

# Shriram Finance

|                 |   |
|-----------------|---|
| Estimate change | ↔ |
| TP change       | ↓ |
| Rating change   | ↔ |

|                       |               |
|-----------------------|---------------|
| Bloomberg             | SHFL IN       |
| Equity Shares (m)     | 2353          |
| M.Cap.(INRb)/(USD\$)  | 2040.1 / 21.5 |
| 52-Week Range (INR)   | 1154 / 695    |
| 1, 6, 12 Rel. Per (%) | -11/-8/35     |
| 12M Avg Val (INR M)   | 6696          |

## Financials & Valuations (INR b)

| Y/E March           | FY26  | FY27E | FY28E |
|---------------------|-------|-------|-------|
| Total Income        | 267   | 356   | 408   |
| PPOP                | 186   | 268   | 307   |
| PAT                 | 100.0 | 148.1 | 170.8 |
| EPS (INR)           | 53.1  | 62.9  | 72.6  |
| EPS Gr. (%)         | 21    | 18    | 15    |
| Standalone BV (INR) | 349   | 500   | 558   |

## Metrics

|                   |      |      |      |
|-------------------|------|------|------|
| NIM on assets (%) | 8.2  | 9.6  | 9.3  |
| C/I ratio (%)     | 30.1 | 24.6 | 24.8 |
| RoAA (%)          | 3.3  | 4.2  | 4.1  |
| RoE (%)           | 16.4 | 16.1 | 13.7 |
| Div. Payout (%)   | 20.3 | 22.6 | 22.5 |

## Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 15.9 | 13.5 | 11.7 |
| P/BV (x)       | 2.4  | 1.7  | 1.5  |
| Div. Yield (%) | 1.3  | 1.7  | 1.9  |

## Shareholding pattern (%)

| As On    | Sep-26 | Jun-26 | Sep-25 |
|----------|--------|--------|--------|
| Promoter | 20.3   | 20.3   | 25.4   |
| DII      | 19.1   | 19.9   | 18.7   |
| FII      | 55.6   | 54.8   | 49.6   |
| Others   | 5.0    | 5.0    | 6.3    |

FII includes depository receipts

**CMP: INR867 TP: INR1,155 (+33%) Buy**

## Mixed quarter; caution on asset quality clouds near-term outlook

### Weak monsoons lead to higher slippages & writeoffs; credit cost guidance raised

- Shriram Finance (SHFL)'s 2QFY27 PAT rose ~60% YoY to ~INR36.8b (in line). NII in 2QFY27 grew ~40% YoY to INR84.1b (in line). Other income grew ~15% YoY to INR4.2b (~8% lower than our est.).
- Opex grew ~4% YoY to INR20.2b (~9% lower than MOFSLe). The cost-to-income ratio dipped ~290bp QoQ to ~22.9% (PQ: 25.9%/PY: 30.5%). SHFL expects its C/I ratio to remain at ~25% and Opex/AUM at ~2.5% over the medium to long term. We model the C/I ratio at 24-25% over FY27-28.
- PPOP grew 53% YoY to ~INR68.1b (~7% beat). Credit costs stood at ~INR18.8b (~20% higher than MOFSLe) translating into annualized credit costs of ~2.35% (PQ and PY: 1.9%).
- Management moderated its FY27 AUM growth guidance to ~15-17% from ~18% earlier, factoring in weak monsoons and uncertainty arising from the West Asia conflict. Despite healthy demand over the past two quarters, SHFL remains cautious in drought-affected states such as Maharashtra, Karnataka, and Telangana, where it has a sizeable portfolio.
- SHFL indicated that credit costs could rise temporarily by 30-40bp over the next one or two quarters due to seasonal stress in affected geographies, but they are still expected to remain below ~2.3% for FY27. Elevated stress is mainly attributable to deficient rainfall and seasonal pressures in select regions, with no evidence of widespread portfolio deterioration. Lower agricultural output could weigh on rural incomes, consumption, and borrower cash flows in the coming quarters. The asset quality outlook for the company remains cautious amid these near-term headwinds.
- We tweak our FY27/FY28 EPS estimates to factor in higher credit costs, offset by higher NIM and lower opex. We expect SHFL to deliver a CAGR of ~18%/~31% in AUM/PAT over FY26-28E, along with RoA/RoE of ~4.1%/13.7% by FY28. **We reiterate our BUY rating with a TP of INR1,155 (premised on 2x Sep'28E BVPS).**

## AUM rises ~17% YoY; disbursement growth healthy

- Disbursements grew 25% YoY to INR541b in 2QFY27. AUM stood at INR3.29t (slightly higher than our estimates) and grew ~17% YoY/4.9% QoQ. AUM growth was strong across CV, PV, gold loans and personal loans, while growth in CE, farm equipment, and 2W remained relatively weak during the quarter.
- Management shared that the strong disbursement growth in MSME was supported by expansion beyond its traditional southern and western markets to a pan-India presence following the merger. The company expects MSME lending to outpace growth in other segments. We anticipate disbursement/AUM growth of 19%/17% in FY27.

### Reported NIM improves ~50bp QoQ, fueled by utilization of equity proceeds

- Reported NIM improved ~50bp QoQ to ~9.52%, driven primarily by utilization of equity infusion proceeds received from MUFG. Yields (calc.) declined ~10bp QoQ to 16.65% while CoB (calc.) declined ~15bp QoQ to 8.47%, resulting in spreads of ~8.18% (PQ: ~8.15%).
- SHFL indicated that the earlier expectation of a ~1pp reduction in cost of funds is now less certain amid the rising interest rate environment. However, overall funding costs are expected to remain broadly stable, as incremental borrowing costs remain below the weighted average cost of borrowings.
- Management expects NIM to remain broadly stable at current levels over the next 1-2 quarters, before moderating to ~9% over the medium term and ~8.5% over the long term. We expect SHFL to deliver NIM (as a % of assets) of 9.6%/9.3% for FY27/FY28 (FY26: 8.2%).

### Stage 2 rose ~10bp QoQ; credit costs higher sequentially

- Asset quality was stable with GS3/NS3 remaining broadly stable QoQ at 4.65%/2.3% respectively. Net slippages increased ~12bp QoQ to 2.06% (PY: 1.6% and PQ: 1.93%). Stage 2 assets increased ~10bp QoQ to 7.05%. (PQ: 6.95% and PY: 6.9%). Write offs stood at INR8b, resulting in ~1.1% of TTM AUM.
- Stage 2 increase was more pronounced across CV, MSME, tractors, and gold loans. Stage 3 rose in 2W, Gold loans and personal loans.
- PCR on Stage 3 rose ~50bp QoQ to ~51.5% (PQ: ~51% and PY: ~46.7%), while PCR on Stage 1 and stage 2 was largely stable QoQ.

### Highlights from the management commentary

- Management shared that moisture stress has affected rice, soybean, maize, cotton, and pulses, while fertilizer shortages amid West Asia-related disruptions could further pressure food supply.
- The company highlighted that weak monsoons are weighing on rural consumption, particularly entry-level two-wheelers and cars, discretionary FMCG, and consumer appliances. However, diversification into non-farm and allied activities, greater irrigation coverage, and lower rainfall dependence have improved rural resilience.

### Valuation and view

- SHFL delivered a mixed quarter, with PPop beating estimates on the back of higher NIM and lower opex, while earnings were in line owing to higher credit costs. AUM growth at 17% YoY was stronger than our estimate; however, credit costs increased amid higher slippages and write-offs, primarily reflecting drought-like conditions across multiple states in India. Hence, management raised its FY27 credit cost guidance and lowered its AUM growth outlook.
- The stock is currently trading at 1.5x FY28E P/BV. We expect SHFL to deliver a CAGR of ~18%/~31% in AUM/PAT over FY26-28E, along with an RoA/RoE of ~4.1%/13.7% in FY28. **We reiterate our BUY rating with a TP of INR1,155 (premised on 2x Sep'28E BVPS).**

### Quarterly Performance

(INR M)

| Y/E March                  | FY26          |               |               |               | FY27E         |               |               |               | FY26            | FY27E           | 2QFY27E       | v/s Est. |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|---------------|----------|
|                            | 1QFY26        | 2QFY26        | 3QFY26        | 4QFY26        | 1QFY27        | 2QFY27        | 3QFY27        | 4QFY27        |                 |                 |               |          |
| Interest Income            | 1,11,732      | 1,15,506      | 1,18,331      | 1,20,871      | 1,29,100      | 1,33,796      | 1,38,746      | 1,43,614      | 4,66,440        | 5,45,256        | 1,31,682      | 2        |
| Interest Expenses          | 54,008        | 55,248        | 52,591        | 53,358        | 52,043        | 49,648        | 51,237        | 54,134        | 2,15,204        | 2,07,062        | 50,273        | -1       |
| <b>Net Interest Income</b> | <b>57,725</b> | <b>60,258</b> | <b>65,740</b> | <b>67,514</b> | <b>77,057</b> | <b>84,148</b> | <b>87,509</b> | <b>89,480</b> | <b>2,51,236</b> | <b>3,38,194</b> | <b>81,408</b> | <b>3</b> |
| YoY Growth (%)             | 10.3          | 10.3          | 17.6          | 21.3          | 33.5          | 39.6          | 33.1          | 32.5          | 15.0            | 34.6            | 35.1          |          |
| Other Income               | 3,685         | 3,643         | 3,584         | 4,408         | 5,021         | 4,193         | 4,163         | 4,546         | 15,339          | 17,923          | 4,559         | -8       |
| <b>Total Income</b>        | <b>61,410</b> | <b>63,901</b> | <b>69,325</b> | <b>71,922</b> | <b>82,078</b> | <b>88,341</b> | <b>91,672</b> | <b>94,026</b> | <b>2,66,576</b> | <b>3,56,117</b> | <b>85,967</b> | <b>3</b> |
| YoY Growth (%)             | 12.3          | 11.2          | 16.4          | 15.3          | 33.7          | 38.2          | 32.2          | 30.7          | 13.9            | 33.6            | 34.5          |          |
| Operating Expenses         | 19,486        | 19,486        | 22,620        | 18,671        | 21,225        | 20,248        | 22,620        | 23,538        | 80,262          | 87,630          | 22,214        | -9       |
| <b>Operating Profit</b>    | <b>41,924</b> | <b>44,415</b> | <b>46,705</b> | <b>53,250</b> | <b>60,854</b> | <b>68,093</b> | <b>69,052</b> | <b>70,488</b> | <b>1,86,313</b> | <b>2,68,487</b> | <b>63,753</b> | <b>7</b> |
| YoY Growth (%)             | 8.8           | 11.5          | 14.3          | 22.8          | 45.2          | 53.3          | 47.8          | 32.4          | 14.6            | 44.1            | 43.5          |          |
| Provisions & Loan Losses   | 12,857        | 13,333        | 13,103        | 14,097        | 14,633        | 18,774        | 19,440        | 17,687        | 53,391          | 70,534          | 15,678        | 20       |
| <b>Profit before Tax</b>   | <b>29,067</b> | <b>31,082</b> | <b>33,602</b> | <b>39,153</b> | <b>46,221</b> | <b>49,319</b> | <b>49,613</b> | <b>52,800</b> | <b>1,32,923</b> | <b>1,97,953</b> | <b>48,075</b> | <b>3</b> |
| Tax Provisions             | 7,510         | 8,028         | 8,385         | 9,017         | 11,776        | 12,549        | 12,502        | 13,057        | 32,941          | 49,884          | 12,115        | 4        |
| <b>Net Profit</b>          | <b>21,557</b> | <b>23,053</b> | <b>25,217</b> | <b>30,136</b> | <b>34,446</b> | <b>36,770</b> | <b>37,110</b> | <b>39,743</b> | <b>99,982</b>   | <b>1,48,069</b> | <b>35,960</b> | <b>2</b> |
| YoY Growth (%)             | 8.8           | 11.4          | 21.2          | 40.9          | 59.8          | 59.5          | 47.2          | 31.9          | 20.9            | 48.1            | 56.0          |          |

### Key Parameters (Calc., %)

|                |      |      |      |      |       |      |       |       |  |  |  |  |
|----------------|------|------|------|------|-------|------|-------|-------|--|--|--|--|
| Yield on loans | 16.7 | 16.7 | 16.5 | 16.3 | 16.8  | 16.7 | 16.6  | 16.5  |  |  |  |  |
| Cost of funds  | 9.1  | 9.3  | 8.7  | 8.5  | 8.6   | 8.5  | 8.5   | 8.6   |  |  |  |  |
| Spread         | 7.6  | 7.4  | 7.9  | 7.8  | 8.2   | 8.2  | 8.1   | 8.0   |  |  |  |  |
| NIM            | 8.62 | 8.7  | 9.18 | 9.09 | 10.01 | 10.5 | 10.44 | 10.30 |  |  |  |  |
| C/I ratio      | 31.7 | 30.5 | 32.6 | 26.0 | 25.9  | 22.9 | 24.7  | 25.0  |  |  |  |  |
| Credit cost    | 1.9  | 1.9  | 1.8  | 1.90 | 1.90  | 2.34 | 2.3   | 2.0   |  |  |  |  |
| Tax rate       | 25.8 | 25.8 | 25.0 | 23.0 | 25.5  | 25.4 | 25.2  | 24.7  |  |  |  |  |

### Balance Sheet Parameters

|                              |              |              |              |              |              |              |              |              |  |  |  |  |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|--|--|--|
| <b>Disbursements (INR b)</b> | <b>418</b>   | <b>430</b>   | <b>486</b>   | <b>509</b>   | <b>500</b>   | <b>541</b>   | <b>560</b>   | <b>585</b>   |  |  |  |  |
| Growth (%)                   | 10.9         | 7.6          | 11.1         | 13.6         | 19.5         | 25.7         | 15.2         | 14.9         |  |  |  |  |
| <b>AUM (INR b)</b>           | <b>2,722</b> | <b>2,813</b> | <b>2,917</b> | <b>3,023</b> | <b>3,138</b> | <b>3,290</b> | <b>3,413</b> | <b>3,535</b> |  |  |  |  |
| Growth (%)                   | 16.6         | 15.7         | 14.6         | 14.8         | 15.3         | 17.0         | 17.0         | 16.9         |  |  |  |  |
| <b>Borrowings (INR b)</b>    | <b>2,429</b> | <b>2,343</b> | <b>2,517</b> | <b>2,507</b> | <b>2,326</b> | <b>2,363</b> | <b>2,481</b> | <b>2,581</b> |  |  |  |  |
| Growth (%)                   | 26.7         | 12.7         | 12.7         | 7.0          | -4.2         | 0.8          | -1.4         | 2.9          |  |  |  |  |

### Asset Quality Parameters

|              |       |       |       |       |       |       |  |  |  |  |  |  |
|--------------|-------|-------|-------|-------|-------|-------|--|--|--|--|--|--|
| GS 3 (INR B) | 122.0 | 127.4 | 131.2 | 137.4 | 144.8 | 152.1 |  |  |  |  |  |  |
| GS 3 (%)     | 4.53  | 4.57  | 4.54  | 4.58  | 4.64  | 4.65  |  |  |  |  |  |  |
| NS 3 (INR B) | 67.93 | 67.9  | 67.25 | 68.25 | 70.96 | 73.8  |  |  |  |  |  |  |
| NS 3 (%)     | 2.57  | 2.49  | 2.38  | 2.33  | 2.33  | 2.31  |  |  |  |  |  |  |
| PCR (%)      | 44.31 | 46.7  | 48.77 | 50.34 | 50.99 | 51.5  |  |  |  |  |  |  |

E: MOFSL estimates



## Highlights from the management commentary

### Guidance

- FY27 AUM guidance moderated to 15-17% (from 18% earlier), reflecting weak monsoons and West Asia-related uncertainty.
- NIM is expected to remain near current levels for 1–2 quarters, before moderating to ~9% in the medium term and ~8.5% in the long term.
- The earlier expectation of a ~100bp reduction in cost of funds is less certain amid the rising rate-cycle. Management expects overall funding costs to remain broadly stable, although incremental borrowing costs could rise to 8.3–8.35%.
- Long-term credit cost guidance remains at ~2%. Credit costs could temporarily rise by 30–40bp for one or two quarters due to seasonal stress in affected geographies; management expects FY27 credit costs to remain below 2.3%
- Cost-to-income guidance remains at ~25% in the medium to long term, while opex/AUM is expected to stay near 2.5%, subject to incremental technology spending.
- The company remains on track to double its gold loan portfolio over three years, increasing its share of AUM from ~2.5% to ~5%.
- Management expects the MSME segment to grow faster than other lending segments, supported by Pan-India expansion following the merger.

### Industry and Macro outlook

- India's GDP grew 7.8% in 1QFY27, supported by resilient consumption, investment and government capex. The IMF raised its FY27 growth forecast to 7% from 6.4%, citing strong domestic demand and services activity.
- Retail inflation rose to 5.54% in Sept'26 from 4.82% in Aug'26, a 22-month high, while food inflation increased to 7.74% from 5.97%.
- WPI inflation accelerated to 11.39% from 9.92%, driven by higher mineral oils, food articles, crude petroleum, natural gas and industrial input costs.
- The RBI raised the repo rate by 25bp to 5.5% and shifted its stance from neutral to calibrated tightening.
- The RBI revised its FY27 GDP growth forecast upward to 7.1% and raised its CPI inflation forecast marginally to 5.2%.
- The 2026 southwest monsoon ended at 87% of the long-period average, with significant regional deficits and El Niño concerns. Around 51.2% of India's geographical area was abnormally dry or worse as of September 23.
- Moisture stress has affected rice, soybean, maize, cotton and pulses, while fertilizer shortages amid West Asia-related disruptions could further pressure food supply.
- Weak monsoons are weighing on rural consumption, particularly entry-level two-wheelers and cars, discretionary FMCG and consumer appliances. However, diversification into non-farm and allied activities, greater irrigation coverage and lower rainfall dependence have improved rural resilience.
- Strong GST collections support government infrastructure spending, while GST rate cuts have supported OEM demand over the past year.

### Growth

- Disbursements grew ~26% YoY to INR541b, while AUM rose 17% YoY and 4.9% QoQ to INR3.29t.

- FY27 AUM growth guidance was moderated to 15-17% from 18%, reflecting West Asia uncertainty and weak monsoons. AUM Growth was 15% in 1Q and 17% in 2Q.
- Management remains cautious in drought-affected Maharashtra, Karnataka and Telangana, where the company has a sizeable portfolio, despite healthy demand over the preceding two quarters.
- MSME disbursements rose sharply, supported by expansion beyond traditional southern and western markets to a pan-India presence post-merger. Management expects MSME lending to grow faster than other segments; MSME segment has ~28% unsecured loans.
- Construction equipment demand is recovering alongside higher government infrastructure spending, following last year's weakness in capex and demand.

### **NIM and funding costs**

- NIM is expected to remain around current levels for 1–2 quarters before moderating to ~9% in the medium term and ~8.5% in the long term, as excess benefits from fresh capital normalize and funding costs potentially rise.
- The earlier expectation of a 100bp reduction in cost of funds is now less certain amid the reversal in the interest-rate cycle. On-book cost of liabilities declined 15bp QoQ to 8.41%, down 18bp since March, while incremental CoF fell to 7.3% from 7.7% in 1Q.
- Incremental borrowing costs (banks and NCD) are currently around 8% and could rise to 8.3–8.35% if rates increase; management does not expect a material increase in overall blended funding costs.
- A higher share of new-vehicle loans, which typically carry 200–400bp lower yields than used-vehicle loans depending on the segment, could weigh on yields as the company seeks to retain customers. Pricing changes apply only to fresh disbursements, as existing loans are fixed-rate.
- Excess liquidity has largely been utilized, with liquidity buffers now covering around three months of future repayment obligations.
- The company raised ~INR270b through bonds and bank borrowings in 2Q, with borrowing activity returning to pre-March levels.
- Leverage increased marginally to 2.16x from 2.14x QoQ, while capital adequacy stood at 33.24% versus 34% in 1QFY27.

### **Asset quality and credit costs**

- Gross Stage 3 increased marginally to 4.65% from 4.57% YoY, while net Stage 3 improved to 2.31% from 2.49%.
- Credit cost increased to 2.03% of total assets from 1.68% in 2QFY26 and 1.66% in 1QFY27.
- Management attributed higher stress primarily to deficient rainfall and seasonal pressure in select geographies, with no evidence of widespread deterioration. Lower agricultural output is weighing on rural incomes, consumption and borrower cash flows; flooding is viewed as a temporary disruption.
- Credit costs could remain temporarily elevated by 30-40bp for one or two quarters. Management did not reaffirm 2.3% as full-year guidance and expects full-year credit costs to be materially below 2.3–2.4%, with long-term guidance remaining around 2%.

- Stage 1 and Stage 2 stress is expected to normalize, supported by adequate provisioning and festive demand. Management believes strong underlying asset and resale values will support recoveries.
- MSME stress is concentrated in drought-affected regions. The company does not identify broader pressure from raw-material or labor costs, which are already factored into its assessment.
- In construction equipment, Stage 3 assets declined to INR8.6b from INR8.7b QoQ, while Stage 2 assets increased to INR9.6b from INR9.5b. Management attributed elevated ratios largely to a denominator effect, with limited movement in absolute stressed assets despite higher disbursements.
- Credit filters remain broadly stable, with tighter underwriting applied selectively when local economic conditions or specific segments weaken.

### Gold financing

- Gold loan AUM stood at ~INR90b, with management targeting a doubling of the portfolio over three years and an increase in its share of AUM from ~2.5% to ~5%.
- Gold loan disbursements increased to INR54.4b in 2Q from INR51.5b in 1Q. LTV, including accrued interest, remained stable at ~72–73%.
- Higher Stage 2/Stage 3 assets primarily reflect customers' unfamiliarity with newly introduced EMI-based and interest-servicing products, as they remain accustomed to bullet repayments.
- Management sees no material underlying concern in gold financing, provided customer selection, credit processes and gold valuation remain sound. Customer education is expected to improve repayment behavior, while the ability to auction pledged gold limits potential credit losses.
- Management continues to see significant growth opportunities in gold loans and has retained its expansion plans.

### Financial highlights

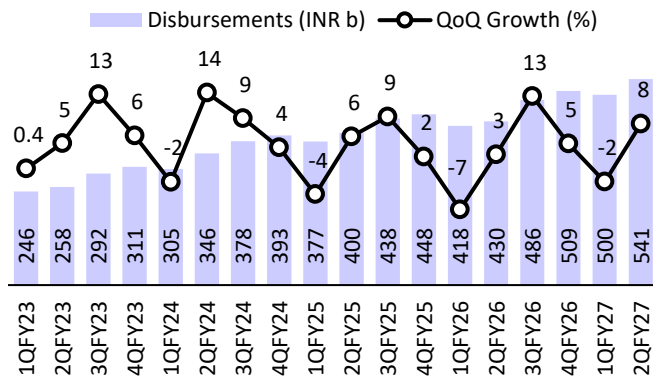
- PAT grew ~59% YoY to INR36.8b from INR23.1b in 2QFY26 and INR34.4b in 1QFY27.
- The cost-to-income ratio improved to 22.52% from 27.76% YoY and 25.48% QoQ, partly reflecting normalization of staff costs after annual back-office bonuses in 1Q.
- Medium- to long-term cost-to-income guidance remains ~25%. Opex-to-AUM is expected to stay near 2.5%, although additional technology spending could create some pressure.

### Insurance distribution commission impact from IRDAI consultation paper

- The proposed IRDAI draft guidelines could reduce insurance commission income by ~50% under the current framework. The company received ~INR3.5b in insurance commissions in FY26, and could see a potential impact of ~INR1b.
- Management considers the impact immaterial relative to the company's balance sheet, as distribution income contributes only a small share of total income. It expects IRDAI to reconsider the proposed rates following industry representations and is awaiting final guidelines.

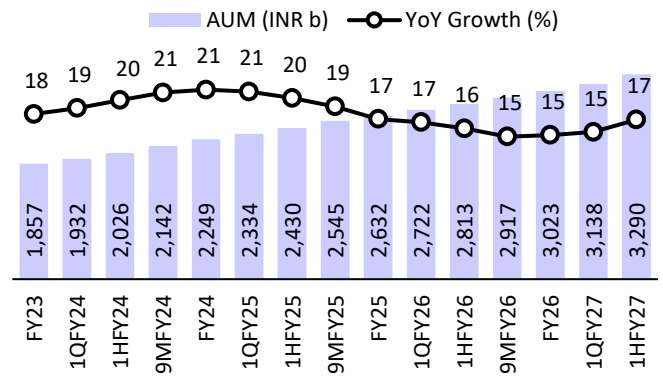
## Key exhibits

**Exhibit 1: Disbursements grew 25% YoY...**



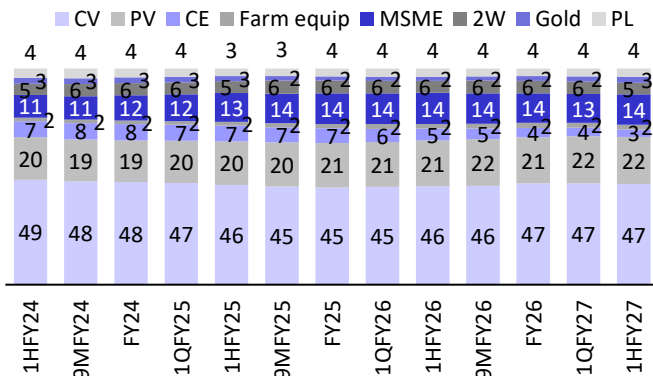
Source: MOFSL, Company

**Exhibit 2: ...leading to AUM growth of 17% YoY/4.9% QoQ**



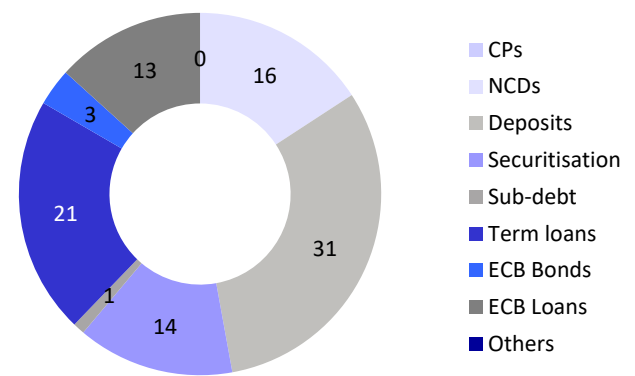
Source: MOFSL, Company

**Exhibit 3: AUM mix largely stable (%)**



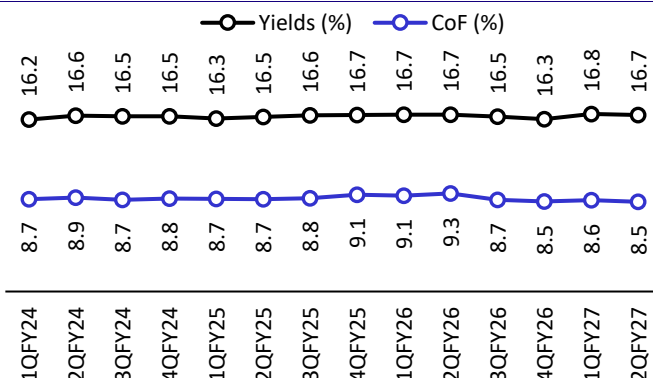
Source: MOFSL, Company

**Exhibit 4: Borrowing mix as of Sep'26 (%)**



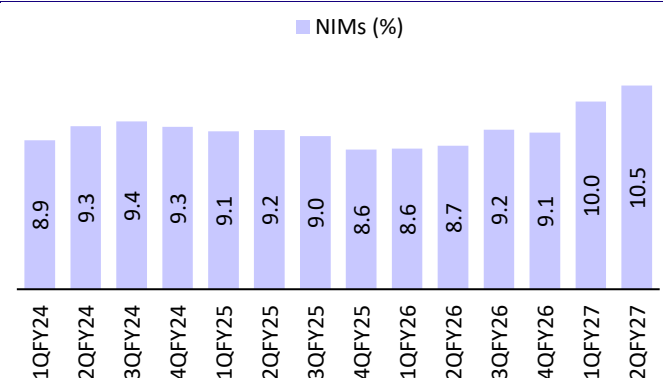
Source: MOFSL, Company

**Exhibit 5: Yields (calc.) declined ~10bp QoQ (%)**

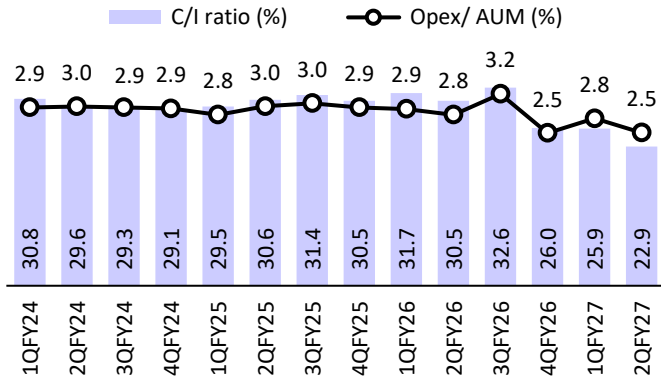


Source: MOFSL, Company

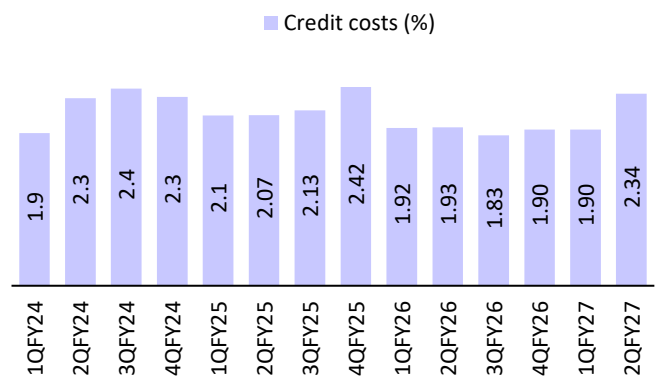
**Exhibit 6: NIM (calc.) improved ~50bp QoQ (%)**



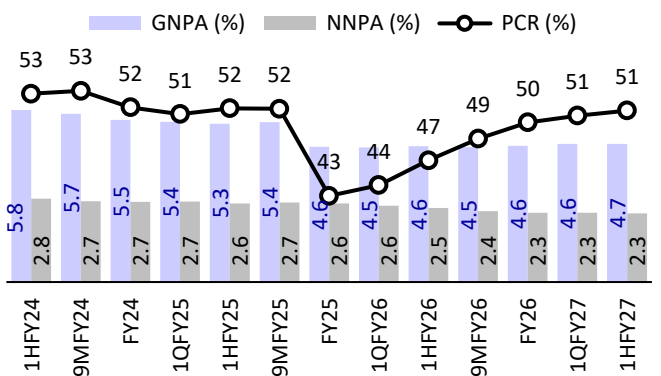
Source: MOFSL, Company

**Exhibit 7: Cost-to-income ratio declined significantly QoQ**


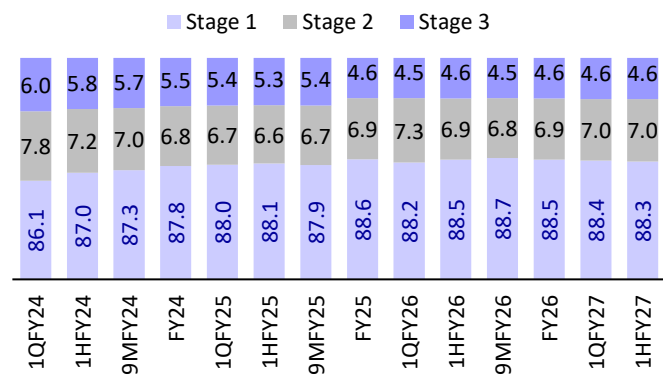
Source: MOFSL, Company

**Exhibit 8: Credit costs (calc.) rose ~45bp sequentially**


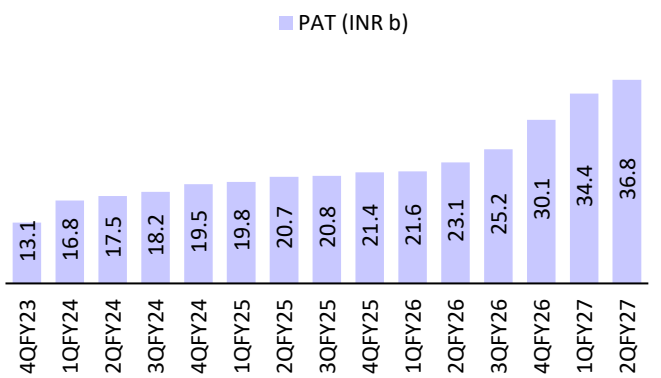
Source: MOFSL, Company

**Exhibit 9: GNPA broadly stable sequentially**


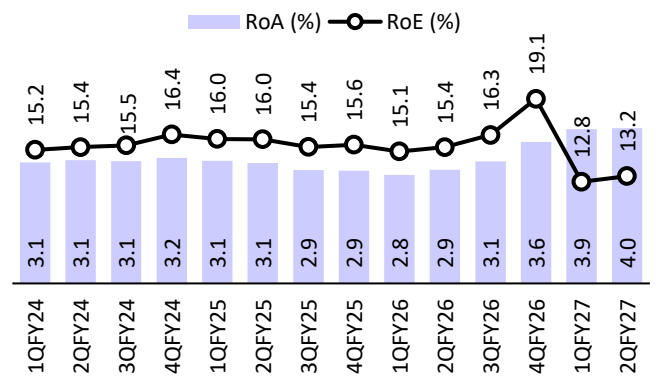
Source: MOFSL, Company

**Exhibit 10: Stage 2 increased ~10bp QoQ (%)**


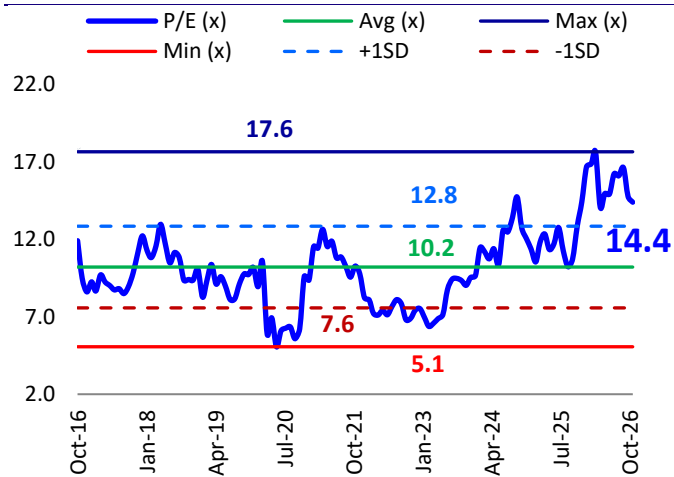
Source: MOFSL, Company

**Exhibit 11: PAT grew ~60% YoY/~14% QoQ to ~INR34.4b**


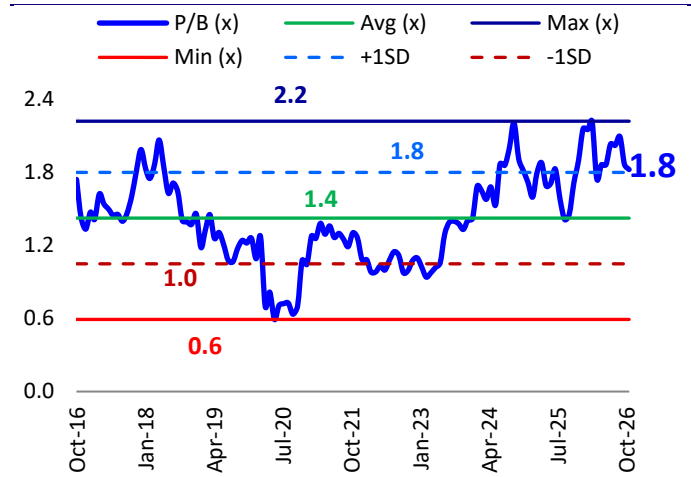
Source: MOFSL, Company

**Exhibit 12: RoA rose to ~4% in 2QFY27**


Source: MOFSL, Company

**Exhibit 13: One-year forward P/E**


Source: MOFSL, Company

**Exhibit 14: One-year forward P/B**


Source: MOFSL, Company

**We tweak our FY27/FY28 EPS estimates to factor in higher credit costs, offset by higher NIM and lower opex**

| INR B                    | Old Est.     |              | New Est.     |              | Change (%) |            |
|--------------------------|--------------|--------------|--------------|--------------|------------|------------|
|                          | FY27         | FY28         | FY27         | FY28         | FY27       | FY28       |
| NII (incl. assignments)  | 330.1        | 384.2        | 338.2        | 391.2        | 2.5        | 1.8        |
| Other Income             | 18.4         | 17.5         | 17.9         | 17.1         | -2.5       | -2.5       |
| <b>Total Income</b>      | <b>348.4</b> | <b>401.7</b> | <b>356.1</b> | <b>408.3</b> | <b>2.2</b> | <b>1.6</b> |
| Operating Expenses       | 89.7         | 103.0        | 87.6         | 101.4        | -2.3       | -1.6       |
| <b>Operating Profits</b> | <b>258.7</b> | <b>298.7</b> | <b>268.5</b> | <b>306.9</b> | <b>3.8</b> | <b>2.7</b> |
| Provisions               | 63.9         | 74.4         | 70.5         | 78.6         | 10.4       | 5.6        |
| <b>PBT</b>               | <b>194.8</b> | <b>224.3</b> | <b>198.0</b> | <b>228.3</b> | <b>1.6</b> | <b>1.8</b> |
| Tax                      | 49.1         | 56.5         | 49.9         | 57.5         | 1.6        | 1.8        |
| <b>PAT</b>               | <b>145.7</b> | <b>167.8</b> | <b>148.1</b> | <b>170.8</b> | <b>1.6</b> | <b>1.8</b> |
| AUM                      | 3,544        | 4,197        | 3,535        | 4,220        | -0.3       | 0.6        |
| Loans                    | 3,318        | 3,943        | 3,309        | 3,966        | -0.3       | 0.6        |
| Borrowings               | 2,658        | 3,202        | 2,581        | 3,220        | -2.9       | 0.6        |
| NIM                      | 10.1         | 9.9          | 10.3         | 10.1         |            |            |
| Credit Cost (%)          | 2.1          | 2.1          | 2.3          | 2.2          |            |            |
| RoA                      | 4.1          | 4.0          | 4.2          | 4.1          |            |            |
| <b>RoE</b>               | <b>15.9</b>  | <b>13.5</b>  | <b>16.1</b>  | <b>13.7</b>  |            |            |

| Du-Pont (% of average assets) | FY21        | FY22        | FY23        | FY24        | FY25        | FY26        | FY27E       | FY28E       | FY29E       |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Interest Income               | 14.7        | 14.4        | 14.8        | 15.2        | 15.2        | 15.2        | 15.5        | 15.0        | 15.0        |
| Interest Expended             | 7.2         | 7.1         | 6.5         | 6.7         | 7.0         | 7.0         | 5.9         | 5.7         | 5.9         |
| <b>Net Interest Income</b>    | <b>7.5</b>  | <b>7.3</b>  | <b>8.3</b>  | <b>8.5</b>  | <b>8.2</b>  | <b>8.2</b>  | <b>9.6</b>  | <b>9.3</b>  | <b>9.1</b>  |
| Non-interest income           | 0.3         | 0.5         | 0.6         | 0.6         | 0.6         | 0.5         | 0.5         | 0.4         | 0.3         |
| <b>Net Total Income</b>       | <b>7.8</b>  | <b>7.8</b>  | <b>8.9</b>  | <b>9.2</b>  | <b>8.8</b>  | <b>8.7</b>  | <b>10.1</b> | <b>9.7</b>  | <b>9.4</b>  |
| <b>Operating Expenses</b>     | <b>2.2</b>  | <b>2.2</b>  | <b>2.5</b>  | <b>2.7</b>  | <b>2.7</b>  | <b>2.6</b>  | <b>2.5</b>  | <b>2.4</b>  | <b>2.4</b>  |
| - Employee expenses           | 1.1         | 1.1         | 1.3         | 1.5         | 1.4         | 1.3         | 1.2         | 1.2         | 1.2         |
| - Other expenses              | 1.1         | 1.0         | 1.2         | 1.3         | 1.3         | 1.3         | 1.3         | 1.2         | 1.2         |
| <b>PPoP</b>                   | <b>5.6</b>  | <b>5.6</b>  | <b>6.4</b>  | <b>6.4</b>  | <b>6.1</b>  | <b>6.1</b>  | <b>7.6</b>  | <b>7.3</b>  | <b>7.1</b>  |
| Provisions/write offs         | 2.6         | 2.7         | 2.2         | 2.0         | 2.0         | 1.7         | 2.0         | 1.9         | 1.8         |
| <b>PBT</b>                    | <b>3.0</b>  | <b>2.9</b>  | <b>4.2</b>  | <b>4.4</b>  | <b>4.1</b>  | <b>4.3</b>  | <b>5.6</b>  | <b>5.4</b>  | <b>5.2</b>  |
| Tax                           | 0.8         | 0.7         | 1.1         | 1.1         | 1.0         | 1.1         | 1.4         | 1.4         | 1.3         |
| <b>RoA</b>                    | <b>2.3</b>  | <b>2.2</b>  | <b>3.1</b>  | <b>3.3</b>  | <b>3.1</b>  | <b>3.3</b>  | <b>4.2</b>  | <b>4.1</b>  | <b>3.9</b>  |
| Avg. Leverage                 | 5.7         | 5.4         | 4.9         | 4.8         | 5.1         | 5.0         | 3.8         | 3.4         | 3.6         |
| <b>RoE</b>                    | <b>12.8</b> | <b>11.8</b> | <b>15.3</b> | <b>15.7</b> | <b>15.8</b> | <b>16.4</b> | <b>16.1</b> | <b>13.7</b> | <b>13.9</b> |

## Financials and valuation

| Income Statement                          |                 |                 |                 |                 |                 |                 | (INR M)         |                 |                 |
|-------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March                                 | FY21            | FY22            | FY23            | FY24            | FY25            | FY26            | FY27E           | FY28E           | FY29E           |
| Interest Income                           | 2,26,997        | 2,48,605        | 2,86,074        | 3,35,997        | 4,03,076        | 4,66,440        | 5,45,256        | 6,29,266        | 7,38,802        |
| Interest Expenses                         | 1,11,881        | 1,22,668        | 1,25,458        | 1,48,061        | 1,84,546        | 2,15,204        | 2,07,062        | 2,38,101        | 2,89,678        |
| <b>Net Interest Income</b>                | <b>1,15,116</b> | <b>1,25,936</b> | <b>1,60,616</b> | <b>1,87,935</b> | <b>2,18,531</b> | <b>2,51,236</b> | <b>3,38,194</b> | <b>3,91,165</b> | <b>4,49,124</b> |
| Change (%)                                | -0.4            | 9.4             | 27.5            | 17.0            | 16.3            | 15.0            | 34.6            | 15.7            | 14.8            |
| Other Operating Income                    | 4,514           | 9,214           | 11,648          | 13,648          | 15,268          | 14,739          | 17,244          | 16,382          | 15,563          |
| Other Income                              | 237             | 227             | 307             | 332             | 251             | 601             | 679             | 713             | 749             |
| <b>Total Income</b>                       | <b>1,19,867</b> | <b>1,35,378</b> | <b>1,72,571</b> | <b>2,01,915</b> | <b>2,34,049</b> | <b>2,66,576</b> | <b>3,56,117</b> | <b>4,08,260</b> | <b>4,65,436</b> |
| Change (%)                                | -0.5            | 12.9            | 27.5            | 17.0            | 15.9            | 13.9            | 33.6            | 14.6            | 14.0            |
| <b>Total Operating Expenses</b>           | <b>33,500</b>   | <b>37,805</b>   | <b>49,131</b>   | <b>59,895</b>   | <b>71,440</b>   | <b>80,262</b>   | <b>87,630</b>   | <b>1,01,351</b> | <b>1,16,383</b> |
| Change (%)                                | -6.4            | 12.8            | 30.0            | 21.9            | 19.3            | 12.3            | 9.2             | 15.7            | 14.8            |
| Employee Expenses                         | 16,699          | 19,695          | 25,061          | 32,156          | 36,512          | 41,260          | 43,382          | 50,757          | 58,879          |
| Depreciation                              | 2,172           | 2,137           | 5,242           | 5,688           | 6,453           | 6,988           | 7,431           | 7,885           | 8,390           |
| Other Operating Expenses                  | 14,629          | 15,973          | 18,828          | 22,051          | 28,475          | 32,015          | 36,817          | 42,708          | 49,114          |
| <b>Operating Profit</b>                   | <b>86,367</b>   | <b>97,573</b>   | <b>1,23,441</b> | <b>1,42,020</b> | <b>1,62,609</b> | <b>1,86,313</b> | <b>2,68,487</b> | <b>3,06,909</b> | <b>3,49,053</b> |
| Change (%)                                | 1.9             | 13.0            | 26.5            | 15.1            | 14.5            | 14.6            | 44.1            | 14.3            | 13.7            |
| <b>Total Provisions</b>                   | <b>39,693</b>   | <b>47,485</b>   | <b>41,592</b>   | <b>45,183</b>   | <b>53,117</b>   | <b>53,391</b>   | <b>70,534</b>   | <b>78,567</b>   | <b>90,203</b>   |
| % Loan loss provisions to Avg loans ratio | 2.8             | 3.1             | 2.4             | 2.2             | 2.3             | 2.0             | 2.3             | 2.2             | 2.1             |
| <b>PBT</b>                                | <b>46,674</b>   | <b>50,088</b>   | <b>81,849</b>   | <b>96,836</b>   | <b>1,09,493</b> | <b>1,32,923</b> | <b>1,97,953</b> | <b>2,28,342</b> | <b>2,58,850</b> |
| Tax Provisions                            | 11,692          | 12,164          | 22,056          | 24,932          | 26,776          | 32,941          | 49,884          | 57,542          | 65,230          |
| Tax Rate (%)                              | 25.1            | 24.3            | 26.9            | 25.7            | 24.5            | 24.8            | 25.2            | 25.2            | 25.2            |
| <b>PAT</b>                                | <b>34,982</b>   | <b>37,925</b>   | <b>59,793</b>   | <b>71,905</b>   | <b>82,716</b>   | <b>99,982</b>   | <b>1,48,069</b> | <b>1,70,800</b> | <b>1,93,620</b> |
| Change (%)                                | -0.1            | 8.4             | 57.7            | 20.3            | 15.0            | 20.9            | 48.1            | 15.4            | 13.4            |
| <b>PAT (including exceptional gains)</b>  | <b>34,982</b>   | <b>37,925</b>   | <b>59,793</b>   | <b>71,905</b>   | <b>97,610</b>   | <b>99,982</b>   | <b>1,48,069</b> | <b>1,70,800</b> | <b>1,93,620</b> |

| Balance Sheet                 |                  |                  |                  |                  |                  |                  | (INR M)          |                  |                  |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March                     | FY21             | FY22             | FY23             | FY24             | FY25             | FY26             | FY27E            | FY28E            | FY29E            |
| Equity Share Capital          | 3,191            | 3,371            | 3,744            | 3,758            | 3,761            | 3,763            | 4,705            | 4,705            | 4,705            |
| Reserves & Surplus            | 2,91,764         | 3,43,760         | 4,29,322         | 4,81,926         | 5,59,045         | 6,53,286         | 11,72,269        | 13,08,429        | 14,63,619        |
| <b>Net Worth</b>              | <b>2,94,954</b>  | <b>3,47,132</b>  | <b>4,33,066</b>  | <b>4,85,684</b>  | <b>5,62,806</b>  | <b>6,57,049</b>  | <b>11,76,974</b> | <b>13,13,134</b> | <b>14,68,324</b> |
| <b>Borrowings</b>             | <b>13,17,617</b> | <b>14,51,285</b> | <b>15,79,063</b> | <b>18,58,411</b> | <b>23,41,973</b> | <b>25,06,899</b> | <b>25,80,617</b> | <b>32,19,656</b> | <b>37,52,136</b> |
| Change (%)                    | 12.1             | 10.1             | 8.8              | 17.7             | 26.0             | 7.0              | 2.9              | 24.8             | 16.5             |
| <b>Other liabilities</b>      | <b>26,317</b>    | <b>23,320</b>    | <b>24,509</b>    | <b>28,665</b>    | <b>30,551</b>    | <b>47,604</b>    | <b>52,364</b>    | <b>57,600</b>    | <b>63,360</b>    |
| <b>Total Liabilities</b>      | <b>16,38,888</b> | <b>18,21,754</b> | <b>20,36,639</b> | <b>23,72,760</b> | <b>29,35,329</b> | <b>32,11,552</b> | <b>38,09,955</b> | <b>45,90,390</b> | <b>52,83,820</b> |
| <b>Cash and bank balances</b> | <b>2,16,562</b>  | <b>2,29,679</b>  | <b>1,58,174</b>  | <b>1,08,126</b>  | <b>2,13,657</b>  | <b>79,384</b>    | <b>1,68,753</b>  | <b>2,66,241</b>  | <b>2,68,241</b>  |
| Investments                   | 42,152           | 86,455           | 85,651           | 1,06,566         | 1,55,987         | 1,47,828         | 1,52,262         | 1,59,876         | 1,67,869         |
| <b>Loans</b>                  | <b>13,57,232</b> | <b>14,76,890</b> | <b>17,19,846</b> | <b>20,79,294</b> | <b>24,53,928</b> | <b>28,24,524</b> | <b>33,08,836</b> | <b>39,65,917</b> | <b>46,24,808</b> |
| Change (%)                    | 5.3              | 8.8              | 16.5             | 20.9             | 18.0             | 15.1             | 17.1             | 19.9             | 16.6             |
| Fixed Assets                  | 6,599            | 6,467            | 6,997            | 8,458            | 10,257           | 11,088           | 11,642           | 12,224           | 12,835           |
| Deferred tax Assets           | 6,964            | 9,109            | 17,439           | 28,840           | 36,949           | 42,633           | 34,107           | 27,285           | 21,828           |
| Goodwill                      |                  |                  | 14,067           | 14,067           | 11,895           | 11,895           | 11,895           | 11,895           | 11,895           |
| Other Assets                  | 9,379            | 13,137           | 34,465           | 27,408           | 52,657           | 94,201           | 1,22,461         | 1,46,953         | 1,76,344         |
| <b>Total Assets</b>           | <b>16,38,888</b> | <b>18,21,737</b> | <b>20,36,639</b> | <b>23,72,760</b> | <b>29,35,329</b> | <b>32,11,552</b> | <b>38,09,955</b> | <b>45,90,390</b> | <b>52,83,820</b> |

E: MOFSL Estimates

| AUM Mix (%)          |           |           |           |           |           |           | (INR M)   |           |           |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Y/E March            | FY21      | FY22      | FY23      | FY24      | FY25      | FY26      | FY27E     | FY28E     | FY29E     |
| <b>AUM</b>           | 14,68,128 | 15,77,122 | 18,56,829 | 22,48,620 | 26,31,903 | 30,22,738 | 35,35,091 | 42,19,733 | 49,04,753 |
| Change (%)           | 6         | 7         | 18        | 21        | 17        | 15        | 17        | 19        | 16        |
| <b>Disbursements</b> | 5,21,985  | 8,62,135  | 11,06,899 | 14,21,675 | 16,62,981 | 18,44,290 | 21,86,425 | 25,51,125 | 29,95,271 |
| Change (%)           | -26       | 65        | 28        | 28        | 17        | 11        | 19        | 17        | 17        |

E: MOFSL Estimates

| Ratios                      |      |      |      |      |      |      | (INR M) | (INR M) |       |
|-----------------------------|------|------|------|------|------|------|---------|---------|-------|
| Y/E March                   | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E   | FY28E   | FY29E |
| <b>Spreads Analysis (%)</b> |      |      |      |      |      |      |         |         |       |
| Avg. Yield on Loans         | 17.2 | 17.5 | 17.9 | 17.7 | 17.8 | 17.7 | 17.8    | 17.3    | 17.2  |
| Avg Cost of Funds           | 9.0  | 8.9  | 8.3  | 8.6  | 8.8  | 8.9  | 8.14    | 8.2     | 8.3   |
| Spread of loans             | 8.2  | 8.7  | 9.6  | 9.1  | 9.0  | 8.8  | 9.64    | 9.1     | 8.9   |
| NIM (on assets)             | 7.5  | 7.3  | 8.3  | 8.5  | 8.2  | 8.2  | 9.6     | 9.3     | 9.1   |
| C/I ratio                   | 27.9 | 27.9 | 28.5 | 29.7 | 30.5 | 30.1 | 24.6    | 24.8    | 25.0  |

|                                 |      |      |      |      |      |      |      |      |      |
|---------------------------------|------|------|------|------|------|------|------|------|------|
| <b>Profitability Ratios (%)</b> |      |      |      |      |      |      |      |      |      |
| RoE                             | 12.8 | 11.8 | 15.3 | 15.7 | 15.8 | 16.4 | 16.1 | 13.7 | 13.9 |
| RoA                             | 2.3  | 2.2  | 3.1  | 3.3  | 3.1  | 3.3  | 4.2  | 4.1  | 3.9  |
| Int. Expended /                 |      |      |      |      |      |      |      |      |      |
| Int.Earned                      | 49.3 | 49.3 | 43.9 | 44.1 | 45.8 | 46.1 | 38.0 | 37.8 | 39.2 |
| Other Inc. / Net Income         | 4.0  | 7.0  | 6.9  | 6.9  | 6.6  | 5.8  | 5.0  | 4.2  | 3.5  |

|                              |      |      |      |      |      |      |      |      |      |
|------------------------------|------|------|------|------|------|------|------|------|------|
| <b>Efficiency Ratios (%)</b> |      |      |      |      |      |      |      |      |      |
| Op. Exps. / Net Income       | 27.9 | 27.9 | 28.5 | 29.7 | 30.5 | 30.1 | 24.6 | 24.8 | 25.0 |
| Empl. Cost/Op. Exps.         | 49.8 | 52.1 | 51.0 | 53.7 | 51.1 | 51.4 | 49.5 | 50.1 | 50.6 |

|                                    |     |     |     |     |     |     |     |     |     |
|------------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| <b>Asset-Liability Profile (%)</b> |     |     |     |     |     |     |     |     |     |
| Loans/Borrowings Ratio             | 1.0 | 1.0 | 1.1 | 1.1 | 1.0 | 1.1 | 1.3 | 1.2 | 1.2 |
| Assets/Equity                      | 5.6 | 5.2 | 4.7 | 4.9 | 5.2 | 4.9 | 3.2 | 3.5 | 3.6 |

|                           |          |          |          |          |          |          |          |          |          |
|---------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| <b>Asset quality (%)</b>  |          |          |          |          |          |          |          |          |          |
| GNPA                      | 1,01,688 | 1,09,762 | 1,13,822 | 1,20,812 | 1,18,388 | 1,37,433 | 1,55,446 | 1,76,402 | 2,01,391 |
| NNPA                      | 51,523   | 49,731   | 56,749   | 58,245   | 67,145   | 68,255   | 85,495   | 97,021   | 1,10,765 |
| GNPA ratio                | 6.9      | 6.9      | 6.2      | 5.5      | 4.6      | 4.6      | 4.5      | 4.2      | 4.2      |
| NNPA ratio                | 3.6      | 3.3      | 3.2      | 2.7      | 2.6      | 2.3      | 2.5      | 2.4      | 2.3      |
| PCR                       | 49.3     | 54.7     | 50.1     | 51.8     | 43.3     | 50.3     | 45.0     | 45.0     | 45.0     |
| Credit Costs (% of loans) | 2.8      | 3.1      | 2.4      | 2.2      | 2.3      | 2.0      | 2.3      | 2.2      | 2.1      |

|                    |      |      |      |      |      |      |      |      |      |
|--------------------|------|------|------|------|------|------|------|------|------|
| <b>Valuations</b>  |      |      |      |      |      |      |      |      |      |
| Book Value (INR)   | 185  | 206  | 231  | 258  | 299  | 349  | 500  | 558  | 624  |
| BV Growth (%)      | 8    | 11   | 12   | 12   | 16   | 17   | 43   | 12   | 12   |
| P/BV               | 4.6  | 4.1  | 3.7  | 3.3  | 2.8  | 2.4  | 1.7  | 1.5  | 1.4  |
| EPS (INR)          | 22   | 22   | 32   | 38   | 44   | 53   | 63   | 73   | 82   |
| EPS Growth (%)     | -8.3 | 2.6  | 42.0 | 19.8 | 14.9 | 20.8 | 18.4 | 15.4 | 13.4 |
| P/E                | 38.6 | 37.6 | 26.5 | 22.1 | 19.3 | 15.9 | 13.5 | 11.7 | 10.3 |
| DPS                | 4.2  | 4.7  | 7.0  | 9.0  | 9.9  | 10.8 | 14   | 16   | 18   |
| Dividend Yield (%) | 0.5  | 0.6  | 0.8  | 1.1  | 1.2  | 1.3  | 1.7  | 1.9  | 2.1  |

E: MOFSL Estimates

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## NOTES

| Explanation of Investment Rating |                                                                                              |
|----------------------------------|----------------------------------------------------------------------------------------------|
| Investment Rating                | Expected return (over 12-month)                                                              |
| BUY                              | >=15%                                                                                        |
| SELL                             | < - 10%                                                                                      |
| NEUTRAL                          | < - 10 % to 15%                                                                              |
| UNDER REVIEW                     | Rating may undergo a change                                                                  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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