

Cholamandalam Investment & Finance Company Ltd.



Cholamandalam Inv & Fin Co. Ltd.

Strong operating performance, profits impacted owing to high base

CMP INR 757	Target INR 820	Potential Upside 8.3%	Market Cap (INR Mn) INR 6,21,958	Recommendation ACCUMULATE	Sector NBFC
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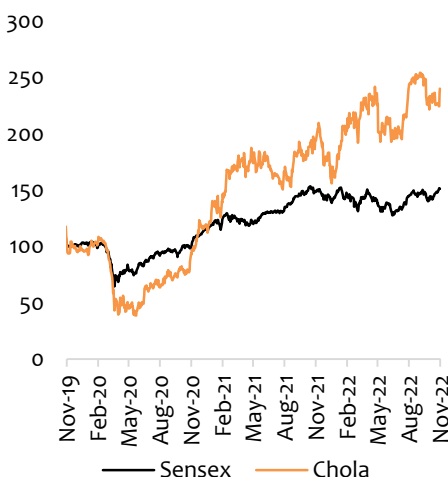
Result Highlights:

- NII for Q2FY23 stood at INR 14,888 Mn, a growth of 17.3% YoY (+0.5% QoQ).
- The operating profits were at INR 10,363 Mn against INR 8,750 Mn in Q2FY22, an increase of 18.4% YoY led by strong growth in the Net Interest Income (NII).
- Profit after Tax (PAT) for Q2FY23 was at INR 5,634 Mn against to INR 6,065 Mn in Q2FY22, reporting a decline of 7.1% YoY.
- Assets under management as of September 30, 2022, stood at INR 918,410 Mn as compared to INR 7,57,630 Mn as of September 30, 2021, a growth of 22.4% YoY/ 5.9% QoQ.
- GNPA and NNPA as of September 30, 2022, stood at 5.84% and 3.99% vs 6.31% and 4.35% as of June 30, 2022, respectively. The Capital Adequacy Ratio (CAR) of the company as on September 30, 2022, was at 18.4%.

MARKET DATA

Shares outs (Mn)	822
Equity Cap (INR Mn)	1,28,487
Mkt Cap (INR Mn)	6,21,958
52 Wk H/L (INR)	818/469
Volume Avg (3m K)	1,442
Face Value (INR)	2
Bloomberg Code	CIFC IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,836
NIFTY	18,053

KEY FINANCIALS

Particulars (INR Mn)	FY 20	FY 21	FY 22	FY 23E	FY 24E
NII	35,319	46,483	52,680	62,240	75,385
PPOP	24,837	33,567	37,712	43,062	53,005
PAT	10,524	15,113	21,467	25,212	31,210
EPS	13.4	18.4	26.2	30.7	38.0
NIM	6.5%	7.6%	7.3%	7.4%	7.5%
Advances Growth	5.2%	18.8%	12.6%	21.5%	18.4%

Source: Company, KRChoksey Research

Resilient growth in disbursements & healthy demand trajectory led to strong growth in AUM:

CIFC reported disbursements at INR 146.2 Bn, a growth of 68.0% YoY (+9.7% QoQ) for Q2FY23. As of September 30, 2022, the Assets Under Management (AUM) stood at INR 9,18,410 Mn, a growth of 22.4% YoY (+5.9% QoQ) led by healthy growth traction in the existing businesses as well as new segments. The vehicle loan segment for the quarter reported a growth of 16.9% YoY (+4.0% QoQ). The Loan from Property (LAP) grew 23.1% YoY (+6.6% QoQ), while the home loan segment increased to 32.3% YoY/ 8.7% QoQ. The new business avenues have reported a robust sequential pick-up, reporting a growth of 62.2% QoQ at INR 47,650 Mn, contributing 5.0% to the overall loan portfolio. The management expects AUM to grow by 20-22% for FY23E. The company will focus on increasing its yield by increasing the rates on its floating portfolio. At the same time, the company will increase the marginal yield on fresh disbursement in vehicle finance, which is majorly fixed. We have built an AUM growth of 19.9% CAGR over FY20-24E with growing contributions from the new businesses and positive sentiments for the home loan & vehicle segments. We expect the share of new businesses to improve to 12.0% by FY24E, giving a healthy boost to the overall AUM growth and also, resulting in higher return ratios.

Improvement in Asset Quality: The asset quality in Q2FY23, for Gross Stage 3 assets, stood at 3.84% against 4.16% in Q1FY23, with provision coverage of 41.5%. The total provisions carried against the overall book is 2.7%. As per the revised RBI norms, the GNPA and NNPA for Q2FY23 stood at 5.84% and 3.99%. The NBFC carries an additional provision of INR 7,710 Mn under IndAs over IRAC (Income Recognition and Asset Classification). The company holds a management outlay of INR 5,280 Mn as of September 30, 2022.

Higher base of last year resulted in a profit decline for the quarter: The company reported a profit decline of 7.1% YoY in Q2FY23 owing to reversals of Covid-related provisioning in Q2FY22, which were made in Q1FY22. Overall, operating performance remained strong, with healthy NII & Non-interest income growth. The cost to income stood at 38.9% in Q2FY23, higher from 35.3% in Q1FY23 and 37.2% in Q2FY22, led by increased investments in new business segments.

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	51.5	51.5	51.6
FIIIs	18.7	18.0	17.6
DIIIs	21.9	22.4	23.0
Others	7.9	8.1	7.8
Total	100.0	100	100

19.6%

NII CAGR between FY22 and FY24E

20.6%

PAT CAGR between FY22 and FY24E

ANALYST

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KRChoksey Research

is also available on Bloomberg KRCS<GO> Thomson Reuters, Factset and Capital IQ

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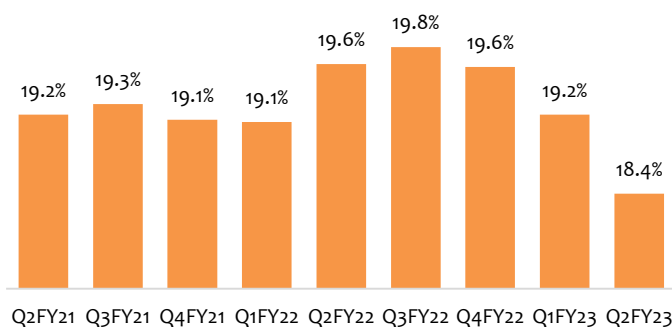
Conference Call Highlights:

- Central banks worldwide have hiked the interest rate in response to high inflation. This may lead to a possible global recession and financial crisis in emerging markets and developing economies.
- Despite the grim outlook, India is the fastest-growing economy in the world. IMF has projected a 6.8% growth for India in FY23E. While India could fare well relatively, it faces headwinds from imminent global demand and trade slowdown, risks of higher global inflation and interest rates, and a strengthening US dollar.
- CIFIC has achieved its highest-ever quarterly disbursements, which was possible through its diversified product mix, and this will help sustain the momentum moving onto the festival season ahead.
- The company expects an increase in the cost of funds to be in the range of 50-60 bps for the full year FY23E.
- CIFIC will be improving the yield by increasing the rate on the floating books, and for the vehicle finance book, which is typically a fixed rate book, it will increase the marginal yield on fresh disbursement. This will happen progressively as it moves into the subsequent quarters.
- The company has written off approximately INR 800 Mn for the quarter.
- Profit for Q2FY23 registered a de-growth of 7% YoY. Q1FY22 was impacted by Covid 2nd wave, and lockdowns resulting in forwarding flows to higher buckets and higher provisioning. Post-release of lockdowns in Q2FY22, the company was able to roll back customers who moved into higher buckets in Q1FY22; hence, Q1FY22 had higher credit loss provisioning at over 3%, and NCL of INR 5,630 Mn and Q2FY22 resulted in a meagre 0.37% and NCL of INR 690 Mn.

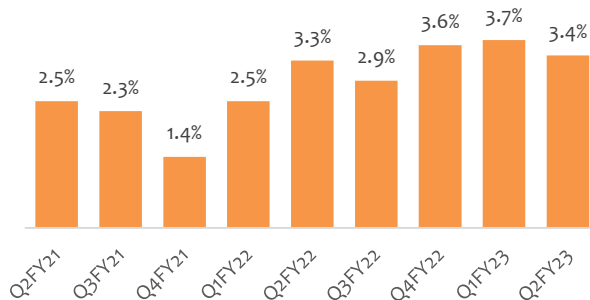
Valuation and view

In Q2FY23, CIFIC reported a strong operating performance for the quarter despite a slight contraction in the NIMs. The company has seen continued traction across the segments, especially the new segments, with the expansion of the geographical reach. The company expects AUM growth of 20-22% to be sustainable with increasing contributions from the new segments. The NIMs reported a contraction of 35 bps QoQ (-28 bps YoY) owing to the increased cost of funds by 70 bps sequentially. The company expects the increase in the cost of funds to be in the range of 50-60 bps for the full year FY23E. It expects some offset by increasing the yields of its LAP portfolio, which is floating in nature. On the cost of income front, the levels are expected to remain elevated considering its increased investment in the new business segments and manpower. We expect the cost-to-income ratio to be around 36.7%/ 35.6% in FY23E/ FY24E, respectively. The improving contribution from the new business segments & strong pick-up in the existing businesses' growth traction will boost the company's overall performance. We expect CIFIC will continue to outperform the industry in terms of healthy growth, given its superior asset quality as compared to its peers. **We have factored CAGR of 19.9% in loans and 20.6% in profits over FY22-24E owing to strong business momentum with gradual improvement in credit costs with normalized macro situation. We expect RoAs to reach 2.7% in FY24E. We assign a P/B multiple of 4.7x to the FY24E adj. BVPS of INR 174.2 to arrive at a target price of INR 820/share (unchanged), implying an upside of 8.3% from the CMP. Accordingly, we maintain our rating on the shares of Cholamandalam Investment & Finance Company Ltd. as "ACCUMULATE".**

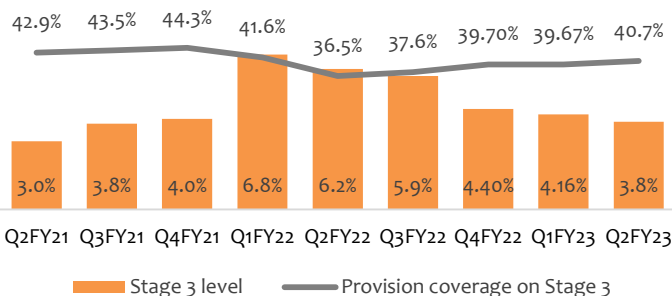
CAR: Remains within regulatory requirement



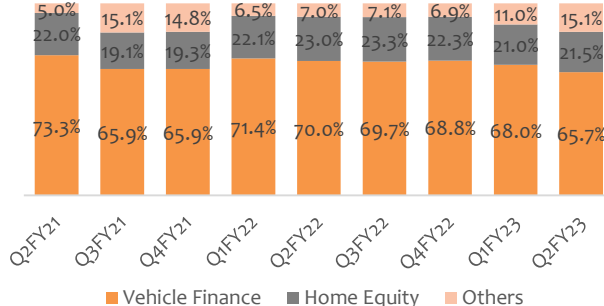
ROA-PBT Ratio sequentially lower



Asset Quality: Worsens



Business AUM Mix



Source: Company, KRChoksey Research

ANALYST

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Cholamandalam Inv & Fin Co. Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Standalone)

INR Mn	FY 20	FY 21	FY 22	FY 23E	FY 24E
Interest Income	81,242	92,242	95,668	1,18,548	1,45,958
Interest Expense	45,922	45,759	42,988	56,307	70,574
Net Interest Income	35,319	46,483	52,680	62,240	75,385
Non interest income	5,294	2,919	5,720	5,778	6,933
Operating income	40,613	49,401	58,400	68,018	82,318
- Employee expense	6,550	7,494	8,945	10,019	11,221
- Other operating expense	9,226	8,341	11,742	14,938	18,092
Operating Expense	15,776	15,834	20,687	24,956	29,313
PPOP	24,837	33,567	37,712	43,062	53,005
Provisions	8,973	13,218	8,803	9,446	11,391
PBT	15,864	20,348	28,909	33,616	41,613
Tax Expense	5,340	5,235	7,442	8,404	10,403
PAT	10,524	15,113	21,467	25,212	31,210
Diluted EPS (INR)	13.4	18.4	26.2	30.7	38.0

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 2: Balance Sheet (Standalone)

INR Mn	FY 20	FY 21	FY 22	FY 23E	FY 24E
Source of Funds					
Share capital	1,639	1,641	1,643	1,644	1,644
Reserves & Surplus	80,079	93,962	1,15,434	1,34,722	1,59,999
Networth	81,718	95,603	1,17,077	1,36,366	1,61,642
Borrowings	5,50,050	6,37,300	6,91,735	8,30,082	9,79,497
Other liabilities & provisions	8,160	12,581	14,822	15,563	16,341
Total Equity & Liabilities	6,39,928	7,45,484	8,23,634	9,82,010	11,57,480
Uses of Funds					
Cash & bank balances	69,590	52,319	26,579	27,110	27,653
Deferred Tax Assets	6,869	7,638	6,714	7,638	7,638
Net investments	729	16,188	20,762	24,902	29,385
Loans & advances	5,54,108	6,58,393	7,41,492	9,00,962	10,66,618
Fixed assets	2,840	2,293	2,914	3,351	3,854
Other assets	5,792	8,653	25,173	18,047	22,332
Total Assets	6,39,928	7,45,484	8,23,634	9,82,010	11,57,480

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 20	FY 21	FY 22	FY 23E	FY 24E
Growth Rates					
Advances (%)	5.2%	18.8%	12.6%	21.5%	18.4%
Borrowings (%)	8.8%	15.9%	8.5%	20.0%	18.0%
Total assets (%)	11.4%	16.5%	10.5%	19.2%	17.9%
NII (%)	18.3%	31.6%	13.3%	18.1%	21.1%
Pre-provisioning profit (%)	16.4%	35.1%	12.4%	14.2%	23.1%
PAT (%)	-11.3%	43.6%	42.0%	17.4%	23.8%
B/S Ratios					
Credit/Deposit (%)	100.7%	103.3%	107.2%	108.5%	108.9%
Advances/Total assets (%)	86.6%	88.3%	90.0%	91.7%	92.2%
Leverage - Total Assets to Equity	7.8	7.8	7.0	7.2	7.2
Operating efficiency					
Cost/income (%)	38.8%	32.1%	35.4%	36.7%	35.6%
Opex/total assets (%)	2.5%	2.1%	2.5%	2.5%	2.5%
Opex/total interest earning assets	2.9%	2.6%	2.9%	3.0%	2.9%
Profitability					
NIM (%)	6.5%	7.6%	7.3%	7.4%	7.5%
RoA (%)	1.6%	2.0%	2.6%	2.6%	2.7%
RoE (%)	12.9%	15.8%	18.3%	18.5%	19.3%
Asset quality					
Gross NPA (%)	3.8%	4.0%	6.8%	3.0%	2.5%
Net NPA (%)	2.2%	2.2%	4.8%	2.0%	1.7%
PCR (%)	42.1%	45.0%	29.4%	33.3%	34.0%
Credit cost (%)	1.6%	2.0%	1.2%	1.0%	1.1%
Per share data / Valuation					
EPS (INR)	13.4	18.4	26.2	30.7	38.0
BVPS (INR)	99.7	116.5	142.7	166.0	196.7
ABVPS (INR)	83.4	97.8	97.7	142.9	174.2
P/E (x)	55.6	40.4	28.5	24.1	19.5
P/BV (x)	7.5	6.4	5.2	4.5	3.8
P/ABV (x)	8.9	7.6	7.6	5.2	4.3
Profitability					
Return on Capital	1.8%	2.2%	2.8%	2.8%	3.0%
Return on Equity	15.2%	15.8%	18.3%	18.5%	19.3%

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Cholamandalam Inv & Fin Co. Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
04-Nov-22	757	820	ACCUMULATE	Buy	More than 15%
02-Aug-22	747	820	ACCUMULATE		
09-May-22	635	730	ACCUMULATE	Accumulate	5% – 15%
02-Feb-22	639	730	ACCUMULATE	Hold	0 – 5%
03-Nov-21	611	692	ACCUMULATE	Reduce	-5% – 0
01-Oct-21	588	692	BUY	Sell	Less than – 5%

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