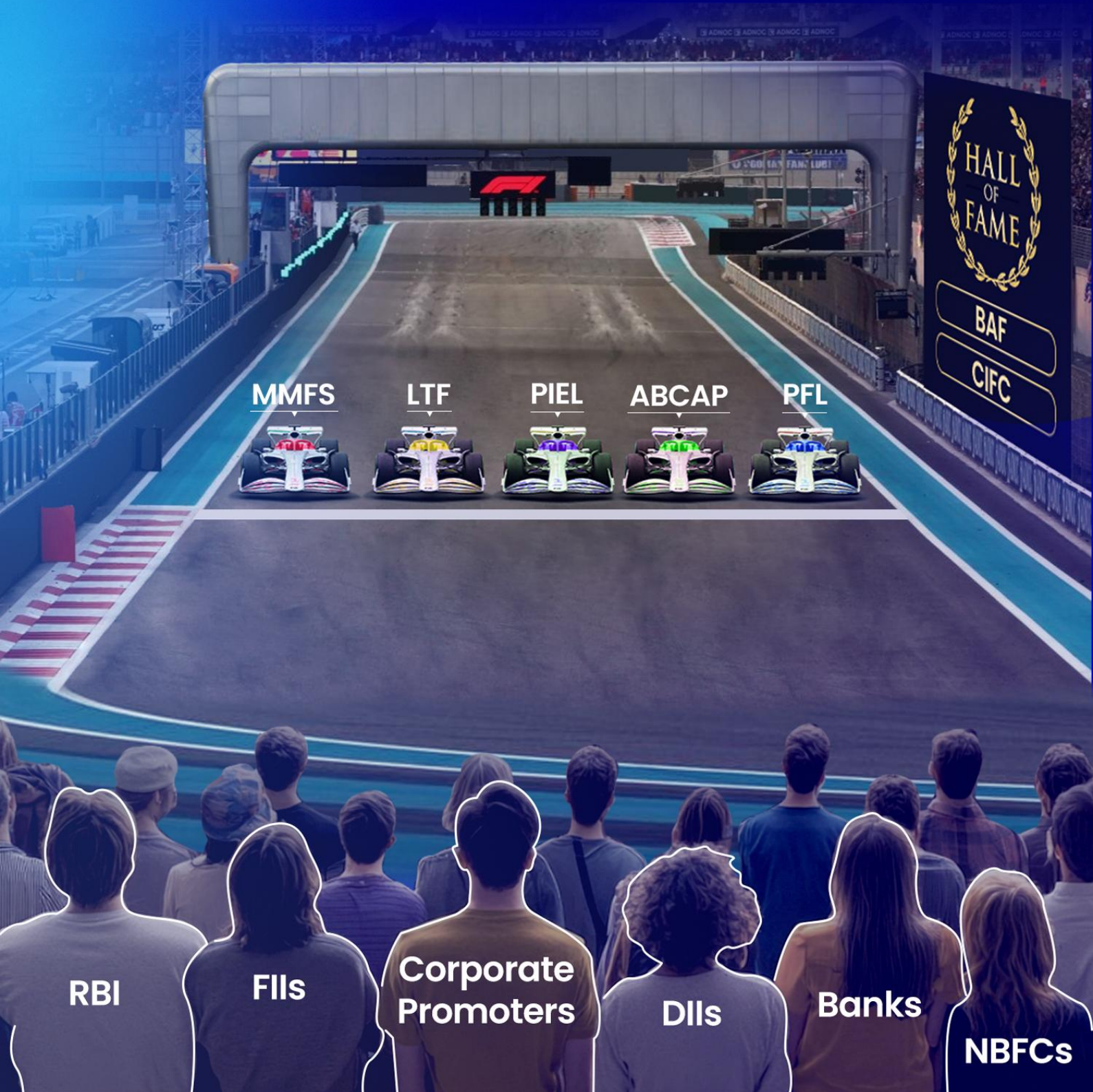


Sector Thematic

# Diversified NBFCs



# Diversified NBFCs

## Corporate sponsored NBFCs: call option at formation lap

Most corporate-sponsored NBFCs have struggled to deliver consistent value creation over the past decade, barring a few exceptions such as BAF and CIFIC. This has been despite enjoying huge structural advantage (vs peers) like low cost of funds and liquidity backstop. In recent years, several corporates have either revived/restructured their NBFCs or acquired/set up new ones. These moves have been augmented by leadership changes (like appointment of ex-bankers as CEOs) and a shift in core strategy. We believe this combination of simultaneous changes at the corporate-sponsored NBFCs offers investors a call option, although near-term RoEs are likely to remain capped. ABCAP and LTF emerge as the strongest on our proprietary scorecard, which combines risk management, balance sheet strength, corporate governance, and potential steady-state profitability. We initiate coverage on L&T Finance – LTF (ADD), Piramal Finance – PIEL (ADD) and Poonawalla Fincorp – PFL (REDUCE). We maintain our ADD rating on Aditya Birla Capital – ABCAP, MMFS and CIFIC. BAF (BUY) remains our top pick among NBFCs.



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# Diversified NBFCs

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Most corporate-sponsored NBFCs have struggled to deliver consistent value creation over the past decade, barring a few exceptions such as BAF and CIFIC. This has been despite enjoying huge structural advantage (vs peers) like low cost of funds and liquidity backstop. In recent years, several corporates have either revived/restructured their NBFCs or acquired/set up new ones. These moves have been augmented by leadership changes (like appointment of ex-bankers as CEOs) and a shift in core strategy. We believe this combination of simultaneous changes at the corporate-sponsored NBFCs offers investors a call option, although near-term RoEs are likely to remain capped. ABCAP and LTF emerge as the strongest on our proprietary scorecard, which combines risk management, balance sheet strength, corporate governance, and potential steady-state profitability. We initiate coverage on L&T Finance – LTF (ADD), Piramal Finance – PIEL (ADD) and Poonawalla Fincorp – PFL (REDUCE). We maintain our ADD rating on Aditya Birla Capital – ABCAP, MMFS and CIFIC. BAF (BUY) remains our top pick among NBFCs.

- **Strategic revamp heralds a fresh start:** In the past few years, several major corporate houses have either revived/restructured their NBFCs following mediocre past returns or acquired/set up new ones. Further, these NBFCs have appointed ex-bankers as MD & CEO to turnaround their franchise and drive strong operating performance.
- **Patchy track record; optimistic outlook:** The historical performance of most corporate-sponsored NBFCs (LTF, PIEL, PFL, ABCAP, MMFS, etc.) in terms of both profitability and shareholder returns has been subdued. The challenges have been aplenty – ranging from concentrated portfolios and an overreliance on captive business to an inability to establish a right-to-win in chosen segments and issues with capital allocation. With a change in strategy and/or leadership, the outcomes this time are likely to be different.
- **Divergent trends on the two sides of the balance sheet:** The liabilities side of the balance sheet for these NBFCs has generally been a source of advantage (parentage/rating/liquidity support). However, the asset side has historically been a handicap, failing to leverage strengths on the liabilities side (such as strong capitalization and easy access to debt capital), mainly due to compulsion of captive business, poor risk selection, and elevated exposure to vulnerable sectors.
- **Investment implications:** We compare five corporate-sponsored NBFCs using a proprietary scorecard that evaluates both qualitative and quantitative parameters, including corporate governance, balance sheet strength, risk management, and potential steady-state profitability. ABCAP and LTF score highest on our framework. We initiate coverage on LTF (ADD), PIEL (ADD) and PFL (REDUCE). We maintain ADD on ABCAP and MMFS.

### Diversified NBFCs proprietary scorecard

Mar-25	ABCAP	LTF	PIEL	MMFS	PFL
Risk management	●	●	○	●	○
Balance sheet strength	●	●	●	●	●
Corporate governance	●	●	●	●	●
Financial performance	●	●	○	●	●
Valuation	●	●	●	●	○

Source: Company, HSIE Research | For detailed methodology, please refer Page no. 12

Company	Mcap (INR bn)	CMP (INR)	Reco.	TP (INR)
LTF	611	245	ADD	243
PIEL	253	1,124	ADD	1,300
PFL	404	501	REDUCE	400
ABCAP	192	290	ADD	315
MMFS	379	273	ADD	300
BAF	6,158	991	BUY	1,100
CIFIC	1,362	1,592	ADD	1,800

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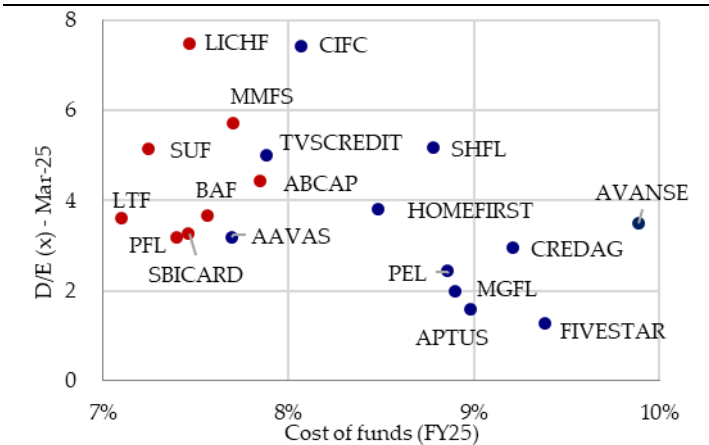
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Sector Thematic: Diversified NBFCs

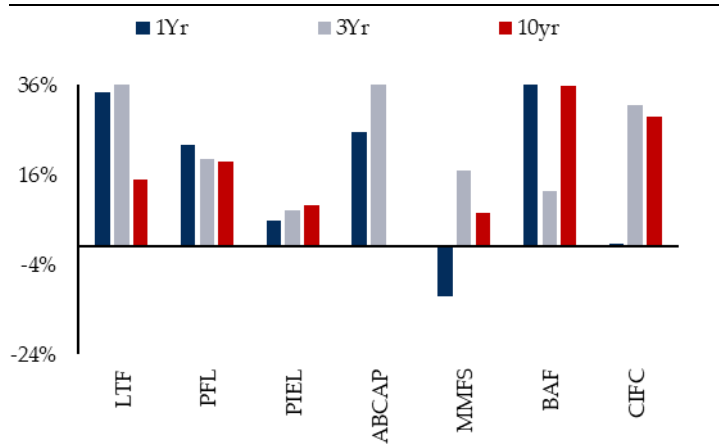
Focus charts

Exhibit 1: AAA-rated NBFCs have lower cost of funds and relatively higher leverage compared to peers



Source: Company, HSIE Research | Note: Red- circle denotes AAA-rated NBFCs

Exhibit 2: Muted shareholder returns on a sustainable basis for corporate-sponsored NBFCs compared to BAF and CIFIC



Source: Bloomberg, HSIE Research | Note: 10Yr returns for ABCAP not available | Excludes impact of spin-off for PIEL

Exhibit 3: AUM mix skewed towards retail/MSME diversified NBFCs

Mar-25 (% of AUM)	ABCAP	LTF	PIEL	MMFS	PFL
HL		20%	33%		
LAP	27%	6%	21%		24%
Cars			5%	53%	14%
BL	10%	7%	5%		21%
PL/CL	12%	9%	11%		23%
Tractors		16%		11%	
2W		13%			
MFI		27%	1%		
CV/CE				22%	
CF/LRD	8%	1%	17%		
Wholesale	26%	1%	3%		
Others	17%	1%	3%	14%	18%

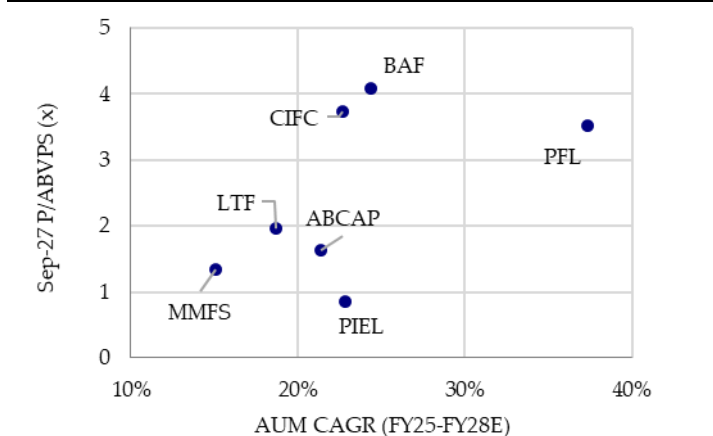
Source: Company, HSIE Research

Exhibit 4: Optimistic guidance by the management for the medium term

	AUM growth	Profitability	Asset Quality	Other
ABCAP	~26%	RoA   2.1-2.5%	NA	NA
LTF	~25% (Retail)	RoA   2.8%-3%	GS III < 3%; NS III < 1%	Retail >= 95%
PIEL	~25%	RoA   ~3%	NA	Retail: Wholesale = 75%:25%
MMFS	NA	RoA   2.5%	NS III < 3%	Non-vehicle: 25% of AUM
PFL	35%-40%	RoA   ~3-3.5%	NA	NA

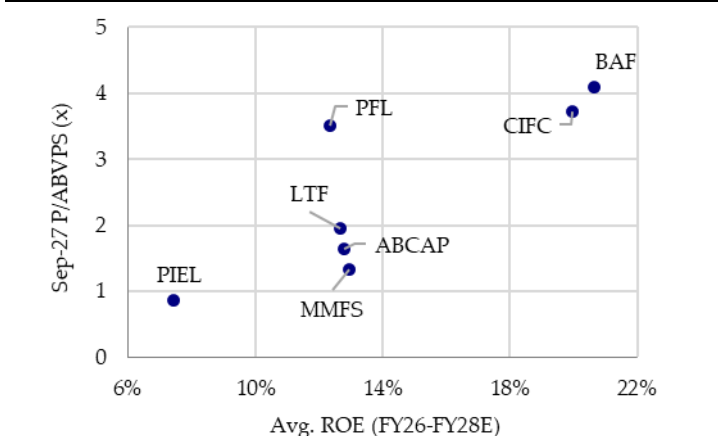
Source: Company, HSIE Research

Exhibit 5: AUM growth driving valuation premium for select franchises



Source: Company, Bloomberg, HSIE Research

Exhibit 6: Most NBFCs have yet to score on the profitability curve



Source: Company, Bloomberg, HSIE Research

## Sector Thematic: Diversified NBFCs

### Exhibit 7: FY25 performance

FY25	Units	ABCAP	LTF	PIEL	MMFS	PFL
AUM	INR bn	1,264	978	807	1,197	356
Disbursements	INR bn	675	602	402	579	302
Sep-27 P/ABVPS	x	1.6	2.0	0.9	1.3	3.5
<b>Growth (% YoY)</b>						
AUM	%	20%	14%	17%	17%	43%
Disbursements	%	5%	7%	17%	3%	-9%
<b>Margins</b>						
Yield on advances	%	11.9%	15.4%	12.6%	13.0%	13.4%
Cost of funds	%	7.8%	7.1%	8.9%	7.6%	7.4%
Δ CoF	bps	-14	37	44	3	11
Spread	%	4.0%	8.3%	3.8%	5.4%	6.0%
Δ Spread - YoY	bps	-58	9	-14	-28	-155
NIM	%	4.8%	7.8%	3.9%	5.9%	8.0%
Δ NIM	bps	-86	61	2	-41	-157
<b>% Borrowings</b>						
Banks	%	55%	53%	29%	47%	53%
NCD + CPs	%	33%	31%	55%	23%	6%
<b>Cost efficiency</b>						
Cost-to-income ratio	%	29%	40%	57%	42%	47%
Opex-to-AUM ratio	%	1.9%	4.3%	4.1%	3.1%	4.2%
Repayment rate	%	44%	56%	41%	40%	78%
<b>Asset Quality</b>						
GS III	%	2.2%	3.3%	3.4%	3.7%	1.8%
NS III	%	1.2%	1.0%	2.4%	1.9%	0.9%
GS II	%	1.5%	3.2%	2.2%	5.4%	1.9%
PCR - Stage III	%	45%	71%	30%	51%	54%
Credit costs	%	1.3%	2.7%	2.8%	1.5%	5.5%
<b>(% of avg. assets)</b>						
Interest earned	%	11.5%	13.1%	9.5%	12.2%	13.1%
Interest expended	%	6.5%	5.4%	5.9%	6.3%	5.1%
Net interest income	%	5.0%	7.8%	3.6%	5.9%	8.0%
Non interest income	%	0.8%	1.1%	2.4%	0.6%	1.2%
Operating expenses	%	1.8%	3.6%	3.4%	2.7%	4.3%
Pre-provisioning profit	%	4.0%	5.3%	2.6%	3.8%	4.8%
Provisions	%	1.2%	2.2%	2.0%	1.3%	5.3%
PBT	%	2.8%	3.1%	0.6%	2.5%	-0.5%
ROAA	%	2.1%	2.4%	0.5%	1.9%	-0.3%
Assets/Equity	x	7.2	4.5	3.3	6.6	3.6
RoAE	%	15.2%	10.8%	1.8%	12.4%	-1.2%

Source: Company, HSIE Research | Valuation as on 29-Sep-25; Note: RoE profile for ABCAP adjusted for dividend income from subsidiaries

## Contents

Corporates – diversifying into lending businesses.....	5
In hopes of sustainable turnaround.....	8
Riding on industry tailwinds; need for sustained performance.....	9
Recommendations.....	14

### Companies Section

L&T Finance –Initiating Coverage (ADD).....	18
Piramal Finance –Initiating Coverage (ADD).....	30
Poonawalla Fincorp –Initiating Coverage (REDUCE).....	41
Aditya Birla Capital –Company Update (ADD).....	52
Mahindra & Mahindra Financial Services – Company Update (ADD).....	63
Bajaj Finance – Company Update (BUY).....	71
Cholamandalam Investment and Finance Company - Company Update (ADD).....	76

## Corporates – diversifying into lending businesses

Corporate-sponsored NBFCs have historically enjoyed significant structural advantages over standalone peers—ranging from liquidity support by the parent group to better access to debt capital and lower cost of funds. Despite these advantages, only a handful—such as BAF and CIFIC—have managed to deliver consistent value. Learning from these success stories, several corporates have revamped their NBFC forays, either organically or through acquisitions. These revival efforts have been further augmented by a generational change in guard—often involving ex-bankers—and a concurrent shift in core strategy.

### Exhibit 8: Key corporate groups and their NBFC strategy

Company	Corporate group	Strategy	Group companies
Aditya Birla Capital (ABCAP)	Aditya Birla	Restructuring - shifted towards retail/MSME lending	Grasim Industries, Ultratech Cement, Hindalco, Aditya Birla Fashion
Godrej Capital	Godrej	Organic - New license for NBFC-ICC and HFC	Godrej Consumer Products, Godrej Properties, Godrej Industries
Jio Financial Services (JFS)	Reliance Industries	Organic - Spun off from RIL and obtained new license as NBFC-ICC	Reliance Industries, Reliance Retail, Jio Infocomm
L&T Finance (LTF)	L&T	Restructuring - Consolidation of lending subsidiaries and divestment of mutual fund subsidiary	L&T, LTIMindtree, L&T Infotech
Mahindra & Mahindra Financial Services (MMFS)	M&M	Product and customer diversification	M&M, Tech Mahindra, Mahindra Lifespaces, Mahindra Logistics
Poonawalla Fincorp (PFL)	Cyrus Poonawalla	Inorganic - Acquired Magma Fincorp	Serum Institute of India
Piramal Finance (PIEL)	Piramal	Restructuring - demerged non-financial businesses from PIEL; acquired DHFL and ramped up retail portfolio	Piramal Realty, Piramal Pharma
TVS Credit Services (TVSCREDIT)	TVS	Restructuring - Captive financier shifted towards diversified lending	TVS Motors

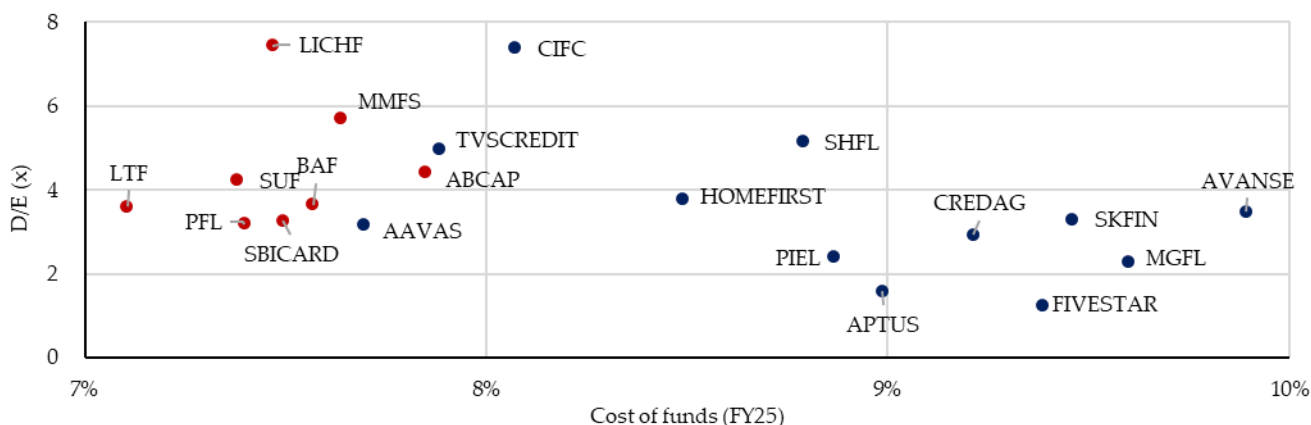
Source: Company, HSIE Research

Sector Thematic: Diversified NBFCs

- **Parentage – a big structural advantage:** Strong parentage is a significant structural advantage for NBFCs/HFCs as it aids in garnering superior credit rating from rating agencies and subsequently lower cost of funds. Further, it also provides liquidity support during crisis periods, providing comfort to other market participants (lenders, debt investors, etc.) as well.

Most of the AAA-rated NBFCs/HFCs are currently sponsored by large corporates or financial conglomerates and Banks.

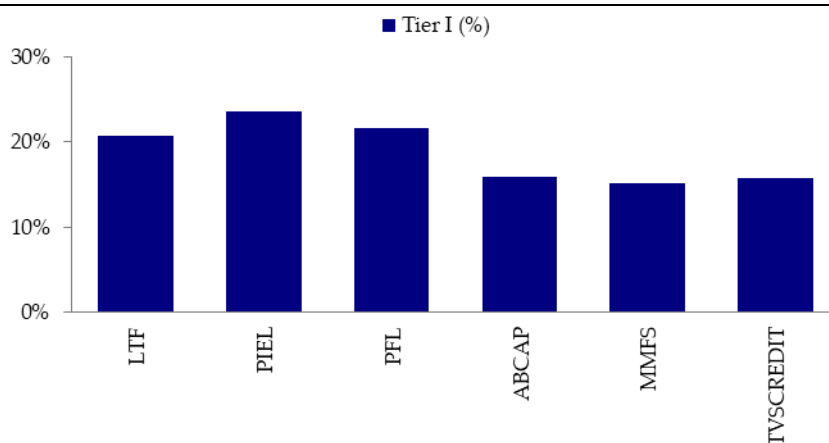
Exhibit 9: Cost of funds vs. leverage (debt to equity) for FY25



Source: Company, Rating agencies, HSIE Research | Red circles denote AAA-rated NBFCs

- **Growth capital in place; room for inorganic opportunities:** Corporate-sponsored NBFCs are capitalized with surplus capital (along with room for further capital infusion) to scale up their balance sheets. Their current loan mix indicates several gaps in the portfolio. While these franchises are in the built or revival stage, there are opportunities for inorganic growth opportunities through M&As to add more competencies or growth levers to the core business. For e.g., LTF has recently acquired the gold loans business of Paul Merchants Finance, while PIEL acquired DHFL to ramp up its retail portfolio.

Exhibit 10: Tier I ratio (Mar-25)



Source: Company, HSIE Research

- Leadership change at the helm:** The track record for most corporate-sponsored NBFCs sans a few has not been so upbeat, particularly over the last decade, leading to sub-par shareholder returns. Subsequently, several of these franchises have undergone a leadership change. The new MD and CEO is predominantly from a large private bank seeking to revive the franchise with robust growth and profitability.

### Exhibit 11: New leadership in place

Company	New MD & CEO	Joining date	Last role	Previous experience
ABCAP	Ms. Vishakha Mulye	Jul-22	ICICI Bank - Executive Director, Wholesale Banking	MD & CEO - ICICI Venture Funds, ED – ICICI Lombard, Group CFO – ICICI Bank
JFS	Mr. Hitesh Sethia	Nov-23	McLaren Strategic Ventures - Head of Europe	ICICI Bank - Head of Transaction Banking, Regional Head, Hong Kong
LTF	Mr. Sudipta Roy	Jul-23	ICICI Bank – Group Head, Unsecured assets, Cards, Payments, Student Ecosystem & Millennial Banking	Deutsche Bank – Director & Head of Products (Credit cards) - Asia, Citi Bank – AVP & Head of Product Development (Credit cards)
MMFS	Mr. Raul Rebello	Apr-23	Axis Bank - EVP & Head - Rural Lending & Financial Inclusion	NA
PFL	Mr. Arvind Kapil	Jun-24	HDFC Bank – Group Head, Mortgages	HDFC Bank - Retail assets (Mortgages, Auto, Gold loans), Liabilities
PIEL	Mr. Jairam Sridharan	Dec-19	Axis Bank – CFO	Axis Bank - President - Retail lending & Payments, CapitalOne – Head, NTC cards, US, ICICI Bank – Head, BIU
TVSCREDIT	Mr. Ashish Sapra	Sep-22	Bajaj Housing Finance - President, Retail	Bajaj Finance – EVP, B2C, Bajaj Allianz General, NSM - American Express

Source: Company, HSIE Research

However, the changes at the second layer of leadership have been mixed. For e.g., PFL has done a complete overhaul of the entire leadership team with senior executives from large private banks. PIEL, which had set up the retail division in 2019, had brought in executives from large private banks to scale up the portfolio.

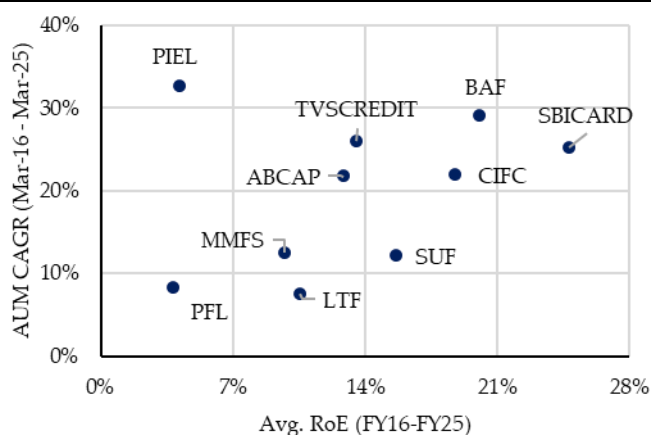
On the other hand, ABCAP, MMFS, and LTF have opted for a more calibrated approach, with minimal changes at the mid-leadership level.

### In hope of a sustainable turnaround

- **Track record not so encouraging:** The historical performance of most corporate-owned NBFCs in terms of both profitability as well as shareholder returns has been subdued. The challenges have been aplenty varying from running concentrated portfolios, focus on captive business, inability to establish right-to-win in chosen segments, capital allocation challenges, etc.

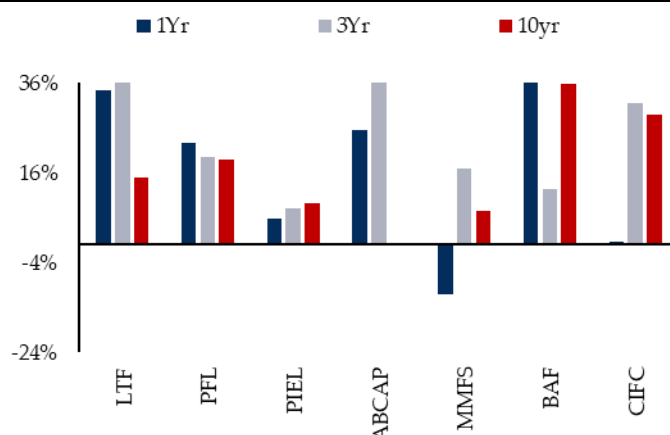
BAF and CIFC have been two notable exceptions; they have been able to scale up their franchise beyond the core business as well as deliver strong growth and profitability.

**Exhibit 12: Growth vs. profitability for corporate-sponsored NBFCs**



Source: Company, HSIE Research | Note: IND AS from FY18 onwards; ABCAP: ABFL till FY24; PIEL includes merger of erstwhile DHFL

**Exhibit 13: Muted shareholder returns on a sustainable basis for corporate-sponsored NBFCs compared to BAF and CIFC**



Source: Bloomberg, HSIE Research | 10 year returns for ABCAP not available | Excludes impact of spin-off for PIEL

- **Legacy issues largely behind sans a few:** A few corporate-sponsored NBFCs were crippled with legacy issues over the past few years, particularly due to 2018-19 developer/NBFC crisis, limited right-to-win in multiple segments, running a concentrated portfolio, etc. Most of these challenges have been addressed to a large extent post-pandemic, although establishing a right-to-win in high-growth engines remains a key concern.

**Exhibit 14: Legacy issues for select NBFCs**

Company	Challenges	Current status
ABCAP	Wholesale focused lender with little distribution and experience in retail/SME; sub-scale non-lending subsidiaries	Diversified lender with high share of retail/MSME; scale up of insurance subsidiaries remain WIP
LTF	Constant churning of portfolios/entities; high share of Infrastructure/real estate portfolio	Near-complete run-down of wholesale portfolio
MMFS	High concentration of vehicle finance and semi-urban/rural locations	Increased share of affluent customers, although product diversification is still limited
PIEL	Highly concentrated wholesale portfolio	Near-complete run-down of wholesale portfolio
PFL	Acquired ailing Magma Fincorp but complete run down of distribution network	Ramping up of products and distribution network underway

Source: Company, HSIE Research

## Riding on industry tailwinds; need for sustained performance

- Riding on industry tailwinds for retail/MSME segments; wholesale lending taking a backseat:** Most diversified NBFCs have ramped their retail/MSME portfolios following the 2018-19 crisis, riding on the strong demand in these segments, particularly unsecured loans, to drive growth and profitability. Wholesale lending has taken a backseat for most lenders, except a few such as BHFL, PIEL, ABHFL, etc., due to asset quality and liquidity issues in 2019-2020.

While the portfolios of these lenders have become diversified, there is significant room for adding key gaps in the portfolios over the medium term, either through organic or inorganic routes.

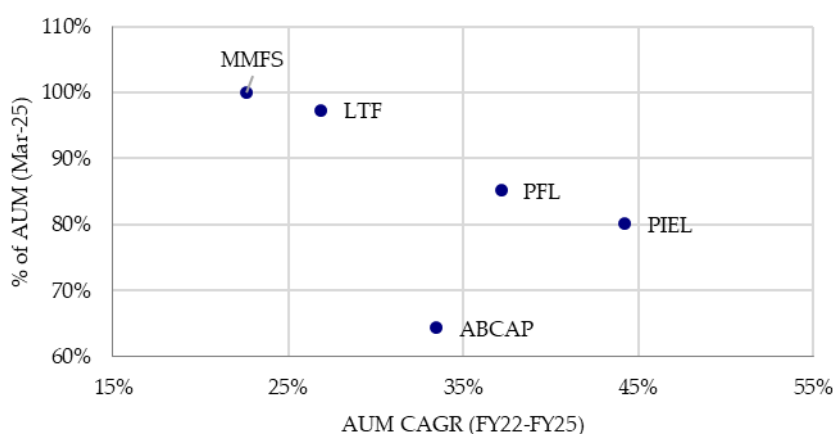
**Exhibit 15: AUM mix and potential portfolio gaps to be addressed**

Mar-25	ABCAP	LTF	PIEL	MMFS	PFL
HL		20%	33%		
LAP	27%	6%	21%		24%
Cars			5%	53%	14%
BL	10%	7%	5%		21%
PL/CL	12%	9%	11%		23%
Tractors		16%		11%	
2W		13%			
MFI		27%	1%		
CV/CE				22%	
CF/LRD	8%	1%	17%		
Wholesale	26%	1%	3%		
Others	17%	1%	3%	14%	18%
<b>Retail + MSME</b>	<b>64%</b>	<b>97%</b>	<b>80%</b>	<b>100%</b>	<b>85%</b>
<b>Yield on advances (FY25)</b>	<b>11.9%</b>	<b>15.4%</b>	<b>12.6%</b>	<b>13.0%</b>	<b>13.4%</b>

Source: Company, HSIE Research | Black rectangles indicate gap in the portfolio

Lenders are likely to continue to focus on granular retail/MSME segments over FY26-FY27E, based on their guidance as well as continued high perception of low risk-adjusted returns in wholesale lending.

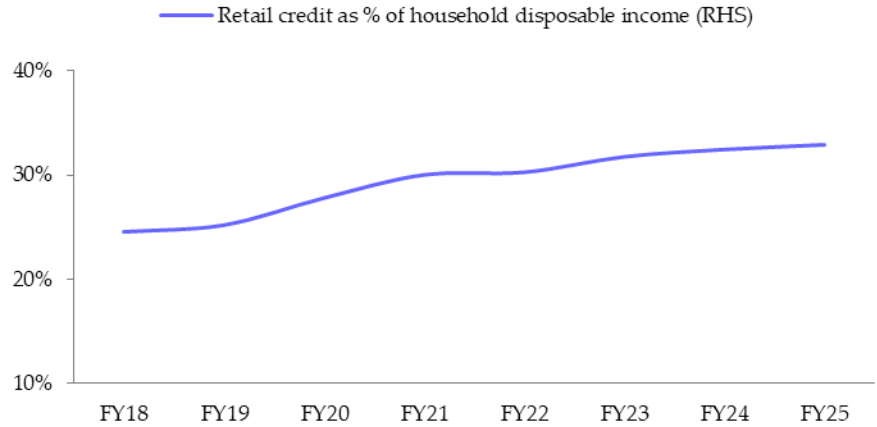
**Exhibit 16: Strong growth in retail/MSME segment during FY22-FY25**



Source: Company, HSIE Research

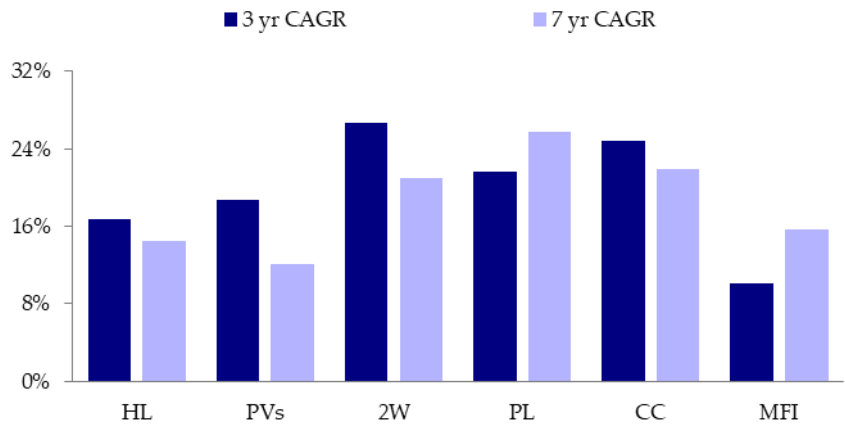
- Increasing household leverage:** India’s aggregate household debt has steadily increased over the past decade, with further acceleration post-pandemic, and increasing formalization of retail credit. The increasing leverage levels, with moderation in growth of household income has led to moderation in credit growth as well as uptick in delinquencies.

**Exhibit 17: Household leverage steadily increasing**



Source: RBI, CRIF Highmark, HSIE Research

**Exhibit 18: Strong loan growth across retail segments for the industry**

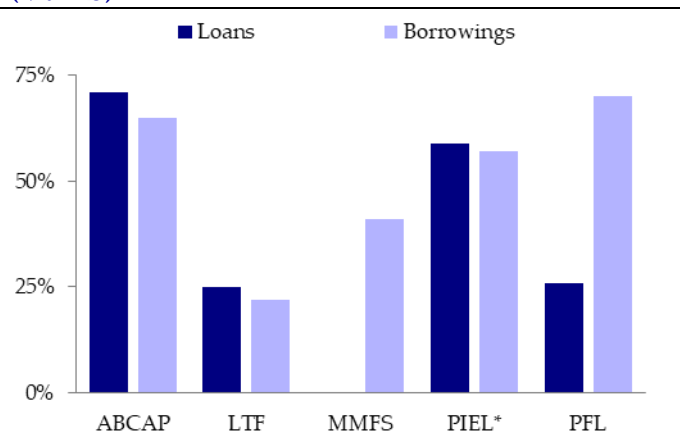


Source: CRIF Highmark, HSIE Research

- Growth, margin tailwinds ahead:** Fiscal stimulus (income tax rate cuts in Union Budget 2025-26), monetary stimulus (repo rate cut of 100bps and CRR cut by 100bps by RBI) and reduction in GST rates are likely to improve the liquidity in the system and revive loan growth from H2FY26, which had moderated in FY25. With likely peaking of delinquencies across key segments (except MFI), lenders are expected to re-calibrate their credit filters as well.

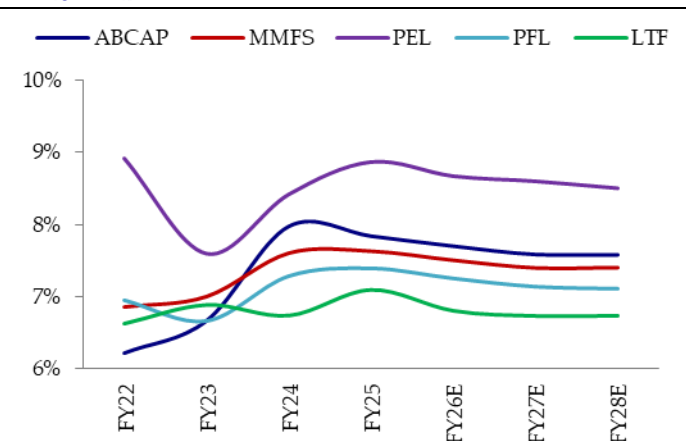
Further, margins are likely to expand over FY26-FY27E with reduction in cost of funds. High share of fixed rate loans as well as internal benchmark linkage of floating rate loans are likely to drive expansion of core spreads.

**Exhibit 19: Share of floating rate loans and borrowings (Mar-25)**



Source: Company, HSIE Research | Note: \*Total assets and liabilities for PIEL

**Exhibit 20: Cost of funds expected to decline during FY26-FY27E**



Source: Company, HSIE Research

- Aspirational targets for the medium term; near-term targets being met:** Leading corporate-sponsored NBFCs have set ambitious targets of strong profitability and portfolio growth (~25% CAGR) in the medium term. Some of these NBFCs such as LTF, PIEL and ABCAP have met their near-term targets, which were set post pandemic, while the outcome for MMFS was a mixed bag. However, elevated competitive intensity, along with increasing scale and portfolio seasoning, is likely to test the strength of each of these franchises.

**Exhibit 21: Management medium-term guidance for key metrics**

	AUM growth	Profitability	Asset Quality	Other
ABCAP	~26%	RoA   2.1-2.5%	NA	NA
LTF	~25% (Retail)	RoA   2.8%-3%	GS III < 3%; NS III < 1%	Retail >= 95%
PIEL	~25%	RoA   ~3%	NA	Retail: Wholesale = 75%:25%
MMFS	NA	RoA   2.5%	NS III < 3%	Non-vehicle: 25% of AUM
PFL	35%-40%	RoA   ~3-3.5%	NA	NA

Source: Company, HSIE Research

- **Near-term wins for most franchises; need for consistent performance for further re-rating:** Diversified NBFCs have reported healthy improvement in their operating performance post-pandemic, with a blip during FY25. This has reflected in the gradual re-rating of these franchises. However, the next leg of re-rating is contingent upon the consistent operating performance across cycles.
- **Proprietary scorecard indicates high score for ABCAP:** We compare five corporate-sponsored NBFCs – ABCAP, LTF, PIEL, MMFS and PFL – on a proprietary scorecard that encompasses key qualitative and quantitative parameters: risk management, balance sheet strength, corporate governance, potential steady state profitability, and valuation. ABCAP and LTF emerge as the leading franchises in our scorecard.

Exhibit 22: Diversified NBFCs proprietary scorecard

Mar-25	ABCAP	LTF	PIEL	MMFS	PFL
<b>Risk management</b>					
Vulnerable sector exposure	●	○	◐	◑	●
Unsecured loans mix	◑	○	◑	●	○
Average net slippages	●	◑	○	◑	◑
Average credit costs	◑	◑	○	◑	◑
Portfolio seasoning	◑	◑	◑	●	○
Risk-based pricing	◑	●	◑	○	◑
<b>Balance sheet strength</b>					
Optimum leverage	◑	◑	○	●	◑
Liabilities diversification	◑	◑	◑	◑	◑
Liquidity buffer	◑	●	●	●	◑
Cost of funds	◑	●	○	◑	●
<b>Corporate governance</b>					
Group exposure	◑	◑	◑	◑	●
Board composition	●	◑	●	○	●
Remuneration gap	◑	◑	●	◑	○
Disclosures	◑	◑	◑	◑	○
Regulatory compliance	◑	◑	◑	◑	●
<b>Financial performance</b>					
Avg. RoA	◑	●	○	◑	◑
Avg. RoE	◑	◑	○	◑	◑
Loan growth	●	◑	●	◑	●
<b>Valuation</b>					
	◑	○	●	◑	○

Source: Company, HSIE Research | Note: Full dark circle denotes highest rating; Risk management: Average net slippages and average adjusted credit costs for FY23-FY25; Financial performance: Based on FY26-FY28E HSIE estimates

## Sector Thematic: Diversified NBFCs

### Exhibit 23: FY25 dashboard

FY25	Units	ABCAP	LTF	PIEL	MMFS	PFL
AUM	INR bn	1,264	978	807	1,197	356
Disbursements	INR bn	675	602	402	579	302
Sep-27 P/ABVPS	x	1.6	2.0	0.9	1.3	3.5
<b>Growth (% YoY)</b>						
AUM	%	20%	14%	17%	17%	43%
Disbursements	%	5%	7%	17%	3%	-9%
<b>Margins</b>						
Yield on advances	%	11.9%	15.4%	12.6%	13.0%	13.4%
Cost of funds	%	7.8%	7.1%	8.9%	7.6%	7.4%
Δ CoF	bps	-14	37	44	3	11
Spread	%	4.0%	8.3%	3.8%	5.4%	6.0%
Δ Spread - YoY	bps	-58	9	-14	-28	-155
NIM	%	4.8%	7.8%	3.9%	5.9%	8.0%
Δ NIM	bps	-86	61	2	-41	-157
<b>% Borrowings</b>						
Banks	%	55%	53%	29%	47%	53%
NCD + CPs	%	33%	31%	55%	23%	6%
<b>Cost efficiency</b>						
Cost-to-income ratio	%	29%	40%	57%	42%	47%
Opex-to-AUM ratio	%	1.9%	4.3%	4.1%	3.1%	4.2%
Repayment rate	%	44%	56%	41%	40%	78%
<b>Asset Quality</b>						
GS III	%	2.2%	3.3%	3.4%	3.7%	1.8%
NS III	%	1.2%	1.0%	2.4%	1.9%	0.9%
GS II	%	1.5%	3.2%	2.2%	5.4%	1.9%
PCR - Stage III	%	45%	71%	30%	51%	54%
Credit costs	%	1.3%	2.7%	2.8%	1.5%	5.5%
<b>(% of avg. assets)</b>						
Interest earned	%	11.5%	13.1%	9.5%	12.2%	13.1%
Interest expended	%	6.5%	5.4%	5.9%	6.3%	5.1%
Net interest income	%	5.0%	7.8%	3.6%	5.9%	8.0%
Non interest income	%	0.8%	1.1%	2.4%	0.6%	1.2%
Operating expenses	%	1.8%	3.6%	3.4%	2.7%	4.3%
Pre-provisioning profit	%	4.0%	5.3%	2.6%	3.8%	4.8%
Provisions	%	1.2%	2.2%	2.0%	1.3%	5.3%
PBT	%	2.8%	3.1%	0.6%	2.5%	-0.5%
ROAA	%	2.1%	2.4%	0.5%	1.9%	-0.3%
Assets/Equity	x	7.2	4.5	3.3	6.6	3.6
RoAE	%	15.2%	10.8%	1.8%	12.4%	-1.2%

Source: Company, HSIE Research | Valuation as on 29-Sep-25 | Note: ABCAP's RoE profile adjusted for dividend income from subsidiaries

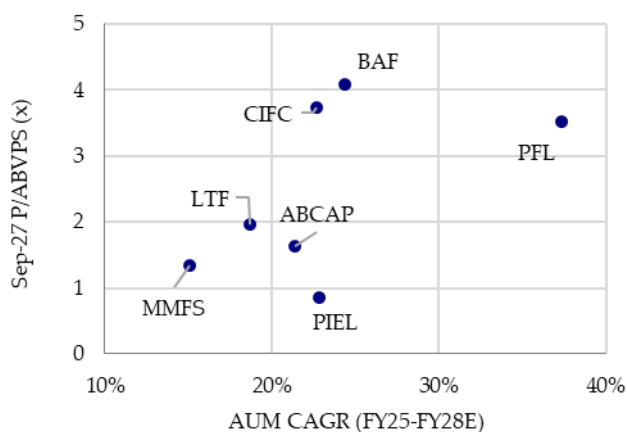
We initiate coverage on LTF (ADD), PIEL (ADD) and PFL (REDUCE). We maintain our BUY rating on BAF and ADD rating on ABCAP, MMFS and CIFIC.

- **L&T Finance (LTF) – Chasing steady performance in volatile asset classes:** LTF, a well-sponsored NBFC is gradually emerging as one of the leading retail-focused NBFCs. With a more stable retailization strategy and share of retail AUM at ~98%, LTF is now gradually moving from product to customer and risk diversification with right customer selection and risk-based pricing. While the new strategy has gained traction, a high share of high-yielding (and volatile credit costs) segments such as MFI, 2-wheeler loans and tractors (54% of AUM as on Jun-25) remains a key impediment for steady P&L outcomes across cycles and a key monitorable for further re-rating. We initiate coverage on LTF with an ADD and RI-based TP of INR 243 (implying 1.9x Sep-27 ABVPS).
- **Piramal Finance (PIEL)—moving ahead with the right “intent”:** Piramal Finance (erstwhile Piramal Enterprises) has emerged from its wholesale lending woes to build a more granular loan book (~80% retail). Following myriad restructuring exercises, PIEL has now stabilized into a simplified structure with completion of merger with Piramal Finance. While liabilities is likely to remain a handicap (cost of funds at 8.9%; AA rating), the retail business is scaling up well, with a healthy mix of secured and unsecured products. Incremental provisioning towards the legacy wholesale book (INR 63bn vs. INR 431 bn in Mar-22) seems largely limited going ahead, with the benefit of one-off gains. While sub-par leverage (D/E at 2.5x) is likely to keep RoE muted at least until FY27E, current valuation (0.8x Sep-27 ABVPS) provides a favorable risk-reward. We initiate coverage on PIEL with an ADD and RI-based TP of INR 1,300 (implying 1x Sep-27 ABVPS).
- **Poonawalla Fincorp (PFL) – Blitzkrieg pace; demanding valuations:** PFL, erstwhile Magma Fincorp, sponsored by Cyrus Poonawalla Group, is now into its third stint, after the Magma portfolio (v 1.0) and the distribution light strategy adopted by the previous management (v 2.0). With a new senior management team, PFL is geared up to drive astronomical loan growth (5-6x in the next five years), while addressing the key gaps in the franchise. However, investments in new products, distribution, and tech are likely to keep the opex ratios elevated in the near term. While profitability is likely to remain subdued in the near term, ramp-up of the newly launched products that are still in nascent stages and sweating of the ongoing investments are likely to drive RoA towards ~2.5%. However, the current valuations (3.8x Mar-27 ABVPS) imply a steep ask, given limited track record of the franchise. We initiate coverage on PFL with a REDUCE and RI-based TP of INR 400 (implying 2.8x Sep-27 ABVPS).
- **Aditya Birla Capital (ABCAP)—NBFC at scale; banking on insurance turnaround:** Aditya Birla Capital (ABCAP) has made gradual strides in scaling up the NBFC business with healthy growth and profitability, and improvements at the margin in other subsidiaries. With a diversified portfolio and large share of retail/SME segments, ABCAP aims to double its balance sheet in three years, with target RoA of ~2.1%-2.5%. However, the subsidiaries are either sub-scale (ABHI) or sub-optimal on profitability (ABHFL, ABSLI). Our analysis suggests ABSLI is the closest to getting its scale profitability act right in terms of fixing its product mix to enhance VNB margins. We initiate coverage on ABCAP with an ADD and a SOTP-based target price of INR 315 (standalone entity at implied 1.9x Sep-27 ABVPS).

- **Mahindra & Mahindra Financial Services (MMFS) – searching for the right product mix:** MMFS efforts to become a robust franchise (~2.5% RoA) continue to remain a WIP. With mixed outcomes from FY25 roadmap, MMFS has embarked upon key changes under the new leadership such as centralization of certain processes (to prevent frauds), verticalization of collections, and hybrid branch structure (branch manager, along with function verticals), along with product diversification. However, product diversification is likely to remain a protracted journey, leaving the portfolio exposed to vagaries of vehicle finance cycles. While the efforts to reflate earnings such as fee income remain commendable, the path to strong and steady profitability is likely a few years out. Maintain ADD with a revised SoTP-based TP of INR 300 (standalone entity at implied 1.5x Sep-27 ABVPS).
- **Bajaj Finance (BUY) – steady execution ahead:** BAF is poised to deliver a healthy ~24% AUM CAGR, along with strong profitability in the medium term on the back of strong customer acquisition engine through an omni-channel strategy, enhanced cross-sell of loans and other products, and the addition of new verticals. The new products launched post pandemic are now at an inflection point and likely to augment growth, while recently launched products are gradually gaining traction. Near-term tailwinds such as operating efficiency, marginal reflation in NIMs and moderation in credit costs are likely to drive reflation in RoA/RoE over FY26-FY27E. We revise our earnings estimates to factor in marginally higher loan growth and lower fee income during FY27E and maintain BUY with a revised RI-based TP of INR 1,100 (implying 4.5x Sep-27 ABVPS).
- **Cholamandalam Investment and Finance Company (ADD) – temporary blips to a robust franchise:** CIFIC has cemented its positioning as a diversified franchise beyond vehicle finance with demonstrated strong loan growth (22% CAGR during FY16-FY25) and profitability (avg. RoE of ~19% over FY16-FY25), driving significant re-rating. However, the astronomical growth in non-vehicle segments seems to be plateauing with steady state productivity and tapered branch expansion and hence loan growth is likely to be calibrated, going ahead. While CIFIC remains a robust franchise with expected loan growth of ~20-25% and RoE of 20% over the medium term, current valuation (4.1x Mar-27 ABVPS) limits the upside. We maintain an ADD rating with a revised RI-based target price of INR 1,800 (implied 4.2x Sep-27 ABVPS).

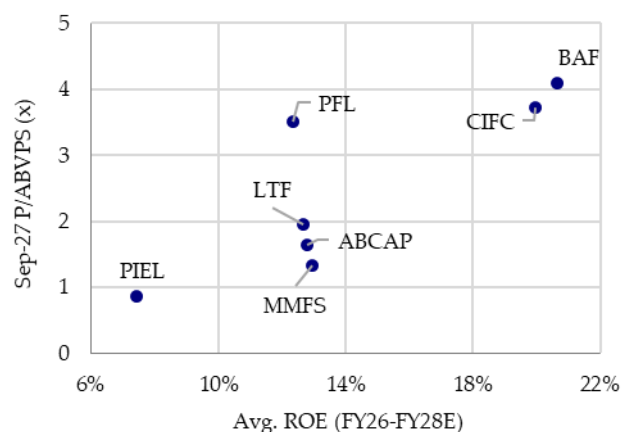
## Sector Thematic: Diversified NBFCs

**Exhibit 24: AUM growth driving valuation premium for select franchises**



Source: Company, HSIE Research

**Exhibit 25: Most NBFCs have yet to score on the profitability curve**



Source: Company, HSIE Research

**Exhibit 26: Valuation summary**

	Rating	TP (INR)	P/ABV (x)			RoAA (%)			RoAE (%)			PPOP CAGR FY25 - FY28E
			FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	
ABCAP	ADD	315	2.1	1.8	1.5	2.1%	2.1%	2.1%	15.1%	15.5%	15.6%	16%
LTF	ADD	243	2.3	2.1	1.9	2.3%	2.5%	2.6%	11.1%	12.8%	14.1%	17%
PIEL	ADD	1,300	1.0	0.9	0.8	1.3%	1.8%	1.9%	5.0%	7.8%	9.5%	24%
MMFS	ADD	300	1.5	1.4	1.3	1.9%	2.0%	2.0%	12.5%	12.9%	13.4%	18%
PFL	REDUCE	400	4.2	3.8	3.3	1.7%	2.4%	2.5%	8.1%	13.2%	15.8%	37%
BAF	BUY	1,100	5.4	4.5	3.7	4.1%	4.2%	4.2%	19.7%	20.9%	21.3%	25%
CIFIC	ADD	1,800	5.0	4.1	3.4	2.4%	2.5%	2.5%	19.4%	20.0%	20.4%	24%

Source: Company, HSIE Research

# COMPANIES SECTION

# L&T Finance

## Chasing steady performance in volatile asset classes

L&T Finance (LTF), a well-sponsored NBFC with one of the lowest cost of funds among its peers, is gradually emerging as one of the leading retail-focused NBFCs. LTF's sporadic shift in strategy in the past and weak execution had led to sub-par performance and shareholder returns and a string of restructuring as well as divestment of the mutual fund business. With a more stable retailization strategy and share of retail AUM at ~98%, LTF is now gradually moving from product to customer and risk diversification with right customer selection and risk-based pricing. While the new strategy has gained traction, a high share of high-yielding (and volatile credit costs) segments such as MFI, 2-wheeler loans and tractors (54% of AUM as on Jun-25) remains a key impediment for steady P&L outcomes across cycles and a key monitorable for further re-rating. We initiate coverage on LTF with an ADD and RI-based TP of INR 243 (implying 1.9x Sep-27 ABVPS). Key risks include continued elevated stress in the 2W and MFI portfolio.

- **Finally a stable strategy, unlikely to be reversed:** LTF has made significant strides toward its strategy of retailization (retail portfolio at 98% of AUM in Jun-25 vs. 51% in Mar-22) and shift toward affluent customer segment (urban portfolio at 47% of AUM vs. 23% in Mar-22) in the past few years. We expect it to continue with this strategy, going ahead, rather than overhaul its strategy as it has done every few years in the past.
- **Market leadership in core segments; looking for optimization:** LTF's core profit pools still largely hover around tractors, 2-wheelers, and MFI, which now contribute to 55% of AUM vs. 36% in Mar-22. With a meaningful market share (13%/7%/7% in tractors/2W/MFI), LTF is now seeking optimization by leveraging analytics to drive risk-based pricing and improve profitability. The seasoning of this newly-originated portfolio is likely to reflect in better risk-adjusted yields.
- **Diversification beyond the top-3 products remains WIP:** LTF's other products such as home loans, LAP, and SME finance remain a WIP from a profitability perspective. Home loans portfolio remains concentrated in top 5-6 metros with high ticket size (ATS of ~INR 7mn) and wafer-thin margins. Profitability for other products such as LAP and SME finance are also likely to be sub-2%, based on our analysis.
- **Profitability improving; cyclicity a concern:** Despite a mediocre past track record, LTF has gradually pivoted towards a steadily growing diversified franchise. However, the journey still remains a WIP with high exposure to cyclical segments such as MFI, tractors, 2-wheelers, etc., which impacts overall profitability during downcycles.

### Financial summary (Consolidated)

Y/E Mar (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	67.7	75.4	86.7	101.1	117.2	137.5
PPOP	46.7	51.7	59.6	69.2	80.8	95.2
PAT	16.2	23.2	26.4	29.6	37.5	46.0
EPS (INR)	6.2	9.3	10.6	11.9	15.0	18.4
ROAE (%)	7.8	10.3	10.8	11.1	12.8	14.1
ROAA (%)	1.5	2.2	2.4	2.3	2.5	2.6
ABVPS (INR)	85	93	99	107	119	132
P/ABV (x)	2.9	2.6	2.5	2.3	2.1	1.9
P/E (x)	39.5	26.3	23.1	20.6	16.3	13.3

Source: Company, HSIE Research

## ADD

CMP (as on 29 Sep 2025)	INR 245
Target Price	INR 243
NIFTY	24,635

### KEY STOCK DATA

Bloomberg code	LTF IN
No. of Shares (mn)	2,500
MCap (INR bn) / (\$ mn)	612/6,896
6m avg traded value (INR mn)	1,442
52 Week high / low	252/129

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	20.6	59.8	30.3
Relative (%)	25.0	56.0	36.4

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	66.2	66.2
FIs & Local MFs	13.3	14.1
FPIs	5.5	6.2
Public & Others	15.0	13.5
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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### Krishnan ASV

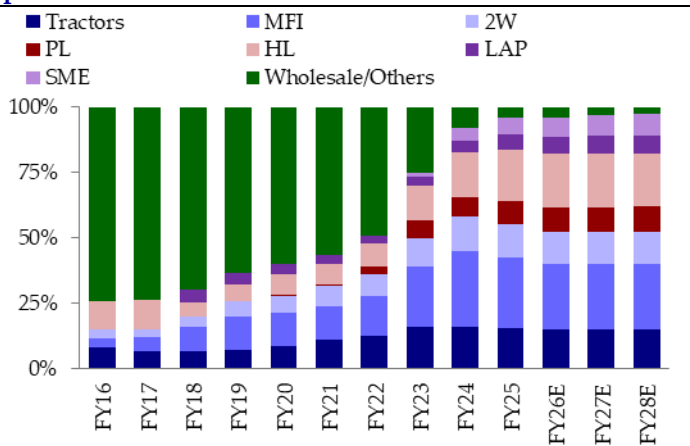
venkata.krishnan@hdfcsec.com  
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## From frequent strategic pivots to steady retailization

LTF is gradually shifting away from frequent strategic pivots to a more stable strategy of retailization. The share of retail portfolio has increased from 51% in Mar-22 to 98% of AUM in Jun-25, with aggressive run-down of the wholesale portfolio. We expect LTF to continue to embark on this strategy going ahead, rather than undertaking another re-jig as it has every few years in the past. LTF is now gradually moving from product diversification toward customer and risk diversification with the right customer selection and better risk-based pricing across products. This is likely to gradually translate into a relatively steady earnings trajectory, although a high share of high-yielding (and volatile) credit costs remains a key impediment to steady P&L outcomes.

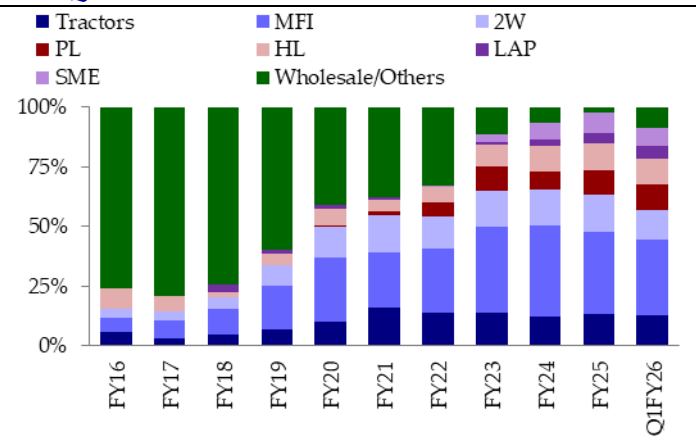
- Portfolio re-engineered towards retail loans:** LTF has executed its retailization strategy well with share of wholesale loans (infrastructure and real estate) at a meagre 2.4% of AUM in Jun-25 vs. 47% in Mar-22. With shedding off wholesale assets, LTF's yields have reflat by ~150-250bps as the retail portfolio comprises largely high-yielding loans (2W, MFI, tractors, etc.).

**Exhibit 27: LTF's AUM has become diversified post-pandemic**



Source: Company, HSIE Research

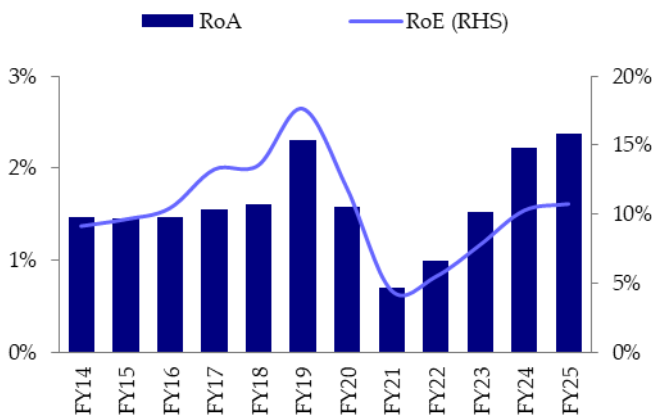
**Exhibit 28: ~100% disbursements in retail loans in FY25 and Q1FY26**



Source: Company, HSIE Research

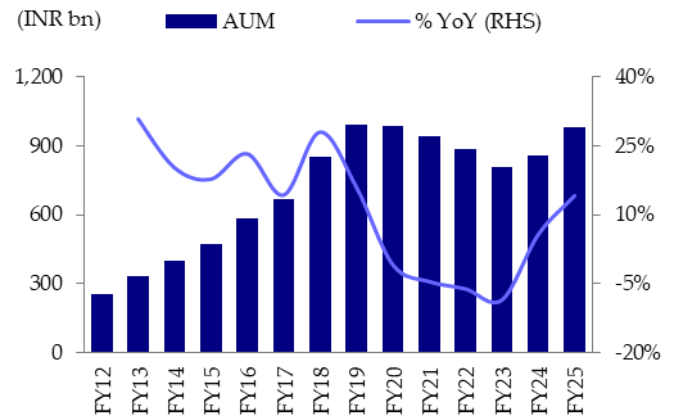
- Frequent strategic pivots drove portfolio instability:** LTF has had several strategic pivots in the past, flipping between retail and wholesale portfolio over the course of last decade and a half. This has also translated into sub-par profitability and subdued growth.

**Exhibit 29: Muted profitability in the past**



Source: Company, HSIE Research

**Exhibit 30: Subdued AUM growth since pandemic**

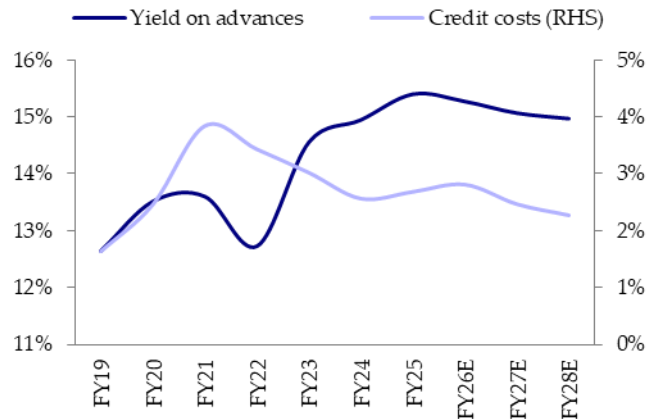


Source: Company, HSIE Research

- Liabilities tailwinds likely to be partially offset by yield compression:** LTF is gradually moving towards better customer selection through use of analytics, scorecards, etc. While this is also likely to drive lower yields due to risk-based pricing, focus on better customer selection and aggressive pricing in newer segments (PL, BL etc.), this is likely to be partially offset with lower credit costs as well.

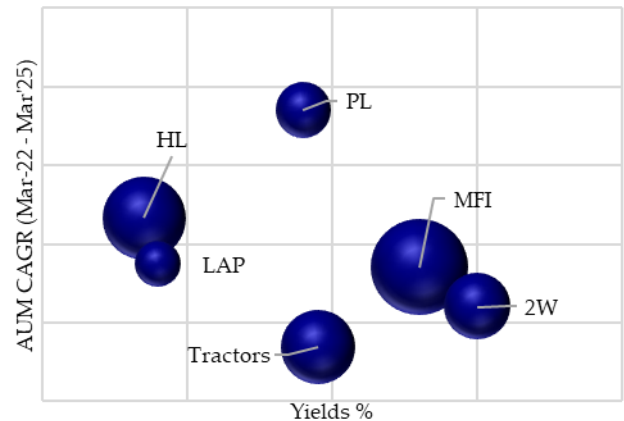
However, the high share of short-term bank borrowings (24%) and CPs (7%), along with high fixed-rate loan book (~75%), is likely to offset the compression in yields, leading to steady core spreads over FY26-FY27E.

**Exhibit 31: Yields reflatd significantly post-pandemic with shift in portfolio mix**



Source: Company, HSIE Research

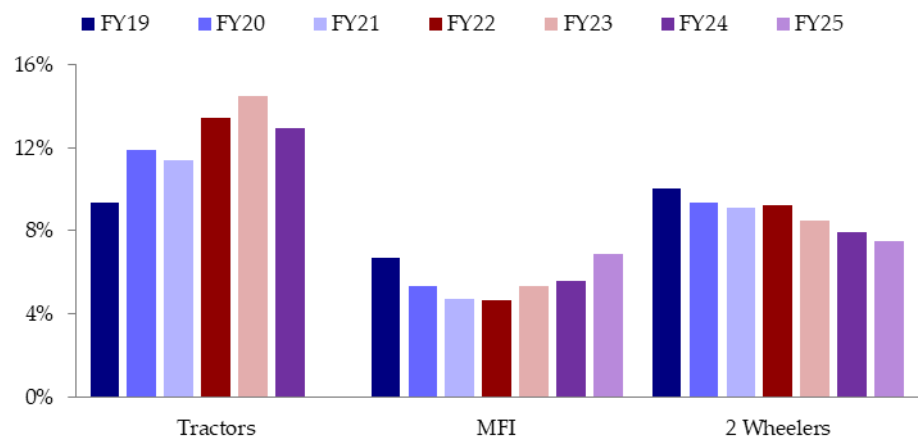
**Exhibit 32: LTF's high-yielding segments grew at a slower pace over FY22-FY25**



Source: Company, HSIE Research | Note: Yields as per our estimates

- Market leadership getting tested in key segments:** LTF has ceded market share in key high-yielding segments in the past couple of years, due to portfolio and customer re-balancing. With a risk-calibrated approach towards growth in these segments, LTF's market share in these high-yielding segments is likely to get tested, going ahead.

**Exhibit 33: LTF's market share – mixed trends**

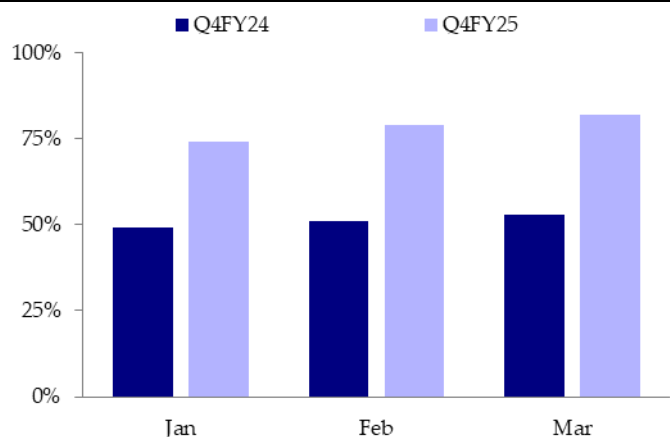


Source: CRIF Highmark, Company, HSIE Research

## L&T Finance: Initiating Coverage

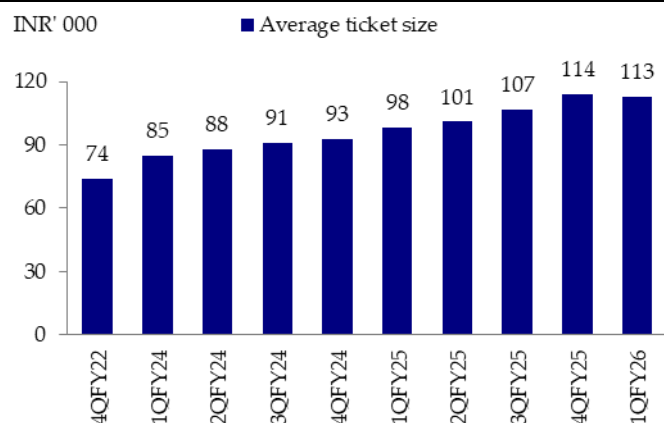
- Transition of two wheelers towards risk-based pricing:** LTF's two-wheeler business has undergone significant changes in recent years. Investments in tech have led to rapid improvement in the turnaround time (2-3 min for sanctions; 30min for disbursements). Further, the underwriting has improved with product-level and customer-level rule engines for incremental sourcing. However, the pricing has been extremely aggressive (IRRs up to ~14%).

**Exhibit 34: Share of prime customers\* in 2W loan disbursements**



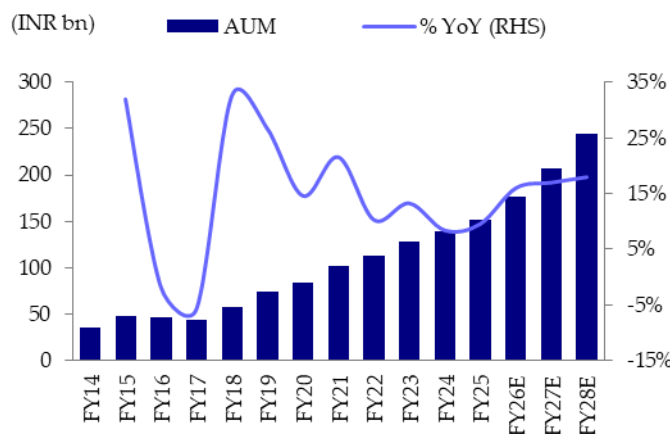
Source: Company, HSIE Research | Note: \*Prime customers' definition is as per LTF's internal classification and not by credit bureau score

**Exhibit 35: Ticket sizes of 2W loans continue to inch up**



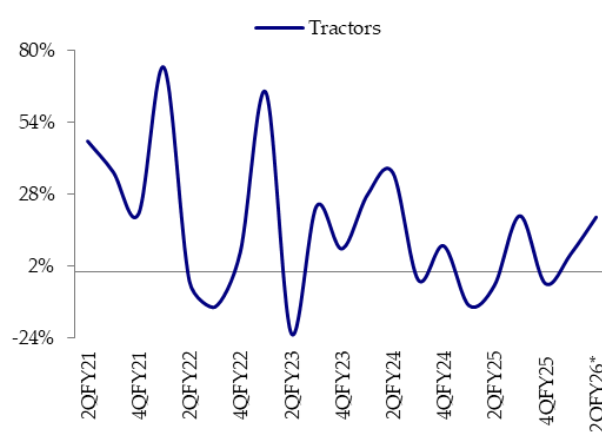
Source: Company, HSIE Research

**Exhibit 36: LTF's AUM growth in tractors has remained steady post-pandemic**



Source: Company, HSIE Research

**Exhibit 37: Strong uptick in industry's tractors sales volume growth post subdued FY24-FY25**

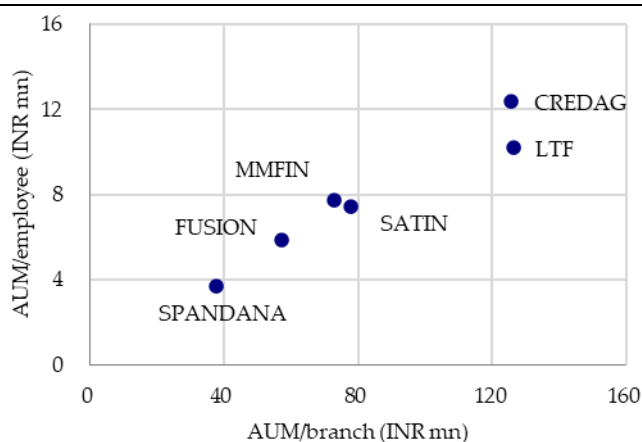


Source: FADA, HSIE Research | \*For July-Aug period

- Group loans & MFI—industry-leading performance during downcycle:** LTF’s group loans & MFI portfolio’s performance has been superior to peers in the current downcycle. The stress portfolio (PAR-0) as well as cumulative credit costs (and write-offs) have been lower than peers due to prudent underwriting (low overlap with other lenders, etc.) post-pandemic. With macro-prudential provisions of INR 2.75bn as on Jun-25, we expect MFI stress to normalize in H2FY26.

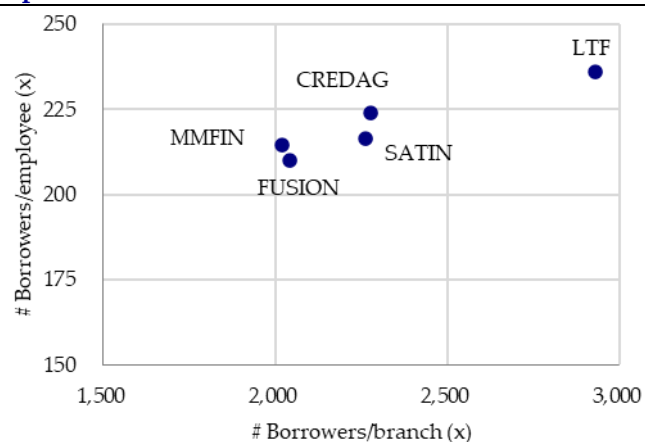
As per RBI’s harmonization guidelines and income threshold (annual household income less than INR 3 lakhs p.a.), **~95% of LTF’s rural groups loans & MFI portfolio doesn’t fall under the category of MFI loans**. This approach increases the addressable market for LTF, compared to NBFC-MFIs, which need to have ~60% of their net assets as MFI loans (vs. 75% earlier).

**Exhibit 38: AUM-level productivity superior compared to peers (FY25)**



Source: Company, HSIE Research

**Exhibit 39: High volume-level productivity compared to peers (FY25)**



Source: Company, HSIE Research

**Exhibit 40: LTF’s MFI portfolio performance vs. peers**

FY25	PAR-0	Write-offs	Credit costs	3+ lenders (% AUM)	GLP/borrower	GLP - % YoY	RoA
	%	%	%	%	INR' 000	%	%
LTF	5.1%	NA	3.9%	8.2%	43	6.5%	NA
CRE DAG	6.9%	4.4%	7.5%	14.7%	52	-2.9%	1.9%
FUSION	NA	14.4%	20.3%	18.1%	26	-21.8%	-12.2%
MMFIN	9.9%	5.7%	12.2%	15.9%	36	1.3%	-2.0%
SATIN	4.9%	3.5%	5.9%	NA	34	6.8%	2.1%
SPANDANA	20.4%	18.3%	22.4%	21.0%	27	-43.0%	-9.5%

Source: Company, HSIE Research

- Inorganic route for gold loans business a good start:** The acquisition of the gold loans business of Paul Merchants Finance (PMF) provides a head-start to LTF to further diversify its portfolio as well as aid high profitability. The productivity metrics of PMF seem largely in line compared to peers, although profitability and scale-up post-acquisition are yet to be ascertained.

**Exhibit 41: Gold loans portfolio of Paul Merchants Finance**

(Mar-25)	AUM (INR bn)	AUM/ branch (INR mn)	AUM/ customer (INR' 000)
PMF	13	96	128
BAF	83	86	NA
MGFL	247	70	101
IIFL	210	74	NA

Source: Company, HSIE Research

## More growth engines, yet to translate into profit engines

LTF's other segments with relatively low market share such as home loans, LAP, personal loans, and SME finance have witnessed strong loan growth during FY23-FY25. However, their profitability remains sub-par compared to its core segments. With significant proportion of these businesses coming through channel partners, along with aggressive pricing, cost optimization remains the key to drive profitability, which remains WIP.

- **Channel partners, partnerships – main stay for other segments:** LTF's other major products such as home loans, LAP, and personal loans are largely being sourced through channel partners such as DSAs and Fintech partnerships (personal loans). Our channel checks indicate LTF's payouts to DSAs are among the highest, along with aggressive pricing for a few products such as home loans, business loans, etc.

### Exhibit 42: Home loans, LAP, PL and SME finance constitute ~42% of AUM

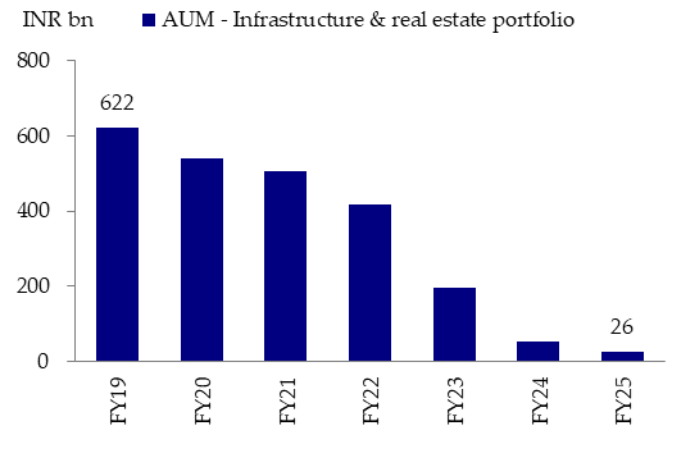
Jun-25	% of AUM	AUM CAGR (FY22-FY25)	Avg. Yield (%)	Sourcing mix
Home loans	20%	35%	~9%	DSAs, Developers
LAP	6%	26%	~9.5-10%	DSAs
SME Finance	7%	375%	~14-15%	DSAs, Digital
Personal loans	9%	55%	~13-16%	Cross-sell, DSAs, BigTechs

Source: Company, HSIE Research

- **Need for shift in focus from top-line to bottom-line:** These segments currently have muted profitability due to aggressive pricing, given the focus on market share gains, high payouts and yet-to-be-established right-to-win in these segments. For e.g., the home loans portfolio remains concentrated in top 5-6 metros with high ticket sizes (ATS of INR 7mn) and wafer-thin margins and high DSA payouts. Personal loans, due to high payouts as well as increasing credit costs, also remain sub-par on profitability.

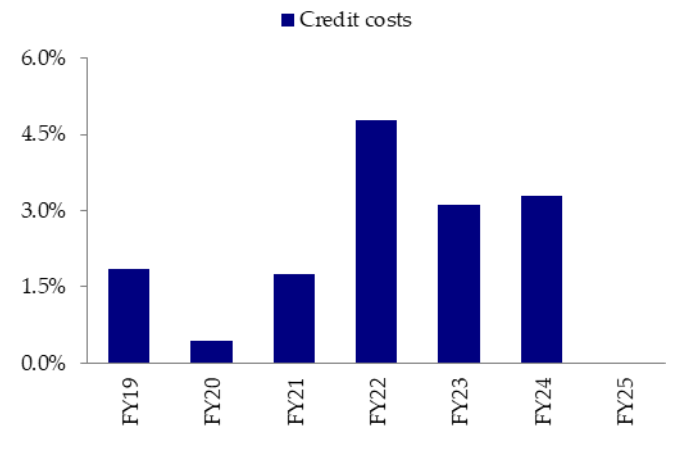
- Exit from wholesale nearly done; SR portfolio key monitorable:** LTF has nearly exited the wholesale segment over the last few years. It constitutes meagre 0.4% of disbursements in FY25 and ~2.4% of AUM as of Jun-25, which includes one large ticket size corporate NPA account. The SR book (~INR 58bn), which comprises largely real estate loans, is adequately provided for with ~58% PCR. Hence, we expect limited incremental provisioning of this portfolio in FY26E.

**Exhibit 43: AUM of the wholesale business (excluding SRs) sharply declining**



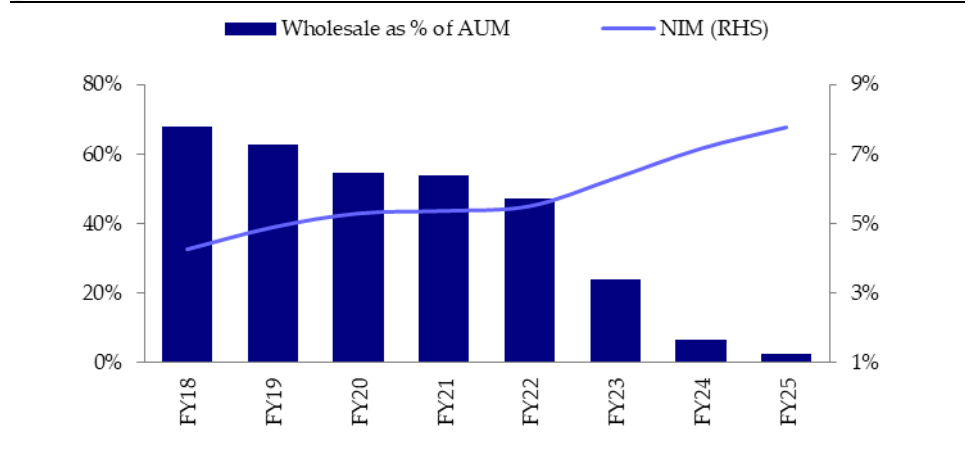
Source: Company, HSIE Research

**Exhibit 44: Credit costs of the wholesale book (FVTPL portfolio)**



Source: Company, HSIE Research

**Exhibit 45: NIMs have reflatd sharply with the exit from the wholesale portfolio**



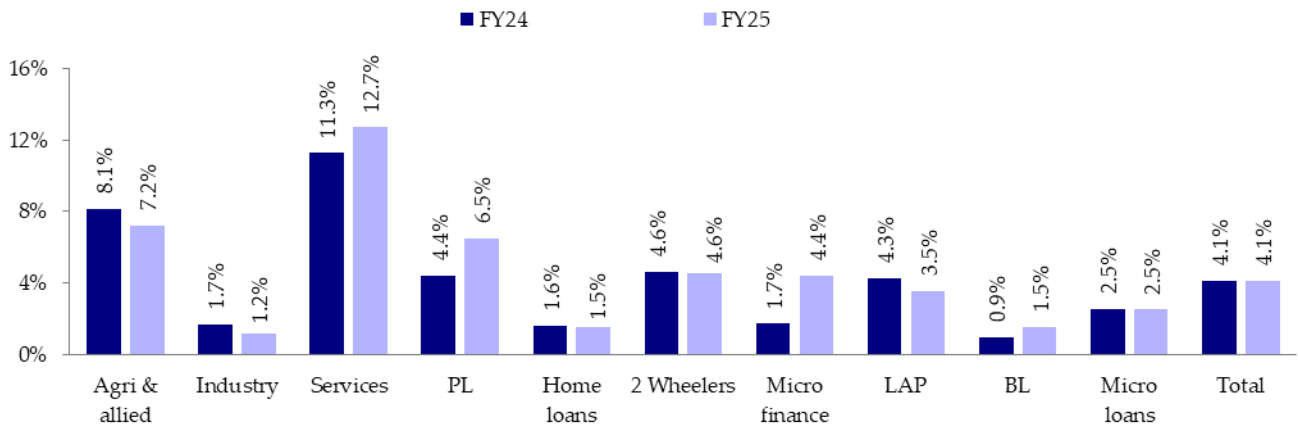
Source: Company, HSIE Research

### Healthy turnaround; sustainability key monitorable

- Limited profit pools beyond top three segments:** LTF's profitability largely hovers around tractors, two-wheelers and MFI, which constituted ~55%/63% of their AUM/disbursements in FY25. While these segments generate high yields, they remain volatile (particularly MFI which constitutes ~27% of AUM) leading to high volatility in their earnings profile.

Other segments such as home loans and LAP are skewed towards prime segments, which are significantly low yielding, dragging the overall RoA.

Exhibit 46: Overall steady GNPA ratio across segments



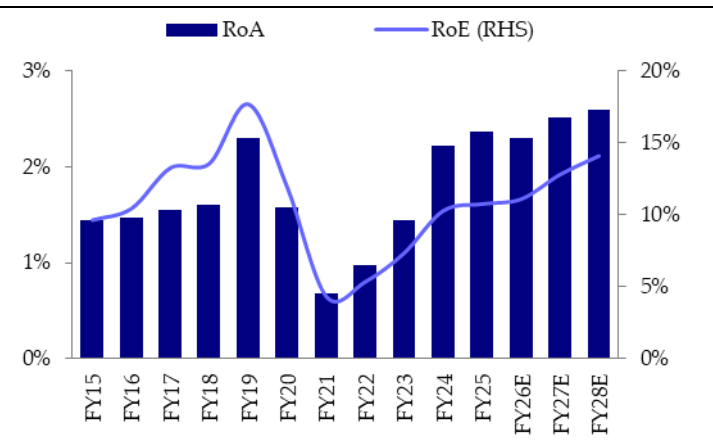
Source: Company, HSIE Research

## L&T Finance: Initiating Coverage

- Opex intensity to remain elevated; liquidity run-down to aid NIMs:** LTF's opex intensity is likely to remain elevated on the back of ongoing investments, uptick in disbursements of MFI loans, and scale up of new products (micro LAPs, etc.) limiting operating leverage in the near term. Further, the merger of Paul Merchants Finance is also likely to take a toll on opex ratios.
- ~15% ROE a stretch; initiate with ADD:** With shift towards prime/affluent customers across segments, LTF's earnings profile is likely to witness higher stability than it has in previous years. However, a high share of volatile high-yielding segments is likely to keep LTF exposed to vagaries of their cycles. Further, low leverage (D/E of 3.7x) with rising share of unsecured loans (~45% in FY25 vs. 20% in FY22) is likely to keep RoEs under check (sub-15%).

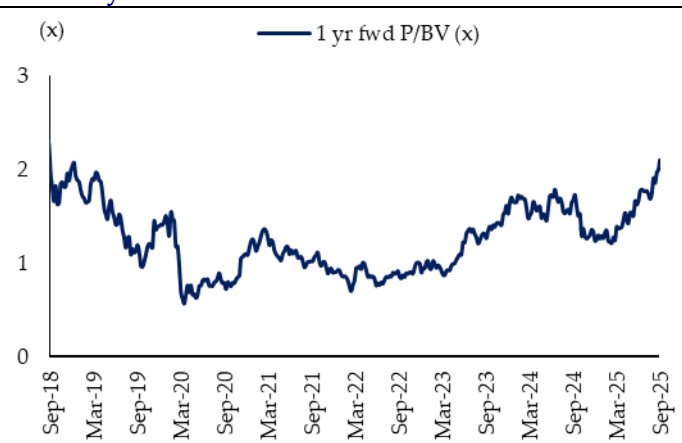
We initiate coverage on LTF with an ADD and RI-based TP of INR 243 per share (implying 1.9x Sep-27 ABVPS). The implied valuation for LTF is at par with our implied valuation for Shriram Finance and Aditya Birla Capital (standalone entity).

**Exhibit 47: Profitability expected to improve during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 48: LTF trading at a marginal premium to its mean 1 yr fwd P/BV**



Source: Bloomberg, HSIE Research

## Financials (Consolidated)

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	125,651	129,139	146,633	168,612	195,752	232,063
Interest expended	57,973	53,772	59,968	67,463	78,545	94,537
Net interest income	67,679	75,367	86,665	101,149	117,207	137,526
Other income	7,366	11,412	12,777	14,921	17,784	20,523
Total income	75,044	86,779	99,442	116,070	134,991	158,050
Operating expenditure	28,334	35,079	39,846	46,910	54,203	62,896
Pre-provisioning operating profit	46,710	51,700	59,597	69,160	80,788	95,154
Non-tax provisions	25,404	21,410	24,684	29,894	31,082	34,242
Profit before tax	21,306	30,290	34,913	39,266	49,706	60,912
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	-4,218	0	0	0	0	0
Tax expenditure	1,724	7,119	8,478	9,620	12,178	14,923
Profit attributable to non-controlling interests	-868	-30	-2	0	0	0
Profit after tax	16,232	23,201	26,437	29,646	37,528	45,988
Adjusted Profit after tax	20,450	23,201	26,437	29,646	37,528	45,988

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	24,797	24,889	24,949	24,949	24,949	24,949
Reserves and surplus	189,077	208,398	229,596	251,689	281,733	317,741
Net worth	216,178	235,280	256,311	278,404	308,448	344,457
Borrowings	830,435	765,409	922,469	1,059,647	1,273,461	1,533,176
Other liabilities and provisions	17,009	26,487	25,313	30,889	36,996	44,310
Total equity and liabilities	1,063,622	1,027,176	1,204,094	1,368,940	1,618,905	1,921,943
Cash and cash equivalents	127,489	46,760	108,329	83,582	88,093	104,223
Investments	143,662	123,849	118,760	133,443	152,515	168,297
Advances	751,546	813,594	937,731	1,103,179	1,321,296	1,582,487
Fixed assets	5,440	5,416	6,726	7,667	8,434	9,277
Other assets	35,486	37,557	32,549	41,068	48,567	57,658
Total assets	1,063,622	1,027,176	1,204,094	1,368,940	1,618,905	1,921,943

Source: Company, HSIE Research

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	6.2	9.3	10.6	11.9	15.0	18.4
Earnings Growth (%)	51.7%	42.9%	13.9%	12.1%	26.6%	22.5%
BVPS (ex reval.)	87.2	94.5	102.7	111.6	123.6	138.1
Adj. BVPS (ex reval. & 100% cover)	85.4	92.6	99.0	106.8	118.6	132.2
ROAA (%)	1.5%	2.2%	2.4%	2.3%	2.5%	2.6%
ROAE (%)	7.8%	10.3%	10.8%	11.1%	12.8%	14.1%
P/E (x)	39.5	26.3	23.1	20.6	16.3	13.3
P/ABV (x)	2.9	2.6	2.5	2.3	2.1	1.9
P/PPOP (x)	13.0	11.8	10.3	8.8	7.6	6.4
Dividend yield (%)	0.8%	1.0%	1.1%	1.2%	1.6%	1.6%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	14.5%	14.9%	15.4%	15.3%	15.1%	15.0%
Cost of Funds (%)	6.9%	6.7%	7.1%	6.8%	6.7%	6.7%
Core Spread (%)	7.7%	8.2%	8.3%	8.5%	8.3%	8.2%
NIM (%)	6.3%	7.2%	7.8%	7.9%	7.9%	7.8%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	3.3%	4.2%	4.3%	4.4%	4.3%	4.2%
Cost-income ratio (%)	37.8%	40.4%	40.1%	40.4%	40.2%	39.8%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	-8.9%	8.3%	15.3%	17.6%	19.8%	19.8%
AUM growth (%)	-8.4%	5.8%	14.3%	16.9%	19.8%	19.5%
Borrowing growth (%)	-2.5%	-7.8%	20.5%	14.9%	20.2%	20.4%
Debt/Equity (x)	3.8	3.3	3.6	3.8	4.1	4.5
Equity/Assets (%)	20.3%	22.9%	21.3%	20.3%	19.1%	17.9%
Equity/Loans (%)	28.8%	28.9%	27.3%	25.2%	23.3%	21.8%
Total Capital Adequacy Ratio (CAR) (%)	24.5%	22.8%	22.3%	21.0%	19.9%	19.1%
Tier I CAR (%)	22.1%	21.0%	20.8%	19.7%	18.7%	18.1%
<b>ASSET QUALITY</b>						
GS III (INR mn)	21,969	22,708	32,178	37,682	43,648	48,464
NS III (INR mn)	4,536	4,790	9,436	11,911	12,586	14,535
Slippages (%)	2.7%	2.0%	4.8%	4.5%	3.4%	3.3%
GS III (%)	4.7%	3.2%	3.3%	3.3%	3.2%	3.0%
NS III (%)	1.6%	0.8%	1.0%	1.1%	1.0%	0.9%
Coverage Ratio (%)	69.3%	75.3%	70.7%	68.4%	71.2%	70.0%
Provision/AUM (%)	3.0%	2.6%	2.7%	2.8%	2.5%	2.3%
Provision/Gross advances (%)	3.0%	2.6%	2.7%	2.8%	2.5%	2.3%
<b>(% of average assets)</b>						
Interest earned	11.8%	12.4%	13.1%	13.1%	13.1%	13.1%
Interest expended	5.4%	5.1%	5.4%	5.2%	5.3%	5.3%
Net interest income	6.3%	7.2%	7.8%	7.9%	7.8%	7.8%
Non-interest income	0.7%	1.1%	1.1%	1.2%	1.2%	1.2%
Operating expenses	2.7%	3.4%	3.6%	3.6%	3.6%	3.6%
Pre-provisioning profit	4.4%	4.9%	5.3%	5.4%	5.4%	5.4%
Non-tax provisions	2.4%	2.0%	2.2%	2.3%	2.1%	1.9%
Others	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Provision for tax	0.2%	0.7%	0.8%	0.7%	0.8%	0.8%
ROAA	1.5%	2.2%	2.4%	2.3%	2.5%	2.6%
Average assets/Average equity (x)	5.1	4.6	4.5	4.8	5.1	5.4
ROAE	7.8%	10.3%	10.8%	11.1%	12.8%	14.1%

Source: Company, HSIE Research

# Piramal Finance

## Moving ahead with the right “intent”

Piramal Finance (erstwhile Piramal enterprises) (PIEL) has emerged from its wholesale lending woes towards a more granular loan book (~80% retail). Following a myriad restructuring exercises like the spin-off of pharma business, sale of healthcare business, equity infusion, and acquisition of erstwhile DHFL, PIEL has now largely stabilized into a simplified structure with completion of merger with Piramal Finance. While liabilities is likely to remain a handicap (cost of funds at 8.9%; AA rating), the retail business is scaling up well, with a healthy mix of secured and unsecured products. Incremental provisioning towards the legacy wholesale book (INR 63bn vs. INR 431 bn in Mar-22) seems largely limited going ahead, with the benefit of one-off gains. While sub-par leverage (D/E at 2.5x) is likely to keep RoE muted at least until FY27E, current valuation (0.9x Mar-27 ABVPS) provides a favorable risk-reward. We initiate coverage on PIEL with an ADD and RI-based TP of INR 1,300 (implying 1x Sep-27 ABVPS).

- **Wholesale woes largely behind:** PIEL’s long string of efforts to unwind the stressed wholesale portfolio (peak of INR 514bn in Mar-19) is nearing completion with legacy wholesale book at ~7.4% of AUM and at adequate provisioning levels (9% PCR). With expected one-off gains during FY26-FY27E, incremental net provisioning seems limited.
- **Retail portfolio – new growth engine at work:** PIEL has ramped up its retail portfolio at a blitzkrieg pace (AUM of INR 690bn vs. INR 55bn in Mar-21). The Acquisition of DHFL’s portfolio of INR ~183bn, along with significant investments in distribution (517 branches, ~16K+ employees), and tech have helped in scaling up the portfolio. With a well-balanced mix of secured and unsecured loans, retail portfolio is gradually approaching steady state profitability, although cost of funds is likely to remain a handicap in asset pricing vs. peers.
- **Second stint in wholesale lending (“Wholesale 2.0”) – so far, so good:** PIEL’s Wholesale 2.0 portfolio has witnessed healthy growth, driven by moderate competitive intensity and real estate sector tailwinds. While strong yields (~14%) drive healthy profitability, high run-off rates and normalization in credit costs are key headwinds, going ahead.
- **Simplified corporate structure; muted RoE to cap valuation multiple:** PIEL has successfully completed reverse merger with Piramal Finance with 16-Sep-25 as the effective date, complying with RBI’s upper layer NBFC guidelines. However, PIEL’s journey towards a steady franchise delivering steady profitability (~14-15% RoE), is likely to remain distant, although RoAs are likely to inch towards 2% by FY28E. The tax tailwinds, along with reversal in provisioning on stressed back book, are likely to provide some fillip to earnings. However, under-leveraging (D/E of 2.5x), along with a high AUM base, is likely to keep RoE sub-10% till FY28E.

### Financial Summary (Consolidated)

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	38.0	29.7	31.8	39.4	52.3	63.1
PPOP	28.3	20.7	22.8	26.5	34.1	43.7
PAT	99.7	-16.8	4.9	13.8	22.8	29.8
EPS (INR)	417.7	-74.9	21.5	61.4	101.0	132.3
ROAE (%)	-7.3	-5.8	1.8	5.0	7.8	9.5
ROAA (%)	-2.7	-2.0	0.5	1.3	1.8	1.9
ABVPS (INR)	1,258	1,115	1,131	1,179	1,263	1,367
P/ABV (x)	0.9	1.0	1.0	1.0	0.9	0.8
P/E (x)	2.7	-15.0	52.2	18.3	11.1	8.5

Source: Company, HSIE Research

## ADD

CMP (as on 22 Sep 2025)	INR 1,122
Target Price	INR 1,300
NIFTY	24,635

### KEY STOCK DATA

Bloomberg code	PIEL IN
No. of Shares (mn)	227
MCap (INR bn) / (\$ mn)	254/2,866
6m avg traded value (INR mn)	817
52 Week high / low	INR 1,356/848

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(0.4)	13.3	5.0
Relative (%)	(0.3)	7.3	7.9

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	46.4	46.1
FIs & Local MFs	14.3	15.2
FPIs	16.1	15.2
Public & Others	23.2	23.5
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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**Krishnan ASV**

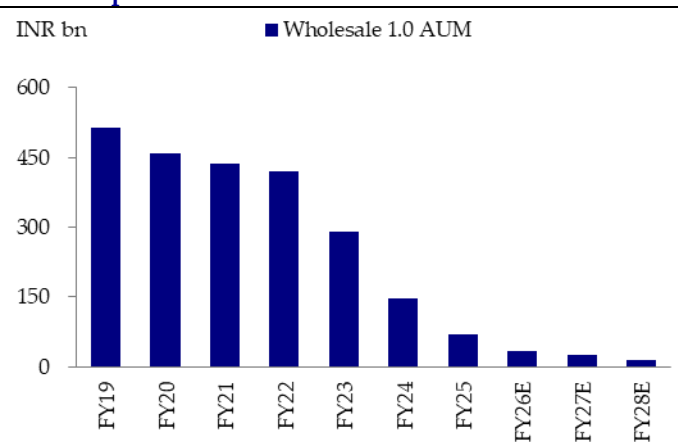
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## Legacy book unwind nearly complete

Piramal Finance' (PIEL) legacy wholesale portfolio, originated during FY14-FY18, is approaching complete run-down from peak of INR 514bn to INR 63bn, as of Jun-25. The portfolio had led to credit costs at elevated levels during FY22-FY25. With legacy book at 7.4% of AUM and provisioning at 9%, incremental provisioning seems limited during FY26-FY28E.

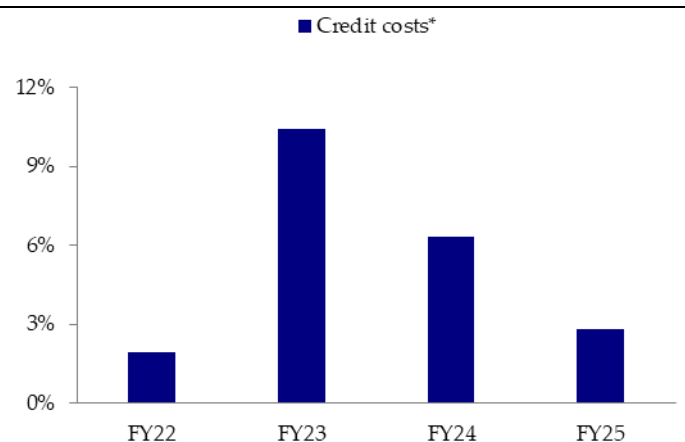
- Run-down nearly complete; resolutions to come gradually: PIEL's legacy portfolio (Wholesale 1.0) is approaching near complete run-down, currently at INR 63bn (7.4% of AUM) and is expected to come down to ~INR 30-35bn (~3-4% of AUM) by Mar-26. Resolutions of stressed loans are gradually taking place, with a favorable real estate cycle. The incremental provisions are expected to be limited (average haircuts of ~30-40%).

Exhibit 49: Wholesale 1.0 AUM has declined by ~87% from its peak in FY19



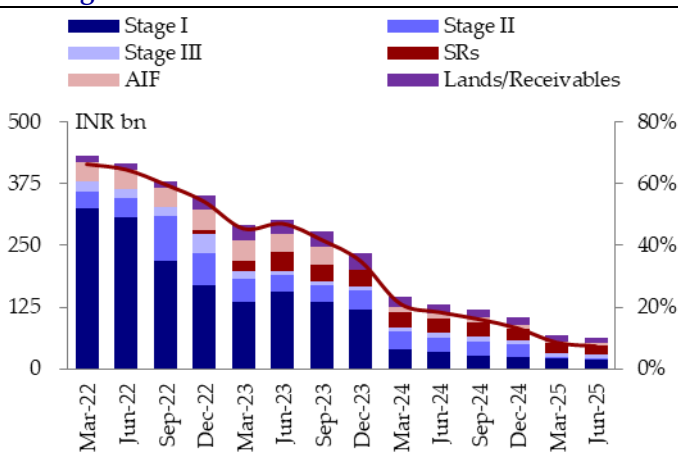
Source: Company, HSIE Research

Exhibit 50: ...driving elevated credit costs over FY22-FY25



Source: Company, HSIE Research | Note: \* Includes impairment provisions, net loss on derecognition of financial instruments and net loss on fair value changes

Exhibit 51: Wholesale 1.0 portfolio – run-down mostly in Stage I assets



Source: Company, HSIE Research

Exhibit 52: Incremental provisioning seems limited in base case scenario

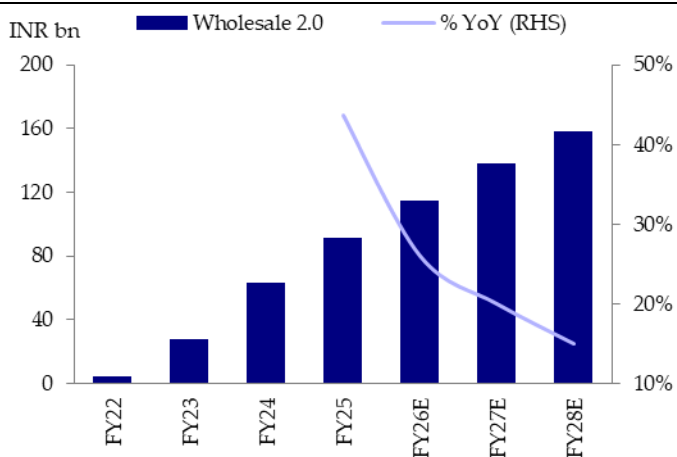
(INR bn)	Bear case	Base case	Bull case
AUM	63.3	63.3	63.3
Stock of provisions	5.6	5.6	5.6
AIF gains	6.0	7.0	8.0
One-off gains	12.0	12.0	12.0
Total provisions	23.6	24.6	25.6
Haircut (%)	40%	35%	30%
Impairment	25.3	22.1	19.0
Annual PPoP loss	4.0	4.0	4.0
Total provisions required	29.3	26.1	23.0
<b>Additional provisioning required</b>	<b>5.7</b>	<b>1.5</b>	<b>-2.7</b>

Source: Company, HSIE Research

# Piramal Finance: Initiating Coverage

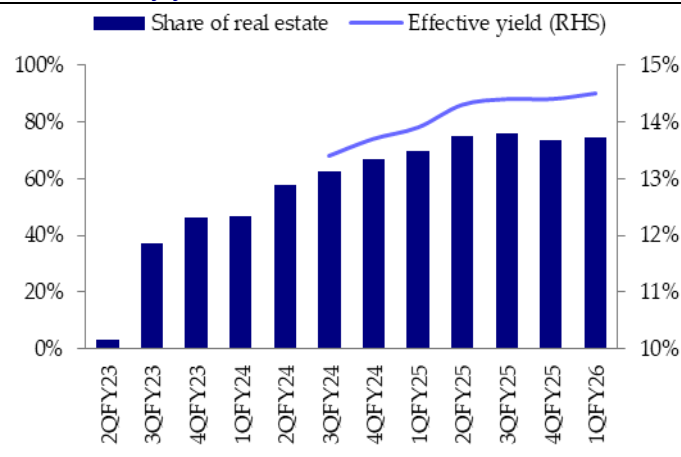
- Second stint in wholesale portfolio - so far, so good:** PIEL's second stint at wholesale lending ("Wholesale 2.0") seems to be done in a calibrated approach so far, with moderate competitive intensity and real estate sector tailwinds aiding in driving growth. With an average ticket size of INR 810mn in real estate portfolio and INR 400mn in corporate and mid-market lending (CMML), the portfolio is relatively granular vs. legacy portfolio (average ticket size of INR 2bn+).

**Exhibit 53: Steadily growing wholesale 2.0 portfolio**



Source: Company, HSIE Research

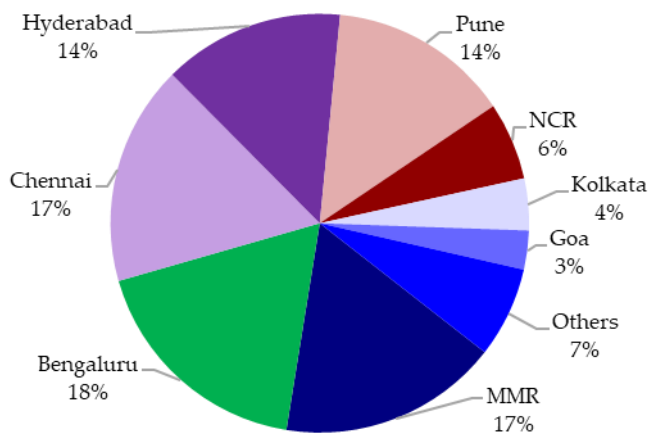
**Exhibit 54: Share of real estate in Wholesale 2.0 at ~75% with healthy yields**



Source: Company, HSIE Research

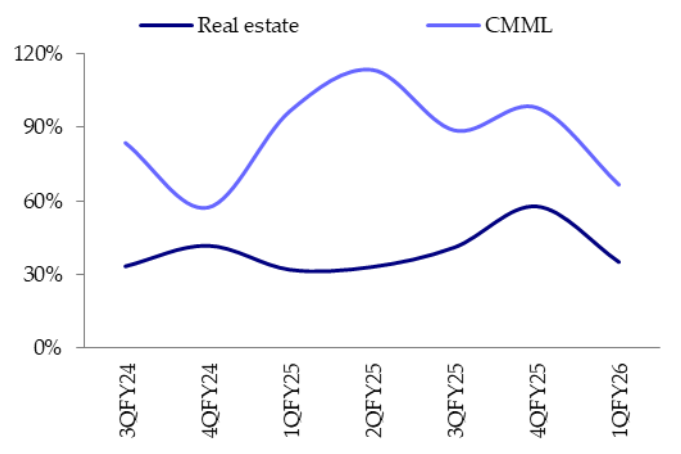
The effective yields of the portfolio are healthy at ~14%. However, elevated run-off rates, particularly in the CMML segment, concomitant with risk calibrated approach, are likely to drive gradual scale-up of the portfolio going ahead. Segmental profitability has approached near steady-state levels (~3-3.5% ROA, as per management), with tailwinds in the cost of funds likely to be offset by increase in credit costs (currently negligible).

**Exhibit 55: Top 3 cities constitute ~53% of real estate portfolio in Wholesale 2.0 (Jun-25)**



Source: Company, HSIE Research

**Exhibit 56: Repayment rates in the wholesale 2.0 portfolio at elevated levels**



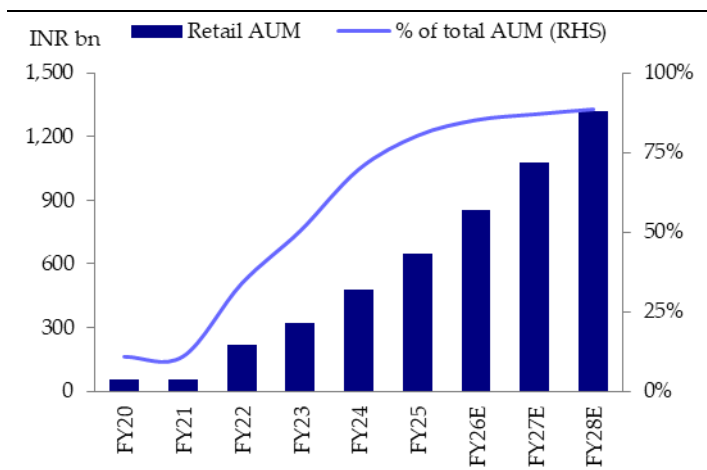
Source: Company, HSIE Research

## Retail | new growth engine at work

PIEL has ramped up its retail portfolio at a furious pace now contributing ~80% of its AUM. Acquisition of erstwhile DHFL (~INR 183bn of retail assets) had aided in accelerating this journey. Further, the significant investments in distribution (517 branches, ~16K+ employees) and tech, along with improving productivity, has aided in scaling up the franchise. With a healthy mix of secured and unsecured products and a risk calibrated approach, PIEL's retail portfolio is well geared towards steady state profitability by FY28E.

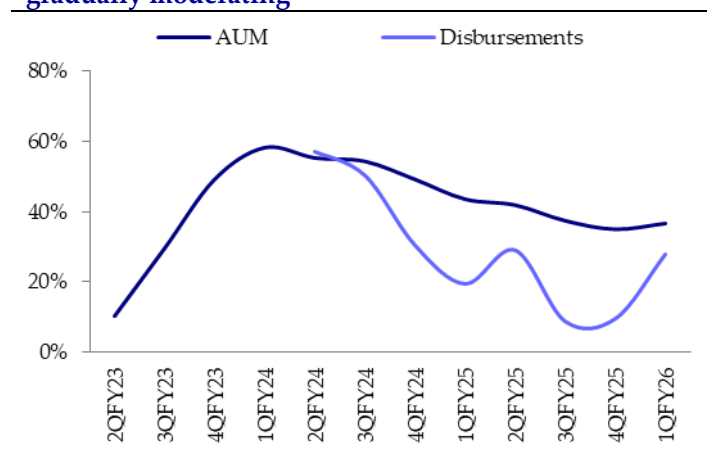
- Retail portfolio at scale across products:** PIEL's pivot towards a retail franchise has been at a blitzkrieg pace (AUM of INR 690bn in Jun-25 vs. INR 55bn in Mar-21). This has been driven by acquisition of DHFL's portfolio of INR ~183bn, along with significant investments in distribution, partnerships and tech. With retail contribution at ~80% of AUM, retailization of the portfolio is nearly complete. Incrementally, PIEL's retail AUM growth is likely to be a function of the industry growth and is likely to deliver ~25% CAGR during FY26-FY27E.

**Exhibit 57: Strong growth in retail AUM**



Source: Company, HSIE Research

**Exhibit 58: Retail AUM and disbursements growth gradually moderating**



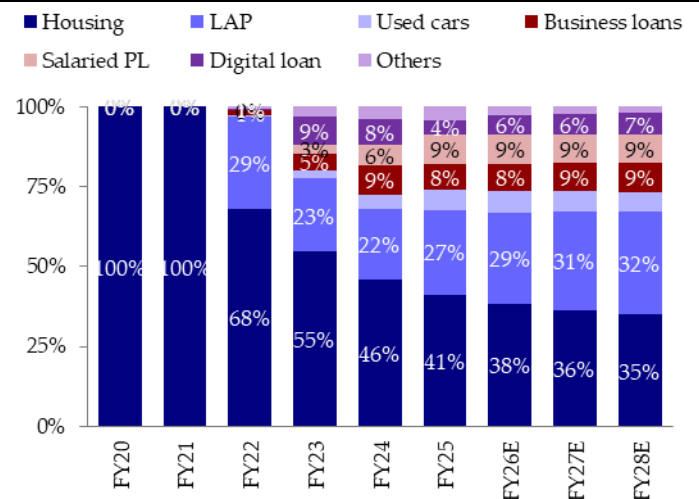
Source: Company, HSIE Research

- Balanced portfolio mix:** PIEL has gradually pivoted towards a balanced portfolio mix (secured: unsecured at 75:25) vs. largely mortgage portfolio in 2021. Diversified sourcing strategy (DSTs, DSAs, Fintech partnerships etc.), along with healthy payouts to channel partners and seamless digital processes has aided in achieving strong growth, partly aided by industry tailwinds.

PIEL remains focused on mass market semi-urban/urban customer profile, with blended yields of ~13-14%. The structural gap on the liabilities side (lower credit rating and subsequently higher cost of funds) necessitates focus on high-yielding segments in order to maintain healthy spreads/NIMs.

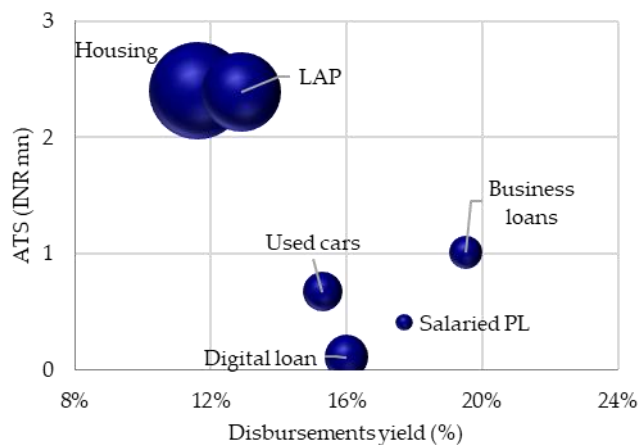
# Piramal Finance: Initiating Coverage

**Exhibit 59: Retail AUM mix – increasing share of unsecured products**



Source: Company, HSIE Research

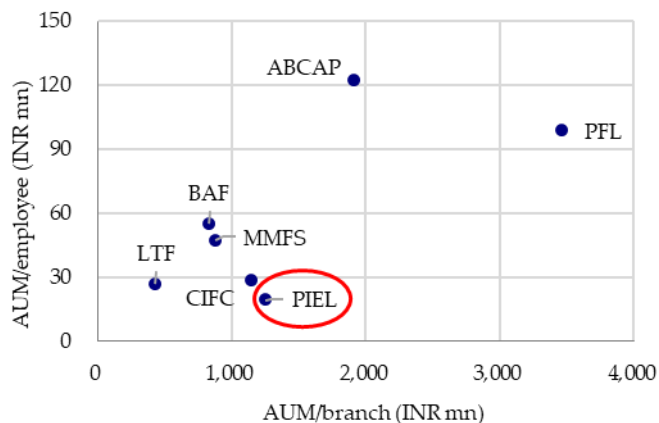
**Exhibit 60: Retail loan products of PIEL (Q4FY25)**



Source: Company, HSIE Research

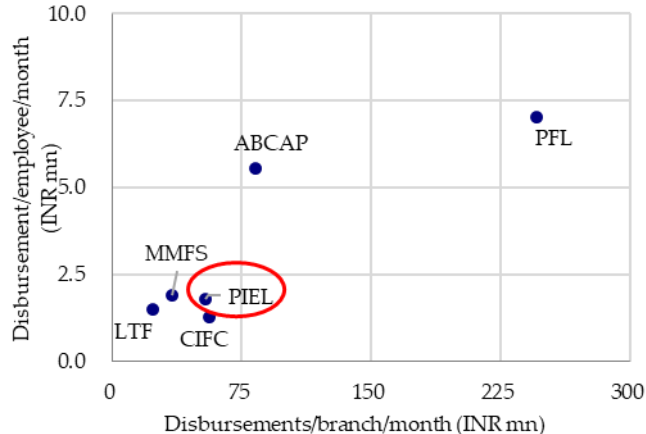
- Productivity gradually approaching steady state levels:** PIEL's productivity metrics have witnessed healthy improvement over the last couple of years, post sharp expansion during FY21-FY23. With improving branch vintage as well as penetration of existing products across all branches etc., operating efficiency (cost to income ratio) are likely to improve gradually during FY26-FY28E.

**Exhibit 61: Productivity metrics\* (at AUM level) for PIEL in line with peers (Mar-25)**



Source: Company, HSIE Research | Note: \*AUM adjusted for retail portfolio (excluding wholesale loans)

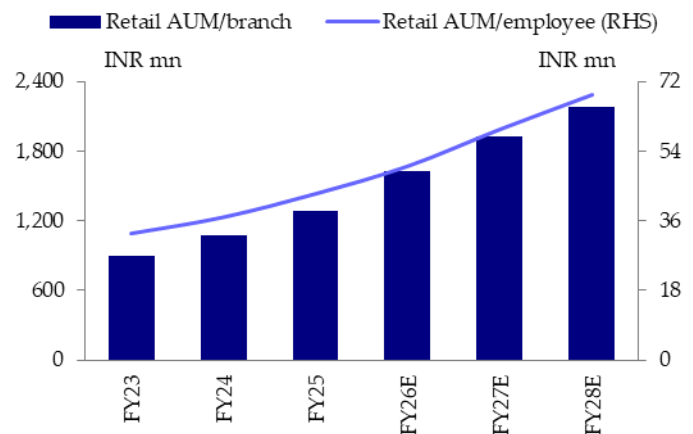
**Exhibit 62: Productivity metrics\* (at disbursements level) for PIEL in line with peers (FY25)**



Source: Company, HSIE Research | Note: \*Disbursements adjusted for retail portfolio (excluding wholesale loans)

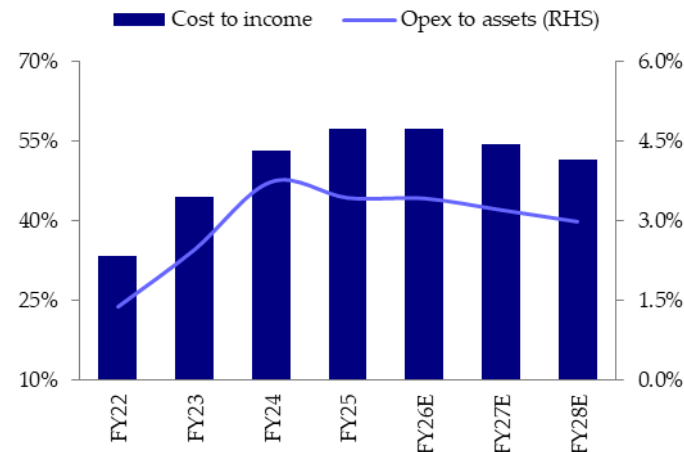
# Piramal Finance: Initiating Coverage

**Exhibit 63: Expect steady improvement in productivity metrics (per branch/per employee)**



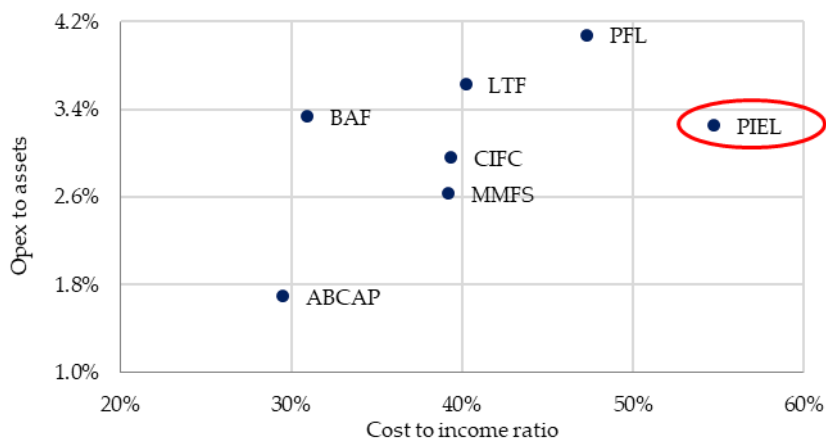
Source: Company, HSIE research

**Exhibit 64: Operating efficiency ratios expected to improve during FY26-FY28E**



Source: Company, HSIE research

**Exhibit 65: Operating efficiency metrics vs. peers (FY27E)**



Source: Company, HSIE Research

## Piramal Finance: Initiating Coverage

- **Profitability approaching steady state levels:** Profitability of the “growth portfolio” (Retail + Wholesale 2.0) is gradually approaching steady state levels. Run-down of recoveries from purchased or originated credit impaired loans (POCI) is likely to be offset by operating efficiency gains and improvement in core spreads amidst falling interest rate environment.

Asset quality has remained broadly steady across most segments, although PIEL remains on a high growth trajectory in the “growth” portfolio.

### Exhibit 66: Profitability of “growth” AUM at ~ 1.5% of AUM (pre-tax)

% of average AUM	Growth portfolio			Overall portfolio		
	FY23	FY24	FY25	FY23	FY24	FY25
Interest Income	12.9%	13.2%	13.1%	12.2%	11.2%	11.9%
Interest Expense	5.7%	6.3%	6.7%	6.3%	6.6%	7.1%
Net Interest Income	<b>7.2%</b>	<b>6.9%</b>	<b>6.3%</b>	5.9%	4.6%	4.8%
Fee & Commission	1.0%	1.3%	0.7%	0.5%	0.8%	0.6%
Others	0.1%	0.0%	0.1%	0.2%	0.3%	0.8%
Other Income	1.1%	1.3%	0.8%	2.0%	1.4%	1.3%
Total Income	8.3%	8.2%	7.1%	7.9%	6.0%	6.2%
Operating expenses	5.2%	5.0%	4.2%	3.5%	4.2%	4.0%
<b>PPoP</b>	<b>3.0%</b>	<b>3.2%</b>	<b>3.0%</b>	4.4%	1.8%	2.1%
Net credit costs	0.4%	0.8%	1.6%	8.3%	6.9%	1.4%
<b>Profit Before Tax</b>	<b>2.6%</b>	<b>2.3%</b>	<b>1.4%</b>	<b>-3.9%</b>	<b>-5.1%</b>	<b>0.7%</b>

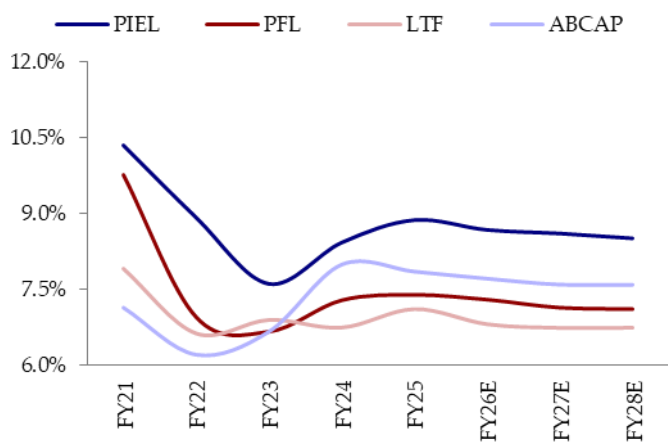
Source: Company, HSIE Research

## Where's my RoE? Initiate with ADD

PIEL's turnaround in the stressed Wholesale 1.0 portfolio and journey towards steady-state profitability through scale-up in Retail and Wholesale 2.0 has led to its gradual re-rating. We expect further re-rating as the consistency in operating performance, particularly on the wholesale portfolio, is established. However, there is limited room for improvement in RoE beyond 10% due to sub-par leverage (D/E at 2.5x). Tailwinds from deferred tax losses, one-off gains and gradual improvement in credit rating and cost of funds are likely to aid earnings.

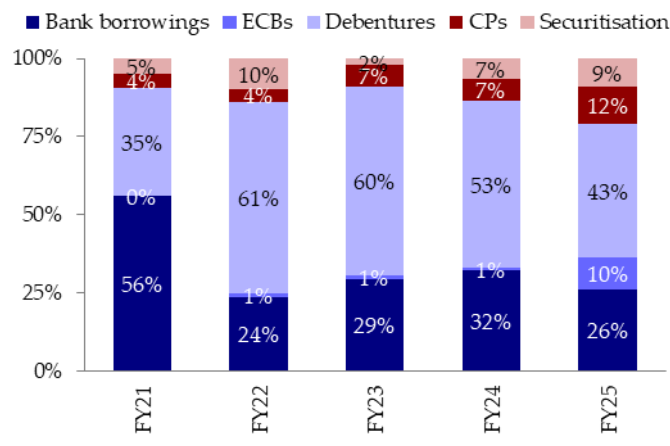
- Liabilities handicap vs. peers:** PIEL currently has a handicap from liabilities perspective vs. peers such as PFL, LTF and ABCAP (~100-150bps higher cost of funds vs. peers). This is driven by lower credit rating (ICRA AA) vs. AAA rating for peers on account of sub-par operating performance in financial services segment in the past and strong corporate parentage for peers. It is likely to remain a structural issue from loans pricing and target customer segment perspective. However, steady operating performance going ahead is likely to narrow the gap marginally.

**Exhibit 67: PIEL has the highest cost of funds vs. peers**



Source: Company, HSIE Research

**Exhibit 68: PIEL's liabilities mix – high share of NCDs**



Source: Company, HSIE Research

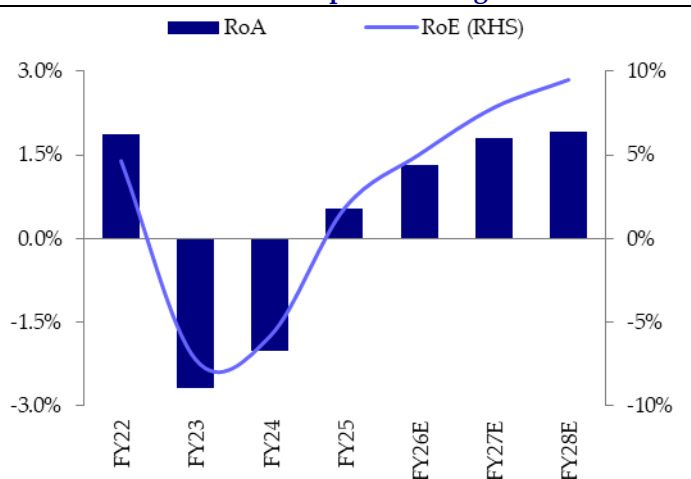
## Piramal Finance: Initiating Coverage

- Where's my RoE?** PIEL's RoE is likely to remain subdued for a considerable period due to muted leverage (D/E at 2.5x). With surplus capital, inorganic route for further scale-up of the portfolio could be one of the ways to reach optimum leverage levels in a short period. Gains from the imaging business in FY26 and recoveries from the wholesale portfolio are likely to further reduce leverage levels.

CV/CE, Tractors, 2-wheelers, and gold loans are some of the potential high RoA segments that PIEL could look at through inorganic route, although execution capabilities in these segments are a key challenge. In the absence of any M&A transaction, reaching a healthy double-digit RoE is likely to take a while.

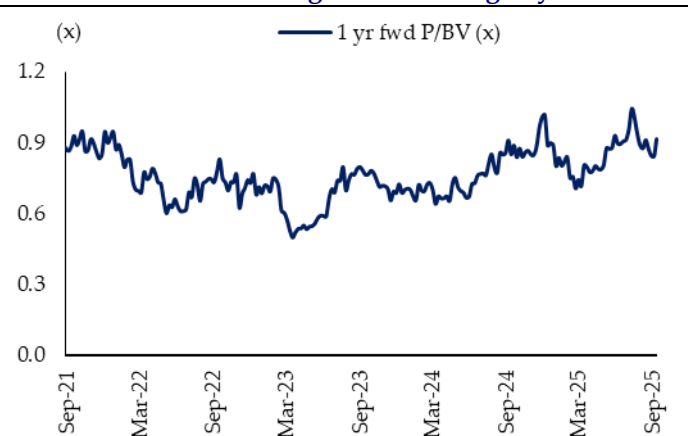
We initiate coverage on PIEL with an ADD and RI-based TP of INR 1,300 (implying 1x Sep-27 ABVPS). Consistent performance over the next few years remains the key trigger for PIEL to drive higher re-rating.

**Exhibit 69: RoA/RoE to improve during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 70: PIEL is trading near its average 1 yr fwd P/BV**



Source: Bloomberg, HSIE Research

## Financials (Consolidated)

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	77,986	73,139	84,614	103,471	132,849	163,898
Interest expended	39,943	43,439	52,819	64,077	80,589	100,837
Net interest income	38,043	29,700	31,795	39,394	52,261	63,061
Other income	12,881	28,645	21,505	22,854	22,462	26,917
Total income	50,924	58,345	53,300	62,248	74,723	89,977
Operating expenditure	22,617	37,688	30,498	35,740	40,643	46,256
Pre-provisioning operating profit	28,307	20,657	22,802	26,508	34,080	43,721
Non-tax provisions	52,951	34,112	17,719	26,359	13,411	16,256
Profit before tax	-24,643	-13,455	5,083	150	20,668	27,465
Share of net profit of associates and joint ventures	3,886	1,537	1,366	1,651	2,086	2,340
Exceptional gain/(loss)	79,759	-20,866	0	12,040	0	0
Tax expenditure	-40,684	-15,949	1,594	0	0	0
Profit attributable to non-controlling interests	0	0	0	0	0	0
Profit after tax	99,686	-16,835	4,855	13,841	22,755	29,805
Adjusted Profit after tax	19,927	4,031	4,855	1,801	22,755	29,805

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	477	449	451	451	451	451
Reserves and surplus	310,113	264,401	269,361	280,077	299,677	326,778
Net worth	310,591	265,571	270,960	281,676	301,276	328,377
Borrowings	495,828	536,111	655,766	822,530	1,052,102	1,319,734
Other liabilities and provisions	31,103	24,369	22,709	33,670	42,505	51,875
Total equity and liabilities	837,522	826,050	949,434	1,137,876	1,395,884	1,699,985
Cash and cash equivalents	46,491	44,468	62,759	30,337	32,786	61,524
Investments	223,318	125,130	125,387	139,020	150,197	163,915
Advances	463,946	549,434	657,912	841,755	1,062,636	1,296,866
Fixed assets	29,969	34,065	33,088	35,735	38,594	41,681
Other assets	73,798	72,953	70,289	91,030	111,671	135,999
Total assets	837,522	826,050	949,434	1,137,876	1,395,884	1,699,985

Source: Company, HSIE Research

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	417.7	-74.9	21.5	61.4	101.0	132.3
Earnings Growth (%)	499.7%	NM	NM	185.1%	64.4%	31.0%
BVPS (ex reval.)	1,301	1,182	1,202	1,250	1,337	1,457
Adj. BVPS (ex reval. & 100% cover)	1,258	1,115	1,131	1,179	1,263	1,367
ROAA (%)	-2.7%	-2.0%	0.5%	1.3%	1.8%	1.9%
ROAE (%)	-7.3%	-5.8%	1.8%	5.0%	7.8%	9.5%
P/E (x)	2.7	-15.0	52.2	18.3	11.1	8.5
P/ABV (x)	0.9	1.0	1.0	1.0	0.9	0.8
P/PPOP (x)	9.5	12.2	11.1	9.6	7.4	5.8
Dividend yield (%)	0.0%	0.9%	1.0%	1.2%	1.1%	1.1%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	11.7%	12.3%	12.6%	12.7%	12.9%	12.9%
Cost of Funds (%)	7.6%	8.4%	8.9%	8.7%	8.6%	8.5%
Core Spread (%)	4.1%	3.9%	3.8%	4.1%	4.3%	4.4%
NIM (%)	4.7%	3.9%	3.9%	4.1%	4.5%	4.5%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	3.5%	5.7%	4.1%	4.0%	3.6%	3.4%
Cost-income ratio (%)	44.4%	64.6%	57.2%	57.4%	54.4%	51.4%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	-5.9%	18.4%	19.7%	27.9%	26.2%	22.0%
AUM growth (%)	0.1%	7.5%	17.4%	24.0%	23.7%	20.7%
Borrowing growth (%)	-10.6%	8.1%	22.3%	25.4%	27.9%	25.4%
Debt/Equity (x)	1.6	2.0	2.4	2.9	3.5	4.0
Equity/Assets (%)	37.1%	32.1%	28.5%	24.8%	21.6%	19.3%
Equity/Loans (%)	66.9%	48.3%	41.2%	33.5%	28.4%	25.3%
Total Capital Adequacy Ratio (CAR) (%)	30.5%	25.6%	23.6%	21.4%	18.7%	16.8%
Tier I CAR (%)	30.5%	25.6%	23.6%	21.3%	18.6%	16.7%
<b>ASSET QUALITY</b>						
GS III (INR mn)	20,550	24,500	23,050	22,765	23,378	29,450
NS III (INR mn)	10,380	15,160	16,080	16,008	16,589	20,380
Slippages (%)	1.6%	0.8%	4.2%	4.8%	2.3%	2.3%
GS III (%)	3.3%	3.6%	3.1%	2.5%	2.0%	2.1%
NS III (%)	1.8%	2.4%	2.2%	1.8%	1.5%	1.5%
Coverage Ratio (%)	49.5%	38.1%	30.2%	29.7%	29.0%	30.8%
Provision/AUM (%)	8.3%	5.1%	2.4%	2.9%	1.2%	1.2%
Provision/Gross advances (%)	10.4%	6.3%	2.8%	3.4%	1.4%	1.3%
<b>(% of average assets)</b>						
Interest earned	8.5%	8.8%	9.5%	9.9%	10.5%	10.6%
Interest expended	4.4%	5.2%	5.9%	6.1%	6.4%	6.5%
Net interest income	4.1%	3.6%	3.6%	3.8%	4.1%	4.1%
Non-interest income	1.4%	3.4%	2.4%	2.2%	1.8%	1.7%
Operating expenses	2.5%	4.5%	3.4%	3.4%	3.2%	3.0%
Pre-provisioning profit	3.1%	2.5%	2.6%	2.5%	2.7%	2.8%
Non-tax provisions	5.8%	4.1%	2.0%	2.5%	1.1%	1.1%
Others	9.1%	-2.3%	0.2%	1.3%	0.2%	0.2%
Provision for tax	-4.4%	-1.9%	0.2%	0.0%	0.0%	0.0%
ROAA	10.9%	-2.0%	0.5%	1.3%	1.8%	1.9%
Average assets/Average equity (x)	2.7	2.9	3.3	3.8	4.3	4.9
ROAE	29.4%	-5.8%	1.8%	5.0%	7.8%	9.5%

Source: Company, HSIE Research

# Poonawalla Fincorp

## Blitzkrieg pace; demanding valuations

Poonawalla Fincorp (PFL), erstwhile Magma Fincorp, sponsored by Cyrus Poonawalla Group, is now into its third stint, after the Magma portfolio (v 1.0) and the distribution light strategy adopted by the previous management (v 2.0). With a new senior management team led by Mr. Arvind Kapil, PFL is geared up to drive astronomical loan growth (5-6x in the next five years), along with addressing the key gaps in the franchise. However, investments in new products, distribution, and tech are likely to keep the opex ratios elevated in the near term. While profitability is likely to remain subdued in the near term, ramp-up of the newly launched products that are still in nascent stages and sweating of the ongoing investments are likely to drive RoA towards ~2.5%. Further, the shift towards secured assets is likely to be partially offset by tailwinds on cost of funds. However, the current valuations (3.8x Mar-27 ABVPS) is a steep ask, given limited track record. We initiate on PFL with REDUCE and RI-based TP of INR400 (implying 2.8x Sep-27 ABVPS).

- **Management team overhaul, execution awaited:** PFL has onboarded nearly entirely new senior management team, with MD and CEO and other senior management personnel from large private banks. The vast depth of the leadership team, along with increasing strength of the middle management roles, provides a competitive advantage in terms of the pace of execution, going ahead.
- **Rapid product portfolio expansion, along with accelerated growth in existing products:** PFL has rapidly launched multiple high-yielding new products (gold loans, education loans, used CV loans, shop keeper loans, PL-prime, and consumer durable loans) to its portfolio. This is likely to accelerate the customer acquisition engine, which is likely to augment the growth momentum in the medium term. However, most of these products are in nascent stages and loan growth in the near term is likely to be driven by existing products (LAP, wholesale loans, etc.).
- **Distribution light to distribution-led:** After running down its distribution network post-acquisition of Magma, PFL is now expanding its distribution network (branches, employees etc.) across new and existing products (to add 400 gold loan branches during FY26). Further, PFL is investing in tech along with revamp of processes to drive higher throughput. This is likely to keep the opex ratios elevated with a drag on profitability in the near term.
- **Elevated back-book pain subsiding; valuations demanding:** PFL's asset quality challenges seem largely behind with INR 35bn of write-offs during FY23-FY25, although unsecured business loans (part of MSME loans) could provide some downside risk. While PFL is poised to deliver strong AUM growth over the medium term on the back of expanding product portfolio, revamped distribution network, and a focused leadership team, current valuations remain demanding and provide little margin of safety.

### Financial summary

Y/E Mar (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	12.2	19.5	23.6	31.3	43.6	58.2
PPOP	6.1	13.9	14.3	17.8	27.2	37.0
PAT	5.6	8.3	-1.0	7.3	14.1	19.5
EPS (INR)	7.6	10.8	-1.3	9.0	17.5	24.2
ROAE (%)	9.3%	13.6%	-1.2%	8.1%	13.2%	15.8%
ROAA (%)	3.7%	4.7%	-0.3%	1.7%	2.4%	2.5%
ABVPS (INR)	82.1	103.6	101.5	118.1	133.1	153.2
P/ABV (x)	6.1	4.8	4.9	4.2	3.8	3.3
P/E (x)	65.8	46.2	-393.8	55.4	28.6	20.7

Source: Company, HSIE Research | Note: ROAA/ROAE for FY24 adjusted for one-off gains

## REDUCE

CMP (as on 29 Sep 2025)	INR 502
Target Price	INR 400
NIFTY	24,635

### KEY STOCK DATA

Bloomberg code	POONAWAL IN
No. of Shares (mn)	779
MCap (INR bn) / (\$ mn)	391/4,402
6m avg traded value (INR mn)	1,094
52 Week high / low	INR 513/267

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.0	43.1	26.7
Relative (%)	14.4	39.3	32.8

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	62.5	62.5
FIs & Local MFs	11.1	12.3
FPIs	10.0	10.8
Public & Others	15.7	14.4

Pledged Shares

Source: BSE

Pledged shares as % of total shares

**Deepak Shinde**

deepak.shinde@hdfcsec.com  
+91-22-6171-7323

**Krishnan ASV**

venkata.krishnan@hdfcsec.com  
+91-22-6171-7314

## Management team overhaul, execution awaited

Poonawalla Fincorp (PFL) has onboarded nearly entirely new senior management team, with MD and CEO and other senior management personnel from large private banks. The vast depth of the leadership team, along with increasing strength of the middle management roles, provides a significant competitive advantage in terms of the pace of execution. However, a largely untested platform along with limited vintage in NBFCs for the leadership team is likely to test the execution capabilities for the entire team.

- **New team—new journey:** PFL has undergone a complete management overhaul with the appointment of new MD and CEO, Mr. Arvind Kapil in Jun-24. Further, an entirely new senior leadership team, along with business heads (and many other employees as well) have joined during Jun-24 to Nov-24. The high pedigree of this team, with significant number of management team members from large private banks, provides a key advantage to PFL in building the franchise.

However, NBFCs have a different operational environment vs. banks, with the need to leverage the operational arbitrage, particularly in higher yielding retail/MSME segments. The execution of the new management team in a relatively different regulatory environment remains a key monitorable.

## Incubating new growth engines

PFL has rapidly added six new products to its portfolio within a short span of six months, taking it to 12 products. The rapid expansion seems well intended to create multiple growth engines and create a healthy mix of secured and unsecured loans. However, the new products are still in nascent stages and are unlikely to contribute to growth meaningfully in the near-term. Further, performance in the new growth engines remains a key monitorable amidst elevated competitive intensity.

- **Small balance sheet, larger growth runway:** PFL has relatively smaller asset base (AUM of INR 412bn as of Jun-25) vs. peers such as ABCAP (AUM of INR 1.3trn), LTF (AUM of INR 1trn), and PIEL (AUM of INR 0.9trn). This provides it a longer runway for portfolio growth going ahead vs. peers.
- **New growth engines to augment AUM growth in the medium term:** While PFL’s growth in the near term is likely to be driven by existing products, the new growth engines are likely to augment the high loan growth during the medium term. PFL’s strategy of product diversification across the spectrum from low-yielding products such as LAP and PL-prime (~10-12% yield) to high-yielding segments such as consumer durables and shopkeeper loans (~20-24%) augurs well from scalability, risk management, and potential profitability perspective.

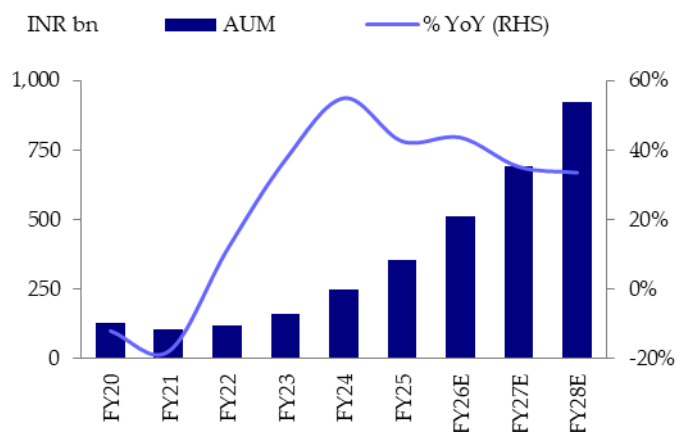
Bulk of the growth during FY23-FY25 came from unsecured business loans and personal and consumer loans (52%/78% CAGR), which although high yielding, had led to significant deterioration in asset quality.

**Exhibit 71: New products launched by PFL**

New products	CV Loans	Gold loans	Consumer durable loans	Education loans	Shopkeeper loans	PL prime
Sourcing strategy	Dealers, DSAs, direct sourcing	400+ branches to be opened in FY26	~10K+ C.D. dealers	Counsellors/ DSAs	Direct sourcing	DSAs, Digital
Target customer segment	SRTOs	Business, agri, personal needs	NA (Customer acquisition funnel)	Students pursuing higher education in international universities	Small retailers & kirana stores	Salaried employees of top corporates
Opex intensity	High	High	High	Medium	High	Low
Average yields	~16-20%	~17-18%	~20-26%	~11-14%	~20-22%	~12.65%+
Average ticket size	INR 5 lakhs	INR 1 lakh	<INR 1 lakh	~INR 30 lakh (Up to INR 3Cr)	INR 3-5 lakhs	INR 5-10 lakhs
Locations launched initially	68 (12 states)	~100	70	NA	44	NA

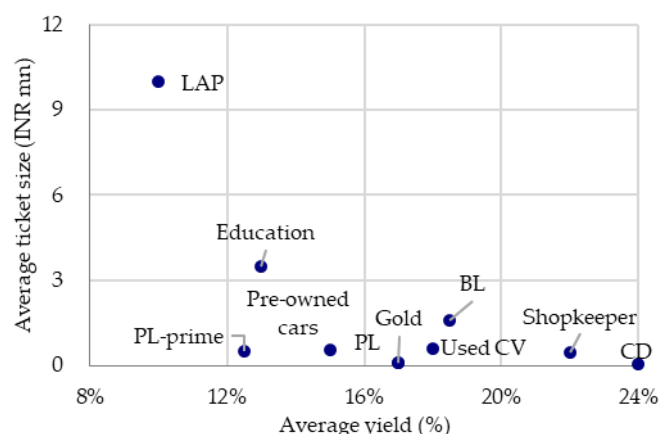
Source: Company, HSIE Research

**Exhibit 72: AUM growth expected to be around ~37% during FY25-FY28E**



Source: Company, HSIE Research

**Exhibit 73: PFL's key products across the yield spectrum**



Source: Company, HSIE Research | Yields and ticket size indicative in nature

- Re-calibration in existing products, focus remains on growth:** PFL has recalibrated its strategy for select products such as personal and consumer loans and pre-owned cars with certain tweaks in underwriting policies, target customer profile, portfolio monitoring and ramp-up collections infrastructure. For e.g., there is a shift in pre-owned cars portfolio from re-financing, which used to contribute to ~80% of disbursements towards repurchase. Further, PFL has tightened credit filters for personal and consumers loans, leading to reduction in EMI bounce rates and subsequently credit costs.

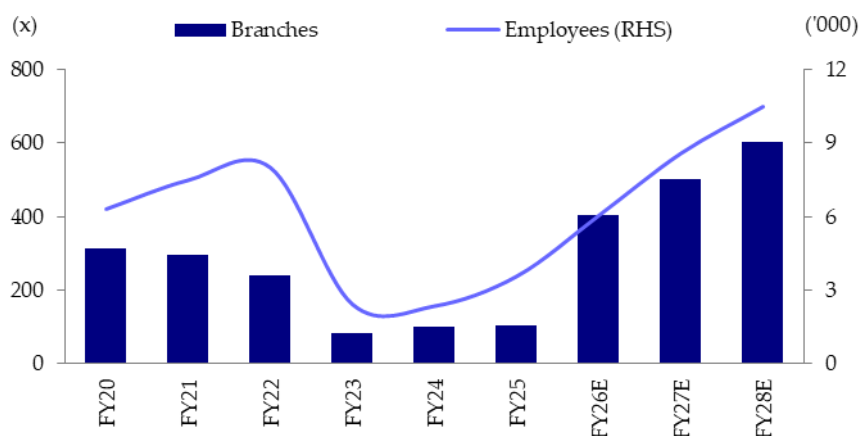
In addition, PFL is pivoting from DSA/channel partner driven sourcing model towards a hybrid sourcing model, with addition of direct sales teams in select segments. PFL has added nearly 1.2K employees during FY25, mostly in new products to sustain the growth momentum.

## Investments phase | Drag on RoE

After running down its distribution network post-acquisition of Magma (from 300/8K branches/employees to ~100/2.4K employees), PFL is now expanding its distribution network across its verticals (to add 400 gold loan branches in FY26; 100 already added) and ramp up the employee strength for new products. Further, PFL is investing in tech (an additional annual opex of INR 2bn), revamp of processes, collection architecture, etc., to ensure robust asset quality. This is likely to keep the opex ratios elevated in the near term, dragging down RoE.

- Distribution light to distribution-led:** PFL's distribution network (branches, employees, etc.) is being scaled up again (1.2K employees added during FY25) after being scaled down under the previous management from 300 branches and ~8K employees to 102 branches and ~2K employees. The distribution approach has shifted from distribution-light (channel partners/FinTech driven) to distribution-led, seeking an optimal mix of in-house employees and branches to channel partners (dealers, DSAs, counsellors, fintech partners, etc.), based on the loan product.

**Exhibit 74: Distribution network to ramp up sharply**

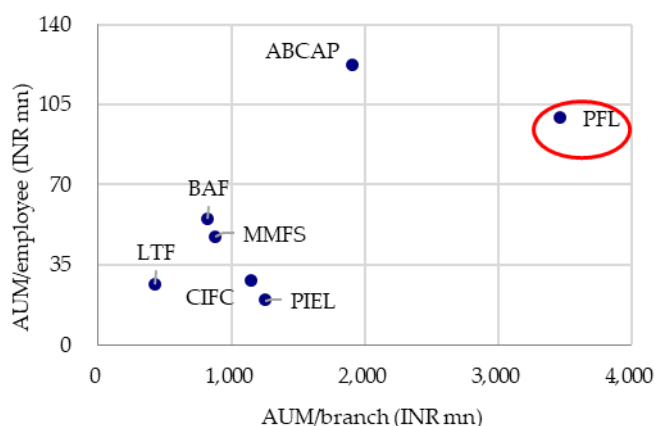


Source: Company, HSIE Research

PFL's productivity metrics currently look high due to distribution light model (outsourcing of sourcing, collections etc. across segments - Fintech partners for personal and consumer loans, DSAs for LAP and business loans, dealers for pre-owned cars etc.). With the investments in distribution and re-calibration of processes, the productivity metrics are likely to taper off.

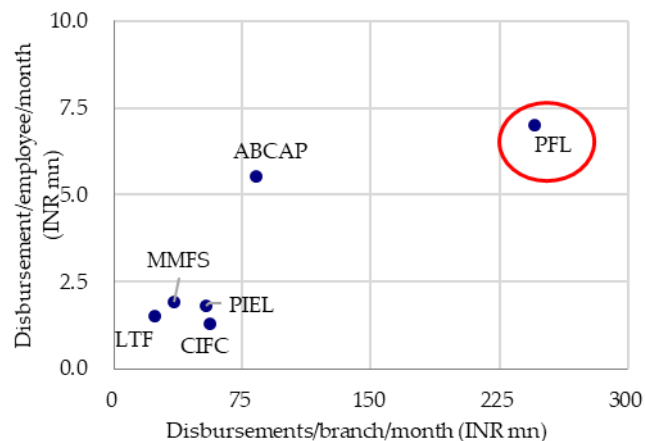
## Poonawalla Fincorp: Initiating Coverage

**Exhibit 75: Productivity metrics\* (at AUM level) for PFL well ahead of peers (Mar-25)**



Source: Company, HSIE Research | Note: \*AUM adjusted for retail portfolio (excluding wholesale loans)

**Exhibit 76: Productivity metrics\* (at disbursements level) for PFL well ahead of peers (FY25)**

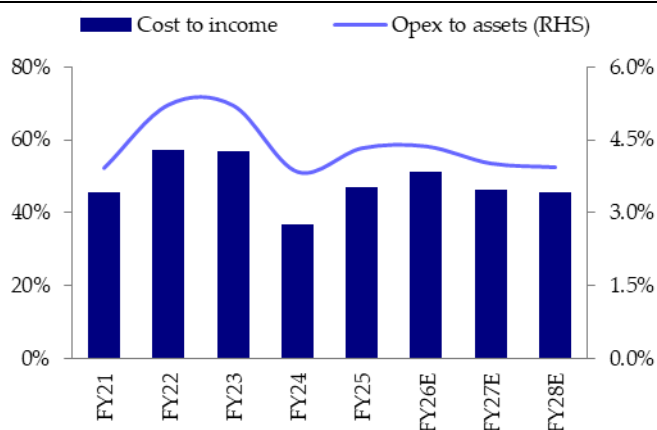


Source: Company, HSIE Research | Note: \*Disbursements adjusted for retail portfolio (excluding wholesale loans)

- Opex ratios to remain elevated in the near term:** Opex ratios to remain elevated in the near term: PFL's ongoing investments across distribution, tech and new product launches are likely to keep the opex ratios significantly elevated during FY26-FY27E. Addition of 400 gold loans branches, ramp-up of six new products (consumer durable loans, used CV, gold loans, education loans, shopkeeper loans, and PL-prime) and ramp-up of employee talent (senior and middle management, addition of sales force, etc.) are likely to reflect in higher operating expenses (already reflecting from Q2FY25).

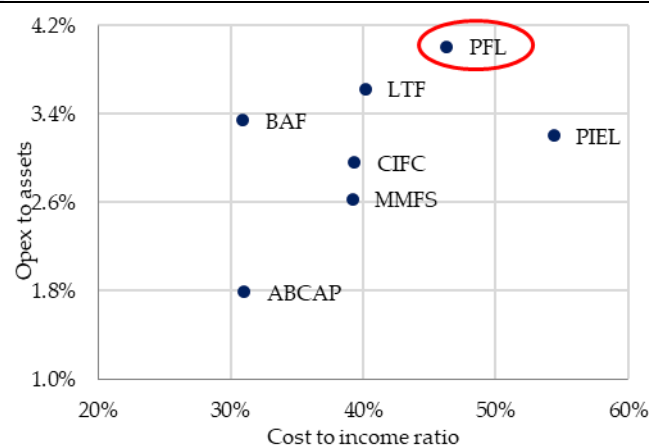
The operating leverage is expected to kick in by FY27, although the pace of loan growth remains a key monitorable.

**Exhibit 77: Opex ratios to moderate only marginally during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 78: Opex ratios to remain elevated compared to peers (FY27E)**



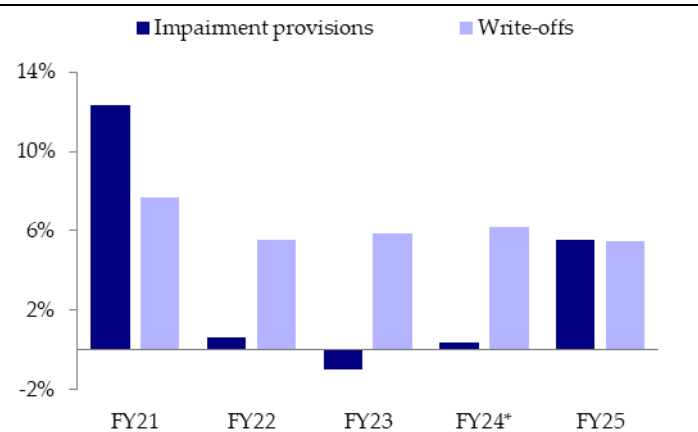
Source: Company, HSIE Research

As per our channel checks, PFL has one of the highest payouts for its channel partners. For e.g., PFL's DSA payouts are up to 2.25% for LAP vs. 1.5-1.75% for peers and 4.1% for business loans vs. an average of 3.5% for peers. The high payouts, along with aggressive pricing have been one of the major factors in strong loan growth, particularly for LAP.

## Back-book pain nearing an end

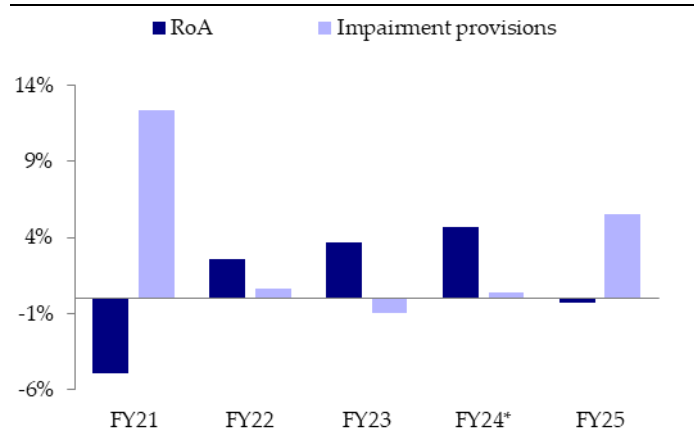
- Elevated historical slippages:** PFL's delinquencies have remained elevated with write-offs at ~5-6% during FY21-FY25. This has been driven by new portfolio originated post-acquisition of Magma and the legacy portfolio. However, the impairment provisions had remained muted during FY22-FY24 due to surplus provisioning pool created out of the gains from the sale of Poonawalla Housing Finance (INR 13bn) and Magma HDI General Insurance (INR 2.2 bn), along with elevated provisioning pool created in FY21.

**Exhibit 79: Divergence between impairment provisions and write-offs**



Source: Company, HSIE Research | Note: As a percentage of gross advances

**Exhibit 80: Profitability vs. impairment provisions**



Source: Company, HSIE Research | Note: FY24 RoA adjusted for one-off gains

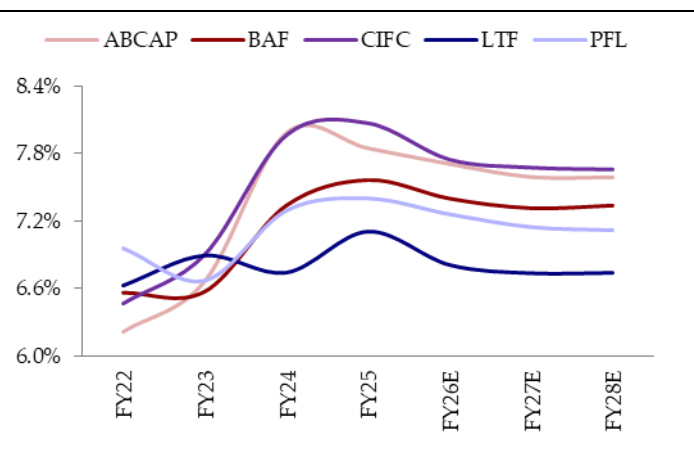
- Steady state credit costs a while away:** PFL currently has a healthy provisioning pool at 2.3% of gross advances (Stage III PCR at 54%). Further, credit filters have been re-calibrated over the last few quarters across products, along with investments in data analytics and collections, etc. This is likely to translate into moderation in credit costs from FY26 onwards.

However, credit costs are yet to reach a new normal as the new products are yet to scale up and the portfolio gets seasoned over a period of time. Subsequently, we factor in credit costs of ~1.6% during FY26-FY28E, due to significant impairment recognition and provisioning already behind and astronomical growth during this period.

## Potent franchise, elevated valuations

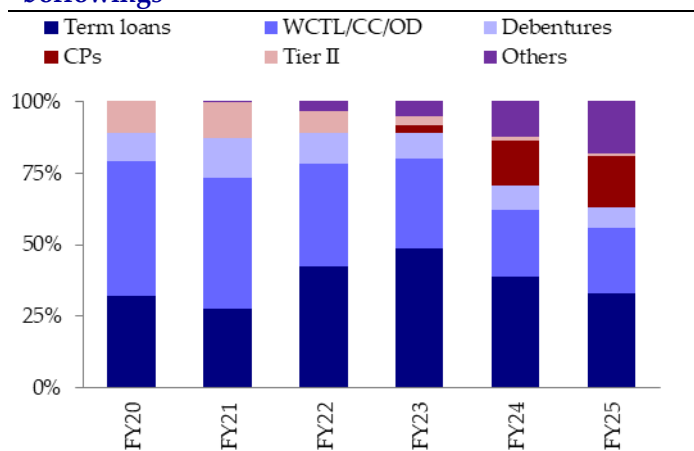
- **Low cost of capital-a structural advantage:** PFL's low cost of funds (7.4% for FY25) on the back of its strong parentage of Cyrus Poonawalla Group (and AAA credit rating) provides it a key advantage from the liabilities and loan pricing perspective. This has enabled PFL to compete for prime customers in chosen segments such as LAP and business loans.
- PFL's liabilities mix had been skewed towards short-term borrowings (working capital loans and CPs at 40% of total borrowings), in line with short tenure of the loan book. With the shift towards longer-tenure assets, we expect the cost of borrowings to begin inching up, offset by the reduction in repo rate cuts during CY25.

Exhibit 81: Superior cost of funds vs. peers



Source: Company, HSIE Research

Exhibit 82: Liabilities mix to shift towards longer tenure borrowings



Source: Company, HSIE Research

- **Earnings profile yet to stabilize:** PFL's earnings profile continues to remain under flux amidst ongoing investments, shift in product mix, and accelerated write-offs and provisioning. We expect the RoA profile to remain WIP during FY26-FY27E as new products scale up and stabilize, along with seasoning of the portfolio.

Exhibit 83: PFL's RoE profile

(% of average assets)	FY23	FY24*	FY25	FY26E	FY27E	FY28E
Interest earned	11.8%	13.8%	13.1%	12.9%	13.1%	13.2%
Interest expended	3.9%	4.5%	5.1%	5.5%	5.6%	5.8%
Net interest income	7.9%	9.3%	8.0%	7.4%	7.4%	7.4%
Non-interest income	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Operating expenses	5.2%	3.8%	4.3%	4.4%	4.0%	3.9%
Pre-provisioning profit	4.0%	6.6%	4.8%	4.2%	4.7%	4.7%
Provisions	-0.9%	0.3%	5.3%	1.9%	1.4%	1.4%
Others	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax	1.2%	2.3%	-0.1%	0.6%	0.8%	0.8%
<b>ROAA</b>	<b>3.8%</b>	<b>4.7%</b>	<b>-0.3%</b>	<b>1.7%</b>	<b>2.4%</b>	<b>2.5%</b>
Assets/Equity	2.5	2.9	3.6	4.7	5.5	6.4
<b>ROAE</b>	<b>9.6%</b>	<b>13.6%</b>	<b>-1.2%</b>	<b>8.1%</b>	<b>13.3%</b>	<b>15.7%</b>

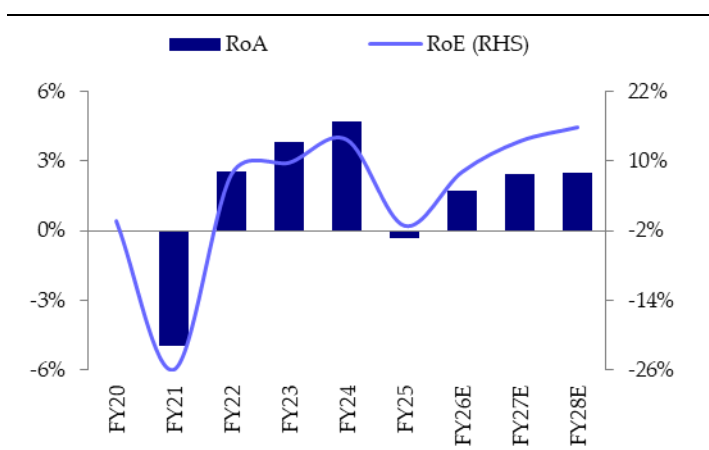
Source: Company, HSIE Research | Note: RoA/RoE adjusted for extraordinary gains from sale of erstwhile Poonawalla Housing Finance

## Poonawalla Fincorp: Initiating Coverage

PFL's earnings are poised for a strong rebound post abysmal FY25, largely due to normalization in credit costs. The franchise is poised to deliver strong growth (~37% AUM CAGR) over FY26-FY28E, with gradually improving profitability (~2.4%-2.5% RoA). However, the current valuations factor in these positives, with little margin of safety.

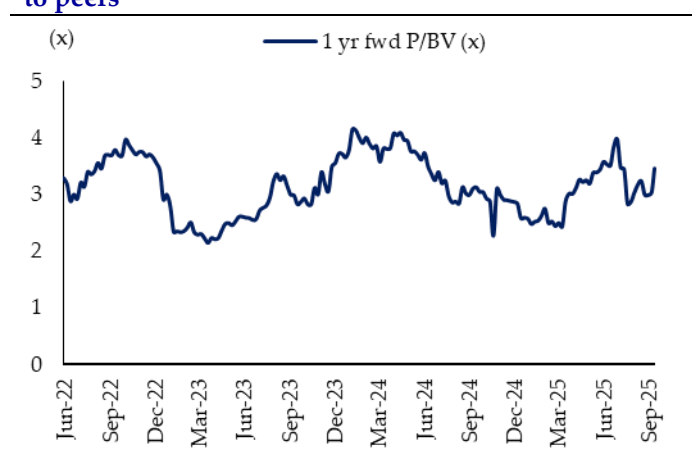
We initiate coverage on PFL with REDUCE and RI-based TP of INR 400 (implying 2.8x Sep-27 ABVPS). The implied valuation multiple is at a premium to franchises such as ABCAP, LTF, and PIEL due to superior growth and improving earnings profile. However, limited track record and constraints beyond 15% RoE is likely to keep valuation multiples at a significant discount to robust franchises such as BAF and CFC.

**Exhibit 84: RoA/RoE to improve during FY26-FY28E**



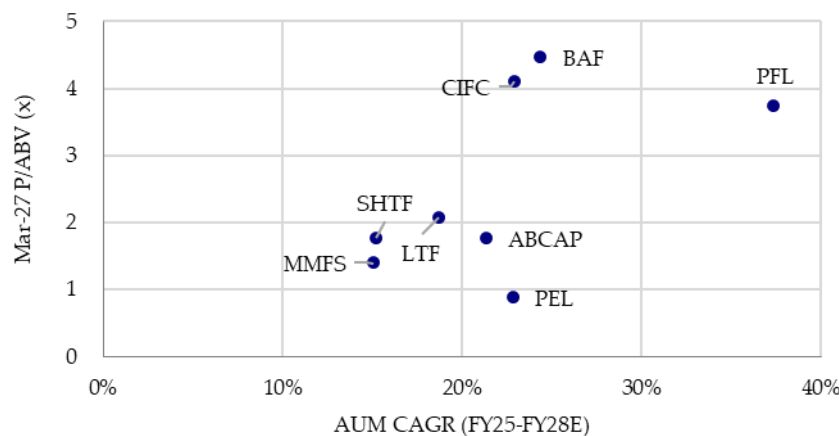
Source: Company, HSIE Research | Note: FY24 RoA/RoE adjusted for one-off gains

**Exhibit 85: PFL's valuation remain elevated compared to peers**



Source: Company, HSIE Research

**Exhibit 86: Growth premium at play – loan growth vs. P/ABVPS**



Source: Company, HSIE Research

## Financials

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	18,169	29,041	38,745	54,764	76,990	104,189
Interest expended	5,953	9,551	15,151	23,467	33,352	45,993
Net interest income	12,217	19,490	23,594	31,297	43,638	58,196
Other income	1,931	2,478	3,483	5,068	7,167	9,469
Total income	14,148	21,967	27,078	36,365	50,805	67,665
Operating expenditure	8,031	8,074	12,769	18,580	23,596	30,621
Pre-provisioning operating profit	6,117	13,894	14,309	17,786	27,208	37,044
Non-tax provisions	-1,337	720	15,663	8,035	8,313	10,951
Profit before tax	7,454	13,173	-1,354	9,751	18,896	26,093
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	212	12,212	0	0	0	0
Tax expenditure	1,816	4,826	-371	2,457	4,762	6,575
Profit attributable to non-controlling interests	0	0	0	0	0	0
Adjusted Profit after tax	5,637	8,348	-983	7,294	14,134	19,518
Reported Profit after tax	5,849	20,560	-983	7,294	14,134	19,518

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,536	1,541	1,546	1,612	1,612	1,612
Reserves and surplus	61,653	78,988	78,382	96,876	111,010	130,527
Net worth	64,247	81,164	81,240	99,800	113,934	133,451
Borrowings	111,196	150,801	258,806	387,801	545,817	746,738
Other liabilities and provisions	4,775	8,397	9,747	14,039	19,034	25,434
<b>Total equity and liabilities</b>	<b>180,218</b>	<b>240,362</b>	<b>349,793</b>	<b>501,639</b>	<b>678,785</b>	<b>905,623</b>
Cash and cash equivalents	6,574	2,685	323	2,433	5,336	9,580
Investments	5,101	8,783	13,416	15,892	19,062	22,599
Advances	152,295	220,464	326,950	467,956	634,483	847,805
Fixed assets	2,118	1,945	2,542	4,322	4,970	5,716
Other assets	14,130	6,485	6,562	11,036	14,933	19,924
<b>Total assets</b>	<b>180,218</b>	<b>240,362</b>	<b>349,793</b>	<b>501,639</b>	<b>678,785</b>	<b>905,623</b>

Source: Company, HSIE Research

**Key Ratios**

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	7.6	10.8	-1.3	9.0	17.5	24.2
Earnings Growth (%)	92.3%	48.1%	NM	NM	93.8%	38.1%
BVPS (ex reval.)	83.7	105.3	105.1	123.8	141.3	165.6
Adj. BVPS (ex reval. & 100% cover)	82.1	103.6	101.5	118.1	133.1	153.2
ROAA (%)	3.7%	4.7%	-0.3%	1.7%	2.4%	2.5%
ROAE (%)	9.3%	13.6%	-1.2%	8.1%	13.2%	15.8%
P/E (x)	65.8	46.2	-393.8	55.4	28.6	20.7
P/ABV (x)	6.1	4.8	4.9	4.2	3.8	3.3
P/PPOP (x)	62.9	27.8	27.1	22.7	14.8	10.9
Dividend yield (%)	0.4%	0.4%	0.0%	0.0%	0.0%	0.0%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	13.3%	14.8%	13.4%	13.2%	13.4%	13.6%
Cost of Funds (%)	6.7%	7.3%	7.4%	7.3%	7.1%	7.1%
Core Spread (%)	6.7%	7.5%	6.0%	6.0%	6.3%	6.4%
NIM (%)	8.3%	9.5%	8.0%	7.4%	7.4%	7.4%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	5.8%	3.9%	4.2%	4.3%	3.9%	3.8%
Cost-income ratio (%)	56.8%	36.8%	47.2%	51.1%	46.4%	45.3%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	42.6%	44.8%	48.3%	43.1%	35.6%	33.6%
AUM growth (%)	37.2%	54.9%	42.5%	43.6%	35.2%	33.5%
Borrowing growth (%)	65.3%	35.6%	71.6%	49.8%	40.7%	36.8%
Debt/Equity (x)	1.7	1.9	3.2	3.9	4.8	5.6
Equity/Assets (%)	35.6%	33.8%	23.2%	19.9%	16.8%	14.7%
Equity/Loans (%)	42.2%	36.8%	24.8%	21.3%	18.0%	15.7%
Total Capital Adequacy Ratio (CAR) (%)	38.9%	33.8%	22.9%	20.1%	17.7%	16.1%
Tier I CAR (%)	37.7%	32.3%	21.7%	19.3%	17.0%	15.6%
<b>ASSET QUALITY</b>						
GS III (INR mn)	2,251	2,685	6,187	9,567	13,012	18,183
NS III (INR mn)	1,211	1,359	2,817	4,621	6,610	9,986
Slippages (%)	1.3%	3.5%	2.8%	2.3%	2.2%	2.2%
GS III (%)	1.5%	1.2%	1.8%	2.0%	2.0%	2.1%
NS III (%)	0.8%	0.6%	0.9%	1.0%	1.0%	1.2%
Coverage Ratio (%)	46.2%	49.4%	54.5%	51.7%	49.2%	45.1%
Provision/AUM (%)	-1.0%	0.4%	5.2%	1.9%	1.4%	1.4%
Provision/Gross advances (%)	-1.0%	0.4%	5.5%	2.0%	1.5%	1.4%
<b>(% of average assets)</b>						
Interest earned	11.8%	13.8%	13.1%	12.9%	13.0%	13.2%
Interest expended	3.9%	4.5%	5.1%	5.5%	5.7%	5.8%
Net interest income	7.9%	9.3%	8.0%	7.4%	7.4%	7.3%
Non-interest income	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%
Operating expenses	5.2%	3.8%	4.3%	4.4%	4.0%	3.9%
Pre-provisioning profit	4.0%	6.6%	4.8%	4.2%	4.6%	4.7%
Non-tax provisions	-0.9%	0.3%	5.3%	1.9%	1.4%	1.4%
Others	0.1%	5.8%	0.0%	0.0%	0.0%	0.0%
Provision for tax	1.2%	2.3%	-0.1%	0.6%	0.8%	0.8%
ROAA	3.8%	9.8%	-0.3%	1.7%	2.4%	2.5%
Average assets/Average equity (x)	2.5	2.9	3.6	4.7	5.5	6.4
ROAE	9.6%	28.3%	-1.2%	8.1%	13.2%	15.8%

Source: Company, HSIE Research

# Aditya Birla Capital

## NBFC at scale; banking on insurance turnaround

Aditya Birla Capital (ABCAP) has made gradual strides in scaling up the NBFC business with healthy growth and profitability, and improvements at the margin in other subsidiaries. With a diversified portfolio and large share of retail/SME segments, ABCAP aims to double its balance sheet in three years, with target RoA of ~2.1%-2.5%. However, the subsidiaries remain either sub-scale (ABHI) or sub-optimal on profitability (ABHFL, ABSLI). Our analysis suggests ABSLI is the closest to getting its scale profitability act right in terms of fixing its product mix to enhance VNB margins. We believe that ABSLAMC continues to struggle with consistent equity market share erosion on the back of sub-par performance and a distribution handicap. ABCAP's initiatives to leverage the group ecosystem to drive growth across subsidiaries is gradually gaining traction and remains a key monitorable. We initiate coverage on ABCAP with an ADD and a SOTP-based target price of INR 315 (standalone entity at implied 1.9x Sep-27 ABVPS).

- NBFC—a steady franchise:** ABCAP has scaled up well with a diversified portfolio and an AUM of INR 1.3trn on the back of choosing the right partnerships and expanding distribution network. Loan growth in unsecured segments has moderated during FY25. However, ABCAP is likely to deliver ~20-22% AUM CAGR in the medium term on the back of secured loans (LAP, term loans, etc.) and ramp-up in distribution for direct sourcing of unsecured loans.
- HFC subsidiary – fast & furious mode; operating leverage yet to play out:** ABHFL has grown at ~50% CAGR during FY23-FY25 driven by across segments. However, this has translated into subdued NIMs (3.7%), elevated opex (2.6%) and subsequently muted profitability (RoE of ~11-12%) in the near term. While NIMs are likely to remain under pressure in the near-term, operating leverage with the sweating of investments in Tech and distribution during FY24-FY25 are likely to improve subdued return metrics.
- Non-lending businesses improving at the margin:** ABCAP's non-lending businesses' performance - ABSLI and ABHI are gradually improving at the margin. ABSLI's efforts at balancing the product mix (increasing share of ULIP and reducing dependence on non-par products etc.) is likely to provide cushion from regulatory headwinds. ABHI broke even at PBT level in FY25, however its sustainability amidst high growth and high share of group business (~50%) is to be seen.
- Simplified structure, further value unlocking awaited:** ABCAP's reverse merger with ABFL has addressed the RBI's listing requirement for ABFL (upper layer NBFC). This has led to release of additional capital (~170bps) for the NBFC business. With the listing of the NBFC and AMC business, ABSLI is likely to be the next avenue of value unlocking from the franchise as the life insurance subsidiary is reaching an inflexion point.

### Financial summary (standalone)

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	39.5	55.8	60.5	72.1	85.3	100.7
PPOP	29.9	43.8	53.7	61.1	71.4	82.9
PAT	15.5	22.6	29.6	32.5	39.0	45.5
EPS (INR)	23.5	32.8	11.3	12.5	14.9	17.5
ROAE (%)	14.6%	17.0%	14.6%	12.2%	12.9%	13.3%
ROAA (%)	2.2%	2.3%	2.4%	2.1%	2.2%	2.1%
ABVPS (INR)	152.2	201.9	65.4	76.1	90.3	106.2
P/ABV (x)	1.9	1.4	2.5	2.1	1.8	1.5
P/E (x)	NA	NA	16.3	13.8	11.5	9.8

Source: Company, HSIE Research | Note: Financials for erstwhile ABFL till FY24

## ADD

CMP (as on 29 Sep 2025)	INR 290
Target Price	INR 315
NIFTY	24,635

### KEY STOCK DATA

Bloomberg code	ABCAP IN
No. of Shares (mn)	2,612
MCap (INR bn) / (\$ mn)	757/8,531
6m avg traded value (INR mn)	1,493
52 Week high / low	INR 299/149

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.6	56.6	22.7
Relative (%)	12.0	52.8	28.7

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	68.9	68.8
FIs & Local MFs	9.8	12.1
FPIs	8.8	7.2
Public & Others	12.6	12.0
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

### Deepak Shinde

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+91-22-6171-7323

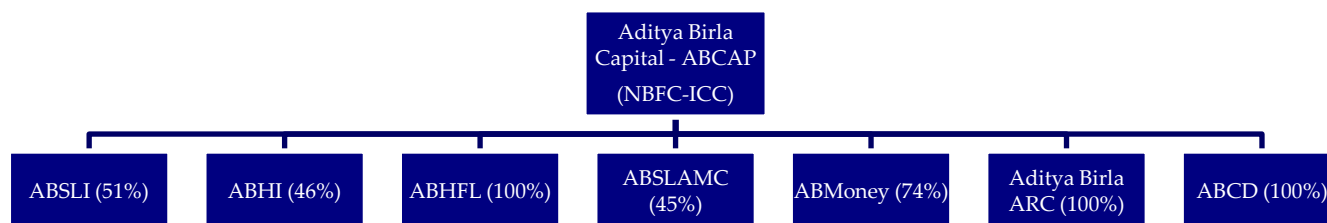
### Krishnan ASV

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## Restructuring done; room for further value unlocking

ABCAP's amalgamation with Aditya Birla Finance (ABFL), the flagship NBFC, and subsequent conversion from NBFC-CIC to NBFC-ICC has helped in complying with RBI's requirement for mandatory listing of upper-layer NBFCs (ABFL). This has also aided in further simplification of the group structure, with reduction in number of entities and holding company discount for the NBFC entity. Further, this has also led to release of excess capital with the holding company.

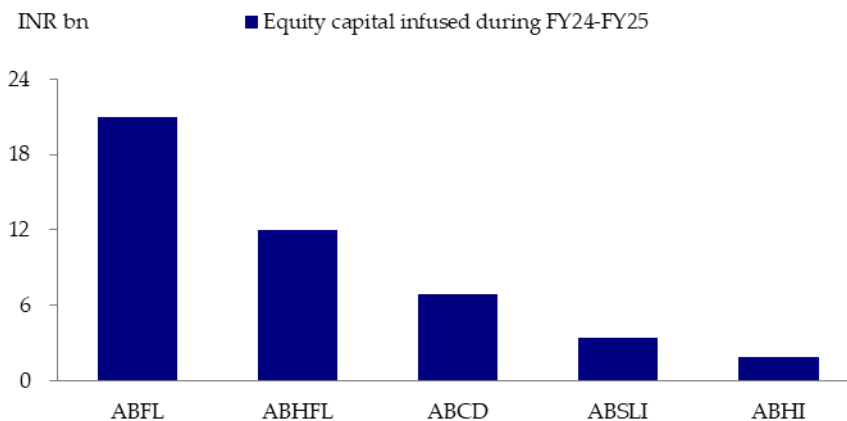
### Exhibit 87: New corporate structure of ABCAP post-amalgamation



Source: Company, HSIE Research | Note: Numbers in bracket denote percentage stake of ABCAP in the entity

- Capital allocation skewed towards lending businesses:** ABCAP's capital allocation in FY24 and FY25 has been heavily skewed towards the lending businesses. ABFL (erstwhile) and ABHFL have been growing at a rapid pace (25%/50% AUM CAGR during FY23-FY25), driving high capital requirements. Non-lending businesses, particularly ABSLI and ABHI, had modest infusion of equity capital, despite strong growth in premiums (17%/35% CAGR during the same period).

### Exhibit 88: Lending businesses received disproportionate share of equity capital during FY24-FY25



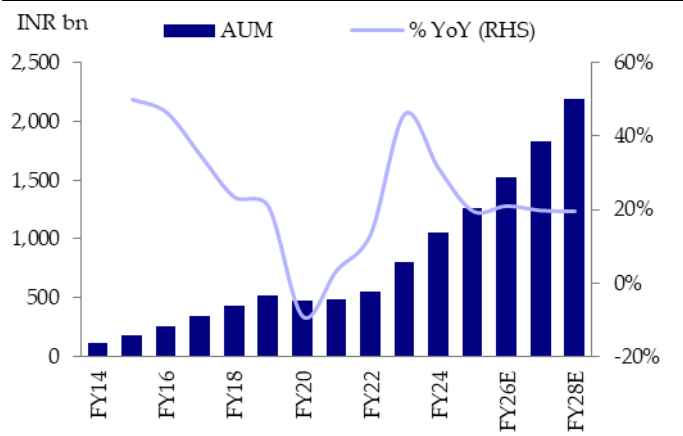
Source: Company, HSIE Research

- Value-unlocking potential among subsidiaries:** Aditya Birla Group has taken several steps over the years to unlock value from its financial services businesses, including restructuring and listing of ABCAP, spin-off of ABSLAMC, sale of insurance broking entity, equity infusion in the health insurance business by ADIA, and amalgamation of ABCAP and ABFL. With the reverse merger of the NBFC business, we believe the next round of value unlocking could be in the life insurance business (ABSLI), which is now reaching an inflection point.

### NBFC business – gaining scale

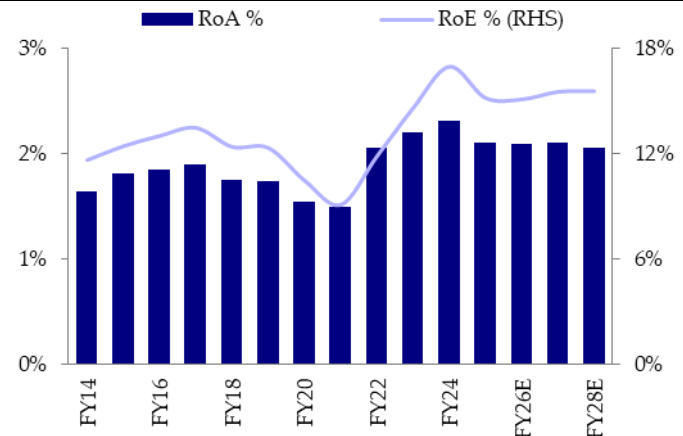
- **Flagship NBFC – delivering value:** ABCAP has delivered strong operating performance following the pandemic, with ~27% AUM CAGR over FY22-FY25 and average RoE of ~14.5%. The retailization strategy, on the back of partnerships (FinTech, DSAs, etc.) and expanding distribution network, has aided in driving growth as well as reflating NIMs and, subsequently, profitability.

**Exhibit 89: AUM growth expected to remain steady over FY26-FY28E**



Source: Company, HSIE Research

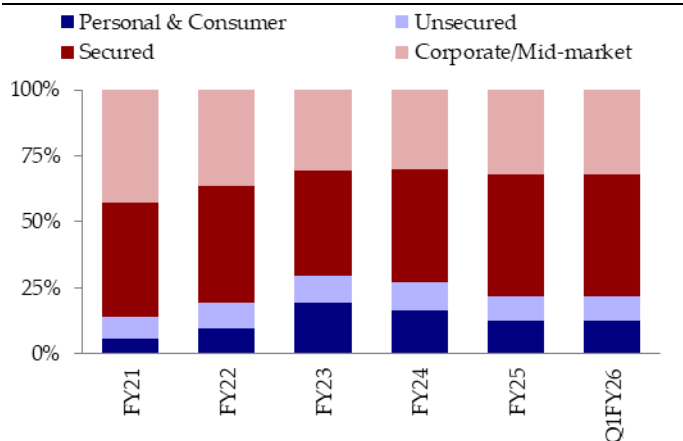
**Exhibit 90: Profitability likely to sustain at a new normal**



Source: Company, HSIE Research | Note: RoA/RoE for ABFL till FY24; RoA/RoE adjusted for subsidiaries

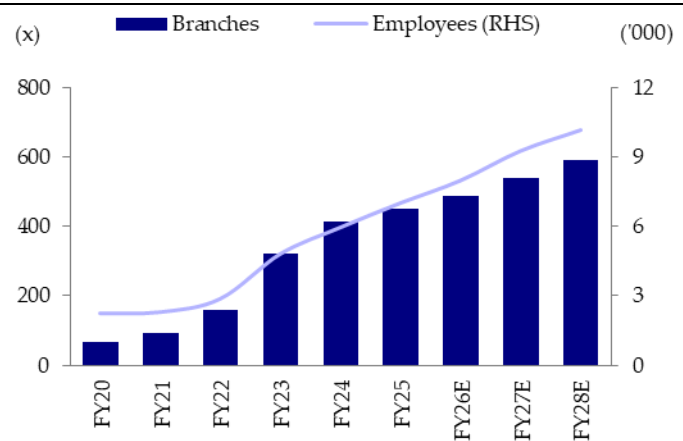
- **Distribution-light approach in the past; gradual investments underway:** ABCAP’s retailization strategy (retail + SME) had largely hinged around leveraging of partnerships (FinTech) and channel partners (DSAs etc.) to drive loan growth. With scale-down on Fintech partnerships post the RBI’s circular on risk weight for unsecured loans, ABCAP is now pivoting toward a higher share of direct sourcing (branches, employees, etc.) for retail and SME segments.

**Exhibit 91: ABCAP’s AUM mix pivoting towards secured loans from FY24**



Source: Company, HSIE Research

**Exhibit 92: Steady increase in distribution network**



Source: Company, HSIE Research

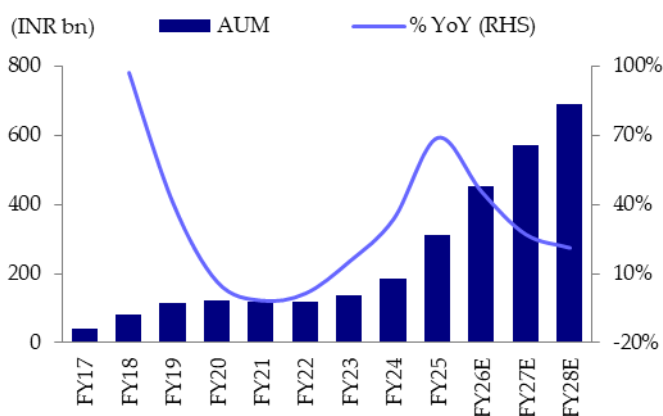
- **Near-term headwinds withering away, moving towards steady-state RoE:** ABCAP’s earnings profile had moderated in the last few quarters, with the scaling down of the unsecured portfolio – personal and consumer loans and business loans. The same is reflected in a drop in yields, partly aided by opex and credit costs. With the delinquency levels nearly peaking out, ABCAP has revived disbursements in these segments. Further, the incremental focus is likely towards secured loans such as LAP, term loans etc. to drive loan growth.

## ABHFL | High on growth, investments; operating leverage to play out

- Fast and furious mode of growth; translating into sub-par profitability:** ABHFL, the wholly-owned subsidiary and HFC entity of ABCAP, has been propelled by a furious pace of growth in the past four quarters (AUM up by +69% YoY; disbursements up by +109% YoY in FY25) amidst muted loan growth witnessed by peers. This has been largely driven by the shift away from building an affordable loans portfolio and scaling up of the LAP and construction finance portfolio. ABHFL has ramped up its distribution network, along with aggressive loans pricing (as per our channel checks) and expansion of channel partners, to drive growth.

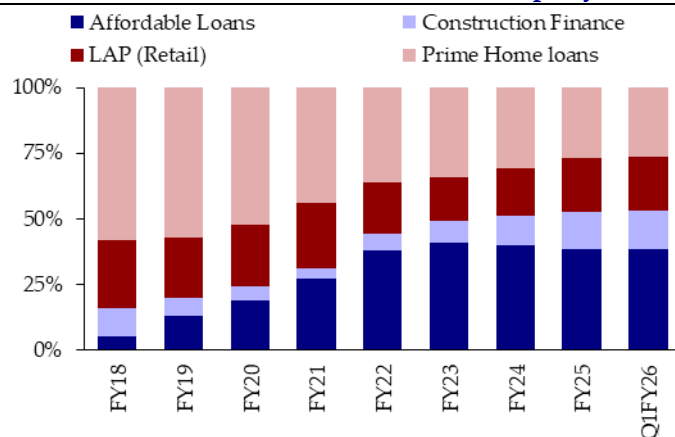
This has taken a toll on opex intensity and pressure on NIMs, with increasing contribution from prime loans and construction finance. Subsequently, the profitability has taken a hit. Going ahead, we expect the pace of growth to gradually moderate, along with opex intensity, leading to reflation in profitability, although the margin pressure is likely to sustain amidst the ongoing rate cut environment.

**Exhibit 93: Astronomical AUM growth witnessed in the recent period**



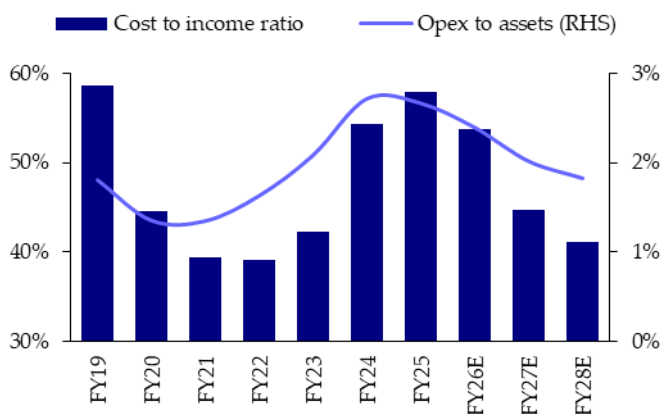
Source: Company, HSIE Research

**Exhibit 94: Steady share of affordable loans in AUM, while construction finance has increased rapidly**



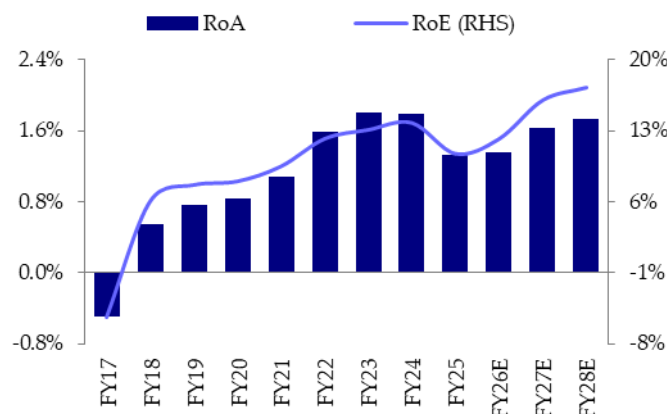
Source: Company, HSIE Research

**Exhibit 95: Opex ratios likely to improve during FY27-FY28E**



Source: Company, HSIE Research

**Exhibit 96: RoAs likely to remain under pressure**



Source: Company, HSIE Research

## ABHFL | Peer comparison

### Exhibit 97: FY25 dashboard – peer comparison

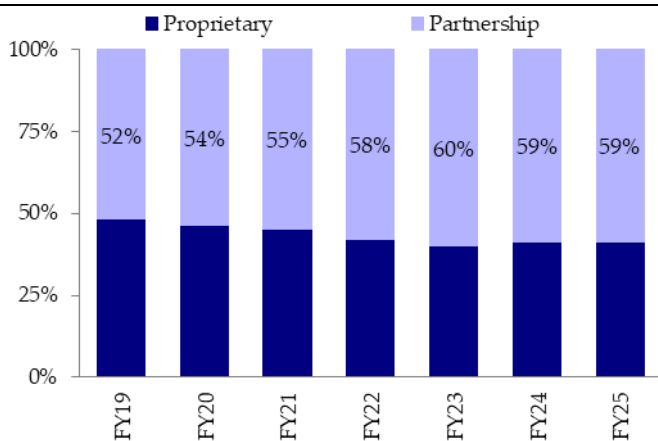
FY25	Units	ABHFL	PNBHOUSING	BHFL	HOMEFIRST	AAVAS
AUM	INR bn	311	804	1,147	127	204
Disbursements	INR bn	176	220	508	48	61
<b>Growth (% YoY)</b>						
AUM	%	69%	13%	26%	31%	18%
Disbursements	%	109%	25%	14%	21%	10%
<b>Margins %</b>						
Yield on advances	%	10.2%	9.8%	9.8%	13.8%	12.3%
Cost of funds	%	7.3%	7.8%	7.9%	8.5%	7.7%
Spread	%	2.9%	2.0%	1.9%	5.3%	4.6%
NIM	%	3.7%	3.5%	3.3%	5.7%	5.9%
Δ NIM	bps	-61	-7	-17	-55	-32
<b>% Borrowings</b>						
Banks	%	42%	37%	41%	72%	68%
NCD + CPs	%	44%	14%	48%	3%	12%
NHB	%	12%	14%	10%	20%	19%
Off balance sheet	%	6%	6%	13%	16%	20%
<b>Cost efficiency</b>						
Cost-to-income ratio	%	58%	26%	21%	36%	44%
Opex-to-AUM ratio	%	2.6%	1.1%	0.7%	2.6%	3.1%
Other opex/branch	INR mn	15.1	11.9	12.2	6.9	5.6
Employees/branch	x	22.7	6.0	9.2	10.5	18.2
<b>Portfolio mix</b>						
Home loans	%	69%	72%	56%	84%	68%
ATS - Home loans	INR mn	2.9	2.9	4.5	1.2	1.2
<b>Productivity</b>						
AUM/branch	INR mn	2,003	2,451	5,322	883	535
Disbursals/branch (/month)	INR mn	94.9	55.8	196.6	27.8	13.3
Disbursals/employee (/month)	INR mn	4.3	8.8	19.5	2.8	0.8
Repayment rate	%	27%	18%	30%	18%	17%
<b>Asset Quality</b>						
GS III	%	0.7%	1.1%	0.3%	1.7%	1.2%
NS III	%	0.3%	0.7%	0.1%	1.3%	0.9%
GS II	%	0.7%	2.4%	0.3%	1.3%	1.5%
PCR - Stage III	%	55%	36%	60%	25%	27%
Credit costs	%	0.2%	-0.2%	0.1%	0.3%	0.2%
<b>(% of average assets)</b>						
Interest earned	%	10.0%	9.4%	9.7%	12.5%	11.5%
Interest expended	%	6.3%	5.9%	6.5%	6.6%	5.7%
Net interest income	%	3.7%	3.5%	3.3%	5.9%	5.7%
Non-interest income	%	0.9%	0.5%	0.6%	1.7%	1.9%
Operating expenses	%	2.7%	1.0%	0.8%	2.7%	3.4%
Pre-provisioning profit	%	1.9%	3.0%	3.1%	4.9%	4.3%
Provisions	%	0.2%	-0.2%	0.1%	0.3%	0.2%
PBT	%	1.7%	3.2%	3.0%	4.6%	4.2%
ROAA	%	1.3%	2.5%	2.3%	3.5%	3.3%
Assets/Equity (x)	x	8.1	4.9	5.7	4.7	4.3
RoAE	%	10.7%	12.2%	13.4%	16.5%	14.1%

Source: Company, HSIE Research

## Non-lending businesses improving at the margin

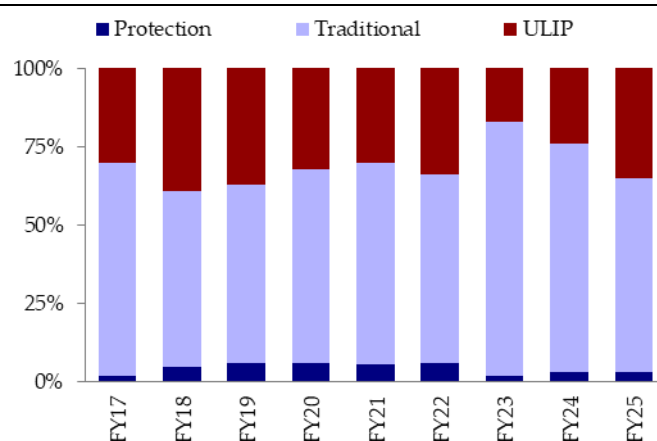
- ABSLI—improving at the margin:** ABSLI, the life insurance subsidiary, has been gradually improving at the margin, given its focus on balancing the product mix, the increasing share of ULIPs, and reducing dependence on non-par guaranteed products. The balanced mix is likely to cushion ABSLI against regulatory headwinds such as surrender value norms, which have impacted ABSLI significantly. The distribution remains skewed towards partnerships, particularly the Banca channel, with a relatively lower share of the proprietary channel.

**Exhibit 98: Distribution mix for ABSLI**



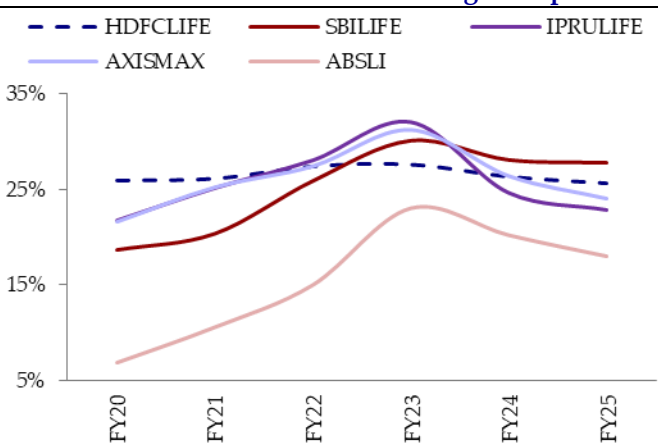
Source: Company, HSIE Research

**Exhibit 99: Product mix for ABSLI**



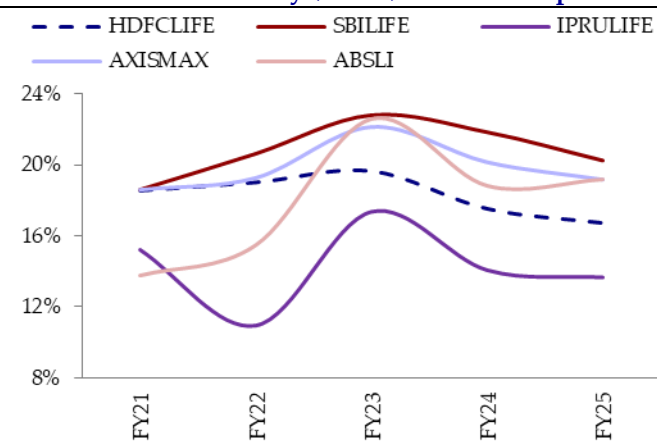
Source: Company, HSIE Research

**Exhibit 100: ABSLI has low VNB margin vs. peers**



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is the parent entity of HDFC Life Insurance Company

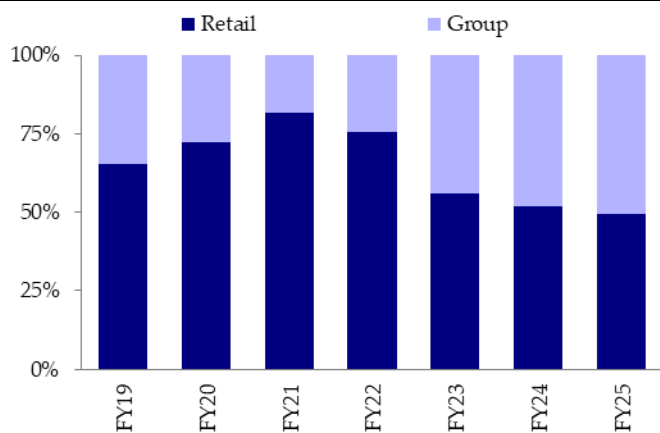
**Exhibit 101: Profitability (RoEV) in line with peers**



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is the parent entity of HDFC Life Insurance Company

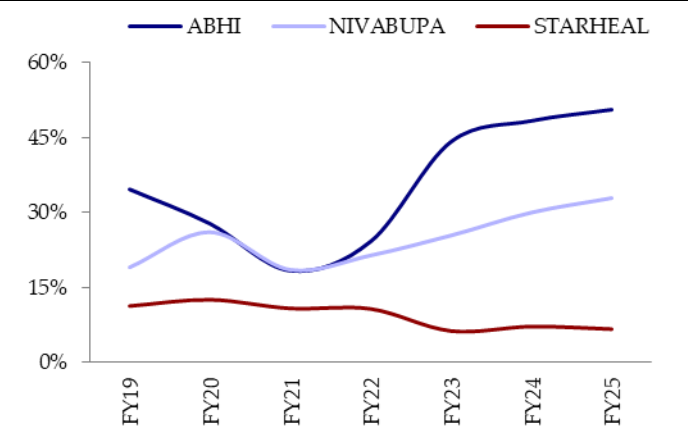
- ABHI—breakeven on the horizon:** ABHI, the health insurance subsidiary, is gradually looking to turn the corner with a reduction in loss ratios to ~105% in FY25, although it is well behind management’s earlier guidance. With strong growth focus, along with high share of group business vs. peers, ABHI had continued to reel under losses in the past. Distribution remains skewed towards the Banca channel with addition of more partners such as Axis Bank and IDFC First Bank. However, the profitability is likely to remain subdued compared to listed peers such as STARHEAL and NIVABUPA over FY26-FY27E.

**Exhibit 102: ABHI’s GWP mix— increasing share of group business**



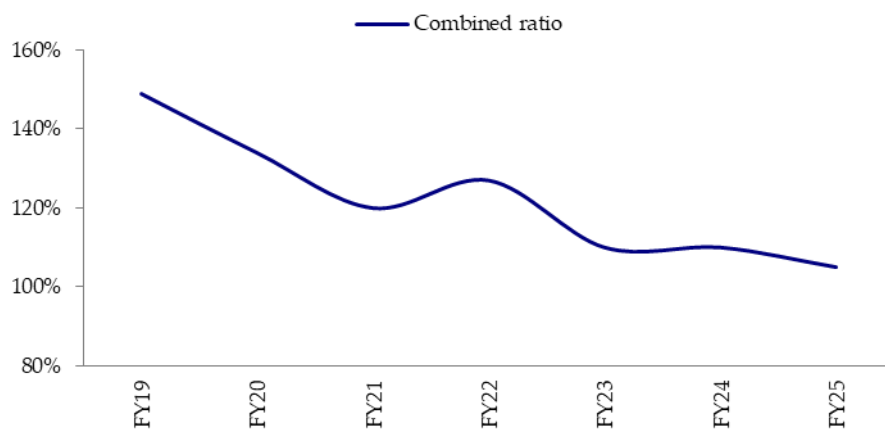
Source: Company, HSIE Research

**Exhibit 103: Share of group business in GWP significantly high for ABSLI vs. peers**



Source: Company, HSIE Research

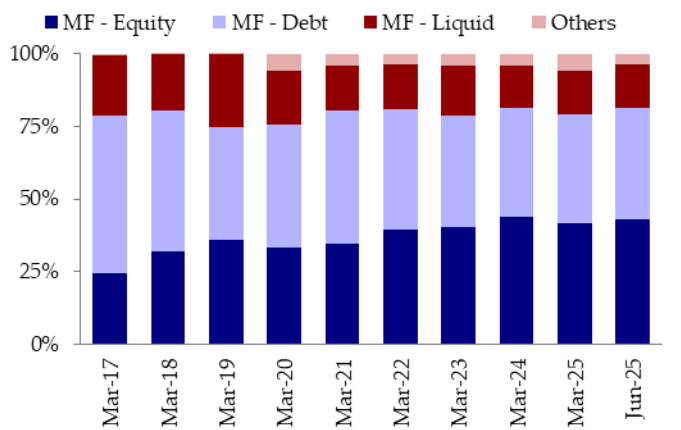
**Exhibit 104: ABHI’s combined ratio gradually improving**



Source: Company, HSIE Research

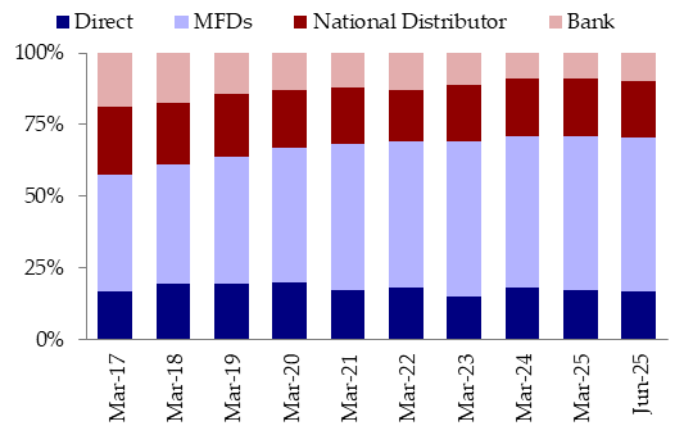
- ABSLAMC – performance handicap adds to distribution constraint:** ABSLAMC has been making incremental efforts to improve its overall performance. ABSLAMC has been losing equity MF market share steadily over the last few years due to weak inflows and subdued performance of its schemes. ABSLAMC’s reliance on distributors (MFDs and national distributors) in the absence of a parent Banca partner, further frustrates any efforts to gain equity MF market share.

**Exhibit 105: QAAUM mix of ABSLAMC – gradually increasing share of Equity AUM**



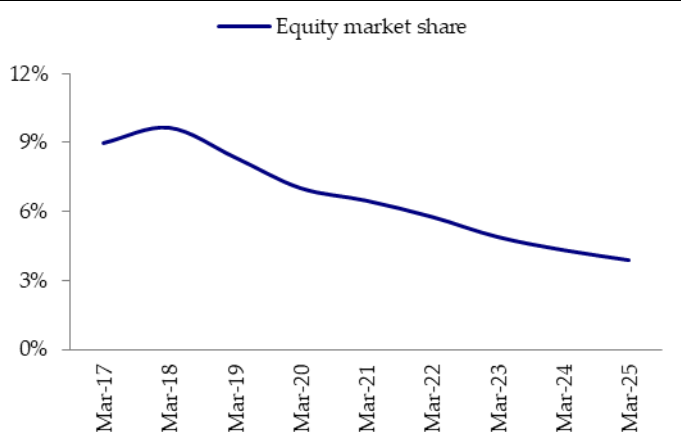
Source: Company, HSIE Research

**Exhibit 106: Distribution mix for Equity AUM – increasing share of MFDs**



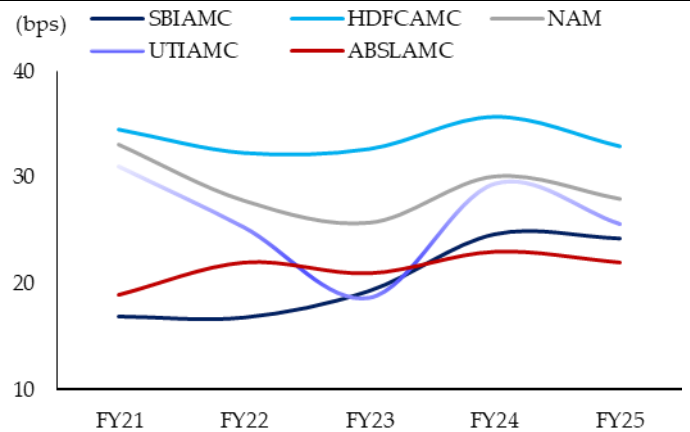
Source: Company, HSIE Research

**Exhibit 107: ABSLAMC’s equity AUM market share steadily declining**



Source: AMFI, Company, HSIE Research

**Exhibit 108: ABSLAMC’s PAT as % of AUM**



Source: Company, HSIE Research | Note: HDFC securities is a subsidiary of HDFC Bank, which is the parent entity of HDFC Asset Management Company

## Subsidiaries in WIP mode; room for gradual value unlocking

- Management's efforts at value unlocking and driving group synergies:** ABCAP is making gradual strides towards improving profitability and unlocking the value from its subsidiaries through various new initiatives such as driving group synergies etc. However, these subsidiaries are yet to demonstrate strong right-to-win in their segments with profitable and sustainable market share gains.

We initiate coverage on ABCAP with an ADD and SOTP-based TP of INR 315 (standalone entity at implied 1.9x Sep-27 ABVPS). Our ascribed valuation multiples for the subsidiaries are at ~10-40% discount to their listed peers due to subdued relative performance.

### Exhibit 109: SoTP-based valuation of Aditya Birla Capital

SoTP valuation	Value (INR bn)	% Stake	Total (INR bn)	per share (INR)	% of TP	Valuation Methodology
ABCAP (standalone, Sep-27 ABVPS)	484	100%	484	185	59%	RI-based
ABHFL	95	100%	95	36	12%	RI-based (implying 1.6x Sep-27 ABVPS)
ABSLI	315	51%	161	62	20%	1.6x Sep-27 IEV
ABSLAMC	234	45%	105	40	13%	18x Sep-27 EPS
ABHI	79	46%	36	14	4%	1x Sep-27 GWP
<b>Total value of subsidiaries</b>			<b>397</b>	<b>152</b>	<b>48%</b>	
Less: Holding company discount			60	23	7%	20% Hold co discount for non-wholly owned subsidiaries
<b>Total SoTP valuation</b>			<b>820</b>	<b>315</b>	<b>100%</b>	

Source: Company, HSIE Research

## Financials (Standalone)

### Income statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	78,060	120,445	140,294	165,746	195,903	234,334
Interest expended	38,572	64,682	79,814	93,648	110,634	133,593
Net interest income	39,489	55,763	60,480	72,098	85,269	100,741
Other income	4,616	7,603	15,237	15,376	18,366	21,044
Total income	44,105	63,365	75,717	87,474	103,635	121,785
Operating expenditure	14,168	19,567	21,973	26,387	32,252	38,919
Pre-provisioning operating profit	29,937	43,798	53,744	61,087	71,383	82,866
Non-tax provisions	9,035	13,525	14,476	17,626	19,285	22,023
Profit before tax	20,902	30,273	39,268	43,461	52,098	60,843
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	0	0	0	0	0	0
Tax expenditure	5,364	7,662	9,696	10,952	13,129	15,332
Profit attributable to non-controlling interests	0	0	0	0	0	0
Profit after tax	15,538	22,611	29,572	32,509	38,969	45,511

Source: Company, HSIE Research | Note: Financials for erstwhile ABFL till FY24

### Balance sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	6,621	6,894	26,070	26,070	26,070	26,070
Reserves and surplus	107,593	145,385	222,994	254,199	291,604	335,290
Net worth	114,262	152,435	251,926	283,131	320,536	364,222
Borrowings	697,580	922,922	1,111,357	1,318,938	1,596,110	1,925,742
Other liabilities and provisions	29,386	36,761	29,706	36,699	43,871	52,464
Total equity and liabilities	841,228	1,112,118	1,392,988	1,638,767	1,960,517	2,342,428
Cash and cash equivalents	3,876	1,913	23,768	21,026	44,493	69,423
Investments	37,027	58,624	128,294	129,614	137,028	145,549
Advances	788,495	1,039,053	1,223,445	1,467,946	1,754,833	2,098,552
Fixed assets	3,101	4,205	4,527	5,432	6,518	7,822
Other assets	8,729	8,323	12,965	14,749	17,645	21,082
Total assets	841,228	1,112,118	1,392,999	1,638,767	1,960,517	2,342,428

Source: Company, HSIE Research | Note: Financials for erstwhile ABFL till FY24

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	23.5	32.8	11.3	12.5	14.9	17.5
Earnings Growth (%)	40.2%	45.5%	30.8%	9.9%	19.9%	16.8%
BVPS (ex reval.)	173	221	71	83	98	114
Adj. BVPS (ex reval. & 100% cover)	152	202	65	76	90	106
ROAA (%)	2.2%	2.3%	2.4%	2.1%	2.2%	2.1%
ROAE (%)	14.6%	17.0%	14.6%	12.2%	12.9%	13.3%
P/E (x)	NA	NA	16.3	13.8	11.5	9.8
P/ABV (x)	1.9	1.4	2.5	2.1	1.8	1.5
P/PPOP (x)	6.4	4.6	14.1	12.4	10.6	9.1
Dividend yield (%)	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	11.3%	12.6%	11.9%	11.8%	11.7%	11.7%
Cost of Funds (%)	6.7%	8.0%	7.8%	7.7%	7.6%	7.6%
Core Spread (%)	4.6%	4.6%	4.0%	4.1%	4.1%	4.1%
NIM (%)	5.6%	5.7%	4.8%	4.8%	4.7%	4.7%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	2.1%	2.1%	1.9%	1.9%	1.9%	1.9%
Cost-income ratio (%)	32.1%	30.9%	29.0%	30.2%	31.1%	32.0%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	47.1%	31.8%	17.7%	20.0%	19.5%	19.6%
AUM growth (%)	46.0%	31.1%	19.6%	21.0%	19.8%	19.5%
Borrowing growth (%)	51.7%	32.3%	20.4%	18.7%	21.0%	20.7%
Debt/Equity (x)	6.1	6.1	4.4	4.7	5.0	5.3
Equity/Assets (%)	13.6%	13.7%	18.1%	17.3%	16.3%	15.5%
Equity/Loans (%)	14.5%	14.7%	20.6%	19.3%	18.3%	17.4%
Total Capital Adequacy Ratio (CAR) (%)	16.4%	16.2%	18.2%	16.3%	15.6%	14.9%
Tier I CAR (%)	13.9%	14.1%	15.9%	14.5%	14.0%	13.6%
<b>ASSET QUALITY</b>						
GS III (INR mn)	25,072	26,492	27,775	34,523	35,968	40,680
NS III (INR mn)	13,493	13,267	15,281	18,464	19,030	21,127
Slippages (%)	1.7%	1.2%	1.5%	1.9%	1.6%	1.6%
GS III (%)	3.1%	2.5%	2.2%	2.3%	2.0%	1.9%
NS III (%)	1.7%	1.3%	1.2%	1.3%	1.1%	1.0%
Coverage Ratio (%)	46.2%	49.9%	45.0%	46.5%	47.1%	48.1%
Provision/AUM (%)	1.3%	1.5%	1.2%	1.3%	1.1%	1.1%
Provision/Gross advances (%)	1.3%	1.5%	1.3%	1.3%	1.2%	1.1%
<b>(% of average assets)</b>						
Interest earned	11.1%	12.3%	11.2%	10.9%	10.9%	10.9%
Interest expended	5.5%	6.6%	6.4%	6.2%	6.1%	6.2%
Net interest income	5.6%	5.7%	4.8%	4.8%	4.7%	4.7%
Non-interest income	0.7%	0.8%	1.2%	1.0%	1.0%	1.0%
Operating expenses	2.0%	2.0%	1.8%	1.7%	1.8%	1.8%
Pre-provisioning profit	4.2%	4.5%	4.3%	4.0%	4.0%	3.9%
Non-tax provisions	1.3%	1.4%	1.2%	1.2%	1.1%	1.0%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provision for tax	0.8%	0.8%	0.8%	0.7%	0.7%	0.7%
<b>ROAA</b>	<b>2.2%</b>	<b>2.3%</b>	<b>2.4%</b>	<b>2.1%</b>	<b>2.2%</b>	<b>2.1%</b>
Average assets/Average equity (x)	6.6	7.3	6.2	5.7	6.0	6.3
<b>ROAE</b>	<b>14.6%</b>	<b>17.0%</b>	<b>14.6%</b>	<b>12.2%</b>	<b>12.9%</b>	<b>13.3%</b>

Source: Company, HSIE Research | Note: Financials for erstwhile ABFL till FY24

# Mahindra & Mahindra Financial Services

## Searching for the right product mix

Mahindra & Mahindra Financial Services's (MMFS) efforts to become a robust franchise (~2.5% RoA) continue to remain a WIP. With mixed outcomes from FY25 roadmap, MMFS has embarked upon key changes under the new leadership such as centralization of certain processes (to prevent frauds), verticalization of collections, and hybrid branch structure (branch manager, along with function verticals), along with product diversification. However, product diversification is likely to remain a protracted journey, leaving the portfolio exposed to vagaries of vehicle finance cycles. While the efforts to reflate earnings such as fee income remain commendable, the path to strong and steady profitability is likely a few years out. Maintain ADD with a revised SoTP-based TP of INR 300 (standalone entity at implied 1.5x Sep-27 ABVPS).

- **FY25 roadmap a mixed bag; onto a new journey:** MMFS's journey toward 2.5% RoA during FY22-FY25 has had mixed outcomes with positive outcomes on growth and asset quality while margins, product diversification and profitability were a miss. Under the new leadership, MMFS has now embarked on another journey to drive steady sustainable performance. Product diversification (mortgages, SME etc.), fee income avenues such as insurance distribution, credit cards, etc., along with tech transformation are likely to provide some fillip to portfolio stability and overall profitability.
- **Growth revival in the near-term; product diversification to remain protracted:** With ~90% of portfolio as vehicle finance and a protracted pace of product diversification, MMFS' loan growth is likely to be hinged to auto cycle. M&M's share of MMFS's AUM has remained steady at ~44-45% for last eight years, contributing significantly to overall loan growth. With expected uptick in auto sales volumes, we expect the loan growth to witness an uptick during FY26-FY27E.
- **Risk-based pricing remains a key monitorable:** MMFS's risk-adjusted yields have come off in the last few years, with declining core spreads despite higher credit costs. While shift toward prime segment has impacted blended yields, the risk adjusted yields on the remaining portfolio seem inferior compared to peers, which remains a key monitorable.
- **Subsidiaries yet to scale up:** MMFS's subsidiaries—HFC and AMC entity—are yet to scale up to contribute meaningfully to overall value of MMFS. HFC's profitability and growth has remained muted post-pandemic, as the portfolio is pivoting towards affordable and prime home loans from rural home loans. AMC business is still in nascent stages (AUM of INR 271bn) and yet to break even.
- **Need for earnings stability; maintain ADD:** MMFS's operating performance continues to remain volatile, an issue the management is seeking to address, going ahead. While the recent rights issue of ~INR 30bn has augmented capital, the limited visibility to 2.5% RoA, along with volatile credit costs remain key impediments for meaningful re-rating.

### Financial summary (Standalone)

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	61.1	66.8	74.3	88.5	102.2	117.5
PPOP	37.5	41.8	47.7	59.0	68.1	78.1
PAT	20.4	17.6	23.5	27.9	33.5	38.0
EPS (INR)	16.5	14.3	19.0	20.1	24.1	27.3
ROAE (%)	12.5%	10.0%	12.4%	12.5%	12.9%	13.4%
ROAA (%)	2.4%	1.7%	1.9%	1.9%	2.0%	2.0%
ABVPS (INR)	115.9	124.6	130.9	150.3	163.5	178.9
P/ABV (x)	2.0	1.8	1.7	1.5	1.4	1.3
P/E (x)	13.8	16.0	12.0	11.3	9.4	8.3

Source: Company, HSIE Research

## ADD

CMP (as on 30 Sep 2025)	INR 273
Target Price	INR 300
NIFTY	24,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 280	INR 300
EPS %	FY26E	FY27E
	1.1%	0.5%

### KEY STOCK DATA

Bloomberg code	MMFS IN
No. of Shares (mn)	1,390
MCap (INR bn) / (\$ mn)	379/4,274
6m avg traded value (INR mn)	730
52 Week high / low	INR 332/232

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.1	(0.9)	(15.9)
Relative (%)	4.5	(4.7)	(9.8)

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	52.2	52.5
FIs & Local MFs	31.3	32.3
FPIs	10.7	9.3
Public & Others	5.8	5.8
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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## Hits and misses on FY25 roadmap; changes in the offing

- FY25 roadmap a mixed bag:** MMFS’s FY25 roadmap has had mixed outcomes with positive outcomes on growth and asset quality while margins, product diversification, and profitability were a miss. The primary objective of the FY25 roadmap was largely around portfolio stability, reflecting in lower delinquencies and steady credit costs, strong loan growth, and improved profitability (~2.5% RoA). MMFS had taken several initiatives such as building up of prime customer portfolio in PVs, increased rigor in collections/recoveries, and launch of new products such as personal loans/consumer loans, SME financing, EV leasing, etc. However, the outcomes on most parameters have been subdued due to pressure on NIMs (prime segment), rising cost of funds, and volatile asset quality.

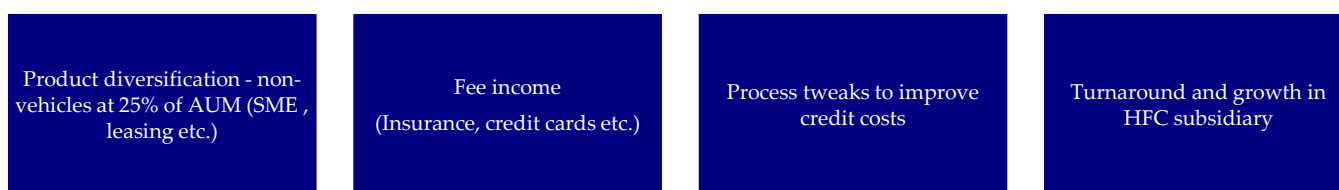
**Exhibit 110: Performance scorecard –FY25 roadmap set in Mar-22**

	FY25 – Target	FY25 – Actuals
GS-III	<6%	3.7%
AUM growth	2x	1.8x
New business contribution	15%	6%
NIM*	7.5%	6.6%
Opex to assets	2.5%	2.7%
RoA	2.5%	1.9%

Source: Company, HSIE Research | Note: \* as per MMFS calculations

- Embarking on a new journey; more changes at play:** MMFS is now embarking on another journey under the new leadership to drive steady sustainable operating performance. Product diversification across mortgages, SME lending, and fee-based avenues such as insurance distribution, credit cards etc., coupled with ongoing tech transformation, is expected to bolster portfolio stability and drive overall profitability over the medium term.

**Exhibit 111: Key focus areas for MMFS going ahead**



Source: Company, HSIE Research

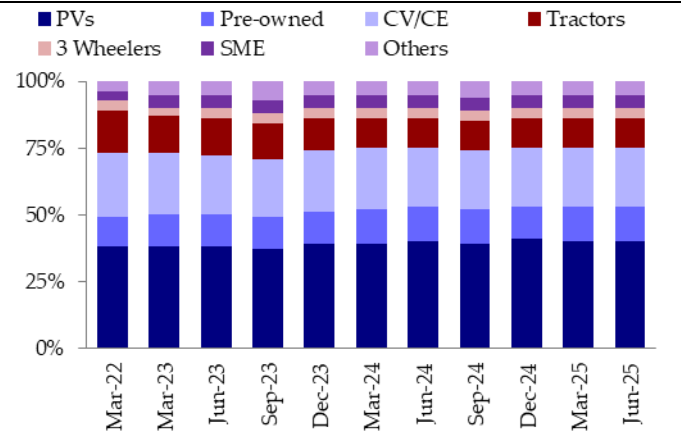
## Growth revival in the near-term; protracted product diversification

- **Growth revival in the near-term driven by industry tailwinds:** With ~90% of loan book as vehicle loans, MMFS's loan growth is hinged on auto cycle (PVs, CVs and tractors). With expected revival in sales growth driven by government stimulus (GST rate cuts, direct tax rate cuts etc.), we expect disbursements growth to witness an uptick in the near-term.

Performance of M&M, which continues to contribute to ~44-45% of MMFS's AUM, remains critical to drive double-digit growth for MMFS.

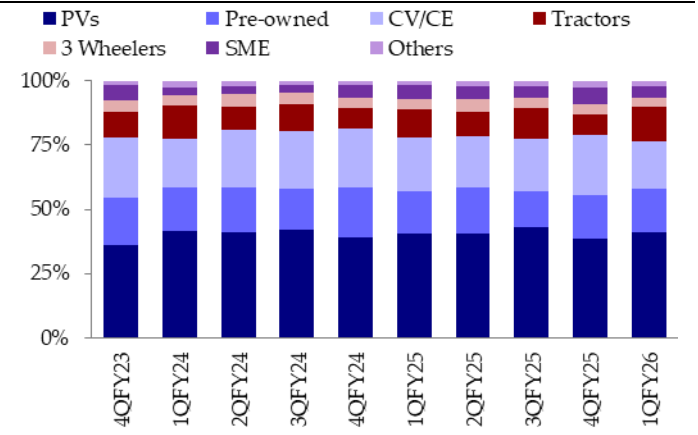
- **Protracted product diversification:** Product diversification remains the key for MMFS to achieve steady asset quality as well as sustainable loan growth. However, the journey so far has been sub-par, with limited success in personal and consumer loans and SME loans.

**Exhibit 112: AUM mix remains heavily skewed towards PVs and CVs**



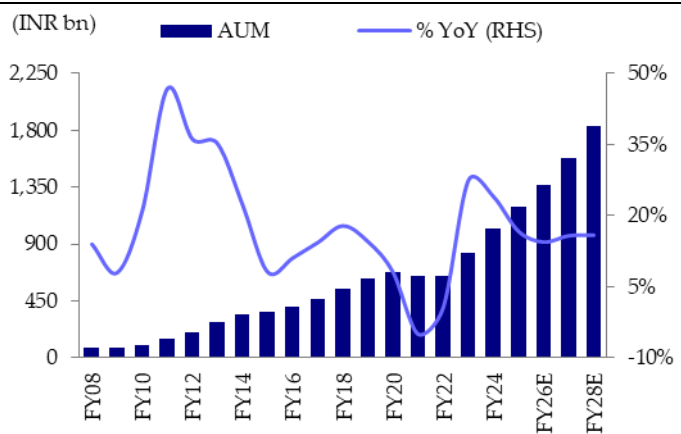
Source: Company, HSIE Research

**Exhibit 113: Disbursements mix**



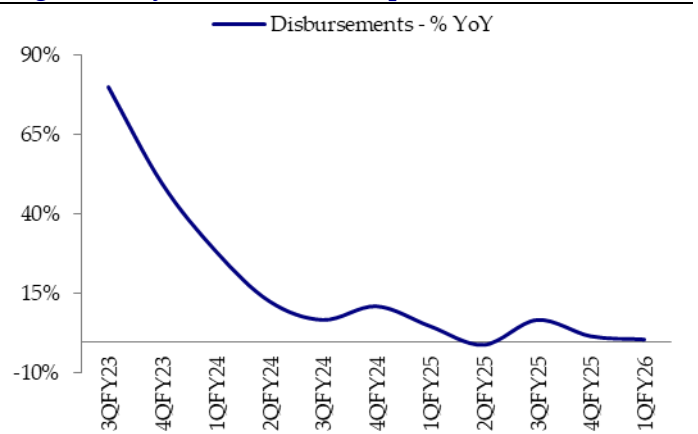
Source: Company, HSIE Research

**Exhibit 114: Expect steady AUM growth during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 115: Disbursements growth has moderated significantly over the last few quarters**

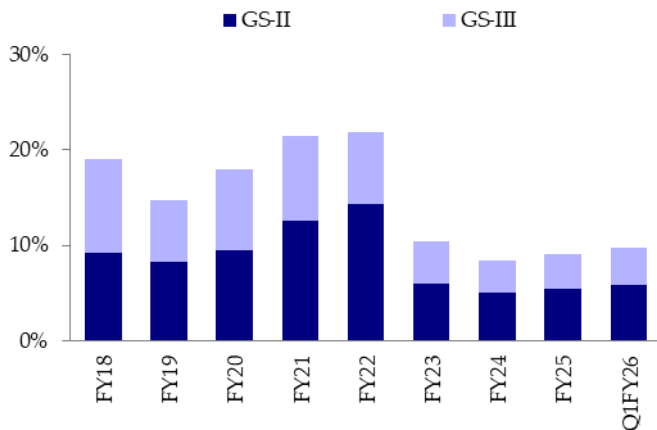


Source: Company, HSIE Research

## Improved asset quality; need for “right” pricing

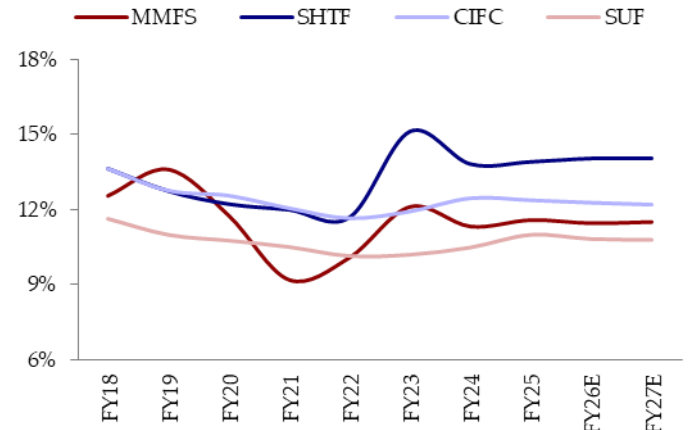
- **Risk-based pricing remains a key monitorable:** MMFS’s risk-adjusted yields have come off over the last few years, with core spread declining despite high credit costs. While shift toward the prime segment has impacted blended yields, the risk adjusted yields on the remaining portfolio seem inferior compared to peers, which remains a key monitorable.

**Exhibit 116: Stressed pool at steady-state levels**



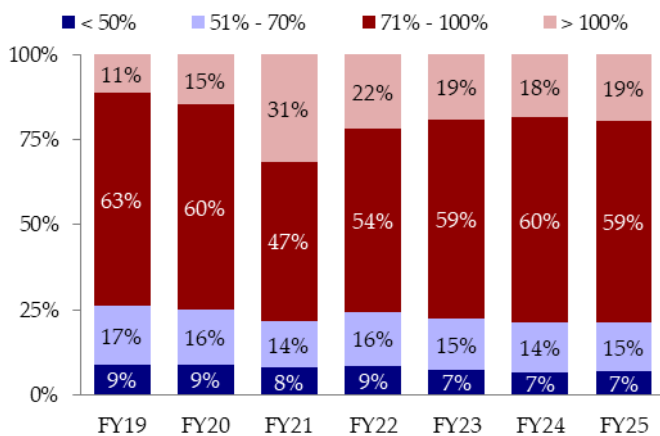
Source: Company, HSIE Research

**Exhibit 117: Risk-adjusted yields**



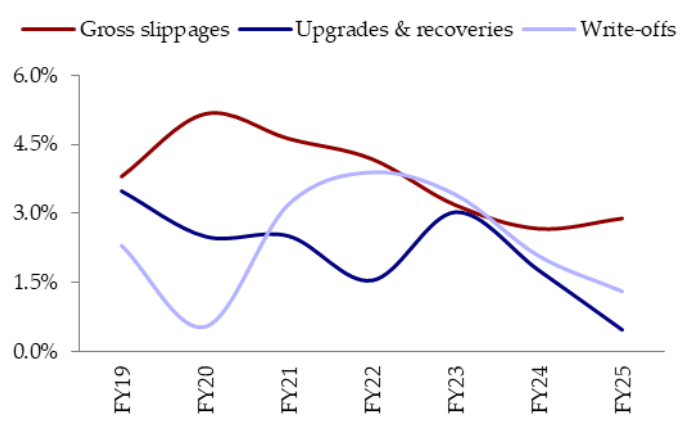
Source: Company, HSIE Research

**Exhibit 118: ~18% of the retail loans portfolio have LTV above 100%**



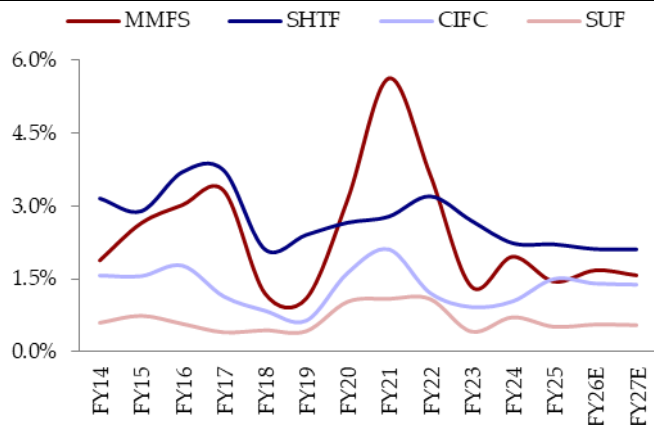
Source: Company, HSIE Research

**Exhibit 119: Gross slippages have come off in recent years**



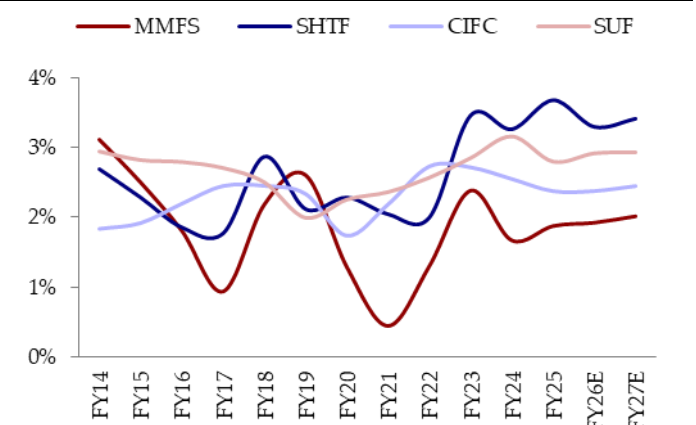
Source: Company, HSIE Research

**Exhibit 120: Volatility in credit costs...**



Source: Company, HSIE Research

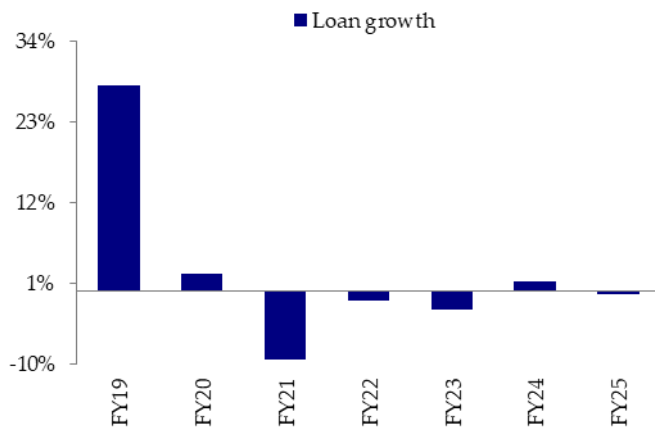
**Exhibit 121: ...leading to volatile RoA**



Source: Company, HSIE Research

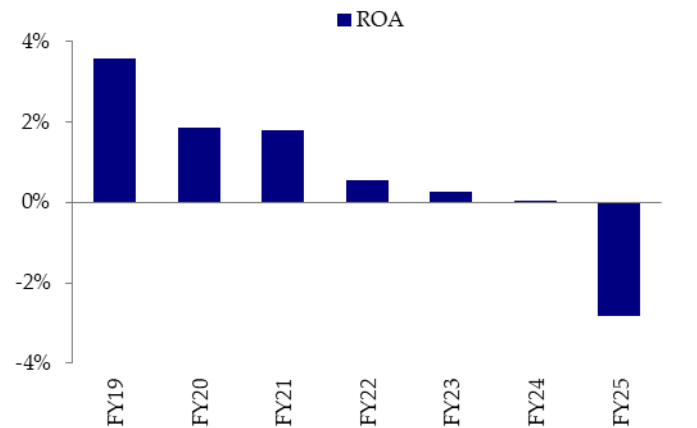
- Fee income levers beyond insurance distribution limited:** MMFS’s fee income has received a healthy fillip with insurance distribution income post corporate agency license during FY24, contributing ~20bps to pre-tax ROA. While MMFS is seeking other avenues for fee income such as co-branded credit cards (RBL Bank), scalability in these products remains a key monitorable, given the customer profile remains skewed towards rural and semi-urban segments.
- MRHFL at an inflection point:** Mahindra Rural Housing Finance (MRHFL), HFC subsidiary of MMFS, is at an inflection point under the new CEO post the subdued performance over FY21-FY25. Bulk of the impairment recognition and provisioning is behind (net NPA at 1.5%; PCR of 84%). Further, portfolio rebalancing towards affordable home loans (61% of loan book in Mar-25 vs. 24% in Mar-21) is underway, along with planned launch of prime home loans and LAP. However, profitability amidst elevated competitive intensity in affordable home loans and launch of prime home loans remain the key monitorable.

**Exhibit 122: MRHFL’s loan growth has been subdued post-pandemic, with rebalancing of the portfolio**



Source: Company, HSIE Research

**Exhibit 123: MRHFL’s profitability remains subdued as well due to elevated credit costs**



Source: Company, HSIE Research

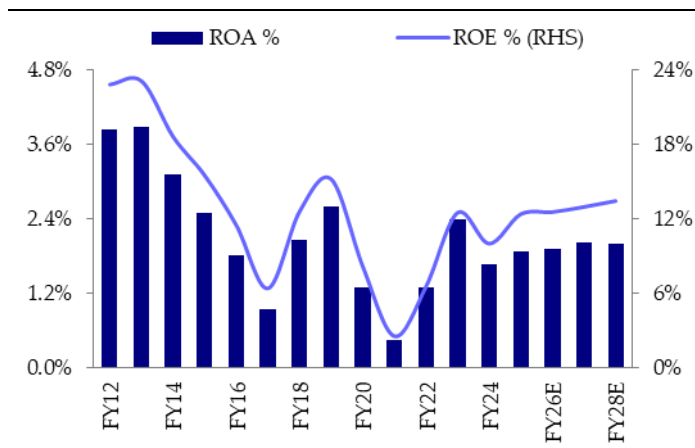
- Insurance broking doing well; AMC in early stages:** MMFS’s insurance broking subsidiary has witnessed a sharp jump in growth, following the IRDAI’s new guidelines in FY24. The AMC subsidiary is still in early stages, although the AUM growth has been healthy, driven by industry tailwinds.

## Turnaround a while away

- **Franchise turnaround—a protracted journey:** MMFS’s turnaround in terms of steady and high-growth franchise is likely to remain WIP in the near term. The stock re-rating is contingent on sustainable improvement in the earnings profile.

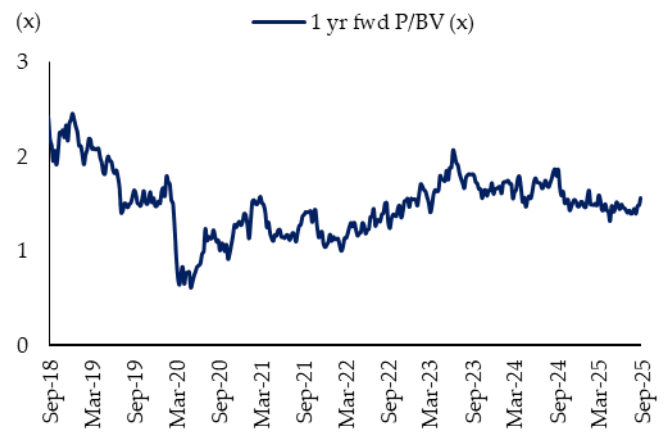
We tweak our earnings estimates to factor in higher loan growth and maintain ADD with a revised SoTP-based TP of INR 300 (standalone entity at implied 1.5x Sep-27 ABVPS). The implied multiple for the standalone entity is at a discount to peers due to sustained subdued performance and limited visibility of strong profitability.

**Exhibit 124: Profitability likely to remain subdued**



Source: Company, HSIE Research

**Exhibit 125: MMFS is trading below 10 year mean 1 yr fwd P/BV**



Source: Bloomberg, HSIE Research

**Exhibit 126: Change in estimates**

(INR bn)	FY26E			FY27E		
	Old	New	Change	Old	New	Change
Gross advances	1,355	1,369	1.0%	1,558	1,578	1.3%
NIM (%)	6.1	6.1	1 bps	6.2	6.2	-3 bps
NII	87.9	88.5	0.6%	101.6	102.2	0.5%
PPOP	58.4	59.0	0.9%	67.8	68.1	0.5%
PAT	27.6	27.9	1.1%	33.3	33.5	0.5%
Adj. BVPS (INR)	150	150	0.1%	163	163	0.0%

Source: Company, HSIE Research

**Exhibit 127: SoTP-based valuation of MMFS**

SoTP valuation	Value (INR bn)	% Stake	Total (INR bn)	per share (INR)	% of TP	Valuation Methodology
MMFS (standalone, Sep-27 ABV)	354	100.0%	354	255	85%	RI-based model
Mahindra Rural Housing Finance	20	98.4%	19	14	5%	1.3x Sep-27 ABVPS
Mahindra Insurance Brokers	35	100.0%	35	25	8%	16x Sep-27 EPS
Mahindra Manulife Investment Management	16	51.0%	8	6	2%	6% of Mar-25 AUM
<b>Total value of subsidiaries</b>			<b>63</b>	<b>45</b>	<b>15%</b>	
Less: Holding company discount			0	0	0%	
<b>Total SoTP valuation</b>			<b>417</b>	<b>300</b>	<b>100%</b>	

Source: Company, HSIE Research

## Financials

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	106,826	131,088	153,314	178,198	202,542	232,996
Interest expended	45,767	64,269	78,983	89,738	100,383	115,448
Net interest income	61,059	66,818	74,331	88,461	102,159	117,548
Other income	3,735	4,537	7,433	8,897	9,879	10,957
Total income	64,794	71,355	81,764	97,358	112,038	128,505
Operating expenditure	27,276	29,572	34,113	38,405	43,889	50,407
Pre-provisioning operating profit	37,518	41,783	47,651	58,953	68,149	78,098
Non-tax provisions	9,993	18,228	16,179	21,621	23,346	27,350
Profit before tax	27,526	23,555	31,473	37,332	44,803	50,748
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	0	0	0	0	0	0
Tax expenditure	7,138	5,959	8,022	9,408	11,290	12,789
Profit attributable to non-controlling interests	0	0	0	0	0	0
Profit after tax	20,388	17,596	23,450	27,924	33,512	37,960
Adjusted Profit after tax	20,388	17,596	23,450	27,924	33,512	37,960

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	2,467	2,469	2,470	2,779	2,779	2,779
Reserves and surplus	168,229	178,982	195,561	245,111	267,508	292,964
Net worth	170,929	181,573	198,122	247,889	270,287	295,742
Borrowings	749,459	939,786	1,128,735	1,261,269	1,450,948	1,666,458
Other liabilities and provisions	41,778	30,233	28,625	46,562	58,267	67,248
<b>Total equity and liabilities</b>	<b>962,166</b>	<b>1,151,592</b>	<b>1,355,482</b>	<b>1,555,720</b>	<b>1,779,501</b>	<b>2,029,448</b>
Cash and cash equivalents	28,321	26,891	55,359	52,566	57,697	53,383
Investments	99,886	96,508	104,005	121,109	129,230	138,683
Advances	794,547	991,952	1,162,140	1,330,331	1,533,343	1,769,690
Fixed assets	6,956	9,308	11,149	12,821	14,744	16,956
Other assets	32,456	26,933	22,829	38,893	44,488	50,736
<b>Total assets</b>	<b>962,166</b>	<b>1,151,592</b>	<b>1,355,482</b>	<b>1,555,720</b>	<b>1,779,501</b>	<b>2,029,448</b>

Source: Company, HSIE Research

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	16.5	14.3	19.0	20.1	24.1	27.3
Earnings Growth (%)	106.2%	-13.7%	33.3%	19.1%	20.0%	13.3%
BVPS (ex reval.)	128	135	148	168	184	202
Adj. BVPS (ex reval. & 100% cover)	115.9	124.6	130.9	150.3	163.5	178.9
ROAA (%)	2.4%	1.7%	1.9%	1.9%	2.0%	2.0%
ROAE (%)	12.5%	10.0%	12.4%	12.5%	12.9%	13.4%
P/E (x)	13.8	16.0	12.0	11.3	9.4	8.3
P/ABV (x)	2.0	1.8	1.7	1.5	1.4	1.3
P/PPOP (x)	9.0	8.1	7.1	6.4	5.6	4.9
Dividend yield (%)	2.2%	2.3%	2.4%	2.9%	3.3%	3.3%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	13.5%	13.3%	13.0%	13.2%	13.1%	13.1%
Cost of Funds (%)	7.0%	7.6%	7.6%	7.5%	7.4%	7.4%
Core Spread (%)	6.5%	5.7%	5.4%	5.6%	5.7%	5.7%
NIM (%)	7.1%	6.3%	5.9%	6.1%	6.2%	6.2%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	3.7%	3.2%	3.1%	3.0%	3.0%	3.0%
Cost-income ratio (%)	42.1%	41.4%	41.7%	39.4%	39.2%	39.2%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	31.5%	24.8%	17.2%	14.5%	15.3%	15.4%
AUM growth (%)	27.4%	24.0%	16.6%	14.4%	15.3%	15.5%
Borrowing growth (%)	34.3%	25.4%	20.1%	11.7%	15.0%	14.9%
Debt/Equity (x)	4.4	5.2	5.7	5.1	5.4	5.6
Equity/Assets (%)	17.8%	15.8%	14.6%	15.9%	15.2%	14.6%
Equity/Loans (%)	21.5%	18.3%	17.0%	18.6%	17.6%	16.7%
Total Capital Adequacy Ratio (CAR) (%)	22.5%	18.9%	18.3%	17.3%	16.5%	15.9%
Tier I CAR (%)	19.9%	16.4%	15.2%	14.6%	14.1%	13.8%
<b>ASSET QUALITY</b>						
GS III (INR mn)	37,170	34,908	44,138	48,840	57,342	66,612
NS III (INR mn)	15,070	12,859	21,558	24,236	28,235	32,269
Slippages (%)	3.2%	2.7%	2.9%	2.7%	2.6%	2.6%
GS III (%)	4.5%	3.4%	3.7%	3.6%	3.6%	3.7%
NS III (%)	1.9%	1.3%	1.9%	1.8%	1.8%	1.8%
Coverage Ratio (%)	59.5%	63.2%	51.2%	50.4%	50.8%	51.6%
Provision/AUM (%)	1.4%	2.0%	1.5%	1.7%	1.6%	1.6%
Provision/Gross advances (%)	1.4%	2.0%	1.5%	1.7%	1.6%	1.6%
<b>(% of average assets)</b>						
Interest earned	12.5%	12.4%	12.2%	12.2%	12.1%	12.2%
Interest expended	5.3%	6.1%	6.3%	6.2%	6.0%	6.1%
Net interest income	7.1%	6.3%	5.9%	6.1%	6.1%	6.2%
Non-interest income	0.4%	0.4%	0.6%	0.6%	0.6%	0.6%
Operating expenses	3.2%	2.8%	2.7%	2.6%	2.6%	2.6%
Pre-provisioning profit	4.4%	4.0%	3.8%	4.1%	4.1%	4.1%
Non-tax provisions	1.2%	1.7%	1.3%	1.5%	1.4%	1.4%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provision for tax	0.8%	0.6%	0.6%	0.6%	0.7%	0.7%
ROAA	2.4%	1.7%	1.9%	1.9%	2.0%	2.0%
Average assets/Average equity (x)	5.2	6.0	6.6	6.5	6.4	6.7
ROAE	12.5%	10.0%	12.4%	12.5%	12.9%	13.4%

Source: Company, HSIE Research

# Bajaj Finance

## Steady execution ahead

Bajaj Finance (BAF) is poised to deliver a healthy ~24% AUM CAGR, along with strong profitability in the medium term on the back of strong customer acquisition engine through an omni-channel strategy, enhanced cross-sell of loans and other products, and the addition of new verticals. The new products launched post pandemic are now at an inflection point and likely to augment growth, while recently launched products are gradually gaining traction. Near-term tailwinds such as operating efficiency, marginal reflation in NIMs and moderation in credit costs are likely to drive reflation in RoA/RoE over FY26-FY27E. BAF remains the best-in-class franchise with sustained strong growth and profitability, with limited impact of recent change in senior leadership, in our view. We revise our earnings estimates to factor in marginally higher loan growth and lower fee income during FY27E and maintain BUY with a revised RI-based TP of INR 1,100 (implying 4.5x Sep-27 ABVPS).

- **Multiple levers to drive healthy medium-term growth:** BAF has been tracking well on its long-range strategy (LRS) with the pace of customer acquisitions and cross-sell ratios benefitting from its omni-channel strategy. BAF's new products including car loans, gold loans, LAP, MFI, and CV financing are likely to drive medium-term AUM CAGR. We expect ~24% AUM CAGR for FY26-FY28E on the back of a healthy mix of client acquisition and earnings per customer.
- **Steady gains in operating efficiency:** BAF's investments post-pandemic around its omni-channel strategy, new digital initiatives and launch of new products have reached an inflexion point. With increasing throughput from these initiatives, the opex ratios are likely to improve further during FY26-FY28E. The termination of co-branded credit card partnerships, along with rationalization in fee structure for various products is likely to partly offset these gains during FY26E.
- **Multiple stimulus to augment growth:** Fiscal stimulus (direct and indirect tax rate cuts) and monetary stimulus (repo rate cuts, CRR cuts) are likely to improve the systemic liquidity and provide impetus to credit growth, which has been moderating for a few quarters. With ~75% of borrowings at fixed rate (NCDs, CPs, deposits etc.) and mortgages constituting ~22% of AUM, benefits on the cost of funds and subsequently NIMs are likely to accrue gradually.
- **Signs of peaking out on credit costs:** BAF's asset quality had hit a speed bump in FY25, with adjusted credit costs at 2.2% (including utilization management overlay) as the overall collections environment remained challenging. We expect the delinquencies to gradually improve, with the impact of tightening of credit filters as well as improving liquidity. However, the steady state credit costs for BAF are likely to be marginally higher compared to pre-pandemic levels.

### Financial Summary (Consolidated)

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	230	296	364	454	569	704
PPOP	187	239	300	376	475	588
PAT	115	145	166	213	270	332
EPS (INR)	190	23	27	34	43	53
ROAE (%)	23.5%	22.1%	18.9%	19.7%	20.9%	21.3%
ROAA (%)	4.7%	4.4%	4.0%	4.1%	4.2%	4.2%
ABVPS (INR)	885	122	156	184	222	268
P/ABV (x)	11.2	8.1	6.3	5.4	4.5	3.7
P/E (x)	52.1	42.4	37.0	28.9	22.8	18.6

Source: Company, HSIE Research

**BUY**

CMP (as on 29 Sep 2025)	INR 991
Target Price	INR 1,100
NIFTY	24,635

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 985	INR 1100
EPS %	FY26E	FY27E
	-0.3%	-0.1%

### KEY STOCK DATA

Bloomberg code	BAF IN
No. of Shares (mn)	6,222
MCap (INR bn) / (\$ mn)	6,166/69,469
6m avg traded value (INR mn)	8,887
52 Week high / low	INR 1,036/644

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.6	10.9	27.9
Relative (%)	9.0	7.1	34.0

### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	54.7	54.7
FIs & Local MFs	14.9	14.6
FPIs	21.5	21.7
Public & Others	8.9	9.0
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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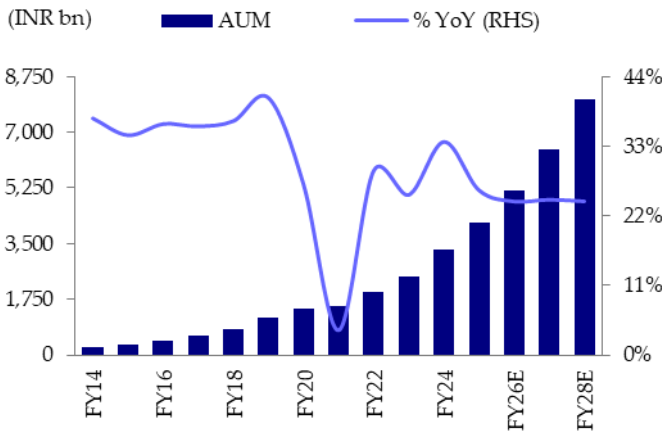
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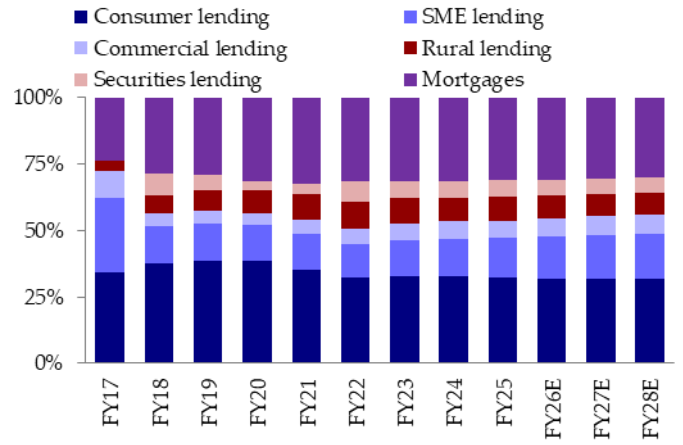
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**Exhibit 128: Steady AUM growth expected during FY26-FY28E**



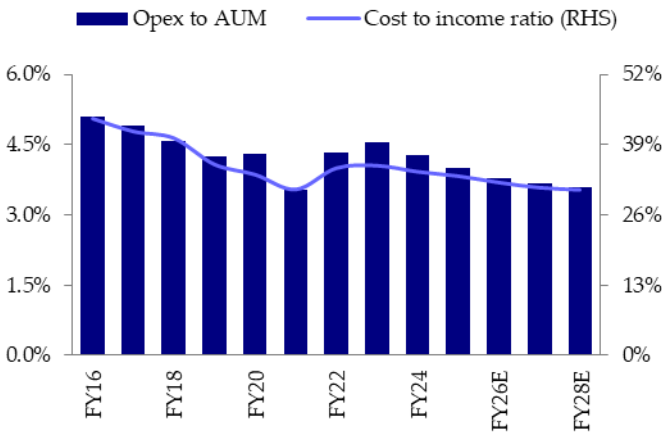
Source: Company, HSIE Research

**Exhibit 129: AUM mix has remained largely steady**



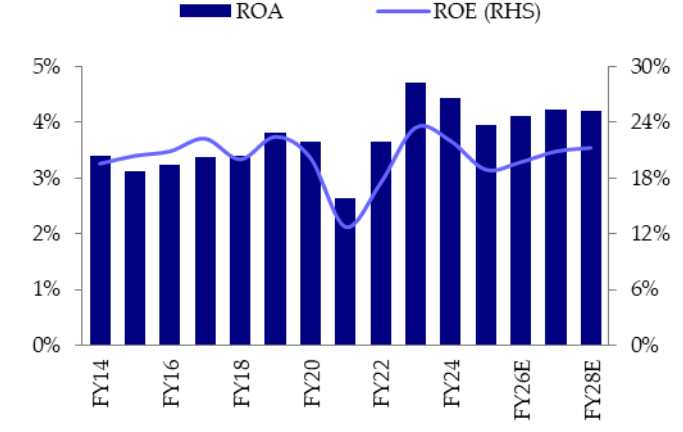
Source: Company, HSIE Research

**Exhibit 130: Operating efficiency likely to improve further during FY26-FY27E**



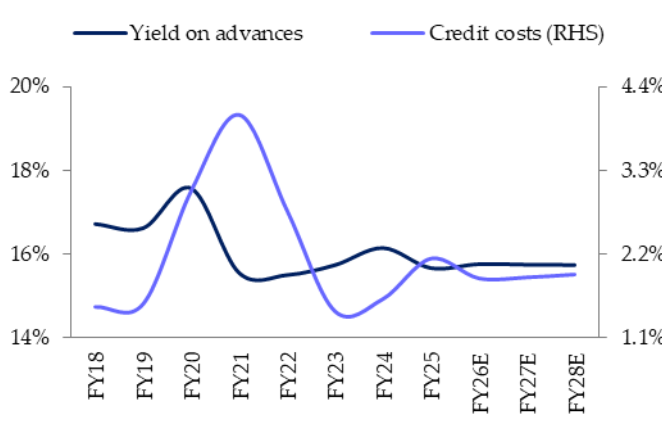
Source: Company, HSIE Research

**Exhibit 131: Strong profitability across cycles; expected to improve during FY26-FY28E**



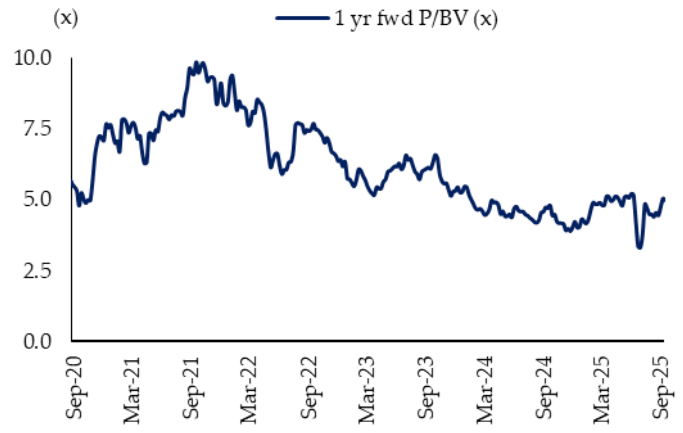
Source: Company, HSIE Research

**Exhibit 132: Risk-adjusted yields to remain steady**



Source: Company, HSIE Research

**Exhibit 133: BAF is trading below 10 year mean 1yr fwd P/BV**



Source: Bloomberg, HSIE Research

## Exhibit 134: Change in estimates

(INR bn)	FY26E			FY27E		
	Old	New	Change	Old	New	Change
AUM	5,173	5,177	0.1%	6,425	6,448	0.4%
NIM (%)	8.8	8.8	2 bps	8.9	9.0	6 bps
NII	453.4	454.2	0.2%	565.1	569.2	0.7%
PPOP	377.2	376.1	-0.3%	473.6	474.7	0.2%
PAT	214.0	213.2	-0.3%	270.1	269.9	-0.1%
Adj. BVPS (INR)	184	184	-0.1%	222	222	-0.1%

Source: Company, HSIE Research

## Financials (Consolidated)

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	355,502	483,066	611,636	752,615	933,759	1,160,521
Interest expended	125,599	187,247	247,708	298,455	364,608	456,142
Net interest income	229,903	295,819	363,928	454,160	569,151	704,379
Other income	58,555	66,759	85,612	99,105	119,592	143,624
Total income	288,458	362,578	449,540	553,265	688,743	848,004
Operating expenditure	101,300	123,252	149,261	177,197	214,063	260,018
Pre-provisioning operating profit	187,158	239,326	300,279	376,068	474,679	587,986
Non-tax provisions	31,897	46,307	79,660	87,200	109,281	138,901
Profit before tax	155,262	193,019	220,618	288,868	365,398	449,085
Share of net profit of associates and joint ventures	0	76	178	0	0	0
Exceptional gain/(loss)	0	0	0	0	0	0
Tax expenditure	40,202	48,584	53,002	72,795	92,080	113,169
Profit attributable to non-controlling interests	-17	0	1,417	2,828	3,451	4,100
Profit after tax	115,077	144,512	166,378	213,246	269,867	331,815
Adjusted Profit after tax	115,077	144,512	166,378	213,246	269,867	331,815

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,210	1,236	1,242	6,214	6,214	6,214
Reserves and surplus	536,956	758,602	956,180	1,130,257	1,366,635	1,657,013
Net worth	543,721	766,953	989,369	1,171,246	1,411,075	1,705,554
Borrowings	2,166,905	2,933,458	3,612,487	4,449,740	5,514,133	6,911,310
Other liabilities and provisions	41,661	57,004	59,413	91,287	113,780	141,505
Total equity and liabilities	<b>2,752,287</b>	<b>3,757,416</b>	<b>4,661,268</b>	<b>5,712,272</b>	<b>7,038,989</b>	<b>8,758,369</b>
Cash and cash equivalents	43,045	106,240	135,435	165,346	144,257	203,137
Investments	227,518	308,807	344,408	348,893	418,254	501,895
Advances	2,422,689	3,262,933	4,078,441	5,071,479	6,321,102	7,861,387
Fixed assets	23,842	32,901	38,182	46,582	56,830	69,333
Other assets	35,192	46,536	64,801	79,972	98,546	122,617
Total assets	<b>2,752,287</b>	<b>3,757,416</b>	<b>4,661,268</b>	<b>5,712,272</b>	<b>7,038,989</b>	<b>8,758,369</b>

Source: Company, HSIE Research

# Bajaj Finance: Company Update

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	190.2	233.8	268.0	34.3	43.4	53.4
Earnings Growth (%)	63.7%	25.6%	15.1%	28.2%	26.6%	23.0%
BVPS (ex reval.)	899	1,241	1,594	188	227	274
Adj. BVPS (ex reval. & 100% cover)	885	1,221	1,564	184	222	268
ROAA (%)	4.7%	4.4%	4.0%	4.1%	4.2%	4.2%
ROAE (%)	23.5%	22.1%	18.9%	19.7%	20.9%	21.3%
P/E (x)	52.1	42.4	37.0	28.9	22.8	18.6
P/ABV (x)	11.2	8.1	6.3	5.4	4.5	3.7
P/PPOP (x)	32.0	25.6	20.5	16.4	13.0	10.5
Dividend yield (%)	0.3%	0.4%	0.6%	0.6%	0.7%	0.7%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	15.7%	16.1%	15.7%	15.8%	15.7%	15.7%
Cost of Funds (%)	6.6%	7.3%	7.6%	7.4%	7.3%	7.3%
Core Spread (%)	9.2%	8.8%	8.1%	8.3%	8.4%	8.4%
NIM (%)	9.5%	9.2%	8.7%	8.8%	9.0%	9.0%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	4.6%	4.3%	4.0%	3.8%	3.7%	3.6%
Cost-income ratio (%)	35.1%	34.0%	33.2%	32.0%	31.1%	30.7%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	26.6%	34.7%	25.0%	24.3%	24.6%	24.4%
AUM growth (%)	25.3%	33.6%	26.0%	24.3%	24.5%	24.3%
Borrowing growth (%)	31.1%	35.4%	23.1%	23.2%	23.9%	25.3%
Debt/Equity (x)	4.0	3.8	3.7	3.8	3.9	4.1
Equity/Assets (%)	19.8%	20.4%	21.2%	20.5%	20.0%	19.5%
Equity/Loans (%)	22.4%	23.5%	24.3%	23.1%	22.3%	21.7%
Total Capital Adequacy Ratio (CAR) (%)	24.6%	22.3%	22.9%	21.7%	20.7%	19.9%
Tier I CAR (%)	23.0%	21.4%	22.1%	21.1%	20.2%	19.5%
<b>ASSET QUALITY</b>						
GS III (INR mn)	23,128	28,160	39,647	54,070	71,917	90,838
NS III (INR mn)	8,366	12,103	18,345	25,990	34,217	39,191
Slippages (%)	2.2%	2.4%	3.0%	2.9%	2.7%	2.7%
GS III (%)	0.9%	0.8%	1.0%	1.0%	1.1%	1.1%
NS III (%)	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%
Coverage Ratio (%)	63.8%	57.0%	53.7%	51.9%	52.4%	56.9%
Provision/AUM (%)	1.4%	1.6%	2.1%	1.9%	1.9%	1.9%
Provision/Gross advances (%)	1.4%	1.6%	2.1%	1.9%	1.9%	1.9%
<b>(% of average assets)</b>						
Interest earned	14.6%	14.8%	14.5%	14.5%	14.6%	14.7%
Interest expended	5.2%	5.8%	5.9%	5.8%	5.7%	5.8%
Net interest income	9.4%	9.1%	8.6%	8.8%	8.9%	8.9%
Non-interest income	2.4%	2.1%	2.0%	1.9%	1.9%	1.8%
Operating expenses	4.2%	3.8%	3.5%	3.4%	3.4%	3.3%
Pre-provisioning profit	7.7%	7.4%	7.1%	7.3%	7.4%	7.4%
Non-tax provisions	1.3%	1.4%	1.9%	1.7%	1.7%	1.8%
Others	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%
Provision for tax	1.6%	1.5%	1.3%	1.4%	1.4%	1.4%
ROAA	4.7%	4.4%	4.0%	4.1%	4.2%	4.2%
Average assets/Average equity (x)	5.0	5.0	4.8	4.8	4.9	5.1
ROAE	23.5%	22.1%	18.9%	19.7%	20.9%	21.3%

Source: Company, HSIE Research

## Cholamandalam Investment and Finance Company

### Temporary blips to a robust franchise

Cholamandalam Investment and Finance Company (CIFIC) has cemented its positioning as a diversified franchise beyond vehicle finance with demonstrated strong loan growth (22% CAGR during FY16-FY25) and profitability (avg. RoE of ~19% over FY16-FY25), driving significant re-rating. However, the astronomical growth in non-vehicle segments seems to be plateauing with steady state productivity and tapered branch expansion and hence loan growth is likely to be calibrated, going ahead. Further, the portfolio seasoning in these segments, along with stress in the CV portfolio is likely to thwart meaningful moderation in the credit costs during FY26E. While CIFIC remains a robust franchise with expected loan growth of ~20-25% and RoE of 20% over the medium term, current valuation (4.1x Mar-27 ABVPS) limits the upside. We maintain an ADD rating with a revised RI-based target price of INR 1,800 (implied 4.2x Sep-27 ABVPS).

- **Headwinds in vehicle finance segment; early signs of revival:** CIFIC's vehicle finance portfolio (54.5% of AUM) had been grappling with dual headwinds of growth moderation and higher credit costs over the last few quarters due to weak freight demand and subsequently muted freight rates. However, its diversified vehicle portfolio cushions the impact on loan growth, with expected revival in credit uptick during H2FY26 to aid loan growth during FY26-FY28E. Further, CIFIC's persistent collection and recovery efforts are likely to keep credit costs sub-1.5% during FY26-FY28E.
- **Non-vehicle segments to aid loan growth:** CIFIC's non-vehicle segments are likely to continue to grow at a higher pace than vehicle finance during FY26-FY27E. However, the pace of growth is likely to moderate going ahead, due to a higher base and healthy productivity levels at branch/employee level. The operating efficiency gains in these segments are likely to be offset by higher opex ratios in the vehicle finance portfolio. While the credit costs are likely to improve in CSEL and SME segments, steady state credit costs are likely to remain at these levels for other segments.
- **Margins likely to reflate further:** CIFIC's NIMs are likely to improve during FY26-FY27E with the monetary stimulus during CY25 (100bps reduction in repo rate and 100bps reduction in CRR for banks). With ~70% of borrowings at floating rate (repo, T-Bill and MCLR-linked) and mortgages constituting ~32% of AUM, benefits on the cost of funds and subsequently NIMs are likely to accrue during FY26.
- **Credit costs peaking out; gradual moderation ahead:** CIFIC's credit costs are likely to moderate from 1.5% in FY25 towards ~1.4% during FY26-FY28E. CIFIC continues to make efforts toward improving its asset quality, amidst weak macro environment and subdued growth. CIFIC is scaling back on its partnerships in CSEL portfolio, along with relentless focus on recoveries in SME and vehicle finance portfolios. Home loans and LAP portfolio's credit costs are likely to witness mean reversion following subdued credit costs during FY23-FY24.

#### Financial Summary

(INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	63.3	83.8	112.4	141.8	174.6	214.7
PPOP	44.5	59.0	82.3	102.2	125.8	156.5
PAT	26.7	34.2	42.6	52.8	68.2	84.4
EPS (INR)	32.4	40.7	50.6	61.7	79.7	98.7
ROAE (%)	20.5	20.2	19.7	19.4	20.0	20.4
ROAA (%)	2.7	2.5	2.4	2.4	2.5	2.5
ABVPS (INR)	152.7	209.5	247.0	320.7	388.0	473.7
P/ABV (x)	10.4	7.6	6.4	5.0	4.1	3.4
P/E (x)	49.1	39.1	31.4	25.8	20.0	16.1

Source: Company, HSIE Research

## ADD

CMP (as on 29 Sep 2025) INR 1,592

Target Price INR 1,800

NIFTY 24,635

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1590	INR 1800
EPS %	FY26E -2.8%	FY27E -0.3%

#### KEY STOCK DATA

Bloomberg code	CIFIC IN
No. of Shares (mn)	841
MCap (INR bn) / (\$ mn)	1,339/15,088
6m avg traded value (INR mn)	2,858
52 Week high / low	INR 1,684/1,168

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.8)	4.7	(1.1)
Relative (%)	0.6	0.9	5.0

#### SHAREHOLDING PATTERN (%)

	Mar-25	Jun-25
Promoters	49.9	49.9
FIs & Local MFs	15.5	16.1
FPIs	28.2	28.0
Public & Others	6.4	6.0
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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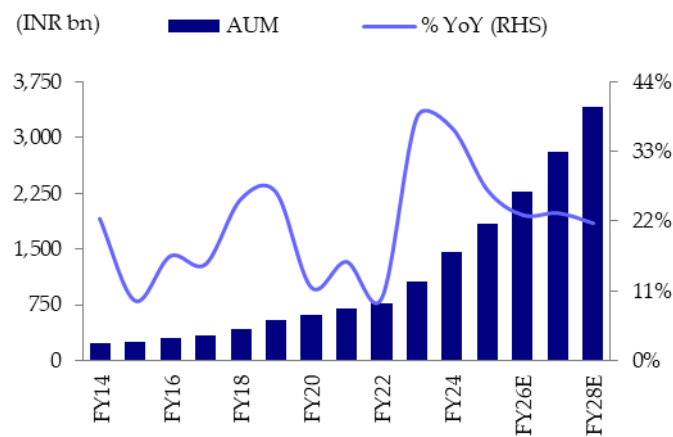
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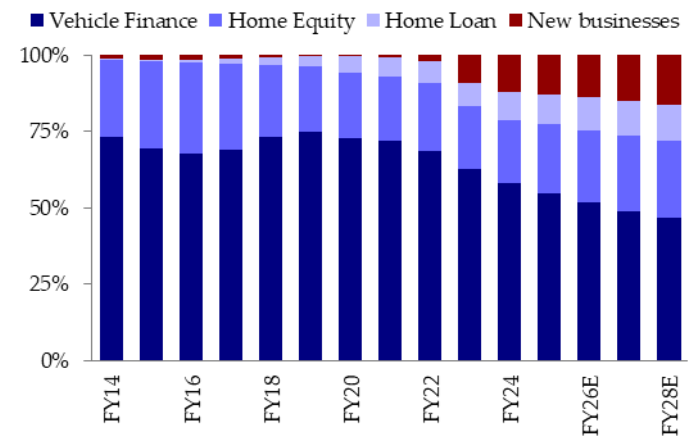
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**Exhibit 135: Steady AUM growth expected during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 136: Sustained diversification of the AUM mix**



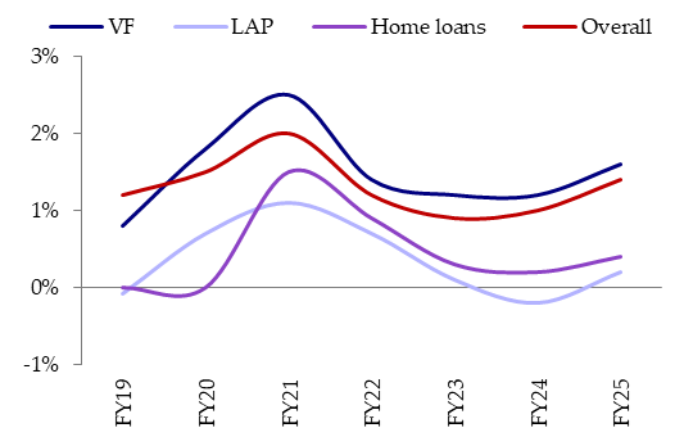
Source: Company, HSIE Research

**Exhibit 137: FY25 segmental profitability**

% of AUM	VF	LAP	HL	CSEL	SME	SBPL	TOTAL
Income	15.2%	12.9%	16.0%	20.3%	12.7%	25.9%	14.8%
CoF	7.3%	7.3%	7.4%	7.5%	7.7%	7.4%	7.1%
NIM	8.0%	5.6%	8.6%	12.8%	4.9%	18.5%	7.7%
Expenses	3.3%	1.9%	3.7%	4.5%	2.1%	9.6%	3.0%
Provisions	1.6%	0.2%	0.4%	5.8%	1.0%	1.4%	1.4%
PBT	3.1%	3.5%	4.5%	2.5%	1.8%	7.5%	3.3%
PAT*	2.3%	2.6%	3.4%	1.9%	1.3%	5.6%	2.5%

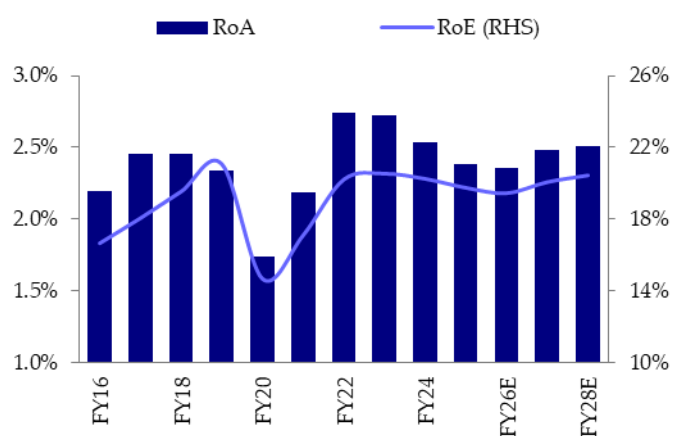
Source: Company, HSIE Research

**Exhibit 138: Segmental credit costs**



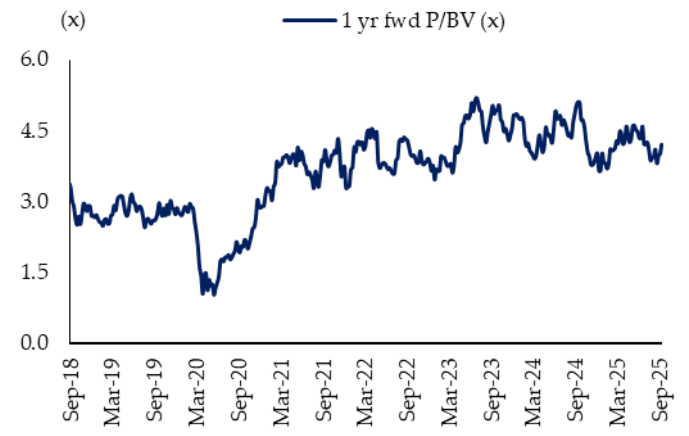
Source: Company, HSIE Research

**Exhibit 139: ROA/ROE likely to remain robust during FY26-FY28E**



Source: Company, HSIE Research

**Exhibit 140: CIFC is trading at above 10 year mean 1yr fwd P/BV**



Source: Bloomberg, HSIE Research

**Exhibit 141: Change in estimates**

(INR bn)	FY26E			FY27E		
	Old	New	Change	Old	New	Change
AUM	2,272	2,272	0.0%	2,790	2,802	0.4%
NIM (%)	6.4	6.4	-2 bps	6.4	6.4	-2 bps
NII	142.2	141.8	-0.3%	174.8	174.6	-0.1%
PPOP	100.4	102.2	1.8%	125.1	125.8	0.5%
PAT	54.3	52.8	-2.8%	68.4	68.2	-0.3%
Adj. BVPS (INR)	323	321	-0.6%	388	388	-0.1%

Source: Company, HSIE Research

## Financials

### Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	120,822	176,137	237,200	291,661	356,080	436,692
Interest expended	57,488	92,306	124,849	149,819	181,486	221,945
Net interest income	63,334	83,831	112,351	141,842	174,595	214,747
Other income	8,958	16,026	23,348	28,057	32,749	39,385
Total income	72,292	99,857	135,699	169,899	207,343	254,132
Operating expenditure	27,799	40,818	53,388	67,681	81,589	97,601
Pre-provisioning operating profit	44,494	59,039	82,311	102,218	125,754	156,531
Non-tax provisions	8,497	13,218	24,943	31,631	34,615	43,690
Profit before tax	35,997	45,821	57,369	70,587	91,140	112,841
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	0	0	0	0	0	0
Tax expenditure	9,335	11,593	14,783	17,788	22,967	28,436
Profit attributable to non-controlling interests	0	0	0	0	0	0
Profit after tax	26,662	34,227	42,585	52,799	68,173	84,405
Adjusted Profit after tax	26,662	34,227	42,585	52,799	68,173	84,405

Source: Company, HSIE Research

### Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,645	1,681	1,682	1,711	1,711	1,711
Reserves and surplus	140,482	192,481	232,439	303,527	369,133	450,116
Net worth	142,961	195,566	236,273	307,370	372,977	453,960
Borrowings	973,561	1,344,736	1,749,461	2,118,100	2,610,629	3,183,557
Other liabilities and provisions	18,634	24,206	30,741	42,421	52,409	63,878
Total equity and liabilities	1,135,155	1,564,508	2,016,476	2,467,891	3,036,014	3,701,394
Cash and cash equivalents	29,614	43,202	94,007	90,281	96,227	112,435
Investments	36,200	41,002	63,904	81,216	103,256	131,687
Advances	1,047,483	1,444,243	1,819,299	2,232,690	2,758,386	3,361,976
Fixed assets	4,591	15,696	17,827	21,749	26,534	32,371
Other assets	17,267	20,365	21,439	41,954	51,612	62,924
Total assets	1,135,155	1,564,508	2,016,476	2,467,891	3,036,014	3,701,394

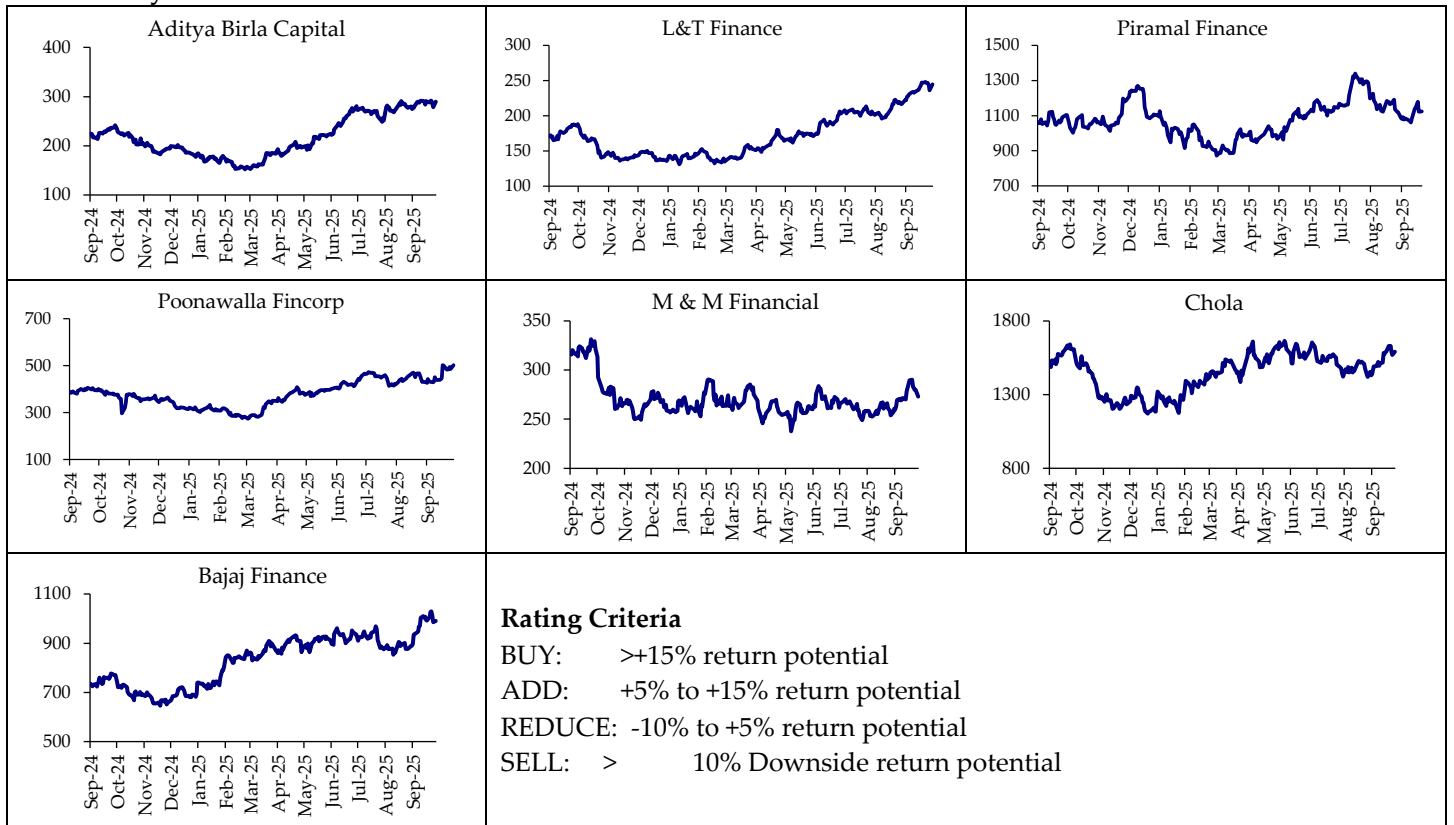
Source: Company, HSIE Research

## Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>						
EPS	32.4	40.7	50.6	61.7	79.7	98.7
Earnings Growth (%)	24.2%	28.4%	24.4%	24.0%	29.1%	23.8%
BVPS (ex reval.)	173.8	232.7	281.0	359.3	436.0	530.7
Adj. BVPS (ex reval. & 100% cover)	152.7	209.5	247.0	320.7	388.0	473.7
ROAA (%)	2.7%	2.5%	2.4%	2.4%	2.5%	2.5%
ROAE (%)	20.5%	20.2%	19.7%	19.4%	20.0%	20.4%
P/E (x)	49.1	39.1	31.4	25.8	20.0	16.1
P/ABV (x)	10.4	7.6	6.4	5.0	4.1	3.4
P/PPOP (x)	29.4	22.7	16.3	13.3	10.8	8.7
Dividend yield (%)	0.1%	0.1%	0.1%	0.2%	0.3%	0.3%
<b>PROFITABILITY (%)</b>						
Yield on Advances (%)	12.9%	13.5%	13.9%	13.7%	13.6%	13.6%
Cost of Funds (%)	6.9%	8.0%	8.1%	7.7%	7.7%	7.7%
Core Spread (%)	6.0%	5.5%	5.8%	6.0%	5.9%	5.9%
NIM (%)	6.4%	6.2%	6.3%	6.4%	6.4%	6.4%
<b>OPERATING EFFICIENCY</b>						
Cost to average AUM ratio (%)	3.0%	3.2%	3.2%	3.3%	3.2%	3.1%
Cost-income ratio (%)	38.5%	40.9%	39.3%	39.8%	39.3%	38.4%
<b>BALANCE SHEET STRUCTURE RATIOS</b>						
Loan growth (%)	41.3%	37.9%	26.0%	22.7%	23.5%	21.9%
AUM growth (%)	38.5%	36.7%	26.9%	23.0%	23.3%	21.7%
Borrowing growth (%)	40.7%	38.1%	30.1%	21.1%	23.3%	21.9%
Debt/Equity (x)	6.8	6.9	7.4	6.9	7.0	7.0
Equity/Assets (%)	12.6%	12.5%	11.7%	12.5%	12.3%	12.3%
Equity/Loans (%)	13.6%	13.5%	13.0%	13.8%	13.5%	13.5%
Total Capital Adequacy Ratio (CAR) (%)	17.1%	18.6%	19.7%	19.6%	18.5%	17.9%
Tier I CAR (%)	14.8%	15.1%	14.4%	15.2%	15.0%	15.0%
<b>ASSET QUALITY</b>						
GS III (INR mn)	32,216	36,448	52,130	62,404	79,608	98,420
NS III (INR mn)	17,396	19,518	28,530	32,986	41,089	48,698
Slippages (%)	2.2%	2.0%	3.9%	2.9%	2.7%	2.6%
GS III (%)	3.0%	2.5%	2.8%	2.7%	2.8%	2.9%
NS III (%)	1.7%	1.4%	1.6%	1.5%	1.5%	1.4%
Coverage Ratio (%)	46.0%	46.4%	45.3%	47.1%	48.4%	50.5%
Provision/AUM (%)	0.9%	1.0%	1.5%	1.5%	1.4%	1.4%
Provision/Gross advances (%)	0.9%	1.0%	1.5%	1.5%	1.4%	1.4%
<b>(% of average assets)</b>						
Interest earned	12.3%	13.0%	13.2%	13.0%	12.9%	13.0%
Interest expended	5.9%	6.8%	7.0%	6.7%	6.6%	6.6%
Net interest income	6.5%	6.2%	6.3%	6.3%	6.3%	6.4%
Non-interest income	0.9%	1.2%	1.3%	1.3%	1.2%	1.2%
Operating expenses	2.8%	3.0%	3.0%	3.0%	3.0%	2.9%
Pre-provisioning profit	4.5%	4.4%	4.6%	4.6%	4.6%	4.6%
Non-tax provisions	0.9%	1.0%	1.4%	1.4%	1.3%	1.3%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Provision for tax	1.0%	0.9%	0.8%	0.8%	0.8%	0.8%
ROAA	2.7%	2.5%	2.4%	2.4%	2.5%	2.5%
Average assets/Average equity (x)	7.5	8.0	8.3	8.2	8.1	8.1
ROAE	20.5%	20.2%	19.7%	19.4%	20.0%	20.4%

Source: Company, HSIE Research

**Price History**



**Disclosure:**

We, **Krishnan ASV, PGDM, Deepak Shinde, PGDM, Akshay Badlani, CA, Shobhit Sharma, CA & Ayush Pandit, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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