

Cholamandalam Investment and Finance (CIFC)

NBFC | 4QFY24 Result Update

ACCUMULATE
CMP: Rs1,302 | Target Price (TP): Rs1,400 | Upside: 8%
May 02, 2024

Growth outlook robust; NIM trajectory positive

Key Points

- Cholamandalam Investment & Finance Co Ltd's (CIFC) 4QFY24 NII/PPOP deviated by -3.1%/-2.9% from our estimates. PAT was higher by 8% on account of lower provisions.
- CIFC reported strong AUM growth of 37% YoY to Rs1,456bn led by robust growth in new business verticals. We expect FY25 growth to be driven by Used/ Passenger Vehicles and new business verticals (CSEL, SBPL and SME).
- Reported NIM improved to 7.8%, led by a re-pricing and growth in Used Vehicles. We expect NIMs to improve in FY25 benefited by a lower CoF; expect opex to be elevated as the company is in an expansion phase.
- Credit cost stood at ~1.0% in FY24 and we expect it to remain in the range of 0.8%-1% in FY25E/ 26E.
- We expect AUM growth of 25.3%/ 23.5% in FY25/ FY26E with an RoA of 3.1% in FY26E. We value CIFC keeping an unchanged multiple of 4.2x Mar-26 ABV to arrive at our Target Price (TP) of Rs1,400. Maintain ACCUMULATE as valuation is already at a premium and prices in all the positives.

AUM growth robust driven by new business verticals: 4QFY24 disbursements grew strong at 18% YoY with VF/Home Loans/LAP/New Business growing at 6.3%/ 24.3%/ 54.7%/ 24.4% YoY. Consequently, CIFC reported robust AUM growth of 37% YoY (9% QoQ) to Rs1,456bn. New business segments' AUM grew at a rapid pace of 87% YoY (17% QoQ) and now comprises 12% of AUM (9% in 4QFY23). The company identified Home Loans, LAP and Used Vehicle Finance as key growth drivers, delivering an AUM growth of 58.6% YoY, 38.3% YoY and 29.6% YoY, respectively. AUM mix as on 4QFY24 in terms of VF/LAP/Home Loans/New Business stood at ~58%/21%/9%/12%. Within VF, the AUM break-up was largely stable, with high yield/medium yield/low yield book at 44.7%/42.0%/13.3%. In terms of growth, the company highlighted healthy demand in the passenger vehicles portfolio, driven by small entry-level cars and is confident of sustaining growth at ~20% in the VF portfolio led by market share expansion and focus on Used Vehicles. While the company expects some slowdown in 1QFY25 due to seasonality and elections, it highlighted that growth trend for the industry has been better than in previous years. Within housing, the company continues to expand deeper into tier 3 and 4 markets (Micro-LAP). It expects to sustain overall disbursement growth at 20-25%, resulting in ~25% growth in AUM; we build 25.3%/ 23.5% over FY25/ FY26E.

Est Change	Downward
TP Change	Upward
Rating Change	No Change

Company Data and Valuation Summary

Reuters	CHLA.BO
Bloomberg	CIFC IN Equity
Market Cap (Rsbn / US\$bn)	1,002.4 / 12.0
52 Wk H / L (Rs)	1,310 / 871
ADTV-3M (mn) (Rs / US\$)	1,912.0 / 23.0
Stock performance (%) 1M/6M/1yr	3.2 / 3.3 / 37.0
Nifty 50 performance (%) 1M/6M/1yr	2.3 / 5.0 / 25.0

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	51.4	50.4	50.4
DILs	20.1	18.4	17.1
FII	21.5	24.7	26.0
Others	7.0	6.5	6.6
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Interest Income	63,334	83,831	113,386	148,974
% growth	20.2	32.4	35.3	31.4
Net Interest Margin %	7.1	6.7	7.0	7.5
Cost/Income Ratio	38.5	40.9	39.9	37.7
Operating Profit	44,494	59,039	80,112	109,192
% growth	18.0	32.7	35.7	36.3
Adjusted PAT	26,662	34,228	49,575	66,975
% growth	24.2	28.4	44.8	35.1
ABVPS	158	214	269	341
P/ABV	8.2	6.1	4.8	3.8
RoA (%)	2.7	2.5	2.8	3.1
Leverage (x)	7.5	8.0	8.0	7.9
RoE (%)	20.5	20.2	22.7	24.5

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research
Key Links- [4QFY24 presentation](#)
Please refer to the disclaimer towards the end of the document.

NIM trajectory favourable; opex elevated in FY25: NII grew by 33% YoY/8% QoQ led by strong disbursement volumes. Reported NIM improved QoQ to 7.8% vs 7.4% in 3Q as yield improved by 30bps QoQ to ~14.8%, supported by a 10 bps reduction in CoF to ~6.9%. Management commentary indicated that CoF has peaked at current levels and expects NIM to sustain at current levels over the near-term aided by re-pricing (VF/ LAP portfolio) and growth in Used Vehicle portfolio. Opex grew by 63% YoY / 21% QoQ as the company moved a large part of opex from outsourcing to in-house in the quarter. Moreover, it expects IT/ branch expansion to keep costs elevated in FY25 with Opex/AUM ratio inching upto ~3%. However, commentary also highlighted a huge scope to improve RoA-PBT in new businesses driven by a reduction in opex spend. We expect NIM trajectory to improve in FY25/ FY26E, supported by a lower CoF, offset by a gradual increase in costs as the company expands its HL/ new business portfolio. However, higher opex spend is likely to be offset by an improvement in productivity from new business verticals.

Asset quality improves; SBPL likely to see higher loan losses: Asset quality improved with GS3/NS3 at 2.48%/ 1.33% vs. 2.82%/1.55% in 3QFY24. As per the revised RBI norms, GNPA/NNPA improved to 3.54%/ 2.32% vs. 3.92%/2.56% as on 3QFY24. The segment-wise NS3 ratio for VF/LAP/Home Loan/New Business stood at 1.60%/1.29%/0.62%/0.60% vs 1.77%/1.70%/0.90%/0.60% as on 3QFY24. While CIFC expects credit costs in new businesses to increase due to growth in riskier segments such as SBPL, a reduction in cost of borrowings and opex is expected to offset the same. The company maintained PCR on GS3 at ~46%, while total provisions stood at 1.72% of gross advances. Credit cost stood at 0.5% in Q4 (1.0% in FY24) and the company expects it to be between 0.8% - 1.2% in FY25.

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24	4Q24E	Variation (%)	YoY	QoQ
NII	17,649	18,421	20,153	21,709	23,548	63,334	83,831	24,311	(3.1)	33%	8%
YoY (%)	29.0	24.3	35.4	35.8	33.4	20.2	32.4	37.7	-	-	-
Other Income	2,952	2,845	3,514	4,088	5,580	8,958	16,026	3,633	53.6	89%	36%
Net Revenue	20,601	21,265	23,667	25,797	29,127	72,292	99,857	27,944	4.2	41%	13%
Opex	7,870	7,867	9,461	10,640	12,850	27,799	40,818	11,178	15.0	63%	21%
PPOP	12,731	13,399	14,206	15,157	16,278	44,494	59,039	16,766	(2.9)	28%	7%
YoY (%)	39.6	26.4	37.1	40.4	27.9	18.0	32.7	31.7	-	-	-
Provisions	1,140	3,723	3,998	3,588	1,908	8,497	13,218	3,749	(49.1)	67%	-47%
PBT	11,591	9,675	10,208	11,569	14,369	35,997	45,821	13,018	10.4	24%	24.2%
Tax	3,063	2,415	2,583	2,807	3,788	9,335	11,593	3,254	16.4	24%	35%
ETR (%)	26	25	25	24	26	26	25	25	136.3	-	-
PAT	8,528	7,260	7,625	8,762	10,581	26,662	34,228	9,763	8.4	24%	20.8%
YoY (%)	23.7	28.3	35.3	28.0	24.1	24.2	28.4	14.5	-	-	-
Business Metrics											
AUM (Rs bn)	1,065	1,148	1,242	1,338	1,456	1,065	1,456	1,530	(4.9)	37%	9%
YoY (%)	38.5	40.1	41.7	40.1	36.7	40.7	36.7	43.7	-	-	-
Borrowings (Rs bn)	974	1,081	1,195	1,231	1,345	974	1,345	1,388	(3.1)	38%	9%
YoY (%)	40.7	46.3	50.6	37.8	38.1	38.5	38.1	42.6	-	-	-
Asset Quality Metrics											
GNPA (%)	3.01	3.06	2.96	2.82	2.48	3.01	2.77	-	248bps	-53bps	-34bps
NNPA (%)	1.62	1.69	1.58	1.56	1.33	1.62	1.53	-	133bps	-30bps	-23bps
PCR (%)	46.00	45.40	47.32	45.13	46.45	46.00	45.00	-	4,645bps	45bps	132bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	Revised Estimates		Earlier Estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest income (Rs mn)	113,386		148,974		-5.8%	
NIM	7.0		7.5		-30bps	
Operating Profit (Rs mn)	80,112		109,192		-4.0%	
Profit after tax (Rs mn)	49,575		66,975		-2.9%	
ABV (Rs)	268.8		340.9		-0.7%	

Source: Company, Nirmal Bang Institutional Equities Research

Cholamandalam Inv & Fin 4QFY24 Concall KTA

Business Highlights

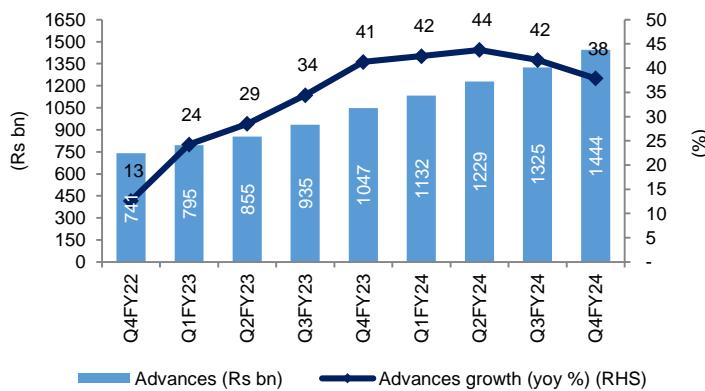
- The PV segment, particularly entry-level cars, has shown resilience and growth, especially in Tier 4/5 towns. The company targets self-employed customers in these towns, who are purchasing entry-level cars.
- There was an expectation of a slowdown in the CV segment, but the company is confident in achieving a 20% disbursement growth, inclusive of the used business, across 1,300 branches and 600 retail locations.
- The company aims to keep the OpEx line at around 3% of AUM, RoA expansion in New Business is expected to come from opex reduction.
- New branches will be added but first for VF and then New Business. Expenses are expected to be controlled and reduced gradually over the next 2 years.
- There might be a slight slowdown in 1Q due to ongoing elections until May or June. However, in April, there was a 20% growth in the vehicle industry compared to the previous year. The demand for new vehicles, especially commercial vehicles, is expected to improve.
- In SBPL, loan losses may increase slightly over time, but will be offset by savings. SBPL is considered slightly riskier, but efforts will be made to keep loan losses low.
- CSEL, being unsecured, has a provision coverage of 50%, while SME and SBPL have lower ratios, currently around 39-40% and 25%, respectively.
- The shift in product mix towards longer tenor books may lead to a decrease in the overall repayment rate.
- Average tenure for the traditional CSEL book, will be around 44 to 48 months.
- SRTO profitability is influenced by factors such as fuel consumption and the segment's decision to focus more on used commercial vehicles rather than new ones.
- Fee income is now amortized over time, unlike in the past, when it was up fronted. There won't be significant shifts in the numbers.
- A large part of employee expenses were shifted from outsourcing to the company's payroll, contributing to the increase in salary costs. The expansion of various businesses in newer geographies has also led to increased costs.
- The bounce rate in the CSEL segment is reported to be around 9% traditionally.
- The aim is to sustain margins at pre-COVID levels, around 7.5%, assuming there are no rate hikes and a return to pre-COVID conditions.

Operational Performance

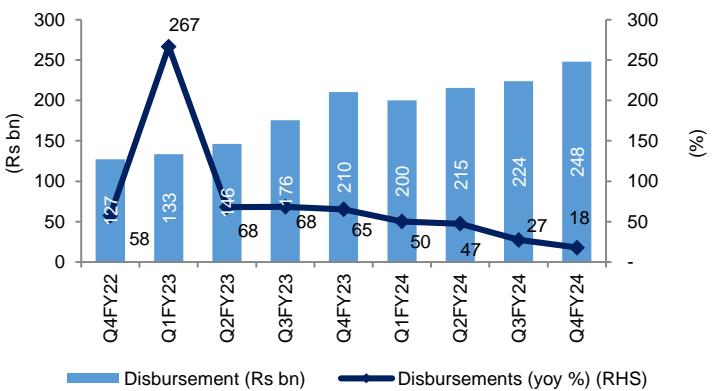
- AUM stood at Rs1,456bn, up by 37% YoY. Achieved best ever dispersals, collections, and profitability in 4QFY24.
- Disbursements for Vehicle finance grew by 6%, LAP grew by 55% and Home loans grew by 24%, driven by expansion into Tier 3/4 locations.

Guidance and Future Outlook

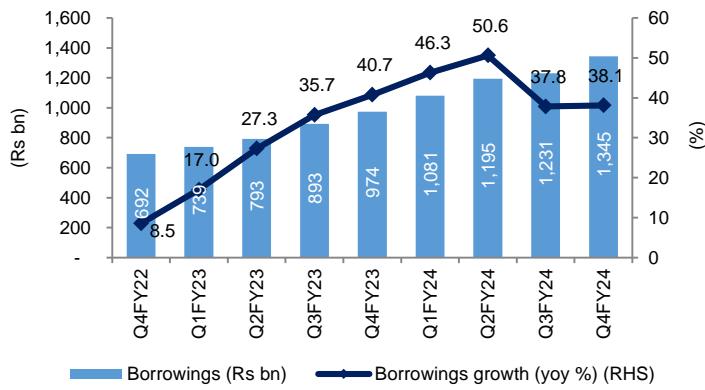
- Disbursement growth of 20-25% and AUM growth of 25-30% in FY25. Growth is expected to look better in 3Q.
- The medium-term growth trajectory is expected to continue at a rate around 25% to 30%.
- Expect CoB to remain at current levels, there might be slight increases due to borrowing from sources like ECBs; expect rate reduction in 2H.

Exhibit 3: Advances growth driven by strong disbursements


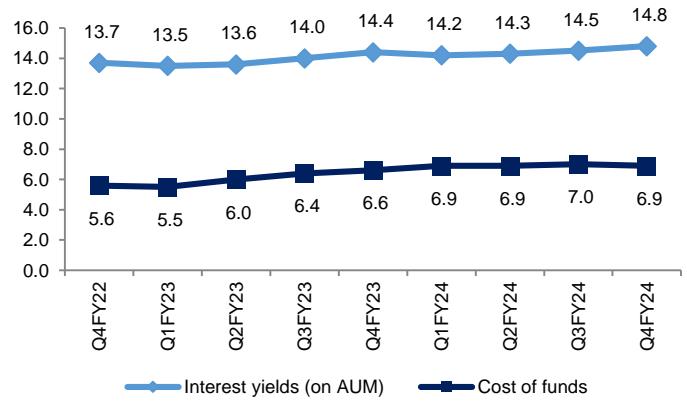
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Disbursements growth remains robust


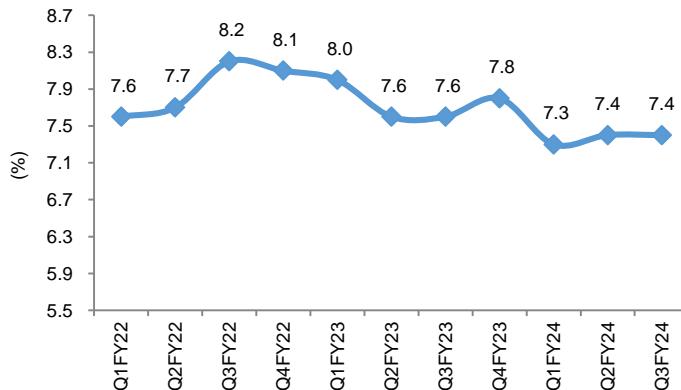
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Borrowing growth largely in-line with AUM growth


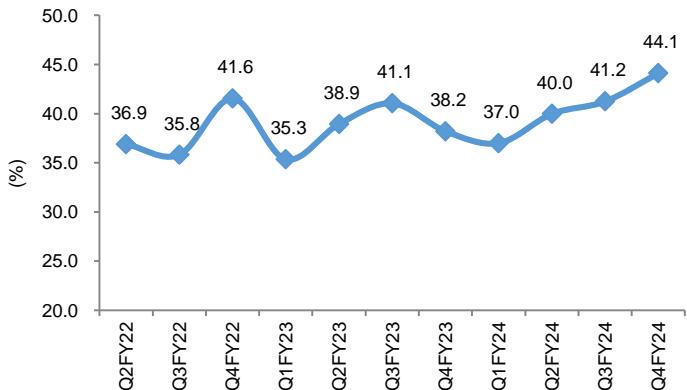
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Interest yields and CoF trajectory


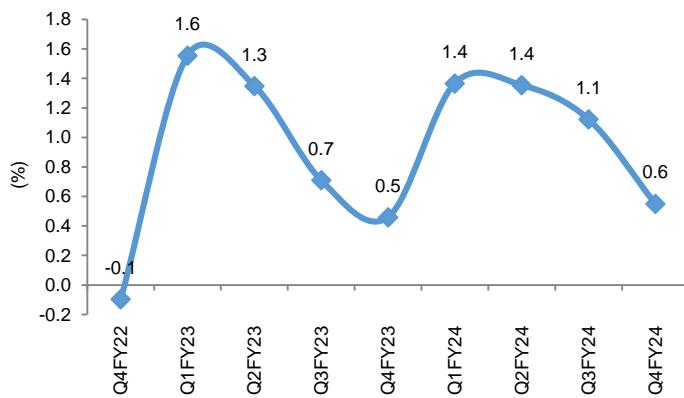
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: NIM trajectory (%) - Reported


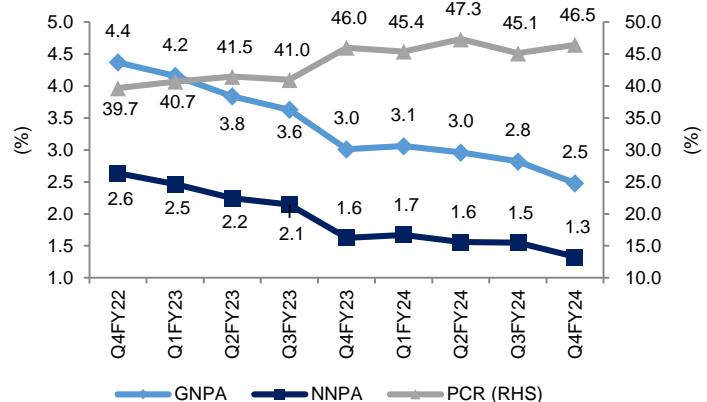
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cost/Income ratio (%)


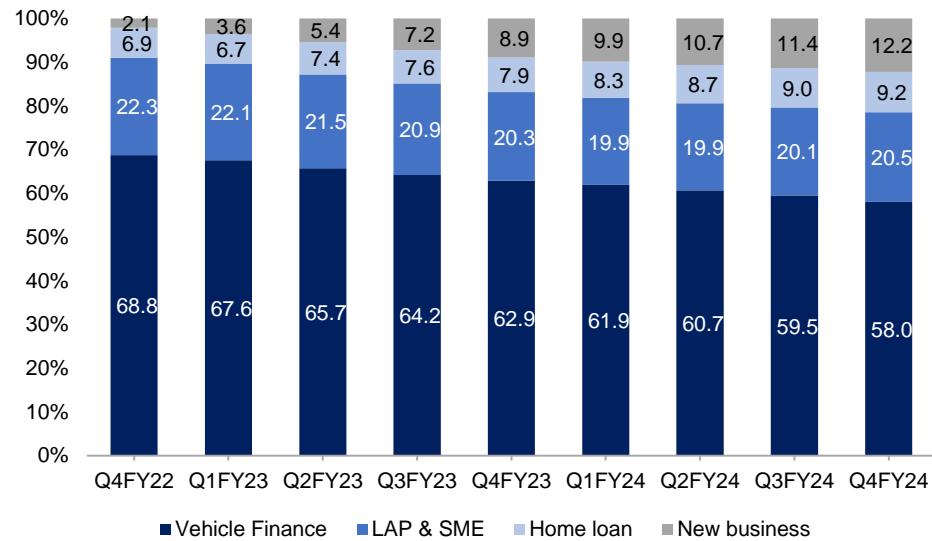
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Credit cost (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Asset quality (%)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: AUM mix; proportion of New Business increasing


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Financial summary

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Interest Income	52,680	63,334	83,831	113,386	148,974
Pre-provisioning operating profit	37,712	44,494	59,039	80,112	109,192
PAT	21,467	26,662	34,228	49,575	66,975
P/E (x)	43.2	34.9	27.2	18.8	13.9
P/BV (x)	7.9	6.5	4.9	3.8	3.1
P/ABV (x)	10.3	8.2	6.1	4.8	3.8
EPS (Rs)	26.2	32.4	41.6	60.3	81.4
BV (Rs)	142.5	173.9	232.7	294.3	370.5
ABV (Rs)	126.6	158.4	213.8	268.8	340.9
GS3 (%)	4.4	3.0	2.5	3.2	3.6
NS3 (%)	2.6	1.6	1.3	1.8	2.0
RoA (%)	2.7	2.7	2.5	2.8	3.1
RoE (%)	20.2	20.5	20.2	22.7	24.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Actual performance vs our estimates

(Rs mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)	Q4FY24E	Devi (%)
Net Interest Income	23,548	17,649	21,709	33.4	8.5	24,311	-3.1
Pre-provisioning Operating Profit	16,278	12,731	15,157	27.9	7.4	16,766	-2.9
PAT	10,581	8,528	8,762	24.1	20.8	9,763	8.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: One-year forward P/ABV


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 15: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Financing Income	95,668	120,822	176,137	229,076	278,905
Financing charges	42,988	57,488	92,306	115,689	129,931
Net Financing income	52,680	63,334	83,831	113,386	148,974
<i>Change (%)</i>	13	20	32	35	31
Other Income	5,720	8,958	16,026	20,009	26,290
Net Income	58,400	72,292	99,857	133,396	175,264
<i>Change (%)</i>	17	24	38	34	31
Employee cost	8,945	12,657	23,306	37,298	46,250
Other Operating Exp.	11,742	15,142	17,512	15,985	19,821
Operating Profit	37,712	44,494	59,039	80,112	109,192
<i>Change (%)</i>	10	18	33	36	36
Total Provisions	8,803	8,497	13,218	14,013	19,892
% to operating income	23	19	22	17	18
Exceptional items	0	0	0	0	0
PBT	28,909	35,997	45,821	66,100	89,300
Tax	7,442	9,335	11,593	16,525	22,325
<i>Tax Rate (%)</i>	26	26	25	25	25
PAT	21,467	26,662	34,228	49,575	66,975
<i>Change (%)</i>	42	24	28	45	35
Dividend	1,639.2	1,644.8	2,224.8	3,222.4	4,353.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Spread analysis					
Interest yields	13.7	13.5	14.1	14.2	14.0
Avg Cost of funds	6.5	6.9	8.0	7.7	7.0
NIMs	7.5	7.1	6.7	7.0	7.5
Int Spread	7.2	6.6	6.2	6.5	6.9
Profitability Ratios (%)					
RoE	20.2	20.5	20.2	22.7	24.5
RoA	2.7	2.7	2.5	2.8	3.1
Int. Expended/Int.Earned	44.9	47.6	52.4	50.5	46.6
Other Inc./Net Income	9.8	12.4	16.0	15.0	15.0
Efficiency Ratios (%)					
Cost / Income	35.4	38.5	40.9	39.9	37.7
Opex / AUM	2.8	3.0	3.2	3.2	3.2
Asset-Liability Profile (%)					
Loans/Borrowings Ratio	107	108	107	108	108
GS3 ratio (%)	4.4	3.0	2.5	3.2	3.6
NS3 ratio (%)	2.6	1.6	1.3	1.8	2.0
Leverage	7.0	7.9	8.0	8.0	7.8
Average leverage (on BS)	7.4	7.5	8.0	8.0	7.9
CAR	19.6	17.1	17.0	17.0	16.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Capital	1,643	1,645	1,681	1,645	1,645
Reserves & Surplus	115,430	141,316	193,885	240,273	302,894
Net Worth	117,073	142,961	195,565	241,918	304,539
Borrowings	691,740	973,560	1,344,736	1,654,709	2,042,900
<i>Change (%)</i>	8.5	40.7	38.1	23.1	23.5
Other Liabilities	14,817	18,635	24,207	29,785	36,772
Total Liabilities	823,630	1,135,155	1,564,508	1,926,412	2,384,212
Investments	20,760	36,200	41,002	50,038	61,777
<i>Change (%)</i>	28.2	74.4	13.3	22.0	23.5
Loans	741,490	1,047,483	1,444,243	1,787,086	2,206,332
<i>Change (%)</i>	12.6	41.3	37.9	23.7	23.5
Net Fixed Assets	2,920	4,589	15,695	16,479	16,479
Net Current Assets	58,460	46,882	63,568	72,808	99,623
Total Assets	823,630	1,135,155	1,564,508	1,926,412	2,384,212

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Valuations

Valuations	FY22	FY23	FY24E	FY25E	FY26E
BVPS (INR)	142.5	173.9	232.7	294.3	370.5
BV Growth (%)	22.3	22.0	33.8	26.5	25.9
Price-BV (x)	7.9	6.5	4.9	3.8	3.1
Adj. Book Value (INR)	126.6	158.4	213.8	268.8	340.9
Price-ABV(x)	10.3	8.2	6.1	4.8	3.8
EPS (INR)	26.2	32.4	41.6	60.3	81.4
Growth (%)	41.7	23.8	28.4	44.8	35.1
Price-Earnings (x)	43.2	34.9	27.2	18.8	13.9
Dividend	2.0	2.0	2.6	3.9	5.3
Dividend Yield (%)	0.18	0.18	0.23	0.35	0.47

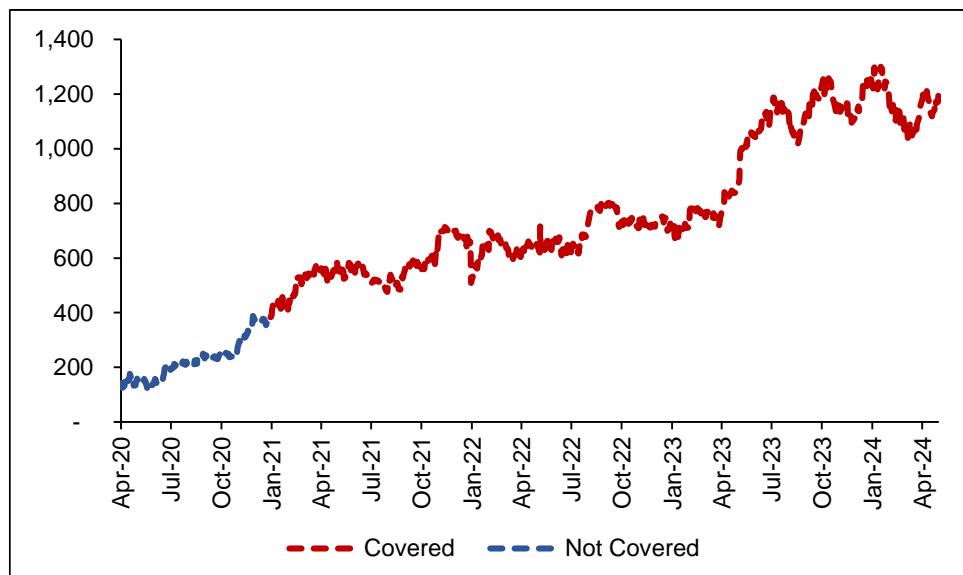
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 December 2020	Buy	387	480
01 February 2021	Buy	398	494
21 February 2021	Accumulate	540	545
10 May 2021	Accumulate	554	560
08 June 2021	Accumulate	580	555
02 August 2021	Buy	480	581
25 August 2021	Buy	510	585
26 September 2021	Buy	576	667
2 November 2021	Buy	585	673
30 December 2021	Buy	517	673
2 February 2022	Buy	639	760
5 May 2022	Buy	637	750
1 Aug 2022	Buy	700	807
19 September 2022	Buy	793	913
02 November 2022	Buy	745	904
02 February 2023	Buy	750	885
22 March 2023	Buy	754	903
04 May 2023	Buy	886	1,020
03 August 2023	Accumulate	1,100	1,120
05 November 2023	Buy	1,135	1,350
29 January 2024	Accumulate	1,241	1,335
02 May 2024	Accumulate	1,302	1,400

*The coverage has been transferred to Shreya Khandelwal from August 8, 2023

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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