



## India

## ADD (no change)

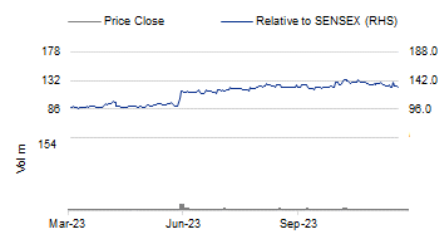
Consensus ratings\*: Buy 36 Hold 1 Sell 1

Current price:	Rs2,331
Target price:	Rs2,800
Previous target:	Rs2,800
Up/downside:	20.1%
InCred Research / Consensus:	3.3%
Reuters:	SRTR.BO
Bloomberg:	SHFL IN
Market cap:	US\$10,499m Rs875,860m
Average daily turnover:	US\$35.0m Rs2922.7m
Current shares o/s:	374.8m
Free float:	74.3%

\*Source: Bloomberg

## Key changes in this note

- Our base calculation suggests that merely ~35% of the existing customers of Shriram Housing and Transport Finance (SHTF) have been tapped for SCUF products.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.7)	13.4	84.9
Relative (%)	(4.3)	10.7	46.0

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

## Research Analyst(s)



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## Shriram Finance Limited

## In a sweet spot

- Our recent interactions with the management of Shriram Finance reiterate our confidence in the company's ability to manage diversified growth momentum.
- With a fixed-rate lending book & market dominance to pass on the rise in cost of funds to end-clients, we factor in that margins have already bottomed out.
- SFL, being 100% asset-backed, is relatively immune to the RBI's recent reluctance on unsecured lending. Retain ADD rating with a TP of Rs2,800.

## Ideal cross-sell franchise; rising share of non-vehicle loans

The Shriram Group, being primarily in the vehicle financing business (SHTF), has been witnessing seasonality in fresh disbursements but post-merger, Shriram Finance has been improving its dominance in non-vehicle financing (SCUF) because of smaller ticket sizes as well as access to a large customer base with similar requirements. The company is still in the process of rolling out the entire product line (SME/MSME/gold loans) across its existing branch network. Our base calculation suggests that merely ~35% of the existing customers of SHTF have been tapped for Shriram City Union Finance or SCUF products. This, coupled with a granular focus on new customer acquisition, creates significant room for growth in the coming quarters.

## With margins bottoming out, SFL to beat banks on margins front

Despite tight liquidity and elevated cost of funds, Shriram Finance (SFL) managed to report ~9bp improvement in margins sequentially in 3QFY24 amid the recent hike in lending rates on vehicle loans as well as a rising share of better-yield products (non-vehicle loans). SFL's management remains firm about passing on any incremental surge in the cost of funds to end-customers, which provides great comfort. We are factoring in margin improvement in the coming quarters vs. most banks where we expect a sequential decline in their margins.

## As the asset quality trend is steady, we don't see negative surprises

SFL has reported sequentially flat headline non-performing assets or NPAs with a minor surge in provisioning in 3QFY24 amid a surge in stage-1 assets. We are keeping credit costs in the range of ~250-270bp for FY24F-26F amid a granular derisking of the portfolio due to diversity in incremental AUM as well as healthy collection efficiency. Also, the 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 &amp; valuation

SFL, being a 100% asset-backed NBFC, is relatively immune to the RBI's reluctance on unsecured lending. The company is well capitalized, and any probable sale of its housing subsidiary will further strengthen its risk-taking capability. We have valued the standalone SFL at ~1.8x FY25F BV and added Rs50/share for the housing finance subsidiary. Retain our ADD rating on SFL with a target price of Rs2,800. Consequently, it is our high-conviction bet. Downside risks: Slower-than-expected growth and a spike in fresh slippage.

## Financial Summary

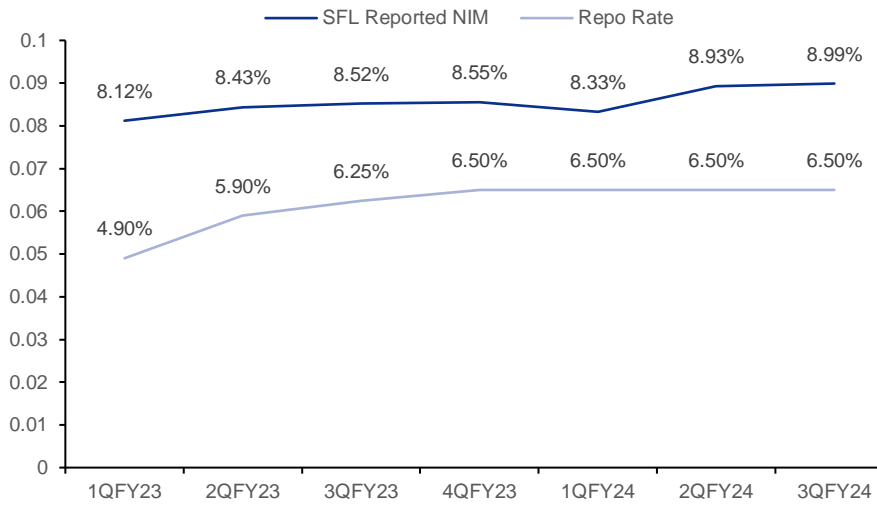
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Net Interest Income (Rsm)	95,209	172,264	201,820	247,155	297,118
Total Non-Interest Income (Rsm)	191	307	369	443	531
Operating Revenue (Rsm)	95,399	172,571	202,189	247,598	297,649
Total Provision Charges (Rsm)	(38,609)	(41,592)	(46,215)	(59,555)	(74,562)
Net Profit (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)	23.28	14.59	12.10	10.00	8.33
DPS (Rs)	20.00	15.00	20.00	25.00	30.00
Dividend Yield	0.86%	0.64%	0.86%	1.07%	1.29%
BVPS (Rs)	958.6	1,156.6	1,329.2	1,537.3	1,787.1
P/BV (x)	2.43	2.02	1.75	1.52	1.30
ROE	11.4%	17.3%	15.5%	16.3%	16.8%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

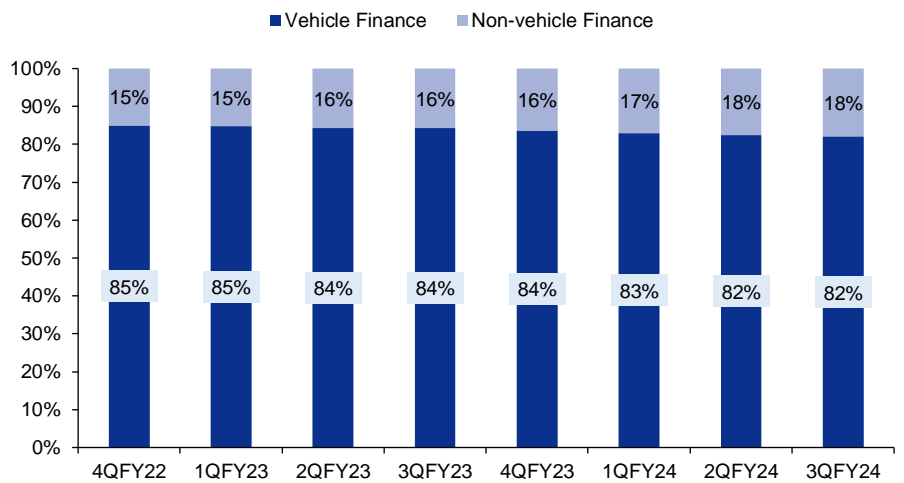
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Robust margins despite rising interest rates**



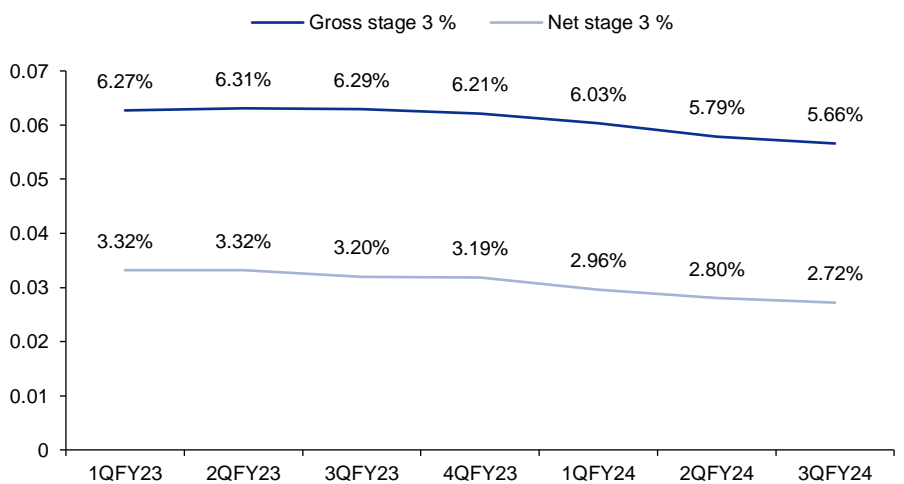
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Rising share of non-vehicle loans**



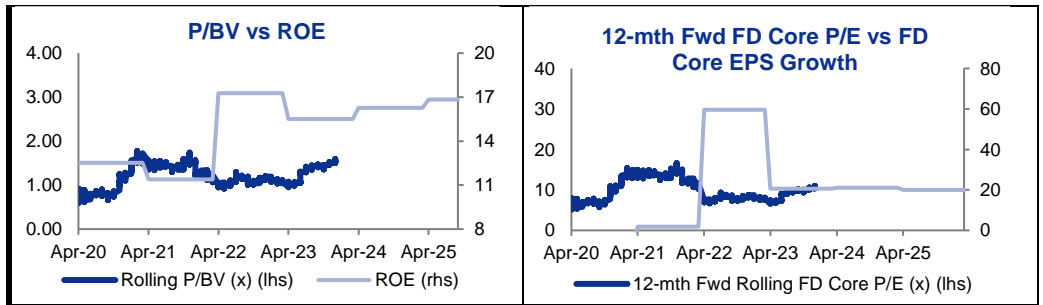
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Strong asset quality trend**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**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
<b>Total Non-Interest Income</b>	<b>191</b>	<b>307</b>	<b>369</b>	<b>443</b>	<b>531</b>
Operating Revenue	95,399	172,571	202,189	247,598	297,649
<b>Total Non-Interest Expenses</b>	<b>(19,944)</b>	<b>(43,889)</b>	<b>(53,533)</b>	<b>(63,952)</b>	<b>(74,502)</b>
Pre-provision Operating Profit	74,101	123,441	142,628	176,713	215,175
<b>Total Provision Charges</b>	<b>(38,609)</b>	<b>(41,592)</b>	<b>(46,215)</b>	<b>(59,555)</b>	<b>(74,562)</b>
Operating Profit After Provisions	35,493	81,849	96,413	117,158	140,612
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	35,493	81,849	96,413	117,158	140,612
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	35,493	81,849	96,413	117,158	140,612
<b>Exceptional Items</b>					
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					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	27,079	59,793	72,117	87,283	104,756
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
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%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>114.6%</b>	<b>111.1%</b>	<b>106.4%</b>	<b>103.7%</b>	<b>103.1%</b>
Net Cust Loans/Assets					
<b>Net Cust Loans/Broad Deposits</b>					
Equity & Provns/Gross Cust Loans					
Asset Risk Weighting					
<b>Provision Charge/Avg Cust Loans</b>					
<b>Provision Charge/Avg Assets</b>					
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
<b>Total Gross Loans</b>	<b>1,166,652</b>	<b>1,719,846</b>	<b>2,088,609</b>	<b>2,515,901</b>	<b>3,018,300</b>
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
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,166,652	1,719,846	2,088,609	2,515,901	3,018,300
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>15,958</b>	<b>87,923</b>	<b>84,317</b>	<b>80,891</b>	<b>77,636</b>
<b>Total Non-Interest Earning Assets</b>	<b>26,773</b>	<b>107,471</b>	<b>104,075</b>	<b>100,881</b>	<b>97,881</b>
Cash And Marketable Securities	163,552	158,174	85,002	84,618	86,619
<b>Long-term Investments</b>	<b>68,092</b>	<b>85,651</b>	<b>89,810</b>	<b>103,253</b>	<b>115,450</b>
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
<b>Minority Interests</b>					
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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