

India

ADD (no change)

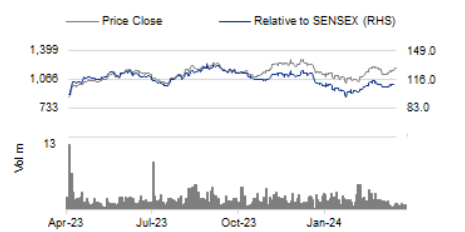
Consensus ratings*: Buy 27 Hold 7 Sell 4

Current price:	Rs1,302
Target price:	Rs1,400
Previous target:	Rs1,400
Up/downside:	7.5%
InCred Research / Consensus:	4.8%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$13,099m
	Rs1,093,336m
Average daily turnover:	US\$24.5m
	Rs2041.4m
Current shares o/s:	82.1m
Free float:	4,620.0%

*Source: Bloomberg

Key changes in this note

➤ With improving penetration in rural geographies & AUM diversity, CIFC manages profitable growth



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	12.1	48.8
Relative (%)	7.6	8.3	22.0

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

Research Analyst(s)



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Cholamandalam Investment and Finance Company

AUM diversity to drive valuation premium

- CIFC posted a better-than-expected 4QFY24 PAT of Rs10.6bn amid improved margin at 7.8% and lower credit costs due to improving asset quality.
- Disbursements healthy at ~17.9% yoy, with rising dominance of non-vehicle book while AUM growth was superior at ~36.7% yoy due to lower repayments.
- With improving penetration in rural geographies & AUM diversity, CIFC manages profitable growth. Retain ADD rating on it with a TP of Rs1,400.

Disbursements witnessing diversity; AUM growth is superior

Disbursements in 4QFY24 indicate diversity in the overall business momentum, with signs of consolidation in the vehicle finance book (+4% qoq) whereas loan against property or LAP (+21% qoq), housing loans (+6% qoq) & new business loans (+13.6% qoq) continued to witness a healthy traction. However, AUM witnessed ~8.8% qoq growth, indicating that Cholamandalam Investment and Finance Company or CIFC is engaging in assets with a longer maturity cycle. We feel that disbursement growth may consolidate due to last year's base effect easing as well as the management yet to attain comfort in new businesses while AUM is set to grow at a faster pace than disbursement growth. We are building in disbursement CAGR of ~22% whereas AUM to post ~27% CAGR over FY25F-27F.

Margin bottoms out; limited impact of recent monetary tightening

CIFC reported a higher margin of 7.8% as it has already taken rate hikes across the portfolio (including for home finance), which has supported yields. On the borrowing front, management continues to focus on diversity. CIFC also had a limited impact of the RBI's recent tightening of risk weight assets for banks in respect of lending to non-banking finance companies or NBFCs as a significant portion of CIFC's borrowings are classified as priority sector lending, which is an exception. We expect the margin to improve in the coming quarters after the recent capital raising as well as repricing of its portfolio, as a significant proportion of the new loan book has been replaced with higher yields.

Asset quality issue normalizes; tightens underwriting standards

CIFC saw volatility in asset quality during 2QFY24, which was largely due to a portfolio comprising unsecured personal loans worth Rs20bn sourced via partnership arrangements (including with fintechs), which witnessed delinquencies. However, CIFC has already tightened its underwriting standards for unsecured loans to ensure better asset quality.

Outlook & valuation

We continue to like CIFC as we believe 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 ~4.0x FY26F BV, with RoA at ~2.5% & post-dilution RoE at ~21.8% for FY26F. Downside risks: Slow growth and margin pressure.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	70,083	96,146	128,882	167,051	213,822
Total Non-Interest Income (Rsm)	2,209	3,711	4,082	4,531	5,074
Operating Revenue (Rsm)	72,292	99,857	132,963	171,582	218,897
Total Provision Charges (Rsm)	(8,497)	(13,218)	(19,841)	(27,442)	(37,111)
Net Profit (Rsm)	26,662	34,228	45,129	57,431	72,822
Core EPS (Rs)	32.46	40.73	53.71	67.20	85.21
Core EPS Growth	24%	25%	32%	25%	27%
FD Core P/E (x)	36.76	29.30	22.22	17.76	14.00
DPS (Rs)	2.00	2.00	4.00	7.00	13.00
Dividend Yield	0.17%	0.17%	0.34%	0.59%	1.09%
BVPS (Rs)	174.0	232.7	282.4	338.1	410.5
P/BV (x)	6.86	5.13	4.22	3.53	2.91
ROE	20.5%	20.2%	20.8%	21.8%	22.8%
% 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	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	16,142	16,476	17,798	19,667	20,232	22,298	25,207	28,409	44.5%	12.7%
Other Income	258	498	519	934	1,033	1,369	590	718		
Total Income	16,401	16,974	18,317	20,601	21,265	23,667	25,797	29,127	41.4%	12.9%
Operating Expenses	5,797	6,611	7,520	7,870	7,867	9,461	10,640	12,850	63.3%	20.8%
Operating Profit	10,604	10,363	10,797	12,731	13,399	14,206	15,157	16,278	27.9%	7.4%
Provisions	2,986	2,782	1,589	1,140	3,723	3,998	3,588	1,908	67.4%	-46.8%
CoR (%)	28.2%	26.8%	14.7%	9.0%	27.8%	28.1%	23.7%	11.7%		
PBT	7,617	7,581	9,208	11,591	9,675	10,208	11,569	14,369	24.0%	24.2%
Tax	1,961	1,947	2,365	3,063	2,415	2,583	2,807	3,788	23.7%	34.9%
Tax rate (%)	25.7%	25.7%	25.7%	26.4%	25.0%	25.3%	24.3%	26.4%		
PAT	5,657	5,634	6,843	8,528	7,260	7,625	8,762	10,581	24.1%	20.8%
Disbursements	1,33,300	1,60,960	1,75,600	2,10,200	2,00,150	2,15,420	2,23,830	2,47,850	17.9%	10.7%
Total AUM	8,19,250	8,76,680	9,54,680	10,64,980	11,47,960	12,42,450	13,37,940	14,55,720	36.7%	8.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

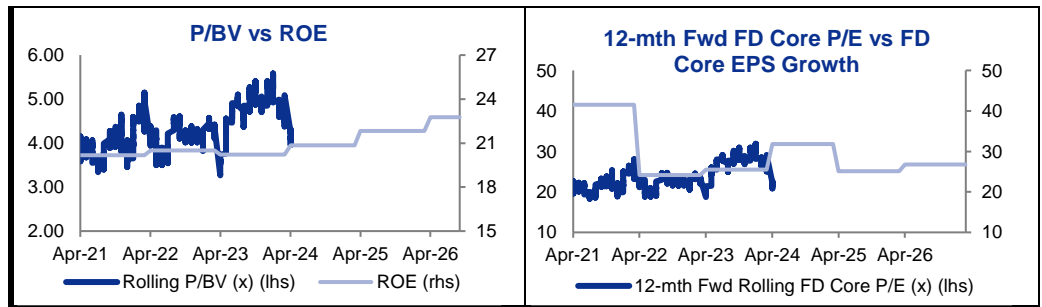
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,30,397	1,28,882	-1.2%	1,65,980	1,67,051	0.6%	NA	2,13,822	NA
Other Income	4,375	4,082	-6.7%	5,724	4,531	-20.8%	NA	5,074	NA
PPOP	83,970	80,254	-4.4%	1,21,024	1,04,324	-13.8%	NA	1,34,597	NA
PAT	46,127	45,129	-2.2%	66,338	57,431	-13.4%	NA	72,822	NA
EPS (Rs)	55.0	53.7	-2.4%	77.6	68.3	-11.9%	NA	86.7	NA
BV (Rs)	283.0	282.4	-0.2%	381.1	343.8	-9.8%	NA	417.5	NA
ABV (Rs)	263.1	262.6	-0.2%	356.2	320.2	-10.1%	NA	388.8	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4Q earnings conference call - key highlights

- CIFIC's management guided that RoA in the SME and personal loan segments will improve, led by higher operating leverage.
- Net interest margin or NIM to largely remain flat but yield to move up due to the vehicle finance book being a fixed rate book. Cost of funds or CoF will be stable/higher with increased borrowings via the ECB route and public debt. Opex to be at 3% of AUM.
- Opex was higher due to insurance income through agency licensing resulting in higher costs, expansion of branch network, incremental manpower (for LAP and home loans), rise in costs per branch, CSR expenses and employee incentives.
- LAP disbursement stood at 10-12% of micro-LAP.
- Average tenure of the consumer small enterprise loan or CSEL book is three-to-four years for traditional products and for SME it is five-to-six years. Within SME, equipment finance has an average tenure of five years, for term loans it is 10 years and for supply chain it is 90 days.
- CSEL traditionally has a bounce rate of 9%.
- Commercial vehicle sales numbers were highly encouraging in Apr 2024 and are expected to be healthy in May/June 2024F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	70,083	96,146	128,882	167,051	213,822
Total Non-Interest Income	2,209	3,711	4,082	4,531	5,074
Operating Revenue	72,292	99,857	132,963	171,582	218,897
Total Non-Interest Expenses	(26,610)	(38,860)	(50,360)	(64,439)	(80,916)
Pre-provision Operating Profit	44,494	59,039	80,254	104,324	134,597
Total Provision Charges	(8,497)	(13,218)	(19,841)	(27,442)	(37,111)
Operating Profit After Provisions	35,997	45,821	60,413	76,882	97,486
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	35,997	45,821	60,413	76,882	97,486
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	35,997	45,821	60,413	76,882	97,486
Exceptional Items					
Pre-tax Profit	35,997	45,821	60,413	76,882	97,486
Taxation	(9,335)	(11,593)	(15,285)	(19,451)	(24,664)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	26,662	34,228	45,129	57,431	72,822
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	26,662	34,228	45,129	57,431	72,822
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%	94.5%	93.9%	93.8%
Avg Liquid Assets/Avg IEAs	104.0%	102.9%	102.4%	101.6%	101.5%
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-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	1,047,480	1,444,243	1,862,553	2,359,267	2,942,368
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,047,480	1,444,243	1,862,553	2,359,267	2,942,368
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,047,480	1,444,243	1,862,553	2,359,267	2,942,368
Intangible Assets					
Other Non-Interest Earning Assets	11,973	14,180	17,015	20,418	24,502
Total Non-Interest Earning Assets	21,783	36,061	41,965	49,050	57,551
Cash And Marketable Securities	29,610	43,202	34,865	32,682	44,249
Long-term Investments	36,280	41,002	78,728	111,140	139,004
Total Assets	1,135,153	1,564,508	2,018,110	2,552,139	3,183,173
Customer Interest-Bearing Liabilities					
Bank Deposits	974,903	1,344,736	1,749,501	2,222,801	2,780,087
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	974,903	1,344,736	1,749,501	2,222,801	2,780,087
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,291	24,207	31,276	40,428	52,279
Total Liabilities	992,195	1,368,943	1,780,777	2,263,229	2,832,365
Shareholders Equity	142,959	195,565	237,333	288,910	350,808
Minority Interests					
Total Equity	142,959	195,565	237,333	288,910	350,808

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	21.9%	37.2%	34.0%	29.6%	28.0%
Operating Profit Growth	18.1%	33.5%	35.4%	29.7%	28.8%
Pretax Profit Growth	25%	27%	32%	27%	27%
Net Interest To Total Income	96.9%	96.3%	96.9%	97.4%	97.7%
Cost Of Funds	6.89%	7.96%	7.70%	7.00%	6.50%
Return On Interest Earning Assets	14.3%	15.1%	15.0%	14.5%	14.2%
Net Interest Spread	7.37%	7.17%	7.30%	7.50%	7.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	22%	25%	26%	28%
Interest Return On Average Assets	7.16%	7.12%	7.19%	7.31%	7.46%
Effective Tax Rate	25.9%	25.3%	25.3%	25.3%	25.3%
Net Dividend Payout Ratio	6.2%	4.9%	7.4%	10.2%	15.0%
Return On Average Assets	2.72%	2.54%	2.52%	2.51%	2.54%

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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