Financials - NBFCs

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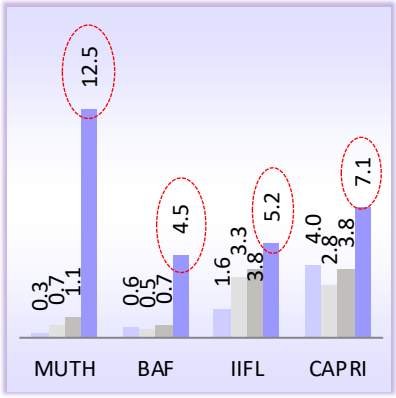
Ranked 3rd and 4th in the Onshore Broker and Local Broker categories, respectively

Gold Finance: Riding growth despite a mix of transitory and structural headwinds

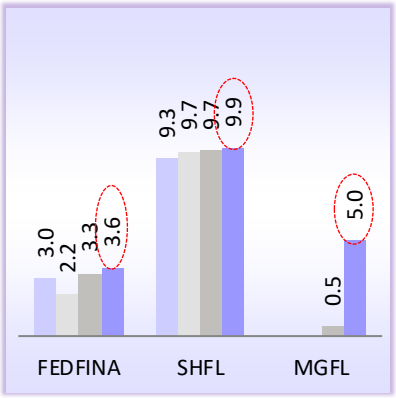
Regulatory transition creates a trade-off between growth, yields, and asset quality

- The Indian gold financing industry is undergoing a significant transition following the revised RBI gold lending regulations that became effective in Apr'26. While the regulatory changes have introduced tighter requirements around LTV computation and repayment structures, they have also prompted gold financiers to redesign their products to sustain customer loan eligibility and business growth.
- The 2QFY27 results of major gold financing NBFCs, including Muthoot Finance, IIFL Finance, Bajaj Finance, and Manappuram Finance, indicate a broad-based increase in Stage 2 gold loan assets. Our conversations with industry participants suggest that the deterioration is predominantly attributable to customer adjustments to the revised repayment architecture, particularly the introduction of monthly interest servicing.
- Historically, gold loan customers have preferred bullet repayment structures, under which principal and accumulated interest are repaid at maturity. Under the revised framework, lenders have increasingly introduced shorter-tenure loans and monthly interest repayment products to manage LTV requirements and maintain loan eligibility. However, this transition has created a behavioral challenge. Customers who were previously accustomed to flexible repayment structures are now required to service contractual monthly obligations. Failure to meet these obligations can trigger delinquency recognition, even when the underlying collateral remains adequate.
- We believe the industry could continue to experience elevated Stage 2 assets over the next couple of quarters, with some migration into Stage 3. While gold loans generally benefit from strong collateral protection and historically limited ultimate credit losses, increased delinquencies can result in interest income reversals, increased collection intensity and potential gold auctions.
- The regulatory transition will also introduce a structural trade-off between growth and yields. Lenders may be able to sustain higher customer loan eligibility and disbursement growth through shorter-tenure and monthly interest repayment products. However, incentivizing customers to adopt these products could require lower interest rates, potentially resulting in structurally lower lending yields.
- The gold financing industry is transitioning from a predominantly bullet-repayment, collateral-led model towards a more structured repayment architecture. While this transition could support regulatory compliance and sustainable growth, near-term asset quality and longer-term profitability will depend on customer repayment behavior, collection efficiency, product mix, and lenders' ability to offset lower yields through scale and operating leverage.
- We maintain our Neutral rating on gold financiers under our coverage, namely MUTH and MGFL, amid rising competitive intensity from newer players, the need to adapt to evolving regulatory requirements and volatility in gold prices.

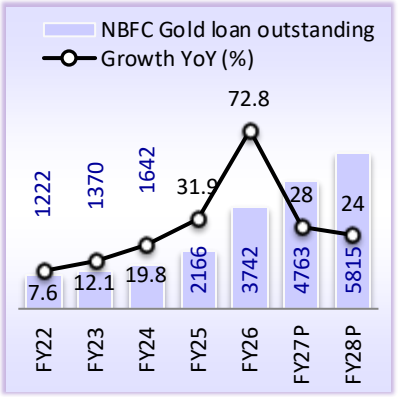
Gold AUM Stage 2 (%)



Gold AUM Stage 2 (%)



NBFC Gold loan outstanding (INR b)



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Our key conclusions on growth, asset quality, competition, and profitability

- **Near-term asset quality remains the key earnings risk:** The increase in Stage 2 gold loans during 2QFY27 appears partly attributable to the transition toward mandatory monthly interest repayment. We expect elevated Stage 2 formation to persist over the next couple of quarters, with some migration into Stage 3.
- **Credit losses should remain manageable, but earnings volatility could increase:** Gold collateral provides lenders with a recovery mechanism. However, Stage 3 classification can result in interest reversals, collection expenses, and gold auctions, affecting earnings and cash-flow timing.
- **Regulatory compliance creates a growth-yield trade-off:** Shorter-tenor loans and monthly interest repayment products help lenders manage revised LTV requirements and preserve customer borrowing capacity. However, incentives offered to encourage customers to adopt these products could exert pressure on yields.
- **Competition to become a structural headwind:** Several well-rated NBFCs are entering gold financing, either organically or through acquisitions. Established players retain significant distribution advantages, but competition for customers could increase.
- **Structural ROA compression is likely:** New entrants may accept lower standalone returns because gold financing improves their secured lending mix and portfolio diversification. This could challenge the elevated profitability historically generated by established gold financiers.
- Our investment stance is thus constructive on the long-term growth opportunity but more cautious on the industry's ability to sustain historical profitability.

Trade-off between growth, yields, and asset quality; retain our Neutral stance on gold financiers

- **Our key conclusion is that the industry's long-term earnings trajectory will depend on its ability to successfully transition customers toward periodic repayment while maintaining growth and profitability. The near-term focus should be on monitoring Stage 2 cure rates, Stage 3 migration and auction activity. Over the medium term, the critical variables will be product mix, lending yields, AUM growth and the ability to offset pricing pressure through scale and operating leverage.**
- **Our central thesis is that gold financing can sustain healthy growth, but the industry is likely to transition toward structurally lower profitability. We remain neutral on gold financiers under our coverage, namely MUTH and MGFL, amid rising competitive intensity from newer players, the need to adapt to evolving regulatory requirements, and volatility in gold prices.**

Valuation matrix for gold financiers under our coverage

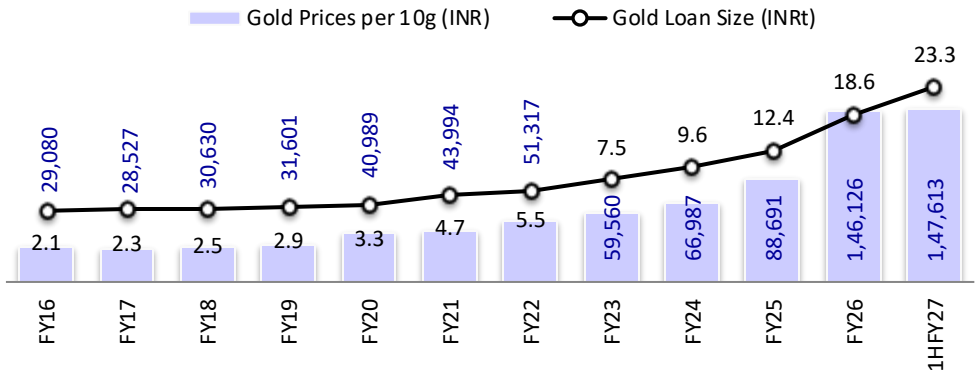
Val summary	Rating	CMP	TP	Mkt. Cap	Upside	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
		(INR)	(INR)	(INRb)	(%)	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Muthoot	Neutral	2,615	2,550	1,060	-2	299.6	344.5	1,197	1,493	5.9	5.6	28.0	25.6	8.7	7.6	2.2	1.8
Manappuram	Neutral	283	315	266	11	27.5	31.4	195	222	3.4	3.3	15.7	15.1	10.3	9.0	1.5	1.3
IIFL Finance	Buy	645	850	282	32	81.1	80.2	533	520	3.5	3.6	18.8	17.0	8.0	8.0	1.2	1.2

Structural expansion of India's gold loan market

Gold loans emerging as a mainstream retail credit product

- India's gold loan market has witnessed significant expansion, emerging as one of the fastest-growing segments within the retail lending industry. Growth has been supported by rising gold prices and increasing financialization of household gold. Gold loans are increasingly moving beyond their traditional role as emergency financing to become an established source of credit for households, small businesses, and self-employed individuals.
- The sharp appreciation in gold prices has been a key growth catalyst, enhancing the borrowing capacity of customers against the same quantity of pledged gold and expanding the addressable market for lenders.

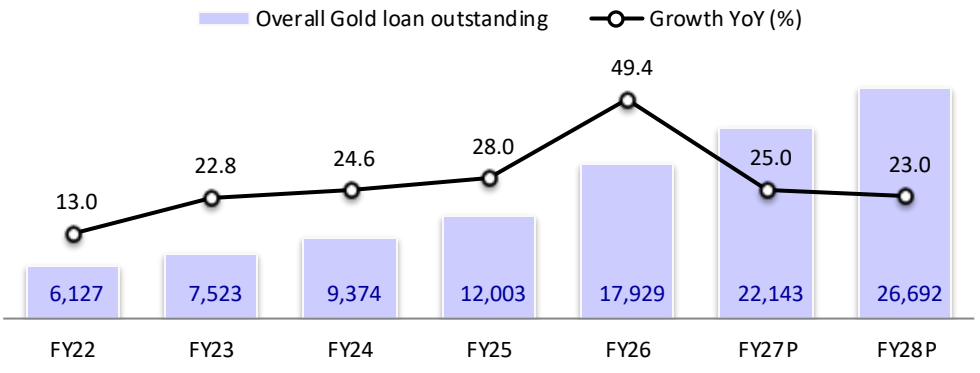
Exhibit 1: Gold loan – growth cycles continue to closely track gold price movement



Source: MOFSL, BBG, CRIF, RBI

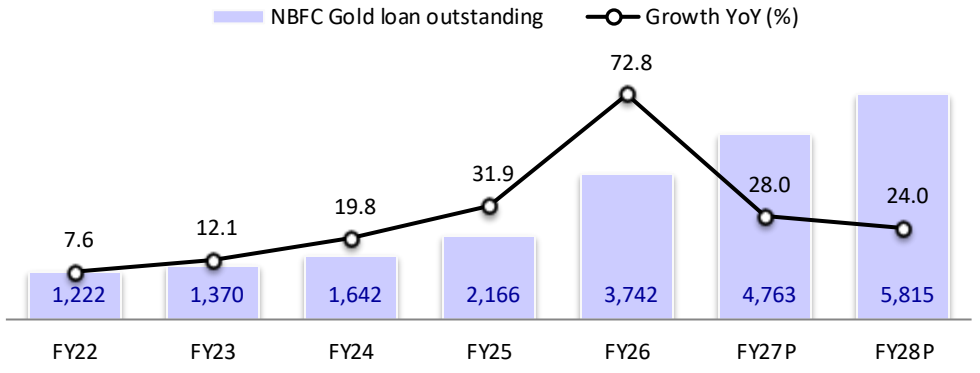
Note: Gold loan price taken as on financial year end

Exhibit 2: Expect overall healthy gold loan growth over the next two years



Source: MOFSL, Muthoot Fincorp DRHP

Exhibit 3: NBFC gold loan growth to remain robust over the next couple of years



Source: MOFSL, Muthoot Fincorp DRHP

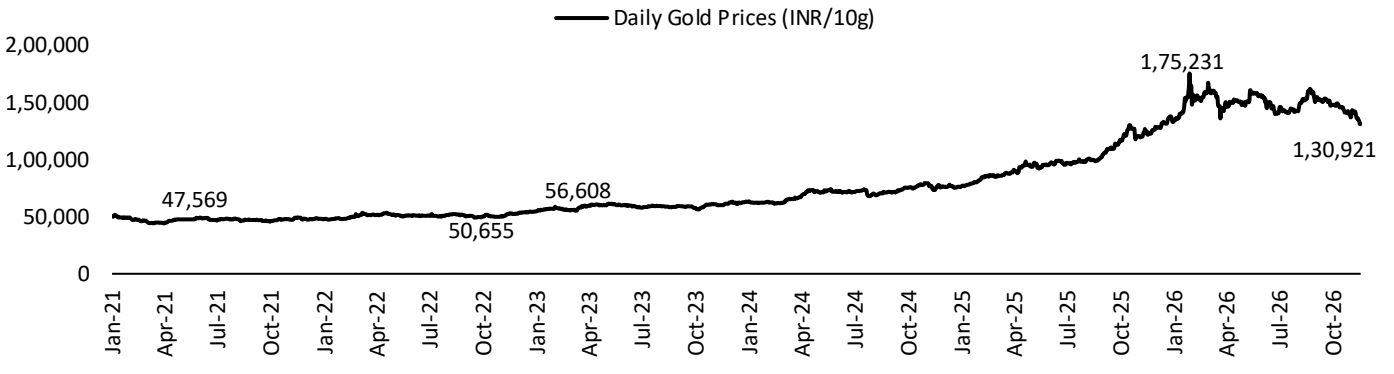
- Going forward, the substantial stock of household gold, relatively low monetization levels and increasing preference for secured borrowing provide a sizeable growth opportunity for organized lenders. However, the sharp portfolio expansion warrants greater focus on underlying growth drivers and asset quality.
- Overall, the segment offers a compelling structural growth opportunity for NBFCs; however, sustainable growth will depend on maintaining prudent LTV ratios, robust collateral management, and disciplined credit assessment. Organized players with established distribution networks, efficient valuation capabilities and strong operating processes are likely to be better positioned to capitalize on this opportunity while safeguarding asset quality.

Impact of gold prices on gold loan NBFCs

Gold price appreciation has been a key driver of gold loan AUM growth; correction in gold prices could moderate the growth trajectory

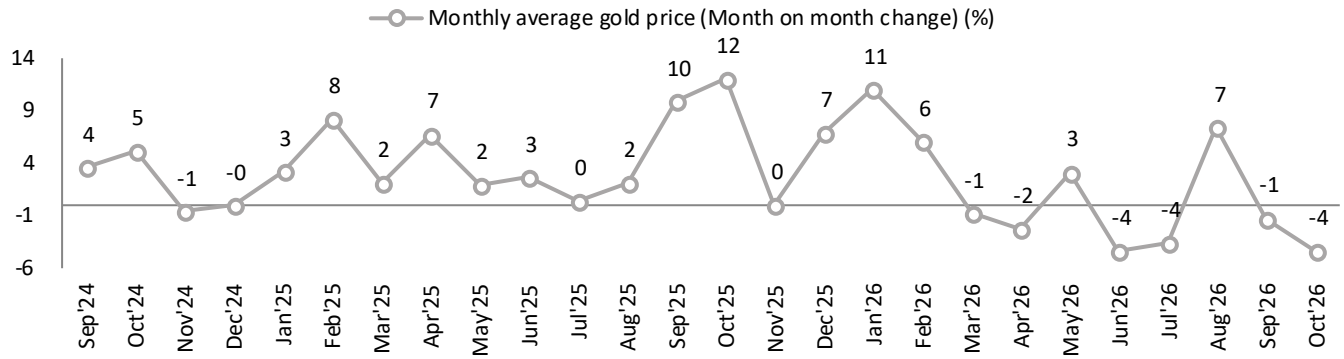
- Gold loan NBFCs have historically benefited from rising gold prices, as appreciation in collateral values enhances customers' borrowing capacity against the same quantity of pledged gold. This creates a favorable operating environment for lenders, supporting higher average ticket sizes, incremental borrowing by existing customers and overall AUM growth. Conversely, a correction in gold prices could partly reverse these tailwinds, reducing the eligible loan amount against existing collateral and moderating incremental disbursements. More importantly, a decline in the value of pledged gold jewelry would increase the effective LTV of outstanding loans, potentially reducing the recovery cushion available to lenders in the event of borrower defaults.
- The impact on asset quality, however, would depend on the extent of the price correction and borrowers' repayment behavior. Gold loans are typically short-tenor and collateral-backed, providing lenders with the ability to recover dues through auctions if customers fail to repay.

Exhibit 4: Gold prices have declined significantly from the recent peak of Jan-Feb'26



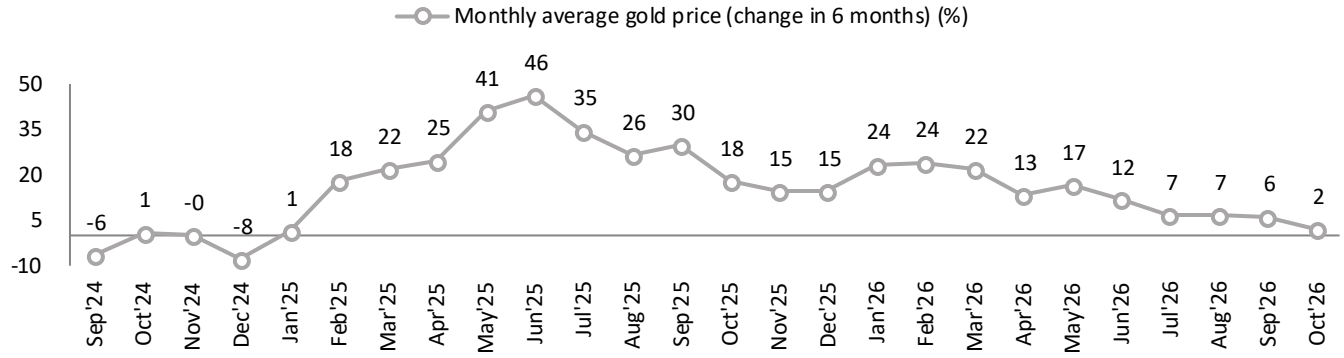
Source: MOFSL, BBG

Exhibit 5: Monthly average gold price (MoM change) (%)



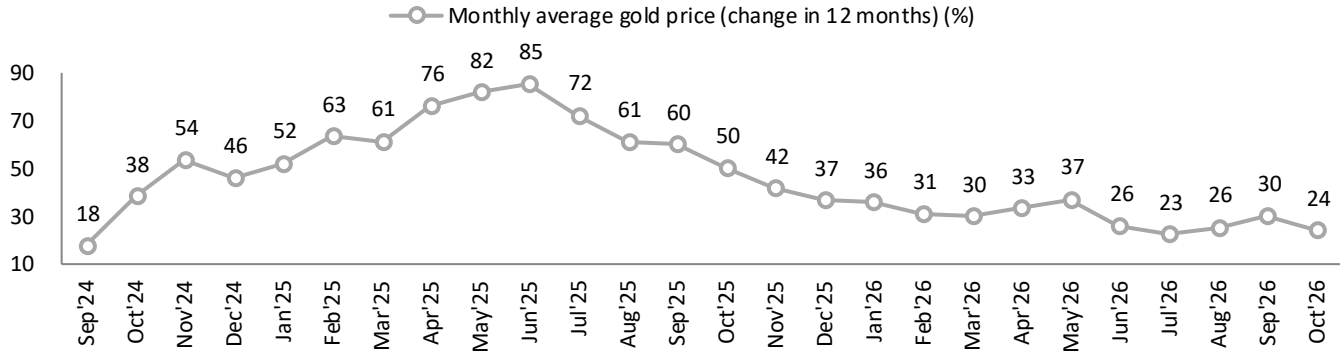
Source: MOFSL, WGC

Exhibit 6: Monthly average gold price (change in six months) (%)



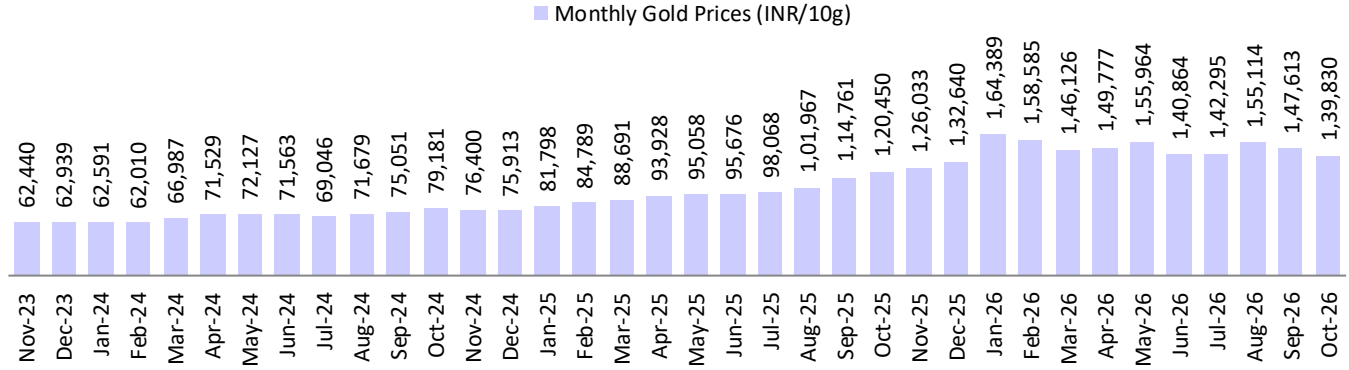
Source: MOFSL, WGC

Exhibit 7: Monthly average gold price (change in 12 months) (%)



Source: MOFSL, WGC

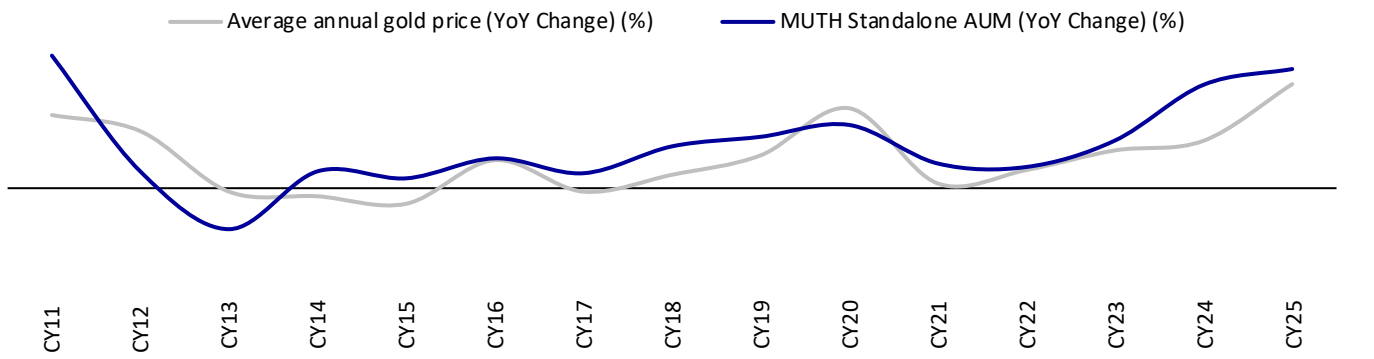
Exhibit 8: Monthly gold prices peaked in Jan'26 and have corrected in Oct-Nov'26



Source: MOFSL, BBG; Note: Gold prices at the last day of the respective month

- Domestic gold prices have retreated meaningfully from their 2026 highs, reducing the collateral value available against existing loans and limiting the incremental borrowing capacity of customers. A sustained correction could therefore result in slower ticket-size growth, lower incremental loan eligibility and slower AUM growth, particularly for lenders whose growth has been disproportionately driven by collateral appreciation rather than customer additions or higher gold tonnage.

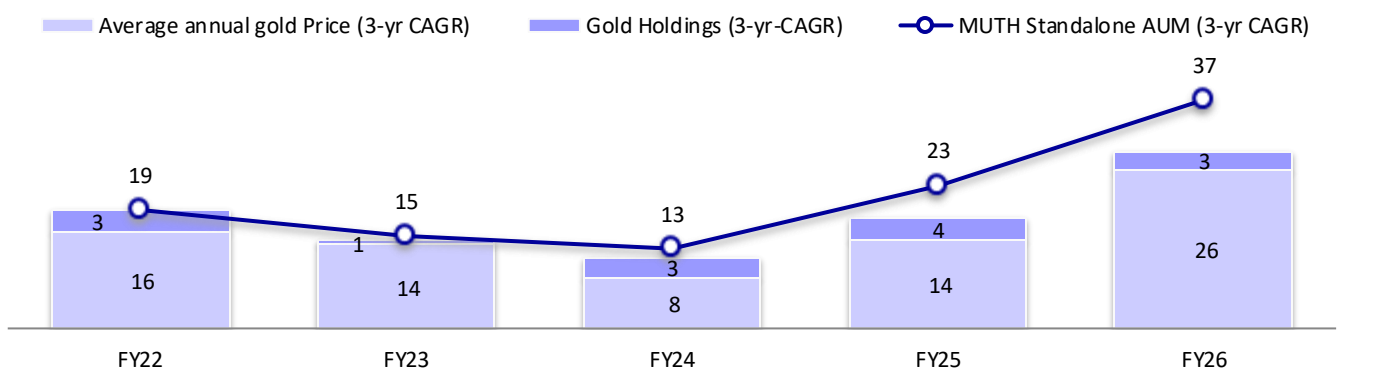
Exhibit 9: Strong correlation between gold prices and loan growth



Source: MOFSL, WGC, Company

- The historical trend indicates a positive relationship between gold price movements and AUM growth for gold loan NBFCs, as reflected in Muthoot Finance's standalone AUM trajectory. During periods of relatively subdued gold price growth, such as CY12-17, AUM growth moderated, while the acceleration in gold prices during CY19–20 and CY23-25 coincided with a meaningful improvement in AUM growth. This relationship is intuitive, as an increase in gold prices enhances the borrowing capacity of customers against the same quantity of pledged jewelry, thus supporting higher average ticket sizes and incremental disbursements. Conversely, a decline in gold prices could constrain incremental borrowing capacity and moderate average ticket-size growth, particularly if lenders maintain their existing LTV discipline.

Exhibit 10: MUTH's gold loan growth is broadly mimicking the increase in gold prices and growth in gold tonnage



Source: MOFSL, WGC, Company

- The three-year CAGR of average gold prices increased from 8% in FY24 to 14% in FY25 and further to 26% in FY26. Over the same period, Muthoot Finance's standalone AUM three-year CAGR accelerated from 13% to 23% and 37%, respectively. This indicates that the sharp appreciation in gold prices has been an important driver of the acceleration in gold loan AUM growth over the past two years. Importantly, growth in gold holdings also contributed, although its impact was relatively modest compared with gold price appreciation in FY25-26.

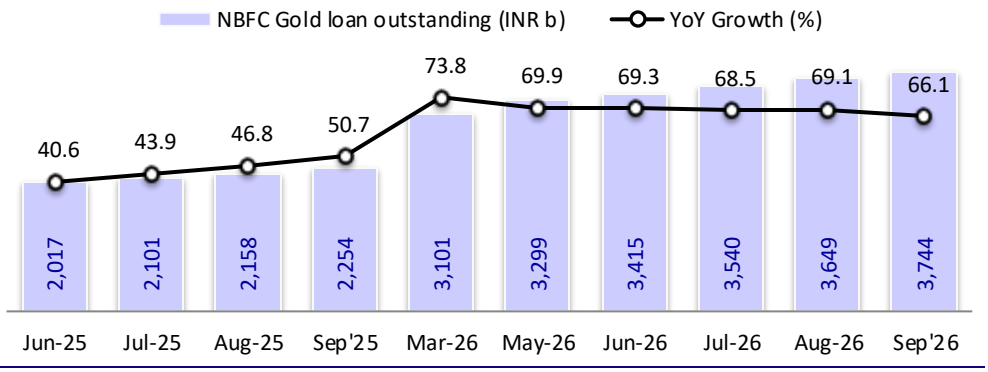
Gold price moderation could temper AUM growth, but impact will be gradual

- Going forward, any sustained correction in gold prices could moderate the growth trajectory of gold loan NBFCs through lower incremental borrowing capacity. The impact could be more pronounced for lenders with a higher proportion of high-LTV loans and customers who borrow closer to their permissible borrowing limits.
- However, the impact on reported AUM growth is unlikely to be immediate or entirely proportional to the correction in gold prices. Existing gold loans would remain on the books until repayment or maturity, while new customer additions, repeat borrowings, branch expansion and market-share gains could partially offset the impact of lower gold prices. Further, customers may pledge additional gold jewelry to meet their borrowing needs, providing some cushion to overall disbursements.

A structural transition in gold financing

- Gold financing NBFCs have traditionally operated a relatively straightforward business model, lending against pledged gold jewelry to customers seeking short-term liquidity.
- The business has historically benefited from strong collateral coverage, relatively short (3M, 6M, and 12M) loan tenors, high customer familiarity with gold-backed borrowing, repeat customer relationships, and the ability to recover outstanding dues through repayment or auction of pledged gold.
- The traditional repayment structure has generally allowed customers to repay principal and accumulated interest at maturity. This structure has been particularly attractive to borrowers who require liquidity but do not necessarily have predictable monthly cash flows. However, the revised RBI gold lending regulations could potentially change the economics of this traditional model.
- The industry is now required to manage not only the amount of principal disbursed against pledged gold but also the interest accumulation and repayment structure over the loan tenure. Therefore, lenders have begun shifting toward shorter-tenure products and more structured repayment arrangements.

Exhibit 11: Robust gold loan growth to continue for NBFCs in FY27E



Source: MOFSL, RBI

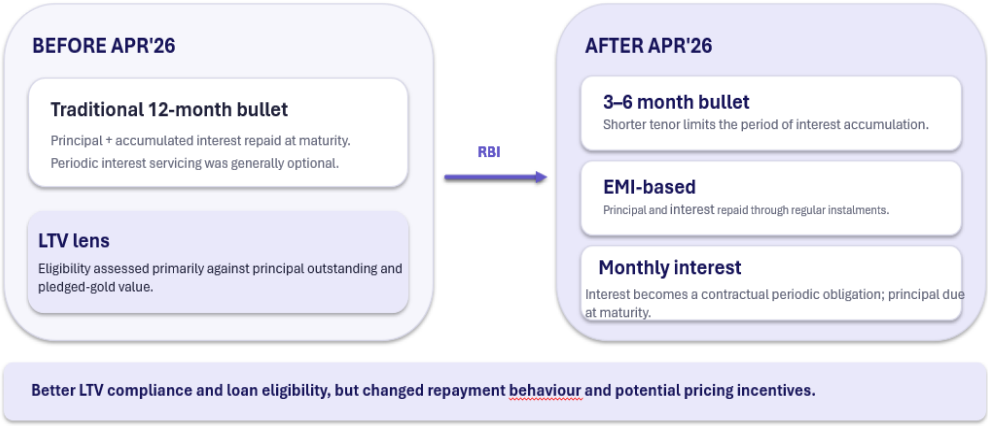
This transition can create three important industry-level changes:

- **Repayment architecture:** Greater emphasis on periodic interest servicing and shorter loan tenors.
- **Asset quality:** Increased sensitivity to missed contractual repayments and recognition of overdue accounts.
- **Profitability:** Potential pressure on lending yields as lenders incentivize customers to adopt new interest-repayment products with servicing frequencies of 1M, 3M, and 6M.

The underlying trigger: Revised RBI regulations

RBI rule change is reshaping the gold-loan product mix

From a flexible bullet model to a more structured repayment architecture

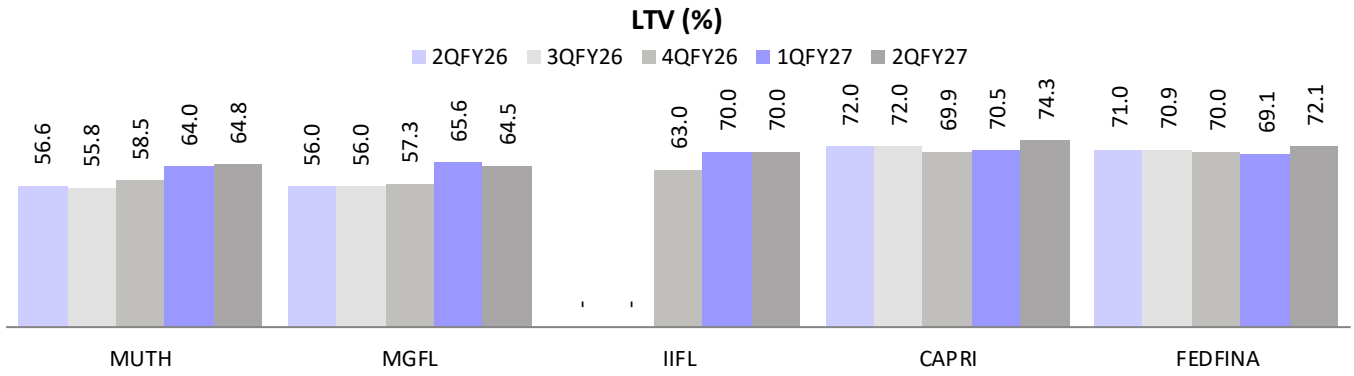


Source: MOFSL, Company

Change in LTV computation

- The revised RBI gold lending regulations, effective Apr'26, require lenders to incorporate accrued interest into the LTV calculation for bullet-repayment gold loans. Under the traditional structure, lenders could assess loan eligibility primarily based on the principal outstanding relative to the value of pledged gold.
- Under the revised framework, the LTV calculation for bullet repayment loans must account for the total amount repayable at maturity, including principal and accrued interest. This has changed the amount of principal that can be disbursed against a given quantity of gold.
- The underlying issue is that interest accumulates throughout the loan tenure. Consequently, even if the principal amount remains unchanged, the total repayment obligation increases over time. The revised LTV calculation therefore places greater emphasis on the amount ultimately repayable rather than on the initial principal disbursed alone.

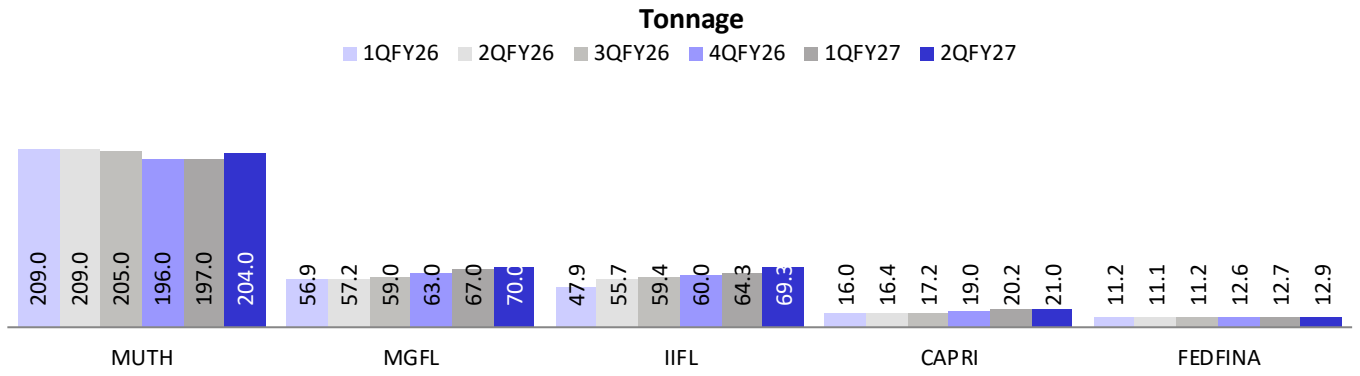
Exhibit 12: LTV for gold financiers has increased in the past couple of quarters



Source: MOFSL, Company

Note: LTV Data for IIFL for 2Q/3Q is not available

Exhibit 13: Tonnage trends for gold financiers over the past few quarters



Source: MOFSL, Company

Implications for traditional bullet-repayment products

For a customer borrowing against gold under a 12-month bullet-repayment structure, the loan is disbursed at origination, and the customer is expected to repay principal and accumulated interest at maturity. Under the revised RBI framework, the lender must incorporate the accumulated interest into the LTV computation. This creates a constraint on the initial loan amount that can be offered against a given quantity of gold. The impact becomes particularly relevant where lenders seek to maintain the same customer loan eligibility as before April 2026. To achieve this, lenders have had to reconsider the loan tenor, repayment structure or product mix.

Industry response: Shorter-tenure loans and monthly/quarterly interest repayment products

Following the revised regulations, gold financiers have increasingly focused on products that reduce interest accumulation and facilitate periodic repayment. The industry response has broadly involved shorter-tenure bullet repayment loans and the introduction of new repayment structures.

Shorter-tenure gold loans

- Gold financiers have increasingly introduced loans with tenors of three to six months, compared with the traditional 12-month loan structure. This is because a shorter loan tenor reduces the period over which interest accumulates and provides lenders with greater flexibility in offering loan amounts to customers while remaining within the prescribed LTV requirements. Shorter-tenure products also allow lenders to reassess the loan more frequently, thereby reducing the period over which interest accumulates without repayment.
- However, these products introduce a different set of operational considerations. Customers need to repay or renew their loans more frequently, and lenders need to manage maturity collections and customer retention.

EMI-based gold loans

- The second important development is the introduction of EMI-based gold loan products. Under these products, customers repay principal and interest through regular instalments rather than waiting until maturity. The penetration of EMI-based gold loans remains relatively low, based on our industry observations. This suggests that customers are still adjusting to a more structured repayment format.
- Gold loan customers have traditionally preferred products that provide flexibility around the timing of principal repayment. Consequently, the adoption

of EMI-based products could take time. The key monitorable will be customer acceptance, repayment behavior, and the extent to which these products can support sustainable growth.

Monthly/quarterly interest repayment products

- The third important development is the introduction of monthly/quarterly interest repayment gold loan products. These products are seeing stronger adoption compared with EMI-based gold loans, based on our conversations with industry participants.
- Under these products, customers are contractually obligated to repay interest periodically, (generally monthly), while principal repayment remains due at maturity. The products are increasingly being positioned as an alternative to traditional bullet-repayment structures. Customers may receive lower interest rates and potentially higher loan eligibility in exchange for agreeing to periodic interest servicing.
- From the lender's perspective, these products reduce the accumulation of interest and facilitate ongoing LTV compliance. However, the introduction of mandatory periodic repayment has also created the problem of increased forward flows currently being observed across the industry.

Optional interest servicing vs. mandatory monthly repayment

- An important distinction in understanding the industry-wide increase in Stage 2 assets is the difference between the interest servicing structures available before and after Apr'26.
- **Earlier bullet gold loan products - Periodic interest servicing was optional:** Before April 2026, gold loan NBFCs already offered customers the option to service interest periodically. Customers could choose to pay interest monthly, quarterly, or once every six months, depending on the product. However, periodic interest servicing was generally an option rather than a contractual obligation. Customers who chose to make periodic interest payments were incentivized through rebates or lower effective interest rates. Consequently, borrowers could benefit from lower interest rates if they made periodic payments. However, customers who did not make monthly or quarterly payments were not necessarily classified as contractually delinquent, provided they remained within the agreed repayment structure. The traditional 12-month bullet repayment structure therefore provided greater repayment flexibility.
- **New interest payment products – Interest servicing is contractual:** The products introduced from Apr'26 are structurally different. Under the new monthly interest repayment products, periodic interest servicing is a contractual repayment obligation. Customers are required to make interest payments on specified dates. If a customer fails to make the payment, the obligation becomes overdue and the delinquency clock starts.
- This creates a fundamental difference in the way repayment behavior is reflected in reported asset quality. Under the earlier structure, a customer could choose not to pay interest monthly without necessarily becoming overdue. Under the new structure, failure to make the contractual monthly payment can result in delinquency recognition. This is an important reason why the reported Stage 2 increase may not necessarily represent an equivalent deterioration in underlying collateral quality.

- **Implications for reported asset quality:** The transition has introduced a new repayment requirement for customers who were historically accustomed to bullet repayment. The reported increase in Stage 2 assets could therefore reflect one or more of the following factors 1) customers failing to make mandatory monthly interest payments, 2) customers adjusting slowly to the new repayment structure, 3) increased overdue recognition under contractual repayment schedules, and 4) some genuine deterioration in borrower repayment capacity.
- For investor confidence, the industry will need to demonstrate that the increase in Stage 2 is being resolved through customer repayments rather than through further migration into Stage 3 and collateral liquidation.

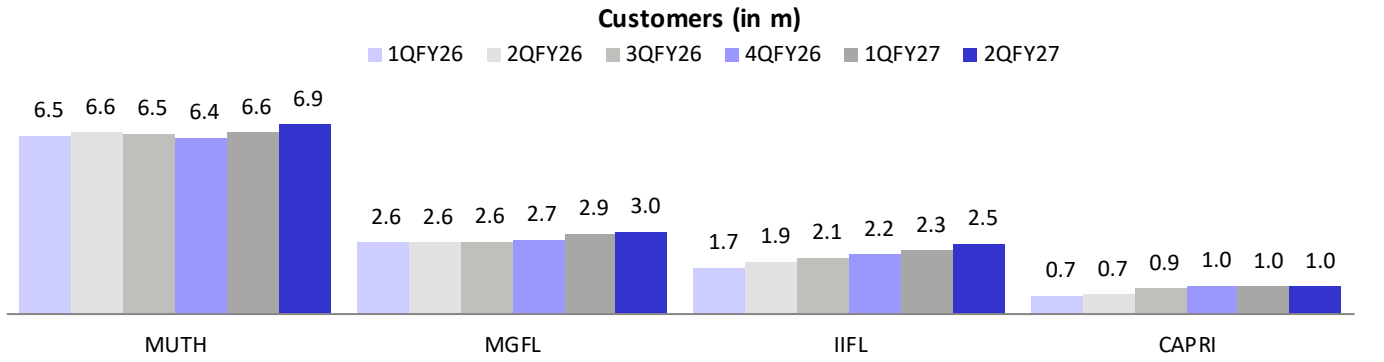
Type of product	Definition of the product	Lender Impact / Benefit
Traditional 12-month bullet	❖ Principal + accumulated interest paid at maturity. Periodic interest servicing was optional (monthly, quarterly or half-yearly), with rebates or lower effective rates as incentive. Non-payment did not necessarily mean delinquency.	❖ Simple product with high repayment flexibility for customers
Shorter-tenure loans (3-6 months)	❖ Bullet repayment over a shorter period; adoption is increasing	❖ Less interest accumulation, more room on loan amount within LTV, more frequent reassessment
EMI-based loans	❖ Regular instalments of principal + interest; penetration relatively low	❖ Reduces interest build-up and supports LTV compliance
Monthly interest repayment	❖ Interest paid monthly as a contractual obligation, principal at maturity. Customers get lower rates and potentially higher eligibility. Adoption is stronger than EMI.	❖ Reduces interest accumulation and facilitates ongoing LTV compliance

Customer education and formalized collections

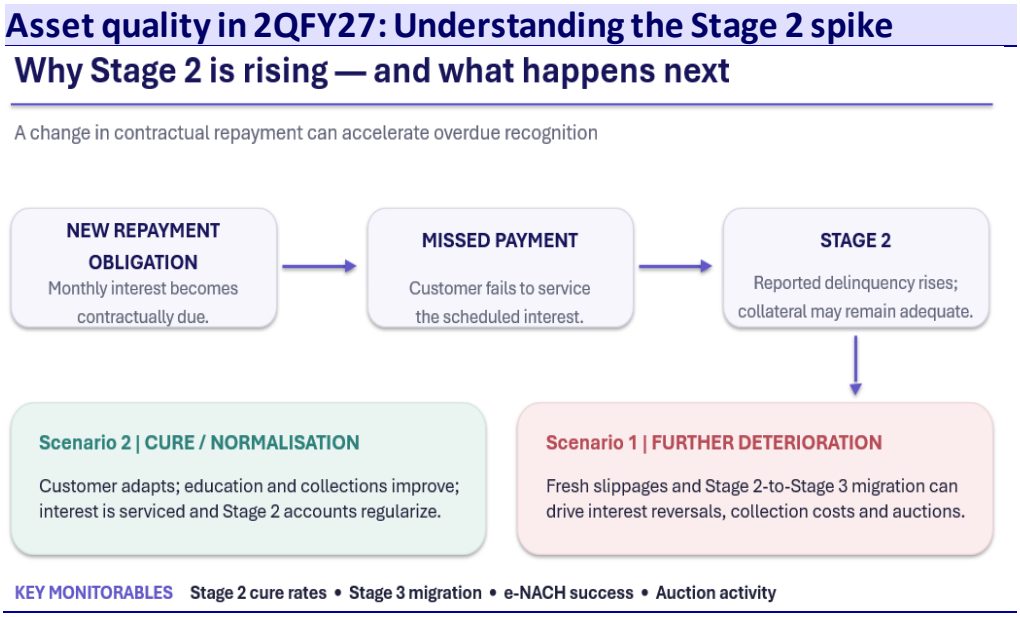
- The most important near-term challenge for gold financiers is customer behavior. Gold loan customers have historically preferred bullet repayment structures. The newer gold loan products require greater emphasis on periodic repayment, particularly monthly interest servicing. Our conversations with gold financing companies indicate that lenders are undertaking substantial efforts to educate customers about the importance of making monthly interest payments.
- **The objective is to ensure that customers understand the contractual repayment obligations, the benefits of periodic interest servicing** and the requirement to maintain sufficient bank balances for automated debits. Customer habits take time to change, particularly when the traditional repayment structure has been prevalent for many years.
- **Gold financiers are increasingly using pricing incentives to encourage customers to migrate towards periodic interest repayment products.** Customers who agree to monthly interest servicing may receive lower interest rates. This creates an economic incentive for customers to adopt the new repayment structure. However, the effectiveness of these incentives will depend on whether customers perceive the benefits to be sufficient to compensate for the loss of repayment flexibility.
- **Another important initiative is the adoption of e-NACH mandates.** Under this arrangement, customers authorize lenders to automatically debit their bank accounts on the specified repayment date. The objective is to improve collection efficiency and reduce the operational burden associated with manual

repayment. However, mandate registration alone does not ensure repayment. Customers must maintain sufficient balances in their bank accounts for the scheduled debit to succeed. The distinction between mandate adoption and actual collection efficiency will be particularly important in assessing the effectiveness of the new repayment architecture.

Exhibit 14: Overall customer franchise for each of the gold financiers



Source: MOFSL, Company



Broad-based increase in Stage 2 assets: The 2QFY27 results of major gold financiers indicate a broad-based increase in Stage 2 gold loan assets. This suggests that the issue is not necessarily confined to a single lender. The common underlying factor appears to be the transition toward the revised repayment architecture. The introduction of monthly interest repayment products has created a new contractual requirement for customers who were historically accustomed to flexible repayment structures. As a result, customers who fail to make monthly interest payments can become overdue and move through the delinquency buckets.

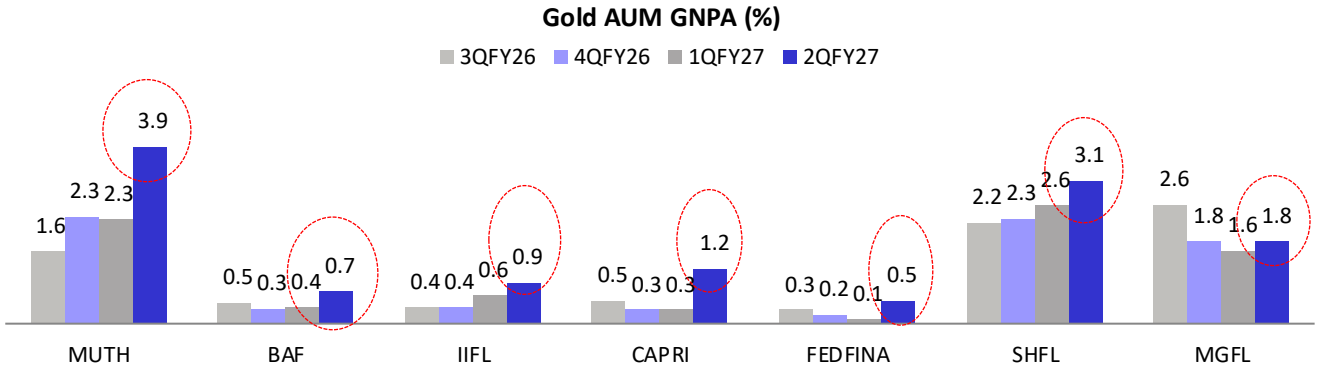
Why Stage 2 is increasing: The increase in Stage 2 appears to be driven by a combination of factors, a) customers are adjusting to the requirement for periodic interest servicing, b) the contractual repayment schedules under the new products create earlier recognition of overdue obligations, c) customer education and collection mechanisms are still evolving and d) some customers may genuinely be

experiencing repayment difficulties. The industry therefore needs to distinguish between temporary repayment friction and underlying borrower stress.

Stage 2 and Stage 3 migration: The key monitorable for the next two quarters is whether the elevated Stage 2 pool begins to migrate into Stage 3. Continued missed monthly interest payments could result in further deterioration. However, the reported Stage 2 pool could also gradually normalize if customers adjust to the new repayment structures and regularize their accounts.

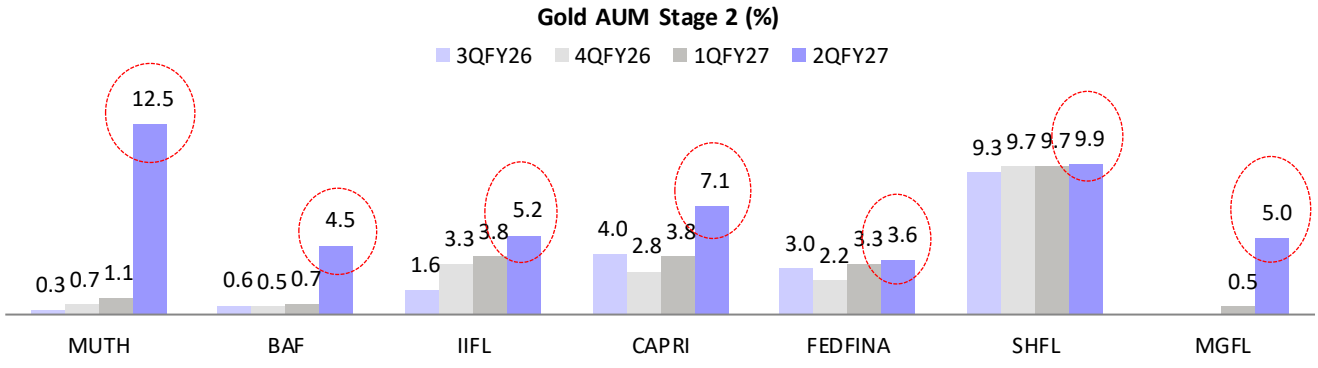
The net movement will depend on fresh Stage 2 slippages and cure rates, Stage 2 to Stage 3 migration, customer repayment behavior, and gold auction activity. However, the gold lenders would need to demonstrate that the elevated delinquency can be resolved without a material increase in Stage 3 and subsequent auctions.

Exhibit 15: GNPA has inched up in 2QFY27 for all gold financiers due to new regulatory guidelines



Note: Standalone GNPA for MGFL; Source: MOFSL, Company

Exhibit 16: Stage 2 has inched up in 2QFY27 across gold financiers, reflecting initial customer-level challenges in adapting to the newer EMI and short-tenor product structures, resulting in repayment defaults



Note: Stage 2 data for MGFL is not available for previous quarters; Source: MOFSL, Company

Note: Overall Stage 2 is reported for CAPRI and FEDFIN, while gold loan segment-wise Stage 2 is not separately disclosed. Gold loans constitute more than ~50% of the total loan book for both companies.

Outlook for 2HFY27: Asset quality normalization the key near-term catalyst

Our conversations with gold financing companies suggest that the behavioral issue is likely to persist over the next couple of quarters. The transition toward monthly interest servicing is not expected to be immediate. Customers who have historically preferred bullet repayment structures may require time to adjust.

We therefore see two broad scenarios for the industry.

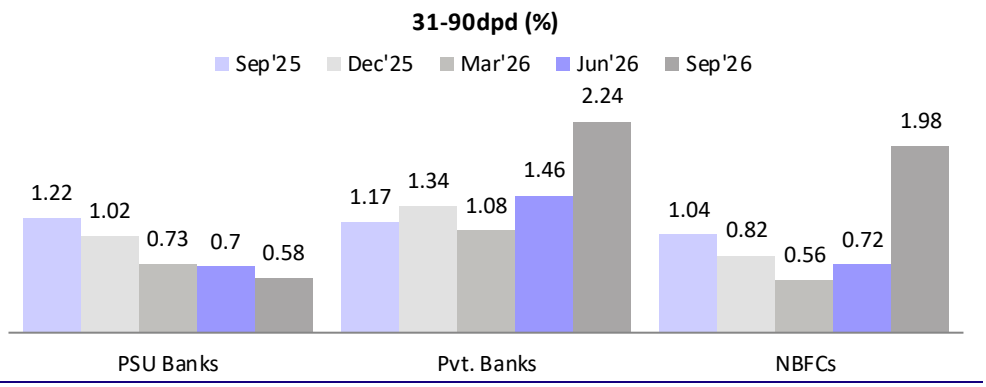
Scenario 1: Continued Stage 2 inflows and Stage 3 migration

Customer adjustment takes longer than expected. Fresh Stage 2 slippages continue over the next one to two quarters, and some existing Stage 2 loans migrate into Stage 3. This could result in interest income reversals, greater reliance on gold auctions and potential pressure on reported earnings. The severity of this scenario will depend on whether lenders can prevent overdue interest obligations from becoming persistent repayment defaults.

Scenario 2: Gradual customer adjustment and Stage 2 normalization

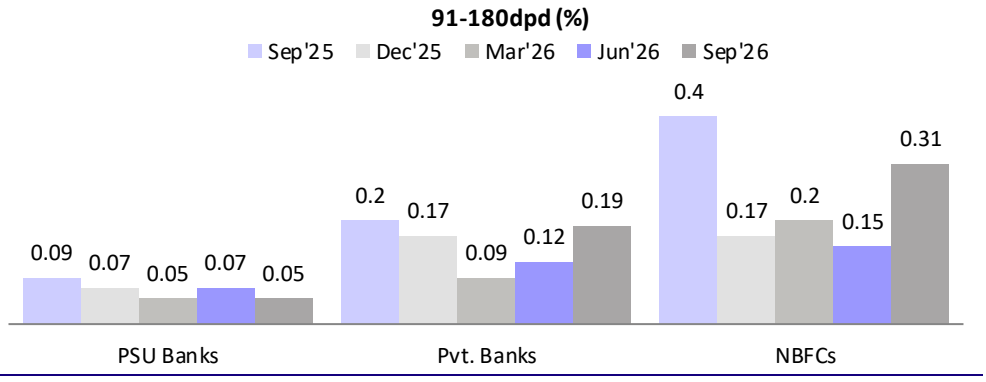
- Customers will gradually become accustomed to the new repayment structures as the gold loan companies invest in customer education. Over time, e-NACH success rates and monthly interest collections are expected to improve.
- As a result, existing Stage 2 customers could regularize their accounts and fresh delinquency formation could moderate. Under this scenario, Stage 2 and Stage 3 assets could gradually stabilize. However, the transition will depend on actual repayment behavior rather than the adoption of new products alone.
- The two scenarios could also coexist, with the industry experiencing continued fresh Stage 2 inflows while existing delinquent accounts are simultaneously cured. The important monitorable is the direction of net delinquency formation. A gradual decline in Stage 2 could indicate successful customer adjustment. However, a decline driven primarily by auctions rather than repayment cures would have different implications for customer retention and future growth.

Exhibit 17: 31-90dpd in gold finance for lenders



Source: MOFSL, CRIF

Exhibit 18: 91-180dpd in gold finance for lenders



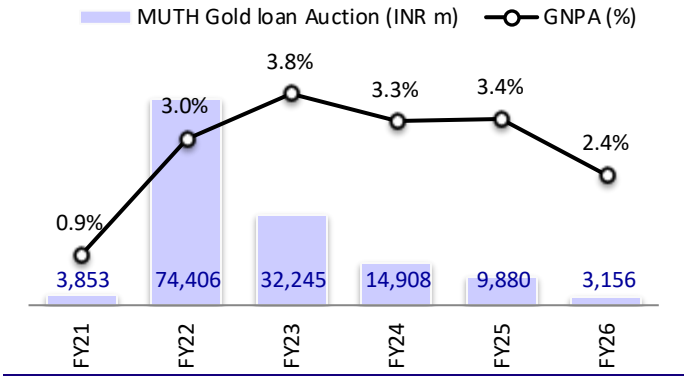
Source: MOFSL, CRIF

Two scenarios for 2HFY27

	Downside scenario	Normalization scenario
Customer behavior	❖ Monthly repayment adoption remains slow	❖ Customers gradually adapt
Stage 2	❖ Fresh formation remains elevated	❖ Fresh formation moderates
Stage 3	❖ Some Stage 2 accounts migrate	❖ Stage 2 cures improve
Earnings	❖ Interest reversals and collection costs increase	❖ Earnings volatility moderates
Auctions	❖ Higher resolution activity	❖ More limited incremental auctions

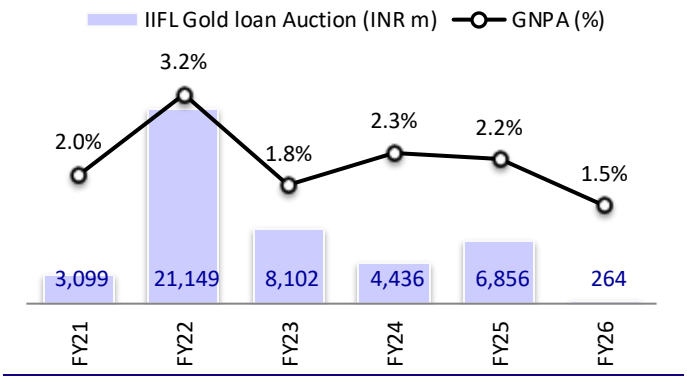
Gold prices and customer redemption behavior: Gold prices are an important determinant of borrower behavior. Our industry observations suggest that when gold prices decline from their peaks, customers facing delinquency may become less willing to come forward and redeem their pledged jewelry. This can increase the likelihood of lenders resorting to auctions. Conversely, when gold prices are elevated, customers may perceive their pledged jewelry as having greater value and may be more inclined to repay and redeem it. We believe the industry remains relatively well protected against significant collateral-related losses, but higher levels of Stage 3 accounts could still affect earnings through interest reversals, operational costs and delayed recoveries.

Exhibit 19: MUTH gold loan auction and GNPA trends



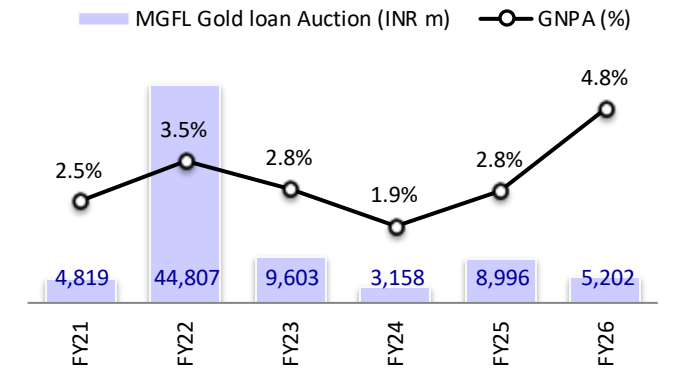
Source: MOFSL, Company

Exhibit 20: IIFL gold loan auction and GNPA trends



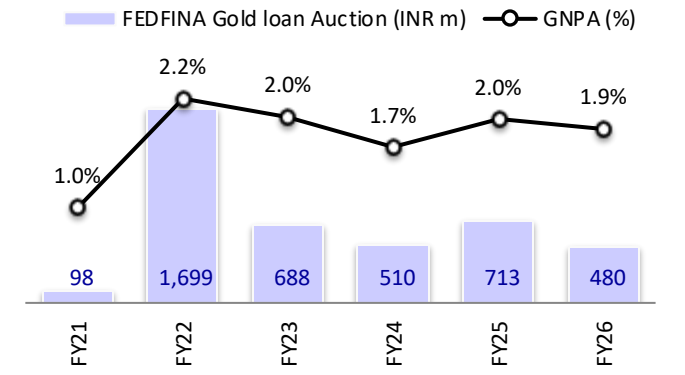
Source: MOFSL, Company

Exhibit 21: MGFL gold loan auction and GNPA trends



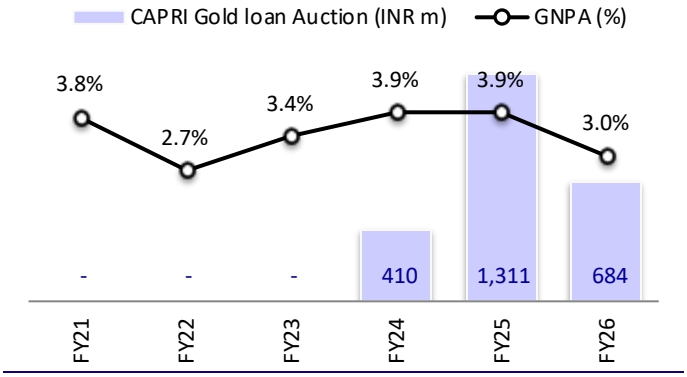
Source: MOFSL, Company

Exhibit 22: FEDFINA gold loan auction and GNPA trends



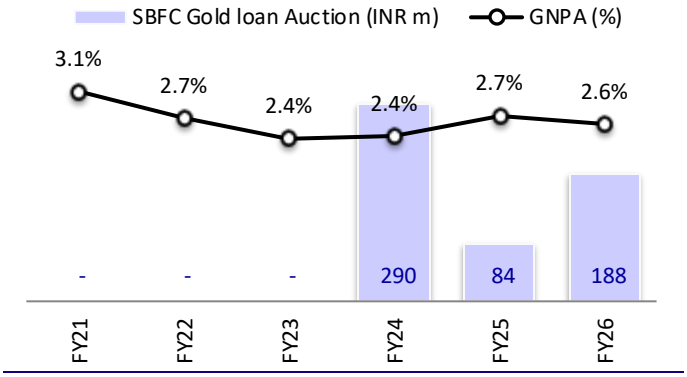
Source: MOFSL, Company

Exhibit 23: CAPRI gold loan auction and GNPA trends



Source: MOFSL, Company

Exhibit 24: SBFC gold loan auction and GNPA trends



Source: MOFSL, Company

Company	Management commentary on gold loan asset quality
SHFL	❖ SHFL attributed the elevated movement in GS2 and GS3 to the introduction of EMI-based and interest-servicing gold loan products, as customers have historically been accustomed to bullet repayments. ❖ Management does not foresee any significant challenges and remains optimistic about the growth opportunity in the gold loan segment.
BAF	❖ BAF reported an increase in Stage 2 assets in its gold loan portfolio, primarily attributable to the short-tenure schemes introduced following the revised RBI guidelines. Of the gold loan assets that had moved into Stage 2, ~55% has already been regularized and upgraded to Stage 1. ❖ The company is working towards introducing longer-tenure schemes, such as 12-month products, while providing customers with the flexibility to service interest through monthly or quarterly payments.
LTF	❖ LTF is not witnessing any significant upward trend in the Stage 2 portfolio. ❖ Management highlighted a three-pronged customer engagement approach to improve repayment regularization, comprising SMS/WhatsApp reminders, follow-up calls and physical customer visits.
Piramal	❖ Piramal highlighted that it does not extend gold loans to customers with 90+ dpd. ❖ The company maintains a strict underwriting approach and does not disburse gold loans to customers with overdue periods exceeding 90 days.
Chola	❖ Chola adopted a predominantly bullet repayment structure for its gold loan products from the outset. EMI-based repayment options are offered selectively to customers who specifically request them; however, the proportion of such customers remains negligible.
Muthoot	❖ Muthoot attributed the increase in Stage 2 and Stage 3 assets primarily to customers adjusting to the monthly/periodic interest-servicing structure. ❖ Historically, customers were accustomed to bullet repayments, and the transition to monthly interest/EMI servicing has resulted in missed payments and consequent slippages. However, management does not necessarily view this trend as indicative of underlying borrower stress.
IIFL Finance	❖ IIFL Finance attributed the increase in NPAs in the gold loan segment primarily to smaller-ticket customers facing temporary repayment delays. Management highlighted that such asset quality fluctuations have historically occurred, but ultimate credit losses are expected to remain negligible given the availability of gold collateral.
Manappuram	❖ MGFL's Gold loan Stage 2 increased to ~5% in Sep'26 (from ~0.5% in Jun'26), driven by customer behavioral adjustments to revised Apr'26 regulations and newer EMI-based, monthly-interest repayment and shorter-tenor products. The company expects Stage 2 to normalize over the next couple of quarters as customers adapt to these new gold loan variants.

Structural trade-off between growth and yields: Growth can be preserved, but yields may be structurally lower

The revised RBI regulations have introduced a potentially structural trade-off for gold financiers. Lenders may be able to maintain customer loan eligibility and disbursement growth through shorter-tenure and monthly interest repayment products. However, these products could require lower interest rates to incentivize customer adoption. This creates a potential trade-off between growth and lending yields.

- **Growth through product migration:** Under the revised framework, traditional bullet repayment products face tighter constraints because accrued interest must be incorporated into LTV computation. To maintain customer loan

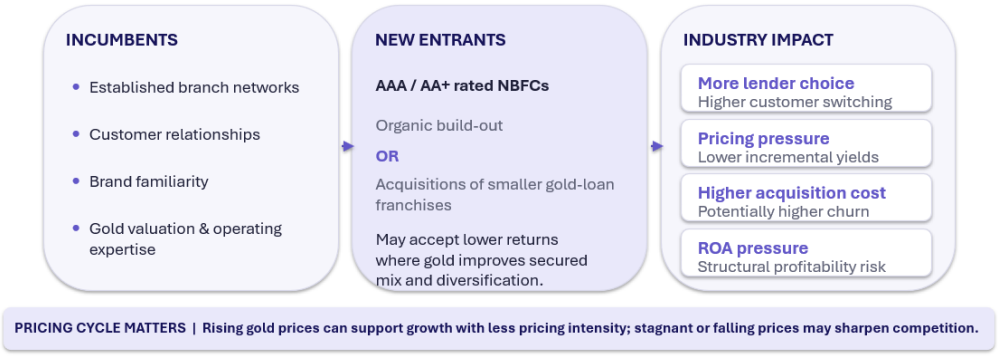
eligibility, lenders may increasingly migrate customers toward 3M-6M bullet-repayment loans, monthly interest repayment products and other structured repayment formats. The industry is effectively redesigning its products to preserve customer access to gold-backed liquidity.

- **Lower lending yields:** Customers who agree to periodic interest servicing may receive lower interest rates. The objective is to incentivize repayment discipline. However, if periodic interest repayment products gain greater penetration, the industry could experience a structural reduction in lending yields.
- Gold loan customers have historically valued repayment flexibility. Consequently, lenders may find it difficult to simultaneously encourage monthly interest servicing while continuing to charge the higher interest rates associated with traditional repayment structures. This will become particularly relevant if customers increasingly expect lower pricing in exchange for periodic repayment.

Competition: The next structural challenge for gold financiers

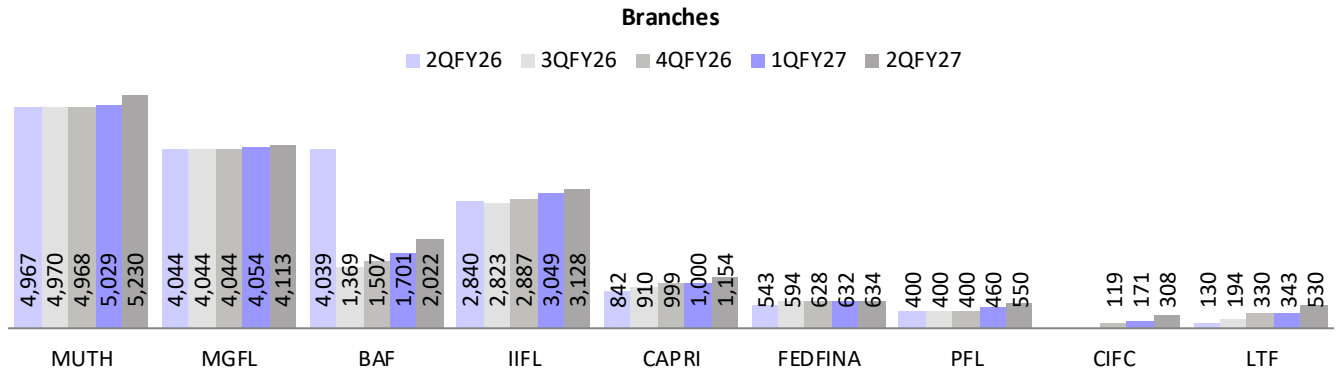
Competition is shifting from distribution to pricing

New entrants can accept lower standalone returns as gold loans diversify secured portfolios



- The entry of several NBFCs rated AAA and AA+ is likely to intensify competition in gold financing. Some lenders are building franchises organically, while others are acquiring smaller gold loan businesses to establish distribution and scale. The established players — Muthoot Finance, Manappuram Finance, IIFL Finance and Bajaj Finance — retain significant advantages through branch networks, customer relationships, brand familiarity and operating expertise. These distribution moats will be difficult for newer entrants to replicate.
- However, gold financing is increasingly becoming a mainstream product, particularly for MSME customers using gold to meet working capital requirements. This broadening of the customer base could increase the addressable market but also attract more lenders.
- The competitive environment is likely to depend on two factors. As more NBFCs enter the segment, competition for relatively attractive customers could increase. During periods of rising gold prices, lenders can generally sustain strong growth as collateral values support incremental borrowing capacity. In such an environment, pricing competition may remain relatively limited. However, if gold prices stagnate or correct from elevated levels, lenders may increasingly focus on pricing to attract customers and sustain growth. This could intensify competitive pressure, particularly among newer entrants seeking to establish their franchises.

Exhibit 25: Increase in the number of branches over the last one year by incumbents and new entrants in gold financing



Source: MOFSL, Company

- Simultaneous branch expansion by multiple lenders is likely to intensify competition, particularly in established gold loan markets across South India. Competition is expected to increasingly shift toward lending rates, customer acquisition, processing convenience and TAT.
- Larger diversified NBFCs have the advantage of established distribution networks, relatively lower-cost funding and the ability to cross-sell gold loans to existing customers. This could enable them to offer competitive interest rates, putting pressure on incumbent lenders' yields.
- Further, as gold loans are relatively easy to refinance or transfer across lenders, customers may increasingly switch financiers for more attractive interest rates, higher loan eligibility or better service. This could increase customer acquisition costs and churn, while pressuring incremental yields.
- The extent of competitive pressure will also depend on gold price movements. Rising gold prices support higher borrowing capacity and allow lenders to sustain growth with relatively limited pricing competition. However, stagnating or declining gold prices could prompt lenders to compete more aggressively on pricing to attract customers and sustain growth.

Company	Management commentary on Gold loan branch additions and distribution expansion
Shriram Finance	❖ SHFL stated that its customers could either be existing customers availing other products or newly sourced customers, as it operates exclusive gold loan branches as well as offers gold loans through its existing branches.
BAF	❖ BAF added ~320 gold loan branches during 2QFY27 and remains confident of ending FY27 with close to 2,800 standalone gold loan branches. (vs. 2K currently)
LTF	❖ LTF has successfully expanded its network to 151 Sampoorna branches across the country within ~18 months, of which 33 branches are integrated with the gold loan business. ❖ The company intends to establish 500 dedicated gold loan branches. Management indicated that branches typically attain critical size within an average period of six months. The company targets gold loan AUM to contribute ~14-15% of overall AUM by the end of Lakshya 2031, translating into gold loan AUM of INR400-450b.
Poonawalla	❖ Poonawalla's gold loan operations are currently live across ~550 branches, with 90 new gold loan branches added during 2QFY27. It remains on track to add ~200 new branches in FY27. Management indicated that gold loan branches typically achieve break-even within ~13 months.
Piramal	❖ Piramal's gold loan branch network expanded to ~100 branches from 67 in 1QFY27, with a target of reaching 200 branches by Mar'27.
AB Capital	❖ ABCL commenced its gold loan business in Aug'26. Within the first 70 days of operations, it had opened 70 branches and achieved AUM of INR12b. ❖ The company plans a phased rollout of 200-300 dedicated gold loan branches by Mar'27, focusing on high-potential markets, with an objective of scaling its distribution network to over 1,000 branches over the next three years.
Chola	❖ Chola opened 120 branches in FY26 and plans to open ~360 branches in FY27, taking the total branch network to around 480 by the end of FY27. Management indicated that branch expansion will continue in a calibrated manner, with greater emphasis on ensuring that newly opened branches achieve critical AUM levels rather than pursuing aggressive network expansion.
Muthoot	❖ Muthoot plans to add ~500-600 exclusive branches in FY27, compared with 262 branches opened during 1HFY27.
Manappuram	❖ Manappuram remains confident of adding ~500 branches in FY27, with work on ~250 branches already underway and openings expected over the next couple of months.

Structural RoA compression: New entrants may have different return expectations

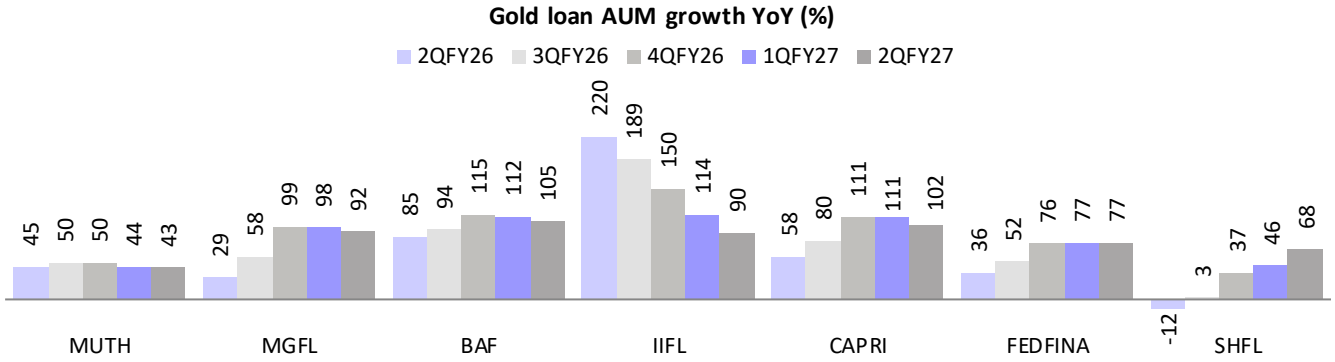
- We believe increasing competition could structurally moderate profitability in gold financing. Newer entrants may not necessarily target the elevated standalone ROAs historically generated by leading gold financiers.
- For diversified NBFCs, gold financing can provide strategic benefits beyond standalone profitability, such as increasing the proportion of secured lending, diversifying the loan portfolio, improving the overall risk profile, and potentially enhancing consolidated profitability. Unlike specialized gold loan NBFCs, gold financing is an incremental lending vertical for diversified players, allowing them to leverage their existing branch infrastructure, customer relationships and funding capabilities. Consequently, some lenders may be willing to operate at lower ROAs in their gold financing business, provided the business remains accretive to their overall return profile.
- Further, the entry of larger diversified NBFCs could bring a different customer profile into the organized gold loan market. Their established customer franchises and access to relatively lower-cost funding may enable them to attract more creditworthy borrowers seeking competitively priced financing. This could encourage greater price competition, particularly as such lenders may have different portfolio-level return objectives.
- This creates an asymmetry in the impact of increasing competition. While gold financing can improve portfolio diversification and overall return ratios for diversified NBFCs, the resulting pricing pressure could weigh on the profitability of established players such as Muthoot and Manappuram, which have historically benefited from higher yields in their specialized gold loan franchises.
- While distribution advantages should support customer acquisition and operating efficiency, competition from lenders with different portfolio-level return objectives could gradually exert pressure on pricing. Over the medium term, this could lead to a gradual convergence in the profitability profiles of specialized and diversified gold loan lenders.
- We believe the industry's normalized ROAs are likely to be lower than the elevated levels historically generated by leading gold financiers. The long-term investment debate is therefore not simply whether gold financing can grow, but whether established players can sustain attractive returns as the market becomes more competitive.

Exhibit 26: Gold loan AUM for all lenders

Gold loan AUM (INR m)	Jun'25	Sep'25	Dec'25	Mar'26	Jun'26	Sep'26
MUTH	11,31,941	12,49,180	13,96,580	15,40,843	16,32,985	17,89,560
MGFL	2,88,020	3,15,050	3,87,540	5,09,530	5,70,060	6,06,400
BAF	99,890	1,17,890	1,41,030	1,78,310	2,11,520	2,41,950
IIFL	2,72,740	3,45,770	4,34,320	5,25,810	5,84,060	6,57,290
CAPRI	91,049	1,04,065	1,27,992	1,69,646	1,91,786	2,10,038
FEDFINA	63,320	67,310	79,050	1,03,520	1,11,910	1,19,170
SHFL	51,541	53,363	56,442	66,225	75,137	89,742
PFL			6,580	12,990	18,250	23,550
CIFC	970	4,560	9,800	18,040	21,430	34,460
HDBFS		11,141	11,458	11,849	24,369	24,894
LTF	13,600	14,750	17,380	28,450	38,290	50,430

Source: MOFSL, Company

Exhibit 27: Gold loan growth for all lenders over the past one year



Source: MOFSL, Company

Growth intact, profitability to face pressure in the medium term

A constructive long-term market opportunity, but a more cautious medium-term earnings outlook

GROWTH	ASSET QUALITY	PROFITABILITY
Structural tailwinds	**Near-term transition risk**	**Structural pressure**
• Mainstream adoption	• Stage 2 cure rates	• Lower product pricing
• MSME working capital	• Stage 3 migration	• Intensifying competition
• Rising household gold value	• Collections & auctions	• Scale & operating leverage

Gold financing can sustain healthy growth, but the industry is likely to transition towards structurally lower profitability

- Gold financing remains a structurally attractive secured lending opportunity, supported by increasing mainstream adoption and growing MSME usage. However, the industry is entering a period of transition. In the near term, the revised regulatory framework is likely to result in elevated Stage 2 formation as customers adapt to mandatory monthly interest repayment. Some migration into Stage 3 could create earnings volatility through interest reversals, collection costs and auctions.
- Although gold loans generally benefit from strong collateral protection, higher delinquency can still affect earnings through interest income reversals, collection costs, and the timing of recoveries. Gold auctions provide a mechanism to resolve delinquent loans, but excessive reliance on auctions could adversely affect customer retention and future growth.
- At the same time, the regulatory transition introduces a structural trade-off between growth and yields. Shorter-tenure and monthly interest repayment products could help lenders maintain loan eligibility and disbursement growth. However, incentivizing customers to adopt these products may require lower interest rates, potentially resulting in structurally lower lending yields.
- Beyond the regulatory transition, increasing competition from diversified NBFCs could exert structural pressure on yields and ROAs. Established players should continue to benefit from distribution advantages and operating expertise. However, newer entrants may accept lower returns on the gold loan business because gold financing contributes to secured lending and portfolio diversification.
- Our key conclusion is that the industry's long-term earnings trajectory will depend on its ability to successfully transition customers toward periodic

repayment while maintaining growth and profitability. The near-term focus should be on monitoring Stage 2 cure rates, Stage 3 migration and auction activity. Over the medium term, the critical variables will be product mix, lending yields, AUM growth and the ability to offset pricing pressure through scale and operating leverage.

- Our central thesis is that gold financing can sustain healthy growth, but the industry is likely to transition toward structurally lower profitability. **We maintain our Neutral rating on gold financiers under our coverage, namely MUTH and MGFL, amid rising competitive intensity from newer players, adaptation to evolving regulatory requirements and volatility in gold prices.**

Valuation matrix of the MOFSL NBFC Coverage

Val summary	Rating	CMP (INR)	Mkt. Cap (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
MSME															
Five-Star	Buy	436	126	40.5	48.5	288	335	6.8	6.6	15.0	15.6	10.8	9.0	1.5	1.3
Housing Finance															
LIC HF	Neutral	609	336	110.6	114.7	841	934	1.8	1.8	13.9	12.9	5.5	5.3	0.7	0.7
PNB HF	Buy	1,148	295	96.4	111.5	826	929	2.4	2.3	12.3	12.7	11.9	10.3	1.4	1.2
Bajaj Housing	Neutral	82	676	3.7	4.5	31	35	2.2	2.1	12.8	13.5	22.2	18.3	2.7	2.3
Aavas	Neutral	1,118	89	96.0	114.7	733	848	3.3	3.4	14.0	14.5	11.6	9.7	1.5	1.3
HomeFirst	Buy	1,073	111	67.7	79.0	481	555	4.2	4.0	15.1	15.3	15.9	13.6	2.2	1.9
CanFin	Neutral	771	103	84.2	92.1	519	596	2.4	2.3	17.4	16.5	9.2	8.4	1.5	1.3
Repco	Neutral	380	24	76.0	81.9	695	772	2.8	2.7	11.5	11.2	5.0	4.6	0.5	0.5
Vehicle Finance															
Cholamandalam	Buy	1,876	1,586	81.9	99.4	442	539	2.6	2.6	20.6	20.3	22.9	18.9	4.2	3.5
MMFS	Buy	283	399	26.3	27.9	197	216	2.3	2.2	14.0	13.5	10.8	10.2	1.4	1.3
Shriram Finance	Buy	975	2,282	62.9	72.6	500	558	4.2	4.1	16.1	13.7	15.5	13.4	1.9	1.7
Indostar	Buy	187	31	5.2	16.2	239	255	0.8	2.1	2.2	6.5	35.9	11.6	0.8	0.7
Gold Finance															
Muthoot	Neutral	2,615	1,060	299.6	344.5	1,197	1,493	5.9	5.6	28.0	25.6	8.7	7.6	2.2	1.8
Manappuram	Neutral	283	266	27.5	31.4	195	222	3.4	3.3	15.7	15.1	10.3	9.0	1.5	1.3
Diversified															
BAF	Buy	1,093	6,795	42.0	51.3	240	287	4.2	4.1	19.8	19.6	26.0	21.3	4.6	3.8
Poonawalla	Buy	504	439	18.6	30.4	165	193	2.2	2.4	13.2	17.0	27.1	16.6	3.1	2.6
ABCL	Buy	417	1,123	20.7	26.8	158	182	-	-	14.5	15.8	20.1	15.5	2.6	2.3
LTFH	Buy	274	686	16.4	19.4	125	141	2.6	2.6	13.8	14.6	16.7	14.1	2.2	1.9
Piramal Finance	Buy	2,023	466	99.8	149.7	1,378	1,523	2.0	2.5	7.8	10.4	20.3	13.5	1.5	1.3
MAS Financial	Buy	261	48	25.2	28.6	183	209	3.2	3.0	14.7	14.6	10.4	9.2	1.4	1.3
IIFL Finance	Buy	645	282	81.1	80.2	533	520	3.5	3.6	18.8	17.0	8.0	8.0	1.2	1.2
HDB Financial	Neutral	563	464	39.4	44.8	288	333	2.5	2.5	14.7	14.4	14.3	12.6	2.0	1.7
Jio Financial	Buy	227	1,423	3.1	5.3	232	255	1.3	2.3	3.3	6.7	72.2	42.8	1.0	0.9
Northern Arc	Buy	276	45	35.1	44.8	277	321	3.0	3.1	13.6	15.0	7.8	6.2	1.0	0.9
Tata Capital	Neutral	345	1,434	16.2	20.6	126	147	2.1	2.2	13.8	15.1	21.3	16.8	2.7	2.3
Microfinance															
CreditAccess	Buy	970	168	128.1	144.8	618	762	5.8	5.5	23.1	21.0	7.6	6.7	1.6	1.3
Fusion Finance	Buy	158	26	22.7	27.4	175	202	4.1	4.2	13.9	14.5	7.0	5.8	0.9	0.8
Spandana Sphoorty	Neutral	177	16	17.6	34.2	280	314	2.1	3.1	6.8	11.5	10.1	5.2	0.6	0.6
Power Financiers															
PFC	Buy	332	1,067	58.9	60.9	352	394	3.1	3.0	17.8	16.3	5.6	5.4	0.9	0.8
REC	Buy	299	766	57.6	60.2	359	398	2.3	2.2	17.0	15.9	5.2	5.0	0.8	0.8

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NOTES

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%s
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

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