

India

Overweight (no change)**Highlighted Companies****Bajaj Finance Ltd****ADD, TP Rs1100, Rs896 close**

Undeterred in expanding its market share in retail credit, Bajaj Finance has a proven execution track record.

Shriram Finance Limited**ADD, TP Rs870, Rs620 close**

Diversification and deep rural reach will enable healthy AUM growth for Shriram Finance, which will be buoyed by a good monsoon season.

Summary Valuation Metrics

P/E (x)	Mar26-F	Mar27-F	Mar28-F
Bajaj Finance Ltd	13.4	10.0	7.8
Shriram Finance Limited	11.3	9.3	7.5
P/BV (x)	Mar26-F	Mar27-F	Mar28-F
Bajaj Finance Ltd	2.4	2.0	1.6
Shriram Finance Limited	1.7	1.5	1.2
Dividend Yield	Mar26-F	Mar27-F	Mar28-F
Bajaj Finance Ltd	5.7%	7.4%	9.2%
Shriram Finance Limited	2.4%	2.4%	3.2%

Financial Services - Overall

1Q Review: NBFCs slow down, AMCs shine

- Seasonality-hit disbursement growth in 1Q is likely to improve from 2QFY6F led by better demand amid the onset of the festive season & good monsoon.
- Asset quality stress rises, which may take another two quarters to ease. NIM is expected to benefit from lower costs of funds amid the rate-cut transmission.
- We reiterate our high-conviction ADD rating on Bajaj Finance (TP Rs1,100) for consistent growth & Shriram Finance (TP Rs 870) for its attractive risk-reward.

Seasonality hits disbursements qoq; 2Q to set the tone

All non-banking finance companies (NBFCs) under our coverage faced the brunt of a seasonal slowdown in 1QFY26, with a 2-18% qoq decline in disbursements, the least impacted being Home First Finance Company (HFFC). All vehicle financiers continued to witness selective demand in passenger vehicles (PVs), used commercial vehicles (CVs) and tractors, but largely subdued. Spandana Sphoorty Financial (Spandana) waded through sectoral & company-specific issues. Bajaj Finance (BAF) remained an outlier with strong assets under management or AUM growth (+25% yoy; +6% qoq). Receivables growth for SBI Cards (SBIC) slowed further (+7.4% yoy; +1.4% qoq). We feel the next key triggers will be (1) the early onset of the festive season in Aug/Sep 2025 & a good monsoon leading to a pick-up in home loans, PV, light CV, consumer durable and personal loans, & (2) a pick-up in investment activity leading to a pick-up in medium & heavy CV sales.

Asset quality shows rising initial stress

Most lenders cited sluggish demand and cash flow delay resulting in increased asset quality stress, with a sharp rise in gross stage-2 assets. Gross stage-3 (GS3) assets increased by 2-32bp qoq for lenders under our coverage universe, barring Shriram Finance or SFL whose GS3 assets declined by 2bp qoq. In unsecured lending, we observed some easing of stress in the personal loan segment, while the credit card business has not yet stabilized and microfinance or MFI continues to bleed. We remain highly cautious on MFI and credit card stress and expect around two more quarters of elevated stress, while we keep a close eye on rising stress in the SME/MSME segments among others.

NIM: Rate cut transmission in the coming quarters

Gradual transmission of rate cut led to NIM pressure for all players, leading to a 0-14bp qoq decline, barring Mahindra & Mahindra Financial Services or MMFS whose NIM expanded by ~20bp qoq following its rising focus on high-yield assets. All lenders have indicated ~20-30bp reduction in the cost of funds in 2Q and 3QFY26F, with a large part of the assets at a fixed rate leading to near-term margin expansion.

AMCs: Healthy QAAUM growth with largely stable yields

The strong QAAUM growth (6-10% qoq) was led by healthy inflows and capital market gains. HDFC AMC was an outlier on the yield front. The repo rate cut is another key driver for increased retail participation. PAT growth for our coverage universe has remained strong both sequentially (17-33%) and annually, barring UTI AMC, which saw a decline of 7% yoy.

Outlook and valuation

We reiterate our high-conviction ADD ratings on BAF and SFL. BAF (TP Rs 1,100), with consistent market share gains while keeping risk & profitability at the front-end. We believe SFL (ADD; TP Rs870) will benefit from rising diversification and deep rural reach, leading to healthy AUM growth. We also have an ADD rating on MMFS (TP Rs340) for its favourable valuation and maintain HOLD rating on Cholamandalam Finance (TP Rs1,500) with all its positives priced in. Among housing finance companies under our coverage, we prefer HFFC (TP Rs1,650) for its unique connector model and conservative geographic deepening, and also like Avaas Financiers (ADD, TP Rs 21,00) for diversified growth and improving return ratios. We remain cautious on Spandana (HOLD; TP Rs250) and maintain REDUCE rating on SBI Cards (TP Rs700) for its unfavourable risk-reward ratio. Among AMCs, NAM India (ADD; TP Rs920) remains our top pick, followed by ABSL (ADD; TP Rs1,000) and UTI (ADD: TP Rs1,600) & retain HOLD rating on HDFC AMC (TP Rs5,600).

Research Analyst(s)**Meghna LUTHRA**

T (91) 22 4161 1553

E meghna.luthra@incresearch.com

Figure 1: Broad-based slowdown in AUM and disbursement growth, but BAF and HFFC remain resilient

NBFC	AUM (Rs m)					Disbursement (Rs m)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	23,34,436	26,31,903	27,22,490	17%	3%	3,77,098	4,48,480	4,18,110	11%	-7%
CIFC	15,54,410	18,47,460	19,21,480	24%	4%	2,43,320	2,64,170	2,43,260	0%	-8%
MMFS	10,63,390	11,96,730	12,20,080	15%	2%	1,27,410	1,55,290	1,28,090	1%	-18%
BAF	35,41,920	41,66,610	44,14,500	25%	6%	NA	NA	NA	NA	NA
SBIC	5,27,050	5,58,400	5,66,070	7%	1%	NA	NA	NA	NA	NA
HFFC	1,04,781	1,27,127	1,34,787	29%	6%	11,625	12,731	12,435	7%	-2%
Aavas Financiers	1,78,415	2,04,202	2,07,397	16%	2%	12,109	20,238	11,454	-5%	-43%
Spandana	1,17,230	68,190	49,580	-58%	-27%	22,830	3,650	2,800	-88%	-23%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Selective yield pressure, but MMFS gains the most; SBIC benefits from lower cost of borrowing

NBFC	Yield (%)					Cost of borrowing (%)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	18.9%	19.8%	19.7%	79bp	-10bp	8.7%	9.1%	9.1%	31bp	-8bp
CIFC	15.4%	15.6%	15.4%	0bp	-26bp	7.9%	7.9%	7.8%	-8bp	-8bp
MMFS	14.3%	14.4%	14.6%	38bp	18bp	7.7%	7.7%	7.7%	-3bp	1bp
BAF	16.4%	16.1%	16.0%	-43bp	-8bp	7.5%	7.5%	7.5%	2bp	3bp
SBIC	16.8%	17.0%	17.0%	20bp	0bp	7.5%	7.2%	7.1%	-40bp	-10bp
HFFC	13.4%	13.4%	13.4%	0bp	0bp	8.3%	8.4%	8.4%	10bp	0bp
Aavas Financiers	13.1%	13.1%	13.1%	5bp	0bp	8.1%	8.2%	8.0%	-6bp	-22bp
Spandana	24.4%	20.7%	19.4%	-500bp	-130bp	11.6%	12.1%	12.3%	70bp	20bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: NIM strengthens for MMFS; vehicle lenders contain the cost-to-income ratio

NBFC	NIM (%)					Cost to income ratio (%)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	8.8%	8.3%	8.1%	-68bp	-14bp	30%	30%	32%	205bp	125bp
CIFC	7.9%	8.2%	8.0%	8bp	-13bp	39%	38%	38%	-142bp	-37bp
MMFS	7.3%	7.3%	7.5%	25bp	17bp	41%	44%	41%	-47bp	-294bp
BAF	9.8%	9.6%	9.5%	-24bp	-10bp	33%	33%	33%	-62bp	-44bp
SBIC	10.9%	11.2%	11.2%	30bp	0bp	49%	51%	50%	140bp	-108bp
HFFC	5.2%	5.1%	5.1%	-10bp	0bp	35%	36%	34%	-144bp	-150bp
Aavas Financiers	7.3%	8.1%	7.5%	17bp	-63bp	45%	46%	47%	176bp	49bp
Spandana	15.2%	10.7%	8.2%	-700bp	-250bp	40%	89%	139%	9911bp	4982bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Broad-based softening in return ratios; HFFC maintains ROA

NBFC	ROA (%)					ROE (%)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	3.3%	3.0%	2.9%	-40bp	-9bp	16.0%	15.4%	15.0%	-96bp	-35bp
CIFC	2.3%	2.6%	2.2%	-8bp	-36bp	18.8%	21.9%	18.8%	-1bp	-313bp
MMFS	1.8%	1.7%	1.6%	-20bp	-15bp	11.1%	11.5%	9.8%	-132bp	-173bp
BAF	4.6%	4.5%	4.0%	-58bp	-48bp	19.9%	19.3%	19.3%	-58bp	-7bp
SBIC	4.1%	3.4%	3.4%	-70bp	0bp	19.1%	15.5%	15.8%	-330bp	30bp
HFFC	3.6%	3.5%	3.7%	12bp	18bp	16.3%	17.0%	14.9%	-138bp	-207bp
Aavas Financiers	3.0%	3.4%	2.9%	-7bp	-43bp	13.1%	14.4%	12.6%	-58bp	-181bp
Spandana	1.7%	-19.0%	-19.0%	-2,070bp	0bp	6.1%	-60.8%	-58.5%	-6460bp	230bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: SHFL sees better GS3 & NS3 assets despite industry-wide pressure

NBFC	Gross stage 3 (%)					Net Stage 3 (%)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	5.4%	4.6%	4.5%	-86bp	-2bp	2.7%	2.6%	2.6%	-14bp	-7bp
CIFC	2.6%	2.8%	3.2%	54bp	35bp	1.4%	1.5%	1.8%	35bp	24bp
MMFS	3.6%	3.7%	3.9%	29bp	16bp	1.5%	1.8%	1.9%	45bp	7bp
BAF	0.9%	1.0%	1.0%	17bp	7bp	0.4%	0.4%	0.5%	12bp	6bp
SBIC	3.1%	3.1%	3.1%	4bp	2bp	1.1%	1.5%	1.2%	5bp	-30bp
HFFC	1.7%	1.7%	1.8%	10bp	10bp	1.3%	1.3%	1.4%	10bp	10bp
Aavas Financiers	1.0%	1.1%	1.2%	21bp	14bp	0.7%	0.7%	0.8%	12bp	11bp
Spandana	2.6%	5.6%	5.5%	289bp	-14bp	0.5%	1.2%	1.2%	62bp	-4bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Rising initial flow to GS2 assets to be closely monitored; credit costs remain high

NBFC	Gross stage 2 (%)					Credit costs (%)				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
SHFL	6.7%	6.9%	7.3%	63bp	40bp	2.1%	2.4%	1.9%	-15bp	-49bp
CIFC	2.5%	2.5%	3.1%	56bp	52bp	1.5%	1.4%	1.9%	33bp	48bp
MMFS	6.1%	5.4%	5.9%	-20bp	50bp	1.7%	1.6%	2.2%	47bp	63bp
BAF	1.4%	1.3%	1.3%	-8bp	0bp	2.0%	2.3%	2.0%	1bp	-31bp
SBIC	6.2%	5.0%	4.7%	-150bp	-30bp	8.5%	9.0%	9.6%	111bp	61bp
HFFC	1.7%	1.7%	1.8%	10bp	10bp	0.2%	0.2%	0.4%	14bp	11bp
Aavas Financiers	1.6%	1.5%	1.6%	5bp	15bp	0.2%	0.2%	0.2%	2bp	6bp
Spandana	3.2%	9.2%	7.9%	475bp	-130bp	7.2%	30.6%	28.7%	2153bp	-193bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: NAM India leads QAAUM growth and continues to gain market share

AMC	QAAUM					Market Share				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
HDFC AMC	6,716	7,740	8,286	23.4%	7.1%	11.4%	11.5%	11.5%	1bp	1bp
NAM India	4,838	5,572	6,127	26.7%	10.0%	8.2%	8.3%	8.5%	19bp	23bp
ABSL AMC	3,525	3,817	4,035	14.4%	5.7%	6.0%	5.7%	5.6%	0bp	-7bp
UTI AMC	3,107	3,397	3,609	16.1%	6.2%	5.3%	5.0%	5.0%	-13bp	-4bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: HDFC AMC sustains yield (~47bp) and delivers strong ~24 % YoY PAT growth

AMC	Yield - calculated					PAT				
	1QFY25	4QFY25	1QFY26	YoY	QoQ	1QFY25	4QFY25	1QFY26	YoY	QoQ
HDFC AMC	0.46%	0.47%	0.47%	0bp	0bp	6,040	6,387	7,479	23.8%	17.1%
NAM India	0.42%	0.41%	0.40%	-1bp	-2bp	3,322	2,983	3,957	19.1%	32.6%
ABSL AMC	0.43%	0.45%	0.44%	-1bp	-1bp	2,337	2,273	2,769	18.5%	21.8%
UTI AMC	0.43%	0.43%	0.42%	0bp	-1bp	2,743	1,020	2,539	-7.5%	148.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: InCred NBFC/AMC coverage universe

NBFCs	Rating	CMP(Rs)	TP(Rs)	P/BV(x) (at TP)			ROA (%)			ROE (%)		
				FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Bajaj Finance**	ADD	896	1,100	6.0	4.9	4.0	4.1%	4.3%	4.3%	19.2%	21.6%	22.6%
Cholamandalam Investment Finance	HOLD	1,518	1,500	4.5	3.7	3.1	2.4%	2.6%	2.5%	20.0%	21.7%	21.6%
MMFS	ADD	261	340	1.7	1.5	1.3	2.0%	2.1%	2.2%	12.0%	13.1%	14.2%
Shriram Finance**	ADD	620	870	2.4	2.0	1.7	3.5%	3.4%	3.5%	17.9%	17.0%	17.7%
SBI Cards	REDUCE	825	700	4.2	3.7	3.2	3.2%	3.6%	3.5%	15.1%	16.5%	16.3%
Aavas Financiers	ADD	1,637	2,100	3.3	2.9	2.5	3.2%	3.3%	3.4%	13.6%	14.4%	15.4%
Home First Finance Company	ADD	1,279	1,650	4.0	3.6	3.2	3.9%	3.8%	4.0%	15.6%	14.4%	16.1%
Spandana Spoorthy Financial	HOLD	246	250	0.8	0.7	0.7	-6.2%	1.2%	2.4%	-20.2%	4.5%	11.0%

AMCs	Rating	CMP(Rs)	TP(Rs)	P/E(x) (at TP)			ROAUM (%)			ROE (%)		
				FY26F	FY27F	FY28F	FY26F	FY27F	FY28F	FY26F	FY27F	FY28F
Nippon AMC	ADD	862	920	36.2	30.0	23.3	0.25%	0.24%	0.25%	34.5%	38.1%	45.0%
HDFC AMC	HOLD	5,794	5,600	36.6	30.4	24.4	0.38%	0.36%	0.35%	47.9%	52.0%	57.7%
UTI AMC	ADD	1,377	1,600	21.1	18.1	15.0	0.27%	0.26%	0.25%	19.4%	20.7%	23.1%
ABSL AMC	ADD	885	1,000	25.5	21.8	18.0	0.24%	0.24%	0.24%	27.5%	28.7%	30.8%

** HIGH CONVICTION
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Mayuresh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.