



Q2FY26

Cholamandalam Investment and Finance Company Limited



Cholamandalam Investment and Finance

A strong performance in Q2 driven by broad-based AUM expansion

CMP* INR 1,703	Target INR 1,744	Potential Upside 2.4%	Market Cap (INR Mn) INR 14,08,880	Recommendation HOLD	Sector NBFC
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Result Highlights

- The company reported a strong performance in Q2 driven by broad-based AUM expansion, healthy disbursement momentum, and resilient profitability. Total AUM stood at INR 21,49,060 mn as of September 2025, up 21% YoY, supported by aggregate disbursements of INR 244,420 mn in Q2 and INR 487,670 mn in H1. Net Operating income grew 26% YoY in Q2 to INR 40,746 mn, while H1 net income rose 27% YoY to INR 79,390 mn. PAT increased 20% YoY in both periods, reaching INR 11,553 mn in Q2 and INR 22,910 mn in H1.
- Vehicle Finance remained the largest segment with Q2 disbursements of INR 135,390 mn and AUM of INR 10,75,680 mn, up 17% YoY. LAP delivered strong growth with AUM rising 33% YoY to INR 463,020 mn on Q2 disbursements of INR 46,300 mn. Home Loans grew 28% YoY with AUM at INR 204,050 mn, while SME loans also expanded 28% YoY to INR 75,440 mn. CSEL disbursements were INR 21,420 mn in Q2, though AUM remained broadly flat at INR 139,520 mn versus last year. SBPL(Secured Business and Personal Loan) was the fastest-growing segment, with AUM increasing 57% YoY to INR 29,320 mn.
- Profitability remained steady with PBT growth of 20% in Q2. PBT-ROA stood at 3% in Q2 and 3.1% in H1, while ROE was healthy at 18.11% in Q2 and 18.47% in H1. Consolidated PBT rose to INR 15,650 mn in Q2 and INR 30,960 mn in H1, both up 20% YoY.
- Capital adequacy was comfortable with a CAR of 20%, Tier-I at 14.59%, and CET-I at 13.93%. Asset quality was stable with Stage 3 at 3.35%, GNPA as per RBI norms at 4.57%, and NNPA at 3.07%.

Valuation and Outlook

Chola's outlook for H2 appears strong, with management confident of maintaining 20% AUM growth and expecting a clear pickup in disbursements as GST benefits flow through and Q2 delays in LAP/HL registrations shift into Q3. Margins are set to improve by 10–15 bps helped by full MCLR pass-through and CCD conversions, while asset-quality pressures are easing as Stage-2 stabilizes and Stage-3 slippages decline. Growth will be driven by LAP/HL (near 30%), non-mortgage segments aiming above 20%, gold loans gaining traction, and SBPL continuing to scale strongly.

On the risk side, we remain cautious about the extended monsoon and its impact on harvest-driven repayments, with CV and CE segments still facing utilization-related stress. CSEL remains the weak link due to earlier partner-led over-leveraging, though losses have peaked and the legacy partnership book is running down.

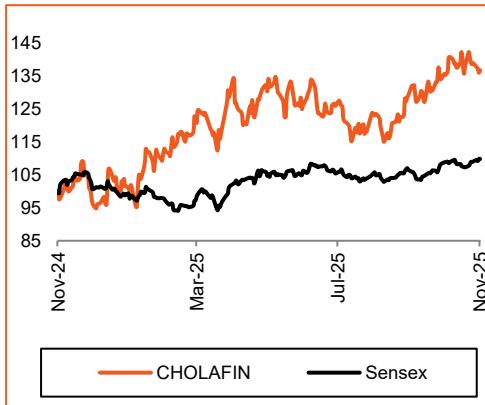
We value Cholamandalam at 5.0x FY27E ABV, deriving a target price of INR 1,744 per share, which implies a limited upside of 2.4%. Given the recent run-up in the stock, we downgrade our rating from "ACCUMULATE" to "HOLD."

KEY FINANCIALS

INR Mn	FY24	FY25	FY26E	FY27E	FY28E
NII	83,831	1,12,351	1,34,055	1,61,612	2,02,962
PPOP	59,039	82,311	1,05,006	1,27,558	1,54,079
PAT	34,228	42,585	50,604	67,642	82,199
EPS	41.2	50.7	60.2	80.4	97.7
NIM	6.5%	6.7%	6.8%	7.0%	7.1%
Advances Growth	36.7%	37.3%	21.0%	23.9%	25.0%

Source: Company, DevenChoksey Research

SHARE PRICE PERFORMANCE



MARKET DATA

Shares outs (Mn)	844
Mkt Cap (INR Mn)	14,08,880
52 Week H/L (INR)	1,782/1168

*Based on previous closing
Note: All the market data is as of previous closing

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-25	Jun-25	Mar-25
Promoters	49.9	49.9	49.9
FII	26.8	28	28.2
DII	17.3	16	15.5
Others	6.0	6.1	6.4
Total	100	100	100

20.4%

NII CAGR
between FY25-27E

26.0%

PAT CAGR
between FY25-27E

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Key Con-call Highlights:

Key Takeaways

- Chola reported a strong performance in Q2 FY26, with AUM rising 21% YoY to INR 21,49,060 mn as disbursements increased to INR 244,420 mn. Growth was broad-based, with Vehicle Finance AUM rising 17%, LAP growing 33%, Home Loans expanding 28%, and SME increasing 28%, while CSEL contracted due to the company's decision to exit fintech partnership channels.
- Margins improved meaningfully, as NIM rose from 7.5% to 7.9% during the quarter and management expects a further 10–15 bps expansion in the second half led by MCLR transmission and INR 20,000 mn of CCD conversion benefits.
- Credit costs moderated sequentially, with NCL improving from 1.8% in Q1 to 1.7% in Q2. Management reiterated that CSEL stress has already peaked and should stabilize in Q3 and Q4.
- Chola reported PBT of INR 15,610 mn, representing 20% YoY growth, with PBT ROA stable at 3% and ROE at 18.1%. Liquidity remained strong at INR 175,160 mn, ALM showed no negative mismatches, and capital adequacy stood at 20% with Tier-1 at 14.6%. Overall, the company expressed strong confidence in achieving more than 20% AUM growth in FY26 supported by a stronger second half.
- Operating expenses increased approximately 10% QoQ due to wage increments, incentive payouts, and continued investment in scaling gold loans and consumer durable financing. Management expects operating leverage to improve as newer businesses achieve scale. Funding costs are expected to reduce further as banks complete the transmission of repo cuts

RBI Rate cut and GST Effects

- The quarter was shaped by GST rate cuts, repo reductions, and procedural disruptions in key southern markets. The GST cut between mid-August and late-September led to a temporary "wait-and-watch" behavior across the vehicle ecosystem, which delayed purchases and impacted VF disbursements.
- Repo reductions have not yet fully transmitted to lending benchmarks, although management expects complete MCLR pass-through soon. Registration delays in Tamil Nadu and Karnataka further slowed LAP and HL disbursements, although most of this spillover moved into October. As these temporary factors began to normalize, October saw a strong recovery in both volumes and disbursements.

Asset Quality & Credit Costs

- Company-wide net slippages reduced from 2.8% to 2.5%, and Stage-2 assets stabilized sequentially. Vehicle Finance asset quality held steady, with Stage-2 remaining flat and Stage-3 rising only marginally despite extended monsoon disruptions that temporarily reduced utilization in CVs and construction equipment.
- CSEL stress remained concentrated in unsecured business loans, where over-leveraging and DSA-led multi-lender sourcing had created repayment stress. However, with the exit from partnerships and tighter bureau filters, management indicated that delinquencies have already peaked and will improve through Q3 and Q4. In LAP and HL, the increase in GS3 was driven by the seasoning of non-SARFAESI assets rather than by geography. Management expects full-year credit costs to moderate toward approximately 1.6%.

Segment Deep Dive

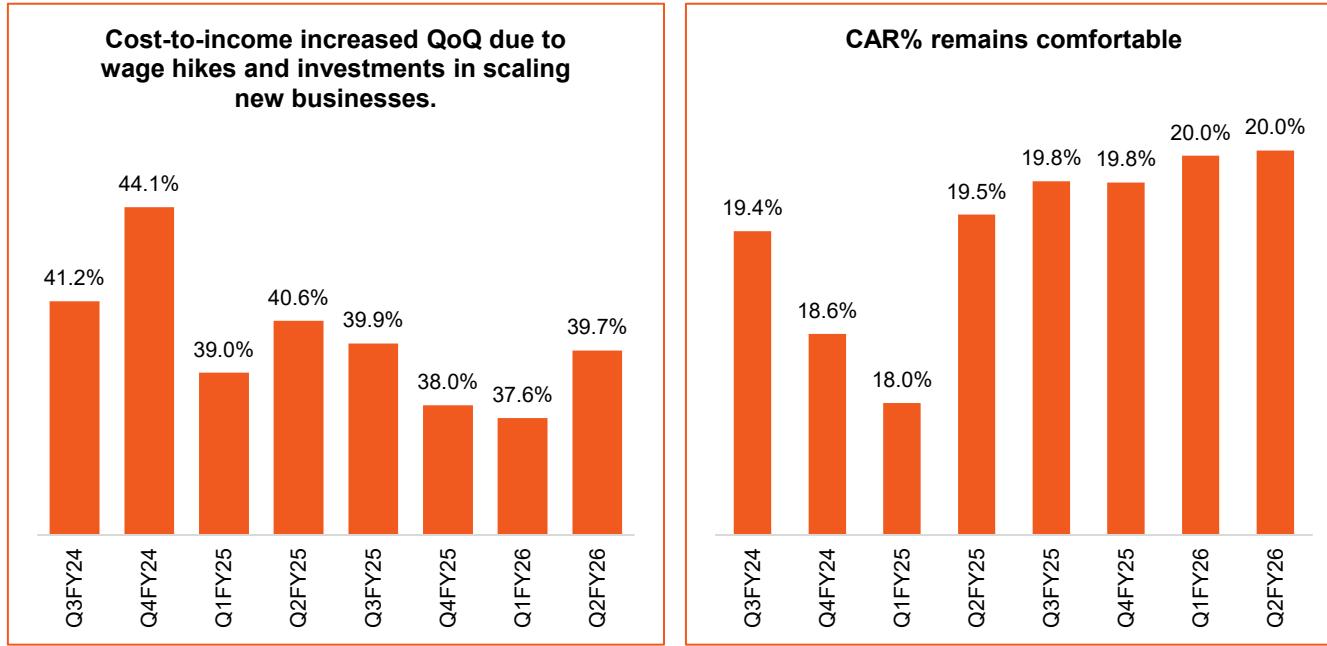
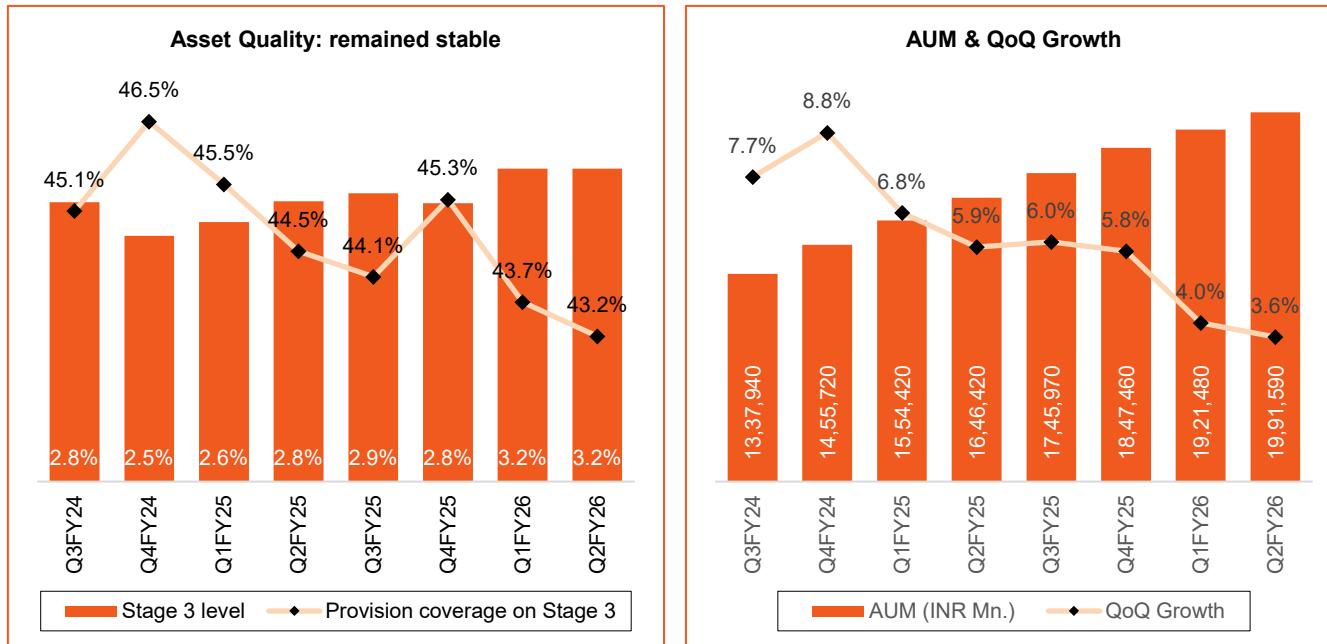
- Vehicle Finance delivered 17% AUM growth, with October showing a meaningful revival as ticket sizes fell by 8% due to GST cuts while disbursements increased 14% and unit volumes grew 18%. SCV and LCV segments are leading the recovery, while HCV is improving gradually, driven primarily by buses.
- LAP continued to grow steadily, with PLR raised by 15 bps and average ticket sizes remaining between INR 6.5–7 mn. Home Loans benefited from strong traction in Tamil Nadu despite procedural delays in Karnataka, and management continues to expect around 30% AUM growth. SME and Equipment Finance delivered 28% AUM growth with stable asset quality. CSEL degrew due to partnership exits but in-house sourcing is improving, and early-bucket behavior is stabilizing. SBPL continued to grow above 30% with stable yields.
- Gold loans reached INR 5,000 mn in disbursements, with yields comparable to peers and a strategy centered on customer experience rather than pricing competition. Tractor financing was deliberately slowed due to PSL-driven supply pressures but is expected to revive gradually.

Outlook & Management Guidance

- Management remains confident of delivering more than 20% AUM growth in FY26, supported by a strong pickup in VF, continued scaling of gold loans, normalization in LAP and HL disbursements, and stabilization in CSEL.
- Margins are expected to expand by 10–15 bps in H2, and credit costs are expected to trend toward 1.6%. Over the medium term, Chola maintains its aspiration to grow at 20–25%.

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Story in Charts



Source: Company, DevenChoksey Research

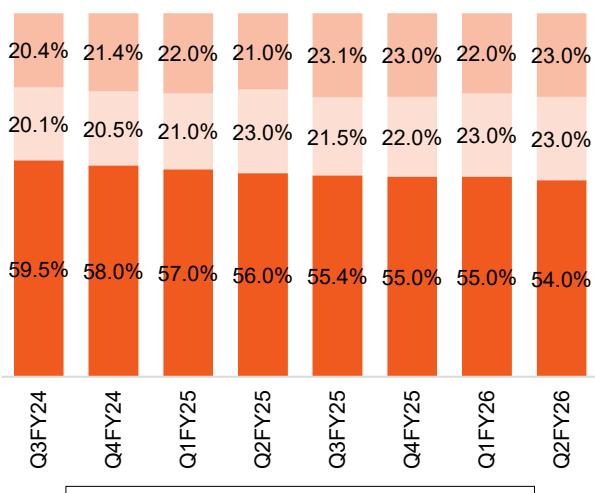
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Result Snapshot

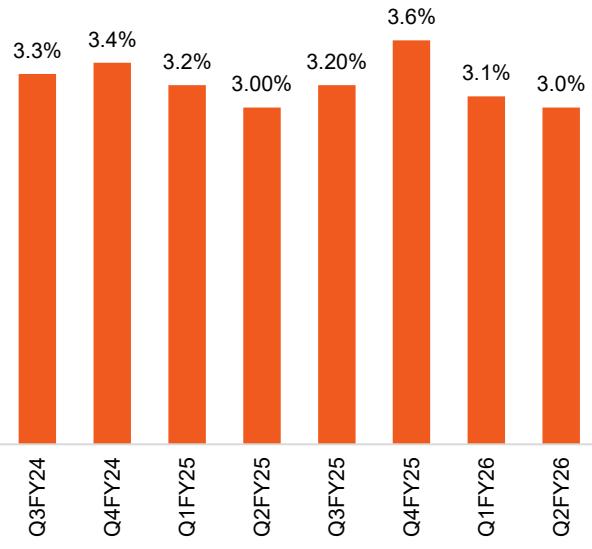
INR Mn. Income Statement	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Interest Income	68,942	66,501	57,680	3.7%	19.5%
Interest Expense	35,155	34,663	30,551	1.4%	15.1%
Net Interest Income	33,787	31,838	27,128	6.1%	24.5%
Non Interest Income	6,959	6,807	5,248	2.2%	32.6%
Total Income	40,746	38,645	32,376	5.4%	25.9%
Employee costs	10,632	9,243	7,947	15.0%	33.8%
Other operating expenses	5,537	5,285	5,209	4.8%	6.3%
Operating expenses	16,169	14,528	13,155	11.3%	22.9%
Pre-Provision profit	24,578	24,117	19,221	1.9%	27.9%
Provisions	8,970	8,821	6,235	1.7%	43.9%
Profit Before Tax	15,608	15,296	12,986	2.0%	20.2%
Tax Expense	4,054	3,937	3,355	3.0%	20.8%
Net Profit	11,553	11,359	9,631	1.7%	20.0%
Balance Sheet Analysis					
Total AUM	21,49,060	20,76,630	17,74,260	3.5%	21.1%
Net Worth	2,58,950	2,47,150	2,13,650	4.8%	21.2%
Spread Analysis					
Yield on avg advances (%)	12.8%	12.8%	13.0%	2bps	-17bps
NIM (%)	7.9%	7.8%	7.5%	10bps	40bps
Asset Quality					
Coverage Ratio - Stage 3 (%)	43.2%	43.7%	44.5%	-50bps	-130bps
Key Ratios					
Cost to Income ratio (%)	39.7%	37.6%	40.6%	209bps	-95bps

Source: Company, DevenChoksey Research

Business AUM Mix: Decreasing share of Vehicle Finance segment



ROA-PBT Ratio remains stable



Source: Company, DevenChoksey Research

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Financials:

Exhibit 1: Profit & Loss Statement

INR Mn	FY25	FY26E	FY27E	FY28E
Interest Income	2,37,200	2,83,926	3,43,643	4,21,490
Interest Expense	1,24,849	1,49,871	1,82,031	2,18,529
Net Interest Income	1,12,351	1,34,055	1,61,612	2,02,962
Non-interest income	23,348	38,947	56,707	67,138
Operating income	1,35,699	1,73,002	2,18,319	2,70,100
- Employee expense	32,805	43,591	56,974	72,805
- Other operating expense	20,583	24,405	33,787	43,216
Operating Expense	53,388	67,996	90,761	1,16,021
PPOP	82,311	1,05,006	1,27,558	1,54,079
Provisions	24,943	37,179	37,369	44,481
PBT	57,369	67,827	90,189	1,09,598
Tax Expense	14,783	17,222	22,547	27,400
PAT	42,585	50,604	67,642	82,199
EPS (INR)	50.7	60.2	80.4	97.7

Exhibit 3: Key Ratios

Key Ratio	FY25	FY26E	FY27E	FY28E
Growth Rates				
AUM (%)	37.3%	21.0%	23.9%	25.0%
Borrowings (%)	30.1%	17.4%	19.8%	20.4%
Total assets (%)	28.9%	17.8%	20.3%	20.7%
NII (%)	34.0%	19.3%	20.6%	25.6%
Pre-provisioning profit (%)	39.4%	27.6%	21.5%	20.8%
PAT (%)	24.4%	18.8%	33.7%	21.5%
B/S Ratios				
Credit/Deposit (%)	104.0%	97.3%	99.4%	103.9%
Advances/Total assets (%)	90.2%	84.1%	85.6%	89.2%
Leverage - Total Assets to Equity	8.5	8.2	8.0	7.9
Operating efficiency				
Cost/income (%)	39.3%	39.3%	41.6%	43.0%
Opex/total assets (%)	2.6%	2.9%	3.2%	3.4%
Opex/total interest earning assets	3.2%	3.4%	3.9%	4.0%
Profitability				
NIM (%)	6.7%	6.8%	7.0%	7.1%
RoA (%)	2.1%	2.1%	2.4%	2.4%
RoE (%)	18.0%	17.6%	19.0%	18.8%
Asset quality				
Gross NPA (%)	4.0%	4.3%	4.1%	3.8%
Net NPA (%)	2.6%	2.8%	2.6%	2.4%
PCR (%)	33.8%	33.8%	37.1%	36.7%
Credit cost (%)	1.4%	1.9%	1.5%	1.4%
Per share data / Valuation				
EPS (INR)	50.7	60.2	80.4	97.7
BVPS (INR)	281.0	342.8	423.2	520.9
ABVPS (INR)	223.7	275.4	348.7	432.5
P/E (x)	30.0	24.5	18.3	15.1
P/BV (x)	5.4	4.3	3.5	2.8
P/ABV (x)	6.8	5.3	4.2	3.4
Profitability				
Return on Capital	2.4%	2.3%	2.6%	2.6%
Return on Equity	18.0%	17.6%	19.0%	18.8%

Source: Company, DevenChoksey Research

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Cholamandalam Investment & Finance Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-Nov-25	1703	1,744	HOLD	Buy	More than 15%
02-May-25	1,485	1,627	ACCUMULATE	Accumulate	5% – 15%
04-Feb-25	1,395	1,630	BUY	Hold	0 – 5%
29-Oct-24	1,292	1,531	BUY	Reduce	-5% – 0
03-Aug-24	1,385	1,605	BUY	Sell	Less than – 5%
09-May-24	1,223	1,455	BUY		
30-Jan-24	1,214	1,380	ACCUMULATE		

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