

**IDEA2ACT: Cholamandalam Financial Holdings**

Reco Price

12-months Target Price

BUY @ ₹ 915-950

₹1080

Founded in 1900, the Murugappa Group is one of India's leading business conglomerates. The Group has ten listed companies traded in NSE & BSE. Headquartered in Chennai, the major companies of the Group include Carborundum Universal Ltd., CG Power and Industrial Solutions Ltd., Cholamandalam Financial Holdings Ltd., Cholamandalam Investment and Finance Company Ltd., Cholamandalam MS General Insurance Company Ltd., Coromandel International Ltd., Coromandel Engineering Company Ltd., E.I.D. Parry (India) Ltd., Parry Agro Industries Ltd., Shanthy Gears Ltd., Tube Investments of India Ltd. and Wendt (India) Ltd. Cholamandalam Financial Holdings Limited (CFHL), established in 1949, is a Core Investment Company registered with the Reserve Bank of India, holding significant investments in various group companies like Cholamandalam Investment and Finance Company Limited ('CIFCL'), Cholamandalam MS General Insurance Company Limited ('MSGICL'), Cholamandalam MS Risk Services Limited ('CMSRSL'). (Source: Annual Report)

**Investment Rationale**

**Holding company discount:** The company holds 45.36% in the paid-up equity share capital of Cholamandalam Investment and Finance Company Limited ('CIFCL') which operates as a non-banking financial institution, specializing in lending services. The company provides a range of financial solutions, including vehicle financing, home loans, property-backed loans, SME loans, secured business and personal loans (SBPL), loans for consumers and small enterprises (CSEL), as well as various other financial products and services, catering to a diverse customer base. It owns 60% in the paid-up equity share capital of MSGICL a joint venture with Mitsui Sumitomo Insurance Company Ltd., Japan and operates within the general insurance sector and provides an extensive array of insurance solutions. These offerings encompass various insurance categories such as Motor, Health, Property, Accident, Engineering, Liability, Marine, Travel, and Crop insurance. It also holds 49.5% in the paid-up equity share capital of CMSRSL, a joint venture with Mitsui Sumitomo Insurance Company Ltd., Japan which offers comprehensive Risk Management and Engineering solutions. CIFC has a market cap of 89,000 crores and CFHL's investment in it alone is worth ~Rs 40,000 crores. With CHFL having a market cap of just ~ Rs 17500 crores, it trades at a discount of ~56% to CIFC alone.

**Strong foot holding of Cholamandalam Investment and Finance Company Limited (CIFCL)**

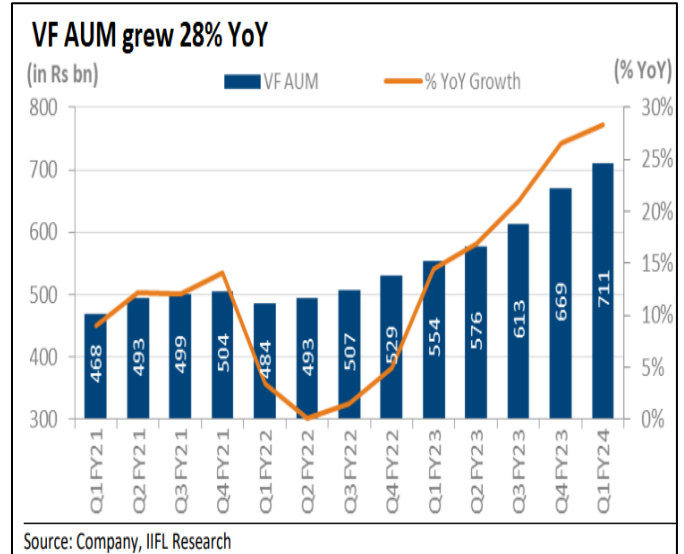
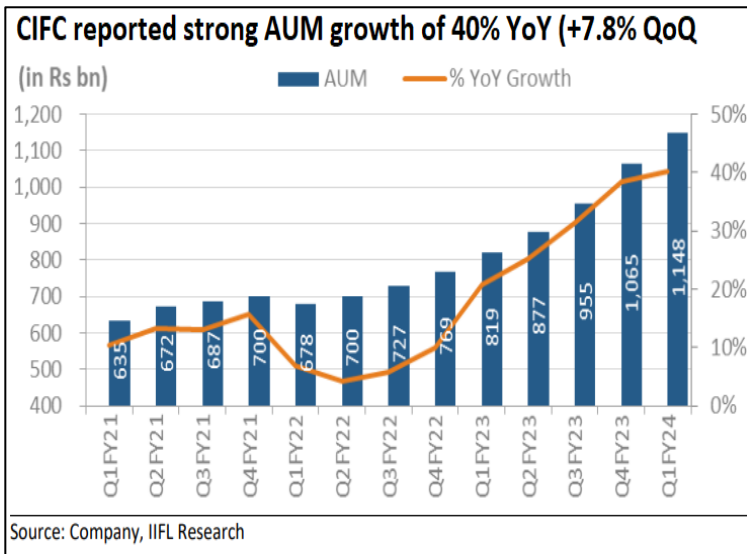
**A. Strong growth momentum to continue; margins have bottomed out:** 40%/50% YoY AUM and disbursement growth was broad-based for CIFCL. We expect it to grow at 27% Cagr over next 3 years, led by distribution expansion (HL and LAP) and continued scale-up of new businesses. We believe margins have bottomed out and expect recovery from 2H, as the share of VF book originated in the last 12 months (~100 higher yields) increases, 30bps of additional rate hike in July starts reflecting, share of new businesses increases and benefit from equity raise flows through.

**B. Room for continued distribution expansion led growth in affordable HL and LAP:** CIFCL's distribution-



expansion-led growth strategy has enabled it to grow LAP and affordable home loans at 29% and 60% YoY. Even now, LAP / Home loans are being distributed only from 49%/42% of VF branches, leaving sufficient room for distribution-expansion-led growth in these segments. Management mentioned that affordable home loans have a long growth runway, given the under-penetration in the segment.

C. **Steady-state new business ROAs to be higher than current ROAs:** Management was confident of new businesses having higher ROAs vs FY23 ROAs of 2.9% of AUM on a steady-state basis. Our analysis indicates that portfolio of these new businesses could have 100-130bps higher ROAs.



### Outlook and valuation

We continue to like one of CFHL’s subsidiary, CIFC for its sector-leading growth, on the back of new businesses and distribution expansion for existing products. CFHL is currently trading at a price to sales ratio of 0.88x and a price to book value of 2.28x. With a PE of 12.5x compared to an industry average of 23.4x and a holding company discount of ~56% with CIFC, we believe CFHL has enough room for a further upmove. Maintain Buy with a 12M target price of Rs 1080.

**Technically**, the stock continues to have a bullish bias as it makes higher highs and higher lows on the daily chart. MACD is approaching the signal line and the 0-line at the same time while the daily RSI sustaining above the 50-level mark indicating increase in bullish momentum. We expect the stock to trend higher and reach its target of Rs 1080.

### Previous recommendations:

| Date      | Stock Name    | Reco Price | Target Price | P & L % | Status |
|-----------|---------------|------------|--------------|---------|--------|
| 1-Mar-21  | Cummins India | 772        | 914          | 18%     | Closed |
| 10-Mar-21 | HCL Tech      | 962        | 1,140        | 19%     | Closed |
| 10-Mar-21 | Eicher Motors | 2,635      | 2,940        | 12%     | Closed |
| 7-Apr-21  | Cyient Ltd    | 669        | 789          | 18%     | Closed |



|           |                                |       |       |      |        |
|-----------|--------------------------------|-------|-------|------|--------|
| 3-May-21  | Persistent Systems Ltd         | 1,990 | 2,400 | 21%  | Closed |
| 4-May-21  | SBI Life Insurance Company Ltd | 945   | 1,144 | 21%  | Closed |
| 17-May-21 | HG Infra                       | 325   | 394   | 21%  | Closed |
| 2-Jun-21  | Gujarat Gas Limited            | 532   | 674   | 27%  | Closed |
| 22-Jun-21 | Jindal Stainless (Hisar) Ltd   | 184   | 228   | 24%  | Closed |
| 6-Jul-21  | Tata Motors Limited            | 341   | 410   | 20%  | Closed |
| 26-Jul-21 | Gujarat State Petronet Ltd     | 331   | 394   | -16% | Open   |
| 6-Sep-21  | Jindal Steel and Power Ltd     | 389   | 447   | 15%  | Closed |
| 7-Oct-21  | Ashoka Buildcon                | 99    | 116   | 18%  | Closed |
| 10-Jan-22 | Dalmia Bharat                  | 1,918 | 2,250 | 9%   | Closed |
| 11-Apr-22 | SBI Life Insurance Company Ltd | 1,140 | 1,330 | 17%  | Closed |
| 9-May-22  | Gujarat Gas                    | 503   | 584   | 16%  | Closed |
| 30-May-22 | Cummins India                  | 1,005 | 1,164 | 16%  | Closed |
| 3-Jun-22  | LTI                            | 4,300 | 4,969 | 16%  | Closed |
| 22-Jun-22 | Cyient Ltd                     | 791   | 922   | 17%  | Closed |
| 23-Jun-22 | Credit Access Grameen          | 918   | 1,054 | 15%  | Closed |
| 4-Jul-22  | Emami Ltd                      | 418   | 500   | 20%  | Closed |
| 4-Jul-22  | HDFC Bank                      | 1,342 | 1,537 | 15%  | Closed |
| 4-Jul-22  | Crompton                       | 344   | 411   | 19%  | Closed |
| 4-Jul-22  | ICICI Bank                     | 692   | 793   | 15%  | Closed |
| 4-Jul-22  | KIMS                           | 1,193 | 1,426 | 20%  | Closed |
| 16-Aug-22 | Century Plyboards              | 627   | 737   | 6%   | Open   |
| 9-Sept-22 | Craftsman Auto                 | 2760  | 3249  | 18%  | Closed |
| 14-Sep-22 | Equitas Small Finance Bank     | 48    | 59    | 23%  | Closed |
| 22-Nov-22 | VMart Retail                   | 2715  | 3190  | -20% | Open   |
| 25-Nov-22 | Rategain                       | 283   | 340   | 20%  | Closed |
| 16-Dec-22 | EPL                            | 172   | 204   | 19%  | Closed |
| 21-Mar-23 | Credit Access Grameen          | 930   | 1084  | 17%  | Closed |
| 13-Apr-23 | Tube Investments               | 2595  | 2884  | 11%  | Closed |
| 20-Apr-23 | APL Apollo Tubes               | 1237  | 1374  | 11%  | Closed |
| 5-May-23  | KEC International Ltd          | 494   | 557   | 13%  | Closed |
| 18-May-23 | AIA Engineering                | 2855  | 3247  | 14%  | Closed |
| 13-Jun-23 | Sula Vineyards                 | 439   | 507   | 15%  | Closed |
| 16-Jun-23 | PB Fintech                     | 638   | 738   | 16%  | Closed |
| 28-Jun-23 | Quess Corp                     | 431   | 494   | -1%  | Open   |
| 12-Jul-23 | Ashoka Buildcon                | 86    | 104   | 21%  | Closed |
| 20-Jul-23 | Alkem Laboratories             | 3700  | 4240  | 15%  | Closed |
| 4-Aug-23  | MTAR Technologies              | 2115  | 2424  | 15%  | Closed |
| 7-Aug-23  | Ugro Capital                   | 276   | 339   | 10%  | Open   |
| 10-Aug-23 | Jindal Stainless               | 399   | 454   | 6%   | Open   |

Disclaimer:

**Recommendation Parameters for Fundamental/Technical Reports:**

Buy – Absolute return of over +10%  
Accumulate – Absolute return between 0% to +10%  
Reduce – Absolute return between 0% to -10%  
Sell – Absolute return below -10%

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IIFL Group | IIFL Securities Ltd., IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane - 400604. CIN: 99999MH1996PLC132983 Tel.: (91-22)2580 6650. Customer Service: 40071000. Stock Broker SEBI Regn: INZ000164132. NSE: 10975 BSE: 179 MCX: 55995 NCDEX: 01249 Depository: INDP1852016. MF Distributor ARN: 47791. PMS SEBI Regn,: INP000002213. Investment Adviser SEBI Regn. INA00000623. Research Analyst SEBI Regn: INH000000248. Loan products are offered by IIFL Finance Ltd. & IIFL Home Finance Ltd. Kindly refer to [www.indiainfoline.com](http://www.indiainfoline.com) for detailed disclaimer and risk factors.