

Sector Update

June 6, 2025

Companies covered in the report

Name of the Company	Recommendation
Cholamandalam Investment and Finance Company	HOLD (No Change)
Shriram Finance	HOLD (No Change)
Sundaram Finance	HOLD (No Change)

Rate-cut positive for auto financiers; NIMs to improve

Quick Pointers

- 50 bps rate cut by RBI to translate into lower CoF for NBFCs
- Expect auto financiers to see margins improve as they lend at a fixed rate

In its MPC meeting held today, Reserve Bank of India (RBI) has lowered the repo rate by 50bps to 5.5% and cut CRR by 100 bps to 4%. We believe this move to be positive for NBFCs, with improved liquidity translating into a lower cost of borrowing. Among NBFCs, we expect auto financiers to have the biggest advantage as a decline in CoF will help improve NIM, given their rate of lending is fixed. Q4 management commentary for auto financiers suggests that CoF has already started to taper off and we expect the movement to continue. Our outlook remains positive backed by improving margin trajectory and healthy credit cost environment; slowdown in growth however, is a dampener. Expect diversified players (CIFC and SHFL) to perform better.

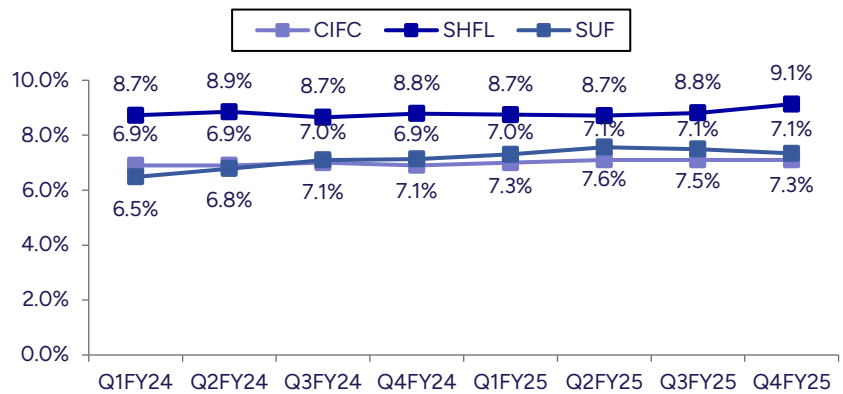
- FY25 borrowing profile of auto financiers indicates that term loans from banks comprise 21%-44% of the mix. Following an increase in rates in FY25, NBFCs have reduced their dependence on term loans from banks to curb the increase in CoF. We expect the share of bank borrowing to increase over the next few quarters as this source of funding becomes more viable.
- Cost of funds (calc.) for CIFC/SHFL/SUF stood at 7.1%/9.1%/7.3% in Q4FY25. Management commentary for large auto-financiers has already highlighted lower incremental CoF in Q4. SHFL expects ~15-20 bps reduction in CoF in FY26 while CIFC expects ~15 bps as ~20% of its borrowings are linked to repo-rate/ T-Bills.
- A closer analysis of the loan mix of auto financiers shows that 55%/ 80% of CIFC/ SHFL's loan book (FY25) has a fixed-rate of interest. A decline in CoF will help improve NIM for both players, given the rate of lending on a large part of their portfolio is fixed.

While FY26 NIM is likely to see a positive movement for auto financiers, we expect slowdown in the sector to be a key challenge. We continue to prefer diversified players (CIFC and SHFL) as they have multiple levers to deliver on growth.

- **CIFC:** Company highlighted a slowdown in the CV portfolio due to lower capacity utilization in FY25; expect an improvement in FY26 with positive monsoons/ pick-up in infrastructure spending. Expect growth in HL/ LAP and new business verticals to offset the slowdown. We build an AUM growth of 25%/ 24% in FY26/FY27E.
- **SHFL:** Company expects a growth of 12%- 15% in the CV portfolio in FY26 led by replacement demand and a pick-up in infrastructure spend. It expects the PV and MSME segments to outperform (20%+ growth) and is confident of meeting a run-rate of 15%+ AUM growth in FY26E; we build ~16.5%.

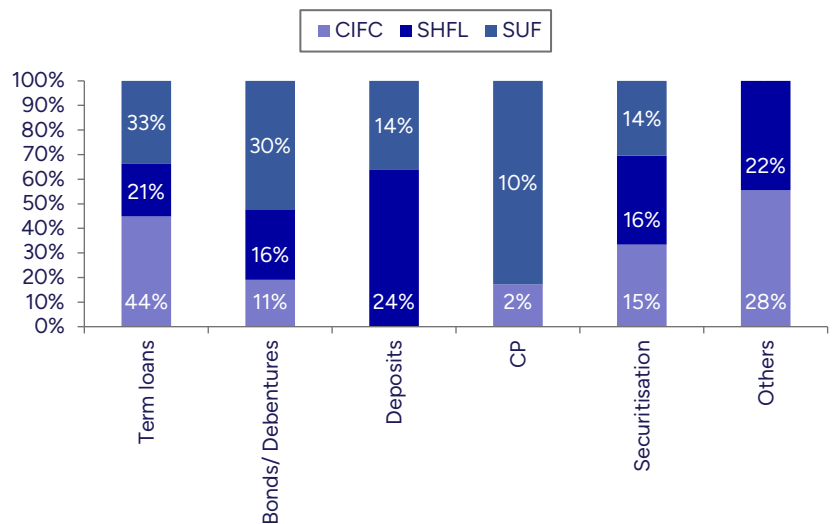
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Exhibit 1: Cost of borrowing was elevated in FY25; expect a reduction in FY26



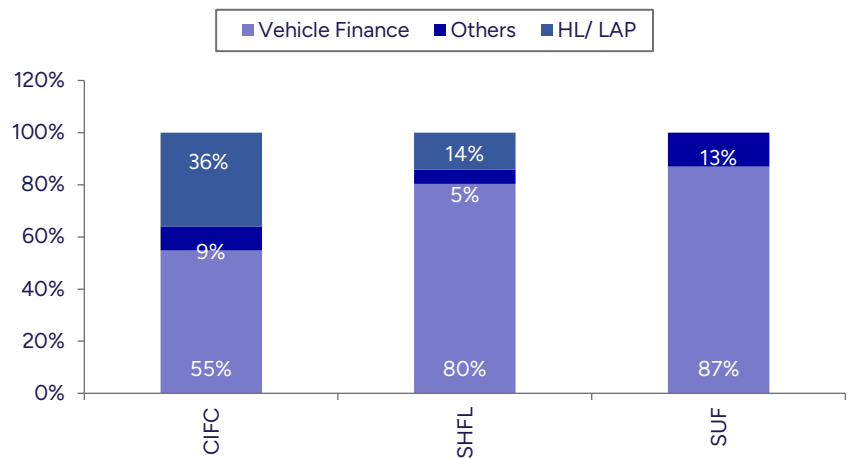
Source: Company, PL

Exhibit 2: 21%- 44% of funding from banks; expect CoF to reduce



Source: Company, PL

Exhibit 3: 55%/ 80% of loans of CIBC/ SHFL on fixed-rate; prefer diversified players



Source: Company, PL

Analyst Coverage Universe

Sr. No.	CompanyName	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

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

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