



India

ADD (no change)

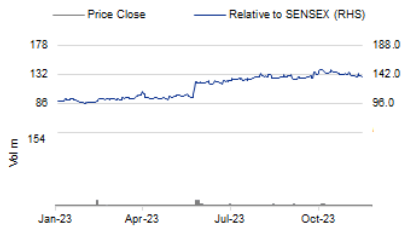
Consensus ratings*: Buy 35 Hold 2 Sell 0

Current price:	Rs2,307
Target price:	Rs2,800 ▲
Previous target:	Rs2,500
Up/downside:	21.4%
InCred Research / Consensus:	17.3%
Reuters:	SRTR.BO
Bloomberg:	SHFL IN
Market cap:	US\$10,427m Rs866,686m
Average daily turnover:	US\$31.6m Rs2624.7m
Current shares o/s:	374.8m
Free float:	74.3%

*Source: Bloomberg

Key changes in this note

- Cross-sales of non-vehicle loans to existing vehicle finance customers along with a better macro environment & rising physical presence to drive AUM growth



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.3	28.3	84.0
Relative (%)	14.4	14.6	56.6

Major shareholders	% held
Shriram Group	25.5
FPI	52.4
LIC of India	3.4

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Shriram Finance Limited

Profitable growth to drive valuation premium

- Shriram Finance (SFL) posted an in-line 3QFY24 PAT of Rs18.4bn aided by improvement in margins, steady operating leverage & improving asset quality.
- Cross-sales of non-vehicle loans to existing vehicle finance customers along with better macro environment & rising physical presence to drive AUM growth.
- SFL has managed healthy growth with improving returns, which should command a valuation premium. Retain ADD rating with a TP of Rs 2,800.

Non-vehicle loans continue to aid AUM growth

Shriram Finance (SFL) posted robust disbursement growth of ~29.3% yoy/~9.2% qoq in 3QFY24, leading to healthy AUM growth of ~20.7% yoy/5.7% qoq to Rs2.14tr. Post-merger, SFL aims at diversifying its loan book and improving its dominance in non-vehicle loans due to small ticket sizes as well as access to a large customer base (from vehicle finance portfolio) with similar requirements. Thus, cross-sales of non-vehicle loans to existing vehicle finance customers will be a key driver of AUM growth. This, coupled with a favourable macroeconomic environment and a rising geographic presence, is an add-on. We are building in ~21% AUM CAGR led by ~24% CAGR in disbursements over FY23-26F.

Surge in qoq NIM is impressive, and the future trend is encouraging

Despite tight liquidity and elevated cost of funds, the company managed to report ~9bp improvement in margins sequentially amid recent hike in lending rates on its vehicle portfolio as well as a rising share of better-yield products (non-vehicle loans). Management remains firm about passing on any incremental surge in cost of funds to end-customers, which provides greater comfort. We are factoring in margin improvement going ahead.

Asset quality trend steady; negative surprises unlikely

SFL has witnessed a minor improvement in its headline non-performing assets or NPAs whereby gross stage-3 assets have improved to ~5.66% vs. ~5.79% last quarter and net stage-3 assets improved to ~2.72% vs. ~2.8% last quarter. There has been a minor surge in provisions amid a surge in stage-1 assets. We are keeping future credit costs in the range of ~250-270bp for FY24F-26F amid a healthy collection mechanism and enhanced digital reach of SFL. Also, improved asset quality profile in the recent past (last 24 months) will help in reducing the average for calculating Probability of Default (PD) and Loss Given Default (LGD) ratios.

Outlook & valuation

SFL has managed to grow at a healthy pace post-merger, with return ratios improving without any volatility in asset quality. This should command a valuation premium for the company. We are valuing the standalone SFL at ~1.8x FY25F BV and add Rs50 for its housing finance subsidiary. Accordingly, we have arrived at a target price of Rs2,800 (Rs2,500 earlier), corresponding to ~2x FY25F. SFL remains our high-conviction bet. Downside risks: Slower-than-expected growth and a spike in fresh loan slippage.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	95,209	172,264	201,820	247,155	297,118
Total Non-Interest Income (Rsm)	191	307	369	443	531
Operating Revenue (Rsm)	95,399	172,571	202,189	247,598	297,649
Total Provision Charges (Rsm)	(38,609)	(41,592)	(46,215)	(59,555)	(74,562)
Net Profit (Rsm)	27,079	59,793	72,117	87,283	104,756
Core EPS (Rs)	100.10	159.69	192.60	233.11	279.77
Core EPS Growth	2%	60%	21%	21%	20%
FD Core P/E (x)	23.05	14.45	11.98	9.90	8.25
DPS (Rs)	20.00	15.00	20.00	25.00	30.00
Dividend Yield	0.87%	0.65%	0.87%	1.08%	1.30%
BVPS (Rs)	958.6	1,156.6	1,329.2	1,537.3	1,787.1
P/BV (x)	2.41	1.99	1.74	1.50	1.29
ROE	11.4%	17.3%	15.5%	16.3%	16.8%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	38,280	37,775	41,921	42,639	42,004	45,947	49,110	17.1%	6.9%
<i>NIM (% of AUM)</i>	<i>9.5%</i>	<i>9.1%</i>	<i>9.7%</i>	<i>9.4%</i>	<i>8.9%</i>	<i>9.3%</i>	<i>9.4%</i>		
Operating Expenses	10,841	11,999	11,928	14,363	13,908	14,618	15,311	28.4%	4.7%
Operating Profit	29,676	29,938	33,016	30,810	31,262	34,808	36,893	11.7%	6.0%
Provisions	11,597	8,976	9,173	11,846	8,786	11,286	12,497	36.2%	10.7%
<i>Credit Costs (% of AUM)</i>	<i>3.2%</i>	<i>2.2%</i>	<i>2.1%</i>	<i>2.6%</i>	<i>1.9%</i>	<i>2.3%</i>	<i>2.4%</i>		
PBT	18,079	20,962	23,844	18,964	22,476	23,523	24,396	2.3%	3.7%
Tax	4,690	5,411	6,074	5,881	5,722	6,014	6,014	-1.0%	0.0%
<i>Tax Rate (%)</i>	<i>25.9%</i>	<i>25.8%</i>	<i>25.5%</i>	<i>31.0%</i>	<i>25.5%</i>	<i>25.6%</i>	<i>24.7%</i>		
PAT	13,390	15,551	17,770	13,083	16,754	17,508	18,382	3.4%	5.0%
AUM (Rs m)	16,29,700	16,93,582	17,74,980	18,56,829	19,32,147	20,26,410	21,42,335	20.7%	5.7%
Disbursement (Rs m)	2,51,140	2,64,190	2,92,270	3,10,543	3,04,530	3,46,020	3,77,870	29.3%	9.2%
Gross NPL	1,01,316	1,05,831	1,10,586	1,13,822	1,15,089	1,15,563	1,19,523	8.1%	3.4%
<i>GNPL (% of loans)</i>	<i>6.3%</i>	<i>6.3%</i>	<i>6.3%</i>	<i>6.2%</i>	<i>6.0%</i>	<i>5.8%</i>	<i>5.7%</i>		
Net NPL	52,060	53,908	54,506	56,749	54,613	54,202	55,730	2.2%	2.8%
<i>NNPL (% of loans)</i>	<i>3.3%</i>	<i>3.3%</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.0%</i>	<i>2.8%</i>	<i>2.7%</i>		
<i>Provision Coverage (%)</i>	<i>48.6%</i>	<i>49.1%</i>	<i>50.7%</i>	<i>50.1%</i>	<i>52.5%</i>	<i>53.1%</i>	<i>53.4%</i>		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

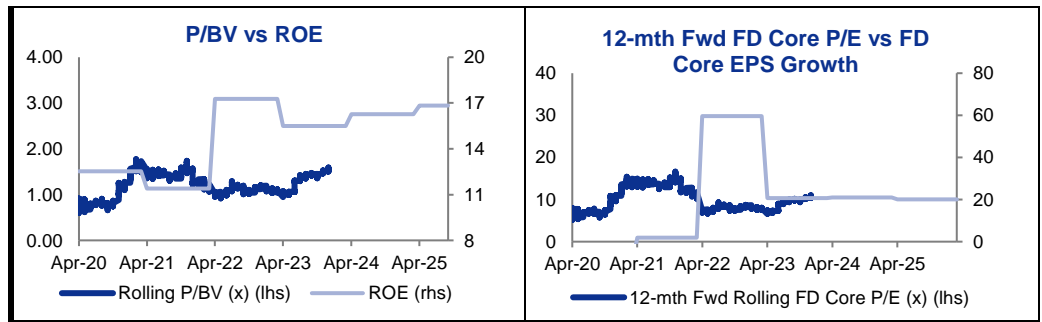
Y/E Mar (Rs m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,02,042	2,01,820	-0.1%	2,45,182	2,47,155	0.8%	2,94,760	2,97,118	0.8%
PPOP	1,42,849	1,42,628	-0.2%	1,74,740	1,76,713	1.1%	2,12,816	2,15,175	1.1%
PAT	71,992	72,117	0.2%	85,812	87,283	1.7%	1,02,999	1,04,756	1.7%
EPS (Rs)	192	193	0.2%	229	233	1.7%	275	280	1.7%
AUM (Rs bn)	2251.2	2,251.2	0.0%	2,711.7	2,711.7	0.0%	3,253.3	3,253.3	0.0%
BV (Rs)	1328.9	1,329.2	0.0%	1,533.1	1,537.3	0.3%	1,151.5	1,151.5	0.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY24 earnings con-call call: Key highlights

- SFL is likely to hold margins at 8.9% going ahead. No rise in interest costs but if they rise, the company can pass on the increased costs to its borrowers.
- Commercial vehicle or CV sales growth is expected to be in the 12% to 15% range as the forthcoming general elections in India will not have a big impact because CV demand mostly depends on infrastructure activity and overall economic activity, both of which are likely to be good.
- High-margin and high-yielding business loans are in focus as they have shorter tenors and better visibility like gold loans while two-wheeler and passenger vehicle loans will also remain in focus.
- The AUM growth guidance stands at 15% for the long term while credit cost guidance is 2% for the full year.
- Looking at capital infusion in Shriram Housing Finance Company (SHFC) as it is growing, but nothing has been finalized yet.
- The break-up of credit costs for the current quarter is as follows: loan write-offs at Rs7.25bn and the provision at Rs5.25bn, totaling to Rs12.5bn.
- The economic environment is expected to be quite positive for all its operational businesses segments like the infrastructure or two-wheeler sector. SFL is confident about asset quality holding good in the coming quarters.
- The fully hedged costs of external commercial borrowing or ECB will be around 10%.
- SHFC is focusing only on eight states, with 149 offices exclusively for the company. It will penetrate deeper in these states and going ahead, the growth rate will remain the same at 20% as the existing higher rate is due to a small base.
- Personal loans are targeted to be below 6% of the assets under management or AUM but SFL has been authorized by its board to keep it at 8% per annum.
- The aim is to set up 100 to 150 branches over the next two years in rural areas.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income	95,209	172,264	201,820	247,155	297,118
Total Non-Interest Income	191	307	369	443	531
Operating Revenue	95,399	172,571	202,189	247,598	297,649
Total Non-Interest Expenses	(19,944)	(43,889)	(53,533)	(63,952)	(74,502)
Pre-provision Operating Profit	74,101	123,441	142,628	176,713	215,175
Total Provision Charges	(38,609)	(41,592)	(46,215)	(59,555)	(74,562)
Operating Profit After Provisions	35,493	81,849	96,413	117,158	140,612
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	35,493	81,849	96,413	117,158	140,612
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	35,493	81,849	96,413	117,158	140,612
Exceptional Items					
Pre-tax Profit	35,493	81,849	96,413	117,158	140,612
Taxation	(8,413)	(22,056)	(24,296)	(29,875)	(35,856)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	27,079	59,793	72,117	87,283	104,756
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	27,079	59,793	72,117	87,283	104,756
Recurring Net Profit					

Balance Sheet Employment

(Rsm)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Gross Loans/Cust Deposits					
Avg Loans/Avg Deposits					
Avg Liquid Assets/Avg Assets	94.7%	91.8%	91.3%	92.3%	93.2%
Avg Liquid Assets/Avg IEAs	114.6%	111.1%	106.4%	103.7%	103.1%
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-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Gross Loans	1,166,652	1,719,846	2,088,609	2,515,901	3,018,300
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,166,652	1,719,846	2,088,609	2,515,901	3,018,300
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,166,652	1,719,846	2,088,609	2,515,901	3,018,300
Intangible Assets					
Other Non-Interest Earning Assets	15,958	87,923	84,317	80,891	77,636
Total Non-Interest Earning Assets	26,773	107,471	104,075	100,881	97,881
Cash And Marketable Securities	163,552	158,174	85,002	84,618	86,619
Long-term Investments	68,092	85,651	89,810	103,253	115,450
Total Assets	1,425,067	2,071,141	2,367,496	2,804,652	3,318,250
Customer Interest-Bearing Liabilities					
Bank Deposits	1,144,967	1,579,063	1,796,204	2,151,095	2,565,555
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,144,967	1,579,063	1,796,204	2,151,095	2,565,555
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	16,772	24,509	31,439	37,494	44,737
Total Liabilities	1,161,739	1,603,572	1,827,643	2,188,590	2,610,293
Shareholders Equity	259,322	433,066	497,695	575,617	669,140
Minority Interests					
Total Equity	259,322	433,066	497,695	575,617	669,140

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Income Growth	13.8%	80.9%	17.2%	22.5%	20.2%
Operating Profit Growth	15.5%	70.5%	15.5%	23.5%	21.5%
Pretax Profit Growth	8%	131%	18%	22%	20%
Net Interest To Total Income	99.8%	99.8%	99.8%	99.8%	99.8%
Cost Of Funds	8.78%	9.21%	8.80%	8.30%	7.90%
Return On Interest Earning Assets	16.6%	19.8%	17.7%	17.2%	16.8%
Net Interest Spread	7.79%	10.61%	8.93%	8.88%	8.85%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	52%	34%	32%	34%	35%
Interest Return On Average Assets	7.00%	9.85%	9.09%	9.56%	9.71%
Effective Tax Rate	23.7%	26.9%	25.2%	25.5%	25.5%
Net Dividend Payout Ratio	19.9%	9.4%	10.4%	10.7%	10.7%
Return On Average Assets	1.99%	3.42%	3.25%	3.38%	3.42%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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