10 August 2026

Company update | Sector: NBFCs

Poonawalla Fincorp

BSE SENSEX	S&P CNX
78,542	24,584

Bloomberg	POONAWAL IN
Equity Shares (m)	880
M.Cap.(INRb)/(USDb)	419.7 / 4.4
52-Week Range (INR)	570 / 361
1, 6, 12 Rel. Per (%)	-2/3/9
12M Avg Val (INR M)	1001

Financials Snapshot (INR b)

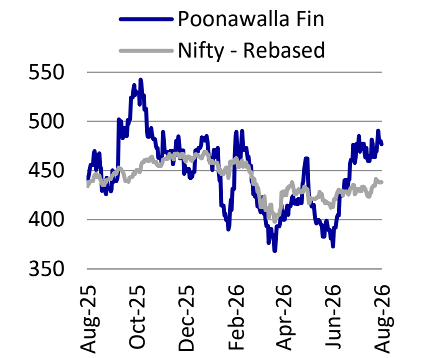
Y/E March	FY26	FY27E	FY28E
Net Total Income	40.3	66.1	94.1
PPOP	19.3	36.3	53.4
PAT	5.4	15.5	25.6
EPS (INR)	6.7	17.7	29.3
EPS Gr. (%)	-	164	65
Standalone BV (INR)	127	164	191
Ratios			
NIM on AUM (%)	7.0	7.6	7.7
C/I ratio (%)	52.0	45.1	43.3
RoAA (%)	1.1	2.1	2.4
RoE (%)	5.9	12.6	16.5
Payout (%)	0.0	11.3	10.2
Valuations			
P/E (x)	71.0	26.9	16.3
P/BV (x)	3.7	2.9	2.5
Div. Yield (%)	0.0	0.4	0.6

Shareholding pattern (%)

As On	Jun-26	Mar-26	Jun-25
Promoter	59.0	63.9	62.5
DII	16.7	12.1	12.3
FII	11.5	10.8	11.4
Others	12.8	13.1	13.9

FII includes depository receipts

Stock's performance (one year)



CMP: INR477 TP: INR570 (+20%) Buy

Growth drivers gathering momentum

Positioning the franchise for profitable scaling

- **Diversified franchise enters the next phase of profitable growth:** Poonawalla Fincorp (PFL)'s transformation into a diversified retail lender has moved beyond the investment phase. The newer businesses have attained meaningful scale and are emerging as incremental growth drivers, supported by a wider distribution footprint, improving digital capabilities and disciplined execution. As the portfolio becomes more diversified across products, customer segments, and collateral types, we expect growth to become more resilient and earnings quality to improve**.**
- **Margin expansion to be driven by better mix**: The company's profitability outlook continues to strengthen as higher-yielding businesses scale up, portfolio yields improve, and operating leverage begins to offset the elevated investment spend of the past two years. With borrowing costs likely to remain broadly stable, we expect margin expansion to be increasingly driven by product mix optimization and execution rather than external tailwinds.
- **Asset quality improvements provide earnings visibility:** Credit performance continues to improve as stronger underwriting, portfolio recalibration, and robust collection efficiencies reduce incremental stress formation. The growing share of secured products and lower-risk customer segments should support a gradual normalization in credit costs, improving the sustainability of earnings over the medium term.
- **Reiterate BUY – structural transformation creating a high-quality franchise:** We believe PFL is transitioning from a transformation story to an earnings compounding story. The combination of multiple growth engines, improving operating efficiency, AI-led productivity gains, and strengthening asset quality should drive superior earnings growth over the next few years. We model ~43% AUM CAGR and ~117% PAT CAGR over FY26-28E, with RoA/RoE improving to ~2.4%/~17% by FY28E. At 2.5x FY28E P/BV, valuations remain attractive relative to its medium-term earnings potential. **We reiterate our BUY rating with a TP of INR570, based on 3.0x Mar'28E BVPS.**

New growth engines power the next leg of growth

PFL's emerging businesses are becoming an increasingly meaningful growth driver, with new products contributing ~26% of total disbursements and ~17% of AUM in 1QFY27. Momentum is being led by the rapid scale-up of gold loans, consumer durable financing, Prime PL, CV, and education loans, supported by an expanding distribution network, strengthened digital capabilities, and technology-led underwriting. The resulting diversification across borrower segments, products, and collateral types will reduce concentration risk while enhancing earnings resilience. We expect PFL to deliver AUM/disbursement CAGR of 43%/36% over FY26-28E, supported by management's continued emphasis on profitable growth over volume-led expansion.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Higher yields and operating leverage to drive profitability

Disbursement yields expanded ~50bp QoQ in 1QFY27 (vs ~15.9% in 4QFY26), driven by a higher mix of better-yielding products and improved pricing, supporting portfolio yield expansion. PFL expects yield expansion to offset funding pressure, and we expect NIM of ~7.6%/~7.7% in FY27E/FY28E. Meanwhile, improving digital adoption, AI-led efficiencies, and operating leverage from scale are driving structural cost efficiencies. With the heavy investment phase largely behind, we expect the C/I ratio to decline to ~43% by FY28E (FY26: 52%).

Enterprise-wide AI adoption driving measurable business outcomes

PFL's AI ecosystem, comprising 42 deployed initiatives and ~130 production-gradesmart agents, is translating into measurable business outcomes. Customer serviceautomation is targeted at ~80-85%, while AI has reduced pre-collection costs by ~15%, improved post-due collection efficiency by ~27%, and lowered content creation costs by over 60%, providing a scalable platform for productivity and profitability enhancement.

Improving portfolio mix and underwriting support stable credit performance

PFL's asset quality continues to improve, reflected in credit costs declining to ~2.4% in 1QFY27 (vs. 2.6% in 1QFY26), alongside encouraging delinquency trends and sustained collection efficiency of ~99.6%. Early-stage stress continues to recede, with 6 MOB 30+ dpd improving to ~0.64% (for loans originated between Oct'25 and Dec'25), supported by lower bounce rates and slippages. A calibrated shift towards lower-risk segments such as gold loans, LAP, salaried customers, and education loans is further strengthening portfolio quality, reducing concentration risk, and reinforcing sustainable, risk-adjusted growth.

Valuation and view

- PFL's transformation into a diversified retail lender is beginning to translate into stronger financial outcomes. The company has successfully built multiple lending franchises across secured and unsecured retail segments while simultaneously strengthening its underwriting framework, digital capabilities, and operating infrastructure. With the heavy investment phase largely behind, the focus is now shifting toward scaling these businesses profitably, supported by improving operating leverage and a more favorable portfolio mix.
- 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.
- We estimate ~43% AUM CAGR and ~117% PAT CAGR over FY26-28E, with RoA/RoE improving to ~2.4%/~17% by FY28E. While the pace of margin expansion and credit cost normalization remains key to monitor, we believe PFL is well positioned to deliver superior earnings growth, supported by a diversified lending franchise and disciplined execution. **Reiterate our BUY rating with a target price of INR570, based on 3.0x Mar'28E BVPS.**

Exhibit 1: Valuation matrix of PFL and its peers

Val summary	Rating	CMP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Poonawalla	**Buy**	**476**	**388**	**17.7**	**29.3**	**164**	**191**	**2.1**	**2.4**	**12.6**	**16.5**	**26.9**	**16.3**	**2.9**	**2.5**
BAF	Buy	1,103	6,728	42.5	52.6	224	268	4.2	4.2	20.7	21.4	25.9	21.0	4.9	4.1
ABCL	Buy	408	1,133	18.5	23.6	156	176	-	-	13.1	14.2	22.0	17.3	2.6	2.3
LTFH	Buy	315	779	15.9	20.0	125	141	2.5	2.6	13.5	15.1	19.8	15.7	2.5	2.2
Piramal Finance	Buy	2,100	476	106.4	162.8	1,342	1,480	2.0	2.5	8.2	11.5	19.7	12.9	1.6	1.4
MAS Financial	Buy	297	55	25.3	29.1	183	209	3.2	3.1	14.8	14.8	11.7	10.2	1.6	1.4
IIFL Finance	Buy	625	261	65.1	80.9	388	463	3.0	3.1	18.2	19.0	9.6	7.7	1.6	1.3
HDB Financial	Neutral	677	553	39.8	47.6	289	336	2.5	2.6	14.8	15.2	17.0	14.2	2.3	2.0
Jio Financial	Buy	254	1,635	3.2	4.8	233	257	1.6	2.0	4.5	7.5	79.2	53.2	1.1	1.0
Northern Arc	Buy	286	45	34.9	44.7	276	321	3.0	3.2	13.5	15.0	8.2	6.4	1.0	0.9
Tata Capital	Neutral	368	1,569	16.0	21.2	125	147	2.1	2.3	13.7	15.6	23.0	17.3	2.9	2.5

Story in charts

Exhibit 2: Expect an AUM CAGR of ~43% over FY26-FY28

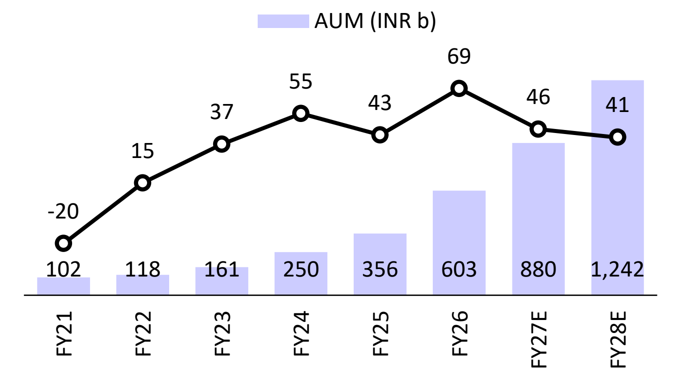


Exhibit 3: Disbursement CAGR of ~36% over FY26-FY28E

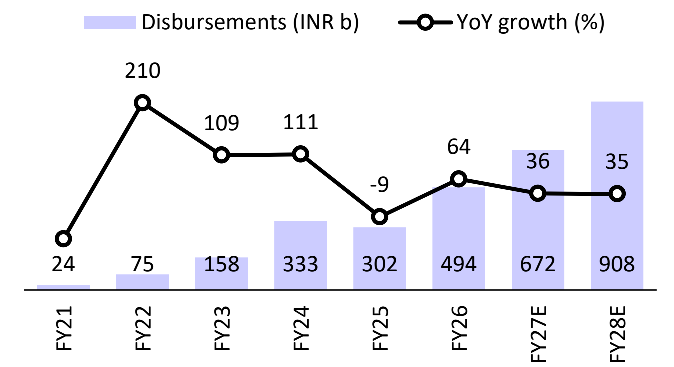


Exhibit 4: Spreads to improve to ~7% in FY27E

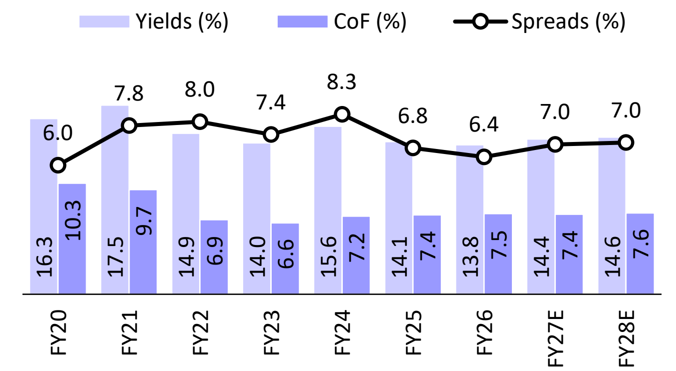


Exhibit 5: Expect NIM to reach ~7.7% by FY28 (%)

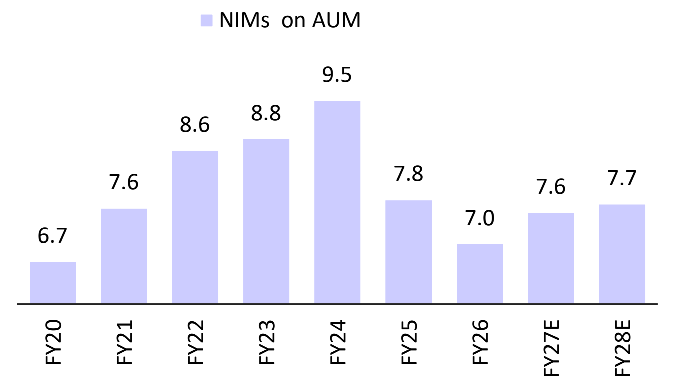


Exhibit 6: C/I ratio expected to decline to ~43% by FY28

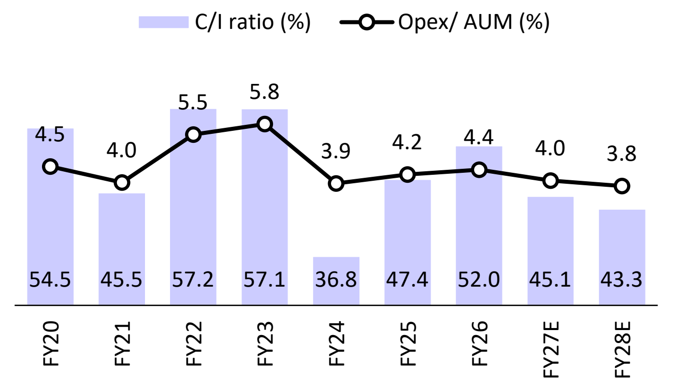


Exhibit 7: Asset quality likely to improve gradually

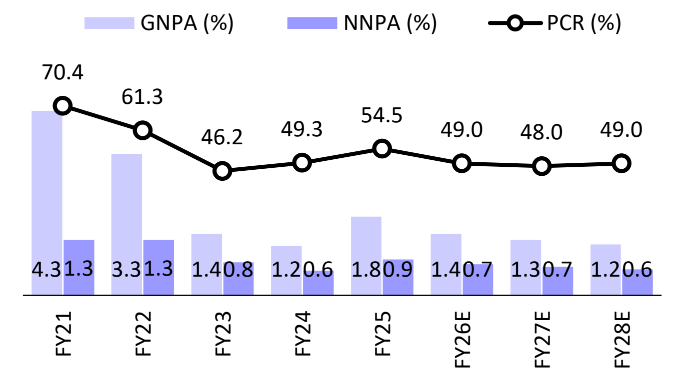
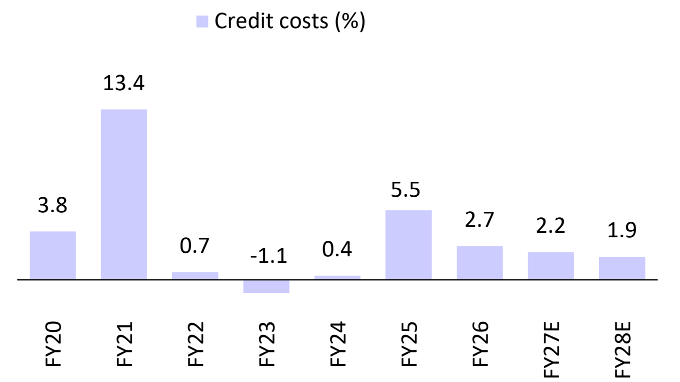
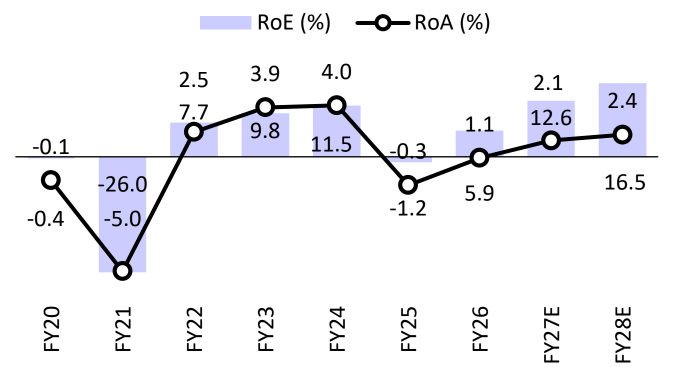


Exhibit 8: Credit costs to decline to ~1.9% in FY28E



Source: MOFSL, Company

Exhibit 9: Expect an RoA/RoE of 2.4%/17% in FY28



Source: MOFSL, Company

Transformation enters the scaling phase

- PFL's multi-year transformation is entering a new phase, with the focus shifting from building new businesses to scaling them profitably. Over the past two years, PFL has expanded its retail franchise across multiple secured and unsecured lending segments while investing in distribution, technology, and underwriting capabilities. As these businesses mature, the benefits of portfolio diversification, operating leverage, and stronger unit economics are beginning to emerge.
- The newer businesses contributed ~26% of disbursements and ~17% of AUM in 1QFY27, underscoring their increasing relevance within the overall franchise. More importantly, the portfolio has become diversified across borrower segments, collateral profiles, and economic drivers, reducing concentration risk while improving earnings resilience. We believe this diversified operating model should enable PFL to sustain superior growth without becoming overly reliant on any single lending product or customer segment.
- Management's strategy is now increasingly centered on profitable growth rather than rapid expansion. With most businesses having established adequate distribution capabilities, the next phase of value creation should be driven by improving productivity, a better portfolio mix, and stronger operating leverage rather than incremental investments.

Gold loans to anchor the secured loans strategy

- Among PFL's newly launched businesses, gold loans have emerged as the fastest-scaling secured lending franchise. The rapid branch rollout has enabled the company to establish a meaningful presence across Tier-II and Tier-III markets, providing access to a large and relatively underpenetrated customer base. We expect this business to remain an important driver of secured loan growth over the medium term.
- Gold loans have scaled rapidly, with operations expanded to 460 branches (as of 1QFY27), primarily across Tier-II and Tier-III markets (~90% of the storefronts). With plans to add ~400 branches in FY27, the company is further strengthening its secured retail franchise while deepening penetration across underserved customer segments.
- Beyond incremental loan growth, the strategic importance of gold loans lies in the physical distribution network being created. These branches can gradually evolve into multi-product retail outlets, enabling cross-selling across personal loans, LAPs, and other retail products while improving branch productivity and customer lifetime value. This should enhance operating efficiency and strengthen customer acquisition economics over time.
- As the secured portfolio expands, we also expect portfolio risk to moderate, given the inherently lower loss severity and better collateral coverage associated with gold lending. This should contribute positively to both asset quality and earnings stability.

Digital-led retail businesses gain scale

- Consumer Durable Finance and Prime Personal Loans continue to demonstrate encouraging early traction, validating PFL's digital-first distribution strategy. While these businesses remain relatively young, both have crossed the initial scale-building phase and are increasingly contributing to incremental disbursement growth.
- Prime personal loans remain an important profitability driver given their attractive yields and fully digital customer journey. The increasing share of digitally sourced customers should support faster turnaround times, lower acquisition costs, and better customer targeting, while AI-led underwriting is expected to improve risk selection as the portfolio seasons. The increasing adoption of fully digital journeys (~38% of disbursements) should support better customer targeting, lower acquisition costs, and improved scalability.
- Similarly, Consumer Durable Finance has established a sizeable merchant ecosystem, creating a scalable sourcing platform that can drive customer acquisition at relatively low incremental cost. The business has scaled to ~17,300+ dealer points across 339 locations (as of Jun'26) with a capacity to process ~50k customers per month. With distribution investments largely complete, future growth should increasingly be driven by improving dealer productivity and higher throughput rather than network expansion alone.

Exhibit 10: New product disbursements contributed ~26% to total disbursements

Products	Prime PL	Gold	Education	Cons. Durable	CV	Shopkeeper
AUM (INR m)	57930	18250	12950	5800	11710	10
% of AUM	9	3	2	1	2	0
Ticket Size	INR100k-7.5m	INR25k-10m	INR100k-30m	INR5k-500k	INR75k-25m	INR100k-1.5m
Tenure	12-84m	<=36m	<=15y	3-36m	12-72m	6-48m
RoI	13-16%	11-28%	10.5-13%	Up to 35%	10-20%	18-22%
Customer segment	Salaried customers of top corporates	Tier II/ III households	Domestic students for international UG and PG courses	Salaried /Self employed	Small fleet operators in Tier II/ III cities; focused on used CVs	Self-employed, MSME Customers
Sourcing Channel	Physical	Dedicated gold loan branches	Consultant partnership	Dealer networks	Channel partners/ Direct channel/ Digital on-boarding	Direct channel

Source: Company, MOFSL

Emerging franchises broaden the growth runway

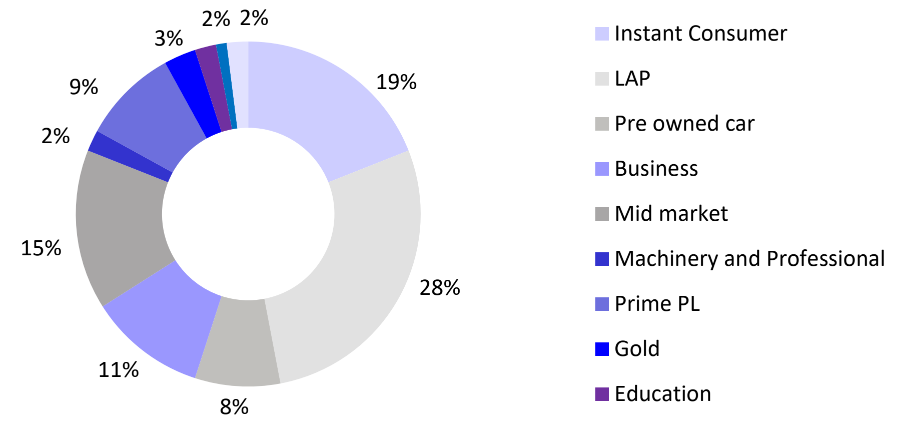
- Commercial vehicle finance and education loans provide additional avenues for diversification while addressing distinct customer segments with limited overlap. Although these businesses remain at an early stage, they have demonstrated encouraging initial traction through rapid expansion of channel partnerships and sourcing capabilities.
- The CV franchise complements PFL's secured lending strategy by targeting used commercial vehicles and small fleet operators, while education loans offer access to an attractive, underpenetrated retail opportunity with improving long-term demand. With CV, the company has raised its channel partner network to 1,100+ partners and expanded its presence across 70+ locations in 13 states, providing a strong foundation for future growth. Education loans have gained strong initial traction within the first year of launch, with average monthly disbursements reaching ~INR1.4b. PFL has strengthened origination capabilities by expanding into 50 locations and a consultant network with ~600 partners.
- We believe these businesses should become increasingly meaningful contributors to growth as their distribution networks mature and portfolio seasoning improves.

Exhibit: Significant progress in the newly launched businesses across quarters

Quarters	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
PL Prime	Disbursement run rate ~INR3b in Jun'25	Average monthly disbursement ~INR4b	Average monthly disbursement ~INR4.3b	Average monthly disbursement ~INR4.4b	Average monthly disbursement ~INR5.4b
Gold Loan	80 branches	160 branches	On track to launch ~400 branches by Mar'26	400 branches; Avg monthly disbursement ~INR2.7b	460 branches; Avg monthly disbursement ~INR2.9b
Consumer Durable	3000+ dealers across ~160 locations	10000+ dealers across 190 locations	10500+ dealers across 190 locations	12500+ dealers across 248 locations; Avg monthly disbursement of ~INR0.8b	17300+ dealers in 339 locations; Avg monthly disbursement ~1.4b
CV	200+ partners across 27 locations / 10 states	450 partners across 49 locations/ 12 states	700 partners across 55 locations/ 12 states	900 partners across 60 locations and 13 states; Avg monthly disb of ~INR1.2b	1100 partners across 70 locations/ 13 states. Avg monthly disbursement ~INR1b
Education	~150+ sales team and ~100 partners including key consultants	~200+ sales team and ~200 partners including key consultants	~225+ sales team with ~325 partners including key consultants.	285+sales team with ~500 partners; Avg monthly disbursments ~INR0.9b	~300+ sales team with ~600 partners; Avg monthly disb ~INR1.4b

Source: Company, MOFSL

Exhibit 11: New loans contributed ~17% of the AUM



Source: MOFSL, Company

Exhibit: Existing businesses showing strong growth potential

Products	Instant Consumer Loan	LAP	Pre-owned Car loan	Business Loan	Mid-Market	Machinery and Medical Equipment	Professional Loan
AUM (INR m)	129730	189650	53090	72950	98580	8270	8100
% of AUM	19	28	8	11	15	1	1
Ticket Size	INR50k-500k	INR5.1m-250m	INR200k-10m	INR500k-10m	INR200m-500m	INR200k-100m	INR500k-7.5m
Tenure	6-36m	3-15y	12-72m	6-60m	upto ~36m	12-84m	12-60m
RoI	22-29%	9.75-12%	14-16%	17-22%	10-12%	9.5-14%	12-14%
Customer segment	Salaried & Self-employed customers	Self-employed, MSMEs	Self-employed / Salaried	Self-employed, MSMEs	Well-rated corporates and NBFCs	SMEs	Doctors and Cas
Sourcing Channel	Digital partnership/ Organic led	DSA led, Direct channel	Dealer network / DSA led	DSA led / Direct channel	Direct and other lending relations	DSA led, OEMs, Direct channel	Digital partnership and DSA led and Direct channel

Source: Company, MOFSL

Collectively, the company's newer businesses are evolving into meaningful growth engines alongside the legacy portfolio. This broad-based expansion should reduce earnings cyclicality, improve business resilience, and support a more balanced growth profile over the medium term. We continue to model ~36% disbursement CAGR and ~43% AUM CAGR over FY26–28E, driven by sustained momentum across both matured and emerging lending franchises.

Portfolio optimization to drive the next leg of margin expansion

- PFL's profitability profile is entering a structurally stronger phase as the loan book gradually reprices towards higher-yielding products. The company's newer lending businesses, particularly Prime personal loans, consumer durable finance and gold loans, are expanding their contribution to incremental disbursements, supporting a favorable shift in portfolio mix. As these businesses season and constitute a larger share of the loan book, we expect portfolio yields to improve steadily over the medium term.
- Disbursement yields expanded ~50bp QoQ to ~16.4% in 1QFY27, reflecting both improved product mix and better pricing discipline. While borrowing costs are likely to remain range-bound, the widening gap between incremental lending yields and funding costs should support gradual expansion in spreads and NIM. Accordingly, we model a NIM (on AUM) of ~7.6% in FY27E and ~7.7% in FY28E.
- Importantly, margin expansion is expected to be driven by internal levers—portfolio optimization, disciplined pricing, and business mix—rather than relying on a favorable interest rate cycle. This provides greater confidence in the sustainability of earnings growth.

Exhibit 12: Spreads to improve to ~7% in FY27E

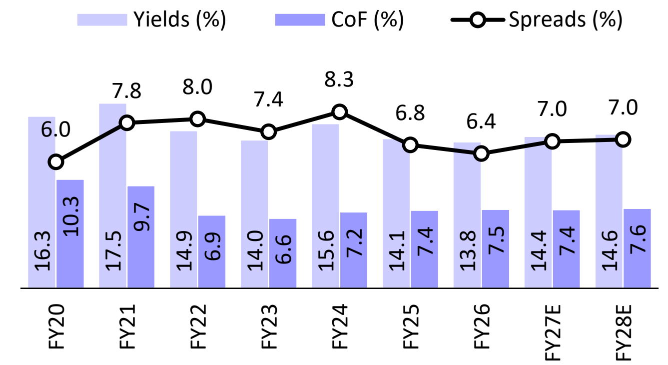


Exhibit 13: Portfolio yield rising with disbursement yields (%)

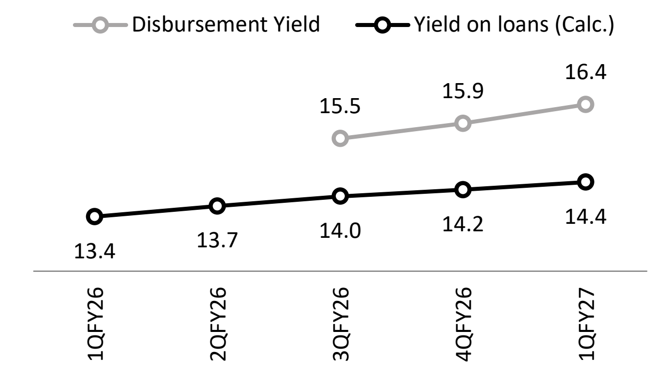
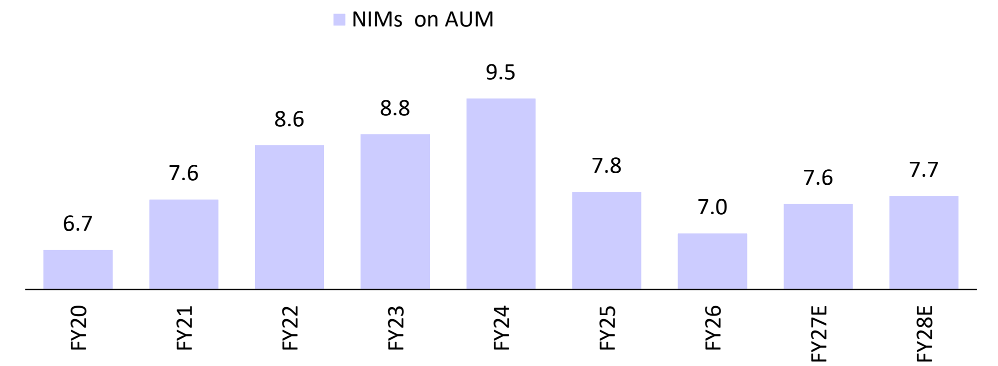


Exhibit 14: Expect the NIM to reach ~7.7% by FY28 (%)



Source: MOFSL, Company

Operating leverage to become an increasingly important earnings driver

- Over the past two years, PFL has invested meaningfully in expanding its distribution footprint, strengthening digital capabilities and building an AI-enabled operating platform. With much of this investment phase behind it, incremental business growth should increasingly translate into operating leverage rather than proportionate cost increases.
- The benefits are already visible, with operating expenses as a percentage of AUM continuing to trend lower despite ongoing investments in branch expansion and new businesses. As loan growth accelerates and branch productivity improves, we expect the company to deliver further cost efficiencies, resulting in a C/I ratio of ~45% in FY27E and ~43% in FY28E (from ~52% in FY26).
- Unlike the earlier phase, when investments were front-loaded to build capabilities, future operating expenses should largely support growth initiatives rather than infrastructure creation. This shift should enable PFL to generate stronger incremental profitability while preserving the flexibility to invest selectively in new opportunities.

Exhibit 15: C/I ratio expected to decline to ~43% by FY28

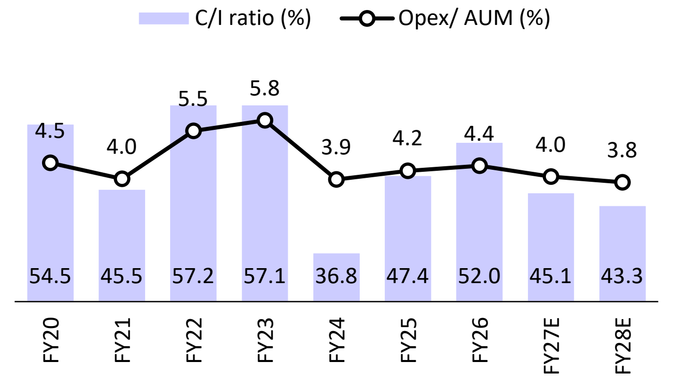
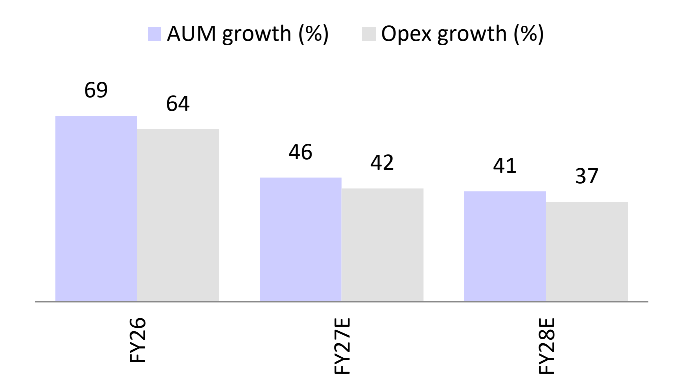


Exhibit 16: AUM growth expected to outpace opex growth



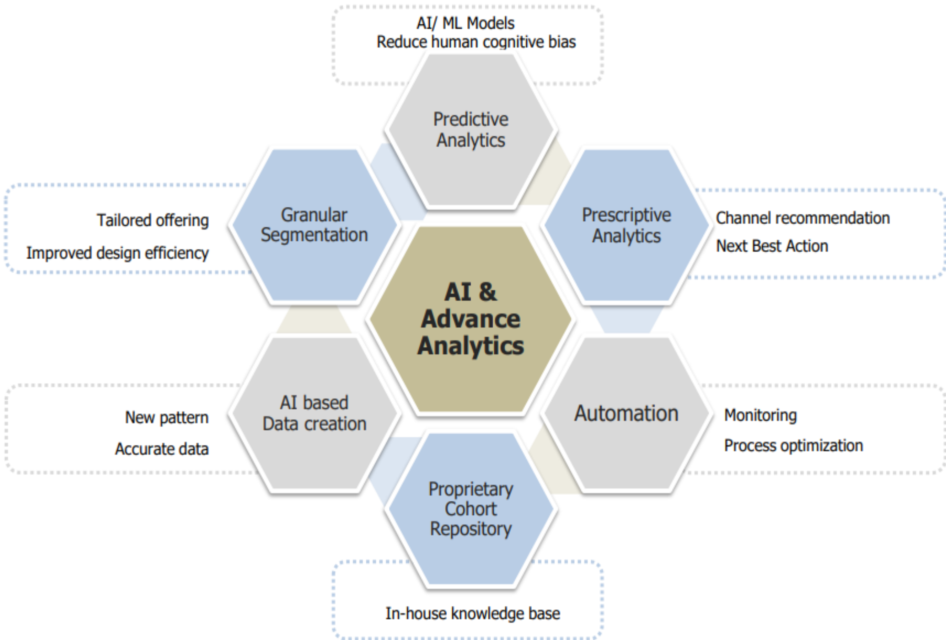
Technology-led productivity reinforces earnings scalability

- Technology is becoming an increasingly important driver of PFL's operating model. The company's investments in digital origination, workflow automation, and AI-enabled decision-making are improving productivity across sourcing, underwriting, servicing, and collections. As transaction volumes scale, these technology investments should enable the company to grow without a commensurate increase in operating costs.
- Beyond cost efficiencies, digital capabilities are strengthening customer acquisition and improving turnaround times, enabling PFL to enhance customer experience while maintaining underwriting discipline. We believe this structural productivity gain should support sustained operating leverage and reinforce the company's long-term profitability trajectory.

AI emerging as a structural competitive advantage

- PFL has embedded artificial intelligence across the lending value chain, moving beyond isolated automation initiatives to building an enterprise-wide operating platform. Rather than viewing AI as a technology investment, we believe the company is increasingly leveraging it to improve customer acquisition, underwriting quality, servicing efficiency, and collections, creating multiple levers for sustainable productivity gains.
- Unlike traditional digitization programs that automate individual processes, PFL's AI architecture is designed as a common orchestration layer, enabling new use cases to build upon existing capabilities. This platform approach should accelerate deployment timelines, improve knowledge reuse, and allow productivity gains to compound as the business scales. We believe this creates a structural advantage that becomes increasingly valuable as customer volumes and product complexity grow.

Exhibit 17: AI and advanced analytics



Source: MOFSL, Company

AI is enhancing the entire customer lifecycle

- PFL is deploying AI across sourcing, underwriting, servicing, and collections, improving both customer experience and operating efficiency. In origination, AI-enabled models utilize behavioral, income, and transaction-level insights to strengthen customer selection, improve conversion rates, and personalize product offerings. This allows the company to target higher-quality borrowers while maintaining faster turnaround times.
- Within customer servicing, automation is increasingly handling routine interactions, enabling employees to focus on more complex customer requirements. This should improve service quality while reducing servicing costs as transaction volumes increase. Management's target of automating a significant proportion of customer interactions highlights the scalability of the operating model.

- Collections are also becoming increasingly data-driven, with AI helping prioritize customer outreach, improve recovery effectiveness, and optimize resource allocation. The resulting improvement in operational efficiency should support lower collection costs while reinforcing portfolio quality.

From cost optimization to better risk-adjusted growth

- We believe the strategic significance of AI extends beyond cost savings. By improving customer selection, underwriting consistency, and portfolio monitoring, AI has the potential to enhance both growth quality and profitability simultaneously. Better risk segmentation should support stronger portfolio yields while containing incremental credit costs, allowing PFL to pursue faster growth without proportionately increasing portfolio risk.
- This combination of improving operating efficiency and superior underwriting could gradually widen the company's competitive advantage over lenders that continue to rely on largely manual operating models. As the portfolio matures and data volumes increase, the effectiveness of AI models should also improve, creating a reinforcing cycle of better decision-making and stronger financial outcomes.

Technology investments begin to translate into operating leverage

- PFL's technology investments are now approaching an inflection point where incremental benefits should increasingly outweigh incremental costs. Having established digital infrastructure across sourcing, underwriting, and servicing, future technology investments are likely to focus on enhancing existing capabilities rather than building new platforms.
- As business volumes continue to scale, we expect these technology investments to contribute to higher employee productivity, lower processing costs, and faster decision-making, reinforcing the operating leverage already emerging across the franchise. Over time, this should support stronger profitability while allowing the company to retain disciplined cost growth despite rapid expansion.

AI investments can result in tangible outcomes

- To improve digital funnel conversion, PFL has deployed AI-powered video agents across Instant PL and Prime PL that simulate EMIs, address customer queries, and deliver personalized offers. The solution is expected to improve offer acceptance and increase disbursement throughput by ~5-10%.
- AI adoption is expanding across enterprise operations through solutions such as Context IQ, which automates document extraction and classification using vision-language models, reducing manual effort and turnaround time.
- AI deployments are already delivering tangible outcomes. Collection initiatives have reduced pre-collection costs by ~15% and improved post-NPA collection efficiency by ~27%, while the GenAI-powered Pay Easy Bot has achieved a ~42% recovery rate. AI-led marketing has also driven 22% growth in content reads, 43% higher clicks, over 60% lower content creation costs, and supports ~1.5m+ leads per month through higher campaign conversion and personalization.

AI strengthens the long-term investment case

While AI remains difficult to value in isolation, we believe it meaningfully enhances PFL's long-term earnings potential through three structural benefits:

- **Improving operating efficiency**, supporting lower cost-to-income ratios as the business scales.
- **Strengthening underwriting and collections**, leading to better portfolio quality and more stable credit costs.
- **Enhancing customer acquisition and cross-selling**, improving lifetime customer value, and reducing acquisition costs.

Viewed together, these capabilities should reinforce the company's competitive positioning and support more durable improvements in return ratios over the medium term. Rather than being a short-term productivity initiative, AI is becoming an integral component of PFL's operating model and a key enabler of sustainable earnings compounding.

Portfolio seasoning supports structural credit normalization

- PFL's improving asset quality reflects more than a favorable operating environment—it is increasingly the outcome of a calibrated lending strategy, stronger underwriting, and a steadily improving portfolio mix. Over the past two years, the company has tightened risk selection, recalibrated underwriting standards, and diversified the loan book across secured products and higher-quality customer segments. As these portfolios mature, we believe the credit cycle is becoming increasingly predictable, providing greater confidence in the sustainability of earnings.
- Credit costs moderated to ~2.4% in 1QFY27 despite continued business expansion, aided by stable collection efficiency and encouraging trends across early-stage delinquency indicators. While quarterly fluctuations remain possible given the pace of growth, the underlying direction suggests that portfolio seasoning is beginning to translate into lower incremental stress formation.

A better portfolio mix should improve earnings quality

- One of the most meaningful changes in PFL's operating model has been the gradual shift towards a more balanced portfolio. The increasing contribution from secured products—including gold loans and LAP—alongside a higher share of salaried borrowers and better-rated customer segments should reduce loss volatility while improving the stability of returns across credit cycles.
- Unlike the earlier portfolio, which was relatively concentrated across a few retail lending products, the current franchise is diversified across multiple borrower segments, collateral profiles, and repayment behaviors. We believe this diversification not only supports stronger growth but also reduces concentration risk, improving the overall risk-adjusted return profile of the business.

Early-stage delinquency trends remain encouraging

- Leading indicators continue to suggest that incremental asset quality is improving. Lower bounce rates, improving 6-MOB delinquency metrics (6-MOB 30+ DPD improving to 0.64% and ~40bp lower than the previous quarter), and consistently high collection efficiency (of ~99.6%) indicate that newer loan vintages are performing better than earlier cohorts. This reflects both tighter underwriting standards and the increasing use of analytics-led credit assessment.
- Importantly, these improvements are being achieved while the company continues to scale rapidly across multiple businesses, suggesting that growth has not come at the expense of underwriting discipline. We view this as an important indicator of the durability of PFL's operating model.

Exhibit 18: Expect further improvement in asset quality

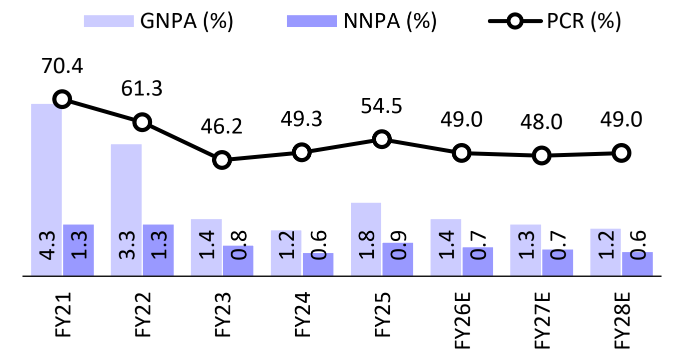
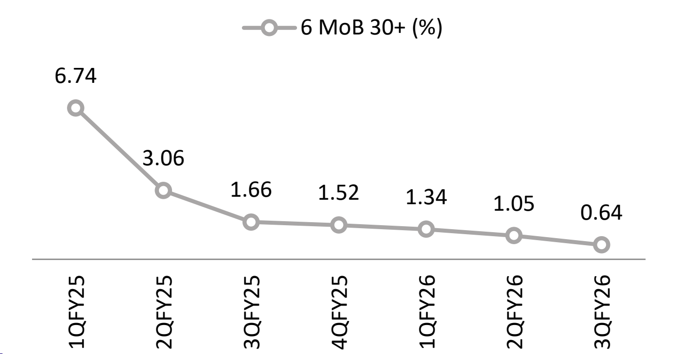


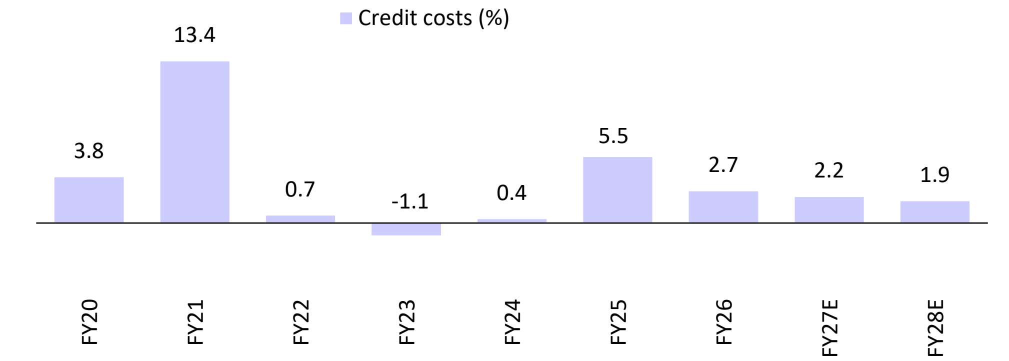
Exhibit 19: 6-MoB improving continuously (quarters mentioned are sourcing quarters)



Credit costs likely to normalize as the portfolio matures

- We expect credit costs to continue moderating as the portfolio seasons and the contribution from lower-risk businesses increases. While unsecured lending products will continue to support portfolio yields, the growing share of secured lending (Gold Loans and LAP) should help contain incremental credit losses and reduce earnings volatility.
- Accordingly, we model credit costs of ~2.2% in FY27E, declining further to ~1.9% in FY28E. Although the pace of normalization will depend on macroeconomic conditions and portfolio seasoning, we believe the overall trajectory remains favorable given the structural improvements in underwriting, customer selection, and portfolio composition.

Exhibit 20: Expect credit costs to decline to ~1.9% by FY28



Source: MOFSL, Company

Risk discipline remains central to the growth strategy

- In our view, one of the defining features of PFL's transformation has been management's willingness to prioritize portfolio quality over near-term growth. Rather than pursuing aggressive expansion across higher-risk lending segments, the company has adopted a calibrated approach that balances growth with risk-adjusted profitability.
- This disciplined execution provides confidence that the next phase of expansion is likely to be supported by sustainable underwriting standards rather than cyclical tailwinds. As the portfolio continues to mature, we expect improving asset quality, lower credit costs, and stronger operating leverage to collectively drive a meaningful improvement in return ratios.
- Today, the focus is increasingly on how quickly margins can expand and operating leverage can emerge, rather than on whether the company can maintain asset quality. While credit performance will remain an important monitorable, the improving quality of new loan originations, strengthening collection metrics, and diversification towards secured lending provide greater confidence in the sustainability of the earnings trajectory. We therefore view asset quality as an enabling factor for future profitability rather than a constraint on growth.

Investment view: Scaling profitability, improving returns

- We believe PFL is entering a structurally stronger phase of its evolution. Having successfully diversified its lending franchise and built the necessary operating infrastructure, the company is now positioned to translate these investments into stronger profitability and superior return ratios. Unlike the previous phase, where earnings were constrained by elevated investments and portfolio recalibration, the next leg of growth should be increasingly driven by improving operating leverage, a richer product mix, and a gradual normalization in credit costs.
- PFL's earnings outlook is supported by four structural drivers: (i) sustained loan growth led by both legacy and emerging businesses, (ii) gradual expansion in margins as higher-yielding products gain scale, (iii) lower credit costs as the portfolio matures and diversifies, and (iv) technology-led productivity gains that should improve operating efficiency. Collectively, these drivers provide confidence in the sustainability of earnings growth over the medium term.

Return ratios should improve meaningfully over the next two years

- We estimate PFL to deliver ~43% AUM CAGR and ~117% PAT CAGR over FY26–28E, driven by robust business growth, expanding margins, and improving operating efficiency. We expect RoA to improve to ~2.4% and RoE to ~16.5% by FY28E, reflecting the transition from an investment-led operating model to a more mature and scalable retail franchise.
- Importantly, the projected improvement in profitability is expected to be broad-based rather than dependent on a single driver. A better portfolio mix, stronger underwriting, AI-enabled productivity, and operating leverage should collectively contribute to sustained earnings compounding over the medium term.

Exhibit 21: PAT to clock a CAGR of ~117% over FY26-28

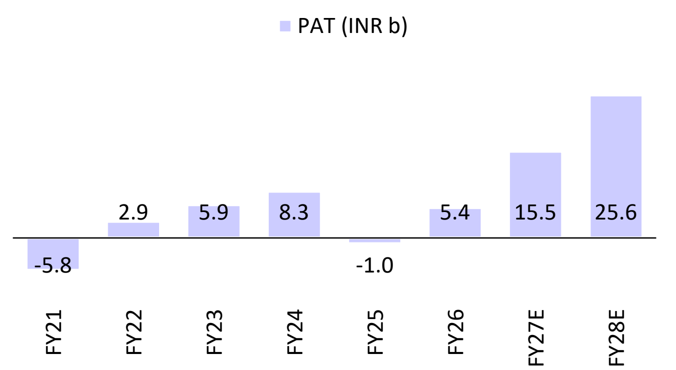
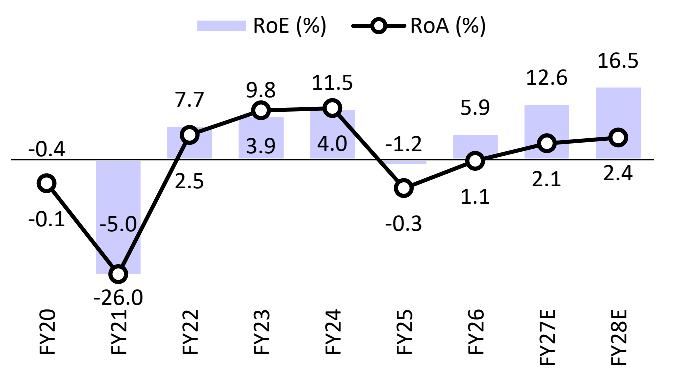


Exhibit 22: Expect RoA/RoE of 2.4%/17% in FY28



Investment thesis remains intact

Our positive view on Poonawalla Fincorp is anchored around five structural pillars:

- **Diversified growth engines** reducing dependence on any single lending product.
- **Improving portfolio mix**, supporting sustainable margin expansion.
- **Technology and AI-led operating leverage**, enhancing productivity and scalability.
- **Structural improvement in portfolio quality**, supporting lower credit costs.
- **Disciplined execution**, translating into stronger earnings visibility and improving return ratios.

Premium valuation multiples should sustain

Given the sharp improvement in operating fundamentals, PFL trades at **~2.5x FY28E P/BV**, which, in our view, captures the company's improving earnings trajectory or the structural strengthening of the franchise. As execution continues and return ratios converge towards those of higher-quality diversified retail lenders, we believe the stock offers scope for further valuation re-rating.

We reiterate our BUY rating with a TP of INR570, based on 3.0x Mar'28E BVPS.

Key monitorables

While the medium-term outlook remains constructive, investors should continue to monitor:

- The pace of scaling across newly launched businesses and their contribution to overall profitability.
- Sustainability of margin expansion as the portfolio mix evolves.
- Portfolio seasoning and the trajectory of credit-cost normalization.
- Delivery of operating leverage through AI-led productivity initiatives.
- Management's continued adherence to disciplined underwriting during a period of rapid growth.

We believe successful execution across these areas should reinforce the company's long-term earnings trajectory and support further improvement in return ratios.

From transformation to sustainable earnings compounding

- Over the past few years, PFL has undertaken a comprehensive transformation spanning product diversification, distribution expansion, technology investments, and risk management. We believe the company has now reached an important inflection point where these investments are beginning to translate into measurable financial outcomes.
- Rather than viewing PFL as a turnaround story, we believe investors should increasingly evaluate it as an emerging high-quality retail lender capable of delivering sustained earnings growth through a combination of diversified business expansion, improving profitability, and disciplined execution. As the franchise continues to mature, we expect stronger operating leverage, lower credit costs, and improving return ratios to support durable earnings compounding over the medium term.

Exhibit 23: RoA tree

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Interest Income	15.1	12.6	11.8	13.8	13.1	12.9	13.5	13.9
Interest Expended	7.5	4.4	3.9	4.5	5.1	5.8	6.0	6.2
Net Interest Income	**7.6**	**8.2**	**8.0**	**9.3**	**8.0**	**7.1**	**7.5**	**7.6**
Other Operating Income	0.8	0.7	0.8	1.0	1.0	1.4	1.3	1.1
Other Income	0.2	0.3	0.5	0.2	0.1	0.0	0.0	0.0
Net Income	**8.6**	**9.1**	**9.2**	**10.4**	**9.1**	**8.5**	**8.9**	**8.8**
Operating Expenses	3.9	5.2	5.3	3.8	4.3	4.4	4.0	3.8
Operating Income	**4.7**	**3.9**	**4.0**	**6.6**	**4.8**	**4.1**	**4.9**	**5.0**
Provisions/write offs	11.3	0.6	-0.9	0.3	5.3	2.5	2.1	1.8
PBT	**-6.6**	**3.3**	**4.9**	**6.3**	**-0.5**	**1.5**	**2.8**	**3.2**
Tax	-1.7	0.8	1.2	2.3	-0.1	0.4	0.7	0.8
Reported PAT	**-5.0**	**2.5**	**3.7**	**4.0**	**-0.3**	**1.1**	**2.1**	**2.4**
Avg leverage	5.2	3.0	2.5	2.9	3.6	5.2	6.1	6.9
RoE	**-26.0**	**7.7**	**9.4**	**11.5**	**-1.2**	**5.9**	**12.6**	**16.5**

Exhibit 24: P/E chart

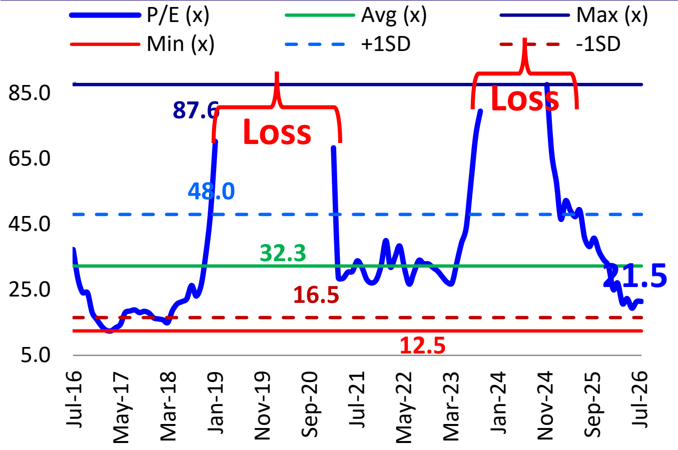
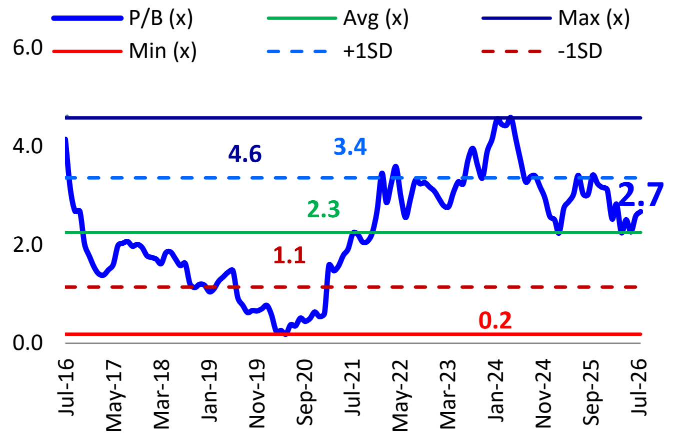


Exhibit 25: P/B chart



Financials and Valuation

Income Statement								(INR M)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Interest Income	17,570	14,586	18,265	29,041	38,745	61,408	1,00,767	1,48,905
Interest Expenses	8,746	5,093	5,953	9,551	15,151	27,667	44,677	67,102
Net Interest Income	**8,824**	**9,493**	**12,312**	**19,490**	**23,594**	**33,741**	**56,090**	**81,804**
Change (%)	-1.8	7.6	29.7	58.3	21.1	43.0	66.2	45.8
Non-interest income and Other Income	1,199	1,085	1,931	2,478	3,346	6,548	10,046	12,339
Net Total Income	**10,023**	**10,578**	**14,243**	**21,967**	**26,940**	**40,290**	**66,136**	**94,142**
Change (%)	-8.5	5.5	34.6	54.2	22.6	49.6	64.2	42.3
Total Operating Expenses	**4,563**	**6,046**	**8,139**	**8,074**	**12,769**	**20,955**	**29,795**	**40,751**
Change (%)	-23.5	32.5	34.6	-0.8	58.2	64.1	42.2	36.8
Employee Expenses	3,060	4,099	5,148	4,444	6,362	10,175	14,551	19,644
Depreciation	522	495	614	593	651	941	1,177	1,412
Other Operating Expenses	981	1,453	2,268	3,036	5,755	9,838	14,068	19,695
PPoP	**5,460**	**4,532**	**6,104**	**13,894**	**14,172**	**19,335**	**36,340**	**53,391**
Change (%)	9.6	-17.0	34.7	127.6	2.0	36.4	87.9	46.9
Total Provisions	**13,186**	**686**	**-1,445**	**720**	**15,526**	**12,099**	**15,663**	**19,225**
PBT	**-7,727**	**3,846**	**7,761**	**13,173**	**-1,354**	**7,236**	**20,677**	**34,166**
Exceptional items				12,212	0	0	0	0
Tax Provisions	-1,943	914	1,816	4,827	-371	1,818	5,169	8,542
PAT (excl. exceptional)	**-5,784**	**2,932**	**5,945**	**8,347**	**-983**	**5,418**	**15,508**	**25,625**
PAT (incl. exceptional)	**-5,784**	**2,932**	**5,945**	**20,559**	**-983**	**5,418**	**15,508**	**25,625**

Balance Sheet								(INR M)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26**	**FY27E**	**FY28E**
Equity Share Capital	539	1,530	1,536	1,541	1,546	1,616	1,751	1,751
Reserves & Surplus	18,881	55,615	62,711	79,623	79,694	1,01,360	1,41,733	1,65,607
Net Worth	**19,421**	**57,145**	**64,247**	**81,164**	**81,240**	**1,02,976**	**1,43,483**	**1,67,357**
Borrowings	**79,487**	**67,734**	**1,12,092**	**1,52,157**	**2,58,806**	**4,80,983**	**7,21,637**	**10,55,889**
Change (%)								
Other liabilities	4,512	3,217	3,880	7,041	9,747	18,250	25,550	34,493
Total Liabilities	**1,03,420**	**1,28,097**	**1,80,218**	**2,40,362**	**3,49,793**	**6,02,209**	**8,90,671**	**12,57,739**
Loans	**85,653**	**1,06,784**	**1,52,295**	**2,20,464**	**3,26,950**	**5,59,515**	**8,41,577**	**12,00,597**
Change (%)	-23.4	24.7	42.6	44.8	48.3	71.1	50.4	42.7
Cash and Bank Balances	6,124	5,372	6,574	2,685	323	2,937	4,389	6,789
Fixed Assets	1,715	1,748	2,117	1,944	2,542	4,273	4,615	4,984
Investments	4,289	8,197	3,109	8,783	13,416	24,905	27,395	30,135
Other assets	5,638	5,996	16,123	6,486	6,562	10,580	12,695	15,234
Total Assets	**1,03,420**	**1,28,097**	**1,80,218**	**2,40,362**	**3,49,793**	**6,02,209**	**8,90,671**	**12,57,739**

E: MOFSL Estimates

Financials and Valuation

AUM

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
AUM (INR b)	102.5	117.7	161.4	250.0	356.3	603.5	880.0	1,242.2
YoY growth (%)	**-20**	**15**	**37**	**55**	**43**	**69**	**46**	**41**
Disbursements (INR b)	24.2	75.2	157.5	332.9	302.4	494.4	672.4	907.8
YoY growth (%)	**-52**	**210**	**109**	**111**	**-9**	**64**	**36**	**35**

E: MOFSL Estimates

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Spreads Analysis (%)								
Avg. Yield on Loans	17.5	14.9	14.0	15.6	14.1	13.8	14.4	14.6
Avg Cost of Funds	9.7	6.9	6.6	7.2	7.4	7.5	7.4	7.6
Spread on loans	7.8	8.0	7.4	8.3	6.8	6.4	7.0	7.0
NIM (on AUM)	7.6	8.6	8.8	9.5	7.8	7.0	7.6	7.7
Profitability Ratios (%)								
RoE	-26.0	7.7	9.8	11.5	-1.2	5.9	12.6	16.5
RoA	-5.0	2.5	3.9	4.0	-0.3	1.1	2.1	2.4
Int. Expended / Int.Earned	49.8	34.9	32.6	32.9	39.1	45.1	44.3	45.1
Other Inc. / Net Income	12.0	10.3	13.6	11.3	12.4	16.3	15.2	13.1
Efficiency Ratios (%)								
Op. Exps. / Net Income	45.5	57.2	57.1	36.8	47.4	52.0	45.1	43.3
Opex/ Avg AUM	4.0	5.5	5.8	3.9	4.2	4.4	4.0	3.8
Empl. Cost/Op. Exps.	67.1	67.8	63.2	55.0	49.8	48.6	48.8	48.2
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	1.1	1.6	1.4	1.4	1.3	1.2	1.2	1.1
Debt/Equity (x)	4.1	1.2	1.7	1.9	3.2	4.7	5.0	6.3
Assets/Equity (x)	5.3	2.2	2.8	3.0	4.3	5.8	6.2	7.5
Asset quality								
GNPA (INR m)	4,190	3,720	2,250	2,680	6,190	8,180	11,097	14,609
GNPA (%)	4.3	3.3	1.4	1.2	1.8	1.4	1.3	1.2
NNPA (INR m)	1,240	1,440	1,210	1,360	2,820	4,170	5,771	7,450
NNPA (%)	1.3	1.3	0.8	0.6	0.9	0.7	0.7	0.6
PCR (%)	70.4	61.3	46.2	49.3	54.5	49.0	48.0	49.0
Credit costs (%)	13.4	0.7	-1.1	0.4	5.5	2.7	2.2	1.9

Valuations	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Book Value (INR)	72	75	84	105	105	127	164	191
BV Growth (%)	-22.8	3.7	12.0	25.9	-0.2	21.3	28.6	16.6
Price-BV (x)	**6.6**	**6.4**	**5.7**	**4.5**	**4.5**	**3.7**	**2.9**	**2.5**
EPS (INR)	-21.5	3.8	7.7	10.8	-1.3	6.7	17.7	29.3
EPS Growth (%)	5,675.2	-117.9	102.0	39.9	-111.7	-627.1	164.2	65.2
Price-Earnings (x)	**-22.2**	**124.2**	**61.5**	**43.9**	**-374.1**	**71.0**	**26.9**	**16.3**
Dividend per share	0.0	0.4	2.0	2.0	0.0	0.0	2.0	3.0
Dividend Yield (%)	**0.0**	**0.1**	**0.4**	**0.4**	**0.0**	**0.0**	**0.4**	**0.6**

E: MOFSL Estimates

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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