

## Apr-Jun'25 Earnings Preview

### Guarding against a slowdown; NIM to improve

*Tepid volumes in CV/PV and disruption in economic activity are likely to result in a slowdown in growth for auto financiers. However, we expect these players to perform well in a low interest-rate environment as a decline in CoF will help improve NIM, given their rate of lending is fixed. Incremental CoF has already started to taper off (highlighted in Q4FY25), and we expect the trend to continue in Q1FY26. Our outlook remains positive backed by improving margin trajectory and healthy credit cost environment; slowdown in growth, however, is a dampener. We expect diversified players (CIFC and SHFL) to perform better as they have multiple levers to deliver growth. BAF has reported steady AUM growth of 25% YoY- stable NIM and improving credit cost outlook will be key positives in Q1FY26. We, however, remain wary of asset quality trends for SHFL.*

- **Sluggish growth in auto volumes; prefer diversified players:** Freight movement and vehicle sales across border states were impacted in Q1 due to military activity. We expect a slowdown in volumes in the CV/ PV segment in Q1; however, demand for tractors, buses and 2Ws is expected to get a boost from lower interest rates. Further, we expect diversified players like CIFC and SHFL to perform better than pure-play auto financiers (MMFS, Sundaram Finance) with growth in new verticals (home loans/ LAP/ SCUF) compensating for the slowdown in vehicle finance. BAF reported 25% YoY growth in AUM to Rs 4,414 bn. New loans booked grew 23% YoY to 13.5mn and the company added 4.7mn new customers in the quarter, taking the total number of customers to 106.5mn.
- **NIM to improve:** 50/ 100bps cut in repo rate/ CRR by RBI translates into lower cost of borrowing for NBFCs. SHFL expects ~20bps reduction in CoF in FY26, while CIFC expects ~15bps reduction as ~20% of its borrowings are linked to the repo rate/ T-Bills. Q4FY25 management commentary for auto financiers suggested a moderation in CoF, and we expect the trend to continue in Q1, resulting in an improvement in margins. For BAF, given the lower interest rate environment, we build in an improvement in CoF by ~15bps in FY26.
- **Opex to remain high:** We expect opex to remain elevated as players invest in digital transformation (BAF) and new business verticals (CIFC, BAF, SHFL).
- **Healthy outlook for credit cost:** Both BAF and CIFC reported elevated credit costs in FY25 (2.1%/ 1.5%, calculated). We expect to see an improvement in Q1 led by lower delinquencies (tractor/ vehicle finance), run-down of the stressed portfolio (CSEL) and reversals from SARFAESI/ property auctions. We remain cautious of the asset quality trends for SHFL as Q4 commentary highlighted stress in certain rural pockets.

July 8, 2025

#### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bajaj Finance	HOLD	925	900
Cholamandalam Inv. & Fin. Co.	HOLD	1,514	1,575
Shriram Finance	HOLD	671	685
Sundaram Finance	HOLD	5,167	5,000

Source: PL

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**Exhibit 2: Q1FY26 Result Preview – Education (Rs mn)**

Company Name		Q1FY26E	Q1FY25	YoY gr. (%)	Q4FY25	QoQ gr. (%)	Remark
Bajaj Finance	NII	1,03,645	83,653	23.9	98,072	5.7	Reported 25% YoY growth in AUM, in-line with guidance
	PPOP	85,978	69,500	23.7	79,763	7.8	New loans booked grew 23% YoY to 13.5 mn and BAF added 4.7 mn new customers in the quarter, taking the total number of customers to 106.5 mn
	PAT	48,395	39,120	23.7	45,456	6.5	
	NIM (%)	9.7	9.8	-11 bps	9.6	3 bps	
	Cost-to-income ratio (%)	33.5	33.3	24 bps	33.1	43 bps	Expect an improvement in CoF by ~15 bps in FY26, factoring in a lower interest rate environment
	Credit cost (%)	2.0	2.1	-10 bps	2.1	-12 bps	
	Loans and Advances	44,14,000	35,41,920	24.6	41,66,610	5.9	Seeing an improvement in early-bucket delinquencies/ Stage 2 exposure, resulting in lower credit cost
Cholamandalam Investment and Finance Company	Borrowings	29,56,788	23,14,790	27.7	27,52,180	7.4	
	NII	32,598	25,738	26.7	30,557	6.7	Expect lukewarm disbursement growth in VF, resulting in lower growth in Q1
	PPOP	24,051	18,499	30.0	23,315	3.2	Expect NIM to improve aided by lower cost of borrowing (~20% of CIFIC's borrowings are linked to the repo-rate)
	PAT	13,012	9,422	38.1	12,667	2.7	
	NIM (%)	7.0	6.9	9 bps	6.9	9 bps	Expect IT/ branch expansion to keep costs elevated as CIFIC invests in new verticals/ gold loans
	Cost-to-income ratio (%)	39.5	39.0	49 bps	38.0	153 bps	
	Credit cost (%)	1.4	1.5	-15 bps	1.4	1 bps	Expect credit cost to improve with (1) run-down of the stressed fintech lending portfolio (2) reversals from SARFAESI/ property auctions and (3) improving delinquency trend in the VF segment
Shriram Finance	Loans and Advances	19,14,633	15,43,150	24.1	18,19,299	5.2	Company expects steady growth of 12- 15% in the CV portfolio in FY26, with the lag effect of replacement demand in the Used portfolio kicking in from H2FY26. Expects the SCUF portfolio to perform well; build overall growth of ~16%
	Borrowings	18,23,460	14,99,020	21.6	17,49,461	4.2	
	NII	58,667	52,339	12.1	55,655	5.4	Expect ~15-20 bps reduction in CoF in FY26E. Factoring a normalizing trend in liquidity and a reduction in CoF, we expect NIM to improve sequentially
	PPOP	42,190	38,541	9.5	43,353	(2.7)	
	PAT	21,932	19,806	10.7	21,394	2.5	Remain wary on credit cost (2.1% in Q1FY26E)
	NIM (%)	8.9	9.1	-26 bps	8.6	27 bps	
	Cost-to-income ratio (%)	31.4	29.7	171 bps	30.5	90 bps	Q4 commentary highlighted stress in certain rural pockets; expect cash flows to improve with a good monsoon/ Kharif output
	Credit cost (%)	2.1	2.2	-17 bps	2.6	-53 bps	
Sundaram Finance	Loans and Advances	24,78,467	21,58,220	14.8	24,53,928	1.0	Expect sluggish demand in the automotive sector with a slowdown across certain asset classes
	Borrowings	22,53,152	19,17,455	17.5	23,41,973	(3.8)	
	NII	6,838	5,298	29.1	6,685	2.3	Expect NIM to be largely stable sequentially supported by a lower CoF
	PPOP	6,509	4,755	36.9	7,258	(10.3)	
	PAT	4,298	3,077	39.7	5,459	(21.3)	Asset quality outlook to see a slight deterioration
	NIM (%)	5.4	4.9	51 bps	5.5	-8 bps	
	Cost-to-income ratio (%)	31.0	33.9	-289 bps	26.9	410 bps	
	Credit cost (%)	0.6	0.7	-6 bps	0.0	61 bps	
	Loans and Advances	5,15,641	4,42,935	16.4	4,93,735	4.4	
	Borrowings	4,89,859	4,20,788	16.4	4,73,201	3.5	

Source: Company, PL

**Exhibit 3: Valuation Summary**

Company Name	S/ C	Rating	CMP (Rs)	TP (Rs)	Mcap (Rs bn)	P/ABV (x)				RoE (%)				RoA (%)			
						FY24	FY25	FY26E	FY27E	FY24	FY25	FY26E	FY27E	FY24	FY25	FY26E	FY27E
Bajaj Finance	C	HOLD	925	900	5,741	7.6	5.9	4.9	4.0	23.3	22.0	19.0	19.9	4.4	4.0	4.2	4.4
Cholamandalam Inv. & Fin. Co.	S	HOLD	1,514	1,575	1,274	7.9	6.8	5.0	4.0	20.2	19.7	21.7	22.0	2.5	2.4	2.6	2.6
Shriram Finance	S	HOLD	671	685	1,262	2.9	2.5	2.2	1.8	15.7	15.5	15.9	16.2	3.3	3.1	3.1	3.3
Sundaram Finance	C	HOLD	5,167	5,000	574	4.2	3.3	2.7	2.2	15.3	15.2	14.9	14.6	3.2	2.8	2.8	2.8

Source: Company, PL      S=Standalone / C=Consolidated

Exhibit 4: Change in Estimates

	Rating		Target Price			NII (Rs mn)						PPOP (Rs mn)						PAT (Rs mn)					
						FY26E			FY27E			FY26E			FY27E			FY26E			FY27E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Bajaj Finance	HOLD	HOLD	900	900	0.0%	544.8	543.1	0.3%	687.4	687.4	0.0%	379.4	378.2	0.3%	482.0	481.9	0.0%	217.3	216.7	0.3%	281.9	282.6	-0.2%
Cholamandalam Invt. & Fin. Co.	HOLD	HOLD	1,575	1,575	0.0%	140.8	141.4	-0.4%	173.6	177.0	-1.9%	103.6	104.5	-0.8%	126.6	129.6	-2.3%	57.0	57.1	-0.2%	71.0	71.7	-1.0%
Shriram Finance	HOLD	HOLD	685	685	-0.1%	253.5	253.5	0.0%	295.6	295.6	0.0%	185.0	185.3	-0.2%	218.3	219.6	-0.6%	97.2	97.4	-0.2%	116.6	117.7	-0.9%
Sundaram Finance	HOLD	HOLD	5,000	5,000	0.0%	28.6	28.4	0.8%	33.2	32.5	2.2%	27.1	26.9	0.6%	30.3	29.8	1.7%	17.9	17.8	0.7%	20.3	19.9	1.9%

Source: Company, PL

C=Current / P=Previous

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Hold	9,000	9,093
2	Cholamandalam Investment and Finance Company	Hold	1,575	1,526
3	Shriram Finance	Hold	685	655
4	Sundaram Finance	Hold	5,000	5,351

**PL's Recommendation Nomenclature**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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