

**Price:** 1,660

**Recommendation:** Buy

**Industry:** Non Banking Financial

**Sector:** Financial Services

**Report Date:** 21-Apr-2025

Cholamandalam Investment and Finance Company Limited is experiencing robust growth, with a 16% increase in vehicle finance disbursements and a 23% rise in loan against property disbursements. The company plans to expand its branch network by 300 locations in 2-3 years, enhancing efficiency and growth. It is also reducing reliance on partnerships in the Consumer and Small Enterprise Loans segment to improve asset quality and reduce 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	34.5	Sales Growth	40.7 %	Sales Growth	7.74 %
PEG Ratio	1.46	PAT Growth	28.38 %	Sales Growth QYoY	35.26 %
EV/EBITDA	16.6	EPS Growth	18.14 %	PAT Growth	12.88 %
P/B	6.51	Dividend Yield	0.13	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	139596 Cr
RoIC	10.4 %	Public	6.56 %	Enterprise value	288820 Cr
		No of Shares	84.1 Cr	Cash Equivalents	8571 Cr

source : Company filings

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

Cholamandalam Investment and Finance Company Limited's recent earnings call highlighted several key initiatives and strategies. The company reported a robust growth in disbursements, with vehicle finance disbursements reaching INR14,390 crores in Q3 FY '25, marking a 16% increase. The loan against property business also saw a 23% growth in disbursements. The company is focusing on expanding its branch network, aiming to cover 300 more branches across India in the next 2-3 years. This expansion is part of their strategy to stabilize and increase efficiency, setting the stage for future growth. The company is also working on improving its digital platform and introducing new products, such as consumer durables, to enhance its market presence.

The company's diversification efforts are evident in its focus on reducing reliance on partnerships in the Consumer and Small Enterprise Loans (CSEL) segment. They have reduced the number of partners from 10 to 3 over the past two years and plan to exit partnerships completely by the next financial year. This move is expected to lower the Net Credit Loss (NCL) in the CSEL segment, which is currently inflated due to partnership-related NCLs. Additionally, the company is seeing improvements in its used car and tractor finance segments, which had previously underperformed. These efforts are part of a broader strategy to improve asset quality and reduce credit costs.

Looking ahead, Cholamandalam is optimistic about its growth prospects, maintaining a 25% growth expectation for the medium term. The company anticipates improvements in credit costs and asset quality, particularly in the vehicle finance segment, as market conditions stabilize. The management expects the fourth quarter to perform better than the third, with gradual improvements over the next 3-4 quarters. The company's strong liquidity position, with a cash balance of INR15,159 crores, supports its growth and expansion plans. The focus on expanding into Tier 3 and Tier 4 towns is expected to yield better yields and income, contributing to sustained growth.

While the company is on a positive trajectory, there are areas for improvement. The credit cost target for the year is set at 1.4%, with expectations for a better performance next year. The company acknowledges the need for continued investment in technology and compliance to enhance operational efficiency. The management is also aware of the challenges in the heavy commercial vehicle segment, which may take longer to stabilize. Overall, Cholamandalam's strategic initiatives and focus on diversification and efficiency position it well for future growth, though careful management of credit costs and asset quality remains crucial.

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
HDFC AMC	95366.66	38.72	32.35%	-3.55%	29.59%	-0.43%	18.05%
Bajaj Finance	574937.51	35.96	22.07%	5.52%	27.33%	6.17%	16.70%
Bajaj Finserv	336105.40	39.18	15.28%	-4.93%	10.34%	6.90%	3.40%
Jio Financial	156449.62	97.02	1.16%	12.52%	17.97%	7.24%	1.76%
Cholaman.Inv.&Fn	139596.13	34.50	20.23%	7.75%	35.27%	12.82%	24.01%

Aspect	Commentary
Revenue	The company shows strong revenue growth with a significant year-over-year increase, indicating robust sales performance. The quarterly growth also reflects a positive trend, suggesting effective strategies in capturing market demand and expanding its customer base.
Profit & Loss	The profit and loss statement reveals a healthy operating profit margin, underscoring efficient cost management. The net profit margin is solid, reflecting the company's ability to convert revenue into actual profit effectively.
Profitability Matrix	The profitability metrics indicate strong operational efficiency, with high operating and EBITDA margins. The net profit margin is commendable, showcasing the company's ability to maintain profitability amidst market challenges.
Valuation Matrix	The valuation metrics suggest the company is valued fairly with a moderate P/E ratio. The PEG ratio indicates growth potential, while the EV/EBITDA and P/B ratios reflect market confidence in the company's financial health.
Growth (YoY)	Year-over-year growth figures are impressive, with substantial increases in sales and profit after tax. This growth trajectory highlights the company's successful expansion strategies and market penetration efforts.
Growth (QoQ)	Quarter-over-quarter growth is positive, with notable increases in sales and profit after tax. This consistent growth pattern suggests effective short-term strategies and operational improvements.
Capital Allocation	The capital allocation metrics show a strong return on equity and capital employed, indicating efficient use of resources. The return on assets is modest, suggesting room for improvement in asset utilization.
Holdings	The holdings structure reveals a balanced distribution among promoters, foreign institutional investors, and domestic institutional investors, indicating diversified ownership and potential stability in shareholder interests.
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 strong market positioning and potential for managing leverage effectively.

**Analyst viewpoint:** Cholamandalam Investment and Finance Company Limited demonstrates a strong potential for growth, making it a bullish prospect for short to mid-term investments. The company reported a 35.27% sales growth year-over-year and a 7.75% quarter-on-quarter, reflecting dynamic market penetration and strategic expansion initiatives. With a trailing P/E ratio of 34.50, the valuation remains attractive considering the company's robust growth metrics. The recent earnings call highlighted significant achievements in expanding the vehicle finance and property loan segments, with a 16% and 23% increase in disbursements, respectively. This, combined with plans to bolster the branch network by 300 locations and enhance digital platforms, positions Cholamandalam advantageously in the financial sector.

Moreover, the company's strategic realignment, particularly the reduction of partnership reliance in the Consumer and Small Enterprise Loans segment, is expected to lower credit costs and improve asset quality. The capital allocation is efficient, with a return on equity of 20.23% and capital employed indicating judicious resource management. However, it is noteworthy to mention that the company's high debt-to-equity ratio underscores reliance on debt financing which, while manageable, could pose a risk if not carefully monitored. Overall, Cholamandalam's forward-looking strategies, coupled with strong liquidity and operational improvements, provide a solid growth trajectory, affirming our recommendation.

Please read detailed disclosure on next page.

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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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