Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Cholamandalam Investment & Finance Company

Good Q2, except for higher credit cost

NBFC	Sharekhan code: CHOLAFIN
Reco/View: Buy ↔	CMP: Rs. 1,251
Price Target: Rs. 1,600 ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

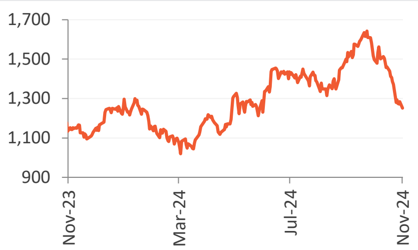
Company details

Market cap:	Rs. 1,05,000 cr
52-week high/low:	Rs. 1650/1011
NSE volume: (No of shares)	15.0 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	42.0 cr

Shareholding (%)

Promoters	50.2
FII	21.2
DII	16.6
Others	6.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.4	-7.1	-4.2	8.6
Relative to Sensex	-13.6	-7.1	-10.8	-12.7

Sharekhan Research, Bloomberg

Summary

- CIFC reported net earnings of Rs. 963 crore, 3.5% (up 26.3%/2.2%, y-o-y/q-o-q) below estimates due to higher credit cost. Core PBT grew by 27.5% y-o-y/3.5% q-o-q, driven by AUM/NII growth. NIM, at 6.59% up 10 bps y-o-y, was in line with estimates.
- AUM growth stood at 32.5% y-o-y/5.9% q-o-q, driven by growth in disbursement (13%); within this LAP, home loans and CSEL segments performed well, while vehicle finance witnessed weak demand due to extended/heavy rainfall.
- Annualised credit cost stood at 1.51%, up 5 bps, due to stress in vehicle finance and delayed payments because of extended rainfall. GS-3 increased to 2.83%, up 21 bps y-o-y. PBT-ROA at 3.1% in H12025.
- We maintain BUY with a revised PT of Rs. 1,600 due to improvement in PBT-ROTA to 3.2-3.3% for FY2025 due to reduction in credit cost, improvement in asset quality, higher NIM, and healthy AUM growth of 25%. The stock trades at 4.3x/3.5x/2.7x its FY2025E/FY2026E/FY2027E BV estimates.

CIFC's Q2 performance was slightly below estimates due to slow demand in the vehicle financing segment and extended/heavy rainfall. NII was in line with estimates, witnessed robust growth of 34.6% y-o-y/5.4% q-o-q to Rs. 2,713 crore (est. Rs. 2,722). NIM at 6.59% (calculated as a percentage of AUM) was almost in line, lower by 2 bps; it is likely to go up in vehicle finance and CSEL business over the next two quarters due to increased rates and mix. Besides, CIFC's major portion of lending portfolio is fixed in nature, reduction in repo rate will drive NIM. Opex came in at Rs. 1,316 crore (39.1% y-o-y and 11.2% q-o-q), down 4.9%. PPOP was in line with estimates at Rs. 1,922 crore (est. Rs. 1,940 crore), up 35.3% y-o-y/3.9% q-o-q, driven by NII growth and lower opex. Annualised credit cost (calculated as a percentage of AUM) at 1.51%, above our estimates by 5 bps, expected to come down to 1.3% for the full year due to higher recoveries in the vehicle finance, CSEL, and SME segments in H2FY2025. PAT at Rs. 963 crore (up 26.3% y-o-y/2.2% q-o-q), 3.5% below estimates due to higher credit cost. AUM was in line at Rs. 1,64,642 crore, up 32.5% y-o-y and 5.9% q-o-q, driven by healthy disbursement growth of 13%. LAP, home loan, and CSEL segments led the disbursement growth, while vehicle finance witnessed muted growth. GS-3 was higher at 2.83% (up 19 bps y-o-y) caused by deterioration in asset quality of vehicle finance, CSEL, SME, and SBPL segments; however, the LAP segment witnessed improvement. Asset quality is expected to improve in H2FY2024. Medium-term (2-3 years) PBT-ROTA target is on track at 3.5% for the cycle, and we expect it to be 3.2-3.3% for FY2025, up from 3.1% in H1, due to lower credit costs, improvement in disbursements, and better asset quality. Overall, the company's performance was slightly below estimates due to higher-than-expected credit cost and extended/heavy rainfall. Although, we expect better H2FY2025.

Key positives

- Robust AUM growth in the challenging period, up 32.5% y-o-y/5.9% q-o-q, driven by healthy disbursement growth.
- LAP, home loan, and CSEL segments witnessed robust AUM growth.

Key negatives

- Annualised credit cost (calculated as a percentage of AUM) at 1.51%, 5 bps above estimates.
- Asset quality deteriorated; GS-3 increased to 2.83%, up by 19 bps y-o-y.
- AUM growth at 32.5% y-o-y in Q2FY2025 is expected to moderate to 25% for FY2025 due to high base and weakness in the vehicle financing segment due to lower demand.

Management Commentary

- Management expects moderation in AUM growth at 25% for FY2025 (32.5% in Q2FY2025) due to high base and slow demand in the vehicle segment. Disbursements growth stood at 13% y-o-y and flat q-o-q. The vehicle financing segment witnessed weakness in H1FY2025; however, management expects improvement in H2FY2025.
- PBT-ROTA came in at 3.1% for H1FY2025, which is expected to go up to 3.2-3.3% for FY2025, driven by AUM growth, improvement in asset quality in H1FY2025, and reduction in credit costs in H2FY25 due to better/stable recoveries.
- Credit cost stood at 1.5% in Q1FY2025 and 1.51% for Q2FY2025 (as a percentage of AUM), much higher than FY2024 levels. Management expects reduction in the credit cost to 1.3% for the full year, driven by vehicle finance, CSEL, and SME Finance.
- The home loan segment is expanding and introducing new products beyond self-construction. The company would face stiff competition in the home loan segment if the rate of interest goes down. Many small players are focusing on affordable housing finance, however ability to manage delinquencies level would be key to sustaining such players. Management focuses on leveraging the opportunity from this segment.
- To maintain RoA stability for the LAP segment, management is expected to focus on micro-lap products.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,600 from Rs. 1,850: CIFC is expected to deliver healthy AUM growth of 25% (moderates from 32.5% in Q2) in the challenging environment, improvement in NIM for FY2025 and FY2026 due to expected cut in the repo rate, reduction in credit cost for FY2025/FY2026 from Q2FY2025, improvement in asset quality for the full year from Q2FY2025. All these factors are likely to contribute for improvement in return ratios. We expect the company would deliver a sustainable RoE above 20% over the next three years. PBT-ROTA at 3.2-3.3% (3.1% in H1FY2025) for the full year. If vehicle segment witness continued slowdown, then the management would utilize its levers on NIM to offset any impact of a moderation in AUM growth. Also, the management can utilize their capabilities in the newer segment to meet AUM target such as LAP, home loan, CSEL. The company is a well-placed and diversified NBFC, as demonstrated by superior performance across economic cycles. A robust collection mechanism aided by a strong credit risk assessment framework has helped it to navigate past business cycles and would enable it to navigate in the future too. We are confident about the longevity of the franchise and best-in-class management in terms of execution capabilities and strong governance. We expect NII/PAT/AUM CAGR at 29%/32%/25% for FY2024-FY2027. Hence, we retain BUY with a revised PT of Rs. 1,600. The stock trades at 4.5x/3.6x/2.8x its FY2025E/FY2026E/FY2027E P/BV.

Key Risks

Higher-than-anticipated credit cost as the company is launching new products and expanding in new geographies, lower-than-expected margins, and continued slowdown in vehicle finance.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
NII	6,334	8,383	11,189	14,455	17,977
PAT	2,666	3,423	4,375	6,026	7,825
EPS (Rs.)	32.5	41.1	52.0	71.7	93.1
P/E (x)	38.5	30.4	24.0	17.5	13.4
P/BV (x)	7.2x	5.4x	4.3x	3.5x	2.7x
RoE (%)	20.5	20.2	20.2	22.7	23.6
RoA (%)	2.7	2.5	2.5	2.7	2.8

Source: Company; Sharekhan estimates