

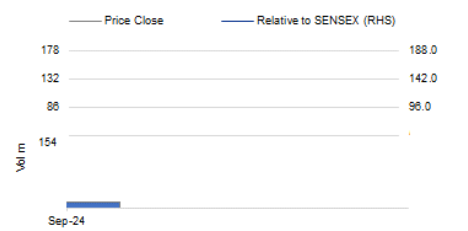
India

ADD (no change)

Consensus ratings*:	Buy 41	Hold 0	Sell 0
Current price:	Rs3,628		
Target price:	Rs4,250 ▲		
Previous target:	Rs3,750		
Up/downside:	17.1%		
InCred Research / Consensus:	22.5%		
Reuters:	SRTR.BO		
Bloomberg:	SHFL IN		
Market cap:	US\$16,310m	Rs1,364,258m	
Average daily turnover:	US\$52.4m	Rs4384.0m	
Current shares o/s:	375.9m		
Free float:	74.6%		
*Source: Bloomberg			

Key changes in this note

► We believe SFL is well placed for strong and profitable growth with increased AUM diversification, favourable interest rate environment and controlled asset quality.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.4	23.0	91.7
Relative (%)	7.0	13.5	47.7

Major shareholders	% held
Shriram Group	25.4
Govt of Singapor	6.7
Kotak AMC	2.8

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Shriram Finance Limited

Diversity ensures immunity against cyclicality

- Notwithstanding the rural headwinds, we expect SFL’s AUM growth to sustain in the coming quarters led by increased cross-selling and diversification.
- SFL’s strong track record instils confidence in its asset quality management, while the interest rate environment is favourable for margin movement.
- SFL to drive relative outperformance with its superior growth & improved asset quality compared to peers. Retain ADD rating on it with a new TP of Rs4,250.

Diversity to ensure immunity against cyclicality in vehicle demand

Our recent channel check continues to indicate that the rural economy is facing headwinds which is severely impacting the vulnerable segments including vehicle demand (especially commercial vehicles). This is gradually rippling out to the other segments as well. However, Shriram Finance or SFL’s management has indicated a strong lead for the festive season with higher participation of the private sector. Post merger, the company is rapidly rolling out non-vehicle offerings like MSME finance, supply chain finance, and gold loans at its existing vehicle finance branches. Additionally, the company is in the process of introducing new products including supply chain financing, NBFC lending, etc. which will further aid its growth. Thus, diversity in growth is making SFL immune towards the current slowdown. We expect its assets under management or AUM to post a CAGR of ~21% over FY24-FY27F on the back of rising used vehicle demand and robust non-vehicle loan growth.

Favourable interest rate environment to support margin

SFL’s liability side is well diversified between public deposits (~25%), term loans (~25%), capital markets (~35%) and securitization (~15%). We believe the company is an advantageous position in a falling interest rate environment, with ~100% of its loan book at a fixed rate and ~25% of the funding book (term loans) at floating rates, which get revised faster. SFL is better placed with superior yields and consistently improving liability prolife. We expect its NIM to remain in the range of ~895-925bp over FY25F-27F.

Improving asset quality trend to sustain - this will aid profitability

Like most peers, we do expect some adverse movement in the non-performing assets or NPAs of SFL, but the company has not only improved its overall client sourcing but also heavily invested in increasing the interaction with its customers regarding financial discipline. There is heightened awareness about CIBIL scores and its impact on future financial liabilities. We believe that SFL’s improved underwriting practices and strong moat in the business will ensure that its gross stage-3 assets will continue to improve and expect the credit cost to remain at ~2.3% in FY25F on a conservative basis.

Outlook & valuation

Superior growth with diversity, better-than-expected asset quality and improved return ratios makes SFL one of our top stock picks. We retain our ADD rating on SFL with a higher target price of Rs4,250 (Rs3,750 earlier), valuing the stock at ~2.5x FY26F BV. Downside risks: Slower-than-expected growth and a spike in fresh slippage.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	172,264	201,583	243,110	299,509	365,712
Total Non-Interest Income (Rsm)	307	332	398	478	574
Operating Revenue (Rsm)	172,571	201,915	243,508	299,987	366,286
Total Provision Charges (Rsm)	(41,592)	(45,183)	(57,151)	(72,186)	(94,433)
Net Profit (Rsm)	59,793	71,905	85,651	107,299	130,088
Core EPS (Rs)	159.69	191.34	227.92	285.53	346.17
Core EPS Growth	60%	20%	19%	25%	21%
FD Core P/E (x)	22.72	18.96	15.92	12.71	10.48
DPS (Rs)	15.00	45.00	55.00	70.00	85.00
Dividend Yield	0.41%	1.24%	1.52%	1.93%	2.34%
BVPS (Rs)	1,156.6	1,292.4	1,465.4	1,680.9	1,942.1
P/BV (x)	3.14	2.81	2.48	2.16	1.87
ROE	17.3%	15.7%	16.5%	18.2%	19.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

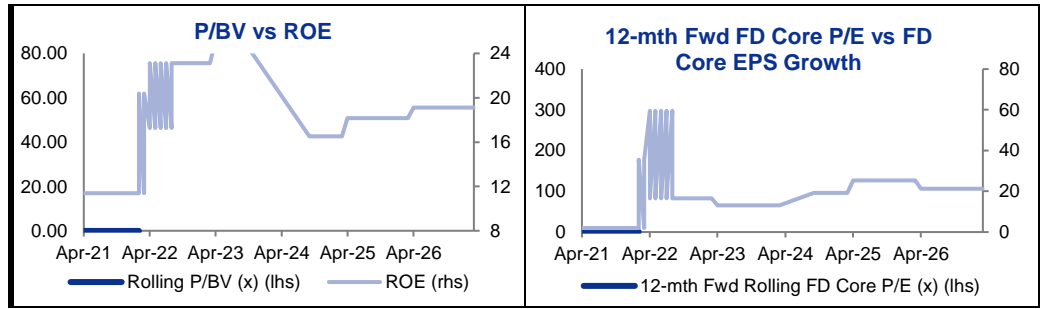
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Our revised earnings estimates

Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,43,110	2,43,110	0.0%	2,93,881	2,99,509	1.9%	3,57,923	3,65,712	2.2%
PPOP	1,72,118	1,72,118	0.0%	2,10,583	2,16,211	2.7%	2,61,259	2,69,048	3.0%
PAT	85,651	85,651	0.0%	1,03,253	1,07,299	3.9%	1,27,373	1,30,088	2.1%
EPS (Rs)	228	228	0.0%	275	286	3.9%	339	346	2.1%
AUM (Rs bn)	2,721.0	2,721.0	0.0%	3,278.0	3,294.5	0.5%	3,945.0	3,969.7	0.6%
BV (Rs)	1,465.4	1,465.4	0.0%	1,670.1	1,680.9	0.6%	1,924.1	1,942.1	0.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	172,264	201,583	243,110	299,509	365,712
Total Non-Interest Income	307	332	398	478	574
Operating Revenue	172,571	201,915	243,508	299,987	366,286
Total Non-Interest Expenses	(43,889)	(54,207)	(65,019)	(76,641)	(89,318)
Pre-provision Operating Profit	123,441	142,020	172,118	216,211	269,048
Total Provision Charges	(41,592)	(45,183)	(57,151)	(72,186)	(94,433)
Operating Profit After Provisions	81,849	96,836	114,967	144,025	174,614
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	81,849	96,836	114,967	144,025	174,614
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	81,849	96,836	114,967	144,025	174,614
Exceptional Items					
Pre-tax Profit	81,849	96,836	114,967	144,025	174,614
Taxation	(22,056)	(24,932)	(29,317)	(36,726)	(44,527)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	59,793	71,905	85,651	107,299	130,088
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	59,793	71,905	85,651	107,299	130,088
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	91.9%	90.8%	91.4%	92.6%	93.6%
Avg Liquid Assets/Avg IEAs	111.1%	107.0%	103.9%	102.2%	101.1%
Net Cust Loans/Assets					
Net Cust Loans/Broad Deposits					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
Provision Charge/Avg Cust Loans					
Provision Charge/Avg Assets					
Total Write Offs/Average Assets					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Gross Loans	1,719,846	2,072,941	2,521,959	3,053,434	3,679,231
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,719,846	2,072,941	2,521,959	3,053,434	3,679,231
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,719,846	2,072,941	2,521,959	3,053,434	3,679,231
Intangible Assets					
Other Non-Interest Earning Assets	76,771	81,336	77,910	74,655	71,563
Total Non-Interest Earning Assets	101,894	118,643	116,064	113,741	111,673
Cash And Marketable Securities	158,174	108,126	70,098	50,194	25,292
Long-term Investments	85,651	106,566	109,705	118,168	125,094
Total Assets	2,065,565	2,406,277	2,817,827	3,335,536	3,941,290
Customer Interest-Bearing Liabilities					
Bank Deposits	1,579,063	1,858,411	2,194,104	2,625,953	3,127,346
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,579,063	1,858,411	2,194,104	2,625,953	3,127,346
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	24,509	28,665	34,102	40,596	48,357
Total Liabilities	1,603,572	1,887,076	2,228,206	2,666,549	3,175,703
Shareholders Equity	433,066	485,684	550,666	631,660	729,805
Minority Interests					
Total Equity	433,066	485,684	550,666	631,660	729,805

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	80.9%	17.0%	20.6%	23.2%	22.1%
Operating Profit Growth	70.5%	14.8%	20.8%	25.1%	24.0%
Pretax Profit Growth	131%	18%	19%	25%	21%
Net Interest To Total Income	99.8%	99.8%	99.8%	99.8%	99.8%
Cost Of Funds	9.21%	8.61%	8.50%	8.00%	7.60%
Return On Interest Earning Assets	19.8%	17.7%	17.5%	17.1%	16.8%
Net Interest Spread	10.61%	9.10%	8.99%	9.08%	9.17%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	32%	33%	33%	35%
Interest Return On Average Assets	9.87%	9.02%	9.31%	9.73%	10.05%
Effective Tax Rate	26.9%	25.7%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	9.4%	23.5%	24.1%	24.5%	24.6%
Return On Average Assets	3.43%	3.22%	3.28%	3.49%	3.58%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.
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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.