

Shriram Finance (SFC)

BUY

NIMs stable QoQ; AUM growth remains strong

Summary

SFC reported stable NIMs sequentially backed by stable yields. Management guided to hold NIMs at 8.9% as incremental cost of funds and on book cost remains equal. AUM growth remains strong led by growth in passenger vehicle and MSME segments. Management guided for conservatively 15% growth going forward. We expect 16% CAGR (FY24-26) loan growth. Asset quality improved with GS3 at 5.45% vs 5.66% led by higher write offs. NII grew by 4% QoQ led by stable NIMs; PPop grew by 6% QoQ led by higher other income (up 36% QoQ). However, PAT grew by 7% QoQ led by lower provisions (up 1% QoQ). We have revised estimates upwards for FY25/26E ABV by 1%/2% respectively backed by higher AUM growth. We maintain "BUY" rating with new TP of Rs3,100 (earlier Rs.2,675) valuing at 2X FY26E ABV (earlier 1.75x) as RoA sustained above 3% .

Key Highlights and Investment Rationale

- **AUM growth remained strong:** SFC's AUM growth remained strong at 21% YoY vs 21% YoY (Q3FY24); management conservatively guided for 15% AUM growth for FY25. Disbursements stood at Rs.399bn (up 6% QoQ).
- **NIMs stable at 9%:** NIMs improved by 3bps QoQ to 9.02% as yields on assets (calculated) remain stable sequentially; further cost of funds expected to remain stable as incremental and on book cost remain equal.
- **Asset quality improved:** Asset quality improved with GS3 declined to 5.5% vs 5.7% due to higher write offs. Credit cost declined during the quarter led by better recoveries; management maintained credit cost guidance 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 3,100
CMP	Rs2,502
Potential upside/downside	24%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	6.0	8.5	87.7
Rel to Sensex	5.9	4.2	67.1

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	224	251
Consensus	230	270
% difference	(2.7)	(7.1)

Key Stock Data

Bloomberg / Reuters	SHFL IN / SRTR.BO
Sector	NBFC
Shares o/s (mn)	376
Market cap. (Rs mn)	940,234
3-m daily avg Trd value (Rs mn)	192.5
52-week high / low	Rs2,605 / 1,307
Sensex / Nifty	73,730 / 22,420

Shareholding Pattern (%)

Promoters	25.4
FII	53.9
DII	14.7
Public	6.0

Financial snapshot

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	89,120	1,60,616	1,87,935	2,19,949	2,50,524
Change (yoy, %)	-23%	80%	17%	17%	14%
Net Profit	27,079	59,793	71,907	84,167	94,263
Change (yoy, %)	-23%	121%	20%	17%	12%
EPS (Rs)	100	160	191	224	251
Change (yoy, %)	-9%	60%	20%	17%	12%
ABV (Rs)	806	1,035	1,167	1,343	1,551
PER (x)	25	16	13	11	10
P/ABV (x)	2.6	2.2	1.9	1.7	1.5
ROE (%)	9.7	17.3	15.7	16.1	15.6
ROA (%)	1.8	3.5	3.3	3.3	3.2
GNPA (%)	6.9	6.2	5.5	5.5	5.5
NNPA (%)	4.7	3.3	2.8	2.8	2.8
CAR (%)	23.8	26.0	22.7	22.6	22.5

Source: IDBI Capital Research

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Conference Call Highlights

Macro environment:

- Indian GDP expanded and far exceed the expectations while the government has revised upwards its projections for GDP growth in FY25.
- Inflation is at a 5 months low in Mar-24 helped by lower fuel import costs while WPI inflation is a 3 month high in at the end of Mar-24 quarter
- As per RBI's latest survey on consumer confidence indicates that rural demand has picked up and there has been a strong uptick in 2W and tractor sales in the rural markets. A normal monsoon prediction by IMD has further buoyed rural demand.

Operational performance:

- The incremental cost of funds has increased by ~6bps in Q4FY24
- Employee count was 74,645 vs 73,485 QoQ
- The increase in deposit rates is applicable only to the incremental deposits and not the existing deposits

Advances:

- Disbursement for Q4FY24 for CV were Rs.154.25 bn , PV ~Rs.67.06 bn, construction equipment at ~Rs.23.54 bn , farm equipment ~Rs.8.94bn, MSME ~Rs.63.72 bn, 2-wheeler loans at Rs.26.02bn , gold loans ~Rs.32.49 bn and personal loans ~Rs.17.24 bn. Total disbursements stood at Rs.393.26 bn
- 2W disbursements have increased by 14% on a YoY basis. The impact on AUM is not visible since they are shorter tenure loans leading higher churn

Asset Quality:

- GS3 stood at 5.45% and NS3 at 2.70% at the end of Q4FY24
- Credit cost at the end of Q4FY24 stood at 2.06% vs 2.04% YoY and 2.15% QoQ
- The leverage ratio stood at 3.83 times vs 3.65 times YoY & APR ratio at the end of Q4FY24 stood at 195.55% vs 209.8% YoY

- ALM continued to be positive and cumulative surplus upto 1 year is at ~Rs.382.9bn
- PD for stage 1 was 8.85% in Q4FY24 vs 7.89% QoQ and PD for stage 2 assets was 20.12% vs 18.24% QoQ
- LGD at 38.08% at the end of Q4FY24 vs 41.45% QoQ
- The write off for Q4FY24 stood at Rs.8.05bn while incremental provisions stood at ~Rs.4.26bn

Future Guidance

- The management expects the incremental cost of funds to sustain at current levels going forward. Further, the NIMs are also expected to sustain at ~9% levels going forward
- The management expects the credit cost to remain at the same levels as seen in FY24 going forward with a change of 5-10 bps
- The management expects to cross 17% ROE for FY25 and further expects the ROE to reach at ~18% by the end of FY26
- The management expects to focus on a niche area of small ticket lending where the focus will be on improving the high yielding bottom line products going forward
- The management expects the GS3 assets to come down to ~5% and NS3 assets to come down to ~2.5% by the end of FY25
- There is a scope to increase the used vehicle portfolio and the pricing for the same will remain strong owing to BS6 compliant engine rules coming in effect.
- The supply of used vehicles currently is restricted since the demand for new vehicles 4-5 years ago was at its lowest. The management believes that the used vehicles portfolio will grow in a phased manner and there will not be any sudden jumps in the same
- The management expects the employee additions to taper down substantially going forward

Other Key Highlights

- The management expects to assess the product offerings at branches by conducting a feasibility study which is ongoing and will be completed by the end of FY25

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Interest Income	90,773	73,099	86,179	24.2	5.3
Interest Expenses	39,898	31,178	37,069	28.0	7.6
Net Interest Income	50,874	41,921	49,110	21.4	3.6
NIM (%)	9.0	8.5	9.0	50 bps	3 bps
Non-Interest Income	4,206	3,022	3,094	39.2	35.9
Operating Income	55,080	44,944	52,204	22.6	5.5
Staff Cost	8,249	6,391	8,099	29.1	1.9
Other Op Exp	7,775	5,537	7,212	40.4	7.8
Total Operating Expenses	16,024	11,928	15,311	34.3	4.7
<i>Cost to Income (%)</i>	29.1	26.5	29.3	255 bps	-24 bps
<i>Cost to AUM (%)</i>	2.9	2.7	2.9	16 bps	-1 bps
Operating Profit	39,056	33,016	36,893	18.3	5.9
Provisions	12,615	9,173	12,497	37.5	0.9
<i>Credit Cost (%)</i>	2.2	2.1	2.3	18 bps	-9 bps
PBT	26,441	23,844	24,396	10.9	8.4
Tax	6,981	6,074	6,213	14.9	12.4
<i>-effective tax rate</i>	26.4	25.5	25.5	93 bps	93 bps
PAT	19,461	17,770	18,183	9.5	7.0
EPS (Rs)	51.8	47.5	48.4	9.1	7.0
BV (Rs)	1292.4	1132.9	1256.7	14.1	2.8
AUM	22,48,619	17,74,980	21,42,335	26.7	5.0

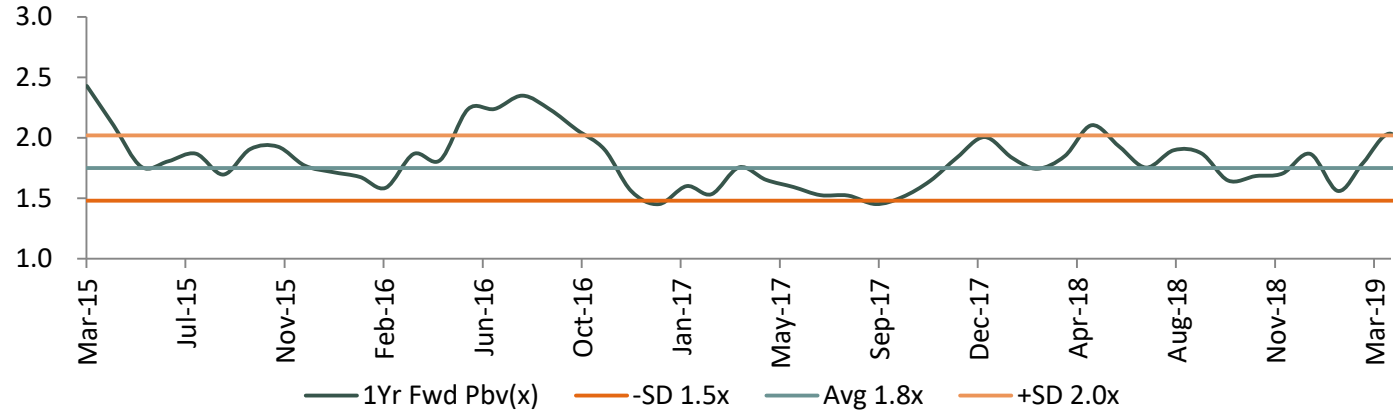
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24E	FY25E	FY26E
NII	5.8	9.3	8.5	8.6	8.5
Non-Int Inc	0.4	0.7	0.6	0.6	0.6
Net Revenue	6.2	10.0	9.2	9.3	9.2
Op.Exp	1.4	2.8	2.7	2.8	2.8
Op.Profit	4.8	7.1	6.5	6.5	6.4
Provisions	2.5	2.4	2.1	2.0	2.0
PBT	2.3	4.7	4.4	4.5	4.4
Tax	0.5	1.3	1.1	1.2	1.2
ROA	1.8	3.5	3.3	3.3	3.2
Leverage (x)	5.5	5.0	4.8	4.9	4.9
ROE	9.7	17.3	15.7	16.1	15.6

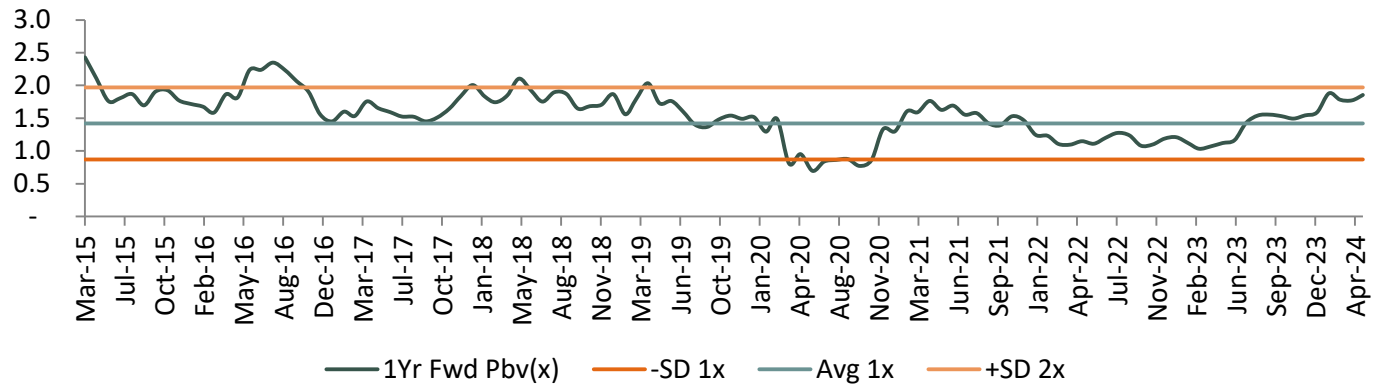
Source: Company; IDBI Capital Research

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



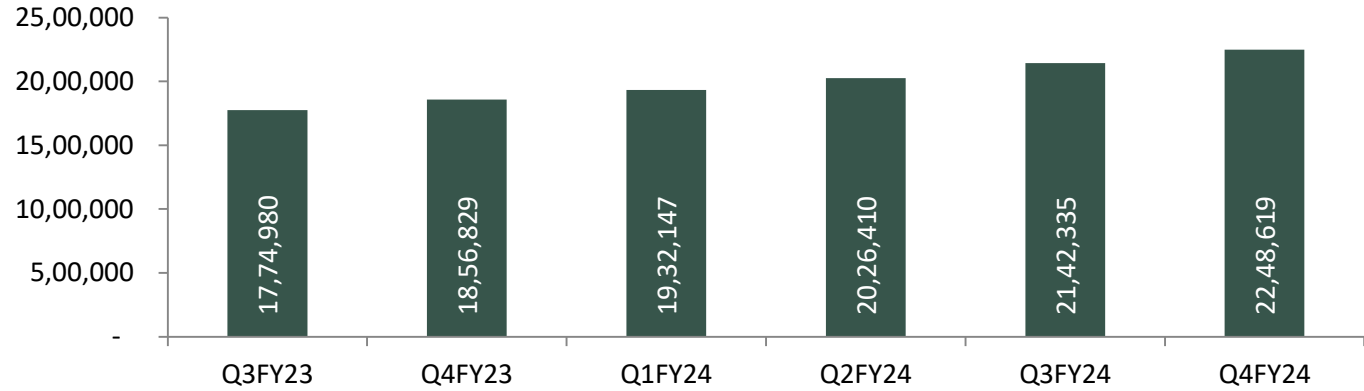
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY15-25)



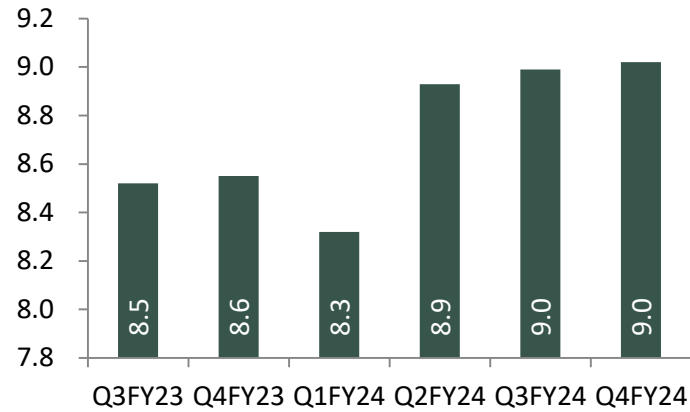
Source: Company; IDBI Capital Research

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



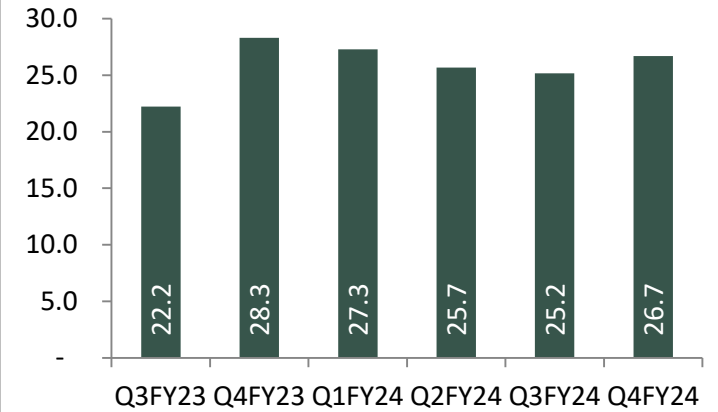
Source: Company; IDBI Capital Research

Exhibit 6: NIMs on AUM remained stable QoQ



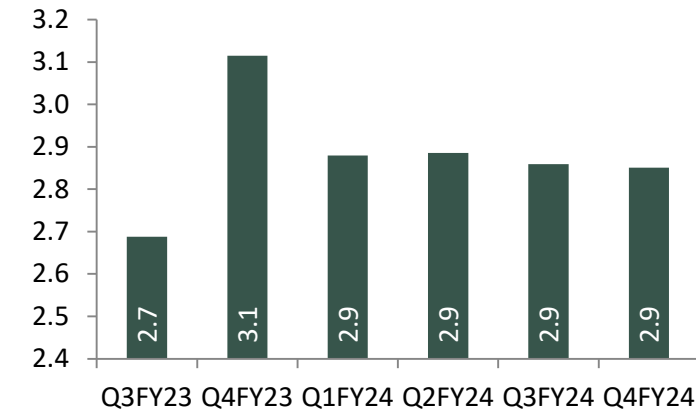
Source: Company; IDBI Capital Research

Exhibit 7: Cost to Income increased QoQ



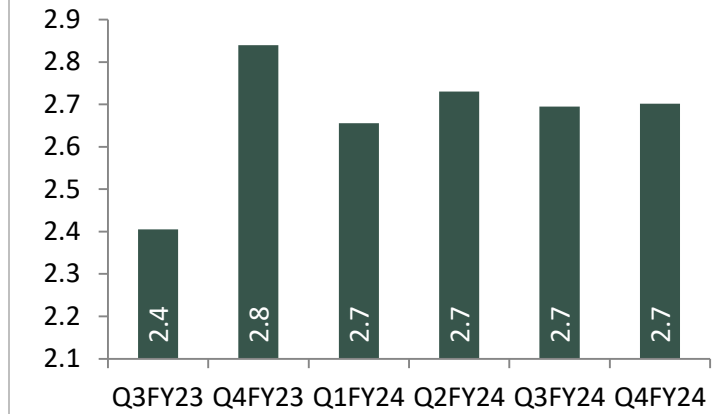
Source: Company; IDBI Capital Research

Exhibit 8: Cost to AUM remained stable



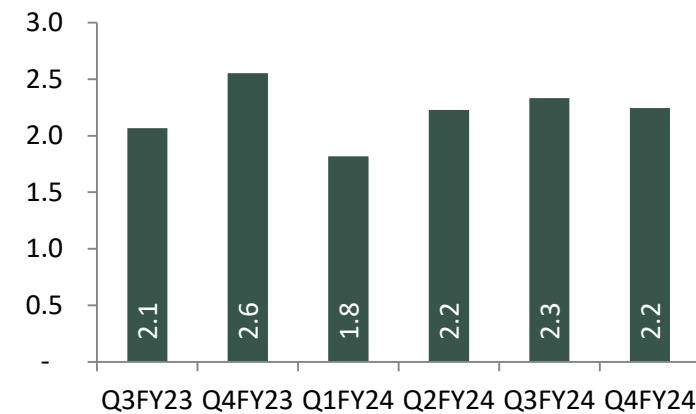
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Asset remained flat QoQ



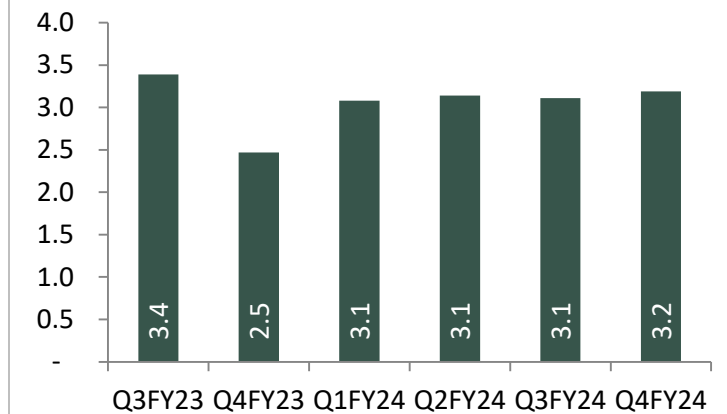
Source: Company; IDBI Capital Research

Exhibit 10: Credit Cost decreased marginally QoQ



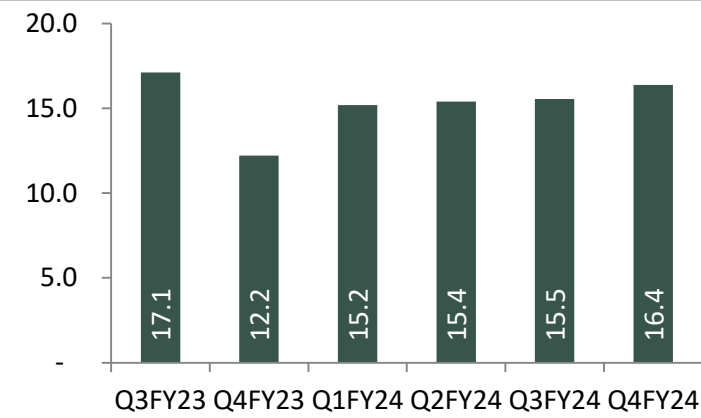
Source: Company; IDBI Capital Research

Exhibit 11: RoA improved sequentially



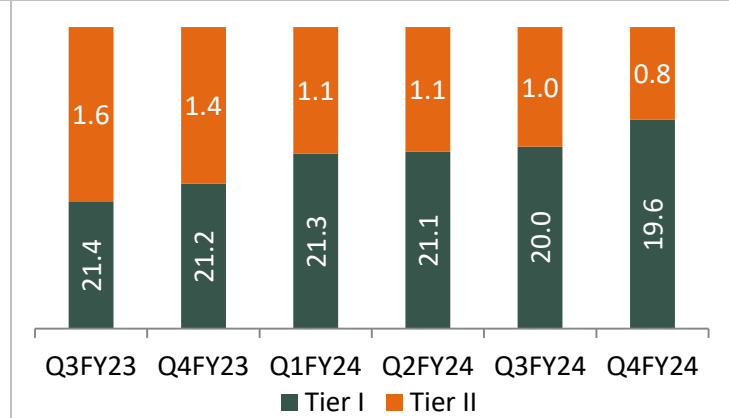
Source: Company; IDBI Capital Research

Exhibit 12: RoE witnessed improvement during the qtr



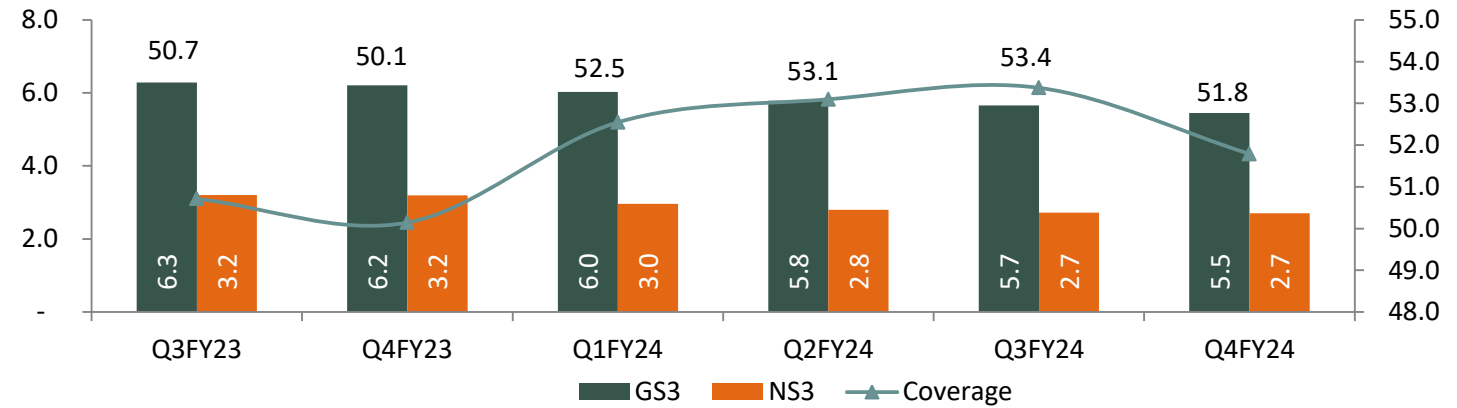
Source: Company; IDBI Capital Research

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)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Commercial Vehicles	10,69,351	9,32,949	10,24,651	14.6	4.4
Passenger Vehicles	4,31,962	3,38,726	4,15,342	27.5	4.0
Construction Equipment's	1,69,540	1,43,627	1,62,228	18.0	4.5
Farm Equipment's	37,153	34,788	33,564	6.8	10.7
MSME	2,62,270	1,91,508	2,30,859	36.9	13.6
Two Wheelers	1,25,524	1,03,692	1,21,397	21.1	3.4
Gold	62,998	44,784	58,910	40.7	6.9
Personal Loans	89,823	66,754	95,384	34.6	(5.8)
Total	22,48,620	18,56,829	21,42,335	21.1	5.0

Source: Company; IDBI Capital Research

Exhibit 16: Composition of AUM-In %

Product Wise Advances (In Mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Commercial Vehicles	47.6	50.2	47.8	-269 bps	-27 bps
Passenger Vehicles	19.2	18.2	19.4	97 bps	-18 bps
Construction Equipment's	7.5	7.7	7.6	-20 bps	-3 bps
Farm Equipment's	1.7	1.9	1.6	-22 bps	9 bps
MSME	11.7	10.3	10.8	135 bps	89 bps
Two Wheelers	5.6	5.6	5.7	0 bps	-8 bps
Gold	2.8	2.4	2.7	39 bps	5 bps
Personal Loans	4.0	3.6	4.5	40 bps	-46 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net interest income	1,15,115	89,120	1,60,616	1,87,935	2,19,949	2,50,524
<i>Change (yoy, %)</i>	<i>-0.4%</i>	<i>-22.6%</i>	<i>80.2%</i>	<i>17.0%</i>	<i>17.0%</i>	<i>13.9%</i>
Other Income	4,752	6,280	11,955	13,946	16,177	18,765
Net Revenue	1,19,867	95,399	1,72,571	2,01,881	2,36,126	2,69,290
Operating expenses	41,981	21,298	49,131	59,861	70,820	82,151
Employee expenses	16,699	9,971	25,061	32,156	38,043	44,129
Other expenses	25,281	11,327	24,070	27,705	32,777	38,021
Pre-Provision Profit	77,886	74,101	1,23,441	1,42,020	1,65,307	1,87,139
<i>Change (yoy, %)</i>	<i>1.1%</i>	<i>-4.9%</i>	<i>66.6%</i>	<i>15.1%</i>	<i>16.4%</i>	<i>13.2%</i>
Provision	31,212	38,609	41,592	45,183	50,010	58,011
PBT	46,674	35,493	81,849	96,837	1,15,297	1,29,128
Taxes	11,691	8,413	22,056	24,930	31,130	34,865
<i>Effective tax rate (%)</i>	<i>25.0%</i>	<i>23.7%</i>	<i>26.9%</i>	<i>25.7%</i>	<i>27.0%</i>	<i>27.0%</i>
Net profit	34,982	27,079	59,793	71,907	84,167	94,263
<i>Change (yoy, %)</i>	<i>-0.1%</i>	<i>-22.6%</i>	<i>120.8%</i>	<i>20.3%</i>	<i>17.0%</i>	<i>12.0%</i>
EPS	110	100	160	191	224	251
Return on Equity (%)	12.7	9.7	17.3	15.7	16.1	15.6
Return on Assets (%)	2.3	1.8	3.5	3.3	3.3	3.2

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Capital	3,191	2,705	3,744	3,758	3,758	3,758
Reserves	2,93,678	2,56,617	4,29,322	4,81,926	5,55,746	6,42,493
Net Worth	2,96,868	2,59,322	4,33,066	4,85,684	5,59,504	6,46,251
Borrowings	12,71,409	11,44,967	15,79,063	18,58,411	21,56,230	25,05,841
Other liabilities	71,435	16,772	24,509	16,143	10,065	4,416
Total Liab. & Equity	16,39,712	14,21,061	20,36,639	23,60,238	27,25,799	31,56,508
Cash	2,16,560	1,63,552	1,58,174	1,08,126	1,43,984	1,67,021
Investments	42,152	68,092	85,651	1,06,566	1,10,387	1,28,049
Advances	13,57,231	11,66,652	17,19,846	20,79,294	23,99,726	27,83,682
Fixed Assets	5,464	4,181	19,861	7,833	7,441	7,069
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	23,60,238	27,25,799	31,56,508

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	5.3	(14.0)	47.4	20.9	15.4	16.0
NII	(0.4)	(22.6)	80.2	17.0	17.0	13.9
Pre-Provision Profit	1.1	(4.9)	66.6	15.1	16.4	13.2
Net Profit	(0.1)	(22.6)	120.8	20.3	17.0	12.0
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	30.0	30.5
Cost-to-Assets	3.2	1.7	3.4	3.2	3.2	3.2
Asset Quality						
GNPA	6.9	6.9	6.2	5.5	5.5	5.5
NNPA	4.2	4.7	3.3	2.8	2.8	2.8
Provision Coverage	44.1	49.8	50.1	51.8	51.8	51.8
Credit Cost	2.4	3.1	2.9	2.4	2.2	2.2
Capital Adequacy						
CAR	23.8	23.8	26.0	22.7	22.6	22.5
Tier I	21.8	22.0	23.8	20.8	20.7	20.6
Valuation						
EPS	109.6	100.1	159.7	191.3	224.0	250.8
ABV	800.0	806.3	1,034.6	1,166.9	1,343.3	1,550.8
P/E	22.8	25.0	15.7	13.1	11.2	10.0
P/ABV	3.1	3.1	2.4	2.1	1.9	1.6
ROE	12.7	9.7	17.3	15.7	16.1	15.6
ROA	2.3	1.8	3.5	3.3	3.3	3.2

Source: Company; IDBI Capital Research



Notes

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