

Shriram Finance (SFC)

BUY

NIMs guidance up; AUM growth remains strong

Summary

SFC's NIM improved to 8.99 % QoQ led by led by rise in yields. Management guided to hold NIMs at 8.9% (vs 8.5% - 8.9% earlier) going forward. AUM growth remains strong led by growth in passenger vehicle and MSME segments. Management guided for 20% AUM growth for FY24 and conservatively 15% growth going forward. We expect 16% CAGR (FY23-26) loan growth. Asset quality improved with GS3 at 5.7% vs 5.8% led by higher write offs. NII grew by 7% QoQ led by improvement in NIMs; PPOP grew by 6% QoQ led by lower other income (down 11% QoQ). However, PAT grew by 4% QoQ led by increase in provisions (up 11% QoQ). We have moved to FY26E estimates and expect EPS to grow at 13% CAGR (FY23-26). We maintain "BUY" rating on SFC with new TP of RS.2,675 (earlier Rs.2,230) valuing at 1.75X FY26E ABV.

Key Highlights and Investment Rationale

- **AUM growth improved:** SFC's AUM growth improved to 21% YoY vs 20% YoY (Q2FY24); management for 20% (vs 18-20%) AUM growth for FY24. Disbursements stood at Rs.377bn (up 9% QoQ).
- **NIMs improved to 8.99%:** NIMs improved by 6bps QoQ to 8.99% as cost of funds (calculated) declined sequentially; however yields improved backed by product mix and utilization of liquidity.
- **Asset quality improved:** Asset quality improved with GS3 declined to 5.7% vs 5.8% due to higher write offs. Credit cost increased during the quarter due to higher write offs; however management guided credit cost to remain at 2%.
- **Outlook:** SFC has now diversified from mono line business of CV (mainly Used CV) to non-vehicle portfolio which was key hindrance in rating upgrade. We expect RoA to sustain above 3% post-merger with stable asset quality.

TP **Rs 2,675**CMP **Rs2,306**Potential upside/downside **16%**Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	12.6	19.1	85.9
Rel to Sensex	14.5	8.3	66.7

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	189	212	233
Consensus	194	227	263
% difference	(2.4)	(6.5)	(11.5)

Key Stock Data

Bloomberg / Reuters	SHFL IN / SRTR.BO
Sector	NBFC
Shares o/s (mn)	376
Market cap. (Rs mn)	866,311
3-m daily avg Trd value (Rs mn)	191.8
52-week high / low	Rs2,353 / 1,190
Sensex / Nifty	70,701 / 21,353

Shareholding Pattern (%)

Promoters	25.4
FII	54.0
DII	15.1
Public	5.5

Financial snapshot

(Rs mn)

Year	FY2022	FY2023	FY2024E	FY2025E	FY2026E
NII	89,120	1,60,616	1,88,236	2,18,637	2,45,916
Change (yoy, %)	-23%	80%	17%	16%	12%
Net Profit	27,079	59,793	71,001	79,648	87,568
Change (yoy, %)	-23%	121%	19%	12%	10%
EPS (Rs)	100	160	189	212	233
Change (yoy, %)	-9%	60%	18%	12%	10%
ABV (Rs)	806	1,035	1,177	1,331	1,522
PER (x)	23	14	12	11	10
P/ABV (x)	2.9	2.2	2.0	1.7	1.5
ROE (%)	9.7	17.3	15.4	15.3	14.7
ROA (%)	1.8	3.5	3.2	3.1	3.0
GNPA (%)	6.9	6.2	5.7	5.7	5.7
NNPA (%)	4.7	3.3	2.8	2.8	2.8
CAR (%)	23.8	26.0	23.1	22.8	22.7

Source: IDBI Capital Research

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Conference Call Highlights

Macro environment:

- Rabi crop sown in the country was 4.4% higher YoY. A similar rise was seen across all major crops indicating good rural momentum going forward. Govt spends on infra continue to remain strong.
- The management believes that increase in demand for 2W is indicative of signs of revival in rural demand while the increase in 3W sales indicates increased demand for last mile delivery.
- Tractor sale stood at 2.03L vs 2.16L units YoY. The management believes that as the agricultural income continues to grow, it will create increased demand for farm equipments going forward in the near term.
- Construction equipment sales up by 29.6% with 33,121 units sold vs ~25,565 units sold on a YoY basis. This is indicative of continued infra spend and strong real estate activity.

Operational performance:

- The company has registered a disbursement growth of 29.21% in Q3FY24 YoY and 9.2% QoQ. The disbursements stood at ~Rs.377.88bn v/s Rs.292.45bn YoY.
- The company continues to maintain liquid assets sufficient to meet 3 months liability repayment. The liquidity coverage ratio stands at ~256.25% and the overall cost of borrowings stand at 8.96%.
- The incremental cost of borrowings at 8.95% vs 8.7% QoQ.
- The net debt ratio stood at 3.77 vs 3.59 QoQ while LGD stood at 41.45% vs 41.39% QoQ.
- Employee count at 73,485 vs 74,373 QoQ.
- Shriram housing finance is currently focused on 8 states which have higher demand for affordable housing (with 149 operational branches currently) and the management expects to add another state by the end of FY24.

Advances:

- Disbursement for Q3FY24 for CV were Rs.144.49bn , PV ~Rs.60.92bn, construction equipment at ~Rs.27.80bn , farm equipment ~Rs.4.64bn, MSME ~Rs.43.28bn, 2-wheeler loans at Rs.36.99bn , gold loans ~Rs.31.20bn and personal loans ~Rs.28.53bn.

Asset Quality:

- The personal loan portfolio has been behaving as expected and the management re-iterated that personal loans are only being offered to customers who have a proven track record of repayment with the company.
- For co-lending, the company has tied with 1 PSU bank and 1 private bank. The total DE and co-lending portfolio constitutes ~20-21% of the total AUM of the company.
- Write off at ~Rs.7.25bn while provisions stood at ~Rs.5.25bn for Q3FY24.
- The school bus portfolio has not grown materially post-covid. However, it is one of the portfolios which has the lowest credit cost for the company.
- The risk weight attributed to personal loans has been a major contributor towards utilization of the capital base (down ~100bps QoQ).

Future Guidance

- The management is confident of sustaining the margins at 8.9% levels going forward and the cost of funds are not expected to rise materially going forward.
- The borrowing costs of the company and its borrowing mix as well as its ability to pass on the incremental costs to the customers should support margins going forward.
- This financial year, on the back of strong economic growth, the AUM growth touched 20%. However on a prudent basis, the management has guided for 15% growth for medium and long term.
- GL, 2W and PV are the products which the company is focusing on.
- The management does not expect the elections to have any material impact on the company's business. The management expects the credit cost to remain ~2% for FY24 despite slightly elevated levels as seen in Q3FY24.
- The management has an authorized cap of growing the personal loans till it reaches 8% of the total AUM. The management expects the portfolio to remain comfortably within the aforementioned cap.
- The management expects the demand for passenger vehicles to be strong going forward.
- The company is in the process of converting its rural centers in to branches once it reaches a defined growth threshold. The company has added 136 branches over the period of 1 year.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Interest Income	86,179	73,099	82,166	17.9	4.9
Interest Expenses	37,069	31,178	36,219	18.9	2.3
Net Interest Income	49,110	41,921	45,947	17.1	6.9
NIM (%)	9.0	8.5	8.9	47 bps	6 bps
Non-Interest Income	3,094	3,022	3,479	2.4	-11.1
Operating Income	52,204	44,944	49,426	16.2	5.6
Staff Cost	8,099	6,391	7,904	26.7	2.5
Other Op Exp	7,212	5,537	6,714	30.3	7.4
Total Operating Expenses	15,311	11,928	14,618	28.4	4.7
<i>Cost to Income (%)</i>	29.3	26.5	29.6	279 bps	-25 bps
<i>Cost to AUM (%)</i>	2.9	2.7	2.9	17 bps	-3 bps
Operating Profit	36,893	33,016	34,808	11.7	6.0
Provisions	12,497	9,173	11,286	36.2	10.7
<i>Credit Cost (%)</i>	2.3	2.1	2.2	27 bps	11 bps
PBT	24,396	23,844	23,523	2.3	3.7
Tax	6,213	6,074	6,014	2.3	3.3
<i>-effective tax rate</i>	25.5	25.5	25.6	-1 bps	-10 bps
PAT	18,183	17,770	17,509	2.3	3.9
EPS (Rs)	48.4	47.5	46.7	2.0	3.7
BV (Rs)	1256.7	1132.9	1229.5	10.9	2.2
AUM	21,42,335	17,74,980	20,26,410	20.7	5.7

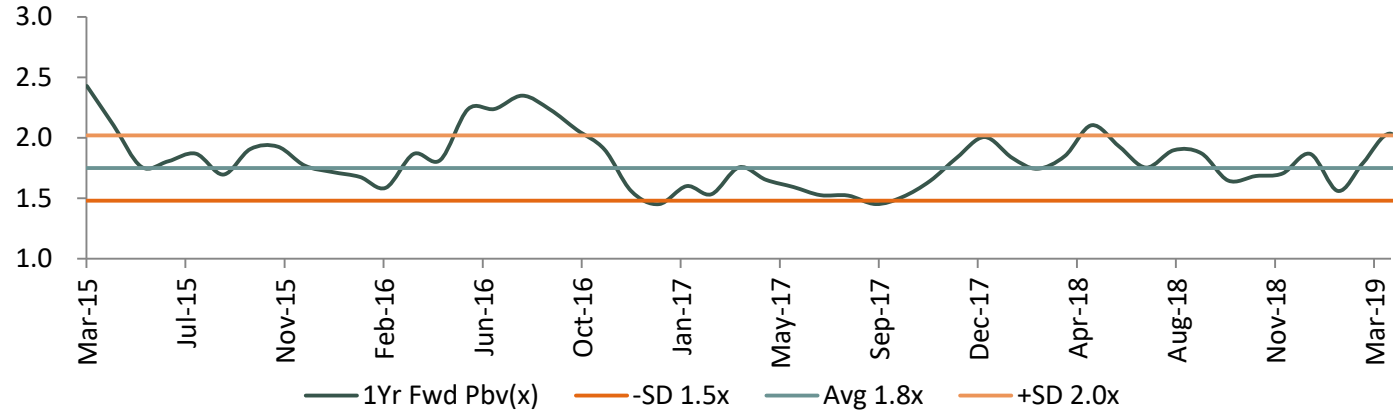
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	5.8	9.3	8.6	8.6	8.4
Non-Int Inc	0.4	0.7	0.6	0.6	0.6
Net Revenue	6.2	10.0	9.2	9.2	9.0
Op.Exp	1.4	2.8	2.7	3.0	3.0
Op.Profit	4.8	7.1	6.4	6.2	6.1
Provisions	2.5	2.4	2.1	1.9	1.9
PBT	2.3	4.7	4.3	4.3	4.1
Tax	0.5	1.3	1.1	1.2	1.1
ROA	1.8	3.5	3.2	3.1	3.0
Leverage (x)	5.5	5.0	4.8	4.9	4.9
ROE	9.7	17.3	15.4	15.3	14.7

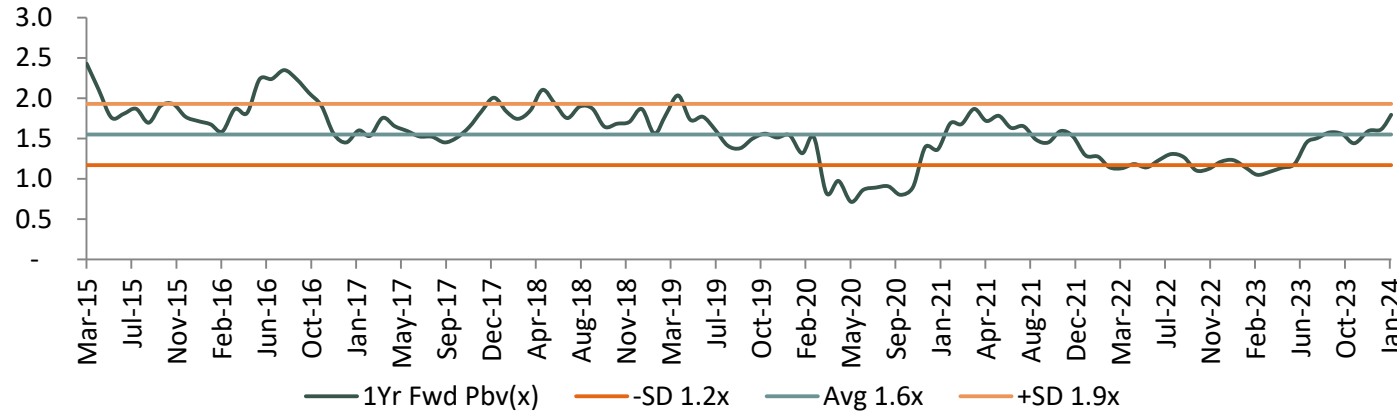
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY15-19)



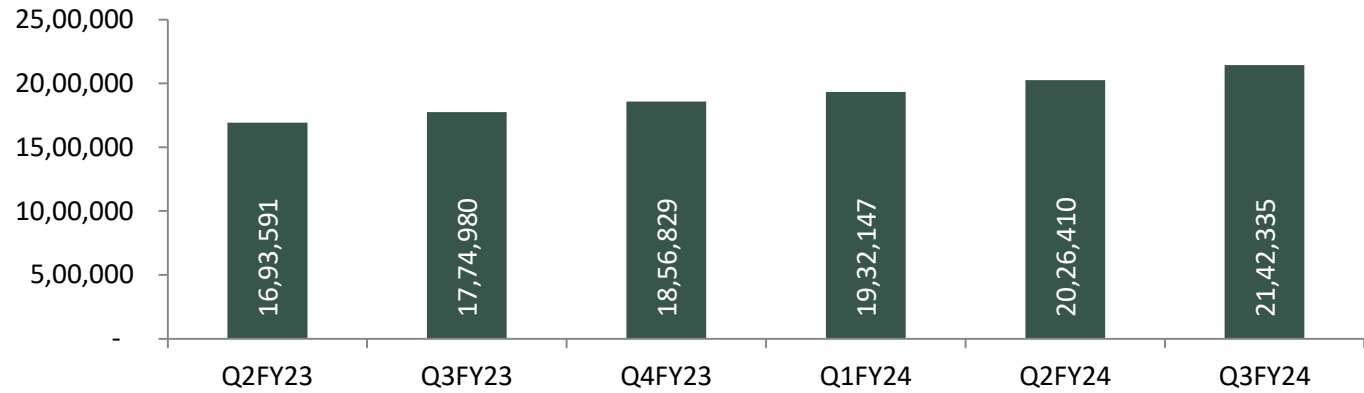
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY15-24)



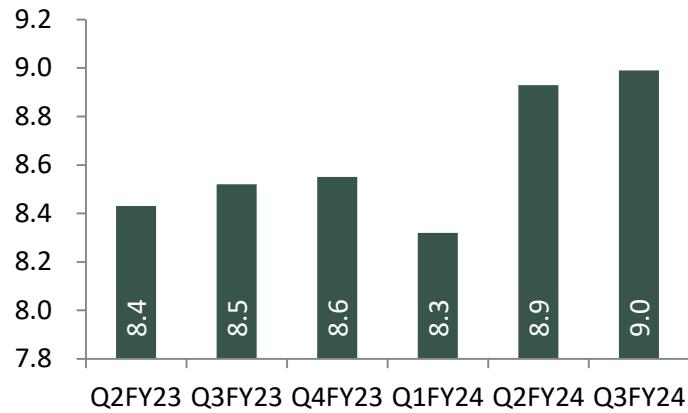
Source: Company; IDBI Capital Research

Exhibit 5: AUM growth continued to witness strong growth trajectory during the qtr



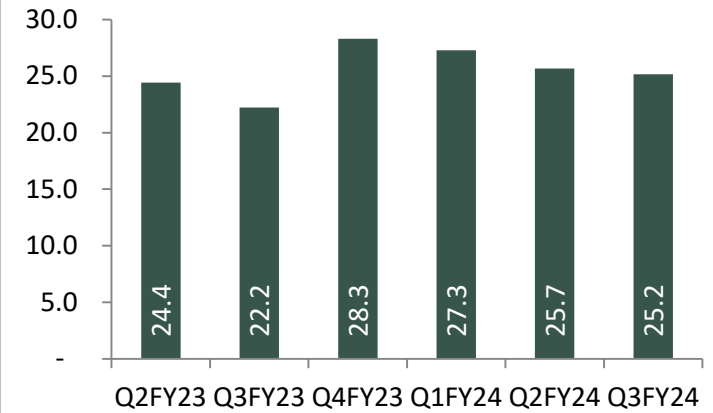
Source: Company; IDBI Capital Research

Exhibit 6: NIMs on AUM improved QoQ due to product mix shift towards higher yielding products



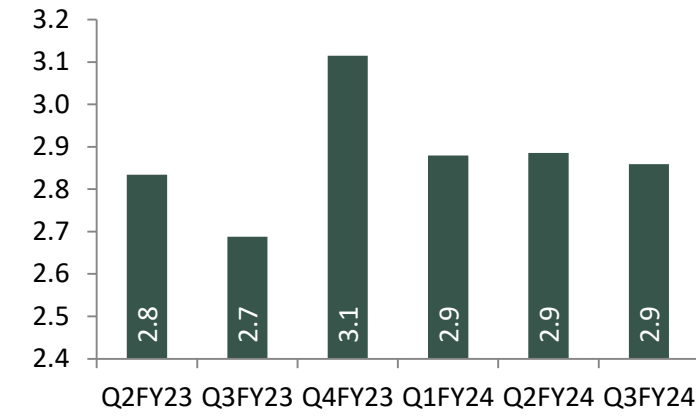
Source: Company; IDBI Capital Research

Exhibit 7: Cost to Income continued to improve



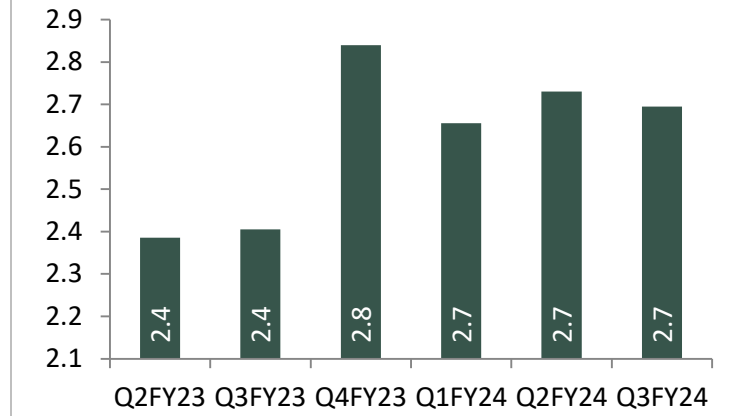
Source: Company; IDBI Capital Research

Exhibit 8: Cost to AUM remained stable



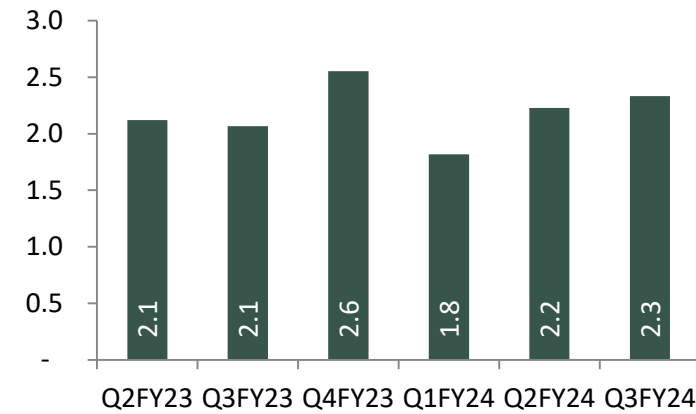
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Asset remained flat QoQ



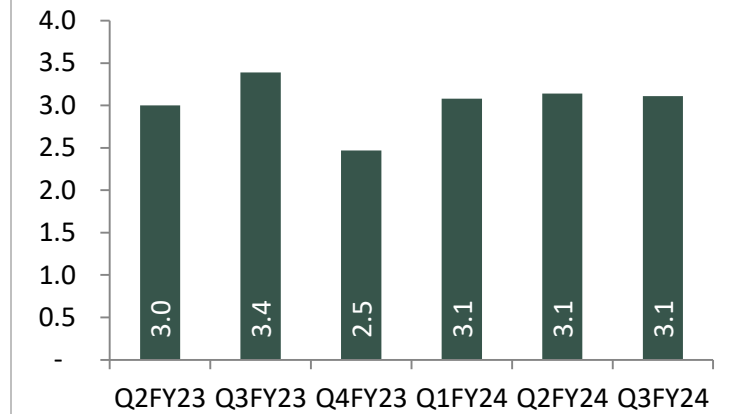
Source: Company; IDBI Capital Research

Exhibit 10: Credit Cost inched up sequentially



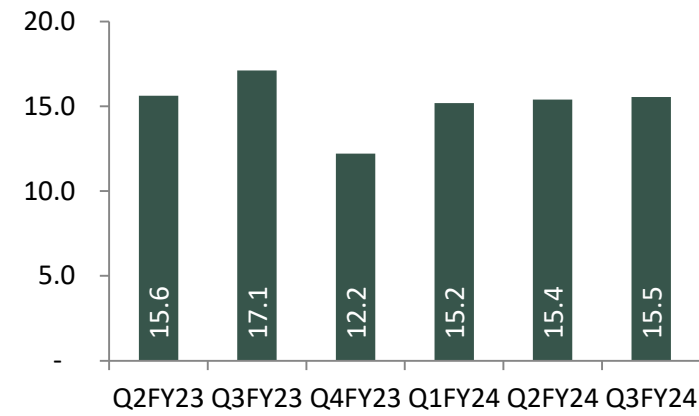
Source: Company; IDBI Capital Research

Exhibit 11: RoA remained stable sequentially



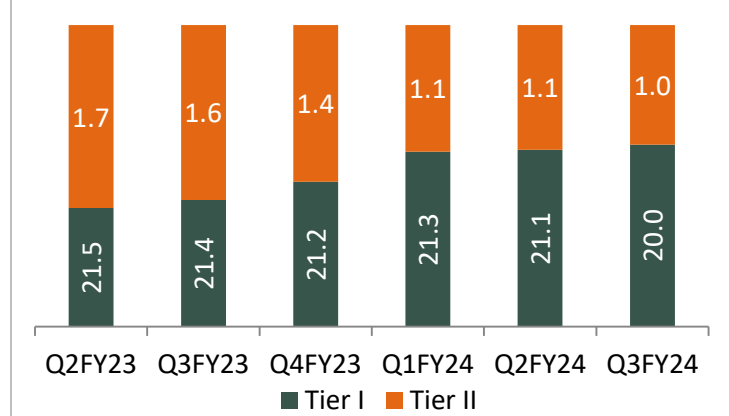
Source: Company; IDBI Capital Research

Exhibit 12: RoE witnessed marginal improvement during the qtr



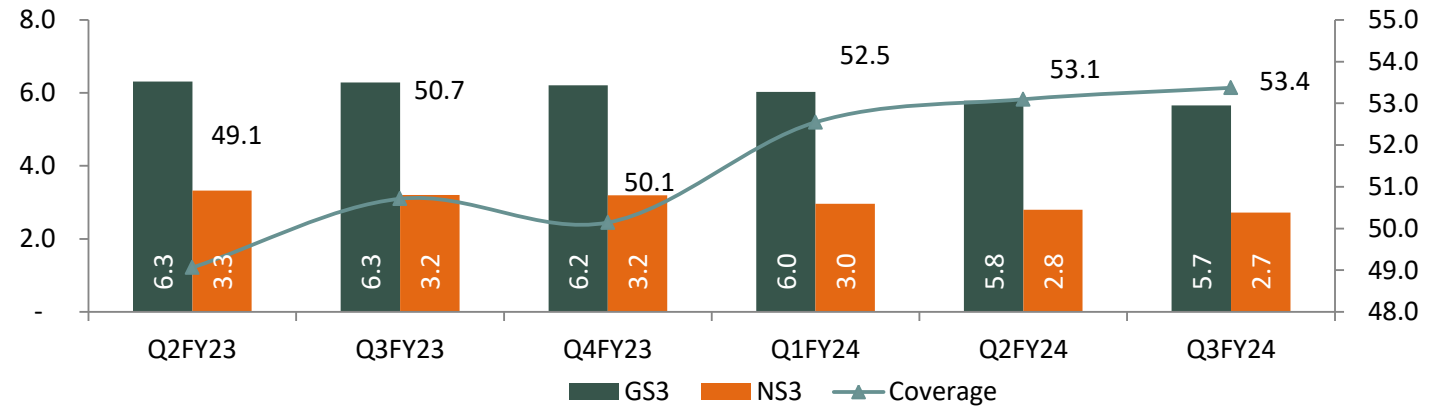
Source: Company; IDBI Capital Research

Exhibit 13: CAR remained strong QoQ



Source: Company; IDBI Capital Research

Exhibit 14: Asset Quality improved on a sequential basis



Source: Company; IDBI Capital Research

Exhibit 15: Composition of AUM-In Mn

Product Wise Advances (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Commercial Vehicles	10,24,651	9,06,152	9,84,363	13.1	4.1
Passenger Vehicles	4,15,342	3,17,651	3,96,935	30.8	4.6
Construction Equipment's	1,62,228	1,38,672	1,50,582	17.0	7.7
Farm Equipment's	33,564	33,297	34,797	0.8	(3.5)
MSME	2,30,859	1,76,597	2,13,104	30.7	8.3
Two Wheelers	1,21,397	1,00,049	1,04,191	21.3	16.5
Gold	58,910	44,370	54,055	32.8	9.0
Personal Loans	95,384	57,674	88,384	65.4	7.9
Total	21,42,335	17,74,980	20,26,410	20.7	5.7

Source: Company; IDBI Capital Research

Exhibit 16: Composition of AUM-In %

Product Wise Advances (In Mn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ (%)
Commercial Vehicles	47.8	51.1	48.6	-322 bps	-75 bps
Passenger Vehicles	19.4	17.9	19.6	149 bps	-20 bps
Construction Equipment's	7.6	7.8	7.4	-24 bps	14 bps
Farm Equipment's	1.6	1.9	1.7	-31 bps	-15 bps
MSME	10.8	9.9	10.5	83 bps	26 bps
Two Wheelers	5.7	5.6	5.1	3 bps	52 bps
Gold	2.7	2.5	2.7	25 bps	8 bps
Personal Loans	4.5	3.2	4.4	120 bps	9 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	1,15,115	89,120	1,60,616	1,88,236	2,18,637	2,45,916
<i>Change (yoy, %)</i>	<i>-0.4%</i>	<i>-22.6%</i>	<i>80.2%</i>	<i>17.2%</i>	<i>16.2%</i>	<i>12.5%</i>
Other Income	4,752	6,280	11,955	12,761	14,676	16,877
Net Revenue	1,19,867	95,399	1,72,571	2,00,998	2,33,313	2,62,793
Operating expenses	41,981	21,298	49,131	59,760	74,972	86,218
Employee expenses	16,699	9,971	25,061	32,330	40,559	46,643
Other expenses	25,281	11,327	24,070	27,430	34,413	39,574
Pre-Provision Profit	77,886	74,101	1,23,441	1,41,238	1,58,341	1,76,575
<i>Change (yoy, %)</i>	<i>1.1%</i>	<i>-4.9%</i>	<i>66.6%</i>	<i>14.4%</i>	<i>12.1%</i>	<i>11.5%</i>
Provision	31,212	38,609	41,592	45,937	49,234	56,619
PBT	46,674	35,493	81,849	95,301	1,09,107	1,19,956
Taxes	11,691	8,413	22,056	24,300	29,459	32,388
<i>Effective tax rate (%)</i>	<i>25.0%</i>	<i>23.7%</i>	<i>26.9%</i>	<i>25.5%</i>	<i>27.0%</i>	<i>27.0%</i>
Net profit	34,982	27,079	59,793	71,001	79,648	87,568
<i>Change (yoy, %)</i>	<i>-0.1%</i>	<i>-22.6%</i>	<i>120.8%</i>	<i>18.7%</i>	<i>12.2%</i>	<i>9.9%</i>
EPS	110	100	160	189	212	233
Return on Equity (%)	12.7	9.7	17.3	15.4	15.3	14.7
Return on Assets (%)	2.3	1.8	3.5	3.2	3.1	3.0

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Capital	3,191	2,705	3,744	3,756	3,756	3,756
Reserves	2,93,678	2,56,617	4,29,322	4,85,343	5,50,328	6,30,384
Net Worth	2,96,868	2,59,322	4,33,066	4,89,099	5,54,084	6,34,140
Borrowings	12,71,409	11,44,967	15,79,063	18,31,281	21,24,508	24,49,947
Other liabilities	71,435	16,772	24,509	34,387	34,484	29,152
Total Liab. & Equity	16,39,712	14,21,061	20,36,639	23,54,768	27,13,076	31,13,239
Cash	2,16,560	1,63,552	1,58,174	1,33,246	1,65,020	1,89,773
Investments	42,152	68,092	85,651	94,297	1,08,442	1,24,708
Advances	13,57,231	11,66,652	17,19,846	20,49,939	23,57,430	27,11,044
Fixed Assets	5,464	4,181	19,861	18,867	17,924	17,028
Other Assets	18,304	18,585	53,108	58,418	64,260	70,686
Total assets	16,39,712	14,21,061	20,36,639	23,54,768	27,13,076	31,13,239

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth						
Advances	5.3	(14.0)	47.4	19.2	15.0	15.0
NII	(0.4)	(22.6)	80.2	17.2	16.2	12.5
Pre-Provision Profit	1.1	(4.9)	66.6	14.4	12.1	11.5
Net Profit	(0.1)	(22.6)	120.8	18.7	12.2	9.9
Spreads						
Yield on AUM	15.4	11.8	16.3	16.2	16.2	16.2
Cost of Borrowing	9.4	8.1	9.2	8.6	8.8	9.0
NIM (on AUM)	6.1	3.7	7.1	7.6	7.4	7.2
Spread	8.1	5.8	9.3	9.2	9.1	8.9
Operating Efficiency						
Cost-to-Income	35.0	22.3	28.5	29.7	32.1	32.8
Cost-to-Assets	3.2	1.7	3.4	3.2	3.4	3.4
Asset Quality						
GNPA	6.9	6.9	6.2	5.7	5.7	5.7
NNPA	4.2	4.7	3.3	2.8	2.8	2.8
Provision Coverage	44.1	49.8	50.1	53.4	53.4	53.4
Credit Cost	2.4	3.1	2.9	2.4	2.2	2.2
Capital Adequacy						
CAR	23.8	23.8	26.0	23.1	22.8	22.7
Tier I	21.8	22.0	23.8	21.1	20.8	20.7
Valuation						
EPS	109.6	100.1	159.7	189.0	212.0	233.1
ABV	800.0	806.3	1,034.6	1,176.5	1,330.6	1,522.1
P/E	21.0	23.0	14.4	12.2	10.9	9.9
P/ABV	2.9	2.9	2.2	2.0	1.7	1.5
ROE	12.7	9.7	17.3	15.4	15.3	14.7
ROA	2.3	1.8	3.5	3.2	3.1	3.0

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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