

## Cholamandalam Investment

BUY

AUM growth guidance at 25% - 30% for long term

## Summary

CIFC sustained robust AUM growth (@35% YoY) backed by 22% YoY (Q1FY25) growth in disbursements. Management guided for 25-30% AUM growth led by 20-25% disbursement growth for longer term. CIFC NIM improved by 30bps YoY backed by improvement in yields. We expect benefit of lower interest rate environment on account of fixed rate VF book. Asset quality deteriorated due to seasonality with GS3 at 2.62% vs 2.48%. NII grew by 48% YoY; however PPop grew by 7% QoQ led by higher operating expenses (up 21% QoQ). PAT grew by 38% YoY led by lower other income (down 57% YoY). We have revised estimates upwards by 6% EPS FY26E backed by strong AUM growth. We maintain "BUY" with a new TP of Rs.1,632 (earlier Rs.1,480) based on P/BV of 4.5x (earlier 4.2x) FY26E as growth prospects remain strong.

## Key Highlights and Investment Rationale

- **Robust AUM growth; disbursements up 22% YoY:** For Q1FY25, AUM growth remain strong at 35% YoY. Disbursements grew by 22% YoY led by non vehicle portfolio. We revised AUM to grow at 26% CAGR (FY24-26E) compared to 23% earlier backed by new business segment.
- **Seasonal NIMs declined QoQ:** NIMs declined by 20bps QoQ to 7.6% (up 30bps YoY) due to decline in yields. Management shared the cost of funds have peaked out and expect improvement going forward.
- **Asset quality deteriorated:** GS3 stood at 2.62% vs 2.48% QoQ. In newer segment (others), NPA was key concern area; has slightly inched up; CSEL – 1.25% vs 1.17% QoQ & SBPL – 0.6% vs 0.42% 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.1,632**CMP **Rs.1,411**

Potential upside/downside 16%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.8)	20.4	24.2
Rel to Sensex	(3.7)	10.1	1.2

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	50.2	64.1
Consensus	52.9	67.0
% difference	(5.1)	(4.3)

## Key Stock Data

Bloomberg / Reuters	CIFC IN /CHLA.BO
Sector	Finance
Shares o/s (mn)	840
Market cap. (Rs mn)	1,185,580
3-m daily average value (Rs mn)	35.3
52-week high / low	Rs1,476 / 997
Sensex / Nifty	80,149 / 24,414

## Shareholding Pattern (%)

Promoters	50.3
FII	26.6
DII	15.6
Public	7.5

## Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	52,680	63,334	83,831	1,04,860	1,30,938
Change (yoy, %)	13%	20%	32%	25%	25%
Net Profit	21,467	26,662	34,228	42,211	54,909
Change (yoy, %)	42%	24%	28%	23%	30%
EPS (Rs)	26.1	32.4	40.7	50.2	64.1
Change (yoy, %)	42%	24%	26%	23%	28%
ABV (Rs)	126.0	157.7	212.9	263.1	339.9
PER (x)	54.0	43.5	34.6	28.1	22.0
P/ABV (x)	11.2	8.9	6.6	5.4	4.2
ROE (%)	20.2	20.5	20.2	19.5	20.0
ROA (%)	2.7	2.7	2.5	2.4	2.6
GNPA (%)	4.4	3.0	2.5	2.5	2.5
NNPA (%)	2.7	1.7	1.4	1.4	1.4
CAR (%)	18.1	14.8	18.6	20.0	20.0

Source: IDBI Capital Research;

## Bunty Chawla

Bunty.chawla@idbicapital.com  
+91-22-4069 1843

## Rishit Savla

Rishit.savla@idbicapital.com  
+91-22-4069 1819

## Conference Call Highlights

### Operational Performance

- The company said that growth in asset and disbursement was higher than the expectation in Q1FY25.
- The opex ratio in vehicle segment stood at 3.12% in Q1FY25, compared to 3.18% in Q4FY24 and 3.46% in Q1FY24.
- The company has been continuously expanding in the new businesses by addition of new branches, adding manpower and improving infrastructure.
- The company is currently focusing on the growth, keeping lower non-conforming loans, and increasing the NIMs. The RoA and RoE has been steadily improving for the new businesses.
- The management said that write-offs for the current quarter stood at Rs.3.22bn, higher than Rs.2.04bn in the same period last year.

### Loans and Borrowings

- In the vehicle finance segment, the company has seen an increase in yield by 60 bps due to higher disbursements, whereas NIM in this segment has increased by 30-40 bps. The management said that there is still room for an increase in NIM going ahead.
- The management said that NCL for FY24 stood at 1.2%, and expects to remain in that levels.
- The company has introduced a new project for the home loan to increase penetration in the rural areas.
- The company's borrowing has been primarily led by priority sector on-lending, and is benchmarked to different indices. The company is seeing an increase in MCLR rates by PSU banks, but the company remains confident of managing the cost of borrowing effectively.
- The management noted that the portfolio mix in overall segment as well as in the vehicle finance segment is evolving.
- The income from FLDG book came in at Rs.130mn in Q1FY25.

- The company's customer base in the vehicle finance segment increased to 2.48 lakhs in Q1FY25, from 2.40 lakh last year.

### **Asset Quality**

- In LAP and SME segments, the company resolved old cases which had higher provisions. The management said that the LGD for these segments are relatively low and that the provision coverage ratio is expected to come down as more cases are resolved.
- The overall delinquency of the company was at 5% in Q1FY25 due to seasonality. However, the management highlighted that the delinquency has been at a much lower rate historically.
- The management said that both stage-2 and stage-3 asset for the vehicle finance segment has been at the rock bottom level.
- The company said that the write-offs and settlement in the vehicle finance segment has remained in the same levels at 1%, and there has been an increase in ECL from 0.25% in Q1FY24 to 0.9% in Q1FY25.
- In case of business loans, the bounce rate is below ~10% level for the company. In addition, the company has not seen any major spike in the portfolio behavior so far.
- The company said that about ~83% of the customers of the business loans have a credit score of more than 725, and ~13% have a credit score in the range of 700-725.

### **Future Guidance**

- The company maintains its AUM guidance of 25-30% CAGR growth in the next five years, with ROA of ~4% or even higher.
- The management expects net credit cost in the vehicle segment to come down in FY25, from the current level of ~1.2-1.3%.
- The company said that the profitability in the vehicle finance business will be much better than last year.
- In case of home loan, the company has ramped up volumes substantially in the last 1 year. However, the management said that this year will be a period of consolidation and increasing productivity, and scale-up will be witnessed in the H2FY25.

- The opex for CSEL businesses is expected to come down to ~3% going ahead.
- The company's cost of borrowing will remain stable in the coming quarters.
- The company may look to raise tier-II bonds by way of subordinated debt or perpetual debt.
- The company said that the NCL advances is expected to remain at ~1.3% in vehicle finance segment.
- The management expects the overall credit cost of the company to be ~1.0-1.2% going ahead, compared to ~1% currently.
- The company expects an upside on ROA of 0.5-1.0% in HL, SME and CSEL going ahead, and aim to keep RoA of SBPL business at the current level.
- The company aims for new business--CSEL, SME and SBPL--mix to be at 15% in 2 years vs 13% currently. The share of unsecured loans is seen at ~8% in the overall portfolio. The share of vehicle finance is expected to be 50% from 57% currently, and share of LAP and HL business is expected to be at ~35% from 30% currently.
- For FY25, the company plans to add similar number of branches like previous financial year, with improving productivity. In addition, out of 594 Resident Location, about ~150 is expected to be converted in to brick-and-mortar branches.
- The company expects the retail disbursements in the vehicle finance segment to grow more than ~13% currently, in the current financial year.
- For the vehicle finance segment, the company plans to focus on high yield, low ticket size segments in the H1FY25, and then focus towards high ticket size loans in H2FY25.

## Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Interest Income	57,847	40,303	54,202	43.5	6.7
Interest Expenses	27,957	20,071	25,793	39.3	8.4
<b>Net Interest Income</b>	<b>29,891</b>	<b>20,232</b>	<b>28,409</b>	<b>47.7</b>	<b>5.2</b>
<b>NIM (%)</b>	<b>7.6</b>	<b>7.3</b>	<b>7.8</b>	<b>30 bps</b>	<b>-20 bps</b>
Fee & Other Income	443	1,033	718	-57.2	-38.4
Operating Income	<b>30,333</b>	<b>21,265</b>	<b>29,127</b>	<b>42.6</b>	<b>4.1</b>
Staff Cost	6,835	3,279	7,658	108.5	-10.8
Other Op Exp	5,000	4,588	5,192	9.0	-3.7
Total Operating Expenses	11,834	7,867	12,850	50.4	-7.9
Cost to Income (%)	39.0	37.0	44.1	202 bps	-510 bps
Cost to AUM (%)	3.1	2.8	3.7	30 bps	-53 bps
<b>Operating Profit</b>	<b>18,499</b>	<b>13,399</b>	<b>16,278</b>	<b>38.1</b>	<b>13.6</b>
Provisions	5,814	3,723	1,908	56.2	204.7
Credit Cost (%)	0.4	0.3	0.1	5 bps	24 bps
<b>PBT</b>	<b>12,685</b>	<b>9,675</b>	<b>14,369</b>	<b>31.1</b>	<b>-11.7</b>
Tax	3,263	2,415	3,788	35.1	-13.9
-effective tax rate	25.7	25.0	26.4	76 bps	-64 bps
<b>PAT</b>	<b>9,422</b>	<b>7,260</b>	<b>10,581</b>	<b>29.8</b>	<b>-11.0</b>
EPS (Rs)	11.2	8.8	12.6	27.0	-11.0
BV (Rs)	244.2	182.7	232.7	33.6	4.9
Loans	15,43,150	11,32,320	14,44,243	36.3	6.8
AUM	15,54,420	11,47,960	14,55,720	35.4	6.8
Disbursement	2,43,320	2,00,150	2,47,840	21.6	-1.8

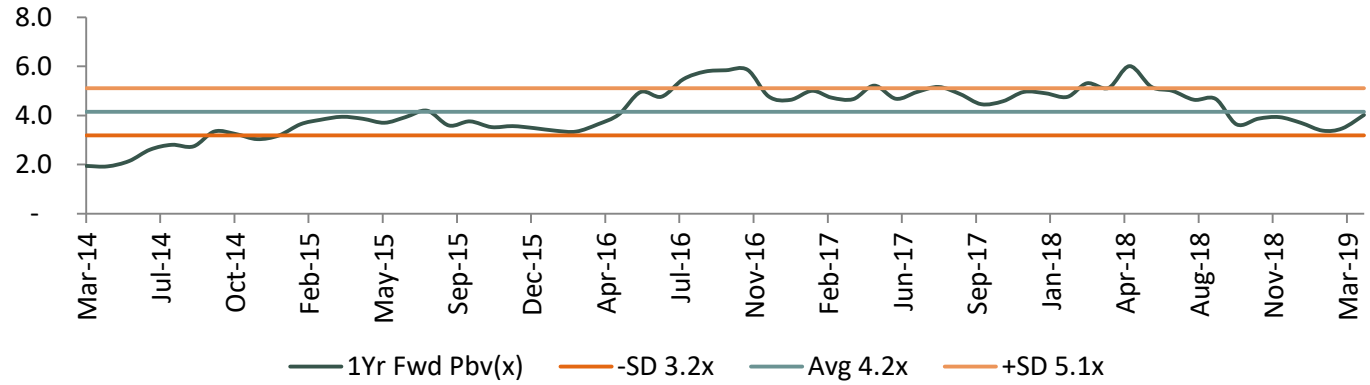
Source: Company; IDBI Capital Research

**Exhibit 2: ROE Decomposition**

(%)	FY22	FY23	FY24	FY25E	FY26E
<b>NII</b>	<b>6.7</b>	<b>6.5</b>	<b>6.2</b>	<b>6.0</b>	<b>6.1</b>
Other Income	0.7	0.9	1.2	1.2	1.3
<b>Net Revenue</b>	<b>7.4</b>	<b>7.4</b>	<b>7.4</b>	<b>7.3</b>	<b>7.4</b>
Op.Exp	2.6	2.8	3.0	2.8	2.7
<b>Op.Profit</b>	<b>4.8</b>	<b>4.5</b>	<b>4.4</b>	<b>4.4</b>	<b>4.6</b>
Provisions	1.1	0.9	1.0	1.2	1.2
PBT	3.7	3.7	3.4	3.2	3.4
Tax	0.9	1.0	0.9	0.8	0.9
<b>PAT</b>	<b>2.7</b>	<b>2.7</b>	<b>2.5</b>	<b>2.4</b>	<b>2.6</b>
Leverage (x)	7.4	7.5	8.0	8.1	7.8
<b>ROE</b>	<b>20.2</b>	<b>20.5</b>	<b>20.2</b>	<b>19.5</b>	<b>20.0</b>

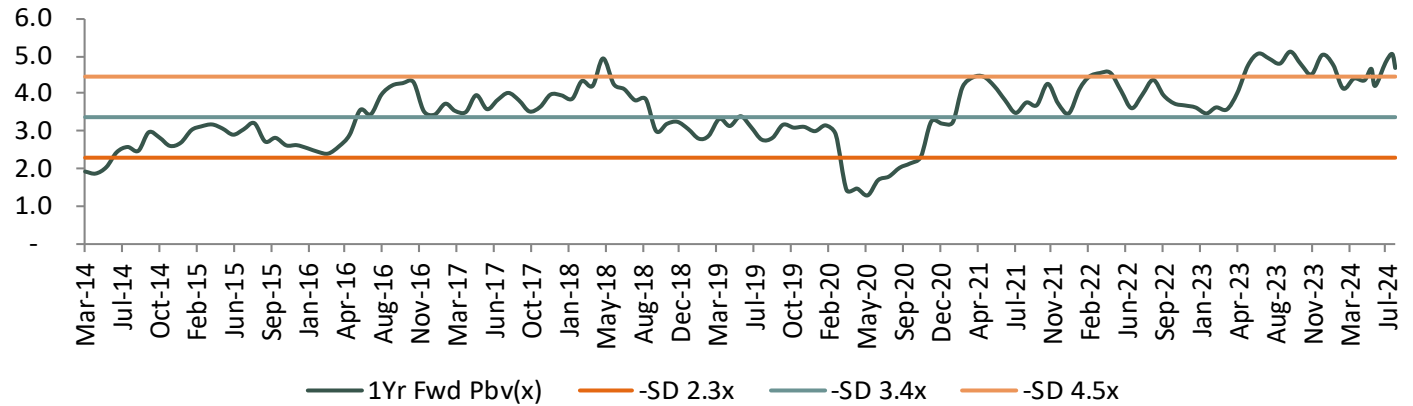
Source: Company; IDBI Capital Research

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



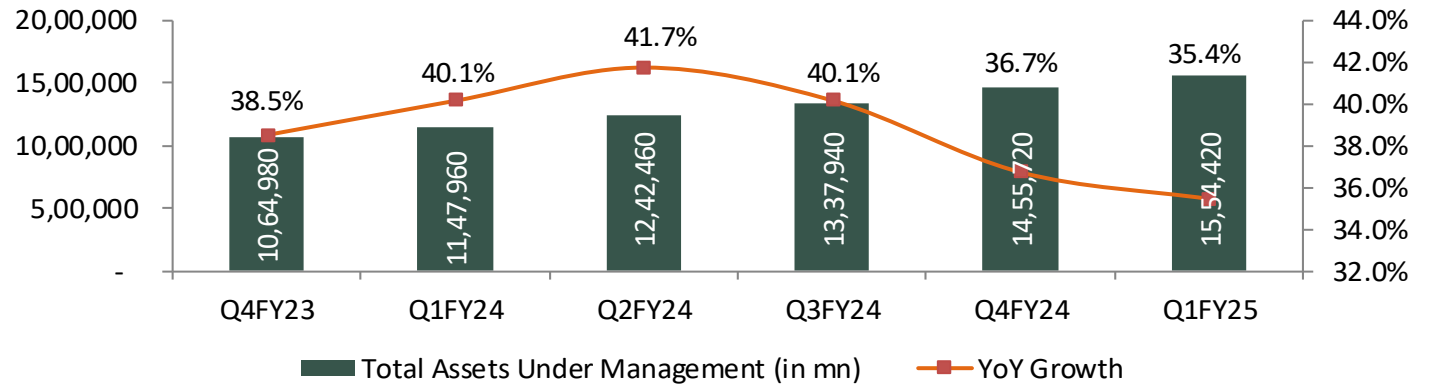
Source: Company; IDBI Capital Research

**Exhibit 4: One-year forward P/ABV (FY14-25)**



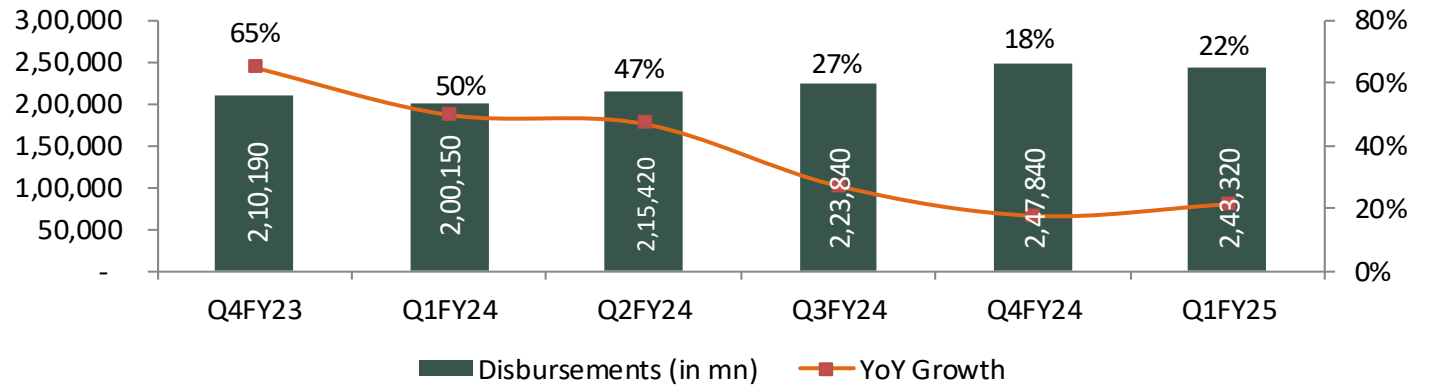
Source: Company; IDBI Capital Research

**Exhibit 5: AUM growth continued strong growth momentum**



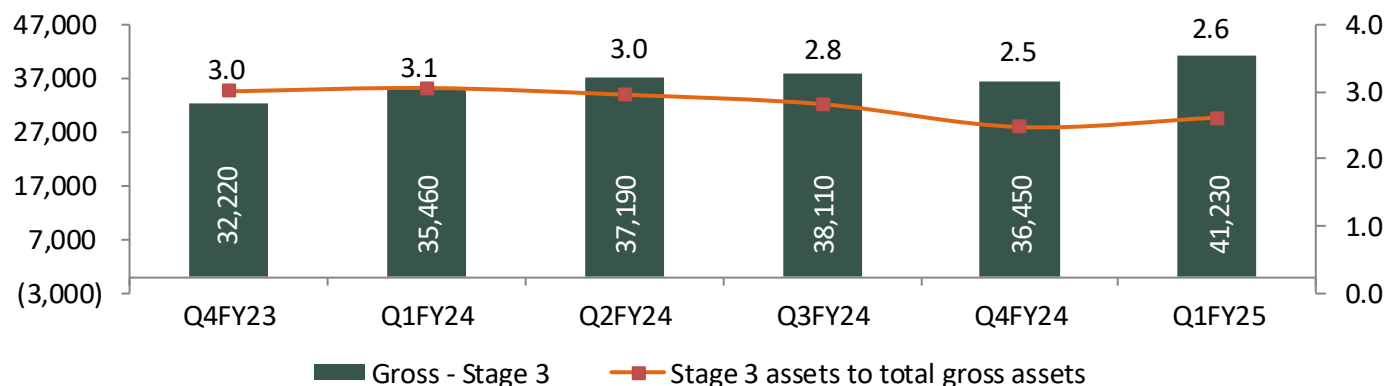
Source: Company; IDBI Capital Research

**Exhibit 6: Disbursements growth (YoY) picked up**



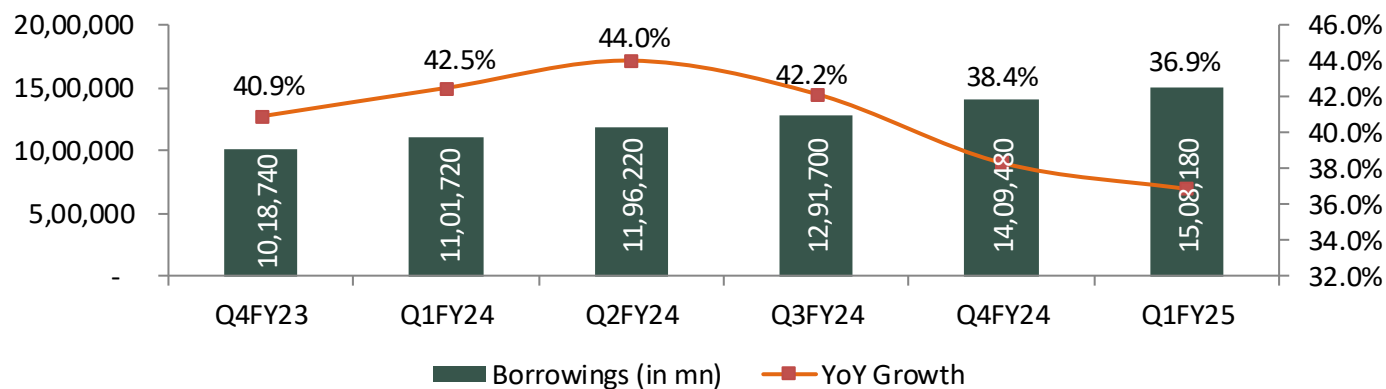
Source: Company; IDBI Capital Research

**Exhibit 7: Asset quality declined on a sequential basis**



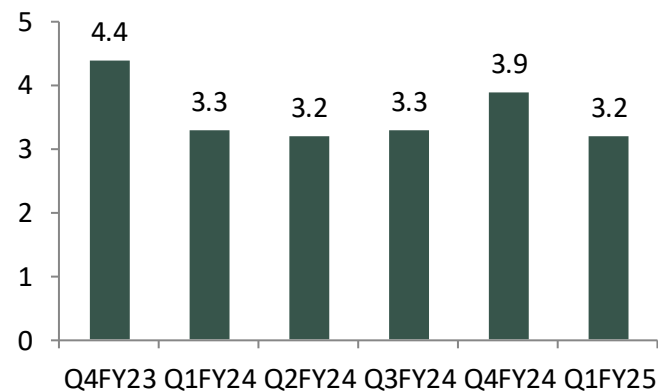
Source: Company; IDBI Capital Research

**Exhibit 8: Borrowings growth improved sequentially**



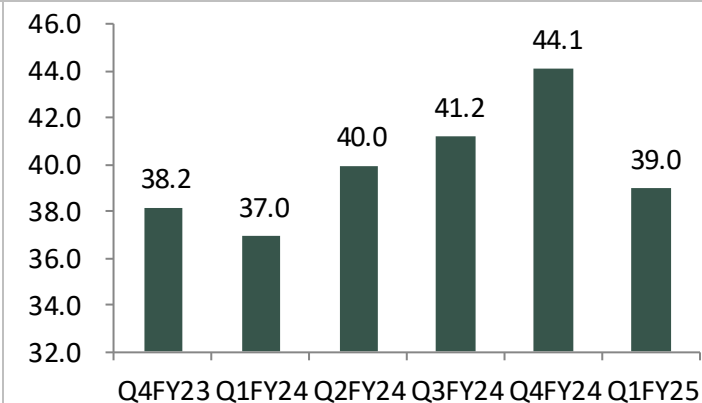
Source: Company; IDBI Capital Research

**Exhibit 9: ROA (PBT) declined sequentially**



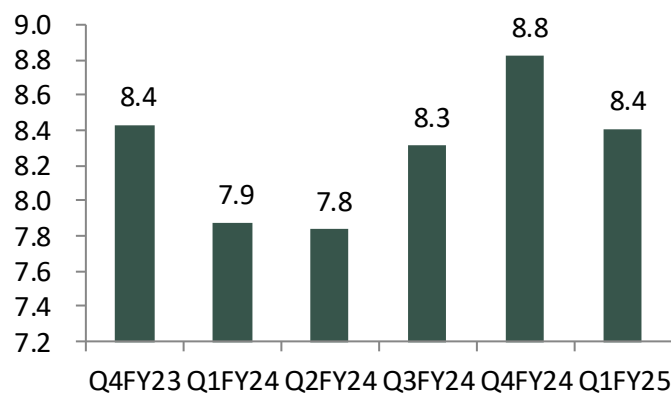
Source: Company; IDBI Capital Research

**Exhibit 10: Cost to Income Ratio improved QoQ**



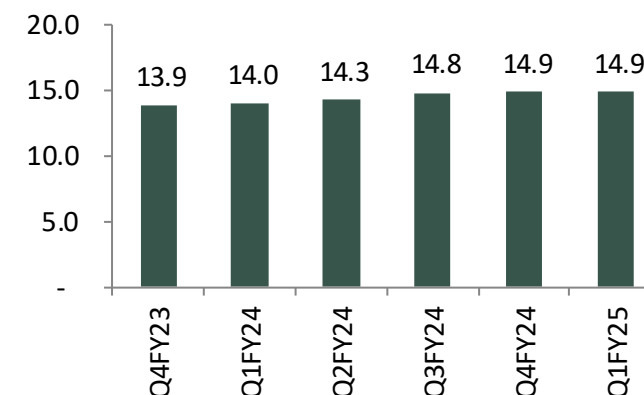
Source: Company; IDBI Capital Research

**Exhibit 11: Cost of Funds declined on QoQ basis**



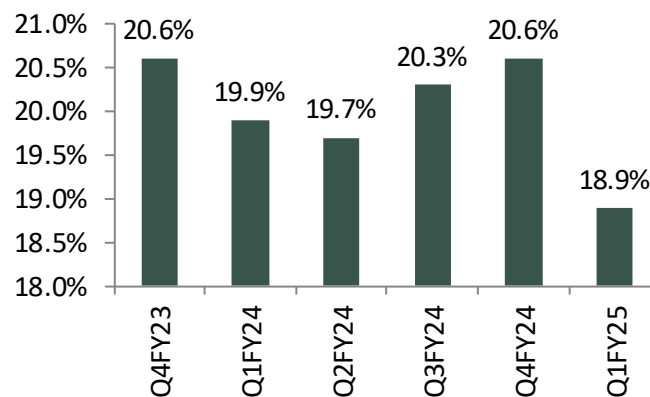
Source: Company; IDBI Capital Research

**Exhibit 12: Yields remained stable sequentially**



Source: Company; IDBI Capital Research

**Exhibit 13: Return on Equity declined QoQ**



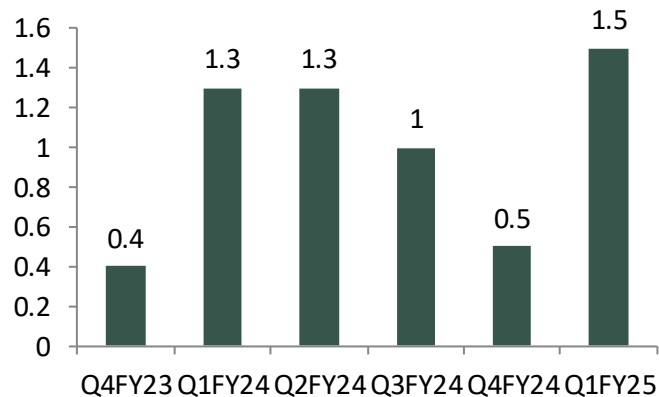
Source: Company; IDBI Capital Research

**Exhibit 14: ROTA-PAT declined sequentially**



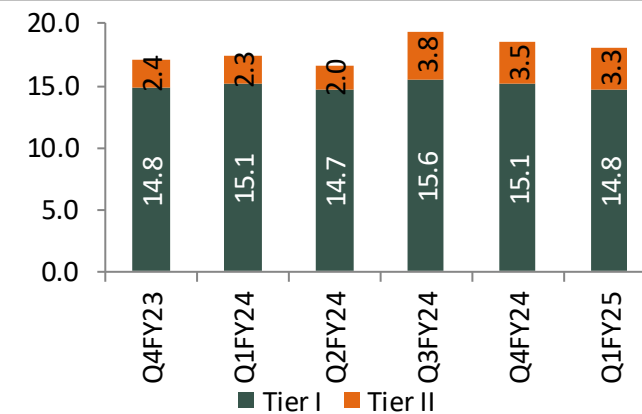
Source: Company; IDBI Capital Research

**Exhibit 15: Losses and provisions - after additional provision**



Source: Company; IDBI Capital Research

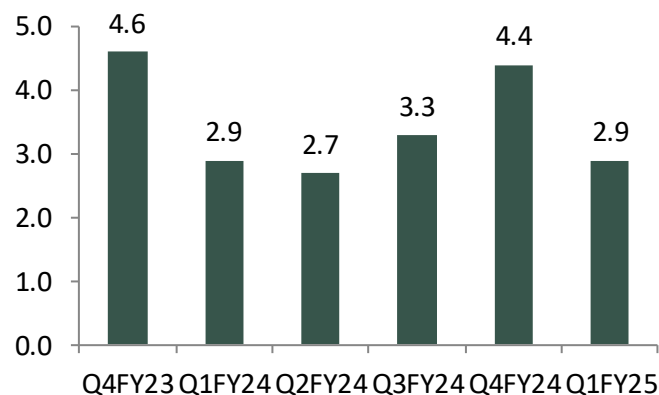
**Exhibit 16: CAR remains comfortable**



Source: Company; IDBI Capital Research

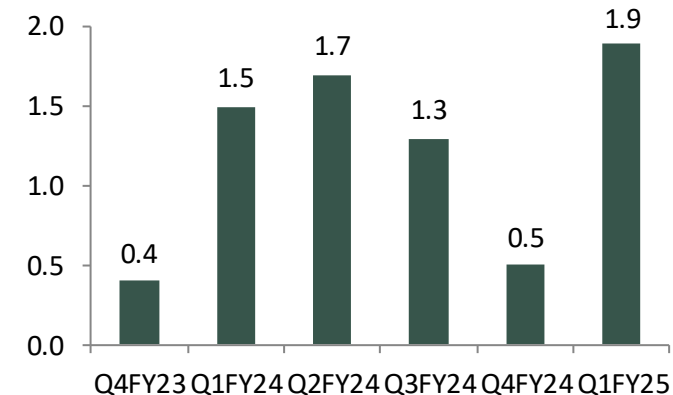
### Asset Ratios - Vehicle Finance PF

**Exhibit 17: ROTA–PBT declined sequentially**



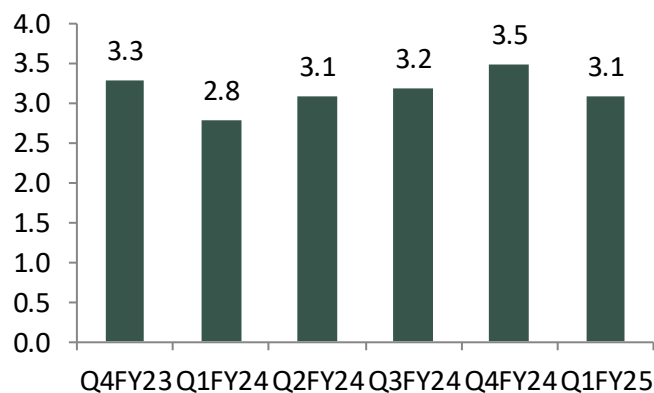
Source: Company; IDBI Capital Research

**Exhibit 18: Losses and provisions inched up QoQ**



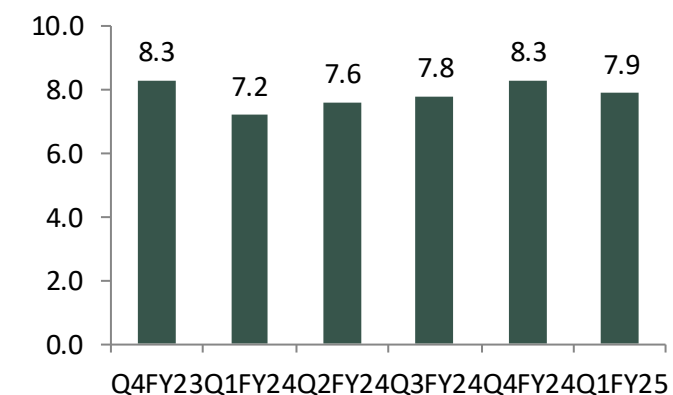
Source: Company; IDBI Capital Research

**Exhibit 19: Expenses Ratio declined sequentially**



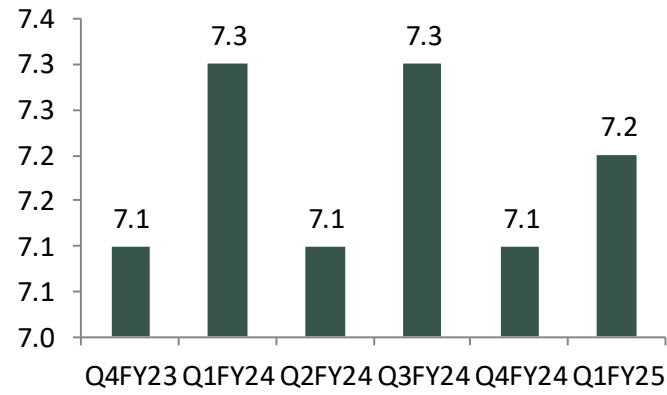
Source: Company; IDBI Capital Research

**Exhibit 20: Net Income Margin declined sequentially**



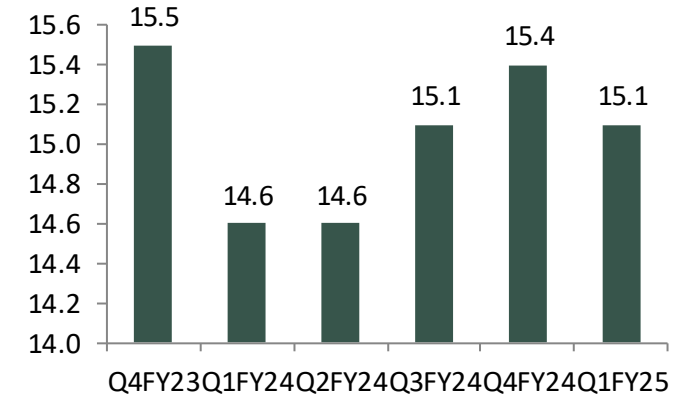
Source: Company; IDBI Capital Research

**Exhibit 21: Cost of Funds increased sequentially**



Source: Company; IDBI Capital Research

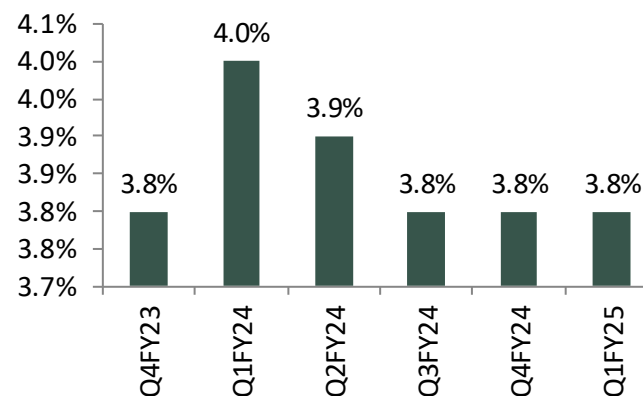
**Exhibit 22: Yields on AUM declined sequentially**



Source: Company; IDBI Capital Research

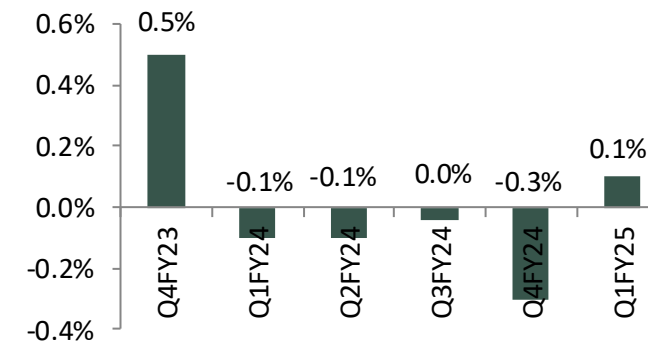
### Asset Ratios - Home Equity PF

**Exhibit 23: ROTA–PBT remained stable sequentially**



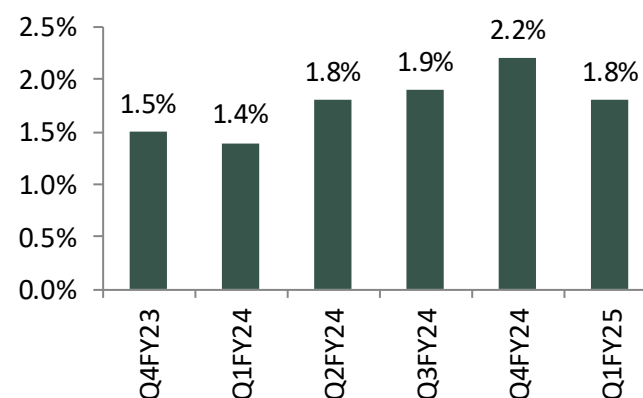
Source: Company; IDBI Capital Research

**Exhibit 24: Losses and provisions increased sequentially**



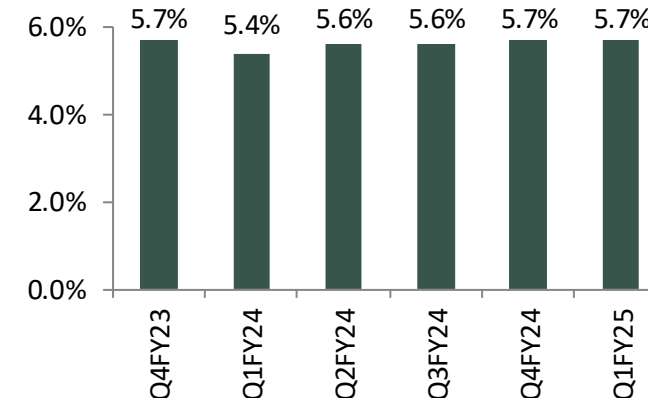
Source: Company; IDBI Capital Research

**Exhibit 25: Expenses Ratio improved QoQ**



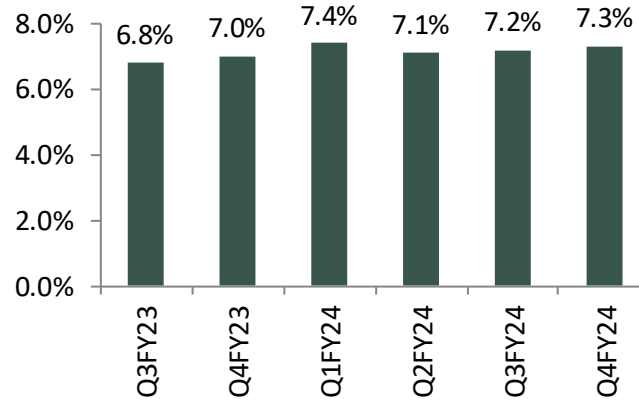
Source: Company; IDBI Capital Research

**Exhibit 26: Net Income Margin remained stable sequentially**



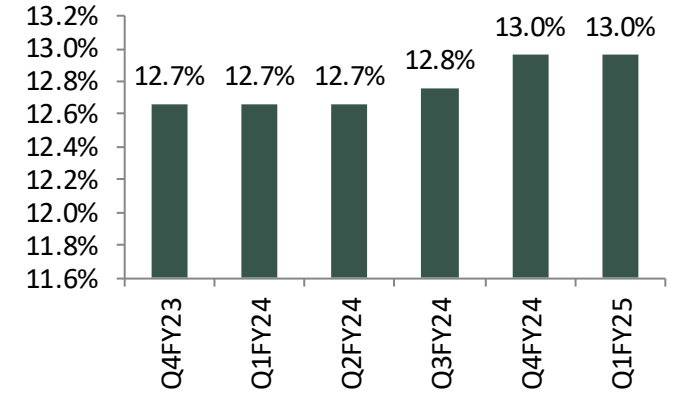
Source: Company; IDBI Capital Research

**Exhibit 27: Cost of Funds inched up sequentially**



Source: Company; IDBI Capital Research

**Exhibit 28: Yields remained stable sequentially**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net interest income</b>	<b>46,483</b>	<b>52,680</b>	<b>63,334</b>	<b>83,831</b>	<b>1,04,860</b>	<b>1,30,938</b>
<i>Change (yoy, %)</i>	32%	13%	20%	32%	25%	25%
Other Income	3,514	5,720	8,958	16,026	21,747	26,997
Net Revenue	49,996	58,400	72,292	99,857	1,26,607	1,57,936
Operating expenses	15,834	20,687	27,799	40,818	49,065	58,703
Employee expenses	7,485	8,945	12,657	23,306	29,049	34,887
Other expenses	8,349	11,742	15,142	17,512	20,015	23,816
<b>Pre-Provision Profit</b>	<b>34,162</b>	<b>37,712</b>	<b>44,494</b>	<b>59,039</b>	<b>77,542</b>	<b>99,232</b>
<i>Change (yoy, %)</i>	38%	10%	18%	33%	31%	28%
Provision	13,778	8,803	8,497	13,218	21,133	25,853
PBT	20,384	28,909	35,997	45,821	56,409	73,379
Taxes	5,235	7,442	9,335	11,593	14,198	18,469
<i>Effective tax rate (%)</i>	26%	26%	26%	25%	25%	25%
<b>Net profit</b>	<b>15,149</b>	<b>21,467</b>	<b>26,662</b>	<b>34,228</b>	<b>42,211</b>	<b>54,909</b>
<i>Change (yoy, %)</i>	44%	42%	24%	28%	23%	30%
EPS	18.5	26.1	32.4	40.7	50.2	64.1
<i>Return on Equity (%)</i>	17.1	20.2	20.5	20.2	19.5	20.0
<i>Return on Assets (%)</i>	2.2	2.7	2.7	2.5	2.4	2.6

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Capital	1,641	1,643	1,644	1,681	1,681	1,715
Reserves & Surplus	93,962	1,15,434	1,41,315	1,93,884	2,35,575	3,09,165
<b>Shareholder's Funds</b>	<b>95,603</b>	<b>1,17,077</b>	<b>1,42,959</b>	<b>1,95,564</b>	<b>2,37,255</b>	<b>3,10,879</b>
Borrowings	5,95,400	6,53,256	9,28,686	12,93,239	15,93,483	19,65,378
Sub-ordinated debt	54,482	53,301	63,511	75,704	93,370	92,373
<b>Total liabilities</b>	<b>7,45,486</b>	<b>8,23,633</b>	<b>11,35,155</b>	<b>15,64,507</b>	<b>19,24,109</b>	<b>23,68,630</b>
Cash	52,321	42,200	29,614	43,202	44,916	46,916
Investments	16,188	20,762	36,200	41,002	45,103	49,613
Advances	6,58,393	7,41,492	10,47,483	14,44,243	17,93,364	22,25,800
Fixed Assets	2,294	2,916	4,591	15,695	17,306	19,368
Other Assets	16,290	16,264	17,267	20,365	23,420	26,933
<b>Total assets</b>	<b>7,45,486</b>	<b>8,23,633</b>	<b>11,35,155</b>	<b>15,64,507</b>	<b>19,24,109</b>	<b>23,68,630</b>

## Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Growth</b>						
Advances	18.8	12.6	41.3	37.9	24.2	24.1
NII	31.6	13.3	20.2	32.4	25.1	24.9
Pre-Provision Profit	37.6	10.4	18.0	32.7	31.3	28.0
Net Profit	43.9	41.7	24.2	28.4	23.3	30.1
<b>Spreads</b>						
Yield on Loans	14.6	13.3	13.2	13.8	13.8	13.8
Cost of Borrowings	7.7	6.5	6.9	8.0	8.0	8.0
NIM (on AAUM)	7.1	7.2	6.9	6.7	6.3	6.3
Spread	6.9	6.9	6.3	5.8	5.8	5.8
<b>Operating Efficiency</b>						
Cost-to-Income	31.7	35.4	38.5	40.9	38.8	37.2
Cost-to-AUM	2.4	2.8	3.0	3.2	3.0	2.8
<b>Asset Quality</b>						
GNPA	4.0	4.4	3.0	2.5	2.5	2.5
NNPA	2.3	2.7	1.7	1.4	1.4	1.4
Provision Coverage	44.3	39.7	46.0	46.4	45.0	46.0
Credit Cost	2.0	1.1	0.8	0.9	1.1	1.1
<b>Capital Adequacy</b>						
CAR	19.1	18.1	14.8	18.6	20.0	20.0
Tier I	15.1	15.1	12.8	15.1	16.0	16.0
<b>Valuation</b>						
EPS	18.5	26.1	32.4	40.7	50.2	64.1
BV	106.8	126.0	157.7	212.9	263.1	339.9
P/E	76.4	54.0	43.5	34.6	28.1	22.0
P/BV	13.2	11.2	8.9	6.6	5.4	4.2
ROE	17.1	20.2	20.5	20.2	19.5	20.0
ROA	2.2	2.7	2.7	2.5	2.4	2.6
ROAAUM	2.3	2.9	2.9	2.7	2.6	2.7

Source: Company; IDBI Capital Research



# Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

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6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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