Stock Update

Company Update

MIRAE ASSET Sharekhan

Cholamandalam Investment and Finance Company Ltd

Factoring in largely steady outlook

NBFC	Sharekhan code: CHOLAFIN
Reco/View: Buy ↔	CMP: Rs. 1,629	Price Target: Rs. 1,900 ↑

↑ 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		↔	

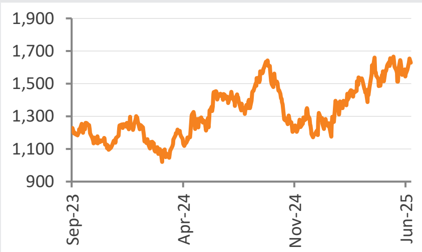
Company details

Market cap:	Rs. 1,37,000 cr
52-week high/low:	Rs. 1,683 / 1,168
NSE volume: (No of shares)	19.4 lakh
BSE code:	511243
NSE code:	CHOLAFIN
Free float: (No of shares)	42.0 cr

Shareholding (%)

Promoters	49.9
FII	28.2
DII	15.5
Others	6.4

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.7	7.2	34.4	14.6
Relative to Sensex	-1.0	-1.0	27.0	9.0

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Cholamandalam Investment & Finance Company (CIFC) remains reasonably confident to achieve a 20-25% loan growth in FY26E, led by expanding its existing non-vehicle book through branch expansion and further diversifying its product offerings amid weak demand environment in vehicle segment.
- New investments will be a temporary drag on profitability but the underlying positive trends on NIMs post H1FY26 and a slight moderation in credit costs would support its profitability in FY26E.
- Credit cost should see meaningful easing (unless any economic shock hits the business in FY27E) further supporting the profitability.
- We reiterate a Buy rating with a revised PT of Rs. 1,900. The stock trades at 4.8x/3.9x its FY26E/FY27E BV estimates.

CIFC is expected to benefit from declining interest rates as the RBI has reduced repo rate by 100 bps over the last couple of quarters. The management expects a reduction of ~20–25 bps in cost of borrowings, hence improvement in NIM by ~10–15 bps in the current fiscal and some benefits would accrue in FY27. Majority of benefit for the current fiscal will be realizing in the H2FY26. AUM is expected to grow by 20–25% for FY26, driven by LAP, home loans, vehicle finance (VF) and SBPL. The VF segment is expected to be weak in Q1FY26 due to weakness in CV business. However, it is expected to gradually recover from Q2FY26 and expect full year disbursement growth at 12-15%. The segment's growth depends on favourable monsoon, any deviation in it may impact the guidance. The non-vehicle loans are expected to grow by 30%. Additionally, the company intends to expand its product lines across geographies and launch new products such as gold loans, Consumer durable financing and digital loans. The company is adding ~150 new branches dedicated for gold loans. On Opex, management stated that it is expected to remain elevated at ~3-3.1% of assets for 2-3 years. Higher stress in vehicle finance and new businesses led to elevated credit cost of 1.5% of AUM in FY2025. Decline in credit costs in unsecured loans/fintech partnerships/ SME will be offset by a cyclical low credit in vehicle finance. Credit cost could see marginal improvement in FY26 followed by meaningful easing in FY27 led by vehicle finance business segment as credit cycle improves. GNPAs stood at 2.8% which is expected to reduce by 10 bps each for FY26 and FY27, driven by recoveries in the VF segment. Overall, RoA/RoE is expected to improve to 2.6%/19.7 in FY27 from 2.4%/21.9% in FY25.

- **Growth outlook:** The management has guided 20–25% AUM growth for FY26, driven by LAP, home loans, VF, and SBPL. The VF segment is expected to be weak in Q1FY26 due to contraction of CVs demand and weak demand of PVs during April and May. Overall, VF segment is expected to see gradual recovery from Q2FY26 and full-year disbursement growth is expected at 12-15%, driven by gaining the market share in LCVs, growth in the tractor business/rural segments and the two-wheelers. The segment's growth depends on a favourable monsoon, any deviation in it may impact the guidance. The non-vehicle loan portfolio is expected to grow by 30%, while disbursements are anticipated to rise by 25%. Additionally, the company intends to expand its product lines across geographies and launch new products such as gold loans, consumer durable financing and digital loans. The company is adding ~150 new branches dedicated for gold loans.
- **Margin and opex outlook:** CIFC is expected to benefit from a declining interest rate environment and anticipates a reduction of 20–25 bps in the cost of borrowings, as ~20% of borrowings are linked to the Repo and Treasury bill rates, 27% is linked to MCLR while the rest 53% is on fixed rate. Borrowings linked to repo rates are likely to re-priced immediately while MCLR-linked borrowings cost is expected to start declining gradually over a period. On the asset side, vehicle finance book (55% of AUM) is on fixed rate. Both the asset and liability interest rate mix are closely matched and Chola's loans are linked to its internal PLR, giving more flexibility in transmission of rate cuts to borrowers. Overall, we expect NIM expansion of ~10–15 bps each in both FY26 and FY27. On the opex front, management stated that it is expected to remain elevated at ~3%-3.1% of assets for 2-3 years due to incremental investments.
- **Asset quality outlook:** Higher stress in vehicle finance and new businesses led to elevated credit cost of 1.5% of AUM in FY2025. Decline in credit costs in unsecured loans/fintech partnerships/ SME will be offset by cyclical low credit in vehicle finance. Credit cost could improve slightly in FY26 followed by meaningful easing in FY27 led by vehicle finance business segment as credit cycle improves.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,900: The company is projecting 20-25% loan growth for FY26, driven by expanding its non-vehicle loan portfolio through branch network growth and diversifying its product offerings. This strategy comes despite a currently weak demand in the VF segment. While new investments will temporarily impact profitability, CIFC anticipates a rebound. This is due to expected positive trends in NIMs after the first half of FY26 and a slight moderation in credit costs, both of which should bolster profitability. Looking further ahead, credit costs are expected to ease significantly in FY27E, barring any unforeseen economic shocks. This would provide further support to the profitability. Overall, we expect AUM/NII/PAT CAGR of 22.9%/26.3%28.7% for FY25-27 and RoA/RoE of 21.7%/2.6% in FY27. The stock trades at 4.8x/3.9x its FY2026E/FY2027E BV estimates. We maintain a Buy rating with a revised PT of Rs. 1,900.

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.

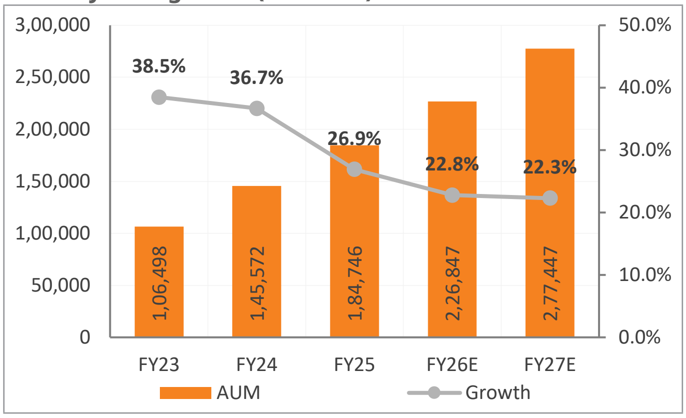
Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	6,334	8,383	11,229	14,294	17,900
PAT	2,666	3,423	4,259	5,427	6,979
EPS (Rs.)	32.5	40.7	50.5	64.4	83.7
P/E (x)	49.9	39.8	32.1	25.3	19.7
P/BV (x)	9.3	7.0	5.6	4.8	3.9
RoA	2.7	2.5	2.4	2.4	2.6
RoE	20.5	20.2	19.7	20.7	21.7

Source: Company; Mirae Asset Sharekhan estimates

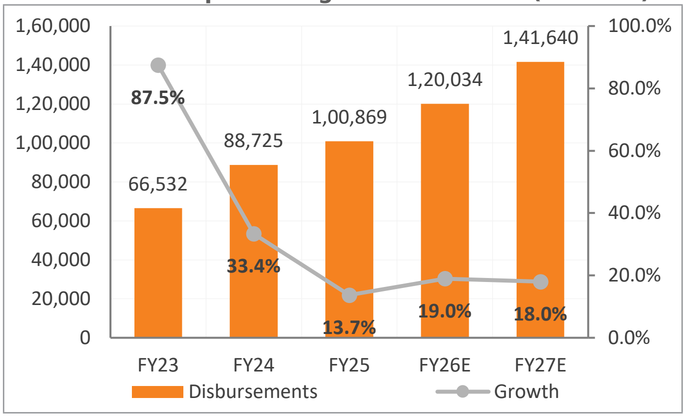
Financials in charts

Healthy AUM growth (Rs. Crore)



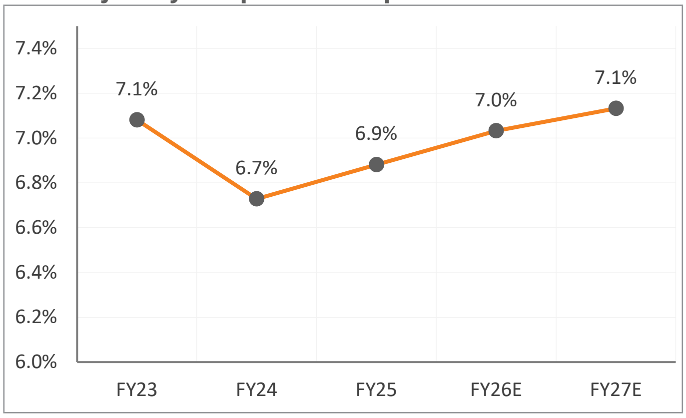
Source: Company; Mirae Asset Sharekhan Research

Disbursement expected to grow from H2FY26 (Rs. Crore)



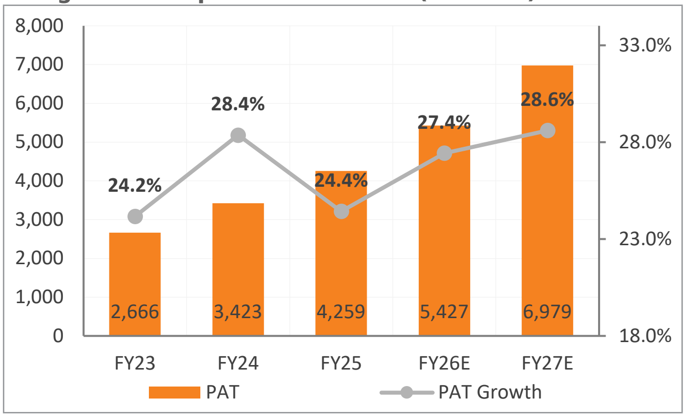
Source: Company; Mirae Asset Sharekhan Research

NIM Trajectory is expected to improve



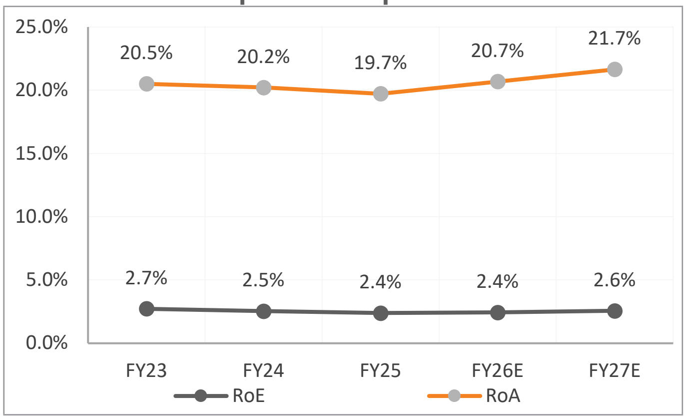
Source: Company; Mirae Asset Sharekhan Research

PAT growth is expected to continue (Rs. Crore)



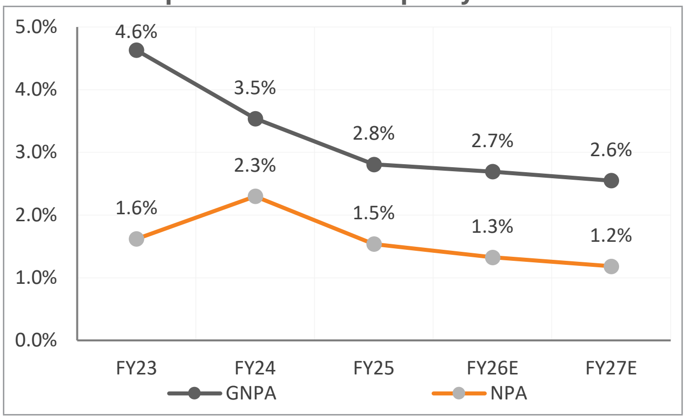
Source: Company; Mirae Asset Sharekhan Research

Return ratios are expected to improve



Source: Company; Mirae Asset Sharekhan Research

Continued improvement in Asset quality



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Large untapped market, policy tailwinds benefits in the short-term

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 improving in FY26E, 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. Since January 2025, the RBI has injected nearly Rs. 8-9 lakh crore into the banking system through a mix of open market bond purchases, variable rate repo operations, swaps and liquidity-enhancing measures. Some NBFCs have also asserted that the underlying environment seems to be improving. We see a lot of value in the NBFC sector, 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 in 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. Recently, it launched consumer and gold loan business, hence can contribute meaningfully for the total portfolio in the long term. The company has been expanding the business 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. 1,900

The company is projecting 20-25% loan growth for FY26, driven by expanding its non-vehicle loan portfolio through branch network growth and diversifying its product offerings. This strategy comes despite a currently weak demand in the VF segment. While new investments will temporarily impact profitability, CIFC anticipates a rebound. This is due to expected positive trends in NIMs after the first half of FY26 and a slight moderation in credit costs, both of which should bolster profitability. Looking further ahead, credit costs are expected to ease significantly in FY27E, barring any unforeseen economic shocks. This would provide further support to the profitability. Overall, we expect AUM/NII/PAT CAGR of 22.9%/26.3%28.7% for FY25-27 and RoA/RoE of 21.7%/2.6% in FY27. The stock trades at 4.8x/3.9x its FY2026E/FY2027E BV estimates. We maintain a Buy rating with a revised PT of Rs. 1,900.

Peer valuation

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
CIFC	1,629	137,000	25.3x	19.7	4.8	3.9	20.7	21.7	2.4	2.6
M&M Finance	270	37,564	11.0x	9.2	1.5	1.3	14.7	15.5	2.1	2.2

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	4.88
3	Ambadi Investments Ltd	4.01
4	Axis Asset Management Co Ltd/India	2.27
5	Vanguard Group Inc/The	2.04
6	New World Fund Inc	1.86
7	Blackrock Inc	1.79
8	Norges Bank	1.63
9	SBI Funds Management Ltd	1.61
10	SMALLCAP World Fund Inc/Fund Paren	1.31

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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