FINANCIALS - SFBs, NBFCs, HFCs & Ratings

Asset book composition would dictate Growth and RoE performance for our Coverage Companies in Q3 FY25 as the performance divide between secured and unsecured loan products would remain stark and even within various secured products the performance would differ. Within Unsecured, Microfinance would remain the weakest segment with portfolios markedly contracting for third consecutive quarter and credit cost exacerbating. Elevated provisioning would continue in PL and Cards along with further tightening of acquisitions and book growth. Vehicle Financing could likely see a small growth revival with better disbursement trends in PV, Tractor, 2W and Used Vehicles, partially aided by the festive season. However, credit cost in vehicle finance may not materially improve on sequential basis. Growth momentum in Affordable Housing has been intact, aided by distribution augmentation and productivity improvement. Prime HFCs could witness a loss of business momentum due to issues in key markets of Karnataka and Telangana. Credit cost across most HFCs should remain moderate with stable or slightly improved delinquent pool and controlled NPL addition.

We assess least risk to our current FY25/26 earnings estimates for Muthoot Finance, Bajaj Finance, Home First, Aavas Financiers, Aptus Value Home and Ujjivan SFB.

We expect following dynamics during Q3 FY25 in each lending segment

- **Microfinance** disbursements would be muted yet again due to collection challenges, sustained high attrition of loan officers, impact from MFIN's additional guardrails, and increased funding caution by lenders. We expect the Group MFI portfolio to decline by 1-8% qoq across most of the Microfinance players (incl. SFBs). We expect coverage NBFC-MFIs and Microfinance-facing SFBs to further cut growth outlook for the year. While fresh delinquency creation (gross PAR addition) would remain elevated, the slippages, write-offs and credit cost would be higher than Q2 FY25 due to swelled SMA buckets as at the end of September. Credit cost guidance for the year would likely be raised by most players.

  One positive trend emerging in recent months has been gradual improvement in Regular/Current bucket collection efficiency. If this sustains in Q4 FY25, then it would imply the abatement of cycle. In such case, we would **prefer players with lower PAR, upfront recognition and provisioning policies and having much lesser funding and regulatory constraints. These players are CREDAG, Ujjivan SFB and Equitas SFB.**

- **Affordable Housing Financiers** are likely to report unchanged disbursement and portfolio growth momentum with stable or slightly improved delinquent pool. Growth remains driven by distribution augmentation and productivity improvement amidst firm demand from the targeted customer segment. While CoF would continue to inch-up across AHFCs, the portfolio spread movement would depend on the timing of recent PLR hike (Aavas to report improvement, while rest could post a small spread decline). Credit cost would likely be normal with NPL addition under control. **AHFCs could re-rate on sustained strong growth and asset quality performance, and corrected valuations. Prefer Home First and Aptus.**

  Prime HFCs like Can Fin, LIC HF and Repco are expected to report weak disbursements in the quarter due to issues in Karnataka (slowed registration) and Telangana (slowdown in Hyderabad due to demolition of unauthorized properties). These players would continue to report modest loan portfolio growth. Margins, asset quality and credit cost would be stable.

- In **Vehicle Finance** space, MMFS has reported an improved disbursement growth for the quarter aided by festive fervor in PVs and sustained uptick in tractor market. Expect Chola to also report an improved growth in disbursements aided by sustained strong traction in used vehicle and 2W financing and some revival in PV financing. Portfolio growth of Shriram Finance in used CV and PV financing would remain steady due to unchanged underlying drivers. Expected correction in Stage-2 and Stage-3 assets could be elusive with collections not picking up as envisaged in the quarter. **We remain positive on Shriram and Chola while would monitor incremental revival in disbursements for MMFS to turn positive.**

- **Gold Loans NBFCs** are witnessing improved customer acquisition/reactivation underpinned by focused growth activity, lessened aggression by PSU Banks, blunted competition from IIFL Finance and tighter availability of unsecured credit. The portfolio growth would also be aided by the increase in gold price during the quarter. **We expect much stronger performance from Muthoot versus Manappuram** with a likely 4-5% qoq loan portfolio growth, firm yield & margin, and an overall steady credit cost.

For our Rating Agencies coverage, we expect continuance of brisk growth momentum in Domestic Ratings business supported by sustained healthy activity in Bond and Securitization segments. In case of CRISIL, we expect reasonably strong growth in GAC, GBA and MI&A businesses also and possibility of significant margin expansion on sequential basis. In ICRA, we expect weak trend continuing in Knowledge Services (Moody's outsourcing) and operating leverage in Ratings. In CARE, the key expectations are of further improvement in loss margin of non-ratings businesses (Analytics and Advisory) and margin uptick in Ratings.

RAJIV MEHTA
Lead Analyst
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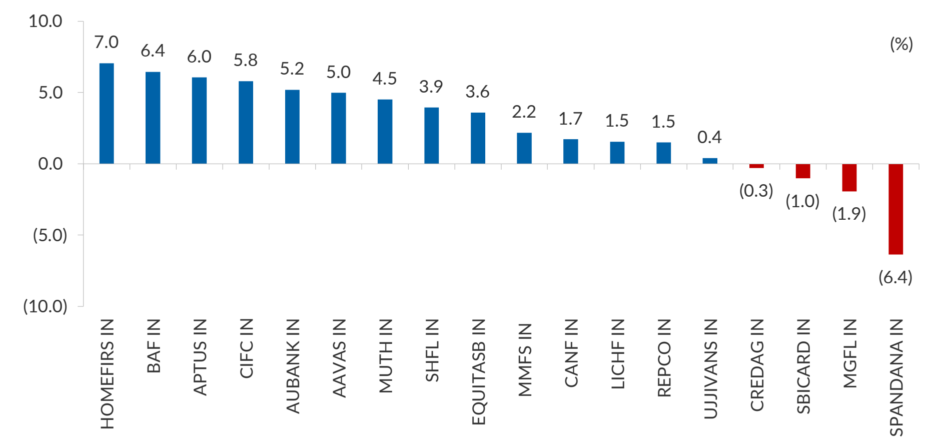
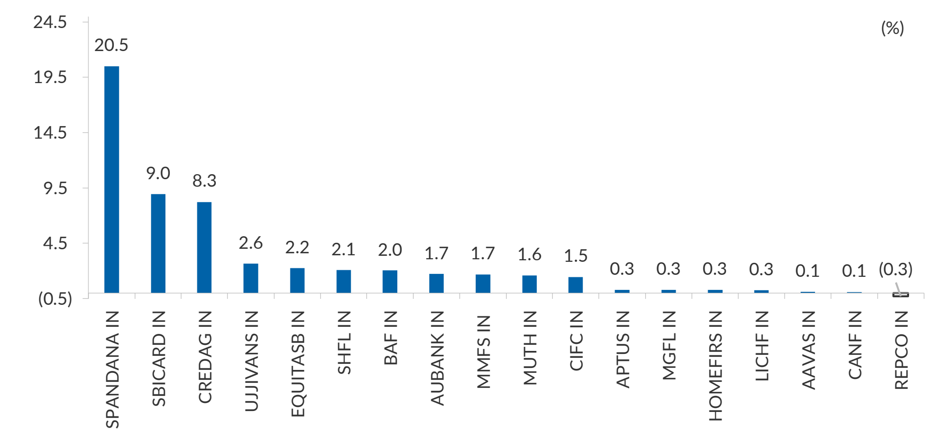
Exhibit 1: Expected sequential growth in AUM/Advances



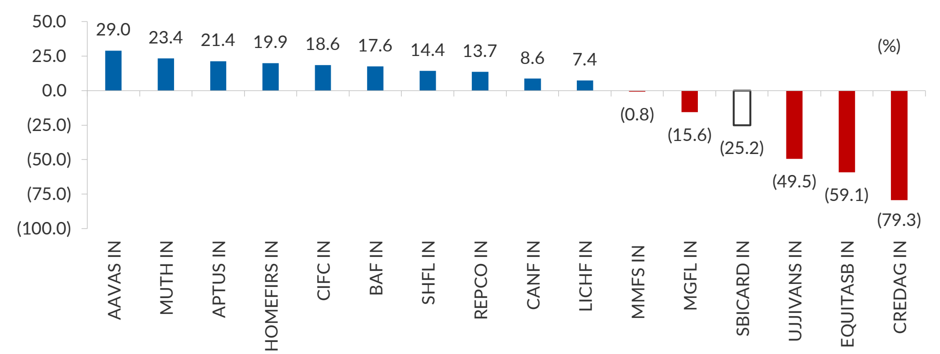
Source- Company, YES Sec

Exhibit 3: Expected Credit Cost (Annualized)



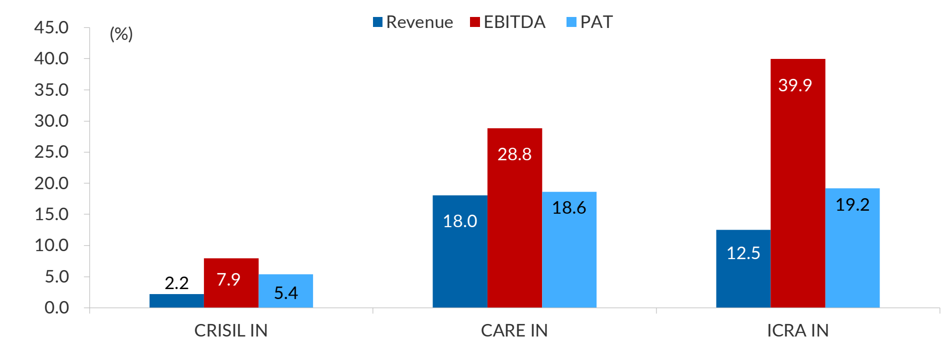
Source- Company, YES Sec

Exhibit 2: Expected PAT Growth YoY



Source - Company, YES Sec

Exhibit 4: Expected Growth YoY – Ratings Agencies



Source - Company, YES Sec; Note: CRISIL had one-off gains in Revenue, EBITDA & PAT in Q4 CY23

Exhibit 5: FINANCIALS- SFBs, NBFCs, HFCs & CRAs

Rs mn	NII / Revenue			PPoP / EBITDA			PAT			Remarks
	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	
AUBANK IN	20,594	55.4	4.3	11,121	69.3	(1.7)	5,183	38.1	(9.3)	Gross Advances grew at marginally lower-than-expected pace of 5% qoq on calibrated approach and tightened underwriting. Expect stable NIM with limited increase in funding cost and benefits from improving disbursement yield across key products. Credit cost could be higher than guidance given in Q2 call due to dip in collections during Oct-Nov in some of the products.
EQUITASB IN	8,272	5.4	3.1	3,173	(11.9)	(9.3)	826	(59.1)	541.4	Gross Advances grew 3.6% qoq/14% yoy aided by sustained brisk growth in non-MFI products. As expected, the MFI book de-grew by 5% qoq on lower disbursements. The loan mix shift to impact NIM while CoF remains stable. Persistence of higher MFI slippages and an upfront provisioning approach to keep credit cost high (though lower than Q1/Q2 levels)
UJJIVANS IN	9,275	7.9	(1.7)	4,027	(11.9)	(12.6)	1,515	(49.5)	(35.0)	Gross loan book growth moderated to 10% yoy as Group MFI portfolio declined by 8% qoq on continued low disbursements. Contribution of Secured book rose to 40%, and this would cause a NIM reduction notwithstanding a stable funding cost. Estimate an uptick in credit cost on increase in PAR and higher slippages.
BAF IN	1,15,510	24.3	5.6	77,317	25.9	5.8	42,802	17.6	6.6	Strong growth in customer addition and new loan bookings underpins resilient AUM growth performance of 6% qoq/28% yoy. Expect some growth recovery in Rural B2C (ex. Gold Loans) and sustained momentum in Urban B2C, Mortgages, Sales Finance, 2w/3w loans and SME/Commercial segments. Stability in funding cost to drive stable NIM. Correction in Stage-2 in Q2 FY25 and risk actions taken to likely stabilize the credit cost.
SBICARD IN	38,286	(2.5)	5.4	17,894	10.4	1.8	4,107	(25.2)	1.6	Marginally improved trends in new delinquency addition to preclude a further spike in credit cost. NIM may improve on slight reduction in funding cost, some positive change in receivables mix and restrained receivables growth. Retail Spends growth to remain healthy.
AAVAS IN	3,467	19.0	5.0	1,978	25.4	1.5	1,504	29.0	1.7	Disbursements to post a significant recovery with quick stabilization of operations on the new LMS which was upgraded in H1. With stable trends in BT Out, the AUM growth is expected at 5% qoq/20% yoy. BPLR hike of 25 bps from October to help post a portfolio spread expansion notwithstanding some increase in CoF. Delinquency buckets to likely improve from Q2 levels.
LICHF IN	20,585	(4.1)	0.6	17,599	(6.6)	1.0	12,493	7.4	(6.0)	Disbursements impacted by issues in a couple of large markets. Hence, loan book expansion would remain modest. NIM may marginally decline on some reduction in portfolio yield. With further resolutions of NPLs, the credit cost is expected to be moderate.

Rs mn	NII / Revenue			PPoP / EBITDA			PAT			Remarks
	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	
CANF IN	3,471	3.6	0.0	2,877	0.4	(0.0)	2,174	8.6	2.8	Disbursements would be lower due to impacted business activity in key markets of KTK (registration issues) and Telangana (issues in Hyderabad). Hence, loan growth would remain moderate at 2% qoq/9% yoy. NIM may slightly decline with some reduction in portfolio yield. Steady GNPLs and initial buckets to underpin modest credit cost.
HOMEFIRS IN	1,949	23.3	4.1	1,314	19.7	4.2	945	19.9	2.5	Robust Disbursement/AUM growth momentum to continue. Spread to come-off by 5-10 bps with benefit of August PLR hike behind and catch-up of stock CoF with incremental CoF. Stable delinquent pool to drive usual provisions.
APTUS IN	3,072	21.4	4.7	2,541	18.1	3.2	1,913	21.4	5.1	Disbursement volume could likely be closer to Q2 level with marginal impact on business in home market of TN due to floods. This notwithstanding, AUM growth could remain strong near 27-28% yoy. Portfolio spread may marginally compress on increase in funding cost in NBFC subsidiary. Some pull-back in delinquent buckets likely after the increase seen in H1 FY25.
REPCO IN	1,840	7.0	4.7	1,407	2.7	2.9	1,130	13.7	0.5	Disbursement volume to be lower than Q2 FY25 with KTK market being a drag (seen with other HFCs too). An important monitorable would be BT Out which had increased in Q2. NIM would largely be stable with the help of 10 bps MLR hike from Nov. NPL reduction would drive positive credit cost.
CIFC IN	33,498	32.9	5.6	20,164	33.0	4.9	10,392	18.6	7.9	Overall disbursements growth could slightly pick-up on better business performance of Vehicle Finance and sustained traction in HL, LAP and CSEL. Stable CoF and upward repricing of VF portfolio yield (led by growth mix and catch-up with disbursement yield) to aid in delivering stable NIM. Stabilization of net flows in VF portfolio and sustained stable asset quality trends in other segments could underpin a mild improvement in credit cost.
SHFL IN	58,522	12.2	2.0	40,773	10.5	2.3	20,805	14.4	0.4	Sequential AUM growth to be similar to preceding quarters with small-ticket MSME loans and Used PV financing driving growth. Traction in Gold Loans would be a key monitorable amidst the operational adjustments. NIM would likely be stable, partially aided by portfolio mix changes. Slight increase in Stage-2 likely, but overall credit cost estimated to be largely stable.
MMFS IN	20,275	14.0	3.3	12,124	14.1	1.4	5,486	(0.8)	48.5	Disbursements jumped 25% on sequential basis on festive fervour in PVs, sustained pick-up in tractors and likely improvement in used vehicle financing. Running down of trade advances moderated AUM addition to just 2% over Sept. NIM to be stable with not much change in funding cost. Credit cost to be higher than guided trajectory with marginal increase in Stage-3 assets and steady write-offs.

Rs mn	NII / Revenue			PPoP / EBITDA			PAT			Remarks
	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	
CREDAG IN	9,339	9.8	(3.6)	6,322	5.1	(5.9)	753	(79.3)	(57.7)	Weak trends in asset quality, cautious approach on new customer acquisition and implementation of MFIN's additional guardrails to drive calibrated disbursements and hence a flattish portfolio on sequential basis. Increase in fresh PAR addition and delinquency flow/slippages to underpin a much higher credit cost. Expect some incremental negative adjustments in growth and credit cost estimates for the year.
SPANDANA IN	3,138	(10.5)	(20.7)	1,390	(37.6)	(36.7)	(2,871)	(342.7)	40.8	Worsening of asset quality, funding constraints, cautious business approach, implementation of MFIN's additional guardrails and persisting high LO attrition to keep disbursements low. Credit cost would further increase on significant deterioration of PAR metrics. Expect significant negative adjustments in growth and credit cost outlook for the year.
MGFL IN	16,570	6.2	(4.1)	9,860	5.3	(4.6)	4,854	(15.6)	(15.1)	Expect modest growth in GL book with increase in gold prices. Asirvad MFI growth and credit cost to be significantly impacted by regulatory embargo and negative happenings in MFI sector. Expect largely stable funding cost and slight decline in GL yield due to pricing reduction. Non-GL and non-MFI credit cost to stabilize.
MUTH IN	32,420	34.7	3.9	23,203	41.5	4.4	14,132	23.4	7.0	Expect near 4% growth in GL book on the back of improved customer addition/reactivation trends and increase in gold prices. Belstar MFI growth and credit cost to be impacted by the negative happenings in Microfinance sector. Expect some increase in funding cost and firm yields in GL business. Credit cost would likely be similar to Q2 with rise in provisioning in Belstar MFI.
CRISIL IN	9,379	2.2	15.5	2,902	7.9	29.7	2,214	5.4	29.1	Good growth momentum to continue in Domestic Ratings, GAC, GBA and MI&A businesses. No meaningful improvement in growth of GR&RS business likely. EBITDA margin can sequentially see a large uptick with incremental operating leverage in Domestic Ratings and GBA, and billing seasonality in GR&RS. Outlook/Commentary on the GR&RS business would be key.
CARE IN	929	18.0	(20.9)	301	28.8	(46.0)	284	18.6	(39.5)	Domestic Ratings growth could be slightly better than peers and the non-ratings businesses would continue to scale-up. EBITDA margin could be much better on YoY basis (not comparable QoQ) supported by operating leverage gains in Ratings and further reduction in loss margin of non-ratings businesses.

Rs mn	NII / Revenue			PPoP / EBITDA			PAT			Remarks
	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	Q3 FY25E	YoY (%)	QoQ (%)	
ICRA IN	1,289	12.5	2.2	423	39.9	2.6	386	19.2	4.1	Brisk growth momentum in Domestic Ratings would continue aided by encouraging activity in Bonds and Securitization segments. Growth in Knowledge Services is expected to stay weak with no major change in outsourcing trends from Moody's. EBITDA margin could be marginally better than Q2 aided by operating leverage in Ratings business. Outlook/Commentary on Knowledge Services, D2K and new engagements with Moody's would be key.

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YES Securities (India) Limited ("YSIL") is a subsidiary of YES BANK LIMITED. YSIL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSIL is also a SEBI-registered Investment Adviser and Research Analyst. YSIL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL.