MIRAE ASSET Sharekhan

Cholamandalam Investment and Finance Company Ltd

Q1 stays weak, signs of recovery in H2

NBFC	Sharekhan code: CHOLAFIN
Reco/View: Buy ⇔	CMP: **Rs. 1,488** (as on Aug 07, 2025)
	Price Target: **Rs. 1,800** ↓

Summary

- Net earnings were in line with estimates. Growth in other income offset impact of higher credit costs.
- Asset quality deteriorated across segments led by vehicle financing and new businesses, leading to elevated credit cost. Improvement in asset quality is expected in H2FY26, hence lower credit cost from current level.
- Disbursements were weak due to weak macros, existing of CSEL business (partnership), and among others. Management expects 20% AUM growth in FY26 and 12-15 bps expansion in NIM.
- AUM/PAT CAGR is expected at 19.7%/25.2% for FY25-27 and RoA/RoE at 2.6%/20.7% in FY27 due to NIM expansion, lower credit costs from current level, and well diversified portfolio. The stock trades at 4.3x/3.5x its FY2026E/FY2027E BV estimates. We maintain a Buy rating with a revised PT of Rs. 1,800.

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		↔	

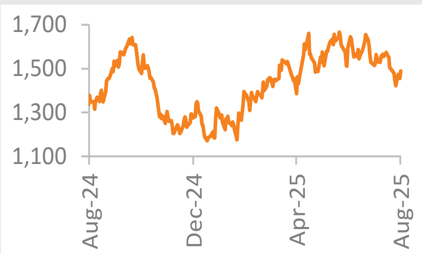
Company details

Market cap:	Rs. 1,25,000 cr
52-week high/low:	Rs. 1,683/ 1,168
NSE volume: (No of shares)	19.7 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	42.0 cr

Shareholding (%)

Promoters	49.9
FII	28.0
DII	16.1
Others	6.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-5.5	7.8	10.2
Relative to Sensex	1.7	-5.4	4.3	8.8

Source: Mirae Asset Sharekhan Research, Bloomberg

Net earnings were in line with estimates (rising 20.6% y-o-y and down 10.3% q-o-q) to Rs. 1,136 crore driven by growth in NII & other income and a lower opex run rate, however higher credit costs partially offset growth. NII grew 23.7%/4.2% (y-o-y/q-o-q) to Rs. 3,184 crore, slightly below estimates. NIM came in at 6.63% (as a percentage of AUM) below estimates by 12 bps due to decline in the yield. However, it was flat on yearly and a sequential basis. Other income beat estimates by 13.9% to Rs. 681 crore (up 48.1% y-o-y and down by 3.1% led by higher upfront assignment income. Opex up 22.7%/1.8% (y-o-y/q-o-q) to Rs. 1,453 crore. Opex/AUM was down by 2/7 bps (y-o-y/q-o-q). PPOP beat estimates by 1.9% to Rs. 2,412 crore (up 30.4% y-o-y and 3.4% q-o-q) driven by growth in other income and lower Opex/AUM. Credit cost rose 51.7% y-o-y and 41.1% q-o-q to Rs. 882 crore, also beat estimates 9.8% due to continued asset quality deterioration. GS-3 up by 54/35 bps (y-o-y/q-o-q) due to weakness in the vehicle financing segment on subdued capacity utilisation caused by early onset of the monsoon and weak macros. Stress built was also higher in the new segments. AUM grew by 23.6%/4.0% (y-o-y/q-o-q) driven LAP, home loans and new segments. Disbursements were flat on yearly basis attributed to drop in the new businesses and HL. LAP and auto disbursements grew by 21% and 7% (y-o-y).

Key positives

- Robust PPOP growth, up 30.4% y-o-y and 3.4% q-o-q, due to higher other income and lower opex run rate.
- Cost-to-income ratio dropped by 142 bps (y-o-y) and 38 bps (q-o-q) driven by robust AUM growth.
- LAP AUM and disbursement grew by 37% and 21% y-o-y and q-o-q.

Key negatives

- Credit cost came in at 1.84% (as a percentage of AUM), higher by 34/48 bps due to stress built up across the segments.
- Asset quality worsened due to higher stress across the board led by vehicle finance and new businesses and also impact due to non-seasonally quarter.
- Disbursements dropped by 7.9% y-o-y and was flat on sequential basis led by vehicle finance and new businesses.
- RoA came in at 2.37%, down by 6/37 bps (as a percentage of AUM).

Management Commentary

- AUM growth is seen at 20% for FY26. Within this, Vehicle finance segment AUM growth is expected at 15-17% while disbursement growth anticipated at 10-12% for FY26.
- NIM likely to expand by 12-15 bps in FY26 led by lower cost of funds on declining interest rate scenario.
- Management guided for an Opex/AUM at ~2.9- 3.0% over the next few quarters.
- Credit cost guidance at 1.5% for FY26.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,800: CIFC witnessed continued challenges in Q1, but net earnings were in line with expectations. Looking ahead to FY26, management guided for a 20% growth in AUM, and a 10-15 bps expansion in NIM driven by a lower cost of funds. Asset quality is expected to improve in H2FY26 from current level hence they guided for 1.5% credit costs in FY26, lower than current levels. We expect 19.7%/25.2% CAGR in AUM/PAT for FY25-27, along with RoA/RoE of 2.6% and RoE of 20.7% in FY27. These growth projections are supported by NIM expansion in FY26 and FY27, higher credit demand during festive periods and diversified portfolio, along with strong presence. Hence, we maintain our Buy rating with a revised PT of Rs. 1,800. Currently, the stock trades at 4.3x its FY26E Book Value and 3.5x its FY27E Book Value

Key Risks

Asset quality challenges in new businesses may put continued pressure on credit cost, continued slow disbursement growth in vehicle finance business due to weak macros may impact on overall AUM guidance.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	6,334	8,383	11,229	13,997	16,998
PAT	2,666	3,423	4,259	5,258	6,677
EPS (Rs.)	32.5	40.7	50.5	62.4	79.2
P/E (x)	45.8	36.5	29.5	23.8	18.8
P/BV (x)	8.5	6.4	5.3	4.3	3.5
RoA	2.7	2.5	2.4	2.4	2.6
RoE	20.5	20.2	19.7	19.9	20.7

Source: Company; Mirae Asset Sharekhan estimates

Key result highlights

- **AUM Growth:** AUM grew by 23.6%/4.0% (y-o-y/q-o-q) driven LAP, Home loans and new segments. Disbursements were flat on yearly basis attributed to drop in the new businesses and home loan. LAP and auto loan disbursements grew by 21% and 7% (y-o-y). AUM growth expected at 20% for FY26. Within this, Vehicle finance segment AUM growth is expected at 15-17% while disbursement growth anticipated at 10-12% for FY26.
- **Margin outlook:** NII grew 23.7%/4.2% (y-o-y/q-o-q) to Rs. 3,184 crore, slightly below estimates. NIM came in at 6.63% (as a percentage of AUM) below estimates by 12 bps due to decline in the yield. NIM to expand by 12-15 bps in FY26 led by lower cost of funds on declining interest rate scenario.
- **Opex outlook:** Opex/AUM was down by 2/7 bps (y-o-y/q-o-q). Management guided for an Opex/AUM at ~2.9- 3.0% over the next few quarters.
- **Asset quality:** Credit cost rose 51.7% y-o-y and 41.1% q-o-q to Rs. 882 crore, was also above estimates 9.8% due to continued asset quality deterioration. GS-3 assets rose by 54/35 bps (y-o-y/q-o-q) due to weakness in the vehicle financing segment on subdued capacity utilisation caused by early onset of the monsoon and weak macros. Stress built was also higher in new segments. Credit cost guidance at 1.5% for FY26.

Actual/Estimates Rs cr

Particulars	Q1FY26E	Q1FY26A	Var (%)
NII	3,226	3,184	-1.32%
PPOP	2,366	2,412	1.94%
PAT	1,133	1,136	0.29%

Source: Company; Mirae Asset Sharekhan Research

Asset quality Performance

Particulars	Q1FY25	Q4FY25	Q1FY26	Y-o-Y (bps)	Q-o-Q (bps)
GS-3	2.62%	2.81%	3.16%	54.0	35.0
NS-3	1.43%	1.54%	1.78%	35.0	24.0

Source: Company; Mirae Asset Sharekhan Research

Results (Standalone) | **Rs cr**

Particulars	Q1FY25	Q4FY25	Q1FY26	Y-o-Y	Q-o-Q
Interest Earned	5,369	6,418	6,650	23.8%	3.6%
Interest Expended	2,796	3,362	3,466	24.0%	3.1%
NII	**2,574**	**3,056**	**3,184**	**23.7%**	**4.2%**
Other Income	460	703	681	48.1%	-3.1%
Total Income	**3,034**	**3,758**	**3,865**	**27.4%**	**2.8%**
Operating Expenditures	1,183	1,427	1,453	22.7%	1.8%
PPOP	**1,850**	**2,332**	**2,412**	**30.4%**	**3.4%**
P&C	581	625	882	51.7%	41.1%
PBT	1,269	1,706	1,530	20.6%	-10.3%
Tax	326	440	394	20.7%	-10.4%
Net Profit	**942**	**1,267**	**1,136**	**20.6%**	**-10.3%**
AUM	**1,55,442**	**1,84,746**	**1,92,148**	**23.6%**	**4.0%**
Disbursements	24,332	26,417	24,325	0.0%	-7.9%

Source: Company; Mirae Asset Sharekhan Research

Key Ratios | **As a % of AUM**

Particulars	Q1FY25	Q4FY25	Q1FY26	Y-o-Y (bps)	Q-o-Q (bps)
NII	6.62%	6.62%	6.63%	0.5	1.2
Fee & Other Income	1.18%	1.52%	1.42%	23.4	-10.4
Opex	3.05%	3.09%	3.02%	-2.1	-6.5
Prov	1.50%	1.35%	1.84%	34.0	48.2
Tax Rate	0.84%	0.95%	0.82%	-2.0	-13.2

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Higher stress a key concern in short term; policy tailwinds bode well

NBFCs continue to leverage their superior understanding of regional dynamics and customised products and services to expedite financial inclusion. Systemically important NBFCs have demonstrated agility, innovation and frugality to provide formal financial services to millions of Indians. FY25 has been a tough year for NBFCs due to margin pressure, moderation in disbursement growth and elevated credit costs. Regulatory pressures also weighed on the sector, marked by higher risk weights on unsecured personal loans & bank term loans to NBFCs. The regulator's clear focus was on ensuring long-term stability. We see the operational landscape for NBFCs are expected in H2FY26E, which will support healthy loan growth and gradual improvements in asset quality led by a change in the monetary policy, improving system wide liquidity, stress peaking out in unsecured retail loans, relaxation in norms in terms of lowering risk weights for bank finance to NBFCs and microfinance loans. However, higher stress in the short term is key monitorable and top quality underwriting is required for the sustainable growth. Overall, we see a lot of value in the NBFC sector in the medium to long term, given that they will continue to offer healthy loan growth at reasonable valuations. Operating performance is expected to improve, and asset quality stress will also ease by H2FY26. NBFCs with a diverse product offering, strong asset-liability management, robust liquidity buffers, strong risk management framework, and healthy liability franchises have ample growth opportunities and are well placed.

■ Company Outlook

Attractive franchise CIFC is a well-placed and diversified NBFC, as demonstrated by its superior performance across economic cycles. The management has strong experience in the business. The company focused on the vehicle finance business, besides has diversified in to the home loan/LAP/SME. Currently, vehicle finance business is facing challenges on weak macros. However, H2 seems better on festivity and a good monsoon. Besides, it is planning to introduce consumer and gold loan business. The company has been expanding in the existing geographies and new geographies, adding branches and manpower. 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. The company is likely to deliver a consistently sustainable RoE of ~20%. We are confident about the longevity of the franchise and best-in-class management in terms of execution capabilities and strong governance.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,800

CIFC witnessed continued challenges in Q1, but net earnings were in line with expectations. Looking ahead to FY26, management guided for a 20% growth in AUM, and a 10-15 bps expansion in NIM driven by a lower cost of funds. Asset quality is expected to improve in H2FY26 from current level hence they guided for 1.5% credit costs in FY26, lower than current levels. We expect 19.7%/25.2% CAGR in AUM/PAT for FY25-27, along with RoA/RoE of 2.6% and RoE of 20.7% in FY27. These growth projections are supported by NIM expansion in FY26 and FY27, higher credit demand during festive periods and diversified portfolio, along with strong presence. Hence, we maintain our Buy rating with a revised PT of Rs. 1,800. Currently, the stock trades at 4.3x its FY26E Book Value and 3.5x its FY27E Book Value.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
CIFC	1,488	125,000	23.8	18.8	4.3	3.5	19.9	20.7	2.4	2.6
M&M Finance	270	35,700	13.3	10.3	1.4	1.3	11.8	12.9	1.8	2.1

Source: Company; Mirae Asset Sharekhan Research

About company

CIFC was incorporated in 1978 as the financial services arm of the Murugappa Group. CIFC commenced business as an equipment financing company; and today, the company has emerged as a comprehensive financial services provider offering vehicle finance, home equity loans, home loans, consumer loans, SME loans, wealth management, stock broking, and a variety of other financial services to customers.

Investment theme

CIFC is a leading vehicle financier diversifying its product segments. The management is well experienced in the business. A strong collection mechanism and rigorous risk-management practices provide comfort, reflected in its pristine asset quality. We believe while the vehicle financing business will continue to be the mainstay for the company, home equity (LAP) has also been a significant contributor to the company's growth. The home loans segment has great potential to be built into a solid portfolio over the long term, considering the expertise of the company in handling typical customer profiles along with the new consumer and SME business. RBI has reduced the repo rate by 100 bps and we expect further reduction in it. Hence, the company is expected to get benefit of improvement in NIMs due to lower cost of funding. It is also fixed lender as it has vehicle financing business (~55% of total portfolio). Hence, NIM trajectory is expected to improve from H2FY26 and likely to continue for FY27.

Key Risks

Asset quality challenges in new businesses may put continued pressure on credit cost, slow disbursement growth in VF business may impact on overall AUM guidance.

Additional Data

Key management personnel

Name	Designation
Vellayan Subbiah	Chairman
Ravindra Kumar Kundu	MD
Arul Selvan	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	CHOLAMANDALAM FINANCIAL HOLDINGS	44.33
2	Capital Group Cos Inc/The	4.34
3	Ambadi Investments Ltd	4.01
4	Axis Asset Management Co Ltd/India	2.21
5	Vanguard Group Inc/The	2.11
6	Blackrock Inc	1.82
7	New World Fund Inc	1.72
8	Norges Bank	1.63
9	SBI Funds Management Ltd	1.52
10	SMALLCAP World Fund Inc/Fund Paren	1.29

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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