

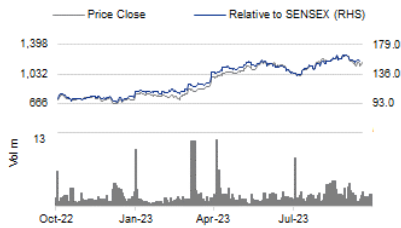
India

**ADD** (no change)

Consensus ratings*: Buy 23 Hold 8 Sell 4	
Current price:	Rs1,177
Target price: ▲	Rs1,400
Previous target:	Rs1,350
Up/downside:	18.9%
InCred Research / Consensus:	13.6%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$11,873m
	Rs988,503m
Average daily turnover:	US\$26.4m
	Rs2200.3m
Current shares o/s:	82.1m
Free float:	4,620.0%
*Source: Bloomberg	

**Key changes in this note**

- Management has a nominal portfolio worth Rs20bn (~1.5% of AUM) sourced through partnerships (including fintech), which should reduce gradually, in our view.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.3)	7.1	58.1
Relative (%)	(1.1)	9.0	50.1

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

**Analyst(s)**



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# Cholamandalam Investment and Finance Company

## Believe in consistency over volatility

- CIFIC posted an in-line 2Q PAT of Rs7.2bn, amid healthy operating performance including sequential improvement in margins by ~10bp to ~7.4%.
- Unsecured portfolio of Rs20bn (~1.5% of AUM) sourced through partnerships (including fintech), which witnessed a spurt in slippages, remains monitored.
- We are confident of the growth & asset quality, with stringent underwriting & robust collection mechanism. Retain ADD with Rs1,400 TP (~4.5x FY25F BV).

### Robust growth momentum to continue with focus on AUM diversity

Cholamandalam Investment & Finance Company (CIFIC) posted a robust disbursement growth of ~47% yoy to Rs215.4bn in 2QFY24, aiding overall assets under management or AUM growth of ~42% yoy to Rs1.24tr. The disbursement growth was across segments (vehicle, LAP, home loans, etc.) but there may be a consolidation within the new business segments. We expect the growth acceleration to continue, led by market dominance as well as the rollout of new business products across its vehicle finance branches.

### Margins surprise positively; cost of funds bottoms out

CIFIC surprised positively on the margins front, with ~10bp sequential rise to ~7.4% amid the rise in yields. The company witnessed a rise in yields whereas the cost of funds remained flat sequentially. The margin growth was evident across segments, including vehicle finance, loan against property or LAP as well as home finance. The sequential rise in its securitization portfolio could also be margin accretive. 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 loan book is replaced with higher yields.

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

On the asset quality front, stage-3 level assets have reduced to ~2.96% as of Sep 2023-end from ~3.06% as of Jun 2023-end, despite the nominal rise on an absolute basis sequentially, with an improvement to ~47.3% against ~45.4% last quarter. The company has a nominal portfolio of Rs20bn (~1.4% of AUM) sourced through partnership arrangements (including fintech), which has witnessed delinquencies, but management is committed to reduce the same gradually. Considering CIFIC's track record of stringent underwriting practices along with a robust collection mechanism, we remain confident of the asset quality profile and credit costs going ahead.

### 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 retain our ADD rating on the stock with a higher target price of Rs1,400 (Rs1,350 earlier) or ~4.5x 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	92,086	129,463	165,980
Total Non-Interest Income (Rsm)	905	2,209	5,192	5,452	5,724
Operating Revenue (Rsm)	58,400	72,292	97,278	134,915	171,704
Total Provision Charges (Rsm)	(8,803)	(8,497)	(16,394)	(23,767)	(32,218)
Net Profit (Rsm)	21,467	26,662	35,126	51,718	66,338
Core EPS (Rs)	26.13	32.46	42.76	60.51	77.61
Core EPS Growth	42%	24%	32%	41%	28%
FD Core P/E (x)	45.05	36.27	27.53	19.46	15.17
DPS (Rs)	2.00	2.00	3.00	4.00	5.00
Dividend Yield	0.17%	0.17%	0.25%	0.34%	0.42%
BVPS (Rs)	142.5	174.0	213.8	308.8	381.4
P/BV (x)	8.26	6.77	5.51	3.81	3.09
ROE	20.2%	20.5%	22.1%	23.5%	22.5%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	13,631	13,932	14,841	15,092	16,142	16,476	17,798	19,667	20,232	22,298	35.3%	10.2%
Other Income	113	106	172	514	258	498	519	934	1,033	1,369		
<b>Total Income</b>	<b>13,744</b>	<b>14,037</b>	<b>15,012</b>	<b>15,606</b>	<b>16,401</b>	<b>16,974</b>	<b>18,317</b>	<b>20,601</b>	<b>21,265</b>	<b>23,667</b>	<b>39.4%</b>	<b>11.3%</b>
Operating Expenses	3,705	5,179	5,317	6,486	5,797	6,611	7,520	7,870	7,867	9,461	43.1%	20.3%
<b>Operating Profit</b>	<b>10,039</b>	<b>8,858</b>	<b>9,696</b>	<b>9,120</b>	<b>10,604</b>	<b>10,363</b>	<b>10,797</b>	<b>12,731</b>	<b>13,399</b>	<b>14,206</b>	<b>37.1%</b>	<b>6.0%</b>
Provisions	5,631	693	2,653	-174	2,986	2,782	1,589	1,140	3,723	3,998	43.7%	7.4%
CoR (%)	56.1%	7.8%	27.4%	-1.9%	28.2%	26.8%	14.7%	9.0%	27.8%	28.1%		
<b>PBT</b>	<b>4,407</b>	<b>8,165</b>	<b>7,043</b>	<b>9,294</b>	<b>7,617</b>	<b>7,581</b>	<b>9,208</b>	<b>11,591</b>	<b>9,675</b>	<b>10,208</b>	<b>34.7%</b>	<b>5.5%</b>
Tax	1,139	2,100	1,805	2,398	1,961	1,947	2,365	3,063	2,415	2,583	32.7%	6.9%
Tax Rate (%)	25.9%	25.7%	25.6%	25.8%	25.7%	25.7%	25.7%	26.4%	25.0%	25.3%		
<b>PAT</b>	<b>3,268</b>	<b>6,065</b>	<b>5,238</b>	<b>6,896</b>	<b>5,657</b>	<b>5,634</b>	<b>6,843</b>	<b>8,528</b>	<b>7,260</b>	<b>7,625</b>	<b>35.3%</b>	<b>5.0%</b>
Disbursements	36,350	87,060	1,04,300	1,27,170	1,33,300	1,60,960	1,75,600	2,10,200	2,00,150	2,15,420	33.8%	7.6%
<b>Total AUM</b>	<b>6,78,210</b>	<b>7,00,230</b>	<b>7,27,240</b>	<b>7,69,070</b>	<b>8,19,250</b>	<b>8,76,680</b>	<b>9,54,680</b>	<b>10,64,980</b>	<b>11,47,960</b>	<b>12,42,450</b>	<b>41.7%</b>	<b>8.2%</b>

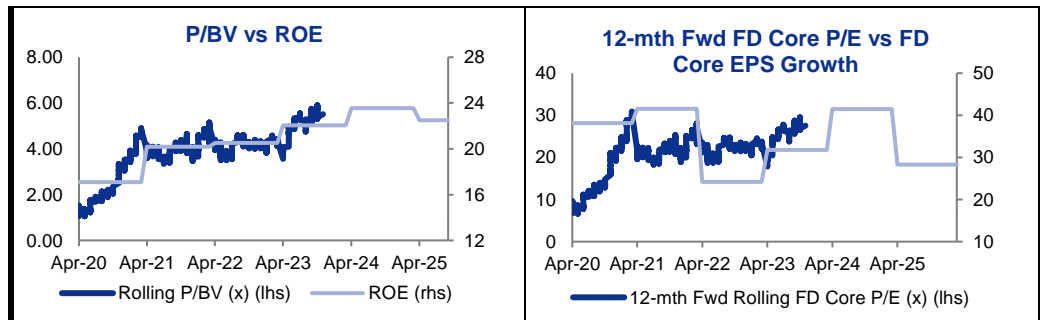
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	94,490	92,086	-2.5%	1,31,281	1,29,463	-1.4%	1,71,729	1,65,980	-3.3%
Other Income	3,977	5,192	30.6%	4,176	5,452	30.6%	4,385	5,724	30.6%
PPOP	63,080	63,416	0.5%	91,611	93,001	1.5%	1,23,046	1,21,024	-1.6%
PAT	34,676	35,126	1.3%	50,275	51,718	2.9%	67,028	66,338	-1.0%
EPS (Rs)	42.2	42.8	1.3%	58.8	60.5	2.9%	78.4	77.6	-1.0%
BV (Rs)	213.2	213.8	0.3%	306.4	308.6	0.7%	379.7	381.1	0.4%
ABV (Rs)	195.3	195.8	0.3%	286.5	288.8	0.8%	354.5	356.2	0.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,495	70,083	92,086	129,463	165,980
<b>Total Non-Interest Income</b>	<b>905</b>	<b>2,209</b>	<b>5,192</b>	<b>5,452</b>	<b>5,724</b>
Operating Revenue	58,400	72,292	97,278	134,915	171,704
<b>Total Non-Interest Expenses</b>	<b>(19,714)</b>	<b>(26,610)</b>	<b>(32,435)</b>	<b>(40,202)</b>	<b>(48,626)</b>
Pre-provision Operating Profit	37,712	44,494	63,416	93,001	121,024
<b>Total Provision Charges</b>	<b>(8,803)</b>	<b>(8,497)</b>	<b>(16,394)</b>	<b>(23,767)</b>	<b>(32,218)</b>
Operating Profit After Provisions	28,909	35,997	47,022	69,234	88,806
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	28,909	35,997	47,022	69,234	88,806
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	28,909	35,997	47,022	69,234	88,806
<b>Exceptional Items</b>					
Pre-tax Profit	28,909	35,997	47,022	69,234	88,806
Taxation	(7,442)	(9,335)	(11,897)	(17,516)	(22,468)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	21,467	26,662	35,126	51,718	66,338
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	21,467	26,662	35,126	51,718	66,338
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%	95.0%	94.6%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>106.8%</b>	<b>104.0%</b>	<b>101.3%</b>	<b>101.7%</b>	<b>104.3%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
<b>Total Gross Loans</b>	<b>741,492</b>	<b>1,047,480</b>	<b>1,474,667</b>	<b>1,920,662</b>	<b>2,375,067</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	741,492	1,047,480	1,474,667	1,920,662	2,375,067
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	741,492	1,047,480	1,474,667	1,920,662	2,375,067
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>10,066</b>	<b>11,973</b>	<b>14,368</b>	<b>17,241</b>	<b>20,690</b>
<b>Total Non-Interest Earning Assets</b>	<b>19,179</b>	<b>21,783</b>	<b>24,922</b>	<b>28,688</b>	<b>33,208</b>
Cash And Marketable Securities	42,201	29,610	3,563	54,094	131,671
<b>Long-term Investments</b>	<b>20,762</b>	<b>36,280</b>	<b>47,339</b>	<b>80,607</b>	<b>114,560</b>
Total Assets	823,634	1,135,153	1,550,490	2,084,050	2,654,506
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	175,618	263,915	325,976
<b>Minority Interests</b>					
Total Equity	117,077	142,959	175,618	263,915	325,976

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Income Growth	16.4%	21.9%	31.4%	40.6%	28.2%
Operating Profit Growth	11.9%	18.1%	41.9%	46.1%	29.9%
Pretax Profit Growth	42%	25%	31%	47%	28%
Net Interest To Total Income	98.5%	96.9%	94.7%	96.0%	96.7%
Cost Of Funds	6.46%	6.89%	7.80%	7.10%	6.60%
Return On Interest Earning Assets	14.4%	14.3%	14.5%	14.2%	14.0%
Net Interest Spread	7.90%	7.37%	6.70%	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%	6.86%	7.12%	7.01%
Effective Tax Rate	25.7%	25.9%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	7.6%	6.2%	7.0%	6.6%	6.4%
Return On Average Assets	2.74%	2.72%	2.62%	2.85%	2.80%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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