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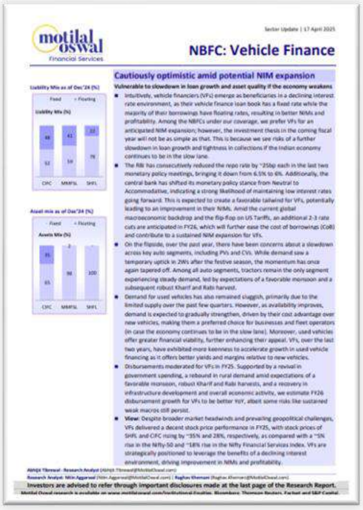
NBFC: Vehicle Finance

Our Previous report


NBFC: Vehicle Finance

Cautiously optimistic amid potential NIM expansion

GST 2.0: Navigating GST transition and macro headwinds

Risk-reward evenly poised in the backdrop of a potential GST rate cut

- Vehicle finance demand has remained muted and asset quality trends have been weak in YTD-FY26 (including in Aug'25). In this muted environment, the government's proposal to rationalize GST rates could be a critical trigger for the revival of the auto and vehicle finance sector. Reducing the GST rate for most of the segments of the auto sector from 28% to 18% could lower vehicle prices by 7-8% (assuming discounts, if any, remain unchanged) and likely revive demand for both PVs and CVs.
- While we have remained cautiously optimistic on the vehicle finance sector (Refer Report) given the weakness in demand and asset quality over the last one year, this potential GST rate cut (already accepted by the GoM and will now be taken up by the GST council) can revive consumption and has made the risk-reward even for vehicle financiers.
- We delve deeper into the nuances around the timing of the implementation of the GST rate cut, the problem of existing inventory and customer behavior in the last one week since this announcement. In addition to weak consumption, we will also explore other reasons behind the weak macroeconomic activity and consequent softness in collections for vehicle financiers.
- We have not made any changes to our estimates since there are still a lot of moving variables in terms of the effective date of the GST rate cut and progress of monsoon (which started early this year, has been slightly above normal but can become troublesome if it gets extended). Depending on how some of these variables pan out over the next one-two months, we might have to revisit our estimates. **We maintain our BUY rating on SHFL (TP: INR780), CIFC (TP: INR1,670) and MMFS (INR310).**

Timely implementation of GST rate cut is critical for vehicle financiers

- If the GST reduction is implemented quickly, ideally before festivals like Ganesh Chaturthi (late Aug'25), it could lead to an "extraordinary" boost for the current quarter (2QFY26), significantly improving growth and sales. If the implementation is delayed to Sep'25, 2Q could take an initial hit, but the next quarter (3QFY26) might witness a "double boost," driven by accumulated demand and festive season sales.
- A September implementation could still be partially affected by "Pitru Paksha" (7-21 Aug'25), a period when many people avoid buying vehicles, although some transactional activity still occurs. The subsequent festive period, starting with Navratri around 22nd or 23rd Sep'25, could then provide a strong uplift.
- A major challenge is the large existing stock of vehicles with dealers that have already been billed by manufacturers at higher GST rates. Auto OEMs might have to absorb losses by providing discounts on these older, higher-priced vehicles to make them competitive with new stock sold at a reduced GST rate. A retrospective implementation or a refund/adjustment mechanism for the GST already paid on dealer inventory would alleviate this, though it is a cumbersome process and clarity on this is lacking. This could involve a cut-off date, after which any vehicles sold that were previously taxed at the higher rate would be eligible for a refund or adjustment. Without such a mechanism, dealers are facing a dilemma: selling old, expensive stock or waiting for new, cheaper stock, leading to execution problems.

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Waiting for clarity: How GST changes could temporarily freeze the auto value chain

- The announcement of potential GST revisions has prompted customers to postpone purchases, adopting a "wait-and-watch" stance until pricing becomes clearer. This cautious behavior would impact sales across segments, including premium vehicles where tax adjustments are less probable.
- ***Although a GST cut would reduce vehicle prices, OEMs are expected to scale back existing discounts, as the price drop alone would drive demand. As a result, consumers may not enjoy the combined benefit of lower taxes and ongoing discounts but will still gain from the overall reduction in net prices.***
- Dealers have paused intake of new stock from manufacturers amid the prevailing uncertainty, which could eventually force production slowdowns or temporary halts at factories if inventory remains undispatched.
- The ripple effect of this uncertainty extends across the ecosystem — impacting logistics, transportation, and financing — with potential EMI payment delays for transporters and an overall slowdown in activity.

From global drags to domestic challenges: Mapping the slowdown

- We heard the commentary of vehicle financiers on the macro environment when they reported their 1QFY26 results. The overall macro environment has not improved in Aug’25. Our checks with vehicles financiers have suggested that sectors like mining, construction, and cement are still struggling and there is a widespread slowdown across all segments.
- Central government spending has been weak. Many state governments (particularly ones which held elections in the last one year) have increased their expenditures to fulfill post-election commitments, which has led to deterioration in their financial situation. New infrastructure and construction projects are not coming, and in the ongoing ones, the payments to contractors have been delayed.
- Global slowdown trends are now affecting India. Notwithstanding the trade tariff problems, the ongoing geopolitical conflicts (both domestic and global) diverted government attention and spending. The textile industry is facing problems due to global and domestic issues and this is more pronounced in hubs like Coimbatore, Erode, Tiruppur, and Gujarat due to reduced demand and difficulties in selling goods internationally, such as in the US.
- Heavy monsoon rains in Aug’25 have disrupted construction, mining, and vehicle operations and contributed to the slowdown.

The silver lining in the slowdown: Agricultural growth has been strong

- Like last year, the agricultural growth has been strong this year thanks to good monsoons, which can significantly improve the rural economy and rural consumption.
- This will benefit small commercial vehicles (SCV) and used vehicles and will help in timely loan repayments in these segments.

View on potential GST rate cut and its impact on vehicle finance sector

- While the GST reduction would make vehicles cheaper, manufacturers (OEMs) and dealers might reduce or eliminate existing discounts they typically offer. When demand increases due to a lower tax rate, there is less need for OEMs and dealers to provide discounts, which reduce their profit margins. Even if the existing discounts are reduced, the net saving for customers from the GST reduction would still be substantial (particularly in PVs where discounts are much lower than CVs).

- While the GST rate changes could offer a demand boost, their effectiveness hinges on quick, clear implementation, particularly addressing the challenge of existing inventory. The broader economy, however, faces headwinds from multiple macroeconomic factors and government spending challenges, making any sustained recovery dependent on these larger issues.
- The GST cut in itself could spur consumption and provide a short-term spurt for 6-9 months. However, sustained improvement in demand and asset quality trends would require fundamental on-ground macroeconomic improvements rather than just a price reduction.
- While the good monsoon promises healthy agricultural growth and rural economic benefits, its immediate heavy rainfall and associated disruptions are currently contributing to the challenging macroeconomic environment and hindering market activity in 2Q. A timely withdrawal of the monsoon, alongside quick GST implementation, is crucial to see a significant recovery in 2Q.

Risk-reward now evenly poised for VFs under our coverage

Cholamandalam Finance (CIFC)

- The company reported some softness in asset quality in 1QFY26, with the weakness more evident in its vehicle finance and CSEL segments. While credit costs in the CSEL portfolio are expected to remain elevated in FY26, a gradual improvement in the vehicle finance book is anticipated in 2HFY26. Chola's strong presence across both new and used vehicle segments — spanning CVs, PVs, two-wheelers, three-wheelers, and tractors — positions it well to strategically adjust its portfolio, going overweight or underweight in specific product categories to capture market share opportunities.
- While margin tailwinds should support earnings through the remainder of FY26, a close monitoring of asset quality, particularly in the CSEL and VF portfolio, will be key to sustaining profitability. Additionally, the potential of this GST rate cut provides a favorable backdrop for volume improvement (from a boost to consumption) and reduces the risk of earnings downgrades for the rest of this year. Maintain BUY on CIFC with a TP of INR1,670 (based on 3.8x FY27E P/BV).

Shriram Finance (SHFL)

- SHFL, like its peers in vehicle finance, has been showing some weakness in asset quality, particularly with Stage 2 loans rising over the last three quarters, leading to heightened investor anxiety. An important factor to note is that a GST rate cut, which would reduce prices of new PVs and CVs, also leads to a decline in prices of used vehicles. However, SHFL has built strong provision coverage across its Stage 1, Stage 2, and Stage 3 assets over the past two years, providing a buffer even if used vehicle prices drop by 4-5%. Additionally, its focus on financing vehicles aged 5-10 years mitigates risk, as most depreciation for vehicles occurs within the first five years.
- What has irked investors recently is the company's elevated liquidity levels, which have created negative carry and put pressure on margins. With liquidity expected to normalize over the next 2-3 quarters, margins should start to improve. Overall, SHFL remains our preferred pick in the vehicle finance sector. Maintain BUY on SHFL with a TP of INR780 (based on 2x FY27E P/BV).

Mahindra Finance (MMFS)

- MMFS has a strong presence in the new vehicle financing segment, with pre-owned vehicles accounting for <15% of its business assets. The anticipated GST rate cut is unlikely to cover SUVs. *Around 44% of MMFS' loan book is linked to assets of parent Mahindra & Mahindra (M&M), whose portfolio is largely SUV-focused, limiting benefits from a broader demand recovery in the entry-level and mid-segment cars from a cut in GST rates. While tractors are expected to see a GST rate cut,* this segment already suffers from an inverted duty structure as the majority of its components are taxed at 18%. Hence, the entire input tax credit cannot be claimed and we are not quite sure if tractors will see a commensurate benefit from GST rate cuts.
- The company's performance last quarter was impacted by elevated credit costs, and we expect asset quality pressures to persist this year. While the anticipated GST rate cut will provide some support, the upside may be limited.
- The only key positive for MMFS is the strong agricultural growth, which could boost rural income and consumption -which has historically been a significant driver for MMFS' portfolio. Given the undemanding valuations, we maintain our BUY rating on the stock with a TP of INR310 (based 1.6x FY27E P/BV).

Our pecking order in vehicle financiers is SHFL > CIFC > MMFS

Exhibit 1: Valuation summary of vehicle financiers under our coverage

Val summary	Rating	CMP (INR)	TP (INR)	Mkt. Cap (INRb)	Upside (%)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
						FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Cholamandalam	Buy	1,525	1,670	1,278	10	62.1	78.7	359	435	2.4	2.6	19.6	19.8	24.5	19.4	4.2	3.5
MMFS	Buy	263	310	362	18	19.1	24.8	177	196	1.9	2.2	11.9	13.3	13.8	10.6	1.5	1.3
Shriram Finance	Buy	616	780	1,165	27	49.9	59.9	341	389	3.0	3.2	15.6	16.4	12.4	10.3	1.8	1.6
Indostar	Buy	270	330	38	22	51.2	19.8	363	383	6.5	2.2	17.2	5.3	5.3	13.7	0.7	0.7

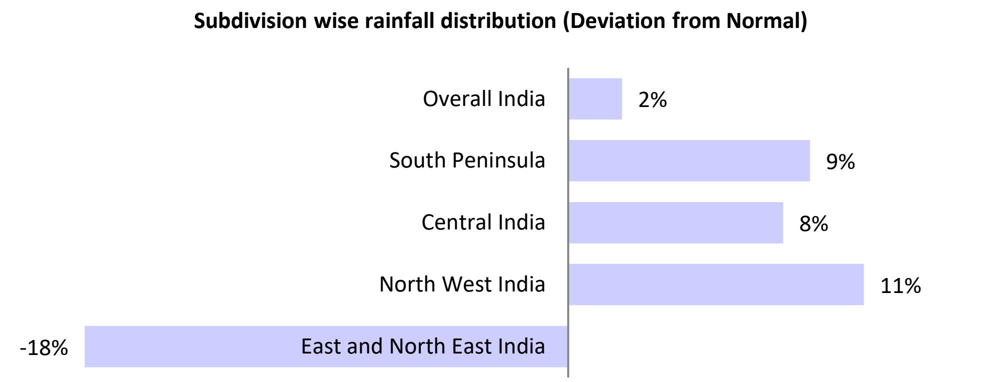
Source: Company, MOFSL

Exhibit 2: Auto volumes have remained muted across product segments in FY26-YTD

Segments	FY26-YTD (Actual)	FY26E
2W (Till Jul'25)	-4%	High single digit
PVs (Till Jul'25)	-1%	2%-4%
CVs (Till Jun'25)	Flat	Mid-single digit

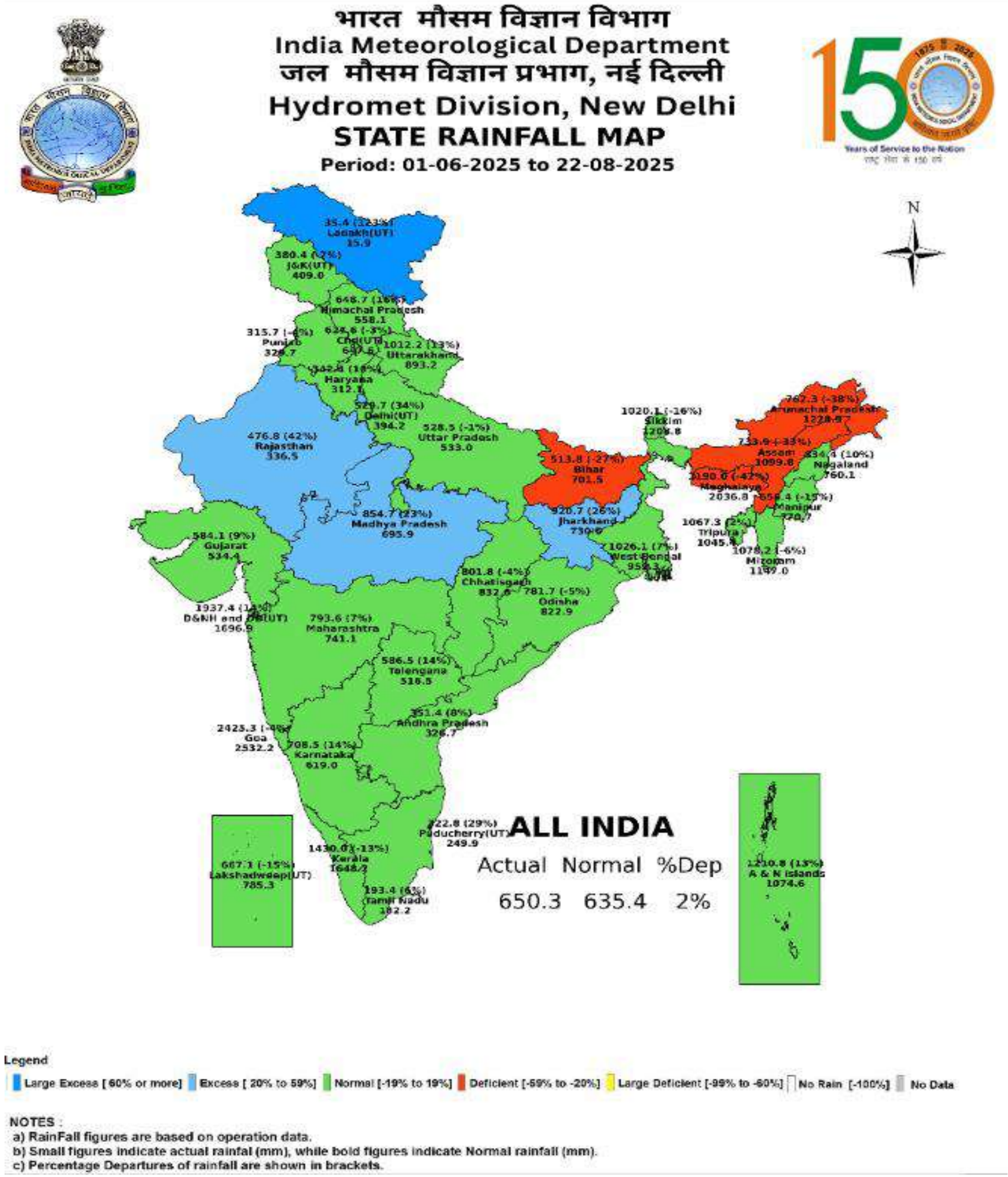
Data: Company, MOFSL

Exhibit 3: India records ~2% above-normal rainfall in FY26-YTD



Data: IMD; MOFSL

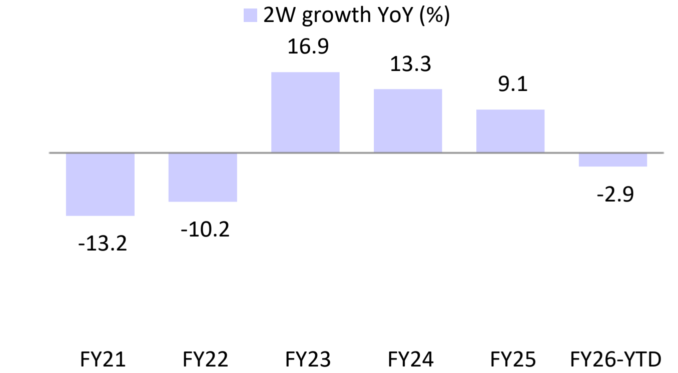
Exhibit 4: Monsoons in India have been slightly above-normal, with states like Rajasthan, MP and Jharkhand receiving excess rainfall and states of Bihar, Assam, Sikkim and Arunachal Pradesh receiving deficient rainfall



While the above-normal monsoon promises healthy agricultural growth and rural economic benefits, its immediate heavy rainfall and associated disruptions are currently contributing to the challenging macroeconomic environment and hindering market activity in 2Q. A timely withdrawal of the monsoon, alongside a quick GST implementation, is crucial to see a significant recovery in 2Q.

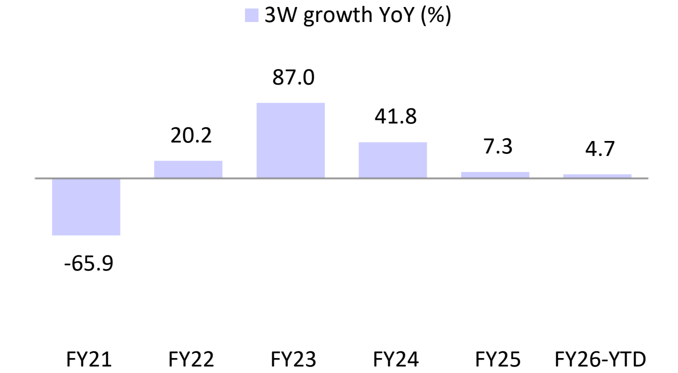
Auto industry: Overall and product-specific volume growth

Exhibit 5: 2W volumes have declined YoY in FY26-YTD



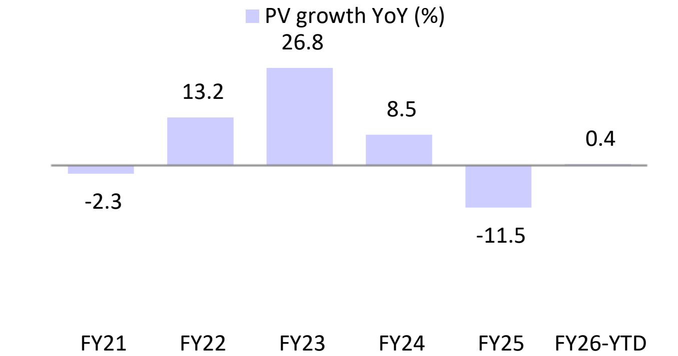
Note: FY26-YTD includes Apr'25-Jul'25; Source: MOFSL

Exhibit 6: 3W growth moderated to ~5% YoY in FY26-YTD



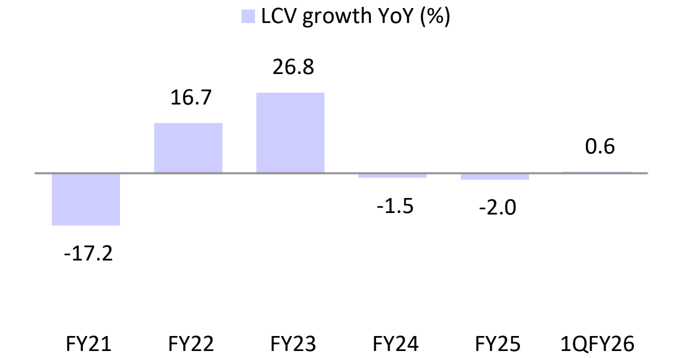
Note: FY26-YTD includes Apr'25-Jul'25; Source: MOFSL

Exhibit 7: PV volumes have remained flat YoY in FY26-YTD



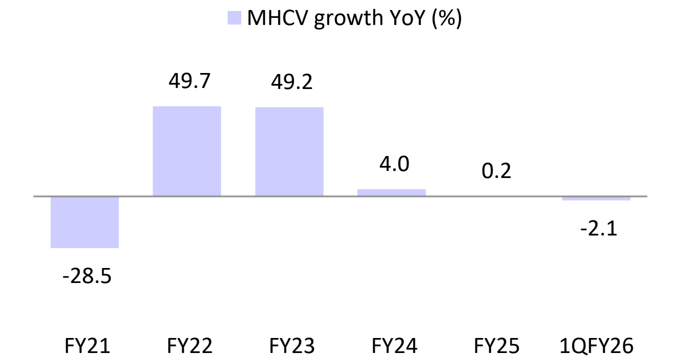
Note: FY26-YTD includes Apr'25-Jul'25; Source: MOFSL

Exhibit 8: LCV volumes have continued to remain muted



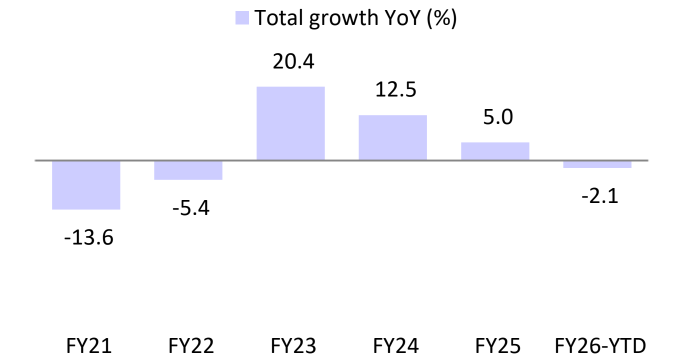
Source: MOFSL

Exhibit 9: MHCV volumes declined YoY in 1QFY26



Source: MOFSL

Exhibit 10: Overall auto volumes have remained muted in FY26-YTD



Source: MOFSL

Note: PV, 2W and 3W volumes data till Jul'25 and CV volumes data till Jun'25

Vehicle Financiers – Operating metrics

Exhibit 10: GST rate cut could lead to an improvement in auto volumes in 2HFY26

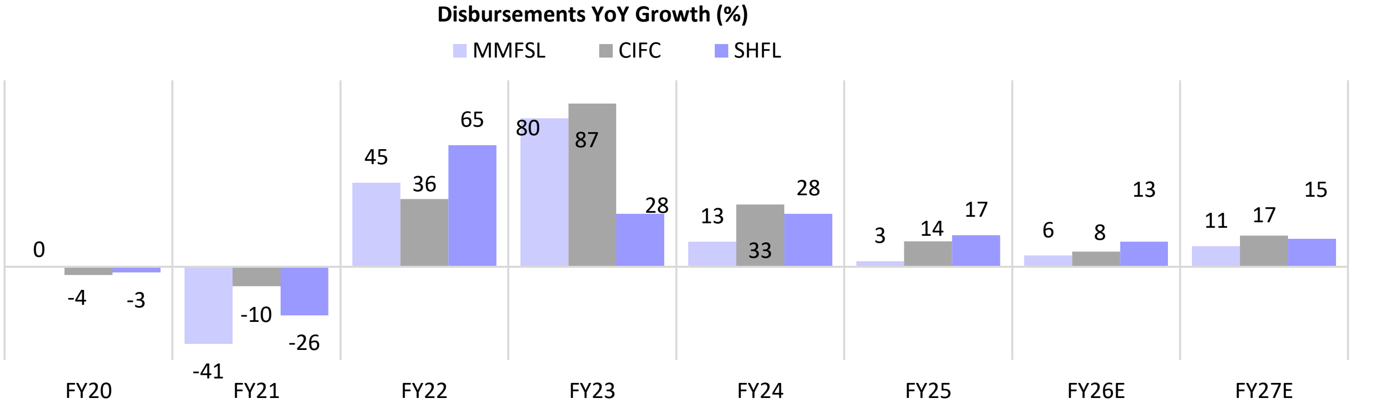


Exhibit 11: AUM growth in FY26/27 will remain lower than FY25

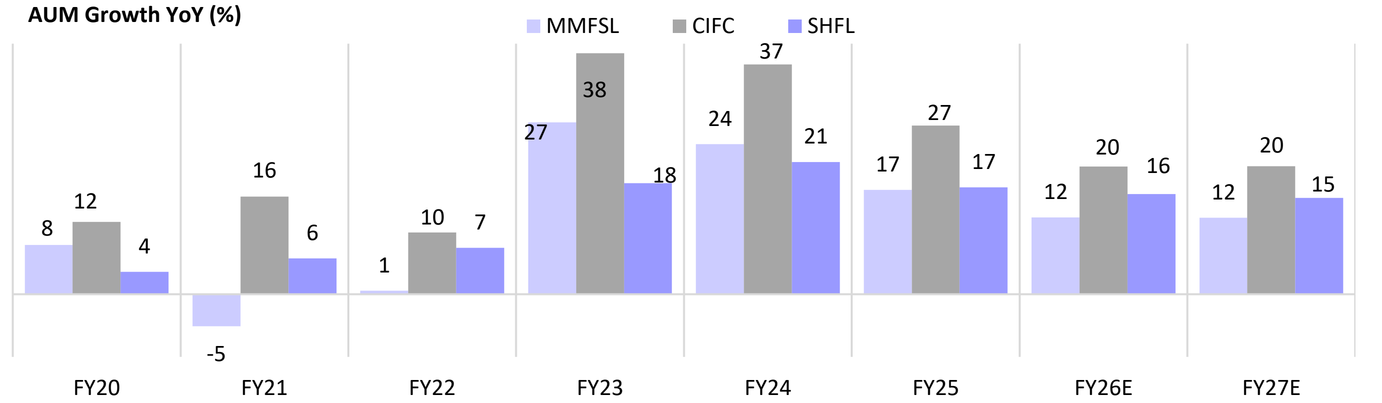


Exhibit 12: Expect a slight uptick in credit costs for MMFS and CIFC. For SHFL, credit costs likely to remain largely stable.

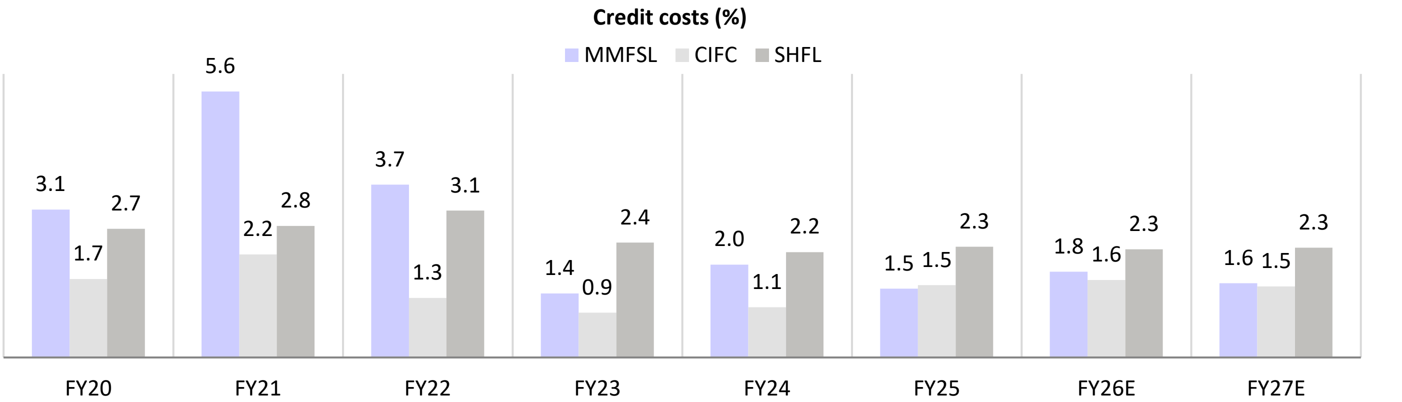
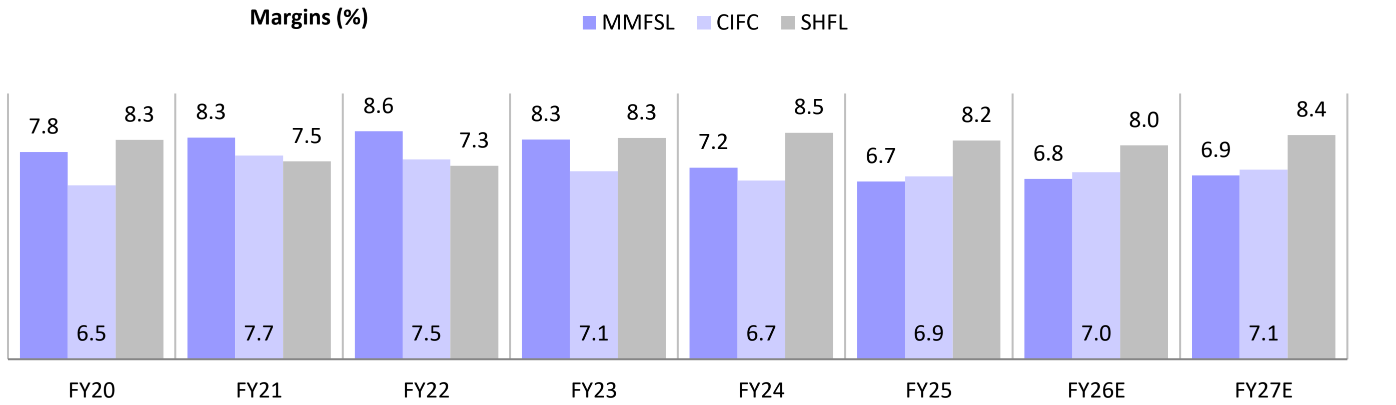
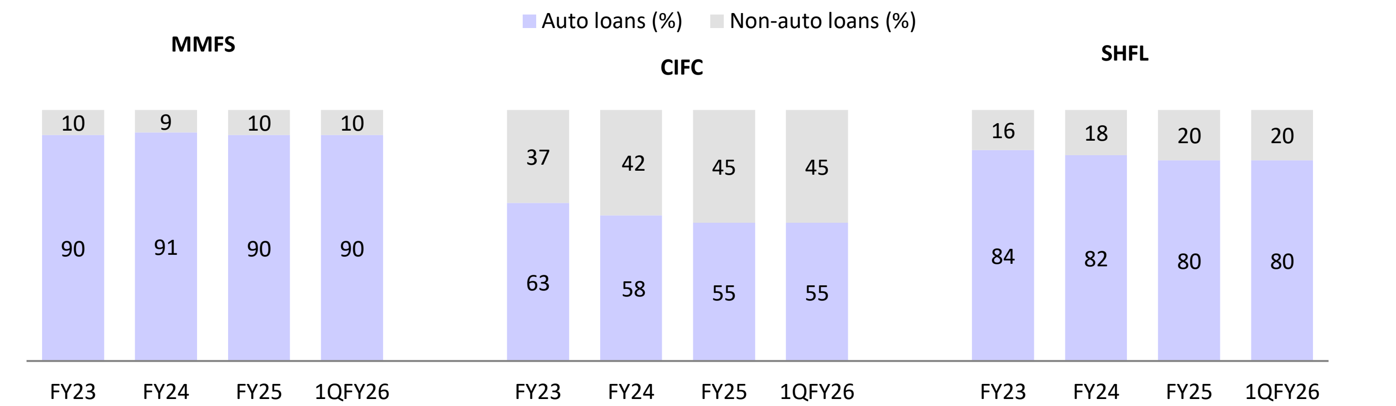


Exhibit 13: Expect margin expansion for all VFs (except SHFL due to excess liquidity) aided by repo rate cuts and consequent decline in the CoB



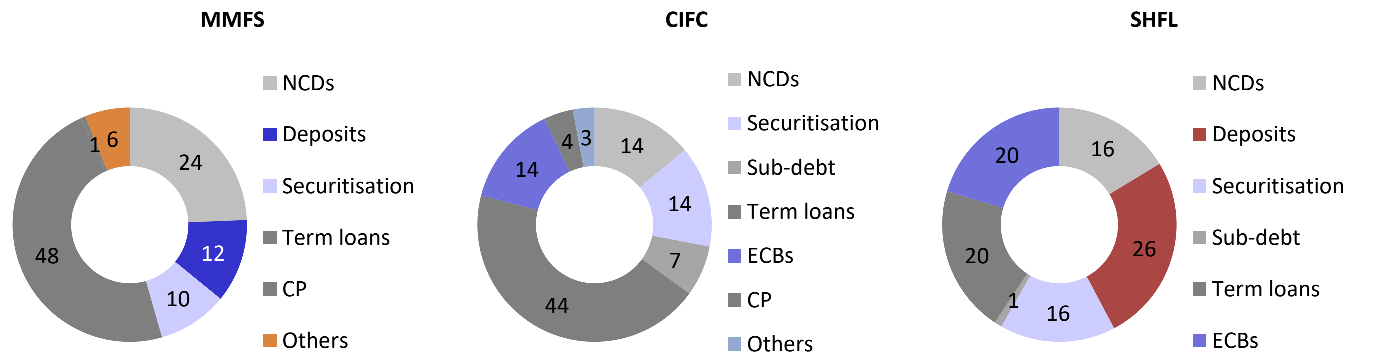
Source: MOFSL, Company

Exhibit 14: Share of auto and non-auto loans



Source: MOFSL, Company

Exhibit 15: Borrowing mix as of Jun'25 (%)

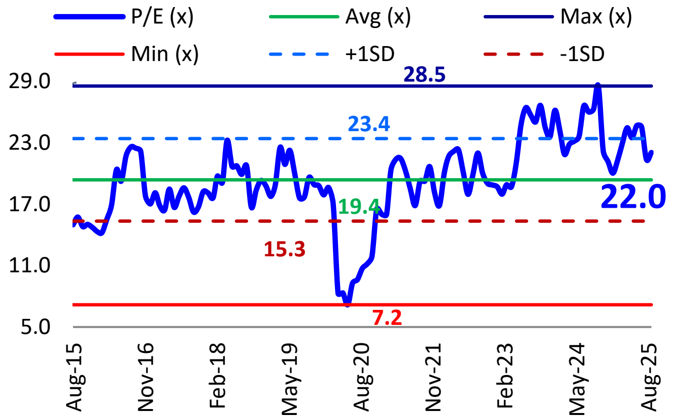


Source: MOFSL, Company

Source: MOFSL, Company

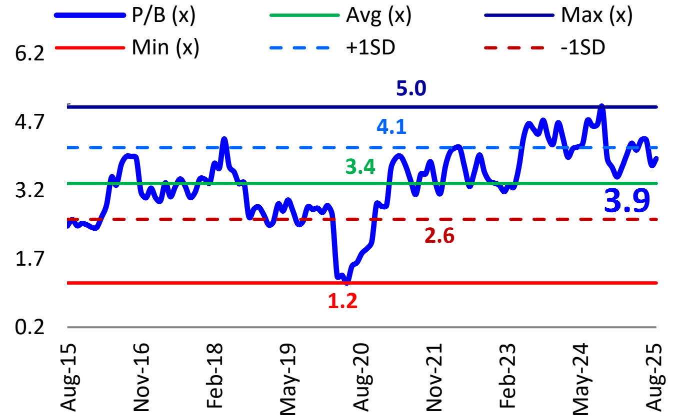
Source: MOFSL, Company

Exhibit 16: CIFC: One year forward P/E



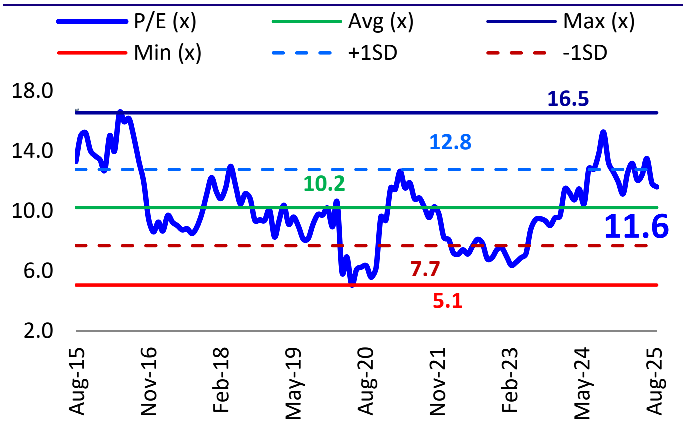
Source: Company, MOFSL

Exhibit 17: CIFC: One year forward P/B



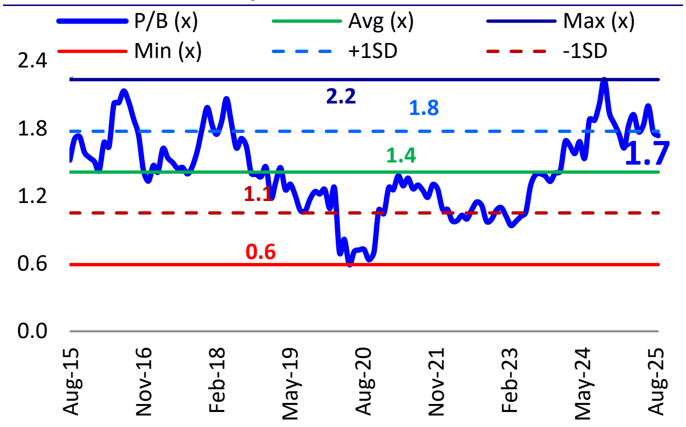
Source: Company, MOFSL

Exhibit 18: SHFL: One year forward P/E



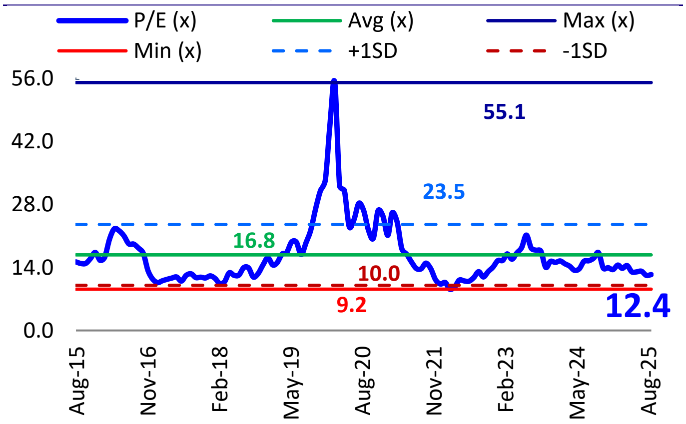
Source: Company, MOFSL

Exhibit 19: SHFL: One year forward P/B



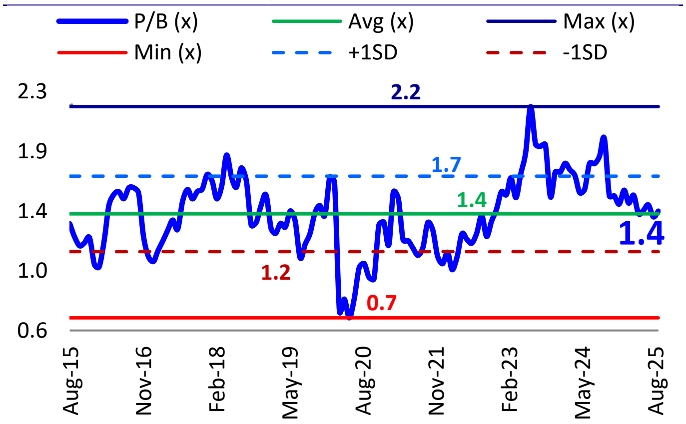
Source: Company, MOFSL

Exhibit 20: MMFS: One year forward P/E



Source: Company, MOFSL

Exhibit 21: MMFS: One year forward P/B



Source: Company, MOFSL

CIFC: Financials and valuations

Income Statement (INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	64,962	78,417	88,772	93,251	1,18,084	1,75,637	2,37,200	2,82,290	3,31,438
Interest Expenses	35,887	45,922	45,759	42,988	57,488	92,306	1,24,849	1,42,676	1,62,642
Net Interest Income	**29,075**	**32,495**	**43,013**	**50,263**	**60,596**	**83,331**	**1,12,351**	**1,39,614**	**1,68,796**
Change (%)	15.1	11.8	32.4	16.9	20.6	37.5	34.8	24.3	20.9
Income from assignments	867	2,473	0	0	0	0	1,590	5,566	6,680
Other Operating Income	4,090	5,637	6,388	7,232	9,487	12,815	18,666	21,656	26,158
Other Income	7	3	596	905	2,209	3,711	3,092	3,494	3,843
Total Income	**34,039**	**40,607**	**49,997**	**58,400**	**72,292**	**99,857**	**1,35,699**	**1,70,331**	**2,05,476**
Change (%)	20.7	19.3	23.1	16.8	23.8	38.1	35.9	25.5	20.6
Total Operating Expenses	**12,696**	**15,776**	**16,394**	**20,687**	**27,799**	**40,818**	**53,388**	**65,989**	**78,849**
Change (%)	13.8	24.3	3.9	26.2	34.4	46.8	30.8	23.6	19.5
Employee Expenses	5,906	6,550	7,494	8,945	12,657	23,306	32,805	42,319	51,629
Business Origination Expenses	1,525	2,398	2,242	2,259	2,744	0	0	0	0
Other Operating Expenses	5,265	6,828	6,659	9,483	12,398	17,512	20,583	23,670	27,221
Operating Profit	**21,344**	**24,831**	**33,603**	**37,712**	**44,494**	**59,039**	**82,311**	**1,04,342**	**1,26,627**
Change (%)	25.2	16.3	35.3	12.2	18.0	32.7	39.4	26.8	21.4
Total Provisions	**3,112**	**8,973**	**13,218**	**8,803**	**8,497**	**13,218**	**24,943**	**32,531**	**35,622**
% of Operating Profit	14.6	36.1	39.3	23.3	19.1	22.4	30.3	31.2	28.1
PBT	**18,232**	**15,857**	**20,384**	**28,909**	**35,997**	**45,821**	**57,369**	**71,811**	**91,005**
Tax Provisions	6,370	5,334	5,235	7,442	9,335	11,593	14,783	18,505	23,451
Tax Rate (%)	34.9	33.6	25.7	25.7	25.9	25.3	25.8	25.8	25.8
Extraordinary Items	0	0	0	0	0	0	0	0	0
PAT	**11,862**	**10,524**	**15,149**	**21,467**	**26,662**	**34,228**	**42,585**	**53,306**	**67,554**
Change (%)	29.2	-11.3	44.0	41.7	24.2	28.4	24.4	25.2	26.7
Proposed Dividend	1,016	1,662	1,640	1,641	1,645	1,681	1,683	1,716	2,145

Balance Sheet (INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,683	1,716	1,716
Equity Share Capital	1,564	1,640	1,640	1,643	1,645	1,681	1,683	1,716	1,716
Preference Share Capital	0	0	0	0	0	0	0	0	0
Reserves & Surplus	59,880	80,079	93,962	1,15,434	1,41,316	1,93,885	2,34,592	3,06,147	3,71,556
Net Worth for Equity Shareholders	**61,445**	**81,718**	**95,602**	**1,17,077**	**1,42,961**	**1,95,565**	**2,36,274**	**3,07,864**	**3,73,272**
Borrowings	**5,05,667**	**5,50,054**	**6,37,300**	**6,91,735**	**9,73,561**	**13,44,736**	**17,49,461**	**19,95,316**	**23,76,773**
Change (%)	31.9	8.8	15.9	8.5	40.7	38.1	30.1	14.1	19.1
Total Liabilities	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,16,476**	**23,38,531**	**27,90,699**
Investments	729	729	16,188	20,762	36,280	41,002	63,904	59,859	68,926
Change (%)	0.0	0.0	2,120.0	28.3	74.7	13.0	55.9	-6.3	15.1
Loans	**5,26,223**	**5,54,027**	**6,58,393**	**7,41,492**	**10,47,483**	**14,44,243**	**18,19,299**	**21,51,026**	**25,80,419**
Change (%)	24.5	5.3	18.8	12.6	41.3	37.9	26.0	18.2	20.0
Net Fixed Assets	1,759	2,839	2,294	2,685	4,233	16,067	17,827	21,393	25,671
Total Assets	**5,74,263**	**6,39,930**	**7,45,484**	**8,23,634**	**11,35,155**	**15,64,508**	**20,16,476**	**23,38,531**	**27,90,699**

E: MOFSL Estimates

CIFC: Financials and valuation

AUM Mix (%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
AUM	**5,42,790**	**6,05,490**	**6,99,960**	**7,69,070**	**10,64,980**	**14,55,720**	**18,47,460**	**22,24,432**	**26,79,563**
Change (%)	26.5	11.6	15.6	9.9	38.5	36.7	26.9	20.4	20.5
On Books AUM	**5,26,070**	**5,51,350**	**6,58,380**	**7,41,420**	**10,47,360**	**14,43,510**	**18,19,290**	**21,51,026**	**25,80,419**
Change (%)	43.4	4.8	19.4	12.6	41.3	37.8	26.0	18.2	20.0
% of AUM	96.9	91.1	94.1	96.4	98.3	99.2	98.5	96.7	96.3
Off Books AUM	**16,720**	**54,140**	**41,580**	**27,650**	**17,620**	**12,210**	**28,170**	**73,406**	**99,144**
Change (%)	-73.2	223.8	-23.2	-33.5	-36.3	-30.7	130.7	160.6	35.1
% of AUM	3.1	8.9	5.9	3.6	1.7	0.8	1.5	3.3	3.7

E: MOFSL Estimates

Ratios (%)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)									
Avg. Yield on Loans	13.7	14.5	14.6	13.3	13.2	14.1	14.5	14.2	14.0
Avg Cost of Funds	8.1	8.7	7.7	6.5	6.9	8.0	8.1	7.6	7.4
Spread of loans	5.6	5.8	6.9	6.9	6.3	6.1	6.5	6.6	6.6
NIM (on loans)	6.3	6.5	7.7	7.5	7.1	6.7	6.9	7.0	7.1
Profitability Ratios (%)									
RoE	21.2	14.7	17.1	20.2	20.5	20.2	19.7	19.6	19.8
RoA	2.3	1.7	2.2	2.7	2.7	2.5	2.4	2.4	2.6
Int. Expended / Int.Earned	55.2	58.6	51.5	46.1	48.7	52.6	52.6	50.5	49.1
Other Inc. / Net Income	12.0	13.9	14.0	13.9	16.2	16.5	16.0	14.8	14.6
Efficiency Ratios (%)									
Op. Exps. / Net Income	37.3	38.9	32.8	35.4	38.5	40.9	39.3	38.7	38.4
Empl. Cost/Op. Exps.	46.5	41.5	45.7	43.2	45.5	57.1	61.4	64.1	65.5
Asset-Liability Profile (%)									
Loans/Borrowings Ratio	104	101	103	107	108	107	104	108	109
Net NPAs to Net Adv.	1.6	2.3	2.3	2.7	1.7	1.4	1.6	1.7	1.7
Assets/Equity	9.3	7.8	7.8	7.0	7.9	8.0	8.5	7.6	7.5
Average leverage	9.1	8.5	7.8	7.4	7.5	8.0	8.3	8.0	7.5

Valuations	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (INR)	79	100	117	143	174	233	281	359	435
BV Growth (%)	21.2	26.9	17.0	22.2	22.0	33.9	20.7	27.7	21.2
Price-BV (x)	**19.4**	**15.3**	**13.1**	**10.7**	**8.8**	**6.6**	**5.4**	**4.3**	**3.5**
EPS (INR)	15	13	18	26	32	41	51	62	79
EPS Growth (%)	29.1	-15.4	44.0	41.4	24.0	25.6	24.3	22.7	26.7
Price-Earnings (x)	**100.6**	**118.8**	**82.5**	**58.4**	**47.0**	**37.4**	**30.1**	**24.6**	**19.4**
Dividend per share	1.3	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.5
Dividend Yield (%)	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**

E: MOFSL Estimates

SHFL: Financials and valuations

Income Statement								(INR M)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Interest Income	2,19,646	2,26,997	2,48,605	2,86,074	3,35,997	4,03,076	4,72,043	5,34,332
Interest Expenses	1,04,105	1,11,881	1,22,668	1,25,458	1,48,061	1,84,546	2,21,066	2,36,608
Net Interest Income	**1,15,541**	**1,15,116**	**1,25,936**	**1,60,616**	**1,87,935**	**2,18,531**	**2,50,977**	**2,97,724**
Change (%)	0.1	-0.4	9.4	27.5	17.0	16.3	14.8	18.6
Other Operating Income	4,748	4,514	9,214	11,648	13,648	15,268	18,793	20,242
Other Income	235	237	227	307	332	251	263	276
Total Income	**1,20,524**	**1,19,867**	**1,35,378**	**1,72,571**	**2,01,915**	**2,34,049**	**2,70,033**	**3,18,242**
Change (%)	1.9	-0.5	12.9	27.5	17.0	15.9	15.4	17.9
Total Operating Expenses	**35,803**	**33,500**	**37,805**	**49,131**	**59,895**	**71,440**	**83,896**	**96,061**
Change (%)	6.3	-6.4	12.8	30.0	21.9	19.3	17.4	14.5
Employee Expenses	18,585	16,699	19,695	25,061	32,156	36,512	43,084	50,408
Depreciation	2,232	2,172	2,137	5,242	5,688	6,453	6,927	7,363
Other Operating Expenses	14,986	14,629	15,973	18,828	22,051	28,475	33,885	38,290
Operating Profit	**84,721**	**86,367**	**97,573**	**1,23,441**	**1,42,020**	**1,62,609**	**1,86,137**	**2,22,181**
Change (%)	0.1	1.9	13.0	26.5	15.1	14.5	14.5	19.4
Total Provisions	**36,786**	**39,693**	**47,485**	**41,592**	**45,183**	**53,117**	**60,797**	**71,491**
% Loan loss provisions to Avg loans ratio	2.7	2.8	3.1	2.4	2.2	2.3	2.3	2.3
PBT	**47,935**	**46,674**	**50,088**	**81,849**	**96,836**	**1,09,493**	**1,25,340**	**1,50,690**
Tax Provisions	12,913	11,692	12,164	22,056	24,932	26,776	31,586	37,974
Tax Rate (%)	*26.9*	*25.1*	*24.3*	*26.9*	*25.7*	*24.5*	*25.2*	*25.2*
PAT	**35,022**	**34,982**	**37,925**	**59,793**	**71,905**	**82,716**	**93,754**	**1,12,716**
Change (%)	-1.4	-0.1	8.4	57.7	20.3	15.0	13.3	20.2
PAT (including exceptional gains)	**35,022**	**34,982**	**37,925**	**59,793**	**71,905**	**97,610**	**93,754**	**1,12,716**

Balance Sheet								(INR M)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**FY26E**	**FY27E**
Equity Share Capital	2,929	3,191	3,371	3,744	3,758	3,761	3,761	3,761
Reserves & Surplus	2,47,288	2,91,764	3,43,760	4,29,322	4,81,926	5,59,045	6,37,756	7,27,309
Net Worth	**2,50,217**	**2,94,954**	**3,47,132**	**4,33,066**	**4,85,684**	**5,62,806**	**6,41,517**	**7,31,070**
Borrowings	**11,75,376**	**13,17,617**	**14,51,285**	**15,79,063**	**18,58,411**	**23,41,973**	**26,25,811**	**29,87,672**
Change (%)	6.4	12.1	10.1	8.8	17.7	26.0	12.1	13.8
Other liabilities	**25,436**	**26,317**	**23,320**	**24,509**	**28,665**	**30,551**	**33,606**	**36,967**
Total Liabilities	**14,51,029**	**16,38,888**	**18,21,754**	**20,36,639**	**23,72,760**	**29,35,329**	**33,00,933**	**37,55,708**
Cash and bank balances	**1,03,773**	**2,16,562**	**2,29,679**	**1,58,174**	**1,08,126**	**2,13,657**	**1,99,571**	**1,94,211**
Investments	35,326	42,152	86,455	85,651	1,06,566	1,55,987	1,24,790	1,18,550
Loans	**12,88,442**	**13,57,232**	**14,76,890**	**17,19,846**	**20,79,294**	**24,53,928**	**28,55,896**	**33,07,107**
Change (%)	4.1	5.3	8.8	16.5	20.9	18.0	16.4	15.8
Fixed Assets	7,181	6,599	6,467	6,997	8,458	10,257	10,770	11,308
Deferred tax Assets	694	6,964	9,109	17,439	28,840	36,949	29,559	23,647
Goodwill				14,067	14,067	11,895	11,895	11,895
Other Assets	15,613	9,379	13,137	34,465	27,408	52,657	68,454	88,990
Total Assets	**14,51,029**	**16,38,888**	**18,21,737**	**20,36,639**	**23,72,760**	**29,35,329**	**33,00,933**	**37,55,708**

E: MOFSL Estimates

SHFL: Financials and valuations

AUM Mix (%)								(INR M)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
AUM	13,88,342	14,68,128	15,77,122	18,56,829	22,48,620	26,31,903	30,53,268	35,23,198
Change (%)	4	6	7	18	21	17	16	15
Disbursements	7,05,733	5,21,985	8,62,135	11,06,899	14,21,675	16,62,981	18,85,432	21,69,884
Change (%)	-3	-26	65	28	28	17	13	15

E: MOFSL Estimates

Ratios								(INR M)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)								
Avg. Yield on Loans	17.4	17.2	17.5	17.9	17.7	17.8	17.8	17.3
Avg Cost of Funds	9.1	9.0	8.9	8.3	8.6	8.8	8.9	8.4
Spread of loans	8.3	8.2	8.7	9.6	9.1	9.0	8.9	8.9
NIM (on assets)	8.3	7.5	7.3	8.3	8.5	8.2	8.0	8.4
C/I ratio	29.7	27.9	27.9	28.5	29.7	30.5	31.1	30.2
Profitability Ratios (%)								
RoE	14.9	12.8	11.8	15.3	15.7	15.8	15.6	16.4
RoA	2.5	2.3	2.2	3.1	3.3	3.1	3.0	3.2
Int. Expended / Int.Earned	47.4	49.3	49.3	43.9	44.1	45.8	46.8	44.3
Other Inc. / Net Income	4.1	4.0	7.0	6.9	6.9	6.6	7.1	6.4
Efficiency Ratios (%)								
Op. Exps. / Net Income	29.7	27.9	27.9	28.5	29.7	30.5	31.1	30.2
Empl. Cost/Op. Exps.	51.9	49.8	52.1	51.0	53.7	51.1	51.4	52.5
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	1.1	1.0	1.0	1.1	1.1	1.0	1.1	1.1
Assets/Equity	5.8	5.6	5.2	4.7	4.9	5.2	5.1	5.1
Asset quality (%)								
GNPA	1,14,400	1,01,688	1,09,762	1,13,822	1,20,812	1,18,388	1,37,882	1,55,981
NNPA	66,256	51,523	49,731	56,749	58,244	67,145	75,835	85,790
GNPA ratio	8.3	6.9	6.9	6.2	5.5	4.6	4.6	4.5
NNPA ratio	5.0	3.7	3.3	3.3	2.8	2.7	2.5	2.5
PCR	42.1	49.3	54.7	50.1	51.8	43.3	45.0	45.0
Credit Costs (% of loans)	2.7	2.8	3.1	2.4	2.2	2.3	2.3	2.3

Valuations	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (INR)	171	185	206	231	258	299	341	389
BV Growth (%)	14	8	11	12	12	16	14	14
P/BV	3.6	3.3	3.0	2.7	2.4	2.1	1.8	1.6
EPS (INR)	24	22	22	32	38	44	50	60
EPS Growth (%)	-1.4	-8.3	2.6	42.0	19.8	14.9	13.3	20.2
P/E	25.8	28.1	27.4	19.3	16.1	14.0	12.4	10.3
DPS	1.0	4.2	4.7	7.0	9.0	9.9	11	13
Dividend Yield (%)	0.2	0.7	0.8	1.1	1.5	1.6	1.8	2.2

E: MOFSL Estimates

MMFS: Financials and valuations

Income Statement — INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	86,146	99,417	1,02,670	94,756	1,06,826	1,31,088	1,53,314	1,73,801	1,92,700
Interest Expended	39,446	48,287	47,332	39,202	45,767	64,269	78,983	87,603	94,126
Net Interest Income	**46,700**	**51,130**	**55,338**	**55,554**	**61,059**	**66,818**	**74,331**	**86,198**	**98,574**
Change (%)	33.3	9.5	8.2	0.4	9.9	9.4	11.2	16.0	14.4
Other Operating Income	1,084	1,561	1,283	1,824	2,462	2,954	6,875	9,958	12,448
Other Income	869	1,473	1,277	608	1,273	1,583	557	669	803
Net Income	**48,653**	**54,164**	**57,897**	**57,986**	**64,794**	**71,355**	**81,764**	**96,825**	**1,11,825**
Change (%)	35.0	11.3	6.9	0.2	11.7	10.1	14.6	18.4	15.5
Operating Expenses	18,476	20,182	16,325	20,734	27,276	29,572	34,113	38,394	43,172
Operating Profits	**30,177**	**33,982**	**41,573**	**37,252**	**37,518**	**41,783**	**47,651**	**58,431**	**68,653**
Change (%)	39.1	12.6	22.3	-10.4	0.7	11.4	14.0	22.6	17.5
Provisions	6,352	20,545	37,348	23,683	9,992	18,228	16,179	23,048	22,444
PBT	**23,824**	**13,438**	**4,224**	**13,569**	**27,526**	**23,555**	**31,473**	**35,383**	**46,208**
Tax	8,254	4,374	873	3,682	7,138	5,959	8,022	8,846	11,783
Tax Rate (%)	34.6	32.5	20.7	27.1	25.9	25.3	25.5	25.0	25.5
PAT	**15,571**	**9,064**	**3,352**	**9,888**	**19,843**	**17,596**	**23,450**	**26,537**	**34,425**
Change (%)	54.0	-41.8	-63.0	195.0	100.7	-11.3	33.3	13.2	29.7
Proposed Dividend (Incl Tax)	4,779	0	986	4,439	7,402	7,777	8,027	9,304	10,417

Balance Sheet — INR m

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	1,230	1,231	2,464	2,466	2,467	2,469	2,470	2,779	2,779
Reserves & Surplus (Ex OCI)	1,03,072	1,12,408	1,44,651	1,53,815	1,68,422	1,79,106	1,95,653	2,43,815	2,68,937
Net Worth	**1,04,221**	**1,13,558**	**1,47,034**	**1,56,200**	**1,70,889**	**1,81,575**	**1,98,122**	**2,46,594**	**2,71,715**
Other Comprehensive Income	81	81	81	81	81	81	81	81	81
Net Worth	**1,04,302**	**1,13,639**	**1,47,115**	**1,56,281**	**1,70,970**	**1,81,656**	**1,98,203**	**2,46,675**	**2,71,796**
Change (%)	11.8	9.0	29.5	6.2	9.4	6.3	9.1	24.5	10.2
Borrowings	**5,28,469**	**5,94,623**	**5,85,767**	**5,58,139**	**7,49,459**	**9,39,786**	**11,28,735**	**12,29,365**	**13,74,387**
Change (%)	31.8	12.5	-1.5	-4.7	34.3	25.4	20.1	8.9	11.8
Other liabilities	38,009	32,451	37,483	38,467	41,818	30,231	28,625	31,774	35,269
Total Liabilities	**6,70,780**	**7,40,712**	**7,70,365**	**7,52,887**	**9,62,166**	**11,51,592**	**13,55,482**	**15,07,732**	**16,81,371**
Investments	37,917	59,110	1,16,073	84,403	99,886	96,508	1,04,005	1,16,485	1,30,464
Change (%)	38.7	55.9	96.4	-27.3	18.3	-3.4	7.8	12.0	12.0
Loans and Advances	**6,12,496**	**6,49,935**	**5,99,474**	**6,04,446**	**7,94,547**	**9,91,952**	**11,62,140**	**13,03,127**	**14,59,599**
Change (%)	26.2	6.1	-7.8	0.8	31.5	24.8	17.2	12.1	12.0
Other assets	20,367	31,668	54,818	64,038	67,732	63,132	89,337	88,120	91,309
Total Assets	**6,70,780**	**7,40,712**	**7,70,365**	**7,52,887**	**9,62,165**	**11,51,592**	**13,55,482**	**15,07,732**	**16,81,371**

E: MOFSL Estimates

MMFS: Financials and valuations

Ratios									(%)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)									
Yield on Portfolio	15.7	15.8	16.4	15.7	15.3	14.7	14.2	14.1	14.0
Cost of Borrowings	8.5	8.6	8.0	6.9	7.0	8.0	8.0	8.0	8.0
Interest Spread	7.2	7.2	8.4	8.9	8.3	6.7	6.2	6.1	6.0
Net Interest Margin	8.1	7.8	8.3	8.6	8.3	7.2	6.7	6.8	6.9
Profitability Ratios (%)									
Cost/Income	38.0	37.3	28.2	35.8	42.1	41.4	41.7	39.7	38.6
Empl. Cost/Op. Exps.	59.0	56.9	62.2	56.5	58.1	57.9	55.8	55.5	55.8
RoE	15.8	8.3	2.6	6.5	12.1	10.0	12.4	11.9	13.3
RoA	2.6	1.3	0.4	1.3	2.3	1.7	1.9	1.9	2.2
Asset Quality (%)									
GNPA	40,706	57,467	57,857	49,760	37,168	34,910	44,140	50,393	59,379
NNPA	32,907	39,665	24,339	20,860	15,071	12,860	21,559	23,685	27,314
GNPA %	6.4	8.4	9.0	7.7	4.5	3.4	3.7	3.8	3.9
NNPA %	5.3	6.0	4.1	3.5	1.9	1.3	1.8	1.8	1.9
PCR %	19.2	31.0	57.9	58.1	59.5	63.2	51.2	53.0	54.0
Total Provisions/loans %	3.4	4.9	7.4	7.5	4.7	3.8	3.2	3.3	3.5
Capitalisation (%)									
CAR	20.3	19.6	26.0	27.8	22.5	18.9	18.3	19.4	18.7
Tier I	15.5	15.4	22.2	24.3	19.9	16.4	15.2	16.9	16.6
Tier II	4.8	4.2	3.8	3.5	2.7	2.5	3.1	2.5	2.1
Average Leverage on Assets (x)	6.1	6.5	5.8	5.0	5.2	6.0	6.6	6.4	6.2

Valuation	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Book Value (INR)	169	185	119	127	139	147	160	177	196
BV Growth (%)	11.7	8.9	-35.3	6.1	9.4	6.2	9.1	10.6	10.2
Price-BV (x)	**1.6**	**1.4**	**2.2**	**2.1**	**1.9**	**1.8**	**1.6**	**1.5**	**1.3**
Adjusted BV (INR)	132	136	105	114	129	140	148	166	182
Price-ABV (x)	**2.0**	**1.9**	**2.5**	**2.3**	**2.0**	**1.9**	**1.8**	**1.6**	**1.4**
OPS (INR)	49.1	55.2	33.7	30.2	30.4	33.8	38.6	42.1	49.4
OPS Growth (%)	39.0	12.5	-38.9	-10.5	0.7	11.3	14.0	9.0	17.5
Price-OP (x)	**5.4**	**4.8**	**7.8**	**8.7**	**8.6**	**7.8**	**6.8**	**6.3**	**5.3**
EPS (INR)	25.3	14.7	2.7	8.0	16.1	14.3	19.0	19.1	24.8
EPS Growth (%)	53.9	-41.8	-81.5	194.8	100.6	-11.4	33.2	0.6	29.7
Price-Earnings (x)	**10.4**	**17.9**	**96.7**	**32.8**	**16.4**	**18.4**	**13.8**	**13.8**	**10.6**
Dividend	6.5	0.0	0.8	3.6	6.0	6.3	6.5	6.7	7.5
Dividend Yield (%)	**2.5**	**0.0**	**0.3**	**1.4**	**2.3**	**2.4**	**2.5**	**2.5**	**2.9**

E: MOFSL Estimates

NOTES

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

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