

July 29, 2024

RESULT REPORT Q1 FY25 | Sector: Financials

Cholamandam Invest. & Finance

Visibility of strong earnings growth

Surpasses expectations yet again; Stage 2 & 3 increase largely seasonal

Chola delivered 10% earnings beat on our expectation, despite a higher credit cost, on the back of 1) stronger-than-expected disbursements/AUM growth, 2) 4% core NII beat with NIM expansion (calc.), 3) higher-than-expected fee/insurance income and 4) lower-than-estimated opex. RoA/RoE stood at 2.4%/19%.

Disbursements were 6% higher than expectations at Rs243.3bn (down 2% qoq/up 22% yoy), driving robust AUM growth of 7% qoq/35% yoy. Originations were better than our estimate in Vehicle Finance (VF) segment and the annual growth improved to 13% yoy from 6% yoy in the preceding quarter. Robust business traction continued in LAP with disbursements growing 45% yoy. Sequentially, HL and CSEL disbursements were higher by 2% and 6% respectively. NII (excl. Fees) grew by 9% qoq/40% yoy underpinned by improvement in portfolio yield (calc.) and stable funding cost (calc.). Notwithstanding disbursements being higher than our estimate, the opex was lower and the productivity/efficiencies mainly came through in New Businesses.

There was a significant 21-22% increase in both Stage-2 assets and Stage-3 assets (after adding back write-offs of Rs3.2bn). Uptick in Stage-3 level was mainly seen in VF and CSEL businesses. Due to material movement in asset quality, the credit cost was 1.5%. ECL coverage across stages was maintained.

Confident of sustaining growth and improving margins and opex level

Chola is confident of delivering 25-30% pa growth for the next three years with 1) diversified VF portfolio and strong positioning in used VF market, 2) continuance of robust growth in LAP (distribution/resource expansion and increasing share of micro-LAP), 3) sustaining traction in Home Loans (entry in new Tier 3 & 4 markets), 4) growing CSEL portfolio in-line with overall AUM with sourcing & underwriting adjustments behind and supportive asset quality, and 5) scaling-up SME financing and SBPL businesses. The contribution of VF is expected to decline, share of LAP & HL is expected to rise and that of CSEL is expected to stabilize around current level.

Management expects that NIM would improve over coming quarters with stabilization of CoF and improvement in Portfolio Yield. In VF business, the marginal yield is 40-50 bps better than the book yield. In longer term, fixed-rate nature of VF portfolio, product level composition change in AUM and moderation in funding cost should improve NIM. With opex/productivity benefits starting to manifest in New Businesses and scope for improving distribution/resource productivity in HL and LAP, the opex/asset ratio at the company-level is expected to come-off. Management's aspiration is to reach 4% PBT RoTA within five years.

Visibility of high Growth/RoE and resilient asset quality justifies premium valuation

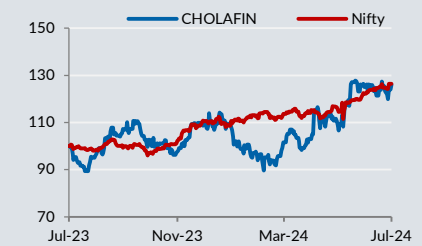
We retain constructive stance on Chola expecting solid growth execution, recovery in margins, manifestation of opex productivity and continuance of resilient asset quality. We estimate 27.5% AUM CAGR and 33% PAT CAGR over FY24-26 with average RoA/RoE delivery of 2.7%/21%. In context of industry-best Growth and RoE delivery, the current valuation of 20x PE and 4x P/ABV on FY26 seems justifiable. Maintain ADD rating and raise 12m PT to Rs1670.

Reco	: ADD
CMP	: Rs 1,433
Target Price	: Rs 1,670
Potential Return	: +16.5%

Stock data (as on July 29, 2024)

Nifty	24,836
52 Week h/l (Rs)	1477 / 997
Market cap (Rs/USD mn)	1185538 / 14163
Outstanding Shares (mn)	840
6m Avg t/o (Rs mn):	1,986
Div. yield (%):	0.1
Bloomberg code:	CIFC IN
NSE code:	CHOLAFIN

Stock performance



	1M	3M	1Y
Absolute return	0.7%	22.4%	26.0%

Shareholding pattern

Promoter	50.3%
FII+DII	43.5%
Others	6.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	1,670	1,500

Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	40.7	55.2	70.3
EPS (Old)	40.7	53.8	68.8
% Change	-	2.6%	2.2%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	99,857	1,38,016	1,76,775
PPOP	59,039	84,137	1,09,965
Net profit	34,228	47,301	60,299
Growth (%)	28.4	38.2	27.5
EPS (Rs)	40.7	55.2	70.3
ABVPS (Rs)	209.5	276.8	368.8
P/E (x)	35.2	26.0	20.4
P/ABV (x)	6.8	5.2	3.9
ROE (%)	20.2	20.8	21.0
ROA (%)	2.5	2.6	2.7

RAJIV MEHTA

Lead Analyst

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MANUJ OBEROI, Associate

Exhibit 1: Result table

Particulars (Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Operating Income	57,847	54,202	6.7	40,303	43.5
Interest expended	(27,957)	(25,793)	8.4	(20,071)	39.3
Net Interest Income	29,891	28,409	5.2	20,232	47.7
Other Income	443	718	(38.4)	1,033	(57.2)
Total Income	30,333	29,127	4.1	21,265	42.6
Operating expenses	(11,834)	(12,850)	(7.9)	(7,867)	50.4
PPOP	18,499	16,278	13.6	13,399	38.1
Provisions	(5,814)	(1,908)	204.7	(3,723)	56.2
PBT	12,685	14,369	(11.7)	9,675	31.1
Tax	(3,263)	(3,788)	(13.9)	(2,415)	35.1
Reported PAT	9,422	10,581	(11.0)	7,260	29.8

Source: Company, YES Sec

Exhibit 2: Business Data

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
AUM	15,54,420	14,55,720	6.8	11,47,960	35.4
Vehicle Finance	8,86,380	8,44,980	4.9	7,10,650	24.7
Home Equity	3,21,350	2,98,590	7.6	2,28,660	40.5
Disbursements	2,43,320	2,47,850	(1.8)	2,00,150	21.6
Vehicle Finance	1,27,660	1,29,620	(1.5)	1,13,010	13.0
Home Equity	56,520	60,200	(6.1)	41,330	36.8

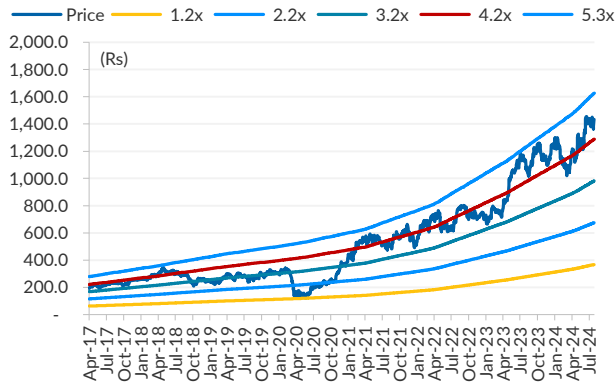
Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NIM (%)	7.6	7.8	(0.2)	7.3	0.3
RoTA - PBT (%)	3.2	3.9	(0.7)	3.3	(0.1)
Gross Stage 3 (%)	2.6	2.5	0.1	3.1	(0.4)
Coverage Ratio - S3 (%)	45.5	46.5	(1.0)	45.4	0.1
CAR (%)	18.0	18.6	(0.5)	17.4	0.6
Vehicle Finance					
NIM (%)	7.9	7.7	0.2	7.2	0.7
Expense Ratio (%)	3.1	3.2	(0.1)	2.8	0.3
Credit Cost (%)	1.9	1.2	0.7	1.5	0.4
RoTA - PBT (%)	2.9	3.4	(0.5)	2.9	-
Home Equity					
NIM (%) Reported	5.7	5.5	0.2	5.4	0.3
Expense Ratio (%)	1.8	1.8	-	1.4	0.4
RoTA - PBT (%)	0.1	(0.2)	0.3	(0.1)	0.2

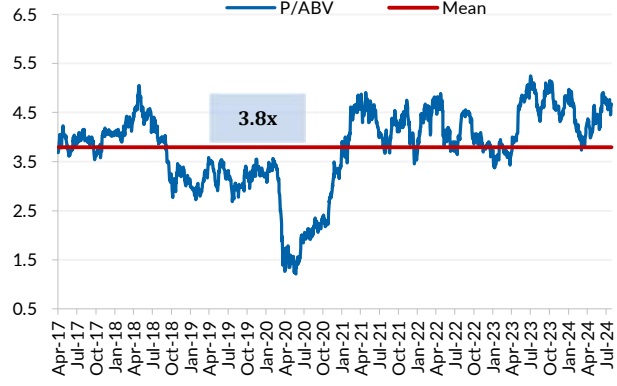
Source: Company, YES Sec

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	FY24	FY25E	FY26E
Equity and Liabilities					
Equity Capital	1,643	1,645	1,681	1,714	1,714
Reserves	1,15,434	1,41,316	1,93,885	2,57,641	3,14,430
Shareholder's funds	1,17,077	1,42,961	1,95,565	2,59,356	3,16,144
Financial Liabilities	7,04,793	9,90,325	13,66,193	17,44,695	22,03,273
Derivative financial instruments	1,696	1,343	1,867	2,427	3,155
Trade payables	8,028	11,880	14,534	14,534	14,534
Debt Securities	1,33,211	1,96,824	2,48,128	3,17,603	4,01,768
Borrowings (excl. Debt Sec.)	5,20,045	7,31,862	10,45,111	13,37,742	16,92,244
Subordinated Liabilities	38,479	44,875	51,497	65,916	83,384
Other Financial Liabilities	3,334	3,541	5,056	6,472	8,187
Non-Financial Liabilities	1,764	1,870	2,749	2,942	3,154
Provisions	1,183	1,409	1,927	2,120	2,332
Other non-financial liabilities	581	461	822	822	822
Total Equities and Liabilities	8,23,634	11,35,155	15,64,508	20,06,993	25,22,571
Assets					
Financial Assets	8,10,809	11,20,675	15,37,332	19,79,050	24,93,823
Cash and Cash Equivalents	26,579	9,103	8,420	11,999	8,959
Bank balances	15,622	20,511	34,782	43,477	54,347
Derivative financial instruments	1,865	2,729	2,478	2,478	2,478
Receivables	1,280	1,911	3,995	3,995	3,995
Loans	7,41,492	10,47,483	14,44,243	18,63,073	23,56,788
Investments	20,762	36,200	41,002	51,253	64,066
Other Financial Assets	3,209	2,738	2,413	2,774	3,191
Non- Financial Assets	12,825	14,481	27,176	27,943	28,748
Current tax assets (Net)	2,507	2,671	3,571	3,571	3,571
Deferred tax assets (Net)	6,714	6,085	6,542	6,542	6,542
Investment Property	1	1	1	1	1
Property, Plant and Equipment	2,399	3,722	15,340	16,107	16,912
Intangible assets	515	948	726	726	726
Other Non-Financial Assets	688	1,054	997	997	997
Total Assets	8,23,634	11,35,155	15,64,508	20,06,993	25,22,571

Source: Company, YES Sec

Exhibit 7: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Income from Operations	1,00,483	1,27,570	1,88,452	2,58,657	3,23,867
Interest expense	(42,988)	(57,488)	(92,306)	(1,23,610)	(1,50,357)
Net interest income	57,495	70,083	96,146	1,35,048	1,73,510
Non-interest income	905	2,209	3,711	2,968	3,265
Total op income	58,400	72,292	99,857	1,38,016	1,76,775
Total op expenses	(20,687)	(27,799)	(40,818)	(53,879)	(66,810)
PPoP	37,712	44,494	59,039	84,137	1,09,965
Provisions	(8,803)	(8,497)	(13,218)	(20,814)	(29,242)
Profit before tax	28,909	35,997	45,821	63,323	80,723
Taxes	(7,442)	(9,335)	(11,593)	(16,022)	(20,424)
Net profit	21,467	26,662	34,228	47,301	60,299

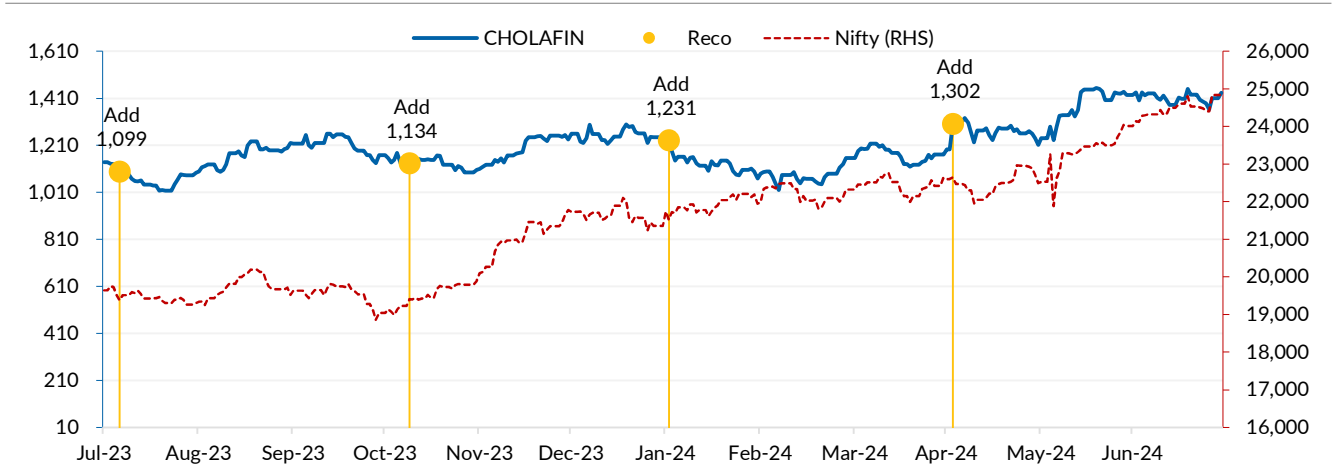
Source: Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
Growth matrix (%)					
Net interest income	16.4	21.9	37.2	40.5	28.5
Total op income	16.8	23.8	38.1	38.2	28.1
Op profit (pre-provision)	10.4	18.0	32.7	42.5	30.7
Net profit	41.7	24.2	28.4	38.2	27.5
Advances	12.6	41.3	37.9	29.0	26.5
Borrowings	9.7	42.2	39.3	28.0	26.5
Total assets	10.5	37.8	37.8	28.3	25.7
Profitability Ratios (%)					
NIM	7.8	7.6	7.6	8.1	8.2
Non-interest income /Total income	1.5	3.1	3.7	2.2	1.8
Return on Avg. Equity	20.2	20.5	20.2	20.8	21.0
Return on Avg. Assets	2.7	2.7	2.5	2.6	2.7
Per share ratios (Rs)					
EPS	26.1	32.4	40.7	55.2	70.3
Adj. BVPS	118.0	152.7	209.5	276.8	368.8
DPS	2.0	0.7	0.7	3.5	3.5
Other key ratios (%)					
Loans/Borrowings	113.5	112.8	111.7	112.5	112.5
Cost/Income	35.4	38.5	40.9	39.0	37.8
CAR	19.6	17.1	18.6	18.8	18.1
Tier-I capital	16.5	14.8	15.1	15.3	14.6
Stage 3	4.4	3.0	2.5	2.1	1.9
Credit Cost	1.2	0.9	1.0	1.2	1.4
Tax rate	25.7	25.9	25.3	25.3	25.3
Dividend yield	0.1	0.0	0.0	0.2	0.2

Source: Company, YES Sec

Recommendation Tracker



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Analyst signature

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YES Securities (India) Limited ("YSIL") is a wholly owned subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSIL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSIL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSIL by SEBI/Stock Exchanges.