

We met with over twenty investors in Asia last week, to discuss NBFC, Insurance, and other financial services stocks. Key takeaways: 1) Easing of the regulatory environment in both—the NBFC and Insurance spaces, and growth impetus by the regulators and the government, set the platform for stronger performance in H2FY26. 2) Performance delivery in Q1 (and possibly in Q2) by NBFCs (in AUM growth, asset quality, and credit cost) and Insurers (in terms of growth) is not too encouraging. 3) MFI revival and unsecured PL stress being largely behind is now a consensus view; however, revival in vehicle sales is key for a sustained growth revival. 4) Regulatory changes and the related noise could cause higher near-term volatilities in capital market-linked stocks, albeit provide attractive entry points. Overall, investors see the NBFC, Insurance, and capital market sectors as structural stories; shares' outperformance in recent quarters seems to be capturing the H2 revival and limits any near-term upside.

Improving external environment and easing regulation drive optimism for H2

Amid a frontloaded 100bps repo rate-cut by the RBI in CY25, reversal of increased risk-weight on banks' loans to NBFCs, and far more benign regulations on provisioning in Project Finance, investors see such regulatory easing supporting the improving performance of NBFCs in terms of growth and profitability (led by NIM expansion), albeit with some lag. Additionally, the better temporal and spatial distribution of the monsoons so far supporting rural revival and the government's numerous initiatives giving impetus to growth are likely to support credit demand. In Insurance (both Life and GI), growth is expected to recover in H2 on account of the previous-year base turning favorable, the impact of regulatory changes (surrender regulations for Life and 1/n regulations for GI) now behind, and possibly some supportive regulatory actions on the GST front. For capital markets, evolving regulatory actions and the related noise will increase volatility in the near term.

Softer trends in Q1 for Insurers on expected lines; NBFCs throw up a mild negative surprise

The impact of a host of factors—including regulatory changes in the previous year, a buoyant equity market led strong ULIP show in Q1FY25, and no Motor TP Tariff hike in FY26—meant that expectations from Insurers (Life and General) were already muted; hence, a weaker Q1 growth performance is not surprising. In case of NBFC lenders, regulatory actions were expected to translate into improvement in H2, credit costs were expected to see YoY improvement given that Q1 last year was affected by the extreme heat wave and electoral activities. However, trends so far and the management commentaries seem to be indicating a sticky credit cost, akin to levels seen last year – this has come as a disappointment.

Recent rally in share prices and a host of upcoming issues limit near-term upside

Overall, investors were hopeful about a likely revival in the operating performance of lenders and insurers in H2, on the back of regulatory easing and an improving macroeconomic environment. However, due to the strong relative outperformance of NBFC and Insurance shares in recent quarters, and amid several primary issuances in the lending space, the near-term upside is now limited. Against this backdrop, investors are likely to see valuation resistance in BAF and CIBC, as incremental data points are not sufficient for further re-rating. ABCAP's recent re-rating was appreciated, as the management's track record of managing credit cost amid big credit events (Wholesale credit crisis 2018-19, Covid 2020-21, and Retail unsecured cycle in 2024) and the likely NIM expansion on re-risking of the balance sheet support 2x P/B FY27E valuation for ABCAP. For insurers, likely approval of the Insurance Amendment Bill in the upcoming monsoon session of the Parliament and GST rate cuts in Term and Health Insurance could be the positive triggers. Against such a backdrop, MAXF and SBILIFE continue to find favor with investors, as Axis-Max rebranding and opportunities thrown up by the Insurance Amendment Bill are likely to support valuations. On the Capital Markets front, the view was slightly different, wherein expectations of regulatory changes and the related noise in the near term are likely to bring higher volatilities in share prices; however, this could also provide attractive entry points to play on decadal stories.

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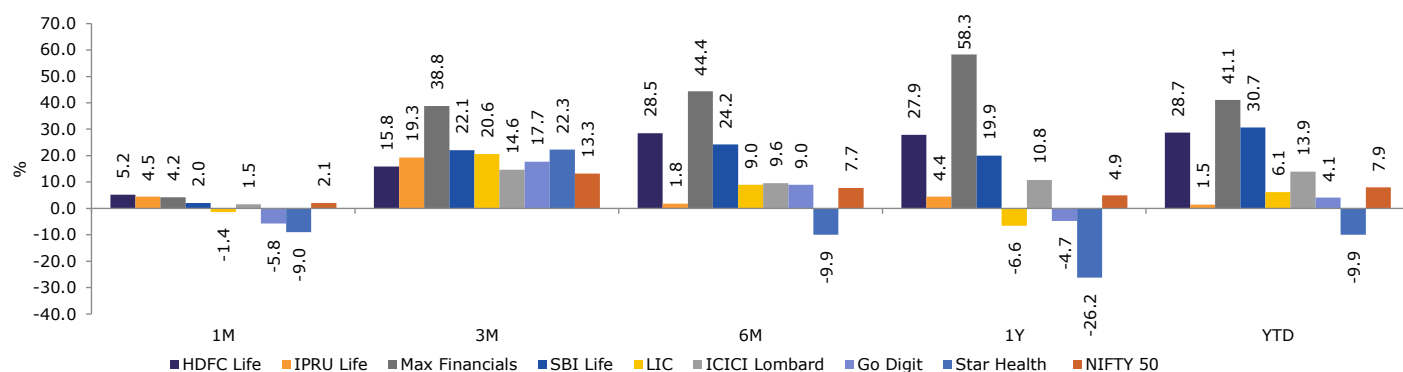
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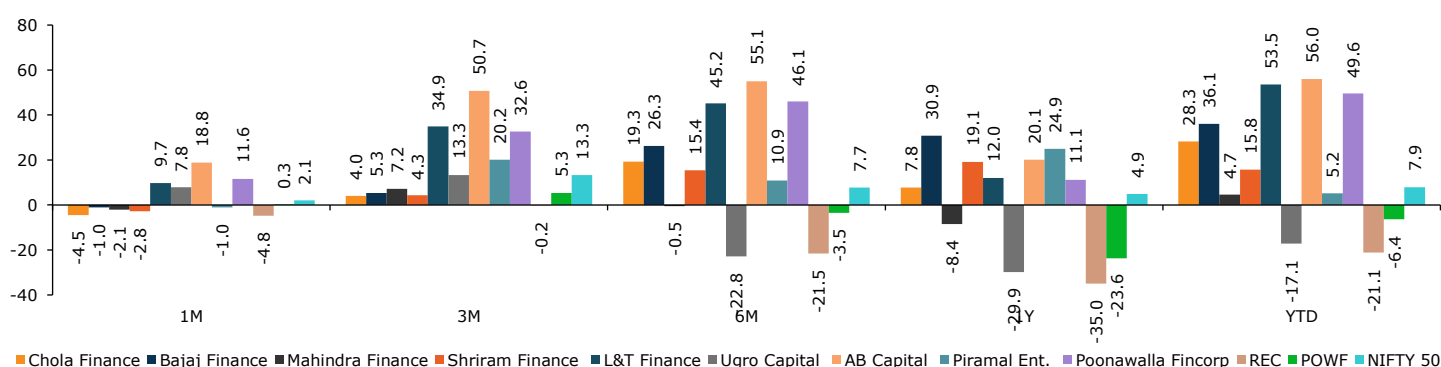
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Exhibit 1: Life and General Insurers — Stock Price performance



Source: Company, Emkay Research

Exhibit 2: NBFCs — Stock Price performance



Source: Bloomberg, Emkay Research

Exhibit 3: Life Insurers – Peer Valuation

Company	Units	HDFC Life				ICICI Prudential Life				Max Financial Services				SBI Life				LIC			
Bloomberg ticker		HDFCLIFE IN				IPRU IN				MAXF IN				SBILIFE IN				LIC IN			
Rating		BUY				ADD				ADD				BUY				ADD			
Current market price	Rs	794				665				1567				1817				947			
Market Capitalization	Rs bn	1710				960				541				1821				5989			
Market Capitalization	USD mn	19,716				11,076				6,236				20,997				69,065			
Target price	Rs	850				675				1800				2100				1100			
Upside/Downside	%	7.0				1.6				14.9				15.6				16.2			
		HDFC Life				ICICI Prudential Life				Max Financial Services				SBI Life				LIC			
Profitability		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
VNB Margin	%	25.6	25.9	26.1	26.1	22.8	23.4	23.7	23.9	24.0	24.5	24.8	25.1	27.8	27.9	28.0	28.0	17.6	18.4	18.9	19.4
Operating RoEV	%	16.7	16.6	16.4	16.2	13.1	13.6	13.5	13.4	19.1	18.2	17.8	17.5	20.2	18.0	17.4	16.8	11.4	11.2	11.1	11.0
Valuation at CMP		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
P/EV	x	3.1	2.7	2.3	2.0	2.0	1.8	1.6	1.4	2.7	2.3	1.9	1.6	2.6	2.2	1.9	1.6	0.77	0.69	0.63	0.57
P/EVOP	x	21.4	18.4	16.1	14.1	17.4	14.9	13.2	11.9	17.9	14.6	12.6	10.9	15.5	14.4	12.7	11.2	7.2	6.9	6.3	5.7
Implied P/VNB	x	31.2	25.0	19.8	15.5	22.6	18.1	13.8	10.2	22.5	16.5	12.7	9.4	20.8	16.5	13.0	9.9	-12.8	-15.8	-20.8	-24.5
Implied P/VIF	x	4.0	3.3	2.8	2.3	2.0	1.8	1.6	1.4	3.2	2.6	2.1	1.8	3.1	2.6	2.2	1.8				
P/B	x	10.6	9.7	8.8	7.9	8.0	7.5	7.0	6.5	10.3	9.6	8.9	8.1	10.7	9.4	8.2	7.1	4.7	3.6	2.9	2.4
P/E	x	94.1	81.2	71.5	61.4	81.4	70.3	61.8	53.7	165.2	149.0	118.9	98.0	75.4	65.1	57.4	50.5	12.4	12.0	10.9	9.9
P/AUM	x	0.51	0.45	0.39	0.34	0.31	0.30	0.28	0.26	0.38	0.34	0.30	0.26	0.40	0.36	0.31	0.28	0.11	0.10	0.09	0.09
per share data		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
EV	Rs	257.5	299.1	346.1	399.5	331.8	372.9	419.1	470.4	584.0	690.2	813.2	952.3	701.2	823.6	964.7	1124.3	1228.3	1363.9	1496.7	1671.5
EVOP	Rs	37.1	43.1	49.5	56.4	38.1	44.7	50.2	56.0	87.6	107.5	124.6	144.1	117.6	126.4	143.0	161.6	130.6	137.9	151.4	166.0
VNB	Rs	18.4	21.4	25.1	28.9	16.4	18.4	21.2	24.2	49.5	59.4	69.1	80.5	59.4	67.4	76.1	86.0	15.8	17.8	20.0	22.4
VIF	Rs	181.8	216.2	255.0	298.7	331.8	372.9	419.1	470.4	449.2	545.5	656.1	783.3	523.4	616.3	728.3	854.6	1038.1	1112.9	1193.1	1279.6
Book Value	Rs	74.9	82.2	90.4	100.1	82.6	88.3	94.7	102.2	152.8	163.4	176.5	192.5	169.5	193.1	222.1	255.3	199.5	260.3	327.7	401.3
Earnings	Rs	8.4	9.8	11.1	12.9	8.2	9.4	10.7	12.4	9.5	10.5	13.2	16.0	24.1	27.9	31.7	36.0	76.1	78.9	87.0	95.4
AUM	Rs	1,562	1,782	2,039	2,342	2,133	2,241	2,376	2,543	4,109	4,633	5,270	6,007	4,489	5,080	5,773	6,550	8,661	9,379	10,061	10,807
Key parameters		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
APE	Rs bn	154.8	178.4	206.4	238.9	104.1	113.5	129.1	146.2	87.8	103.2	118.7	136.6	214.2	242.1	272.9	307.6	568.3	611.7	669.2	730.2
VNB	Rs bn	39.6	46.1	53.9	62.3	23.7	26.6	30.6	34.9	21.1	25.3	29.5	34.3	59.5	67.6	76.3	86.2	100.1	112.8	126.6	141.7
EVOP	Rs bn	79.2	91.9	105.6	120.4	55.3	65.0	72.9	81.4	37.3	45.8	53.1	61.4	117.8	126.6	143.3	161.9	826.2	872.0	957.8	1,050.0
EV	Rs bn	554.3	644.0	745.2	860.2	479.5	539	606	680	251.9	298	351	411	702.5	825	966	1,126	7,769	8,627	9,560	10,572
Net Worth	Rs bn	161.3	176.9	194.7	215.4	119.3	127.6	136.9	147.7	52.7	56.4	60.9	66.4	169.9	193.5	222.5	255.9	1,262	1,646.6	2,072.4	2,537.9
Net Profit	Rs bn	18.0	20.9	23.7	27.6	11.9	13.7	15.6	18.0	4.0	4.6	5.7	6.9	24.1	28.0	31.7	36.0	481.5	498.8	550.5	603.2
AUM	Rs bn	3,363	3,836	4,390	5,041	3,083	3,239	3,434	3,675	1,751	1,974	2,245	2,559	4,499	5,091	5,786	6,564	54,784	59,322	63,638	68,357
Growth YoY		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
APE	%	16.5	15.2	15.7	15.7	15.0	9.1	13.7	13.2	18.1	17.6	15.0	15.0	8.6	13.0	12.7	12.7	-0.2	7.6	9.4	9.1
VNB	%	13.2	16.5	16.9	15.5	6.4	12.1	15.2	14.1	6.8	20.1	16.4	16.4	7.2	13.6	12.9	13.0	4.5	12.6	12.3	11.9
EVOP	%	14.5	16.0	14.9	14.0	10.3	17.5	12.2	11.6	13.6	22.8	15.9	15.7	17.1	7.5	13.1	13.0	23.4	5.5	9.8	9.6
EV	%	16.8	16.2	15.7	15.4	13.3	12.4	12.4	12.3	29.2	18.2	17.8	17.1	20.6	17.5	17.1	16.5	6.8	11.0	10.8	10.6
Net Worth	%	10.1	9.7	10.1	10.6	8.4	6.9	7.3	7.9	36.4	6.9	8.1	9.1	13.9	13.9	15.0	15.0	54.0	30.5	25.9	22.5
Net Profit	%	14.9	15.8	13.6	16.6	39.4	15.8	13.8	15.1	2.8	13.7	25.0	21.2	27.4	15.9	13.4	13.6	18.4	3.6	10.4	9.6
AUM	%	15.1	14.1	14.5	14.8	5.2	5.1	6.0	7.0	16.1	12.7	13.8	14.0	14.8	13.2	13.6	13.5	6.8	8.3	7.3	7.4

Source: Company, Emkay Research

Exhibit 4: General Insurers – Peer Valuation

General Insurance Peer Valuation													
Company	Units	ICICI Lombard				Star Health				Go Digit			
Bloomberg ticker		ICICIGI IN				STARHEAL IN				GODIGIT IN			
Rating		ADD				BUY				SELL			
Current market price	Rs	2,037				428				331			
Market Capitalization	Rs bn	1,009				251				305			
Market Capitalization	USD mn	11,554				2,878				3,498			
Target price	Rs	2,100				500				270			
Upside/Downside	%	3.1%				16.9%				-18.4%			
Key Parameters		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
GDPI	(Rs bn)	268.3	298.4	337.5	383.0	167.2	192.2	224.9	263.1	84.7	93.6	104.8	118.9
GWP	(Rs bn)	282.6	314.2	355.4	403.3	167.8	192.2	224.9	263.1	102.8	119.1	137.1	158.3
Underwriting Result	(Rs bn)	-8.7	-7.3	-7.5	-6.0	-3.8	-2.7	-0.5	0.5	-8.2	-7.8	-7.9	-7.7
PAT	(Rs bn)	22.7	26.7	29.5	34.9	6.5	8.1	10.5	12.5	4.2	6.1	6.8	8.9
Networth	(Rs bn)	143.0	162.9	183.3	206.1	52.6	59.5	67.1	73.7	40.7	46.1	51.9	59.4
Networth including Fair Value Changes	(Rs bn)	149.8	170.4	191.6	215.1	53.5	59.5	67.1	73.7	42.6	48.2	54.2	61.9
Combined Ratio	(%)	102.8	101.6	101.1	100.1	101.1	99.8	98.5	97.6	109.3	106.5	105.5	104.4
RoE	(%)	19.1	17.9	17.5	18.0	9.7	10.9	13.0	14.2	12.1	13.3	13.3	15.2
Per Share Data		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
GWP	(Rs)	541.3	601.9	680.9	772.6	285.5	327.0	382.6	447.5	112.3	129.0	148.5	171.4
EPS	(Rs)	50.7	55.1	61.2	70.9	11.0	13.7	17.9	21.3	4.6	6.6	7.4	9.6
BVPS - ex FV gain	(Rs)	288.5	328.6	369.8	415.7	121.0	131.2	144.1	155.5	44.0	50.0	56.2	64.4
FV Gain	(Rs)	13.7	15.1	16.6	18.3	1.51	-	-	-	2.08	2.27	2.49	2.74
Valuation at CMP		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
P/GWP	x	3.8	3.4	3.0	2.6	1.5	1.3	1.1	1.0	2.9	2.6	2.2	1.9
P/E	x	40.1	37.0	33.3	28.7	38.8	31.2	23.9	20.0	71.3	50.3	45.0	34.5
P/BV	x	7.0	6.2	5.5	4.9	3.5	3.3	3.0	2.8	7.5	6.6	5.9	5.1
Growth YoY		FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
GDPI YoY	(%)	8.3	11.2	13.1	13.5	9.6	15.0	17.0	17.0	6.7	10.4	12.0	13.5
GWP YoY	(%)	10.4	11.2	13.1	13.5	10.0	14.6	17.0	17.0	14.0	15.8	15.1	15.4
PAT YoY	(%)	18.9	17.8	10.7	18.0	-23.6	24.9	30.7	19.1	133.9	43.0	11.7	30.4

Source: Company, Emkay Research

Exhibit 5: NBFCs – Valuation matrix

Ticker	Rating	CMP	TP	Upside	Mkt. Cap	P/BVx			P/Ex			ROA (%)			ROE (%)		
		(Rs)	(Rs)		(Rs bn)	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
ABCAP*	BUY	277	320	15%	721	2.0	1.7	1.4	20.5	15.9	13.1	2.3	2.5	2.5	13.1	14.8	15.4
BAF	ADD	927	925	0%	5,744	5.1	4.3	3.6	28.4	23.2	18.3	4.0	4.0	4.1	19.5	20.2	21.5
CIFC	ADD	1,522	1,600	5%	1,274	4.4	3.5	2.7	23.4	18.4	15.2	2.4	2.6	2.7	20.8	21.3	20.4
HDBFS	BUY	845	900	6%	701	3.3	2.8	2.4	24.4	18.6	15.1	2.4	2.6	2.7	15.0	16.3	17.0
LTF	REDUCE	208	180	-14%	519	1.9	1.7	1.5	17.7	13.6	10.6	2.3	2.6	2.8	11.1	13.2	15.3
MMFS	REDUCE	270	260	-4%	372	1.5	1.3	1.2	12.8	10.0	8.3	2.0	2.2	2.3	13.0	14.2	15.2
PIEL	ADD	1,166	1,200	3%	261	1.0	1.0	0.9	54.1	17.3	12.2	0.6	1.7	1.9	1.8	5.5	7.4
POONAWAL	REDUCE	470	310	-34%	362	2.7	2.4	2.2	53.5	25.0	17.1	1.8	2.7	2.9	6.7	10.2	13.5
SHFL	BUY	670	750	12%	1,262	2.0	1.7	1.5	15.2	12.7	10.5	3.5	3.2	3.4	17.8	16.5	17.5
UGRO	BUY	188	270	44%	21	0.9	0.8	0.7	10.7	8.0	6.0	2.3	2.5	2.7	8.1	10.2	12.0
PFC*	BUY	420	500	19%	1,358	1.1	0.9	0.8	7.9	7.3	6.6	2.9	2.8	2.9	17.8	17.0	16.8
REC	BUY	395	525	33%	1,031	1.1	1.0	0.9	6.3	5.9	5.3	2.5	2.4	2.4	19.2	18.0	17.7

Source: Company, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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