

India

ADD (no change)

Consensus ratings*: Buy 36 Hold 3 Sell 2

Current price: Rs634
 Target price:  Rs870
 Previous target: Rs870
 Up/downside: 37.2%
 InCred Research / Consensus: 17.5%

Reuters: SRTR.BO
 Bloomberg: SHFL IN
 Market cap: US\$13,790m
 Rs1,191,557m
 Average daily turnover: US\$50.8m
 Rs4388.7m
 Current shares o/s: 375.9m
 Free float: 74.6%

*Source: Bloomberg

Key changes in this note

- No major change in earnings estimates. 2Q FY26F is expected to provide more clarity on the direction going ahead.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.3)	(9.1)	16.3
Relative (%)	(5.6)	(12.3)	13.2

Major shareholders	% held
Shriram Group	25.4
Govt of Singapore	5.4
NPS Trust	1.8

Research Analyst(s)

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Shriram Finance Limited

Selective demand; excess liquidity

- SFL reported an in-line 1QFY26 PAT of Rs22bn, up by ~9% yoy and ~1% qoq, weighed by rising NIM pressure which was partially offset by lower credit costs.
- Disbursements were subdued (+11% yoy/-7% qoq) due to continued absence of investment activity & a seasonally slow quarter. AUM grew 17% yoy/3% qoq.
- Diversified AUM mix & improved underwriting provides asset quality comfort. Maintain high-conviction ADD rating with an unchanged target price of Rs870.

Excess liquidity weighs on PAT despite easing credit costs

Shriram Finance (SFL) reported an in-line 1QFY26 PAT of Rs 22bn, up 9% yoy and 1% qoq, weighed down by continued excessive liquidity which was partially offset by easing credit costs. Credit costs declined to ~1.9%, a reduction of 5bp from 4QFY25, despite a 40bp rise in gross stage-2 or GS2 assets, as management indicated that seasonal stress would ease in the coming quarters by giving full-year guidance of ~2%.

Selective demand in a seasonally slow quarter

The impact of slow economic activity was also seen in sluggish disbursements, which grew by 11% yoy and declined by 7% qoq. Within disbursements, construction equipment or CE saw a major dip of ~77% qoq and ~72% yoy, and MSME & personal loans down by ~17% and ~24% qoq, respectively. Farm equipment, commercial vehicle or CV, gold and two-wheeler disbursements were relatively better. The overall CV demand remained subdued, although ticket sizes remained high. Assets under management or AUM grew by ~17% yoy and ~3% qoq to Rs2.7tr led by a strong pick-up in farm equipment loans and moderate growth in other segments barring CE. Management indicated that demand would improve from mid-2Q FY26F.

Initial flow to stressed assets rise; small-ticket MSME loans stable

Gross stage-3 assets were flat qoq at 4.5% and the ~40bp rise in GS-2 assets ratio is largely attributable to CV and passenger vehicle or PV segments. At the industry level, MSME stress is seen in small-scale industries where there was some delay in cash flow; however, SFL's unsecured MSME loans are mostly towards the trading segment with lower ticket sizes. NIM dipped by ~14bp qoq to 8.11% due to excess liquidity and a sharp rise in deposits. SFL gave guidance that NIM will see a gradual improvement from 2HFY26F as the excess liquidity eases and the cost of borrowing starts falling (~85% of borrowings are fixed rate in nature). Operating expenses rose by ~2.5% qoq and ~20% yoy led by annual increments and deposit-related commissions.

Outlook and valuation

We believe that rising diversification and deep rural reach will enable healthy AUM growth, buoyed by a good monsoon season and a pick-up in investment activity. We retain SFL as a part of our high-conviction stocks list with an ADD rating and a target price of Rs870, valuing the stock at ~2.1x 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	272,001	327,748	400,975
Total Non-Interest Income (Rsm)	332	251	301	361	433
Operating Revenue (Rsm)	201,950	234,049	272,302	328,109	401,408
Total Provision Charges (Rsm)	(45,183)	(53,117)	(48,674)	(61,341)	(76,679)
Net Profit (Rsm)	71,905	81,042	103,522	124,801	154,598
Core EPS (Rs)	38.27	42.87	55.05	66.36	82.20
Core EPS Growth	20%	12%	28%	21%	24%
FD Core P/E (x)	16.56	14.78	11.51	9.55	7.71
DPS (Rs)	45.00	10.00	15.00	15.00	20.00
Dividend Yield	7.10%	1.58%	2.37%	2.37%	3.16%
BVPS (Rs)	258.5	297.7	354.5	420.9	503.1
P/BV (x)	2.45	2.13	1.79	1.51	1.26
ROE	15.7%	15.5%	16.8%	17.1%	17.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly earnings summary

Particulars (Rs m)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	YoY (%)	QoQ (%)
Net Interest Income	52,337	54,641	55,896	55,655	57,725	10.3%	3.7%
<i>NIM (% of AUM)</i>	<i>9.1%</i>	<i>9.2%</i>	<i>9.0%</i>	<i>8.6%</i>	<i>8.6%</i>		
Operating Expenses	16,265	17,597	18,692	19,010	19,486	19.8%	2.5%
Operating Profit	38,541	39,865	40,850	43,353	41,924	8.8%	-3.3%
Provisions	11,876	12,350	13,258	15,633	12,857	8.3%	-17.8%
<i>Credit Costs (% of AUM)</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.4%</i>	<i>1.9%</i>		
PBT	26,666	27,515	27,592	27,720	29,067	9.0%	4.9%
Tax	6,860	6,803	8,462	6,326	7,510	9.5%	18.7%
<i>Tax Rate (%)</i>	<i>25.7%</i>	<i>24.7%</i>	<i>30.7%</i>	<i>22.8%</i>	<i>25.8%</i>		
PAT	19,806	20,713	35,698	21,394	21,557	8.8%	0.8%
AUM (Rs m)	23,34,436	24,30,426	25,44,697	26,31,903	27,22,490	16.6%	3.4%
Disbursement (Rs m)	3,77,098	3,99,740	4,37,620	4,48,480	4,18,110	10.9%	-6.8%
Gross NPL	1,24,078	1,27,642	1,35,212	1,18,388	1,21,995	-1.7%	3.0%
<i>GNPL (% of loans)</i>	<i>5.4%</i>	<i>5.3%</i>	<i>5.4%</i>	<i>4.6%</i>	<i>4.5%</i>		
Net NPL	60,618	61,656	65,393	67,145	67,933	12.1%	1.2%
<i>NNPL (% of loans)</i>	<i>2.7%</i>	<i>2.6%</i>	<i>2.7%</i>	<i>2.6%</i>	<i>2.6%</i>		
<i>Provision Coverage (%)</i>	<i>51.2%</i>	<i>51.7%</i>	<i>51.6%</i>	<i>43.3%</i>	<i>44.3%</i>		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our earnings revision summary

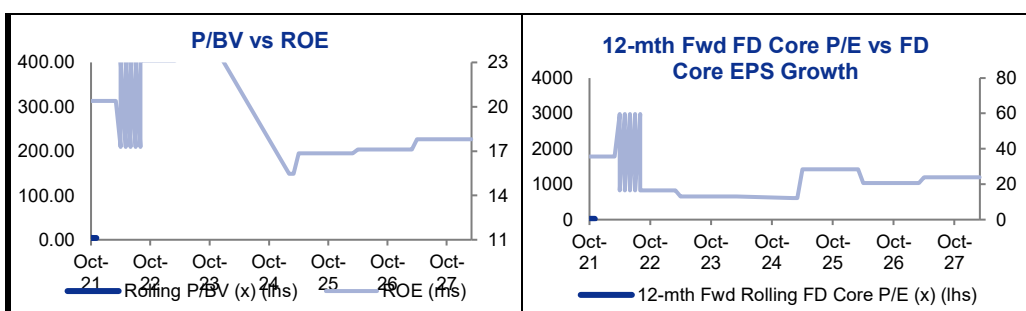
Y/E Mar (Rs m)	FY26F			FY27F			FY27F		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	2,76,551	2,72,001	-1.6%	3,26,893	3,27,748	0.3%	3,87,737	4,00,975	3.4%
PPOP	1,96,823	1,88,260	-4.4%	2,36,972	2,29,619	-3.1%	2,82,980	2,85,135	0.8%
PAT	1,03,619	1,03,522	-0.1%	1,23,705	1,24,801	0.9%	1,47,383	1,54,598	4.9%
EPS (Rs)	55	55	-0.1%	66	66	0.9%	78	82	4.9%
AUM (Rs bn)	3,092.6	3,096.9	0.1%	3,599.6	3,716.4	3.2%	4,259.1	4,556.9	7.0%
BV (Rs)	354.4	354.6	0.0%	420.2	420.9	0.2%	498.6	503.1	0.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY26 earnings-call highlights ➤

- SFL currently holds five months of liquidity and plans to move it down to three months in the next three-to-four months.
- The growth in MSME loans is expected to pick up from 2QFY26F.
- The company's core MSME client base is in the trading and services sectors.
- Growth drivers for the PV segment are coming from Tier-3/4 cities where government spending has been limited in public transport, leading to higher demand for owned and operated vehicles.
- NIM guidance stands at 8.5% for FY26F.
- Probably of default (PD) for stage-1 assets stands at 8.82% (+3bp qoq) and for stage-2 assets at 21.35% (+66bp qoq).

BY THE NUMBERS



Profit & Loss

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Net Interest Income	201,618	233,798	272,001	327,748	400,975
Total Non-Interest Income	332	251	301	361	433
Operating Revenue	201,950	234,049	272,302	328,109	401,408
Total Non-Interest Expenses	(54,242)	(64,987)	(76,943)	(90,681)	(107,684)
Pre-provision Operating Profit	142,020	162,609	188,260	229,619	285,135
Total Provision Charges	(45,183)	(53,117)	(48,674)	(61,341)	(76,679)
Operating Profit After Provisions	96,836	109,493	139,586	168,278	208,455
Pretax Income/(Loss) from Assoc.					
Operating EBIT (incl Associates)	96,836	109,493	139,586	168,278	208,455
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	96,836	109,493	139,586	168,278	208,455
Exceptional Items					
Pre-tax Profit	96,836	109,493	139,586	168,278	208,455
Taxation	(24,932)	(28,450)	(36,064)	(43,477)	(53,858)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	71,905	81,042	103,522	124,801	154,598
Minority Interests					
Pref. & Special Div					
FX And Other Adj.					
Net Profit	71,905	81,042	103,522	124,801	154,598
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%	91.6%	91.9%
Avg Liquid Assets/Avg IEAs	106.2%	106.4%	106.4%	104.6%	104.9%
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					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rsm)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Gross Loans	2,072,941	2,453,928	2,888,561	3,466,373	4,250,360
Liquid Assets & Invst. (Current)					
Other Int. Earning Assets					
Total Gross Int. Earning Assets	2,072,941	2,453,928	2,888,561	3,466,373	4,250,360
Total Provisions/Loan Loss Reserve					
Total Net Interest Earning Assets	2,072,941	2,453,928	2,888,561	3,466,373	4,250,360
Intangible Assets					
Other Non-Interest Earning Assets	145,365	119,027	121,912	146,428	175,875
Total Non-Interest Earning Assets	182,672	166,232	132,168	156,685	186,131
Cash And Marketable Securities	76,112	213,657	126,519	163,318	216,334
Long-term Investments	106,566	155,987	149,277	174,487	196,256
Total Assets	2,438,292	2,989,805	3,296,525	3,960,863	4,849,082
Customer Interest-Bearing Liabilities					
Bank Deposits	1,858,411	2,341,973	2,589,854	3,125,247	3,853,333
Interest Bearing Liabilities: Others					
Total Interest-Bearing Liabilities	1,858,411	2,341,973	2,589,854	3,125,247	3,853,333
Banks Liabilities Under Acceptances					
Total Non-Interest Bearing Liabilities	28,665	30,531	39,951	44,096	49,631
Total Liabilities	1,887,076	2,372,504	2,629,806	3,169,343	3,902,964
Shareholders Equity	485,684	562,826	666,720	791,520	946,118
Minority Interests					
Total Equity	485,684	562,826	666,720	791,520	946,118

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Income Growth	17.0%	16.0%	16.3%	20.5%	22.3%
Operating Profit Growth	14.8%	14.5%	15.6%	21.5%	23.7%
Pretax Profit Growth	18%	13%	27%	21%	24%
Net Interest To Total Income	99.8%	99.9%	99.9%	99.9%	99.9%
Cost Of Funds	8.61%	8.79%	8.70%	8.26%	8.03%
Return On Interest Earning Assets	17.7%	17.8%	17.6%	17.1%	17.0%
Net Interest Spread	9.11%	9.02%	8.93%	8.87%	9.02%
Net Interest Margin (Avg Deposits)					
Net Interest Margin (Avg RWA)					
Provisions to Pre Prov. Operating Profit	32%	33%	26%	27%	27%
Interest Return On Average Assets	8.95%	8.61%	8.65%	9.03%	9.10%
Effective Tax Rate	25.7%	26.0%	25.8%	25.8%	25.8%
Net Dividend Payout Ratio	23.5%	4.7%	5.5%	4.5%	4.9%
Return On Average Assets	3.19%	2.99%	3.29%	3.44%	3.51%

SOURCES: 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.