

India

ADD (no change)

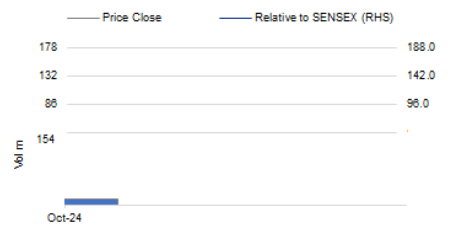
Consensus ratings*: Buy 29 Hold 5 Sell 6

Current price:	Rs1,372
Target price:	Rs1,550
Previous target:	Rs1,650
Up/downside:	13.0%
InCred Research / Consensus:	-1.6%
Reuters:	CHLA.NS
Bloomberg:	CIFC IN
Market cap:	US\$15,882m
	Rs1,153,255m
Average daily turnover:	US\$28.1m
	Rs2044.1m
Current shares o/s:	82.1m
Free float:	49.8%

*Source: Bloomberg

Key changes in this note

- Slowdown in vehicle sales, rise in delinquencies amid weak rural sentiment & seasoning of recently built unsecured book to face adversities in the near term.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.7)	(2.7)	17.5
Relative (%)	(8.1)	(0.4)	(5.6)

Major shareholders	% held
Cholamandalam Financial Holdings Ltd	50.2
Axis Mutual Fund Trustee Ltd.	3.4
New World Fund	1.9

Research Analyst(s)



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Cholamandalam Investment and Finance Company

Seasonal headwinds likely to stay

- CIFIC has reported a weak 2Q PAT of Rs9.6bn amid a ~10bp dip in margin to ~7.5% as well as higher credit costs at ~156bp against ~150bp last quarter.
- Slowdown in vehicle sales, rise in delinquencies amid weak rural sentiment & seasoning of recently built unsecured book to have an impact in the near term.
- We like its management's ability to manage profitable growth, but near-term headwinds create adversities. Retain ADD rating with a lower TP of Rs1,550.

Disbursements witnessing seasonality; AUM growth superior

Overall disbursements of Cholamandalam Investment and Finance Company (CIFIC) in 2QFY25 were flat qoq, with the trend being sporadic as vehicle finance (-3.4% qoq) & home loans (+2.5% qoq) remained weak whereas the momentum was maintained in loan against property or LAP (+10.9% qoq). As regards new business initiatives, the consumer & small enterprise loan or CSEL segment (+2.9% qoq) & SME (-9.3% qoq) remained a laggard but the secured business & personal loan or SBPL (+16.4% qoq) segment was unaffected. The trend in AUM growth was unaffected at Rs1.64tr (+5.9% qoq) amid the rising exposure to longer-tenure loans & lower repayments. We feel the slowdown in vehicle sales, along with the rise in delinquencies amid weak rural sentiment as well as seasoning of new initiatives of CIFIC, will lead to some adversities in the near term. We are building in a disbursement CAGR of ~18% while AUM to post ~24% CAGR over FY25F-27F.

With margin nearly bottoming out, the focus is on better-yield assets

CIFIC saw a dip in margin by ~10 bp to ~7.5%. The company has already taken rate hikes across its portfolios, which will support yields. On the borrowing front, management continues to focus on diversity. We expect the margin to improve in coming quarters as the proportion of the new loan book is replaced with higher yields as well as with a rising share of better-yield asset class.

Asset quality deteriorates further - normalization likely in 2HFY25F

CIFIC witnessed a deteriorating trend in asset quality with its gross stage-3 assets increasing by ~21bp sequentially to ~2.83%, with a spike visible across segments barring LAP. Despite the spike, CIFIC reduced the coverage by ~100bp qoq to 44.5%, resulting in qoq flat credit costs at ~156bp. Management remains firm over appropriate recoveries in 2HFY25F which, in turn, will improve headline NPAs.

Outlook & valuation

We retain our ADD rating on CIFIC with a lower target price of Rs1,550 (Rs1,650 earlier), corresponding to ~4.6x FY26F BV with RoA at ~2.5% & post-dilution RoE at ~21.5% for FY26F. We continue to like CIFIC amid its management's focus on profitable growth, but we prefer Bajaj Finance (ADD; TP Rs9,000) due to its favourable risk-reward ratio. 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	130,832	165,872	204,864
Total Non-Interest Income (Rsm)	2,209	3,711	2,597	2,857	3,143
Operating Revenue (Rsm)	72,292	99,857	133,429	168,729	208,007
Total Provision Charges (Rsm)	(8,497)	(13,218)	(24,460)	(28,560)	(33,747)
Net Profit (Rsm)	26,662	34,228	41,914	55,666	70,635
Core EPS (Rs)	32.46	40.73	49.88	65.14	82.65
Core EPS Growth	24%	25%	22%	31%	27%
FD Core P/E (x)	42.27	33.69	27.51	21.07	16.60
DPS (Rs)	2.00	2.00	4.00	7.00	13.00
Dividend Yield	0.15%	0.15%	0.29%	0.51%	0.95%
BVPS (Rs)	174.0	232.7	278.6	332.2	402.1
P/BV (x)	7.88	5.90	4.93	4.13	3.41
ROE	20.5%	20.2%	19.5%	21.5%	22.5%
% 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	YoY (%)	QoQ (%)
Net Interest Income	20,232	22,298	25,207	28,409	29,891	31,715	42.2%	6.1%
Other Income	1,033	1,369	590	718	443	662		
Total Income	21,265	23,667	25,797	29,127	30,333	32,376	36.8%	6.7%
Operating Expenses	7,867	9,461	10,640	12,850	11,834	13,155	39.0%	11.2%
Operating Profit	13,399	14,206	15,157	16,278	18,499	19,221	35.3%	3.9%
Provisions	3,723	3,998	3,588	1,908	5,814	6,235	56.0%	7.2%
CoR (%)	27.8%	28.1%	23.7%	11.7%	31.4%	32.4%		
PBT	9,675	10,208	11,569	14,369	12,685	12,986	27.2%	2.4%
Tax	2,415	2,583	2,807	3,788	3,263	3,355	29.9%	2.8%
Tax Rate (%)	25.0%	25.3%	24.3%	26.4%	25.7%	25.8%		
PAT	7,260	7,625	8,762	10,581	9,422	9,631	26.3%	2.2%
Disbursements	2,00,160	2,15,420	2,23,830	2,47,850	2,43,320	2,43,130	12.9%	-0.1%
Total AUM	11,47,960	12,42,450	13,37,940	14,55,720	15,54,410	16,46,430	32.5%	5.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

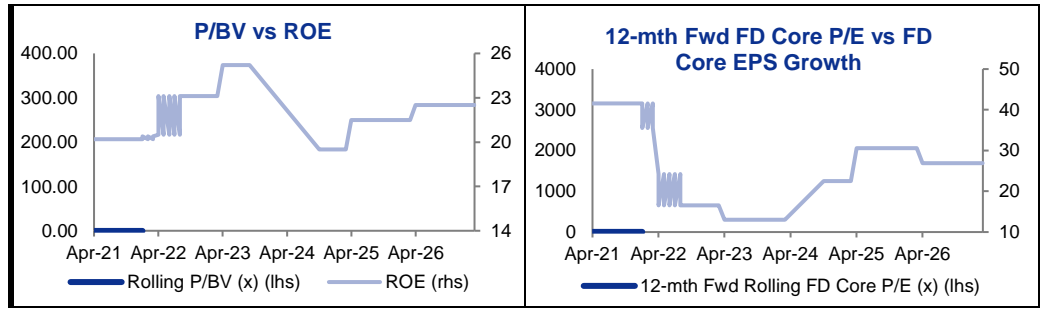
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,27,477	1,30,832	2.6%	1,69,752	1,65,872	-2.3%	2,17,923	2,04,864	-6.0%
Other Income	2,226	2,597	16.7%	2,449	2,857	16.7%	2,694	3,143	16.7%
PPOP	77,617	80,720	4.0%	1,07,803	1,03,279	-4.2%	1,42,368	1,28,559	-9.7%
PAT	42,971	41,914	-2.5%	57,890	55,666	-3.8%	73,564	70,635	-4.0%
EPS (Rs)	51.1	49.9	-2.5%	68.9	66.2	-3.8%	87.5	84.1	-4.0%
BV (Rs)	279.9	278.6	-0.4%	341.8	337.9	-1.1%	416.3	409.0	-1.8%
ABV (Rs)	260.0	257.5	-1.0%	317.9	315.4	-0.8%	387.2	385.6	-0.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings-call summary

- Demand for other products, barring commercial vehicle or CV loans, has picked up pace so far in Oct 2024. The demand for CV loans is indicated to start picking up pace after the harvest season.
- Growth rates and asset quality trends in new and used vehicles are similar.
- Credit costs are indicated to be ~1.3% in FY25F, with a conservative guidance of 1.4%.
- Credit costs are guided to be elevated in 3QFY25F and improve in 4QFY25F led by better vehicle finance (VF), CSEL and SME segments.
- Credit costs in vehicle finance are indicated to decline because 2H seems to be better as collections are better.
- Overall CV capacity utilization was low amid poor demand/consumption in rural markets.
- Small commercial vehicles, which provide last mile connectivity, have been the most severely impacted on both demand and delinquency fronts.
- The impact of slow seasonality in 1HFY25 was amplified on account of general elections, heat wave, delayed rains leading to a delayed harvest, and delayed festivities (the festival season moved from 2Q to 3Q).
- Opex is indicated to be ~3-3.5% level.
- Fee income will be at a similar level as to the % of AUM, as seen in 1H. The company sees a limited upside in insurance income and indicated that it will move in line with disbursements.
- Of the total slippage, Rs3bn was from the vehicle finance business.
- Write-offs were at the same level as last quarter.
- Employee hiring is high (~7,000 in 1HFY25) across the board, as the company is deepening its geographic reach and product lines.
- VF added more employees for collections than sales. Of the total workforce, ~25-30% is deployed for collection.
- Management indicated that it would continue with bank borrowings, of which 50-60% were linked to EBLR where the company has started seeing an advantage, ~10% were at a fixed rate, and the remaining were linked to MCLR.
- CIFC has already taken interest rate hikes in LAP, home loan and SME segments and will progressively take hikes in the VF segment over the next two quarters, although the CSEL segment may not show much movement.
- CSEL accounts for around 9% of the total book, and the company has indicated that it will cap it to 10%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	70,083	96,146	130,832	165,872	204,864
Total Non-Interest Income	2,209	3,711	2,597	2,857	3,143
Operating Revenue	72,292	99,857	133,429	168,729	208,007
Total Non-Interest Expenses	(26,610)	(38,860)	(50,360)	(62,631)	(76,065)
Pre-provision Operating Profit	44,494	59,039	80,720	103,279	128,559
Total Provision Charges	(8,497)	(13,218)	(24,460)	(28,560)	(33,747)
Operating Profit After Provisions	35,997	45,821	56,260	74,719	94,812
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	35,997	45,821	56,260	74,719	94,812
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	35,997	45,821	56,260	74,719	94,812
Exceptional Items					
Pre-tax Profit	35,997	45,821	56,260	74,719	94,812
Taxation	(9,335)	(11,593)	(14,346)	(19,053)	(24,177)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	26,662	34,228	41,914	55,666	70,635
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	26,662	34,228	41,914	55,666	70,635
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%	95.2%	95.4%	95.6%
Avg Liquid Assets/Avg IEAs	104.0%	102.9%	103.2%	103.2%	103.3%
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	1,817,100	2,262,965	2,736,581
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,047,480	1,444,243	1,817,100	2,262,965	2,736,581
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,047,480	1,444,243	1,817,100	2,262,965	2,736,581
Intangible Assets					
Other Non-Interest Earning Assets	11,973	14,180	16,732	19,744	23,297
Total Non-Interest Earning Assets	21,783	36,061	40,914	46,572	53,169
Cash And Marketable Securities	29,610	43,202	62,152	67,310	99,090
Long-term Investments	36,280	41,002	51,179	63,479	77,101
Total Assets	1,135,153	1,564,508	1,971,344	2,440,326	2,965,940
Customer Interest-Bearing Liabilities					
Bank Deposits	974,903	1,344,736	1,705,950	2,115,969	2,570,021
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	974,903	1,344,736	1,705,950	2,115,969	2,570,021
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	1,737,227	2,156,396	2,622,299
Shareholders Equity	142,959	195,565	234,118	283,930	343,641
Minority Interests					
Total Equity	142,959	195,565	234,118	283,930	343,641

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	21.9%	37.2%	36.1%	26.8%	23.5%
Operating Profit Growth	18.1%	33.5%	36.2%	27.7%	24.4%
Pretax Profit Growth	25%	27%	23%	33%	27%
Net Interest To Total Income	96.9%	96.3%	98.1%	98.3%	98.5%
Cost Of Funds	6.89%	7.96%	8.10%	7.60%	7.10%
Return On Interest Earning Assets	14.3%	15.1%	15.6%	15.3%	14.8%
Net Interest Spread	7.37%	7.17%	7.50%	7.65%	7.75%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	22%	30%	28%	26%
Interest Return On Average Assets	7.16%	7.12%	7.40%	7.52%	7.58%
Effective Tax Rate	25.9%	25.3%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	6.2%	4.9%	8.0%	10.6%	15.5%
Return On Average Assets	2.72%	2.54%	2.37%	2.52%	2.61%

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.