

Shriram Finance (SFC)

BUY

AUM growth remains strong; NIMs declined QoQ

Summary

SFC AUM growth remain strong at 21% YoY backed by 24% YoY growth in disbursements. Management guided to outperform the stated guidance of 15% YoY AUM growth. We revised AUM growth upwards to 17% CAGR (FY24-26) vs 16% earlier. NIMs declined by 20bps QoQ led by decline in yields as seasonally lower yielding new CV disbursement were higher. Asset quality improved with GS3 at 5.4% vs 5.45% led by better collections. NII grew by 25% YoY led by higher NIMs; PPop grew by 23% YoY led by lower other income (down 22% YoY). However, PAT grew by 18% YoY led by higher provisions (up 35% YoY). We have revised estimates upwards for FY26E ABV by 1% backed by higher AUM growth. We maintain "BUY" rating with new TP of Rs3,460 (earlier Rs.3,100) valuing at 2.2X FY26E ABV (earlier 2x) as Strong AUM growth sustains along with 3%+ RoA.

Key Highlights and Investment Rationale

- **AUM growth remained strong:** SFC's AUM growth remained strong at 21% YoY vs 21% YoY (FY24); management guided for better than 15% AUM growth for FY25. Disbursements stood at Rs.377bn (up 24% YoY).
- **NIMs declined QoQ:** NIMs declined by 20bps QoQ to 8.8% as yields on assets (calculated) declined sequentially due to change in portfolio mix; while cost of funds expected to decline as incremental cost remains lower.
- **Asset quality improved:** Asset quality improved with GS3 declined to 5.4% vs 5.5% due to better collections. 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 3,460
CMP	Rs2,925
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.7)	16.9	61.4
Rel to Sensex	(3.3)	6.6	38.6

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	226	267
Consensus	231	270
% difference	(2.3)	(1.0)

Key Stock Data

Bloomberg / Reuters	SHFL IN / SRTR.BO
Sector	NBFC
Shares o/s (mn)	376
Market cap. (Rs mn)	1,099,711
3-m daily avg Trd value (Rs mn)	97.0
52-week high / low	Rs3,059 / 1,759
Sensex / Nifty	81,333 / 24,835

Shareholding Pattern (%)

Promoters	25.4
FII	54.3
DII	13.9
Public	6.4

Financial snapshot

Year	FY2022	FY2023	FY2024	FY2025E	FY2026E
NII	89,120	1,60,616	1,87,935	2,20,849	2,59,749
Change (yoy, %)	-23%	80%	17%	18%	18%
Net Profit	27,079	59,793	71,905	84,802	1,00,251
Change (yoy, %)	-23%	121%	20%	18%	18%
EPS (Rs)	100	160	191	226	267
Change (yoy, %)	-9%	60%	20%	18%	18%
ABV (Rs)	806	1,035	1,167	1,350	1,573
PER (x)	29	18	15	13	11
P/ABV (x)	3.1	2.5	2.3	2.0	1.7
ROE (%)	9.7	17.3	15.7	16.2	16.5
ROA (%)	1.8	3.5	3.3	3.3	3.4
GNPA (%)	6.9	6.2	5.5	5.4	5.4
NNPA (%)	4.7	3.3	2.8	2.8	2.8
CAR (%)	23.8	33.8	31.4	22.3	22.4

Source: IDBI Capital Research

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Conference Call Highlights

Macro environment:

- The Indian economy has grown at a healthy rate of ~8.2% which surpassed the RBIs growth rate projection for Q1FY25.
- IMD has forecasted an above normal rainfall during the monsoon season for the country. The combined sown area of key crops was up 3.25% on a YoY basis.
- The focus of the government in pushing the rural infra and generating employment in rural sectors bodes well for rural demand scenario. Hence, the management expects decent credit demand to generate from rural areas led by consumer push.
- The OEM sales have been reasonably good with commercial vehicles seeing a growth of ~3.25% in Q1FY25 on a YoY basis. LCV sales have remained flat while PV have seen sustained growth and have improved by 3% on a YOY basis.
- 2 wheelers have also recorder a robust growth and 3 wheelers grew at ~14.2%. Tractor segment has de-grown mainly owing lower agricultural output. However. With a good monsoon, the management expects an improvement in the demand for tractors.

Advances and deposits:

- **There were** higher disbursements of new vehicles which are lower yielding combined with a slight slowdown in the gold loan disbursals and seasonality based factors. Going forward, the management expects the yields to improve.
- 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
- Disbursements for Q1FY25 stood as follows: 23.82% YoY up, 37,709cr
- CV-14,240mn, PV- Rs.74,060mn, Construction equipment- Rs.18,500mn, farm equipment- Rs.8,200mn, MSME- Rs.62,070mn, 2 wheelers- Rs.23,720mn, gold loans- Rs.26,520mn, personal loans- Rs.20,140mn.
- AUM up by 20.82% on a YoY basis and 3.82% QoQ in Q1FY25.
- The borrowing mix stood as follows:

- Retail deposits- 24%, NCDs- 20%, ECB- 14%, securitization- 15% and term borrowings from banks- 26%.
- The total cost of debt marginally down to from 9.01% in Q4FY24 to 8.96% in Q1FY25.
- LCR stood at 195.19% for Q1FY25. The company continues to maintain liquidity to cover 3 months of liabilities repayment.
- The incremental cost of funds stood at 8.38% which is marginally lower than 9% in Q4FY24.
- All ALM buckets continue to remain positive with 6 months cumulative surplus being in excess of Rs.200bn
- The company has kept its per gram lending amount constant during the quarter. There was also a slight slowdown owing to the restriction on disbursing cash loan of more than Rs.20,000.
- The company also undertook a complete revamping of its security measures for its legacy branches. All these factors combined led to a slower rate of disbursals in gold loans. However, the management expects the same to pick up post this adjustment phase.
- ATS in gold loan business stood in the range of ~Rs.70,000-75,000.
- The broker channel contributes ~35% to the total deposits. The balance comes from branches and direct intermediaries. The overall cost of sourcing stood at ~75bps over the tenure of the deposits.
- The cost of liabilities which have matured during the quarter were higher. Further, the incremental cost of borrowing is lower.

Asset Quality:

- Credit cost stood at 1.87% vs 1.62% on a YoY basis
- In the MSME business, the company largely lends to customers against a mortgage/ LAP basis and every decision for lending is based solely on the cash flows of the customers.
- 70% of lending goes to small business in services and trading sector in small business with the balance going to manufacturing industries with an ATS of Rs.10L.
- South v/s non-south business in MSME business stood at 60:40. The company is focusing on non-south market for MSME lending owing to stronger demand. Hence the management is positive of further changing this mix in the longer run as the non-south reach deepens.

- Write offs for the quarter stood at Rs.5,990mn v/s Rs.8,050mn in Q4FY24 and Rs.5,730mn for Q1FY24 against provisions of Rs.5,880mn v/s Rs.4,560mn QoQ and at Rs.3,050mn YoY.

Future Guidance

- **The** management expects the cost of funds to remain stable at the current levels of ~9%. The company is well diversified in terms of sources of borrowings and the management expects this position to continue.
- The company is in continuous dialog with the rating agencies in order to obtain a rating upgrade.
- The management expects the AUM mix to remain constant in the medium term even though the company is focusing on growing its gold and MSME loan portfolio. However, the vehicle finance business is also growing at a constant pace thus maintaining the AUM mix.
- The management expects the old trucks business to grow at 12%. Further it expects MSME to grow by 20% and 2W to grow in the range of 15-18%.
- The management also expects the used vehicles business to pick up (driven by demand from semi urban areas) in the next couple of fiscal years as the market for the same expands given the new vehicles cycle started in calendar year 2022.
- The AUM growth guidance has remained constant at 15%. However, the quarter was better than anticipated slowdown due to general elections and other external environmental factors, hence, the management is positive that the company will be able to outperform the stated AUM guidance.
- The management believes that the ATS of the MSME loans enables the company to maintain its leadership position in the market.
- The management is focusing on the bottom line growth in order to ensure that it grows at a greater pace than the topline.
- The management expects to add 175 in MSME segment and 500 branches in gold loan segment over the course of next 2 years.

Other key highlights:

- The company had approved the divestment of its stake held in Shriram housing finance and the company has now entered into a share trade agreement for the same with the buyer entity.
- The employee count stood at 74,813 in Q1FY25 v/s 74,645 in Q4FY24

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Interest Income	93,628	76,880	90,773	21.8	3.1
Interest Expenses	41,289	34,875	39,898	18.4	3.5
Net Interest Income	52,339	42,004	50,874	24.6	2.9
NIM (%)	8.8	8.3	9.0	47 bps	-23 bps
Non-Interest Income	2,469	3,167	4,206	-22.0	-41.3
Operating Income	54,808	45,171	55,080	21.3	-0.5
Staff Cost	8,684	7,904	8,249	9.9	5.3
Other Op Exp	7,583	6,004	7,775	26.3	-2.5
Total Operating Expenses	16,267	13,908	16,024	17.0	1.5
<i>Cost to Income (%)</i>	<i>29.7</i>	<i>30.8</i>	<i>29.1</i>	<i>-111 bps</i>	<i>59 bps</i>
<i>Cost to AUM (%)</i>	<i>2.8</i>	<i>2.9</i>	<i>2.9</i>	<i>-9 bps</i>	<i>-6 bps</i>
Operating Profit	38,541	31,262	39,056	23.3	-1.3
Provisions	11,876	8,786	12,615	35.2	-5.9
<i>Credit Cost (%)</i>	<i>2.0</i>	<i>1.8</i>	<i>2.2</i>	<i>22 bps</i>	<i>-21 bps</i>
PBT	26,666	22,476	26,441	18.6	0.8
Tax	6,860	5,722	6,981	19.9	-1.7
<i>-effective tax rate</i>	<i>25.7</i>	<i>25.5</i>	<i>26.4</i>	<i>27 bps</i>	<i>-67 bps</i>
PAT	19,806	16,754	19,461	18.2	1.8
EPS (Rs)	52.7	44.7	51.8	17.8	1.7
BV (Rs)	1,345.0	1,199.9	1,292.4	12.1	4.1
AUM	23,34,436	19,32,147	22,48,619	20.8	3.8

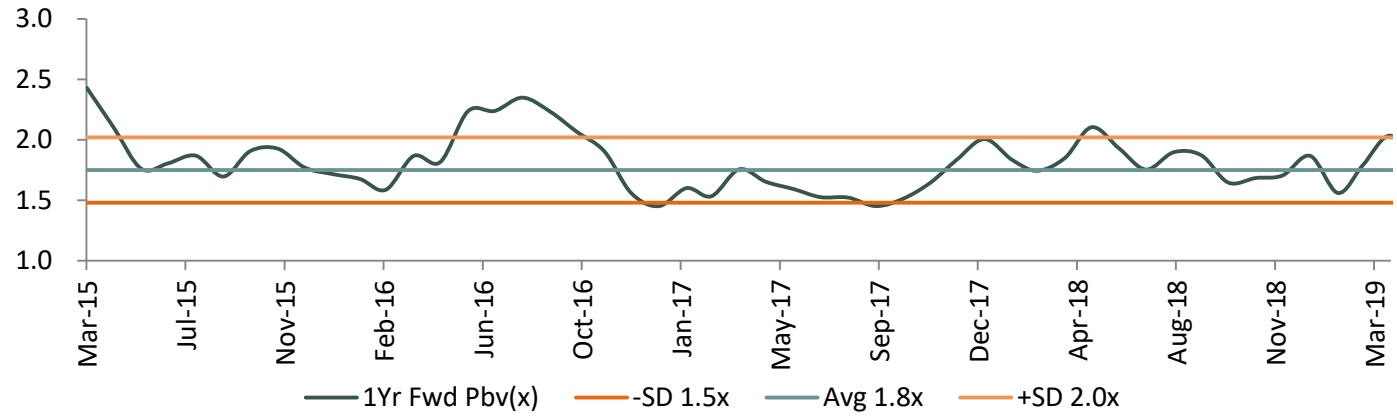
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY22	FY23	FY24	FY25E	FY26E
NII	5.8	9.3	8.5	8.6	8.7
Non-Int Inc	0.4	0.7	0.6	0.5	0.5
Net Revenue	6.2	10.0	9.2	9.1	9.2
Op.Exp	1.4	2.8	2.7	2.7	2.8
Op.Profit	4.8	7.1	6.4	6.4	6.5
Provisions	2.5	2.4	2.0	2.0	2.0
PBT	2.3	4.7	4.4	4.4	4.5
Tax	0.5	1.3	1.1	1.1	1.1
ROA	1.8	3.5	3.3	3.3	3.4
Leverage (x)	5.5	5.0	4.8	4.9	4.9
ROE	9.7	17.3	15.7	16.2	16.5

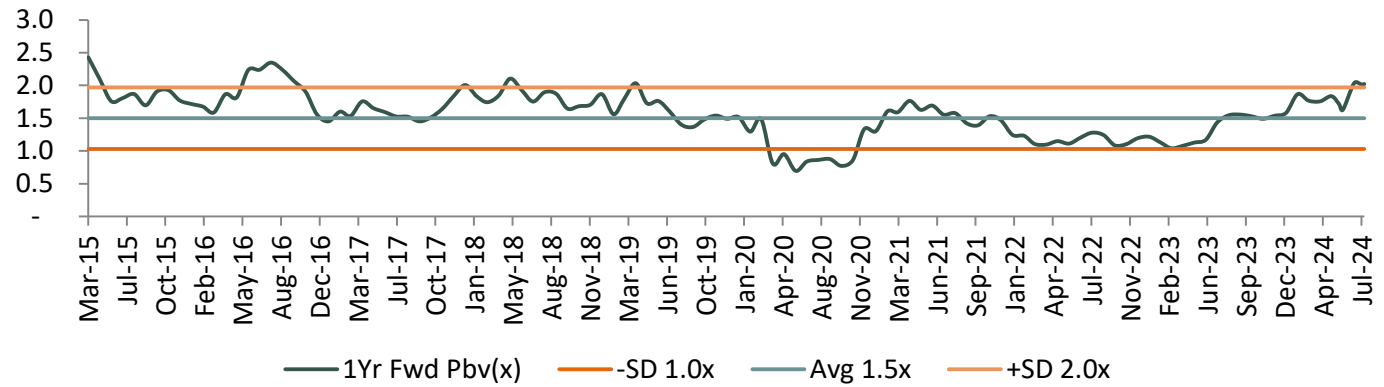
Source: Company; IDBI Capital Research

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



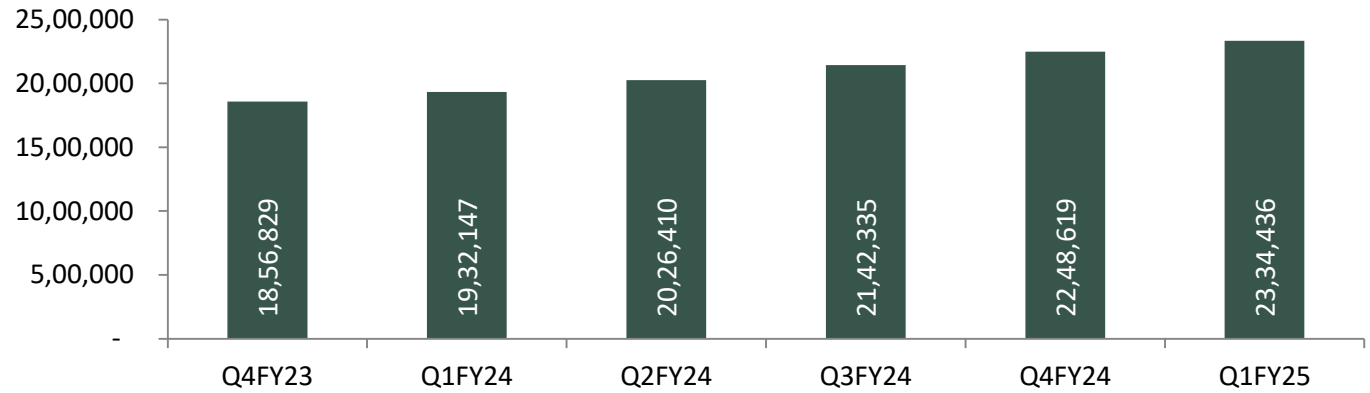
Source: Company; IDBI Capital Research

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



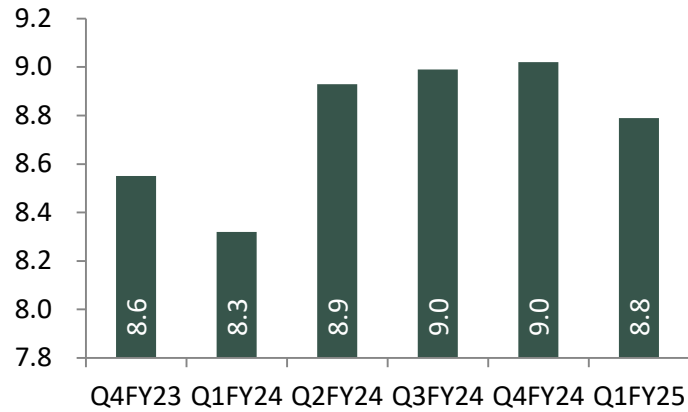
Source: Company; IDBI Capital Research

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



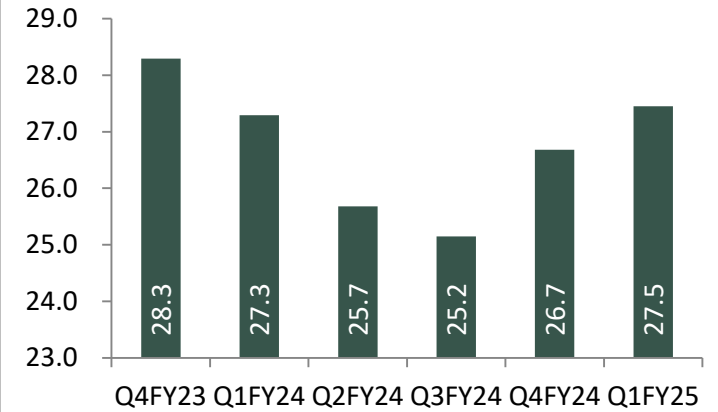
Source: Company; IDBI Capital Research

Exhibit 6: NIMs on AUM declined QoQ



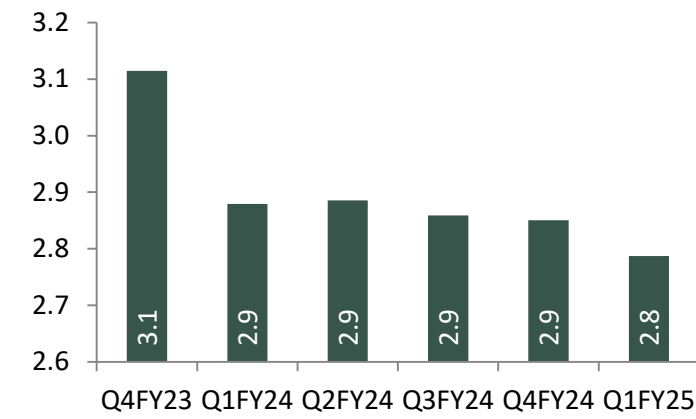
Source: Company; IDBI Capital Research

Exhibit 7: Cost to Income increased QoQ



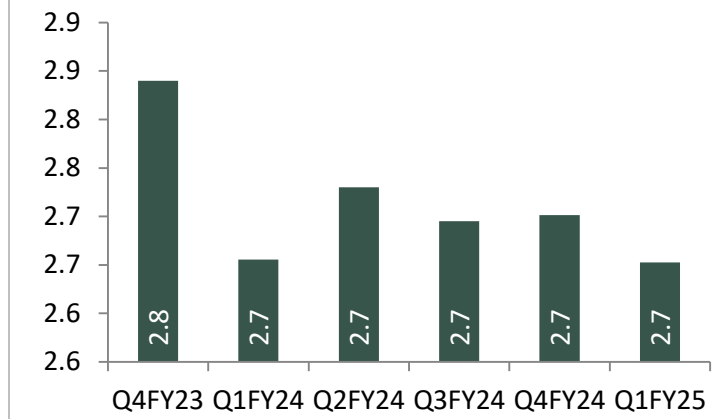
Source: Company; IDBI Capital Research

Exhibit 8: Cost to AUM declined



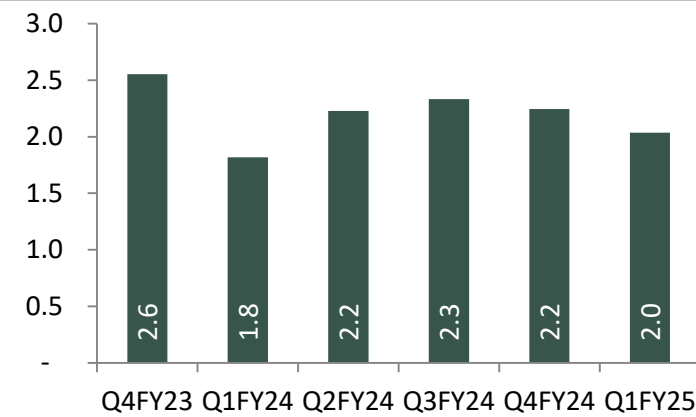
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Asset remained flat QoQ



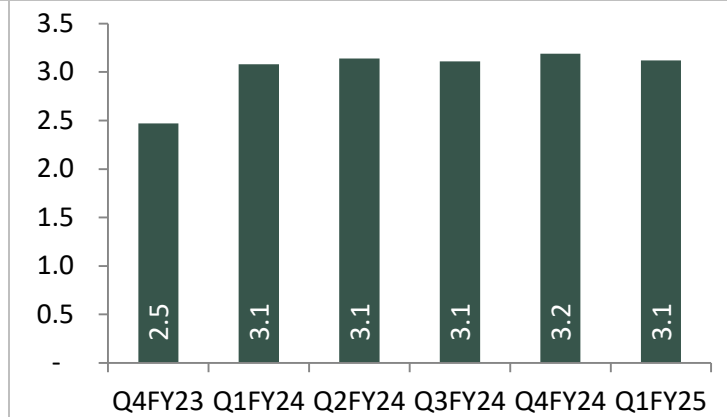
Source: Company; IDBI Capital Research

Exhibit 10: Credit Cost decreased QoQ



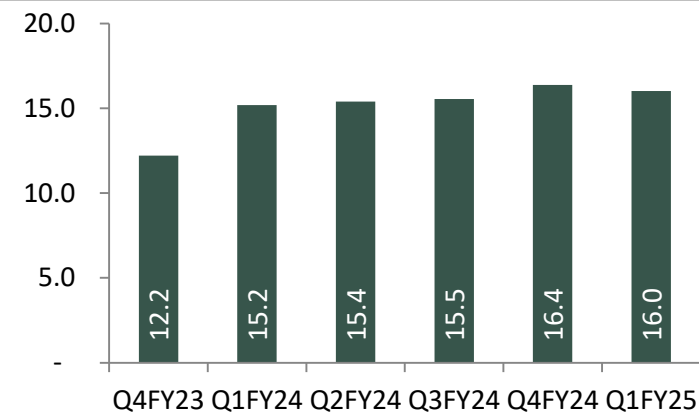
Source: Company; IDBI Capital Research

Exhibit 11: RoA declined sequentially



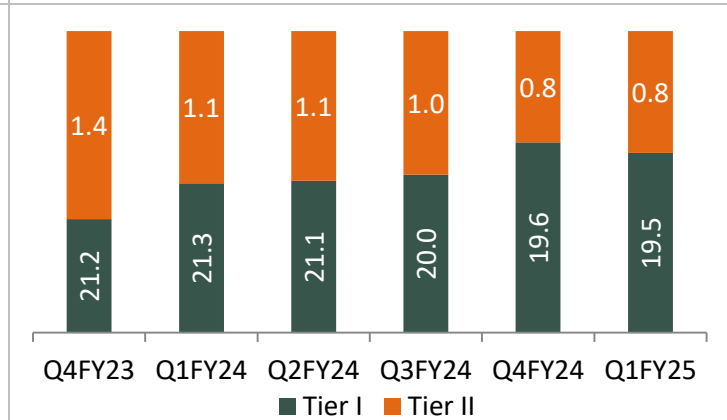
Source: Company; IDBI Capital Research

Exhibit 12: RoE too declined sequentially in line with ROA



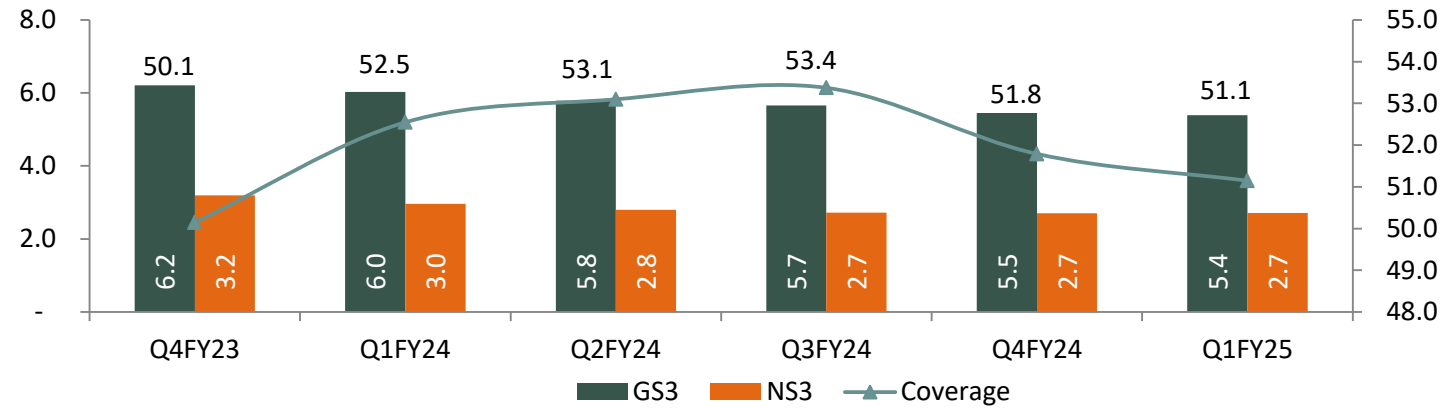
Source: Company; IDBI Capital Research

Exhibit 13: CAR remained strong QoQ



Source: Company; IDBI Capital Research

Exhibit 14: Asset Quality remained stable on a sequential basis



Source: Company; IDBI Capital Research

Exhibit 15: Composition of AUM-In Mn

Product Wise Advances (In Mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Commercial Vehicles	10,96,792	9,59,047	10,69,351	14.4	2.6
Passenger Vehicles	4,59,823	3,62,920	4,31,962	26.7	6.4
Construction Equipment's	1,70,410	1,46,262	1,69,540	16.5	0.5
Farm Equipment's	39,822	34,191	37,153	16.5	7.2
MSME	2,88,024	2,00,448	2,62,270	43.7	9.8
Two Wheelers	1,29,091	1,00,235	1,25,524	28.8	2.8
Gold	61,225	49,848	62,998	22.8	(2.8)
Personal Loans	89,251	79,197	89,823	12.7	(0.6)
Total	23,34,436	19,32,147	22,48,620	20.8	3.8

Source: Company; IDBI Capital Research

Exhibit 16: Composition of AUM-In %

Product Wise Advances (In Mn)	Q1FY25	Q1FY24	Q4FY24	YoY (%)	QoQ (%)
Commercial Vehicles	47.0	49.6	47.6	-265 bps	-57 bps
Passenger Vehicles	19.7	18.8	19.2	91 bps	49 bps
Construction Equipment's	7.3	7.6	7.5	-27 bps	-24 bps
Farm Equipment's	1.7	1.8	1.7	-6 bps	5 bps
MSME	12.3	10.4	11.7	196 bps	67 bps
Two Wheelers	5.5	5.2	5.6	34 bps	-5 bps
Gold	2.6	2.6	2.8	4 bps	-18 bps
Personal Loans	3.8	4.1	4.0	-28 bps	-17 bps
Total	100	100	100	0 bps	0 bps

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	2,20,849	2,59,749
<i>Change (yoy, %)</i>	<i>-0.4%</i>	<i>-22.6%</i>	<i>80.2%</i>	<i>17.0%</i>	<i>17.5%</i>	<i>17.6%</i>
Other Income	4,752	6,280	11,955	13,980	13,267	15,390
Net Revenue	1,19,867	95,399	1,72,571	2,01,915	2,34,116	2,75,139
Operating expenses	41,981	21,298	49,131	59,895	70,376	82,282
Employee expenses	16,699	9,971	25,061	32,156	37,255	43,558
Other expenses	25,281	11,327	24,070	27,739	33,121	38,724
Pre-Provision Profit	77,886	74,101	1,23,441	1,42,020	1,63,740	1,92,857
<i>Change (yoy, %)</i>	<i>1.1%</i>	<i>-4.9%</i>	<i>66.6%</i>	<i>15.1%</i>	<i>15.3%</i>	<i>17.8%</i>
Provision	31,212	38,609	41,592	45,183	50,444	58,920
PBT	46,674	35,493	81,849	96,836	1,13,295	1,33,936
Taxes	11,691	8,413	22,056	24,932	28,494	33,685
<i>Effective tax rate (%)</i>	<i>25.0%</i>	<i>23.7%</i>	<i>26.9%</i>	<i>25.7%</i>	<i>25.2%</i>	<i>25.2%</i>
Net profit	34,982	27,079	59,793	71,905	84,802	1,00,251
<i>Change (yoy, %)</i>	<i>-0.1%</i>	<i>-22.6%</i>	<i>120.8%</i>	<i>20.3%</i>	<i>17.9%</i>	<i>18.2%</i>
EPS	110	100	160	191	226	267
Return on Equity (%)	12.7	9.7	17.3	15.7	16.2	16.5
Return on Assets (%)	2.3	1.8	3.5	3.3	3.3	3.4

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	5,59,212	6,51,947
Net Worth	2,96,868	2,59,322	4,33,066	4,85,684	5,62,970	6,55,705
Borrowings	12,71,409	11,44,967	15,79,063	18,15,411	21,50,157	25,03,865
Other liabilities	71,435	16,772	24,509	71,665	52,580	42,322
Total Liab. & Equity	16,39,712	14,21,061	20,36,639	23,72,760	27,65,706	32,01,892
Cash	2,16,560	1,63,552	1,58,174	1,08,126	1,26,937	1,47,247
Investments	42,152	68,092	85,651	1,06,571	1,12,291	1,30,257
Advances	13,57,231	11,66,652	17,19,846	20,79,294	24,41,102	28,31,678
Fixed Assets	5,464	4,181	19,861	8,458	8,035	7,633
Other Assets	18,304	18,585	53,108	70,311	77,342	85,076
Total assets	16,39,712	14,21,061	20,36,639	23,72,760	27,65,706	32,01,892

Financial Ratios

(%)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Growth						
Advances	5.3	(14.0)	47.4	20.9	17.4	16.0
NII	(0.4)	(22.6)	80.2	17.0	17.5	17.6
Pre-Provision Profit	1.1	(4.9)	66.6	15.1	15.3	17.8
Net Profit	(0.1)	(22.6)	120.8	20.3	17.9	18.2
Spreads						
Yield on AUM	15.4	11.8	16.3	15.8	15.9	15.9
Cost of Borrowing	9.4	8.1	9.2	8.7	8.8	8.7
NIM (on AUM)	6.1	3.7	7.1	7.1	7.1	7.2
Spread	8.1	5.8	9.3	9.2	9.0	9.1
Operating Efficiency						
Cost-to-Income	35.0	22.3	28.5	29.7	30.1	29.9
Cost-to-Assets	3.2	1.7	3.4	3.2	3.1	3.1
Asset Quality						
GNPA	6.9	6.9	6.2	5.5	5.4	5.4
NNPA	4.2	4.7	3.3	2.8	2.8	2.8
Provision Coverage	44.1	49.8	50.1	51.8	51.1	51.1
Credit Cost	2.4	3.1	2.9	2.4	2.2	2.2
Capital Adequacy						
CAR	23.8	23.8	33.8	31.4	22.3	22.4
Tier I	21.8	22.0	31.7	29.4	20.4	20.5
Valuation						
EPS	109.6	100.1	159.7	191.3	225.7	266.8
ABV	800.0	806.3	1,034.6	1,166.9	1,349.8	1,572.9
P/E	26.7	29.2	18.3	15.3	13.0	11.0
P/ABV	3.7	3.6	2.8	2.5	2.2	1.9
ROE	12.7	9.7	17.3	15.7	16.2	16.5
ROA	2.3	1.8	3.5	3.3	3.3	3.4

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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