

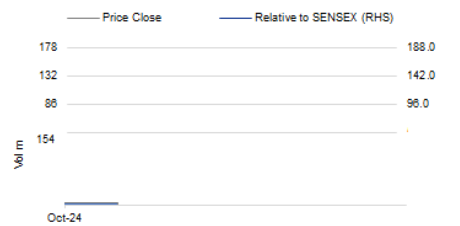
India

ADD (no change)

Consensus ratings*: Buy 40 Hold 1 Sell 0	
Current price:	Rs3,093
Target price:	Rs4,250
Previous target:	Rs4,250
Up/downside:	37.4%
InCred Research / Consensus:	18.2%
Reuters:	SHMF.NS
Bloomberg:	SHFL IN
Market cap:	US\$16,014m
	Rs1,162,864m
Average daily turnover:	US\$60.8m
	Rs4417.2m
Current shares o/s:	375.9m
Free float:	74.6%
*Source: Bloomberg	

Key changes in this note

- SFL witnessed strong financials along with healthy disbursement growth, a marginal dip in NIM, higher opex growth and contained credit costs with improving asset quality.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.8)	5.7	72.0
Relative (%)	(8.1)	8.3	38.2

Major shareholders	% held
Shriram Group	25.4
Govt of Singapor	6.4
Kotak MF	2.9

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Shriram Finance Limited

Consistency across all fronts

- SFL reported an in-line PAT of Rs21bn with strong AUM growth, led by buoyant used- vehicle demand along with stable momentum in non-vehicle retail loans.
- Asset quality was healthy, with a GS3 fall of ~7bp qoq leading to contained credit costs. Higher opex was due to higher DSA sourcing & rebranding activity.
- We like SFL for its leadership position in vehicle lending along with improving asset quality trends. Maintain ADD rating with a TP of Rs4,250.

Beats industry trend with healthy retail vehicle/non-vehicle demand

Shriram Finance (SFL) reported an in-line 2QFY25 PAT of Rs21bn amid steady margin and well-managed credit costs. Disbursement grew ~6% qoq and ~16% yoy, led by strong used-vehicle demand and healthy SME loans, resulting in AUM growth of ~4% qoq and ~20% yoy. SFL has reiterated its leadership position in the used-vehicle market when most other vehicle financiers are facing a slowdown. Used-vehicle prices remained high because of lower replacement by new vehicles leading to their limited supply, elevated new vehicle prices, and longer use of vehicles. Management indicated a better 2HFY25F for vehicle finance led by better rabi crops, higher government spending and higher private investments. In vehicle loans, there is strong demand from the SME segment while the company was cautious on personal loans. Gold loan disbursements were slow due to a cut in the loan-to-value (LTV) ratio from 72-73% to 60-65%, but the same is expected to pick up pace in coming quarters.

Robust asset quality leads to contained credit costs

Net interest margin or NIM contracted by ~5bp, largely due to diversification in the funding mix. SFL continued to improve its asset quality, with gross stage-3 assets declining by ~7 bp qoq to 5.32% led by an overall improvement in underwriting & collection efficiency across segments. We feel the major asset quality stress is behind us and expect gross stage-3 assets to further improve by ~20-30bp by the end of FY25F, leading to contained credit costs for the year.

Higher DSA sourcing and rebranding increases opex

Operating expenses grew at a higher pace of ~8% qoq and ~20% yoy, led by higher sourcing from direct selling agents (DSA) resulting in higher fee payment and higher branding activity. The company is investing in repositioning itself with the addition of non-vehicle lending products to its product basket. Management indicated that SFL will continue the rebranding activity for another few quarters.

Valuation and outlook

We expect SFL's AUM to post a CAGR of ~21% over FY25F-27F led by diversified disbursement CAGR of ~22% over the same period. SFL is well capitalized, and the sale of its housing arm will further strengthen its CRAR by ~80bp. We have valued SFL at ~2.6x FY26F BV, retaining our ADD rating with a target price of Rs4,250. 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	228,350	280,071	339,977
Total Non-Interest Income (Rsm)	307	332	5,312	6,374	7,649
Operating Revenue (Rsm)	172,571	201,915	233,662	286,445	347,626
Total Provision Charges (Rsm)	(41,592)	(45,183)	(52,138)	(65,935)	(86,703)
Net Profit (Rsm)	59,793	71,905	81,597	100,818	120,643
Core EPS (Rs)	159.69	191.34	217.13	268.28	321.04
Core EPS Growth	60%	20%	13%	24%	20%
FD Core P/E (x)	19.37	16.16	14.24	11.53	9.63
DPS (Rs)	15.00	45.00	55.00	65.00	80.00
Dividend Yield	0.49%	1.46%	1.78%	2.10%	2.59%
BVPS (Rs)	1,156.6	1,292.4	1,454.6	1,657.8	1,898.9
P/BV (x)	2.67	2.39	2.13	1.87	1.63
ROE	17.3%	15.7%	15.8%	17.2%	18.1%
% 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	2,28,350	-6.1%	2,99,509	2,80,071	-6.5%	3,65,712	3,39,977	-7.0%
PPOP	1,72,118	1,61,664	-6.1%	2,16,211	2,01,260	-6.9%	2,69,048	2,48,639	-7.6%
PAT	85,651	81,597	-4.7%	1,07,299	1,00,818	-6.0%	1,30,088	1,20,643	-7.3%
EPS (Rs)	228	217	-4.7%	286	268	-6.0%	346	321	-7.3%
AUM (Rs bn)	2,721.0	2,716.9	-0.2%	3,294.5	3,277.2	-0.5%	3,969.7	3,948.1	-0.5%
BV (Rs)	1,465.4	1,454.6	-0.7%	1,680.9	1,657.8	-1.4%	1,942.1	1,898.9	-2.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Quarterly earnings summary

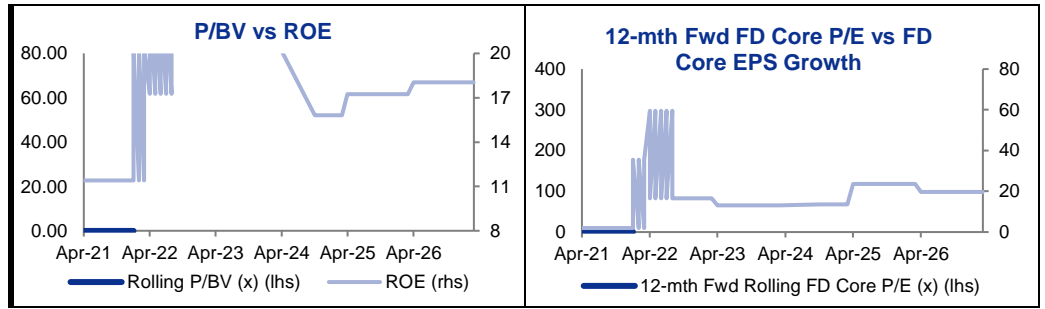
Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)
Net Interest Income	38,280	37,775	41,921	42,639	42,004	45,947	49,110	50,874	52,337	54,641	18.9%	4.4%
<i>NIM (% of AUM)</i>	9.5%	9.1%	9.7%	9.4%	8.9%	9.3%	9.4%	9.3%	9.1%	9.2%		
Operating Expenses	10,841	11,999	11,928	14,363	13,908	14,618	15,311	16,024	16,265	17,597	20.4%	8.2%
Operating Profit	29,676	29,938	33,016	30,810	31,262	34,808	36,893	39,056	38,541	39,865	14.5%	3.4%
Provisions	11,597	8,976	9,173	11,846	8,786	11,286	12,497	12,615	11,876	12,350	9.4%	4.0%
<i>Credit Costs (% of AUM)</i>	3.2%	2.2%	2.1%	2.6%	1.9%	2.3%	2.4%	2.3%	2.1%	2.1%		
PBT	18,079	20,962	23,844	18,964	22,476	23,523	24,396	26,441	26,666	27,515	17.0%	3.2%
Tax	4,690	5,411	6,074	5,881	5,722	6,014	6,213	6,983	6,860	6,803	13.1%	-0.8%
<i>Tax Rate (%)</i>	25.9%	25.8%	25.5%	31.0%	25.5%	25.6%	25.5%	26.4%	25.7%	24.7%		
PAT	13,390	15,551	17,770	13,083	16,754	17,508	18,183	19,459	19,806	20,713	18.3%	4.6%
AUM (Rs m)	16,29,700	16,93,582	17,74,980	18,56,829	19,32,147	20,26,410	21,42,335	22,48,620	23,34,436	24,30,426	19.9%	4.1%
Disbursement (Rs m)	2,51,140	2,64,190	2,92,270	3,10,543	3,04,530	3,46,020	3,77,850	3,93,240	3,77,098	3,99,740	15.5%	6.0%
Gross NPL	1,01,316	1,05,831	1,10,586	1,13,822	1,15,089	1,15,563	1,19,523	1,20,812	1,24,078	1,27,642	10.5%	2.9%
<i>GNPL (% of Loans)</i>	6.3%	6.3%	6.3%	6.2%	6.0%	5.8%	5.7%	5.5%	5.4%	5.3%		
Net NPL	52,060	53,908	54,506	56,749	54,613	54,202	55,730	58,244	60,618	61,656	13.8%	1.7%
<i>NNPL (% of Loans)</i>	3.3%	3.3%	3.2%	3.2%	3.0%	2.8%	2.7%	2.7%	2.7%	2.6%		
<i>Provision Coverage (%)</i>	48.6%	49.1%	50.7%	50.1%	52.5%	53.1%	53.4%	51.8%	51.2%	51.7%		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

2QFY25 earnings conference-call highlights >

- Overall growth will be healthy, with commercial vehicle or CV loan growth at 17-18% yoy in FY25F.
- Management indicated gross stage-3 assets will decline to the 5% level from 5.32% currently.
- SFL reduced the LTV on gold loans to 60-65%, from 72-73% earlier, as the LTV was frequently breached due to volatile price movement.
- The personal loan portfolio mostly consists of higher-ticket loans, thus avoiding lower-ticket loans which are currently facing headwinds.
- With insignificant exposure to lower-ticket personal loans, management chose to restrict personal loan disbursement as a precautionary stance.
- The company raised ECB bonds worth US\$500m during the quarter to further diversify its borrowing mix.
- The incremental cost of borrowing was in line or lower than the outstanding cost of borrowing, indicating a largely stable cost of borrowing with a positive bias.
- The Reserve Bank of India and the Competition Commission of India have approved the sale of SFL's subsidiary Shriram Housing.
- SFL's board has approved an interim dividend of Rs22/share.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	172,264	201,583	228,350	280,071	339,977
Total Non-Interest Income	307	332	5,312	6,374	7,649
Operating Revenue	172,571	201,915	233,662	286,445	347,626
Total Non-Interest Expenses	(43,889)	(54,207)	(65,627)	(78,049)	(91,067)
Pre-provision Operating Profit	123,441	142,020	161,664	201,260	248,639
Total Provision Charges	(41,592)	(45,183)	(52,138)	(65,935)	(86,703)
Operating Profit After Provisions	81,849	96,836	109,526	135,326	161,936
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	81,849	96,836	109,526	135,326	161,936
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	81,849	96,836	109,526	135,326	161,936
Exceptional Items					
Pre-tax Profit	81,849	96,836	109,526	135,326	161,936
Taxation	(22,056)	(24,932)	(27,929)	(34,508)	(41,294)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	59,793	71,905	81,597	100,818	120,643
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	59,793	71,905	81,597	100,818	120,643
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%	92.5%	93.5%
Avg Liquid Assets/Avg IEAs	111.1%	107.0%	104.3%	102.4%	100.9%
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	2,518,156	3,037,398	3,659,224
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,719,846	2,072,941	2,518,156	3,037,398	3,659,224
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,719,846	2,072,941	2,518,156	3,037,398	3,659,224
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	90,627	44,403	12,750
Long-term Investments	85,651	106,566	110,799	117,547	124,414
Total Assets	2,065,565	2,406,277	2,835,646	3,313,089	3,908,062
Customer Interest-Bearing Liabilities					
Bank Deposits	1,579,063	1,858,411	2,215,977	2,612,162	3,110,341
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,579,063	1,858,411	2,215,977	2,612,162	3,110,341
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	2,250,079	2,652,758	3,158,697
Shareholders Equity	433,066	485,684	546,612	623,003	713,583
Minority Interests					
Total Equity	433,066	485,684	546,612	623,003	713,583

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	80.9%	17.0%	13.3%	22.6%	21.4%
Operating Profit Growth	70.5%	14.8%	13.8%	24.0%	23.1%
Pretax Profit Growth	131%	18%	13%	24%	20%
Net Interest To Total Income	99.8%	99.8%	97.7%	97.8%	97.8%
Cost Of Funds	9.21%	8.61%	8.80%	8.30%	8.00%
Return On Interest Earning Assets	19.8%	17.7%	17.5%	17.1%	16.8%
Net Interest Spread	10.61%	9.10%	8.69%	8.78%	8.77%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	32%	32%	33%	35%
Interest Return On Average Assets	9.87%	9.02%	8.71%	9.11%	9.42%
Effective Tax Rate	26.9%	25.7%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	9.4%	23.5%	25.3%	24.2%	24.9%
Return On Average Assets	3.43%	3.22%	3.11%	3.28%	3.34%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- 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.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- 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.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- 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.