

Cholamandalam Investment & Finance Company Ltd.



Cholamandalam Inv & Fin Co. Ltd. **Earnings growth led by lower provisions; strong business growth outlook**

CMP INR 781	Target INR 865	Potential Upside 10.7%	Market Cap (INR Mn) INR 641,933	Recommendation ACCUMULATE	Sector NBFC
-----------------------	--------------------------	----------------------------------	---	-------------------------------------	-----------------------

Result Highlights:

- NII for Q3FY23 stood at INR 15,983 Mn, a growth of 17.2% YoY (+7.4% QoQ).
- The Pre-Provision profit was at INR 10,797 Mn against INR 9,525 Mn in Q3FY22, an increase of 13.4%.
- Profit after Tax (PAT) for Q3FY23 was at INR 6,843 Mn against INR 5,238 Mn in Q3FY22, reporting a growth of 30.6% YoY/ 21.5% QoQ.
- Assets under management as of December 31, 2022, stood at INR 954,680 Mn as compared to INR 727,240 Mn as of December 31, 2021, a growth of 31.3% YoY/ 8.9% QoQ.
- GNPA and NNPA as of December 31, 2022, stood at 5.37% and 3.69% vs 5.84% and 3.99% as of September 30, 2022, respectively. The Capital Adequacy Ratio (CAR) of the company as on December 31, 2022, was at 17.75%.

MARKET DATA

Shares outs (Mn)	822
Equity Cap (INR Mn)	1,35,300
Mkt Cap (INR Mn)	641,933
52 Wk H/L (INR)	818/595
Volume Avg (3m K)	1,586
Face Value (INR)	2
Bloomberg Code	CIFC IN

KEY FINANCIALS

Particulars (INR Mn)	FY 21	FY 22	FY 23E	FY 24E	FY 25E
NII	46,483	52,680	61,214	74,479	92,066
PPOP	33,567	37,712	42,055	51,782	65,027
PAT	15,113	21,467	25,110	30,697	38,855
EPS	18.4	26.2	30.6	37.4	47.3
NIM	7.6%	7.3%	6.8%	6.5%	6.6%
Advances Growth	18.8%	12.6%	35.1%	22.3%	21.5%

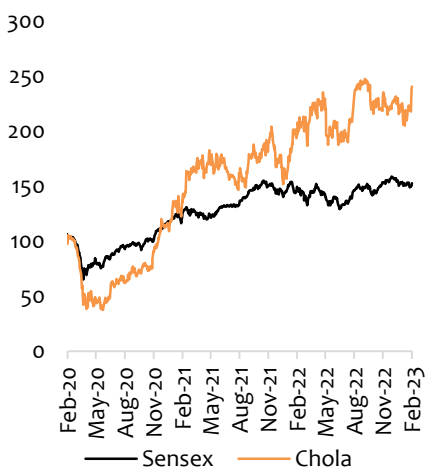
Source: Company, KRChoksey Research

Board based AUM growth: CIFIC reported the highest-ever disbursements at INR 175.59 Bn, a growth of 68.4% YoY for Q3FY23, while for 9MFY23, the disbursements were up by 99.9% YoY at INR 455.12 Bn. As of December 31, 2022, the Assets Under Management (AUM) stood at INR 954,680 Mn, a growth of 31.3% YoY (+8.9% QoQ) led by improving share of the new business segment and a strong momentum across the existing segments. The vehicle loan segment for the quarter reported a growth of 20.9% YoY (+6.4% QoQ). The Loan from Property (LAP) grew 25.0% YoY (+6.1% QoQ), while the home loan segment increased to 38.5% YoY/ 12.8% QoQ. The new business avenues have reported a robust sequential pick-up, reporting a growth of 45.0% QoQ at INR 69,070 Mn, contributing 7.2% to the overall loan portfolio. The management has revised its AUM growth expectation to 27-30% from 20-22% YoY for FY23E. The company will continue to focus on increasing its yield by increasing the rates on its floating portfolio, especially LAP, to offset the impact of the rising cost of funds. We expect an AUM growth of 25.2% CAGR over FY22-25E, led by diversification of its portfolio and scaling up its existing businesses. We expect the share of new businesses to improve to 12.0% by FY24E, which will boost the overall AUM growth.

Asset quality improves further: The asset quality in Q3FY23, for Gross Stage 3 assets, stood at 3.51% against 3.84% in Q2FY23, with provision coverage of 41.0%. The total provisions carried against the overall book is 2.45%. As per the revised RBI norms, the GNPA and NNPA as of December 31, 2022, stood at 5.37% and 3.69%. The NBFC carries an additional provision of INR 7,260 Mn under IndAs over IRAC (Income Recognition and Asset Classification). We expect credit costs to remain under control going ahead.

NII growth supported by AUM growth; opex remains elevated: The NII for the quarter reported a growth of 17.2% YoY/ 7.4% QoQ led by robust growth in the AUM. NIMs remained stable on a sequential basis despite the higher cost of funds. The cost-to-income ratio stood at 41.1%, an increase of 523 bps YoY/ 211 bps QoQ driven by higher operating expenses owing to business expansion and scaling-up activities. Overall earnings were boosted by lower provisions for Q3FY23 leading to a 30.6% YoY/ 21.5% QoQ growth.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,842
NIFTY	17,854

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	51.5	51.5	51.5
FIIIs	19.4	18.7	18.0
DIIs	21.2	21.9	22.4
Others	7.9	7.9	8.1
Total	100.0	100.0	100



NII CAGR between FY22 and FY25E



PAT CAGR between FY22 and FY25E

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

KRChoksey Research

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

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

Cholamandalam Inv & Fin Co. Ltd.

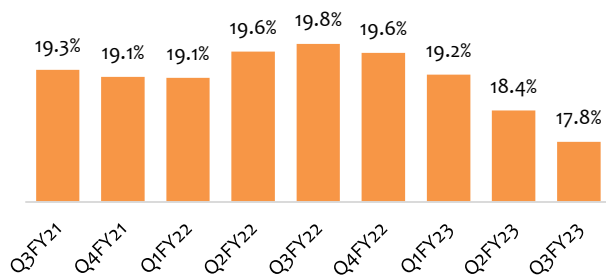
Conference Call Highlights:

- Commercial vehicle sales are expected to come close to the pre-pandemic peak of over 1 Mn units in FY23 due to improved fleet utilization, strong replacement demand and pick up in road construction projects across the country.
- Despite high inflation and interest rates, strong festive season sales and the workforce returning to the Metro cities have helped drive growth. Chola has gained market share across product segments in vehicle finance and other business units.
- The banks are mainly competitive in the segment of heavy commercial vehicles, and they take the maximum share in that segment, which is a rate-sensitive product. However, this segment is not a priority segment for the company.
- The delinquency in the new business is significantly lower than the trend seen in the market for the same business operated by the other finance company.
- The company expects that even if credit costs go up gradually in the coming period, the impact will be offset by operating leverage owing to opex reduction.
- As the vehicle finance as the proportion of the new book changes, the NIM improvements will be visible.
- AUM for FY23E is expected to be in the range of 27-30% YoY, revised from 20-22% YoY.
- The company will be monitoring NIMs closely. It expects a 40-50 bps hit on account of the increased cost of funds on a YoY basis. Chola expects to mitigate by scaling up the pricing in its floating rate books, which is the LAP, which it has already done to the extent of around 160 bps with regard to LAP and 120 bps with regards to HL.

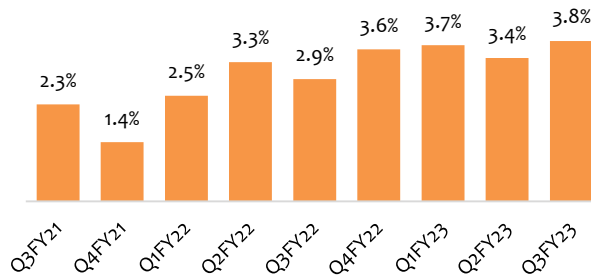
Valuation and view

In Q3FY23, CIFIC reported a strong business trajectory led by strong disbursement and AUM growth. Earnings saw robust growth led by healthy operating performance and lower provisions. The company has reported strong traction in the new business segments as well as the auto segment. The company expects AUM growth of 27-30% for FY23E, led by strong growth in the auto segment and increased contribution from the new business segments. The growth in the auto segment remains strong in the near term, led by positive traction in the auto sector. The company expects the increase in the cost of funds to be in the range of 40-50 bps in coming quarters. The growth in the LAP segment to aid the company partially offset the rise in the cost of funds and maintaining the NIMs. As the company has been expanding its business, the cost-to-income ratio will remain elevated in the near term, then gradually decline. We expect the cost-to-income ratio to be around 37.6%/ 37.1%/ 36.0% in FY23E/ FY24E/ FY25E, respectively. The improving contribution from the new business segments & scaling up of the existing businesses will further 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 compared to its peers. **We have factored in a growth of 25.2% CAGR in AUM and 21.9% in profits over FY22-25E led by healthy operating performance and growing traction in each business segments. We expect RoAs to reach 2.4% in FY25E. We roll over our target price to FY25E. We assign a P/ABV multiple of 4.25x to the FY25E adj. BVPS of INR 203.9 to arrive at a target price of INR 865/share (earlier INR 820), implying an upside of 10.7% from the CMP. Accordingly, we maintain our rating on the shares of Cholamandalam Investment & Finance Company Ltd. as "ACCUMULATE".**

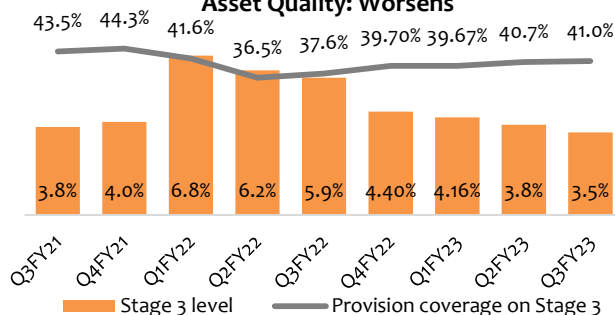
CAR: Healthy



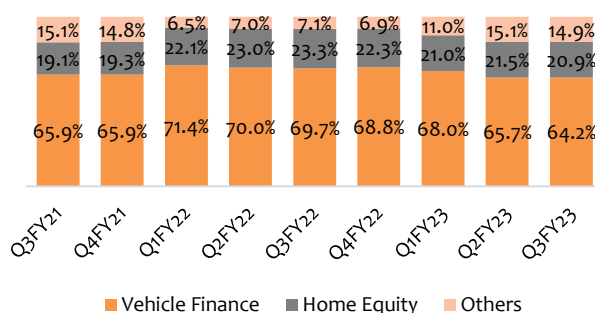
ROA-PBT Ratio improved QoQ



Asset Quality: Worsens



Business AUM Mix



Source: Company, KRChoksey Research

ANALYST

 Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

KRChoksey Research

 is also available on Bloomberg [KRCS:GO](https://www.bloomberg.com/quote/KRCS:GO)
Thomson Reuters, Factset and Capital IQ

 Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

Cholamandalam Inv & Fin Co. Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement (Standalone)

INR Mn	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Interest Income	92,242	95,668	1,20,036	1,55,468	1,91,851
Interest Expense	45,759	42,988	58,822	80,989	99,786
Net Interest Income	46,483	52,680	61,214	74,479	92,066
Non interest income	2,919	5,720	6,163	7,889	9,466
Operating income	49,401	58,400	67,377	82,368	1,01,532
- Employee expense	7,494	8,945	10,019	11,221	12,568
- Other operating expense	8,341	11,742	15,304	19,365	23,937
Operating Expense	15,834	20,687	25,322	30,586	36,505
PPOP	33,567	37,712	42,055	51,782	65,027
Provisions	13,218	8,803	8,574	10,853	13,221
PBT	20,348	28,909	33,481	40,929	51,806
Tax Expense	5,235	7,442	8,370	10,232	12,952
PAT	15,113	21,467	25,110	30,697	38,855
Diluted EPS (INR)	18.4	26.2	30.6	37.4	47.3

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 2: Balance Sheet (Standalone)

INR Mn	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Source of Funds					
Share capital	1,641	1,643	1,644	1,644	1,644
Reserves & Surplus	93,962	1,15,434	1,34,620	1,59,384	1,92,306
Networth	95,603	1,17,077	1,36,264	1,61,028	1,93,950
Borrowings	6,37,300	6,91,735	9,65,212	11,66,068	13,92,538
Other liabilities & provisions	12,581	14,822	16,304	17,934	19,728
Total Equity & Liabilities	7,45,484	8,23,634	11,17,780	13,45,030	16,06,215
Uses of Funds					
Cash & bank balances	52,319	26,579	27,110	27,653	28,206
Deferred Tax Assets	7,638	6,714	7,638	7,638	7,638
Net investments	16,188	20,762	37,354	44,077	52,011
Loans & advances	6,58,393	7,41,492	10,01,995	12,25,087	14,87,979
Fixed assets	2,293	2,914	3,351	3,854	4,432
Other assets	8,653	25,173	40,331	36,721	25,948
Total Assets	7,45,484	8,23,634	11,17,780	13,45,030	16,06,215

Source: Company, KRChoksey Research

Cholamandalam Inv & Fin Co. Ltd.

Exhibit 3: Ratio Analysis

Key Ratio	FY 21	FY 22	FY 23E	FY 24E	FY 25E
Growth Rates					
Advances (%)	18.8%	12.6%	35.1%	22.3%	21.5%
Borrowings (%)	15.9%	8.5%	39.5%	20.8%	19.4%
Total assets (%)	16.5%	10.5%	35.7%	20.3%	19.4%
NII (%)	31.6%	13.3%	16.2%	21.7%	23.6%
Pre-provisioning profit (%)	35.1%	12.4%	11.5%	23.1%	25.6%
PAT (%)	43.6%	42.0%	17.0%	22.2%	26.6%
B/S Ratios					
Credit/Deposit (%)	103.3%	107.2%	103.8%	105.1%	106.9%
Advances/Total assets (%)	88.3%	90.0%	89.6%	91.1%	92.6%
Leverage - Total Assets to Equity	7.8	7.0	8.2	8.4	8.3
Operating efficiency					
Cost/income (%)	32.1%	35.4%	37.6%	37.1%	36.0%
Opex/total assets (%)	2.1%	2.5%	2.3%	2.3%	2.3%
Opex/total interest earning assets	2.6%	2.9%	2.8%	2.6%	2.6%
Profitability					
NIM (%)	7.6%	7.3%	6.8%	6.5%	6.6%
RoA (%)	2.0%	2.6%	2.2%	2.3%	2.4%
RoE (%)	15.8%	18.3%	18.4%	19.1%	20.0%
Asset quality					
Gross NPA (%)	4.0%	6.8%	5.4%	4.5%	3.5%
Net NPA (%)	2.2%	4.8%	3.5%	2.3%	1.8%
PCR (%)	45.0%	29.4%	34.6%	50.0%	50.0%
Credit cost (%)	2.0%	1.2%	0.9%	0.9%	0.9%
Per share data / Valuation					
EPS (INR)	18.4	26.2	30.6	37.4	47.3
BVPS (INR)	116.5	142.7	165.8	196.0	236.1
ABVPS (INR)	97.8	97.7	122.5	161.9	203.9
P/E (x)	42.3	29.8	25.5	20.8	16.5
P/BV (x)	6.7	5.5	4.7	4.0	3.3
P/ABV (x)	8.0	8.0	6.4	4.8	3.8
Profitability					
Return on Capital	2.2%	2.8%	2.6%	2.5%	2.7%
Return on Equity	15.8%	18.3%	18.4%	19.1%	20.0%

Source: Company, KRChoksey Research

ANALYST

 Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

KRChoksey Research

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

 Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

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-Feb-23	781	865	ACCUMULATE	Buy	More than 15%
03-Nov-22	757	820	ACCUMULATE		
02-Aug-22	747	820	ACCUMULATE	Accumulate	5% – 15%
09-May-22	635	730	ACCUMULATE	Hold	0 – 5%
02-Feb-22	639	730	ACCUMULATE	Reduce	-5% – 0
03-Nov-21	611	692	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 cleared), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5575

KRChoksey Research

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

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com