

India

HOLD (no change)

Consensus ratings*: Buy 25 Hold 13 Sell 4

Current price:	Rs1,423
Target price:	Rs1,500
Previous target:	Rs1,550
Up/downside:	5.4%
InCred Research / Consensus:	-8.1%
Reuters:	CHOL.NS
Bloomberg:	CIFC IN
Market cap:	US\$13,671m
	Rs1,196,575m
Average daily turnover:	US\$35.0m
	Rs3065.4m
Current shares o/s:	82.1m
Free float:	50.1%

*Source: Bloomberg

Key changes in this note

- We incorporate higher credit costs in FY26F and easing of the same from FY27F on the back of tighter underwriting norms.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.1)	(4.7)	2.3
Relative (%)	(8.0)	(4.8)	2.8

Major shareholders	% held
Promoter	49.9
Axis Mutual Fund Trustee Ltd.	2.2
New World Fund INC	1.7

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Cholamandalam Investment and Finance Company

Slow start to FY26; positives priced in

- CIFIC posted in-line PPOP in 1Q, with PAT at Rs11bn missing estimate due to high credit costs. AUM growth fell to 24% yoy.
- Asset quality hit by higher stress in vehicle finance, normalization in mortgage biz, and CSEL segment streamlining. Disbursements sluggish, down 8% qoq.
- We appreciate the diversified growth & rising vehicle finance market share, but will monitor growth & credit cost trends. Retain HOLD with a new Rs1,500 TP.

PAT strained by elevated credit costs and disbursement slowdown

Cholamandalam Investment Finance Corporation (CIFIC) reported an in-line 1QFY26 operating profit, although the rise in credit costs led to a miss on PAT, which grew by 21% yoy and declined 10% qoq. Assets under management or AUM grew modestly by 24% yoy and 4% qoq led by a slowdown in disbursements, which were down 8% qoq. NIM was down 20bp qoq at 7.8% because of slow growth and tighter underwriting norms.

Sluggish vehicle demand, soft home loans, unsecured loan reforms

Disbursements were flat yoy and declined 8% qoq in 1Q because of continued sluggishness in the vehicle finance (VF) segment due to the early onset of monsoons, sluggish economy, slowdown in home loans due to registration changes in Karnataka, and streamlining of the consumer and small enterprise loan (CSEL) segment. Management indicated a recovery in the vehicle finance segment from mid-2Q or 3QFY26F. Home loan disbursements are indicated to grow at ~10% yoy in FY26F. In the CSEL and SME, the cessation of fintech partnerships impacted disbursements by Rs15bn and the cessation of supply chain finance (due to low returns) hit disbursements by Rs5bn. We expect disbursements to grow by ~13% yoy in FY26F and pick up thereafter in FY27F-28F.

Asset quality stress rises; we remain conservative and watchful

Asset quality stress inched up with a broad-based rise in gross stage-3 assets, up 35bp qoq at 3.16%. Cash flows continued to be on a tight leash among vehicle operators on account of the early arrival of monsoons, thus hampering capacity utilization along with relatively weak demand. Management has indicated that credit costs will ease for vehicle financing from 2Q or 3QFY26F, remain range-bound in the mortgage segment and stay elevated in the CSEL segment for another two quarters before easing from 4QFY26F.

Outlook and valuation

We appreciate the dynamic management practices of CIFIC; however, elevated contribution from the VF segment (>50%), along with a gradual seasoning of new businesses, will drive cyclicity in earnings. We believe all positives are priced in and retain HOLD rating on CIFIC with a lower target price of Rs1,500 or ~3.9x FY27F BV, from Rs1,550 earlier. Upside/downside risks: Strong AUM growth & low credit costs and vice versa.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	96,146	132,607	164,713	205,873	248,158
Total Non-Interest Income (Rsm)	3,711	3,092	3,793	4,271	4,577
Operating Revenue (Rsm)	99,857	135,699	168,506	210,144	252,735
Total Provision Charges (Rsm)	(13,218)	(24,943)	(32,905)	(35,548)	(43,712)
Net Profit (Rsm)	34,228	42,585	52,705	69,349	83,132
Core EPS (Rs)	40.73	50.62	62.63	82.41	98.79
Core EPS Growth	25%	24%	24%	32%	20%
FD Core P/E (x)	34.92	28.10	22.71	17.26	14.40
DPS (Rs)	2.00	2.00	6.00	12.00	20.00
Dividend Yield	0.14%	0.14%	0.42%	0.84%	1.41%
BVPS (Rs)	232.7	280.9	336.8	407.3	486.1
P/BV (x)	6.11	5.06	4.22	3.49	2.93
ROE	20.2%	19.7%	20.3%	22.2%	22.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Rs m	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	29,891	31,715	34,374	36,628	37,787	26.4%	3.2%
Other Income	443	662	1,031	956	859		
Total Income	30,333	32,376	35,406	37,584	38,645	27.4%	2.8%
Operating Expenses	11,834	13,155	14,130	14,269	14,528	22.8%	1.8%
Operating Profit	18,499	19,221	21,276	23,315	24,117	30.4%	3.4%
Provisions	5,814	6,235	6,640	6,253	8,821	51.7%	41.1%
CoR (%)	31.4%	32.4%	31.2%	26.8%	36.6%		
PBT	12,685	12,986	14,636	17,062	15,296	20.6%	-10.3%
Tax	3,263	3,355	3,771	4,395	3,937	20.7%	-10.4%
Tax Rate (%)	25.7%	25.8%	25.8%	25.8%	25.7%		
PAT	9,422	9,631	10,865	12,667	11,359	20.6%	-10.3%
Disbursements	2,43,320	2,43,130	2,58,060	2,64,170	2,43,260	0.0%	-7.9%
Total AUM	15,54,410	16,46,430	17,45,670	18,47,460	19,21,480	23.6%	4.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Change in our earnings estimates

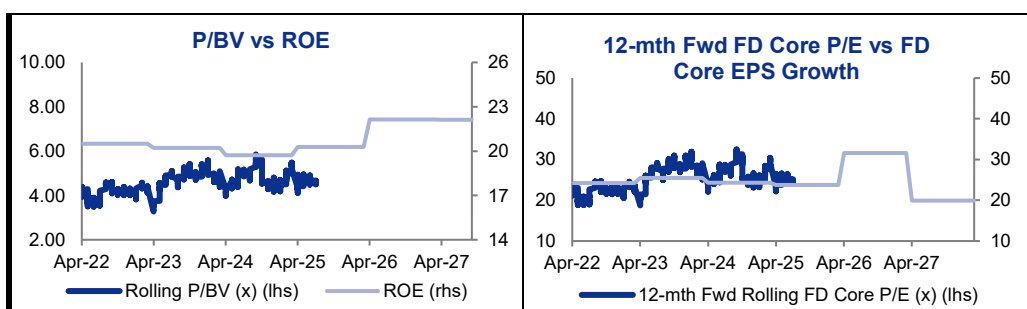
Y/E Mar (Rs m)	FY26F			FY27F			FY28F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	1,66,884	1,64,713	-1.3%	2,08,546	2,05,873	-1.3%	2,56,937	2,48,158	-3.4%
PPOP	1,03,664	1,03,878	0.2%	1,24,990	1,28,936	3.2%	1,53,968	1,55,660	1.1%
PAT	53,868	52,705	-2.2%	65,077	69,349	6.6%	81,611	83,132	1.9%
EPS (Rs)	64.0	62.7	-2.2%	77.4	82.4	6.6%	97.0	98.8	1.9%
BV (Rs)	338.9	336.9	-0.6%	404.3	407.4	0.8%	482.3	486.2	0.8%
ABV (Rs)	314.2	312.4	-0.6%	379.7	383.1	0.9%	455.3	459.6	0.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY26 earnings-call highlights ►

- Good monsoons and early arrival of the festive season are expected to improve agricultural income. Credit costs are likely to come down post-festive season.
- Strategic product and pricing mix to help in improving the RoA in future.
- The company has tightened its underwriting process in vehicle finance.
- Launched gold loan, a new business vertical, with branches mainly in urban locations.
- Stage-3 gross assets rose in 1QFY26 on account of early monsoons, landslides, etc. affecting the payment ability of borrowers.
- Home loan business remained flat on account of changes in the registration process across select geographies.
- **Guidance:**
 - **AUM growth:** ~20%-25% yoy led by a pick-up in vehicle finance (~17%-18%) and mortgage businesses (~12%-13%) likely in the coming quarters.
 - **Disbursement growth:** ~10-12% yoy in FY26F. Disbursements to pick up from mid-2QFY26F following the onset of the festive season.
 - **NIM:** Set to improve to ~7.8% as the benefits of repo rate cut flow in. 50% of the loan book is EBLR-linked, which will pass on the rate cut in 2QFY26F, and the remaining 50% MCLR-linked, which will pass on the benefit in 3QFY26F.
 - **Credit costs:** The guidance is ~1.5% for FY26F, with a flattish number for 2QFY26F and decline from 3QFY26F.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	96,146	132,607	164,713	205,873	248,158
Total Non-Interest Income	3,711	3,092	3,793	4,271	4,577
Operating Revenue	99,857	135,699	168,506	210,144	252,735
Total Non-Interest Expenses	(38,860)	(50,967)	(61,931)	(78,411)	(94,160)
Pre-provision Operating Profit	59,039	82,311	103,878	128,936	155,660
Total Provision Charges	(13,218)	(24,943)	(32,905)	(35,548)	(43,712)
Operating Profit After Provisions	45,821	57,369	70,973	93,387	111,947
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	45,821	57,369	70,973	93,387	111,947
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	45,821	57,369	70,973	93,387	111,947
Exceptional Items					
Pre-tax Profit	45,821	57,369	70,973	93,387	111,947
Taxation	(11,593)	(14,783)	(18,268)	(24,038)	(28,815)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	34,228	42,585	52,705	69,349	83,132
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	34,228	42,585	52,705	69,349	83,132
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	95.0%	95.0%	95.0%	95.4%	95.9%
Avg Liquid Assets/Avg IEAs	102.9%	104.2%	104.9%	104.1%	103.6%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	1,444,243	1,819,299	2,160,111	2,651,950	3,311,817
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,444,243	1,819,299	2,160,111	2,651,950	3,311,817
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,444,243	1,819,299	2,160,111	2,651,950	3,311,817
Intangible Assets					
Other Non-Interest Earning Assets	14,180	11,972	14,408	15,596	16,881
Total Non-Interest Earning Assets	36,061	39,266	47,083	55,039	64,907
Cash And Marketable Securities	43,202	94,007	100,445	98,420	116,270
Long-term Investments	41,002	63,904	67,308	70,894	74,671
Total Assets	1,564,508	2,016,476	2,374,948	2,876,303	3,567,665
Customer Interest-Bearing Liabilities					
Bank Deposits	1,344,736	1,749,461	2,058,398	2,497,205	3,118,568
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,344,736	1,749,461	2,058,398	2,497,205	3,118,568
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	24,207	30,741	33,096	36,379	40,052
Total Liabilities	1,368,943	1,780,202	2,091,494	2,533,584	3,158,620
Shareholders Equity	195,565	236,274	283,454	342,719	409,045
Minority Interests					
Total Equity	195,565	236,274	283,454	342,719	409,045

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	37.2%	37.9%	24.2%	25.0%	20.5%
Operating Profit Growth	33.5%	38.9%	25.8%	23.6%	20.4%
Pretax Profit Growth	27%	25%	24%	32%	20%
Net Interest To Total Income	96.3%	97.7%	97.7%	98.0%	98.2%
Cost Of Funds	7.96%	8.07%	7.39%	6.61%	6.31%
Return On Interest Earning Assets	15.1%	15.8%	15.3%	14.8%	14.3%
Net Interest Spread	7.17%	7.71%	7.96%	8.20%	7.95%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	22%	30%	32%	28%	28%
Interest Return On Average Assets	7.12%	7.41%	7.50%	7.84%	7.70%
Effective Tax Rate	25.3%	25.8%	25.7%	25.7%	25.7%
Net Dividend Payout Ratio	4.9%	3.9%	9.6%	14.5%	20.2%
Return On Average Assets	2.54%	2.38%	2.40%	2.64%	2.58%

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.**Country Ratings**

Definition:

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