

India

ADD (no change)

Consensus ratings*: Buy 28 Hold 7 Sell 2	
Current price:	Rs950
Target price: ▲	Rs1,100
Previous target:	Rs900
Up/downside:	15.8%
InCred Research / Consensus:	20.6%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$9,549m
	Rs781,103m
Average daily turnover:	US\$14.2m
	Rs1158.1m
Current shares o/s:	82.1m
Free float:	4,620.0%
*Source: Bloomberg	

Key changes in this note

- With the shift in its ecosystem from auto financier to a diversified lender, managing healthy AUM growth won't be a challenge but equity dilution is inevitable.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	22.0	21.6	33.4
Relative (%)	18.0	19.9	20.4

Major shareholders	% held
Cholamandalam Financial Holdings	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

Confident on delivery despite dilution hurdle

- CIFIC reported 4Q PAT of Rs8.5bn (+24.6% qoq) driven by stable sequential margins at ~877bp, spurt in other income and lower provisioning (-28% qoq).
- With the shift in ecosystem from auto financier to a diversified lender, managing healthy AUM growth won't be challenge but equity dilution is inevitable.
- Appreciate CIFIC's rising diversity along with managing growth quality but dilution to keep RoE in check. Retain ADD rating with a higher TP of Rs1,100.

Robust growth momentum to continue with focus on AUM diversity

Cholamandalam Investment & Finance Company (CIFIC) posted robust 4QFY23 AUM of +38.5% yoy at Rs1.06tr led by disbursement growth of +65.3% yoy to Rs210bn. We expect the growth acceleration to continue in FY24F, led by market dominance of CIFIC as well as rollout of new business products across ~100% of its vehicle finance branches (vs. ~25-30% currently). CIFIC is eyeing assets under management (AUM) diversity with contribution from vehicle finance falling to ~50% from 63% currently but replaced by new businesses.

Excessive capital consumption necessitates equity dilution

CIFIC witnessed sharp capital utilization (~171bp of Tier-I) in the past four quarters amid aggressive growth and rising exposure to unsecured assets. Though management has headroom for Tier-II capital (~2.35%), equity dilution (mostly in 2HFY24F) is necessary. CIFIC last raised equity of Rs12bn in FY20. Our base calculation suggests that to achieve Tier-I capital of ~16.5%, CIFIC needs to raise Rs20-22bn equity. This dilution at the current stock price (Rs950) is ~3% & RoE will decline to ~18-20% range (against ~22% estimated).

Margins close to bottom with an improving trend in asset quality

CIFIC's management is confident of managing margins at the current level (~770bp in FY23) backed by recent lending rate hikes, rising share of better-yield products as well as reshuffling of liabilities (rising share of securitization and international borrowing). On the asset quality front, vehicle loans & loans against property witnessed a qoq improvement but utilization of management overlay (Rs5bn) during 4QFY23 kept the provision low.

Outlook & valuation

Retain ADD with a higher target price of Rs1,100 (Rs900 earlier) or ~4.2x FY25F BV with RoA of ~2.7% & RoE of ~22% by FY24F. Downside risks: Slow growth, margin pressure.

MMFS provides better risk-reward compared to CIFIC

We feel there is limited probability of a valuation rerating of CIFIC amid equity dilution risk & capped return ratios. MMFS, at current price, is available at ~1.6x FY24F BV with ~15% RoE in FY24F, which provides a better risk-reward ratio as valuation discount to CIFIC would decrease. New MMFS management is focused on quality-driven diversified growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	57,495	70,083	93,948	120,790	149,689
Total Non-Interest Income (Rsm)	905	2,209	2,099	2,162	2,270
Operating Revenue (Rsm)	58,400	72,292	96,047	122,952	151,959
Total Provision Charges (Rsm)	(8,803)	(8,497)	(14,403)	(20,591)	(26,356)
Net Profit (Rsm)	21,467	26,662	34,418	43,324	53,264
Core EPS (Rs)	26.13	32.46	41.90	52.74	64.85
Core EPS Growth	42%	24%	29%	26%	23%
FD Core P/E (x)	36.36	29.27	22.68	18.02	14.65
DPS (Rs)	2.00	2.00	3.00	4.00	5.00
Dividend Yield	0.21%	0.21%	0.32%	0.42%	0.53%
BVPS (Rs)	142.5	174.0	212.9	261.7	321.6
P/BV (x)	6.67	5.46	4.46	3.63	2.96
ROE	20.2%	20.5%	21.7%	22.2%	22.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

Rs m	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)
Net Interest Income	15,092	16,142	16,476	17,798	19,667	30.3%	10.5%
Other Income	514	258	498	519	934		
Total Income	15,606	16,401	16,974	18,317	20,601	32.0%	12.5%
Operating Expenses	6,486	5,797	6,611	7,520	7,870	21.3%	4.7%
Operating Profit	9,120	10,604	10,363	10,797	12,731	39.6%	17.9%
Provisions	-174	2,986	2,782	1,589	1,140	-755.1%	-28.3%
CoR (%)	-1.9%	28.2%	26.8%	14.7%	9.0%		
PBT	9,294	7,617	7,581	9,208	11,591	24.7%	25.9%
Tax	2,398	1,961	1,947	2,365	3,063	27.7%	29.5%
Tax rate (%)	25.8%	25.7%	25.7%	25.7%	26.4%		
PAT	6,896	5,657	5,634	6,843	8,528	23.7%	24.6%
Disbursements	127,170	133,300	146,230	175,600	210,200	65.3%	19.7%
Total AUM	769,070	819,250	876,680	954,680	1,064,980	38.5%	11.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised estimates

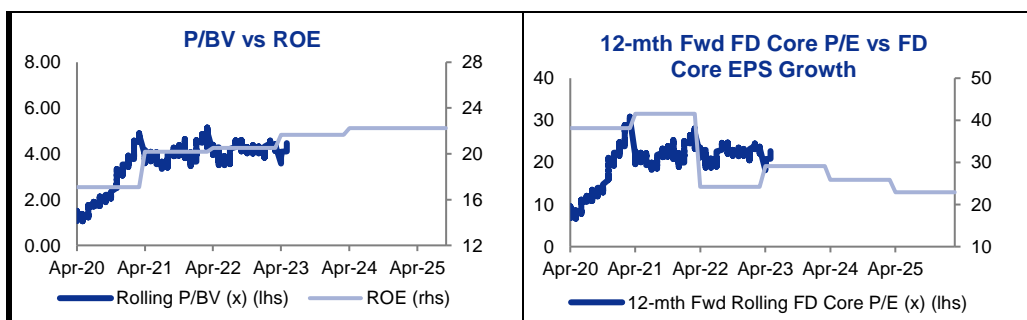
Y/e Mar (Rs mn)	FY24F			FY25F			FY26F
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net interest income	93,996	93,948	-0.1%	114,421	120,790	5.6%	149,689
Other Income	2,172	2,099	-3.3%	2,606	2,162	-17.0%	2,270
PPOP	60,651	60,725	0.1%	73,235	78,900	7.7%	98,044
PAT	33,017	34,418	4.2%	39,310	43,324	10.2%	53,264
EPS (Rs)	40.2	41.9	4.2%	47.9	52.7	10.2%	64.8
BV (Rs)	206.5	213.0	3.1%	249.4	261.7	4.9%	321.6
ABV (Rs)	186.1	195.2	4.9%	228.3	242.1	6.0%	297.6

SOURCES: INCRED RESEARCH

Conference-call highlights

- CIFC is focused on Tier-3 & Tier-4 cities which have lower credit penetration as a result of which CIFC is confident of maintaining higher credit growth.
- The image of CIFC will now change from a vehicle finance company to a multi-product lending company.
- CIFC will review its capital position in FY24F only. CIFC has lower Tier-2 capital which it can bring back to historically higher level, and would also consider raising Tier-1 capital.
- CIFC will be able to keep its margins at current levels.
- Higher credit costs due to new business lines will be offset by the benefit of operating leverage keeping overall profitability intact for CIFC.
- The share of vehicle finance to reduce to 50% of overall AUM by FY26F from 63% currently, leading to low dependency on growth of the vehicle industry, which is cyclical in nature.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,495	70,083	93,948	120,790	149,689
Total Non-Interest Income	905	2,209	2,099	2,162	2,270
Operating Revenue	58,400	72,292	96,047	122,952	151,959
Total Non-Interest Expenses	(19,714)	(26,610)	(33,895)	(42,339)	(51,860)
Pre-provision Operating Profit	37,712	44,494	60,725	78,900	98,044
Total Provision Charges	(8,803)	(8,497)	(14,403)	(20,591)	(26,356)
Operating Profit After Provisions	28,909	35,997	46,323	58,310	71,688
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	28,909	35,997	46,323	58,310	71,688
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	28,909	35,997	46,323	58,310	71,688
Exceptional Items					
Pre-tax Profit	28,909	35,997	46,323	58,310	71,688
Taxation	(7,442)	(9,335)	(11,905)	(14,986)	(18,424)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	21,467	26,662	34,418	43,324	53,264
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	21,467	26,662	34,418	43,324	53,264
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%	95.4%	95.7%
Avg Liquid Assets/Avg IEAs	106.8%	104.0%	101.6%	100.8%	100.8%
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	1,352,970	1,697,475	2,067,638
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	741,492	1,047,480	1,352,970	1,697,475	2,067,638
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	741,492	1,047,480	1,352,970	1,697,475	2,067,638
Intangible Assets					
Other Non-Interest Earning Assets	10,066	11,969	12,567	13,195	13,855
Total Non-Interest Earning Assets	19,179	21,779	23,121	24,642	26,373
Cash And Marketable Securities	42,201	29,610	9,911	14,587	16,736
Long-term Investments	20,762	36,280	45,054	54,693	64,045
Total Assets	823,633	1,135,149	1,431,056	1,791,397	2,174,792
Customer Interest-Bearing Liabilities					
Bank Deposits	691,735	973,560	1,217,673	1,519,240	1,829,860
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	691,735	973,560	1,217,673	1,519,240	1,829,860
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	14,822	18,630	38,467	57,196	80,808
Total Liabilities	706,557	992,190	1,256,139	1,576,436	1,910,668
Shareholders Equity	117,077	142,959	174,916	214,960	264,124
Minority Interests					
Total Equity	117,077	142,959	174,916	214,960	264,124

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	16.4%	21.9%	34.1%	28.6%	23.9%
Operating Profit Growth	11.9%	18.1%	36.1%	29.7%	24.2%
Pretax Profit Growth	42%	25%	29%	26%	23%
Net Interest To Total Income	98.5%	96.9%	97.8%	98.2%	98.5%
Cost Of Funds	6.47%	6.90%	7.20%	7.00%	6.80%
Return On Interest Earning Assets	14.4%	14.3%	14.4%	14.2%	14.0%
Net Interest Spread	7.89%	7.36%	7.20%	7.20%	7.20%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	23%	19%	24%	26%	27%
Interest Return On Average Assets	7.33%	7.16%	7.32%	7.50%	7.55%
Effective Tax Rate	25.7%	25.9%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio	7.6%	6.2%	7.1%	7.6%	7.7%
Return On Average Assets	2.74%	2.72%	2.68%	2.69%	2.69%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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