



India

ADD (no change)

Consensus ratings*: Buy 39 Hold 0 Sell 1

Current price:	Rs655
Target price: ▲	Rs830
Previous target:	Rs800
Up/downside:	26.7%
InCred Research / Consensus:	15.9%
Reuters:	SRTR.BO
Bloomberg:	SHFL IN
Market cap:	US\$14,418m Rs1,232,028m
Average daily turnover:	US\$49.3m Rs4210.2m
Current shares o/s:	375.9m
Free float:	74.6%

*Source: Bloomberg

Key changes in this note

- ▶ Selective disbursement growth. NIM pressure is likely to ease from the next quarter, and credit costs inching up due to initial stress in some parts of central India.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.5)	24.2	31.1
Relative (%)	(4.7)	19.0	22.0

Major shareholders	% held
Shriram Group	25.4
Govt of Singaporos	5.7
NPS Trust	1.7

Research Analyst(s)

Meghna LUTHRA

T (91) 22 4161 1553

E meghna.luthra@incredresearch.com

Rishabh JOGANI

T (91) 22 4161 1569

E rishabh.jogani@incredresearch.com

Shriram Finance Limited

Holding up well; attractive valuation

- SFL posted in-line 4Q PAT; however, NIM remained subdued due to elevated liquidity and credit costs inching up, partially offset by higher other income.
- AUM grew +17% yoy/+3% qoq led by disbursement growth of +14% yoy/2.5% qoq, although selective and slower than the usual 4Q trend.
- Diversified AUM mix (rising non-vehicle loans) & improved underwriting provides asset quality comfort. Retain ADD rating with a higher TP of Rs830.

Not the usual 4Q; holding up disbursement growth; all set for revival

Shriram Finance (SFL) has posted a largely in-line 4QFY25 PAT at Rs21bn (+19% yoy), although the slightly lower-than-expected margin and a jump in credit costs were partially offset by better other income. Disbursements grew at a slower-than-usual 4Q pace of +2.5% qoq/+14% yoy which were led by tractors, and a pick-up in gold loans & passenger vehicle (PV) loans with some sequential improvement in commercial vehicles (CVs), while MSME and two-wheeler loan demand softened qoq. The delay in CV revival is largely attributable to slower-than-expected execution of approved government projects. We will keep a close eye on the execution and believe SFL is better placed, with diversification providing a good cushion to AUM growth at +3.4% qoq/+17% yoy during the sluggish vehicle sales cycle.

Credit costs inching up; stable asset quality; technical write-offs

SFL reported a 83bp fall in gross stage-3 assets to 4.55% on account of higher write-offs at Rs32bn, of which Rs23bn was from the gross stage-3 assets book. These stage-3 written-off loans were 100% provided for and did not have any impact on the P&L. Barring this, gross stage-3 assets increased 3bp qoq, which is reasonable considering the company's exposure to low-income customer profiles where major microfinance or MFI stress is visible in recent times. Stage-2 assets also witnessed a rise led by crop stress in select areas of central India. Consequently, credit costs inched up 22bp qoq to 2.07%.

Elevated liquidity subdues NIM - expected to ease in coming quarters

Net interest margin (NIM) saw a dip of ~23bp qoq, largely due to continued elevated liquidity. SFL went for another external commercial borrowing (ECB) worth US\$800m in addition to the one raised in Dec 2014 worth US\$1.2bn, which raised the liquidity to ~six months from an average run-rate of ~three months. We expect NIM pressure to ease going ahead led by healthy AUM growth & easing liquidity, also supported by the positive impact of the policy rate cut.

Outlook and valuation

We believe the recent correction in the stock price amid sluggishness in the vehicle industry has been overplayed and feel that SFL is much better placed than its larger peers. We maintain SFL as a part of our high-conviction stocks list, maintaining its ADD rating with a marginally higher target price of Rs830 (Rs 800 earlier), valuing the stock at ~2.0x FY27F BV. Downside risks: Slower-than-expected growth and a spike in fresh loan slippage

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income (Rsm)	201,618	233,798	279,664	333,012	397,334
Total Non-Interest Income (Rsm)	332	251	301	361	433
Operating Revenue (Rsm)	201,950	234,049	279,965	333,372	397,767
Total Provision Charges (Rsm)	(45,183)	(53,117)	(61,022)	(77,358)	(93,635)
Net Profit (Rsm)	71,905	81,042	102,003	121,762	149,309
Core EPS (Rs)	38.27	42.87	53.96	64.41	78.98
Core EPS Growth	20%	12%	26%	19%	23%
FD Core P/E (x)	17.12	15.28	12.14	10.17	8.30
DPS (Rs)	45.00	10.00	15.00	15.00	20.00
Dividend Yield	6.87%	1.53%	2.29%	2.29%	3.05%
BVPS (Rs)	258.5	297.7	348.7	410.1	485.1
P/BV (x)	2.53	2.20	1.88	1.60	1.35
ROE	15.7%	15.5%	16.7%	17.0%	17.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	YoY (%)	QoQ (%)
Net interest income	42,004	45,947	49,110	50,874	52,337	54,641	55,896	55,655	9.4%	-0.4%
<i>NIM (% of AUM)</i>	8.9%	9.3%	9.4%	9.3%	9.1%	9.2%	9.0%	8.6%		
Operating expenses	13,908	14,618	15,311	16,024	16,265	17,597	18,692	19,010	18.6%	1.7%
Operating profit	31,262	34,808	36,893	39,056	38,541	39,865	40,850	43,353	11.0%	6.1%
Provisions	8,786	11,286	12,497	12,615	11,876	12,350	13,258	15,633	23.9%	17.9%
<i>Credit costs (% of AUM)</i>	1.9%	2.3%	2.4%	2.3%	2.1%	2.1%	2.1%	2.4%		
PBT	22,476	23,523	24,396	26,441	26,666	27,515	27,592	27,720	4.8%	0.5%
Tax	5,722	6,014	6,213	6,983	6,860	6,803	8,462	6,326	-9.4%	-25.2%
<i>Tax rate (%)</i>	25.5%	25.6%	25.5%	26.4%	25.7%	24.7%	30.7%	22.8%		
PAT	16,754	17,508	18,183	19,459	19,806	20,713	35,698	21,394	9.9%	-40.1%
AUM (Rs m)	19,32,147	20,26,410	21,42,335	22,48,620	23,34,436	24,30,426	25,44,697	26,31,903	17.0%	3.4%
Disbursements (Rs m)	3,04,530	3,46,020	3,77,850	3,93,240	3,77,098	3,99,740	4,37,620	4,48,480	14.0%	2.5%
Gross NPL	1,15,089	1,15,563	1,19,523	1,20,812	1,24,078	1,27,642	1,35,212	1,18,388	-2.0%	-12.4%
<i>GNPL (% of loans)</i>	6.0%	5.8%	5.7%	5.5%	5.4%	5.3%	5.4%	4.6%		
Net NPL	54,613	54,202	55,730	58,244	60,618	61,656	65,393	67,145	15.3%	2.7%
<i>NNPL (% of loans)</i>	3.0%	2.8%	2.7%	2.7%	2.7%	2.6%	2.7%	2.6%		
<i>Provision coverage (%)</i>	52.5%	53.1%	53.4%	51.8%	51.2%	51.7%	51.6%	43.3%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

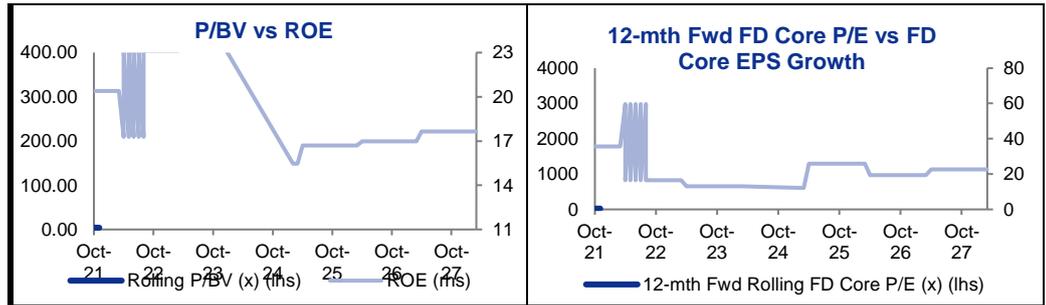
Y/E Mar (Rs m)	FY26F			FY27F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,69,643	2,79,664	3.7%	3,20,654	3,33,012	3.9%	-	3,97,334	-
PPOP	1,94,497	1,97,938	1.8%	2,36,388	2,40,798	1.9%	-	2,94,050	-
PAT	98,847	1,02,003	3.2%	1,17,843	1,21,762	3.3%	-	1,49,309	-
EPS (Rs)	53	54	3.1%	63	65	3.2%	-	79	-
AUM (Rs bn)	3,223.4	3,179.7	-1.4%	3,886.5	3,852.8	-0.9%	-	4,659.4	-
BV (Rs)	356.9	350.5	-1.8%	416.7	412.3	-1.0%	-	487.7	-

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY25 earnings-call highlights ►

- Management gave AUM growth guidance of 12-15% yoy for FY26F, which will gather pace from FY27F.
- NIM guidance is 8.5-8.6% led by a changing AUM mix, easing of liquidity and rate cut benefit.
- The company will partially pass on the benefit of the rate cut to its customers.
- Credit costs are guided to be range-bound around the 2% mark.
- The cost-to-income ratio guidance is 27-28% for FY26F.
- Probability of default for stage-1 assets was 8.79% (-86bp qoq).
- Probability of default for stage-2 assets was 20.69% (-5bp qoq).
- Loss-given default was 39.05% (+32bp qoq).
- The initial markers of stress were seen in select parts of Chhattisgarh, Bihar, and Madhya Pradesh.
- The write-off resulted in a tax benefit, which reduced the tax rate from the usual 25% to 22.8%.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	201,618	233,798	279,664	333,012	397,334
Total Non-Interest Income	332	251	301	361	433
Operating Revenue	201,950	234,049	279,965	333,372	397,767
Total Non-Interest Expenses	(54,242)	(64,987)	(74,928)	(84,766)	(95,128)
Pre-provision Operating Profit	142,020	162,609	197,938	240,798	294,050
Total Provision Charges	(45,183)	(53,117)	(61,022)	(77,358)	(93,635)
Operating Profit After Provisions	96,836	109,493	136,916	163,439	200,415
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	96,836	109,493	136,916	163,439	200,415
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	96,836	109,493	136,916	163,439	200,415
Exceptional Items					
Pre-tax Profit	96,836	109,493	136,916	163,439	200,415
Taxation	(24,932)	(28,450)	(34,914)	(41,677)	(51,106)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	71,905	81,042	102,003	121,762	149,309
Minority Interests					
Prof. & Special Div					
FX And Other Adj.					
Net Profit	71,905	81,042	102,003	121,762	149,309
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	89.4%	88.7%	90.4%	92.2%	93.1%
Avg Liquid Assets/Avg IEAs	106.2%	106.4%	105.6%	102.9%	102.9%
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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	2,072,941	2,453,928	2,950,106	3,574,570	4,322,936
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,072,941	2,453,928	2,950,106	3,574,570	4,322,936
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,072,941	2,453,928	2,950,106	3,574,570	4,322,936
Intangible Assets					
Other Non-Interest Earning Assets	145,365	119,027	116,816	114,715	112,719
Total Non-Interest Earning Assets	182,672	166,232	165,047	164,074	163,320
Cash And Marketable Securities	76,112	213,657	88,717	102,900	123,729
Long-term Investments	106,566	155,987	115,497	123,680	149,574
Total Assets	2,438,292	2,989,805	3,319,367	3,965,224	4,759,559
Customer Interest-Bearing Liabilities					
Bank Deposits	1,858,411	2,341,973	2,566,593	3,092,003	3,739,340
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,858,411	2,341,973	2,566,593	3,092,003	3,739,340
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	28,665	30,531	35,209	40,615	46,864
Total Liabilities	1,887,076	2,372,504	2,601,802	3,132,618	3,786,204
Shareholders Equity	485,684	562,826	659,157	775,248	916,996
Minority Interests					
Total Equity	485,684	562,826	659,157	775,248	916,996

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	17.0%	16.0%	19.6%	19.1%	19.3%
Operating Profit Growth	14.8%	14.5%	21.3%	21.2%	21.7%
Pretax Profit Growth	18%	13%	25%	19%	23%
Net Interest To Total Income	99.8%	99.9%	99.9%	99.9%	99.9%
Cost Of Funds	8.61%	8.79%	7.90%	7.80%	7.60%
Return On Interest Earning Assets	17.7%	17.8%	17.0%	16.4%	16.2%
Net Interest Spread	9.11%	9.02%	9.08%	8.64%	8.58%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	32%	33%	31%	32%	32%
Interest Return On Average Assets	8.95%	8.61%	8.87%	9.14%	9.11%
Effective Tax Rate	25.7%	26.0%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	23.5%	4.7%	5.6%	4.7%	5.1%
Return On Average Assets	3.19%	2.99%	3.23%	3.34%	3.42%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH00011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Registration granted by SEBI, membership of a SEBI recognized supervisory body (if any) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

InCred Research Services Private Limited

Research Analyst SEBI Registration Number: INH000011024

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Yogesh Kadam

Email ID: compliance@incredresearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredresearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework**Stock Ratings**

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.