Capri Global Capital Ltd

CMP	Target	Potential Upside	Market Cap (INR Cr)	Recommendation	Sector
256	316	23%	24,583	BUY	NBFC

Capri Global Capital Ltd: A smarter Gold-Lending Franchise

Capri Global Capital is at an inflection point, with its gold-loan franchise moving from branch-led expansion to a more scalable, volume-driven model. We see three structural drivers supporting the next leg of growth: rising customer and branch productivity, sustained operating leverage as the existing cost base scales, and increasing use of co-lending to improve capital efficiency. Together, these should allow CGCL to compound AUM at a healthy pace while sustaining strong returns and limiting the need for incremental equity capital. While established gold-lending leaders remain formidable competitors, we believe CGCL is increasingly playing the game smarter, with a differentiated growth model built around productivity and capital efficiency. However, given the relatively limited seasoning of its gold-loan book and the need to establish the durability of its returns through a full gold-price cycle, we remain measured on valuation. We assign 2.5x FY28 ABV, at a discount to Muthoot's 3.5x but at a premium to Manappuram, reflecting CGCL's 19-21% RoE and ~30% AUM CAGR. The discount to Muthoot captures the relatively limited seasoning of CGCL's gold-loan franchise, the need to establish the durability of its returns through a full gold-price cycle, and the concentration risk inherent in its predominantly single-product franchise.

- **Gold loan growth is increasingly volume-led, insulating growth from gold-price volatility:** CGCL is scaling its gold franchise by replicating the playbook of established leaders, opening branches in proven gold-lending catchments alongside Muthoot and Manappuram, while hiring experienced loan officers from the incumbent ecosystem. The strategy is translating into volume-led growth: despite a 4% QoQ decline in gold prices in Q1 FY27, gold AUM grew 13% QoQ to INR 19,179 Cr, supported by a 19% increase in collateral weight to 20.2 tonnes and an 11% increase in active customers. The opportunity remains substantial, with >60% of its ~1,000 branches below optimal productivity and customers per branch at ~700 versus ~1,400 for Muthoot. Technology provides an additional near-term advantage in sourcing and servicing, although we see this as replicable by incumbents. The more durable opportunity is the productivity runway: CGCL can compound volumes by improving utilisation of an already-built branch network, making growth less dependent on gold-price appreciation.

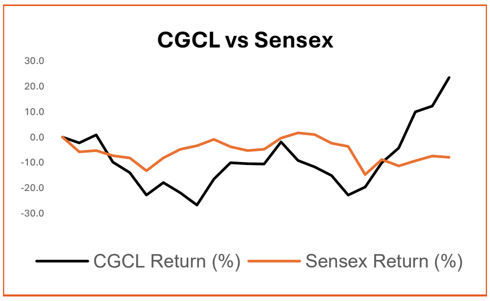
- **Operating leverage is moving CGCL towards a structurally higher earnings profile:** The sharp decline in cost-to-income is not merely cyclical; it reflects operating leverage from a rapidly scaling loan book. CTI has declined from 70.5% in Q4 FY24 to 44.2% in Q1 FY27, even as AUM grew 62% YoY with only a 14% increase in headcount. AUM per employee has consequently doubled to INR 3.4 Cr, highlighting the scalability of the franchise. Management expects CTI to remain at ~44-45% despite plans to add ~400 branches in FY27, suggesting that incremental growth can be absorbed without a commensurate increase in operating costs. With RoAA at 4.1% and RoAE at 19.1% already within the company's FY28 guided range, the key debate is shifting from turnaround execution to the durability of earnings and return ratios.

- **Co-lending is the capital-efficiency multiplier that can sustain high growth without proportional dilution:** CGCL's co-lending platform provides a second engine of growth by decoupling AUM expansion from balance-sheet intensity. Co-lending AUM has risen 74% YoY to INR 8,126 Cr, or ~20% of total AUM, while generating an estimated 22-25% return on deployed capital. By retaining only ~20% of the underlying loan exposure on balance sheet while participating in the economics of the full loan, the model materially improves capital efficiency and frees up balance-sheet capacity for the higher-return gold-loan franchise. This creates the potential to compound AUM at ~30% while operating at ~3.7x leverage and maintaining a healthy 24.7% CRAR, allowing CGCL to fund growth through internal capital generation rather than proportional equity dilution.

Particulars	
CMP (INR)	256
Market Cap (Cr)	24,627
Free Float Market Cap (Cr)	9,864
52 Week High / Low (INR)	264 / 151
Avg Daily Vol (1Y) shares	29,04,323
No. of Shares (Cr.)	96.2

Key Financial (INR Cr.)	FY26	FY27E	FY28E
Net Interest Income	2,001	3,434	4,614
PPOP	1,447	2,459	3,422
Net Profit	949	1,668	2,348
EPS	9.87	15.71	22.11

Holding	Dec-25	Mar-26	Jun-26
Promoters	59.92	59.92	59.92
FIIs	4.50	5.62	8.21
DIIs	20.11	20.09	18.42
Public	15.46	14.33	13.46
Others	0.01	0.04	0.00
Total	100.0	100.0	100.0



Source: Company, Deven Choksey Research

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Story in Charts

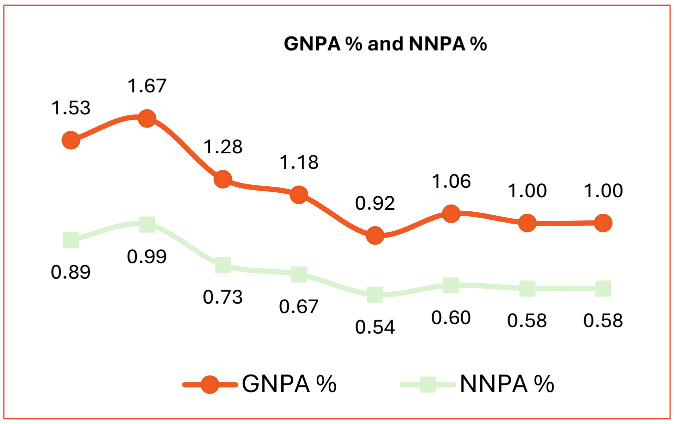

Figure 1: Asset quality improving steadily - GNPA down from 1.53% to 1.00% as the book seasons without stress.

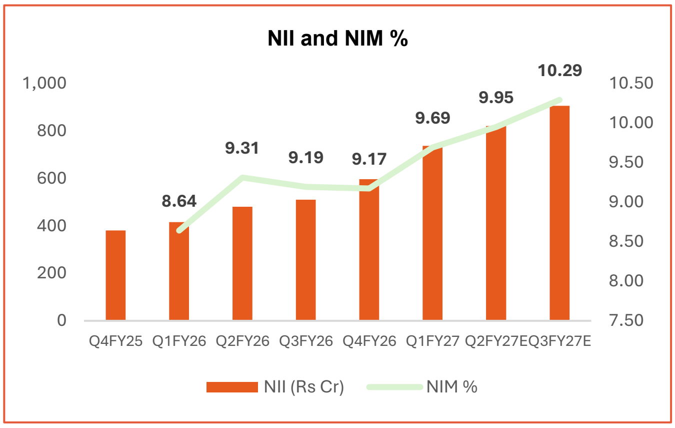

Figure 1: NII compounding on AUM growth while NIM expands from ~9% toward 10%+ on improving product mix.

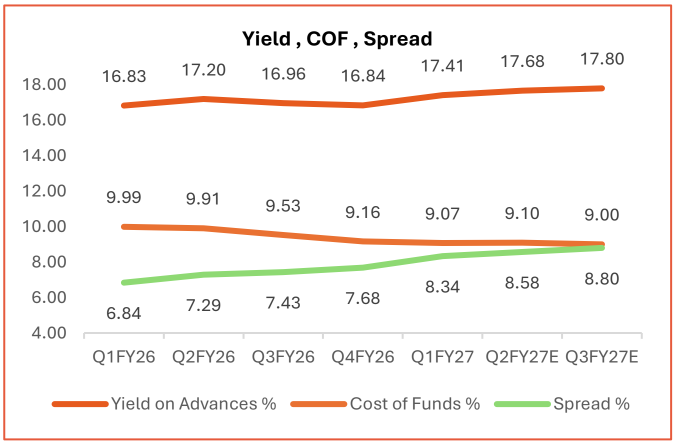

Figure 3: Spread widening from 684 bps to 880 bps as CoF declines faster than yields on the gold-heavy book.

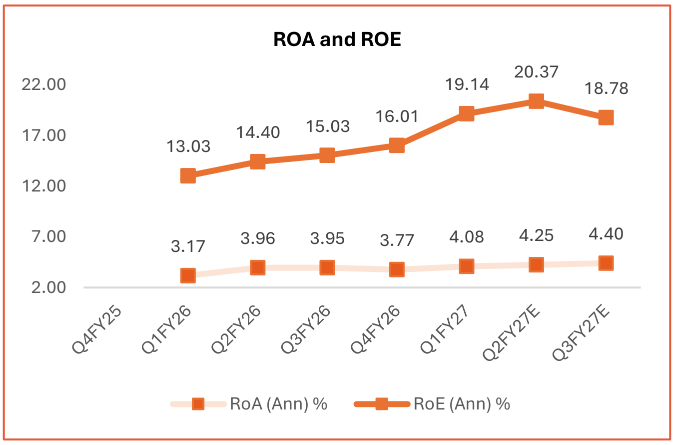

Figure 2: ROE inflecting from 13% to 20%+ driven by operating leverage, with ROA steady at 3.8-4.4%.

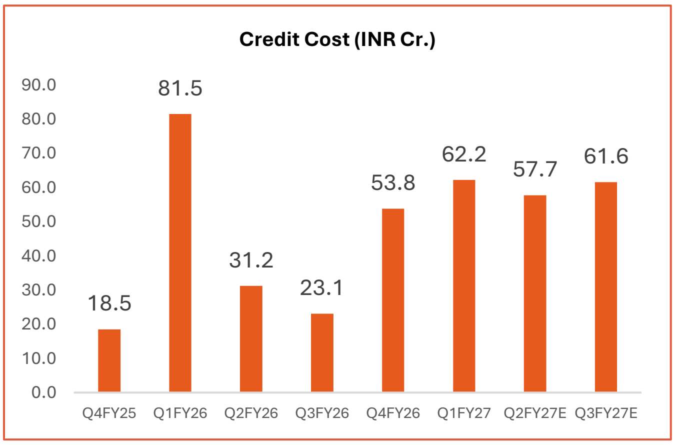

Figure 5: Credit costs normalizing post the Q1FY26 spike; modeled at ~0.7% of AUM through FY27-28E.

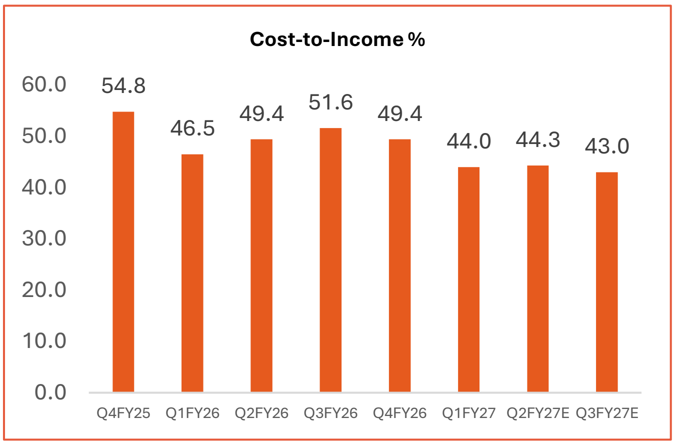

Figure 6: CTI compressing from 55% to 43% - branch scale-up costs being absorbed by faster revenue growth.

Source: Company filings, Deven Choksey Research

Company Overview

Capri Global Capital was incorporated in November 1994 as Daiwa Securities Limited, was renamed Dover Securities in 1999 and Money Matters Financial Services in 2008 and took its present name in August 2013. The operating history that matters begins in FY11, when the company began lending. The segment build sequence has been deliberate and staged, with each new business added only after the previous one reached scale.

Segment	Launched	Q1 FY27 AUM (Rs Cr)	% of AUM	Yield (%)
Retail construction finance	FY11	6,332	15.8	17.6
MSME (incl. micro-LAP, solar)	FY13	6,779	16.9	16.8
Affordable housing (CGHFL)	FY17	7,815	19.5	13.4
Gold loans	FY22 (Aug-22)	19,179	47.8	18.6
Legacy indirect lending	run-off	7	0.0	n.m.
Total		**40,112**	**100.0**	**17.4**

The gold entry in August 2022 is the pivotal decision. In under four years gold has gone from nil to 48% of AUM, and it is simultaneously the highest-yielding (18.6%), lowest-risk (0.3% GNPA) and shortest-duration segment in the book. That combination is unusual and is the core reason blended returns have re-rated. Gold AUM grew 111% YoY in FY26 and a further 13% sequentially in Q1 FY27.

Business Model

CGCL runs a branch-led, physically underwritten, fully secured lending model. Every rupee of the book is secured, against gold ornaments, self-occupied or business property, or under-construction residential projects. Collections are in-house rather than outsourced. Underwriting is increasingly data-driven; management disclosed a collaboration with OpenAI during Q1 FY27 aimed at building what it describes as an AI-native lending institution and has separately launched a USD 1bn global medium-term note programme to diversify funding.

Alongside the lending book, CGCL runs two capital-light fee businesses. It originates car loans for partner banks, with Q1 FY27 origination volume of INR 3,282 Cr, up 43% YoY, earning INR 32 Cr of distribution fees. It also holds a corporate agency licence and distributes life, general and health insurance, contributing INR 42 Cr in Q1 FY27. Neither business consumes balance-sheet capital.

Promoter, management and shareholding

Rajesh Sharma is the promoter and Managing Director and has led the company through both strategic pivots. The promoter group held 59.92% as at June 2026. Institutional ownership remains light at 12.7% between mutual funds (7.05%) and foreign institutional investors (5.62%), which we regard as a positive setup: the equity story is under-owned by domestic institutions relative to its growth and return profile, and the free float of 40.1% has absorbed two large placements without difficulty.

Should the INR 2,500 Cr placement we model in Q3 FY27 be executed at around INR 250 per share, promoter holding would fall to approximately 54.3%. Investors should note that CGCL has raised equity twice in short order: INR 2,000 Cr in Q1 FY26, adding 136.9mn shares, and the INR 2,500 Cr we assume in Q3 FY27, adding a further 100mn shares. We treat the resulting cadence of dilution every 18 to 24 months as a structural feature of the model rather than an aberration, and we quantify its effect on book value compounding in the anti-thesis section.

	Holding (%)	Event	Detail
Promoter and promoter group	59.92	Q1 FY26 QIP	INR 2,000 Cr, +136.9mn shares
Mutual funds	7.05	Q3 FY27E QIP	INR 2,500 Cr assumed, +100mn shares
Foreign institutional investors	5.62	Shares FY25	825.1mn
Public and others	27.41	Shares FY28E	1,062.2mn
Total	**100.00**	**3-yr share growth**	**+28.7%**

Source: Company filings, Deven Choksey Research

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Key Management profiles

Rajesh Sharma | Managing Director

Founder & Promoter of Capri Global Capital and a Chartered Accountant with over two decades of experience across capital markets, corporate finance and financial services. He has been instrumental in transforming CGCL into a diversified retail-focused lending platform. His long-standing involvement provides continuity in strategy and execution, with a strong focus on MSME, affordable housing and other secured lending segments

Kishore Lodha | Chief Financial Officer (CFO)

Appointed CFO in August 2025, bringing financial management experience to CGCL's senior leadership team. He is responsible for financial planning, reporting, capital management, liquidity and treasury functions. His role is particularly important for maintaining balance-sheet discipline and supporting CGCL's growth while managing funding and capital requirements.

L V Prabhakar | Independent Director & Chairman

Former MD & CEO of Canara Bank and former Executive Director of Punjab National Bank, with extensive experience across banking and financial services. He brings strong expertise in credit, risk management, governance and regulatory matters. As Chairman and a key member of the Board, his experience is particularly relevant given CGCL's NBFC business model and expanding lending portfolio.

Sector Context

The Indian Gold Loan Market:

India holds the largest privately owned stock of gold in the world, estimated at approximately 25,000 tonnes in household hands. Only around 12% of that stock is formally financed. The remainder is either unpledged or pledged with pawnbrokers, moneylenders and unregistered financiers at rates that are typically multiples of the organised sectors. This is the structural opportunity: the addressable market is defined not by economic growth but by the pace at which informal borrowing converts to formal, and that conversion has been accelerating.

The formal market splits between banks and NBFCs. Bank gold lending, much of it agricultural gold loans booked against priority sector targets, is roughly four times the size of the NBFC market. RBI data placed the gold loan market at INR 3.38 lakh Cr as at October 2025, having grown 128.5% year on year, making it the fastest-growing retail credit category in the country. The NBFC segment competes on speed, branch density, valuation transparency and willingness to lend small tickets, not on price.

Parameter	Estimate	Basis
Household gold stock	~25,000 tonnes	Industry estimate [E]
Proportion formally financed	~12%	Industry estimate [E]
Total gold loan market (Oct-25)	INR 3.38 lakh Cr	RBI data, +128.5% YoY
Bank gold loan book	~INR 13 lakh Cr	Industry estimate [E]
NBFC gold loan book	~INR 3 lakh Cr	Industry estimate [E]
CGCL gold AUM (Q1 FY27)	INR 19,179 Cr	CGCL Q1 FY27 filing
CGCL share of NBFC gold market	~6%	Derived

Source: Company , Deven Choksey Research

CGCL's roughly 6% share of the NBFC gold market is the relevant framing for the growth outlook. The company does not need the market to grow in order to compound; it needs only to continue taking share from the informal sector and from sub-scale regional lenders within its catchment. That is a lower bar than the headline growth rates imply.

The Macroeconomic Backdrop

RBI gold lending Directions 2025: provisions that matter for CGCL

Provision	Detail	Read-across for CGCL
Tiered LTV	85% up to INR 2.5 lakh; 80% for INR 2.5-5 lakh; 75% above INR 5 lakh, replacing a flat 75% cap	Positive. CGCL's gold ticket size of Rs 1.91 lakh sits inside the 85% band
LTV monitored through tenure	LTV must be maintained for the life of the loan, not only at sanction	Negative in a falling gold market. Forces margin calls or part-payment
Bullet repayment capped	Bullet loans must be fully repaid within 12 months	Neutral. Consistent with existing product design
Collateral return in 7 days	INR 5,000 per day compensation for delay	Operational cost; favours lenders with strong branch process
Eligible collateral narrowed	Jewellery, ornaments and specified coins only; no bars, bullion or ETFs	Neutral for CGCL, which lends against 18-22 carat ornaments
Pledge limits	1 kg gold ornaments and 50g gold coins per borrower	Neutral at CGCL's ticket sizes

Source: Reserve Bank of India (Lending Against Gold and Silver Collateral) Directions, 2025, notified 6 June 2025, effective 1 April 2026. Read-across is our assessment.

The tiered LTV framework warrants attention. CGCL's average gold ticket falls within the band eligible for 85% LTV against a prior cap of 75%, and Q1 FY27 is the first full quarter under the new regime. In principle this permits up to 13.3% more loan per gram pledged. In practice CGCL disbursed at 71% LTV during the quarter, unchanged from prior periods, and portfolio LTV stood at 66% both well inside the old ceiling, let alone the new one. The regulatory change therefore represents headroom the company has chosen not to use rather than a driver of reported growth.

Co-Lending Arrangements Directions, 2025: Notified on 6 August 2025 and effective from 1 January 2026, these Directions replace the 2020 priority-sector co-lending circular. Four changes matter. First, co-lending is extended beyond priority sector lending to all lending, widening the addressable partner base. Second, the minimum retention by each partner is set at 10%, down from 20% under the prior priority-sector regime, which is capital-friendly for the originator. Third, the funding partner's share must be transferred within 15 calendar days. Fourth, and most consequentially for CGCL's reported income, the discretionary CLM-2 model, under which the bank could cherry-pick loans after origination, is removed from the co-lending framework and pushed into the Transfer of Loan Exposures Directions.

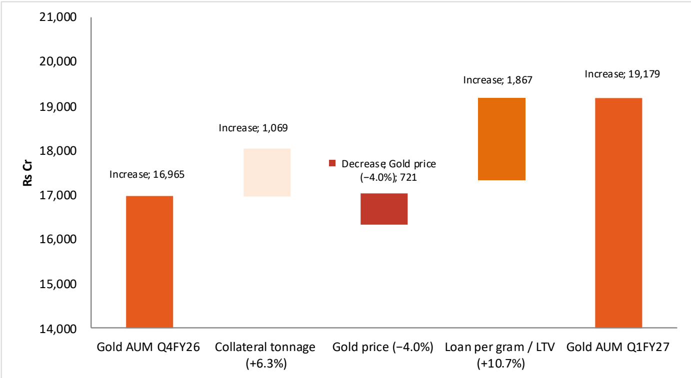
The practical effect is a forced migration toward CLM-1, a back-to-back arrangement in which the funding partner's share is committed at origination. CLM-1 generates less upfront derecognition gain than the direct-assignment-like structures it replaces. This is visible in CGCL's numbers already: co-lending and direct assignment income fell 10% YoY in Q1 FY27 to INR 65 Cr even as off-book AUM grew 74% YoY. We treat this as a transition drag rather than an impairment of the model, and we discuss the mechanics in the co-lending section.

The Gold Engine Runs on Volume, Not Price

The central question for any gold lender in 2026 is whether reported growth is a business outcome or a commodity outcome. Gold rose sharply through FY26. Any lender holding a fixed tonnage of collateral would have reported AUM growth on that alone, with no new customers, no new branches and no incremental underwriting. Distinguishing the two matters because only volume growth compounds; price growth reverses.

Decomposing Q1 FY27: Q1 FY27 provides the first quarter in which the two forces moved in opposite directions. Gold prices corrected approximately 4% sequentially. Gold AUM nonetheless grew 13.0% QoQ to INR 19,179 Cr. Collateral weight in custody rose from 19.0 tonnes to 20.2 tonnes, an increase of 6.3%, and the number of active gold customers grew 11% QoQ. Tonnage in custody is the cleanest available proxy for underlying business volume because it is denominated in grams, not rupees, and is therefore immune to price.

Gold AUM growth decomposition, Q4 FY26 to Q1 FY27 (INR Cr.)



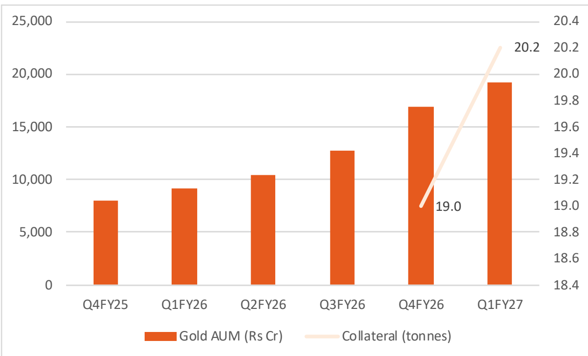
The decomposition is instructive and we present it without varnish. Of the INR 2,214 Cr of sequential gold AUM growth, we attribute approximately INR 1,069 Cr to higher tonnage and a negative INR 721 Cr to the gold price. That leaves a residual of roughly INR 1,867 Cr, which contributes eleven of the thirteen percentage points of sequential growth and implies a 10.7% increase in the loan value advanced per gram of collateral held.

Two explanations compete for that residual. The benign one is customer mix and product shift, with CGCL advancing closer to the permitted ceiling as its underwriting data matures. The less benign one is regulatory: the RBI's tiered loan-to-value regime took effect on 1 April 2026, the first day of this quarter, raising the permitted LTV from a flat 75% to 85% for loans up to INR 2.5 lakh. CGCL's gold ticket sizes sit inside that band. A move from 75% to 85% LTV permits 13.3% more loan per gram, which brackets the observed 10.7% residual closely enough to be uncomfortable.

Our position on the residual

We think the honest reading is that both effects are present and that the regulatory step-up is probably the larger of the two. That does not defeat the volume thesis, because tonnage and customer growth are independently disclosed and independently strong. It does mean that approximately eleven percentage points of the 13% sequential gold growth should be treated as non-recurring, and that investors extrapolating a 13% quarterly run-rate from this print will be disappointed. Our model assumes gold AUM growth of 9.0% QoQ in Q2 and Q3 FY27 and 8.0-8.5% thereafter, which is materially below the Q1 print and reflects exactly this concern.

Gold AUM and collateral in custody, quarterly



Source: Company, Deven Choksey Research

Branch productivity: the real growth engine

- The strongest evidence for the volume thesis is not in the AUM line at all. It is in the fact that CGCL held its gold branch count flat at 1,000 through Q1 FY27, having added 89 branches in Q4 FY26 and 196 across FY26, and still lifted aggregate branch productivity from INR 17 Cr to INR 19 Cr per branch. Management was explicit that the pause was deliberate, to allow the recently opened branches to mature.

- Management has stated that more than 60% of the network operates below optimal productivity. The relevant benchmark is customers per branch. CGCL carries roughly 760 active gold customers per branch against Muthoot Finance at approximately 1,400. That gap is the single largest identifiable source of growth in this business, and it requires no capital, no new branches and no gold price assumption to close.

Scenario	Customers per branch	Gold AUM (Rs Cr)	Uplift vs Q1 FY27
Q1 FY27 actual	~760	19,179	-
Convergence to 1,000	1,000	25,236	+31.6%
Convergence to 1,200	1,200	30,283	+57.9%
Parity with Muthoot	~1,400	35,330	+84.2%

We do not present this as a forecast. It is a statement of the size of the prize sitting inside branches that have already been built and paid for. Even the most conservative of these scenarios, convergence to 1,000 customers per branch, would deliver INR 6,057 Cr of gold AUM growth at close to zero incremental fixed cost. On top of that, management plans to add 400 branches by December 2026, with 150 targeted by the end of Q2 FY27, concentrated in southern and eastern India.

Branch unit economics and the break-even point:

1.Unit Economics

Line	Value	Basis
Contribution per INR 1 Cr of gold AUM		
On-book share	70.5%	Q1 FY27 gold co-lending mix of 29.5%
Spread on on-book portion	10.76%	Yield 18.6% less funding at 86.4% x 9.07%
Fee yield on off-book portion	3.28%	Annualised Q1 FY27 derecognition income
Blended pre-opex contribution	INR 0.086 Cr	Derived
Fully loaded annual branch cost		
Employee cost (10 staff)	INR 0.87 Cr	Company-average cost per employee, annualised
Rent, security, other (assumed)	INR 0.43 Cr	Assumed at 50% of employee cost [E]
Total	INR 1.30 Cr	Derived
Break-even gold AUM per branch	**INR 15.2 Cr**	**Branch cost divided by contribution rate**
Q1 FY27 actual AUM per branch	INR 19.2 Cr	INR 19 Cr over 1,000 branches
Pre-tax contribution per branch today	INR 0.34 Cr	Derived
Pre-tax contribution at 1,200 customers	**INR 1.29 Cr**	**Derived, AUM per branch INR 30.3 Cr**

Source: Company, Deven Choksey Research

Line	Value	Basis
Contribution per INR 1 Cr of gold AUM		
On-book share	70.5%	Q1 FY27 gold co-lending mix of 29.5%
Spread on on-book portion	10.76%	Yield 18.6% less funding at 86.4% x 9.07%
Fee yield on off-book portion	3.28%	Annualised Q1 FY27 derecognition income
Blended pre-opex contribution	INR 0.086 Cr	Derived

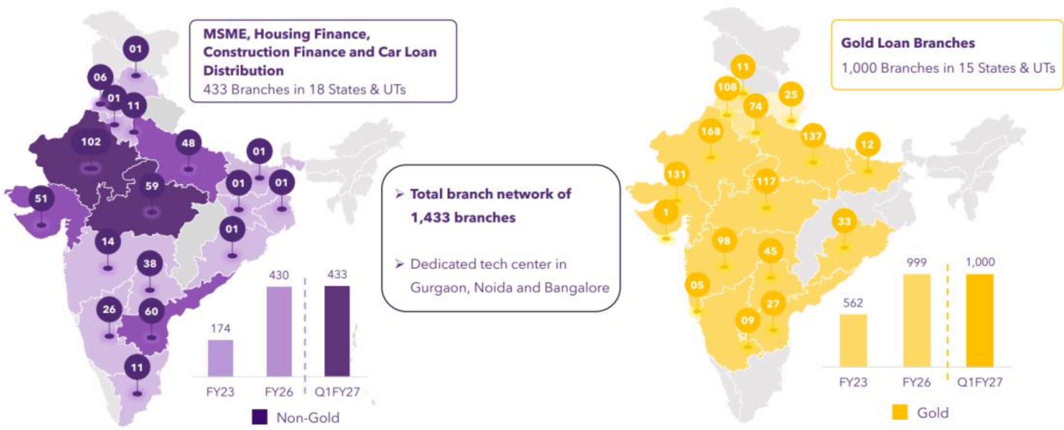
A gold branch breaks even at roughly INR 15 Cr of AUM. The average branch today carries INR 19.2 Cr. Every rupee of AUM added above the break-even point drops through at approximately 8.6% pre-tax, because the branch cost is already sunk. This is why a 58% increase in AUM per branch translates into a near-quadrupling of pre-tax contribution per branch. It is also why the CTI trajectory discussed in the next section is a consequence of the branch maturation curve rather than an independent cost-cutting programme.

2. Customer growth and ticket size:

- Active gold customers grew 11% QoQ while tonnage grew 6.3%. Gold pledged per customer therefore fell approximately 4%. We read this as evidence that new customers are arriving with smaller pledges, which is what one would expect from branches penetrating deeper into their catchment rather than skimming the largest borrowers. It is a healthy signal for granularity and a mild negative for near-term AUM per customer.
- Average ticket size on incremental sanctions rose to INR 1.91 lakh in Q1 FY27 from INR 1.38 lakh a year earlier. We note that this disclosed figure does not reconcile to the portfolio-implied average of approximately INR 2.5 lakh derived from INR 19,179 Cr of AUM across roughly 7.6 lakh customers. We take the INR 1.91 lakh as applying to incremental sanctions rather than the standing portfolio, and we flag the reconciliation in the conflict log.

3. South India expansion

- The southern push is the principal execution risk in this thesis, and it is a genuine one. South India is Muthoot's and Manappuram's home market, where branch density is highest, brand recognition is deepest and pricing is most competitive. It is also structurally different on the demand side: a materially larger share of southern gold borrowing is agricultural, with seasonal cash-flow patterns and repayment behaviour that differ from the urban and semi-urban trader base CGCL has underwritten in the north and west. Underwriting models calibrated on northern borrower behaviour will need recalibration, and the cost of learning that will show up in either credit cost or growth. Management has begun the brand investment, and the first southern branches from the 400-branch programme open through H2 FY27. We will treat the first four quarters of southern vintage data as the key monitorable.

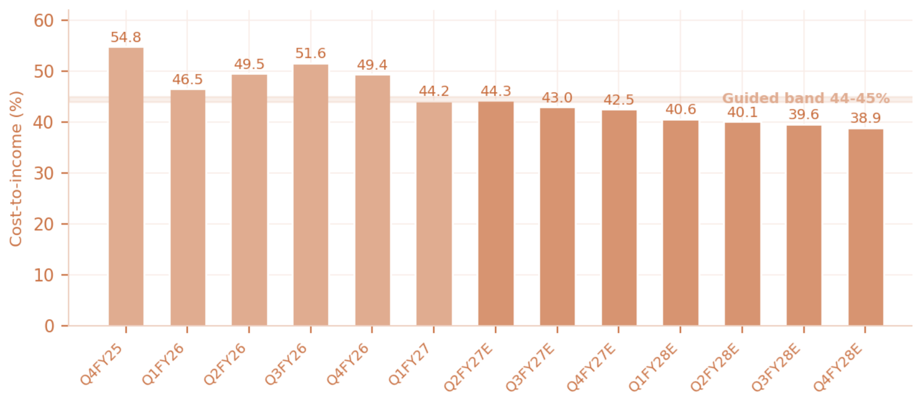


Source: Company, Deven Choksey Research

Cost to Income Compression is Structural and Delivered

Operating leverage is the most over-promised and under-delivered claim in Indian NBFC research. CGCL is unusual in that the delivery has already happened and is visible in reported numbers rather than in a forecast. Cost-to-income has fallen from 70.5% in Q4 FY24 to 59.9% in FY25, 49.4% in FY26 and 44.2% in Q1 FY27. That is a 26-percentage point compression in nine quarters.

Exhibit 10: Cost-to-income ratio, quarterly, actual and forecast



Source: Company, Deven Choksey Research

What is actually driving the compression

We want to be precise here, because the popular account of this story attributes the CTI improvement to cost discipline, and that is not what the numbers show.

	Q1 FY26	Q1 FY27	Change
Net total income (INR Cr)	611	995	+62.8%
Total operating expenses (INR Cr)	300	463	+54.2%
Cost-to-income (%)	**46.5**	**44.2**	**-230bps**
Headcount	11,546	13,931	+20.7%
AUM (INR Cr)	24,754	40,112	+62.0%
AUM per employee (INR Cr)	2.14	2.88	+34.4%
Employee cost per head, annualised (INR Cr)	0.063	0.087	+36.7%
Employee cost / average on-book AUM (%)	3.80	3.97	+17bps

Three observations follow. First, operating leverage is real but narrower than the headline suggests: operating expenses grew 8.6 percentage points slower than net total income, and that gap is the entire source of the 230bps CTI improvement in the quarter. Second, AUM per employee rose 34% but employee cost per head rose 37%, so on a cost-per-rupee-of-AUM basis the employee line actually deteriorated by 17bps. Third, and consequently, the CTI compression is being driven at least as much by revenue expansion, which is to say by net interest margin, as by cost containment.

Why this matters for the risk profile:

If the CTI improvement were principally a cost story, it would be robust to a fall in gold yields. Because it is substantially a revenue story, it is not. Net interest margin has expanded from 8.44% in FY26 to a modelled 10.13% in FY27E, and that expansion is driven by the rising share of high-yield gold in the on-book mix. A compression in gold yields, whether from competition, from a lower gold price reducing average ticket sizes, or from regulatory pressure, would flow directly into a higher cost-to-income ratio even with headcount and branch costs entirely unchanged. Investors should hold thesis two and the gold price risk together, not separately.

Technology and the AI contribution:

Management disclosed during Q1 FY27 a collaboration with OpenAI aimed at building an AI-native lending institution. We would caution against underwriting any of this in near-term numbers. CGCL has not quantified the expected cost saving, has not disclosed the scope of deployment, and has not attributed any part of the delivered CTI improvement to it. Our model carries no explicit AI-driven cost benefit. The credible near-term contribution of technology at an NBFC of this profile is in underwriting turnaround time and collections efficiency rather than in headcount reduction, and neither shows up cleanly in the cost line. We flag the initiative because it is a stated strategic priority, not because it is in our forecast.

Sustainability and where our model sits versus guidance:

Management has guided to a steady cost-to-income ratio of 44-45%, on the basis that the 400-branch expansion programme through December 2026 will consume the operating leverage that maturation generates. Our model does not follow that guidance. It carries CTI at 43.4% in FY27E and 39.7% in FY28E, below the guided band in both years, because the model's branch and headcount build is more than offset by modelled income growth.

We regard this as the single most aggressive assumption in the forecast and we have quantified it rather than defended it. Holding cost-to-income flat at 44.5% through FY27E and FY28E, which is to say taking management's guidance at face value against our own model, would add approximately INR 320 Cr of cumulative pre-tax operating expense across the two years. FY28E EPS would fall from INR 22.11 to approximately INR 20.18 and FY28E ABVPS from INR 126.2 to approximately INR 123.9. At our 2.5x target multiple, the target price would move from INR 316 to approximately INR 310. The thesis does not depend on the model beating guidance.

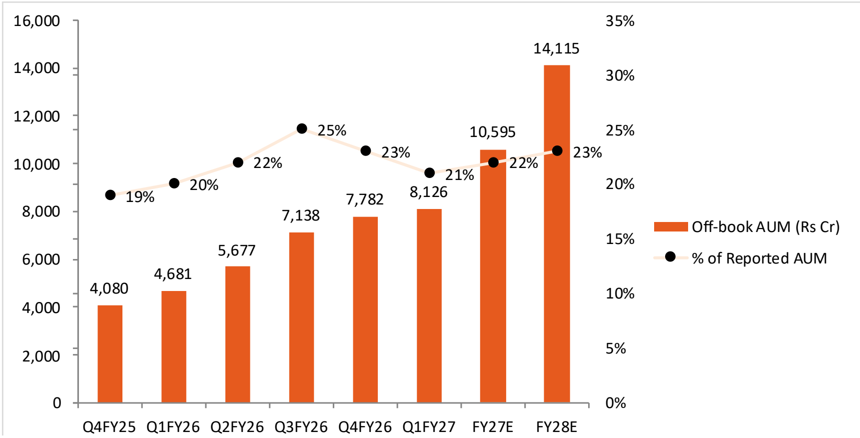
	Our model	At guided 44.5% CTI	Difference
FY27E cost-to-income (%)	43.4	44.5	+110bps
FY28E cost-to-income (%)	39.7	44.5	+480bps
Cumulative extra opex, FY27E-28E (INR Cr)	-	320	-
FY28E PAT (INR Cr)	2,348	2,143	-8.7%
FY28E EPS (INR)	22.11	20.18	-8.7%
FY28E ABVPS (INR)	126.2	123.9	-1.8%
Target price at 2.5x (INR)	**316**	**310**	**-1.9%**

Source: Company, Deven Choksey Research

Co-lending is the Capital Efficiency Multiplier

Co-lending and direct assignment allow CGCL to originate a loan, retain the customer relationship and the servicing fee, and place the majority of the exposure on a bank's balance sheet. Off-book AUM stood at INR 8,126 Cr at Q1 FY27, equivalent to 20.3% of reported AUM, up 73.6% year on year. The strategic logic is that this permits growth without a proportionate call on equity, which is precisely what an NBFC compounding AUM at 30% needs.

Off-book AUM and co-lending mix



The mechanics and where the income comes from:

Under a co-lending arrangement CGCL originates and underwrites, the partner bank funds its share, and CGCL derecognises that share from its balance sheet. The income arises in three places: a net gain on derecognition booked upfront, a servicing fee over the life of the loan, and the spread on the retained portion. In CGCL's disclosure the first of these is the visible line, reported at INR 65 Cr in Q1 FY27.

A material deterioration that the headline growth conceals:

Off-book AUM grew 73.6% year on year. Co-lending and direct assignment income fell 10% year on year, from INR 72 Cr in Q1 FY26 to INR 65 Cr in Q1 FY27. That divergence is the most important single fact in this section and it is not visible from the AUM chart above

	Q1 FY26	Q1 FY27	Change
Co-lending / DA income (INR Cr)	72	65	-10.1%
Average off-book AUM (INR Cr)	4,380	7,954	+81.6%
Annualised fee yield on off-book AUM (%)	**6.62**	**3.28**	**-334bps**
Closing off-book AUM (INR Cr)	4,681	8,126	+73.6%
Off-book as % of reported AUM	18.9	20.3	+140bps

We attribute the compression principally to the transition from direct-assignment-like structures toward CLM-1 co-lending, forced by the RBI's Co-Lending Arrangements Directions, 2025, effective 1 January 2026. Under the prior discretionary CLM-2 model the funding partner could select loans after origination, and the resulting transfers were accounted for in a manner closer to direct assignment, which recognises a larger gain upfront. CLM-1 commits the partner's share at origination on a back-to-back basis, so a greater proportion of the economics is earned as spread and servicing fee over the loan's life rather than as an upfront gain. The Directions also raised the effective floor on retention discipline and imposed a 15-day transfer requirement.

There are two readings. The bear reading is that the upfront gain was always an accounting artefact and that its removal reveals the true, lower economics of the arrangement. The bull reading is that the income has been deferred rather than destroyed, and that as the CLM-1 book seasons the servicing and spread income will accumulate to a similar or better total. We think the truth is closer to the second reading but not entirely, because the timing shift genuinely reduces reported return on equity in the transition years even if lifetime economics are unchanged.

Importantly, our model does not assume a recovery in the fee yield. Non-interest income is forecast to grow only 8.5% in FY27E against off-book AUM growth of 36%, which implies further fee yield compression to approximately 2.5% by FY28E. The forecast is therefore conservative on precisely the line where the deterioration has been observed, and any stabilisation would be upside to our numbers.

Even at the compressed fee yield, the capital efficiency argument holds, because the denominator is close to zero. A derecognised asset consumes no regulatory capital and requires no borrowing. We quantify the contribution two ways.

The return on capital argument

Measure	Value	Basis
Contribution to FY27E RoAE	+211bps	FY27E RoAE falls from 18.0% to 15.8% if all co-lending income is removed
Co-lending income, FY27E (INR Cr)	~260	Annualised from Q1 FY27 run-rate
Post-tax effect on FY27E PAT	~196	At 24.5% effective tax rate
Capital released, FY27E (INR Cr)	~2,617	FY27E off-book AUM of INR 10,595 Cr at 24.7% capital adequacy
Capital released as % of FY28E equity	~19%	Against FY28E closing equity of INR 13,729 Cr
Leverage at which 30% growth is funded	3.7x	Q1 FY27 debt to equity
Capital adequacy, Q1 FY27	24.7%	As reported

Source: Company, Deven Choksey Research

The 211bps of RoAE is the number we would put weight on. It says that roughly one eighth of the return on equity in our forecast comes from a business line that requires no equity. That is the mechanism by which CGCL can run 30% AUM growth at 3.7x leverage while holding capital adequacy at 24.7%, well above the 15% regulatory minimum for a non-deposit-taking NBFC.

Priority sector lending and the partner base:

The demand side of co-lending has historically been driven by bank priority sector lending obligations. CGCL's MSME, affordable housing and gold-against-agricultural-purpose books all generate priority sector eligible assets, which is why co-lending penetration is highest in gold at 29.5% of segment AUM and MSME at 20.7%, and lowest in housing at 13.8%. The 2025 Directions extend co-lending beyond the priority sector to all lending, which structurally widens the partner base and reduces CGCL's dependence on the priority sector calendar. We regard this as an underappreciated positive that will take several quarters to show up in the partner mix.

Segment	Total AUM (INR Cr)	Off-book (INR Cr)	On-book (INR Cr)
Gold	19,179	5,649	13,530
MSME	6,779	1,403	5,376
Affordable housing	7,815	1,075	6,740
Construction finance	6,332	0	6,332
Total	**40,112**	**8,126**	**31,978**

Source: Company, Deven Choksey Research

Profit and loss:

Q1 FY27 was the strongest quarter in the company's history on every line. Profit after tax of INR 353 Cr was up 102% year on year and 25% sequentially. Net interest income of INR 736 Cr grew 79% year on year, comfortably ahead of AUM growth of 62%, which is the signature of margin expansion rather than volume alone. Pre-provision operating profit of INR 532 Cr grew 71%.

Quarterly Profit and Loss (INR. Cr)

Particulars	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
Interest income	810	885	942	1,094	1,323
Interest expense	394	406	431	499	586
Net interest income	416	480	510	596	736
Non-interest income	195	238	284	294	258
Net total income	611	718	794	889	995
Operating expenses	300	373	431	462	463
Pre-provision operating profit	311	345	363	427	532
Impairment on financial instruments	81	31	23	54	62
Profit before tax	230	314	340	373	470
Tax	55	78	85	90	117
Profit after tax	175	236	255	283	353
	1.82	2.45	2.66	2.94	3.67

Two features of the quarter deserve comment. First, non-interest income fell 12% sequentially to INR 258 Cr, entirely because of the co-lending derecognition line discussed in the previous section. Second, operating expenses were flat sequentially at INR 463 Cr against INR 462 Cr, which is what one would expect in a quarter when the branch count was deliberately held constant. The combination of flat costs and a 12% rise in net total income is the entire explanation for the sequential CTI improvement from 49.4% to 44.2%.

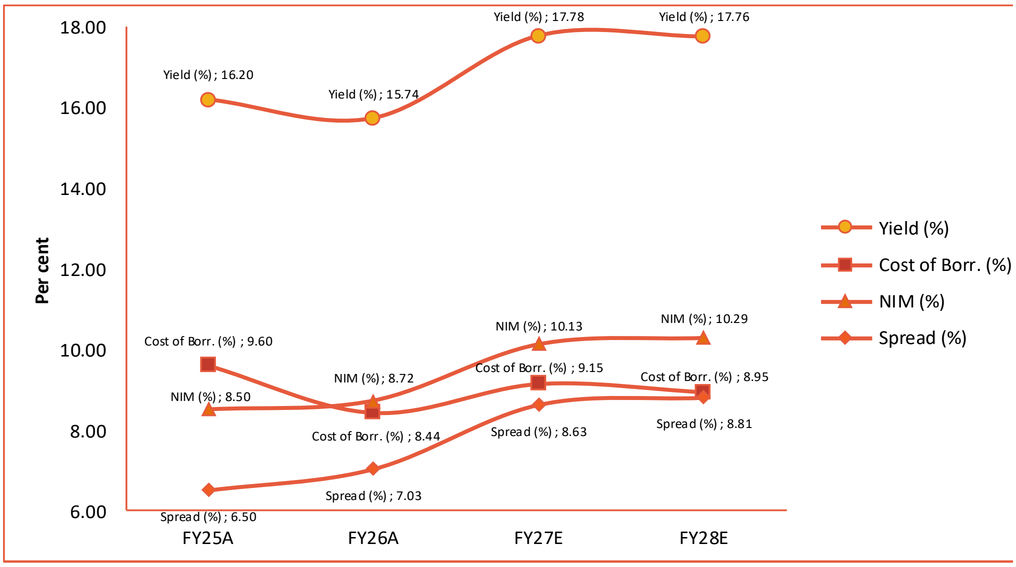
Profit and Loss (INR Cr)

Particular	FY25A	FY26A	FY27E	FY28E
Interest income	2,605	3,731	6,026	7,966
Interest expense	1,274	1,730	2,593	3,352
Net interest income	**1,331**	**2,001**	**3,434**	**4,614**
Non-interest income	501	1,011	1,097	1,283
Net total income	1,833	3,012	4,531	5,897
Fees and commission expense	n.d.	154	188	220
Employee benefits expense	743	1,009	1,389	1,682
Depreciation and amortisation	n.d.	110	121	136
Other expenses	356	293	374	438
Total operating expenses	**1,099**	**1,565**	**2,072**	**2,475**
Pre-provision operating profit	**734**	**1,447**	**2,459**	**3,422**
Impairment on financial instruments	101	190	247	312
Profit before tax	633	1,257	2,212	3,110
Tax	155	308	543	762
Profit after tax	**479**	**949**	**1,668**	**2,348**

Source: Company, Deven Choksey Research

Net interest margin and spread bridge

Yield, cost of borrowings, spread and net interest margin



The modelled margin expansion of 185bps from FY26 to FY28E has three sources. The largest is mix: gold rises from 40.2% to 45.7% of the on-book book and carries an 18.9% yield against a blended 17.8%. The second is funding: cost of borrowings glides from 9.15% in FY27E to 8.95% in FY28E on the back of repo transmission and the rating upgrade to IVR AA+ from Infomerics in August 2026, together with the USD 1bn global medium-term note programme. The third is the maturation of the housing and MSME books, where yields step up modestly as new higher-yielding vintages replace older ones.

Non-interest income of INR 1,011 Cr in FY26 was 33.6% of net total income. Our model has that share falling to 24.2% in FY27E and 21.8% in FY28E, as net interest income compounds faster than fee income. We regard the declining share as a quality improvement rather than a deterioration, because the fee line is the more volatile and the more accounting-dependent of the two.

A note on the averaging convention, which materially affects the reported trend:

The model computes annual ratios on two-point averages of opening and closing balances. In a business growing AUM at 60% with the growth concentrated in the fourth quarter, a two-point average overstates the true average balance and therefore understates FY26 yield and margin. Recomputed on a four-quarter average, FY26 yield on on-book AUM is approximately 16.95% rather than 15.74%, and FY26 net interest margin is approximately 9.09% rather than 8.44%. The genuine margin expansion from FY26 to FY28E is therefore closer to 125bps than the 185bps the headline suggests.

The same convention has a larger and opposite effect on return on equity. Because the INR 2,000 Cr placement landed in Q1 FY26, a two-point average of opening and closing equity understates average equity for the year and therefore overstates FY26 RoAE. On a four-quarter average basis FY26 RoAE is approximately 14.7% rather than the 16.5% reported. Conversely, because the modelled INR 2,500 Cr placement lands in Q3 FY27, FY27E RoAE on a four-quarter basis is approximately 18.7% rather than the 18.0% shown. We flag this because the comparison of FY28E RoAE against management's 19-21% guided band is sensitive to which convention is used.

Non-interest income composition, Q1 FY27 (INR Cr)

Line	Q1 FY27	Q1 FY26	Comment
Co-lending / direct assignment income	65	72	Down 10% YoY on CLM-1 transition
Insurance distribution	42	0	Corporate agency; scaling from a nil base
Car loan distribution fees	32	23	INR 3,282 Cr origination volume, +43% YoY
Other non-interest income	78	70	Servicing, processing and miscellaneous
Fee and commission income (gross)	155	84	Reported line, overlaps the above
Total non-interest income (gross)	**258**	**195**	**+32% YoY, -12% QoQ**

Source: Company, Deven Choksey Research

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Balance sheet

Particulars	FY25A	FY26A	FY27E	FY28E
Cash and bank balances	1,531	2,123	3,178	4,039
Loans, net of expected credit loss	18,251	28,150	37,950	49,418
Investments	160	1,236	1,080	1,080
Other assets	890	1,167	1,373	1,486
Undeployed balance / plug	0	0	1,821	1,681
Total assets	**20,833**	**32,676**	**45,402**	**57,704**
Total borrowings including debt securities	15,577	24,112	32,534	42,366
Other liabilities and provisions	952	1,360	1,487	1,610
Total liabilities	16,529	25,473	34,021	43,976
Total equity	**4,304**	**7,203**	**11,380**	**13,729**
Total equity and liabilities	**20,833**	**32,676**	**45,402**	**57,704**
Debt to equity (x)	3.60	3.35	2.86	3.09
Book value per share (INR)	52.16	74.87	107.15	129.25

Source: Company, Deven Choksey Research

One item requires disclosure rather than silence. The model carries a balancing item of INR 1,821 Cr in FY27E and INR 1,681 Cr in FY28E, equivalent to 4.0% and 2.9% of total assets. The model's own documentation sets a tolerance of 2% of total assets for this item, so FY27E breaches it. The cause is structural rather than an error: loans are sized as a fixed percentage of on-book AUM and borrowings as a fixed percentage of the same, so the INR 2,500 Cr of equity raised in Q3 FY27E has nowhere to go and accumulates as an unallocated asset.

Economically this represents undeployed placement proceeds. Two consequences follow. The plug earns nothing in the model, so modelled returns are understated: deploying INR 1,681 Cr at the FY28E return on average assets of 4.55% would add approximately INR 76 Cr to FY28E profit after tax, or 3.3%. The forecast is therefore conservative in this respect. Equally, an investor who believes the placement will be deployed immediately should regard our FY28E RoAE of 18.7% as a floor rather than a point estimate.

Capital adequacy and leverage

CGCL reported consolidated capital adequacy of 24.7% at Q1 FY27, against a regulatory minimum of 15% for a systemically important non-deposit-taking NBFC. Standalone capital adequacy was 25.8% for CGCL and 27.7% for the housing subsidiary at FY26. Debt to equity was 3.65x at Q1 FY27 and our model has it at 2.86x in FY27E, reflecting the placement, rising to 3.09x by FY28E as the balance sheet re-levers.

The capital position is the quiet enabler of the growth plan. At 24.7% capital adequacy and 3.7x leverage, CGCL is running roughly half the balance-sheet leverage of a typical bank and considerably less than most NBFC peers at comparable growth rates. The co-lending structure is what makes that possible. Investors should nonetheless expect the equity raise: a 30% AUM compounder at 18-19% RoAE with no dividend cannot self-fund indefinitely, and the arithmetic points to a further raise beyond FY28 as well.

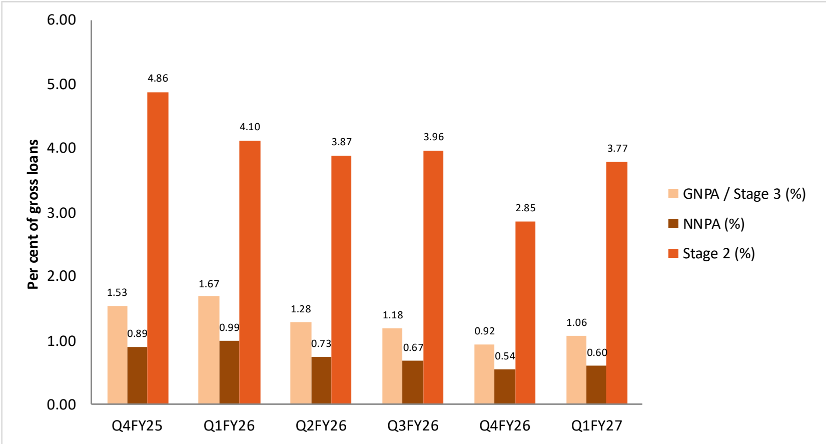
Asset and liability management

Asset-liability management remains comfortable. CGCL's liabilities carry longer tenure than its predominantly short to medium duration assets, producing cumulative surplus across all maturity buckets. Liquidity stood at INR 4,037 Cr in cash, bank balances, investments and undrawn credit lines at the end of Q1 FY27. Borrowings rose 73% year-on-year with incremental sanction limits of INR 3,868 Cr during the quarter, and the company added five new lender relationships taking active relationships past forty. Capital market instruments, principally non-convertible debentures and commercial paper, now account for approximately 10% of the borrowing mix, with a USD 1bn global medium-term note programme established during the quarter providing further diversification optionality.

Asset Quality:

Asset quality is the least contentious part of this story. Gross non-performing assets were 1.06% of gross loans at Q1 FY27 against 1.67% a year earlier, and net non-performing assets were 0.60% against 0.99%. The entire book is secured. The credit cost charge of 0.70% of average on-book AUM in our forecast is above the FY26 actual of 0.66%, which is to say we assume mild deterioration rather than continued improvement.

Asset quality trend



Source: Company, Deven Choksey Research

The Stage 2 increase and why it is not what it looks like:

The one line that moved adversely in Q1 FY27 was Stage 2, which rose from 2.85% to 3.77% of gross loans, an increase of INR 385 Cr in absolute terms. On a superficial reading this is early-stage credit deterioration. It is not.

Segment	Change (INR Cr)	Driver
Gold	+373	Loan-to-value breaches caused by the 4% sequential fall in gold prices
Affordable housing	+15	Ordinary vintage seasoning
MSME	+10	Ordinary vintage seasoning
Construction finance	-13	Improvement
Total	**+385**	

Ninety-seven per cent of the sequential increase in Stage 2 was gold: of the INR 385 Cr rise, INR 373 Cr came from the gold book, against INR 15 Cr in housing, INR 13 Cr in construction finance and INR 10 Cr in MSME. Management attributes this to the 4% quarter-on-quarter decline in gold prices, though it has not disclosed the specific mechanism by which price movement translates into stage migration in its ECL policy.

We are inclined to accept the characterisation, on economic rather than accounting grounds. Gold GNPA held at 0.3% through the quarter and consolidated net Stage 3 stood at 0.6%, indicating no deterioration in underlying repayment behaviour. More fundamentally, the collateral in a gold loan sits in the vault, is liquid, and can be auctioned at short notice. Disbursement LTV averages 71%, leaving a 29% cushion, and auction notices are issued only when LTV breaches 85%. Loss given default is therefore close to zero even where probability of default rises, which is the relevant distinction: a larger Stage 2 pool in this book carries materially less economic content than the same movement would in an unsecured or property-backed portfolio.

Two points warrant monitoring. First, Stage 2 coverage declined to 9.4% from 11.8% even as the pool expanded, and management did not address this when asked directly on the Q1 call. We would want clarity on whether the reduction reflects a considered view on loss severity in the gold book or a mix effect from the pool's composition shifting toward gold. Second, and more importantly, the argument above is calibrated to a 4% price move. A correction of 20-25% would push a meaningful portion of the book toward the auction threshold, and the consequence would be forced closures and AUM compression rather than credit loss. That is a revenue risk, not an asset quality risk, but it is the one we would size carefully.

Segmental gross and net non-performing assets (%)

Segmental asset quality

Segment	GNPA FY25	GNPA FY26	NNPA FY26	Comment
Gold	0.8	0.3	0.2	Lowest risk; collateral liquid and in custody
Affordable housing	1.4	1.0	0.7	Improving; self-occupied property security
MSME	3.9	3.0	1.6	Highest GNPA; property-secured, granular
Construction finance	0.2	0.3	0.1	Rose to 0.7% in Q1 FY27; see below
Blended	**1.53**	**0.92**	**0.54**	**Gold mix dilutes the blended ratio**

Source: Company, Deven Choksey Research

Two points on the segmental picture. First, the blended ratio improves partly for the wrong reason. Gold is the lowest-GNPA segment and the fastest-growing, so as gold rises from 48% to a guided 55% of AUM, the blended GNPA falls arithmetically even if every individual segment deteriorates. MSME at 3.0% GNPA is ten times the gold ratio and is being diluted out of view. Investors should track segmental rather than blended asset quality.

Second, construction finance requires monitoring. GNPA in the segment rose from approximately 0.3% to 0.7% in Q1 FY27 and management raised provision coverage on the segment to 70%, well above the blended 43.3%. Separately, an exposure of approximately INR 125 Cr received a date-of-commencement-of-commercial-operations extension and therefore sits outside the reported GNPA figure. We regard the coverage increase as appropriate and the DCCO exposure as a genuine, if small, item of disclosed forbearance that would add roughly 39bps to the blended GNPA ratio were it classified as non-performing.

Provisioning and credit cost

	Q4 FY26	Q1 FY27	FY27E	FY28E
Gross loan book (INR Cr)	28,840	31,985	38,963	50,737
Stage 3 gross (INR Cr)	264	339	390	558
Stage 3 provision (INR Cr)	109	147	164	234
Provision coverage ratio (%)	**41.2**	**43.3**	**42.0**	**42.0**
Stage 2 gross (INR Cr)	822	1,206	1,130	1,471
Stage 2 coverage (%)	11.8	9.4	11.0	11.0
Stage 1 coverage (%)	0.57	0.60	0.60	0.60
Total ECL provisions (INR Cr)	363	444	513	689

Source: Company, Deven Choksey Research

The forecast credit cost of 0.70% carries a conservatism cushion that is worth naming. The model's own reconciliation shows that the 0.70% profit and loss charge exceeds the charge implied by the movement in the expected credit loss stock plus write-offs by approximately INR 90 Cr in FY27E and INR 92 Cr in FY28E. Cumulatively that is around INR 182 Cr of pre-tax conservatism, or roughly INR 1.29 per share of adjusted book value by FY28E, worth about INR 3 of target price at our 2.5x multiple. It is not large, but it runs in the investor's favour.

Valuation

Methodology:

We value CGCL on price to adjusted book value, which is the appropriate primary methodology for a lender whose earnings power is a function of the equity it can deploy and the return it earns on it. We anchor on FY28E rather than FY27E because FY27 contains a modelled equity raise that distorts both the book value and the return on equity in that year, and because two years is the shortest horizon over which the branch maturation thesis can reasonably be judged. We adjust book value by deducting net non-performing assets in full.

Step	Value	Note
FY28E closing equity (INR Cr)	13,729	After the modelled Q3 FY27E placement
Less: net non-performing assets (INR Cr)	324	Full deduction
FY28E adjusted book value (INR Cr)	13,314	
FY28E shares outstanding (mn)	1,062.2	Includes 100mn new shares from the placement
FY28E adjusted book value per share (INR)	125.3	
Target multiple (x)	2.5	See peer discussion below
Target price (INR)	**316**	
Current market price (INR)	256	As at 26 Aug 2026
Upside (%)	**23**	
Implied FY28E price to earnings at target (x)	14.3	

Source: Company, Deven Choksey Research

Why 2.5x

The multiple is the judgement in this note, and we set it out plainly. At 2.5x FY28E adjusted book against a modelled FY28E return on equity of 18.7%, the implied relationship is consistent with a sustainable return on equity in the high teens and a cost of equity around 13-14%, with terminal growth in the low double digits. It is not a demanding multiple for a business compounding book value per share at 35% over FY25 to FY28E.

Peer Comparison

Company	Market cap (Rs Cr)	P/B (x)	RoE (%)	AUM growth (%)
Muthoot Finance	115,964	2.9	~24	37
Manappuram Finance	32,745	2.2	~12	15
CreditAccess Grameen	24,970	3.3	~15	16
Bajaj Finance	n.a.	6.5	19	24
CGCL at CMP of INR 256	**24,583**	**3.36**	**16.5**	**60**
CGCL at target of INR 316	30,406	4.22	16.5	60

Source: Company, Deven Choksey Research

The brief for this note specified peer anchors of 3.5x for Muthoot Finance and 1.5x for Manappuram Finance. Observable market data at the time of writing puts Muthoot at approximately 2.9x trailing book and Manappuram at approximately 2.2x. We have used the observable figures. The direction of the correction matters: a lower Muthoot multiple makes our 2.5x target for CGCL relatively less conservative than the brief implied, and a higher Manappuram multiple narrows the range within which CGCL should trade. We would rather state this than present a peer table that flatters the recommendation.

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Scenario analysis

Scenario matrix

Scenario	Multiple	Target (Rs)	Upside (%)	What it assumes
Bear	2.0x	252	-1.6	Gold growth halves, CTI stalls at 45%, RoAE holds mid-teens
Base	**2.5x**	**316**	**+23.4**	**Branch maturation delivers, RoAE 18-19%, no gold shock**
Bull	3.0x	379	+48.0	Southern expansion works, RoAE reaches the 19-21% band, fee yield stabilises

Source: Company, Deven Choksey Research

Sensitivity

Target price sensitivity: multiple against FY28E profit after tax (INR)

P/ABV (x)	PAT -10%	PAT -5%	Base	PAT +5%	PAT +10%
2.00	248	250	252	255	257
2.25	279	281	284	286	289
2.50	**310**	**313**	**316**	**318**	**321**
2.75	341	344	347	350	353
3.00	372	375	379	382	385
3.25	403	407	410	414	417
3.50	434	438	442	446	449

Source: Company, Deven Choksey Research

The sensitivity table makes an important point about where the risk in this name actually sits. A 10% miss on FY28E profit moves the target by only about INR 4, because a single year's earnings variance barely moves a book value that has been accumulating for three years. A quarter turn of multiple moves it by INR 31. This is a re-rating story, not an earnings-beat story, and it will be won or lost on whether the market comes to believe the gold volume engine is durable

Price to earnings cross-check:

15x FY28E earnings per share of INR 22.11 the implied value is INR 332, some 5% above our book-based target of INR 316. Our target implies 14.3x FY28E earnings. We regard 15x as a reasonable reference point for an NBFC compounding earnings at 57% over the forecast period and note that the stock currently trades at 10.5x FY28E earnings. The two methodologies bracket a fair value range of roughly INR 316 to INR 332, and we take the lower of the two as our published target.

Risks:

We set out the risks in descending order of what they would cost an investor, not in the order in which they are most likely to occur.

A sustained gold price correction

This is the dominant risk and it is important to be precise about the transmission mechanism, because the obvious channel is not the main one. A falling gold price is not principally a credit event for CGCL. Gold GNPA is 0.3%, the collateral is liquid and physically held, and loss given default is close to zero. The damage arrives through three other channels.

- First, growth. Every rupee of new gold lending is a function of the rupee value of metal pledged. A 20% price fall reduces the loan available against an identical pledge by 20%, and the tonnage growth engine would have to run 25% harder simply to hold AUM flat.
- Second, margin calls and forced closures. The 2025 Directions require loan-to-value to be monitored through the life of the loan. At an 85% origination LTV, a 20% price fall pushes the loan to 106% of collateral value, and CGCL would be obliged to call for part-payment or additional collateral, or to auction. Both outcomes shrink AUM and antagonise customers.
- Third, the Stage 2 mechanics described earlier amplify: if a 4% fall added Rs 373 Cr to gold Stage 2, a 20% fall would move a multiple of that.

The conclusion we draw from this stress is that the downside is a stagnation scenario rather than a capital-loss scenario. At roughly INR 230 the shock case is close to the current price, which means an investor buying today is being compensated for the gold price risk with a return of approximately zero rather than a loss. That is a materially better risk profile than most gold lenders offer, and it is a direct consequence of the 52% of the book that is not gold.

Gold concentration:

Gold is 48% of AUM today and management has guided it toward 55% over the medium term. Concentration risk therefore increases rather than decreases over the forecast horizon. The diversification that limits the downside in the stress above is being deliberately reduced. We regard this as a rational commercial decision, since gold is the highest-return and lowest-risk segment, but investors should recognise that they are underwriting an increasingly single-commodity franchise.

Equity dilution in FY27

Our model assumes a INR 2,500 Cr placement in Q3 FY27 at INR 250 per share, adding 100mn shares, or 10.4% of the current count. This is a model assumption, not company guidance. The risk is one of price and timing rather than of principle: a raise executed at a materially lower price would be more dilutive, and a raise deferred would constrain FY28 growth. Promoter holding would fall from 59.92% to approximately 54.3%.

The conclusion we draw from this stress is that the downside is a stagnation scenario rather than a capital-loss scenario. At roughly INR 230 the shock case is close to the current price, which means an investor buying today is being compensated for the gold price risk with a return of approximately zero rather than a loss. That is a materially better risk profile than most gold lenders offer, and it is a direct consequence of the 52% of the book that is not gold

CLM-1 transition drags on co-lending income:

Discussed in full in the co-lending section. Fee yield on the off-book book fell from 6.62% to 3.28% year on year and our model assumes further compression toward 2.5% by FY28E. The risk is that the compression continues past that point, or that partner banks reprice the arrangement now that the discretionary model has been withdrawn.

Construction finance asset quality:

Construction finance GNPA rose from approximately 0.3% to 0.7% in Q1 FY27 and management raised segment provision coverage to 70%. A separate exposure of approximately INR 125 Cr received a DCCO extension and sits outside reported GNPA; classified as non-performing it would add approximately 39bps to the blended ratio. The segment is 16% of AUM and wholesale in character, which means its losses would arrive lumpily rather than gradually.

South India execution and model calibration

The 400-branch programme through December 2026 targets southern and eastern India, where incumbents are strongest and where a larger share of gold borrowing is agricultural. Agricultural borrower behaviour differs from the urban and semi-urban trader base on which CGCL's underwriting models were calibrated, particularly in the seasonality of repayment. The cost of recalibration will appear in either credit cost or growth, and probably both. This is the risk most likely to cause a disappointing quarter within the forecast horizon.

Regulatory risk on gold lending

- The precedent is recent and specific. In March 2024 the RBI barred IIFL Finance from sanctioning or disbursing gold loans following a supervisory review that identified deviations in assaying and certification of purity, breaches of loan-to-value norms and non-adherence to cash disbursal limits. The restriction was lifted in September 2024, but the interim damage to growth and franchise value was severe. The 2025 Directions raise the compliance bar for all lenders, particularly on assaying protocol, valuation transparency, collateral return timelines and through-tenure LTV monitoring. A rapidly expanding branch network is precisely the setting in which process discipline is hardest to maintain. We consider this a low-probability, high-severity risk that cannot be diversified away.

Blended asset quality optics

- As gold rises to 55% of AUM, the blended GNPA ratio will fall arithmetically even if every segment deteriorates. MSME GNPA at 3.0% is ten times the gold ratio. Investors relying on the headline ratio will be misled about the direction of underlying credit quality. We recommend tracking MSME and construction finance Stage 2 and Stage 3 separately.

The case against this note:

The return on equity is gold-price flattered

- CGCL's return on average equity went from 11.8% in FY25 to 16.5% in FY26 to 19.1% annualised in Q1 FY27. That re-rating coincided almost exactly with the strongest gold price rally in a generation. Gold AUM grew 111% in FY26. It is not possible, from the outside, to separate how much of that growth came from customers pledging more metal and how much came from the same metal being worth more, because CGCL only began disclosing tonnage in custody at Q4 FY26. The volume series that the entire bull case rests on is two quarters long.

- The single quarter of disclosed separation, Q1 FY27, is the one the bulls point to. Our decomposition finds tonnage growth of 6.3% against reported AUM growth of 13%, leaving a residual attributable to a rise in loan value advanced per gram. Management reported disbursement loan-to-value unchanged at 71% during the quarter, which rules out the most obvious explanation, namely that CGCL used the headroom created by the RBI's move to an 85% ceiling on tickets below INR 2.5 lakh from 1 April 2026. The more likely driver is the deliberate shift toward smaller ticket sizes that management described on the call, which also explains the improvement in gold yield to 18.5%. We are satisfied the growth is operational rather than regulatory but note that the unused LTV headroom represents an option CGCL could exercise in a weaker quarter, and that the volume series remains only two quarters long.

The business has never been tested through a gold bear cycle

- CGCL entered gold lending in August 2022. Gold has risen for essentially the whole of that period. The company has never had to run a 1,000-branch gold operation through a sustained drawdown, has never auctioned collateral at scale, and has never tested whether its customers respond to margin calls with part-payment or with abandonment. Muthoot and Manappuram have both been through such cycles, which is a substantial part of why they command the multiples they do. The relevant question is not whether CGCL's gold GNPA of 0.3% is real, it is, but whether it means anything about behaviour in conditions that have not yet occurred.

- The counter-argument that gold is self-liquidating collateral is true as far as it goes, but it addresses loss given default, not the operational and reputational cost of mass auctions, nor the growth stall that accompanies them. It also assumes CGCL's assaying and custody processes hold up under stress across a branch network that has roughly doubled in two years.

Dilution and the dependence on a premium rating

- Here we depart from the conventional bear argument, because the conventional version is arithmetically wrong and the correct version is worse.

- The conventional claim is that raising equity every 18 to 24 months caps book value compounding. It does not. CGCL raised INR 2,000 Cr in Q1 FY26 and we model INR 2,500 Cr in Q3 FY27, and book value per share still compounds at 35% a year from FY25 to FY28E. The reason is that both raises are struck well above book value. The modelled Q3 FY27 placement at INR 250 against a pre-issue book value per share of approximately INR 83 lifts book value per share by roughly 19% at the moment of issue. Issuing shares above book is accretive, not dilutive, to book value.

The sharper version of the bear case

- The real problem is that this makes the entire model dependent on the market continuing to fund it at a premium to book. The arithmetic is unforgiving: with a return on equity of 18.7% and no dividend, book compounds organically at 18.7%. Management is targeting AUM growth of 30% or more. The gap must be filled by leverage or by external equity, and leverage cannot rise indefinitely from 3.7x. CGCL therefore needs to come to market roughly every 18 to 24 months, indefinitely, for as long as it wants to grow at 30%.

That is fine while the stock trades at 3.4x FY26 book. It becomes reflexive and dangerous if the multiple compresses.

What we would need to see to change our view

- We would downgrade on any of the following: two consecutive quarters in which tonnage in custody grows less than 3%, which would indicate the volume engine has stalled; gold Stage 2 rising above 8% of the gold book on a price fall of less than 10%, which would indicate the LTV buffer is thinner than disclosed; segmental MSME GNPA above 4%; or an equity raise executed below 2.0x trailing book value, which would signal the reflexive loop described above has begun to turn.
- Equally, we would move to a higher multiple on evidence that southern branches reach break-even AUM within four quarters of opening, that co-lending fee yield stabilises above 3%, or that the cost-to-income ratio holds below 42% through a full year of the 400-branch build.

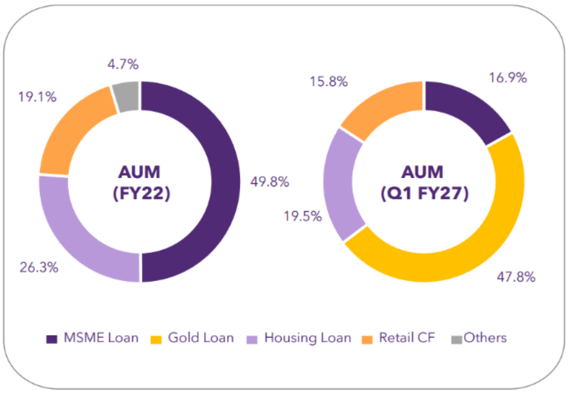
Particulars	Base case FY28E	Gold shock FY28E	Change
Gold AUM (INR Cr)	33,635	19,179	-43%
Total AUM (INR Cr)	64,852	50,396	-22%
Net interest income (INR Cr)	4,614	~3,530	-24%
Operating expenses (INR Cr)	2,475	~2,230	-10%
Credit cost (% of avg on-book AUM)	0.70	~1.20	+50bps
Profit after tax (INR Cr)	**2,348**	**~1,500**	**-36%**
EPS (INR)	22.11	~14.2	-36%
Adjusted BVPS (INR)	126.2	~115	-9%
Value at a de-rated 2.0x (INR)	**252**	**~230**	**-9%**

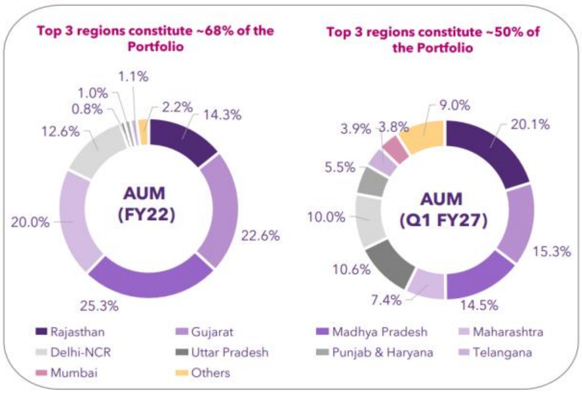
Source: Company, Deven Choksey Research

Financial Summary:

Segment	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
Gold loans	8,042	9,105	10,407	12,799	16,965	19,179
MSME	5,279	5,478	5,602	5,886	6,485	6,779
Affordable housing	5,202	5,490	5,972	6,490	7,447	7,815
Construction finance	4,133	4,521	4,969	5,109	5,708	6,332
Others (run-off)	204	160	90	122	18	7
Total AUM	**22,860**	**24,754**	**27,040**	**30,407**	**36,622**	**40,112**
of which off-book	4,080	4,681	5,677	7,138	7,782	8,126
Gold as % of AUM	35.2	36.8	38.5	42.1	46.3	47.8

Source: Company, Deven Choksey Research





Segment AUM forecast (INR Cr)

Segment	FY25A	FY26A	FY27E	FY28E
Gold loans	8,042	16,965	24,723	33,635
MSME	5,279	6,485	7,960	9,861
Affordable housing	5,202	7,447	9,440	12,145
Construction finance	4,133	5,708	7,435	9,210
Others (run-off)	204	18	0	0
Total AUM	**22,860**	**36,622**	**49,559**	**64,852**
On-book AUM	18,576	28,822	38,963	50,737
Off-book AUM	4,080	7,782	10,595	14,115
Gold as % of AUM	35.2	46.3	49.9	51.9

Source: Company, Deven Choksey Research

Ratio dashboard

	FY25A	FY26A	FY27E	FY28E
Growth				
AUM growth (%)	n.a.	60.2	35.3	30.9
Net interest income growth (%)	n.a.	50.3	71.6	34.4
Profit after tax growth (%)	n.a.	98.4	75.8	40.8
Margins				
Yield on average on-book AUM (%)	16.20	15.74	17.78	17.76
Cost of borrowings (%)	9.60	9.72	9.15	8.95
Spread (%)	6.50	7.03	8.63	8.81
Net interest margin (%)	8.50	8.44	9.20	9.35
Efficiency				
Cost-to-income ratio (%)	59.9	49.4	46.6	43.4
Non-interest income / net total income (%)	27.3	33.6	24.2	21.8
Returns				
Return on average assets (%)	2.70	3.55	4.27	4.55
Return on average equity (%)	11.8	16.5	19.0	19.8
Asset quality				
Gross non-performing assets (%)	1.53	0.92	1.00	1.10

Source: Company, Deven Choksey Research

	FY25A	FY26A	FY27E	FY28E
Net non-performing assets (%)	0.89	0.54	0.58	0.64
Provision coverage ratio (%)	41.8	41.2	42.0	42.0
Credit cost (%)	n.a.	0.80	0.73	0.70
Capital and per share				
Debt to equity (x)	3.60	3.35	2.86	3.09
Earnings per share (INR)	5.80	9.87	15.71	22.11
Book value per share (INR)	52.16	74.87	107.15	129.25
Adjusted book value per share (INR)	50.14	73.25	105.02	126.21

Source: Company, Deven Choksey Research

Profit and Loss (INR Cr)

Particular	FY25A	FY26A	FY27E	FY28E
Interest income	2,605	3,731	6,026	7,966
Interest expense	1,274	1,730	2,593	3,352
Net interest income	**1,331**	**2,001**	**3,434**	**4,614**
Non-interest income	501	1,011	1,097	1,283
Net total income	1,833	3,012	4,531	5,897
Fees and commission expense	n.d.	154	188	220
Employee benefits expense	743	1,009	1,389	1,682
Depreciation and amortisation	n.d.	110	121	136
Other expenses	356	293	374	438
Total operating expenses	**1,099**	**1,565**	**2,072**	**2,475**
Pre-provision operating profit	**734**	**1,447**	**2,459**	**3,422**
Impairment on financial instruments	101	190	247	312
Profit before tax	633	1,257	2,212	3,110
Tax	155	308	543	762
Profit after tax	**479**	**949**	**1,668**	**2,348**

Source: Company, Deven Choksey Research

Balance sheet

Particulars	FY25A	FY26A	FY27E	FY28E
Cash and bank balances	1,531	2,123	3,178	4,039
Loans, net of expected credit loss	18,251	28,150	37,950	49,418
Investments	160	1,236	1,080	1,080
Other assets	890	1,167	1,373	1,486
Undeployed balance / plug	0	0	1,821	1,681
Total assets	**20,833**	**32,676**	**45,402**	**57,704**
Total borrowings including debt securities	15,577	24,112	32,534	42,366
Other liabilities and provisions	952	1,360	1,487	1,610
Total liabilities	16,529	25,473	34,021	43,976
Total equity	**4,304**	**7,203**	**11,380**	**13,729**
Total equity and liabilities	**20,833**	**32,676**	**45,402**	**57,704**
Debt to equity (x)	3.60	3.35	2.86	3.09
Book value per share (INR)	52.16	74.87	107.15	129.25

Source: Company, Deven Choksey Research

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Capri Global Capital Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
26-08-26	256	316	BUY

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

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