

India

HOLD (no change)

Consensus ratings*: Buy 26 Hold 10 Sell 4

Current price:	Rs1,526
Target price: ▲	Rs1,550
Previous target:	Rs1,300
Up/downside:	1.6%
InCred Research / Consensus:	0.8%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$15,089m
	Rs1,283,108m
Average daily turnover:	US\$32.7m
	Rs2783.9m
Current shares o/s:	82.1m
Free float:	49.9%

*Source: Bloomberg

Key changes in this note

- Slow disbursements amid a cautious stance by the management, improving NIM, controlled costs, and contained asset quality stress aid PAT growth.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	17.7	30.3
Relative (%)	(3.1)	12.3	21.3

Major shareholders	% held
Promoter	49.9
Axis Mutual Fund Trustee Ltd.	2.4
New World Fund INC	1.9

Research Analyst(s)

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Cholamandalam Investment and Finance Company

Persistence over speed; priced in

- CIFIC posts healthy 4Q PAT of Rs13bn, +20% yoy/+17% qoq, led by improving NIM, slow opex & contained asset quality amid slow incremental growth.
- Disbursements grew at a slower pace of +2.4% qoq, vs. +6.1% qoq in the previous quarter, due to a cautious approach by the management.
- Slowing vehicle demand & seasoning of unsecured book to impact growth. We believe everything is priced in. Retain HOLD rating with a new TP of Rs1,550.

Risk averse, although profitable in an unseasonally slow quarter

Cholamandalam Investment and Finance Company or CIFIC continues to witness sluggishness in disbursements as its management remains cautious on vehicle & home loans, and also the continued slowdown in consumer and small enterprise loans (CSEL) as the company is moving out from fintech partnerships. Overall disbursements grew by 2.4% qoq/6.6% yoy led by loans against property (LAP), home loans and vehicle finance while all other businesses posted a muted performance. Vehicle loan growth was led by used commercial vehicles (CVs), passenger vehicles, and heavy CV & construction equipment segments. The consolidation in new businesses (unsecured SME/MSME and retail) was on expected lines amid the adverse macroeconomic environment. CIFIC is venturing into gold loans, with initial investments in place to roll out 120 branches to run a pilot scheme. We are building in disbursement CAGR of ~21% & AUM CAGR of ~23% over FY25F-28F. NIM improved by ~30bp qoq to ~8.0% and 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.

Contained stress in vintage book; new initiatives seasoning out

CIFIC witnessed ~10bp sequential drop in gross stage-3 assets to ~2.81% following the softening of asset quality stress in vehicle finance, LAP and home loan segments, although the same was offset by higher asset quality stress in newer product segments such as CSEL, SME, and secured business and personal loans. Stage-2 assets showed a similar trend and eased 19bp qoq, indicating ease in incremental flow. Consequently, credit costs were lower by 10bp qoq at 1.3%.

Outlook and 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 cyclicity in earnings. We believe all positives are priced in and retain HOLD rating on CIFIC with a higher target price of Rs1,550 (Rs1,300 earlier) or ~3.8x FY27F BV. Upside risk: Better-than-expected AUM growth. Downside risk: Higher-than-expected credit costs.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	96,146	132,607	165,660	204,414	251,912
Total Non-Interest Income (Rsm)	3,711	3,092	3,401	3,605	3,785
Operating Revenue (Rsm)	99,857	135,699	169,061	208,019	255,697
Total Provision Charges (Rsm)	(13,218)	(24,943)	(30,477)	(36,200)	(42,412)
Net Profit (Rsm)	34,228	42,585	52,854	65,594	82,225
Core EPS (Rs)	40.73	50.62	61.78	76.67	96.11
Core EPS Growth	25%	24%	22%	24%	25%
FD Core P/E (x)	37.46	30.14	24.70	19.90	15.88
DPS (Rs)	2.00	2.00	6.00	12.00	20.00
Dividend Yield	0.13%	0.13%	0.39%	0.79%	1.31%
BVPS (Rs)	232.7	280.9	332.1	397.0	473.4
P/BV (x)	6.56	5.43	4.59	3.84	3.22
ROE	20.2%	19.7%	20.3%	21.0%	22.1%
% 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	4QFY25	YoY (%)	QoQ (%)
Net Interest Income	20,232	22,298	25,207	28,409	29,891	31,715	34,374	36,628	28.9%	6.6%
Other Income	1,033	1,369	590	718	443	662	1,031	956		
Total Income	21,265	23,667	25,797	29,127	30,333	32,376	35,406	37,584	29.0%	6.2%
Operating Expenses	7,867	9,461	10,640	12,850	11,834	13,155	14,130	14,269	11.0%	1.0%
Operating Profit	13,399	14,206	15,157	16,278	18,499	19,221	21,276	23,315	43.2%	9.6%
Provisions	3,723	3,998	3,588	1,908	5,814	6,235	6,640	6,253	227.7%	-5.8%
CoR (%)	27.8%	28.1%	23.7%	11.7%	31.4%	32.4%	31.2%	26.8%		
PBT	9,675	10,208	11,569	14,369	12,685	12,986	14,636	17,062	18.7%	16.6%
Tax	2,415	2,583	2,807	3,788	3,263	3,355	3,771	4,395	16.0%	16.6%
Tax Rate (%)	25.0%	25.3%	24.3%	26.4%	25.7%	25.8%	25.8%	25.8%		
PAT	7,260	7,625	8,762	10,581	9,422	9,631	10,865	12,667	19.7%	16.6%
Disbursements	2,00,160	2,15,420	2,23,830	2,47,850	2,43,320	2,43,130	2,58,060	2,64,170	6.6%	2.4%
Total AUM	11,47,960	12,42,460	13,37,940	14,55,720	15,54,410	16,46,430	17,45,670	18,47,460	26.9%	5.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

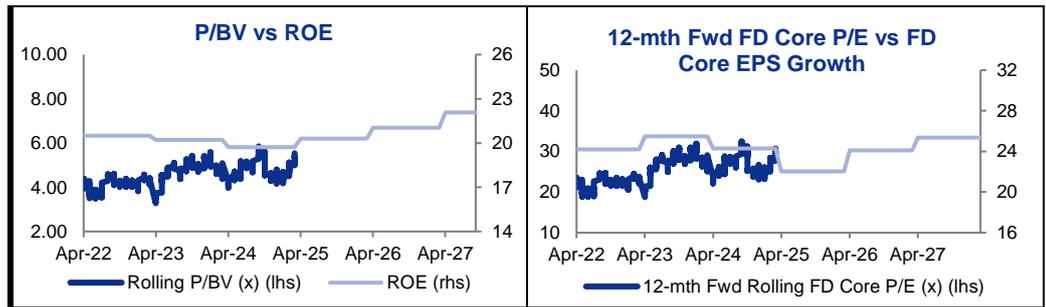
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	1,64,694	1,65,660	0.6%	1,96,939	2,04,414	3.8%	-	2,51,912	-
PPOP	1,00,463	1,01,422	1.0%	1,20,167	1,24,246	3.4%	-	1,52,781	-
PAT	52,304	52,854	1.1%	64,577	65,594	1.6%	-	82,225	-
EPS (Rs)	62.2	62.8	1.0%	76.9	78.0	1.5%	-	97.7	-
BV (Rs)	331.6	337.7	1.8%	392.5	403.7	2.9%	-	481.5	-
ABV (Rs)	306.6	313.1	2.1%	369.8	379.1	2.5%	-	454.5	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ►

- CIFIC's management gave guidance of assets under management or AUM growing 20-25% yoy in FY26F led by non-vehicle loans, which eases growth concerns although we believe the seasoning of new initiatives can hamper the pace of growth.
- In the non-vehicle loan book, home loan disbursements are guided to pick up pace at 15-20% yoy. CIFIC gave LAP disbursement guidance of 25-30% yoy for FY26F.
- The company is cautious on home loans, although it is expanding in newer geographies besides South India, which constituted ~60% of the disbursements.
- CIFIC gave guidance of credit costs remaining elevated in the CSEL book in 1HFY26F as a portion of the partnership-led book (~Rs20bn) wears off leading to credit costs easing in 2HFY26F.
- However, easing credit costs may be offset by the delay in recovery from vehicle finance and home loan books.
- CIFIC gave overall credit cost guidance of ~10bp for FY26F.
- ~20% of the borrowings were linked to the repo rate and linked instruments.
- ~50% of the borrowings were linked to the MCLR.
- CIFIC gave guidance of net interest margin or NIM improving by ~10bp in FY26F led by rate cut and partial transmission of its benefits to customers.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	96,146	132,607	165,660	204,414	251,912
Total Non-Interest Income	3,711	3,092	3,401	3,605	3,785
Operating Revenue	99,857	135,699	169,061	208,019	255,697
Total Non-Interest Expenses	(38,860)	(50,967)	(64,733)	(80,287)	(98,733)
Pre-provision Operating Profit	59,039	82,311	101,422	124,246	152,781
Total Provision Charges	(13,218)	(24,943)	(30,477)	(36,200)	(42,412)
Operating Profit After Provisions	45,821	57,369	70,945	88,046	110,368
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	45,821	57,369	70,945	88,046	110,368
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	45,821	57,369	70,945	88,046	110,368
Exceptional Items					
Pre-tax Profit	45,821	57,369	70,945	88,046	110,368
Taxation	(11,593)	(14,783)	(18,091)	(22,452)	(28,144)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	34,228	42,585	52,854	65,594	82,225
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	34,228	42,585	52,854	65,594	82,225
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.0%	95.0%	94.8%	94.8%	94.9%
Avg Liquid Assets/Avg IEAs	102.9%	104.2%	104.0%	102.4%	101.2%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	1,444,243	1,819,299	2,244,295	2,748,757	3,397,955
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,444,243	1,819,299	2,244,295	2,748,757	3,397,955
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,444,243	1,819,299	2,244,295	2,748,757	3,397,955
Intangible Assets					
Other Non-Interest Earning Assets	14,180	12,294	14,506	17,118	20,199
Total Non-Interest Earning Assets	36,061	39,266	44,105	49,736	56,290
Cash And Marketable Securities	43,202	94,007	69,144	48,542	22,709
Long-term Investments	41,002	63,904	84,856	102,633	125,791
Total Assets	1,564,508	2,016,476	2,442,400	2,949,668	3,602,744
Customer Interest-Bearing Liabilities					
Bank Deposits	1,344,736	1,749,461	2,121,396	2,565,832	3,144,780
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,344,736	1,749,461	2,121,396	2,565,832	3,144,780
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	24,207	30,741	36,889	44,211	52,920
Total Liabilities	1,368,943	1,780,202	2,158,285	2,610,042	3,197,700
Shareholders Equity	195,565	236,274	284,115	339,626	405,044
Minority Interests					
Total Equity	195,565	236,274	284,115	339,626	405,044

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	37.2%	37.9%	24.9%	23.4%	23.2%
Operating Profit Growth	33.5%	38.9%	23.1%	22.4%	22.9%
Pretax Profit Growth	27%	25%	24%	24%	25%
Net Interest To Total Income	96.3%	97.7%	98.0%	98.3%	98.5%
Cost Of Funds	7.96%	8.07%	7.45%	7.15%	7.00%
Return On Interest Earning Assets	15.1%	15.8%	15.3%	14.9%	14.7%
Net Interest Spread	7.17%	7.71%	7.80%	7.75%	7.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	22%	30%	30%	29%	28%
Interest Return On Average Assets	7.12%	7.41%	7.43%	7.58%	7.69%
Effective Tax Rate	25.3%	25.8%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	4.9%	3.9%	9.5%	15.4%	20.4%
Return On Average Assets	2.54%	2.38%	2.37%	2.43%	2.51%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- 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.

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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.