

Reco/View: **POSITIVE**

CMP: **Rs. 454**

Price Target: **Rs. 550**

Quick Snapshot

- PAT rose 1.2% y-o-y but dropped by 3.2% q-o-q to Rs. 277 crore, on higher credit costs, worsening asset quality and drop in disbursements. It also lagged estimates by 1.3%.
- NII rose 12.5% y-o-y and 2.4% q-o-q to Rs. 607 crore. NIM stood at 18.74% (of AUM) down by 58 bps y-o-y due to faster drop in the yield.
- GNPA rose 156 bps y-o-y and 54 bps q-o-q to 3.18% due to stress in the lower ticket size LAP. Thus, credit cost rose sharply by 93 bps y-o-y and 17 bps q-o-q to 1.76% (of AUM).
- We expect an AUM and PAT CAGR of 21% and 14% over FY25-FY28 along with healthy RoA/RoE at 7.2% and 16.6% in FY28. Hence, we stay positive on the stock with a PT of Rs. 550 as most negatives are captured in the stock price.

Result overview

- NII was in line with estimates, up by 12.5% y-o-y and 2.4% q-o-q to Rs. 607 crore. NII slowed significantly due to lower disbursements, reduced growth, and increased credit costs. Net interest margin (NIM) at 18.74% (of AUM) up by 27 bps y-o-y however down by 58 bps y-o-y.
- Opex rose 21.3% y-o-y and 7.4% q-o-q to Rs. 208 crore, was in line with estimates. Implementation of the new labor code had a marginally increased opex. Other income dropped by 21% on q-o-q to Rs. 26 crore.
- PPOP, slightly below estimates by 2.1%, rise 9.7% y-o-y but declined 1.6% q-o-q attributed to elevated Opex and lower other income.
- Credit cost came in at 1.76% (of AUM), up by 93 bps y-o-y and 17 bps q-o-q due to worsening asset quality. Provisions came in at Rs. 57 crore, up by 145.2% y-o-y and 11.9% q-o-q.
- PAT grew at a muted 1.2% y-o-y, but fell by 3.2% q-o-q to Rs. 277 crore due to higher credit costs. It was also slightly below estimates by 1.3%.
- AUM rose 16.0% y-o-y and 0.9% q-o-q to Rs. 12,964 crore. Disbursement dropped by 18.4% q-o-q to Rs. 976 crore as focus on asset quality over growth.
- Asset quality sharply deteriorated, with GNPA rising by 156 bps y-o-y and 54 bps q-o-q to 3.18% due to rise in stress in the lower ticket size LAP (<3.0 lakh). NNPA came in at 1.94%, up by 113 bps and 48 bps.

Our Call

Maintain Buy with a revised PT of Rs. 550: The management is addressing asset quality concerns through stricter underwriting and aggressive collection efforts, with improvements expected in the next 1-2 quarters. Looking ahead, growth should accelerate by FY2027, with AUM and PAT CAGR of 21% and 14% over FY25-FY28 along with healthy RoA/RoE at 7.2% and 16.6% in FY2028. Hence, we maintain positive view with PT of Rs. 550. The stock traded at 1.3x FY28E BV

Key Risks

- Deterioration of the asset quality
- Continued lower AUM growth

Valuation

Particulars	FY24	FY25	FY26E	FY27E	FY28E	Rs cr
Net Interest Income	1,648	2,098	2,409	2,757	3,294	
Net profit	836	1,072	1,149	1,318	1,587	
EPS (Rs)	28	37	39	45	54	
P/E (x)	15.9	12.3	11.5	10.1	8.4	
P/BV (x)	2.5	2.1	1.8	1.5	1.3	
RoE (%)	8.2	8.2	7.4	7.2	7.2	
RoA (%)	17.5	18.7	16.7	16.2	16.6	

Source: Company; Mirae Asset Sharekhan estimates

Note: CMP as on Feb 01, 2026

Concall highlights

AUM and Disbursement growth

- Disbursements were in line with strategy of getting collection strategy in place
- Rejection rate stood at 38-40% and could see few basis point drop going ahead as things stabilise.
- Company is expected to improve its performance over the next one to two quarters. The focus remains on fixing problems and putting collections in order before discussing business acceleration or growth guidance.
- Affordable housing product was launched last quarter, with approximately 100 housing files disbursed or sanctioned, yielding encouraging feedback.
- Management is not rushing to accelerate growth for this new product, intending to accelerate the housing book in conjunction with the existing loan against property (LAP) book. The company may consider establishing separate teams to more seriously pursue growth for the new affordable housing product.

NII & NIM Growth

- NIM shrunk by ~50 bps y-o-y, attributed to lower disbursements, reduced growth, and higher credit costs.
- Spreads remained almost stable at ~13.9%, countering a 20 basis points quarterly drop in yields due to lower yields on incremental disbursements.
- Management noted that the drop in cost of funds has helped compensate for lower yields.
- An additional 10-15 bps benefit in cost of funds is expected over the next three to six months, driven by RBI repo rate cuts and current lower incremental borrowing rates.
- Fully-loaded cost for the \$100 million Asian Development Bank facility is estimated to be around 8.75% to 8.80%, approximately 25 to 30 basis points costlier than current borrowing rates.

Opex

- Implementation of a new labor code had a marginal impact on PAT.
- The company anticipates a marginal increase in operating expenses due to competition in the segment and the need to retain employees.

Credit costs and Asset quality

- Small ticket loans are experiencing tough times, with the crisis evolving from initial over-leverage to a current behavioral crisis among borrowers which sharply deteriorated asset quality.
- The current market stress is characterized as a "lender made crisis," differing from previous health or economic crises, and the company is opting for a prudent approach rather than a quick cleanup of the book.
- The company is building a full-fledged collection vertical, right up to senior people at HO, and this, once fully set up, would have a very positive impact on collections and asset quality
- Management is addressing the behavioral crisis by continuously engaging with customers to explain the importance of credit scores and timely payments, noting that these efforts are now showing results
- Asset quality is expected to improve over the next 1-2.
- Company believes in prudent provisioning, if required they would build up incremental provisioning in the coming quarters.

PAT and return ratios

- Management anticipates NIMS expansion will offset credit cost increases, maintaining profitability, which should ideally improve from FY27.

Results Table

Particulars	Q3FY26	Q3FY25	Y-o-Y	Q2FY26	Rs cr Q-o-Q
Interest Earned	796	711	11.9%	773	2.9%
Interest Expended	189	171	10.0%	180	4.8%
NII	607	540	12.5%	593	2.4%
Other Income	26	20	33.0%	33	-21.0%
Total Income	634	560	13.2%	627	1.1%
Operating Expenditures	208	171	21.3%	194	7.4%
PPOP	426	388	9.7%	433	-1.6%
P&C	57	23	145.2%	51	11.9%
PBT	369	365	1.0%	382	-3.4%
Tax	92	91	0.6%	96	-4.2%
Net Profit	277	274	1.2%	286	-3.2%
AUM	12,964	11,178	16.0%	12,847	0.9%
Disbursements	976	941	3.8%	1,196	-18.4%

Source: Company; Mirae Asset Sharekhan Research
Key Operating Ratios

Particulars	Q3FY26	Q3FY25	Y-o-Y %	Q2FY26	As a % of AUM Q-o-Q %
NII	18.7%	19.3%	-58	18.5%	27
Fee & Other Income	0.8%	0.7%	10	1.0%	-23
Opex	6.4%	6.1%	28	6.0%	38
Prov	1.8%	0.8%	93	1.6%	17
Tax Rate	2.8%	3.3%	-43	3.0%	-15
RoA	8.55%	9.80%	-125.2	8.91%	-36.2

Source: Company; Mirae Asset Sharekhan Research
Asset quality

Particulars	Q3FY26	Q3FY25	Y-o-Y %	Q2FY26	Q-o-Q %
GS-3	3.18%	1.62%	156.0	2.64%	54.0
NS-3	1.94%	0.81%	113.0	1.46%	48.0

Source: Company; Mirae Asset Sharekhan Research
Additional Data
Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Lakshmi Deenadayalan	10.45
2	WASATCH Advisors LP	7.23
3	L Hema	7.19
4	FIL Ltd	7.02
5	Sirius II PTE LTD	5.97
6	HDFC AMC	5.81
7	Fidelity Funds	3.63
8	Peak XV Partners	2.90
9	Vanguard Group	2.65
10	WASATCH Advisors INC	2.55

Source: Bloomberg
Key management personnel

Name	Designation
Mr. Lakshmi Deenadayalan	CEO - Chairman - MD
Srikanth Gopalakrishnan	Joint MD & CFO

Source: Company Website
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