

Shriram Finance (SFC)

BUY

One off cost of merger impacted profitability sequentially

Summary

SFC's AUM growth improved to 15.9% YoY vs 13.2% YoY (Q3FY23) led by growth in passenger vehicle and 2W segments. Management guided for 15% AUM growth for FY24 backed by MSME segment. Asset quality improved with GS3 at 6.2% vs 6.3% led by higher write offs. Management overlay provisions stood at Rs.11.07bn vs 20.52bn YoY which should support credit cost going forward. NII remain flat QoQ; however NIMs improved by 3bps QOQ to 8.55%. PPOp declined by 7% QoQ due to one-time amortization impact of Rs.3bn on revaluation. Further, PAT declined by 26% QoQ led by increase in provisions (up 29% QoQ). We maintain "BUY" rating on SFC with target price of Rs1,710 (earlier Rs.1,730 impact of one time cost) valuing at 1.3X FY25E ABV.

Key Highlights and Investment Rationale

- AUM growth improved to 16%:** SFC's AUM growth improved to 16% YoY vs 13% YoY (Q3FY23); management guided for 15% AUM growth sustainable for FY24. CV (50% of mix) grew by 12.6% YoY; PV (18% of mix) grew by 25% while 2W (6% of mix) grew by 18% YoY. MSME book; next growth driver grew by 13% YoY while personal loans on low base grew by 61% YoY. Disbursements during Q4FY23 stood at Rs.310bn (up 6% QOQ).
- Asset quality improved with GS3 at 6.2%:** Asset quality improved with GS3 declined to 6.2% vs 6.3% due to higher write offs (higher waivers to borrowers under resolution). SFC is also carrying Covid related provision buffer of around 11.07Bn (around 0.1% of AUM) and 50.7% Gross Stage 3 asset coverage which would further provide additional safety cushion to the company during volatile macro environment. Credit cost increase during the quarter due to increase in LGD estimates post-merger; however management guided credit cost to remain ~2% in FY24.

TP Rs 1,710

CMP Rs1,405

Potential upside/downside 22%

Previous Rating --

Price Performance (%)

	-1m	-3m	-12m
Absolute	16.1	13.2	23.1
Rel to Sensex	10.9	11.0	16.4

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	182	213
Consensus	179	203
% difference	1.6	5.0

Key Stock Data

Bloomberg / Reuters	SHTF IN / SRTR.BO
Sector	NBFC
Shares o/s (mn)	374
Market cap. (Rs mn)	525,995
3-m daily avg Trd value (Rs mn)	--
52-week high / low	Rs1,509 / 1,048
Sensex / Nifty	60,649 / 17,915

Shareholding Pattern (%)

Promoters	25.5
FII	49.8
DII	11.6
Public	13.1

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	1,15,115	89,120	1,60,616	1,76,723	2,07,301
Change (yoy, %)	0%	-23%	80%	10%	17%
Net Profit	34,982	27,079	59,793	68,070	79,914
Change (yoy, %)	-0.1%	-23%	121%	14%	17%
EPS (Rs)	110	100	160	182	213
Change (yoy, %)	-8%	-9%	60%	14%	17%
ABV (Rs)	784	761	1,003	1,104	1,271
PER (x)	12.8	14.0	8.8	7.7	6.6
P/ABV (x)	1.8	1.8	1.4	1.3	1.1
ROE (%)	12.7	9.7	17.3	14.9	15.5
ROA (%)	2.3	1.8	3.5	3.1	3.2
GNPA (%)	6.9	6.9	6.2	6.2	6.2
NNPA (%)	4.2	4.7	3.3	3.3	3.3
CAR (%)	23.8	23.8	26.2	25.2	25.2

Source: IDBI Capital Research

- **NIMs remain stable at 8.5%:** SFC able to maintain the margins although cost of borrowings increased during the quarter. NIMs stood at 8.55% vs 8.52% QoQ led by rise in yields. Further, incremental cost of borrowings stood at 9% (as against 8.8% cost of borrowings) which should have impact on NIMs in FY24. Earlier, management guided for NIMs to be in the range of 8.25-8.65%.
- **Cost to income ratio increased due to one off cost:** Cost to Income for Q4FY23 stood at around 28.3% (vs. 22.2% in Q3FY23 and 20.0% in Q4FY22). The increase was on account of one time hit of around 302.58Cr (amortization of intangible) during the qtr (current outstanding as on 31st Mar'23 at around 1,200Cr). Total amortization of intangibles during merger was around 1,513 Crs which is expected to be utilized over 5 years. Going forward the company expects to amortize around 300Cr per year (75Cr per qtr).
- **Shriram Housing finance, subsidiary reported strong performance:** Housing finance subsidiary AUM grew by 50% YoY (12% QOQ) led by loans and LAP portfolio. Strong operational performance as PAT grew by 68% YoY led by lower provisions (down 85% YoY). Asset quality improved with stage 3 assets declined to 0.93% vs 1.15% QoQ. However, NIM on AUM declined to 6.7% vs 7.66% QoQ.
- **Outlook:** Post-merger, SFC becomes the largest retail NBFC in the country with an AUM of around 1.8tn (FY23). It has now diversified from mono line business of CV (mainly Used CV) to non-vehicle portfolio which was key hindrance in rating upgrade. Further, merger has resulted in improvement in margins from 7-7.5% to 8.5% (guided for 8.25% - 8.65% on sustainable basis). We expect RoA to sustain above 3% post-merger with stable asset quality.

	NII (In Bn)		PPoP (In Bn)		PAT (In Bn)		AUM(In Bn)		NIMs (on AUM)		RoA (%)	
	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
Shriram Finance	93	169	74	123	27	60	1,602	1,857	6.6	8.4	2.9	1.9

Conference Call Highlights

- Cost of borrowing increased from 8.77% in Q3FY23 to 8.82% in Q4FY23 due to increased repo rate by RBI.
- Borrowings for Q4FY23 from different sources stood at around 40,000Cr at a cost ~9%.
- Cost to Income for Q4FY23 stood at around 28.3% (vs. 22.2% in Q3FY23 and 20.0% in Q4FY22). The increase was on account of one time hit of around 302.58Cr (amortization of intangible) during the qtr (current outstanding as on 31st Mar'23 at around 1,200Cr).
- Has not made pre-payment or buy back of any off shore bonds during Q4FY23. Buy Back of around 230Mn was done during Q2/Q3FY23.
- Credit cost for Q4FY23 stood at 2.24% (vs. 1.75% in Q3FY23 and 2.03% in Q4FY22). Higher credit cost was on account of stress test conducted by the company which had an impact of around 295Cr.
- Expecting MSME segment to grow faster and would be led by increased network presence as well as availability of people with required vintage experience.
- Continue to hold the credit cost guidance of around 2% for FY24 (in similar levels of credit cost for FY23).
- Expecting AUM growth of around 15% for FY24.
- Expecting the retail side of the AUM book to grow faster and would be leveraged by strong branch presence of Shriram Transport Finance.
- Carrying strong liquidity of around 17,600Cr which are sufficient to meet the liability repayments needs of the company for 3 months which is around 16,000Cr. During Covid, the company carried liquidity for 6 months liability repayment but now since things have normalised, the same is reduced to 3 months.
- Average LCR during the qtr stood at around 209%.
- Write off during Q4FY23 stood at around 805Cr while for FY23 stood at around 2,615Cr.
- Effective Tax was higher in current year (claimed certain benefits in ECL Provision which the company is required to reverse now) and the company expects the same to be higher over next couple of year.
- Have maturities of off shore bonds around July/Aug'23.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Interest Income	74,232	49,282	73,099	50.6	1.5
Interest Expenses	32,422	24,037	31,178	34.9	4.0
Net Interest Income	41,810	25,244	41,921	65.6	-0.3
NIM (%)	8.6	7.0	8.5	159 bps	3 bps
Non-Interest Income	3,460	1,594	3,022	117.0	14.5
Operating Income	45,270	26,839	44,944	68.7	0.7
Staff Cost	6,907	2,749	6,391	151.3	8.1
Other Op Exp	7,552	2,976	5,537	153.8	36.4
Total Operating Expenses	14,459	5,725	11,928	152.6	21.2
<i>Cost to Income (%)</i>	31.9	21.3	26.5	1061 bps	540 bps
<i>Cost to AUM (%)</i>	3.1	1.4	2.7	169 bps	43 bps
Operating Profit	30,810	21,114	33,016	45.9	-6.7
Provisions	11,846	7,608	9,173	55.7	29.2
<i>Credit Cost (%)</i>	2.6	1.9	2.1	65 bps	48 bps
PBT	18,964	13,506	23,844	40.4	-20.5
Tax	5,881	2,645	6,074	122.3	-3.2
<i>-effective tax rate</i>	31.0	19.6	25.5	1143 bps	554 bps
PAT	13,083	10,861	17,770	20.5	-26.4
EPS (Rs)	34.9	40.2	47.5	-13.0	-26.4
BV (Rs)	1,156.6	958.6	1,132.9	20.7	2.1
AUM	18,56,829	16,02,266	17,74,980	15.9	4.6

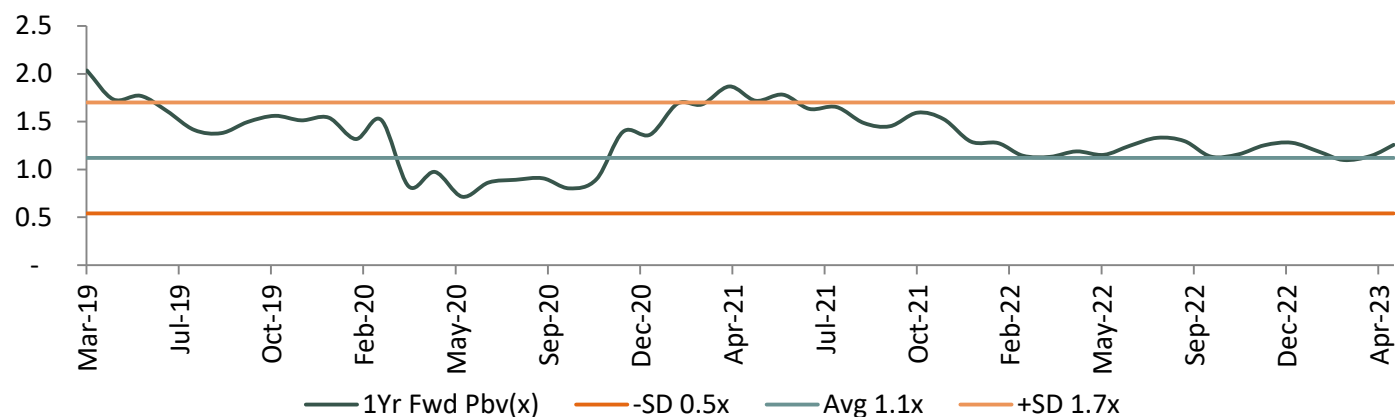
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	7.4	5.8	9.3	8.2	8.4
Non-Int Inc	0.3	0.4	0.7	0.6	0.6
Net Revenue	7.8	6.2	10.0	8.8	9.1
Op.Exp	2.7	1.4	2.8	2.6	2.6
Op.Profit	5.0	4.8	7.1	6.2	6.4
Provisions	2.0	2.5	2.4	1.9	2.0
PBT	3.0	2.3	4.7	4.3	4.4
Tax	0.8	0.5	1.3	1.2	1.2
ROA	2.3	1.8	3.5	3.1	3.2
Leverage (x)	5.6	5.5	5.0	4.7	4.8
ROE	12.7	9.7	17.3	14.9	15.5

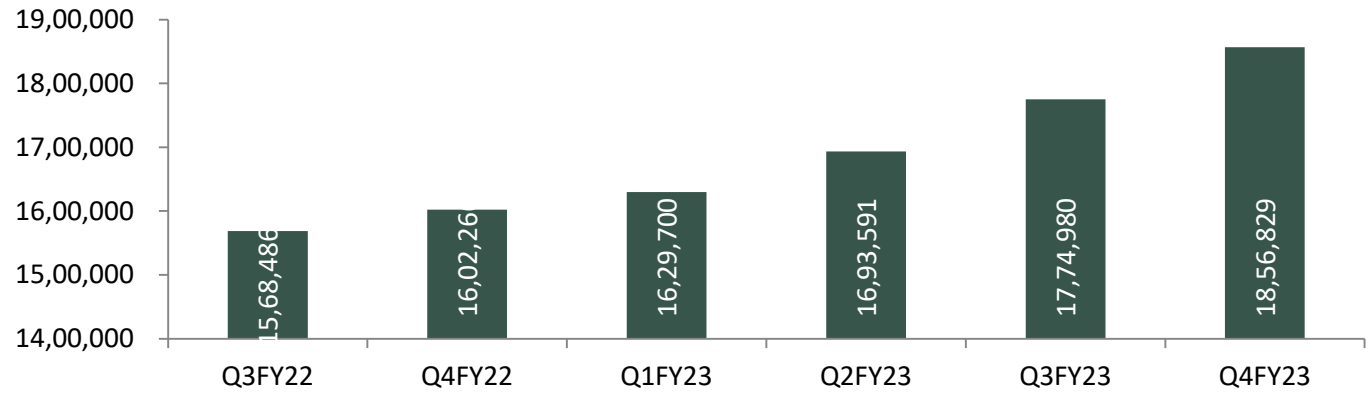
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV



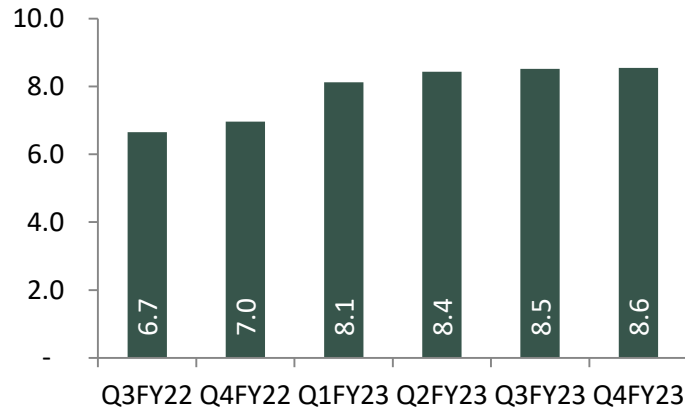
Source: Company; IDBI Capital Research

Exhibit 4: AUM growth remained strong during the qtr



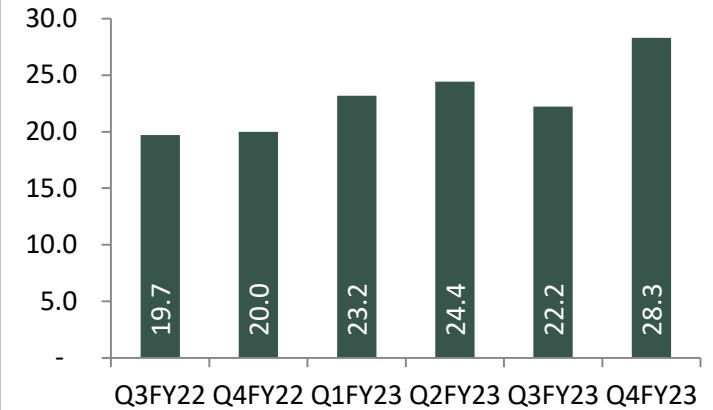
Source: Company; IDBI Capital Research

Exhibit 5: NIMs on AUM continued to inch up QoQ



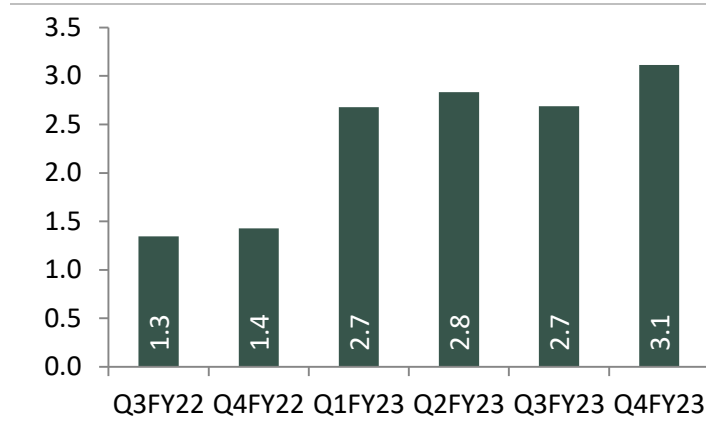
Source: Company; IDBI Capital Research

Exhibit 6: Cost to Income remained at elevated level



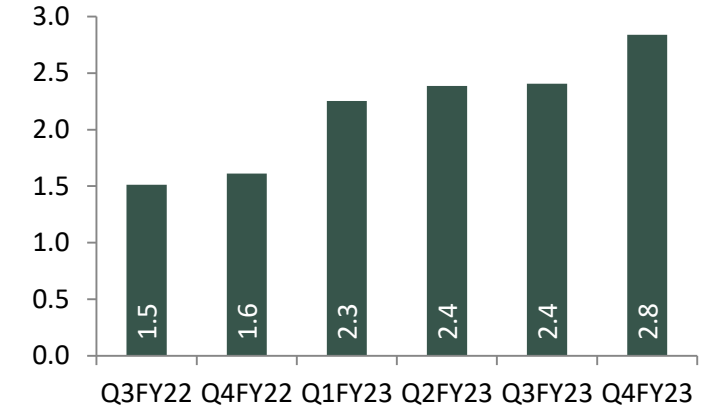
Source: Company; IDBI Capital Research

Exhibit 7: Cost to AUM too inched up sequentially



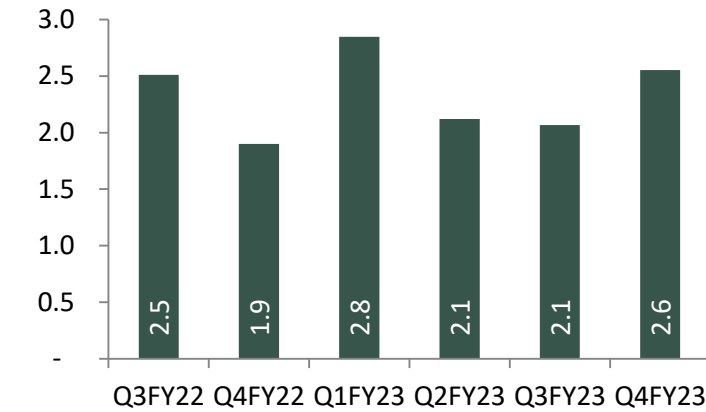
Source: Company; IDBI Capital Research

Exhibit 8: Cost to Asset witnessed strong uptick QoQ



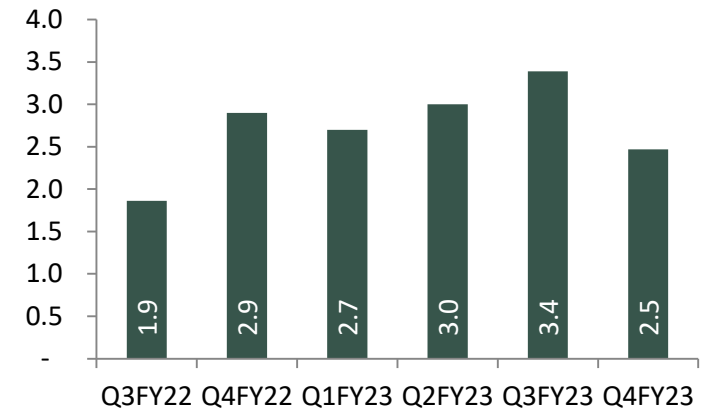
Source: Company; IDBI Capital Research

Exhibit 9: Credit Cost remained range bound between 2.0-2.8%



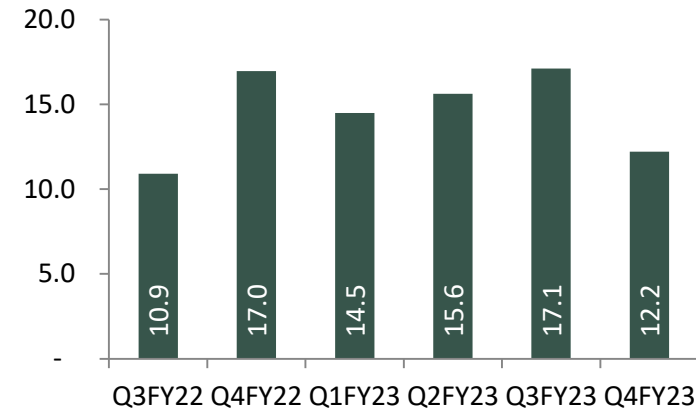
Source: Company; IDBI Capital Research

Exhibit 10: RoA witnessed moderation during the qtr on account of higher opex



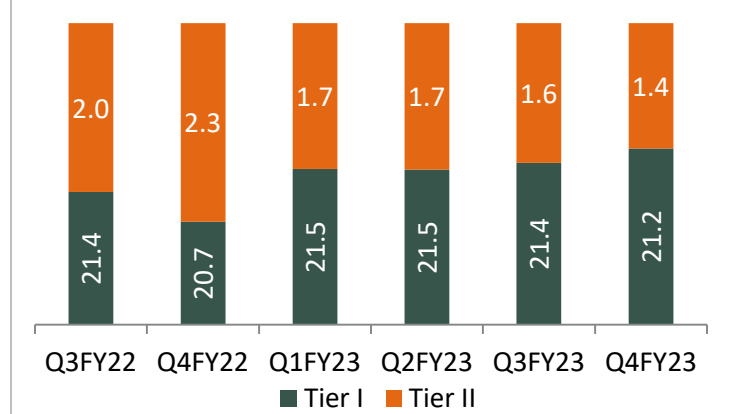
Source: Company; IDBI Capital Research

Exhibit 11: RoE witnessed downtick during the qtr



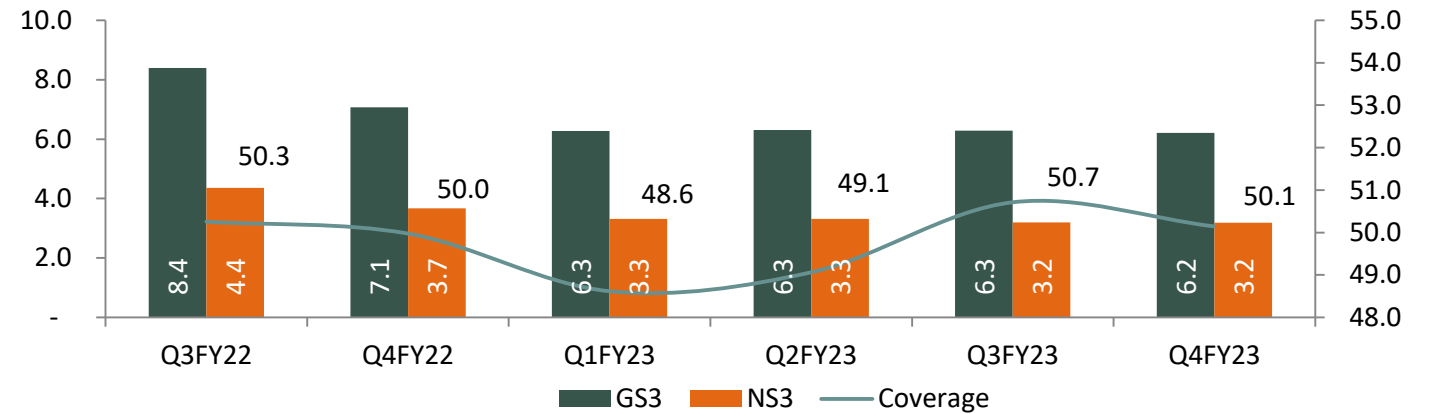
Source: Company; IDBI Capital Research

Exhibit 12: CAR remained strong QoQ



Source: Company; IDBI Capital Research

Exhibit 13: Asset Quality remained stable QoQ



Source: Company; IDBI Capital Research

Exhibit 14: Composition of AUM-In Mn

Product Wise Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Commercial Vehicles	9,32,949	8,28,260	9,06,152	12.6	3.0
Passenger Vehicles	3,38,726	2,70,192	3,17,651	25.4	6.6
Construction Equipment's	1,43,627	1,29,720	1,38,672	10.7	3.6
Farm Equipment's	34,788	33,103	33,297	5.1	4.5
MSME	1,91,013	1,69,833	1,76,597	12.5	8.2
Two Wheelers	1,03,692	87,896	1,00,049	18.0	3.6
Gold	44,784	40,779	44,370	9.8	0.9
Personal Loans	66,751	41,523	57,674	60.8	15.7
Others	497	959	519	(48.1)	(4.2)
Total	18,56,829	16,02,266	17,74,980	15.9	4.6

Source: Company; IDBI Capital Research

Exhibit 15: Composition of AUM-In %

Product Wise Advances (In Mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Commercial Vehicles	50.2	51.7	51.1	-145 bps	-81 bps
Passenger Vehicles	18.2	16.9	17.9	138 bps	35 bps
Construction Equipment's	7.7	8.1	7.8	-36 bps	-8 bps
Farm Equipment's	1.9	2.1	1.9	-19 bps	0 bps
MSME	10.3	10.6	9.9	-31 bps	34 bps
Two Wheelers	5.6	5.5	5.6	10 bps	-5 bps
Gold	2.4	2.5	2.5	-13 bps	-9 bps
Personal Loans	3.6	2.6	3.2	100 bps	35 bps
Others	0.0	0.1	0.0	-3 bps	0 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net interest income	1,15,539	1,15,115	89,120	1,60,616	1,76,723	2,07,301
<i>Change (yoy, %)</i>	1%	0%	-23%	80%	10%	17%
Other Income	4,983	4,752	6,280	11,955	13,603	15,643
Net Revenue	1,20,522	1,19,867	95,399	1,72,571	1,90,325	2,22,944
Operating expenses	43,453	41,981	21,298	49,131	55,978	64,375
Employee expenses	18,585	16,699	9,971	25,061	26,408	30,370
Other expenses	24,868	25,281	11,327	24,070	29,570	34,005
Pre-Provision Profit	77,069	77,886	74,101	1,23,441	1,34,347	1,58,568
<i>Change (yoy, %)</i>	-1%	1%	-5%	67%	9%	18%
Provision	29,134	31,212	38,609	41,592	41,100	49,097
PBT	47,935	46,674	35,493	81,849	93,247	1,09,472
Taxes	12,913	11,691	8,413	22,056	25,177	29,557
<i>Effective tax rate (%)</i>	27%	25%	24%	27%	27%	27%
Net profit	35,022	34,982	27,079	59,793	68,070	79,914
<i>Change (yoy, %)</i>	-1%	-0.1%	-23%	121%	14%	17%
EPS	120	110	100	160	182	213
Return on Equity (%)	14.8	12.7	9.7	17.3	14.9	15.5
Return on Assets (%)	2.5	2.3	1.8	3.5	3.1	3.2

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	2,929	3,191	2,705	3,744	3,744	3,744
Reserves	2,49,202	2,93,678	2,56,617	4,29,322	4,75,285	5,47,711
Networth	2,52,131	2,96,868	2,59,322	4,33,066	4,79,029	5,51,455
Borrowings	11,16,283	12,71,409	11,44,967	15,79,063	17,54,581	19,86,430
Other liabilities	82,615	71,435	16,772	24,509	59,444	92,433
Total Liab. & Equity	14,51,029	16,39,712	14,21,061	20,36,639	22,93,054	26,30,318
Cash	1,03,773	2,16,560	1,63,553	1,58,174	1,74,929	2,01,168
Investments	35,326	42,152	68,092	85,651	97,183	1,11,760
Advances	12,88,442	13,57,231	11,66,652	17,19,846	19,43,657	22,35,205
Fixed Assets	6,302	5,464	4,181	19,861	18,867	17,924
Other Assets	17,186	18,304	18,584	53,108	58,418	64,260
Total assets	14,51,029	16,39,712	14,21,061	20,36,639	22,93,054	26,30,318

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth						
Advances	4.1	5.3	(14.0)	47.4	13.0	15.0
NII	0.5	(0.4)	(22.6)	80.2	10.0	17.3
Pre-Provision Profit	(1.4)	1.1	(4.9)	66.6	8.8	18.0
Net Profit	(1.4)	(0.1)	(22.6)	120.8	13.8	17.4
Spreads						
Yield on AUM	15.3	15.4	15.6	16.4	16.3	16.3
Cost of Borrowing	9.7	9.4	8.1	9.2	9.0	9.0
NIM (on AUM)	8.5	8.1	5.8	9.3	8.9	9.1
Spread	5.7	6.1	7.6	7.1	7.3	7.3
Operating Efficiency						
Cost-to-Income	36.1	35.0	22.3	28.5	29.4	28.9
Cost-to-Assets	3.4	3.2	1.7	3.4	3.1	3.1
Asset Quality						
GNPA	8.3	6.9	6.9	6.2	6.2	6.2
NNPA	5.6	4.2	4.7	3.3	3.3	3.3
Provision Coverage	37.5	44.1	49.8	50.1	50.1	50.1
Credit Cost	2.3	2.4	3.1	2.9	2.2	2.3
Capital Adequacy						
CAR	23.2	23.8	23.8	26.2	25.2	25.2
Tier I	20.2	21.8	22.0	24.1	23.2	23.2
Valuation						
EPS	120	110	100	160	182	213
ABV	610	784	761	1,003	1,104	1,271
P/E	11.7	12.8	14.0	8.8	7.7	6.6
P/ABV	2.3	1.8	1.8	1.4	1.3	1.1
ROE	14.8	12.7	9.7	17.3	14.9	15.5
ROA	2.5	2.3	1.8	3.5	3.1	3.2

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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