

BUY **Cholamandam Investment**

Your success is our success

Growth spur preserved; partnership lending asset quality irksBFSI - NBFCs ▶ Result Update ▶ **November 3, 2023****TARGET PRICE (Rs): 1,310**

CIFC delivered a robust performance in Q2FY24, with AUM at Rs1,242bn (~42% YoY, ~8% QoQ), PAT at Rs7.62bn and Asset Quality (GS3/GNPA at ~3.0%/~4.1%) coming broadly in line with Consensus and our estimates. GS3 reaching ~4.7% in partnership lending is a warning sign, albeit more of a niggling issue, as it currently constitutes ~2% of AUM, with the company also carrying FLDG arrangement on such loans. Overall, the management remains confident of ~25-30% AUM growth, NIM improvement—led by asset yield improvement, and of a stable credit cost delivering ~3.4% pre-tax RoA. Against the backdrop of an in-line Q2FY24 performance and unchanged management commentary, we reiterate our BUY rating on the stock, with unchanged Sep-24E TP of Rs1,310/share.

Cholamandam Investment: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profits	21,467	26,662	34,418	42,018	52,471
AUM growths (%)	9.9	38.5	28.9	24.3	24.9
NII growths (%)	13.3	20.2	38.5	26.5	26.5
NIMs +Fee (%)	8.0	7.9	8.1	8.0	8.1
PPOP growth (%)	10.4	18.0	36.8	24.3	24.8
Adj. EPS (Rs)	26.1	32.4	41.8	51.0	63.7
Adj. EPS growth (%)	41.5	24.0	29.0	22.1	24.9
Adj. BV (INR)	142.4	173.7	235.4	281.4	338.7
Adj. BVPS growth (%)	22.3	21.9	35.6	19.5	20.4
RoA (%)	2.7	2.7	2.7	2.6	2.6
RoE (%)	20.2	20.5	20.4	19.7	20.5
P/E (x)	43.4	35.0	27.1	22.2	17.8
P/ABV (x)	8.0	6.5	4.8	4.0	3.3

Source: Company, Emkay Research

In-line performance

CIFC posted a robust and in-line performance in Q2FY24, with AUM at Rs1.24trn (up 8% QoQ; 42% YoY), PAT at Rs7.62bn (up 35% YoY) and Asset Quality (GS3/GNPA at ~3.0%/4.1% vs ~3.1%/~4.3% in Q1FY24) coming broadly in line with Consensus and our estimates. The management expects H2 to be stronger, as overall demand for the vehicle segment improves, with continual contribution from the non-vehicle segment. On the profitability front, NIM remains stable sequentially at ~6.7% (NIM+Fee ~7.9% in Q2FY24) on account of marginal improvement in CoFs and the impact of rate hike passed-on to the fixed portfolio (mainly the vehicle segment); Opex-to-AUM rose to 3.2% (vs 2.8% in Q1FY24) owing to rise in employee expenses resulting in a flat PPOP. Credit cost stayed broadly stable and within the acceptable range, despite some increase in NPAs in the partnership business.

Confident outlook on growth and profitability

Given increase in product diversification, the management is confident of delivering ~25-30% AUM growth even if there is market-growth volatility for some vehicle segments. On profitability, CIFC remains constructive, as improving asset yields will drive NIM expansion ahead and a stable credit cost will support RoA improvement, in our view. The asset-yield improvement will be driven by impact of the recent rate-hike on new disbursement kicking-in, and borrowing cost is likely to stabilize or moderate going forward, as the interest-rate cycle is likely to have peaked. As regards credit cost, despite the partnership business noting higher NPA, we expect overall credit cost to remain at ~1.2%, given the FLDG agreement and the ~70% PCR on the unsecured business.

We reiterate BUY, with unchanged estimates/Target Price

In context of the in-line Q2FY24 performance and unchanged management commentary on growth/profitability, we keep our FY24-26 estimates unchanged. We reiterate our BUY rating on the stock, with Sep-24E target price of Rs1,310/sh (implied FY25E P/B: 4.7x).

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.5
CMP (03-Nov-23) (Rs)	1,134.3

Stock Data	Ticker
52-week High (Rs)	1,284
52-week Low (Rs)	658
Shares outstanding (mn)	839.5
Market-cap (Rs bn)	952
Market-cap (USD mn)	11,434
Net-debt, FY24E (Rs mn)	21,988
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	2,457.5
ADTV-3M (USD mn)	29.5
Free float (%)	-
Nifty-50	19,231
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	51.4
FPIs/MFs (%)	21.5/20.0

Price Performance

(%)	1M	3M	12M
Absolute	(9.5)	6.0	49.5
Rel. to Nifty	(8.1)	6.8	40.4

1-Year share price trend (Rs)**Avinash Singh**avinash.singh@emkayglobal.com
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Exhibit 1: Actual vs Estimate

(Rs mn)	Actual	Estimate (Emkay)	variation	Comments
	2QFY24	2QFY24	Emkay	
Disbursement	2,15,420	2,17,174	-0.8%	
AUM	12,42,450	12,23,201	1.6%	
NII	20,153	20,288	-0.7%	
PPOP	14,206	14,093	0.8%	
PAT	7,625	7,770	-1.9%	Overall in-line performance, marginal PAT miss on account of higher-than-expected credit cost, which was elevated due to increase in NPA in the partnership business.
Credit cost	1.3%	1.2%	11bps	Increase in credit cost led by higher provision on the New business segment and FLDG forming part of 'other income'.
GS3	2.96%	3.00%	-4bps	
NS3	1.56%	1.50%	6bps	

Source: Company, Emkay Research

Exhibit 2: Quarterly result snapshot

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Interest Income	14,888	15,983	17,649	18,421	20,153	35.4%	9.4%
Other Income	2,085	2,334	2,952	2,845	3,514	68.5%	23.5%
Total Income	16,974	18,317	20,601	21,265	23,667	39.4%	11.3%
Operating Expenses	6,611	7,520	7,870	7,867	9,461	43.1%	20.3%
Operating Profit	10,363	10,797	12,731	13,399	14,206	37.1%	6.0%
Provisions	2,782	1,589	1,140	3,723	3,998	43.7%	7.4%
Credit costs	1.3%	0.7%	0.5%	1.3%	1.3%	3bps	-1bps
PBT	7,581	9,208	11,591	9,675	10,208	34.7%	5.5%
Tax	1,947	2,365	3,063	2,415	2,583	32.7%	6.9%
Tax rate	25.7%	25.7%	26.4%	25.0%	25.3%	-38bps	34bps
PAT	5,634	6,843	8,528	7,260	7,625	35.3%	5.0%
Disbursements	1,46,230	1,75,600	2,10,200	2,00,160	2,15,420	47.3%	7.6%
Total AUM	8,76,680	9,54,670	10,64,980	11,47,960	12,42,450	41.7%	8.2%
Net Worth	1,28,487	1,35,301	1,42,961	1,50,270	1,58,073	23.0%	5.2%
GS3	3.8%	3.5%	3.0%	3.1%	3.0%	-88bps	-10bps
NS3	2.3%	2.1%	1.6%	1.7%	1.6%	-69bps	-11bps
PCR	41.5%	41.0%	46.0%	45.4%	47.3%	584bps	192bps

Source: Company, Emkay Research

Exhibit 3: Valuation

	CMP/TP (Rs/sh)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			EPS (Rs)		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
At current market price	1,134	15%	952.3	4.8x	4.0x	3.3x	27.1x	22.2x	17.8x	2.7	2.6	2.6	20.4	19.7	20.5	218.6	263.3	319.1	41.8	51.0	63.7
At target price	1,310		952.3	5.6x	4.7x	3.9x	31.4x	25.7x	20.6x	2.7	2.6	2.6	20.4	19.7	20.5	218.6	263.3	319.1	41.8	51.0	63.7

Source: Company, Emkay Research

Exhibit 4: AUM growth led by strong disbursement across the product segment

AUM trend (Rs bn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Vehicle Finance	484	493	507	529	554	576	613	669	711	754
Home loans (and Business Finance)	44	49	50	56	59	65	73	85	95	108
Home Equity (LAP)	145	153	162	168	177	188	200	216	229	247
Others	5	6	8	16	29	48	69	95	113	133
Total	678	700	727	769	819	877	955	1065	1148	1242

Source: Company, Emkay Research

Exhibit 5: AUM mix – Vehicle finance dominating the overall portfolio mix

AUM mix	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Vehicle Finance	71%	70%	70%	69%	68%	66%	64%	63%	62%	61%
Home loans (and Business Finance)	6%	7%	7%	7%	7%	7%	8%	8%	8%	9%
Home Equity (LAP)	21%	22%	22%	22%	22%	21%	21%	20%	20%	20%
Others	1%	1%	1%	2%	4%	5%	7%	9%	10%	11%

Source: Company, Emkay Research

Exhibit 6: Disbursement growth led by strong demand of LAP and the New business segment

Disbursement trend (Rs bn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Vehicle Finance	28	62	76	88	86	85	104	122	113	117
Home loans (and Business Finance)	2	5	4	5	6	7	11	14	15	16
Home Equity (LAP)	4	16	18	19	20	22	23	28	27	32
Others	2	4	6	15	21	31	38	47	46	50
Total	36	87	104	127	133	146	176	210	200	215

Source: Company, Emkay Research

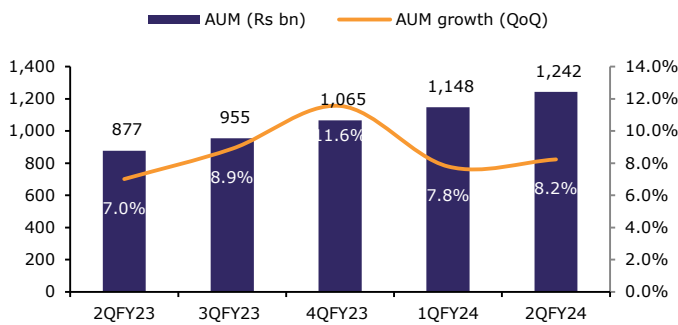
Exhibit 7: Disbursement mix

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Vehicle Finance	78%	71%	73%	69%	64%	58%	59%	58%	56%	54%
Home loans (and Business Finance)	5%	6%	4%	4%	5%	5%	6%	7%	7%	7%
Home Equity (LAP)	11%	19%	17%	15%	15%	15%	13%	13%	13%	15%
Others	6%	5%	6%	12%	16%	21%	22%	22%	23%	23%

Source: Company, Emkay Research

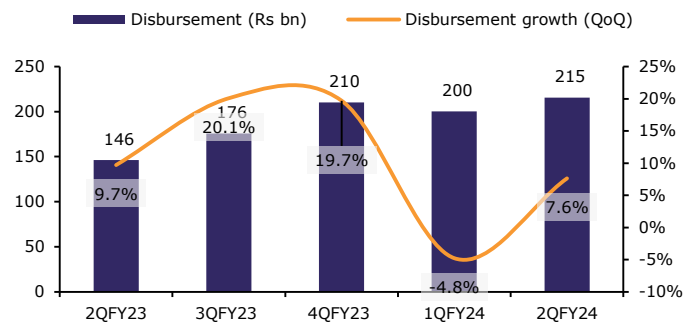
Result in Charts

Exhibit 8: AUM growth led by strong disbursement across the product segment



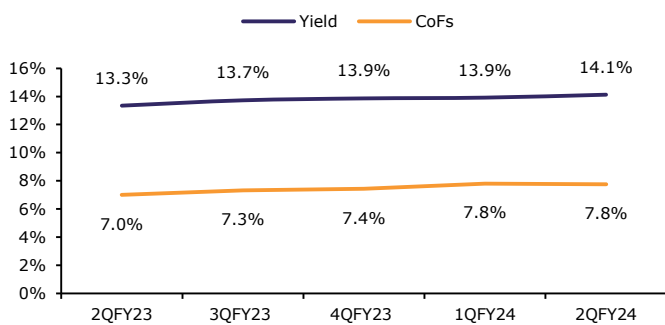
Source: Company, Emkay Research

Exhibit 9: Strong disbursement growth led by strong demand for LAP and the New Business segment (CSEL, SBPL and SME)



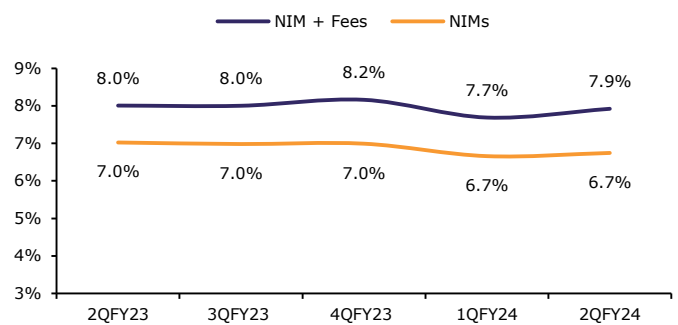
Source: Company, Emkay Research

Exhibit 10: Yield to further improve, as the share of the new fixed-rate book increases and old fixed-rate book runs-off



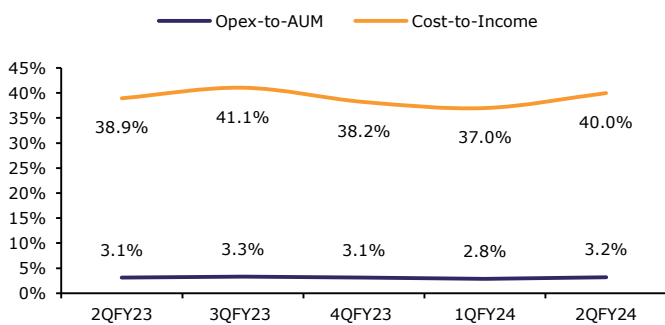
Source: Company, Emkay Research

Exhibit 11: NIM tracks broadly similar levels, on account of stable CoFs



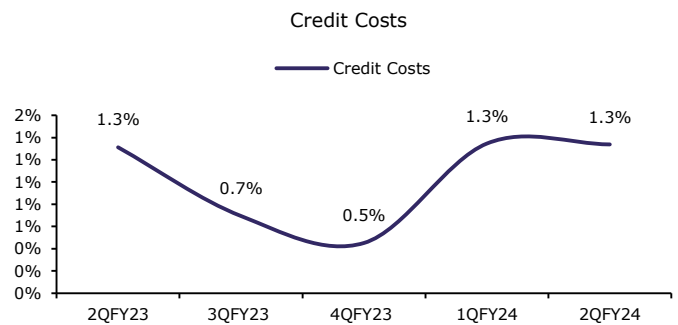
Source: Company, Emkay Research

Exhibit 12: Opex was marginally elevated due to higher employee cost on account of incentive and increment in Q2.



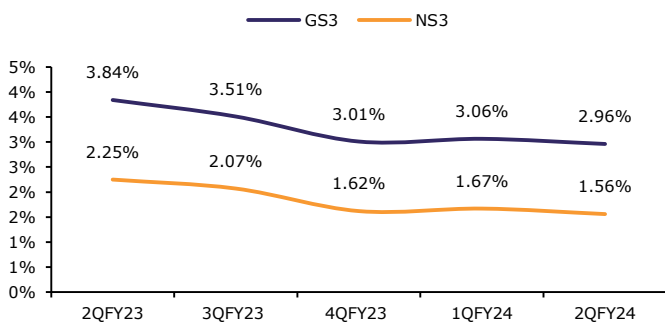
Source: Company, Emkay Research

Exhibit 13: Elevated NPA in the partnership business leading to higher provisioning, while overall credit cost in comfortable range



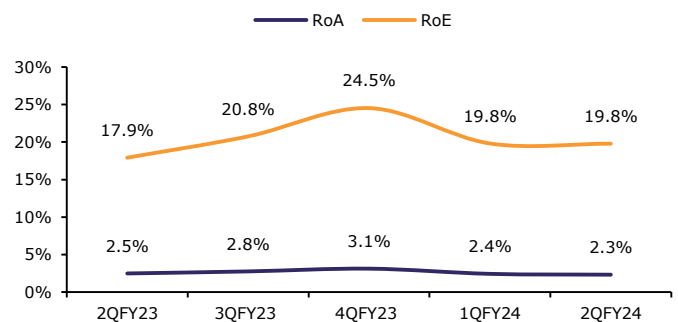
Source: Company, Emkay Research

Exhibit 14: Overall asset quality improved



Source: Company, Emkay Research

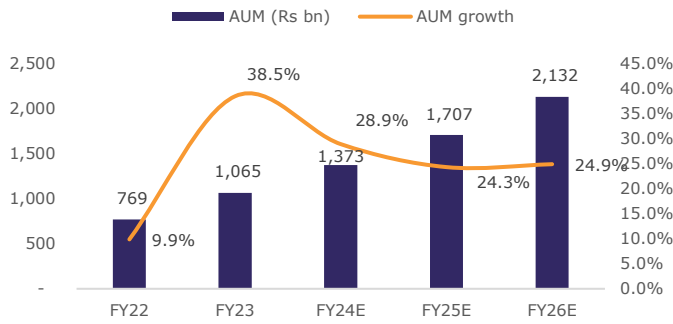
Exhibit 15: ROE/ROA



Source: Company, Emkay Research

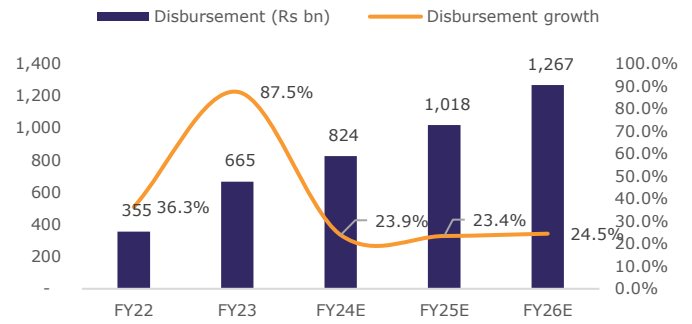
Story in Charts

Exhibit 16: We expect AUM to reach Rs2.1trn by FY26E, on account of strong disbursement across the product segment



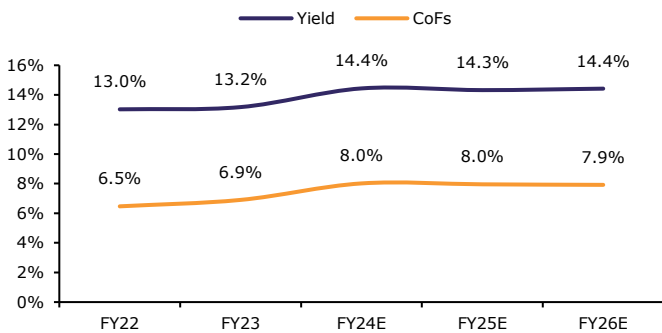
Source: Company, Emkay Research

Exhibit 17: Disbursement growth to remain strong, with the non-vehicle segment growing at a faster pace



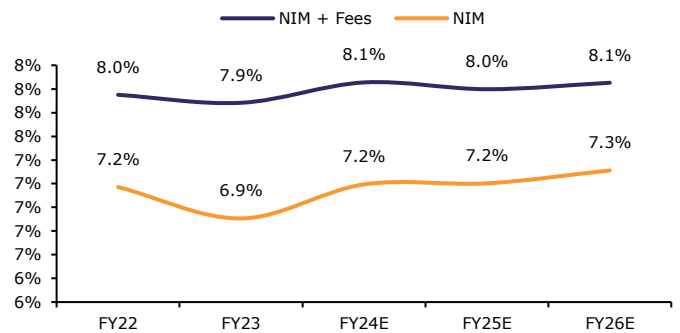
Source: Company, Emkay Research

Exhibit 18: Yields are expected to improve, led by improving asset mix



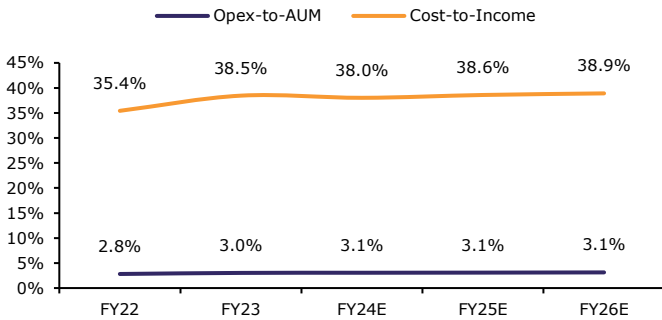
Source: Company, Emkay Research

Exhibit 19: NIM improvement led by improving yields and CoF moderation



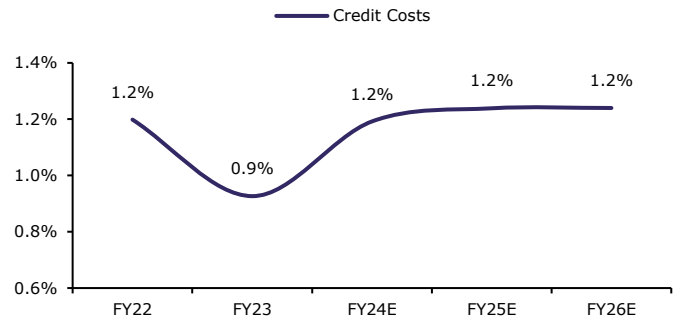
Source: Company, Emkay Research

Exhibit 20: Opex-to-AUM to remain at 3% levels



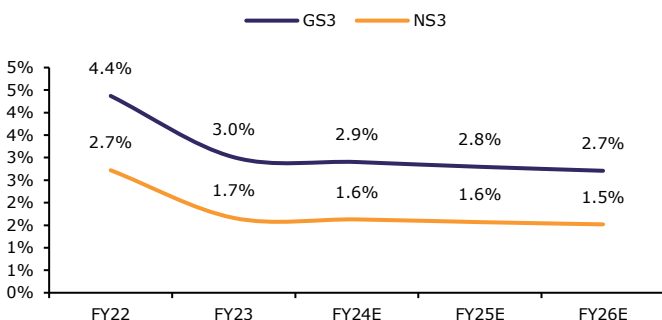
Source: Company, Emkay Research

Exhibit 21: We expect FY26E credit cost to remain stable at 1.2%



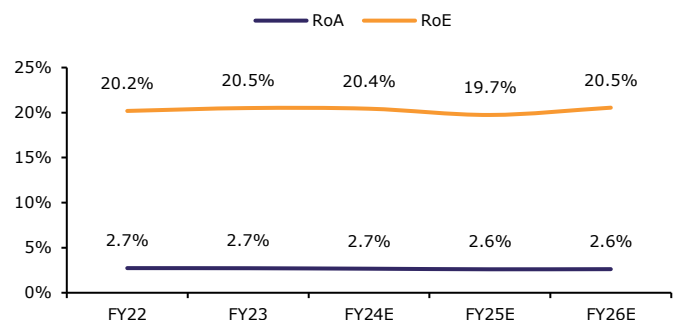
Source: Company, Emkay Research

Exhibit 22: Asset quality is expected to improve



Source: Company, Emkay Research

Exhibit 23: ROA/ROE expansion led by improved margins and stable costs



Source: Company, Emkay Research

Management call highlights

Business update:

- Robust AUM and disbursement growth led by strong replacement demand from the end-user segment in the auto sector. The LAP & HL segment registered above-average growth due to revival in earnings of the SENP segment.
- Partnership business contributes to 25% (~Rs22bn) of the new business segment and has seen higher NPA, at 4.7%. Management is taking the necessary steps and to slow down the partnership business. NPA of the traditionally-acquired business in the new business segment stands at 0.8%. Early default is well under control and has always existed in the partnership business. The partnership book is protected by FLDG, and CIFIC will have hold with regard to service, extending the business, etc.
- Impact of the new fixed-rate book would be visible from Nov-23, as marginal-book yield at 15.3% vs the average book-yield of 14.3%. Yield to further improve, as the mix of used vehicles has increased to 33% vs 25% earlier.
- CIFIC has gained market share in the CV and PV segments (increase in market share by 20-30bps).
- Yield will not be impacted by CIFIC slowing down its partnership business, as the share of partnership is ~1.5% of the overall portfolio and CIFIC will continue doing business with partners where Company has a good book; it would be implementing strategies with other existing partners to improve overall customer-selection filters.
- Elevated employee cost was due to shift of off-role employees to on-role and incentive provided in Q2FY24. Overall opex-to-AUM would remain stable at 3% levels.
- The management expects demand for used CVs and PVs to continue and clarified that it will only fund vehicles that are less than 5-10-years old. It expects a strong overall demand for CVs, PVs and Tractors.
- Write-off in H1 is ~Rs1bn lower than last year (write-off in H1FY23: ~Rs5bn).
- Yield in the HL segment would be higher for CIFIC compared with other players, and is expected to sustain due to higher pricing in smaller towns and the company expanding to non-South markets currently.
- Other income in Q1 was higher on account of FLDG income forming part of 'other income'; the Q2 'other income' includes dividend income. On a normalized level, 'other income' would be Rs4-5bn per quarter.

Guidance:

- AUM to grow at 25-30%, with unsecured loan mix capped at ~10% of the overall portfolio.
- Expect H2 growth to be better, based on expectation of better demand for CVs, tractors and TWL and demand enduring for used CVs and PVs.
- Margins to improve, as the share of the repriced fixed-rate portfolio increases (impact to be visible in Q3/Q4), improving mix of high-yielding assets and CoF moderation.
- Opex-to-AUM to stabilize at ~3%, while credit cost to remain at 1.2-1.5%, with stage 3 PCR of 45-50%.
- Overall ROTA to come at 3-3.5%.

Cholamandalam Investment: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	95,668	1,20,822	1,75,984	2,20,537	2,76,767
Interest Expense	42,988	57,488	88,294	1,09,631	1,36,438
Net interest income	52,680	63,334	87,690	1,10,906	1,40,329
NII growth (%)	13.3	20.2	38.5	26.5	26.5
Non interest income	5,720	8,958	10,495	12,241	14,209
Total income	58,400	72,292	98,185	1,23,147	1,54,538
Operating expenses	20,687	27,799	37,334	47,522	60,125
PPOP	37,712	44,494	60,852	75,625	94,413
PPOP growth (%)	10.4	18.0	36.8	24.3	24.8
Provisions & contingencies	8,803	8,497	14,529	19,073	23,792
PBT	28,909	35,997	46,322	56,552	70,621
Extraordinary items	0	0	0	0	0
Tax expense	7,442	9,335	11,905	14,534	18,150
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	21,467	26,662	34,418	42,018	52,471
PAT growth (%)	41.8	24.2	29.1	22.1	24.9
Adjusted PAT	21,467	26,662	34,418	42,018	52,471
Diluted EPS (Rs)	26.1	32.4	41.8	51.0	63.7
Diluted EPS growth (%)	41.5	24.0	29.0	22.1	24.9
DPS (Rs)	2.0	2.1	4.2	5.1	6.4
Dividend payout (%)	7.7	6.5	10.0	10.0	10.0
Effective tax rate (%)	25.7	25.9	25.7	25.7	25.7
Net interest margins (%)	8.0	7.9	8.1	8.0	8.1
Cost-income ratio (%)	35.4	38.5	38.0	38.6	38.9
PAT/PPOP (%)	56.9	59.9	56.6	55.6	55.6
Shares outstanding (mn)	821.4	822.4	839.3	839.3	839.3

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
GNPL - Stage 3	33,428	32,220	39,978	47,863	57,877
NNPL - Stage 3	20,170	17,400	21,988	26,325	31,832
GNPL ratio - Stage 3 (%)	4.4	3.0	2.9	2.8	2.7
NNPL ratio - Stage 3 (%)	2.7	1.7	1.6	1.6	1.5
ECL coverage - Stage 3 (%)	39.7	46.0	45.0	45.0	45.0
ECL coverage - 1 & 2 (%)	1.4	0.8	0.7	0.7	0.7
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	10.0	8.2	7.7	7.9	8.0
Total credit costs (%)	1.2	0.9	1.2	1.2	1.2
NNPA to networth (%)	17.2	12.2	11.3	11.4	11.4
Capital adequacy					
Total CAR (%)	19.6	17.1	19.4	18.6	17.8
Tier-1 (%)	16.5	14.8	17.1	16.3	15.5
Miscellaneous					
Total income growth (%)	16.8	23.8	35.8	25.4	25.5
Opex growth (%)	30.6	34.4	34.3	27.3	26.5
PPOP margin (%)	5.1	4.9	5.0	4.9	4.9
Credit costs-to-PPOP (%)	23.3	19.1	23.9	25.2	25.2
Loan-to-Assets (%)	90.0	92.3	93.6	94.2	94.3
Yield on loans (%)	13.7	13.5	14.7	14.6	14.7
Cost of funds (%)	6.5	6.9	8.0	8.0	7.9
Spread (%)	7.2	6.6	6.7	6.6	6.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,643	1,645	1,679	1,679	1,679
Reserves & surplus	1,15,434	1,41,316	1,92,263	2,30,087	2,77,319
Net worth	1,17,077	1,42,961	1,93,942	2,31,765	2,78,998
Borrowings	6,91,735	9,73,561	12,28,633	15,27,381	19,18,144
Other liabilities & prov.	14,822	18,634	20,626	22,841	25,308
Total liabilities & equity	8,23,634	11,35,155	14,43,201	17,81,987	22,22,450
Net loans	7,41,492	10,47,483	13,50,147	16,78,440	20,96,332
Investments	20,762	36,200	40,545	44,294	55,626
Cash, other balances	42,201	29,614	27,821	31,222	38,514
Interest earning assets	8,04,455	11,13,298	14,18,512	17,53,956	21,90,473
Fixed assets	2,916	4,589	5,507	6,609	7,930
Other assets	16,264	17,268	19,182	21,422	24,047
Total assets	8,23,634	11,35,155	14,43,201	17,81,987	22,22,450
BVPS (Rs)	142.4	173.7	235.4	281.4	338.7
Adj. BVPS (INR)	142.4	173.7	235.4	281.4	338.7
Gross loans	7,64,779	10,70,780	13,77,500	17,11,625	21,36,930
Total AUM	7,69,080	10,64,980	13,72,861	17,06,677	21,31,599
On balance sheet	7,41,420	10,47,360	13,50,147	16,78,440	20,96,332
Off balance sheet	27,660	17,620	22,714	28,237	35,267
Disbursements	3,54,890	6,65,330	8,24,297	10,17,560	12,66,545
Disbursements growth (%)	36.3	87.5	23.9	23.4	24.5
Loan growth (%)	12.6	41.3	28.9	24.3	24.9
AUM growth (%)	9.9	38.5	28.9	24.3	24.9
Borrowings growth (%)	8.5	40.7	26.2	24.3	25.6
Book value growth (%)	22.3	21.9	35.6	19.5	20.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	43.4	35.0	27.1	22.2	17.8
P/B (x)	8.0	6.5	4.8	4.0	3.3
P/ABV (x)	8.0	6.5	4.8	4.0	3.3
P/PPOP (x)	24.7	21.0	15.6	12.6	10.1
Dividend yield (%)	0.2	0.2	0.4	0.4	0.6
Dupont-RoE split (%)					
NII/avg AUM	7.2	6.9	7.2	7.2	7.3
Other income	0.8	1.0	0.9	0.8	0.7
Securitization income	0.0	0.0	0.0	0.0	0.0
Opex	1.6	1.7	1.8	1.8	1.9
Employee expense	1.2	1.4	1.3	1.2	1.2
PPOP	5.1	4.9	5.0	4.9	4.9
Provisions	1.2	0.9	1.2	1.2	1.2
Tax expense	1.0	1.0	1.0	0.9	0.9
RoAUM (%)	2.9	2.9	2.8	2.7	2.7
Leverage ratio (x)	6.9	7.1	7.2	7.2	7.5
RoE (%)	20.2	20.5	20.4	19.7	20.5

Quarterly data

Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	14,888	15,983	17,649	18,421	20,153
NIM(%)	8.0	8.0	8.2	7.7	7.9
PPOP	10,363	10,797	12,731	13,399	14,206
PAT	5,634	6,843	8,528	7,260	7,625
EPS (Rs)	6.85	8.32	10.37	8.83	9.27

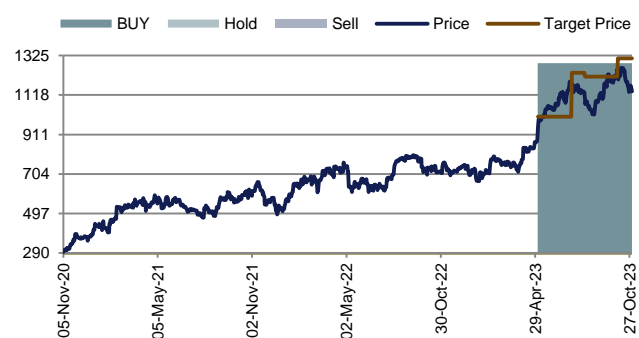
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Oct-23	1,210	1,310	Buy	Avinash Singh
02-Aug-23	1,099	1,215	Buy	Avinash Singh
08-Jul-23	1,177	1,235	Buy	Avinash Singh
04-May-23	950	1,005	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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