



## 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 Singapor	5.7
NPS Trust	1.7

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## 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 (%)
<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>55,655</b>	<b>9.4%</b>	<b>-0.4%</b>
NIM (% of AUM)	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	<b>18.6%</b>	<b>1.7%</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>43,353</b>	<b>11.0%</b>	<b>6.1%</b>
Provisions	8,786	11,286	12,497	12,615	11,876	12,350	13,258	15,633	<b>23.9%</b>	<b>17.9%</b>
Credit costs (% of AUM)	1.9%	2.3%	2.4%	2.3%	2.1%	2.1%	2.1%	2.4%		
<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>27,720</b>	<b>4.8%</b>	<b>0.5%</b>
Tax	5,722	6,014	6,213	6,983	6,860	6,803	8,462	6,326	<b>-9.4%</b>	<b>-25.2%</b>
Tax rate (%)	25.5%	25.6%	25.5%	26.4%	25.7%	24.7%	30.7%	22.8%		
<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>21,394</b>	<b>9.9%</b>	<b>-40.1%</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>26,31,903</b>	<b>17.0%</b>	<b>3.4%</b>
<b>Disbursements (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>4,48,480</b>	<b>14.0%</b>	<b>2.5%</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>1,18,388</b>	<b>-2.0%</b>	<b>-12.4%</b>
GNPL (% of loans)	6.0%	5.8%	5.7%	5.5%	5.4%	5.3%	5.4%	4.6%		
<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>67,145</b>	<b>15.3%</b>	<b>2.7%</b>
NNPL (% of loans)	3.0%	2.8%	2.7%	2.7%	2.7%	2.6%	2.7%	2.6%		
Provision coverage (%)	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**

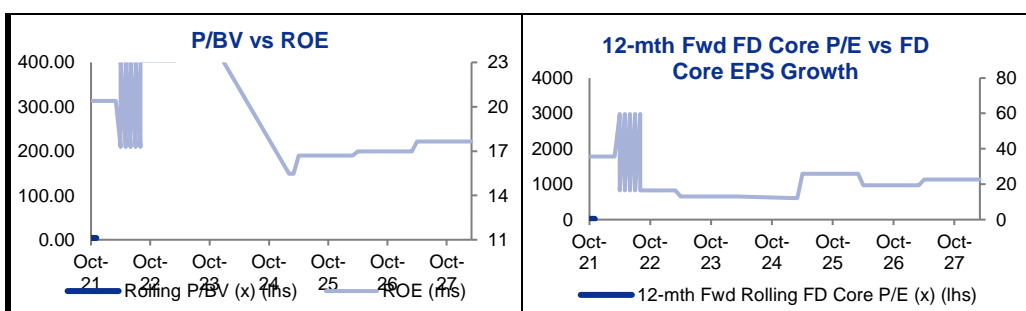
Y/E Mar (Rs m)	FY26F			FY27F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,69,643	2,79,664	3.7%	3,20,654	3,33,012	3.9%	-	3,97,334	-
PPOP	1,94,497	1,97,938	1.8%	2,36,388	2,40,798	1.9%	-	2,94,050	-
PAT	98,847	1,02,003	3.2%	1,17,843	1,21,762	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
<b>Total Non-Interest Income</b>	<b>332</b>	<b>251</b>	<b>301</b>	<b>361</b>	<b>433</b>
Operating Revenue	201,950	234,049	279,965	333,372	397,767
<b>Total Non-Interest Expenses</b>	<b>(54,242)</b>	<b>(64,987)</b>	<b>(74,928)</b>	<b>(84,766)</b>	<b>(95,128)</b>
Pre-provision Operating Profit	142,020	162,609	197,938	240,798	294,050
<b>Total Provision Charges</b>	<b>(45,183)</b>	<b>(53,117)</b>	<b>(61,022)</b>	<b>(77,358)</b>	<b>(93,635)</b>
Operating Profit After Provisions	96,836	109,493	136,916	163,439	200,415
<b>Pretax Income/(Loss) from Assoc.</b>					
Operating EBIT (incl Associates)	96,836	109,493	136,916	163,439	200,415
<b>Non-Operating Income/(Expense)</b>					
Profit Before Tax (pre-EI)	96,836	109,493	136,916	163,439	200,415
<b>Exceptional Items</b>					
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					
<b>Exceptional Income - post-tax</b>					
Profit After Tax	71,905	81,042	102,003	121,762	149,309
Minority Interests					
Pref. & Special Div					
<b>FX And Other Adj.</b>					
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%
<b>Avg Liquid Assets/Avg IEAs</b>	<b>106.2%</b>	<b>106.4%</b>	<b>105.6%</b>	<b>102.9%</b>	<b>102.9%</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-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Gross Loans</b>	<b>2,072,941</b>	<b>2,453,928</b>	<b>2,950,106</b>	<b>3,574,570</b>	<b>4,322,936</b>
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
<b>Total Provisions/Loan Loss Reserve</b>					
Total Net Interest Earning Assets	2,072,941	2,453,928	2,950,106	3,574,570	4,322,936
Intangible Assets					
<b>Other Non-Interest Earning Assets</b>	<b>145,365</b>	<b>119,027</b>	<b>116,816</b>	<b>114,715</b>	<b>112,719</b>
<b>Total Non-Interest Earning Assets</b>	<b>182,672</b>	<b>166,232</b>	<b>165,047</b>	<b>164,074</b>	<b>163,320</b>
Cash And Marketable Securities	76,112	213,657	88,717	102,900	123,729
<b>Long-term Investments</b>	<b>106,566</b>	<b>155,987</b>	<b>115,497</b>	<b>123,680</b>	<b>149,574</b>
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
<b>Minority Interests</b>					
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

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## 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.