
Empowering India's Underserved: Cholamandalam Investment & Finance

India's Financial Landscape

India's financial prospects and outlook are advancing at a significant pace, led by increasing financialisation, formalisation and digitisation. With a population exceeding 1.4bn, and a significant portion of the community residing within the rural area (the urbanisation rate is around 36%), India offers an enormous opportunity for companies within the financial sector, enabling broader access to finance.

One company that has efficaciously tapped into this potential is Cholamandalam Investment & Finance Company (Chola). A financial services arm of the Murugappa Group (founded in 1900), Chola has decisively positioned itself to cater to the financial needs of India's underbanked population. The company operates from 1387 branches across India, with assets under management of over A\$25bn. It has grown significantly over the past decade, with a mission to enable their customers to have a better life, thereby leading to a better nation.

Chola has grown its customer base from 350,000 in 2010 to 3.6 million by 2024. It has expanded its presence with 54,000 employees across India's 26 states and 6 territories. Their presence is particularly significant in Tier III-VI towns (population of 50,000 or lower, including villages of less than 5,000) and in remote and rural areas of India. Financial products offered include Vehicle and Housing Finance, Consumer & Person Loans, SME Loans and Stock Broking.

Expanding Financialisation in India

Chola is in a position of prominence in India's emerging financialisation wave through tapping and scaling into the opportunities offered by India's underbanked and underserved communities and population. This wave, and the broader trend towards financialisation in India, are being driven by rising per capita income, urbanisation, and the need for formalised lending structures offering regulated finance. In addition, India has experienced huge growth in digitisation which is being powered by close to 1bn Smartphones and over 750m internet users. This allows accessibility to financing. Chola has leveraged this golden opportunity by strategically focusing on communities that were financially underserved, particularly the rural cities and regions and semi-rural parts of India.

Chola's wide and varied portfolio is designed and curated to meet the financial needs of its varied clientele. A major part of Chola's total loan book is dedicated to auto (vehicle) financing, covering commercial vehicles, tractors, and two-wheelers which are pivotal for both personal as well as economic mobility. In addition to auto/vehicle loans, Chola also offers home/property loans targeting underpenetrated areas to enable individuals to improve their standard of living (through purchasing and/or constructing homes). Chola also caters to small and medium-sized enterprises (SMEs) by providing business loans and supporting entrepreneurship.

Chola's prospects are driven by strong management, robust financials, and structurally rising rural income, bolstered by government initiatives targeted towards rural development and agriculture. These factors are likely to create rising demand for financial products/services. Additionally, India's growing exposure towards digital adoption and transformation, especially from the rural hotspots will further improve and extend Chola's reach

to cater to the customers effectively and efficiently. The company’s growth and quality metrics are characterised by robust growth in its assets and profits as well as stable return on assets and reducing loan provisions.

Chola’s Financials

The company has grown its assets under management at 22% per annum over the last 10 years. This strong growth has led to profit growth of 26% per annum also over the same period. This has accelerated to 34% per annum over the last 5 years as India’s financialisation has accelerated through digitisation. Chola enjoys net interest margins of 7.8% (March Quarter, 2024) and a return-on-equity of over 22%. It is well capitalised at 18.6%, with Tier I capital above 15%.

The company’s shareholders include Capital Group, Vanguard, Blackrock, and Norges Investment Bank, in addition to the 50% held by its founders. As a validation of the company’s quality, Indian mutual funds hold 17% of the stock. Whilst Chola is by no means a cheap stock, given its growth profile over the last 10 years, it plays the under-penetration and financialisation story of India, which is likely to lead to significant compounding earnings growth over time, particularly as the addressable market grows from a low base.

Chola’s stock price



Source: TradingView

The stock was purchased in the India Avenue Equity Fund in early 2022 and has subsequently doubled over the last two years. The company has high calibre management and has adopted a relatively conservative stance when it comes to lending. While India’s Private Banks focused on banking to corporate employees in urbanised locations, the NBFC’s (?) like Chola focused on smaller cities and rural India, with the intent of providing basic financial services to a broader component of India’s significant and aspirational population.

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