



India

ADD (no change)

Consensus ratings\*: Buy 39 Hold 1 Sell 1

Current price: Rs527  
 Target price: ▼ Rs800  
 Previous target: Rs820  
 Up/downside: 51.8%  
 InCred Research / Consensus: -7.1%

Reuters: SHMF.NS  
 Bloomberg: SHFL IN  
 Market cap: US\$13,658m  
 Rs991,761m  
 Average daily turnover: US\$57.8m  
 Rs4198.7m  
 Current shares o/s: 375.9m  
 Free float: 74.6%

\*Source: Bloomberg

**Key changes in this note**

- Healthy AUM growth, NIM pressure due to excess liquidity and no major asset quality concerns.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.5)	(14.7)	14.3
Relative (%)	(5.5)	(11.1)	6.1

Major shareholders	% held
Shriram Group	25.4
Govt of Singapors	6.7
Kotak MF	1.5

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# Shriram Finance Limited

## Diversified stability provides comfort

- Shriram Finance (SFL) has posted in-line 3Q operating performance; however, one-off gains from the sale of its housing subsidiary boosted profitability.
- Strong disbursement growth (~9.5% qoq) led by non-vehicle loan book (MSME) along with a stable trend in asset quality provides necessary comfort.
- Diversified AUM mix (rising non-vehicle loans) & improved underwriting/collection gives asset quality comfort. Retain ADD with Rs800 TP.

**Healthy operating performance; growth momentum to continue**

Shriram Finance (SFL) has delivered an in-line 3QFY25 operating performance; however, the one-off gains from the sale of its housing subsidiary boosted profitability. Disbursements grew at a healthy pace of ~9.5% led by strong demand for two-wheeler, MSME and passenger vehicle (PV) loans while commercial vehicle (CV) loan demand softened sequentially; however, the used vehicle demand seems to be healthy in the coming quarters, also backed by steady pricing. There was a slowdown in construction equipment loans due to sparse government projects and also in gold loan disbursements due to some revision in norms for gold lending. We believe the company is better placed than its peers and the diversification is providing a good cushion to AUM growth at ~4.7% qoq during the sluggish vehicle sales cycle.

**Stable asset quality; concerns seem overdone**

SFL reported a ~6bp rise in gross stage-3 assets to ~5.38%, which is reasonable considering the company's exposure to low-income customer profiles and primarily a rural-semi urban presence where major microfinance or MFI stress is visible in recent times. The surge in stage-3 assets is across products (CV/MSME/gold/personal loans) without specific concentration. Stage-2 assets also witnessed a rise; however, we attribute the same to the seasonality factor. Finally, credit costs stayed flat qoq at ~1.85%. We also feel that any blip in asset quality will get ironed out in 4Q, which is a seasonally strong quarter.

**NIM pressure to ease with easing liquidity**

Net interest margin (NIM) saw a dip of ~26bp qoq, largely due to elevated liquidity. SFL went for external commercial borrowing (ECB) worth US\$1.2bn, which raised the liquidity to ~six months from the 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 a likely policy rate cut. Opex was in line with estimate, with ~31% cost-to-income ratio largely on account of continued employee growth & branding exercises.

**Outlook and valuation**

We believe the recent correction in the stock price amid sluggishness in the vehicle industry has overplayed and feel that SFL is much better placed than its larger peers. We recently added SFL to our high-conviction stocks list, maintaining its ADD rating with a marginally lower target price of Rs800 (Rs 820 earlier), valuing the stock at ~2.4x FY26F BV. 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	226,728	269,643	320,654
Total Non-Interest Income (Rsm)	307	332	5,644	6,773	8,127
Operating Revenue (Rsm)	172,571	201,915	232,372	276,416	328,781
Total Provision Charges (Rsm)	(41,592)	(45,183)	(51,090)	(61,817)	(78,209)
Net Profit (Rsm)	59,793	71,905	80,696	98,820	118,121
Core EPS (Rs)	159.69	191.34	214.74	262.97	314.33
Core EPS Growth	60%	20%	12%	22%	20%
FD Core P/E (x)	3.30	2.76	2.46	2.01	1.68
DPS (Rs)	15.00	45.00	15.00	15.00	15.00
Dividend Yield	2.84%	8.53%	2.84%	2.84%	2.84%
BVPS (Rs)	231.3	258.5	307.3	356.8	416.7
P/BV (x)	0.46	0.41	0.34	0.30	0.25
ROE	17.3%	15.7%	15.2%	15.8%	16.3%

% 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	YoY (%)	QoQ (%)
<b>Net Interest Income</b>	<b>42,004</b>	<b>45,947</b>	<b>49,110</b>	<b>50,874</b>	<b>52,337</b>	<b>54,641</b>	<b>55,896</b>	<b>13.8%</b>	<b>2.3%</b>
<i>NIM (% of AUM)</i>	8.9%	9.3%	9.4%	9.3%	9.1%	9.2%	9.0%		
Operating Expenses	13,908	14,618	15,311	16,024	16,265	17,597	18,692	<b>22.1%</b>	<b>6.2%</b>
<b>Operating Profit</b>	<b>31,262</b>	<b>34,808</b>	<b>36,893</b>	<b>39,056</b>	<b>38,541</b>	<b>39,865</b>	<b>40,850</b>	<b>10.7%</b>	<b>2.5%</b>
Provisions	8,786	11,286	12,497	12,615	11,876	12,350	13,258	<b>6.1%</b>	<b>7.4%</b>
<i>Credit Cost (% of AUM)</i>	1.9%	2.3%	2.4%	2.3%	2.1%	2.1%	2.1%		
<b>PBT</b>	<b>22,476</b>	<b>23,523</b>	<b>24,396</b>	<b>26,441</b>	<b>26,666</b>	<b>27,515</b>	<b>27,592</b>	<b>13.1%</b>	<b>0.3%</b>
Tax	5,722	6,014	6,213	6,983	6,860	6,803	8,462	<b>36.2%</b>	<b>24.4%</b>
<i>Tax Rate (%)</i>	25.5%	25.6%	25.5%	26.4%	25.7%	24.7%	30.7%		
<b>PAT</b>	<b>16,754</b>	<b>17,508</b>	<b>18,183</b>	<b>19,459</b>	<b>19,806</b>	<b>20,713</b>	<b>35,698</b>	<b>96.3%</b>	<b>72.3%</b>
<b>AUM (Rs m)</b>	<b>19,32,147</b>	<b>20,26,410</b>	<b>21,42,335</b>	<b>22,48,620</b>	<b>23,34,436</b>	<b>24,30,426</b>	<b>25,44,697</b>	<b>18.8%</b>	<b>4.7%</b>
<b>Disbursement (Rs m)</b>	<b>3,04,530</b>	<b>3,46,020</b>	<b>3,77,850</b>	<b>3,93,240</b>	<b>3,77,098</b>	<b>3,99,740</b>	<b>4,37,620</b>	<b>15.8%</b>	<b>9.5%</b>
<b>Gross NPL</b>	<b>1,15,089</b>	<b>1,15,563</b>	<b>1,19,523</b>	<b>1,20,812</b>	<b>1,24,078</b>	<b>1,27,642</b>	<b>1,35,212</b>	<b>13.1%</b>	<b>5.9%</b>
<i>GNPL (% of loans)</i>	6.0%	5.8%	5.7%	5.5%	5.4%	5.3%	5.4%		
<b>Net NPL</b>	<b>54,613</b>	<b>54,202</b>	<b>55,730</b>	<b>58,244</b>	<b>60,618</b>	<b>61,656</b>	<b>65,393</b>	<b>17.3%</b>	<b>6.1%</b>
<i>NNPL (% of loans)</i>	3.0%	2.8%	2.7%	2.7%	2.7%	2.6%	2.7%		
<i>Provision Coverage (%)</i>	52.5%	53.1%	53.4%	51.8%	51.2%	51.7%	51.6%		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Our revised earnings estimates**

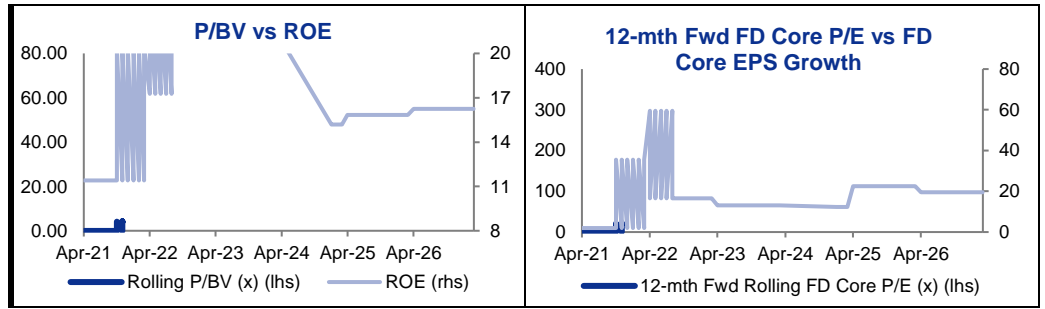
Y/E Mar (Rs m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,28,350	2,26,728	-0.7%	2,80,071	2,69,643	-3.7%	3,39,977	3,20,654	-5.7%
PPOP	1,61,664	1,60,025	-1.0%	2,01,260	1,94,461	-3.4%	2,48,639	2,36,761	-4.8%
PAT	81,597	97,264	19.2%	1,00,818	98,820	-2.0%	1,20,643	1,18,121	-2.1%
EPS (Rs)	43	52	19.2%	54	53	-2.0%	64	63	-2.1%
AUM (Rs bn)	2,716.9	2,663.9	-2.0%	3,277.2	3,223.4	-1.6%	3,948.1	3,886.5	-1.6%
BV (Rs)	299.9	307.3	2.4%	350.6	356.8	1.8%	411.8	416.7	1.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 3QFY25 earnings-call highlights ►

- SFL's management indicated a healthy mid-teen growth in FY26F.
- Vehicle utilization levels are indicated to be healthy.
- Incremental cost of funds was ~8.9%, largely in line or lower than the outstanding cost of funds.
- The ECB transaction boosted liquidity to Rs270bn from the usual run-rate of Rs170bn.
- This excess liquidity had a negative impact of ~20bp on NIM.
- Used vehicle LTV was stable at ~70%.
- Credit costs reiterated to be around the 2% mark.
- Employee addition continued to remain high at 1,641 for the quarter; however, management has indicated some slowdown going ahead.
- The cost-to-income ratio guidance is ~28% in the medium- to long-term.
- Stage-1 assets' probability of a default or PD is 9.05% vs. 9.06% qoq, stage-2 assets' PD is 20.74% vs. 20.98% qoq while the loss-given default or LGD is 38.75% vs. 38.59% qoq.
- The company usually revises its PD and LGD in 4Q.

**BY THE NUMBERS**



**Profit & Loss**

(Rsm)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Net Interest Income	172,264	201,583	226,728	269,643	320,654
<b>Total Non-Interest Income</b>	<b>307</b>	<b>332</b>	<b>5,644</b>	<b>6,773</b>	<b>8,127</b>
Operating Revenue	172,571	201,915	232,372	276,416	328,781
<b>Total Non-Interest Expenses</b>	<b>(43,889)</b>	<b>(54,207)</b>	<b>(65,976)</b>	<b>(74,947)</b>	<b>(84,312)</b>
Pre-provision Operating Profit	123,441	142,020	160,025	194,461	236,761
<b>Total Provision Charges</b>	<b>(41,592)</b>	<b>(45,183)</b>	<b>(51,090)</b>	<b>(61,817)</b>	<b>(78,209)</b>
Operating Profit After Provisions	81,849	96,836	108,934	132,644	158,552
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	81,849	96,836	108,934	132,644	158,552
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	81,849	96,836	108,934	132,644	158,552
<b>Exceptional Items</b>					
Pre-tax Profit	81,849	96,836	108,934	132,644	158,552
Taxation	(22,056)	(24,932)	(28,238)	(33,824)	(40,431)
Consolidation Adjustments & Others					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	59,793	71,905	80,696	98,820	118,121
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
Net Profit	59,793	71,905	80,696	98,820	118,121
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%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>111.1%</b>	<b>107.0%</b>	<b>105.2%</b>	<b>104.7%</b>	<b>104.0%</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**

<b>Balance Sheet</b>					
<b>(Rsm)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
<b>Total Gross Loans</b>	<b>1,719,846</b>	<b>2,072,941</b>	<b>2,471,523</b>	<b>2,990,586</b>	<b>3,605,827</b>
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	1,719,846	2,072,941	2,471,523	2,990,586	3,605,827
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	1,719,846	2,072,941	2,471,523	2,990,586	3,605,827
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>76,771</b>	<b>81,336</b>	<b>77,910</b>	<b>74,655</b>	<b>71,563</b>
<b>Total Non-Interest Earning Assets</b>	<b>101,894</b>	<b>118,643</b>	<b>116,064</b>	<b>113,741</b>	<b>111,673</b>
Cash And Marketable Securities	158,174	108,126	127,946	126,393	139,600
<b>Long-term Investments</b>	<b>85,651</b>	<b>106,566</b>	<b>108,747</b>	<b>117,081</b>	<b>124,762</b>
Total Assets	2,065,565	2,406,277	2,824,280	3,347,801	3,981,862
Customer Interest-Bearing Liabilities					
Bank Deposits	1,579,063	1,858,411	2,174,940	2,601,810	3,119,040
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,579,063	1,858,411	2,174,940	2,601,810	3,119,040
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	24,509	28,665	33,073	38,170	44,062
Total Liabilities	1,603,572	1,887,076	2,208,014	2,639,979	3,163,102
Shareholders Equity	433,066	485,684	577,311	670,494	782,979
<b>Minority Interests</b>					
Total Equity	433,066	485,684	577,311	670,494	782,979

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Income Growth	80.9%	17.0%	12.5%	18.9%	18.9%
Operating Profit Growth	70.5%	14.8%	12.7%	21.1%	21.3%
Pretax Profit Growth	131%	18%	12%	22%	20%
Net Interest To Total Income	99.8%	99.8%	97.6%	97.5%	97.5%
Cost Of Funds	9.21%	8.61%	9.00%	8.30%	7.80%
Return On Interest Earning Assets	19.8%	17.7%	17.7%	16.8%	16.2%
Net Interest Spread	10.61%	9.10%	8.70%	8.52%	8.38%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	34%	32%	32%	32%	33%
Interest Return On Average Assets	9.87%	9.02%	8.67%	8.74%	8.75%
Effective Tax Rate	26.9%	25.7%	25.9%	25.5%	25.5%
Net Dividend Payout Ratio	9.4%	23.5%	7.0%	5.7%	4.8%
Return On Average Assets	3.43%	3.22%	3.09%	3.20%	3.22%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.