Financial Services

Sector Update

August 07, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
AAVAS Financiers	Accumulate	1,375	1,675
Bajaj Finance	Accumulate	1,145	1,125
BSE	Buy	3,435	4,850
Can Fin Homes	BUY	808	1,075
Cholamandalam Investment and Finance Company	Accumulate	1,940	1,950
Home First Finance Company India	BUY	1,191	1,385
LIC Housing Finance	HOLD	505	550
Mahindra & Mahindra Financial Services	Accumulate	389	380
Shriram Finance	BUY	1,141	1,250
Sundaram Finance	Accumulate	4,647	5,070

RBI proposes curbs on revolving credit/ flexi loans

Quick Pointers

- Any type of reusable credit line, overdraft, flexi loans offered by NBFCs face regulatory uncertainty
- Diversified NBFCs better placed to mitigate disruption
- Expect a small impact on BAF margin due to loss of flexi premium

Proposed RBI amendments could require NBFCs to redesign existing revolving credit products; we believe diversified NBFCs to be better placed to mitigate disruption through alternative product offerings. Flexi loans contribute ~13% of BAF's portfolio (largely MSME loans); we expect a small impact on margin due to the loss of flexi premium. Moreover, the MSME segment has seen subdued growth over the past 4-5 quarters due to high stress in the portfolio. We expect recovery to be further delayed due to the new guidelines.

RBI draft has proposed tighter restrictions on the type of credit facilities offered by NBFCs. The draft defines a revolving credit facility as any fund-based credit facility that does not meet the definition of a term loan. A term loan has been defined as a credit facility with a fixed principal amount, where the sanctioned limit is disbursed in one or more instalments and repaid according to a predetermined repayment schedule. The proposal also specifies that once the principal is repaid, the sanctioned limit cannot be restored or replenished. Under the proposal, the restriction would not apply to NBFCs that have been specifically authorised by the RBI to issue credit cards. *(Link to RBI draft)*

Flexi/revolving loan structures likely to be impacted: In our view, any type of reusable credit line, overdraft facility or flexi loan product offered by NBFCs in the corporate, MSME and unsecured personal loan category is likely to be impacted. Proposed RBI amendments would require NBFCs to restructure their existing revolving credit products, with potential implications on customer proposition, fee income and product economics. While the full impact will depend on the final guidelines, diversified NBFCs may be better placed to mitigate disruption through alternative product offerings.

Lower yield due to loss of flexi premium: NBFCs with flexi/revolving structures earn a higher yield (premium of ~50-100 bps). Any migration towards conventional term loans could reduce such fee pools and alter the economics of these products.

NBFCs to lose out on customers vs. banks: If these restrictions are applied strictly, NBFCs could face a structural disadvantage vs. banks in segments where access to flexible credit is an important customer proposition.

Impact on BAF: BAF has ~13% of its portfolio (Rs 700 bn) coming from flexi loans across unsecured business loans/ MSME/ PL/ urban and rural B2C loans. These products have a typical tenure of ~4-5 years and are offered to existing BAF customers. Assuming a premium of 100 bps on 13% of its portfolio, we think the impact on margin would be ~13 bps. Moreover, the company has been curtailing growth in the MSME portfolio over the past 4-5 quarters due to higher stress/ over-leveraging in the segment. While Q1FY27 commentary expected a recovery from Q2 onwards, it is likely to be delayed due to the new guidelines.

Shreya Khandelwal
shreyakhandelwal@plindia.com | +91-22-66322538

Dhanik Hegde
dhanikhegde@plindia.com | +91-22-66322222

Harshada Gite
harshadagite@plindia.com | +91-22-66322237

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	AAVAS Financiers	Accumulate	1675	1522
2	Bajaj Finance	Accumulate	1125	1054
3	BSE	Buy	4850	3618
4	Can Fin Homes	BUY	1075	857
5	Cholamandalam Investment and Finance Company	Accumulate	1950	1753
6	HDFC Life Insurance Company	BUY	765	569
7	Home First Finance Company India	BUY	1385	1181
8	ICICI Prudential Life Insurance Company	BUY	715	525
9	LIC Housing Finance	HOLD	550	523
10	Mahindra & Mahindra Financial Services	Accumulate	380	350
11	Max Financial Services	BUY	2035	1597
12	SBI Life Insurance Company	BUY	2200	1859
13	Shriram Finance	BUY	1250	1005
14	Sundaram Finance	Accumulate	5070	4829

PL's Recommendation Nomenclature (Absolute Performance)

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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Prabhudas Lilladher Pvt. Ltd.

Corporate Office: 6th Floor, Tower 2B South Annex, One World Centre, 841, Senapati Bapat Marg, Lower Parel, Mumbai - 400013

Registered Office: 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com

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