

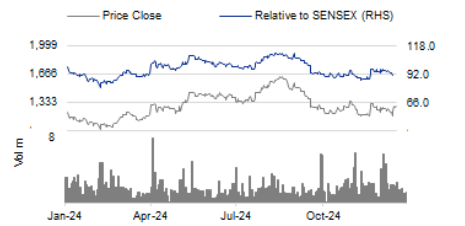
India

**HOLD** (no change)

Consensus ratings*:	Buy 28 Hold 7 Sell 4
Current price:	Rs1,286
Target price:	Rs1,300
Previous target:	Rs1,300
Up/downside:	1.1%
InCred Research / Consensus:	-11.1%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$12,483m
	Rs1,081,201m
Average daily turnover:	US\$26.7m
	Rs2309.7m
Current shares o/s:	82.1m
Free float:	49.8%
*Source: Bloomberg	

**Key changes in this note**

➤ Interestingly, the gap between NPAs, as per RBI norms, and gross stage-3 assets has witnessed a rise, for the first time after 12 quarters of ~14bp in Q2 to ~109bp in Q3.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	8.4	1.0	8.6
Relative (%)	9.8	3.9	0.4

<b>Major shareholders</b>	% held
Cholamandalam Financial Holdings	44.4
Axis Mutual Fund Trustee Ltd.	2.6
New World Fund INC	2.0

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# Cholamandalam Investment and Finance Company

## The dawn is still far away

- CIFIC reported a better-than-estimate 3Q PAT of Rs10.9bn (InCred est: Rs9.9bn) amid improved operating performance & qoq flat credit costs.
- Lopsided disbursement demand along with a qoq rise in delinquencies across segments & the rising gap between RBI's NPA & GS-3 norms raise concerns.
- Slowing vehicle demand, & a rise in delinquencies amid seasoning of unsecured book to have an impact. Retain HOLD rating with a TP of Rs1,300.

### Lopsided growth in disbursements - a dramatic change is unlikely

Cholamandalam Investment and Finance Company or CIFIC continues to witness sporadicity in disbursements since the past few quarters; however, the trend in 3QFY25 was a lopsided one. Overall disbursements grew by ~6.1% qoq; however, the entire growth was led by vehicle finance while all other businesses posted a muted performance. Within vehicle finance, 2W, tractor, heavy commercial vehicle & construction equipment segments outshined compared to used vehicle and LCVs, which is unusual when compared to the recent past. The consolidation in new businesses (unsecured SME/MSME and retail) was on expected lines amid adverse macros; however, the muted mortgage book is another surprise. We are building in a disbursement growth of ~16% CAGR & AUM to reach ~24% CAGR over FY25F-27F. The margin witnessed a sequential surge of ~20bp to ~7.7% & we expect the improvement to continue in the coming quarters with a rising share of better-yield assets as well as a gradual decline in the cost of funds.

### Asset quality trend reflects uncertainty – prefer to remain watchful

CIFIC witnessed ~8bp sequential rise in gross stage-3 assets to ~2.91%, with the rise visible across segments. Despite the rise, CIFIC continues to reduce the coverage by ~40bp sequentially to ~44.1%, resulting in sequentially flat credit costs at ~157bp. The only silver lining is stage-2 assets remaining flat sequentially, indicating an initial ease in incremental flow. Interestingly, the gap between NPAs, as per the Reserve Bank of India norms, and gross stage-3 assets has witnessed a rise, for the first time after 12 quarters of ~14bp qoq to ~109bp. This indicates that there are a rising number of customers who are unable to pay their dues, despite not being a part of gross stage-3 assets. Finally, though management remains firm over improving the trend from 4QFY25F, we prefer to remain watchful.

### Outlook & valuation

We appreciate the dynamic management practices of CIFIC; however, elevated contribution from the auto financing segment (>50%), along with a gradual seasoning of new businesses, will drive cyclicality in earnings. We have recently downgraded CIFIC's rating to HOLD. We maintain our target price of Rs1,300 or ~3.9x FY26F BV. Upside risk: Better-than-expected AUM growth. Downside risk: Higher-than-expected credit costs.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	70,083	96,146	132,563	164,694	202,741
Total Non-Interest Income (Rsm)	2,209	3,711	2,968	3,414	3,755
Operating Revenue (Rsm)	72,292	99,857	135,532	168,108	206,496
Total Provision Charges (Rsm)	(8,497)	(13,218)	(25,225)	(30,257)	(35,846)
Net Profit (Rsm)	26,662	34,228	41,669	52,304	65,859
Core EPS (Rs)	32.46	40.73	49.59	61.20	77.07
Core EPS Growth	24%	25%	22%	23%	26%
FD Core P/E (x)	39.61	31.57	25.93	21.01	16.69
DPS (Rs)	2.00	2.00	4.00	9.00	16.00
Dividend Yield	0.16%	0.16%	0.31%	0.70%	1.24%
BVPS (Rs)	174.0	232.7	278.3	326.1	387.4
P/BV (x)	7.39	5.53	4.62	3.94	3.32
ROE	20.5%	20.2%	19.4%	20.4%	21.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	YoY (%)	QoQ (%)
Net Interest Income	20,232	22,298	25,207	28,409	29,891	31,715	34,374	36.4%	8.4%
Other Income	1,033	1,369	590	718	443	662	1,031		
<b>Total Income</b>	<b>21,265</b>	<b>23,667</b>	<b>25,797</b>	<b>29,127</b>	<b>30,333</b>	<b>32,376</b>	<b>35,406</b>	<b>37.2%</b>	<b>9.4%</b>
Operating Expenses	7,867	9,461	10,640	12,850	11,834	13,155	14,130	32.8%	7.4%
<b>Operating Profit</b>	<b>13,399</b>	<b>14,206</b>	<b>15,157</b>	<b>16,278</b>	<b>18,499</b>	<b>19,221</b>	<b>21,276</b>	<b>40.4%</b>	<b>10.7%</b>
Provisions	3,723	3,998	3,588	1,908	5,814	6,235	6,640	85.1%	6.5%
CoR (%)	27.8%	28.1%	23.7%	11.7%	31.4%	32.4%	31.2%		
<b>PBT</b>	<b>9,675</b>	<b>10,208</b>	<b>11,569</b>	<b>14,369</b>	<b>12,685</b>	<b>12,986</b>	<b>14,636</b>	<b>26.5%</b>	<b>12.7%</b>
Tax	2,415	2,583	2,807	3,788	3,263	3,355	3,771	34.3%	12.4%
Tax rate (%)	25.0%	25.3%	24.3%	26.4%	25.7%	25.8%	25.8%		
<b>PAT</b>	<b>7,260</b>	<b>7,625</b>	<b>8,762</b>	<b>10,581</b>	<b>9,422</b>	<b>9,631</b>	<b>10,865</b>	<b>24.0%</b>	<b>12.8%</b>
Disbursements	2,00,160	2,15,420	2,23,830	2,47,850	2,43,320	2,43,130	2,58,060	15.3%	6.1%
<b>Total AUM</b>	<b>11,47,960</b>	<b>12,42,450</b>	<b>13,37,940</b>	<b>14,55,720</b>	<b>15,54,410</b>	<b>16,46,430</b>	<b>17,45,670</b>	<b>30.5%</b>	<b>6.0%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

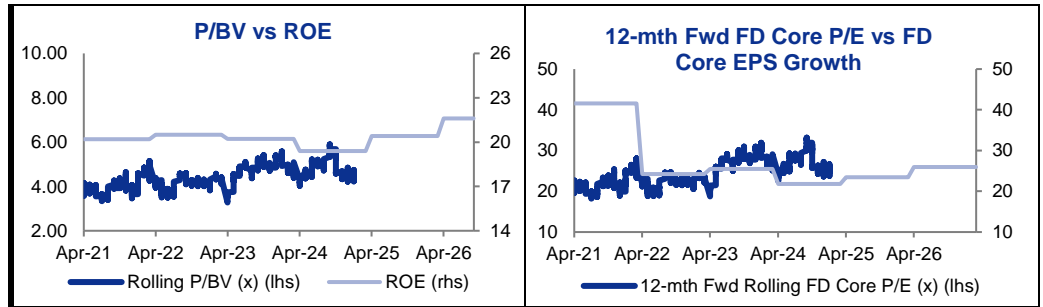
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,30,610	1,32,563	1.5%	1,62,423	1,64,694	1.4%	1,96,939	2,02,741	2.9%
Other Income	2,597	2,968	14.3%	2,857	3,414	19.5%	3,286	3,755	14.3%
PPOP	80,187	81,307	1.4%	99,295	1,00,463	1.2%	1,20,167	1,24,247	3.4%
PAT	40,455	41,669	3.0%	52,681	52,304	-0.7%	64,577	65,859	2.0%
EPS (Rs)	48.1	49.6	3.0%	62.7	62.2	-0.7%	76.9	78.4	2.0%
BV (Rs)	276.9	278.3	0.5%	330.6	331.6	0.3%	392.5	394.0	0.4%
ABV (Rs)	255.8	252.1	-1.4%	308.5	306.6	-0.6%	369.8	369.3	-0.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Earnings call highlights

- The CSEL segment has higher NPAs, mainly in the partnership business. CIFC is cutting ties with its partners, and there are only three partners now from 10 earlier. In partnership, banks also get loss given default guarantee income and so the credit costs get normalized.
- CSEL credit costs to be below 5% from 5.7% currently.
- The SME segment can see a reversal in credit costs next year as the recovery process takes a year.
- The vehicle finance portfolio to improve from 4QFY25F, as slowly the capacity utilization in vehicles is improving. Light commercial vehicle or LCV loans are not performing from last year, with delinquency picking up in 2QFY24 but they got better during the quarter. The used vehicles and tractor loan business is also showing improvement, with stage-2 assets coming down and a minor improvement in stage-3 assets.
- During 1Q & 2Q, truck capacity utilization fell to 50%, which improved to 70% in 3QFY25. In normal cases, the utilization rate sets the floor at 70% and comes back to 90% in the festive season.
- The HCV segment is witnessing a slowdown in sales as capacity utilization is falling. HCVs are more correlated to construction activity whereas LCVs are more correlated to the rural economy and consumption.
- Credit costs remained stable at 155-165bp as higher credit costs from the vehicle loan book are absorbed by the new business vertical and the reversal of loan against property or LAP losses due to enforcement of security.
- Stage-3 assets stood at 2.91% whereas NPAs were at 4%, reclassified from stage-3 to stage-2, as they are off 90dpd whereas NPAs reclassified stand at 0 dpd.
- Gave disbursement growth guidance for LAP at 25%, with AUM growth to be at 30-40%. Home loans have 15% disbursement growth, accounting for around 25-30% of AUM growth.
- There is still scope for adding 300 branches pan-India in the next two-to-three years.
- The shortfall in yields will be covered by a better opex ratio.

## BY THE NUMBERS

**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	70,083	96,146	132,563	164,694	202,741
<b>Total Non-Interest Income</b>	<b>2,209</b>	<b>3,711</b>	<b>2,968</b>	<b>3,414</b>	<b>3,755</b>
Operating Revenue	72,292	99,857	135,532	168,108	206,496
<b>Total Non-Interest Expenses</b>	<b>(26,610)</b>	<b>(38,860)</b>	<b>(51,876)</b>	<b>(64,825)</b>	<b>(78,866)</b>
Pre-provision Operating Profit	44,494	59,039	81,307	100,463	124,247
<b>Total Provision Charges</b>	<b>(8,497)</b>	<b>(13,218)</b>	<b>(25,225)</b>	<b>(30,257)</b>	<b>(35,846)</b>
Operating Profit After Provisions	35,997	45,821	56,082	70,206	88,401
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	35,997	45,821	56,082	70,206	88,401
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	35,997	45,821	56,082	70,206	88,401
<b>Exceptional Items</b>					
Pre-tax Profit	35,997	45,821	56,082	70,206	88,401
Taxation	(9,335)	(11,593)	(14,413)	(17,903)	(22,542)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	26,662	34,228	41,669	52,304	65,859
Minority Interests					
Prof. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	26,662	34,228	41,669	52,304	65,859
Recurring Net Profit					

**Balance Sheet Employment**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.0%	95.0%	94.7%	94.6%	94.7%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>104.0%</b>	<b>102.9%</b>	<b>104.2%</b>	<b>104.7%</b>	<b>103.7%</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-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>1,047,480</b>	<b>1,444,243</b>	<b>1,810,542</b>	<b>2,223,679</b>	<b>2,720,585</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,047,480	1,444,243	1,810,542	2,223,679	2,720,585
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,047,480	1,444,243	1,810,542	2,223,679	2,720,585
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>11,973</b>	<b>14,180</b>	<b>16,732</b>	<b>19,744</b>	<b>23,297</b>
<b>Total Non-Interest Earning Assets</b>	<b>21,783</b>	<b>36,061</b>	<b>40,914</b>	<b>46,572</b>	<b>53,169</b>
Cash And Marketable Securities	29,610	43,202	93,391	94,628	90,105
<b>Long-term Investments</b>	<b>36,280</b>	<b>41,002</b>	<b>70,080</b>	<b>85,474</b>	<b>103,791</b>
Total Assets	1,135,153	1,564,508	2,014,927	2,450,354	2,967,651
Customer Interest-Bearing Liabilities					
Bank Deposits	974,903	1,344,736	1,752,006	2,136,854	2,594,765
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	974,903	1,344,736	1,752,006	2,136,854	2,594,765
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,291	24,207	29,048	34,858	41,829
Total Liabilities	992,195	1,368,943	1,781,054	2,171,711	2,636,594
Shareholders Equity	142,959	195,565	233,873	278,643	331,056
<b>Minority Interests</b>					
Total Equity	142,959	195,565	233,873	278,643	331,056

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	21.9%	37.2%	37.9%	24.2%	23.1%
Operating Profit Growth	18.1%	33.5%	37.1%	23.5%	23.6%
Pretax Profit Growth	25%	27%	22%	25%	26%
Net Interest To Total Income	96.9%	96.3%	97.8%	98.0%	98.2%
Cost Of Funds	6.89%	7.96%	8.15%	7.35%	7.00%
Return On Interest Earning Assets	14.3%	15.1%	15.9%	15.3%	14.9%
Net Interest Spread	7.37%	7.17%	7.75%	7.90%	7.90%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	22%	31%	30%	29%
Interest Return On Average Assets	7.16%	7.12%	7.41%	7.38%	7.48%
Effective Tax Rate	25.9%	25.3%	25.7%	25.5%	25.5%
Net Dividend Payout Ratio	6.2%	4.9%	8.1%	14.5%	20.4%
Return On Average Assets	2.72%	2.54%	2.33%	2.34%	2.43%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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CIN: U74999MH2016PTC287535



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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.