IDBI capital

Cholamandalam Investment BUY

Robust AUM growth sustained; NIMs stable QoQ

Summary

CIFC sustained robust AUM growth (@40% YoY) backed by 40% YoY (9MFY24) growth in disbursements. Management remains optimistic on strong AUM growth going forward albeit growth moderating slightly for next few quarters. NIMs remain stable QoQ despite cost of funds rose. We expect benefit of lower interest rate environment on account of fixed rate VF book. Asset quality improved with GS3 at 2.82% vs 2.96% led by higher write-off. NII grew by 10% QoQ; however PPoP grew by 6% QoQ led by higher operating expenses (up 20% QoQ). PAT grew by 5% QoQ led by increase in provisions (up 7% QoQ). We have moved to FY26E and included Rs.20bn (conversion of NCD into Equity). We upgrade to "BUY" from "HOLD" with a new TP of Rs.1,450 (earlier Rs.1,150) based on P/BV of 4.1x FY26E as growth prospects remain strong.

Key Highlights and Investment Rationale

- **Robust AUM growth; disbursements up 40% YoY:** AUM growth remain strong at 40% YoY. Disbursements grew by 40% YoY led by growth across the segments. We expect AUM to grow at 24% CAGR (FY23-26E) compared to 21% CAGR (FY20-23) backed by new business segment.
- **Margins remain stable:** NIMs remian stlable at 7.4% QoQ due to rise in yields to combat rise in cost of funds. Management shared the cost of funds have peaked out and expect improvement going forward.
- **Asset quality improved:** Asset quality improved as GS3 stood at 2.82% vs 2.96% QoQ. In newer segment (others), NPA was key concern area; has declined (positively) from 1.42% to 1.08% QoQ.
- **Outlook:** We believe premium valuation should sustain backed by strong growth. With a diverse product portfolio and a widespread distribution network, CIFC is well-positioned to capitalize on the growth potential.

TP	Rs.1,450
CMP	Rs.1,241
Potential upside/downside	17%
Previous Rating	HOLD

Price Performance (%)	-1m	-3m	-12m
Absolute	0.4	6.3	74.8
Rel to Sensex	2.7	(4.6)	55.6

Key Stock Data	
Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	840
Market cap. (Rs mn)	1,042,293
3-m daily average value (Rs mn)	41.4
52-week high / low	Rs1,310 / 697
Sensex / Nifty	70,701 / 21,353

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	38.8	49.2	59.2
Consensus	39.3	50.9	64.0
% difference	*(1.2)*	*(3.3)*	*(7.4)*

Shareholding Pattern (%)	
Promoters	50.4
FII	24.7
DII	16.8
Public	8.1

Financial snapshot **(Rs mn)**

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	52,680	63,334	94,962	1,18,581	1,42,801
Change (yoy, %)	*13%*	*20%*	*50%*	*25%*	*20%*
Net Profit	21,467	26,662	32,622	41,351	50,707
Change (yoy, %)	*42%*	*24%*	*22%*	*27%*	*23%*
EPS (Rs)	26.1	32.4	38.8	49.2	59.2
Change (yoy, %)	*42%*	*24%*	*20%*	*27%*	*20%*
ABV (Rs)	126.0	157.7	210.8	257.2	326.7
PER (x)	47.5	38.2	32.0	25.2	21.0
P/ABV (x)	9.8	7.9	5.9	4.8	3.8
ROE (%)	*20.2*	*20.5*	*19.3*	*19.3*	*18.8*
ROA (%)	*2.7*	*2.7*	*2.5*	*2.5*	*2.6*
GNPA (%)	*4.4*	*3.0*	*2.8*	*2.8*	*3.0*
NNPA (%)	*2.7*	*1.7*	*1.6*	*1.4*	*1.6*
CAR (%)	*18.1*	*14.8*	*20.6*	*20.0*	*20.0*

Source: IDBI Capital Research;

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Conference Call Highlights

Operational Performance:

- The total liquid funds at the end of Q3FY24 stood at ~Rs.99.32bn out which ~Rs.77.42bn was cash balance.
- The outlook for the company as a whole has been upgraded to AA+ positive from AA+ stable by ICRA.
- Interim dividend of Rs.1.30 per share approved by BOD.
- The company was receiving insurance income from its subsidiaries till Q2FY24 which was being repatriated in the form of dividend. However, now the company has received a license pertaining to the same and hence, the insurance income will accrue directly to the company.
- The new businesses have not gone through enough cycles to build up provisions based on LGD. Hence, the provisions are made on the basis of ageing of receivables.

Advances:

- Vehicle finance (VF) disbursements grew by 18% YoY, mainly driven by increase in demand for used car segment.
- LAP disbursements grew by 51% and home loans grew by 48% on a YoY basis driven by branch expansion in Tier 3 and Tier 4.
- Disbursements in new businesses grew by 33% on a YoY basis. SME business disbursements grew by 11% YoY while consumer and small enterprise business disbursements grew by 48% YoY.
- The bank borrowings rates have not moved up significantly since majority of the loans are EBLR linked. A couple of banks have revised their rates by ~15-20bps however, there is no material pressure pertaining to increase in cost of borrowings on the company.
- Cost to assets stood in the range of ~3%. It was inflated by IT and branch expansion expenses. Going forward, the company expects the cost to assets to remain in the range of ~3%.

- For VF, the yields have improved by ~50bps while the cost of lending has gone up by ~20bps. Going forward, the management expects the spreads and NIMs to sustain at current levels as it does not foresee any material upward increase in cost of funds.
- ATS for LAP stood at ~Rs0.60mn and ~Rs.0.13mn for home loans.

Asset Quality:

- The company is following a practice of removal of an NPA (backed by FLDG scheme) the moment it touches 100% provisioning since the company will be reimbursed for the same under the scheme protection (accounted under fee and other income). This has contributed to a fall in PCR as well.
- The delinquencies in LAP from the northern region are at an all-time low. This is being aided by SARFAESI Act.

Future Guidance

- The management expects the CV growth to be in single digits in the near term. However, CV segment still continue to be a focus area for the company.
- Going forward LAP and HL are expected to grow at a faster rate than other segments.
- The company has cut back on its partnership loan business pertaining to its Secured personal loans segment and has capped disbursements for the same at ~Rs.2.30-2.50bn levels.
- The company is in the process of diversifying its borrowing profile and is raising funds from various sourced including issuing retail debentures in order to reduce its dependence on banks as a source of funds.
- The demand for entry level vehicles in PV remains strong and the discounts are also very controlled in the segment. The major growth drivers for the company are PV and CV loans. The management is confident of growing the overall VF portfolio by ~20% for FY25.
- The PBT-ROTA is expected to be in the range of ~3.5% although the same has been slightly subdued in FY24 due to higher cost of funds. However, the management believes that the cost of funds have peaked out and does not expect any material changes in the same going forward.

Exhibit 1: Quarterly Snapshot **(Rs mn)**

Year-end: March	Q3FY24	Q3FY23	Q2FY24	*YoY (%)*	*QoQ (%)*
Interest Income	49,597	33,231	44,350	*49.2*	*11.8*
Interest Expenses	24,390	15,433	22,052	*58.0*	*10.6*
Net Interest Income	**25,207**	**17,798**	**22,298**	***41.6***	***13.0***
NIM (%)	***7.4***	***7.6***	***7.3***	***-20 bps***	***10 bps***
Fee & Other Income	590	519	1,369	*13.6*	*-56.9*
Operating Income	25,797	18,317	23,667	*40.8*	*9.0*
Staff Cost	6,667	3,494	5,702	*90.8*	*16.9*
Other Op Exp	3,973	4,027	3,759	*-1.3*	*5.7*
Total Operating Expenses	10,640	7,520	9,461	*41.5*	*12.5*
Cost to Income (%)	*41.2*	*41.1*	*40.0*	*19 bps*	*127 bps*
Cost to AUM (%)	*3.3*	*3.3*	*3.2*	*1 bps*	*13 bps*
Operating Profit	**15,157**	**10,797**	**14,206**	***40.4***	***6.7***
Provisions	3,588	1,589	3,998	*125.8*	*-10.3*
Credit Cost (%)	*0.3*	*0.2*	*0.3*	*10 bps*	*-5 bps*
PBT	**11,569**	**9,208**	**10,208**	***25.6***	***13.3***
Tax	2,807	2,365	2,583	*18.7*	*8.7*
-effective tax rate	*24.3*	*25.7*	*25.3*	*-142 bps*	*-103 bps*
PAT	**8,762**	**6,843**	**7,625**	***28.0***	***14.9***
EPS (Rs)	10.7	8.3	9.3	*28.0*	*14.9*
BV (Rs)	226.8	165.0	192.4	*37.5*	*17.9*
Loans	13,25,320	9,35,460	12,28,890	*41.7*	*7.8*
AUM	13,37,940	9,54,680	12,42,460	*40.1*	*7.7*
Disbursement	2,23,840	1,75,600	2,15,420	*27.5*	*3.9*

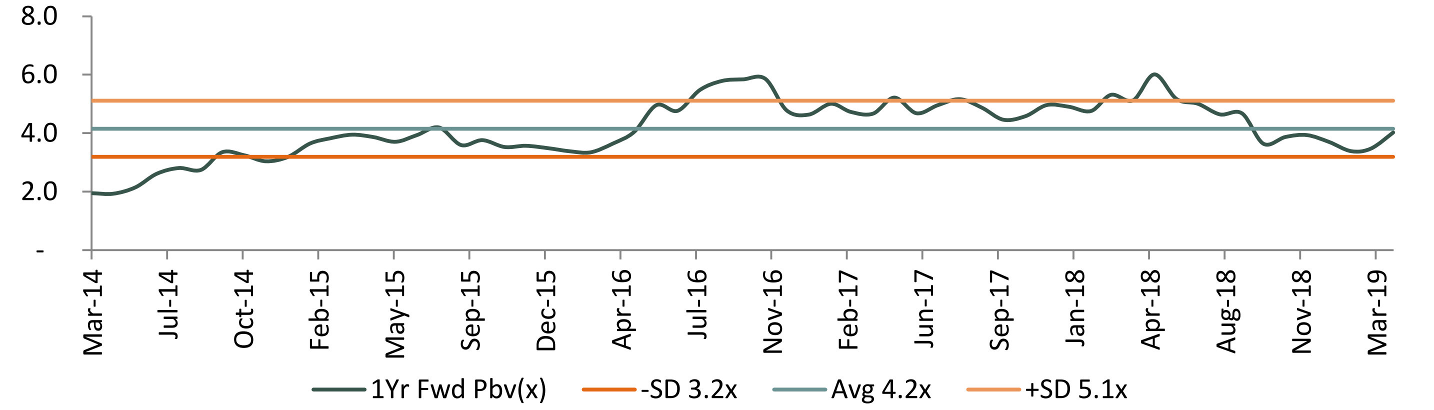
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	**6.7**	**6.5**	**7.3**	**7.3**	**7.4**
Other Income	0.7	0.9	0.3	0.3	0.3
Net Revenue	**7.4**	**7.4**	**7.5**	**7.6**	**7.6**
Op.Exp	2.6	2.8	3.0	2.9	2.9
Op.Profit	**4.8**	**4.5**	**4.5**	**4.6**	**4.8**
Provisions	1.1	0.9	1.2	1.3	1.3
PBT	3.7	3.7	3.3	3.4	3.5
Tax	0.9	1.0	0.8	0.9	0.9
PAT	**2.7**	**2.7**	**2.5**	**2.5**	**2.6**
Leverage (x)	7.4	7.5	7.8	7.6	7.2
ROE	**20.2**	**20.5**	**19.3**	**19.3**	**18.8**

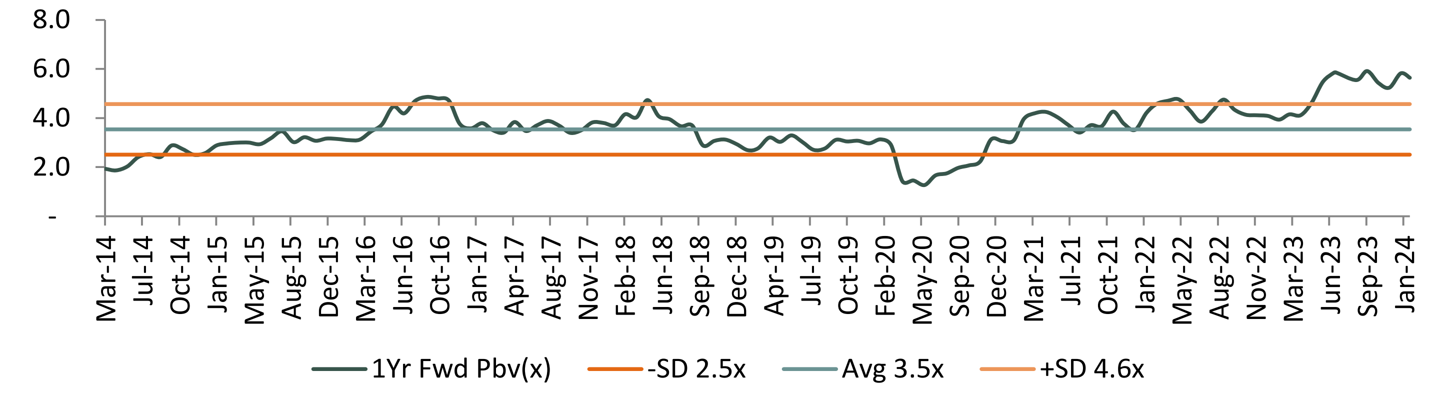
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



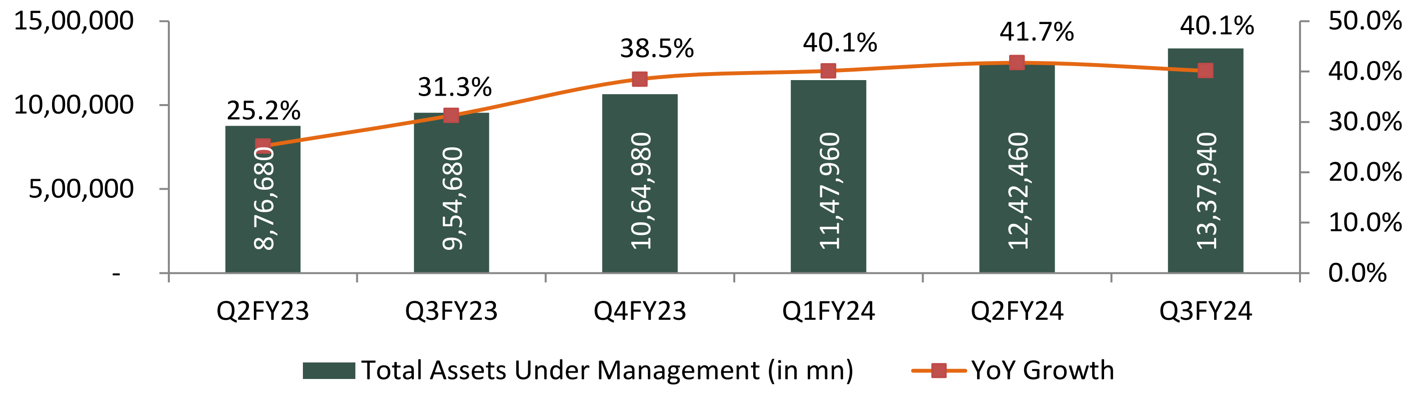
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY14-24)



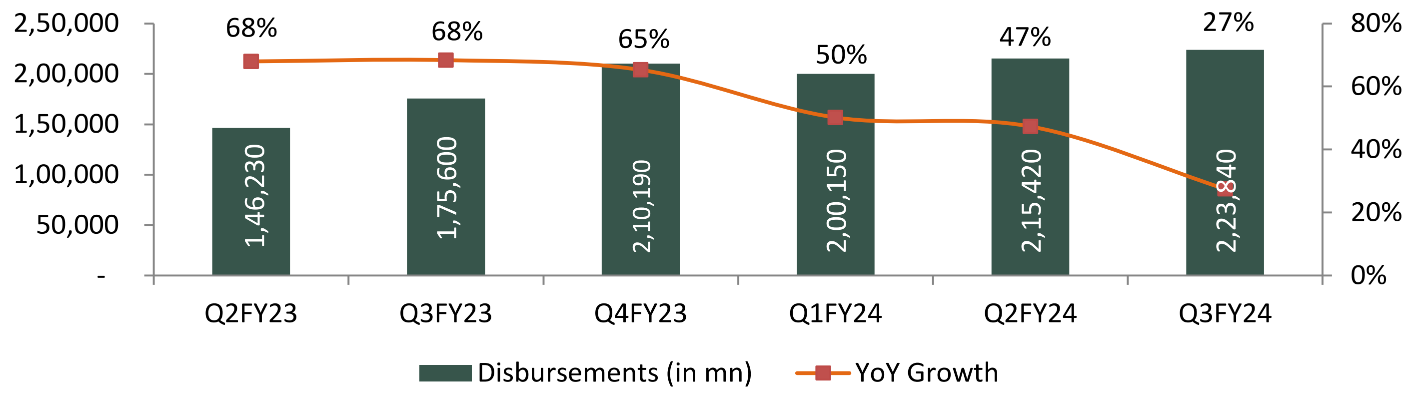
Source: Company; IDBI Capital Research

Exhibit 5: AUM growth continued strong growth momentum



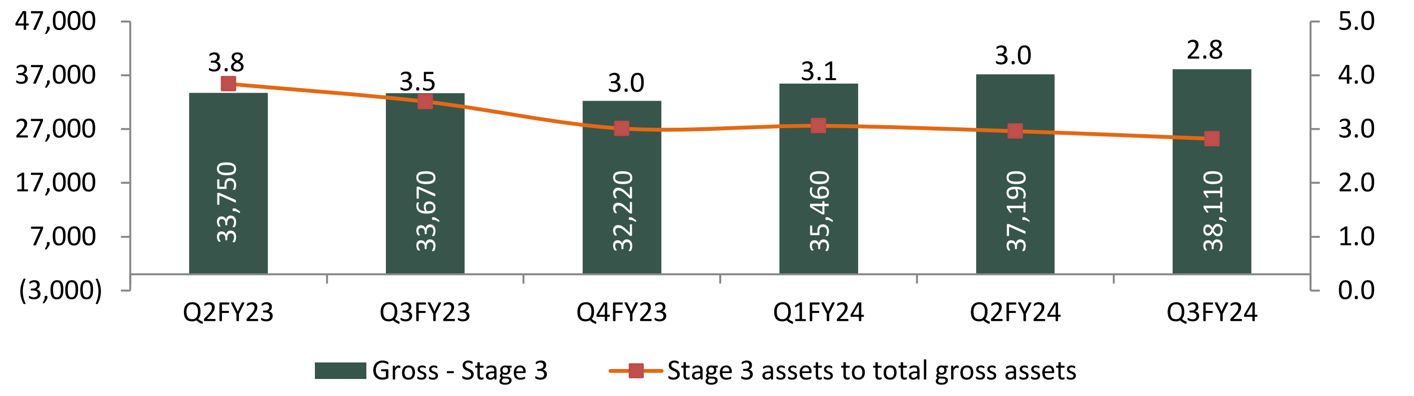
Source: Company; IDBI Capital Research

Exhibit 6: Disbursements growth (YoY) moderated



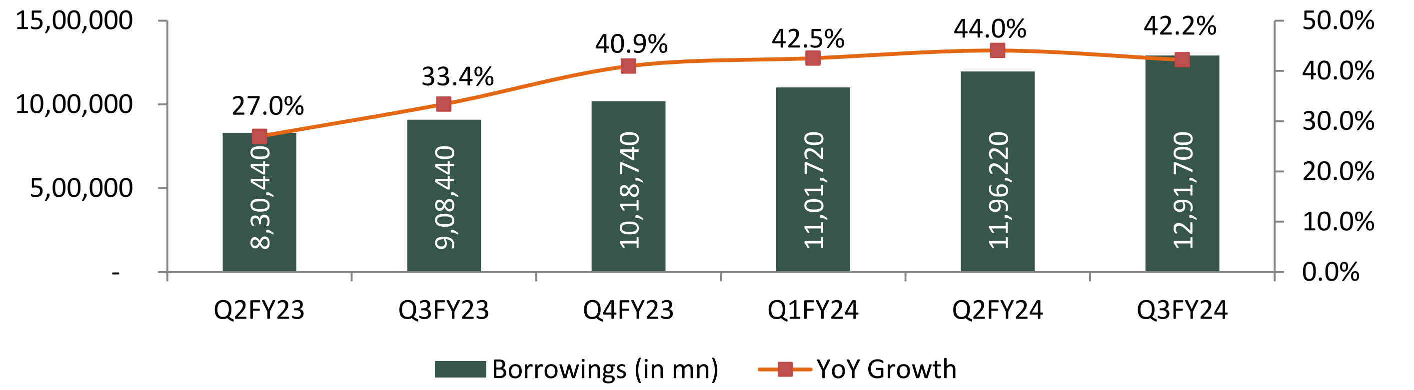
Source: Company; IDBI Capital Research

Exhibit 7: Asset quality improved marginally on a sequential basis



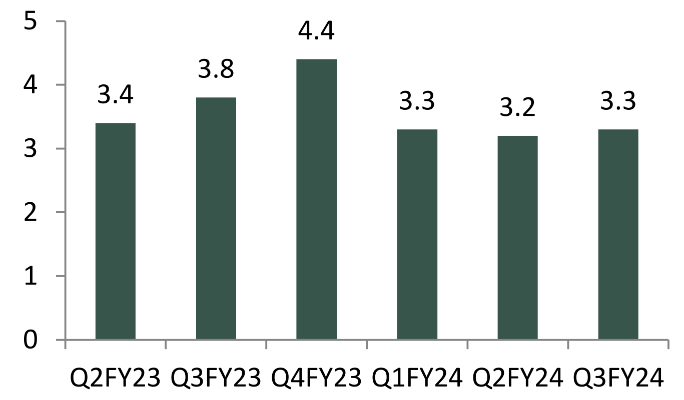
Source: Company; IDBI Capital Research

Exhibit 8: Borrowings continued to grow strong QoQ



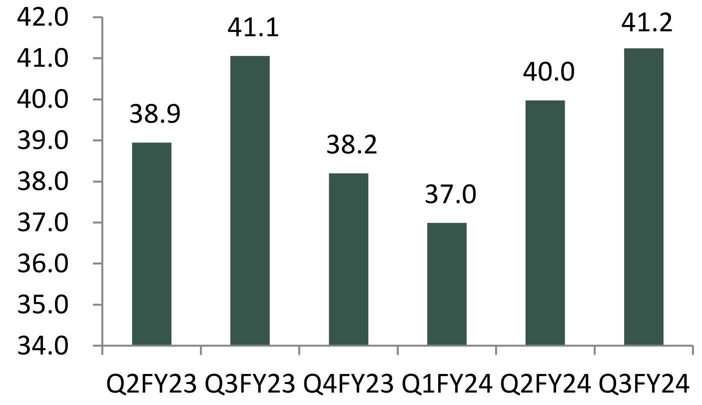
Source: Company; IDBI Capital Research

Exhibit 9: ROA (PBT) inched up sequentially



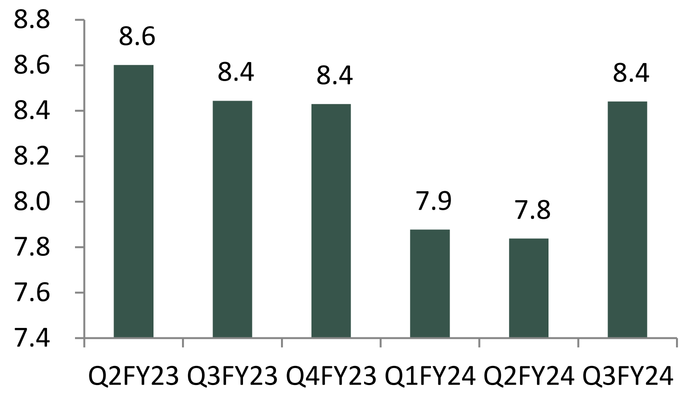
Source: Company; IDBI Capital Research

Exhibit 10: Cost to Income Ratio increased QoQ



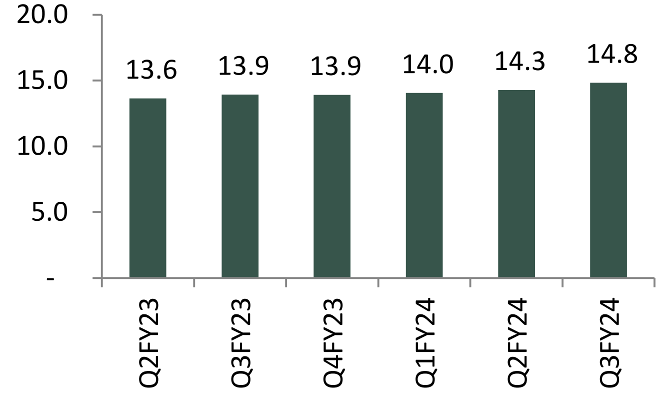
Source: Company; IDBI Capital Research

Exhibit 11: Cost of Funds increased on QoQ basis



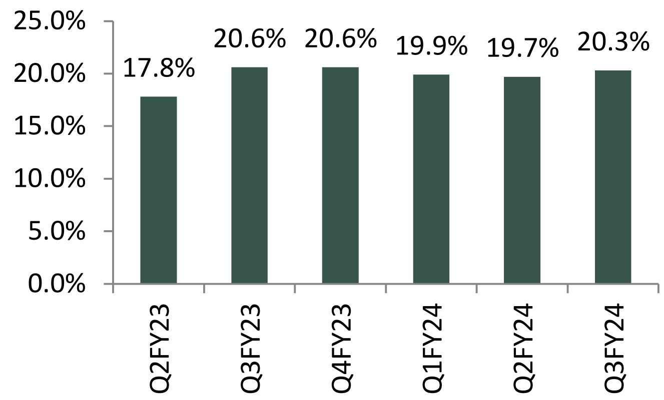
Source: Company; IDBI Capital Research

Exhibit 12: Yields improved sequentially



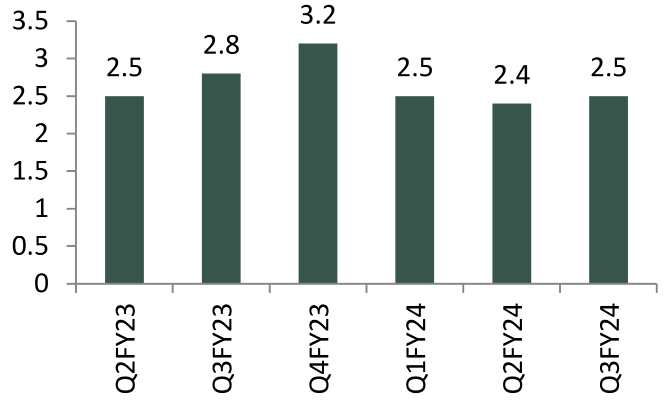
Source: Company; IDBI Capital Research

Exhibit 13: Return on Equity improved QoQ



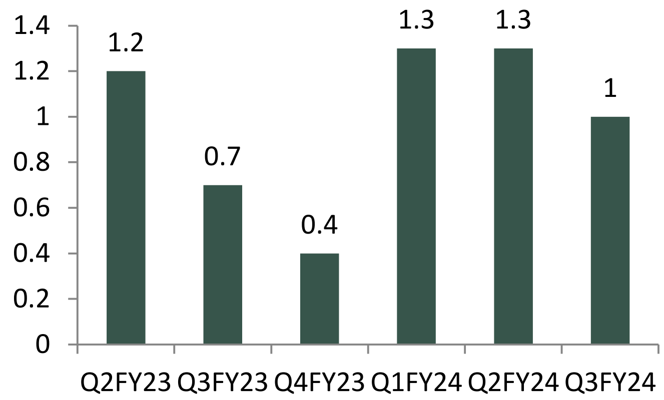
Source: Company; IDBI Capital Research

Exhibit 14: ROTA-PAT inched up sequentially



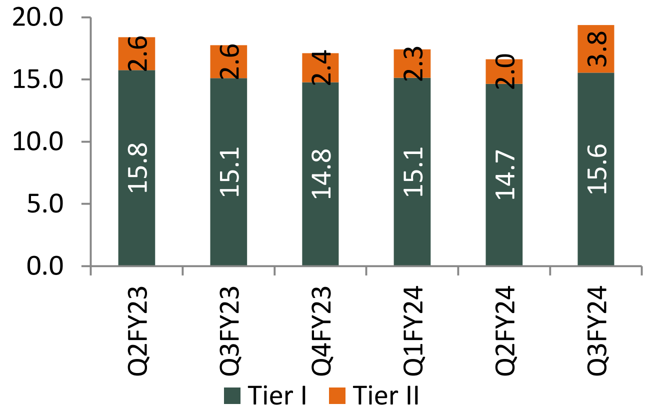
Source: Company; IDBI Capital Research

Exhibit 15: Losses and provisions - after additional provision



Source: Company; IDBI Capital Research

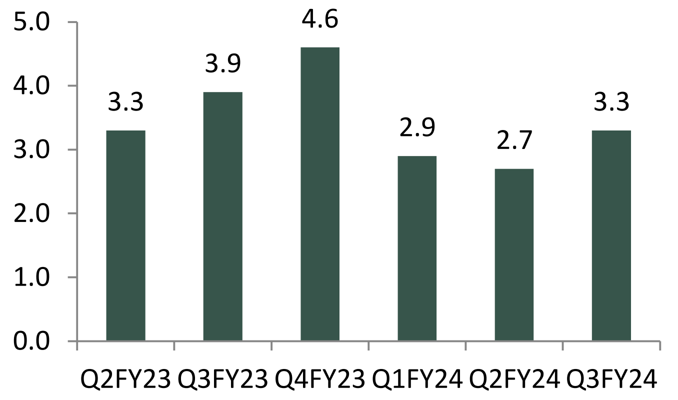
Exhibit 16: CAR remains comfortable



Source: Company; IDBI Capital Research

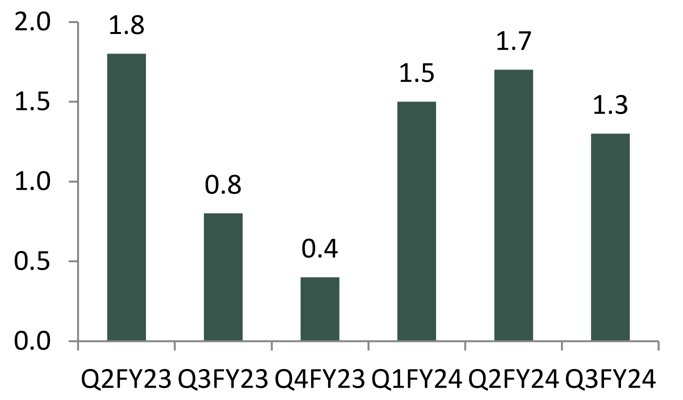
Asset Ratios - Vehicle Finance PF

Exhibit 17: ROTA–PBT witnessed uptick sequentially



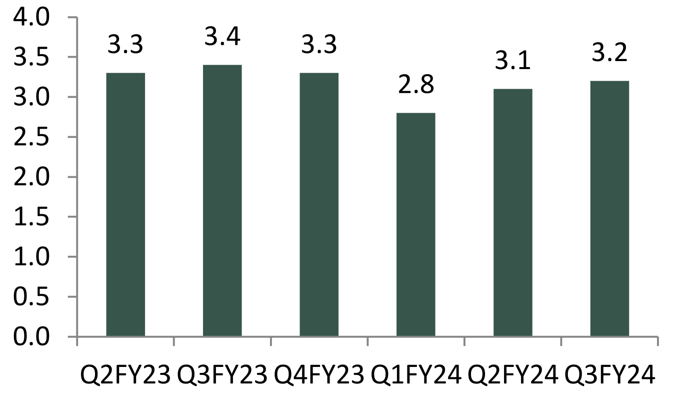
Source: Company; IDBI Capital Research

Exhibit 18: Losses and provisions declined QoQ



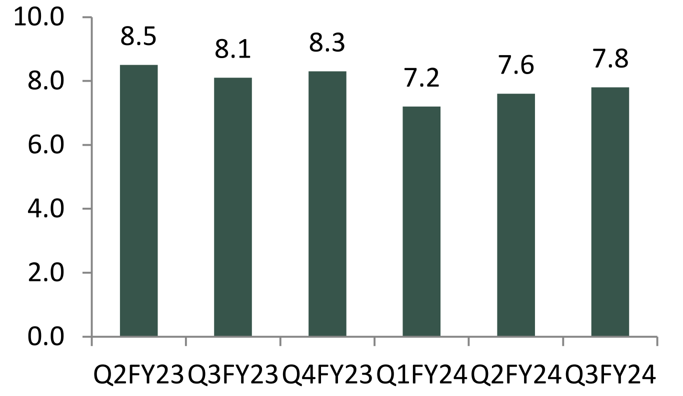
Source: Company; IDBI Capital Research

Exhibit 19: Expenses Ratio increased sequentially



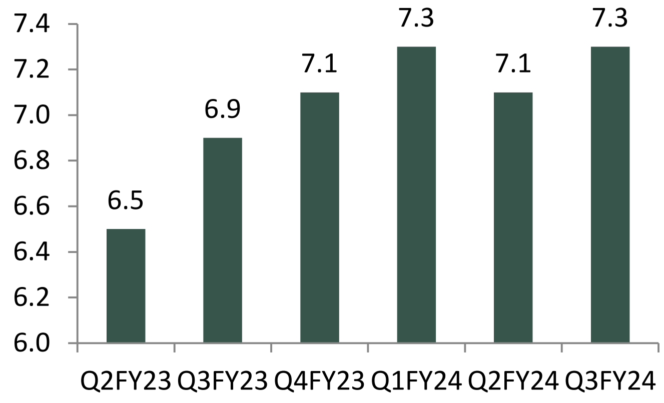
Source: Company; IDBI Capital Research

Exhibit 20: Net Income Margin improved sequentially



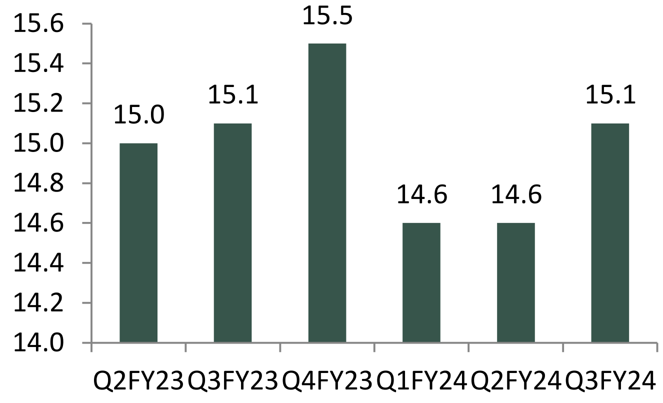
Source: Company; IDBI Capital Research

Exhibit 21: Cost of Funds increased sequentially



Source: Company; IDBI Capital Research

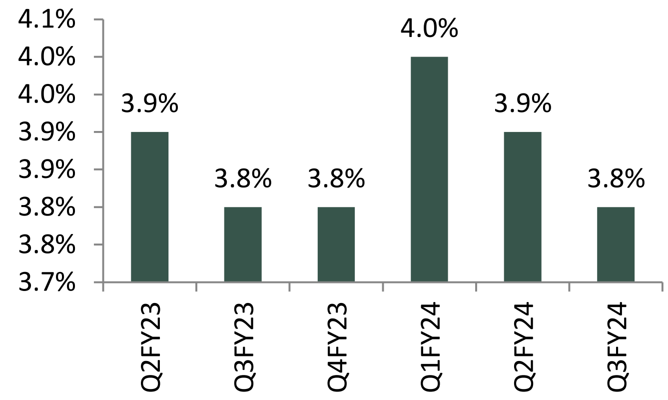
Exhibit 22: Yields on AUM improved sequentially



Source: Company; IDBI Capital Research

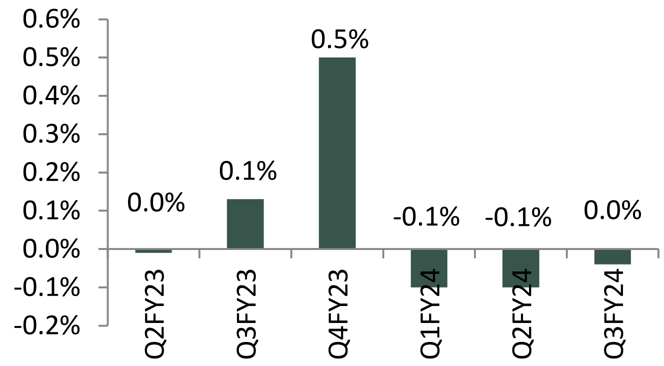
Asset Ratios - Home Equity PF

Exhibit 23: ROTA–PBT declined sequentially



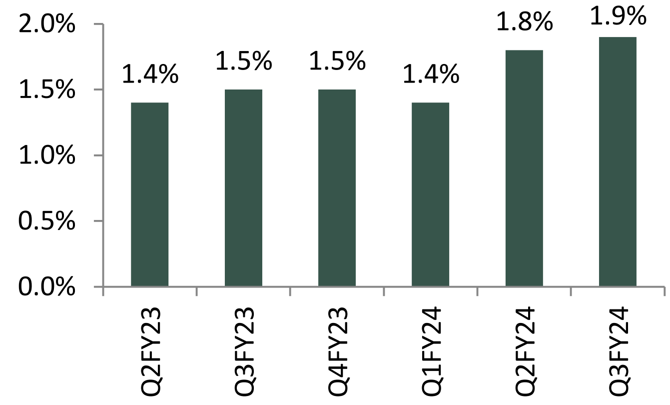
Source: Company; IDBI Capital Research

Exhibit 24: Losses and provisions improved sequentially



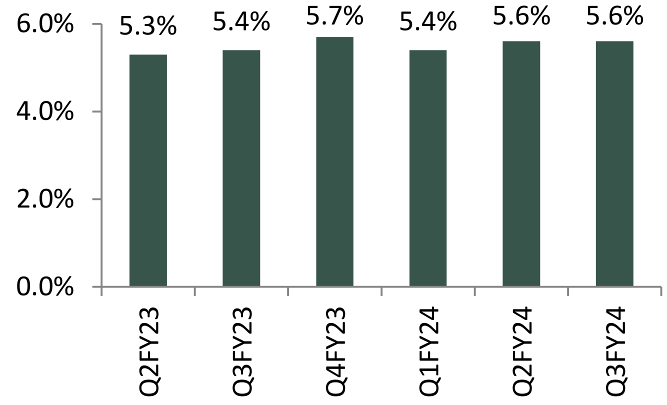
Source: Company; IDBI Capital Research

Exhibit 25: Expenses Ratio witnessed uptick QoQ



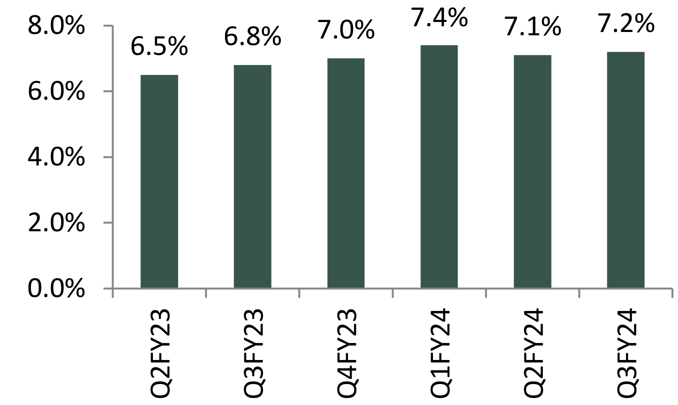
Source: Company; IDBI Capital Research

Exhibit 26: Net Income Margin remained stable



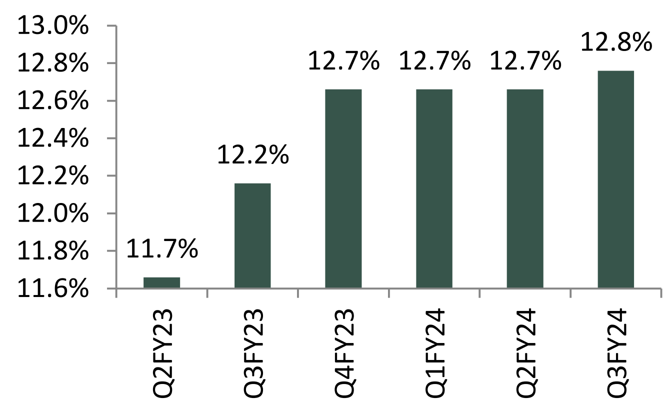
Source: Company; IDBI Capital Research

Exhibit 27: Cost of Funds inched up sequentially



Source: Company; IDBI Capital Research

Exhibit 28: Yields inched up sequentially



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	**46,483**	**52,680**	**63,334**	**94,962**	**1,18,581**	**1,42,801**
Change (yoy, %)	*32%*	*13%*	*20%*	*50%*	*25%*	*20%*
Other Income	3,514	5,720	8,958	3,593	4,451	5,316
Net Revenue	49,996	58,400	72,292	98,555	1,23,032	1,48,117
Operating expenses	15,834	20,687	27,799	39,809	47,305	55,795
Employee expenses	7,485	8,945	12,657	23,067	28,180	33,936
Other expenses	8,349	11,742	15,142	16,742	19,125	21,859
Pre-Provision Profit	**34,162**	**37,712**	**44,494**	**58,746**	**75,727**	**92,322**
Change (yoy, %)	*38%*	*10%*	*18%*	*32%*	*29%*	*22%*
Provision	13,778	8,803	8,497	15,303	20,467	24,559
PBT	20,384	28,909	35,997	43,443	55,260	67,763
Taxes	5,235	7,442	9,335	10,821	13,909	17,056
Effective tax rate (%)	*26%*	*26%*	*26%*	*25%*	*25%*	*25%*
Net profit	**15,149**	**21,467**	**26,662**	**32,622**	**41,351**	**50,707**
Change (yoy, %)	*44%*	*42%*	*24%*	*22%*	*27%*	*23%*
EPS	18.5	26.1	32.4	38.8	49.2	59.2
Return on Equity (%)	*17.1*	*20.2*	*20.5*	*19.3*	*19.3*	*18.8*
Return on Assets (%)	*2.2*	*2.7*	*2.7*	*2.5*	*2.5*	*2.6*

Balance Sheet (Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	1,641	1,643	1,644	1,680	1,680	1,714
Reserves & Surplus	93,962	1,15,434	1,41,315	1,92,643	2,32,734	3,02,121
Shareholder's Funds	**95,603**	**1,17,077**	**1,42,959**	**1,94,323**	**2,34,414**	**3,03,835**
Borrowings	5,95,400	6,53,256	9,28,686	12,22,454	14,58,492	17,28,976
Sub-ordinated debt	54,482	53,301	63,511	67,263	81,306	73,462
Total liabilities	**7,45,486**	**8,23,633**	**11,35,155**	**14,84,040**	**17,74,212**	**21,06,274**
Cash	52,321	42,200	29,614	4,001	6,001	8,001
Investments	16,188	20,762	36,200	40,182	44,200	48,620
Advances	6,58,393	7,41,492	10,47,483	13,73,892	16,48,355	19,62,872
Fixed Assets	2,294	2,916	4,591	5,531	6,157	6,857
Other Assets	16,290	16,264	17,267	60,434	69,499	79,924
Total assets	**7,45,486**	**8,23,633**	**11,35,155**	**14,84,040**	**17,74,212**	**21,06,274**

Financial Ratios (%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Advances	18.8	12.6	41.3	31.2	20.0	19.1
NII	31.6	13.3	20.2	49.9	24.9	20.4
Pre-Provision Profit	37.6	10.4	18.0	32.0	28.9	21.9
Net Profit	43.9	41.7	24.2	22.4	26.8	22.6
Spreads						
Yield on Loans	14.6	13.3	13.2	15.4	15.4	15.4
Cost of Borrowings	7.7	6.5	6.9	8.2	8.2	8.2
NIM (on AAUM)	7.1	7.2	6.9	7.7	7.6	7.7
Spread	6.9	6.9	6.3	7.2	7.2	7.2
Operating Efficiency						
Cost-to-Income	31.7	35.4	38.5	40.4	38.4	37.7
Cost-to-AUM	2.4	2.8	3.0	3.2	3.0	3.0
Asset Quality						
GNPA	4.0	4.4	3.0	2.8	2.8	3.0
NNPA	2.3	2.7	1.7	1.6	1.4	1.6
Provision Coverage	44.3	39.7	46.0	45.0	50.0	50.0
Credit Cost	2.0	1.1	0.8	1.1	1.2	1.2
Capital Adequacy						
CAR	19.1	18.1	14.8	20.6	20.0	20.0
Tier I	15.1	15.1	12.8	16.6	16.0	16.0
Valuation						
EPS	18.5	26.1	32.4	38.8	49.2	59.2
BV	106.8	126.0	157.7	210.8	257.2	326.7
P/E	67.2	47.5	38.2	32.0	25.2	21.0
P/BV	11.6	9.8	7.9	5.9	4.8	3.8
ROE	17.1	20.2	20.5	19.3	19.3	18.8
ROA	2.2	2.7	2.7	2.5	2.5	2.6
ROAAUM	2.3	2.9	2.9	2.6	2.7	2.7

Source: Company; IDBI Capital Research

Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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