DEVEN CHOKSEY RESEARCH

Q4 FY25E Financial Services Earnings Preview

Result Preview

28th March 2025

Financial Services

Stress expected to bottom out; diversification to drive business growth

Coverage	Rating	CMP	Target (INR)	Upside (%)
Bajaj Finance Ltd	BUY	9,004	9,451	5.0
Bajaj FinServ Ltd	BUY	2,006	2,075	3.4
Cholamandalam Invt. and Fin. Co. Ltd	BUY	1,532	1,630	6.4
CreditAccess Grameen Ltd	ACCUMULATE	986	1,086	10.1
HDFC AMC Ltd	BUY	4,073	5,095	25.1
Jio Financial Services Ltd	HOLD	226	286	26.5
Poonawalla Fincorp Ltd	BUY	339	370	9.1

MARKET DATA

	Close	1M (%)	YTD (%)
Nifty	23,592	6.6	(0.2)
Sensex	77,606	6.0	(0.9)
Nifty Financial Services	25,011	8.6	5.9
USD / INR	85.6	(2.0)	(0.0)

Note: TP and recommendation have been retained from previous update reports; we will review it post detailed Q4FY25E results analysis and conference call of the said companies. Source: Bloomberg, NSE; Data as of 27th March 2025

SECTOR OVERVIEW

- In February 2025, the mutual fund industry's net AUM declined from INR 67.25 Tn to INR 64.53 Tn, despite reporting net inflows of INR 400.6 Bn during the month. The contraction was primarily due to valuation losses in equity-oriented funds, which offset the positive impact of inflows.
- While net AUM witnessed a sharp drop, the impact on Average Assets Under Management (AAUM) was relatively muted. February AAUM stood at INR 67.58 Tn, lower than the December 2024 peak of INR 69.33 Tn, but still reflecting a strong 23.9% YoY growth, resulting from the continued investor participation and momentum built over the past year. In February 2025, the share of active equity funds in overall AUM declined by 110 bps MoM to 58.8%, down from 59.9% in January. However, on a YoY basis, the active equity share has expanded by 140 bps.
- HDFCAMC is expected to account for ~11.5% of the industry's total AUM in Q4FY25E, maintaining its position among the top asset managers. Key growth catalysts include new product launches, deeper penetration into tier 2/3 cities, and enhanced cross-selling opportunities following the merger with HDFC Bank. These factors are expected to strengthen distribution capabilities and improve customer acquisition, translating into revenue growth of 36.8% YoY. The synergy benefits from the bank-parent integration are likely to continue unlocking value over the medium term, positioning HDFCAMC for sustainable growth.
- The diversified NBFC sector is expected to maintain its strong AUM growth in Q4FY25E, driven by continued retail credit demand, product expansion, and digital penetration. However, the sector is also seeing rising divergence in profitability, as margin compression and elevated credit costs begin to weigh on earnings for select players.
- While growth momentum remains healthy, supported by strong disbursements and new customer acquisition, the pressure on Net Interest Margins (NIMs)—owing to higher cost of funds—and increasing provisioning in unsecured portfolios, are emerging as key headwinds.
- Larger, well-diversified NBFCs like Bajaj Finance (BAF) with strong risk frameworks and balanced portfolios are better positioned to absorb these pressures, whereas aggressive, high-growth players like Poonawalla Fincorp (POONAWALLA) may see short-term profitability challenges.
- We expect vehicle financiers like Cholamandalam to report healthy growth traction in Q4FY25E, driven by the ongoing diversification of their loan portfolio. The Loan Against Property (LAP) and home loan segments are expected to contribute meaningfully to disbursement growth, reflecting the company’s strategic shift toward secured, retail-focused products. Additionally, continued penetration in rural and semi-urban markets is likely to support volume expansion, particularly in used vehicle financing and SME loans, where demand remains robust.
- Overall delinquencies for vehicle financiers are expected to remain broadly stable, but stress persists in certain rural CV pockets, especially among self-employed borrowers. Stage 3 assets may see slight uptick, especially in smaller ticket LCVs, though collection efficiency remains healthy for most top-tier players.

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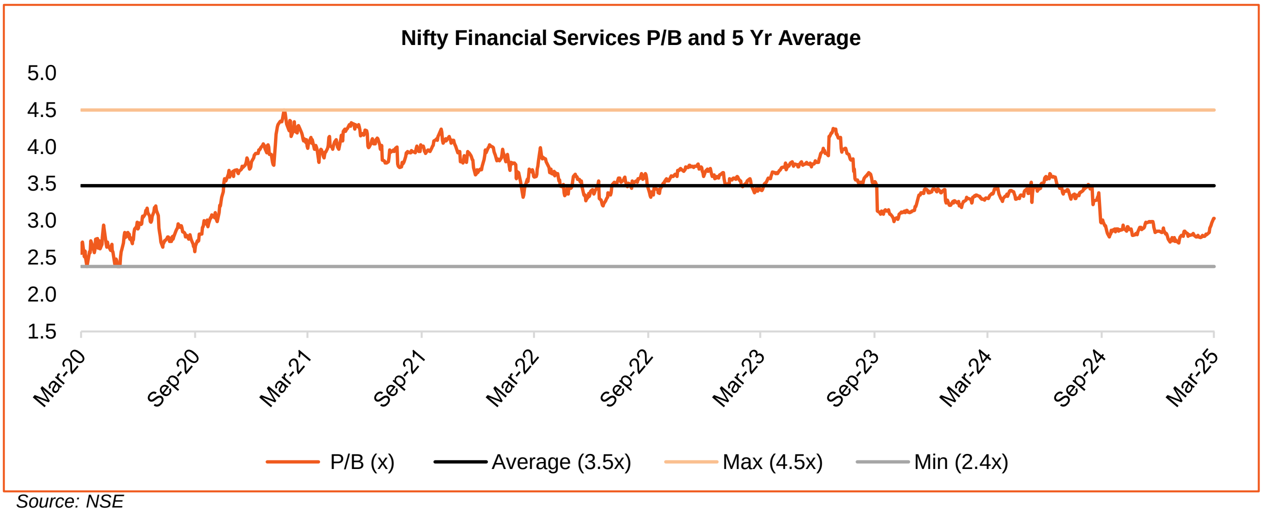
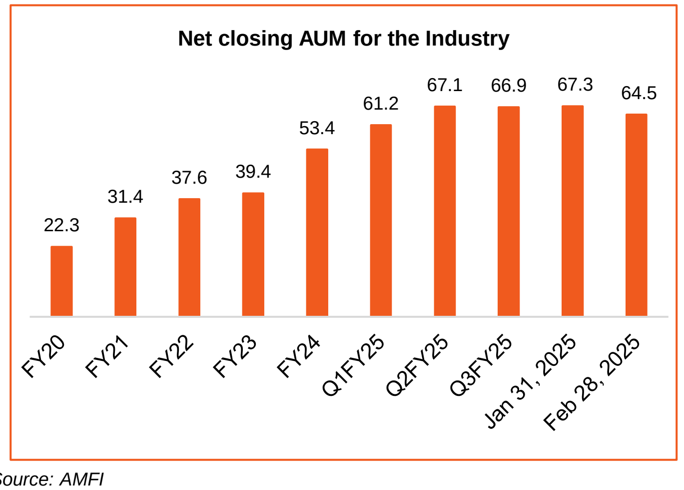
- In Q4FY25E, the Microfinance (MFI) segment within the NBFC space is expected to report moderating growth trends, as lenders recalibrate their strategies amid rising delinquencies and stress in select geographies. MFIs are expected to maintain higher provisioning buffers, especially in states like Karnataka, where stress persists. This is expected to weigh on net earnings. NII is likely to remain weak on a YoY basis due to rising funding costs and an unfavorable shift in the asset mix. Despite margin pressures, tight cost control is likely to support a QoQ improvement in operating profits, though YoY growth may remain muted.
- For our coverage universe, NBFCs (excluding Jio Financial) are expected to deliver AUM growth of 26.3% YoY and 6.1% QoQ in Q4FY25E, supported by sustained disbursement momentum across diversified lending segments. The sector's continued focus on digital transformation and process automation is expected to drive operational efficiency gains, helping to mitigate the impact of elevated provisioning levels. As a result, we forecast a 12.0% YoY and 18.2% QoQ growth in net profit.

Valuation

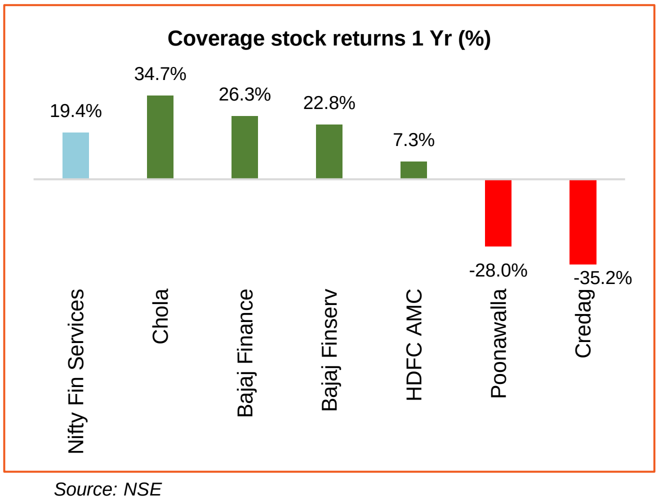
- Despite intensifying competition from banks, NBFCs continue to gain share in high-yield segments like MSME lending, gold loans, and unsecured retail finance, where speed, flexibility, and customized offerings give them an edge.
- On the asset quality front, credit costs remain elevated in sub-segments such as vehicle finance and microfinance, but we expect normalization from FY26E, supported by improving borrower behavior, better data-driven underwriting, and a more cautious lending approach.
- We remain constructive on high-quality NBFCs with diversified asset profiles, scalable operating models, and prudent risk management. These players are expected to outperform as credit cycles normalize and digital operating leverage begins to reflect meaningfully in margins and return ratios.
- **Top Picks: HDFC AMC and Poonawalla Fincorp stand out for their strong brand equity and robust market positioning.**



Source: NSE



Source: AMFI



Source: NSE

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Exhibit 1: Quarterly result expectation for companies under coverage

Q4FY25E (INR in Mn)	Outperform	Base	Underperform	View
HDFCAMC				
Revenue	9,802	9,516	9,231	➢ We expect HDFC AMC's AUM to grow by 33.2% YoY and 1.8% QoQ in Q4FY25E, reflecting strong inflows and healthy fund performance, despite heightened market volatility. The YoY growth is driven by a combination of sustained SIP momentum. ➢ We expect the overall AUM mix to remain stable on a sequential basis, indicating balanced growth across equity, debt, and passive categories. This stability, coupled with robust AUM expansion, is likely to drive revenue growth of 36.8% YoY and 1.8% QoQ in Q4FY25E. ➢ HDFCAMC is expected to deliver a strong 30.0% YoY growth in EBITDA, driven by robust AUM expansion and operating leverage, despite ongoing investments in new product launches and infrastructure development. ➢ In the base case scenario, Net Profit will likely grow by 22.1% YoY/ 3.0% QoQ, assuming a normalized tax rate of 25.0% during the quarter.
EBITDA	7,645	7,010	6,738	
PAT	6,812	6,605	6,277	
AUM (INR in Bn)	8,179	8,018	7,858	
BAJAJ FINANCE				
NII	104,556	101,511	98,465	➢ We expect BAF to report AUM growth of 27.5% YoY/ 5.8% QoQ in Q4FY25E, supported by healthy new customer acquisition and the rollout of new product offerings. The NBFC's continued focus on product innovation, digital engagement, and cross-sell opportunities is expected to contribute to ongoing traction across segments, sustaining growth momentum despite a moderating credit environment. ➢ For Q4FY25E, we expect NII to grow by 26.7% YoY and 8.2% QoQ under the base case, primarily driven by robust AUM expansion. While strong loan book growth continues to support revenue momentum, we anticipate a marginal contraction in NIMs by 5-10 bps QoQ. That said, interest expenses are expected to peak out in this quarter, which should help limit further margin erosion and set the stage for stabilization in the upcoming quarters. ➢ Net profit is expected to grow 23.4% YoY / 9.5% QoQ in the base case, despite higher credit costs YoY to absorb stress in the unsecured loan portfolio.
PPOP	87,317	84,774	82,230	
PAT	48,600	47,185	45,769	
BAJAJ FINSERV				
Total Income	368,840	358,098	347,355	➢ In the base case, we expect revenue to grow by 11.8% YoY, supported by sustained momentum in the lending business and a modest sequential recovery in the insurance segments. ➢ We anticipate Profit Before Tax (PBT) to rise by 20.3% YoY and 14.4% QoQ in the base case, primarily driven by operating leverage gains from strong topline growth and cost efficiencies. ➢ Net Profit is likely to grow by 14.5% YoY/ 8.7% QoQ in the base case scenario, with a possibility of +/-3.0%% deviation.
PBT	68,455	66,461	64,468	
PAT	24,986	24,258	23,531	

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Q4FY25E (INR in Mn)	Outperform	Base	Underperform	View
CIFC				
NII	31,750	30,238	28,726	➢ We expect AUM to grow by 25.9% YoY and 5.0% QoQ, supported by a healthy trajectory in home loans and LAP, aided by the NBFC's expanding geographical presence. ➢ In the base case scenario, NII is projected to grow by 28.4% YoY and 4.7% QoQ, driven by a favorable asset mix skewed toward secured, higher-yielding segments. NIMs are expected to remain stable QoQ, reflecting steady pricing and controlled funding costs. ➢ The cost-to-income ratio will likely be 43.4% for the quarter as against 39.9% in Q3FY25 (vs 44.1% in Q4FY24. ➢ We expect net profit to grow by 9.4% YoY in the base case, as higher credit costs—factored in due to elevated stress in the consumer business—partially offset operating profit growth.
PPOP	21,748	20,712	19,676	
PAT	12,158	11,579	11,000	
POONAWALLA FINCORP				
NII	6,822	6,624	6,425	➢ We expect Poonawalla Fincorp to report AUM growth of 35.1% YoY and 9.0% QoQ, driven by improved disbursements supported by continued diversification in product offerings. The strategic expansion beyond traditional offerings is expected to sustain momentum and broaden the customer base. ➢ NII is expected to grow by 17.8% YoY and 7.9% QoQ, supported by strong AUM growth. However, margins are likely to face continued pressure of ~10-15 bps QoQ, driven by rising borrowing costs and a shift in the asset mix. ➢ The cost-to-income ratio is expected at 43.9% in Q4FY25E, showing a marginal improvement from 44.5% in Q3FY25, though still elevated compared to 36.1% in Q4FY24, reflecting continued investments in franchise expansion. ➢ Net profit is likely to decline by 49.6% YoY, primarily due to elevated provisioning, as the company builds buffers against potential stress in select portfolios.
PPOP	4,227	4,104	3,981	
PAT	1,722	1,671	1,621	
CREDIT ACCESS GRAMEEN				
NII	8,912	8,487	8,063	➢ We expect AUM to grow by 6.0% YoY and 14.1% QoQ, driven by a sequential recovery in disbursements. However, in the base case, NII is projected to decline by 7.9% YoY and 1.5% QoQ, reflecting the impact of modest AUM growth and margin compression, likely due to higher funding costs and an unfavorable asset mix. ➢ Operating profit for the quarter is expected to increase by 9.2% QoQ, while remaining flat on a YoY basis, driven by tight cost control. ➢ We continue to factor in higher provisioning levels, leading to an estimated 39.6% YoY decline in PAT for the quarter. ➢ The asset quality is expected to show signs of stability across most operating geographies, except for Karnataka.
PPOP	7,143	6,803	6,463	
PAT	2,519	2,399	2,279	

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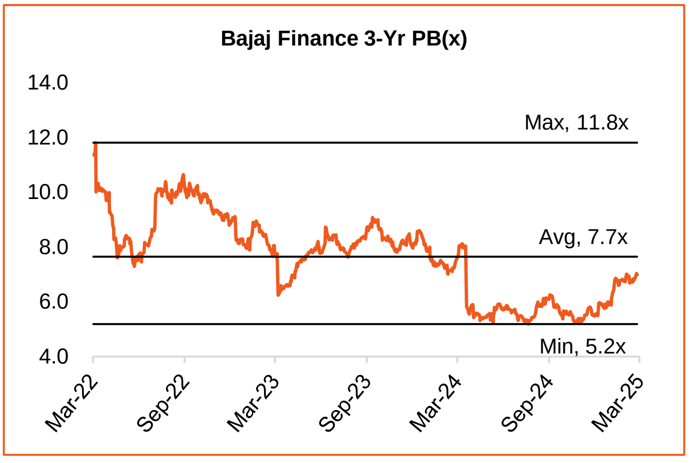

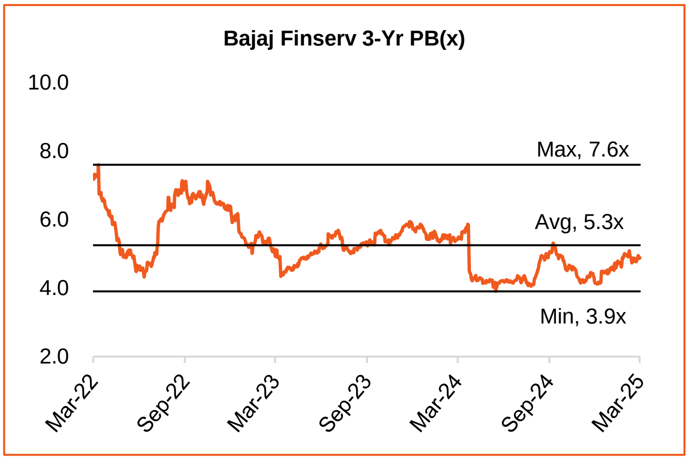

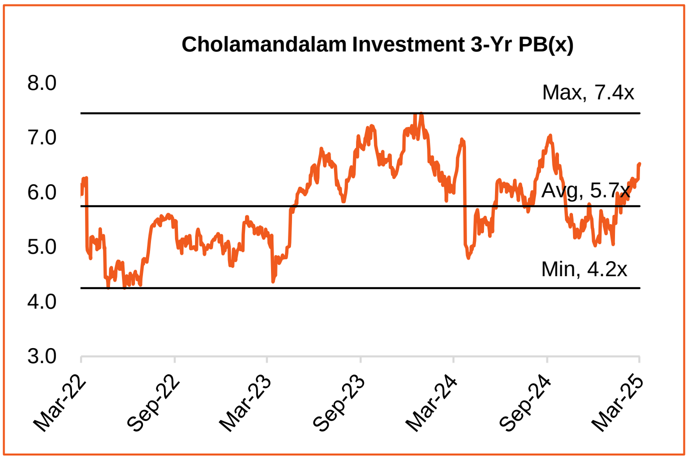

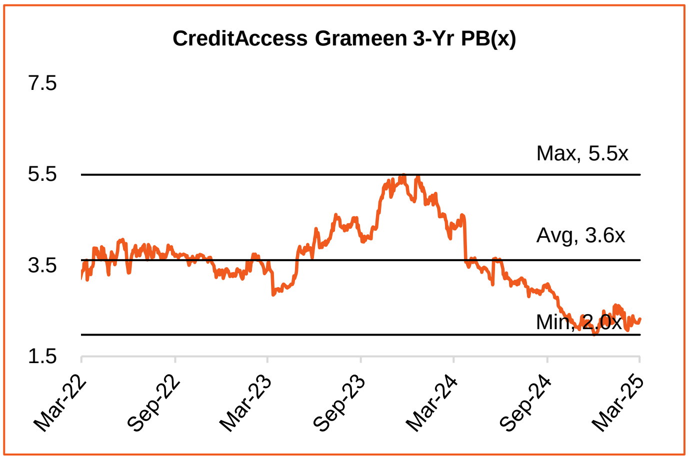

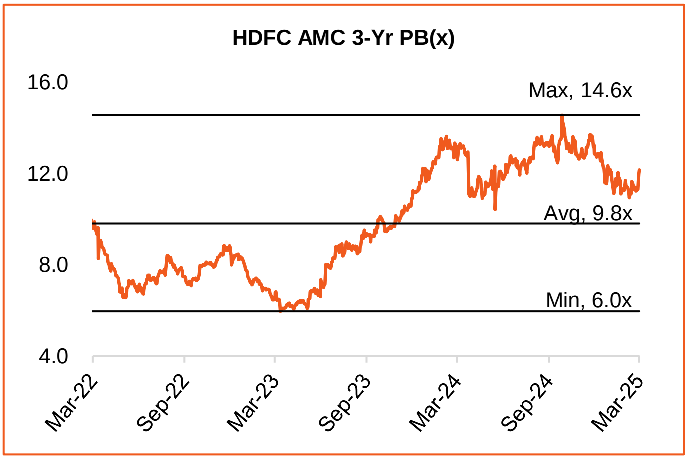

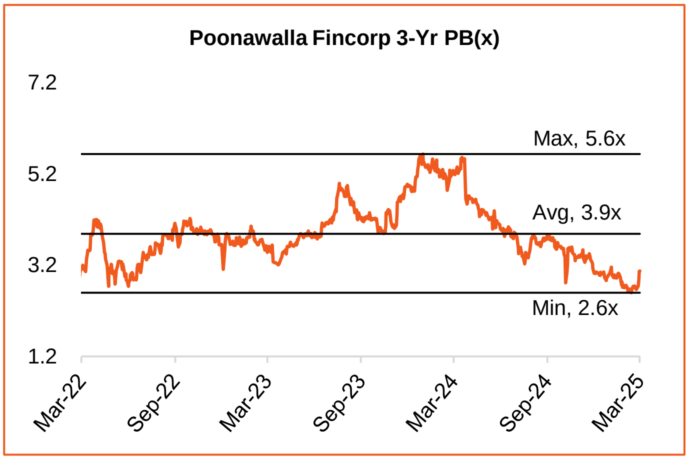

Source: Bloomberg/ NSE

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Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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