

Price: 1,450

Recommendation: Buy

Industry: Non Banking Financial

Sector: Financial Services

Report Date: 03-Apr-2025

Cholamandalam Investment and Finance Company Limited (Chola) is focused on growth and efficiency, as highlighted in its recent earnings call. The company reported significant increases in disbursements across vehicle finance, property loans, and home loans. Chola plans to expand its branch network by 300 locations in the next 2-3 years. The company is also enhancing its consumer and small enterprise business while reducing non-performing loans. Chola aims for a 25% growth in the medium term, with improved asset quality and reduced credit costs.

Sales		Profit & Loss		Profitability Matrix	
Current Year	24141 Cr	Operating Profit(Year)	17137 Cr	Operating Profit Margin	71.0 %
Previous Year	12757 Cr	Operating Profit(Quarter)	4691 Cr	EBITDA Margin	58.03 %
Current Quarter	6709 Cr	PAT (Year)	3424 Cr	Net Profit Margin	18.1 %
Previous Quarter	6227 Cr	PAT (Quarter)	1087 Cr	EPS	48.2
Revenue (QYoY)	4960 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	30.1	Sales Growth	40.7 %	Sales Growth	7.74 %
PEG Ratio	1.27	PAT Growth	28.38 %	Sales Growth QYoY	35.26 %
EV/EBITDA	15.6	EPS Growth	18.14 %	PAT Growth	12.88 %
P/B	5.60	Dividend Yield	0.14	PAT Growth QYoY	24.09 %
Capital Allocation		Holdings		Leverage	
RoE	20.2 %	Promoter	49.9 %	Debt/Equity	7.39
RoA	2.54 %	FII	27.4 %	Debt	157794 Cr
RoCE	10.4 %	DII	16.1 %	Market Cap	121894 Cr
RoIC	10.4 %	Public	6.56 %	Enterprise value	271118 Cr
		No of Shares	84.1 Cr	Cash Equivalents	8571 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Cholamandalam Investment and Finance Company Limited (Chola) highlighted several new initiatives and business strategies aimed at sustaining growth and enhancing operational efficiency. The company reported a significant increase in disbursements, with vehicle finance disbursements reaching INR14,390 crores in Q3 FY '25, marking a 16% growth. The loan against property business also saw a 23% increase in disbursements, while home loans grew by 15%. Chola is focusing on expanding its branch network, planning to add 300 more branches across India in the next 2 to 3 years, which will enhance its reach and customer base. The company is also working on improving efficiency levels and stabilizing operations before entering a growth phase.

Chola's diversification strategy includes a strong focus on the consumer and small enterprise business (CSEL), which disbursed INR3,149 crores in the quarter, a 14% growth. The company is gradually exiting partnerships that have higher non-performing loans (NCLs), aiming to reduce the NCL of CSEL by moving away from small ticket size loans. This strategic shift is expected to improve the overall asset quality and reduce credit costs. Additionally, Chola is leveraging technology and product innovation to enhance its service offerings and operational efficiency, which is expected to contribute positively to its financial performance.

Looking ahead, Chola is optimistic about its growth prospects, maintaining a 25% growth expectation in the medium term. The company anticipates improvements in asset quality, with credit costs expected to decrease as the market conditions stabilize. The management highlighted that the vehicle finance portfolio is showing signs of improvement, with early delinquencies coming down. However, they acknowledged that it will take 3 to 4 quarters for the full impact of these improvements to be realized. The company is also focusing on maintaining a strong liquidity position, with a cash balance of INR15,159 crores, ensuring financial stability and flexibility for future growth initiatives.

While the company has demonstrated strong financial performance, there are areas for improvement. The management noted that the current market conditions are challenging, with some segments experiencing stress. The company is addressing these challenges by enhancing its collection strategies and optimizing operational costs. The focus on reducing partnerships with high NCLs and improving asset quality is expected to yield positive results in the long term. Overall, Chola's strategic initiatives and focus on operational efficiency position it well for future growth, but continuous monitoring and adaptation to market conditions will be crucial for sustained success.

CHOLAFIN Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Muthoot Finance	95199.06	20.01	17.86%	7.43%	39.64%	8.95%	32.69%
Bajaj Finance	531266.97	33.26	22.07%	5.52%	27.33%	6.17%	16.70%
Bajaj Finserv	307317.62	35.80	15.28%	-4.93%	10.34%	6.90%	3.40%
Jio Financial	146411.42	91.11	1.27%	-36.79%	5.98%	-57.22%	0.33%
Bajaj Holdings	127493.28	17.00	14.77%	-54.73%	16.92%	21.72%	6.32%

Aspect	Commentary
Revenue	The company shows robust revenue growth with a significant year-over-year increase, indicating strong market demand and effective sales strategies. The quarterly growth also suggests consistent performance, reflecting positively on the company's ability to maintain momentum in its revenue generation efforts.
Profit & Loss	The profit and loss statement reveals a healthy operating profit margin, underscoring efficient cost management. The net profit margin is solid, indicating effective control over expenses relative to revenue. This financial health is further supported by a strong EPS, reflecting shareholder value.
Profitability Matrix	The profitability matrix highlights a strong operating profit margin, suggesting efficient operations. The EBITDA margin is impressive, indicating good earnings before interest, taxes, depreciation, and amortization. The net profit margin and EPS further affirm the company's profitability.
Valuation Matrix	The valuation matrix shows a reasonable P/E ratio, suggesting the stock is fairly valued relative to earnings. The PEG ratio indicates growth at a reasonable price. The EV/EBITDA and P/B ratios provide additional insights into the company's valuation, supporting investment decisions.
Growth (YoY)	Year-over-year growth metrics are strong, with significant increases in sales and PAT, reflecting successful business strategies. The EPS growth further indicates enhanced profitability. The dividend yield, though modest, adds to shareholder returns, showcasing a balanced growth approach.
Growth (QoQ)	Quarter-over-quarter growth metrics reveal steady progress, with notable increases in sales and PAT. This consistent growth trajectory highlights the company's ability to adapt and thrive in changing market conditions, reinforcing its strategic positioning and operational effectiveness.
Capital Allocation	The capital allocation metrics demonstrate effective use of resources, with strong returns on equity and assets. The return on capital employed and invested capital indicate efficient capital management, ensuring sustainable growth and value creation for shareholders.
Holdings	The holdings structure shows a balanced distribution among promoters, FIIs, DIIs, and the public, indicating diversified ownership. This structure supports stability and investor confidence, with a significant promoter stake aligning interests with long-term company performance.
Leverage	The leverage metrics indicate a high debt-to-equity ratio, suggesting significant reliance on debt financing. However, the company's market cap and enterprise value reflect its ability to manage this leverage effectively. Cash equivalents provide liquidity, supporting financial flexibility.

Analyst viewpoint: Cholamandalam Investment and Finance Company Limited (Chola) is poised for positive growth with a substantial increase in its quarterly and yearly sales, up by 7.74% QoQ and 35.26% YoY respectively. This growth is further complemented by a notable QoQ and YoY PAT growth of 12.88% and 24.09%, indicating a solid upward trajectory. The company's valuation metrics reflect a promising stance, with a reasonable trailing P/E ratio of 30.1 and a PEG ratio of 1.27, suggesting that the stock is attractively priced relative to its growth prospects. Chola's strategic capital allocation continues to reinforce its growth narrative, demonstrating strong returns on equity and assets, which ensures sustained value creation for shareholders. The recent earnings call highlighted significant steps towards enhancing operational efficiency and expanding the branch network, which aligns well with the company's commitment to a 25% medium-term growth target.

While the competitive landscape presents challenges, Chola's clear strategic focus on diversification and innovation positions it well against peers like Bajaj Finance and Muthoot Finance, offering comparable growth metrics. The company's emphasis on reducing non-performing loans through gradual partnership exits is promising for asset quality improvement. Despite strong financial fundamentals, a mild concern remains regarding the existing high leverage, as indicated by the debt-to-equity ratio. However, Chola's capacity to manage its debt effectively along with a strong liquidity position mitigates this concern, supporting its bullish outlook in the short to mid-term.

Please read detailed disclosure on next page.

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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