



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2023

24.83

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

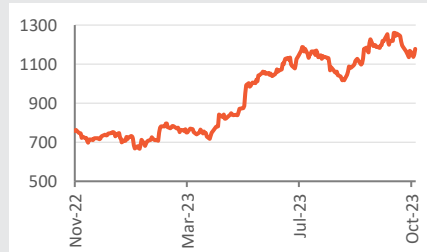
Company details

Market cap:	Rs. 90,253 cr
52-week high/low:	Rs. 1,284 / 658
NSE volume: (No of shares)	17.0 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	40.3 cr

Shareholding (%)

Promoters	51.4
FII	21.5
DII	20.0
Others	7.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.2	-9.4	19.5	48.6
Relative to Sensex	-4.9	-7.7	15.2	43.0

Sharekhan Research, Bloomberg

Cholamandalam Investment and Finance Company Ltd

In-line Q2, on strong growth path

NBFC	Sharekhan code: CHOLAFIN	
Reco/View: Buy	↔	CMP: Rs. 1,135
		Price Target: Rs. 1,350
	↑ Upgrade	↔ Maintain
		↓ Downgrade

Summary

- PAT rose 5% q-o-q, in line with our estimates driven by strong NIM (+8 bps q-o-q).
- AUM grew at a healthy 8% q-o-q on strong momentum in disbursements (47% y-o-y/7% q-o-q). New business segments – consumer, SME, and small business loans – contributed 23% to the disbursement mix.
- Assets quality improved as GS-3 declined to 2.96% (versus 3.06% q-o-q). However, GS-3 ratio for new business rose to 1.42% (versus 1.01% qoq) due to higher delinquencies in fintech led new business (~1.8% of total book). The company has slowed down the segment growth. On the positive side, the portfolio is protected by FLDG.
- Outlook remains good as we expect healthy momentum in business & earnings growth to continue over FY23-26E. We maintain a Buy rating with an unchanged PT of Rs. 1,350. At CMP, the stock trades at P/BV 4.2x/3.3x to its FY2025E/FY2026E BV estimates.

Cholamandalam Investment & Finance Company (CIFIC) reported strong performance across business verticals. Earnings and business growth remained strong while assets quality improved. Net profit grew by 35% y-o-y/5% q-o-q to Rs. 763 crore (in line with our estimates). NIM (cal. on avg AUM) improved 8bps sequentially to 6.7% as yield rose to 14.1% (versus 13.9% q-o-q) besides flat CoB. The management expected NIM to improve further with the increase in share of used assets in mix and likely modest reduction in CoB. Fee & other income grew 23% sequentially led by dividend income and FLDG income. Opex remained elevated (43% y-o-y/20% q-o-q) due to increase in headcount. Sequentially, cost-to-income (C/I) ratio rose to 40.0% in Q2FY24 (versus 37% q-o-q). Credit cost remained contained at 1.34% (flat on a sequential basis). Business growth remained strong as AUM growth of 42% y-o-y/8% q-o-q, in line with our estimates on the back on healthy momentum in disbursements (47% y-o-y/8% q-o-q). In terms of segment-wise disbursement growth, VF grew by 4% q-o-q, LAP at 19%, home loans at 8% q-o-q and new business at 10%. Share of new business rose to 11% of AUM versus 5% in same quarter of previous fiscal. GS-3/NS-3 ratios reduced to 2.96%/1.56% (versus 3.06%/1.67%) with PCR rose to 47.3%. Some stress was seen in the fintech partnerships led new businesses (which accounts for only ~1.8% AUM). Overall, credit cost stood at 1.3% which the management expects to reduce to 1.1-1.2% for the fiscal.

Key positives

- Strong AUM growth (42%y-o-y/8%q-o-q)
- Improvement in assets quality (GS-3 reduced to 2.96% versus 3.06% q-o-q)

Key negatives

- A 20% q-o-q rise in opex
- Rising credit cost in new business segment

Management Commentary

- AUM and disbursement growth was strong in Q2 due to all around growth in demand. **Vehicle finance:** The company saw pick-up in replacement demand in the auto sector leading to higher vehicles finance. **Loan against property:** LAP demand is robust on healthy demand from the SME segment. **Home Loans:** Home loan continue to register above average growth on revival in earnings of self-employed and professionals.
- As per the management, NIM is likely to improve further in coming quarters as share of high yielding used VF increased in AUM mix (to 33% versus 25% historically). Also, modest reduction in NIM to be margin accretive.
- Increase in new business segments' GS-3 ratio (1.42% versus 1.01% q-o-q) was due to higher NPA (4.7%) in partnership led business segment. The company is slowing down this segment growth.
- Management guided 1.1-1.2% credit cost for the fiscal.

Our Call

Valuation – Maintain Buy rating with an unchanged target price of Rs. 1,350: At the CMP, the stock trades at P/BV 4.2x/3.3x to its FY2025E/FY2026E. CIFIC is likely to sustain its rich valuations on account of higher growth potential and steady return ratios. The company is likely to deliver a consistently sustainable RoE of ~20%. We believe margins have broadly bottomed out along with strong AUM growth >30%, moderation in opex growth, and controlled credit cost, it should translate into a healthy earnings trajectory going ahead. The new business is still in a nascent stage, with asset-quality performance untested. Some stress build up was seen in new business portfolio originated through fintech partnerships. The company guided that it has already slow down the growth and has taken corrective steps. It accounts for only ~2% of the total book. We take comfort from the company's past execution track record as it has managed well on the asset quality front during various cycles in the past.

Key Risks

Economic slowdown can result in slower loan growth, higher-than-anticipated credit cost, lower than-expected margin and emerging stress in partnerships led new business.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E	FY26E
NII	5,268	6,334	8,251	10,875	13,681
Gr.	3.7%	26.3%	41.0%	30.0%	25.1%
NIM	7.5%	7.1%	6.8%	6.9%	6.9%
PPOP	3,750	4,450	5,931	8,111	10,332
A.PAT	2,147	2,666	3,431	4,816	6,141
AUM	76,908	1,06,498	1,39,741	1,80,780	2,25,905
RoE	20.2%	20.5%	21.6%	24.3%	24.5%
RoA	2.7%	2.7%	2.6%	2.8%	2.9%
C/I	35.6%	38.5%	38.3%	35.1%	34.3%
P/E (x)	43.5	35.0	26.9	19.2	15.0
P/BV (x)	7.9	6.5	5.3	4.2	3.3

Source: Company; Sharekhan estimates

Key Results Highlights

◆ Increased share of high yielding VF book to support NIM

NII grew at a healthy 35% y-o-y/9% q-o-q on pick up in yield (14.1% versus 13.9% q-o-q). NIM (cal. on avg AUM) improved 8bps sequentially to 6.7%. Cost of borrowings (CoB) remained almost flat sequentially. Management expects NIM to increase further as the positive impact of increased share of used VF book (33% versus ~25% historically) to be visible over the next two quarters. Also modest reduction in CoB will also be margin accretive.

◆ Disbursements remain healthy

AUM grew at 42% y-o-y/8% q-o-q on the back of strong disbursements growth due to all around expansion in demand across segments. Segment wise growth, vehicle finance (VF) book grew by 6% q-o-q, LAP at 8% q-o-q, home loans at 13% q-o-q and new business at 18%. The share on new business book rose to 11% (versus 5% q-o-q) while VF book share declined to 61% (66% y-o-y). The company has gained market share ~20-30 bps in CVs and PVs. AUM is expected to grow over 30% y-o-y supported by strong traction in vehicles finance.

◆ Assets quality improves; stress emerged in partnership led new business

GS-3 ratio reduced to 2.96% (versus 3.06%) with PCR rising by ~200 bps to 47.3%. GS-3 ratio for new business rose to 1.42% (1.01% q-o-q) due to higher NPAs (4.7%) from partnership led new business which accounts for 1/4th of the new business book (~1.8% of AUM). While the NPA of traditional channel driven new business book stood at 0.82%. Management said it is slowing down partnerships driven new business and reduce fintech partnerships. Unsecured portfolio will be capped at 10% of the book over the next two fiscals. Management expects credit cost at 1.1-1.2% for FY24.

Quarterly Performance

Particulars	Rs cr				
	Q2FY23	Q1FY24	Q2FY24	Y-o-Y %	Q-o-Q %
Interest Earned	2,829	3,849	4,221	49.2%	9.6%
Interest Expended	1,340	2,007	2,205	64.5%	9.9%
NII	1,489	1,842	2,015	35.4%	9.4%
Other Income	209	284	351	68.5%	23.5%
Total Income	1,697	2,127	2,367	39.4%	11.3%
Operating Expenditures	661	787	946	43.1%	20.3%
PPOP	1,036	1,340	1,421	37.1%	6.0%
P&C	278	372	400	43.7%	7.4%
PBT	758	968	1,021	34.6%	5.5%
Tax	195	242	258	32.6%	6.9%
Net Profit	563	726	762	35.3%	5.0%
Dil. EPS	6.8	8.6	9.4	37.0%	8.7%

Source: Company; Sharekhan Research

Quarterly Performance

Balance sheet items	Rs cr				
	Q2FY23	Q1FY24	Q2FY24	y-o-y	q-o-q
AUM	87,668	1,14,796	1,24,246	41.7%	8.2%
Disbursements	14,623	20,015	21,542	47.3%	7.6%
Loan book	85,477	1,13,232	1,22,889	43.8%	8.5%
Borrowings	79,300	1,08,100	1,19,470	50.7%	10.5%
Net worth (NW)	12,684	14,862	15,643	23.3%	5.2%

Source: Company; Sharekhan Research

Quarterly Performance

Key operating ratios					Rs cr	
	Q2FY23	Q1FY24	Q2FY24	yo-y	q-o-q	
NIM (cal)	7.0%	6.7%	6.7%			
C/I ratio	38.9%	37.0%	40.0%			
D/Ex	6.2	7.2	7.6			
CAR (standa)	18.4%	17.4%	16.6%			
Fee income/NII	8.3%	7.7%	8.5%			

Source: Company; Sharekhan Research

Quarterly Performance

Assets Quality					Rs cr	
	Q2FY23	Q1FY24	Q2FY24	y-o-y	q-o-q	
GNPA (st 3)	3,375	3,546	3,719	10.2%	4.9%	
Gross Stage 3 Assets (%) (~ GNPA/AUM)	3.8%	3.1%	3.0%			
NNPA (st 3)	1,975	1,936	1,959	-0.8%	1.2%	
NNPA (%)	2.2%	1.7%	1.6%			
Stage 3 Coverage Ratio (%)	41.5%	45.4%	47.3%			

Source: Company; Sharekhan Research

Quarterly Performance

AUM Break-up					Rs cr	
	Q2FY23	Q1FY24	Q2FY24	yo-y	q-o-q	
AUM	87,668	1,14,796	1,24,246	41.7%	8.2%	
Vehicles Finance	57,606	71,065	75,396	30.9%	6.1%	
LAP	18,843	22,866	24,721	31.2%	8.1%	
HL/AL	6,454	9,528	10,801	67.4%	13.4%	
New Business	4,765	11,337	13,327	179.7%	17.6%	

Source: Company; Sharekhan Research

Quarterly Performance

Disbursements Break-up					Rs cr	
	Q2FY23	Q1FY24	Q2FY24	y-o-y	q-o-q	
Disbursements (Rs cr)	14,623	20,015	21,542	47.3%	7.6%	
Vehicles Finance	8,502	11,301	11,731	38.0%	3.8%	
LAP	2,246	2,679	3,192	42.1%	19.1%	
HL/AL	743	1,454	1,575	112.0%	8.3%	
New Business	3,132	4,581	5,044	61.0%	10.1%	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Growth prospects look encouraging

The growing importance of NBFCs is reflected in the consistent rise of their credit as a proportion to GDP as well as in relation to credit extended by SCBs to the NBFC sector. Retail credit demand continues to remain robust, driven by strong macro tailwinds. Volumes continue to see an uptick. Urban demand has been strong and recovered fully from pandemic-induced disruptions. There are some green shoots related to improvement in rural demand. Asset-quality trends are encouraging. NBFCs with a diverse product offering strategy, strong asset-liability management, robust liquidity buffers, strong risk management framework, and healthy liability franchise have ample growth opportunities and are well placed.

■ Company Outlook – Attractive franchise

CIFC has a strong business model, as demonstrated by superior performance across economic cycles. A robust collection mechanism aided by a strong credit risk assessment framework has helped it to navigate past business cycles and would enable it to navigate in the future also. Pristine asset quality has been the hallmark of the franchise. The company is likely to deliver a sustainable RoE of 18-20%. We are confident about the longevity of the franchise and best-in-class management in terms of execution capabilities and strong governance. The company is confident of sustaining strong business momentum by penetrating deeper into geographies.

■ Valuation – We maintain our Buy rating with an unchanged target price of Rs. 1,350

CIFC is likely to sustain its rich valuations on account of higher growth potential and steady return ratios. The company is likely to deliver a consistently sustainable RoE of ~20%. We believe margins have broadly bottomed out along with strong AUM growth >30%, moderation in opex growth, and controlled credit cost, it should translate into a healthy earnings trajectory going ahead. The new business is still in a nascent stage, with asset-quality performance untested. Some stress build up was seen in new business portfolio originated through fintech partnerships. The company guided that it has already slow down the growth and has taken corrective steps. It accounts for only ~2% of the total book. We take comfort from the company's past execution track record as it has managed well on the asset quality front during various cycles in the past.

One-year forward P/BV(x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
			FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Cholamandalam	1,135	95,286	26.9	19.2	5.3	4.2	21.6	24.3	2.6	2.8
M&M Finance	257	31,735	18.8	12.1	1.8	1.6	9.9	14.5	1.6	2.1

Source: Company, Sharekhan estimates

About company

CIFC was incorporated in 1978 as the financial services arm of the Murugappa Group. CIFC commenced business as an equipment financing company and today has emerged as a comprehensive financial services provider offering vehicle finance, home equity loans, home loans, consumer loans, SME loans, wealth management, stock broking, and a variety of other financial services to customers.

Investment theme

CIFC is a leading vehicle financier diversifying its product segments. A strong collection mechanism and rigorous risk-management practices provide comfort, reflected in pristine asset quality. We believe while the vehicle financing business will continue to be the mainstay for the company, home equity (LAP) has also been a significant contributor to the company's growth. The home loans segment has great potential to be built into a solid portfolio, considering the expertise of the company in handling typical customer profiles along with new consumer and SME business.

Key Risks

- ◆ Economic slowdown can result in slower loan growth, higher-than-anticipated credit cost and lower than-expected margin and emerging stress in partnership led new business.

Additional Data

Key management personnel

Vellayan Subbiah	Chairman
Ravindra Kumar Kundu	ED
Arul Selvan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	AXIS ASSET MANAGEMENT CO. LTD.	4.40
2	AMBADI INVESTMENTS LTD.	4.02
3	HDFC ASSET MANAGEMENT CO. LTD.	2.11
4	VANGUARD GROUP INC.	1.92
5	CAPITAL GROUP COS INC.	1.89
6	BLACKROCK INC.	1.70
7	SBI FUNDS MANAGEMENT LTD.	1.58
8	Motilal Oswal Assets Management	1.57
9	SMALLCAP World Fund Inc/Fund Paren	1.55
10	Norges Bank	1.25

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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