Sector Update | 27 August 2026

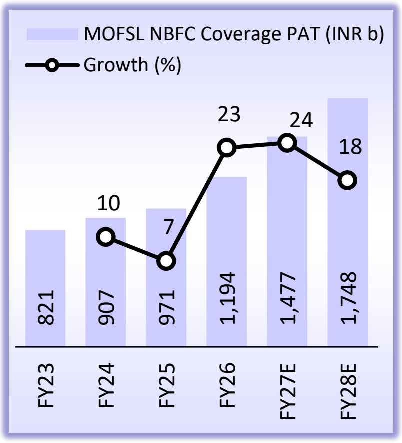
Financial - NBFC

NBFCs: Fundamentals deliver; Earnings validate the new cycle

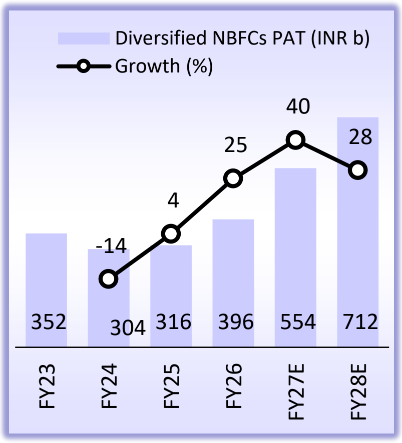
First quarter results validate the cyclical recovery, setting the stage for a broad-based earnings upgrade and re-rating cycle

- **Onset of the earnings upgrade cycle:** The 1QFY27 earnings season has strongly validated our thesis that NBFCs are entering a new cyclical recovery. Operating performance has improved meaningfully across the sector, with healthy loan growth, broad-based asset-quality normalization, resilient margins, and improving operating leverage driving earnings beyond expectations. More importantly, the strength and breadth of the recovery have already translated into meaningful upward revisions to FY27/FY28 earnings estimates across our NBFC coverage universe – earlier than would typically be expected at this stage of the financial year.
- **Unlike previous cycles, upgrades not merely provision-led:** The current earnings recovery is fundamentally different from periods when earnings upgrades were driven primarily by lower-than-expected credit costs. This time, multiple earnings levers are moving favorably at the same time: 1) loan growth has remained healthy across secured and unsecured segments; 2) credit costs have normalized faster than anticipated; 3) funding costs are likely to exhibit relative moderation (vs. levels seen in 1Q); 4) margins remained resilient despite minor moderation in lending yields; and 5) operating leverage is beginning to support profitability. We therefore believe the current earnings trajectory is more sustainable than a recovery driven by provisioning normalization alone.
- **Estimate upgrades broad-based and gaining momentum:** Our NBFC lending coverage universe, excluding Muthoot Finance, PFC and REC, has witnessed ~4%/1% upgrades to FY27/FY28 earnings estimates over the past three months and ~6%/3% over the past six months. The vehicle finance segment has been the largest contributor, supported by robust loan growth and meaningful moderation in credit costs. However, the upgrade cycle is increasingly broadening to diversified NBFCs, microfinance lenders, and HFCs, reflecting improving operating trends across the lending ecosystem.
- **Asset quality emerges as the most notable surprise:** Following nearly two years of stress across microfinance, unsecured personal/business loans, and select secured retail segments, collection efficiencies have improved, and fresh slippage has moderated. Tighter underwriting, stronger collection infrastructure, lower borrower leverage, and a greater emphasis on secured lending have structurally improved portfolio quality. Consequently, credit costs have surprised positively across several lenders, providing greater confidence that the sector has moved beyond the peak of the asset quality cycle.
- **Growth recovers without a deterioration in risk discipline:** Credit growth remains healthy across most retail lending segments, supported by strong underlying demand and continued formalization of credit. Vehicle financiers have benefited from strong growth post-GST cuts, steady CV replacement demand, and improving used vehicle financing. HFCs continue to see healthy disbursements across affordable and mid-income housing. Gold financiers

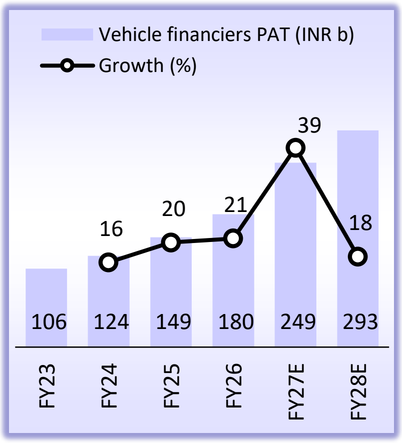
Expect NBFC PAT (for the MOFSL coverage) to grow 24%/18% in FY27/FY28



Diversified NBFCs' PAT to rise 40%/28% in FY27/ FY28E



VFs' PAT to increase 39%/18% in FY27/FY28E



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continue to benefit from strong demand for secured credit, while growth is also recovering across MSME, personal loans, and digital lending. Importantly, management commentary points to a clear shift toward profitable, return-accretive growth rather than market-share maximization.

- **Margins have held up; operating leverage emerging as the next earnings lever:** While lending yields are gradually moderating following the monetary easing cycle, the impact has largely been offset by lower funding costs. Bond yields have also moderated from the highs seen during the West Asia War, improving visibility on incremental borrowing costs. At the same time, investments made over the past few years in technology, digital sourcing, centralized operations, and analytics are beginning to translate into operating leverage. We expect these factors to support stable margins and improve return ratios over the medium term.
- **Debate shifting from recovery to re-rating:** We believe 1QFY27 marks an important inflection point for the sector. The question is no longer whether the cyclical recovery will materialize but how far the earnings and return-ratio cycle can extend. As earnings estimates move higher and balance-sheet risks recede, we see scope for further valuation re-rating. While vehicle financiers and diversified lenders are likely to lead the initial phase of the re-rating cycle, we believe investors could increasingly look toward relatively under-owned HFCs and other monoline lenders as the cycle broadens.
- **Further potential upside likely from both earnings and multiples:** Despite the healthy stock price performance across several NBFCs, most companies under our coverage continue to trade below the peak valuation multiples achieved during the previous NBFC upcycle. We therefore see scope for the sector to challenge – and in select cases surpass – previous valuation peaks as earnings upgrades translate into stronger RoA/RoE and greater investor confidence. Our top picks are **Bajaj Finance, L&T Finance, PNB Housing, and Five-Star Finance**.
- **Key Risks: 1) West Asia crisis and inflation:** The ongoing West Asia crisis and any further escalation remain key macro risks, particularly through their potential impact on crude oil prices and, consequently, domestic inflation. A sustained increase in energy prices could delay monetary easing, tighten financial conditions, and adversely affect borrowing costs and credit demand across NBFCs. 2) **El Niño and monsoon progression:** The evolution of El Niño conditions and the progress and distribution of the Indian monsoon will remain important monitorables. Any meaningful deviation from a normal monsoon could affect rural incomes, consumption, and credit demand while potentially leading to higher delinquencies in rural-focused lending segments such as microfinance and certain vehicle-financing portfolios. 3) **Interest rate trajectory:** We anticipate the possibility of a 25–50 bp increase in interest rates over the next 6-9 months, depending on the evolution of inflation and macroeconomic conditions. A rising rate environment could increase funding costs and exert pressure on margins across several NBFC segments, particularly those with limited pricing power. However, HFCs could be relative beneficiaries of a rising-rate cycle, given their ability to reprice assets and the potential for spreads to improve as the cycle progresses, and 4) **Regulatory changes:** Evolving RBI regulations continue to be a critical area to monitor, particularly the proposed restrictions on revolving and Flexi credit facilities, as well as potential

modifications to credit-life insurance commissions. These changes could affect product structures, loan growth, and fee income for certain diversified NBFCs.

Our view

- NBFCs continue to offer an attractive combination of healthy growth, improving asset quality, and resilient profitability. Within the sector, we continue to prefer lenders that combine strong liability franchises, diversified portfolios, disciplined underwriting, and superior execution. Such franchises are likely to continue delivering industry-leading growth while sustaining healthy return ratios, thereby supporting further earnings upgrades and valuation rerating over the course of this fiscal year.
- The sector has witnessed a meaningful rerating over the past three months as earnings upgrades have reinforced investor confidence in the sustainability of growth and profitability. Our top picks are **Bajaj Finance, L&T Finance, PNB Housing, and Five-Star Finance.**

Valuation Matrix of MOFSL NBFC Coverage

Val summary	Rating	CMP (INR)	MCap (INRb)	EPS (INR) FY27E	EPS (INR) FY28E	BV (INR) FY27E	BV (INR) FY28E	RoA (%) FY26	RoA (%) FY27E	RoA (%) FY28E	RoE (%) FY27E	RoE (%) FY28E	P/E (x) FY27E	P/E (x) FY28E	P/BV (x) FY27E	P/BV (x) FY28E
MSME																
Five-Star	Buy	533	152	40.0	48.3	288	334	7.3	6.8	6.7	14.9	15.5	13.3	11.0	1.9	1.6
Housing Finance																
LIC HF	Neutral	532	289	103.2	108.7	834	921	1.8	1.7	1.7	13.0	12.4	5.2	4.9	0.6	0.6
PNB HF	Buy	1,184	305	95.4	111.6	825	928	2.6	2.4	2.3	12.2	12.7	12.4	10.6	1.4	1.3
Bajaj Housing	Neutral	85	700	3.6	4.4	31	35	2.2	2.1	2.1	12.5	13.5	23.6	19.2	2.8	2.4
Aavas	Neutral	1,270	102	96.0	112.0	733	845	3.3	3.3	3.3	14.0	14.2	13.2	11.3	1.7	1.5
HomeFirst	Buy	1,200	124	66.4	76.1	479	551	3.9	4.1	3.8	14.8	14.8	18.1	15.8	2.5	2.2
CanFin	Neutral	804	107	83.4	93.6	519	597	2.5	2.3	2.3	17.2	16.8	9.6	8.6	1.6	1.3
Repco	Neutral	366	23	73.5	79.1	693	767	2.9	2.7	2.6	11.2	10.8	5.0	4.6	0.5	0.5
Vehicle Finance																
Cholamandalam	Buy	1,880	1,605	83.7	98.1	444	539	2.3	2.7	2.7	21.0	20.0	22.5	19.2	4.2	3.5
MMFS	Buy	383	535	26.1	30.1	197	218	2.0	2.3	2.4	13.9	14.5	14.7	12.7	1.9	1.8
Shriram Finance	Buy	1,102	2,110	60.1	71.1	497	554	3.3	4.0	4.0	15.5	13.5	18.3	15.5	2.2	2.0
Indostar	Buy	254	42	12.4	20.7	246	267	1.3	1.9	2.7	5.2	8.1	20.5	12.3	1.0	1.0
Gold Finance																
Muthoot	Neutral	3,087	1,285	263.5	316.0	1,166	1,437	6.7	5.3	5.3	25.0	24.3	11.7	9.8	2.6	2.1
Manappuram	Neutral	348	345	24.1	29.5	190	214	1.6	3.0	3.0	13.9	14.6	14.5	11.8	1.8	1.6
Diversified																
BAF	Buy	1,077	6,759	42.5	52.6	224	268	3.8	4.2	4.2	20.7	21.4	25.3	20.5	4.8	4.0
Poonawalla	Buy	482	414	17.7	29.3	164	191	1.1	2.1	2.4	12.6	16.5	27.2	16.5	2.9	2.5
ABCL	Buy	407	1,121	18.5	23.6	156	176	-	-	-	13.1	14.2	22.0	17.2	2.6	2.3
ABCL (NBFC)	Buy	249	653	14.8	18.3	109	127	2.1	2.2	2.2	15.7	15.5	16.9	13.6	2.3	2.0
LTFH	Buy	320	808	15.9	20.0	125	141	2.3	2.5	2.6	13.5	15.1	20.1	16.0	2.6	2.3
Piramal Finance	Buy	2,230	501	106.4	162.8	1,342	1,480	1.5	2.0	2.5	8.2	11.5	21.0	13.7	1.7	1.5
MAS Financial	Buy	296	54	25.3	29.1	183	209	2.9	3.2	3.1	14.8	14.8	11.7	10.2	1.6	1.4
IIFL Finance	Buy	635	278	65.1	80.9	388	463	2.3	3.0	3.1	18.2	19.0	9.8	7.8	1.6	1.4
HDB Financial	Neutral	685	571	39.8	47.6	289	336	2.2	2.5	2.6	14.8	15.2	17.2	14.4	2.4	2.0
Jio Financial	Buy	239	1,536	3.2	4.8	233	257	1.9	1.6	2.0	4.5	7.5	74.5	50.0	1.0	0.9
Northern Arc	Buy	288	48	34.9	44.7	276	321	2.7	3.0	3.2	13.5	15.0	8.3	6.4	1.0	0.9
Tata Capital	Neutral	376	1,563	16.0	21.2	125	147	1.8	2.1	2.3	13.7	15.6	23.5	17.7	3.0	2.6
Microfinance																
CreditAccess	Buy	1,421	231	124.4	137.5	614	751	2.6	5.6	5.1	22.6	20.1	11.4	10.3	2.3	1.9
Fusion Finance	Buy	196	33	19.6	28.4	172	200	0.2	3.5	4.3	12.1	15.3	10.0	6.9	1.1	1.0
Spandana Sphoorty	Neutral	243	22	14.8	33.5	277	311	-9.5	1.8	3.2	5.7	11.4	16.5	7.3	0.9	0.8
Power Financiers																
PFC	Buy	356	1,202	61.1	63.4	353	398	3.4	3.2	3.1	18.4	16.9	5.8	5.6	1.0	0.9
REC	Buy	321	852	63.2	65.9	365	409	2.6	2.5	2.4	18.5	17.0	5.1	4.9	0.9	0.8

Estimate upgrades broad-based and gaining momentum: Our NBFC lending coverage universe, excluding MUTH, PFC and REC, has witnessed ~4%/1% upgrade to FY27/FY28 earnings estimates over the past three months and ~6%/3% over the past six months. The vehicle finance segment has been the largest contributor, supported by robust loan growth and meaningful moderation in credit costs. However, the upgrade cycle is increasingly broadening to diversified NBFCs, microfinance lenders, and HFCs, reflecting improving operating trends across the lending ecosystem.

Exhibit 1: Revisions to the MOFSL NBFC Coverage PAT estimates

PAT (INR m)	Current estimates (As of Aug'26)		% Change (Since Jun'26)		% Change (Since Apr'26)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
AAVAS	7,609	8,876	-1%	-3%	0%	-2%
AB Capital	50,071	63,868	4%	1%	-3%	-3%
BAF	2,64,559	3,26,996	4%	2%	7%	5%
Bajaj Housing	30,085	37,003	3%	-1%	-5%	-3%
CANF	11,107	12,460	-1%	1%	6%	1%
CIFC	71,744	84,067	9%	3%	14%	4%
CREDAG	19,932	22,035	13%	6%	35%	22%
Five Star Business	11,812	14,256	1%	0%	-2%	2%
FUSION	3,165	4,590	5%	2%	5%	25%
HomeFirst	6,928	7,943	3%	2%	8%	5%
HDB Financial	33,053	39,498	5%	3%	9%	7%
IIFL Fin	27,670	34,417	9%	1%	31%	26%
Jio Financials	22,116	32,642	-3%	-6%	-11%	-11%
LTFH	39,859	50,181	1%	1%	3%	2%
Piramal Finance	24,056	36,812	0%	0%	0%	-11%
LICHF	56,798	59,847	-3%	-1%	1%	-1%
MMFSL	36,255	41,850	5%	4%	12%	8%
MASFIN	4,594	5,273	2%	2%	4%	-1%
Muthoot	1,05,775	1,26,865	-17%	-7%	-7%	-1%
MGFL	24,837	30,457	18%	3%	23%	10%
Northern Arc	5,633	7,215	4%	2%	7%	2%
PNBHF	24,854	29,090	2%	1%	6%	4%
PFC	2,01,695	2,09,088	-2%	-5%	2%	-6%
PFL	15,508	25,625	0%	0%	-4%	-7%
REC	1,66,524	1,73,545	3%	-3%	-9%	-15%
REPCO	4,597	4,949	4%	-1%	1%	-3%
SHFL	1,41,414	1,67,204	7%	1%	12%	4%
SPANDANA	1,309	2,971	40%	-19%	-21%	-19%
Tata Capital	67,357	89,548	-2%	0%	-2%	0%
Total	**14,80,916**	**17,49,173**	**1%**	**-1%**	**3%**	**-1%**
Excluding MUTH	**13,75,141**	**16,22,308**	**3%**	**0%**	**3%**	**-1%**
Excluding MUTH, PFC, and REC	**10,06,921**	**12,39,675**	**4%**	**1%**	**6%**	**3%**

Source: MOFSL, Company

Strong fundamentals have driven a sharp re-rating, but P/B valuations still offer headroom

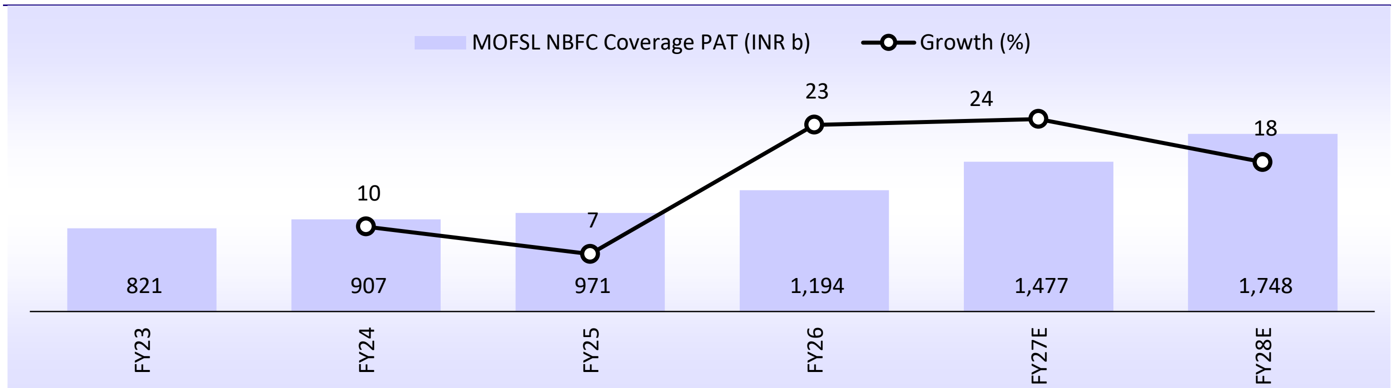
Over the last 12-18 months, NBFC valuations have witnessed a meaningful recovery, supported by improving asset quality, healthier growth and better collection trends. The improvement in fundamentals has resulted in a strong valuation re-rating across several NBFCs. However, despite the valuations moving higher, current valuations for a large part of the sector remain below the peak P/B multiples witnessed over the past five years, suggesting that there could still be room for further multiple expansion if the improvement in earnings and RoE sustains. If asset quality and credit costs remain benign and healthy loan growth sustains, there still remains scope for both earnings upgrades and further multiple expansion, particularly for franchises that are still trading at a meaningful discount to their historical peak P/B.

Exhibit 2: Despite the decent upmove in NBFC stock prices, valuations remain below their average and peak multiples over the past three years

Name	Current 1 year forward P/B (A)	Mean PB (for last 3 years) (B)	Mean + 1SD (C)	Peak P/B (Last 3 years) (D)	Peak v/s Current PBV [D/A]	Mean v/s Current PBV [B/A]
BAF	4.4	4.5	4.9	5.6	27%	2%
ABCAP	2.5	1.9	2.2	2.5	1%	-25%
AAVAS	1.7	2.6	3.1	3.4	103%	54%
CIFC	3.8	4.1	4.5	5.0	33%	8%
CANF	1.4	1.8	2.1	2.3	60%	26%
HOMEFIRS	2.3	2.8	3.3	3.6	56%	23%
INDOSTAR	1.0	1.0	1.2	1.5	50%	-1%
LICHF	0.6	0.8	0.9	1.2	103%	37%
MMFS	1.8	1.7	1.9	2.1	14%	-9%
MGFL	1.8	1.4	1.6	1.9	4%	-25%
POWF	1.0	1.3	1.6	1.9	98%	36%
POONAWAL	2.7	3.2	3.9	4.6	71%	21%
RECL	0.8	1.3	1.7	2.1	151%	54%
REPCO	0.5	0.7	0.8	1.0	97%	41%
SHFL	2.2	1.8	2.0	2.2	3%	-18%
LTF	2.4	1.8	2.2	2.6	8%	-26%
MASFIN	1.5	1.9	2.2	2.5	62%	24%
MUTH	2.5	2.5	2.9	3.4	39%	0%
PNBHOUSI	1.3	1.2	1.3	1.5	9%	-11%
CREDAG	2.1	2.6	3.2	4.0	92%	25%
FUSION	1.1	1.7	2.5	3.4	218%	56%
SPANDANA	0.8	1.4	2.0	2.7	222%	73%
FIVESTAR	1.6	2.7	3.6	4.0	149%	70%
IIFL	1.6	1.5	1.8	2.1	34%	-6%
BAJAJHFL	2.6	3.8	4.8	6.0	137%	49%
NORTHARC	1.0	1.0	1.1	1.3	35%	-2%
JIOFIN	1.0	1.3	1.6	1.9	95%	34%
PIRAMALF	1.5	1.4	1.5	1.6	2%	-10%
HDBFS	2.2	2.5	2.8	2.9	33%	14%
TATACAP	2.7	2.7	2.8	2.8	6%	0%

- Select NBFCs - LTF, ABCAP, MGFL, SHFL, PNBHF and Piramal - currently trade at ~11-35% higher than their respective 3-year average P/BV multiple. Importantly, even these names still trade below their 3-year peak P/B.
- Barring a few exceptions (ABCAP, LTF, Piramal, MGFL and SHFL and PNBHF), most NBFCs still trade below their Mean +1SD bands, suggesting that the recent re-rating in valuation multiples for the NBFC sector has not yet resulted in excessive valuations and there is room for further valuation re-rating.
- Select NBFCs - BAF, Muthoot, Tata Capital, and IIFL - currently trade around or only modestly below their 3-year mean P/BV, but still trade below their 3-year peak P/BV and Mean +1SD, leaving scope for further re-rating in valuations if earnings growth remains supportive.
- NBFCs such as Fusion, Spandana, Five-Star, Bajaj Housing, REC, Repco, LICHF, Poonawalla, CREDAG and Power Finance are trading at ~40-70% below their 3-year peak P/B, with many of them trade 20-40% below their 3-yr mean P/BV.
- Overall, while the NBFC sector has exhibited a healthy stock-price performance, valuations remain well below 3-yr mean P/BV for most names. This leaves room for for further valuation rerating, particularly for franchises where earnings upgrades and improving asset-quality trends sustain.

Exhibit 3: Expect NBFC PAT (for the MOFSL coverage) to grow 24%/18% in FY27/FY28



Source: MOFSLe

Exhibit 4: HFCs' PAT to increase 8%/13% in FY27/FY28E

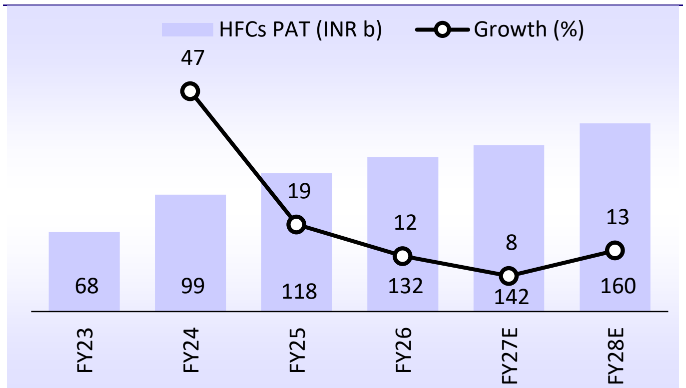


Exhibit 5: Diversified NBFCs' PAT to rise 40%/28% in FY27/ FY28E

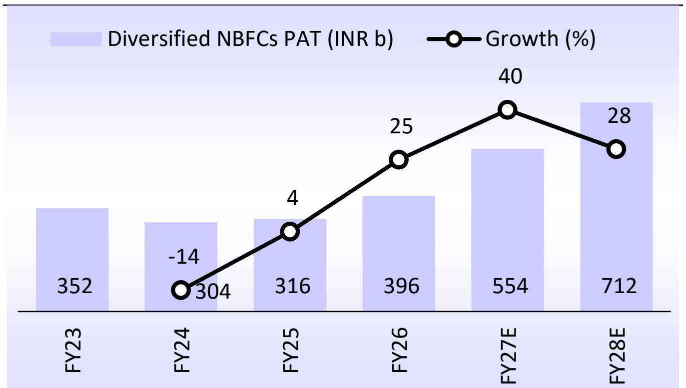


Exhibit 6: Gold NBFCs PAT to grow 14%/23% in FY27/FY28E

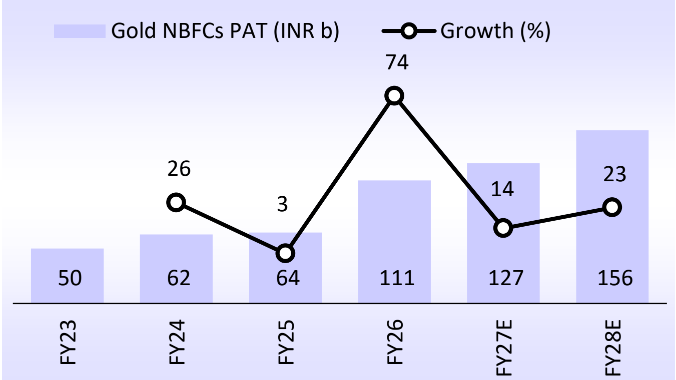


Exhibit 7: Expect PFC+ REC PAT to rise 1%/4% in FY27/FY28

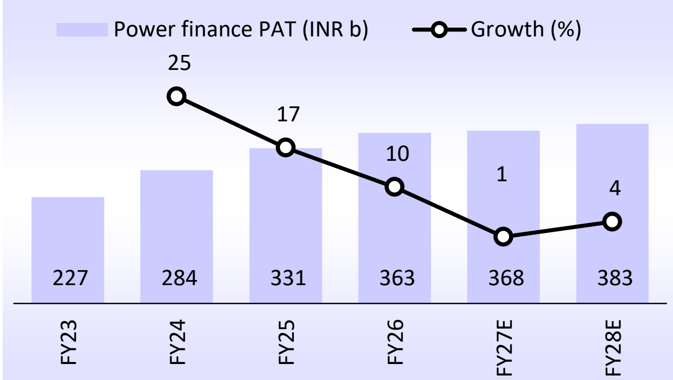
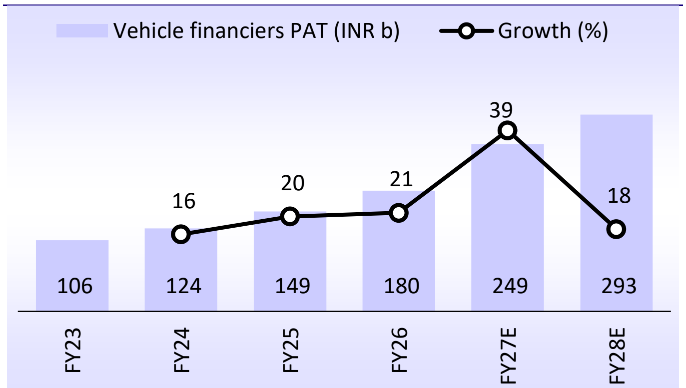
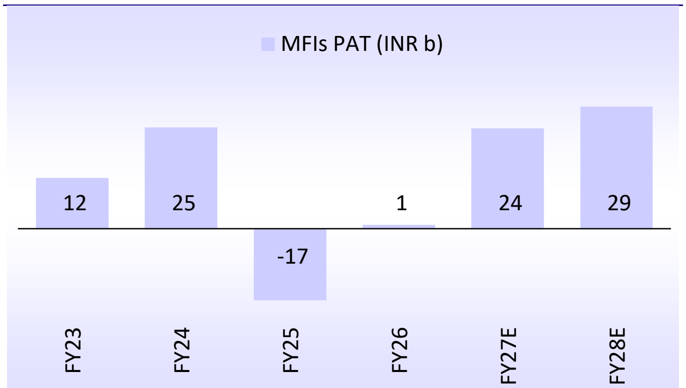


Exhibit 8: VFs' PAT to increase 39%/18% in FY27/FY28E



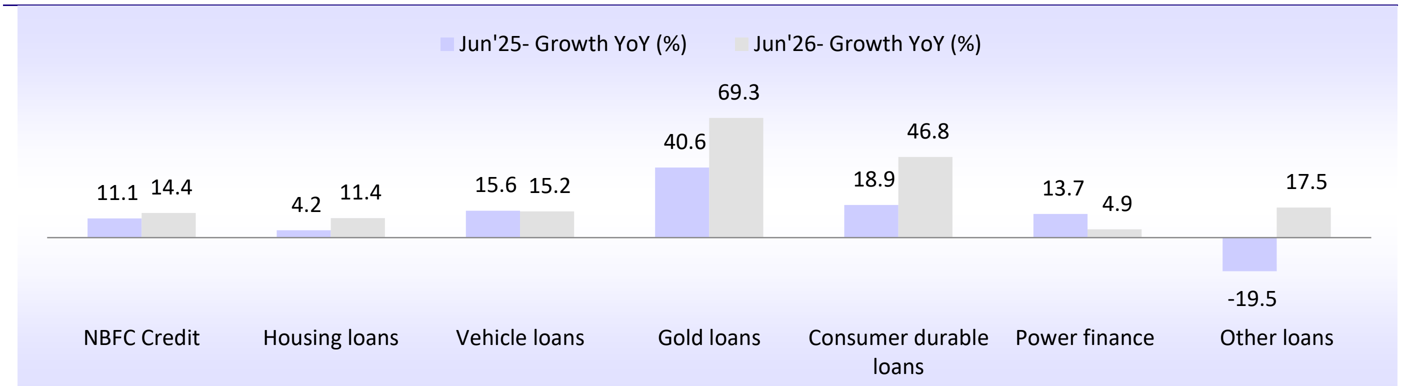
Source: MOFSL coverage; Companies

Exhibit 9: Expect MFIs' profitability to improve significantly in FY27/FY28



Source: MOFSL coverage; Companies

Exhibit 10: AUM growth remains healthy across the majority of the segments (except power finance) (%)



Source: MOFSL, RBI NBFC Industry Data

Bond yields moderate; minor relief on incremental funding costs

- As highlighted in the table below, bond yields surged toward end-Mar'26 and remained elevated until the first week of Jun'26, primarily due to heightened geopolitical uncertainty and concerns over rising crude oil prices. However, yields have moderated in recent weeks as geopolitical tensions have eased and crude prices have corrected.
- While the bond yields have moderated from the elevated levels seen during the period of heightened geopolitical uncertainty, they continue to remain marginally higher than pre-West Asia crisis levels.

Exhibit 11: Bond yields for NBFC AAA-rated companies over the past few weeks

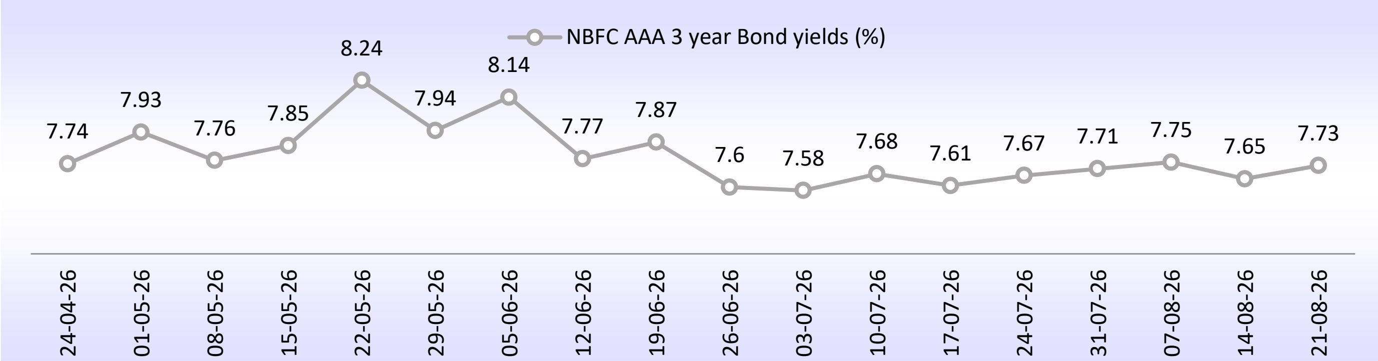
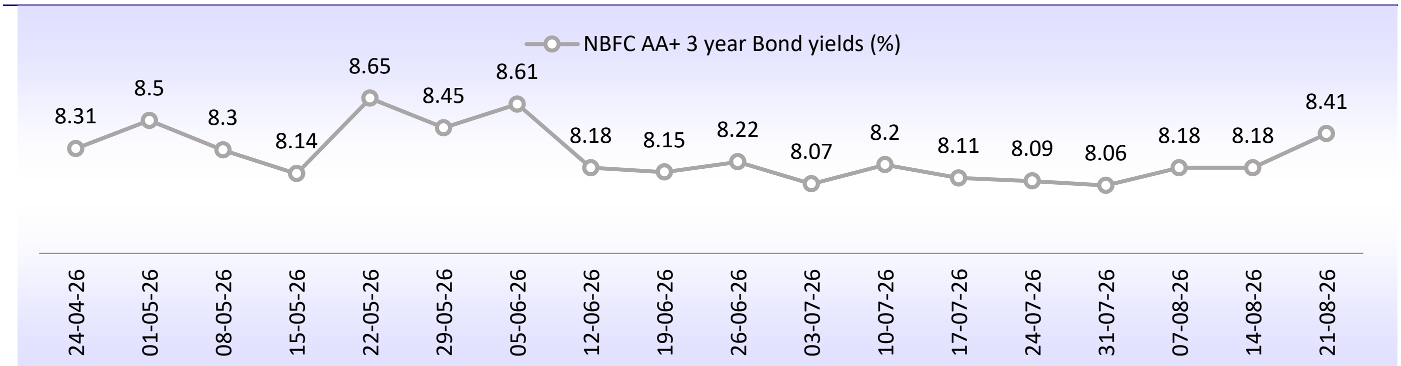


Exhibit 12: Bonds yields for NBFC AA+ rated companies over the past few weeks



Source: MOFSL, Bloomberg

Exhibit 13: Bond yields for AAA and AA+ rated companies over the past few weeks

Week ending	NBFC AAA 3-year Bond yields (%)	NBFC AA+ 3-year Bond yields (%)
30-01-2026	7.40	8.03
06-02-2026	7.25	7.78
13-02-2026	7.38	7.90
20-02-2026	7.27	7.89
27-02-2026	7.25	7.86
06-03-2026	7.28	7.78
13-03-2026	7.53	8.06
20-03-2026	7.63	8.13
27-03-2026	7.78	8.30
03-04-2026	7.65	8.24
10-04-2026	7.58	8.19
17-04-2026	7.66	8.23
24-04-2026	7.74	8.31
01-05-2026	7.93	8.50
08-05-2026	7.76	8.30
15-05-2026	7.85	8.14
22-05-2026	8.24	8.65
29-05-2026	7.94	8.45
05-06-2026	8.14	8.61
12-06-2026	7.77	8.18
19-06-2026	7.87	8.15
26-06-2026	7.60	8.22
03-07-2026	7.58	8.07
10-07-2026	7.68	8.20
17-07-2026	7.61	8.11
24-07-2026	7.67	8.09
31-07-2026	7.71	8.06
07-08-2026	7.75	8.18
14-08-2026	7.65	8.18
21-08-2026	7.73	8.41

Source: MOFSL, Bloomberg

Exhibit 14: Top 10 performers in terms of stock returns in CYTD

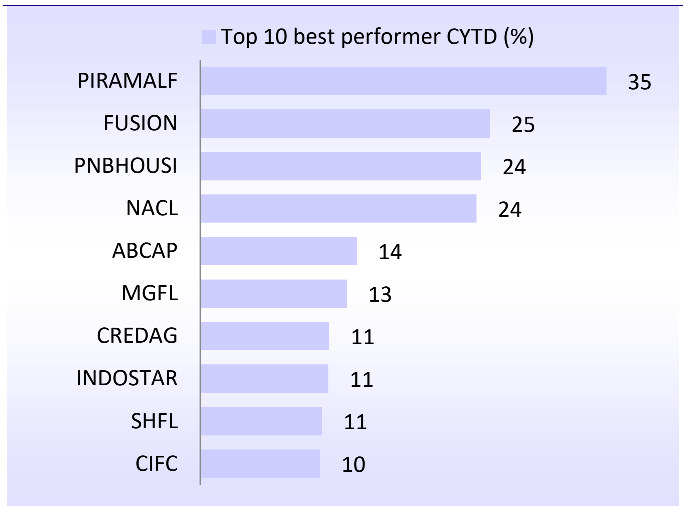
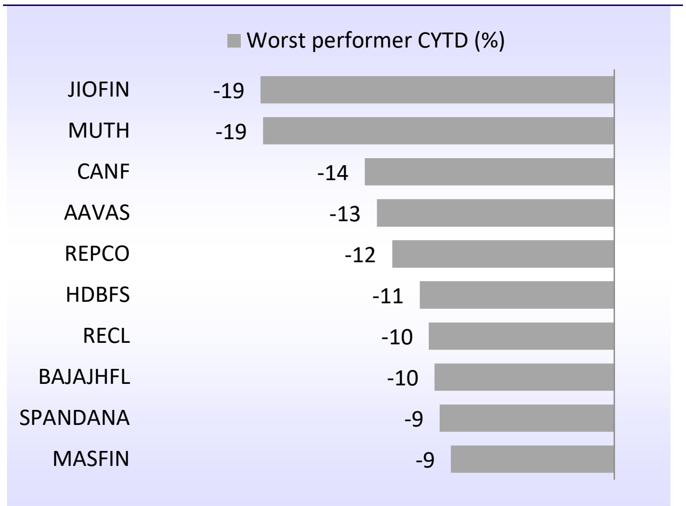


Exhibit 15: Worst performers in terms of stock returns in CYTD



Note: Returns calculated from 1st Jan'26 to 27th Aug'26; Source: Bloomberg; MOFSLe

Exhibit 16: Stock price returns of our NBFC coverage companies over the respective period (%)

Name	15 Days	1M	3M	6M	CYTD	1Yr
SENSEX	-1.3	0.1	1.4	-5.4	-9.7	-4.8
NIFTY	-1.4	0.4	0.8	-4.3	-7.8	-2.5
NSEbank	-0.6	0.7	4.8	-5.0	-3.5	5.6
NSEFIN	-0.6	0.6	2.1	-5.7	-4.8	1.3
BANKEX	-1.7	-0.8	4.1	-5.6	-3.7	6.0
FIVESTAR	-4.2	-1.7	16.9	27.4	-2.6	-5.6
LICHF	4.6	-3.7	-4.5	-1.1	-1.5	-5.1
PNBHOUSI	2.3	9.8	9.9	43.6	24.5	51.3
AAVAS	-9.9	-8.2	-6.8	-0.7	-12.8	-18.8
HOMEFIRS	1.3	1.1	7.0	10.4	8.5	-7.6
CANF	-2.1	-1.0	-3.4	-4.6	-13.5	8.7
BAJAJHFL	0.5	-0.4	-1.0	-2.2	-9.7	-24.2
REPCO	-0.6	-6.7	-5.7	-4.2	-12.0	2.0
CIFC	-2.0	5.3	19.0	8.6	10.4	27.4
MMFS	-3.6	5.1	25.0	1.9	-5.3	46.4
SHFL	-1.4	6.1	14.4	2.1	10.6	85.3
INDOSTAR	3.4	-5.0	10.7	13.7	11.2	-3.3
MUTH	7.3	2.0	-6.6	-7.9	-19.0	15.5
MGFL	-1.3	-3.3	5.9	22.9	12.8	30.4
BAF	-1.6	2.7	15.7	8.1	9.1	22.9
POONAWAL	-0.6	3.4	21.9	5.8	-0.4	6.3
ABCAP	-1.1	1.5	11.4	18.0	13.6	44.7
LTF	0.9	2.5	13.6	12.7	1.3	45.5
PIRAMALF	7.3	8.8	12.0	28.0	35.4	
MASFIN	-2.6	-7.3	-6.5	-9.0	-8.8	-4.0
HDBFS	-0.5	-0.2	1.6	-2.9	-10.5	-13.3
IIFL	1.6	11.0	33.0	28.2	4.2	41.2
CREDAG	-8.3	-10.9	10.0	12.0	11.3	4.0
FUSION	-3.8	-11.2	11.3	4.1	25.3	16.7
SPANDANA	-0.4	-8.3	-6.0	-3.6	-9.4	-1.3
POWF	-5.5	-15.3	-17.9	-14.0	0.1	-8.4
RECL	-7.2	-12.8	-5.5	-8.2	-10.0	-11.7
TATACAP	2.4	7.3	21.1	12.7	10.0	
JIOFIN	-6.9	1.0	-1.8	-6.6	-19.1	-24.5
NACL	-7.1	14.9	-9.9	10.0	24.1	109.7

Note: Returns calculated as on 27th Aug'26; **Source:** MOFSL, Bloomberg

HFC: Near-term NIM pressure but improving rate-cycle outlook provides comfort

- Housing Finance Companies (HFCs) had a reasonably healthy start to FY27, with several players transitioning from the earlier practice of recognizing disbursements and loans at the time of cheque handover to cheque-realization-based recognition. Under the revised practice, disbursements are reflected in the loan book, and interest income starts accruing only upon cheque realization, resulting in a more conservative recognition framework.
- From an earnings perspective, margins remained under pressure, primarily due to a sequential increase in the incremental cost of borrowings. However, HFCs have had limited ability to pass on the higher funding costs through pricing, given the elevated competitive intensity from banks, particularly in the housing finance segment. We expect this margin pressure to persist for at least another quarter before the funding-cost environment becomes more supportive.
- Asset quality trends, conversely, remained largely benign across the sector. While most HFCs reported stable credit costs and asset quality, some affordable housing financiers witnessed a seasonal uptick in stress, which warrants monitoring but does not, at this stage, alter the broader benign asset-quality outlook.
- Importantly, the medium-term outlook for HFCs appears more favorable. As we move through FY27, a potential reversal in the interest-rate cycle over the next 4–6 months could provide a meaningful earnings tailwind. HFCs are structurally better positioned to benefit from a rising-rate environment, given the potential for asset yields to reprice faster than funding costs. Such a scenario could help mitigate the near-term margin compression and support a gradual recovery in spreads and profitability.
- Overall, we see near-term margin headwinds but improving medium-term prospects, with stable asset quality providing an additional cushion to earnings. The key monitorables remain the trajectory of incremental borrowing costs, competitive intensity in home loans, and the timing and magnitude of any reversal in the interest rate cycle.

LIC Housing Finance (Neutral)

LICHF’s near-term performance is expected to be driven by the pace of loan book growth and disbursement momentum, even as elevated repayments continue to weigh on portfolio growth. Intensifying competition in the housing finance market is exerting pressure on margins, while the company's gradual diversification toward higher-yielding non-housing segments remains a key lever to support margin resilience over the medium term. Asset quality remains stable, providing comfort on the benign credit cost outlook and supporting earnings visibility. Going forward, a meaningful acceleration in loan growth, coupled with moderation in repayment levels and improvement in margins, would be the key catalysts for LICHF.

CANFIN Homes (Neutral)

CANF continues to demonstrate a resilient operating profile, supported by healthy disbursement momentum and stable asset quality, which should keep credit costs benign. However, elevated repayments constrained loan book expansion, resulting in growth that was slightly below expectations. Margins moderated during the quarter as yields softened faster than funding costs. The company's ability to maintain profitability amid higher incremental borrowing costs remains a key monitorable. Moving forward, successful execution of its FY27 loan growth guidance of 14%, along with the ability to stabilize margins, will be the primary drivers of performance.

Aavas Financiers (Neutral)

AAVAS has maintained a stable operating profile, although AUM growth remains impacted by elevated repayments despite healthy disbursement momentum. Margins are under pressure, with further compression expected due to the company's increased focus on the home loan segment. Asset quality remains stable, supporting a benign credit cost outlook. Execution of its 17–18% AUM growth guidance, along with effective transition under the new management team, remains a key monitorable amid heightened competition and portfolio attrition. Sustained delivery on growth ambitions could act as a key re-rating trigger.

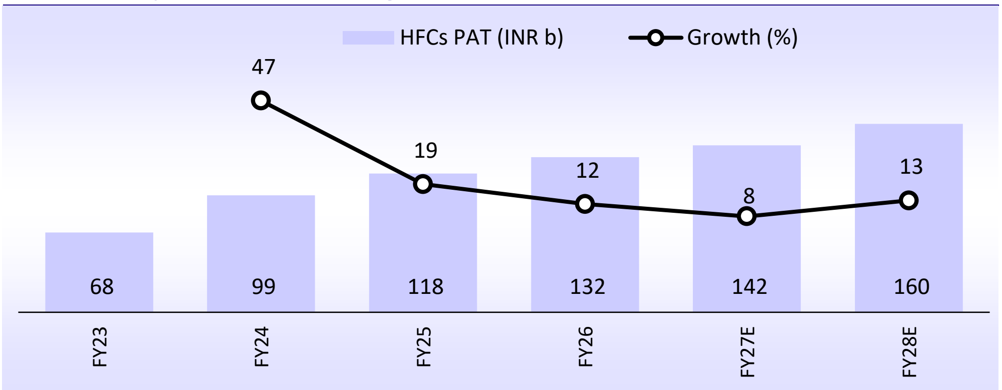
Bajaj Housing (Neutral)

BHFL continues to demonstrate strong business momentum, supported by broad-based growth, healthy disbursements, and increasing scale. However, NIMs are expected to remain under pressure in the near term as higher-yielding legacy loans run off and are replaced by lower-yielding originations, with further compression anticipated during the year. Asset quality remains stable, keeping credit costs benign, while the company's growth trajectory and focus on higher-yielding segments should support earnings growth over the medium term, although valuations remain expensive.

Home First Finance (Buy)

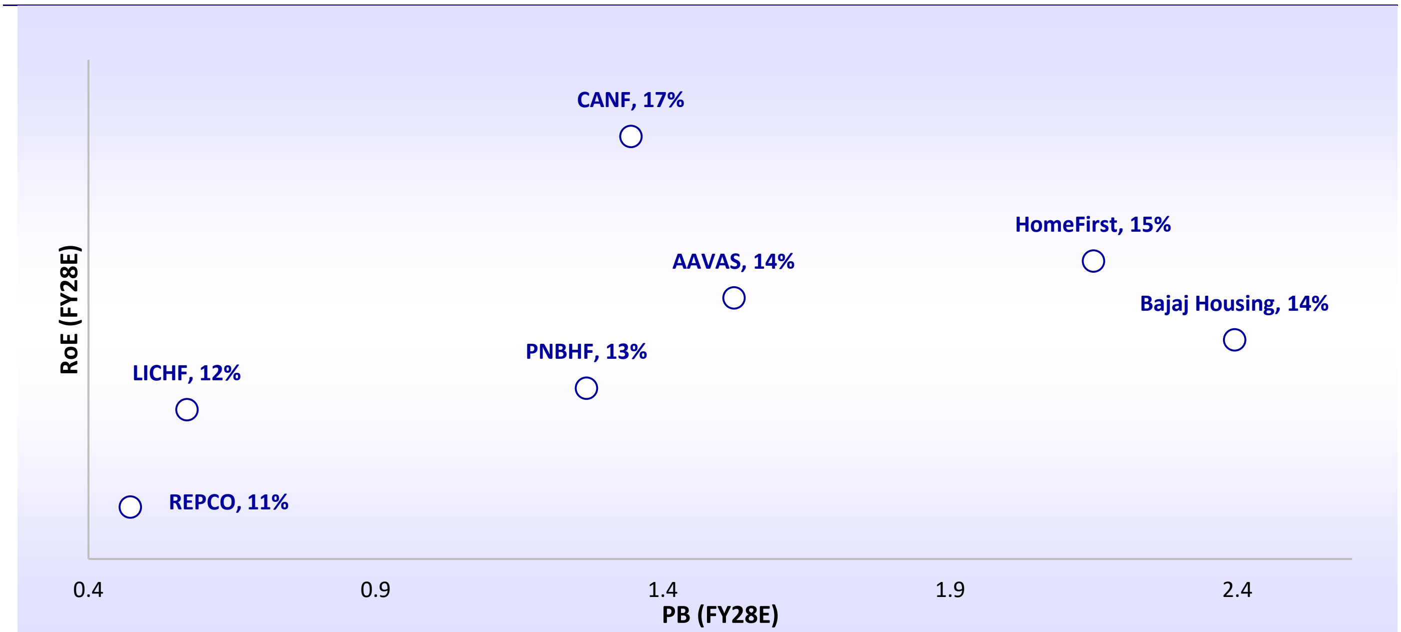
HomeFirst has entered FY27 on a strong footing, supported by robust disbursement momentum, healthy AUM growth, improving asset quality trends, and resilient margins. The company's 100% floating-rate balance sheet provides flexibility to manage interest rate movements and sustain stable spreads, while effective management of balance transfers has helped moderate BT-OUT levels. With yield compression being offset by lower borrowing costs, the company has maintained margin resilience despite a competitive operating environment. Stable credit performance, with credit costs remaining within the guided range, further strengthens the overall earnings outlook. Given the strong operating momentum, improving business fundamentals, and healthy growth trajectory, HomeFirst remains well-positioned for sustained growth.

Exhibit 17: Expect PAT for HFCs to grow 8%/13% in FY27/FY28



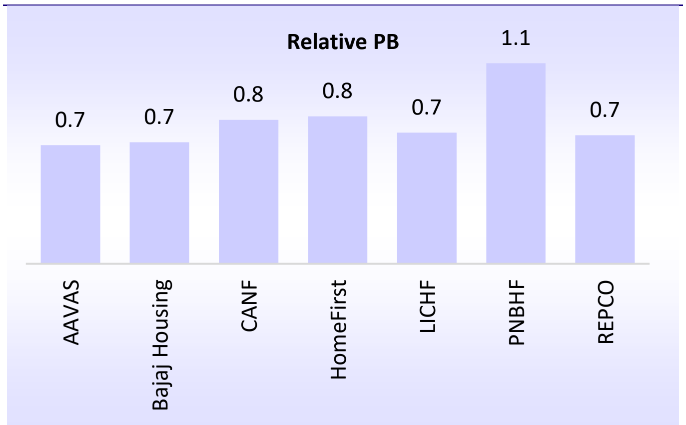
Source: MOFSLe, company;
Note: HFCs include Aavas, Homefirst, PNBHF, Bajaj Housing, Repco and Canfin

Exhibit 18: HFCs: P/B (FY28E) vs. RoE (FY28E) (%)



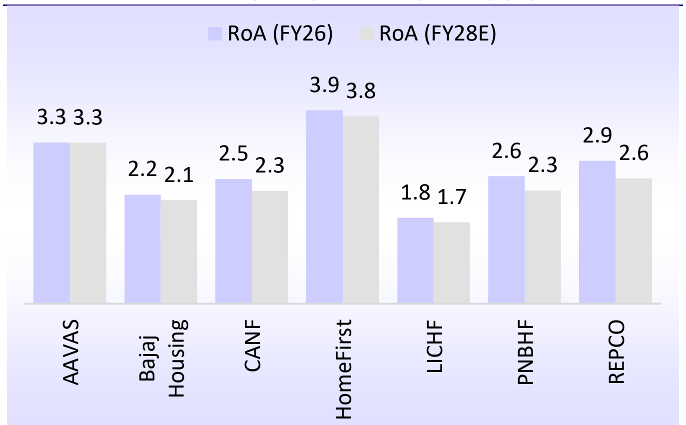
Source: MOFSL

Exhibit 19: Relative P/B for HFCs



Note: 1-yr Forward Relative PB = PB as of Sep'26/ 3-year average PB; Source: MOFSLe

Exhibit 20: HFCs: RoA (FY26) vs. RoA (FY28E) (%)



Vehicle Financiers: Strong underlying auto demand and expected improvement in asset quality support a constructive outlook

- Vehicle financiers have had a healthy start to FY27, supported by sustained momentum across key auto segments. Volumes across passenger vehicles, two-wheelers, and tractors have remained strong, with the demand trend seen following the GST rate rationalization continuing into the current fiscal year. While some financiers have indicated a moderation in used commercial vehicle (CV) financing, the slowdown remains selective and, at this stage, does not appear significant enough to alter the broader sector outlook.
- With underlying auto demand remaining robust, vehicle financiers are well positioned to benefit from healthy financing demand across segments. The upcoming festive season also provides an additional positive catalyst, with Dussehra and Diwali falling in separate months in Oct and Nov, respectively, potentially supporting a stronger and more sustained seasonal demand cycle.
- Asset quality witnessed some seasonal deterioration in 1QFY27 for players such as Shriram Finance and Chola Finance. However, we view this as manageable and expect asset-quality metrics to improve through the coming quarters, particularly as collection efficiencies normalize and the underlying operating environment remains supportive. We expect 2HFY27 to experience a gradual improvement in asset quality.
- Overall, the combination of strong vehicle volumes, sustained demand momentum, favorable festive-season dynamics, and an expected recovery in asset quality makes vehicle financing one of our preferred NBFC sub-segments in the near term. El Niño and monsoon progression will remain key near-term monitorables.

Shriram Finance (Buy)

SHFL continues to deliver healthy operating performance, supported by strong earnings momentum, stable credit costs, and resilient margins. While asset quality witnessed a marginal seasonal deterioration due to higher slippage, management remains confident of maintaining asset quality and sustaining growth despite the uncertain macro environment. The company's growth outlook is supported by resilient demand in vehicle finance and an increasing contribution from higher-growth segments such as MSME, personal loans, and gold loans. Additionally, stable margins, supported by lower incremental funding costs following the recent equity infusion, are expected to enhance profitability and reinforce the company's healthy growth trajectory.

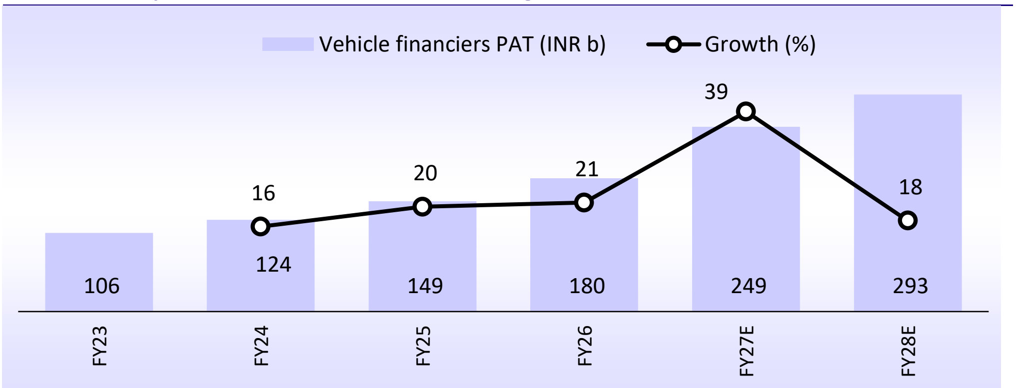
Cholamandalam Finance (Buy)

CIFC remains well-positioned for sustained growth, supported by a strong franchise, a diversified product portfolio, and an expanding customer base. Healthy disbursement momentum, robust AUM growth, and steady margins continue to underpin strong operating performance, while the company's focus on scaling newer segments such as gold loans provides additional growth levers. A strong capital position and benign credit trends support profitability. Although asset quality witnessed some seasonal moderation, management remains confident of improvement, reflecting its disciplined underwriting and risk management approach.

MMFSL (Buy)

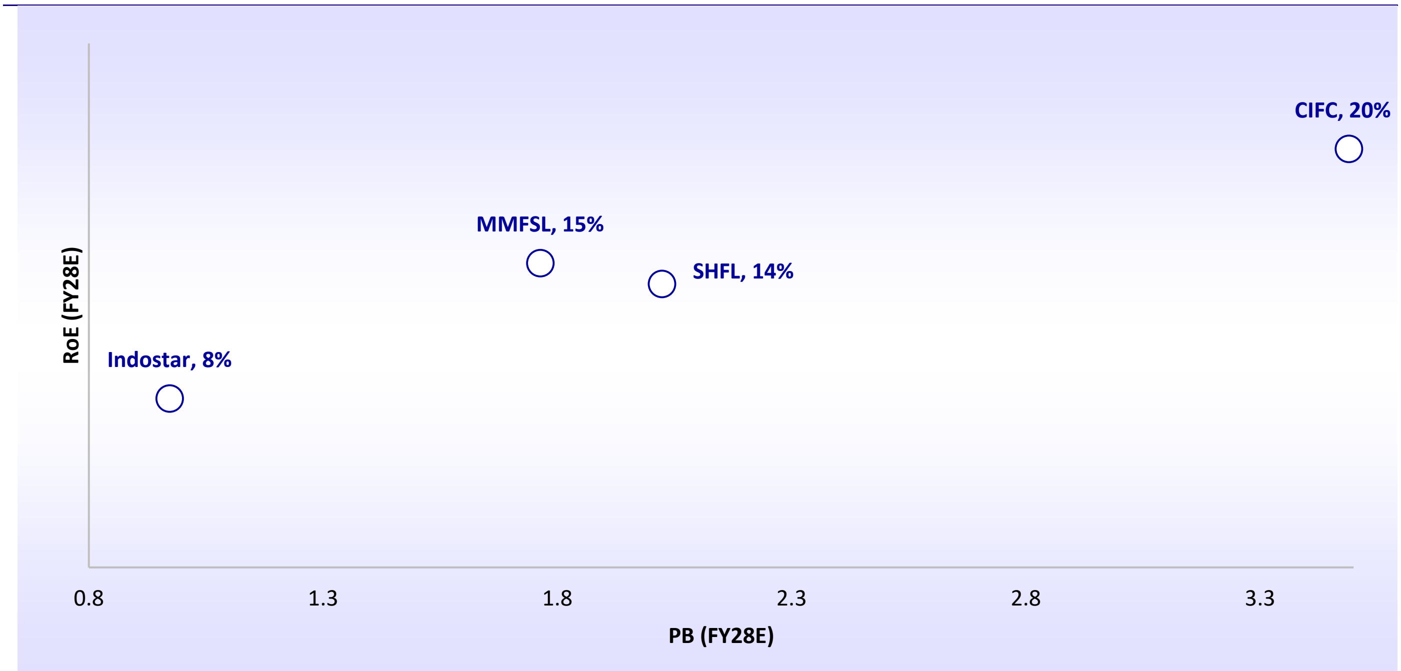
MMFS continues to demonstrate healthy operating performance, supported by disciplined underwriting, granular risk monitoring, and a resilient asset quality profile. Strong early bucket collections, healthy recoveries, and multi-year low 30+ DPD levels provide comfort on the credit outlook despite seasonal headwinds. While margins remain under pressure from elevated borrowing costs and excess liquidity, gradual normalization of surplus liquidity should support NIMs going forward. The company's improving business mix, ongoing investments in newer growth engines, and strong control over operating expenses position it well for sustained medium-term growth.

Exhibit 21: Expect PAT for vehicle financiers to grow 39%/18% in FY27/FY28



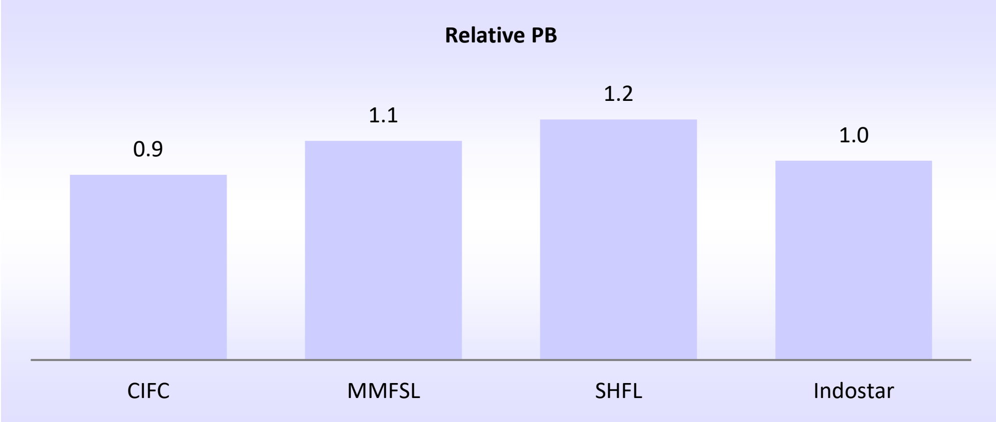
Source: MOFSL, Company;
Note: VFs include SHFL, CIFC, and MMFS

Exhibit 22: Vehicle Financiers: P/B (FY28E) vs. RoE (FY28E) (%)



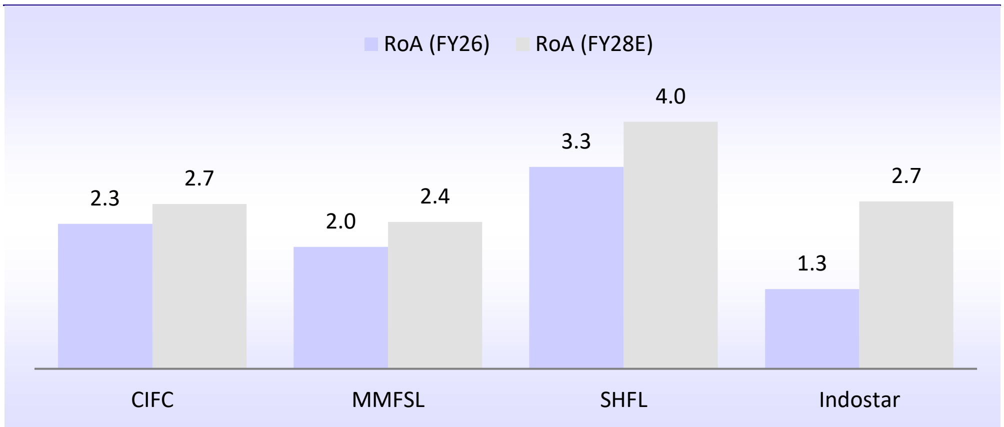
Source: MOFSL

Exhibit 23: Relative P/B the highest for SHFL



Note: Relative PB = PB as of Sep'26/ 3-year average PB; Source: MOFSLe

Exhibit 24: Vehicle Financiers: RoA (FY26) vs. RoA (FY28E) (%)



Source: MOFSLe

Diversified Financials: Early signs of a credit upcycle strengthen the case for preferred positioning

- Diversified lenders offering a combination of unsecured personal and business loans alongside secured products remain among our preferred NBFC segments. Following a prolonged period of customer deleveraging, we believe India is beginning to enter a customer leverage upcycle, with early signs of improving risk appetite and credit demand becoming visible over the past 6–9 months. This is translating into stronger growth in unsecured personal and business loans, although the recovery in unsecured business credit remains rather divergent across lenders.
- The segment has had a strong start to FY27, with credit demand in unsecured products remaining healthy. Importantly, growth is not restricted to unsecured lending, with secured products such as loan against property (LAP) and mortgage-linked products also continuing to perform well. The combination of improving customer leverage, stronger lender risk appetite, and broad-based product traction provides a favorable backdrop for diversified NBFCs.
- However, the draft RBI circular proposing restrictions on revolving credit facilities is an important near-term monitorable, particularly for lenders with meaningful exposure to Flexi/revolving loan products. Players such as Bajaj Finance, Aditya Birla Capital, and Tata Capital could be impacted. While we do not expect a material direct impact on P&L, the proposed changes are unlikely to be balance-sheet neutral. We expect some near-term moderation in AUM and loan growth as lenders recalibrate their product structures before potentially migrating customers towards alternative term-loan formats.
- From a structural positioning perspective, we continue to favor diversified lenders over monoline NBFCs, given the greater resilience demonstrated by diversified platforms through the recent credit cycle and their stronger earnings growth outlook. Product diversification provides these lenders with greater flexibility to redeploy capital across segments as credit conditions evolve.
- A second near-term monitorable is the expected regulatory guidance around commissions on credit-life insurance policies sold alongside loans. Several diversified lenders derive a meaningful portion of their fee income from insurance commissions, and any changes to the commission structure could have implications for fee income and business economics. We therefore remain watchful of the forthcoming guidelines.
- Overall, we remain constructive on diversified lenders, supported by the early stages of a customer leverage upcycle, improving unsecured credit demand and continued strength in secured lending. Within the segment, Bajaj Finance and L&T Finance remain our preferred picks. The key near-term risks remain the proposed RBI restrictions on revolving/Flexi credit and potential changes (or capping) to credit life insurance commissions.

Bajaj Finance (Buy)

BAF has moved beyond the earnings normalization phase and is entering a period of structurally higher earnings growth. The combination of broad-based loan growth, resilient margins, improving asset quality, and declining credit costs is driving a meaningful acceleration in profitability. The company has also outlined a comprehensive roadmap to strengthen its competitive positioning through customer-centric growth, AI-led execution, portfolio diversification, and disciplined risk management.

HDB Financial (Neutral)

HDBFS appears to be moving beyond its portfolio stabilization phase, with improving asset quality, resilient profitability, and increasing management confidence to accelerate growth across previously subdued segments. The company enters FY27 with a healthier balance between growth, asset quality, and profitability. We believe the next 2-3 quarters will be crucial in validating this transition, with a broad-based recovery led by asset finance and business loans, alongside sustained momentum in consumer finance, potentially serving as a key earnings catalyst.

Poonawalla Fincorp (BUY)

PFL's transformation into a diversified retail lender is beginning to translate into stronger financial outcomes. The company's earnings outlook is underpinned by four structural drivers: 1) healthy loan growth led by both legacy and newly launched businesses, 2) gradual margin expansion driven by better product mix and improving portfolio yields, 3) normalization in credit costs as portfolio seasoning improves, and 4) operating leverage supported by technology-led efficiencies and disciplined cost management. Collectively, these should drive a meaningful improvement in profitability and return ratios over the medium term.

Piramal Finance (BUY)

Piramal is entering a phase where scale benefits, lower operating costs, and a stable credit framework are expected to drive RoA expansion. Growth is increasingly broad-based across gold loans, micro lending, unsecured products and cross-sell. Cross-sell already contributes ~28-29% of business volumes, with lower acquisition costs and credit risk supporting superior economics. Key structural levers include NIM expansion (supported by a better product mix and lower CoB), enhanced operating efficiency, and a stronger margin profile. Asset quality remains resilient, with unsecured portfolios stable and microfinance showing continued improvement

L&T Finance (BUY)

LTF is well-positioned to deliver a steady improvement in growth and profitability, driven by its ongoing transition toward a granular, retail-focused, and technology-led franchise. The company has built strong visibility on AUM growth, supported by the scaling of its core retail segments and emerging adjacencies, such as gold loans and micro-LAP, while maintaining a calibrated approach to risk. With a rapidly expanding retail ecosystem, growing cross-sell capabilities, improving secured product mix, and technology-led operating leverage, we expect LTF to deliver a PAT CAGR of ~30% over FY26-28E, resulting in RoA/RoE of 2.6%/15% by FY28E.

Aditya Birla Capital (BUY)

ABCL continues to deliver healthy growth across its core businesses – NBFC, HFC, AMC, and life and health insurance – supported by improving profitability, operating leverage, and sustained customer acquisition momentum. The 'One ABC' strategy is strengthening cross-sell, enhancing wallet share, and driving cost efficiencies, while ongoing investments in digital capabilities and distribution expansion provide structural support to long-term growth. We expect consolidated PAT CAGR of ~28% over FY26-28, with improving mix and operating leverage driving RoE expansion to ~14% by FY28.

Jio Financial (BUY)

JIOFIN represents a long-term platform opportunity in India's evolving financial services landscape, supported by strong parentage, a robust balance sheet, and access to a large digital and consumer ecosystem. The company has proven its ability to pivot to an operational powerhouse. Its primary strength lies in its triple-threat advantage: an industry-leading liability franchise, a low-cost customer acquisition funnel through its Jio telecom and retail ecosystem, and global financial product manufacturing expertise via the BlackRock, Allianz and BoFA joint ventures

Tata Capital (Neutral)

TCL is one of India's leading diversified NBFCs, supported by the strong Tata brand, a diversified portfolio, and a consistent execution track record. The company has delivered robust growth while maintaining prudent risk management and healthy asset quality. We expect TCL to benefit from the large retail and SME credit opportunity, supported by its expanding distribution network, digital capabilities, strong liability franchise, and increasing focus on granular, higher-yielding segments. While the outlook remains favorable, we believe the current valuations adequately reflect the company's near-term growth and earnings potential.

MAS Financial (BUY)

MAS remains well positioned to deliver sustainable long-term growth, supported by its leadership in MSME lending, an expanding retail and housing finance franchise, and a differentiated distribution model. Management's disciplined execution, conservative risk framework, and consistent focus on asset quality provide strong earnings visibility, while its aspiration to build an INR1t AUM franchise by 2036 underscores confidence in the long-term opportunity. Backed by stable leadership, robust governance, and a well-defined strategy, MAS is well placed to compound its loan book and profitability over the medium to long term. We estimate an AUM/ PAT CAGR of 22%/20% over FY26-28, with an RoA/RoE of ~3.1%/15% in FY28.

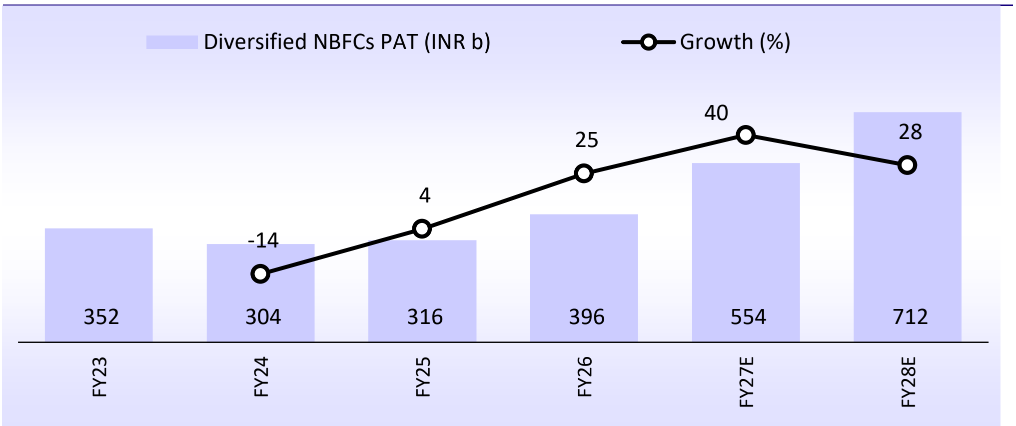
Northern Arc (Buy)

NACL is transitioning from an intermediary-led credit platform into a diversified D2C-led financial services franchise. Multiple growth engines, an expanding capital-light credit solutions ecosystem, operating leverage, and normalizing credit costs should enable PAT growth to materially outpace AUM growth, driving a structural improvement in return ratios. NACL trades at 1x FY27E P/BV. We model an AUM/PAT CAGR of ~21%/34% over FY26-28E, with RoA/RoE of ~3.2%/15% in FY28E.

IIFL Finance (Buy)

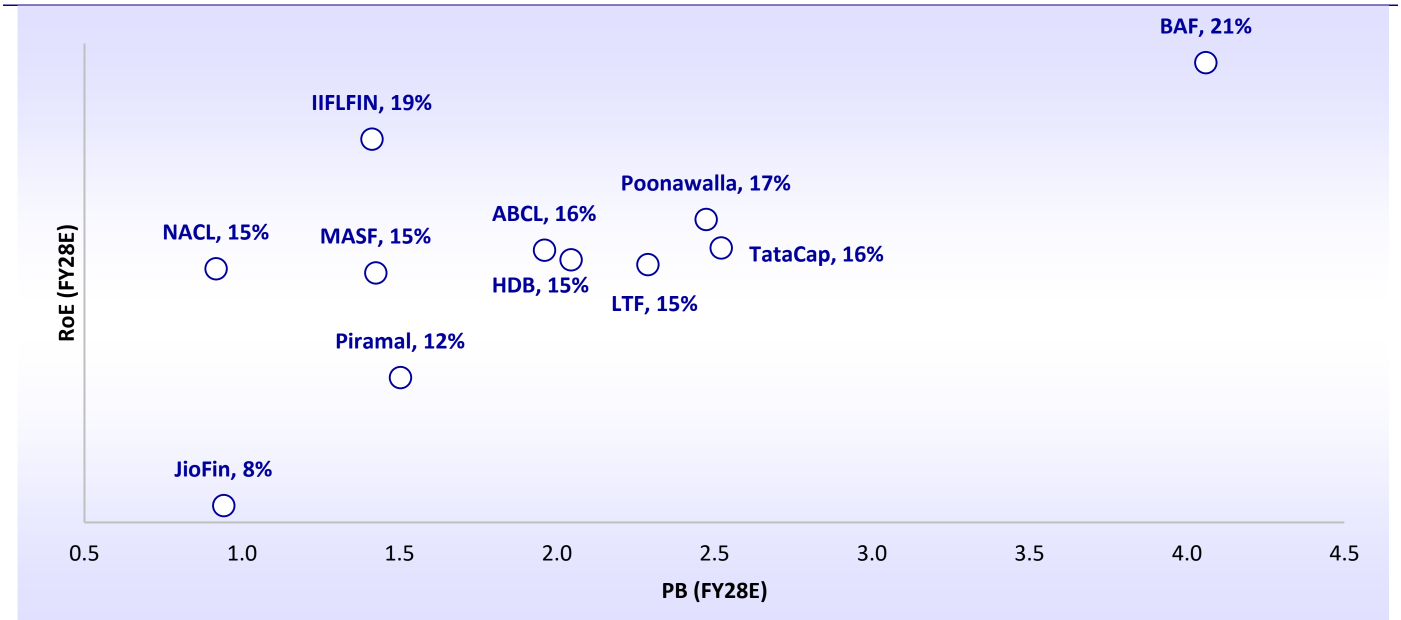
IIFL has made meaningful progress in repositioning its business toward a more secure, retail-led, and capital-efficient model, with gold loans and housing now accounting for the bulk of AUM and unsecured/volatile portfolios largely exited. The gold loan franchise is recovering well following the embargo, housing will now start scaling up in affordable and emerging segments, and microfinance risks are being contained through tighter controls and CGFMU guarantee coverage. IIFL trades at 1.4x FY27E P/BV and ~10x P/E. We model consolidated AUM/PAT CAGR of ~22%/~44% over FY26-FY28 for an estimated RoA/RoE of 3.1%/19% in FY28.

Exhibit 25: Expect PAT for diversified financiers to grow 40%/28% in FY27/FY28



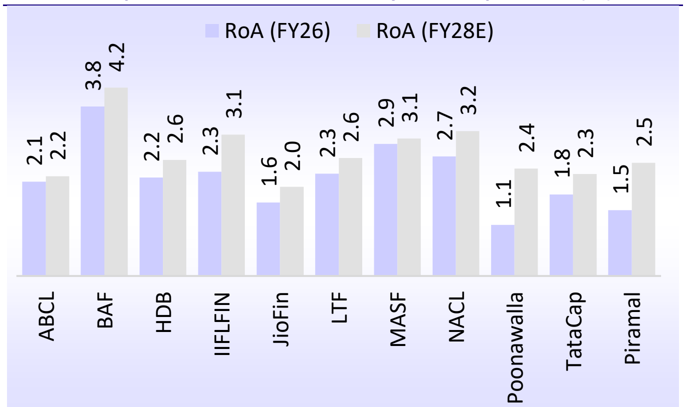
Source: MOFSL, Company;
Note: Diversified financial includes BAF, HDB, Piramal, LTF, Poonawalla, MASFIN, Northern Arc, IIFL Finance, Jio Financial, and Tata Capital

Exhibit 26: Diversified Financiers: P/B (FY28E) vs. RoE (FY28E) (%)



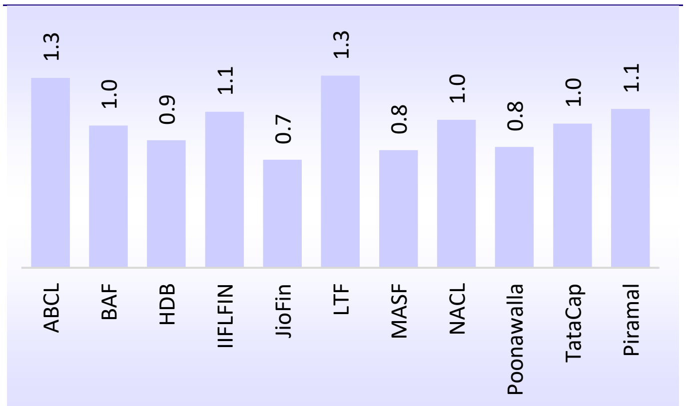
Source: MOFSL, Bloomberg

Exhibit 27: RoA (FY26) vs. RoA (FY28E); Poonawalla and Piramal expected to deliver healthy RoA expansion (%)



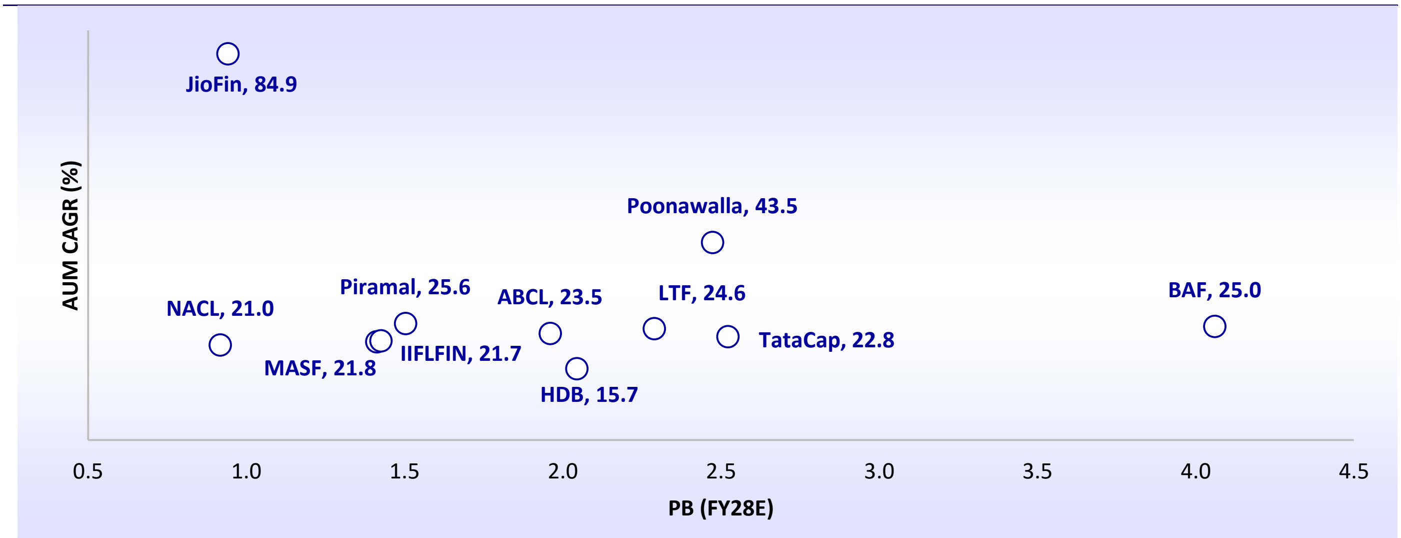
Source: MOFSLe

Exhibit 28: MASF trading at the low valuations as per relative P/B



Note: Relative PB = PB as of Sep'26/3-year average PB; Source: MOFSLe

Exhibit 29: Diversified Financiers: P/B (FY28E) vs. AUM CAGR (FY26-28E)



Note: Jio growing on a smaller base; Source: MOFSL

MFI and MSME: Emerging from a prolonged stress cycle; profitability recovery ahead

- We are increasingly constructive on microfinance and micro-LAP, which have both undergone a significant asset quality stress cycle over the past 2.0–2.5 years. The encouraging trend is that the microfinance segment has now moved decisively beyond the peak of the stress cycle, with collection efficiencies improving sharply and flow-forward ratios moderating meaningfully over the past 2–3 quarters.
- With asset quality normalizing, credit costs have also largely normalized, setting the stage for a stronger recovery in profitability over the quarters ahead. We believe microfinance lenders are entering a cyclical upcycle, with the combination of improving collections, lower credit costs, and eventual recovery in loan growth providing meaningful operating leverage to earnings. Within the segment, CreditAccess Grameen and Fusion Finance are our preferred picks.
- The micro-LAP segment, represented by players such as Five-Star Business Finance, has followed a somewhat similar trajectory, as asset-quality stress in microfinance spilled over into the micro-LAP ecosystem. However, we believe micro-LAP is now approaching the fag end of its stress cycle, creating an attractive setup for a recovery in both growth and profitability.
- For Five-Star Business Finance, the next 1–2 quarters could be particularly important. We expect disbursement momentum to strengthen alongside improving collections, resulting in better performance of the current book and a gradual improvement in zero-DPD metrics. As the asset-quality overhang recedes, we expect the company to progressively return to stronger loan growth and a more stable profitability profile.
- We therefore see FiveStar as a recovery and re-rating opportunity over the next 2-3 quarters. As business momentum normalizes, asset quality improves, and return ratios recover, we believe the stock has scope for a meaningful re-rating in valuation multiples. The key thesis is that the market is still pricing in the legacy asset-quality concerns, while the underlying operating trajectory is increasingly pointing towards normalization.

CreditAccess Grameen (Buy)

CREDAG remains well positioned for sustainable growth, supported by its deep rural presence, strong customer franchise, and ability to graduate existing MFI customers into higher-ticket individual loans, driving portfolio diversification. Healthy AUM growth, stable margins, and improving asset quality reflect the strength of its operating franchise, while continued improvement in PAR trends provides confidence in the credit outlook. With credit costs expected to remain toward the lower end of guidance under a stable macro environment, the company's focus on borrower additions, retail portfolio expansion, and prudent risk management should support sustainable growth and profitability.

Spandana Sphoorty (Neutral)

SPANDANA remains focused on strengthening its operating franchise through calibrated expansion, improving efficiency, and enhanced risk controls. The company has demonstrated improving margins and asset quality, while management remains confident of achieving its ambitious AUM target of ~INR100b by end-FY28. As the company scales operations, sustained improvement in disbursement momentum, operating efficiency, and access to liabilities will be key monitorables. The ability to maintain margin expansion while executing on its growth strategy will be critical to delivering its medium-term objectives.

Fusion (Buy)

Fusion's near-term outlook reflects a calibrated and risk-aware approach to growth, with management prioritizing profitability, asset quality, and capital preservation over aggressive revenue expansion. The company remains insulated from peer-driven growth pressures and retains the flexibility to moderate disbursements in response to evolving risks. At the same time, multiple growth levers, including the scaling of a secured MSME franchise, provide a clear pathway for diversification without diluting underwriting standards.

Five Star (BUY)

FIVESTAR appears on track to regain its mojo with a healthy pick-up in disbursement volumes and AUM growth. Early-stage delinquencies improved meaningfully, driven by a decline in 1+ dpd and 30+ dpd, while slippages and credit costs remained broadly stable sequentially. With the business now on a stronger footing, the company is well-positioned to build from here, supported by healthy underlying demand, strong asset quality, and improving productivity. We estimate FIVESTAR to post a CAGR of ~23%/~14% in AUM/PAT over FY26-28, with an RoA/RoE of 6.7/15.5% in FY28.

Gold Financiers: Rising competition to structurally compress yields and return ratios; gold loan growth to remain healthy

- We remain neutral on the gold financing segment, despite the strong franchises of the incumbent players such as Muthoot Finance and Manappuram Finance. The key concern is the structural increase in competitive intensity. Over time, a growing number of large NBFCs and small finance banks have entered the gold-loan market, many of them with strong liability franchises and among the lowest costs of borrowing in the financial sector. The announced plans of several players to establish dedicated gold-loan branches also underline the seriousness of their intent and suggest that competition is likely to intensify further.
- While building a meaningful distribution network will take time, we believe that over the next 4–5 years, these new entrants could establish sizeable gold-loan franchises across the country. As gold loans become an increasingly mainstream lending product, we expect competitive intensity to exert sustained pressure on yields and spreads.
- This, in our view, has important implications for the return profile of standalone gold financiers. RoEs are likely to structurally moderate as yields compress, making profitability increasingly dependent on balance-sheet growth rather than margin expansion. In such an environment, the earnings trajectory of gold-financing companies could become increasingly sensitive to the growth in the underlying gold-loan market.
- Gold prices therefore emerge as an important swing factor. Sustained higher gold prices increase the value of collateral and support higher loan sizes and overall industry growth while also reducing the intensity of competition as the addressable gold-loan opportunity expands. Conversely, if gold prices remain range-bound or

correct from current levels, slower industry growth could intensify competition for incremental customers, further pressuring yields and profitability.

- Overall, while incumbent gold financiers retain strong brands, distribution and customer franchises, we believe the structural entry of low-cost competitors will keep margins and ROEs under pressure. **We therefore maintain our Neutral stance on both Muthoot Finance and Manappuram Finance,** with gold-price trends, industry growth, and competitive intensity (which could result in spread compression) remaining the key monitorables.

Muthoot Finance (Neutral)

Muthoot Finance continues to benefit from healthy gold loan demand, supporting steady portfolio growth and customer additions. However, the operating environment has turned more competitive, with aggressive pricing across the industry weighing on gold loan yields and margins. While management expects yields to stabilize, competitive intensity from well-capitalized NBFCs poses downside risks to margin sustainability, particularly as borrowing costs are likely to remain broadly stable. Consequently, incremental earnings growth may increasingly depend on balance sheet expansion rather than margin resilience. The company’s strong franchise should support its competitive positioning, but the trade-off between protecting market share and preserving profitability remains a key monitorable. Sustained stabilization in yields and margins, along with the industry's competitive response to recent pricing actions, will be critical factors to watch over the coming quarters.

Manappuram Finance (Neutral)

MGFL remains well positioned for healthy growth, supported by its strong gold loan franchise and improving traction across non-gold businesses. The company’s focus on expanding secured lending while maintaining prudent underwriting should support sustainable AUM growth and asset quality. With gold prices remaining elevated, the gold loan business should continue to provide a strong growth and profitability base, while the gradual improvement in non-gold segments can drive further diversification. Over FY26-28E, we estimate a CAGR of 27%/25% in gold/consolidated AUM and ~75% in consolidated PAT, with consolidated RoA/RoE of ~3%/14.6% in FY28.

Power Financiers: Attractive valuations but weak loan growth and near-term margin pressure will remain an overhang

- We remain cautious about the near-term outlook for power financiers, represented by PFC and REC. Loan growth is likely to remain subdued, driven by a combination of weak disbursements and elevated book run-downs/repayments. While the pace of repayments moderated somewhat in the latest quarter, it remains elevated, while disbursement momentum continues to be particularly weak. As a result, we see limited scope for a meaningful acceleration in loan growth in the near term.
- The ongoing PFC–REC merger remains an important structural development, with the merger announced and the share-swap ratio already determined. The only certainty is that the merged entity will remain a government-owned company.
- We also expect **near-term pressure on margins and profitability**. Both PFC and REC have passed on the benefits of lower borrowing costs to their customers and underlying projects. As lenders look to revive growth in an environment of weak credit demand, further competitive pricing could limit their ability to retain the benefit of lower funding costs. Consequently, we expect some pressure on spreads and profitability in the near term.
- While valuations of PFC and REC remain attractive, we believe the combination of weak loan growth, elevated repayments, and near-term margin pressure could limit earnings momentum. Hence, despite inexpensive valuations, we expect **power financiers to continue to underperform other NBFC segments during FY27**, particularly as other NBFCs benefit from a broader recovery in credit demand and stronger growth opportunities.
- The key monitorables remain the pace of disbursement recovery, normalization of book run-downs, margin trajectory, and the execution of the PFC–REC merger.

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