



Asset Quality Disappoints; NIM Improvement Visible Over FY26!

Est. Vs. Actual for Q1FY26: NII – **MISS**; PPOP – **BEAT**; PAT – **MISS**

Changes in Estimates post Q1FY26

FY26E/FY27E (in %): NII -1.0/-1.2; PPOP +0.6/+1.0; PAT -3.4/+0.6

Recommendation Rationale

- **Early Monsoon Dents Asset Quality; Improvement Expected Over H2:** In Q1, higher credit costs were on account of stress in the vehicle and consumer segments. The unseasonal monsoon impacted the vehicle capacity utilisation levels, affecting borrower cash flows. Moreover, slower industrial production and economic activity added to the stress in the segment. However, the onset of the festive season and completion of the monsoon season are driving better agri output to improve borrower cashflows in Q2 and further improvement in a seasonally strong H2. CIFC has strengthened the team, in line with its continued focus on collections. It has also tightened its credit filters in the vehicle portfolio. Consequently, rejection rates have been higher, despite which CIFC continues to gain market share. Currently, focus remains on arresting the pace of roll-forwards and improving the roll-backs. In the non-vehicle portfolio (HI, LAP, SBPL), the management expects credit costs to gradually normalise. In the CSEL portfolio, credit costs are optically higher owing to the rundown in the fintech book. Moreover, credit costs in the CSEL portfolio are also higher owing to customers with multiple loans (~5% of the Rs 7,000 Cr business loan book). **With near-term uncertainty persisting, credit costs in Q2 are expected to remain elevated at 1.7-1.8%, before tapering meaningfully in H2; as FY26 credit costs settle at 1.4-1.5%.**
- **NIM Improvement to Play Out Over FY26:** In Q1, NIMs contracted QoQ, with no meaningful benefit of the rate cut flowing in the CoF. With ~50% of the bank borrowings being EBLR-linked, the benefit of the rate cut will reflect in Q2. The benefit of the MCLR-linked loans will be visible from Q3 onwards. Thus, the management expects CoF to improve by 20bps in FY26. While the company has not passed on the benefit of the rate cut to its customers yet, it expects a pass-on of 5-8bps during the year. Thus, **NIMs are expected to improve by 12-15bps in FY26. We expect NIMs to range between 7.8-7.9% over FY26-28E.**
- **Opex to Climb Up:** CIFC's Q1 C-I Ratio was flat QoQ owing to controlled costs. However, with the impact of the annual salary hike reflecting in Q2, opex growth is expected to inch up. Furthermore, the company plans to add gold loan branches primarily in Tier I markets, before expanding into Tier 2 and beyond markets. The management has highlighted that CIFC does not intend to pursue aggressive branch additions across most businesses. Thus, **controlled opex growth and productivity improvement should help drive Opex ratio improvement, thereby keeping C-A ratio at 2.9-3% over the medium term.**

Sector Outlook: Positive

Company Outlook: While Q1 was a tough quarter for CIFC, growth is expected to gradually pick up over FY26. Disbursement growth is expected to be soft in FY26; however, the management remains confident of maintaining AUM growth of 20-25%, mainly driven by the LAP and HL segment and a focus on the newly launched gold loan business. VF growth improvement is contingent on improving macros. In the near term, the newer businesses will deliver tepid growth. NIMs are likely to benefit from a largely fixed-rate book and CoF repricing downwards. Controlled opex and productivity gains should help CIFC improve its cost ratios over the medium term. Near-term challenges on credit costs will persist; however, they are likely to settle from H2 onwards. We expect CIFC to deliver RoA/RoE of 2.4-2.5%/20-22% over FY26-28E.

Current Valuation: 4.0x FY27E BV Earlier Valuation: 4.25x FY27E BV

Current TP: Rs 1,675/share. Earlier TP: Rs 1,780/share

Recommendation: We maintain our BUY recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage

Shriram Finance (TP – Rs 750/share)

Financial Performance:

- **Operational Performance:** Disbursements growth was flat YoY and down 8% QoQ, owing to slower growth across most segments. The Vehicle disbursements grew by +7/-5 YoY/QoQ, LAP by +21/-15% YoY/QoQ and Home Loans -1/-11% YoY/QoQ. Newer business disbursements were weak and degrew by 31/8% YoY/QoQ. AUM was marginally lower than our expectations at 24/4% YoY/QoQ, with slower growth in the Vehicle portfolio. VF/LAP/HL/New Business AUM grew by 18/37/33/19% YoY.
- **Financial Performance:** NII grew by 23/4% YoY/QoQ, led by healthy AUM growth, and a ~20bps margin compression. NIMs (reported) stood at 7.8% vs 7.6/8% YoY/QoQ. Non-interest income grew by 50/-3% YoY/QoQ. Opex growth was controlled and grew by 23/2% YoY/QoQ. C-I Ratio stood at 37.6% vs 39.0/38.0% YoY/QoQ. PPOP growth was strong at 30/3% YoY/QoQ. Credit costs (calc.) inched up sequentially and stood at 187bps vs 139bps QoQ. PAT growth was healthy at 21/-10% YoY/QoQ.
- **Asset Quality** deteriorated with GNPA/NNPA at 4.29/2.86% vs 3.97/2.63% QoQ. Asset quality deterioration was visible across all segments. SMA2 pool inched up to 3.1% vs 2.5% QoQ.

Key Financials (Standalone)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income	3,184	+4.2	+234	3,253	-2.1
PPOP	2,412	+3.4	+30.4	2,348	+2.7
Net Profit	1,136	-10.3	+20.6	1,179	-3.7
NNPA (%)	2.9	+23 bps	+49 bps	2.7	+18 bps
RoA(%)	2.2	-36 bps	-8 bps	2.3	-6 bps

Source: Company, Axis Securities Research

(CMP as of 01st August, 2025)

CMP (Rs)	1,422
Upside /Downside (%)	18%
High/Low (Rs)	1,684/1,168
Market cap (Cr)	1,19,868
Avg. daily vol. (6m) Shrs.	19,91,393
No. of shares (Cr)	84.1

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	49.9	49.9	49.9
FII's	27.4	28.2	28.0
MFs / UTI	13.4	12.5	12.5
Others	9.3	9.4	9.6

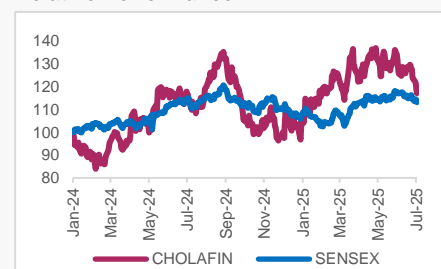
Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	14,077	17,430	21,456
PPOP	10,329	12,880	15,948
Net Profit	5,238	6,777	8,416
EPS (Rs)	62.3	80.6	100.
BV (Rs)	340.9	418.7	515.2
P/BV (x)	4.2	3.4	2.8
RoA (%)	2.4	2.5	2.5
NNPA (%)	2.6	2.5	2.4

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-1.0	-1.2
PPOP	+0.6	+1.0
PAT	-3.4	+0.6

Relative Performance



Source: Ace Equity, Axis Securities Research

Dnyanada Vaidya

Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Pranav Nawale

Research Associate

Email: pranav.nawale@axissecurities.in

Key Highlights

- **Growth Momentum Expected to improve in H2:** CIFIC's disbursements were muted in Q1 owing to seasonal weakness, conscious exit from certain partnership businesses in the consumer segment (impact of Rs 1,500 Cr), trimming disbursements to the supply chain (impact of Rs 500 Cr) along with change in housing registration process in few key markets impacting growth. **While the disbursement growth in FY26 is expected to remain soft at 10%, the management is confident of growing AUM by 20-25%.** AUM growth is expected to be driven by 15% AUM growth in the VF segment, contingent on agricultural activity, improving industrial activity and economic growth. CIFIC has seen underlying asset growth to be weak in the VF segment. Despite slower growth in the segment, CIFIC has managed to gain market share across most categories ex-Tractors and Construction Equipment.

The company has consciously pulled back growth in the tractor segment, citing pricing pressures. The HL and LAP segment growth is expected to remain strong, with AUM growth pegged at ~30% each in FY26. In the CSEL segment, the company has cut down its fintech lending and curtailed supply chain financing. Thus, growth in the CSEL segment will continue to remain muted over FY26.

We trim our AUM estimates by ~2% for FY26, considering challenges in the key VF segment and asset quality challenges in the newer segments and expect CIFIC to deliver a 22% CAGR AUM growth over FY25-28E.

Outlook

We expect CIFIC to deliver a strong AUM/NII/Earnings growth of 22/24/25% CAGR over FY25-28E. While we tweak our AUM growth estimates marginally downwards, better visibility on NIM improvement has resulted in a minor ~1% cut in our NII estimates over FY26-27E. The company's efforts to control opex growth and gradual improvement in credit costs should help support earnings. We trim our FY26E EPS estimate by ~3.4%, while maintaining our FY27E EPS estimates.

Valuation & Recommendation

We reiterate our BUY recommendation on the stock with a target price of Rs 1,675/share, implying an upside of 18% from the CMP. We value CIFIC at 4.0x FY27E BV (vs 3.4x FY27E BV currently)

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit growth, which could potentially derail our earnings estimates.
- Inability to scale up new products, along with asset quality concerns cropping up, continues to remain a risk to our earnings estimates

Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	14,077	17,430	21,456	14,219	17,645	-	-1.0	-1.2	-
PBP	10,329	12,880	15,948	10,265	12,754	-	0.6	1.0	-
Provisions	3,270	3,747	4,607	2,959	3,677	-	10.5	1.9	-
PAT	5,238	6,777	8,416	5,421	6,735	-	-3.4	0.6	-

Source: Axis Securities Research

Results Review (Standalone)

(Rs Cr)	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ
Net Interest Income	3,184	2,580	23.4	3,056	4.2
Non-Interest Income	681	454	50.0	703	-3.1
Operating expenses	1,453	1,183	22.8	1,427	1.8
Staff Cost	924	683	35.2	922	0.3
Pre-provision profits	2,412	1,850	30.4	2,332	3.4
Provisions and contingencies	882	581	51.7	625	41.1
PBT	1,530	1,268	20.6	1,706	-10.3
Provision for Tax	394	326	20.7	440	-10.4
PAT	1,136	942	20.6	1,267	-10.3

Business Update

Disbursements	24,326	24,334	0.0	26,417	-7.9
AUM	1,92,148	1,55,441	23.6	1,84,746	4.0
Vehicle Finance	1,04,720	88,638	18.1	1,01,257	3.4
Housing Loans	43,943	32,135	36.7	41,439	6.0
SME LAP	19,399	14,565	33.2	18,427	5.3
Other New Products	23,989	20,103	19.3	23,623	1.5

Yield on Advances	14.8	14.7	10bps	15.1	-30bps
Cost of Funds	7.0	7.0	0bps	7.1	-10bps
Spreads	7.8	7.7	10bps	8.0	-20bps
NIMs %	7.8	7.6	20bps	8.0	-20bps
Cost-Income ratio (%)	37.6	39.0	-142bps	38.0	-37bps

Asset Quality

Gross NPA (%)	4.3	3.6	67bps	4.0	32bps
Net NPA (%)	2.9	2.4	49bps	2.6	23bps
PCR (%)	43.7	45.5	-178bps	45.3	-155bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Net Interest Income	11,235	14,077	17,430	21,456
Non-Interest Income	2,335	2,883	3,458	4,176
Total Income	13,570	16,960	20,889	25,633
Operating Expenses	5,339	6,631	8,009	9,684
Pre-Provision Profits	8,231	10,329	12,880	15,948
Provisions	2,494	3,270	3,747	4,607
PBT	5,737	7,059	9,133	11,342
Tax	1,478	1,821	2,356	2,926
Profit After Tax	4,259	5,238	6,777	8,416

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
Equity Share Capital	168	168	168	168
Reserves & Surplus	23,459	28,514	35,053	43,174
Net Worth	23,627	28,682	35,222	43,343
Borrowings	1,74,946	2,10,794	2,58,347	3,16,772
Other Liabilities	3,074	3,646	4,469	5,482
Total Liabilities	2,01,648	2,43,121	2,98,038	3,65,597
Cash & Bank balances	9,401	10,848	11,808	14,485
Investments	6,390	7,705	9,445	11,586
Loans	1,81,930	2,19,591	2,70,683	3,32,041
Fixed Assets & Others	3,927	4,977	6,102	7,485
Total Assets	2,01,648	2,43,121	2,98,038	3,65,597

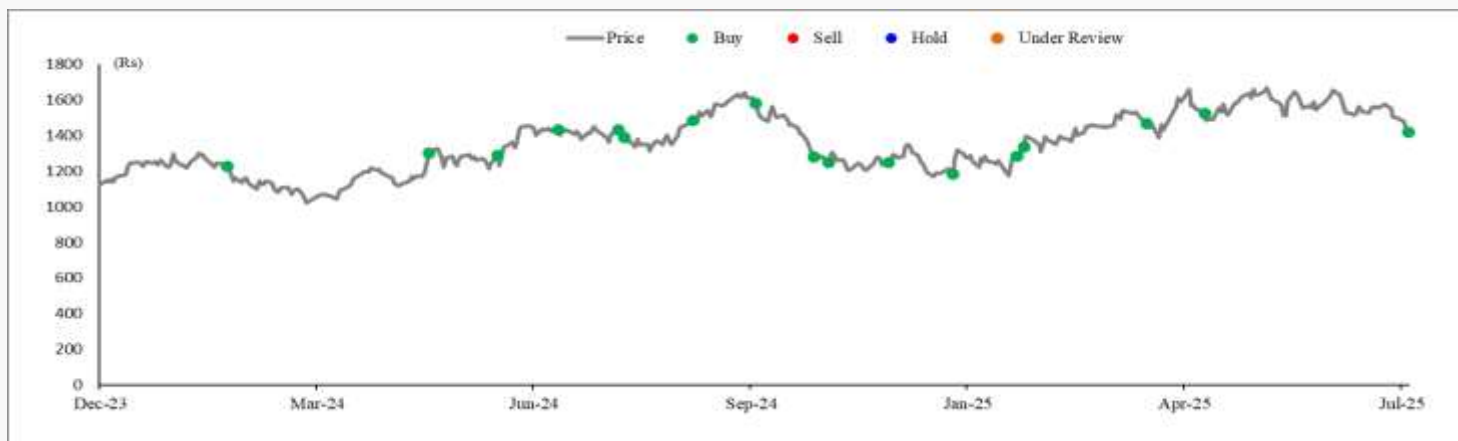
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS				
EPS	50.6	62.3	80.6	100.0
Earnings Growth (%)	24.3	23.0	29.4	24.2
BVPS	280.9	340.9	418.7	515.2
Adj. BVPS	223.6	273.7	339.7	419.4
RoA (%)	2.4	2.4	2.5	2.5
ROAE (%)	19.7	20.1	21.2	21.5
P/E (x)	28.1	22.8	17.7	14.2
P/BV (x)	5.1	4.2	3.4	2.8
OPERATING EFFICIENCY				
NIM (%)	7.7	7.8	7.9	7.9
Cost/Avg. Asset Ratio (%)	3.0	3.0	3.0	2.9
Cost-Income Ratio (%)	39.3	39.1	38.3	37.8
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	26.9	21.3	23.3	22.7
Deposits Growth (%)	30.1	20.5	22.6	22.6
Equity/Assets (%)	11.7	11.8	11.8	11.9
Equity/Loans (%)	13.0	13.1	13.0	13.1
Total Capital Adequacy Ratio (CAR)	19.8	19.1	18.6	18.2
ASSET QUALITY				
Gross NPLs (%)	4.0	4.0	3.8	3.7
Net NPLs (%)	2.6	2.6	2.5	2.4
Coverage Ratio (%)	34.6	35.0	35.0	35.0
Provision/Avg. AUM (%)	1.5	1.6	1.5	1.5
ROAA TREE (on Total Assets)				
Net Interest Income	6.3	6.3	6.4	6.4
Non-Interest Income	1.3	1.3	1.3	1.3
Operating Cost	3.0	3.0	3.0	2.9
Provisions	1.4	1.5	1.4	1.4
Tax	0.8	0.8	0.9	0.9
ROAA	2.4	2.4	2.5	2.5
Leverage (x)	8.3	8.5	8.5	8.4
ROAE	19.7	20.1	21.2	21.5

Source: Company, Axis Securities Research

Cholamandalam Inv. & Fin. Co Ltd Chart and Recommendation History



Date	Reco	TP	Research
30-Jan-24	BUY	1,375	Result Update
03-May-24	BUY	1,480	Result Update
03-Jun-24	BUY	1,480	Top Picks
01-Jul-24	BUY	1,575	Top Picks
30-Jul-24	BUY	1,710	Result Update
01-Aug-24	BUY	1,710	Top Picks
02-Sep-24	BUY	1,710	Top Picks
01-Oct-24	BUY	1,780	Top Picks
29-Oct-24	BUY	1,675	Result Update
04-Nov-24	BUY	1,675	Top Picks
02-Dec-24	BUY	1,675	Top Picks
01-Jan-25	BUY	1,675	Top Picks
01-Feb-25	BUY	1,650	Result Update
03-Feb-25	BUY	1,650	Top Picks
01-Mar-25	BUY	1,650	Top Picks
01-Apr-25	BUY	1,780	Top Picks
29-Apr-25	BUY	1,780	Result Update
04-Aug-25	BUY	1,675	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Rajiv Kejriwal, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Paré, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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