

Jul-Sep'25 Earnings Preview

Slowdown persists; NIM improvement visible

Slowdown in industrial production, weak capacity utilisation and disruption due to excess rain is likely to hamper growth for auto financiers in Q2. However, with the festive season kicking in, we expect an uptick in volumes in H2 due to the relief from GST cuts. Incremental CoF has already started to taper off and we expect the movement to continue in Q2. Prefer diversified auto-financiers (CIFC and SHFL). BAF reported an AUM growth of 24% YoY- commentary around NIM improvement and pick-up in growth in H2 could be key positives. We remain wary of asset quality trends for MMFS/ SHFL.

- **Sluggish growth in auto; diversified players better off:** Weak industrial production, disruption due to excess rain and wait-and-watch approach by buyers, awaiting lower GST rates likely to impact vehicle sales in Q2. Expect volumes to see a pick-up as the festive season kicks in, with lower GST rates. Prefer diversified players (CIFC and Shriram Finance) over pure-play auto financiers. Disbursement/ AUM growth for MMFS remains weak- at 3%/ 13% YoY respectively due to high competition. BAF reported a 24% YoY growth in AUM to Rs 4,622.5 bn. New loans booked grew 26% YoY to 12.2 mn and company added 4.1 mn new customers in the quarter, taking the total number of customers to 110.6 mn.
- **Expect NIM to improve in Q2 with lower CoF:** Expect the benefit of accelerated repo rate cuts to be visible in Q2 with a lower cost of borrowing. ~50% of CIFC's bank borrowings are linked to EBLR which are expected to re-price in Q2. SHFL expects ~20 bps reduction in CoF in FY26 as incremental CoF has started to come down. However, negative carry on excess liquidity to offset the benefit. We expect NIM to improve for MMFS aided by lower incremental CoF and positive growth in fee income. For BAF, given a lower interest rate environment, we build an improvement in NIM by ~10 bps in FY26.
- **Opex spends to remain high:** We expect opex costs to remain elevated as players invest in digital transformation (BAF) and new business verticals (CIFC, BAF, SHFL).
- **Credit cost to remain range-bound in Q2:** We expect credit cost to remain range-bound for CIFC in Q2, factoring in stress in the MSME segment. Expect improvement in H2 with lower delinquencies in VF, run-down of the CSEL portfolio and reversals from SARFAESI. Expect credit cost for BAF to range between 1.85%- 1.95% for FY26 as stress persists in the MSME portfolio. MMFS has already reported a sequential increase of ~10-20 bps in Stage 3 (3.9%- 4.0% in Q2 vs. 3.8% in Q1FY26) and we build a credit cost of 1.7% for the quarter. We remain cautious of the asset quality trends for SHFL and factor a credit cost of 2.1% for Q2.

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Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Finance	HOLD	1,017	950
Cholamandalam Inv. & Fin. Co.	HOLD	1,632	1,550
Mahindra & Mahindra Financial Services	HOLD	283	300
Shriram Finance	HOLD	667	685
Sundaram Finance	HOLD	4,427	4,750

Source: PL

Shreya Khandelwal

shreyakhandelwal@plindia.com | 91-22-66322538

Dhanik Hegde

dhanikhegde@plindia.com |

Exhibit 2: Q2FY26 Result Preview (Rs mn)

Company Name	Q2FY26E	Q2FY25	YoY gr. (%)	Q1FY26	QoQ gr. (%)	Remark	
Bajaj Finance	NII	1,12,010	88,377	26.7	1,02,270	9.5	Reported 24% YoY growth in AUM to Rs 4,622.5 bn, in-line with guidance
	PPOP	92,790	73,106	26.9	84,878	9.3	New loans booked grew 26% YoY to 12.2 mn and BAF added 4.1 mn new customers in the quarter, taking the total number of customers to 110.6 mn
	PAT	52,980	40,137	32.0	47,653	11.2	
	NIM (%)	9.9	9.7	15 bps	9.5	33 bps	
	Cost-to-income ratio (%)	33.4	33.2	14 bps	32.7	68 bps	Expect a 10 bps improvement in NIM in FY26, factoring in a lower interest rate environment
	Credit cost (%)	2.0	2.1	-15 bps	2.0	-3 bps	
	Loans and Advances	46,72,769	37,39,240	25.0	44,14,500	5.9	Expect credit cost to range between 1.85%- 1.95% as MSME is seeing stress; expect Rs 1-1.5 bn of restructuring in Q2
Borrowings	30,24,566	24,47,080	23.6	29,14,210	3.8		
Cholamandalam Investment and Finance Company	NII	33,282	27,128	22.7	31,838	4.5	Expect lukewarm disbursement growth in VF, resulting in lower growth in Q2
	PPOP	24,555	19,221	27.8	24,117	1.8	Expect NIM to improve with the benefit of rate cuts; 50% of bank borrowings are EBLR-linked which should reprice in Q2
	PAT	11,939	9,631	24.0	11,359	5.1	
	NIM (%)	6.9	6.8	9 bps	6.9	2 bps	Expect opex to be elevated as CIFC invests in new verticals/ gold loans and gives out pay-hikes to employees
	Cost-to-income ratio (%)	39.5	40.6	-113 bps	37.6	191 bps	
	Credit cost (%)	1.8	1.6	19 bps	1.9	-12 bps	
	Loans and Advances	19,74,106	16,35,961	20.7	18,76,420	5.2	Expect credit cost to remain range-bound in Q2
Borrowings	18,80,100	15,77,940	19.1	18,13,040	3.7		
Mahindra & Mahindra Financial Services	NII	21,315	18,106	17.7	20,122	5.9	Being selective in CV because of high competition from banks- growing in LCV/ ICV where pricing is decent- focus on agri/ commodity trade/ rural movement of goods
	PPOP	14,171	11,961	18.5	13,530	4.7	Medium-term guidance of mid-teens disbursement growth
	PAT	6,763	3,695	83.0	5,295	27.7	
	NIM (%)	7.0	6.9	18 bps	6.9	17 bps	Seeing some improvement in incremental CoF which should help NIMs
	Cost-to-income ratio (%)	41.2	39.9	129 bps	40.8	41 bps	
	Credit cost (%)	1.7	2.7	-96 bps	2.3	-55 bps	
	Loans and Advances	12,42,234	10,85,190	14.5	11,83,080	5.0	Credit cost to range between 1.5%- 1.7%
Borrowings	11,64,135	10,32,168	12.8	11,08,700	5.0		
Shriram Finance	NII	60,446	54,641	10.6	57,725	4.7	Used CVs continue to lead growth; new CV segment could see some pick-up with lower rates. North impacted due to excess rain; seeing early signs of recovery in the south and west markets.
	PPOP	43,338	39,865	8.7	41,924	3.4	Expects demand to improve from H2. GST cut will aid consumption and transport flows going ahead; build overall growth of ~16%
	PAT	22,300	20,713	7.7	21,557	3.4	
	NIM (%)	8.7	9.2	-45 bps	8.6	10 bps	Factoring a normalizing trend in liquidity and a reduction in CoF, we expect NIM to improve
	Cost-to-income ratio (%)	31.1	30.4	68 bps	31.7	-61 bps	
	Credit cost (%)	2.1	2.2	-17 bps	2.1	2 bps	
	Loans and Advances	26,28,223	22,46,547	17.0	25,39,346	3.5	Remain wary on credit cost (2.1% in Q2FY26E)
Borrowings	25,03,070	20,78,196	20.4	24,29,113	3.0		

Company Name		Q2FY26E	Q2FY25	YoY gr. (%)	Q1FY26	QoQ gr. (%)	Remark
Sundaram Finance	NII	7,188	5,625	27.8	6,792	5.8	
	PPOP	6,473	5,433	19.1	7,171	(9.7)	Expect sluggish demand in the automotive sector with a slowdown across certain asset classes
	PAT	4,023	3,448	16.7	4,287	(6.2)	
	NIM (%)	5.5	5.0	53 bps	5.4	14 bps	
	Cost-to-income ratio (%)	31.0	32.2	-120 bps	27.7	325 bps	NIM to be largely stable supported by a lower CoF
	Credit cost (%)	0.9	0.6	26 bps	1.2	-32 bps	
	Loans and Advances	5,24,872	4,58,646	14.4	5,16,710	1.6	Remain wary of asset quality trends
Borrowings	4,98,628	4,36,996	14.1	4,90,875	1.6		

Source: Company, PL

Exhibit 3: Valuation Summary

Company Name	S/C	Rating	CMP (Rs)	TP (Rs)	Mcap (Rs bn)	P/ABV (x)				RoE (%)				RoA (%)			
						FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
Bajaj Finance	C	HOLD	1,017	950	6,311	6.5	5.4	4.4	3.6	19.0	20.1	21.3	21.7	4.0	4.3	4.5	4.5
Cholamandalam Invt. & Fin. Co.	S	HOLD	1,632	1,550	1,373	7.3	5.5	4.5	3.7	19.7	20.6	21.3	21.2	2.4	2.4	2.5	2.6
Mahindra & Mahindra Financial Services	C	HOLD	283	300	393	1.9	1.7	1.5	1.3	12.4	11.9	12.8	12.6	1.9	1.8	2.1	2.1
Shriram Finance	S	HOLD	667	685	1,254	2.5	2.2	1.9	1.6	15.5	15.6	16.0	16.6	3.1	2.9	3.0	3.2
Sundaram Finance	C	HOLD	4,427	4,750	492	4.6	4.0	3.5	3.0	15.2	15.3	14.9	15.2	2.8	2.9	3.0	3.1

Source: Company, PL

S=Standalone / C=Consolidated

Exhibit 4: Change in Estimates

	Rating		Target Price			NII (Rs mn)						PPOP (Rs mn)						PAT (Rs mn)					
						FY26E			FY27E			FY26E			FY27E			FY26E			FY27E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Bajaj Finance	HOLD	HOLD	950	900	5.4%	551.2	548.9	0.4%	687.3	682.1	0.8%	383.5	382.0	0.4%	480.2	476.8	0.7%	220.3	219.2	0.5%	283.5	278.8	1.7%
Cholamandalam Invt. & Fin. Co.	HOLD	HOLD	1,550	1,500	3.4%	138.2	140.1	-1.3%	171.6	171.3	0.2%	103.0	104.6	-1.5%	125.4	125.9	-0.4%	54.0	54.5	-0.9%	68.0	68.9	-1.2%
Mahindra & Mahindra Financial Services	HOLD	HOLD	300	285	5.4%	86.7	87.2	-0.5%	102.9	102.0	0.9%	57.3	57.7	-0.8%	68.0	67.1	1.4%	26.9	27.5	-2.1%	34.9	34.2	2.1%
Shriram Finance	HOLD	HOLD	685	650	5.4%	248.9	258.1	-3.6%	290.2	302.9	-4.2%	180.0	188.3	-4.4%	210.4	221.8	-5.1%	93.1	99.3	-6.2%	110.5	118.9	-7.0%
Sundaram Finance	HOLD	HOLD	4,750	4,800	-1.0%	29.4	28.4	3.2%	34.0	33.2	2.5%	28.6	28.0	2.3%	31.2	30.6	1.9%	18.4	17.9	2.4%	20.7	20.2	2.2%

Source: Company, PL

C=Current / P=Previous

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Hold	900	959
2	Cholamandalam Investment and Finance Company	Hold	1,500	1,423
3	HDFC Life Insurance Company	BUY	900	759
4	ICICI Prudential Life Insurance Company	BUY	725	601
5	Mahindra & Mahindra Financial Services	Hold	285	266
6	Max Financial Services	BUY	1,850	1,604
7	SBI Life Insurance Company	Hold	1,925	1,758
8	Shriram Finance	Hold	650	616
9	Sundaram Finance	Hold	4,800	4,646

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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