

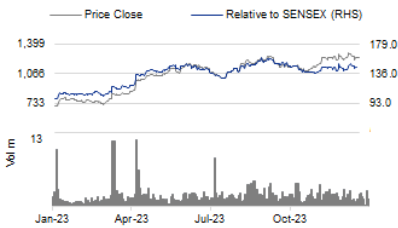
India

ADD (no change)

Consensus ratings*: Buy 25 Hold 8 Sell 5	
Current price:	Rs1,231
Target price:	Rs1,400
Previous target:	Rs1,400
Up/downside:	13.7%
InCred Research / Consensus:	6.3%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$12,430m
	Rs1,033,460m
Average daily turnover:	US\$27.4m
	Rs2274.7m
Current shares o/s:	82.1m
Free float:	4,620.0%
*Source: Bloomberg	

Key changes in this note

- Margins have already bottomed out as the company continues to focus on borrowing diversity. Underwriting norms for unsecured loans have also been tightened.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.3)	5.4	73.4
Relative (%)	(3.1)	(7.5)	45.1

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

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Cholamandalam Investment and Finance Company

Consistency justifies the valuation premium

- CIFIC posted an in-line 3QFY24 PAT of Rs8.76bn amid sequentially flat margins (~7.4%) and a fall in credit costs to ~1% as against ~1.3% last quarter.
- Margins have already bottomed out as CIFIC continues to focus on borrowing diversity. Underwriting norms for unsecured loans have also been tightened.
- After the recent Rs20bn equity dilution, CIFIC is well positioned for consistency in growth & profitability. Retain ADD with a TP of Rs1,400 or ~4.8x FY25F BV.

Disbursements witnessing consolidation; AUM growth healthy

Disbursements remained flat sequentially across divisions in 3QFY24 as Cholamandalam Investment and Finance Company (CIFIC) saw its assets under management or AUM witnessing ~7.7% sequential growth, indicating that the company is engaging in assets with longer maturity cycles. We feel the disbursement growth may consolidate with last year's base effect easing as well as till the management attains comfort in new businesses.

Margins already bottomed out; limited impact of recent tightening

CIFIC continues to post flat margins qoq as it has already taken rate hikes across its portfolio (incl. home finance), which has supported the yields. CIFIC also had a limited impact of the recent Reserve Bank of India's tightening of risk weight assets for banks on lending to non-banking finance companies (NBFCs), as a major portion of the company's' borrowing has been classified as priority sector lending. We expect its margins to improve in the coming quarters, after the recent capital raising of Rs20bn as well as portfolio repricing, with a proportion of the new loan book replaced by higher yield assets.

Asset quality normalizes; tightens underwriting standards

CIFIC has witnessed a volatile trend in its asset quality last quarter, which was largely caused by a portfolio of unsecured personal loans worth Rs20bn sourced through partnership arrangements (including with fintech companies), which has witnessed delinquencies. However, CIFIC's management has already tightened its underwriting standards for unsecured loans to ensure better asset quality. Considering CIFIC's track record of stringent underwriting practices along with a robust collection mechanism, we remain confident of its asset quality profile and credit costs going ahead.

Outlook & valuation

We still like CIFIC as we feel its valuation premium will be justified by managing diversified growth at a steady-state RoE. We retain our ADD rating on it with a target price of Rs1,400 or ~4.8x FY25F BV, with RoA at ~2.6% & post-dilution RoE at ~21% for FY25F. Downside risks: Slow growth and margin pressure. We prefer Mahindra & Mahindra Finance and Shriram Finance over CIFIC due to their comfortable valuations and favourable risk-reward ratios.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	57,495	70,083	95,404	130,397	169,045
Total Non-Interest Income (Rsm)	905	2,209	3,977	4,375	4,900
Operating Revenue (Rsm)	58,400	72,292	99,381	134,772	173,945
Total Provision Charges (Rsm)	(8,803)	(8,497)	(15,502)	(22,472)	(30,151)
Net Profit (Rsm)	21,467	26,662	33,242	46,127	60,509
Core EPS (Rs)	26.11	32.40	40.06	55.00	71.54
Core EPS Growth	42%	24%	24%	37%	30%
FD Core P/E (x)	47.67	38.42	31.07	22.63	17.40
DPS (Rs)	2.00	2.00	2.00	4.00	7.00
Dividend Yield	0.16%	0.16%	0.16%	0.32%	0.56%
BVPS (Rs)	142.5	174.0	232.1	283.1	365.9
P/BV (x)	8.73	7.15	5.36	4.40	3.40
ROE	20.2%	20.5%	19.7%	21.4%	22.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	16,142	16,476	17,798	19,667	20,232	22,298	25,207	41.6%	13.0%
Other Income	258	498	519	934	1,033	1,369	590		
Total Income	16,401	16,974	18,317	20,601	21,265	23,667	25,797	40.8%	9.0%
Operating Expenses	5,797	6,611	7,520	7,870	7,867	9,461	10,640	41.5%	12.5%
Operating Profit	10,604	10,363	10,797	12,731	13,399	14,206	15,157	40.4%	6.7%
Provisions	2,986	2,782	1,589	1,140	3,723	3,998	3,588	125.8%	-10.3%
CoR (%)	28.2%	26.8%	14.7%	9.0%	27.8%	28.1%	23.7%		
PBT	7,617	7,581	9,208	11,591	9,675	10,208	11,569	25.6%	13.3%
Tax	1,961	1,947	2,365	3,063	2,415	2,583	2,807	18.7%	8.7%
Tax Rate (%)	25.7%	25.7%	25.7%	26.4%	25.0%	25.3%	24.3%		
PAT	5,657	5,634	6,843	8,528	7,260	7,625	8,762	28.0%	14.9%
Disbursements	1,33,300	1,60,960	1,75,600	2,10,200	2,00,150	2,15,420	2,23,830	27.5%	3.9%
Total AUM	8,19,250	8,76,680	9,54,680	10,64,980	11,47,960	12,42,450	13,37,940	40.1%	7.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

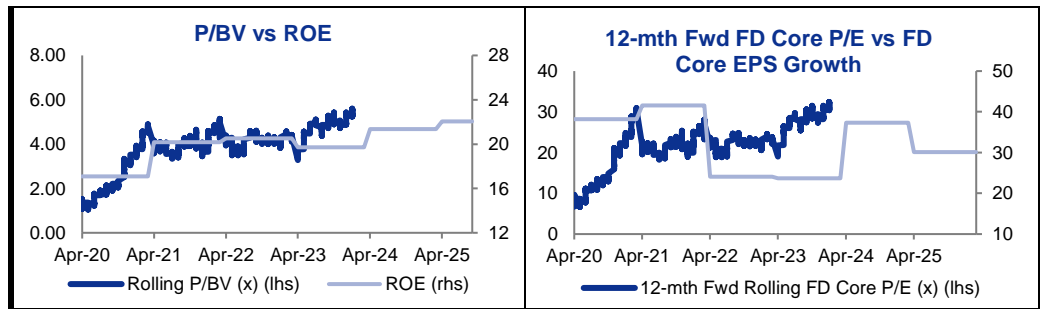
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net Interest Income	92,086	95,404	3.6%	1,29,463	1,30,397	0.7%	1,65,980	1,69,045	1.8%
Other Income	5,192	3,977	-23.4%	5,452	4,375	-19.8%	5,724	4,900	-14.4%
PPOP	63,416	59,824	-5.7%	93,001	83,974	-9.7%	1,21,024	1,10,830	-8.4%
PAT	35,126	33,242	-5.4%	51,718	46,127	-10.8%	66,338	60,509	-8.8%
EPS (Rs)	42.8	40.1	-6.3%	60.5	55.0	-9.0%	77.6	71.5	-7.8%
BV (Rs)	213.8	234.4	9.7%	308.6	283.0	-8.3%	381.1	368.7	-3.3%
ABV (Rs)	195.8	216.7	10.7%	288.8	263.1	-8.9%	356.2	343.6	-3.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings conference-call - Key highlights

- The fall in provision cover is due to a 100% write-off done to claim tax benefit, as the provision is not tax deductible. It also helps in the management of cash flow, as tax expenses and tax payment are in line.
- Small and medium enterprise or SME business has lower credit costs and lower NPAs, but the consumer and small enterprise or CSEL loan business is the one with a higher provision due to its unsecured nature.
- As regards the CSEL business, there is a reduction in the partnership business, limited to just good and profitable ones. The disbursements stand reduced from Rs6bn to Rs3bn.
- There are no issues with bank loans. CIFC has a good credit line, apart from banks, and so there is no problem in getting the funds.
- Insurance income was received from the subsidiary in the form of dividend. During the quarter, the company received a licence and so the income now comes directly to the standalone entity's books.
- FLDG (first loss default guarantee) income is booked under the head - fees and other income.
- FLDG income of Rs120m has been recognized for the quarter in respect of the write-offs done.
- Bank borrowing rates have not moved up significantly, EBLR-linked spreads have not changed. The rise in spreads is acceptable in the range of 15-20bp.
- The overall cost-to-assets ratio will be 3% as there is a rise in some expenses, but the rise will be managed.
- The focus areas are the mid and premium segments. Although the prices of passenger vehicles have not fallen, they are still witnessing good demand.
- In respect of vehicle loans, passenger vehicles, such as small entry-level car loans are doing well.
- In the loan against property or LAP segment, there is branch expansion, the micro lab new product is catching up and the eastern zone is also adding numbers.
- MCLR-linked loans are for non-priority sector assets and EVLR-linked loans for priority sector assets. Banks cannot lend below MCLR and so, in those cases, EBLR-linked loans are handy.
- The ticket size of housing finance loans is Rs1.3m with a tenure of 14 years.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	57,495	70,083	95,404	130,397	169,045
Total Non-Interest Income	905	2,209	3,977	4,375	4,900
Operating Revenue	58,400	72,292	99,381	134,772	173,945
Total Non-Interest Expenses	(19,714)	(26,610)	(38,131)	(49,085)	(61,060)
Pre-provision Operating Profit	37,712	44,494	59,824	83,974	110,830
Total Provision Charges	(8,803)	(8,497)	(15,502)	(22,472)	(30,151)
Operating Profit After Provisions	28,909	35,997	44,322	61,503	80,679
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	28,909	35,997	44,322	61,503	80,679
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	28,909	35,997	44,322	61,503	80,679
Exceptional Items					
Pre-tax Profit	28,909	35,997	44,322	61,503	80,679
Taxation	(7,442)	(9,335)	(11,081)	(15,376)	(20,170)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	21,467	26,662	33,242	46,127	60,509
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	21,467	26,662	33,242	46,127	60,509
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%	95.2%	95.0%	94.5%
Avg Liquid Assets/Avg IEAs	106.8%	104.0%	103.8%	103.0%	101.6%
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	1,432,808	1,896,349	2,410,987
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	741,492	1,047,480	1,432,808	1,896,349	2,410,987
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	741,492	1,047,480	1,432,808	1,896,349	2,410,987
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	64,327	34,627	33,813
Long-term Investments	20,762	36,280	47,339	79,798	112,044
Total Assets	823,634	1,135,153	1,569,395	2,039,462	2,590,052
Customer Interest-Bearing Liabilities					
Bank Deposits	693,431	974,903	1,352,534	1,773,297	2,240,890
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	693,431	974,903	1,352,534	1,773,297	2,240,890
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	1,802,167	2,278,218
Shareholders Equity	117,077	142,959	194,523	237,296	311,835
Minority Interests					
Total Equity	117,077	142,959	194,523	237,296	311,835

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	16.4%	21.9%	36.1%	36.7%	29.6%
Operating Profit Growth	11.9%	18.1%	34.1%	39.9%	31.7%
Pretax Profit Growth	42%	25%	23%	39%	31%
Net Interest To Total Income	98.5%	96.9%	96.0%	96.8%	97.2%
Cost Of Funds	6.46%	6.89%	8.00%	7.10%	6.60%
Return On Interest Earning Assets	14.4%	14.3%	15.2%	14.5%	14.0%
Net Interest Spread	7.90%	7.37%	7.20%	7.40%	7.40%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	23%	19%	26%	27%	27%
Interest Return On Average Assets	7.33%	7.16%	7.06%	7.23%	7.30%
Effective Tax Rate	25.7%	25.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	7.6%	6.2%	5.0%	7.3%	9.9%
Return On Average Assets	2.74%	2.72%	2.46%	2.56%	2.61%

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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