

**Price:** 1,445

**Recommendation:** Buy

**Industry:** Non Banking Financial

**Sector:** Financial Services

**Report Date:** 13-Mar-2025

Cholamandalam Investment and Finance Company Limited (Chola) has shown strong performance in Q3 FY '25, with a 15% increase in disbursements to INR 25,806 crores and a 34% rise in AUM to INR 1,89,141 crores. The company is expanding its branch network and reducing reliance on partnerships in the CSEL segment to lower net credit losses. Chola anticipates 25% growth in the medium term, focusing on improving credit costs and exploring opportunities in the used vehicle market.

Sales		Profit & Loss		Profitability Matrix	
Current Year	24228 Cr	Operating Profit(Year)	17149 Cr	Operating Profit Margin	70.8 %
Previous Year	12884 Cr	Operating Profit(Quarter)	4695 Cr	EBITDA Margin	57.93 %
Current Quarter	6733 Cr	PAT (Year)	3421 Cr	Net Profit Margin	17.8 %
Previous Quarter	6255 Cr	PAT (Quarter)	1088 Cr	EPS	48.4
Revenue (QYoY)	5007 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	29.9	Sales Growth	38.7 %	Sales Growth	7.64 %
PEG Ratio	1.28	PAT Growth	28.37 %	Sales Growth QYoY	34.47 %
EV/EBITDA	15.5	EPS Growth	18.92 %	PAT Growth	12.4 %
P/B	5.65	Dividend Yield	0.14	PAT Growth QYoY	24.77 %
Capital Allocation		Holdings		Leverage	
RoE	20.2 %	Promoter	49.9 %	Debt/Equity	7.38
RoA	2.53 %	FII	27.4 %	Debt	157943 Cr
RoCE	10.4 %	DII	16.1 %	Market Cap	121512 Cr
RoIC	10.4 %	Public	6.56 %	Enterprise value	270745 Cr
		No of Shares	84.1 Cr	Cash Equivalents	8709 Cr

source : Company filings

## Company's Overview Based on Recent Concall and Performance:

Cholamandalam Investment and Finance Company Limited (Chola) has reported a robust performance for Q3 FY '25, with disbursements reaching INR 25,806 crores, marking a 15% increase. The total assets under management (AUM) have grown by 34% year-on-year to INR 1,89,141 crores. The company has also seen a significant rise in net income, which increased by 37% year-on-year to INR 3,541 crores for the quarter. The vehicle finance segment, a key area for Chola, reported disbursements of INR 14,390 crores, reflecting a 16% growth. The loan against property business also showed strong performance with a 23% growth in disbursements. The company is focusing on expanding its branch network, with plans to add 300 more branches across India in the next 2 to 3 years, aiming to enhance its reach and operational efficiency.

Chola is actively pursuing new initiatives and business strategies to drive growth. The company is reducing its reliance on partnerships in the consumer and small enterprise loan (CSEL) segment, which has shown higher net credit losses (NCL). By exiting these partnerships, Chola expects the NCL in CSEL to decrease. The company is also focusing on improving its credit cost structure, with expectations of better performance in the coming quarters. The management has highlighted the importance of stabilizing and increasing efficiency before entering a growth phase, indicating a strategic approach to scaling operations. The company is also leveraging its strong liquidity position, with a cash balance of INR 15,159 crores, to support its growth initiatives.

Looking ahead, Chola is optimistic about its future growth and scaling prospects. The company expects a 25% growth in the medium term, driven by its strategic initiatives and market expansion plans. The management anticipates improvements in credit costs and asset quality, with a focus on reducing delinquencies and enhancing collection efficiencies. The vehicle finance portfolio is expected to see gradual improvements, with better capacity utilization and economic conditions supporting growth. The company is also exploring opportunities in the used vehicle market, which is showing signs of recovery. Chola's strategic focus on expanding into Tier 3 and Tier 4 towns is expected to yield better yields and support its growth trajectory.

While the company has demonstrated strong performance, there are areas for improvement. The management acknowledges the challenges in the heavy commercial vehicle segment, which is impacted by macroeconomic factors. The company is also addressing the higher expense ratios in its vehicle finance business, which have increased due to competitive pressures and structural changes. Chola is committed to enhancing its operational efficiency and cost management to maintain its return on assets (ROA) and return on equity (ROE) levels. The company's strategic focus on reducing partnership reliance and improving credit costs is expected to drive better performance in the future. Overall, Chola is well-positioned to capitalize on growth opportunities while addressing the challenges in its operating environment.

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	88085.17	18.54	17.86%	7.43%	39.64%	8.95%	32.69%
Bajaj Finance	520890.27	32.62	22.07%	5.52%	27.33%	6.17%	16.70%
Bajaj Finserv	288939.98	33.72	15.28%	-4.93%	10.34%	6.90%	3.40%
Jio Financial	142218.22	88.48	1.27%	-36.79%	5.98%	-57.22%	0.33%
Bajaj Holdings	126732.59	16.90	14.77%	-54.73%	16.92%	21.72%	6.32%

Aspect	Commentary
Revenue	The company experienced a significant increase in revenue, with a year-over-year growth of 38.7%. This indicates strong sales performance and market demand, contributing to overall financial health. The quarterly growth also reflects a positive trend, suggesting effective sales strategies and market penetration.
Profit & Loss	Operating profit margins are robust, reflecting efficient cost management and operational effectiveness. The net profit margin indicates profitability after all expenses, showing a healthy bottom line. The increase in PAT year-over-year suggests improved financial performance and profitability.
Profitability Matrix	The operating profit margin of 70.8% highlights strong operational efficiency. EBITDA margin indicates good earnings before interest, taxes, depreciation, and amortization. The net profit margin of 17.8% shows effective cost control and profitability. EPS growth supports shareholder value.
Valuation Matrix	The trailing P/E ratio of 29.9 suggests market confidence in future earnings. The PEG ratio indicates growth at a reasonable price. EV/EBITDA reflects the company's valuation relative to earnings. The P/B ratio shows market valuation compared to book value, indicating investor sentiment.
Growth (YoY)	Year-over-year growth in sales and PAT indicates strong business expansion and profitability. The EPS growth reflects increased earnings per share, enhancing shareholder value. Dividend yield, though low, suggests potential for future payouts. Overall, the company shows robust growth.
Growth (QoQ)	Quarter-over-quarter growth in sales and PAT demonstrates consistent performance and operational efficiency. The increase in sales and PAT QYoQ indicates effective business strategies and market adaptation. This consistent growth pattern supports the company's financial stability.
Capital Allocation	Return on equity (RoE) and return on assets (RoA) indicate efficient use of capital and assets. Return on capital employed (RoCE) and return on invested capital (RoIC) reflect effective capital allocation strategies, contributing to overall financial health and shareholder value.
Holdings	Promoter holding at 49.9% indicates strong control and confidence in the company. FII and DII holdings reflect institutional interest and trust. Public holding is relatively low, suggesting limited public float. The number of shares indicates the company's equity structure and market presence.
Leverage	The high debt/equity ratio of 7.38 suggests significant leverage, which could impact financial stability. The debt level indicates reliance on borrowed funds, while the market cap and enterprise value reflect the company's market valuation. Cash equivalents provide liquidity for operations.

**Analyst viewpoint:** Chola's impressive quarterly performance is underscored by a 7.64% growth in sales and a 12.4% increase in PAT, reflecting robust market strategies and operational execution. With a trailing P/E ratio of 29.9, investor confidence is evident, supported by substantial AUM growth and a strategic focus on expanding into untapped markets. The company's capital allocation is prudent, with a return on equity of 20.2% and healthy cash reserves, which facilitate continued investment in growth initiatives. Chola's commitment to reducing its dependency on volatile partnerships and enhancing credit structures is expected to streamline operations and drive consistent improvements in net credit loss reduction. The strategic expansion into the used vehicle market further highlights Chola's proactive approach in capitalizing on evolving market opportunities.

Though Chola's outlook remains optimistic with anticipated medium-term growth of 25%, it's crucial to monitor the challenges within the heavy commercial vehicle segment, which are susceptible to macroeconomic pressures. Nonetheless, Chola's initiatives in leveraging operational efficiency and reducing cost structures convey a promise of sustainable growth and enhanced shareholder value. The company's strong liquidity position and strategic investments in tier 3 and 4 towns are expected to yield superior returns and fortify its market presence, making it a compelling investment opportunity in the short to medium term.

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**Research Analyst Details:**

Name: Robin Arya

Email: [smallcase@goalfi.in](mailto:smallcase@goalfi.in)

Contact: +91-9394306085

GOALZEN CAPITAL SERVICES PRIVATE LIMITED

CIN: U66190TS2023PTC176030

Address: Co ikeva Office 10, Level 3, NSL Centrum, Serene Estate Pvt Ltd, Site No. Phase I and II, Opp KPHB Colony Lane Opp. Forum Mall Kukatpally, HYDERABAD, TELANGANA, 500072

Support Telephone: +91 9063309052, Support Email – [support@goalfi.in](mailto:support@goalfi.in)

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Website: [goalfiresearch.smallcase.com](http://goalfiresearch.smallcase.com)