

Jan 29, 2024

RESULT REPORT Q3 FY24 | Sector: Financials

Cholamandam Invest. & Finance

Resilient Show

Almost stable spreads and strong asset quality; disbursement growth decelerates as expected

Chola's core NII (ex. of Fees) and PPOP came in-line with our expectation while PAT was 3% lower on slightly higher credit cost. AUM growth remained strong at 7.7% qoq/40% yoy even as disbursement growth decelerated to 4% qoq/27.5% yoy. HL originations were flat qoq whereas disbursements in New Businesses (CSEL, SBPL & SME loans) have been nearly stagnant over the past three quarters.

Reported Net Income Margin was flat qoq at 7.4% at co. level, and it improved by 20 bps in VF and 100 bps in HL business segments on the back of Income Yield improvement of 50 bps and 110 bps respectively. Overall CoF increased by only 10 bps qoq. There was a significant jump in fee income with addition of insurance distribution commission after receipt of license in October. Opex/Asset ratio increased 10 bps sequentially across VF, LAP and HL businesses, reflecting strong business/disbursements activity and significant distribution/manpower addition in recent quarters.

In absolute terms, Stage-2 loans rose by 2.5% qoq and Stage-3 loans increased by 2.5% qoq/13% qoq net/gross of write-offs. Notably, the net fwd. flow rate across buckets has been consistent over the past three quarters including the write-offs. Stage 2 & 3 combined has been 6.8%/6.4%/6.2% of loan assets as of June/Sept/Dec after including the write-offs. Though higher write-offs in Q3 FY24 (Rs4bn v/s Rs2.5bn in preceding 2Qs) underpinned higher-than-expected credit cost of 1%, the company is on path to deliver the 1% guided credit cost for the whole year.

Management commentary on growth remains strong

Chola doesn't expect a significant slowdown in its growth over the coming quarters. Originations in New Businesses, particularly CSEL, has been restrained in recent quarters with corrections implemented in Fintech partnership channel (NPLs have substantially come down after the write-off in Q3 FY24). Management is confident of growing the vehicle finance portfolio at 20%+ yoy aided by strong focus on used CV/PV/Tractor financing and robust momentum in Car/UV, 2w and CE loans. LAP and Home Loans are expected to lead company's growth in coming years aided by distribution expansion, sturdy profitability and encouraging asset quality trends. Availability and cost of funds is unlikely to be an issue for funding growth, and the co. has been diversifying its funding base (recently raised funds from IFC and through Retail NCD issue).

Expect 30% AUM/Earnings CAGR over FY23-26 with avg. RoE of 20%; Maintain ADD

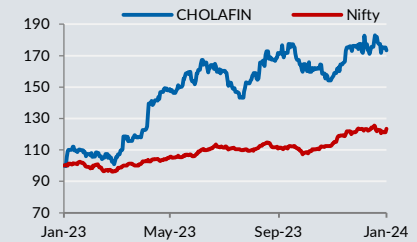
We retain constructive stance on Chola expecting solid growth execution to continue, recovery in margins from hereon, and delinquencies in New Products being managed within tolerance/risk pricing levels. We expect co. to deliver 30% AUM and earnings CAGR over FY23-26 with avg. RoE of 20% even after the capital raise. With no material risk to higher growth and RoE delivery at this point, we maintain ADD rating with increased 12m PT of Rs1380 (multiple rolled over to FY26). Stock trades at 3.6x/18x PABV/PE on FY26 estimates.

Reco	: ADD
CMP	: Rs 1,231
Target Price	: Rs 1,380
Potential Return	: 12.1%

Stock data (as on Jan 29, 2024)

Nifty	21,738
52 Week h/l (Rs)	1310 / 696
Market cap (Rs/USD mn)	1045190 / 12574
Outstanding Shares (mn)	840
6m Avg t/o (Rs mn):	2,026
Div. yield (%):	0.2
Bloomberg code:	CIFC IN
NSE code:	CHOLAFIN

Stock performance



	1M	3M	1Y
Absolute return	-2.3%	5.4%	73.4%

Shareholding pattern

Promoter	51.4%
FII+DII	41.6%
Others	7.0%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,380	1,270

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	40.2	54.0	69.1
EPS (Old)	38.0	53.1	67.5
% Change	5.9%	1.6%	2.3%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Op. income	99,069	1,34,639	1,72,269
PPOP	59,595	83,323	1,08,637
Net profit	33,783	46,198	59,148
Growth (%)	26.7	36.8	28.0
EPS (Rs)	40.2	54.0	69.1
ABVPS (Rs)	207.1	273.9	336.4
P/E (x)	30.6	22.8	17.8
P/ABV (x)	5.9	4.5	3.7
ROE (%)	20.1	20.6	20.8
ROA (%)	2.5	2.6	2.6

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MANUJ OBEROI, Associate

Exhibit 1: Result table

Particulars (Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Operating Income	49,597	44,350	11.8	33,231	49.2
Interest expended	(24,390)	(22,052)	10.6	(15,433)	58.0
Net Interest Income	25,207	22,298	13.0	17,798	41.6
Other Income	590	1,369	(56.9)	519	13.6
Total Income	25,797	23,667	9.0	18,317	40.8
Operating expenses	(10,640)	(9,461)	12.5	(7,520)	41.5
PPOP	15,157	14,206	6.7	10,797	40.4
Provisions	(3,588)	(3,998)	(10.3)	(1,589)	125.8
PBT	11,569	10,208	13.3	9,208	25.6
Tax	(2,807)	(2,583)	8.7	(2,365)	18.7
Reported PAT	8,762	7,625	14.9	6,843	28.0

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
AUM	13,37,940	12,42,460	7.7	9,54,680	40.1
Vehicle Finance	7,96,400	7,53,960	5.6	6,12,850	30.0
Home Equity	2,68,910	2,47,210	8.8	1,99,970	34.5
Disbursements	2,23,830	2,15,420	3.9	1,75,590	27.5
Vehicle Finance	1,23,540	1,17,310	5.3	1,04,460	18.3
Home Equity	49,960	47,670	4.8	33,270	50.2

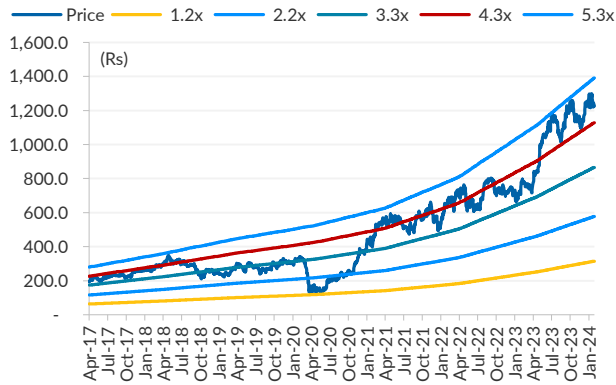
Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
NIM (%)	7.4	7.4	-	7.6	(0.2)
RoTA - PBT (%)	3.3	3.2	0.1	3.8	(0.5)
Gross Stage 3 (%)	2.8	3.0	(0.1)	3.5	(0.7)
Coverage Ratio - S3 (%)	45.1	47.3	(2.2)	41.0	4.1
CAR (%)	19.4	16.6	2.8	17.8	1.6
Vehicle Finance					
NIM (%)	7.8	7.6	0.2	8.1	(0.3)
Expense Ratio (%)	3.2	3.1	0.1	3.4	(0.2)
Credit Cost (%)	1.3	1.7	(0.4)	0.8	0.5
RoTA - PBT (%)	3.3	2.7	0.6	3.9	(0.6)
Home Equity					
NIM (%) Reported	5.6	5.6	-	5.4	0.2
Expense Ratio (%)	1.9	1.8	0.1	1.5	0.4
RoTA - PBT (%)	3.8	3.9	(0.1)	3.8	-

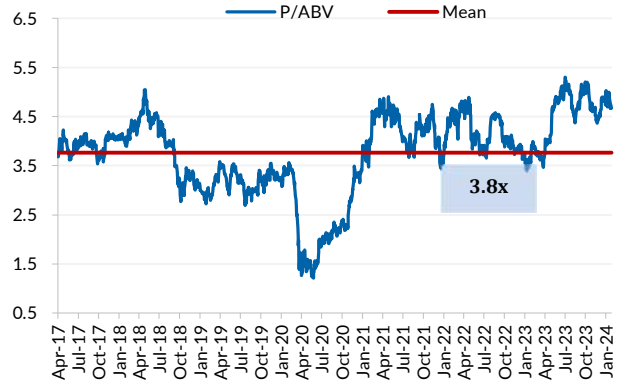
Source: Company, YES Sec

Exhibit 4: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 5: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 6: Balance Sheet

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity and Liabilities					
Equity Capital	1,643	1,645	1,679	1,713	1,713
Reserves	1,15,434	1,41,316	1,91,627	2,54,285	3,09,927
Shareholder's funds	1,17,077	1,42,961	1,93,306	2,55,998	3,11,640
Financial Liabilities	7,04,793	9,90,325	13,42,484	17,21,732	21,74,923
Derivative financial instruments	1,696	1,343	1,746	2,269	2,950
Trade payables	8,028	11,880	11,880	11,880	11,880
Debt Securities	1,33,211	1,96,824	2,67,681	3,43,970	4,35,122
Borrowings (excl. Debt Sec.)	5,20,045	7,31,862	9,95,332	12,79,002	16,17,937
Subordinated Liabilities	38,479	44,875	61,029	78,423	99,205
Other Financial Liabilities	3,334	3,541	4,816	6,188	7,828
Non-Financial Liabilities	1,764	1,870	2,011	2,166	2,336
Provisions	1,183	1,409	1,550	1,705	1,875
Other non-financial liabilities	581	461	461	461	461
Total Equities and Liabilities	8,23,634	11,35,155	15,37,801	19,79,896	24,88,898
Assets					
Financial Assets	8,10,809	11,20,675	15,23,134	19,65,034	24,73,831
Cash and Cash Equivalents	26,579	9,103	18,830	29,104	37,050
Bank balances	15,622	20,511	25,639	32,049	40,061
Derivative financial instruments	1,865	2,729	2,729	2,729	2,729
Receivables	1,280	1,911	1,911	1,911	1,911
Loans	7,41,492	10,47,483	14,25,627	18,39,059	23,17,214
Investments	20,762	36,200	45,250	56,563	70,704
Other Financial Assets	3,209	2,738	3,148	3,621	4,164
Non- Financial Assets	12,825	14,481	14,667	14,862	15,067
Current tax assets (Net)	2,507	2,671	2,671	2,671	2,671
Deferred tax assets (Net)	6,714	6,085	6,085	6,085	6,085
Investment Property	1	1	1	1	1
Property, Plant and Equipment	2,399	3,722	3,908	4,103	4,308
Intangible assets	515	948	948	948	948
Other Non-Financial Assets	688	1,054	1,054	1,054	1,054
Total Assets	8,23,634	11,35,155	15,37,801	19,79,896	24,88,898

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Income from Operations	1,00,483	1,27,570	1,88,131	2,53,764	3,21,899
Interest expense	(42,988)	(57,488)	(92,641)	(1,21,988)	(1,52,493)
Net interest income	57,495	70,083	95,490	1,31,775	1,69,406
Non-interest income	905	2,209	3,579	2,863	2,863
Total op income	58,400	72,292	99,069	1,34,639	1,72,269
Total op expenses	(20,687)	(27,799)	(39,474)	(51,316)	(63,632)
PPoP	37,712	44,494	59,595	83,323	1,08,637
Provisions	(8,803)	(8,497)	(14,138)	(21,144)	(29,030)
Profit before tax	28,909	35,997	45,458	62,178	79,607
Taxes	(7,442)	(9,335)	(11,675)	(15,980)	(20,459)
Net profit	21,467	26,662	33,783	46,198	59,148

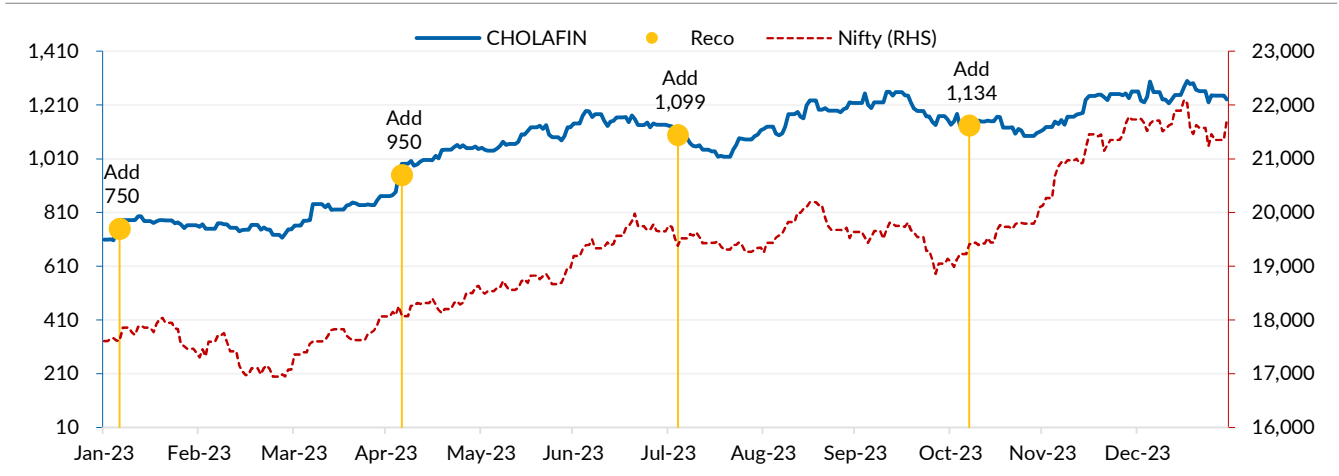
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	16.4	21.9	36.3	38.0	28.6
Total op income	16.8	23.8	37.0	35.9	27.9
Op profit (pre-provision)	10.4	18.0	33.9	39.8	30.4
Net profit	41.7	24.2	26.7	36.8	28.0
Advances	12.6	41.3	36.1	29.0	26.0
Borrowings	9.7	42.2	36.0	28.5	26.5
Total assets	10.5	37.8	35.5	28.7	25.7
Profitability Ratios (%)					
NIM	7.8	7.6	7.6	7.9	8.0
Non-interest income /Total income	1.5	3.1	3.6	2.1	1.7
Return on Avg. Equity	20.2	20.5	20.1	20.6	20.8
Return on Avg. Assets	2.7	2.7	2.5	2.6	2.6
Per share ratios (Rs)					
EPS	26.1	32.4	40.2	54.0	69.1
Adj. BVPS	118.0	152.7	207.1	273.9	336.4
DPS	2.0	0.7	3.5	3.5	3.5
Other key ratios (%)					
Loans/Borrowings	113.5	112.8	112.9	113.3	112.9
Cost/Income	35.4	38.5	39.8	38.1	36.9
CAR	19.6	17.1	16.7	16.8	16.2
Tier-I capital	16.5	14.8	14.3	14.5	13.8
Stage 3	4.4	3.0	2.4	2.1	1.8
Credit Cost	1.2	0.9	1.1	1.3	1.4
Tax rate	25.7	25.9	25.7	25.7	25.7
Dividend yield	0.2	0.1	0.3	0.3	0.3

Source: Company, YES Sec

Recommendation Tracker



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