



India

ADD (no change)

Consensus ratings*: Buy 39 Hold 1 Sell 1

Current price:	Rs2,970
Target price:	Rs4,250
Previous target:	Rs4,250
Up/downside:	43.1%
InCred Research / Consensus:	15.9%
Reuters:	SHMF.NS
Bloomberg:	SHFL IN
Market cap:	US\$15,379m
	Rs1,116,725m
Average daily turnover:	US\$58.2m
	Rs4227.1m
Current shares o/s:	375.9m
Free float:	74.6%

*Source: Bloomberg

Key changes in this note

- We believe Shriram Finance is better placed than its peers with its strong and well-diversified AUM growth, improving NIM and stable asset quality.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.0)	(11.0)	36.7
Relative (%)	(0.5)	(6.7)	26.3

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

Research Analyst(s)



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Shriram Finance Limited

In a sweet spot

- We have added Shriram Finance to our high-conviction list as it is well-positioned to dodge the slowdown in the vehicle finance sector vs. its peers.
- With favourable vehicle AUM mix (higher share of used M&HCV & PVs) & rising contribution from non-vehicle loans (MSME), growth certainty is high.
- Diversified AUM mix (rising non-vehicle) & improved underwriting/collection provides comfort on asset quality. Reiterate ADD rating with a TP of Rs4,250.

Standing strong despite adverse winds: consistent AUM growth

Our recent interaction with the management of Shriram Finance (SFL) echoed our stance that the company is relatively well-positioned to dodge the slowdown in the vehicle industry as compared to its larger peers. A key advantage is that vehicle finance assets under management or AUM is dominated by medium & heavy commercial vehicle (M&HCV) & passenger vehicle (PV) segments which are relatively doing better than the light commercial vehicle (LCV) segment where SFL has relatively low exposure. A large part of the industry slowdown is in the new vehicle space while the demand for used vehicles continues to move strongly, which is another advantage for SFL, being the leader in the used vehicle space. Additionally, given the pedigree of Shriram City Union Finance (SCUF), SFL has been rapidly cross-selling and scaling up its MSME and gold loan portfolios, further aiding AUM growth.

Favourable interest rate cycle and liquidity to aid NIM

We expect the declining interest rate scenario to be beneficial to SFL, given that a large part of its loan book comprises fixed-rate loans and will reprice them at a slower pace compared to its borrowings. Thus, we expect the net interest margin or NIM to be range-bound at ~9% in FY25F and improve by ~20bp in FY26F led by strong AUM growth, falling interest rates and improving system liquidity.

Consistently better asset quality; credit costs to be range-bound

Our channel check indicated a high overlap between LCV borrowers and microfinance borrowers, raising the collection pressure on vehicle financiers. However, given that SFL has a higher exposure to M&HCV and PV customers, it continues to witness largely stable asset quality. We also find comfort in the asset quality trend improving in the non-vehicle loan book. We are building in credit costs to be range-bound at ~2% with a 10bp variance.

Outlook and valuation

We believe the recent correction in the stock price (~20% since Oct 2024) amid sluggishness in the vehicle industry has overplayed and feel that SFL is much better placed than its larger peers. We expect RoE to be in the 17-18% range in FY26F-27F driven by strong AUM CAGR of ~21% over FY25F-27F, improving NIM and stable asset quality. We have added SFL to our high-conviction stock list with an ADD rating & an unchanged target price of Rs4,250, valuing the stock at 2.6x FY26F BV, given the favourable risk-reward ratio. Downside risks: Slower-than-expected growth and a spike in fresh loan slippage.

Financial Summary

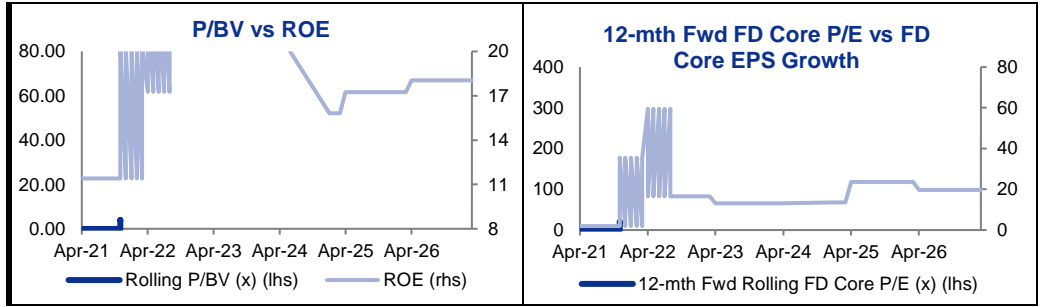
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income (Rsm)	172,264	201,583	228,350	280,071	339,977
Total Non-Interest Income (Rsm)	307	332	5,312	6,374	7,649
Operating Revenue (Rsm)	172,571	201,915	233,662	286,445	347,626
Total Provision Charges (Rsm)	(41,592)	(45,183)	(52,138)	(65,935)	(86,703)
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)	18.60	15.52	13.68	11.07	9.25
DPS (Rs)	15.00	45.00	55.00	65.00	80.00
Dividend Yield	0.51%	1.52%	1.85%	2.19%	2.69%
BVPS (Rs)	1,156.6	1,292.4	1,454.6	1,657.8	1,898.9
P/BV (x)	2.57	2.30	2.04	1.79	1.56
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

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.

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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.