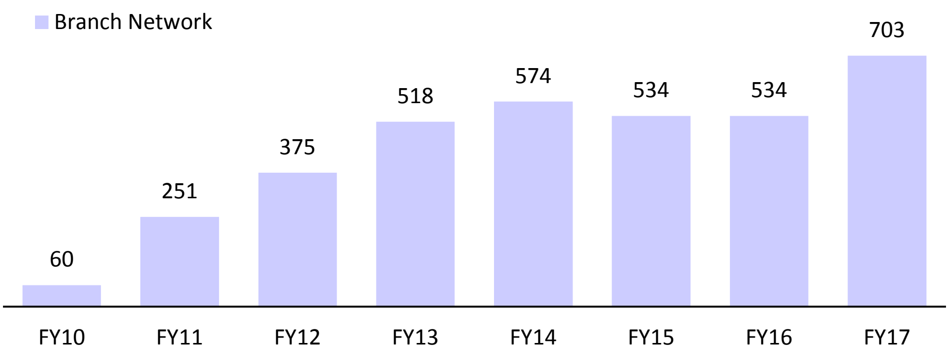
Over FY11-14, the company more than doubled branch network and headcount

Over FY11-15, CIFC more than doubled its branch count as well as workforce. Moreover, it has spent heavily on technology upgrade, leading to a CAGR increase of ~31% over FY12-15 in IT expenses, while expenses related to recoveries went up by ~35% CAGR v/s a 20% CAGR in overall expenses.

After rapid capacity addition up to FY14, the company went into consolidation mode over the next 2 years, with branch count largely stable over FY14-16. The company resumed branch opening in FY17, taking the branch count from 534 in FY16 to 703 in FY17. Management has guided to reaching a branch network of 800 branches by 1HFY18. However, most of the new branches will be Class 'E' branches, i.e. smallest type of branches with 2-4 employees only, mostly in rural areas. Additionally, the share of branches opened in eastern geographies will be higher than other geographies.

Management expects the branch count to reach 800 branches by 1HFY18

Exhibit 22: Aggressive branch addition during FY10-14

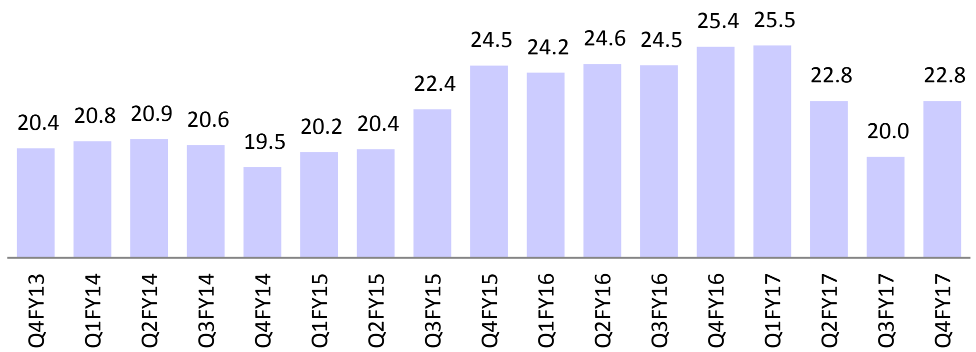


Source: MOSL, Company

However, while number of branches remained largely constant over FY13-16, some branches were made larger and more employees were added to the branches. Hence, operating expenses grew at 14% CAGR over FY13-16 despite stable branch count.

While branch count remained largely stable over FY13-16, the number of employees per branch increased meaningfully

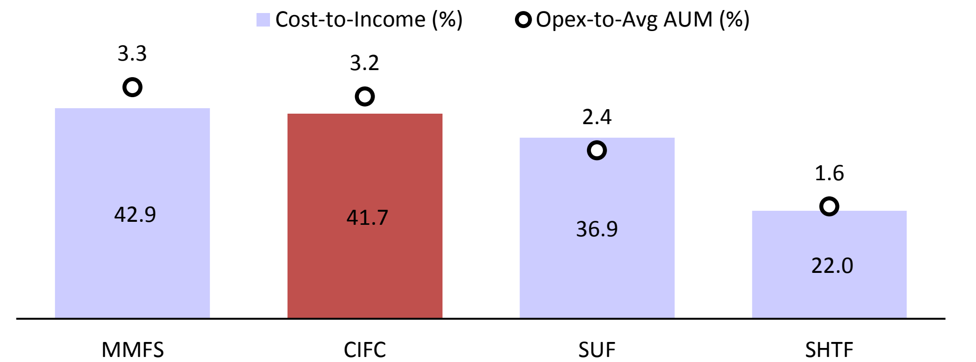
Exhibit 23: Employee/branch - Opex growth driven by adding more employees to branches



Source: MOSL, Company; Note: CIFC opened 149 branches in FY17, due to which the ratio dropped

Driven by improving efficiencies, CIFC's cost ratios have improved over the past few years — C/I ratio is down to 42% in FY17 from 56% in FY12, and cost-to-avg AUM is down by 60bp to 3.2% over the same time period. Despite the improvement, CIFC's cost ratios remain elevated compared to peers. In spite of ~30% of the loan book comprising LAP (which has a lower cost structure), CIFC's overall expense ratio is still higher than pure-play VF players like SHTF and MMFS.

Exhibit 24: Comparison of cost structure with peers (FY17)



Source: MOSL, Company

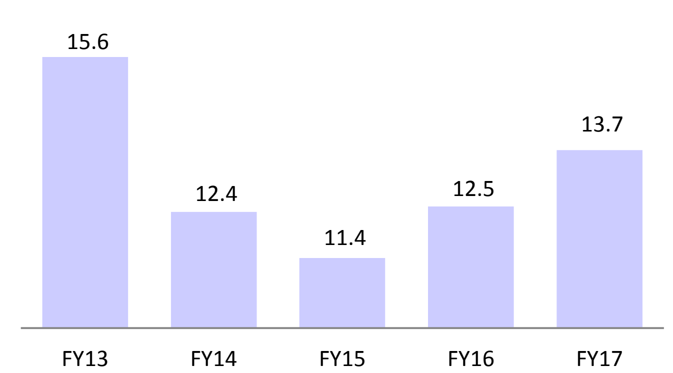
Automation of loan origination coupled with lower growth in headcount should result in slower opex growth going forward

Management is very focused on cost reduction over the next 3 years. Loan origination has been automated with the sales force fully tablet-equipped. Around 35-40% of credit decisions can be taken by the sales manager on the spot, depending on a host of parameters fed into the tablet. In addition, there will be slower growth in the employee base going forward as CIFC significantly added to headcount over FY12-15. Management is confident that legal and recovery expenses should moderate going forward with bottoming out in asset quality. As such, CIFC should reap significant benefits from operating leverage in the next three years.

Employee productivity (disbursements per employee) declined over FY13-16, as greater focus was on recoveries

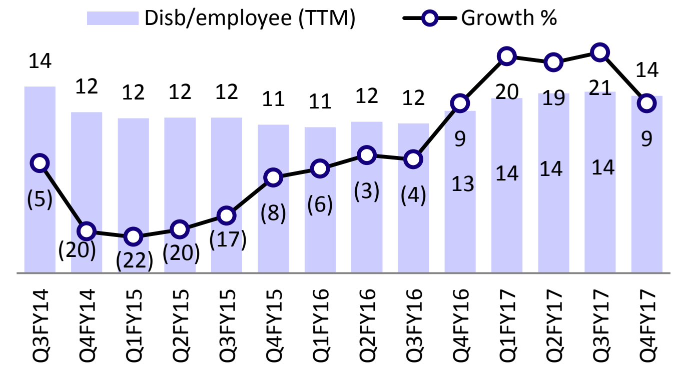
During the years of the CV downturn, recovery expenses increased disproportionately. Employees were more involved in recoveries, resulting in lower fresh disbursements per employee. With a turnaround in the CV industry, we expect employee productivity (disbursements per employee) to improve significantly and also expect recovery charges to remain largely stable over the medium term.

Exhibit 25: Disb per employee declined over FY13-15 (INR m)



Source: MOSL, Company

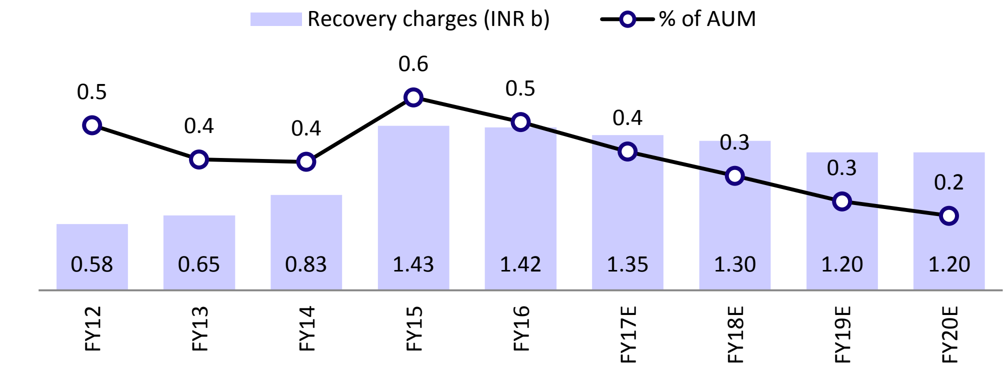
Exhibit 26: … but has picked up in the past few quarters



Source: MOSL, Company

Recovery charges almost doubled from FY14 to FY15. We expect recovery expenses to moderate

Exhibit 27: Recovery expenses more than doubled over FY13-15



Source: MOSL, Company

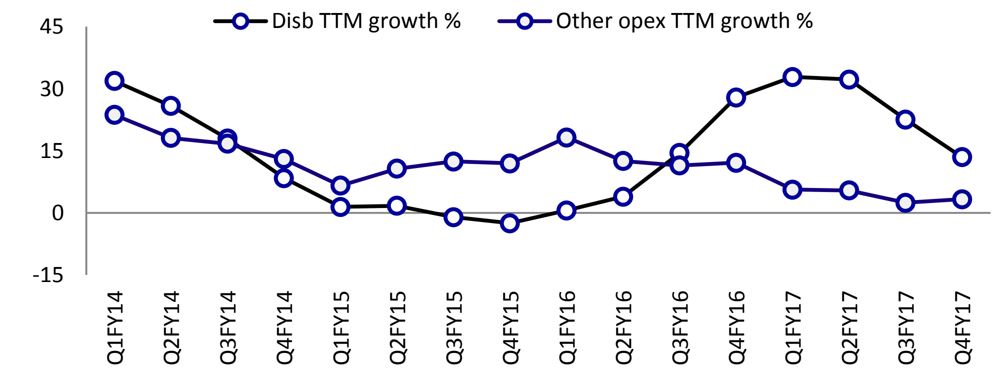
If recovery costs decline to FY13 levels, there would be 5% upside to FY18 estimates

Exhibit 28: Significant upside to FY18 EPS if recovery costs decline to FY13 levels

	Recovery Charges (INR b)	PAT (INR m)	EPS Impact (%)
Base Case	1.3	8.9	0.0
Bear Case	1.7	8.6	(2.9)
Bull Case	0.6	9.3	4.8

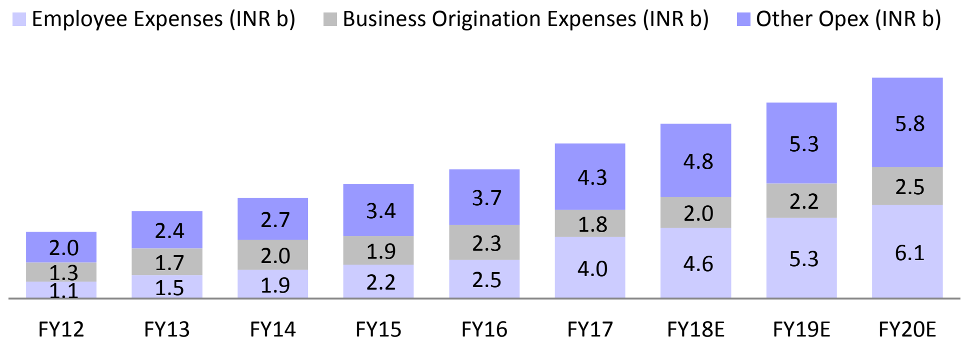
Source: MOSL, Company

Exhibit 29: Disbursement growth has started exceeding growth in other opex



Source: MOSL, Company

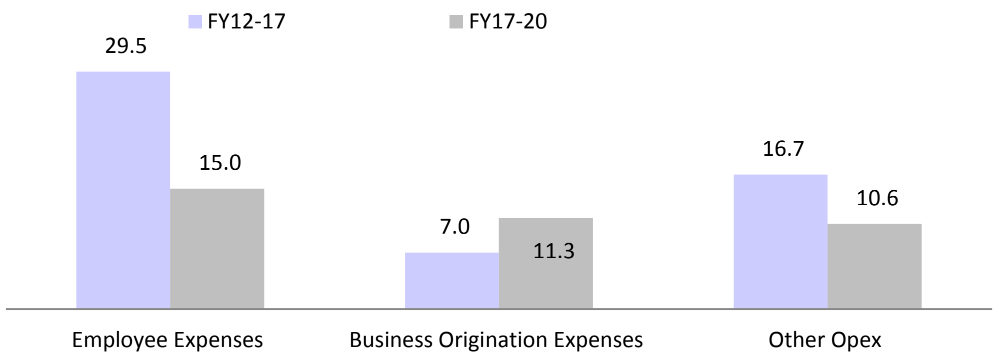
Exhibit 30: Employee expense spike in FY17 due to induction of off-roll employees on to the company's rolls



Source: MOSL, Company

Growth in business origination expenses and other opex should moderate going forward

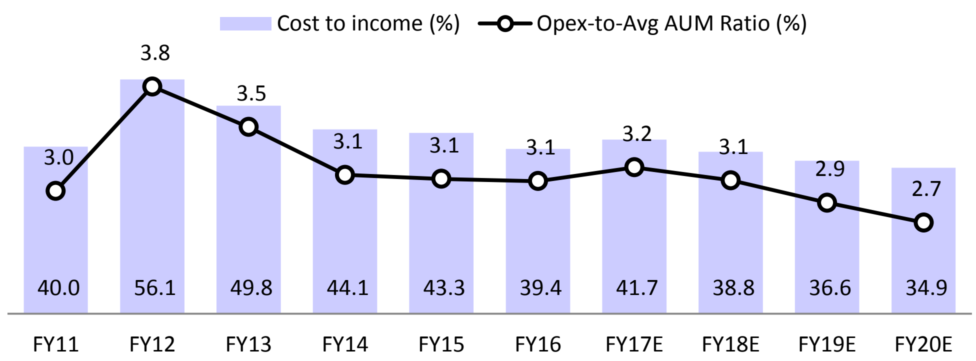
Exhibit 31: With employees moving on-roll, growth in other opex will be moderate



Source: MOSL, Company

With lower estimated opex CAGR of 13% over FY17-20 (v/s 28% in FY12-17), we expect the expense ratio to decline 50bp over FY17-20 to 2.7%.

Exhibit 32: Expense ratio to decline over the next two years



Source: MOSL, Company

Asset quality better than peers

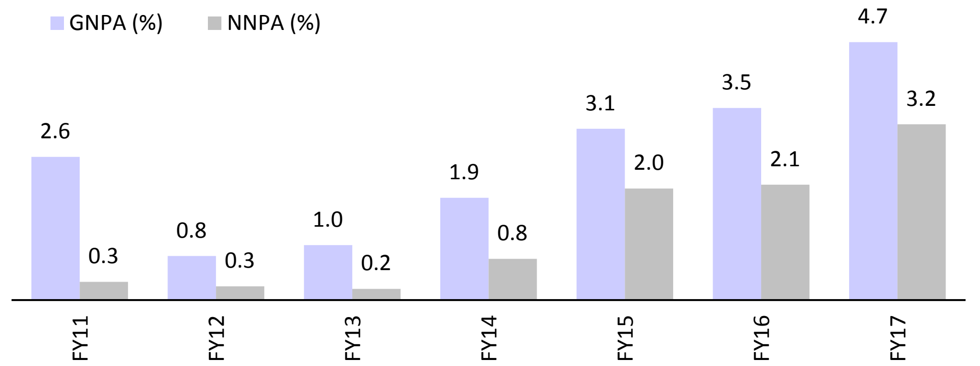
Moderation in credit cost going forward

- **With GNPA of 4.7% (90dpd basis), CIFC has superior asset quality to most of its NBFC peers dealing in vehicle finance. This is aided by its diversified loan book and conservative underwriting practices.**
- **CIFC has witnessed significant improvement in the 30-day overdue bucket in the vehicle finance segment in Jan/Feb 2017. In addition, it has recently started implementing SARFAESI for NPL accounts in the home equity segment. Hence, we do not expect deterioration in underlying asset quality.**
- **We expect credit costs to remain largely stable over FY17-19.**

GNPLs increased in the past two years due to stress in the home equity segment

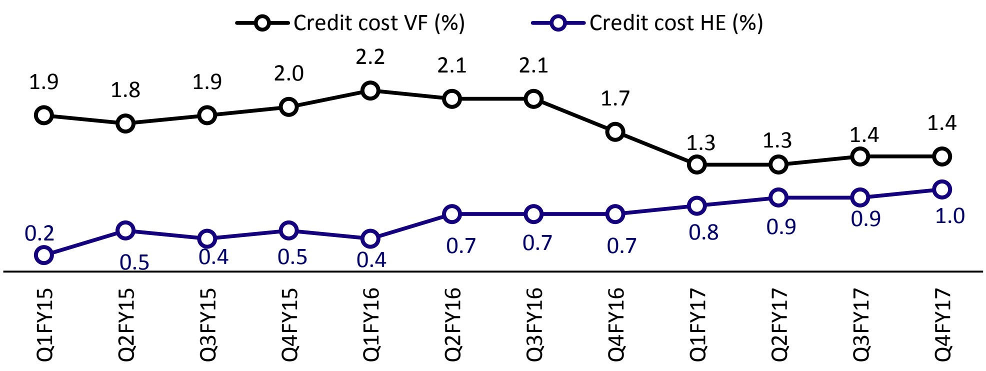
Since FY14, CIFC has experienced elevated levels of credit costs with the operating environment deteriorating significantly. A deceleration in economic activity and increased delinquencies in the home equity segment resulted in a sharp increase in NPA and loan loss provisions (LLP). GNPA increased from 1.0% in FY13 to 2.4% in FY15 (both on 180dpd basis). Despite this, CIFC has adopted tougher NPA recognition norms a year ahead of the RBI's prescribed timeline (currently at 90dpd against norm of 120dpd).

Exhibit 33: Increase in GNPA due to stress in LAP and migration to 120dpd NPA recognition



Source: MOSL, Company

Exhibit 34: While credit costs in vehicle finance have come off significantly , they have increased in the home equity segment

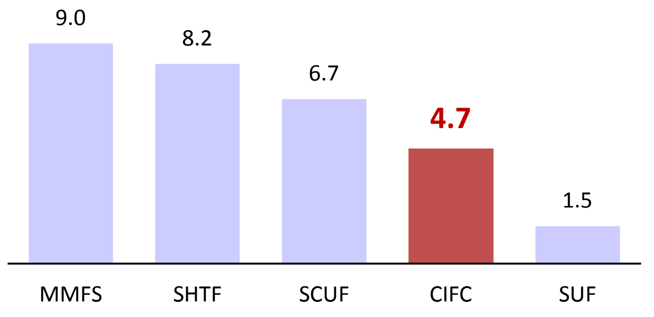


Source: MOSL, Company

CIFC enjoys superior asset quality compared to most of its peers

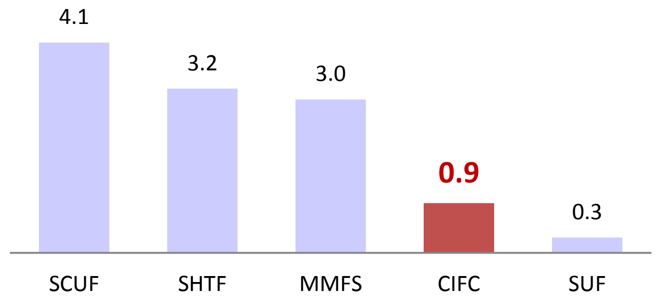
At 90dpd, CIFC enjoys significantly better asset quality than most of its peers given its conservative underwriting practices and diversified loan book.

Exhibit 35: CIFC's asset quality is much better than peers



Source: MOSL, Company; MMFS, SHTF and SCUF GNPA is at 120dpd, CIFC and SUF at 90dpd

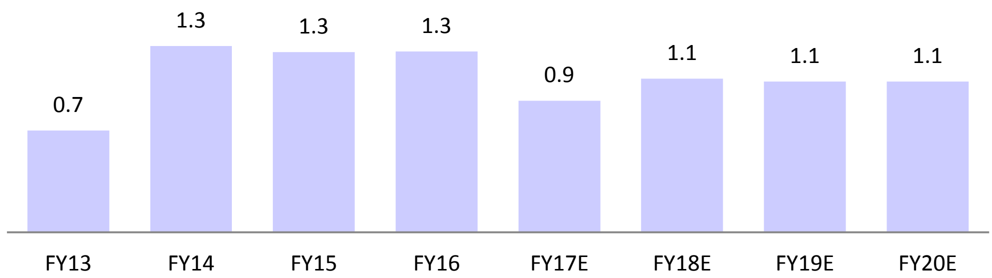
Exhibit 36: Credit costs in FY17 – Much lower than peers



Source: MOSL, Company

Credit costs will remain stable going forward

Exhibit 37: Credit costs (on AUM) to remain stable



Source: MOSL, Company

Provisioning policy ahead of that stipulated by RBI

Exhibit 38: Provisioning policy followed by CIFC

RBI Norms	Provisions
Up to 5 months	0
From 5 months to 21 months	10
From 21 months to 33 months	20
From 33 months to 57 months	30
Beyond 57 months	50
New Vehicle Finance Business	
Upto 4 months	0
From 4 months to 6 months	10
From 6 months to 2 years	25
Beyond 2 years	100
Used Vehicle Finance / Refinance Business	
Upto 4 months	0
From 4 months to 6 months	10
From 6 months to 1 year	40
Beyond 1 year	100
Tractor Finance Business	
Upto 4 months	0
From 4 months to 6 months	10
From 6 months to 1 year	25
From 1 year to 2 year	40
Beyond 2 years	100
LAP and Housing Business	
Upto 4 months	0
From 4 months to 6 months	10
From 6 months to 2 year	25
From 2 year to 5 years	50
Beyond 5 years	100

Source: MOSL, Company

Strong earnings visibility

Strong AUM growth and Operating leverage to drive earnings

- **We expect growth to rebound from FY18 onwards as the impact of demonetization fades. Additionally, new products like home loans and MSME financing will help support growth.**
- **With several initiatives on cost-control, expense ratio is expected to reduce significantly. At the same time, credit costs are expected to remain stable.**
- **We expect a structural improvement in RoA from 2.6% in FY17 to 3.0% in FY20. Hence, we expect a PAT CAGR of 23% over FY17-20.**

Declining cost of funds to provide some respite to yield pressure

Share of bank borrowings declined from 65% in FY14 to 35% in FY17.

The margin profile of CIFC is likely to remain largely stable over the medium term. While there is pressure on yields in the home equity segment, management targets to move more away from major towns/cities and into smaller areas and smaller ticket sizes where yields are 50-100bps higher. However, there will be some pressure on yields due to higher share of low-yielding home loans and MSME financing going forward.

On the liability side, CIFC is poised to reap the benefits of falling interest costs as well as diversifying liability mix. The company is resorting to higher quantum of capital markets borrowings versus bank borrowings. Additionally, CIFC sells down a large portion of loans every year (sell-down book is ~20% of total borrowings), yielding significant reduction to its cost of funds. Upside to margins could accrue from the potential upgrade of the credit rating for the company over the medium term. CIFC is rated AA for its borrowing program; rating upgrade to AA+ could save ~10-20bp in terms for borrowing cost for the company.

Exhibit 39: Long-term credit ratings

	CRISIL	ICRA	CARE
Cholamandalam Investments	**AA**	**AA**	**AA-**
Shriram Transport	AA+	AA	AA+
M&M Financials	AA+	-	AAA
Shriram City Union Finance	AA-	AA	AA+
Sundaram Finance	AA+	AA+	-

Source: MOSL, Company

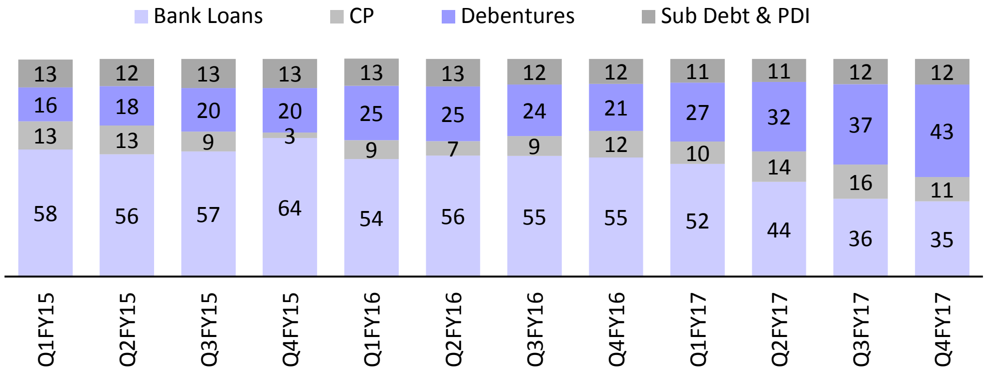
Exhibit 40: Short-term credit ratings

	CRISIL	ICRA	CARE
Cholamandalam Investments	**A1+**	**A1+**	**-**
Shriram Transport	A1+	A1+	-
M&M Financials	A1+	-	-
Shriram City Union Finance	A1+	A1+	A1+
Sundaram Finance	A1+	A1+	-

Source: MOSL, Company

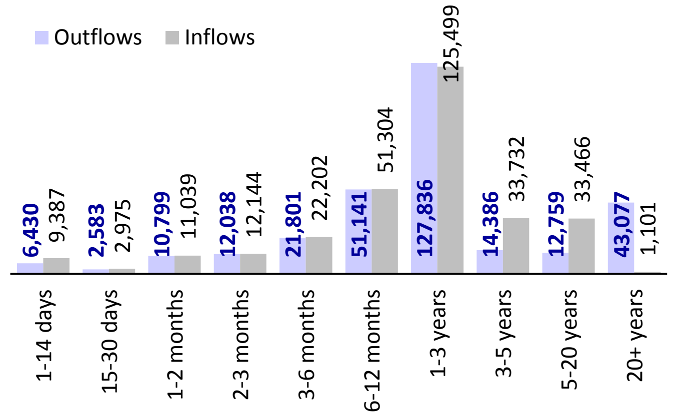
Share of bank borrowings have declined from 55% in FY16 to 35% in 4QFY17 leading to reduction in cost of funds

Exhibit 41: Gradually increased share of market borrowings (%)



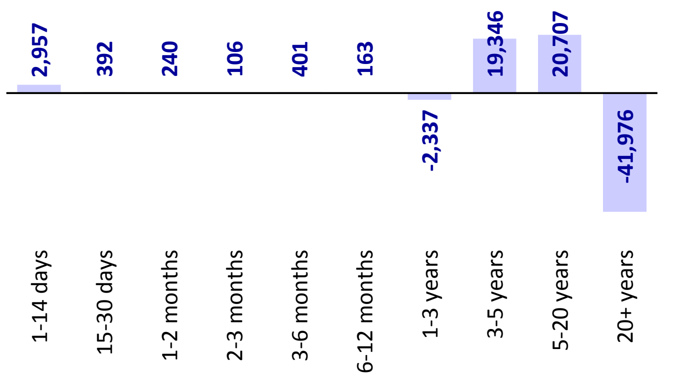
Source: MOSL, Company

Exhibit 42: ALM pattern as of Dec 2016 (INR m)



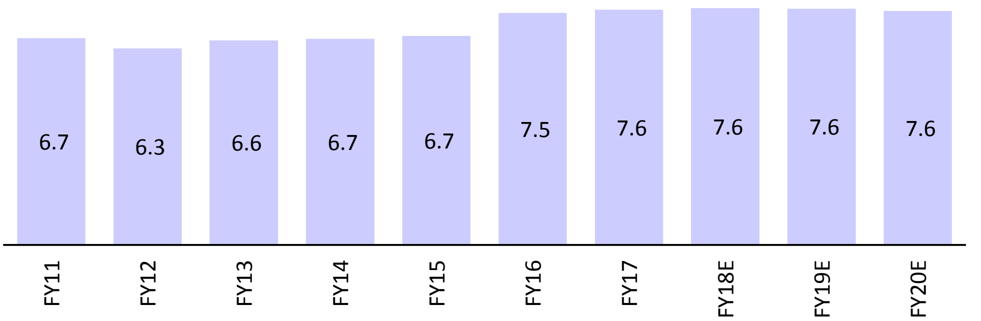
Source: MOSL, Company

Exhibit 43: ALM mismatch (Net Inflows, INR m)



Source: MOSL, Company

Exhibit 44: NIM (on AUM) to remain largely stable (%)

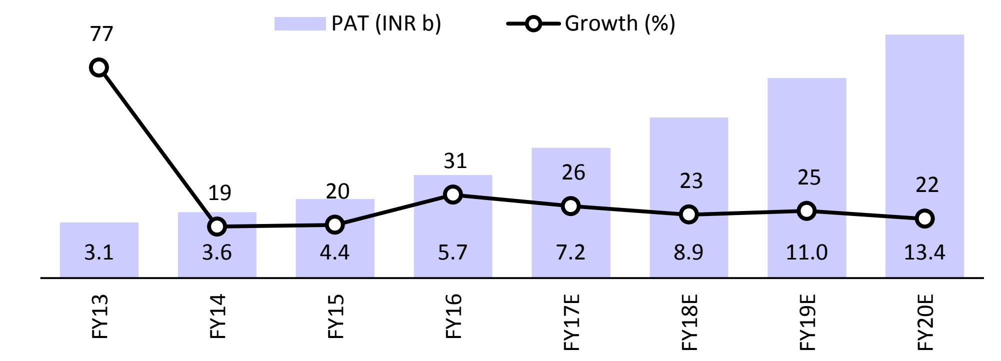


Source: MOSL, Company

With 19% CAGR in AUM coupled with reduction in expense ratio and credit costs, PAT is expected to grow at 23% CAGR over FY17-20

We forecast 23% CAGR in earnings for CIFC over FY17-20E, driven by 19% AUM CAGR, stable margins and improvement in expense ratio. As CIFC has several levers to pull for EPS growth, any negative surprises in any one factor is unlikely to alter the earnings growth trajectory significantly, in our view. A negative surprise in LLP could accrue from higher ultimate credit losses in the HE business.

Exhibit 45: PAT to grow at a CAGR of 23% over FY17-20



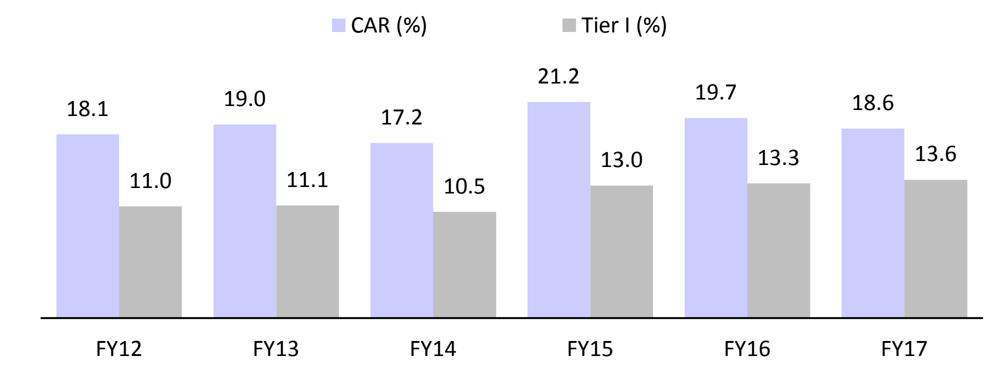
Source: MOSL, Company

CIFC raised INR5b from Apax Partners in July 2015. With a Tier I ratio of 13.6% currently, it will not need capital in the near term

CIFC's capital adequacy ratio stands at 18.6%, significantly above the minimum regulatory requirement of 15%. The Tier I ratio stands at 13.6%. The company had issued Compulsorily Convertible Preference Shares (CCPS) worth INR5b to Apax Partners in July 2014. CCPS were converted into 12.2m shares of common equity in July 2015.

While we do not expect any further capital raise in the near term, we believe any raise done at or near current market prices would be accretive to book value per share, thus boosting shareholder return.

Exhibit 46: Trend in capitalization



Source: MOSL, Company

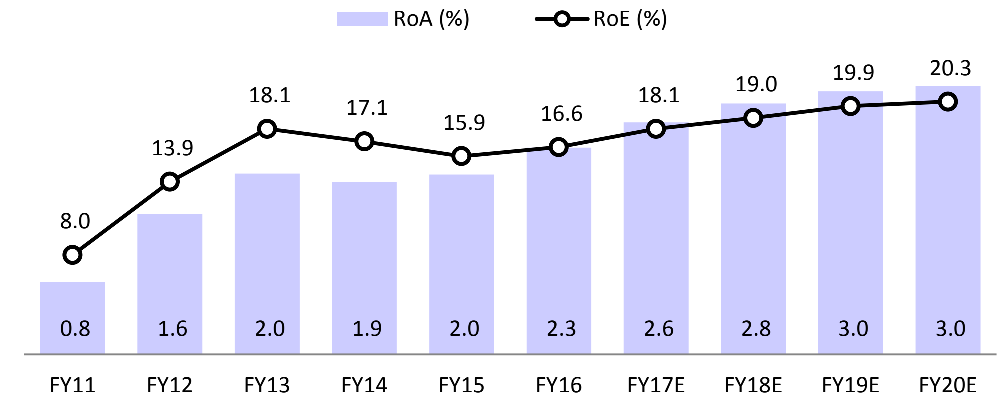
RoA/RoE should reach 3.0%/20.3% by FY20

Exhibit 47: DuPont Analysis

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
Interest Income	16.0	15.7	15.7	15.5	15.3
Interest Expended	8.4	8.1	7.7	7.6	7.5
Net Interest Income	**7.6**	**7.6**	**8.0**	**8.0**	**7.9**
Income from Securitization	0.8	1.0	1.1	1.1	1.1
Other Operating Income	0.3	0.3	0.3	0.3	0.3
Other Income	0.0	0.0	0.0	0.0	0.0
Net Income	**8.8**	**8.8**	**9.4**	**9.4**	**9.3**
Operating Expenses	3.5	3.7	3.6	3.4	3.2
Operating Income	**5.3**	**5.1**	**5.7**	**5.9**	**6.0**
Provisions/write offs	1.7	1.1	1.4	1.4	1.4
PBT	**3.6**	**4.0**	**4.3**	**4.5**	**4.6**
Tax	1.2	1.4	1.5	1.6	1.6
Extraordinary Items	0.0	0.0	0.0	0.0	0.0
Reported PAT	**2.3**	**2.6**	**2.8**	**3.0**	**3.0**
Leverage	7.2	6.9	6.7	6.7	6.7
RoE	**16.6**	**18.1**	**19.0**	**19.9**	**20.3**

Source: MOSL, Company

Exhibit 48: Return ratios on an upswing



Source: MOSL, Company

Valuation and view

Strong growth and return ratios to sustain premium valuation

- **CIFC has a well-diversified portfolio, both geographically as well as product-wise. It is further expanding into newer segments like home loans and MSME financing.**
- **With strong branch expansion, focus on new products and improvement in the broader economy, AUM is expected to grow at 19% CAGR over FY17-20. This would be accompanied by a structural improvement in ROE to ~20% by FY19.**
- **The stock has witnessed some consolidation over the past year, which provides an attractive entry point. Initiate with BUY rating and a target price of INR1,250 (3.2x FY19E P/B).**

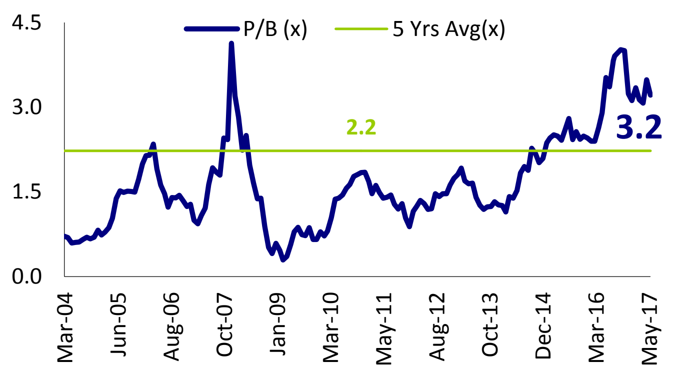
Strong performance over the medium term would help sustain premium valuation

CIFC's premium valuation as compared to peers reflects the optimism about the evolving growth conditions and the improved outlook for the vehicle finance business. Its valuation reflects the successful scaling up of its key businesses and the robust profitability delivered by the company through revenue diversification and higher operating efficiency.

Over FY10-17, margin expansion and the reduction in cost ratios were the key RoA drivers. Over FY17-20E, we expect operating cost rationalization to be the key driver of ROA expansion. This would improve ROA to 3.0% by FY20 from 2.6% in FY17. This will be accompanied by stable asset quality.

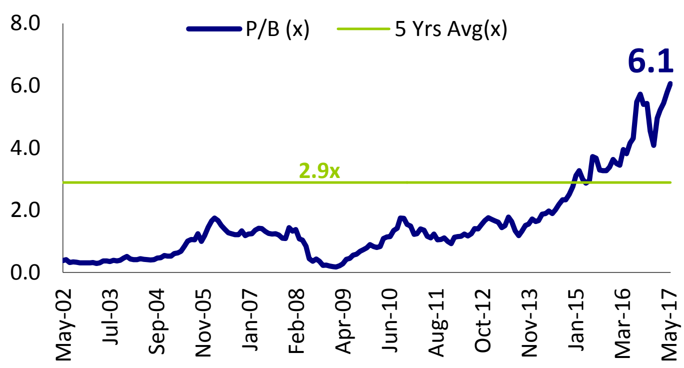
The stock currently trades at 2.7x FY19 BVPS. We use a Residual Income model to value the company with Rf: 7%, CoE: 13.0%, Terminal growth rate: 5.0% and arrive at a price target of INR 1,250 (3.2x FY19E P/B). **BUY.**

Exhibit 49: CIFC P/B (1 year forward)



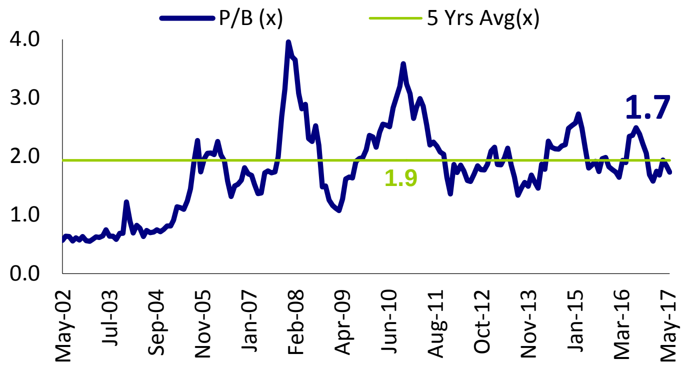
Source: MOSL, Company

Exhibit 50: BAF P/B (1 year forward)



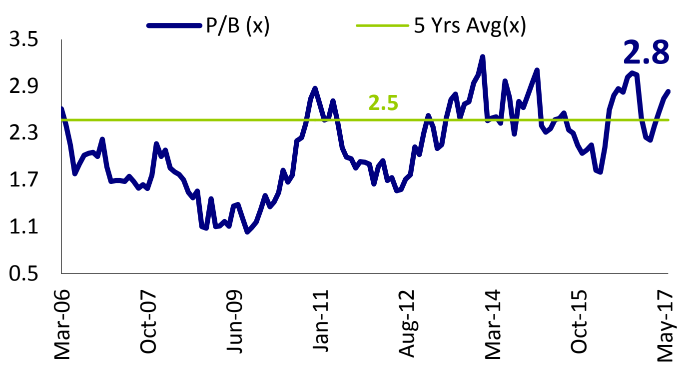
Source: MOSL, Company

Exhibit 51: SHTF P/B (1 year forward)



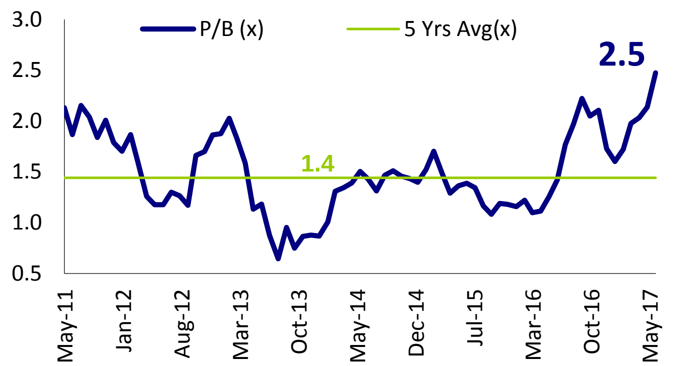
Source: MOSL, Company

Exhibit 52: MMFS P/B (1 year forward)



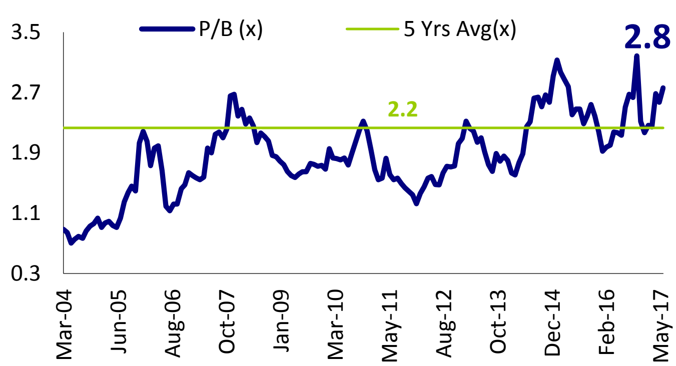
Source: MOSL, Company

Exhibit 53: MUTH P/B (1 year forward)



Source: MOSL, Company

Exhibit 54: SCUF P/B (1 year forward)



Source: MOSL, Company

Bull & Bear case

Bull Case

- ☑ In our bull case, we assume a strong AUM CAGR of 23% (vs. base case of 19%). We believe the LAP financing segment could surprise on the upside.
- ☑ We expect margins to increase to 7.9%
- ☑ We expect significant cost control, with cost-to-income ratio declining to 30.1% by FY20 (v/s 34.9% in base case)
- ☑ Asset quality would show some improvement with GNPA of 3.0% by FY20 (v/s 4.0% in base case) on 90dpd basis.
- ☑ This results in a PAT CAGR of 36% (vs. 23% in base case) over FY17-20 with RoA/RoE in FY20 equal to 3.7%/25%
- ☑ Based on the above assumptions, our bull case target multiple is 3.5x FY19 BV, implying an upside of 64%.

Bear Case

- ☑ In our bear case, we assume an AUM CAGR of 15% (vs. base case of 19%). Sustained slowdown in the home equity segment could lead to such a scenario.
- ☑ We expect margins to remain stable at 7.6%
- ☑ We expect no cost control, with cost-to-income ratio remaining largely stable at ~41% over FY17-20 (v/s 34.9% by FY20 in base case)
- ☑ Asset quality would worsen with GNPA of 4.8% by FY20 (v/s 4.0% in base case) on 90dpd basis.
- ☑ This results in a PAT CAGR of 10% (vs. 23% in base case) over FY17-20 with RoA/RoE in FY20 equal to 2.4%/16%
- ☑ Based on the above assumptions, our bear case target multiple is 2.25x FY20 BV, implying a downside of 17%.

Exhibit 55: Scenario Analysis – Bull Case

Bull Case	**FY18E**	**FY19E**	**FY20E**
NII (incl. securitization income)	29,791	37,025	45,613
Opex	11,444	12,737	14,138
Provisions	3,543	3,927	4,910
PBT	15,772	21,503	27,911
PAT	10,254	13,979	18,145
NIM - AUM (%)	7.9	8.0	7.9
Credit Cost (%)	0.9	0.8	0.8
RoA (%)	3.2	3.6	3.7
RoE (%)	21.6	24.0	25.0
EPS	65.6	89.4	116.1
BV	332.2	412.0	516.1
Target multiple	3.5		
Target price (INR)	**1,806**		
Upside	**64%**		

Source: Company, MOSL

Exhibit 56: Scenario Analysis – Bear Case

Bear Case	**FY17E**	**FY18E**	**FY19E**
NII (incl. securitization income)	27,447	31,802	36,516
Opex	11,839	13,636	15,623
Provisions	6,286	6,408	7,346
PBT	10,290	12,900	14,892
PAT	6,690	8,386	9,681
NIM - AUM (%)	7.5	7.5	7.6
Credit Cost (%)	1.6	1.4	1.4
RoA (%)	2.2	2.4	2.4
RoE (%)	14.7	16.2	16.4
EPS	42.8	53.6	61.9
BV	309.4	353.5	403.3
Target multiple	2.25		
Target price (INR)	**908**		
Upside	**-17%**		

Source: Company, MOSL

Company background

CIFC was founded in 1978 as the financial services arm of the Murugappa Group of companies. The promoters have ~53% stake in the company. CIFC commenced its business as an equipment financing company and has now emerged as a comprehensive financial services provider offering vehicle finance, home loans, home equity loans, SME loans, investment advisory services, stock broking and a variety of other financial services to customers.

CIFC is registered as an asset finance company with a focus on rural and semi-urban markets, and it has 703 branches spread across 25 states.

CIFC began its operations as an equipment finance company and later diversified into commercial vehicle financing in 1992. Presently, the company primarily deals in vehicle finance and home equity loans. CIFC has two subsidiary companies which provide stock broking and wealth management services. As of March 2017, the company had an outstanding AUM of over INR340b. In June 2015, CRISIL upgraded the long-term debt of the company from AA-/Positive to AA/Stable.

Key management personnel

Mr. Vellayan Subbiah currently serves as the Managing Director of the company. His term expires in August 2017. Effective August 19, 2017, Mr. N Srinivasan will serve as Executive Vice Chairman and Managing Director of the company.

Exhibit 57: Management

Name	Designation	Description
Mr. MBN Rao	Chairman & Independent Director	✓ Has over 40 years of varied experience in fields of banking, finance, economics, technology, human resource, marketing, treasury and administration. He has served as the former Chairman and Managing Director of Canara Bank and Indian Bank. He joined CIFC's Board in July 2010.
Mr. Vellayan Subbiah	Managing Director	✓ Has over 20 years of experience in the varied fields of technology, projects and financial services. He has worked with Mckinsey and Company and Sundram Fasteners. He joined the Board of CIFC in August 2010.
Mr. N. Srinivasan	Vice-Chairman and Non-Executive Director	✓ Has over 30 years of experience in the fields of corporate finance, legal, projects and general management. He has been on the board of CIFC since December 2006 and is a director on the Board of several Murugappa group companies.
Mr. D. Arul Selvan	Chief Financial Officer	✓ Graduate in Commerce, an Associate member of the Institute of Chartered Accountants of India. He has around 20 years of experience in fields of finance and strategy and has a long association with Murugappa group. He has been serving as the CFO since October 2008.

Source: MOSL, Company

Key risks

Asset quality risks in its LAP portfolio

Over the past few years, the large corporate segment, especially in the industrial and infrastructure sectors, has witnessed tremendous stress. There has been some trickle-down effect in the SME segment. There have been signs of stress in SME financing in northern geographies (NCR, Punjab & Haryana). While CIFC remains one of the most conservative players in the LAP segment with lower ticket sizes and lower LTVs, it will not be totally immune to any wide-scale stress that could occur in the future.

Slowdown in growth

We believe much of the re-rating in the stock over the past year is attributable to strong growth outlook coupled with improving return ratios. A sustained slowdown in growth, due to demonetization or severe competition, could lead to operating de-leverage and thus, decline in RoA/RoE. As a result, the re-rating will not sustain.

Lack of operating leverage

Improvement in the expense ratio is a core part of the thesis. However, increased costs of the tablet rollout or sluggish scaling-up of the new branches to be opened in FY17/18 could hamper improvement in profitability over the near term.

Financials and valuations

Income Statement								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Interest Income	24,316	30,583	34,600	39,163	43,134	49,315	58,001	68,461
Interest Expenses	14,110	17,711	19,604	20,508	22,308	24,296	28,301	33,427
Net Interest Income	**10,206**	**12,872**	**14,996**	**18,655**	**20,826**	**25,019**	**29,700**	**35,034**
Change (%)	46.2	26.1	16.5	24.4	11.6	20.1	18.7	18.0
Income from securitisation	566	1,215	1,435	2,053	2,647	3,473	4,171	4,935
Net Interest Income (Incl. Sec. Inc.)	**10,771**	**14,087**	**16,431**	**20,709**	**23,473**	**28,492**	**33,870**	**39,969**
Change (%)	48.1	30.8	16.6	26.0	13.3	21.4	18.9	18.0
Other Operating Income	652	820	870	708	814	961	1,134	1,338
Other Income	19	11	7	12	8	8	8	8
Net Income	**11,443**	**14,918**	**17,308**	**21,429**	**24,296**	**29,461**	**35,012**	**41,314**
Change (%)	47.0	30.4	16.0	23.8	13.4	21.3	18.8	18.0
Total Operating Expenses	**5,696**	**6,582**	**7,489**	**8,449**	**10,133**	**11,426**	**12,812**	**14,435**
Change (%)	30.4	15.6	13.8	12.8	19.9	12.8	12.1	12.7
Employee Expenses	1,531	1,875	2,217	2,539	4,027	4,630	5,279	6,123
Business Origination Expenses	1,744	1,973	1,870	2,258	1,784	1,998	2,238	2,462
Other Operating Expenses	2,421	2,734	3,402	3,652	4,323	4,797	5,295	5,850
Operating Profit	**5,747**	**8,335**	**9,819**	**12,980**	**14,162**	**18,035**	**22,200**	**26,879**
Change (%)	68.2	45.0	17.8	32.2	9.1	27.3	23.1	21.1
Total Provisions	**1,243**	**2,833**	**3,247**	**4,272**	**3,106**	**4,405**	**5,213**	**6,195**
% of Operating Profit	21.6	34.0	33.1	32.9	21.9	24.4	23.5	23.0
PBT	**4,504**	**5,502**	**6,572**	**8,708**	**11,056**	**13,629**	**16,988**	**20,684**
Tax Provisions	1,443	1,862	2,221	3,023	3,868	4,769	5,944	7,237
PAT	**3,062**	**3,640**	**4,352**	**5,685**	**7,187**	**8,861**	**11,044**	**13,447**
Change (%)	77.4	18.9	19.5	30.6	26.4	23.3	24.6	21.8
Proposed Dividend	475	501	503	703	782	938	1,094	1,251

Balance Sheet								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Share Capital	1,432	1,432	1,437	1,562	1,562	1,562	1,562	1,562
Reserves & Surplus	18,216	21,514	30,296	35,012	41,251	48,984	58,711	70,653
Net Worth for Equity Shareholders	**19,648**	**22,947**	**31,733**	**36,574**	**42,814**	**50,547**	**60,274**	**72,217**
Borrowings	**152,890**	**180,932**	**194,752**	**225,762**	**242,068**	**288,989**	**346,993**	**412,719**
Change (%)	33.6	18.3	7.6	15.9	7.2	19.4	20.1	18.9
Total Liabilities	**172,538**	**203,879**	**226,486**	**262,336**	**284,881**	**339,535**	**407,266**	**484,934**
Investments	2,245	824	675	666	2,385	2,862	3,435	4,122
Change (%)	263.9	-63.3	-18.1	-1.3	258.3	20.0	20.0	20.0
Loans	**166,802**	**194,973**	**222,422**	**259,732**	**279,036**	**327,891**	**393,417**	**467,951**
Change (%)	35.4	16.9	14.1	16.8	7.4	17.5	20.0	18.9
Net Fixed Assets	707	729	683	1,113	1,402	1,799	2,110	2,362
Total Assets	**172,538**	**203,879**	**226,486**	**262,336**	**288,653**	**339,535**	**407,266**	**484,934**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E
Spreads Analysis (%)								
Avg. Yield on Loans	16.8	16.9	16.6	16.2	16.0	16.3	16.1	15.9
Avg Cost of Funds	10.6	10.6	10.4	9.8	9.5	9.2	8.9	8.8
Int. Spread on Financing Portfolio	6.2	6.3	6.1	6.5	6.6	7.1	7.2	7.1
NIM (on AUM)	6.6	6.7	6.7	7.5	7.6	7.6	7.6	7.6
NIM (on loans)	7.0	7.1	7.2	7.7	7.7	8.2	8.2	8.1
Profitability Ratios (%)								
RoE	18.1	17.1	15.9	16.6	18.1	19.0	19.9	20.3
RoA	2.0	1.9	2.0	2.3	2.6	2.8	3.0	3.0
Int. Expended / Int.Earned	58.0	57.9	56.7	52.4	51.7	49.3	48.8	48.8
Other Inc. / Net Income	5.9	5.6	5.1	3.4	3.4	3.3	3.3	3.3
Efficiency Ratios (%)								
Op. Exps. / Net Income	49.8	44.1	43.3	39.4	41.7	38.8	36.6	34.9
Empl. Cost/Op. Exps.	26.9	28.5	29.6	30.1	39.7	40.5	41.2	42.4
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	109.1	107.8	114.2	115.0	115.3	113.5	113.4	113.4
Net NPAs to Net Adv.	0.2	0.8	2.0	2.1	3.2	3.1	2.8	2.6
Assets/Equity	8.8	8.9	7.1	7.2	6.7	6.7	6.8	6.7

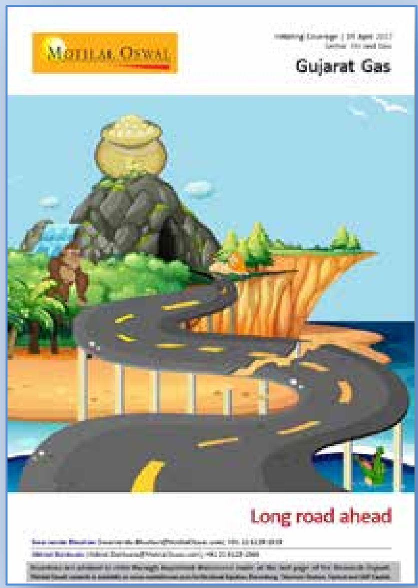
Valuations

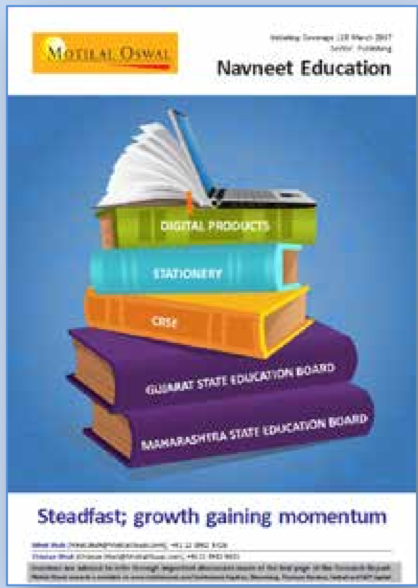
Book Value (INR)	137.2	160.2	203.1	233.9	273.9	323.3	385.5	461.9
BV Growth (%)	28.4	16.7	26.8	15.2	17.1	18.1	19.2	19.8
Price-BV (x)					**3.8**	**3.2**	**2.7**	**2.3**
EPS (INR)	21.4	25.4	30.3	36.4	46.0	56.7	70.6	86.0
EPS Growth (%)	64.4	18.8	19.2	20.1	26.3	23.3	24.6	21.8
Price-Earnings (x)				**28.8**	**22.8**	**18.5**	**14.9**	**12.2**
Dividend per share	3.5	3.5	3.5	4.5	5.0	6.0	7.0	8.0
Dividend Yield (%)	**0.3**	**0.3**	**0.3**	**0.4**	**0.5**	**0.6**	**0.7**	**0.8**

E: MOSL Estimates

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS





Disclosures

This document has been prepared by Motilal Oswal Securities Limited (hereinafter referred to as Most) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOSt) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

MOSt and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We and our affiliates have investment banking and other business relationships with a some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that MOSt and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business . The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on twin parameters of performance & profitability of MOSt.

MOSt generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, MOSt generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. MOSt and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of MOSt even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition MOST has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOSt or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOSt or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOSt or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent MOSt's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, MOSt and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOSt and/or its affiliates from doing so. MOSt or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOSt or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Most and it's associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Most and it's associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of Most or its associates during twelve months preceding the date of distribution of the research report

MOSt and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, MOSt has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Motilal Oswal Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000000412

Pending Regulatory inspections against Motilal Oswal Securities Limited:

SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

List of associate companies of Motilal Oswal Securities Limited -**Click here to access detailed report**

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOSt research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Cholamandalam Investment & Finance
▪ Analyst ownership of the stock	No
▪ Served as an officer, director or employee -	No

A graph of daily closing prices of securities is available at www.nseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOSt & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong: This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Kong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act(FAA) read with regulation 17(1)(d) of the Financial Advisors Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Varun Kumar
Varun.kumar@motilaloswal.com
Contact : (+65) 68189232
Office Address:21 (Suite 31),16 Collyer Quay,Singapore 04931