Demand outlook improving; asset quality a key monitorable

We met with the senior management of Chola Finance (CIFC), represented by Mr. Ravindra Kundu, Managing Director, and Mr. Arul Selvan, President and CFO, to discuss the company's business outlook as well as the broader industry landscape. Following are the key takeaways from the interaction.

Sustained demand recovery and growth visibility in the VF portfolio

- CIFC indicated that its vehicle finance portfolio delivered YoY growth across all product categories in Nov'25 (except for two-wheelers, due to an unusually strong festive base). This suggests that the demand recovery, which began in late Sep'25 following the GST cut and further strengthened in Oct'25 due to the festive season and pent-up demand, has continued into Nov'25.
- The company expects disbursements to gradually tilt towards new BS6 vehicles as regulatory levies accelerate the replacement of older models. While this shift could exert mild pressure on portfolio yields, CIFC anticipates that overall RoA will remain steady, supported by stronger operating leverage and healthier credit behavior in newer vehicles.
- During the 2QFY26 earnings call, the company guided for 20-25% AUM growth and reiterated that its growth target is not at risk. Management now believes that given the current disbursement trajectory, which is outperforming both sequential and YoY trends, crossing the 20% AUM growth threshold should be comfortably achievable, with some potential upside as well. We model a total AUM growth of 20% in FY26. Further, we expect an AUM CAGR of ~15% in the VF portfolio and ~26% in the non-vehicle segments over FY26E-28.

Calibrated expansion in gold and CD; digital lending (CSEL) fully phased out

- CIFC highlighted that its diversification strategy over the past five years has added five new business verticals, including gold loans and consumer durable financing. The CSEL, SBPL, and SME businesses have now stabilized, while the gold loan and consumer durable segments are expected to achieve steady-state performance over the next couple of years.
- The **digital lending CSEL business,** operated in partnership with fintechs, was discontinued despite satisfactory unit performance, as the post-sharing profitability of ~3.5% RoA was considered insufficient given the operational intensity involved. Regulatory concerns around pricing discipline and repeated targeting of the same borrower segments further influenced the decision. Management shared that the operating resources from this vertical have since been reallocated to accelerate growth in the CD business.
- In the **gold loan segment**, the company is targeting a loan book of ~INR10b by Mar'26. Long-term scalability will depend on the pace of network expansion and the ability to calibrate operating costs relative to growth. Management intends to expand gold loan branches gradually, retaining the standalone model to address security and fraud management risks.

Cholamandalam Finance

Mr. Ravindra Kundu, MD

Mr. Kundu brings over 36 years of professional experience across the automobile and financial services industries, including 24 years with CIFC. He has led various functions, including credit and collections, before taking on 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.

Mr. D. Arul Selvan, CFO

Mr. Selvan is a Commerce graduate and an Associate Member of the Institute of Chartered Accountants of India. He brings nearly 25 years of experience in finance and strategy and has a long-standing association with the Murugappa Group. He has been serving as the CFO since Oct'08.

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- In the **SBPL business**, two markets, Odisha and Madhya Pradesh, have experienced rising delinquencies, which appear linked to stress in the broader microfinance segment. The company is selectively correcting portfolio behavior in these geographies while continuing to deepen presence in the remaining six stronger-performing markets.

Industry landscape: Government support and good monsoons to bolster industry demand

- Management noted that the past 18 months have been particularly challenging for the vehicle finance industry, requiring sustained collection efforts to preserve asset quality. Encouragingly, the environment has begun to improve, with commercial vehicle sales in both the LCV and M&CV segments recording double-digit industry growth for the first time in over 18 months. This initial recovery points to healthier operating conditions for auto OEMs through 3Q/4QFY26.
- At the same time, management cautioned that macro indicators remain mixed despite resilient GDP growth. Industrial production has been subdued, with IIP expanding by only 0.4%. Given IIP's strong correlation with employment generation, construction activity, mining, and manufacturing output, management stressed the importance of GDP and IIP moving in tandem to sustain broad-based economic momentum.
- Management also highlighted that while policy support has been favorable through repo rate reductions, GST rationalization, and cuts in personal income tax, sustained improvement in vehicle demand will depend largely on consumption strength, private capex, and government spending. While consumption metrics have begun to show early signs of recovery, government expenditure and private sector capex still remain soft.
- Management also shared that the CV industry typically undergoes downcycles lasting two to three years, and with the current cycle now 18-22 months old, it believes the segment is nearing the trough. The long-term outlook for India remains constructive, contingent on global stability and continued domestic political continuity.

Expects NIM expansion of ~10-15bp in 2H; well-positioned in a declining interest rate environment

- Management highlighted that the MCLR rate reduction has not been uniform across banks. Based on the ~100bp repo rate cut announced till Nov'25 (excluding the ~25bp announced in Dec'25), the company expects CoF to decline by an additional ~10-15bp in 2H. With the additional ~25bp rate cut announced in the Dec'25 MPC meet, the benefit on CoF should be greater than previously anticipated, providing further margin tailwinds, and will support a sustained NIM expansion of an additional ~15bp (MOFSLe) in FY27.
- Around 25% of the total borrowings is linked to external benchmarks such as the repo rate and T-bill yields, enabling immediate transmission of rate reductions. In contrast, the benefits of market borrowings, which constitute ~50% of the borrowing mix, will accrue only upon refinancing as these instruments mature.
- This easing in the CoF is expected to drive an NIM expansion of about 10-15bp in FY26, with the bulk of the benefit reflecting in 2HFY26 as the MCLR-based repricing flows through. The improvement will largely stem from lower borrowing costs and the company's ability to sustain margins even in its floating-rate product segments.
- Given the progressively improving funding environment and a well-balanced liability profile, CIFC is well-positioned for a steady margin expansion over the near to medium term. We model an NIM expansion of ~15bp each in FY26 and FY27.

Expect sequential decline in credit costs, although they will remain elevated for the full year FY26

- Credit costs will remain somewhat elevated YoY until 4QFY26, even as we expect a sequential moderation in NCL. A more meaningful improvement is anticipated in FY27 as collection performance strengthens across product segments. We expect credit costs (as a % of avg. assets) of ~1.6% in FY26 compared to ~1.4% in FY25.
- The company is actively winding down its fintech book, which contributes a disproportionate share of its elevated credit costs. A complete winding down of this portfolio is expected to materially reduce overall credit costs. Additionally, a better-than-expected monsoon season has supported stronger kharif output, improving rural cash flows. This, in turn, is likely to drive asset-quality improvement in the vehicle finance portfolio by 4QFY26, supporting a broader moderation in delinquencies and credit costs.
- Management reiterated its focus on restoring RoTA (PBT) to 3.5%, a goal that hinges on the normalization of profitability in the vehicle finance and CSEL portfolios, both of which are currently weighing on company-level RoA.

Credit risk management and write-off policy

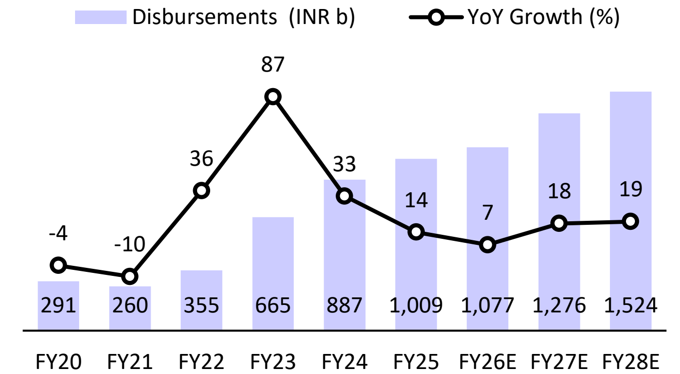
- The resolution timeframe for Housing Loans (HL) and SBPL is considerably longer than LAP loans due to the unavailability of SARFAESI below ticket size of INR2m. Without SARFAESI, property possession can take 3 to 4 years, delaying the overall resolution process.
- Regarding vehicle loans, the company provides 100% provisioning at 36 months but has not written off these loans for the last five years, instead focusing on achieving resolution.

Valuation and view

- CIFC is gradually evolving into a more robust and resilient NBFC—one that is less cyclical, more diversified, and increasingly anchored in stable, secured retail and SME income streams. The company's measured approach of curbing exposure to riskier product lines, while simultaneously expanding newer businesses, such as CD and gold loans, underscores its commitment to preserving earnings quality and maintaining balance sheet strength.
- The company is navigating a complex operating environment by reinforcing its core businesses while taking corrective measures in an underperforming segment like CSEL. A key management priority is improving operational efficiency, with efforts directed toward enhancing productivity and optimizing costs, particularly in its vehicle, home loans and LAP businesses.
- CIFC trades at 4x FY27E P/BV, a premium that we believe is well-deserved and likely to sustain. This reflects the company's consistent focus on navigating vehicle demand cyclicality while sustaining healthy AUM growth and stable asset quality through a well-diversified product mix. We expect CIFC to deliver a PAT CAGR of ~25% over FY25-28, with RoA/RoE of 2.7%/20% by FY28. We reiterate BUY with a TP of INR2,000 (based on 4x Dec'27E BVPS).

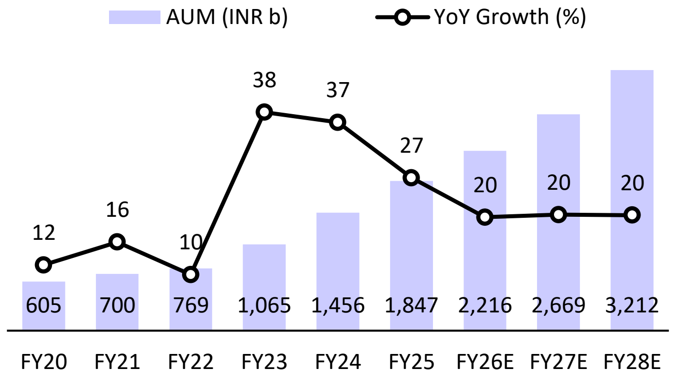
Story in charts

Exhibit 1: Disbursements CAGR of ~19% over FY26-28…



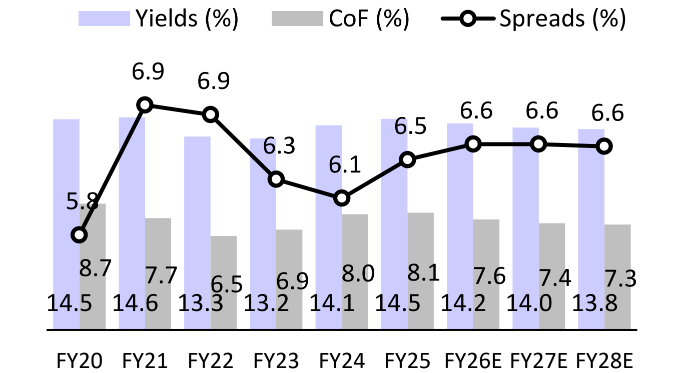
Sources: MOFSL, Company

Exhibit 2: …leading to ~20% AUM CAGR over the same period



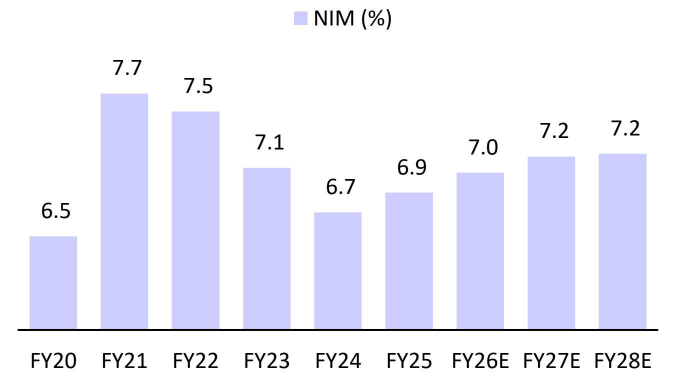
Sources: MOFSL, Company

Exhibit 3: Expect CoF to decline, driven by rate cuts



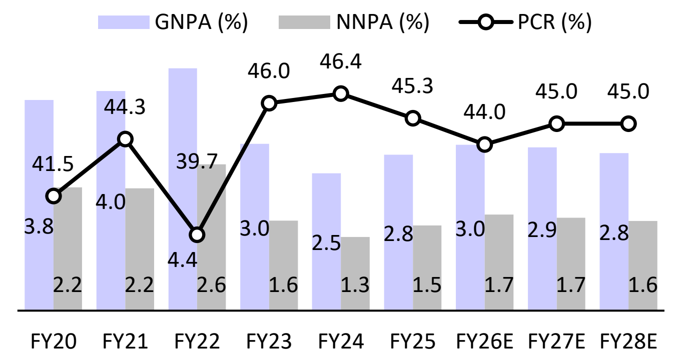
Sources: MOFSL, Company

Exhibit 4: NIMs to expand by ~15bp each in FY26/FY27E



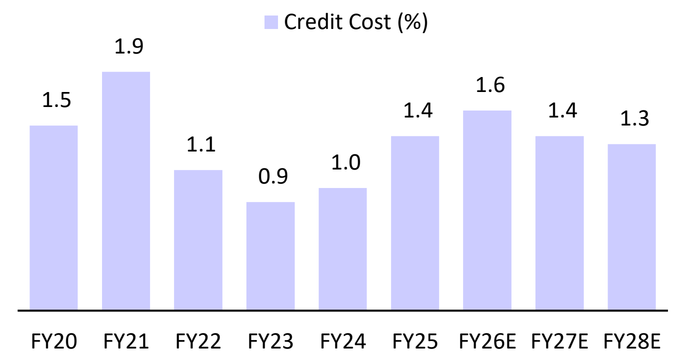
Sources: MOFSL, Company

Exhibit 5: Asset quality to gradually improve from FY27 onwards



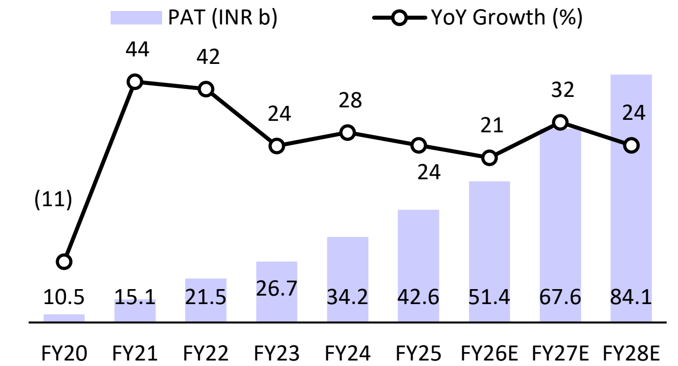
Sources: MOFSL, Company

Exhibit 6: Credit cost to remain elevated in FY26E



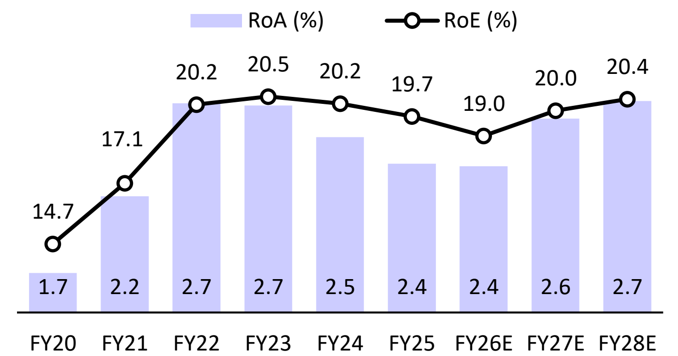
Sources: MOFSL, Company

Exhibit 7: Expect PAT CAGR of ~25% over FY25-28



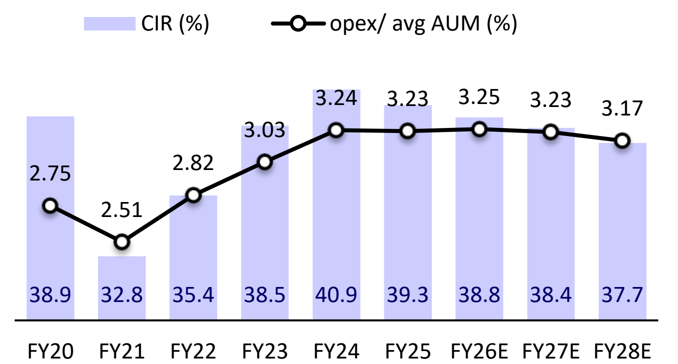
Sources: MOFSL, Company

Exhibit 8: RoA/RoE of 2.7%/20% by FY28E



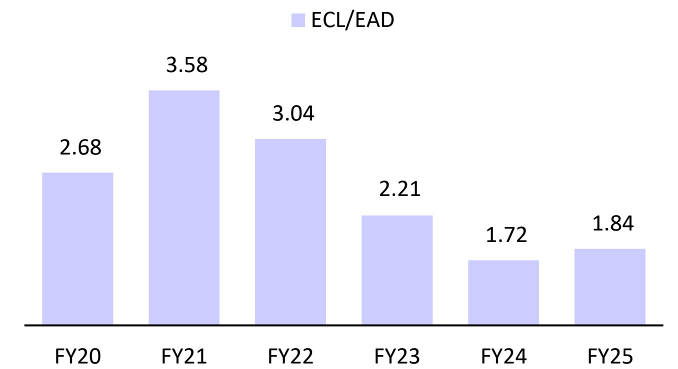
Sources: MOFSL, Company

Exhibit 9: Cost ratios to remain broadly stable in FY27 driven by investments in building its CD and Gold loan businesses



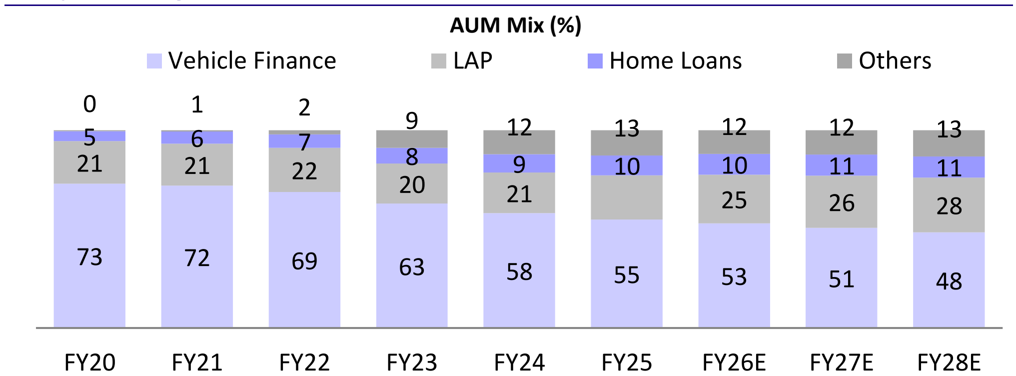
Sources: MOFSL, Company

Exhibit 10: ECL/EAD trends



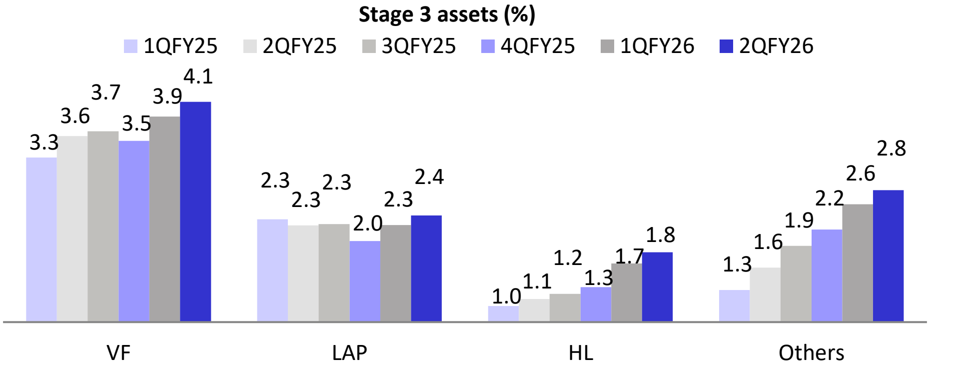
Sources: MOFSL, Company

Exhibit 11: Share of vehicle finance portfolio will continue to decline as it diversifies into non-auto product segments



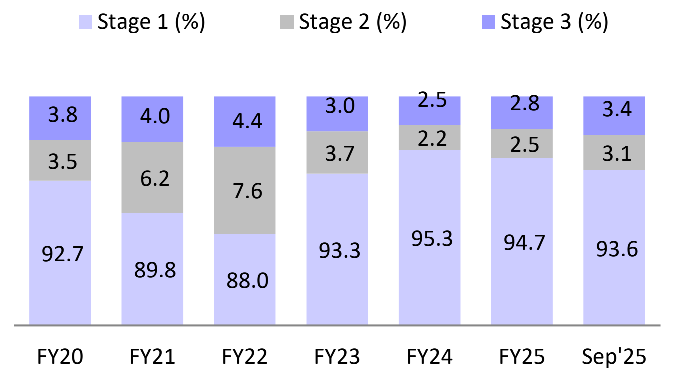
Sources: MOFSL, Company

Exhibit 12: Asset quality deteriorated across all product segments in 2QFY26



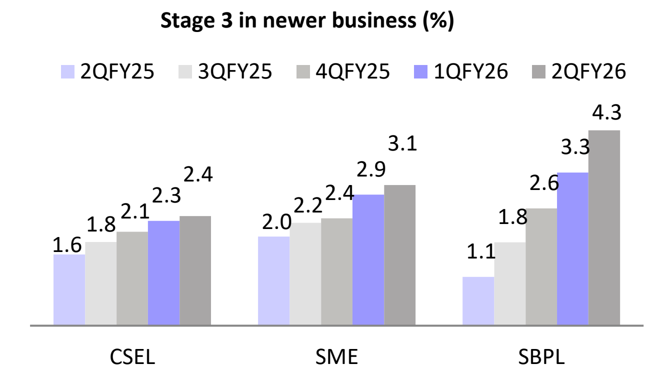
Sources: MOFSL, Company

Exhibit 13: Gross loans – Stage-wise (%)



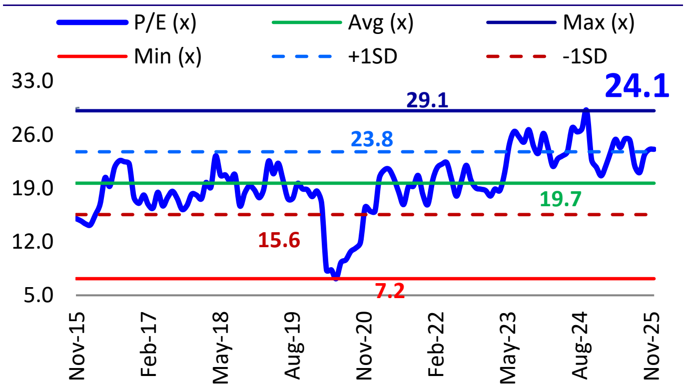
Sources: MOFSL, Company

Exhibit 14: Stage 3 assets in newer businesses (%)



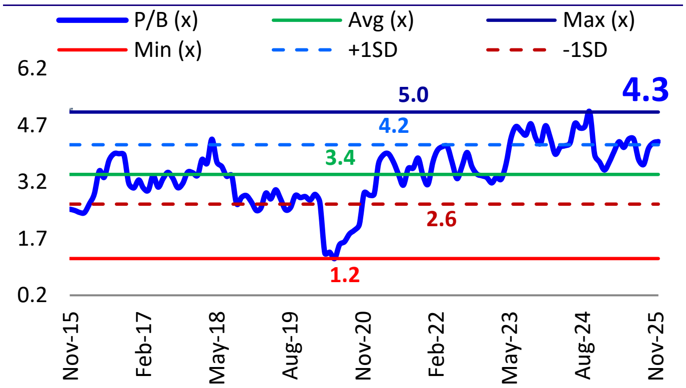
Sources: MOFSL, Company

Exhibit 15: One-year forward P/E



Sources: MOFSL

Exhibit 16: One-year forward P/B



Sources: MOFSL

Financials and valuations

Income Statement									(INR M)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Interest Income	78,417	88,772	93,251	1,18,084	1,75,637	2,37,200	2,82,203	3,30,526	3,94,751
Interest Expenses	45,922	45,759	42,988	57,488	92,306	1,24,849	1,42,440	1,60,102	1,89,005
Net Interest Income	**32,495**	**43,013**	**50,263**	**60,596**	**83,331**	**1,12,351**	**1,39,763**	**1,70,424**	**2,05,746**
Change (%)	11.8	32.4	16.9	20.6	37.5	34.8	24.4	21.9	20.7
Income from assignments	2,473	0	0	0	0	1,590	4,771	4,294	4,079
Other Operating Income	5,637	6,388	7,232	9,487	12,815	18,666	21,050	25,982	32,262
Other Income	3	596	905	2,209	3,711	3,092	4,329	4,762	5,142
Total Income	**40,607**	**49,997**	**58,400**	**72,292**	**99,857**	**1,35,699**	**1,69,913**	**2,05,462**	**2,47,230**
Change (%)	19.3	23.1	16.8	23.8	38.1	35.9	25.2	20.9	20.3
Total Operating Expenses	**15,776**	**16,394**	**20,687**	**27,799**	**40,818**	**53,388**	**65,952**	**78,808**	**93,210**
Change (%)	24.3	3.9	26.2	34.4	46.8	30.8	23.5	19.5	18.3
Employee Expenses	6,550	7,494	8,945	12,657	23,306	32,805	42,319	51,629	61,954
Business Origination Expenses	2,398	2,242	2,259	2,744	0	0	0	0	0
Other Operating Expenses	6,828	6,659	9,483	12,398	17,512	20,583	23,634	27,179	31,256
Operating Profit	**24,831**	**33,603**	**37,712**	**44,494**	**59,039**	**82,311**	**1,03,961**	**1,26,654**	**1,54,020**
Change (%)	16.3	35.3	12.2	18.0	32.7	39.4	26.3	21.8	21.6
Total Provisions	**8,973**	**13,218**	**8,803**	**8,497**	**13,218**	**24,943**	**34,749**	**35,626**	**40,709**
% of Operating Profit	36.1	39.3	23.3	19.1	22.4	30.3	33.4	28.1	26.4
PBT	**15,857**	**20,384**	**28,909**	**35,997**	**45,821**	**57,369**	**69,212**	**91,028**	**1,13,311**
Tax Provisions	5,334	5,235	7,442	9,335	11,593	14,783	17,835	23,457	29,199
Tax Rate (%)	33.6	25.7	25.7	25.9	25.3	25.8	25.8	25.8	25.8
Extraordinary Items	0	0	0	0	0	0	0	0	0
PAT	**10,524**	**15,149**	**21,467**	**26,662**	**34,228**	**42,585**	**51,377**	**67,571**	**84,111**
Change (%)	-11.3	44.0	41.7	24.2	28.4	24.4	20.6	31.5	24.5
Proposed Dividend	1,662	1,640	1,641	1,645	1,681	1,683	1,716	2,145	2,145

Balance Sheet									(INR M)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Share Capital	1,640	1,640	1,643	1,645	1,681	1,683	1,716	1,716	1,716
Equity Share Capital	1,640	1,640	1,643	1,645	1,681	1,683	1,716	1,716	1,716
Preference Share Capital	0	0	0	0	0	0	0	0	0
Reserves & Surplus	80,079	93,962	1,15,434	1,41,316	1,93,885	2,34,592	3,04,218	3,69,643	4,51,609
Net Worth for Equity Shareholders	**81,718**	**95,602**	**1,17,077**	**1,42,961**	**1,95,565**	**2,36,274**	**3,05,934**	**3,71,360**	**4,53,326**
Borrowings	**5,50,054**	**6,37,300**	**6,91,735**	**9,73,561**	**13,44,736**	**17,49,461**	**19,89,125**	**23,67,388**	**28,39,354**
Change (%)	8.8	15.9	8.5	40.7	38.1	30.1	13.7	19.0	19.9
Total Liabilities	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,16,476**	**23,30,411**	**27,79,402**	**33,39,433**
Investments	729	16,188	20,762	36,280	41,002	63,904	59,674	68,654	79,502
Change (%)	0.0	2,120.0	28.3	74.7	13.0	55.9	-6.6	15.0	15.8
Loans	**5,54,027**	**6,58,393**	**7,41,492**	**10,47,483**	**14,44,243**	**18,19,299**	**21,49,807**	**25,88,913**	**31,15,581**
Change (%)	5.3	18.8	12.6	41.3	37.9	26.0	18.2	20.4	20.3
Net Fixed Assets	2,839	2,294	2,685	4,233	16,067	17,827	21,393	25,671	29,522
Total Assets	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,16,476**	**23,30,411**	**27,79,402**	**33,39,433**

E: MOFSL Estimates

Financials and valuations

Ratios									(%)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Spreads Analysis (%)									
Avg. Yield on Loans	14.5	14.6	13.3	13.2	14.1	14.5	14.2	14.0	13.8
Avg Cost of Funds	8.7	7.7	6.5	6.9	8.0	8.1	7.6	7.4	7.3
Spread of loans	5.8	6.9	6.9	6.3	6.1	6.5	6.6	6.6	6.6
NIM (on loans)	6.5	7.7	7.5	7.1	6.7	6.89	7.04	7.19	7.2
Profitability Ratios (%)									
RoE	14.7	17.1	20.2	20.5	20.2	19.7	19.0	20.0	20.4
RoA	1.7	2.2	2.7	2.7	2.5	2.4	2.4	2.6	2.7
Int. Expended / Int.Earned	58.6	51.5	46.1	48.7	52.6	52.6	50.5	48.4	47.9
Other Inc. / Net Income	13.9	14.0	13.9	16.2	16.5	16.0	14.9	15.0	15.1
Efficiency Ratios (%)									
Op. Exps. / Net Income	38.9	32.8	35.4	38.5	40.9	39.3	38.8	38.4	37.7
Empl. Cost/Op. Exps.	41.5	45.7	43.2	45.5	57.1	61.4	64.2	65.5	66.5
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	101	103	107	108	107	104	108	109	110
Net NPAs to Net Adv.	2.2	2.2	2.6	1.6	1.3	1.5	1.7	1.7	1.6
Assets/Equity	7.8	7.8	7.0	7.9	8.0	8.5	7.6	7.5	7.4
Average leverage	8.5	7.8	7.4	7.5	8.0	8.3	8.0	7.5	7.4

Valuations	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Book Value (INR)	100	117	143	174	233	281	356	433	528
BV Growth (%)	26.9	17.0	22.2	22.0	33.9	20.7	26.9	21.4	22.1
Price-BV (x)	**17.4**	**14.8**	**12.1**	**10.0**	**7.4**	**6.2**	**4.9**	**4.0**	**3.3**
EPS (INR)	13	18	26	32	41	51	60	79	98
EPS Growth (%)	-15.4	44.0	41.4	24.0	25.6	24.3	18.3	31.5	24.5
Price-Earnings (x)	**134.8**	**93.6**	**66.2**	**53.4**	**42.5**	**34.2**	**28.9**	**22.0**	**17.7**
Dividend per share	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.5	2.5
Dividend Yield (%)	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**

E: MOFSL Estimates

AUM Mix (%)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
AUM	**6,05,490**	**6,99,960**	**7,69,070**	**10,64,980**	**14,55,720**	**18,47,460**	**22,16,295**	**26,68,983**	**32,11,939**
Change (%)	11.6	15.6	9.9	38.5	36.7	26.9	20.0	20.4	20.3
On Books AUM	**5,51,350**	**6,58,380**	**7,41,420**	**10,47,360**	**14,43,510**	**18,19,290**	**21,49,807**	**25,88,913**	**31,15,581**
Change (%)	4.8	19.4	12.6	41.3	37.8	26.0	18.2	20.4	20.3
% of AUM	91.1	94.1	96.4	98.3	99.2	98.5	97.0	97.0	97.0
Off Books AUM	**54,140**	**41,580**	**27,650**	**17,620**	**12,210**	**28,170**	**66,489**	**80,069**	**96,358**
Change (%)	223.8	-23.2	-33.5	-36.3	-30.7	130.7	136.0	20.4	20.3
% of AUM	8.9	5.9	3.6	1.7	0.8	1.5	3.0	3.0	3.0

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
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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