

Cholamandam Investment and Finance Company

Spectacular execution raises the bar

Chola reported a stellar quarter with P&L outcomes significantly ahead of our estimates on the back of an extraordinary surge in AUM growth (+38.5% YoY), 20bps reflation in NIMs (7.8%), and improving asset quality. It maintained its strong disbursal momentum (+65% YoY; +20% QoQ), led by a contribution from across product segments. The management remains upbeat about growth prospects despite a high base with increased portfolio diversification (share of vehicle finance at 63%) and increasing penetration of non-vehicle segments in existing branches. While the management has indicated maintaining stringent credit filters in its new businesses (target pre-tax RoA of ~3.5%), we continue to monitor potential segmental profitability from these businesses. We increase our FY24/FY25 earnings estimates by 9% to factor in higher AUM CAGR, offset by higher opex intensity from new businesses; maintain BUY with a revised TP of INR1,055 (4.5x Mar-25 ABVPS).

- **Beat on P&L; asset quality improves further:** Chola posted strong NII/PPoP growth of 29%/40% YoY on the back of strong AUM growth (+38.5% YoY) and reflating NIM (7.8%). C/I ratio was broadly steady at 38% (opex-to-AUM at 3.4%) on the back of sustained investments in people, business sourcing and collections and is expected to stay elevated in the near term. GS-III/NS-III improved further to 3%/1.7% with GS-II at 3.7%.
- **Strong growth across segments; transitioning to a diversified NBFC:** Chola is gradually transitioning from a vehicle financing (VF) NBFC to a diversified NBFC with an increasing share of non-VF businesses at 37% (FY19: 25% and a medium-term target of 50%) to reduce cyclicalities in its growth and earnings profile. Penetration of non-VF loans (LAP, home loans, and new businesses) in its branch network is still at sub-50%, and it is likely to be a positive catalyst for portfolio growth.
- **New business build-out key monitorable for further rerating:** While the increasing share of new businesses at 9% (FY22: 2%) offers a fillip to AUM growth, we are watchful of potential segmental profitability, especially given rising competitive intensity and limited vintage of its FinTech partnerships.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	17.6	13.7	29.0	16.0	10.4	52.7	63.3	79.9	96.8
PPOP	12.7	9.1	39.6	10.8	17.9	37.7	44.5	56.6	69.9
PAT	8.5	6.9	23.7	6.8	24.6	21.5	26.7	34.7	42.3
EPS (INR)	10.4	8.4	23.6	8.3	24.7	26.1	32.4	42.1	51.4
ROAE (%)						20.2	20.5	21.7	21.7
ROAA (%)						2.7	2.7	2.8	2.8
ABVPS (INR)						117.9	152.7	191.4	235.3
P/ABV (x)						8.1	6.2	5.0	4.0
P/E (x)						36.4	29.3	22.5	18.5

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
AUM	1,153	1,262	9.5%	1,362	1,497	9.9%
NIM (%)	7.0	6.9	-9 bps	6.9	7.0	12 bps
NII	74.1	79.9	7.9%	86.7	96.8	11.6%
PPOP	53.8	56.6	5.3%	63.9	69.9	9.4%
PAT	31.9	34.7	8.7%	38.9	42.3	8.7%
Adj. BVPS (INR)	182	191	5.4%	216	235	9.0%

Source: Company, HSIE Research

BUY

CMP (as on 4 May 2023)	INR 950
Target Price	INR 1,055
NIFTY	18,256

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 885	INR 1055
EPS %	FY24E	FY25E
	8.7%	8.7%

KEY STOCK DATA

Bloomberg code	CIFC IN
No. of Shares (mn)	822
MCap (INR bn) / (\$ mn)	781/9,551
6m avg traded value (INR mn)	1,158
52 Week high / low	INR 970/594

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	21.6	24.4	33.4
Relative (%)	20.1	23.1	22.5

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	51.5	51.5
FIs & Local MFs	21.2	21.5
FPIs	19.4	19.6
Public & Others	7.9	7.4
Pledged Shares	0.0	

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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