



India

HOLD (previously ADD)

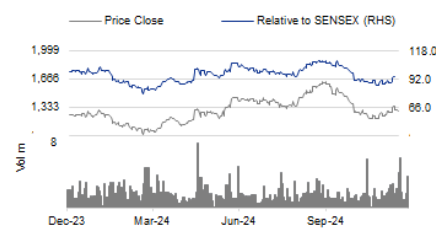
Consensus ratings*: Buy 28 Hold 7 Sell 5

Current price:	Rs1,288
Target price:	Rs1,300
Previous target:	Rs1,550
Up/downside:	0.9%
InCred Research / Consensus:	-13.3%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$12,770m Rs1,083,170m
Average daily turnover:	US\$26.3m Rs2230.5m
Current shares o/s:	84.0m
Free float:	49.8%

*Source: Bloomberg

Key changes in this note

- Weak demand for CVs, coupled with rising discounts, to impact disbursements whereas consolidation in new businesses is expected amid business volatility.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.9	(17.7)	3.6
Relative (%)	1.3	(16.5)	(9.5)

Major shareholders	% held
Cholamandalam Financial Holdings	44.4
Capital Group	5.3
Ambadi Invesments Ltd.	4.0

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Cholamandalam Investment and Finance Company

Unfavourable risk-reward ratio

- We downgrade CIFIC to HOLD (ADD earlier) with a new target price of Rs1,300 (Rs1,550 earlier), ~3.9x FY26F BV, as we feel the risk-reward is unfavourable.
- Weak demand for CVs, coupled with rising discounts, impacts disbursements whereas consolidation in new businesses is expected amid business volatility.
- Caution is rising on the asset quality front as we observe an overlap between MFI and used CV customers, with the new businesses also lacking seasoning.

Weak demand with rising discounts to impact disbursement growth

We expect Cholamandalam Investment & Finance Company (CIFIC) to witness slower-than-expected assets under management or AUM growth in FY25F led by consistent sluggishness in vehicle demand (especially commercial vehicles or CVs) and consolidation in new businesses (primarily unsecured lending) due to a volatile environment and overleveraging. Our recent channel check highlighted a slowdown in vehicle demand leading to higher discounts during the year-end, impacting disbursement growth. Used vehicle demand remained relatively better, however historically it follows the trend in new vehicle demand but with a lag. While there is some pick-up in passenger vehicle (PV) and tractor sales due to healthy monsoons, sustainability of the same remains questionable. The mortgage business of the company continues to do well, however rising competition and a higher base of last year are areas of concern.

A deeper stick to measure asset quality stress

We equally remain watchful of asset quality stress as we are observing a significant overlap between microfinance (MFI) and used vehicle customers. This may result in a higher proportion of CV loans witnessing a longer-than-expected stretch in the asset quality cycle. We also expect seasoning of new businesses, which may lead to incremental credit costs.

NIM benefit to be offset by rising opex led by higher collections

In a declining interest rate scenario, CIFIC will see some improvement on the margin front, given the higher proportion of fixed-rate loans. However, the same will be offset by rising operating expenses that we now expect. We expect a jump in collection-related costs on the back of higher focus on recoveries and collections.

Outlook and valuation

We have cut our earnings estimates by ~3.5%/5.4% for FY25F/26F, respectively, adjusting for a rise in operating and credit costs. We continue to appreciate the dynamic management practices of CIFIC, however elevated contribution from the auto financing segment (>50%) will drive cyclicality in earnings. We downgrade CIFIC to HOLD (from ADD) with a new target price of Rs1,300 (Rs1,550 earlier), ~3.9x FY26F BV. Upside risk: Better-than-expected AUM growth. Downside risk: Higher-than-expected credit costs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	70,083	96,146	130,610	162,423	196,939
Total Non-Interest Income (Rsm)	2,209	3,711	2,597	2,857	3,286
Operating Revenue (Rsm)	72,292	99,857	133,208	165,280	200,224
Total Provision Charges (Rsm)	(8,497)	(13,218)	(25,739)	(28,582)	(33,486)
Net Profit (Rsm)	26,662	34,228	40,455	52,681	64,577
Core EPS (Rs)	32.46	40.73	48.14	61.65	75.57
Core EPS Growth	24%	25%	18%	28%	23%
FD Core P/E (x)	39.69	31.63	26.76	20.90	17.05
DPS (Rs)	2.00	2.00	4.00	9.00	15.00
Dividend Yield	0.16%	0.16%	0.31%	0.70%	1.16%
BVPS (Rs)	174.0	232.7	276.9	325.1	385.9
P/BV (x)	7.40	5.54	4.65	3.96	3.34
ROE	20.5%	20.2%	18.9%	20.6%	21.3%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

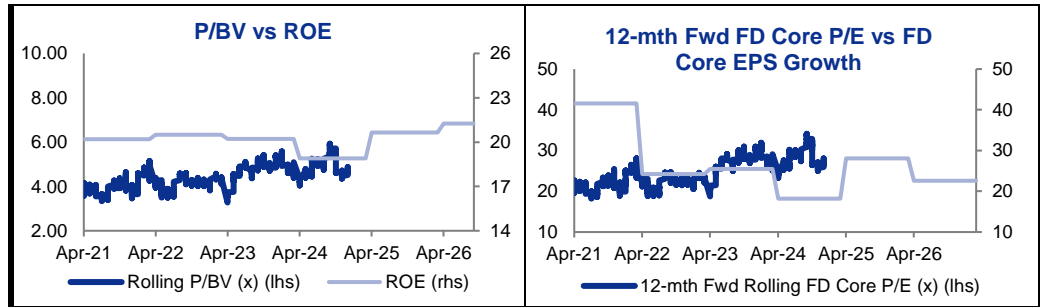
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,30,832	1,30,610	-0.2%	1,65,872	1,62,423	-2.1%	2,04,864	1,96,939	-3.9%
Other Income	2,597	2,597	0.0%	2,857	2,857	0.0%	3,143	3,286	4.5%
PPOP	80,720	80,187	-0.7%	1,03,279	99,295	-3.9%	1,28,559	1,20,167	-6.5%
PAT	41,914	40,455	-3.5%	55,666	52,681	-5.4%	70,635	64,577	-8.6%
EPS (Rs)	49.9	48.1	-3.5%	66.2	62.7	-5.4%	84.1	76.9	-8.6%
BV (Rs)	278.6	276.9	-0.6%	337.9	330.6	-2.2%	409.0	392.5	-4.0%
ABV (Rs)	257.5	255.8	-0.6%	315.4	308.5	-2.2%	385.6	369.8	-4.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	70,083	96,146	130,610	162,423	196,939
Total Non-Interest Income	2,209	3,711	2,597	2,857	3,286
Operating Revenue	72,292	99,857	133,208	165,280	200,224
Total Non-Interest Expenses	(26,610)	(38,860)	(50,671)	(63,166)	(76,675)
Pre-provision Operating Profit	44,494	59,039	80,187	99,295	120,167
Total Provision Charges	(8,497)	(13,218)	(25,739)	(28,582)	(33,486)
Operating Profit After Provisions	35,997	45,821	54,448	70,713	86,681
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	35,997	45,821	54,448	70,713	86,681
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	35,997	45,821	54,448	70,713	86,681
Exceptional Items					
Pre-tax Profit	35,997	45,821	54,448	70,713	86,681
Taxation	(9,335)	(11,593)	(13,993)	(18,032)	(22,104)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	26,662	34,228	40,455	52,681	64,577
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	26,662	34,228	40,455	52,681	64,577
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%	95.5%
Avg Liquid Assets/Avg IEAs	104.0%	102.9%	103.3%	103.0%	102.1%
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					

SOURCES: 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	1,773,136	2,169,255	2,614,457
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,047,480	1,444,243	1,773,136	2,169,255	2,614,457
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,047,480	1,444,243	1,773,136	2,169,255	2,614,457
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	61,637	57,226	44,540
Long-term Investments	36,280	41,002	49,917	60,631	72,388
Total Assets	1,135,153	1,564,508	1,925,605	2,333,684	2,784,554
Customer Interest-Bearing Liabilities					
Bank Deposits	974,903	1,344,736	1,663,898	2,021,020	2,412,946
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	974,903	1,344,736	1,663,898	2,021,020	2,412,946
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	17,291	24,207	29,048	34,858	41,829
Total Liabilities	992,195	1,368,943	1,692,946	2,055,877	2,454,775
Shareholders Equity	142,959	195,565	232,659	277,806	329,779
Minority Interests					
Total Equity	142,959	195,565	232,659	277,806	329,779

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	21.9%	37.2%	35.8%	24.4%	21.3%
Operating Profit Growth	18.1%	33.5%	35.3%	23.7%	21.0%
Pretax Profit Growth	25%	27%	19%	30%	23%
Net Interest To Total Income	96.9%	96.3%	98.1%	98.3%	98.4%
Cost Of Funds	6.89%	7.96%	8.00%	7.50%	7.30%
Return On Interest Earning Assets	14.3%	15.1%	15.6%	15.3%	15.0%
Net Interest Spread	7.37%	7.17%	7.60%	7.75%	7.70%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	19%	22%	32%	29%	28%
Interest Return On Average Assets	7.16%	7.12%	7.48%	7.63%	7.70%
Effective Tax Rate	25.9%	25.3%	25.7%	25.5%	25.5%
Net Dividend Payout Ratio	6.2%	4.9%	8.3%	14.4%	19.5%
Return On Average Assets	2.72%	2.54%	2.32%	2.47%	2.52%

SOURCES: 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.