

Cholamandalam Inv & Fin

BSE SENSEX

69,522

S&P CNX

20,901



Stock Info

Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USDb)	954.8 / 11.5
52-Week Range (INR)	1284 / 658
1, 6, 12 Rel. Per (%)	-8/-6/42
12M Avg Val (INR M)	1783
Free float (%)	48.6

Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY26E
Total Income	97.7	129.7	160.3
PPP	60.2	83.5	105.6
PAT	35.2	47.8	60.5
EPS (INR)	42.0	57.0	70.6
EPS Gr. (%)	29	36	24
BV (INR)	234	288	373

Ratios

NIM (%)	6.9	7.2	7.3
C/I ratio (%)	38.3	35.6	34.1
RoAA (%)	2.6	2.7	2.8
RoE (%)	20.8	21.8	21.5
Payout (%)	6.0	4.4	4.2

Valuations

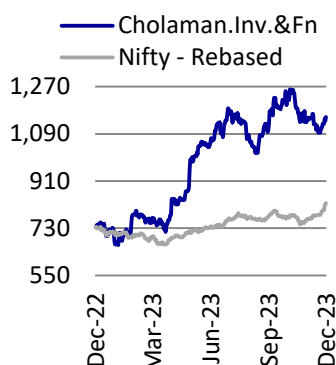
P/E (x)	27.1	20.0	16.1
P/BV (x)	4.9	4.0	3.0
Div. Yield (%)	0.2	0.2	0.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	51.4	51.5	51.5
DII	20.0	20.4	21.9
FII	21.5	20.9	18.7
Others	7.0	7.3	7.9

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR1,137 TP: INR1,420 (+25%)
Buy

Morphing into an enviable franchise

Near-term concerns persist in partnership-led CSEL, but growth outlook getting stronger

- Cholamandalam Finance (CIFC) has taken a successful leap forward in reducing the cyclicity, which was inherent in its core vehicle financing business. Non-auto product segments now account for ~40% of the loan mix, which includes ~11% from new businesses of Consumer and Small Enterprise (CSEL), SBPL and SME (incorporated in Jan'22).
- As of Sep'23, AUM of new businesses rose ~180% YoY (albeit on a small base) to ~INR133.3b. Among new businesses, CSEL accounts for ~7% of total AUM.
- CSEL typically has two sourcing channels: 1) Traditional branch and DSA-led sourcing, and 2) Partnerships with fintechs and consumer-tech. CIFC and other lenders in this product segment have acknowledged higher delinquencies and stress build-up in the partnership-led CSEL business, which makes up ~25% of total CSEL AUM of ~INR82b.
- GS3 in CSEL (traditional) stood at 0.82%, whereas GS3 in CSEL (partnerships) stood at ~4.7%. **CIFC management has already initiated corrective actions in the CSEL portfolio, where NPL levels are still well within the industry norms.**
- Beyond the jitteriness in CSEL asset quality, we believe that CIFC is well poised to deliver a healthy loan growth across all its product segments. We estimate the non-auto product segments to grow faster than vehicle finance and the share of vehicle finance to decline to ~55% by FY26 (vs. ~61% as of Sep'23).
- We expect NIM to expand going ahead, as 1) yields improve, aided by better product mix and repricing of fixed-rate vehicle loans; and 2) the cost of borrowing (CoB) peaks out after the minor impact of the RBI circular on higher risk weights on bank loans to NBFCs. We estimate NIM to improve to 7.2%/7.3% in FY25/FY26 (vs. ~6.9% in FY24E).
- We model a CAGR of 27% in AUM and 31% in PAT over FY23-FY26E, with RoA/RoE of 2.8%/21.5% in FY26E. CIFC is well-diversified across product segments and geographies. Notably, it has delivered the best asset quality among peers across the various phases of the credit cycle. The stock trades at 4.2x 1-yr forward P/BV, above its 10Y/5Y/3Y average of 3.0x/3.2x/3.7x. Given its ability to deliver industry-leading growth in the loan book, strong asset quality (expected average credit cost of ~1.2% over FY25-26E) and healthy RoE of ~22%, we believe CIFC should continue to command a premium valuation in the sector. We reiterate our BUY rating with a TP of INR1420 (4.3x Sep'25E BVPS).

Disbursement momentum to sustain; expect AUM CAGR of 27% over FY23-26

- CSEL (partnerships) could see a moderation in loan growth in the near term because of asset quality concerns and the increase in risk weights on unsecured consumer credit. However, we expect the disbursement momentum to remain strong in other non-auto product segments and estimate a CAGR of 23% in total disbursement and 29% in non-auto disbursement over FY23-FY26.

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- While there is some slowdown in the passenger vehicle (PV) segment, the utility vehicle (UV) segment is expected to continue to do well. We expect demand momentum to stay healthy in the M&HCV segment and believe that the current uptrend in the commercial vehicle (CV) segment will continue in FY25E as well.
- Over FY23-26, we estimate an AUM CAGR of 22% in vehicle finance, 27% in LAP, ~45% in home loans, and 41% in new business segments. For CIFC, this will translate into a total AUM CAGR of 27% over the same period.

New businesses continue to gain traction; corrective actions taken in CSEL

- Instead of focusing on loan growth, CIFC has been monitoring bounce rates, delinquencies and the underlying asset quality of the new product segments to enhance its strategy on the monthly disbursement run rate. GS3 in SME stood at ~1% and SBPL stood at 0.2% as of Sep'23.
- GS3 in CSEL (traditional) stood at ~0.8%. However, the bounce rate in CSEL (partnerships) rose to ~4.7% as of Sep'23. The management shared that NPLs in this segment are still well within the industry norms and that the company has taken corrective actions, such as 1) stopping the addition of any new fintech partnerships, 2) constantly evaluating partnerships, and 3) tightening the credit filters wherever it sees a slight increase in NPA levels.
- We expect the new businesses of CSEL, SME and SBPL to contribute ~12-13% of the AUM mix by Mar'25 (vs. ~11% as of Sep'23).

NIM expansion in 2HFY24; minor impact from increase in risk weights

- We believe that the increase in risk weights by the RBI on unsecured consumer credit and term loans from banks to NBFCs will not have any significant impact on either the capital adequacy or the weighted average CoB of the company. We estimate ~9% of CIFC's loan book (including ~7% CSEL, ~1% vehicle top loans and ~1% SME loans) to attract higher risk weight of ~125%, which will result in a ~30-40bp impact on its CRAR. This can be mitigated by raising Tier 2 capital, which we estimate comes at ~1% higher cost than its usual CoB.
- A diversified product mix, along with a commendable liability strategy, helped the company to manage the rising interest rate cycle much better than its peers, which have a higher proportion of vehicle loans in their product mix. We expect a minor impact of ~5bp on CIFC's weighted average CoB from the increase in risk weights and expect CoB to peak out. Yields will improve, driven by gradual repricing of the fixed-rate vehicle loans. Positive levers on both yields and CoB will lead to NIM expansion in 2HFY24.

Healthy asset quality to keep credit costs benign despite improving PCR

- We expect steady improvements in Stage 3 assets to ~2.4% by Mar'24 and to ~2.2% by Mar'25 (vs. 3.0% in Sep'23). We believe that this would also be led by improvements in asset quality in vehicle finance and LAP. Even if there is a slight increase in GS3 in CSEL (partnerships) in the near term, we believe that the corrective actions taken by CIFC will rein in the asset quality deterioration in this product segment.
- Our channel checks suggest that the RBI has been conveying to NBFCs to increase the provision coverage (PCR) on its Stage 3 loans. We expect CIFC to increase its PCR on Stage 3 loans, which will serve two purposes: 1) please the

regulator and 2) give more comfort to credit rating agencies. While CIFIC has already increased its Stage 3 PCR to ~47% (from 41% as of Sep'22), we expect PCR to improve to 50%/52% by FY25/FY26. **We model credit costs of 1.0%/1.2%/1.2% in FY24/FY25/FY26.**

Credit rating: Strong case for an upgrade to AAA in 12-18 months

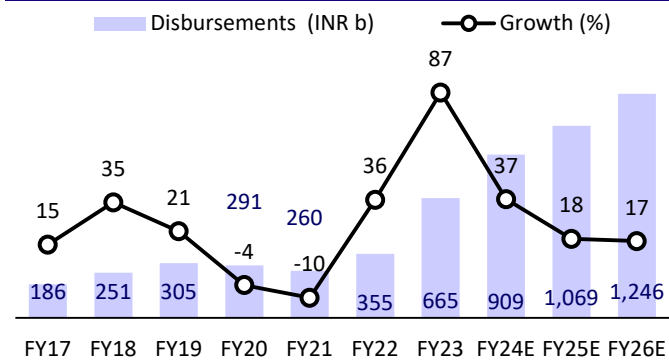
- Since CIFIC is not rated AAA, it misses out on a pool of debt capital that is allocated/reserved for AAA-rated papers. Moreover, as debt market participants get better (higher) interest rates on other AA+ rated NBFCs, their appetite for CIFIC's debt issuances (priced lower) is naturally not as high.
- CIFIC has been engaging with credit rating agencies for an upgrade to AAA. However, in our view, the agencies are looking for more comfort on leverage and capital adequacy (which has been partly addressed by the recent QIP) and also PCR on Stage 3 loans (which we believe will also be addressed soon). **Given CIFIC's lineage and demonstrated execution over the last five years, we believe that the time is ripe for a credit rating upgrade in the next 12-18 months.**

Valuation and view: Set for a big leap ahead; reiterate BUY

- CIFIC will continue to grow faster than its peers over the medium term, aided by a diversified product suite and a gradual improvement in market share. Given its focus on diversification, we believe CIFIC could enter new retail product segments in the near-to-medium term.
- With its ability to deliver industry-leading loan growth, its strong asset quality (estimated credit cost of ~1.2% over FY25-26) and healthy RoE of ~21-22%, we believe CIFIC would continue to command premium valuations relative to its NBFC peers. Reiterate our BUY rating with a TP of INR1420 (4.3x Sep'25E BVPS).
- **Key Risks:** a) near-term asset quality deterioration in CSEL (partnerships), and b) vulnerability to cyclicalities inherent in an auto demand cycle since the proportion of vehicle finance (>50%) in the loan mix will remain dominant even by FY26.

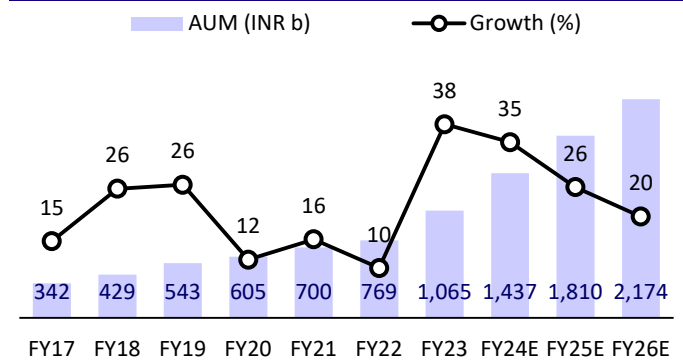
Story in charts

Exhibit 1: Expect ~23% CAGR in disbursements over FY23-26...



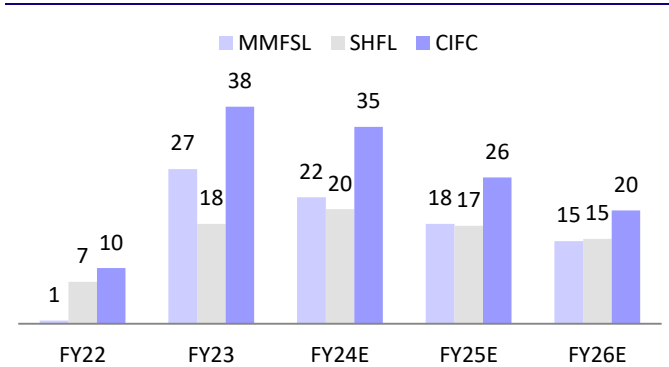
Source: MOFSL, Company

Exhibit 2: ... leading to AUM CAGR of ~27% over this period



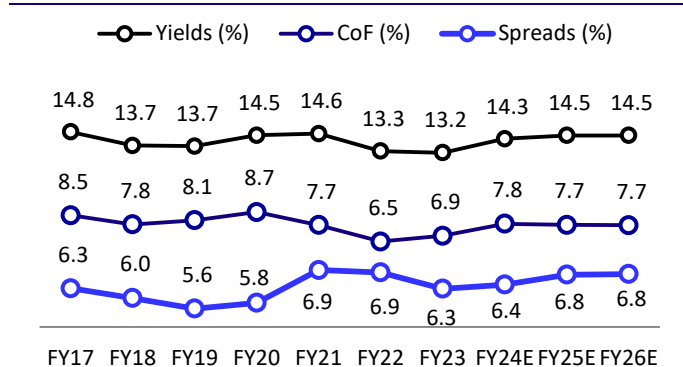
Source: MOFSL, Company

Exhibit 3: CIFC poised to deliver stronger AUM growth relative to peers



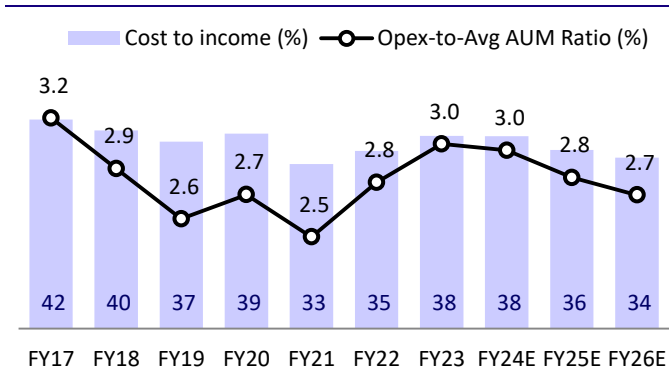
Source: MOFSL, Company

Exhibit 4: Estimate spreads to improve in FY25



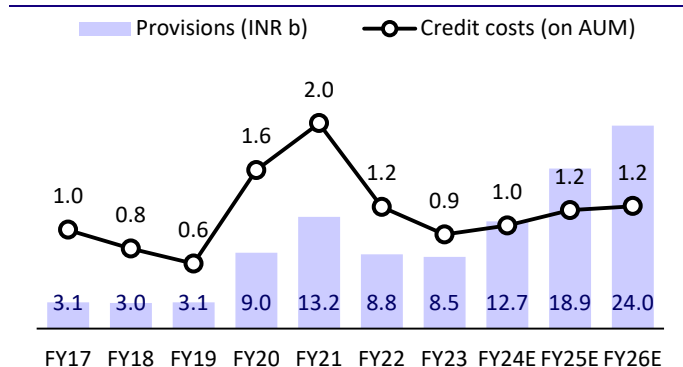
Source: MOFSL, Company

Exhibit 5: Healthy improvement in cost ratios aided by operating leverage

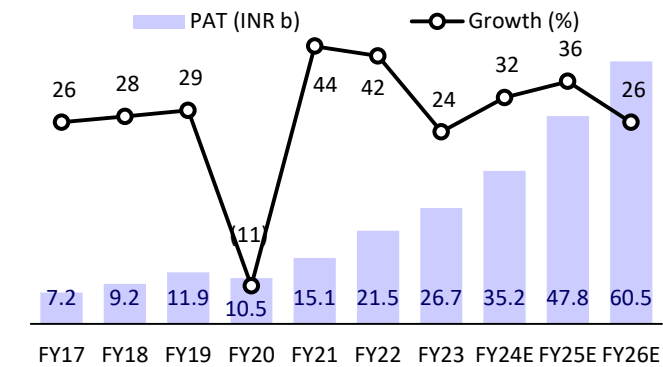


Source: MOFSL, Company

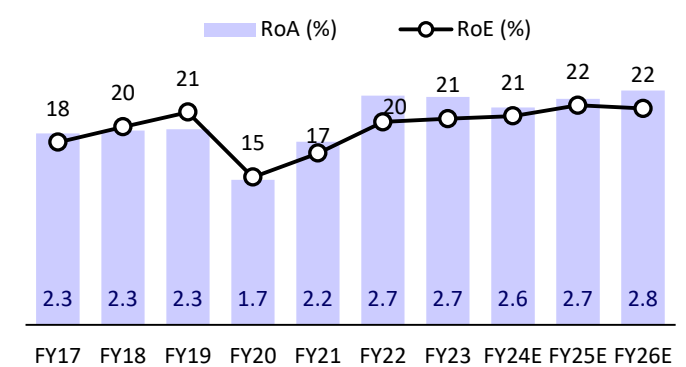
Exhibit 6: Estimate credit costs of ~120bp in FY25/FY26



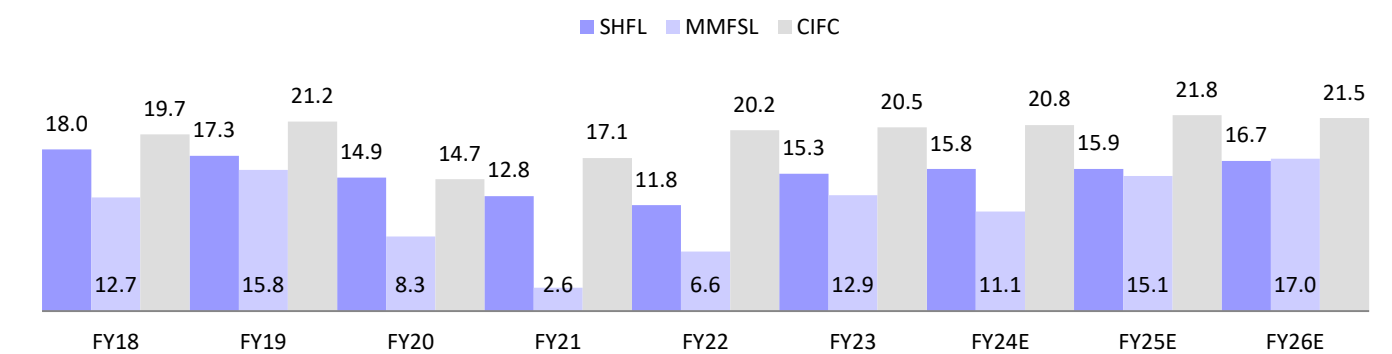
Source: MOFSL, Company

Exhibit 7: PAT CAGR of ~31% over FY23-26

Source: MOFSL, Company

Exhibit 8: Expect healthy RoE of ~21-22% over medium term

Source: MOFSL, Company

Exhibit 9: RoE profile of CIFC better than peers (%)

Source: MOFSL, Company

Improving economic outlook to drive AUM CAGR of 27% over FY23-26E

Demand for CVs in India is seeing an upward trajectory, propelled by factors like government infrastructure projects, heightened e-commerce and logistics activities, and a favorable economic climate. However, there is some weakness in PV demand. We expect the auto sector to sustain healthy sales momentum in the near to medium term.

Similarly, there will be substantial lending opportunities in the used vehicle industry by FY26. This is attributed to the 15-year limit imposed by the scrappage policy, the prevailing inflationary environment and rising disposable incomes.

CIFC is well-positioned to maintain its strong loan growth trajectory, supported by favorable macro-economic conditions and expansion into Tier III/IV cities. The company's diversified growth, especially in non-vehicle product segments, enhances its resilience to withstand any cyclical downturns in the VF industry.

Exhibit 10: Yearly car sales volumes

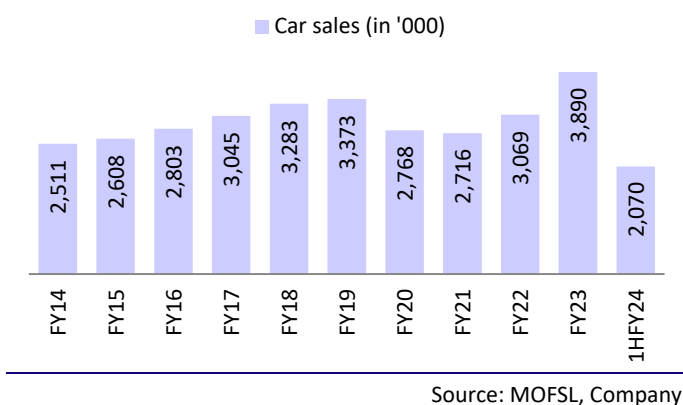


Exhibit 11: Monthly car sales volumes

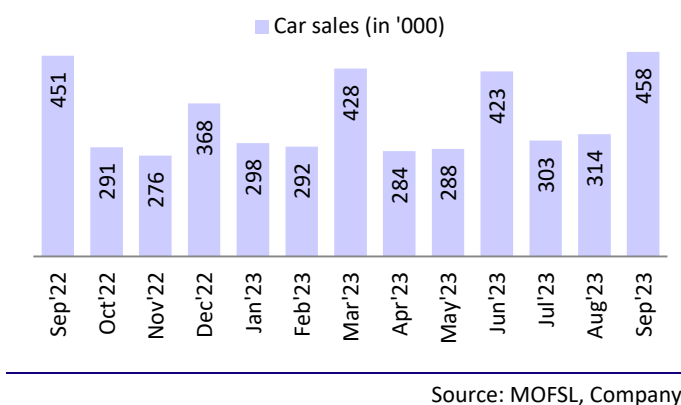


Exhibit 12: Yearly 2W sales volumes

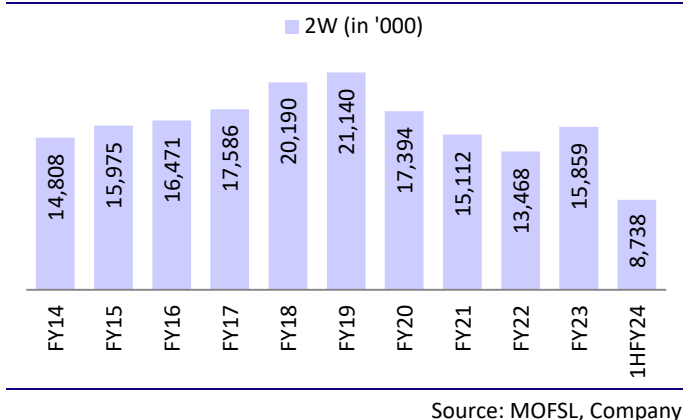


Exhibit 13: Monthly 2W sales volumes

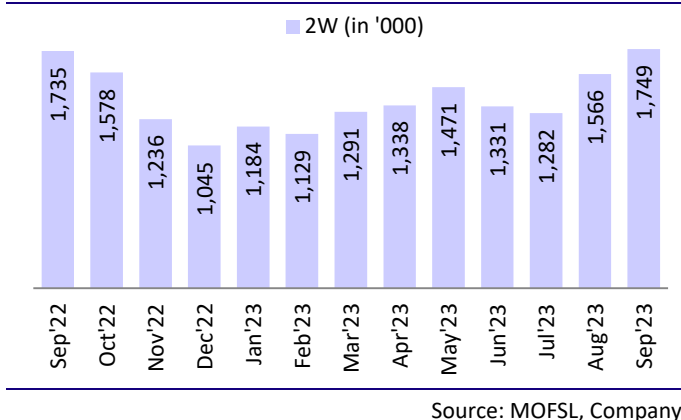
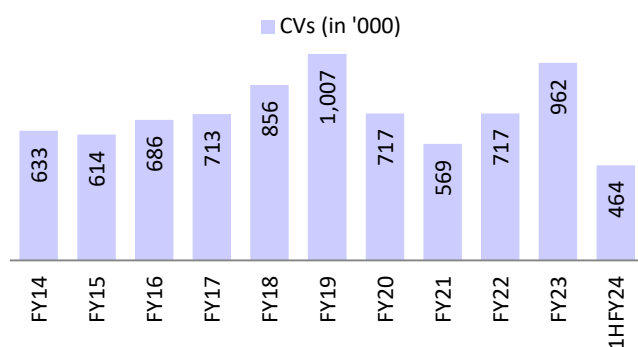
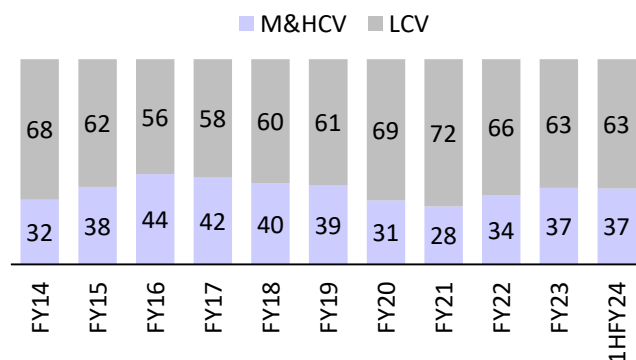
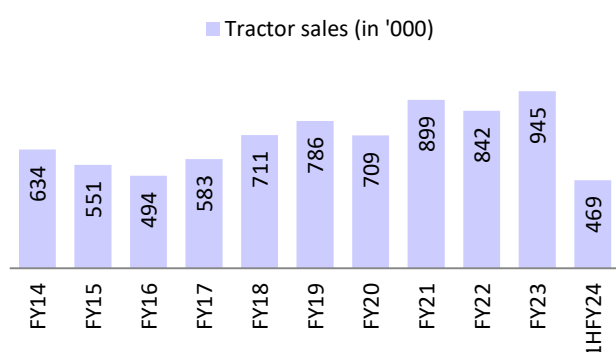


Exhibit 14: Yearly CV sales volumes

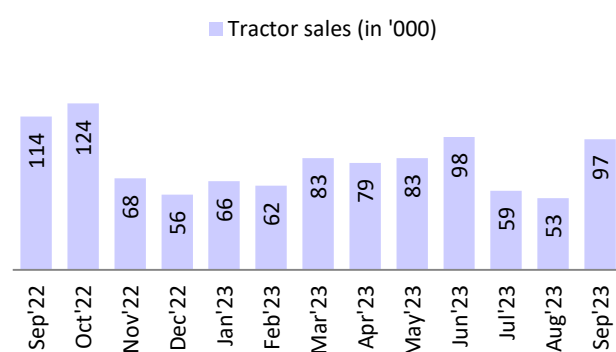
Source: MOFSL, Company

Exhibit 15: CV sales mix (%)

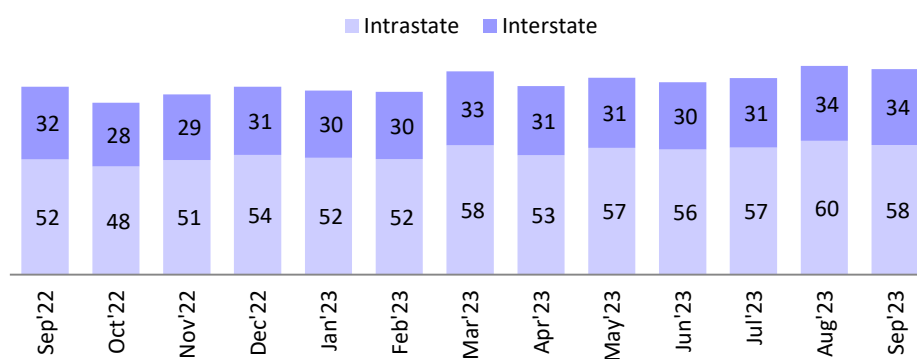
Source: MOFSL, Company

Exhibit 16: Yearly tractor sales volumes

Source: MOFSL, Company

Exhibit 17: Monthly tractor sales volumes

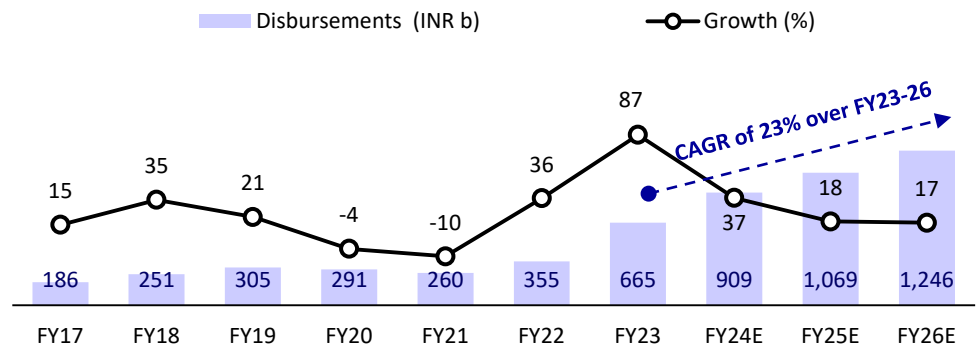
Source: MOFSL, Company

Exhibit 18: Daily average e-way bill generations rose ~2% MoM (on a daily average basis) in Sep'23 (m)

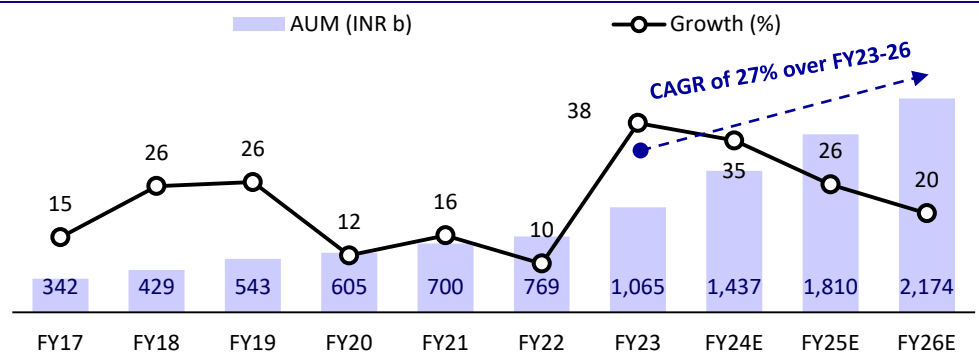
Source: GSTN, MOFSL

Improved fleet utilization and increased profitability of fleet operators due to the surge in infrastructure-led activities and heightened demand from ports should aid M&HCV segment to sustain growth in the near to medium term.

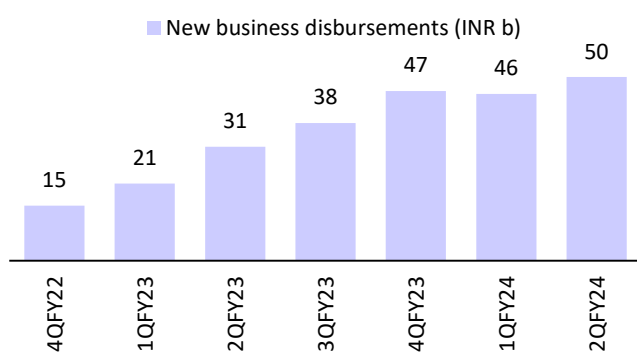
We estimate AUM CAGR of 22%, 27%, 45% and 41% over FY23-26E in VF, LAP, Home Loans, and New Business segments, respectively. For CIFC, this will translate into a total AUM CAGR of ~27% over the same period.

Exhibit 19: Expect disbursement CAGR of ~23% over FY23-26, aided by higher contribution from LAP, Home Loans and newer business segments...

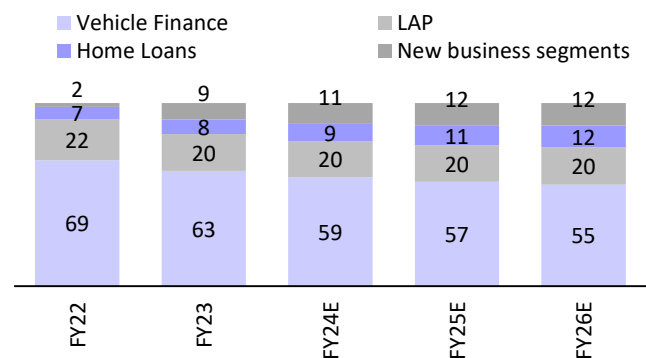
Source: MOFSL, Company

Exhibit 20: ... translating into AUM CAGR of ~27% over FY23-26

Source: MOFSL, Company

New businesses continue to gain traction; corrective actions taken in CSEL**Exhibit 21: New business segments have scaled up quickly**

Source: MOFSL, Company

Exhibit 22: Expect new businesses to contribute ~12% to the AUM mix by FY26

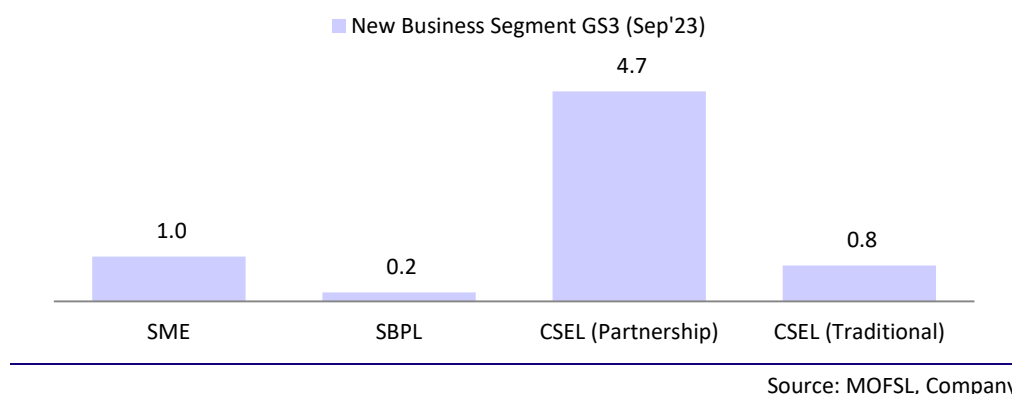
Source: MOFSL, Company

CIFC has a well-diversified loan portfolio across various segments, with VF making up ~61% of its total loan book. The company has strategically broadened its footprint in the LAP and home loan segments, which represent ~20% and ~9% of the loan mix respectively, as of Sep'23. Notably, the new segment loan book, inclusive of SME, CSEL, and SBPL, contributes ~11% to the overall AUM mix.

As of Sep'23, AUM of new businesses grew ~180% YoY (albeit on a small base) to ~INR133.3b. Among the new businesses, CSEL accounts for ~7% of the total Business AUM mix.

For CIFIC, new businesses contributed ~24% of disbursements in 2QFY24. Despite relatively higher credit costs in new businesses, higher yields in these segments (CSEL and SBPL) will be RoA accretive from FY25 onward.

Exhibit 23: Except CSEL (partnerships), all other new product segments continue to demonstrate healthy asset quality



Instead of focusing on loan growth, CIFIC has been monitoring the bounce rates, delinquencies, and the underlying asset quality of the new product segments to enhance its strategy on the monthly disbursement run rate.

GS3 in SME stood at ~1% and SBPL stood at 0.2% as of Sep'23. GS3 in CSEL (traditional) stood at ~0.8%. However, the bounce rate in its CSEL (partnerships) has risen and the Stage 3 in this segment stood at ~4.7% as of Sep'23. CIFIC is already maintaining PCR of >60% on GS3 of new businesses.

The management shared that NPLs in this segment are still well within the industry norms and that the company has taken corrective actions like a) stopping the addition of any new fintechs partnerships, b) constantly evaluating partnerships, and c) tightening the credit filters wherever it sees a slight increase in NPA levels.

CIFIC has wisely embraced a diversification strategy to mitigate risks and secure long-term growth. Through an expansion of its product portfolio, the company seeks to decrease reliance on any single business segment, thereby minimizing exposure to potential risks and uncertainties.

Additionally, the company's strategic focus on non-urban markets is an effort to explore the untapped potential of rural and semi-urban areas in India. This approach is considered prudent, as these markets offer significant growth opportunities and are less competitive compared to urban markets.

CIFIC is also mindful of stress management in its new product segments, approaching expansion in a calibrated manner. The company systematically evaluates monthly disbursement run rates in these segments, taking into account bounce rates, delinquencies, and the underlying asset quality to ensure that they do not go overboard in any of the new product segments.

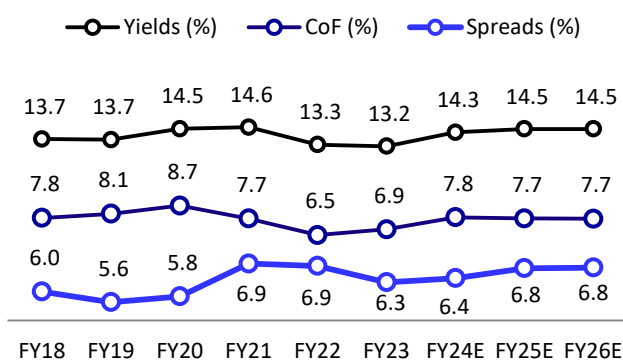
Exhibit 24: Deep-dive into the finer nuances of the three new business segments

	Consumer & Small Enterprise Loan	Secured Business & Personal Loan	Small & Medium Enterprises Loan
	CSEL	SBPL	SME
Secured/Unsecured	❖ Unsecured	❖ Secured - Predominantly SoRP (but resale of the collateral is very poor)	❖ Secured except for supply chain finance
Distribution Channels	❖ Traditional, Phygital, Partnerships ❖ Launched the D2C channel with the Chola One app [up to INR50K small ticket personal loans] which is in beta-testing now with Chola employees	❖ Traditional Model	❖ Traditional, Phygital, Partnerships
RoA profile (after 2-3 years)	❖ Potential pre-tax RoA of 4.5%-5.0%	❖ Highest RoA business Can potentially deliver pre-tax RoA of 6%-7%	❖ Lowest RoA among the three businesses ❖ Can potentially deliver pre-tax RoA of 2.5%-3.0%
Competitive Landscape	❖ Likes of Bajaj Finance, Fullerton, AB Capital	❖ Likes of Five Star, Veritas, Vistaar, Bandhan and AU SFB	❖ Likes of Bajaj Finance, U-Gro Capital, AB Capital, Tata Capital
Target markets	❖ Tier 1 Tier 2 Tier 3	❖ Tier 2 cities act like Hubs but the business is typically being sourced from Tier 3 - Tier 5 towns. ❖ Idea is to expand pan-India within the next two years.	❖ Tier 1 Tier 2
Products	❖ Two Channels: Fin-tech Partnerships and traditional DSA channels. They also now have DSTs originating the business in CSEL. ❖ Products in traditional channel: Personal Loans, Business Loans and Professional Loans. Origination done through DSAs. ❖ Relationship manager manages the relationship with the DSAs ❖ Area Business Managers will manage the business and are already responsible for collections. ❖ Compulsory Personal Discussion, FCA and RCU check	❖ Business Loans: Yields of 21%-22%. These loan are given for working capital. Large part of collections here can happen through ACH and much lower collection effort is required. ❖ Personal Loans: (Ticket sizes of INR200k and yields of 24%-26%) Usually given to the cash salaried customers. Usage is for the consumption purpose. 80%-90% collections happen in cash. ❖ Already has branches in states like Rajasthan, Chhattisgarh and Odisha where Five Star is looking to make in-roads	❖ Yields in the range of 11.5-12% ❖ Secured Term Loans to Enterprises (Collateral will be land, machinery and even SoRP) ❖ Supply Chain Finance (Channel Funding): Organic model and also through partnerships. Always done through anchors, including vendor financing and dealer financing. No direct bill discounting. 25% exposure to Murugappa Group entities and 75% to other groups ❖ Equipment Finance (Identified industries and OEMs where recourse is available from OEM). Product started only ~3 yrs back. Contributes 20% to the SME mix with yields between 12.5-13.0% ❖ Loan against shares: Maximum LTV of 50%; Company also looking to get into tie-ups for ESOP funding.
Partnerships	❖ Disbursements through Fin-tech partnerships will be capped at ~33% ❖ KreditBee - Short-term PL Bank Bazaar - Personal Loans Zest Money - Proven BNPL (will be capped at INR100-200m per month) Paytail - Offline BNPL LendingKart - Business Loans Consumer Finance - Recently tied up with Samsung Finance		
Credit costs	❖ Bounce rates earlier used to be 5.0% -5.5%, but have increased in the last 3-4 months	❖ At least 2%	❖ 1.0%-1.5%
Ticket Size	❖ Partnerships contribute one-third of the disbursements	❖ ATS of INR400k	❖ ATS for Term Loans: INR15-20m ATS for Equipment: INR2.5-3.0m

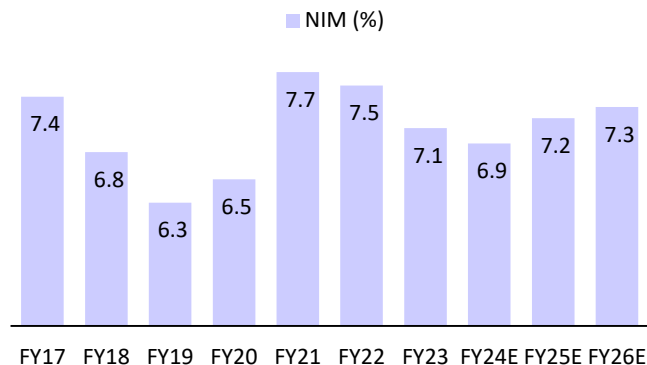
	Consumer & Small Enterprise Loan	Secured Business & Personal Loan	Small & Medium Enterprises Loan
	CSEL	SBPL	SME
	<p>(INR30-40k ticket size and tenors of 6-9 months).</p> <ul style="list-style-type: none"> ❖ Remaining 2/3rd of the disbursements are done through the DSA/DST channels; ❖ ~70% used to be Business Loans (ATS of INR1.0-1.2m; tenor of 30-36 months) ❖ ~22% were Professional Loans (ATS of ~INR1.5m; average tenor of 40-48 months) ❖ ~6-7% are Personal Loans (ATS of INR300-400K) 		<p>(average tenor of 5 years)</p> <p>ATS for Supply Chain: Program value basis (going up to INR100-150m) with typical utilization of ~60%. Interest rates higher than term loans.</p>
Business Model	<ul style="list-style-type: none"> ❖ Entire credit underwriting for business sourced through the traditional channel is done by CIFIC. ❖ For business sourced through partnerships, there are different models but the credit filters are decided by CIFIC. 	<ul style="list-style-type: none"> ❖ Entire flow of sourcing, underwriting and collections will be done in-house ❖ Sourcing is done through cold-calling or by the in-house DST. ❖ No sourcing through DSA/connectors since commission pay-outs is not allowed. ❖ Separate PD done by the credit team which does not report to Sales. 	
Underwriting	<ul style="list-style-type: none"> ❖ Perfios, Karza, Sherlock are few of the tools used in underwriting. Company has partnered with Kuliza and integrated its journey in its LOS/LMS platform. ❖ 98% customers who have been acquired have a CIBIL score of 700+ 	<ul style="list-style-type: none"> ❖ CIBIL and High Mark are leveraged ❖ Uses an in-house underwriting tool for loan applications. ❖ Asset/Collateral verification is being done both by its own employees as well as through empanelled legal/technical vendors 	<ul style="list-style-type: none"> ❖ Internal Scorecard

NIM expansion in 2HFY24; minor impact from increase in risk weights

- A diversified product mix and commendable liability strategy helped the company to manage the rising interest rate cycle much better than its peers, which have a higher proportion of vehicle loans in their product mix.
- We expect a minor impact of ~5bp on CIFC's weighted average CoB from the increase in risk weights on banks loans to NBFCs and expect CoB to peak out.
- Yields will improve, driven by gradual repricing of the fixed-rate vehicle loans. Positive levers on both yields and CoB will lead to NIM expansion in 2HFY24. We estimate NIM to improve to 7.2%/7.3% in FY25/FY26E (vs. ~6.9% in FY24E).

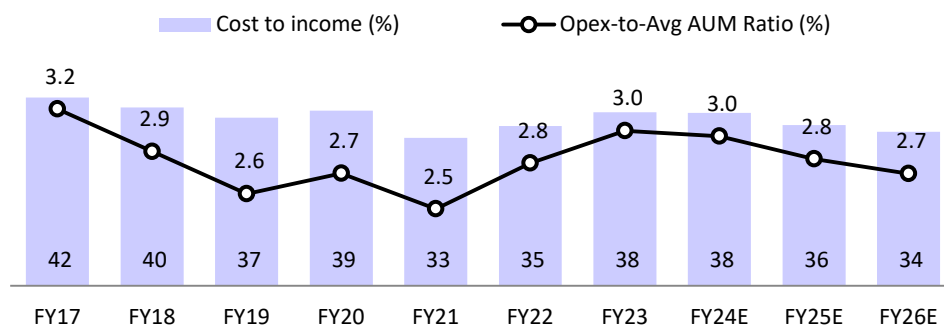
Exhibit 25: Spreads expected to expand further

Source: MOFSL, Company

Exhibit 26: NIM to improve aided by higher yields and peaking out of CoF

Source: MOFSL, Company

- We believe that the increase in risk weights by the RBI on unsecured consumer credit and on term loans from banks to NBFCs will not have any significant impact on either the capital adequacy or the weighted average CoB of the company.
- We estimate ~9% of CIFC's loan book (including ~7% CSEL, ~1% Vehicle Top Loans and ~1% from SME) to attract higher risk weight of ~125%, which will result in a ~30-40bp impact on its CRAR. This can be mitigated by raising Tier 2 capital, which we estimate comes at ~1% higher cost than its usual CoB.
- Our interactions with the management suggested that a large part of the investments in the new businesses (in terms of technology, branch expansion and manpower additions) will be completed in FY24. We believe that CIFC will start demonstrating strong operating leverage from FY25E onward, with opex to average AUM declining to 2.8%/2.7% in FY25E/FY26E (vs. 3.0% in FY24E).

Exhibit 27: Improvement in cost ratios to further aid profitability

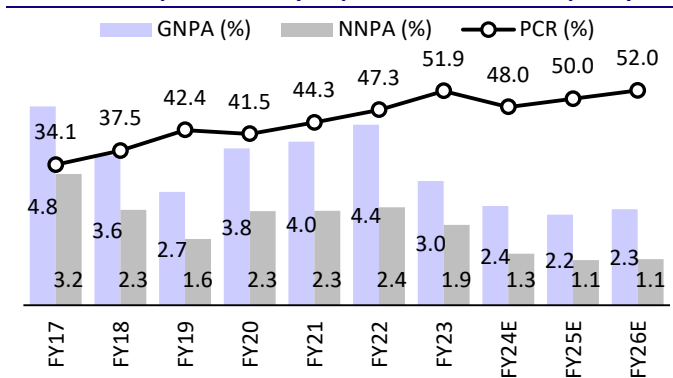
Source: MOFSL, Company

Healthy asset quality to keep credit costs benign despite improving PCR

CIFC has undertaken several initiatives, aimed at digitizing and enhancing analytics-enabled collection processes, thereby reinforcing the overall asset quality. These include leveraging data analytics to proactively identify potential credit risks and the adoption of digital collection methods. Our confidence in its robust asset quality is grounded in the implementation of streamlined credit assessment and monitoring procedures.

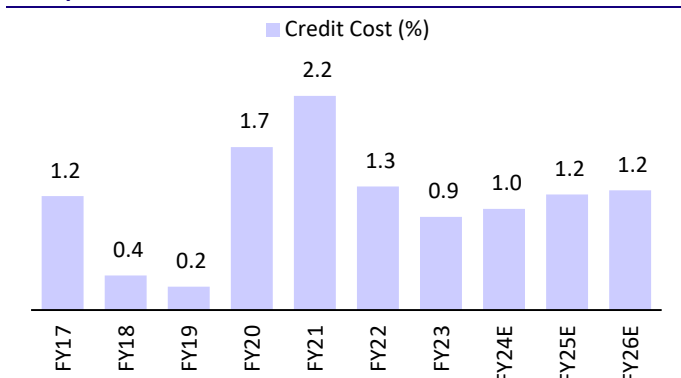
- Even if there is a slight increase in GS3 in CSEL (partnerships) in the near term, we believe that the corrective actions taken by CIFC will rein in the asset quality deterioration in this product segment.
- We expect steady improvement in Stage 3 assets to ~2.4% by Mar'24 and to ~2.2% by Mar'25 (vs. 3.0% in Sep'23). We believe that this would also be led by improvements in asset quality across VF and LAP.

Exhibit 28: Expect a steady improvement in asset quality...



Source: MOSL, Company

Exhibit 29: ...resulting in credit costs sustaining at ~100-120bp



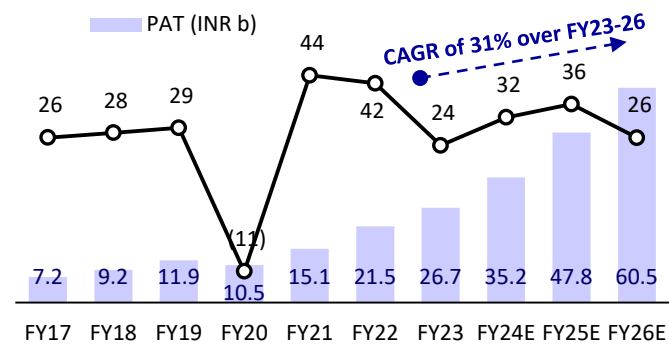
Source: MOSL, Company

- Our channel checks suggest that the RBI has been conveying to NBFCs to increase PCR on its Stage 3 loans. We expect even CIFC to increase its PCR on its Stage 3 loans, which will serve two purposes: a) please the regulator, and b) give more comfort to credit rating agencies. While CIFC has already increased its Stage 3 PCR to ~47% (PY: 41%), we expect the PCR to improve to 50%/52% by FY25/FY26. **We model credit costs of 1.0%/1.2%/1.2% in FY24/FY25/FY26.**

Set for a big leap ahead; Reiterate BUY

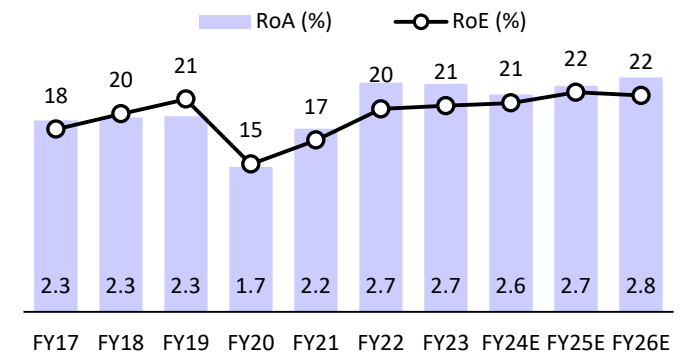
- CIFC will continue to grow faster than its peers over the medium term, aided by a diversified product suite and gradual improvements in market share. Given the company's focus on diversification, CIFC could enter into new retail product segments in the near-to-medium term.
- CIFC's ability to deliver industry-leading loan growth, its strong asset quality (estimated credit cost of ~1.2% over FY25–26E) and consequently a healthy RoE of ~21-22%, we believe CIFC would continue to command premium valuations relative to its NBFC peers. Reiterate our BUY rating with a TP of INR1,420 (4.3x Sep'25E BVPS).

Exhibit 30: Estimate PAT CAGR of ~31% over FY23–26



Source: MOSL, Company

Exhibit 31: Healthy RoA/RoE of 2.8%/22% by FY26



Source: MOSL, Company

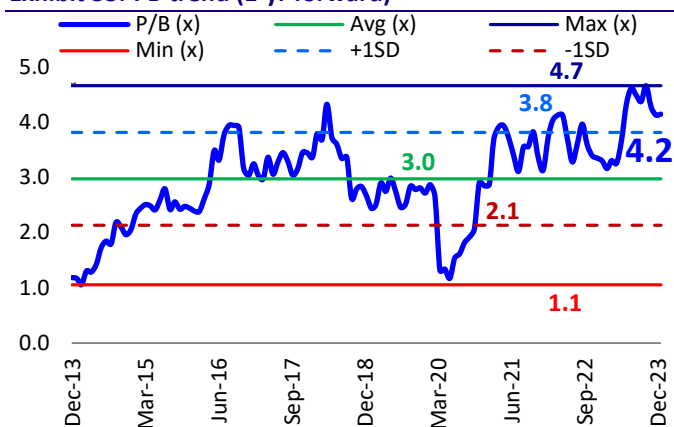
Key Risks: a) Near-term asset quality deterioration in CSEL (partnerships), and b) vulnerability to cyclical inherent in auto demand cycle since VF will remain the dominant proportion (>50%) of the loan mix even by FY26.

Exhibit 32: DuPont analysis

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Interest Income	13.9	13.1	12.8	12.9	12.8	11.9	12.1	13.0	13.1	13.2
Interest Expended	7.1	6.7	7.1	7.6	6.6	5.5	5.9	6.7	6.7	6.6
Net Interest Income	6.8	6.4	5.7	5.4	6.2	6.4	6.2	6.3	6.5	6.6
Other Operating Income	0.9	0.7	1.0	1.3	1.0	1.0	1.2	0.9	0.8	0.8
Other Income	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.2	0.2
Net Income	7.7	7.1	6.7	6.7	7.2	7.4	7.4	7.2	7.3	7.4
Operating Expenses	3.2	2.8	2.5	2.6	2.4	2.6	2.8	2.8	2.6	2.5
Operating Income	4.5	4.3	4.2	4.1	4.9	4.8	4.5	4.4	4.7	4.9
Provisions/write offs	1.0	0.8	0.6	1.5	1.9	1.1	0.9	0.9	1.1	1.1
PBT	3.5	3.5	3.6	2.6	2.9	3.7	3.7	3.5	3.6	3.8
Tax	1.2	1.2	1.3	0.9	0.8	0.9	1.0	0.9	0.9	1.0
RoA	2.3	2.3	2.3	1.7	2.2	2.7	2.7	2.6	2.7	2.8
Leverage	8.0	8.5	9.1	8.5	7.8	7.4	7.5	8.0	8.1	7.7
RoE	18.2	19.7	21.2	14.7	17.1	20.2	20.5	20.8	21.8	21.5

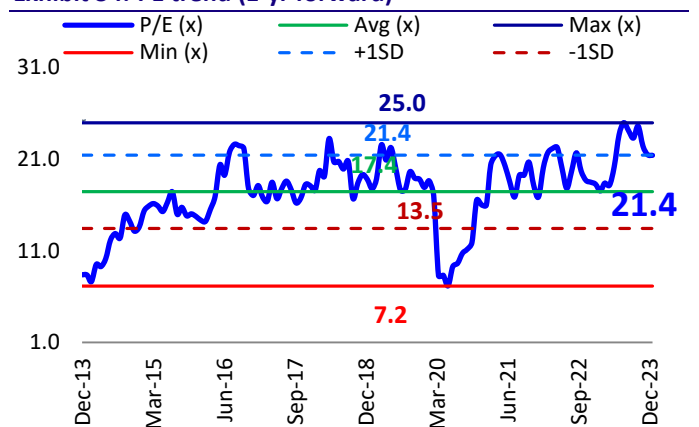
Source: MOFSL, Company

Exhibit 33: PB trend (1-yr forward)



Source: MOFSL, Company

Exhibit 34: PE trend (1-yr forward)



Source: MOFSL, Company

Financials and valuation

Income Statement								(INR M)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	43,717	51,862	64,962	78,417	88,772	93,251	1,18,084	1,75,983	2,33,028	2,85,927
Interest Expenses	22,308	26,593	35,887	45,922	45,759	42,988	57,488	91,039	1,18,079	1,42,495
Net Interest Income	21,409	25,268	29,075	32,495	43,013	50,263	60,596	84,943	1,14,950	1,43,432
Change (%)	14.8	18.0	15.1	11.8	32.4	16.9	20.6	40.2	35.3	24.8
Income from assignments	2,103	0	867	2,473	0	0	0	0	0	0
Other Operating Income	776	2,931	4,090	5,637	6,388	7,232	9,487	8,997	10,385	11,907
Other Income	8	4	7	3	596	905	2,209	3,756	4,319	4,967
Total Income	24,295	28,203	34,039	40,607	49,997	58,400	72,292	97,696	1,29,654	1,60,307
Change (%)	13.4	16.1	20.7	19.3	23.1	16.8	23.8	35.1	32.7	23.6
Total Operating Expenses	10,133	11,153	12,696	15,776	16,394	20,687	27,799	37,463	46,159	54,684
Change (%)	19.9	10.1	13.8	24.3	3.9	26.2	34.4	34.8	23.2	18.5
Employee Expenses	4,027	5,368	5,906	6,550	7,494	8,945	12,657	21,010	26,263	31,515
Business Origination Expenses	1,784	775	1,525	2,398	2,242	2,259	2,744	686	755	830
Other Operating Expenses	4,323	5,010	5,265	6,828	6,659	9,483	12,398	15,767	19,142	22,339
Operating Profit	14,162	17,051	21,344	24,831	33,603	37,712	44,494	60,233	83,495	1,05,623
Change (%)	9.1	20.4	25.2	16.3	35.3	12.2	18.0	35.4	38.6	26.5
Total Provisions	3,106	3,037	3,112	8,973	13,218	8,803	8,497	12,707	18,941	24,037
% of Operating Profit	21.9	17.8	14.6	36.1	39.3	23.3	19.1	21.1	22.7	22.8
PBT	11,056	14,014	18,232	15,857	20,384	28,909	35,997	47,526	64,553	81,586
Tax Provisions	3,868	4,831	6,370	5,334	5,235	7,442	9,335	12,309	16,719	21,131
Tax Rate (%)	35.0	34.5	34.9	33.6	25.7	25.7	25.9	25.9	25.9	25.9
PAT	7,187	9,183	11,862	10,524	15,149	21,467	26,662	35,217	47,834	60,455
Change (%)	26.4	27.8	29.2	-11.3	44.0	41.7	24.2	32.1	35.8	26.4
Proposed Dividend	547	1,016	1,016	1,662	1,640	1,641	1,645	2,098	2,098	2,569

Balance Sheet								(INR M)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	1,564	1,564	1,564	1,640	1,640	1,643	1,645	1,679	1,679	1,713
Equity Share Capital	1,564	1,564	1,564	1,640	1,640	1,643	1,645	1,679	1,679	1,713
Reserves & Surplus	40,971	49,105	59,880	80,079	93,962	1,15,434	1,41,316	1,94,400	2,40,135	3,17,988
Net Worth for Equity Shareholders	42,535	50,669	61,445	81,718	95,602	1,17,077	1,42,961	1,96,079	2,41,814	3,19,700
Borrowings	3,02,001	3,83,303	5,05,667	5,50,054	6,37,300	6,91,735	9,73,561	13,57,794	17,01,243	19,99,919
Change (%)	33.8	26.9	31.9	8.8	15.9	8.5	40.7	39.5	25.3	17.6
Total Liabilities	3,50,372	4,40,897	5,74,263	6,39,930	7,45,484	8,23,634	11,35,155	15,76,233	19,68,772	23,49,192
Investments	697	729	729	729	16,188	20,762	36,280	54,312	68,050	79,997
Change (%)	4.6	4.7	0.0	0.0	2,120.0	28.3	74.7	49.7	25.3	17.6
Loans	3,32,244	4,22,532	5,26,223	5,54,027	6,58,393	7,41,492	10,47,483	14,22,451	17,91,734	21,52,087
Change (%)	27.9	27.2	24.5	5.3	18.8	12.6	41.3	35.8	26.0	20.1
Net Fixed Assets	1,417	1,646	1,759	2,839	2,294	2,685	4,233	5,292	6,350	7,620
Total Assets	3,50,372	4,40,897	5,74,263	6,39,930	7,45,484	8,23,634	11,35,155	15,76,233	19,68,772	23,49,192

E: MOFSL Estimates

Financials and valuation

Ratios	(%)									
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spreads Analysis (%)										
Avg. Yield on Loans	14.8	13.7	13.7	14.5	14.6	13.3	13.2	14.3	14.5	14.5
Avg Cost of Funds	8.5	7.8	8.1	8.7	7.7	6.5	6.9	7.8	7.7	7.7
Spread of loans	6.3	6.0	5.6	5.8	6.9	6.9	6.3	6.4	6.8	6.8
NIM (on loans)	7.4	6.8	6.3	6.5	7.7	7.5	7.1	6.9	7.2	7.3
Profitability Ratios (%)										
RoE	18.2	19.7	21.2	14.7	17.1	20.2	20.5	20.8	21.8	21.5
RoA	2.3	2.3	2.3	1.7	2.2	2.7	2.7	2.6	2.7	2.8
Int. Expended / Int.Earned	51.0	51.3	55.2	58.6	51.5	46.1	48.7	51.7	50.7	49.8
Other Inc. / Net Income	3.2	10.4	12.0	13.9	14.0	13.9	16.2	13.1	11.3	10.5
Efficiency Ratios (%)										
Op. Exps. / Net Income	41.7	39.5	37.3	38.9	32.8	35.4	38.5	38.3	35.6	34.1
Empl. Cost/Op. Exps.	39.7	48.1	46.5	41.5	45.7	43.2	45.5	56.1	56.9	57.6
Asset-Liability Profile (%)										
Loans/Borrowings Ratio	110	110	104	101	103	107	108	105	105	108
Net NPAs to Net Adv.	3.2	2.3	1.6	2.3	2.3	2.4	1.9	1.3	1.1	1.1
Assets/Equity	8.2	8.7	9.3	7.8	7.8	7.0	7.9	8.0	8.1	7.3
Average leverage	8.0	8.5	9.1	8.5	7.8	7.4	7.5	8.0	8.1	7.7
Valuations										
Book Value (INR)	54	65	79	100	117	143	174	234	288	373
BV Growth (%)	16.2	19.1	21.2	26.9	17.0	22.2	22.0	34.4	23.3	29.6
Price-BV (x)	20.9	17.6	14.5	11.4	9.8	8.0	6.5	4.9	4.0	3.0
EPS (INR)	9	12	15	13	18	26	32	42	57	71
EPS Growth (%)	26.3	27.7	29.1	-15.4	44.0	41.4	24.0	29.4	35.8	23.9
Price-Earnings (x)	123.8	96.9	75.0	88.7	61.6	43.5	35.1	27.1	20.0	16.1
Dividend per share	1.1	1.3	1.3	1.7	2.0	2.0	2.0	2.5	2.5	3.0
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3

E: MOFSL Estimates

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