

India

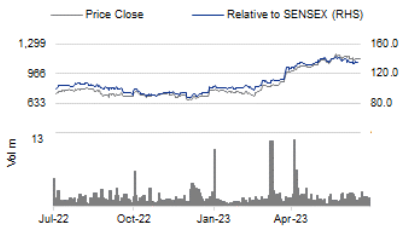
ADD (no change)

Consensus ratings*: Buy 27 Hold 8 Sell 2

Current price:	Rs1,130
Target price:	Rs1,350
Previous target:	Rs1,350
Up/downside:	19.5%
InCred Research / Consensus:	20.8%
Reuters:	
Bloomberg:	CIFC IN
Market cap:	US\$12,801m Rs929,574m
Average daily turnover:	US\$22.3m Rs1615.9m
Current shares o/s:	82.1m
Free float:	4,620.0%
*Source: Bloomberg	

Key changes in this note

- The company has replaced its existing Tier-II bonds at a relatively higher cost and is sitting on excess liquidity, but margins to normalize with repricing of the loan book.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.0)	29.8	54.0
Relative (%)	(3.6)	19.8	34.8

Major shareholders	% held
Cholamandalam Financial Holdings Limited	45.4
Axis Mutual Fund Trustee Ltd.	4.3
Ambadi Invesments Ltd.	4.1

Analyst(s)



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Cholamandalam Investment and Finance Company

Capital raising to aid growth and margins

- CIFIC posted a lower-than-estimated 1Q PAT of Rs7.26bn amid a steep fall in sequential margins & elevated provisioning, despite strong growth momentum.
- CIFIC has replaced existing Tier-II bonds at a relatively higher cost & is sitting on excess liquidity. Expects normalcy post capital raising & loan book repricing.
- Capital dilution of Rs40bn is on expected lines, which will aid quality growth with superior returns. Retain ADD rating with Rs1,350 TP, or ~4.4x FY25F BV.

Robust growth momentum to continue with focus on AUM diversity

Cholamandalam Investment & Finance Company (CIFIC) posted robust 1QFY24 AUM, +40.1% yoy/+7.8% qoq, at Rs1.15tr, led by disbursement growth of +50.2% yoy to Rs200bn. We expect the growth acceleration to continue, led by market dominance of CIFIC, strong momentum in the housing finance business as well as the rollout of new business products across ~100% of its vehicle finance branches. CIFIC is eyeing diversity in assets under management (AUM), with the contribution from vehicle finance expected to fall to ~50% from ~62% currently.

Margins dip amid issuance of subordinated bonds, elevated liquidity

CIFIC witnessed a steep decline in sequential margins to ~730bp against ~800bp in 4QFY23 due to a sharp surge in the cost of funds. Our quick discussion with management indicates that the company has witnessed a decline in bank borrowings and has replaced existing subordinate debt (Tier-II bonds) with new bond issuance, but at a relatively higher cost. CIFIC also reported elevated borrowing (+11.1% qoq), which stands at ~94.2% of AUM (highest in the past 16 quarters) as it is in the process of raising equity capital. Thus, overall liquidity in the balance sheet also stands elevated. We expect the margins to improve in the coming quarters after the raising of equity capital as well as repricing of the portfolio, as the proportion of the new book is replaced with higher yields.

Provision up despite stable asset quality; equity dilution on the cards

On the asset quality front, Stage-3 levels have marginally increased to 3.06% in Jun 2023 from 3.01% in Mar 2023, but the provision charged reported was higher than our estimate due to cyclical in vehicle finance book as well as a rise in provision coverage (including for Stage-1 and Stage-2 assets) to ~35.6% against ~33.7% in 4QFY23. CIFIC's board has approved a plan to raise capital to the tune of Rs40bn, which is in line with our estimate.

Outlook & valuation

We continue to like CIFIC as we believe its valuation premium will be justified by managing diversified growth at a steady-state RoE. We maintain our estimates and retain our ADD rating on the stock with a target price of Rs1,350 or ~4.4x FY25F BV with RoA at ~2.8% & post-dilution RoE at ~23% for FY25F. Downside risks: Slow growth and margin pressure.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	57,495	70,083	94,490	131,281	171,729
Total Non-Interest Income (Rsm)	905	2,209	3,977	4,176	4,385
Operating Revenue (Rsm)	58,400	72,292	98,467	135,457	176,114
Total Provision Charges (Rsm)	(8,803)	(8,497)	(16,410)	(23,946)	(32,834)
Net Profit (Rsm)	21,467	26,662	34,676	50,275	67,028
Core EPS (Rs)	26.13	32.46	42.22	58.82	78.42
Core EPS Growth	42%	24%	30%	39%	33%
FD Core P/E (x)	43.25	34.83	26.78	19.22	14.42
DPS (Rs)	2.00	2.00	3.00	4.00	5.00
Dividend Yield	0.18%	0.18%	0.27%	0.35%	0.44%
BVPS (Rs)	142.5	174.0	213.3	306.6	380.0
P/BV (x)	7.93	6.50	5.30	3.69	2.98
ROE	20.2%	20.5%	21.8%	23.0%	22.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Interest Income	16,142	16,476	17,798	19,667	20,232	25.3%	2.9%
Other Income	258	498	519	934	1,033		
Total Income	16,401	16,974	18,317	20,601	21,265	29.7%	3.2%
Operating Expenses	5,797	6,611	7,520	7,870	7,867	35.7%	0.0%
Operating Profit	10,604	10,363	10,797	12,731	13,399	26.4%	5.2%
Provisions	2,986	2,782	1,589	1,140	3,723	24.7%	226.7%
CoR (%)	28.2%	26.8%	14.7%	9.0%	27.8%		
PBT	7,617	7,581	9,208	11,591	9,675	27.0%	-16.5%
Tax	1,961	1,947	2,365	3,063	2,415	23.2%	-21.1%
Tax rate (%)	25.7%	25.7%	25.7%	26.4%	25.0%		
PAT	5,657	5,634	6,843	8,528	7,260	28.3%	-14.9%
Disbursements	133,300	146,230	175,600	210,200	200,150	50.2%	-4.8%
Total AUM	819,250	876,680	954,680	1,064,980	1,147,960	40.1%	7.8%

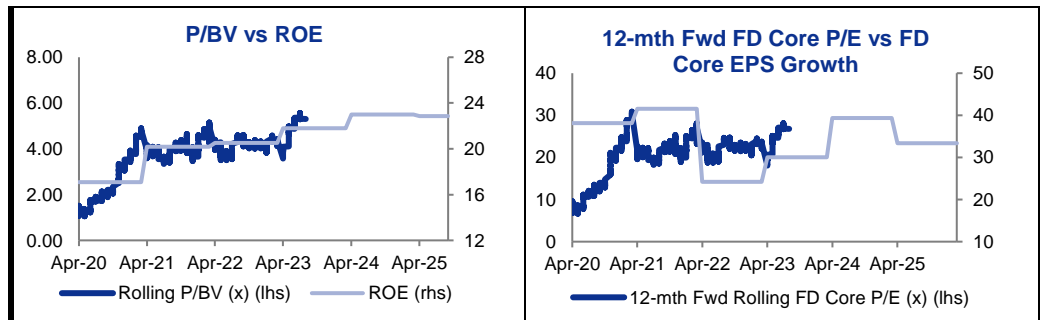
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/e Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	95,532	94,490	-1.1%	124,668	131,281	5.3%	157,778	171,729	8.8%
Other Income	3,820	3,977	4.1%	4,436	4,176	-5.9%	4,558	4,385	-3.8%
PPOP	62,530	63,080	0.9%	91,052	91,611	0.6%	122,421	123,046	0.5%
PAT	36,611	34,676	-5.3%	50,115	50,275	0.3%	65,776	67,028	1.9%
EPS (Rs)	44.6	42.2	-5.4%	58.1	58.8	1.2%	77.9	78.4	0.6%
BV (Rs)	214.6	213.2	-0.6%	304.8	306.4	0.5%	375.7	379.7	1.1%
ABV (Rs)	196.9	195.3	-0.8%	285.0	286.5	0.5%	351.2	354.5	1.0%

SOURCE: INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,495	70,083	94,490	131,281	171,729
Total Non-Interest Income	905	2,209	3,977	4,176	4,385
Operating Revenue	58,400	72,292	98,467	135,457	176,114
Total Non-Interest Expenses	(19,714)	(26,610)	(33,960)	(42,133)	(51,014)
Pre-provision Operating Profit	37,712	44,494	63,080	91,611	123,046
Total Provision Charges	(8,803)	(8,497)	(16,410)	(23,946)	(32,834)
Operating Profit After Provisions	28,909	35,997	46,671	67,665	90,212
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	28,909	35,997	46,671	67,665	90,212
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	28,909	35,997	46,671	67,665	90,212
Exceptional Items					
Pre-tax Profit	28,909	35,997	46,671	67,665	90,212
Taxation	(7,442)	(9,335)	(11,994)	(17,390)	(23,184)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	21,467	26,662	34,676	50,275	67,028
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	21,467	26,662	34,676	50,275	67,028
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.2%	95.0%	95.1%	95.2%	95.0%
Avg Liquid Assets/Avg IEAs	106.8%	104.0%	101.2%	101.1%	102.8%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	741,492	1,047,480	1,477,084	1,943,840	2,434,028
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	741,492	1,047,480	1,477,084	1,943,840	2,434,028
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	741,492	1,047,480	1,477,084	1,943,840	2,434,028
Intangible Assets					
Other Non-Interest Earning Assets	10,066	11,973	14,368	17,241	20,690
Total Non-Interest Earning Assets	19,179	21,783	24,922	28,688	33,208
Cash And Marketable Securities	42,201	29,610	696	37,979	82,965
Long-term Investments	20,762	36,280	47,339	71,651	103,104
Total Assets	823,634	1,135,153	1,550,040	2,082,158	2,653,304
Customer Interest-Bearing Liabilities					
Bank Deposits	693,431	974,903	1,352,534	1,791,265	2,291,202
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	693,431	974,903	1,352,534	1,791,265	2,291,202
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	13,126	17,291	22,338	28,870	37,328
Total Liabilities	706,557	992,195	1,374,872	1,820,135	2,328,530
Shareholders Equity	117,077	142,959	175,169	262,023	324,774
Minority Interests					
Total Equity	117,077	142,959	175,169	262,023	324,774

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	16.4%	21.9%	34.8%	38.9%	30.8%
Operating Profit Growth	11.9%	18.1%	41.2%	44.7%	34.1%
Pretax Profit Growth	42%	25%	30%	45%	33%
Net Interest To Total Income	98.5%	96.9%	96.0%	96.9%	97.5%
Cost Of Funds	6.46%	6.89%	7.50%	7.10%	6.60%
Return On Interest Earning Assets	14.4%	14.3%	14.4%	14.2%	14.0%
Net Interest Spread	7.90%	7.37%	6.90%	7.10%	7.40%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	23%	19%	26%	26%	27%
Interest Return On Average Assets	7.33%	7.16%	7.04%	7.23%	7.25%
Effective Tax Rate	25.7%	25.9%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio	7.6%	6.2%	7.1%	6.8%	6.4%
Return On Average Assets	2.74%	2.72%	2.58%	2.77%	2.83%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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