



India

ADD (no change)

Consensus ratings*: Buy 36 Hold 1 Sell 1

Current price:	Rs2,499
Target price:	▲ Rs2,950
Previous target:	Rs2,502
Up/downside:	18.0%
InCred Research / Consensus:	7.3%
Reuters:	SRTR.BO
Bloomberg:	SHFL IN
Market cap:	US\$11,265m Rs938,956m
Average daily turnover:	US\$39.7m Rs3312.3m
Current shares o/s:	374.8m
Free float:	74.3%

*Source: Bloomberg

Key changes in this note

- The cross-selling of non-vehicle loans to existing vehicle finance customers, along with the macroeconomic environment & rising physical presence, to drive AUM growth.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.3	8.3	77.7
Relative (%)	5.2	5.7	47.3

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

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Shriram Finance Limited

Improving consistency to aid valuation premium

- Shriram Finance (SFL) posted in-line 4Q PAT of Rs19.5bn aided by qoq flat margins, steady operating leverage and improving asset quality.
- The cross-selling of non-vehicle loans to existing vehicle finance customers along with macro environment & rising physical presence to drive AUM growth.
- We are confident of healthy growth with improving returns for SFL, which should drive a valuation premium. Retain ADD rating with a new Rs2,950 TP.

AUM growth intact with a rising share of non-vehicle loans

SFL reported assets under management or AUM growth of 5% qoq and 21% yoy to Rs 2.2tr, with non-vehicle disbursement growth (~10% qoq/~35% yoy) outpacing vehicle disbursement growth (~2% qoq/~23% yoy). The company is selectively rolling out SME loans (+600 branches in FY24) and gold loans (+900 branches) in catchment areas of existing commercial vehicle or CV branches. This will ensure further momentum in the non-vehicle loan book of the company. Management has given AUM growth guidance of ~15% yoy for FY25F led by ~12% yoy growth in the commercial vehicle segment and ~20% yoy growth in the non-CV segment.

Stability in NIM attributable to product diversity

Net interest margin or NIM was largely stable sequentially at ~9.02% led by a rising share of high-yield non-vehicle loans offset by a 5bp sequential rise in the cost of funds. Management gave NIM guidance at around the current level in FY25F, with a higher focus on profitability (RoE targeted to be 16-18%) rather than topline growth. Though we do expect some volatility on the margin front for SFL amid tight liquidity, the company is better placed with a superior yield and consistently improving liability profile. We expect the NIM to remain in the range of ~895-925bp over FY25F-27F with diversified AUM growth amid increased supply of used vehicles and a favourable macroeconomic environment.

Stable asset quality trajectory continues

Gross stage-3 assets improved further to 5.45%, down 21bp qoq, led by the overall improvement in underwriting and collection efficiency across segments. There has been a minor surge in provisioning amid a surge in stage-1 assets. We are keeping future credit costs in the range of ~250-270bp for FY25F-26F amid the unique customer base as well as the enhanced digital reach of SFL.

Outlook & valuation

We expect AUM to post a CAGR of ~21% over FY25F-27F led by diversified disbursement CAGR of ~22% over FY25F-27F. 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 FY26F BV and added Rs50/share for the housing finance subsidiary. We retain our high-conviction ADD rating on SFL with a higher target price of Rs2,950. 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	250,045	299,959	361,869
Total Non-Interest Income (Rsm)	307	332	398	478	574
Operating Revenue (Rsm)	172,571	201,915	250,444	300,437	362,442
Total Provision Charges (Rsm)	(41,592)	(45,183)	(59,636)	(74,988)	(93,900)
Net Profit (Rsm)	59,793	71,905	88,967	105,997	128,177
Core EPS (Rs)	159.69	191.34	236.75	282.06	341.09
Core EPS Growth	60%	20%	24%	19%	21%
FD Core P/E (x)	15.65	13.06	10.55	8.86	7.33
DPS (Rs)	15.00	45.00	25.00	30.00	35.00
Dividend Yield	0.60%	1.80%	1.00%	1.20%	1.40%
BVPS (Rs)	1,156.6	1,292.4	1,504.2	1,756.2	2,062.3
P/BV (x)	2.16	1.93	1.66	1.42	1.21
ROE	17.3%	15.7%	16.9%	17.3%	17.9%

% 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	4QFY24	YoY (%)	QoQ (%)
Net Interest Income	38,280	37,775	41,921	42,639	42,004	45,947	49,110	50,874	19.3%	3.6%
<i>NIM (% of AUM)</i>	9.5%	9.1%	9.7%	9.4%	8.9%	9.3%	9.4%	9.3%		
Operating Expenses	10,841	11,999	11,928	14,363	13,908	14,618	15,311	16,024	11.6%	4.7%
Operating Profit	29,676	29,938	33,016	30,810	31,262	34,808	36,893	39,056	26.8%	5.9%
Provisions	11,597	8,976	9,173	11,846	8,786	11,286	12,497	12,615	6.5%	0.9%
<i>Credit Cost (% of AUM)</i>	3.2%	2.2%	2.1%	2.6%	1.9%	2.3%	2.4%	2.3%		
PBT	18,079	20,962	23,844	18,964	22,476	23,523	24,396	26,441	39.4%	8.4%
Tax	4,690	5,411	6,074	5,881	5,722	6,014	6,213	6,983	18.7%	12.4%
<i>Tax rate (%)</i>	25.9%	25.8%	25.5%	31.0%	25.5%	25.6%	25.5%	26.4%		
PAT	13,390	15,551	17,770	13,083	16,754	17,508	18,183	19,459	48.7%	7.0%
AUM (Rs m)	16,29,700	16,93,582	17,74,980	18,56,829	19,32,147	20,26,410	21,42,335	22,48,620	21.1%	5.0%
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	26.6%	4.1%
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	6.1%	1.1%
<i>GNPL (% of loans)</i>	6.3%	6.3%	6.3%	6.2%	6.0%	5.8%	5.7%	5.5%		
Net NPL	52,060	53,908	54,506	56,749	54,613	54,202	55,730	58,244	2.6%	4.5%
<i>NNPL (% of loans)</i>	3.3%	3.3%	3.2%	3.2%	3.0%	2.8%	2.7%	2.7%		
<i>Provision Coverage (%)</i>	48.6%	49.1%	50.7%	50.1%	52.5%	53.1%	53.4%	51.8%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

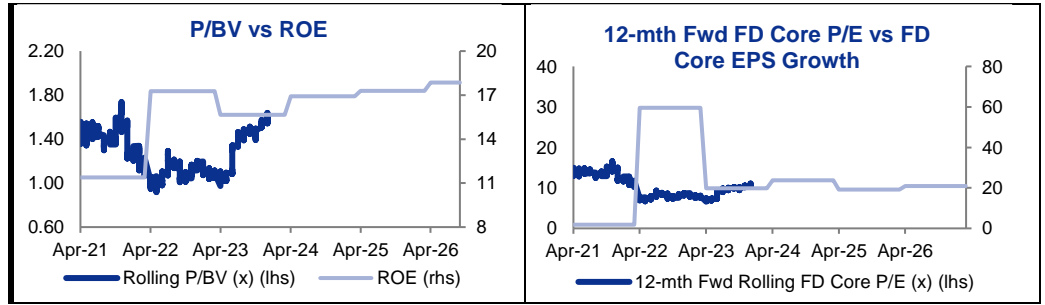
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,47,155	2,50,045	1.2%	2,97,118	2,99,959	1.0%	NA	3,61,868	NA
PPOP	1,76,713	1,79,054	1.3%	2,15,175	2,17,265	1.0%	NA	2,65,949	NA
PAT	87,283	88,967	1.9%	1,04,756	1,05,997	1.2%	NA	1,28,177	NA
EPS (Rs)	233	237	1.6%	280	282	0.8%	NA	341	NA
AUM (Rs bn)	2,711.7	2,721.0	0.3%	3,253.3	3,278.0	0.8%	NA	3,945.0	NA
BV (Rs)	1,538.5	1,504.2	-2.2%	1,151.5	1,151.5	0.0%	NA	2,062.3	NA

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 earnings conference-call highlights

- Commercial vehicle/equipment (CV/CE) demand may remain subdued in 1HFY25F due to slow construction activity on account of general elections in India. CV/CE demand is expected to pick up pace from 2HFY25F.
- Product offerings will continue to be selective based on branch location and all products will not be available at all branches.
- The company will take around a year for complete rollout of non-vehicle lending products at potential CV loan branches.
- SME lending is structured on a Hub and Spoke model.
- The probability of default (PD) ratio for stage-1 assets was at 8.85% vs. 7.89% qoq, PD for stage-2 assets was 20.12% vs. 18.25% qoq and the loss-given default (LGD) ratio was at 38.08% vs. 41.45% qoq.
- The rise in the PD ratio is on account of day stamping, which was started 1.5 years ago. The PD and LGD ratios are revised in the last quarter of every year.
- Gross stage-2 assets improved to 6.77% from 7.01% sequentially.
- The company has robust audit systems in place, with frauds capped at Rs100-200m.
- The company has around 150-odd member internal audit team which visits around 2,300 branches and plans to add an ~200-member operational audit team which will parallelly visit all the branches.

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	172,264	201,583	250,045	299,959	361,869
Total Non-Interest Income	307	332	398	478	574
Operating Revenue	172,571	201,915	250,444	300,437	362,442
Total Non-Interest Expenses	(43,889)	(54,207)	(65,019)	(76,037)	(88,572)
Pre-provision Operating Profit	123,441	142,020	179,054	217,265	265,949
Total Provision Charges	(41,592)	(45,183)	(59,636)	(74,988)	(93,900)
Operating Profit After Provisions	81,849	96,836	119,418	142,277	172,050
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	81,849	96,836	119,418	142,277	172,050
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	81,849	96,836	119,418	142,277	172,050
Exceptional Items					
Pre-tax Profit	81,849	96,836	119,418	142,277	172,050
Taxation	(22,056)	(24,932)	(30,452)	(36,281)	(43,873)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	59,793	71,905	88,967	105,997	128,177
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	59,793	71,905	88,967	105,997	128,177
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%	92.6%	93.6%
Avg Liquid Assets/Avg IEAs	111.1%	107.0%	104.2%	103.0%	102.3%
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	2,521,959	3,038,178	3,656,429
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,719,846	2,072,941	2,521,959	3,038,178	3,656,429
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	1,719,846	2,072,941	2,521,959	3,038,178	3,656,429
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	84,688	81,239	74,685
Long-term Investments	85,651	106,566	109,705	117,577	124,319
Total Assets	2,065,565	2,406,277	2,832,417	3,350,735	3,967,106
Customer Interest-Bearing Liabilities					
Bank Deposits	1,579,063	1,858,411	2,194,104	2,612,833	3,107,965
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,579,063	1,858,411	2,194,104	2,612,833	3,107,965
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	2,228,206	2,653,429	3,156,321
Shareholders Equity	433,066	485,684	565,256	659,979	775,003
Minority Interests					
Total Equity	433,066	485,684	565,256	659,979	775,003

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Income Growth	80.9%	17.0%	24.0%	20.0%	20.6%
Operating Profit Growth	70.5%	14.8%	25.5%	21.0%	22.0%
Pretax Profit Growth	131%	18%	23%	19%	21%
Net Interest To Total Income	99.8%	99.8%	99.8%	99.8%	99.8%
Cost Of Funds	9.21%	8.61%	8.30%	8.20%	7.80%
Return On Interest Earning Assets	19.8%	17.7%	17.4%	17.1%	16.8%
Net Interest Spread	10.61%	9.10%	9.10%	8.88%	8.97%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	32%	33%	35%	35%
Interest Return On Average Assets	9.87%	9.02%	9.55%	9.70%	9.89%
Effective Tax Rate	26.9%	25.7%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	9.4%	23.5%	10.6%	10.6%	10.3%
Return On Average Assets	3.43%	3.22%	3.40%	3.43%	3.50%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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