

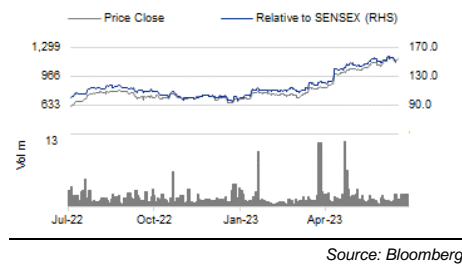
India

ADD (no change)

Consensus ratings*: Buy 28 Hold 8 Sell 2	
Current price:	Rs1,164
Target price: ▲	Rs1,350
Previous target:	Rs1,100
Up/downside:	16.0%
InCred Research / Consensus:	21.5%
Reuters:	
Bloomberg:	CIFC IN
Market cap:	US\$13,184m Rs957,352m
Average daily turnover:	US\$21.6m Rs1569.8m
Current shares o/s:	82.1m
Free float:	4,620.0%
*Source: Bloomberg	

Key changes in this note

- Building in equity dilution of Rs40bn for FY25F and revise our target price to Rs1,350 or ~4.3x FY25F, with RoA at ~2.9% & post-dilution RoE at ~23.5% for FY25F.



Price performance	1M	3M	12M
Absolute (%)	5.9	41.8	88.9
Relative (%)	1.6	28.6	53.7

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

Brokers Poll 2023

VOTE HERE
 InCred Research

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Cholamandalam Investment and Finance Company

FY23 AR Analysis: Changing the ecosystem

- FY23 AR clearly articulates CIFIC management's endeavour towards customer acquisition & retention via divergent product offerings & extensive penetration.
- Our conviction on CIFIC's ability to manage healthy growth (+30%) with steady margins (~7.7-7.9%) and low credit cost (<~1%) has strengthened further.
- We factor in equity dilution of Rs40bn for FY25F, revising our TP to Rs1,350 or ~4.3x FY25F BV with RoA at ~2.9% & post-dilution RoE at ~23.5% for FY25F.

Customer addition and retention is the new mantra

The key observation from the FY23 Annual Report has been the company management's consistent focus on increasing the customer base as well as ensuring the retention of its existing customers. We believe that in the current penetration-led credit-demand scenario, improving the customer base is the most essential aspect to manage quality growth.

Innovation & improvement visible across lending segments

Cholamandalam Investment and Finance Company (CIFIC) has initiated Gaadi Bazaar, an in-house developed platform for transparent sale-purchase process of used vehicles (including repossessed vehicles). CIFIC also intends to foray into the top-of-the-pyramid customer segment through the co-lending route. For the loan against property business, CIFIC has introduced new high-yield products like Small and Emerging Group (SEG) and Micro LAP, which will aid margins. CIFIC has expanded its home loan footprint in Uttar Pradesh, Bihar, West Bengal, Odisha, Assam & Jharkhand. For new business (primarily unsecured), CIFIC has entered into strategic partnership with nine leading fintech firms focusing on customers who are economically active but do not have adequate access to formal credit. Digital platforms are being developed for loans with zero human intervention.

Incremental yields and balanced liability mix to aid margins

CIFIC's management has been improving the marginal yields across its segments considering the rise in borrowing rates and the focus on driving higher disbursements in high-yield segments, which will help in maintaining the net interest margin or NIM. CIFIC has managed the mix of borrowings from various sources to optimize its cost of funds. Management has increased the securitization route, which will aid margins.

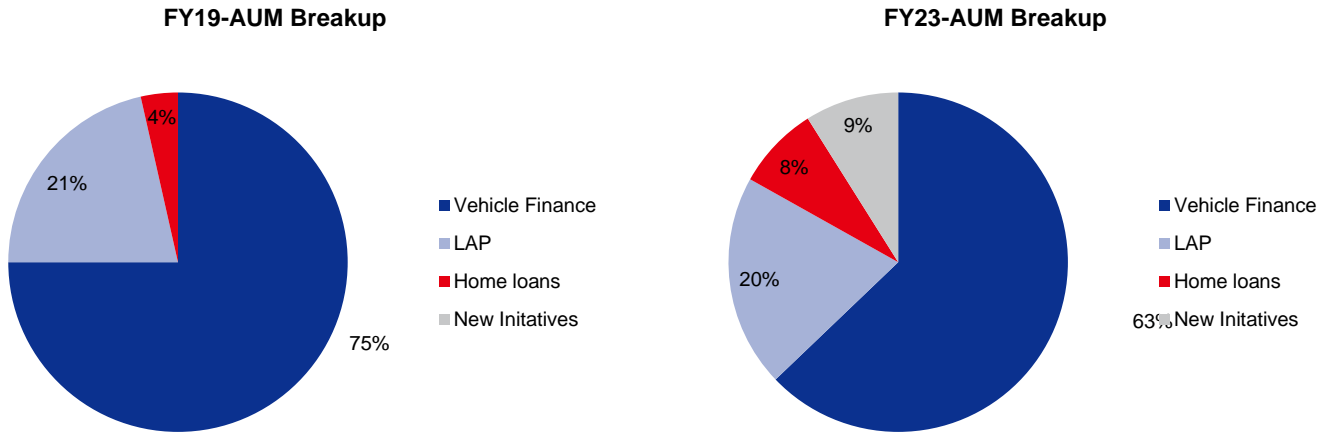
Outlook & valuation

CIFIC has seen sharp capital utilization in the past few years and hence, we are factoring in an equity dilution of Rs40bn by FY24F-end and, accordingly, revised our estimates. We have arrived at a revised target price of Rs1,350 (Rs1,100 earlier), or ~4.3x FY25F BV with RoA at ~2.9% & post-dilution RoE at ~23.5% for FY25F. We believe the valuation premium for CIFIC will be justified by managing diversified growth at a steady-state RoE in the range of ~21-23%. Retain ADD rating. 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	97,386	130,982	168,468
Total Non-Interest Income (Rsm)	905	2,209	1,105	552	580
Operating Revenue (Rsm)	58,400	72,292	98,491	131,535	169,048
Total Provision Charges (Rsm)	(8,803)	(8,497)	(10,061)	(16,961)	(25,974)
Net Profit (Rsm)	21,467	26,662	39,459	52,398	66,562
Core EPS (Rs)	26.13	32.46	48.04	61.30	77.87
Core EPS Growth	42%	24%	48%	28%	27%
FD Core P/E (x)	44.55	35.87	24.24	18.99	14.95
DPS (Rs)	2.00	2.00	3.00	4.00	5.00
Dividend Yield	0.17%	0.17%	0.26%	0.34%	0.43%
BVPS (Rs)	142.5	174.0	219.1	314.6	387.5
P/BV (x)	8.17	6.69	5.31	3.70	3.00
ROE	20.2%	20.5%	24.4%	23.3%	22.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

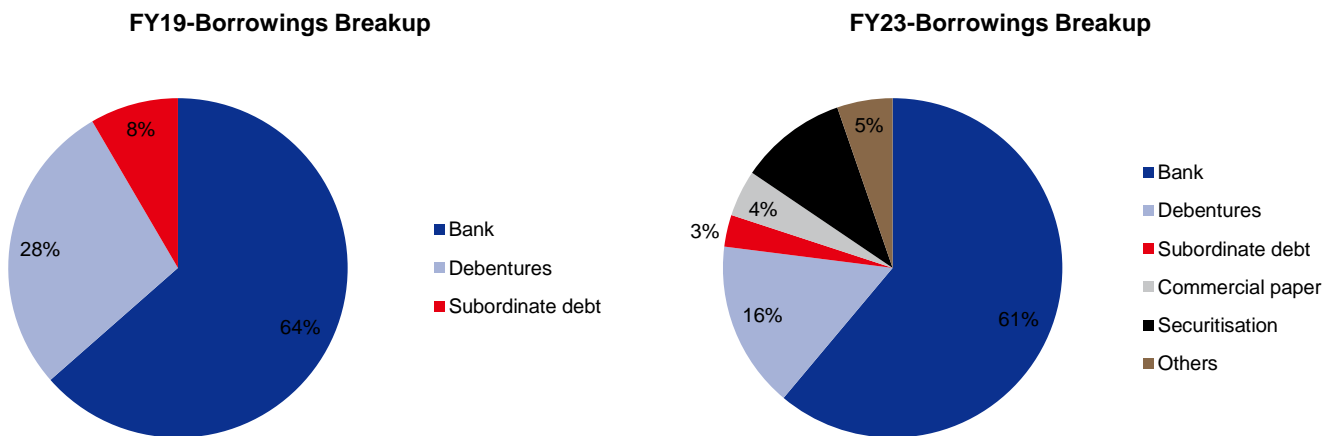
Figure 1: We expect the share of auto finance to fall below 50%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

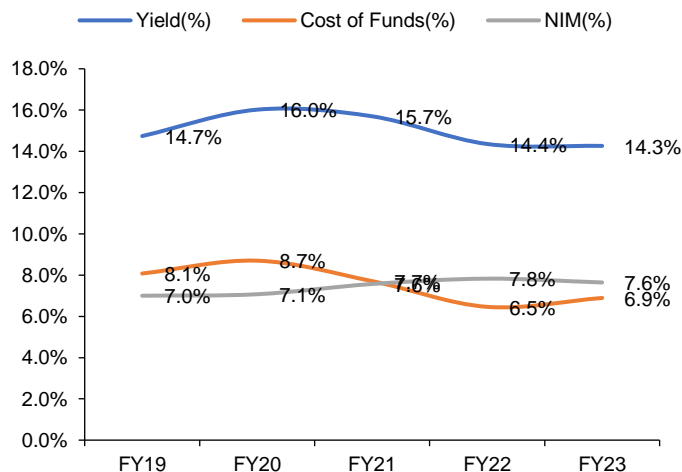
Figure 2: We appreciate the dynamic liability profile of CFC



SOURCE: INCRED RESEARCH, COMPANY REPORTS

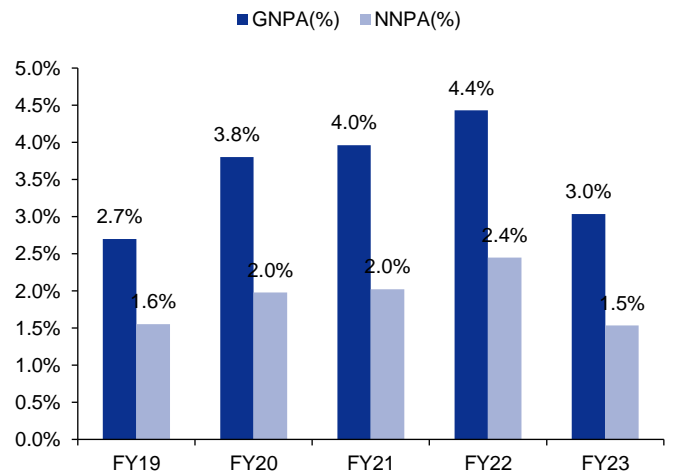
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: We expect margin stability amid rising yields



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: We remain confident of the asset quality trend for FY24F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Highlights from FY23 Annual Report

Vehicle Finance Business

Focus on growing market share, managing asset quality

The vehicle finance business, through a robust collection mechanism, best-in-class credit underwriting, strong risk assessment framework and extensive penetration in the hinterland, is expected to progress to the next level of growth.

- **The commercial vehicle industry is likely to deliver double-digit growth in FY24F driven by freight demand, replacement demand, structural economic recovery and higher spending on infrastructure by the government. However, the rise in fuel prices and its impact on the viability of fleet operators will remain a key challenge in FY24F.**
- **The vehicle finance division will continue to foray into the top-of-the-pyramid customer segment by providing competitive pricing through the co-lending route which, in turn, will help the company to increase its customer base, market share and retain existing customers.**
- **To bring in more focus at the product and DPD levels across buckets, the business will have product-wise collection infrastructure to keep delinquency under control, thereby arresting the flow in the early-delinquency buckets.**

Gaadi Bazaar

A step towards achieving self-reliance in used-vehicle financing

As part of its ongoing focus on the vehicle ecosystem, CIFC continues to enhance and promote its Gaadi Bazaar offerings. The Gaadi Bazaar platform provides a bouquet of services and products in the vehicle ecosystem spanning new, used, and repossessed (repo) vehicles while serving both retail customers as well as vehicle brokers and dealers.

- **Gaadi Bazaar's standout feature is its comprehensive used-vehicle marketplace for cars and commercial vehicles. Buyers can browse detailed vehicle listings with specifications, conditions, and pricing in India's commercial vehicle segment. Sellers can easily list their cars along with the description and high-quality images.**
- **With a large user base of 7,000+ sellers, 9,000+ bidders, and over 600,000 active listings coupled with effective marketing, Gaadi Bazaar ensures maximum visibility for sellers' listings, thereby increasing sales opportunities.**
- **With a transparent bidding process, a broad base of fee-paying subscribers, and an average 3,000 vehicles sold monthly, Gaadi Bazaar's unique repo service allows dealers to participate in online auction events for a variety of repo vehicles and enables buyers to find great deals while delivering better price realization to the company for its repo vehicles.**
- **The dealer portal serves as a central hub for company dealers, enabling vehicle listings, lead generation, loan application, and trade advances. Dealers can utilize and thereafter repay trade advance by promoting the company's financing options to customers.**

Loan Against Property (LAP) Business

Residential properties from the affordable segment under focus

LAP is one of the major sources of funding for the MSME community in India. LAP business is an active contributor to MSMEs' growth by way of lending to them for business expansion and to meet their working capital requirements. 97% of LAP disbursement in FY23 was towards the self-employed non-professional (SENP) community.

- **CIFC continues to focus on building a healthy portfolio mix, with more than 80% of the portfolio comprising residential properties and an average loan ticket size of less than Rs5m.**
- **CRISIL Research expects the LAP segment to grow by 9-11% in fiscal 2024F, driven by improved economic conditions assisting in the normalization of business activities.**
- **Portfolio loan-to-value (LTV) ratio at origination is consciously maintained at 50% level, which provides adequate security cover to the business.**
- **New high-yield products like Small and Emerging Group (SEG) and Micro LAP are likely to increase the company's profitability.**

Housing Finance

Affordable housing segment to grow faster with improved asset quality

The housing loan business leverages the company's strengths in reaching out and underwriting lower and middle-income borrowers across India, penetrating villages and towns. The company offers loans for self-construction, purchase of resale flats/independent houses, purchase of new flats/independent houses, balance transfer from other financiers, mortgage of existing house for business use and shop loans.

- **CIFC enjoys a significant presence in Tier-II, III, IV towns and cities. Home loan customers are serviced through 501 touch points spread across 19 states. The company has expanded its footprint in Uttar Pradesh, Bihar, West Bengal, Odisha, Assam and Jharkhand, and also expanded the branch network further in states previously operational.**
- **The housing finance sector is expected to grow by ~11-16% in FY24F and the affordable housing segment to grow by 18-22% in the same period. In terms of asset quality, gross non-performing assets or GNPA are expected to decline further in FY24F, supported by controlled fresh slippage.**
- **~93% of the portfolio comprises business owners with semi-formal income and significant business vintage while 25% of the customers are first-time borrowers. The average ticket size is Rs1.33m, with an average LTV of ~53%.**
- **Given the fact that these customers are mostly first-time buyers, sales officers guide and facilitate these customers throughout the borrowing process. The business has also developed a strong collection and legal recovery team across geographies to ensure that the asset quality is maintained.**

SME/MSME Loans

Under-penetrated markets to keep demand momentum healthy

The SME/MSME segment in India is significantly under-penetrated, with more than 60% of MSMEs not having access to formalized credit. The rapid pace of innovations driven by the government and the lending ecosystem has significantly enabled the SME segment to continue its high-growth trajectory. These innovations have provided capabilities for combining the power of financial, income and trade information so that credit institutions can get a unified view of the business entity, enabling improved risk differentiation for underwriting SME loans.

- **The SME division's target customers are the small and medium group segment customers. The average ticket size is Rs15m, with an average LTV of 60%-65%, which reflects adequacy of headroom in case of marketability of the underlying assets.**
- **The SME division enjoys a significant presence in Tier-I and II towns and cities. The business has been strengthening the sourcing partners' network to reach out to more customers.**
- **The SME division will continue to focus on equipment finance, term loans and supply chain finance, and also launch new product lines in the form of healthcare financing, lease rental discounting, leasing finance, factoring and solar financing, etc.**

Consumer & Small Enterprise Loans

Digital lending is the new mantra

As of 31 Mar 2023, the consumer and small enterprise loan business had topped 500,000 active customers with assets under management or AUM of Rs55.3bn. The business has expanded across the country, covering 25 states and 4 Union Territories with over 175 branches. As of 31 Mar 2023, the secured loan business and personal loan business had topped ~10,000 active accounts with AUM of ~Rs4.4bn. The average ticket size is around Rs0.44m, with an average tenure of 69 months.

- **The division has entered into strategic partnership with nine leading fintech companies to drive greater financial inclusion, especially among those customers who are economically active but do not have adequate access to formal credit.**
- **Disbursement growth in the personal loan space is expected to touch 18-20% in FY24F due to healthy credit demand. Non-banking finance companies or NBFCs' market share, in terms of value, in the personal loan space is currently at 21% and is expected to increase to 22% in FY24F.**
- **The key strengths of the division such as its transparent end-to-end digital process, superlative customer experience journey, strong data driven underwriting & risk management capabilities, combined with the trust of Chola brand, makes it well placed to become the market leader in this segment.**

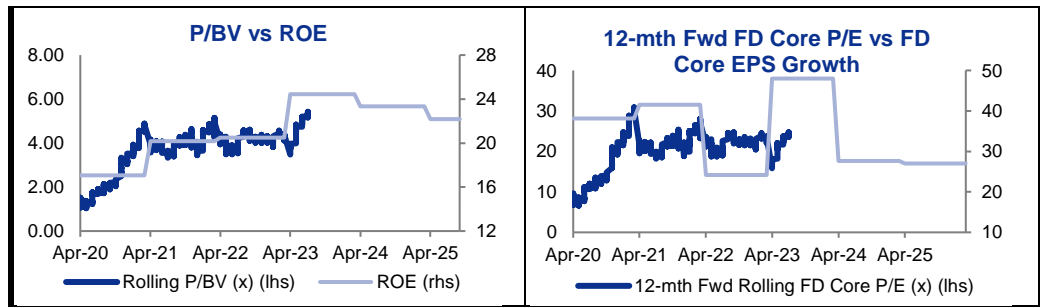
Asset-Liability Management

Diversity remains the key

CIFC's management has kept asset-liability management or ALM in focus, tracking the Reserve Bank of India or RBI's commentaries, observing the market dynamics, and engaging in a continuous dialogue with lenders to ensure a healthy ALM amid rising interest rates which prevailed during the financial year.

- **The company maintained its strategy of reducing interest costs and leveraging market opportunities without compromising ALM requirements. This was achieved by selecting an appropriate sourcing strategy in response to the play of supply-demand dynamics in the market.**
- **The company capitalized on the appetite for priority sector assets and increased borrowings through the securitization route, which came in at finer rates. Towards this end, the mix of funds raised from securitization doubled over FY22, from 5% to 10%. A sum of Rs105.5bn was raised through securitization, capitalizing on the market appetite for priority sector assets. This was done at fine rates, resulting in lower interest costs.**
- **In Mar 2023, the company filed a shelf prospectus for public issue of non-convertible debentures amounting to Rs50bn and had a maiden issue of Rs10bn in Apr 2023.**

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,495	70,083	97,386	130,982	168,468
Total Non-Interest Income	905	2,209	1,105	552	580
Operating Revenue	58,400	72,292	98,491	131,535	169,048
Total Non-Interest Expenses	(19,714)	(26,610)	(33,895)	(42,339)	(51,435)
Pre-provision Operating Profit	37,712	44,494	63,169	87,483	115,559
Total Provision Charges	(8,803)	(8,497)	(10,061)	(16,961)	(25,974)
Operating Profit After Provisions	28,909	35,997	53,108	70,522	89,585
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	28,909	35,997	53,108	70,522	89,585
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	28,909	35,997	53,108	70,522	89,585
Exceptional Items					
Pre-tax Profit	28,909	35,997	53,108	70,522	89,585
Taxation	(7,442)	(9,335)	(13,649)	(18,124)	(23,023)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	21,467	26,662	39,459	52,398	66,562
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	21,467	26,662	39,459	52,398	66,562
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%	101.6%	102.1%	104.1%
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	1,467,697	1,924,597	2,404,341
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	741,492	1,047,480	1,467,697	1,924,597	2,404,341
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	741,492	1,047,480	1,467,697	1,924,597	2,404,341
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	10,000	61,831	116,650
Long-term Investments	20,762	36,280	49,961	71,555	102,989
Total Assets	823,634	1,135,153	1,552,580	2,086,670	2,657,188
Customer Interest-Bearing Liabilities					
Bank Deposits	693,431	974,903	1,350,290	1,788,871	2,288,646
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	693,431	974,903	1,350,290	1,788,871	2,288,646
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	1,372,628	1,817,741	2,325,974
Shareholders Equity	117,077	142,959	179,952	268,929	331,214
Minority Interests					
Total Equity	117,077	142,959	179,952	268,929	331,214

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	16.4%	21.9%	39.0%	34.5%	28.6%
Operating Profit Growth	11.9%	18.1%	41.4%	38.1%	31.9%
Pretax Profit Growth	42%	25%	48%	33%	27%
Net Interest To Total Income	98.5%	96.9%	98.9%	99.6%	99.7%
Cost Of Funds	6.46%	6.89%	7.20%	7.00%	6.60%
Return On Interest Earning Assets	14.4%	14.3%	14.4%	14.2%	14.0%
Net Interest Spread	7.90%	7.37%	7.20%	7.20%	7.40%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	23%	19%	16%	19%	22%
Interest Return On Average Assets	7.33%	7.16%	7.25%	7.20%	7.10%
Effective Tax Rate	25.7%	25.9%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio	7.6%	6.2%	6.2%	6.5%	6.4%
Return On Average Assets	2.74%	2.72%	2.94%	2.88%	2.81%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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