

Oct 28, 2024

RESULT REPORT Q2 FY25 | Sector: Financials

Shriram Finance

Sustained strong show

Another quarter of solid performance

Shriram Finance delivered an in-line AUM growth, stable NIM and stronger-than-expected asset quality performance in Q2 FY25, underpinning sustained delivery of 3%+/15%+ RoA/RoE. Disbursement traction remained brisk (up 6% qoq/15% yoy), driving a sturdy AUM growth (4% qoq/20% yoy). The loan portfolio growth continued to be driven by Used CV (Disb/AUM up 7% qoq/2% qoq), Used PV (Disb/AUM up 3% qoq/7% qoq), MSME (Disb/AUM up 11% qoq/12% qoq) and Farm Equipment financing (Disb/AUM up 10% qoq/12% qoq). Calibration of LTVs has been impacting disbursement/book growth in Gold Loans. Sustenance of sturdy collections has been supporting benign new delinquency creation and forward flows. Persistent recovery efforts and buoyancy in used vehicle prices are underpinning healthy NPL resolution momentum. Marginal decline in the levels of Stage-3 and Stage-2 assets, stable write-off and steady ECL coverage drove lower-than-expected credit cost of 2.1%.

Growth outlook sanguine; current margin and credit cost can be sustained

At individual product level, the growth outlook for Shriram Finance remains healthy-to-strong. In the largest business segment of Used CV financing (~48% of AUM), growth levers would continue to be 1) dominant market position (sustained market share gains in gradually formalizing market), 2) lesser competition in mainstay 5-10 years old vehicle finance segment (~80% of used CV disbursements) and 3) value growth (would help for a couple of more quarters). Growth in used PV has been stronger than used CV aided by solid traction/demand for used Buses and used Cars, and the management is confident about such growth sustaining even in next year. MSME financing portfolio is receiving growth fillip from roll-out in CV branches, even as ATS and loan tenors have been largely stable. The product has been rolled out in ~120 CV branches so far and would be introduced in another 250 branches in next two years. In Gold Loans, the co. has substantially ramped-up distribution through introduction in 800+ CV branches and addition of significant people.

Further AUM mix shift towards relatively higher yielding products (MSME, Used PV & FE) and a gradual decline in incremental CoF can support a firm margin delivery in ensuing quarters. Management expects Stage-3 assets to decline to around 5% level with expected strong kharif harvest/realizations and improved load/utilization of vehicle in Used CV segment.

Relative strong performance would re-rate valuation

Shriram Finance has demonstrated strong and consistent execution on growth and asset quality fronts since H2 FY23, and we expect this to continue in the medium term. We estimate 15-16% AUM CAGR and 17-18% earnings CAGR over FY24-27 with average RoA/RoE delivery of 3.5%/17%. Stock's valuation (1.8x P/ABV and 10x P/E on FY27 estimates) is palatable in the context of envisaged growth/RoE delivery. Shriram Finance remains our preferred pick in vehicle finance coverage. We reiterate BUY with increased 12m PT of Rs3700.

Exhibit 1: Result table

(Rs mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total Operating Income	1,00,895	96,050	5.0	85,555	17.9
Interest expended	(43,504)	(41,289)	5.4	(36,219)	20.1
Net Interest Income	57,391	54,761	4.8	49,336	16.3
Total Income	57,463	54,808	4.8	49,426	16.3
Operating expenses	(17,597)	(16,267)	8.2	(14,618)	20.4
PPoP	39,865	38,541	3.4	34,808	14.5
Provisions	(12,350)	(11,876)	4.0	(11,286)	9.4
PBT	27,515	26,666	3.2	23,523	17.0
Tax	(6,803)	(6,860)	(0.8)	(6,014)	13.1
PAT	20,713	19,806	4.6	17,508	18.3

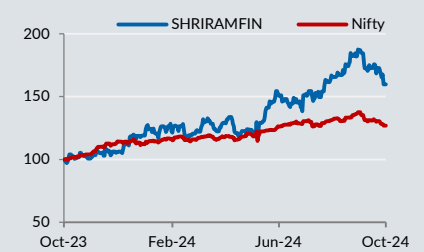
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,093
Target Price	: Rs 3,700
Potential Return	: +19.6%

Stock data (as on Oct 25, 2024)

Nifty	24,181
52 Week h/l (Rs)	3652 / 1761
Market cap (Rs/USD mn)	1162864 / 13828
Outstanding Shares (mn)	376
6m Avg t/o (Rs mn):	4,082
Div. yield (%):	1.3
Bloomberg code:	SHFL IN
NSE code:	SHIRAMFIN

Stock performance



	1M	3M	1Y
Absolute return	-14.6%	5.7%	59.8%

Shareholding pattern

Promoter	25.4%
FII+DII	69.5%
Others	5.1%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,700	3,420

Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	229.3	267.5	307.9
EPS (Old)	232.9	273.5	-
% Change	-1.5%	-2.2%	-

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Op. income	2,39,548	2,79,826	3,22,912
PPOP	1,69,920	2,01,077	2,33,800
Net profit	86,184	1,00,530	1,15,715
Growth (%)	19.9	16.6	15.1
EPS (Rs)	229.3	267.5	307.9
ABVPS (Rs)	1,289.1	1,482.4	1,713.4
P/E (x)	13.5	11.6	10.0
P/ABV (x)	2.4	2.1	1.8
ROAE (%)	16.6	17.0	17.0
ROAA (%)	3.4	3.5	3.5

RAJIV MEHTA

Lead Analyst

rajiv.mehta@ysil.in



MANUJ OBEROI, Associate

Exhibit 2: Business Data

(Rs bn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
AUM	24,30,426	23,34,436	4.1	20,26,410	19.9
Commercial Vehicle	11,21,941	10,96,792	2.3	9,84,363	14.0
Passenger Vehicle	4,90,003	4,59,823	6.6	3,96,935	23.4
Construction Equipment	1,76,377	1,70,410	3.5	1,50,582	17.1
Farm Equipment	44,677	39,822	12.2	34,797	28.4
MSME	3,22,997	2,88,024	12.1	2,13,104	51.6
2-Wheelers	1,30,891	1,29,091	1.4	1,04,191	25.6
Gold	60,805	61,225	(0.7)	54,055	12.5
Personal Loans	82,735	89,251	(7.3)	88,384	(6.4)

Source: Company, YES Sec

Exhibit 3: Key Ratios

(%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
NIM (%)	8.7	8.8	(0.0)	8.9	(0.2)
Cost to Income (%)	28.0	27.5	0.5	27.3	0.6
BV (Rs)	1,386.6	1,345.0	3.1	1,226.5	13.1
RoE (%)	16.0	16.0	(0.0)	15.3	0.7
RoA (%)	3.1	3.1	(0.1)	3.1	(0.1)
CAR (%)	20.2	20.3	(0.1)	22.2	(2.0)
Gross Stage 3 (%)	5.3	5.4	(0.1)	5.8	(0.5)
Net Stage 3 (%)	2.6	2.7	(0.1)	2.8	(0.2)
Stage 3 Coverage (%)	51.7	51.1	0.6	53.1	(1.4)

Source: Company, YES Sec

Exhibit 4: Funding Mix

Share (%)	Q2 FY25	Q1 FY25	chg qoq	Q2 FY24	chg yoy
NCD	17.9	16.8	1.2	17.5	0.5
Public Deposits	24.2	24.8	(0.6)	24.7	(0.5)
Securitisation	16.6	15.2	9.4	15.1	9.7
Sub-ordinate debts	1.4	1.4	0.1	2.6	(1.2)
Term Loans	22.4	24.8	(2.4)	25.6	(3.2)
ECB (External Comm. bond)	7.4	5.8	1.6	6.5	1.0
ECB Loans	7.8	8.3	(0.4)	6.6	1.3
Other Borrowings	0.5	1.3	(0.8)	0.4	0.1

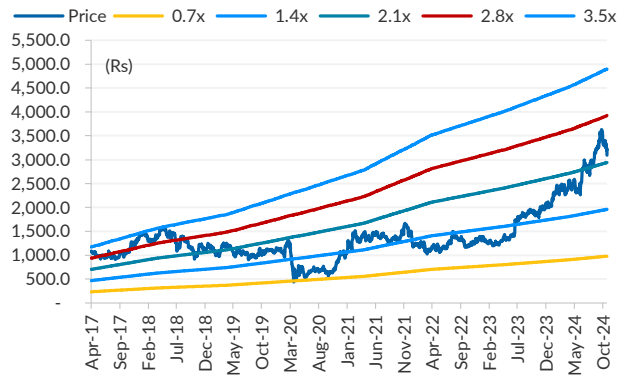
Source: Company, YES Sec

Exhibit 5: ECL Summary

ECL (Rs mn)	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Gross Stage 3	115,563	1,19,523	1,20,812	1,24,078	1,27,642
ECL Provisions - Stage 3	61,362	63,793	62,567	63,460	65,986
Net Stage 3	54,202	55,730	58,244	60,618	61,656
Gross Stage 3 (%)	5.8	5.7	5.5	5.4	5.3
Net Stage 3 (%)	2.8	2.7	2.7	2.7	2.6
Coverage ratio - Stage 3 (%)	53.1	53.4	51.8	51.1	51.7
Gross Stage 1	1,737,133	18,43,116	19,45,799	20,25,068	21,12,198
ECL Provisions - Stage 1	53,115	57,364	63,741	69,197	73,272
Net Stage 1	1,684,018	17,85,752	18,82,058	19,55,871	20,38,926
Gross Stage 1 (%)	87.0	87.3	87.8	88.0	88.1
Coverage ratio - Stage 1 (%)	3.1	3.1	3.3	3.4	3.5
Gross Stage 2	143,250	1,47,923	1,50,067	1,53,317	1,58,385
ECL Provisions - Stage 2	9,743	10,450	11,075	11,586	12,420
Net Stage 2	133,507	1,37,474	1,38,992	1,41,731	1,45,965
Gross Stage 2 (%)	7.2	7.0	6.8	6.7	6.6
Coverage ratio - Stage 2 (%)	6.8	7.1	7.4	7.6	7.8

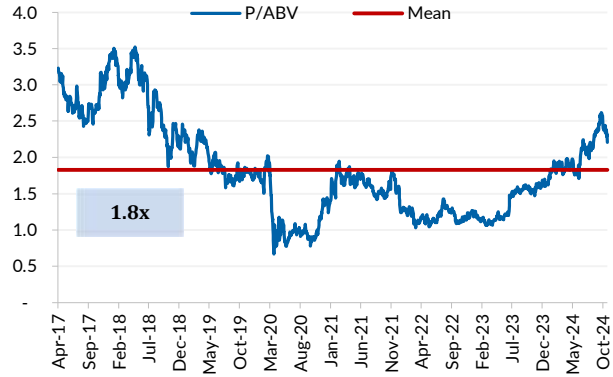
Source: Company, YES Sec

Exhibit 6: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	3,744	3,758	3,758	3,758	3,758
Other Equity	4,29,322	4,81,926	5,48,325	6,29,070	7,25,000
Share-holders fund	4,33,066	4,85,684	5,52,083	6,32,827	7,28,758
Financial Liabilities	15,97,851	18,79,063	21,58,425	24,39,020	27,56,092
Trade payables	2,947	2,172	0	0	0
Debt Securities	4,36,526	4,49,486	5,16,909	5,84,107	6,60,041
Borrowings (Excl. Debt Sec.)	7,35,900	9,21,488	10,59,711	11,97,474	13,53,145
Deposits	3,61,398	4,44,436	5,11,102	5,77,545	6,52,626
Subordinated Liabilities	45,239	43,001	49,451	55,879	63,144
Other Financial Liabilities	10,207	18,480	21,252	24,015	27,137
Non-Financial Liabilities	5,721	8,013	8,814	9,696	10,665
Current tax liabilities (net)	1,609	2,378	2,616	2,877	3,165
Provisions	2,115	2,962	3,258	3,584	3,943
Other non-financial liabilities	1,998	2,673	2,940	3,234	3,558
Total Liabilities & Equity	20,36,639	23,72,760	27,19,322	30,81,543	34,95,515
Financial Assets	19,73,857	23,01,820	26,46,728	30,06,831	34,18,173
Cash and Cash Equivalents	95,053	60,134	1,03,579	82,640	55,827
Bank balances	63,121	47,993	0	0	0
Derivative financial instruments	6,688	3,305	3,635	3,999	4,399
Receivables	2,771	3,846	4,230	4,654	5,119
Loans	17,19,846	20,79,294	24,11,981	27,73,778	31,89,845
Investments	85,651	1,06,566	1,22,551	1,40,934	1,62,074
Other Financial Assets	727	682	751	826	908
Non- Financial Assets	62,782	70,940	72,593	74,712	77,343
Current tax assets (Net)	7,170	5,725	6,298	6,927	7,620
Deferred tax assets (Net)	17,439	28,840	31,724	34,897	38,386
Investment Property	26	10	11	12	13
Property, Plant and Equipment	2,095	8,458	9,303	10,234	11,257
Intangible assets	26,905	24,407	21,407	18,407	15,407
Other Non-Financial Assets	4,245	3,501	3,851	4,236	4,659
Total Assets	20,36,639	23,72,760	27,19,322	30,81,543	34,95,515

Source: Company, YES Sec.

Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY23	FY24	FY25E	FY26E	FY27E
Income from Operations	2,97,722	3,49,644	4,13,264	4,66,357	5,20,824
Interest expense	(1,25,458)	(1,48,061)	(1,74,098)	(1,86,970)	(1,98,416)
Net interest income	1,72,264	2,01,583	2,39,166	2,79,386	3,22,407
Non-interest income	307	332	382	439	505
Total op income	1,72,571	2,01,915	2,39,548	2,79,826	3,22,912
Total op expenses	(49,131)	(59,895)	(69,628)	(78,748)	(89,112)
PPoP	1,23,441	1,42,020	1,69,920	2,01,077	2,33,800
Provisions	(41,592)	(45,183)	(53,455)	(65,226)	(77,428)
Profit before tax	81,849	96,836	1,16,465	1,35,852	1,56,372
Taxes	(22,056)	(24,932)	(30,281)	(35,321)	(40,657)
Net profit	59,793	71,905	86,184	1,00,530	1,15,715

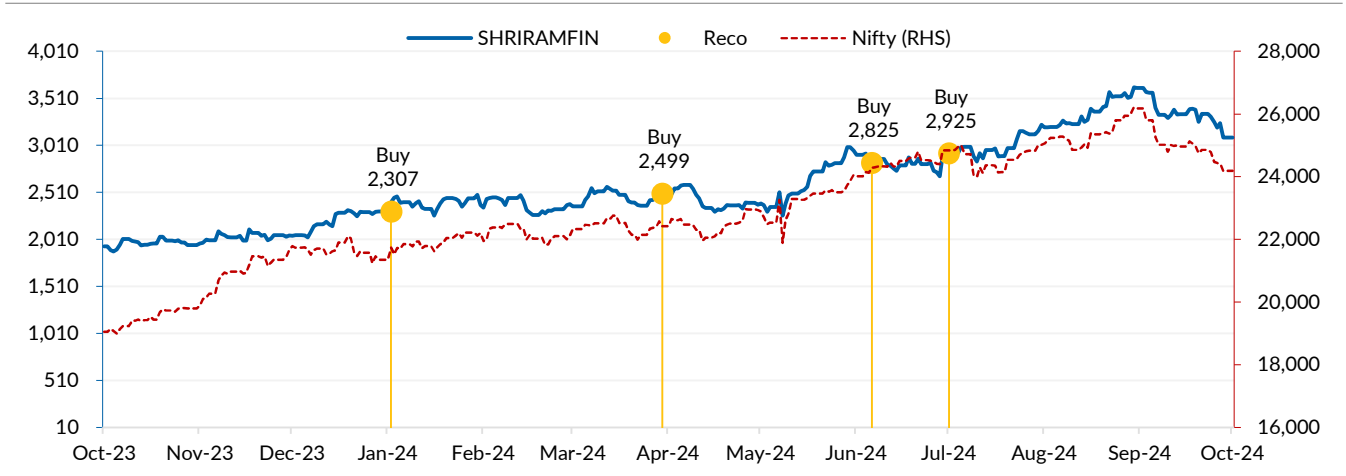
Source: Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Net interest income	80.9	17.0	18.6	16.8	15.4
Total op income	80.9	17.0	18.6	16.8	15.4
Op profit (pre-provision)	66.6	15.1	19.6	18.3	16.3
Net profit	120.8	20.3	19.9	16.6	15.1
Advances	47.4	20.9	16.0	15.0	15.0
Total Borrowings	37.9	17.7	15.0	13.0	13.0
Total assets	43.3	16.5	14.6	13.3	13.4
Profitability Ratios (%)					
NIM	10.0	9.8	9.8	10.0	10.0
Non-interest income /Total income	0.2	0.2	0.2	0.2	0.2
Return on Avg. Equity	17.3	15.7	16.6	17.0	17.0
Return on Avg. Assets	3.5	3.3	3.4	3.5	3.5
Per share ratios (Rs)					
EPS	159.7	191.3	229.3	267.5	307.9
Adj. BVPS	1005.0	1137.4	1289.1	1482.4	1713.4
DPS	35.0	45.0	45.0	45.0	45.0
Other key ratios (%)					
Cost/Income	28.5	29.7	29.1	28.1	27.6
Tier-I capital	23.3	19.6	20.3	20.5	20.8
Credit Cost	2.4	2.2	2.2	2.3	2.4
Stage 1 and 2 ECL Provision	3.3	3.6	0.0	0.0	0.0
Tax rate	26.9	25.7	26.0	26.0	26.0
Dividend yield	1.1	1.5	1.5	1.5	1.5

Source: Company, YES Sec

Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

DISCLOSURE OF INTEREST

Name of the Research Analyst: Rajiv Mehta, Manuj Oberoi

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

Analyst signature

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