Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	80,738	-0.8	3.3
Nifty-50	24,543	-0.7	3.8
Nifty-M 100	57,517	-0.4	0.6
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	5,970	0.6	1.5
Nasdaq	19,399	0.8	0.5
FTSE 100	8,787	0.1	7.5
DAX	24,092	0.7	21.0
Hang Seng	8,520	1.9	16.9
Nikkei 225	37,447	-0.1	-6.1
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	68	1.6	-8.4
Gold ($/OZ)	3,353	-0.8	27.8
Cu (US$/MT)	9,686	0.2	11.9
Almn (US$/MT)	2,460	0.0	-2.6
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	85.6	0.2	0.0
USD/EUR	1.1	-0.6	9.8
USD/JPY	144.0	0.9	-8.4
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	6.3	-0.01	-0.5
10 Yrs AAA Corp	6.9	-0.15	-0.4
Flows (USD b)	**3-Jun**	**MTD**	**CYTD**
FIIs	-0.3	-0.58	-10.5
DIIs	0.69	2.00	33.0
Volumes (INRb)	**3-Jun**	**MTD***	**YTD***
Cash	1,279	1225	1059
F&O	1,25,838	1,15,261	2,07,588

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Shriram Finance: Asset quality headwinds to gradually subside

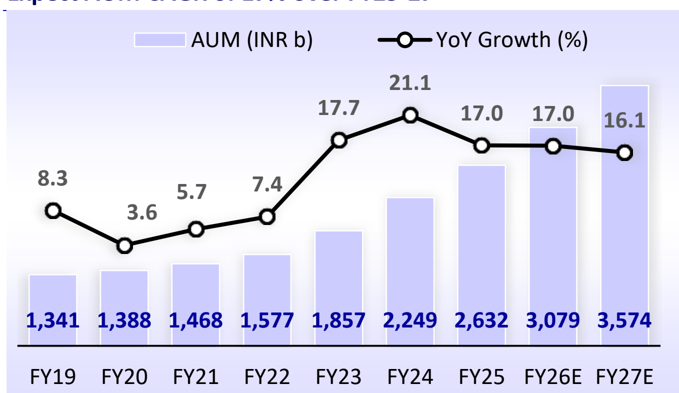
- Shriram Finance (SHFL) is currently facing transitory headwinds in its asset quality (compounded by weakness in economic activity) and NIM compression (driven by surplus liquidity on the balance sheet).
- We expect these headwinds to gradually subside as over the last two years, the company's execution on AUM growth and asset quality has been far ahead of its peers.
- SHFL offers a combination of market leadership, strategic diversification into high-growth non-auto segments, potential for margin and operating efficiency improvements, and attractive valuations with strong earnings visibility. The current valuation of ~1.6x FY27E BVPS is attractive for a ~19% PAT CAGR over FY25-27E and RoA/RoE of ~3.3%/17% in FY27E. SHFL is our top pick in the NBFC sector with a TP of INR800 (based on 2x FY27E BVPS).

Research covered

Cos/Sector	Key Highlights
Shriram Finance	Asset quality headwinds to gradually subside
KEC International	Focusing on improving return metrics

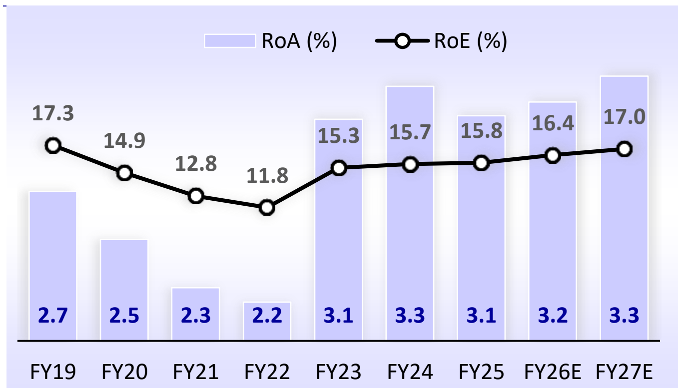
Chart of the Day: Shriram Finance (Asset quality headwinds to gradually subside)

Expect AUM CAGR of 17% over FY25-27



Source: MOFSL, Company

RoA/RoE of 3.3%/17% in FY27E



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

Zydus Lifesciences to acquire US biotech firm Agenus' facilities in California

Zydus Lifesciences is set to acquire Agenus Inc.'s biologics manufacturing facilities in California for $75 million upfront and $50 million in contingent payments, marking its entry into the global biologics CDMO sector.

2

Wipro bags multiyear tech services deal from US-based Entrust

The partnership will improve Entrust's operational efficiency, support its digital transformation goals, and better manage IT costs

3

Tata Communications announces TGN-IA2 subsea cable linking Singapore, Hong Kong, Japan to enhance connectivity

Tata Communications has launched the TGN-IA2 subsea cable system, enhancing connectivity across Asia by linking Singapore, Hong Kong, and Japan

4

Dixon awaits govt nod to make displays for sub-Rs 15k phones jointly with HKC

The company filed its application about six weeks ago and is now awaiting clearance, as the proposal falls under Press Note 3.

5

Chennai Petroleum to set up retail fuel outlets; commits Rs 400 crore capex

Chennai Petroleum Corporation Ltd, is venturing into establishing retail outlets for petrol and diesel during its Diamond Jubilee year, investing ₹400 crore.

6

Stress riding pillion on two-wheeler loans, may puncture asset quality: Moody's

Moody's Ratings warns of potential asset quality decline in Indian banks' vehicle loan portfolios. The agency cites slowing vehicle sales growth post-pandemic.

7

Vodafone to hike base 5G prepaid tariffs

Vodafone Idea (Vi) plans to increase its entry-level 5G pricing, following the strategies of Reliance Jio and Bharti Airtel. This move comes as Vi expands its 5G operations, aiming to improve monetization.

3 June 2025

Company Update | Sector: Financials

Shriram Finance

BSE SENSEX	S&P CNX
80,738	24,543

Stock Info

Bloomberg	SHFL IN
Equity Shares (m)	1880
M.Cap.(INRb)/(USDb)	1219.1 / 14.2
52-Week Range (INR)	730 / 439
1, 6, 12 Rel. Per (%)	6/2/24
12M Avg Val (INR M)	4396
Free float (%)	74.6

Financials Snapshot (INR b)

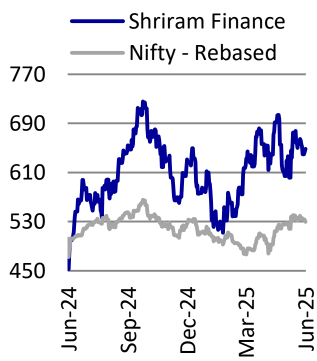
Y/E March	FY25	FY26E	FY27E
Total Income	234	278	327
PPOP	163	196	233
PAT	82.7	99.5	117.9
EPS (INR)	44	53	63
EPS Gr. (%)	15	20	19
BV (INR)	299	344	394
Valuations			
NIM on AUM (%)	9.0	9.1	9.3
C/I ratio (%)	30.5	29.6	28.7
RoAA (%)	3.1	3.2	3.3
RoE (%)	15.8	16.4	17.0
Div. Payout (%)	22.5	22.7	22.5
Valuations			
P/E (x)	14.7	12.3	10.3
P/BV (x)	2.2	1.9	1.6
Div. Yield (%)	1.5	1.9	2.2

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	25.4	25.4	25.4
DII	15.3	16.0	15.7
FII	53.6	53.1	53.9
Others	5.7	5.6	5.0

FII Includes depository receipts

Stock performance (one-year)



CMP: INR648 TP: INR800 (+23%) Buy

Asset quality headwinds to gradually subside

Normalization in surplus liquidity and declining rate cycle to boost NIM

- The last quarter of FY25 was a mixed bag for Shriram Finance (SHFL) as its AUM growth and disbursement momentum were healthy but its asset quality exhibited minor deterioration over the previous two quarters. The weakness stemmed from a slowdown in demand amid muted government capex and weak cashflows in the hands of customers. Additionally, SHFL reported margin compression, primarily driven by surplus liquidity on the balance sheet from the large ECB issuances during Dec'24-Mar'25.
- While both factors weighed on the company's performance over the last two quarters, we believe these transitory headwinds will now gradually recede. Margins are expected to improve going forward, supported by a gradual normalization of excess liquidity and potential repo rate cuts during the year. An improving product mix with a higher contribution from non-auto segments is expected to support blended yield expansion, further aiding margin improvement.
- Credit costs remained high in 4QFY25, due to high net slippages and minor deterioration in asset quality. Beyond the weak seasonality of 1HFY26, we expect the asset quality outlook to improve in 2HFY26. This is also reflected in the company's guidance of near-term stability in asset quality. That said, we believe that 1QFY26 will be an acid test for SHFL as well as other vehicle financiers (VFs) in terms of asset quality and collections.
- The FY26 outlook looks better for SHFL amid expectations of an economic revival, supported by forecasts of a favorable monsoon and higher government capex. Favorable monsoons can lead to a higher agricultural output and stronger rural cash flows, which in turn will drive credit demand across the vehicle finance and MSME segments. These factors would improve disbursement momentum and portfolio quality in FY26.
- We expect SHFL to deliver a PAT CAGR of ~19% over FY25-27E and RoA/RoE of 3.3%/17% in FY27E. SHFL remains our top pick in the NBFC space for CY26, driven by its diversified portfolio, strong execution and healthy return ratios. Since we highlighted SHFL as our top NBFC pick in Jan'25, the stock has delivered a robust ~22% return, outperforming the Nifty Financial Services Index, which has returned ~15% over the same period.
- SHFL's valuations have already re-rated from 1.4x to 1.9x 1-year forward P/BV over the last 12 months. The stock can see a further re-rating if the company is able to sustain the execution on its AUM growth, improve margins and exhibit stability in its asset quality. Reiterate our BUY rating on the stock with a TP of INR800, based on 2x FY27E P/BV.

Non-auto products to drive growth; branch expansion to boost reach

- SHFL has effectively capitalized on cross-selling opportunities within its non-auto portfolio, creating a more favorable loan mix with an increased focus on MSME, gold loans and personal loans. The diversified composition of the company's loan book has mitigated its exposure to the cyclicality of the CV business.
- SHFL will be converting its 750 rural centers into full-fledged branches. This expanded physical footprint will not only enhance reach in underserved markets but also enable greater cross-selling of non-auto products, supporting sustainable long-term growth. We estimate a CAGR of 16%/17% in disbursements/AUM over FY25-27E.

NIMs to get a boost from liquidity normalization and potential repo rate cuts

- SHFL is well-positioned to benefit from a declining interest rate environment. The recent 50bp reduction in repo rates, coupled with the expectation of further rate cuts in CY26, should ease the company's borrowing costs. About 30% of the company's borrowings will mature in FY26 and will be repriced at lower rates, resulting in a likely reduction in its cost of borrowings. Additionally, the surplus liquidity on the balance sheet, which stood at ~INR310b as of Mar'25 (Dec'24: INR27b), is expected to normalize to INR18-19b over the next two quarters. This normalization of excess liquidity is anticipated to further support NIM expansion. We estimate NIMs (as % of total assets) to improve to 8.4%/8.6% in FY26/FY27 (vs. ~8.2% in FY25).
- A shift in the product mix to high-yielding non-CV products is marginally accretive to the blended yields. A large proportion of this improvement in yields is expected to be driven by a higher proportion of PL, gold loans and MSME loans in the AUM mix.

Asset quality to remain range-bound; credit cost has largely peaked out

- SHFL has maintained resilient asset quality and stable credit costs over the past year compared to its peers, driven by strong underwriting and collection efforts. However, the company exhibited a deterioration in asset quality, higher net slippages and elevated credit costs in 4QFY25 due to factors discussed earlier in this report. That said, we believe credit costs have largely peaked and are likely to stabilize going forward, driven by improvement in economic activity.
- Notably, the company also undertook technical write-offs of ~INR23.5b in 4QFY25, which contributed to a sequential decline in GS3. Excluding technical write-offs, GS3 rose ~3bp QoQ. GS3 improved from ~6.9% in FY22 to ~4.6% as of FY25, while NS3 improved from ~3.3% to ~2.7% over the same period.
- Over the past year, the company's PL portfolio has remained resilient, exhibiting no deterioration, despite industry-wide stress in the unsecured retail credit segment. GNPA in the PL portfolio improved from ~5.2% as of Sep'23 to ~4.2% as of Mar'25. We expect a gradual improvement in GS3 to ~4.4% by FY27E (FY25: ~4.6%) and model credit costs (as a % of avg assets) to remain largely around 2.0-2.1% over FY26E-27E.

Valuation and view

- SHFL is currently facing transitory headwinds in its asset quality (compounded by weakness in economic activity) and NIM compression (driven by surplus liquidity on the balance sheet). We expect these headwinds to gradually subside as over the last two years, the company's execution on AUM growth and asset quality has been far ahead of its peers.
- Notably, SHFL has yet to fully leverage its expanded distribution network. We anticipate that tangible benefits from this enhanced reach will continue to materialize for another 12-18 months, driving further improvement in its performance.
- Shriram Finance offers a combination of market leadership, strategic diversification into high-growth non-auto segments, potential for margin and operating efficiency improvements, and attractive valuations with strong earnings visibility. The current valuation of ~1.6x FY27E BVPS is attractive for a ~19% PAT CAGR over FY25-27E and RoA/RoE of ~3.3%/17% in FY27E. SHFL is our top pick in the NBFC sector with a TP of INR800 (based on 2x FY27E BVPS).

Comparison of SHFL valuation matrix with peers CIFC and MMFS

Val summary	Rating	CMP (INR)	TP (INR)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Shriram Finance	**Buy**	**648**	**800**	**52.9**	**62.7**	**344**	**394**	**3.2**	**3.3**	**16.4**	**17.0**	**12.2**	**10.3**	**1.9**	**1.6**
Cholamandalam	Buy	1,566	1,770	65.2	83.6	361	442	2.5	2.7	20.5	20.8	24.0	18.7	4.3	3.5
MMFS	Buy	264	335	23.3	29.3	177	200	2.0	2.2	13.8	15.6	11.3	9.0	1.5	1.3

KEC International

BSE Sensex	S&P CNX
80,738	24,543

KEC INTERNATIONAL LIMITED

Bloomberg	KECI IN
Equity Shares (m)	266
M.Cap.(INRb)/(USDb)	231.7 / 2.7
52-Week Range (INR)	1313 / 605
1, 6, 12 Rel. Per (%)	23/-21/7
12M Avg Val (INR M)	1306

Financials Snapshot (INR b)

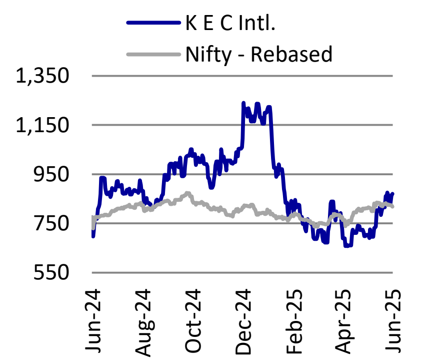
Y/E MARCH	FY25	FY26E	FY27E
Net Sales	218.5	254.7	299.3
EBITDA	15.0	20.6	24.3
PAT	5.7	9.3	11.8
EPS (INR)	21.4	35.1	44.4
GR. (%)	64.6	63.5	26.8
BV/Sh (INR)	200.9	207.5	215.9
Ratios			
ROE (%)	12.1	17.2	21.0
RoCE (%)	12.9	15.5	17.8
Valuations			
P/E (X)	40.6	24.8	19.6
P/BV (X)	4.3	4.2	4.0
EV/EBITDA (X)	17.4	12.6	11.0
Div Yield (%)	2.0	3.3	4.1

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	50.1	50.1	51.9
DII	24.2	24.9	25.8
FII	15.4	15.2	12.5
Others	10.3	9.8	9.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR871 | TP: INR940 (+8%) | Neutral

Focusing on improving return metrics

KECI in our recent meeting highlighted a continued strong addressable market for T&D and improving opportunities in the civil segment for residential buildings, petrochemicals, hospitals, etc. while, industrials has been witnessing slow momentum. The company is continuously focusing on improving return metrics and targeting a reduction in NWC cycle on improved collections. We expect KECI to continue to benefit from the prospect pipeline in T&D, and thus, maintain our estimates. We retain our Neutral rating on the stock with a TP of INR940, based on 21x two-year forward earnings.

T&D segment pipeline remains strong

KECI's T&D business witnessed growth in the order book, from INR120b in FY22 to INR245b (including L1) in FY25, aided by the government's thrust on renewable energy, green hydrogen and an overall increase in power demand. Major regions contributing to the current T&D order book include India (43%), the Middle East (31%), the Americas (9%), Africa (5%) and CIS (5%). There is a total tender pipeline of INR600b for T&D projects. Domestic T&D segment growth is primarily being driven by increased power demand in the country (target of achieving 600GW of non-fossil fuel capacity by 2032) and KECI's entry into the HVDC area, where the company is already executing projects and is eyeing two more tenders from Gujarat and Leh Ladakh. International T&D order enquiries are building up in the Middle East, the Americas and Australia, while Africa still remains slow.

Working capital expected to improve

KECI has an order backlog of approximately INR20b in its water project segment, where the broader industry has faced delays in payment releases from government authorities. However, by the end of FY25, execution momentum in this segment had started to improve, with payment inflows beginning to resume - around INR1.4b received during the year. Management also indicated that the railways business may have bottomed out and could see gradual improvement going forward. These factors, along with an increasing contribution from the T&D segment (which inherently has more favorable working capital), are expected to support the company's target of reducing NWC level to 100 days. Nonetheless, we believe execution and working capital recovery trends warrant continued monitoring. We expect pending payments from Afghanistan, water projects and railway projects to help reduce the burden on receivables. Along with this, with the completion of metro projects and a few international projects, the release of retention money will help the company to reduce NWC cycle.

Focusing on improving margin and ROCE

KEC aims to improve its RoCE profile by focusing on NWC reduction and margin improvement. While T&D segment has already reached double-digit margins and has a comfortable working capital cycle, the other non-T&D segments, particularly civil and railways, are facing pressure on both margin and NWC. The company intends to improve return metrics for non-T&D segments by focusing on improved collections, targeting better margin in projects and timely completion of projects. Civil segment margins are currently hovering in mid-single digits, while railway segment margins are close to break-even levels. With payments gradually resuming for water projects in the civil and railways segments, management anticipates an improvement in working capital for both segments in FY26, which should enhance ROCE. However, we expect margin improvement to still take some time to reflect for non-T&D segments, while NWC improvement can happen faster.

Financial outlook

We expect a revenue/EBITDA/PAT CAGR of 17%/27%/44% over FY25-27. This will be driven by 1) order inflow growth of 24% over the same period, led by a strong prospect pipeline; 2) a recovery in EBITDA margin to 8.1% by FY26/FY27; and 3) a gradual reduction in NWC. With the expected improvement in execution and margins, we expect its RoE and RoCE to reach 21% and 17.8%, respectively, by FY27.

Valuation and view

KECI is currently trading at 24.8x/19.6x on FY26E/27E earnings. **We reiterate our Neutral rating** with a TP of INR940, based on 21x Mar'27E EPS.

Key risks and concerns

A slowdown in order inflows, higher commodity prices, an increase in receivables and working capital, and heightened competition are some of the key risks that could potentially affect our estimates.

Blue Star: Will be able to deliver 8-8.5% margin in the unitary cooling products business in FY26; B Thiagarajan, MD

- Company expects its room air conditioner (RAC) business to deliver 10–15% revenue growth for the full year
- Aiming to increase unit sales from 1.53 million to about 1.65 million
- Commercial refrigeration segment is projected to grow 25–30% in FY26
- Co anticipates maintaining margins at 8–8.5% in the unitary cooling products segment

Read More

NMDC Steel: NMDC Steel will be EBITDA & Profit before tax positive in FY26; Amitava Mukherjee, CMD

- Expects its EBITDA margin to remain stable at around 42% in FY26
- Receivables, currently at ₹6,500–7,000 crore, are expected to decline significantly by the end of FY26
- Achieving record monthly production and dispatches in April and May 2025
- Co has ambitious capital expenditure plans, with ₹4,200 crore planned for FY26 and a long-term capex target of ₹60,000–70,000 crore

Read More

Welspun Corp: Orderbook is at ₹19,500 crore & there is no order on which us tariff is applicable; Vipul Mathur, MD & CEO

- Holds a ₹19,500 crore order book, fully insulated from US tariffs
- Investing ₹1,000 crore in a new LSAW pipe facility in the US to capitalize on local demand and reduced imports, aligned with US protectionist policies
- US LSAW facility is expected to generate ₹3,000 crore in revenue with 12–15% EBITDA margins, targeting high-growth sectors like oil, gas, and carbon capture.
- Guiding for 18% EBITDA growth (₹2,200 crore) but cautious tone maintained

Read More

Titagarh Rail: Passenger rail segment is expected to see a sharp surge in FY26 & FY27; Umesh Chowdhary, VC & MD

- Faced production challenges due to a shortage of wheel sets, but expects this issue to be resolved from June 2025
- Delivered about 9,500 wagons—a record for any Indian company
- Sharply increasing its passenger rail production, including metro coaches and Vande Bharat trains
- Co expects about 25% revenue growth in FY26, with freight margins at 11–12% & passenger segment margins at 10–12%

Read More

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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