Chola Finance: Growth prospects continue to strengthen

We met with the senior management team of Cholamandalam Investment and Finance (CIFC), represented by Mr. Ravindra Kundu, ED; Mr. Arul Selvan, CFO; and business heads of each of its product verticals, to discuss Chola's business outlook and understand the nuances of its non-vehicle businesses. Here are the key highlights:

Confident of sustaining industry-leading AUM growth

CIFC is confident of sustaining AUM growth of 25-30% in FY25. Home loans, LAP and the three newer businesses – CSEL, SBPL and SME – together will continue to outpace growth in vehicle finance. Within CSEL (Partnerships), the company has rationalized the number of its partners and continues to pilot new product lines, which will be introduced gradually over the next 12-18 months. Accordingly, we believe that CIFC will have a more diversified product suite in the future and that the focus will shift from the introduction of (or investment in) newer products to improvement in productivity.

Non-auto businesses aligned to CIFC's collection-first DNA of vehicle finance

CIFC's non-auto businesses (including home loans and LAP) are headed by business leaders who earlier held senior management responsibilities in its vehicle finance (VF) business. This has ensured that the collection-first strategy of VF is deployed in its non-vehicle businesses as well. At CIFC, each branch and product has its own P&L, with RoTA tracked at the branch level for every product. Metrics are closely monitored monthly to ensure targets (sales and collections) are met at both the branch and product levels.

Cholamandalam

Mr. Ravindra Kundu (Executive Director)

Mr. Kundu has over 34 years of professional experience in automobile and financial services industries, including 22 years in Chola. He Joined Chola as Senior Executive of Marketing in 2000, responsible for various functions including credit and collections, before taking up the role of Business Head of Vehicle Finance. He has completed PGP in Management for Senior Executives from Kellogg School of Management, ISB and IIM Calcutta.

Distribution heft yet to fully play out in LAP and HL businesses

The company's distribution network for LAP and home loans has achieved ~50% penetration compared to its VF segment. VF is operational in 1,850 towns, with additional 500-700 resident locations currently under experimentation. LAP and home loans are expanding through the same network as VF, indicating a strategic alignment across these products. Opex plays a crucial role in determining growth strategies. CIFC carefully considers opex before deciding whether to enhance productivity or expand distribution and manpower. Opex increases typically when NPLs or finance costs decline.

Actively expanding its affordable housing franchise

The company's home loan franchise was historically concentrated in Southern India, which now contributes ~60% of disbursements (compared to 80% previously). CIFC focuses on self-employed customers in the affordable housing segment, with an average ticket size of INR1.4m and yields of ~14%. Despite focusing on self-employed non-professionals, which may incur slightly higher operating costs and NPLs, CIFC maintains prudent risk management through low LTV ratios. The company does not compromise on property titles and does not finance agricultural properties or land purchases. The business is predominantly sourced directly (42%) and ~10% through financial consultants/DSAs.

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In LAP, CIFC has cut exposure to cyclical businesses and complex markets

CIFC's LAP portfolio has an average ticket size (ATS) of INR5m, with the ATS at origination of ~ INR6m. ~80% of the LAP business involves self-occupied residential property (SoRP). Sourcing is mainly done through DSAs (65%) and the remainder through direct channels (35%). Notably, 100% of the loans include women borrowers as applicants or co-applicants. CIFC ensures quick loan decisions, typically within 4-5 days. Due to historical delinquencies (post demonetization), CIFC has reduced its exposure to cyclical businesses and complex markets.

CSEL business has purged partnerships that were sub-par; asset quality back on track now

CSEL will eventually operate across three dimensions: traditional business, fintech/digital lending (including D2C), and consumer durable loans. Chola currently collaborates with eight fintech partners who have good scale on their respective platforms. Total CSEL book stood at ~INR120b, with ~INR90b in traditional business, ~INR25b in partnerships, and ~INR6b in consumer durable loans. Personal loans are targeted at salaried individuals, business loans at merchants, and professional loans at doctors, engineers, and chartered accountants. ~96% of customers have an average CIBIL score of 700+. Traditional business disbursements in CSEL average ~INR6b monthly. Despite inherent credit costs attributed to small-ticket customers and short tenors, CSEL augments RoA due to reduced opex and a streamlined collection approach, aligning with CIFC's RoTA objectives.

Ramping up SBPL which could potentially be the highest RoA business for CIFC in steady state

CIFC's SBPL product mix includes secured business loans (96%) and secured personal loans (4%), primarily collateralized by SoRP. The portfolio distribution is ~40% in South India and 60% in other regions. The underwriting process is based on estimation and is highly operationally intensive. ATS is INR430k with yields of ~22%. CIFC operates SBPL out of 275 branches, focusing on Tier 3 and beyond locations. The average loan tenor is six years, with a minimum ticket size of INR200k. The company aims to improve productivity, reduce operational expenses, and manage net credit costs effectively.

Growth in VF has been in a tight range and RoA is expected to improve from NIM expansion and lower credit costs

CIFC's assessment of VF landscape reveals a mix of challenges and opportunities, with signs of growth deceleration in specific vehicle segments, but it expects a healthy trajectory overall. Moreover, CIFC draws confidence from promising indicators such as favorable monsoons leading to an uptick in rural demand. CIFC focuses on LCV and SCV segments, which started declining in 4QFY23 but are now rebounding and are expected to drive CIFC's growth in FY25. Key growth drivers for CIFC's VF business include used vehicles, PV, MUVs, 2Ws, 3Ws, and CE. CIFC has been making higher provisions coverage (PCR) on high vintage NPA customers in its VF business. As this becomes stable, net credit cost in VF will decline and the RoA of the VF business will improve.

Sustaining operational stability amid escalating costs

Opex has been stable for CIFS, with technology and compliance costs rising consistently, hindering significant operating leverage. The expenditure on technology, including investments in cloud infrastructure, and efforts to retain top talent resulted in high costs. CIFC anticipates opex to remain elevated in the current range, with neither a notable decline nor a significant increase expected in the near future.

Others

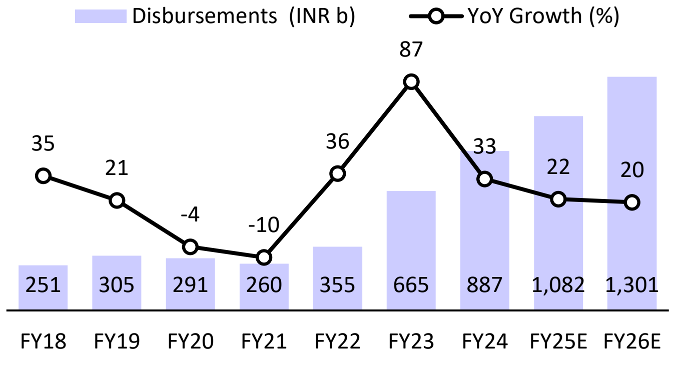
- The company’s non-vehicle businesses have separate teams for sales, credit and collections.
- If rate cuts happen in the later part of the year, CIFC will benefit since it will further aid NIM in VF.
- Only the SME business has a lower RoA than VF, while all other product segments have higher RoA than VF.

Valuations and view:

- CIFC is a franchise equipped to deliver strong AUM growth with benign credit costs (vs. peers), translating into sustainable RoE of ~21-22% across economic cycles.
- The stock trades at 3.8x FY26E P/BV. We believe that the premium valuation multiple will sustain as investors continue to have confidence in the company’s execution capability in new product lines. We reiterate our **BUY rating on the stock with TP of INR1,660 (based on 4.5x Mar’26 P/BV)**.

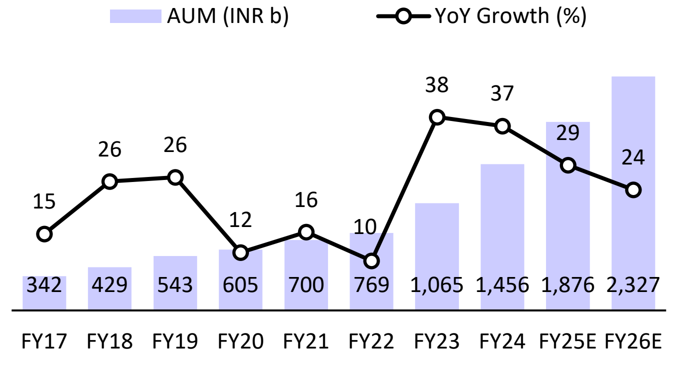
STORY IN CHARTS

Exhibit 1: Expect ~21% disbursement CAGR over FY24-26…



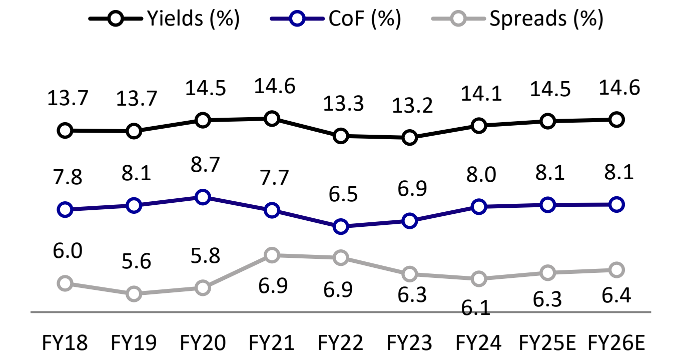
Source: MOFSL, Company

Exhibit 2: … leading to AUM CAGR of ~26% over this period



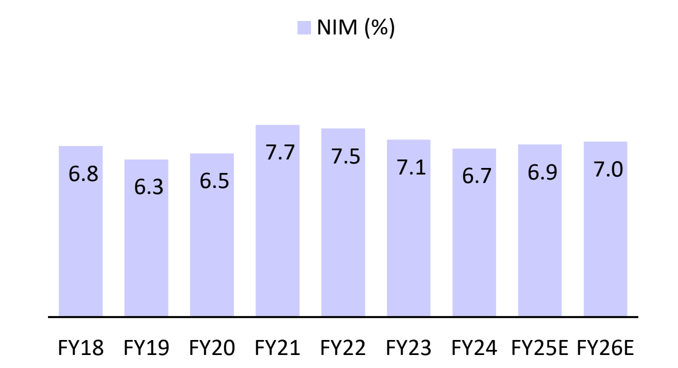
Source: MOFSL, Company

Exhibit 3: Estimate spreads to improve in FY25E



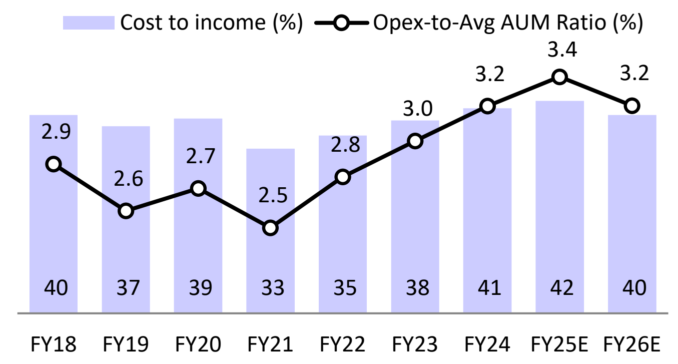
Source: MOFSL, Company

Exhibit 4: Estimate ~30bp improvement in NIM by FY25-FY26



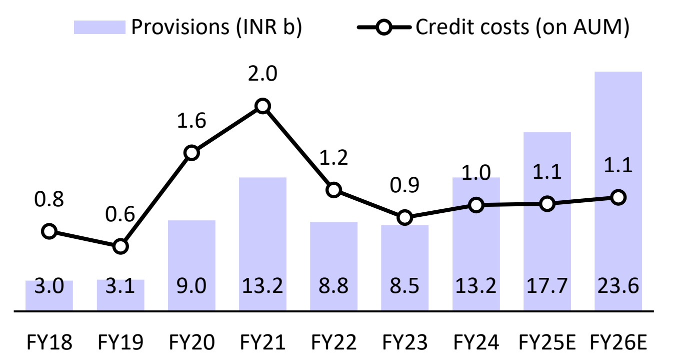
Source: MOFSL, Company

Exhibit 5: Operating ratios to remain elevated in FY25



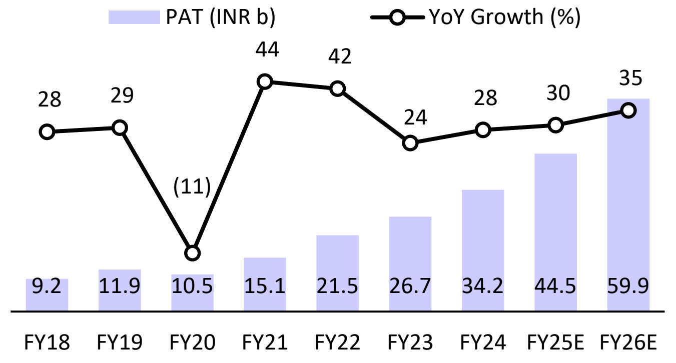
Source: MOFSL, Company

Exhibit 6: Estimate credit costs of ~110bp in FY25 and FY26



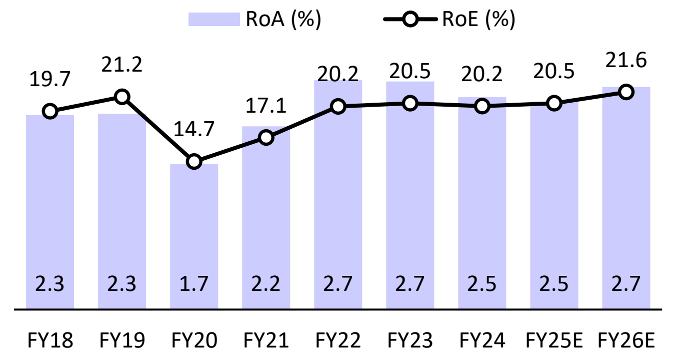
Source: MOFSL, Company

Exhibit 7: Estimate PAT CAGR of ~32% over FY24-26E



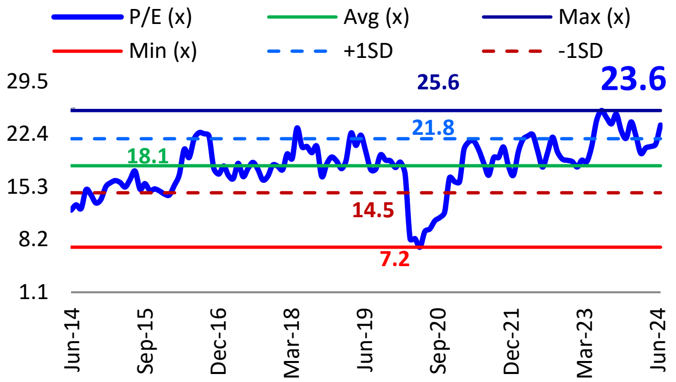
Source: MOFSL, Company

Exhibit 8: Expect healthy RoE of ~21-22% over FY25-26E



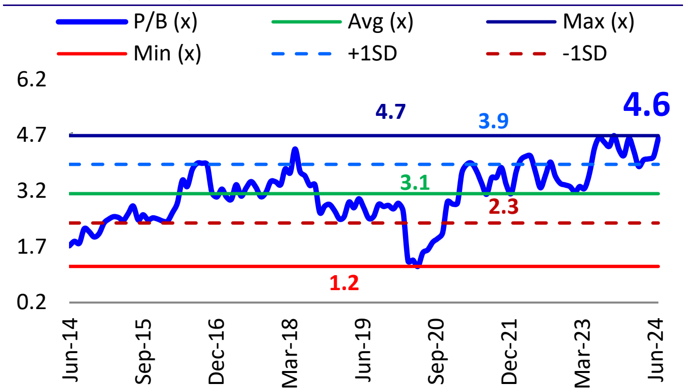
Source: MOFSL, Company

Exhibit 9: One-year forward P/E



Source: Company, MOSL

Exhibit 10: One-year forward P/B



Source: Company, MOSL

Financials and valuations

Income Statement								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Interest Income	64,962	78,417	88,772	93,251	1,18,084	1,75,637	2,39,097	3,04,354
Interest Expenses	35,887	45,922	45,759	42,988	57,488	92,306	1,25,668	1,58,491
Net Interest Income	**29,075**	**32,495**	**43,013**	**50,263**	**60,596**	**83,331**	**1,13,429**	**1,45,862**
Change (%)	15.1	11.8	32.4	16.9	20.6	37.5	36.1	28.6
Income from assignments	867	2,473	0	0	0	0	0	0
Other Operating Income	4,090	5,637	6,388	7,232	9,487	12,815	16,713	21,647
Other Income	7	3	596	905	2,209	3,711	4,267	4,907
Total Income	**34,039**	**40,607**	**49,997**	**58,400**	**72,292**	**99,857**	**1,34,409**	**1,72,417**
Change (%)	20.7	19.3	23.1	16.8	23.8	38.1	34.6	28.3
Total Operating Expenses	**12,696**	**15,776**	**16,394**	**20,687**	**27,799**	**40,818**	**56,891**	**68,137**
Change (%)	13.8	24.3	3.9	26.2	34.4	46.8	39.4	19.8
Employee Expenses	5,906	6,550	7,494	8,945	12,657	23,306	33,094	39,713
Business Origination Expenses	1,525	2,398	2,242	2,259	2,744	0	0	0
Other Operating Expenses	5,265	6,828	6,659	9,483	12,398	17,512	23,797	28,424
Operating Profit	**21,344**	**24,831**	**33,603**	**37,712**	**44,494**	**59,039**	**77,518**	**1,04,280**
Change (%)	25.2	16.3	35.3	12.2	18.0	32.7	31.3	34.5
Total Provisions	**3,112**	**8,973**	**13,218**	**8,803**	**8,497**	**13,218**	**17,657**	**23,626**
PBT	**18,232**	**15,857**	**20,384**	**28,909**	**35,997**	**45,821**	**59,861**	**80,653**
Tax Provisions	6,370	5,334	5,235	7,442	9,335	11,593	15,384	20,728
PAT	**11,862**	**10,524**	**15,149**	**21,467**	**26,662**	**34,228**	**44,477**	**59,925**
Change (%)	29.2	-11.3	44.0	41.7	24.2	28.4	29.9	34.7

Balance Sheet								(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,681	1,714
Equity Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,681	1,714
Preference Share Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	59,880	80,079	93,962	1,15,434	1,41,316	1,93,885	2,36,681	3,14,429
Net Worth for Equity Shareholders	**61,445**	**81,718**	**95,602**	**1,17,077**	**1,42,961**	**1,95,565**	**2,38,362**	**3,16,144**
Borrowings	**5,05,667**	**5,50,054**	**6,37,300**	**6,91,735**	**9,73,561**	**13,44,736**	**17,54,360**	**21,44,566**
Change (%)	31.9	8.8	15.9	8.5	40.7	38.1	30.5	22.2
Total Liabilities	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,20,560**	**24,92,723**
Investments	729	729	16,188	20,762	36,280	41,002	61,403	64,337
Change (%)	0.0	0.0	2,120.0	28.3	74.7	13.0	49.8	4.8
Loans	**5,26,223**	**5,54,027**	**6,58,393**	**7,41,492**	**10,47,483**	**14,44,243**	**18,65,063**	**23,15,619**
Change (%)	24.5	5.3	18.8	12.6	41.3	37.9	29.1	24.2
Net Fixed Assets	1,759	2,839	2,294	2,685	4,233	16,067	19,280	23,136
Total Assets	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,20,560**	**24,92,723**

E: MOFSL Estimates

Financials and valuations

Ratios								(%)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Spreads Analysis (%)								
Avg. Yield on Loans	13.7	14.5	14.6	13.3	13.2	14.1	14.5	14.6
Avg Cost of Funds	8.1	8.7	7.7	6.5	6.9	8.0	8.1	8.1
Spread of loans	5.6	5.8	6.9	6.9	6.3	6.1	6.3	6.4
NIM (on loans)	6.3	6.5	7.7	7.5	7.1	6.7	6.9	7.0
Profitability Ratios (%)								
RoE	21.2	14.7	17.1	20.2	20.5	20.2	20.5	21.6
RoA	2.3	1.7	2.2	2.7	2.7	2.5	2.5	2.7
Int. Expended / Int.Earned	55.2	58.6	51.5	46.1	48.7	52.6	52.6	52.1
Other Inc. / Net Income	12.0	13.9	14.0	13.9	16.2	16.5	15.6	15.4
Efficiency Ratios (%)								
Op. Exps. / Net Income	37.3	38.9	32.8	35.4	38.5	40.9	42.3	39.5
Empl. Cost/Op. Exps.	46.5	41.5	45.7	43.2	45.5	57.1	58.2	58.3
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	104	101	103	107	108	107	106	108
Net NPAs to Net Adv.	1.6	2.3	2.3	2.7	1.7	1.4	1.2	1.1
Assets/Equity	9.3	7.8	7.8	7.0	7.9	8.0	8.5	7.9
Average leverage	9.1	8.5	7.8	7.4	7.5	8.0	8.3	8.1

Valuations	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (INR)	79	100	117	143	174	233	284	369
BV Growth (%)	21.2	26.9	17.0	22.2	22.0	33.9	21.9	30.0
Price-BV (x)	**18.0**	**14.2**	**12.2**	**9.9**	**8.2**	**6.1**	**5.0**	**3.8**
EPS (INR)	15	13	18	26	32	41	53	70
EPS Growth (%)	29.1	-15.4	44.0	41.4	24.0	25.6	29.9	32.1
Price-Earnings (x)	**93.4**	**110.4**	**76.7**	**54.2**	**43.7**	**34.8**	**26.8**	**20.3**
Dividend per share	1.3	1.7	2.0	2.0	2.0	2.0	2.0	2.5
Dividend Yield (%)	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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