



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Cholamandalam Finance

03 November 2023

In-line results; Weak asset quality in new portfolio concerning

RESULT UPDATE

Sector: NBFCs Rating: HOLD

CMP: Rs 1,166 Target Price: Rs 1,100

Stock Info

Sensex/Nifty	64,482/19,262
Bloomberg	CIFC IN
Equity shares	822mn
52-wk High/Low	1284/658
Face value	Rs 2
M-Cap	Rs 1008bn/USD 12.1bn
3-m Avg value	USD 29mn

Financial Snapshot (Rs mn)

Y/E March	FY23	FY24E	FY25E
NII	63,334	83,067	106,695
PPP	44,494	58,365	76,804
PAT	26,662	32,342	41,868
EPS (Rs)	31.0	37.7	48.8
EPS Gr. (%)	24.2	21.3	29.5
BV/Sh (Rs)	166	248	293

Ratios

NIM (%)	6.9	6.8	6.8
C/I ratio (%)	38.5	38.9	37.4
RoA (%)	2.7	2.5	2.5
RoE (%)	20.5	18.2	18.0
Payout (%)	6.2	7.0	7.0

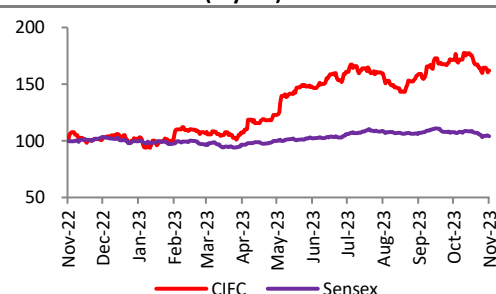
Valuations

P/E (x)	37.6	31.0	23.9
P/BV (x)	7.0	4.7	4.0
Div. Yield (%)	0.2	0.2	0.3

Shareholding pattern (%)

	Mar'23	Jun'23	Sep'22
Promoter	51.5	51.5	51.4
FII	19.6	20.9	21.5
DII	21.5	20.4	20.0
Others	7.4	7.3	7.0

Stock Performance (1-year)



Cholamandalam Finance's (CIFC) reported in-line operational performance, aided by 10bps expansion in NIMs to 7.4% and 42% YoY growth in AUM. AUM growth was aided by healthy growth across product segments viz Vehicle Finance, LAP, Home loan, New Business segments. Opex/ AUM ratio increased to 3.2% (vs 2.8% in Q1) due to increments paid during the quarter. In terms of asset quality, while overall stage 3 assets improved marginally to 2.96% from 3.06% in Q1, stage 3 assets in New business verticals increased sharply from 1.01% in Q1 to 1.42%, largely led by CSEL's partnership portfolio (4.7% GS3). Stage 3 provision cover stood at 47.3% vs 45.4% in Q1. While we remain positive on the growth front, we would be watchful on asset quality in the New business portfolio, as the portfolio is yet to complete one full cycle. We believe the stock is fairly valued at 4.0x FY25 BV with RoA/ RoE of 2.5%/ 18.0%. Hence, we maintain HOLD rating with a price target of Rs. 1,100 (unchanged), valuing it at 3.75x 25BV.

Key result highlights:

- CIFC's Q2FY24 operating performance was in line with our estimates, with NII/ OP at Rs202bn/ Rs14.2bn, as higher opex (+20% QoQ) was offset by slightly higher NII. Steady credit cost at 1.3% resulted in PAT growth of 35.3% YoY / 5.0% QoQ at Rs 7.63bn, inline with our estimates.
- NIMs improved by 10bps QoQ at 7.4% (vs. 1QFY24: 7.3%), led by 10bps increase in yields and stable cost of funds. The management indicated that the cost of funds have peaked and the improvement in yields on high yielding VF book will come with a lag effect in couple of quarters which will push NIMs upwards.
- Sequentially, opex was higher mainly due to increase in employee cost (+20% QoQ). The increase in employee cost was primarily due to shift of off-role employees to on-role and payout of increment / incentives which was effective Jul'23.
- AUM growth was strong at 41.7% YoY (8.2% QoQ) and was led by significant growth in the new business segment (+17% QoQ) (New Business segments include SME; Consumer and Small Enterprise loan; and Secured Business and Personal loan) and Home loan (+67% YoY, +13% QoQ) coupled with consistent growth in vehicle finance (+30% YoY +6% YoY), and LAP (+31% YoY and +8% QoQ).
- Disbursement growth was strong at 47.3% YoY on account of growth across all business segments. On QoQ basis, disbursements growth has picked up with 7.6% growth (vs -4.8% QoQ growth in 1Q).
- Asset quality improved marginally with gross/ net stage 3 assets ratio improving by 10bps / 12bps QoQ at 3.0%/1.6%. The provision coverage increased by ~2% QoQ at 47.3%. There was a significant jump in GS3 assets of new business segment (GS3 ratio at 1.42% vs 1.01% in 1Q) mainly in the CSEL portfolio (Rs20bn; Partnership led). While the management won't be onboarding any new partnership for now, it will increase business with only less delinquent partners.

Valuation & recommendation

We have cut our earning estimates by 1%/2% for FY24/25 to factor in marginally higher opex. At cmp stock trades at 4.0x FY25BV with RoA/ RoE of 2.5%/ 18.0%. While we remain positive on the growth trajectory, sharp rise in NPA in new business vertical (especially CSEL partnership portfolio) is a cause for concern and we remain watchful of the asset quality in that book. We believe the stock is fairly valued hence maintain HOLD rating, with a target price of Rs 1,100 (unchanged), valuing it at 3.75x 25 BV.

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Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: Quarterly performance

(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
Net Income	16,974	18,317	20,601	21,265	23,667	39.4	11.3
Total Operating Expenses	6,611	7,520	7,870	7,867	9,461	43.1	20.3
<i>As % Of Net Income</i>	<i>38.9</i>	<i>41.1</i>	<i>38.2</i>	<i>37.0</i>	<i>40.0</i>	<i>103bps</i>	<i>298bps</i>
Employee Expenses	2,910	3,494	3,793	3,279	5,702	96.0	73.9
<i>As % Of Net Income</i>	<i>17.1</i>	<i>19.1</i>	<i>18.4</i>	<i>15.4</i>	<i>24.1</i>	<i>695bps</i>	<i>868bps</i>
Other Expenses	3,701	4,027	4,077	4,588	3,759	1.6	-18.1
<i>As % Of Net Income</i>	<i>21.8</i>	<i>22.0</i>	<i>19.8</i>	<i>21.6</i>	<i>15.9</i>	<i>(592bps)</i>	<i>(569bps)</i>
Operating Profit	10,363	10,797	12,731	13,399	14,206	37.1	6.0
<i>As % Of Net Income</i>	<i>61.1</i>	<i>58.9</i>	<i>61.8</i>	<i>63.0</i>	<i>60.0</i>	<i>(103bps)</i>	<i>(298bps)</i>
Provisions	2,782	1,589	1,140	3,723	3,998	43.7	7.4
PBT	7,581	9,208	11,591	9,675	10,208	34.6	5.5
Total Tax	1,947	2,365	3,063	2,415	2,583	32.7	6.9
Reported PAT	5,634	6,843	8,528	7,260	7,625	35.3	5.0
Adjusted PAT	5,634	6,843	8,528	7,260	7,625	35.3	5.0
Adjusted EPS	6.6	8.0	9.9	8.5	8.9	35.3	5.0
Yield Analysis (%)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	(bps) YoY	(bps) QoQ
Yield (Calc.)	13.3	13.7	13.9	13.9	14.1	78bps	21bps
Cost of funds (Calc.)	6.3	6.7	6.9	7.3	7.4	106bps	12bps
Cost of borrowing (Calc.)	7.0	7.3	7.4	7.8	7.8	75bps	(6bps)
NIMs(Calc.)	7.0	7.0	7.0	6.7	6.7	(28bps)	9bps
Yield (Reported)	13.6	14.0	14.4	14.2	14.3	70bps	10bps
Cost of funds (Reported)	6.0	6.4	6.6	6.9	6.9	90bps	0bps
NIM (Reported)	7.6	7.6	7.8	7.3	7.4	(20bps)	10bps
Asset quality (IndAs) (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Gross NPAs	33.8	33.7	32.2	35.5	37.2	10.2	4.9
Net NPAs	19.8	19.9	17.4	19.4	19.6	-0.8	1.2
Gross NPAs (%)	3.8	3.5	3.0	3.1	3.0	(88bps)	(10bps)
Net NPAs (%)	2.3	2.1	1.7	1.7	1.6	(72bps)	(12bps)
Net NPAs/Net worth (%)	15.4	14.7	12.2	12.9	12.4	(295bps)	(46bps)
Provision cover (%)	41.5	41.0	46.0	45.4	47.3	584bps	192bps
Product-wise asset quality(Rs bn)	Closing Asset	Gross Stage 3	Stage 3 Asset %	ECL Provision	PCR	Net Stage 3	Net Stage 3%
Sept 2023	1,255.8	37.2	3.0%	17.6	47.3%	19.6	1.6%
VF	771.7	25.6	3.3%	12.2	47.5%	13.5	1.7%
LAP	242.7	8.2	3.4%	3.7	45.0%	4.5	1.9%
HL	105.3	1.5	1.4%	0.5	36.4%	0.9	0.9%
Others	136.1	1.9	1.4%	1.2	63.5%	0.7	0.5%
June 2023	1,157.3	35.5	3.1%	16.1	45.4%	19.4	1.7%
VF	726.6	24.3	3.4%	11.1	45.5%	13.3	1.8%
LAP	223.5	8.5	3.8%	3.8	44.9%	4.7	2.1%
HL	92.3	1.4	1.6%	0.5	36.1%	0.9	1.0%
Others	115.0	1.2	1.0%	0.7	58.9%	0.5	0.4%

Business AUM (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	% of total
Vehicle Finance	576	613	669	711	754	30.9	6.1	61
LAP	188	200	216	229	247	31.2	8.1	20
Home Loans	65	73	85	95	108	67.4	13.4	9
New Businesses	48	69	95	113	133	179.7	17.6	11
Total	877	955	1,065	1,148	1,242	41.7	8.2	100
AUM-Vehicle Finance (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	% of total VF
HCV	40.2	41.3	47.4	48.8	50.6	26.0	3.7	7
LCV	123.1	128.1	140.3	148.1	155.8	26.6	5.2	21
Mini LCV-3W & SCV	22.0	22.8	23.7	23.9	24.2	10.1	1.4	3
3W	3.8	3.9	4.3	4.6	5.5	46.1	18.4	1
Cars (& MUV)	65.7	71.2	78.0	84.4	90.8	38.1	7.5	12
MUV	45.9	50.9	57.2	63.0	69.1	50.5	9.7	9
Used vehicles (Refinance)	155.8	164.9	178.3	189.5	202.5	30.0	6.8	27
Tractors	53.2	55.1	56.3	57.8	58.6	10.1	1.4	8
Construction Equipment	36.7	39.9	44.9	47.2	49.1	33.8	3.9	7
2 wheeler	29.8	34.7	39.0	43.3	47.9	60.7	10.5	6
Total	576	613	669	711	754	30.9	6.1	100
Disbursement (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	% of total
Vehicle Finance	85	104	122	113	117	38	3.8	54
Home Equity	22	23	28	27	32	42	19.1	15
Home Loan	7	11	14	15	16	112	8.3	7
New Business	31	38	47	46	50	61	10.1	23
Total	146	176	210	200	215	47.3	7.6	100
Disbursement-Vehicle Finance (Rs bn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	% of total VF
HCV	4.8	5.6	10.5	5.8	6.4	33.6	9.6	5
LCV	16.0	18.2	22.1	19.4	18.6	16.0	-3.9	16
Mini LCV-3W & SCV	3.0	3.5	3.4	2.7	2.9	-0.7	8.1	2
3W	0.7	0.7	0.9	1.0	1.5	117.6	52.6	1
Cars (& MUV)	9.5	11.6	13.1	13.3	13.7	44.0	3.3	12
MUV	7.6	9.3	10.8	10.6	11.3	48.6	6.8	10
Used vehicles (Refinance)	26.6	31.4	36.3	35.8	39.3	47.9	9.8	34
Tractors	5.0	7.7	6.4	7.7	6.2	23.9	-20.0	5
Construction Equipment	4.7	6.9	8.8	6.5	6.3	34.0	-4.0	5
2 wheeler	7.2	9.7	9.6	10.2	11.1	54.4	8.7	9
Total	85	104	122	113	117	38.0	3.8	100

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

(Rs bn)	Old Estimates		New Estimates		% Change	
	FY24	FY25	FY24	FY25	FY24	FY25
NII	82.7	106.1	83.1	106.7	0.5	0.5
Operating Profit	58.7	76.3	58.4	76.8	-0.7	0.7
PAT	32.6	42.6	32.3	41.9	-0.9	-1.8
BV	248	295	248	293	0	0
EPS	38	50	38	49	-1	-2

Source: Company, Systematix Institutional Research

Earnings call highlights

Business:

- Strong business growth driven by healthy demand across segments. Dussehra saw strong demand for PV, CV, 3W. CRE, 2W and tractor segment likely to pickup from Nov'23 onwards.
- CSEL and SBPL are high margin but low volume business, while SME are low margins but high volumes business.
- New business segment – traditional : partnership mix at 75% : 25%. Yields - ~14%. Management will gradually slow down the partnership business
- VF business – Tractor and 2W segment saw muted growth. Segments like LCV, HCV, small vehicles have registered a strong growth in Oct'23. Disbursements in used vehicles was 10% QoQ mainly driven by HCV, LCV, PV. (used vehicles are not more than 5-10 years old). Expecting 20% of the growth in this segment to come from CV and the remaining 15% from used vehicles, CE and 2w. The tractor segment has been down 2% and 6% in Q1 and Q2 respectively, the month of October has also seen a decline of 4%, some uptick maybe seen in the month of November and H2 onwards but overall see the segment to be flattish or improve by 3% in an optimistic scenario.
- The unsecured exposure will be capped at 10% for the next 2 years.
- Overall liquidity position stood strong at Rs 135.7bn (including undrawn sanctioned lines).

Margins:

- VF –Incremental yields are higher at 15.3% vs 14% in the back book; Run down of the old book and increasing share of used vehicle segment (from 25% to 33%) will aid NIMs going forward.
- HL - Yields likely to inch up as management have started exploring new markets apart from south and penetrate deeper into existing markets.
- CoF have peaked out going ahead it is expected to decline by 5-10bps.

Other income / Opex:

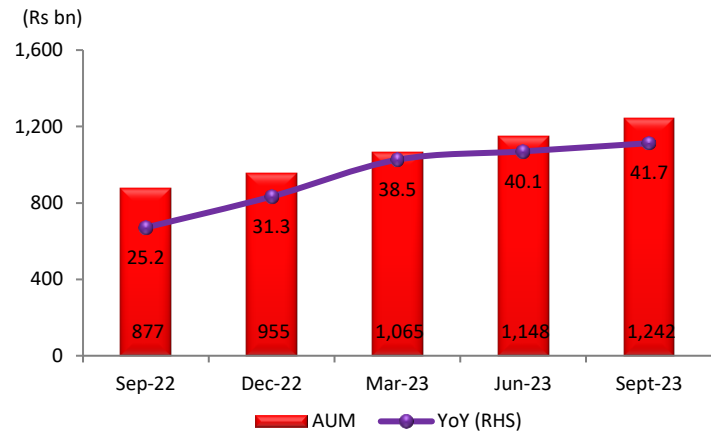
- Other income was higher due to divided income during Q2. Other income on a sustainable basis to be in the range of Rs 350-400mn.
- Employee cost increased due to shift from off-role employees to on-roll and payout of increment / incentives which was effective Jul'23.

Asset Quality:

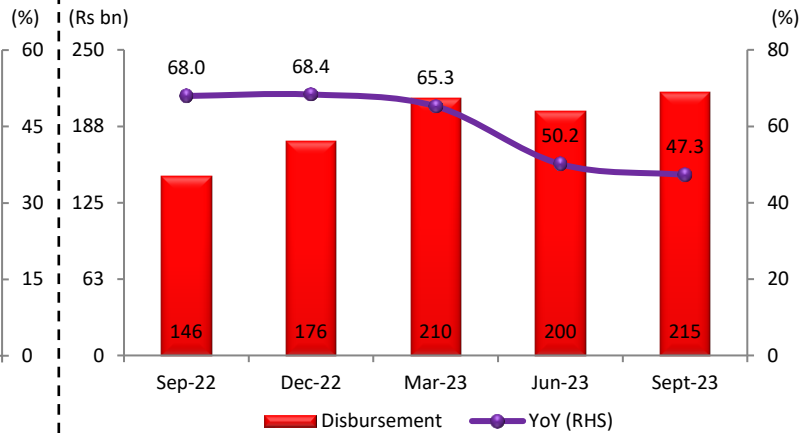
- New business segment: Management cautious on partnership led model within CSEL segment (Rs20bn AUM, within CSEL segment; GS3 on partnership / traditional business stood at 4.7% / 0.82. 10-12 partners need to review their underwriting practices. PCR at ~70%.
- Do not see further deterioration in asset quality in CSEL partnership segment, as corrective steps been taken.
- Write off were Rs 4000 mn in H1.

Guidance:

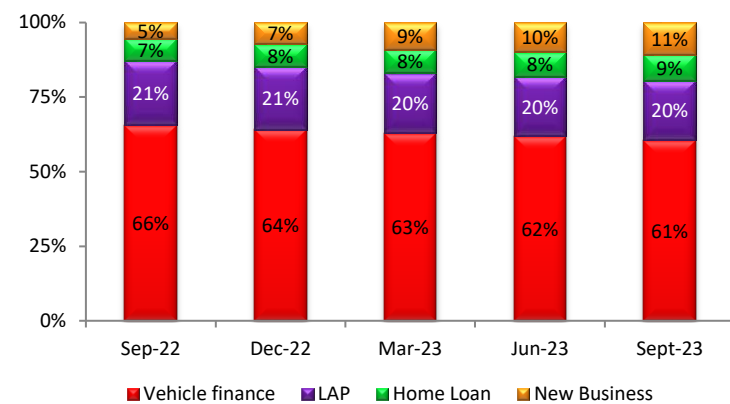
- PCR to be in the range of 45-50%.
- Credit cost / Average asset will be at 1-1.2% levels.
- RoTA to be ~3.5%.

Exhibit 3: AUM growth continues to remain strong...

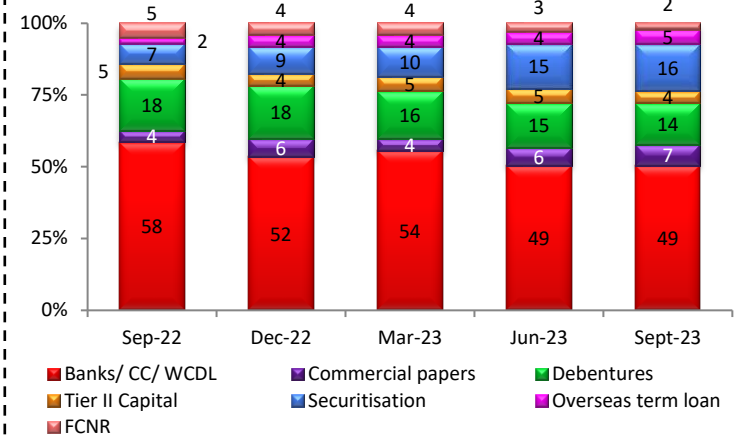
Source: Company, Systematix Institutional Research

Exhibit 4: ...on the back of healthy disbursements

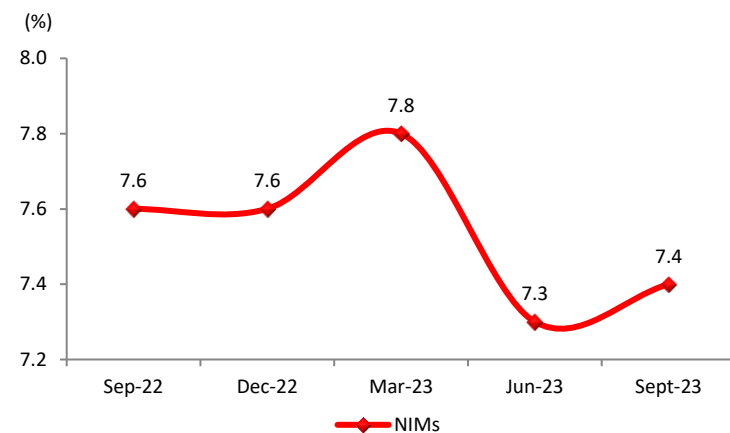
Source: Company, Systematix Institutional Research

Exhibit 5: New business share increasing gradually

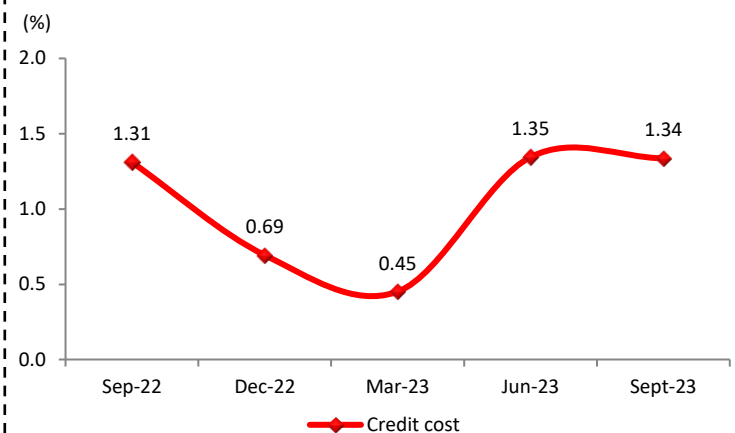
Source: Company, Systematix Institutional Research

Exhibit 6: Diversified borrowing mix

Source: Company, Systematix Institutional Research

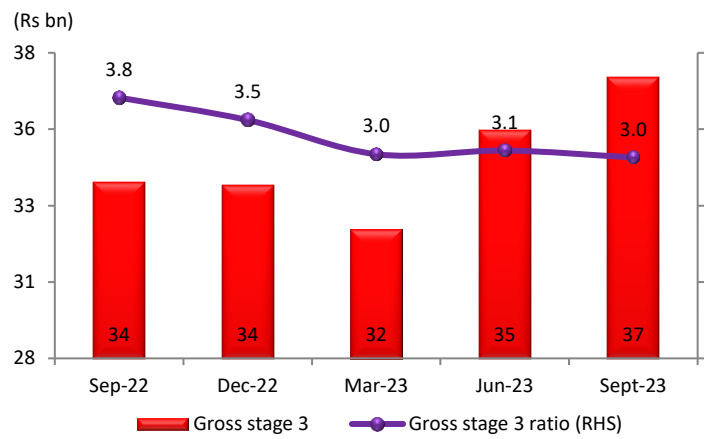
Exhibit 7: NIMs expanded 10bps QoQ led by fall in CoF

Source: Company, Systematix Institutional Research

Exhibit 8: Credit cost steady

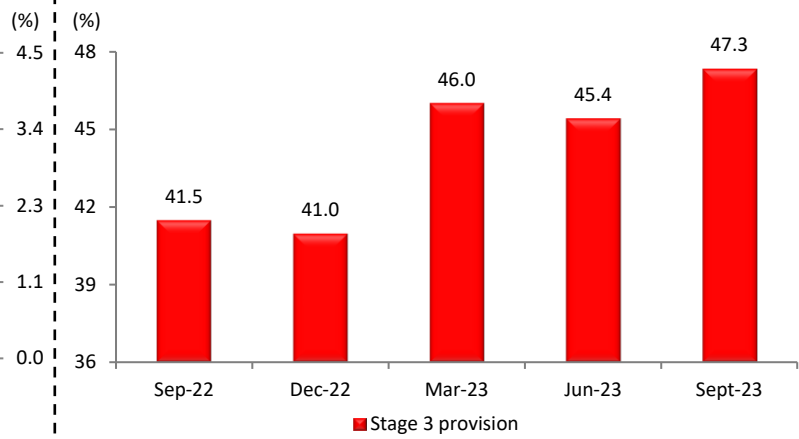
Source: Company, Systematix Institutional Research

Exhibit 9: Gross stage 3 largely remain stable



Source: Company, Systematix Institutional Research

Exhibit 10: ...and adequately provided



Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	46,483	52,680	63,334	83,067	106,695
Other income	3,514	5,720	8,958	12,497	15,912
Net Income	49,997	58,400	72,292	95,564	122,606
Operating expenses	15,834	20,687	27,799	37,199	45,802
Preprovision profit	34,162	37,712	44,494	58,365	76,804
Provisions	13,778	8,803	8,497	14,700	20,277
Profit before tax	20,384	28,909	35,997	43,665	56,527
Tax	5,235	7,442	9,335	11,323	14,659
Tax rate	25.7	25.7	25.9	25.9	25.9
Reported Profit after tax	15,149	21,467	26,662	32,342	41,868

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity	1,641	1,643	1,645	1,718	1,718
Reserves	93,962	115,434	141,316	211,317	250,254
Net worth	95,603	117,077	142,961	213,034	251,972
Borrowings	637,300	691,735	973,561	1,216,951	1,523,859
Others	12,581	14,822	18,634	43,652	60,800
Total liabilities	745,484	823,634	1,135,155	1,473,637	1,836,631
Cash	52,319	42,201	29,614	38,515	48,229
Investments	16,188	20,762	36,200	47,081	58,955
Loans	658,393	741,492	1,047,483	1,359,613	1,693,851
Others	16,290	16,264	17,267	22,457	28,120
Total assets	745,484	823,634	1,135,155	1,473,637	1,836,631

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Interest Income	13.3	12.2	12.3	12.9	12.8
Interest Expense	6.6	5.5	5.9	6.5	6.4
Net Interest Income	6.7	6.7	6.5	6.4	6.4
Other income total	0.5	0.7	0.9	1.0	1.0
Net Income total	7.2	7.4	7.4	7.3	7.4
Operating expenses total	2.3	2.6	2.8	2.9	2.8
Preprovision profit	4.9	4.8	4.5	4.5	4.6
Provisions	2.0	1.1	0.9	1.1	1.2
Profit before tax and exce. items	2.9	3.7	3.7	3.3	3.4
Profit before tax	2.9	3.7	3.7	3.3	3.4
Tax total	0.8	0.9	1.0	0.9	0.9
Profit after tax	2.2	2.7	2.7	2.5	2.5

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yield on portfolio	15.2	13.7	13.5	14.0	13.9
cost of borrowings	7.7	6.5	6.9	7.8	7.7
Interest Spread	7.5	7.2	6.6	6.2	6.2
NIM (on AUM)	7.1	7.2	6.9	6.8	6.8
Cost/ Income (%)	31.7	35.4	38.5	38.9	37.4
Credit cost (%)	2.0	1.1	0.9	1.1	1.2
RoA(%)	2.2	2.7	2.7	2.5	2.5
RoE(%)	17.1	20.2	20.5	18.2	18.0
Leverage (x)	7.8	7.4	7.5	7.3	7.1
Tier I (%)	15.2	16.5	14.8	16.9	16.0
CAR (%)	19.1	19.6	17.1	18.7	17.5
Gross NPA (%)	4.0	4.4	3.0	3.2	4.0
Net NPA (%)	2.2	2.7	1.7	1.8	2.2
Provision coverage (%)	44.3	39.7	46.0	46.0	46.0

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY21	FY22	FY23	FY24E	FY25E
Net interest income	21.7	13.3	20.2	31.2	28.4
Net Income total	21.8	16.8	23.8	32.2	28.3
Preprovision profit	35.2	10.4	18.0	31.2	31.6
Profit before tax	25.1	41.8	24.5	21.3	29.5
Profit after tax	38.2	41.7	24.2	21.3	29.5
Loan	18.8	12.6	41.3	29.8	24.6
Disbursement	-10.5	36.3	87.5	25.0	22.0
AUM	15.6	9.9	38.5	30.1	25.2

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
FDEPS (Rs)	18	25	31	38	49
PER (x)	66	47	38	31	24
Book value (Rs)	111	136	166	248	293
P/BV (Rs)	10.5	8.6	7.0	4.7	4.0
Adjusted book value (Rs)	94	113	146	220	250
P/ABV (Rs)	12.4	10.3	8.0	5.3	4.7
P/PPP (x)	28.0	25.4	21.6	17.2	13.0
Dividend yield (%)	0.1	0.2	0.2	0.2	0.3

Source: Company, Systematix Institutional Research

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