FINANCIALS - SFBs, NBFCs, HFCs & Ratings

Q2 FY26 would be characterized by incremental cyclical recovery in Microfinance, sustained growth and asset quality challenges for Vehicle Financiers, largely unchanged portfolio growth and delinquency trends for Affordable HFCs, continued growth tailwinds for Gold Loan Cos with incessant rally in gold price, and sustained credit cost pressure for MSME financiers. Financiers who would outperform within their segments would be Ujjivan SFB, CREDAG, LTFH, Shriram Finance, Can Fin Home, Repco Home, Aadhaar Housing and Muthoot Finance. In our Credit Ratings coverage, we expect a broadly stable growth momentum (adjusted for higher base in Q2 FY25) with CARE and CRISIL performing better than ICRA.

Our top picks include Ujjivan SFB, Can Fin Home, Repco Home, Aptus, Muthoot Finance, CRISIL and CARE. The lending companies we like have stable-to-improving growth visibility and would continue to demonstrate relative resilience in asset quality. In terms of segments, we see scope for re-rating in Microfinance and Affordable Housing if asset quality trends hold-up in the near term. Trends in non-ratings businesses are likely to improve over coming quarters for CRISIL and CARE.

Below are key segmental and company specific expectations for Q2 FY26

Microfinance

- Improvement in collections from June onwards to drive lesser new PAR addition versus Q1 FY26.
- Marginally lower opening SMA pool and some improvement in resolutions (net fwd. flow rate) to underpin a lesser NPL addition versus Q1 FY26.
- Write-offs to remain elevated for the industry with substantial provisions on NPLs and the want to accelerate clean-up.
- Credit cost related to PAR movement to sequentially decline, but that related to write-off will remain elevated.
- Leverage profile of borrowers likely to further improve through the quarter with strong industry adherence to guardrails and the growth approach remaining calibrated.
- Disbursements momentum to firm-up for players having the ability, intention, and funding for growth.
- While renewal activity will remain strong, the new customer acquisition is gradually picking-up with improving leverage/eligibility profile of borrowers who are not in default.
- Disbursements and leading asset quality trends to incrementally solidify for Ujjivan SFB, CREDAG, LTFH and Fusion.

Vehicle Finance

- Ground feedback suggests that volume push out due to GST cut announcement unlikely to get fully recouped within the quarter
- Demand elasticity to price cuts likely to be seen in PVs, Tractors and 2W segments; while demand sentiment unlikely to receive any fillip in LCV, MHCV, and CE segments
- Any disbursement volume spurt from price cuts needs to first recoup the funding value loss and would subsequently offer any growth in disbursement value to the vehicle financiers.
- Our assessment is of Chola reporting a marginal yoy growth in its vehicle fin. disbursements in Q2 FY26, MMFS reporting a mild decline and Shriram reporting a moderate growth.
- Diversity in portfolio to support Chola and strong positioning in used vehicle financing to help Shriram in navigating a subdued Q2 FY26.
- Delinquency matrix to deteriorate across vehicle financiers due to unimproved infra and industrial activity, intense rains, and incremental headwinds posted by tariff uncertainty and GST pause.
- Stage-2 and Stage-3 assets likely to see some bulging and credit cost to inch-up from Q1 FY26 levels.
- Managements currently not of the view that disbursement growth and asset quality levels would improve drastically in H2 FY26, despite the GST reforms.

Affordable Housing

- Operating performance in Q2 FY26 to remain individualistic basis the regional profile of portfolio and emerging asset quality trends.
- While disbursements across our coverage AHFCs will improve from Q1 FY26 levels, the onus will further increase on H2 FY26 for achieving the guided disbursement and AUM growth for the year (increasing risk on extant growth estimates).
- BT Out will be an important monitorable and any increase would suggest a built-up of growth-margin trade-off.
- Portfolio Spread is likely to improve in Q2 FY26 for AHFCs as they haven't cut their PLR yet, while the funding cost has started coming down.
- AHFCs are hopeful of maintaining buckets and NPL level in Q2 FY26 despite the quarter presenting some additional collection challenges.
- Managements are unlikely to change their AUM growth and credit cost guidance for the year on anticipation of a better performance in H2 FY26.
- Amongst prime HFCs, Can Fin could likely post a strong performance with disbursements on guided track, some improvement in asset quality and margins benefiting from upfront funding cost reduction.

Gold Financiers

- Incessant rally in gold price implies continual growth tailwind for Muthoot and Manappuram in their gold loans business.
- Lower portfolio LTVs and improvement in gold loan demand make growth environment even more conducive. Both Muthoot and Manappuram have been growing Gold Loans distribution through their subsidiaries.
- Gold portfolio to grow 8-10% qoq without assuming any material change in growth of active customer base.
- Portfolio Yield for Muthoot to remain firm (adjusted for large interest recoveries in Q1 FY26) and yield to come down by 50-70 bps in case of Manappuram due to growth largely from higher-value customers and reduction in pricing.
- Muthoot to sustain 25%+ RoE in Q2 FY26 aided by operating leverage and improving credit cost trends in standalone co. and Belstar MFI. Profitability to improve sequentially for Manappuram due to some reduction in Asirvad provisioning.

Credit Rating Agencies

- Domestic Ratings revenue to grow between 13-15% yoy for the Top 3 rating agencies. CARE's and CRISIL's growth to remain better than ICRA. The yoy growth base is elevated as Q2 FY25 had some volume (borrowing activity) push over from the earlier quarter due to general elections.
- Revenue market share trends to be in-line with preceding quarters, depicting incremental market share growth for CARE in capital market instruments rating and dominance of CRISIL in bond ratings.
- Pricing has been stable, but the realized revenue yield will continue to be driven by rated instrument mix and issuer mix. Q1 FY26 had much lower growth in revenue v/s the rated volume due to business growth pre-dominantly coming from the large issuers.
- Operating leverage to continue driving EBITDA margin expansion (on yoy basis) in Domestic Ratings business.
- Besides market penetration, the key monitorables for CARE would be growth and profitability trends in non-ratings businesses (particularly the Analytics' business).
- Sustained strong momentum in GAC and some signs of growth recovery in GR&RS would be key monitorables for CRISIL.
- Any improvement in revenue growth trends in KPO business and impact of Fintellix acquisition on financials would be key monitorables for ICRA.

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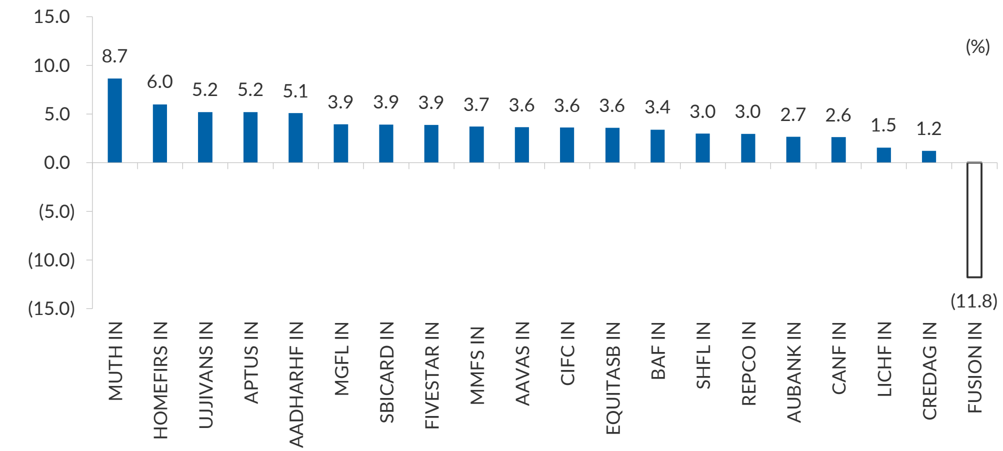
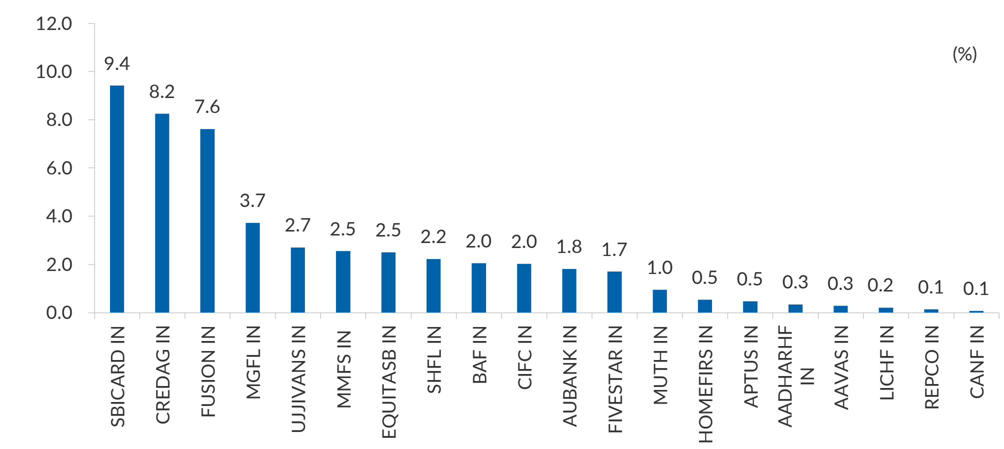
Exhibit 1: Expected sequential growth in AUM/Advances



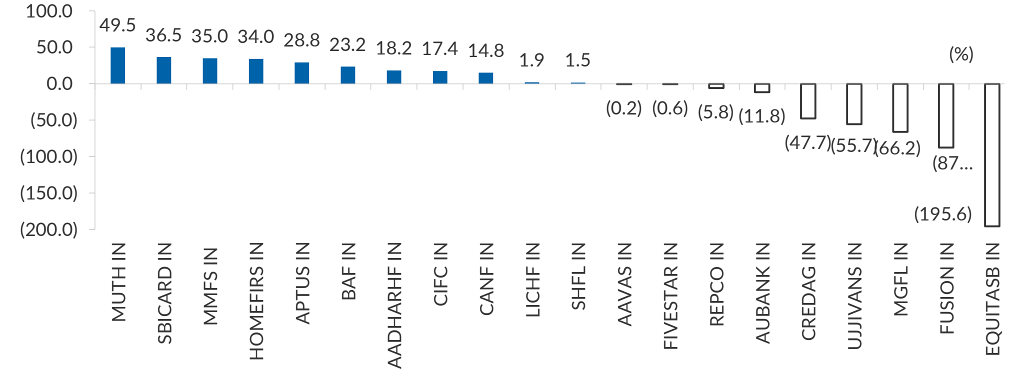
Source- Company, YES Sec

Exhibit 3: Expected Credit Cost (Annualized)



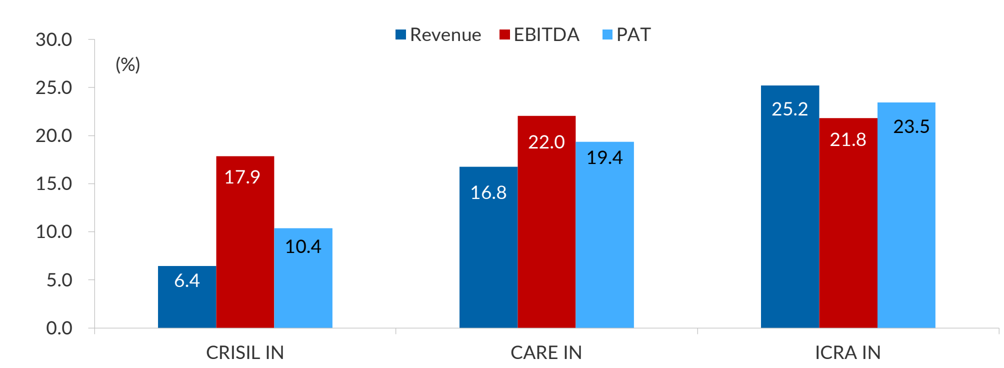
Source- Company, YES Sec

Exhibit 2: Expected PAT Growth YoY



Source - Company, YES Sec

Exhibit 4: Expected Growth YoY – Ratings Agencies



Source - Company, YES Sec

Exhibit 5: FINANCIALS- SFBs, NBFCs, HFCs & CRAs

Rs mn	NII / Revenue			PPoP / EBITDA			PAT		
	Q2 FY26E	YoY (%)	QoQ (%)	Q2 FY26E	YoY (%)	QoQ (%)	Q2 FY26E	YoY (%)	QoQ (%)
AUBANK IN	21,195	7.3	3.7	12,118	7.1	(7.6)	5,039	(11.8)	(13.2)
EQUITASB IN	7,802	(2.8)	(0.7)	2,228	(36.3)	(29.2)	(123)	(195.6)	(94.5)
UJJIVANS IN	9,073	(3.9)	6.0	3,680	(20.1)	2.1	1,032	(55.7)	0.0
BAF IN	132,186	20.8	4.9	89,120	22.0	5.0	49,444	23.2	3.8
SBICARD IN	42,129	15.9	3.7	20,994	19.5	(0.0)	5,519	36.5	(0.7)
FIVESTAR IN	6,164	14.4	2.8	4,092	7.7	1.6	2,664	(0.6)	0.0
AAVAS IN	3,724	12.7	4.5	1,983	1.8	4.2	1,475	(0.2)	6.0
LICHF IN	21,602	5.6	(1.2)	18,424	5.8	(2.6)	13,542	1.9	(0.4)
CANF IN	3,886	12.0	4.5	3,175	10.3	4.5	2,428	14.8	8.5
HOMEFIRS IN	2,710	37.3	7.0	1,783	41.4	6.0	1,236	34.0	4.0
APTUS IN	3,835	30.7	6.6	3,159	28.3	6.7	2,344	28.8	6.9
AADHARHF IN	5,584	16.6	8.2	3,636	18.9	9.6	2,690	18.2	13.4
REPCO IN	1,944	10.6	1.5	1,464	7.1	1.9	1,060	(5.8)	(1.8)
CIFC IN	38,805	22.4	2.7	24,859	29.3	3.1	11,304	17.4	(0.5)
SHFL IN	63,291	10.3	3.2	43,233	8.4	3.1	21,019	1.5	(2.5)
MMFS IN	23,982	22.2	5.8	14,527	21.5	7.4	4,986	35.0	(5.8)
CREDAG IN	9,934	2.5	1.3	6,556	(2.5)	0.4	931	(47.7)	62.1
FUSION IN	2,788	(39.9)	(2.4)	777	(72.6)	(10.2)	(383)	(87.5)	(58.5)
MGFL IN	14,096	(18.4)	0.2	6,559	(36.5)	(0.8)	1,934	(66.2)	46.0
MUTH IN	41,823	34.0	2.1	30,019	35.1	0.6	19,755	49.5	0.1
CRISIL IN	8,642	6.4	2.5	2,648	17.9	10.9	1,894	10.4	10.4
CARE IN	1,371	16.8	45.9	680	22.0	145.2	560	19.4	111.2
ICRA IN	1,579	25.2	26.9	503	21.8	26.5	458	23.5	7.1

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