

Shriram Finance | BUY



Steady quarter led by strong growth; Rerating ahead

Shriram Finance (SFL) reported a steady quarter with PAT of INR 18.2bn (+3.9% QoQ, +2.3% YoY) which was in line with our estimates led by a) strong AUM growth of (+5.7% QoQ, +20.7% YoY) and b) healthy NII growth (+5.7% QoQ, +15% YoY) with NIMs at 8.99% (+6bps QoQ). AUM growth was driven by PVs (i.e. passengers CVs, which grew 30.8% YoY) as well as erstwhile-SCUF products such as MSME loans (30.3% YoY), gold loans (32.8% YoY) and personal loans (65.4% YoY). Despite a marginal uptick in incremental cost of borrowing to 8.95% (vs 8.7% in 2QFY24), management remains confident of maintaining NIMs at 8.9%. Credits costs inched up marginally to 2.4% of AUM (vs 2.3% QoQ) led by higher PCR on stage 3 assets (+28bps QoQ) to 53.4%. Headline asset quality continues to improve sequentially with GS3/NS3 at 5.66%/2.64% (-13bps QoQ, -8bps QoQ). Management has guided to 2% credit costs for FY24 although it would be fair to expect a normalization of credit costs going ahead. Shriram Housing also contributed positively to the overall performance with PAT at INR 615mn (+27.6% QoQ, +69.1% YoY) and a strong AUM growth of (+11.2% QoQ, +67.5% YoY) - management indicated that they continue to seek optimal value creation options for this business. We believe Shriram's improving growth trajectory led by healthy macros (and thereby a healthy used-CV cycle), benefits of wider distribution of erstwhile-SCUF products, steady return profile stable asset quality should drive further rerating for the stock. We value SFL at 1.6x FY26E BVPS and maintain BUY with a revised TP of INR 2680.

- **Sustained growth momentum:** AUM grew +5.7% QoQ/ +20.7% YoY to INR2.14tn driven by healthy disbursements of INR 377.8bn (+9.2% QoQ, +29.2% YoY). Growth in AUM was led by 2W segment (+16.5% QoQ, +21.3% YoY, followed by gold loans (+9% QoQ, 32.8% YoY), MSME loans (+8.3% QoQ, +30.7% YoY) and personal loans (+7.9% QoQ, +65.4% YoY). Meanwhile, growth across geographies (rural, urban and semi-urban) remained largely secular. Share of PVs in the overall mix continues to inch up (now at 19.4%) while personal loans now stand at 4.6% of the mix. Management indicated that while the board-approved limit for personal loans stands at ~8% of the AUM, they intend to restrict the share to ~6% subject to steady asset quality trends. SCUF products such as gold loans, MSME and 2W still have greater room for distribution scale up and this should aid FY25 growth for Shriram.
- **Healthy profitability; Stable margins:** Operating profits stood at INR 36.9bn (+6% QoQ, +11.7% YoY) driven by a) healthy growth in NII (+5.7% QoQ, +15% YoY), b) higher other income (+101.7% YoY) and c) slower growth in operating expenses (+4.7% QoQ). This led to a steady inline PAT of INR 18.2bn (+3.9% QoQ, +2.3% YoY). Though incremental CoB increased to 8.95% this quarter (vs 8.7% in 2QFY24), NIMs remained stable at 8.99% (+6bps QoQ). Management believes that some shorter tenure and high yield products (gold, 2W and PL) should aid margin performance. SFL's adept product mix and its ability to pass on any incremental costs, makes management confident of sustaining NIMs at 8.9%.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,680
Upside/(Downside)	16.2%
Previous Price Target	2,550
Change	5.1%

Key Data – SHFL IN

Current Market Price	INR2,307
Market cap (bn)	INR866.7/US\$10.4
Free Float	72%
Shares in issue (mn)	374.4
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,737.5/US\$32.9
52-week range	2,353/1,190
Sensex/Nifty	70,701/21,353
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	12.8	26.9	85.9
Relative*	13.8	19.7	58.3

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Profit	37,941	59,793	73,776	83,041	91,933
Net Profit (YoY) (%)	8.5%	57.6%	23.4%	12.6%	10.7%
Assets (YoY) (%)	11.1%	11.8%	16.0%	16.5%	16.3%
ROA (%)	2.2%	3.1%	3.4%	3.2%	3.1%
ROE (%)	13.5%	15.4%	15.9%	15.6%	15.1%
EPS	101.9	159.7	197.0	221.8	245.5
EPS (YoY) (%)	-26.3%	56.7%	23.4%	12.6%	10.7%
P/E (x)	22.6	14.4	11.7	10.4	9.4
BV	929	1,157	1,330	1,523	1,734
BV (YoY) (%)	9.0%	24.5%	15.0%	14.5%	13.9%
P/BV (x)	2.48	1.99	1.74	1.52	1.33

Source: Company data, JM Financial. Note: Valuations as of 25/Jan/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Improving asset quality metrics:** Asset quality continues to improve sequentially with GS3/NS3 at 5.66%/2.64% (-13bps QoQ, -8bps QoQ). PCR on stage 3 assets improved +28 bps QoQ to 53.4%. Though, credit costs stood at INR 12.5 bn (2.4% of AUM vs 2.3% QoQ) of which write-offs amounted to ~INR 7.3bn, management remains confident of ending the year at a credit cost of ~2%. SFL also carries 3%+ provisions on stage 1 & 2 books which offers addition cushion on incremental credit costs if any. We build in an average credit cost of 2.11% for FY24E/26E.
- **Shriram housing finance (SHFL) delivers healthy overall performance:** The subsidiary - SHFL reported healthy headline parameters with PAT at INR 615mn (+27.6% QoQ, +69.1% YoY) driven by NII growth of (+6.3% QoQ, +33.4% YoY) and higher other income (+30.8% QoQ, +179.2% YoY). AUM at INR 120bn grew robustly at (+11.2% QoQ, +67.5% YoY) which was led by LAP (+13.5% QoQ, +113.7% YoY), followed by top up loans (+12.2% QoQ, +70.9% YoY) and HL (+10% QoQ, +56.6% YoY). GS3/NS3 improved to 1.01%/0.75% (-7bps QoQ both) with PCR at a healthy 25.5%.
- **Valuation and view:** We believe Shriram's improving growth trajectory led by healthy macros (and thereby a healthy used-CV cycle), benefits of wider distribution of erstwhile-SCUF products, steady return profile stable asset quality should drive further rerating for the stock. We value SFL at 1.6x FY26E BVPS and maintain BUY with a revised TP of INR 2680 (avg. RoAs of 3.2% for FY25/26 and avg. RoEs of 15.3% for FY25/26).

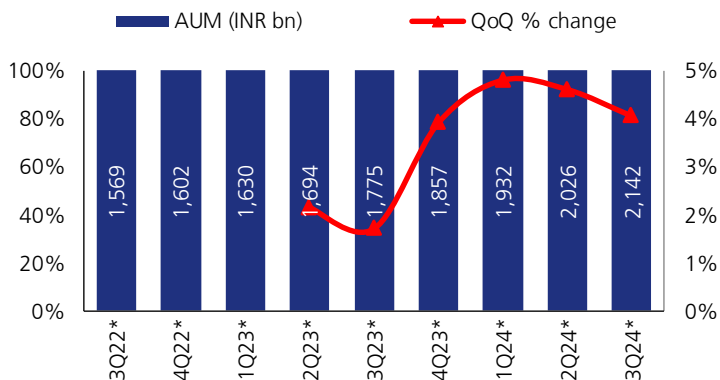
Shriram Finance – 3QFY24 Quarterly Performance

Exhibit 1. 3QFY24 – key financial highlights

Earnings Table (INR mn)	3Q'23	2Q'24	3Q'24	YoY (%)	QoQ (%)
Net Interest Income	44,279	48,182	50,939	15.0%	5.7%
Total Income	44,687	49,007	51,762	15.8%	5.6%
Total Operating Expenses	11,671	14,199	14,869	27.4%	4.7%
Operating Profit (PPP)	33,016	34,808	36,893	11.7%	6.0%
Provisions & write offs	9,172	11,286	12,497	36.2%	10.7%
PAT (Pre-Extraordinaries)	17,770	17,508	18,183	2.3%	3.9%
Reported Profit	17,770	17,508	18,183	2.3%	3.9%
(INR bn)					
Assets Under Management	1,775	2,026	2,142	20.7%	5.7%
Disbursements	292	346	378	29.2%	9.2%
Ratios Analysis (%)					
Cost to Income (%)	26.1%	29.0%	28.7%	2.61%	-0.25%
Effective Tax Rate (%)	25.5%	25.6%	25.5%	-0.01%	-0.10%
Credit Quality					
Gross S3 (INR mn)	1,10,586	1,15,563	1,19,523	8.1%	3.4%
Net S3 (INR mn)	54,506	54,202	55,730	2.2%	2.8%
Gross S3 (%)	6.29%	5.79%	5.66%	-0.6%	-0.1%
Net S3 (%)	3.07%	2.67%	2.60%	-0.5%	-0.1%
Coverage ratio (%)	50.7%	53.1%	53.4%	2.7%	0.3%
Capital Adequacy (%)					
Tier I (%)	21.4%	21.1%	20.0%	-1.37%	-1.04%
CAR (%)	23.0%	22.2%	21.0%	-1.98%	-1.14%

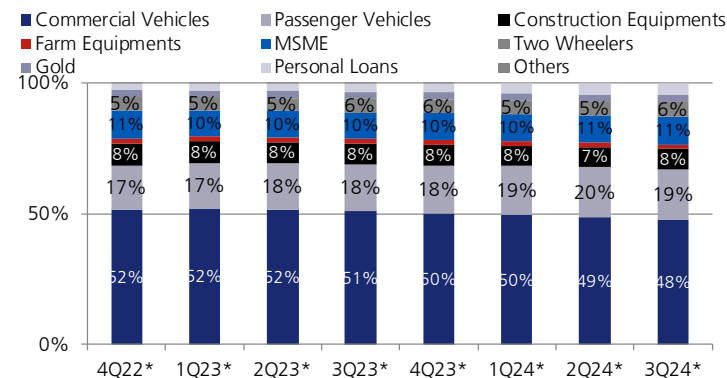
Source: Company, JM Financial

Exhibit 2. SFL: Trend in AUM



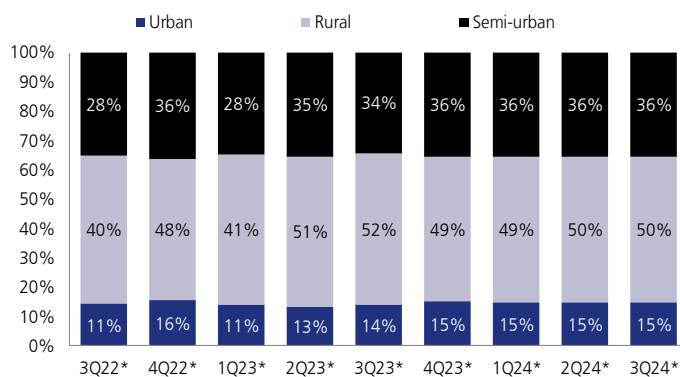
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 3. SFL: Trend in AUM composition



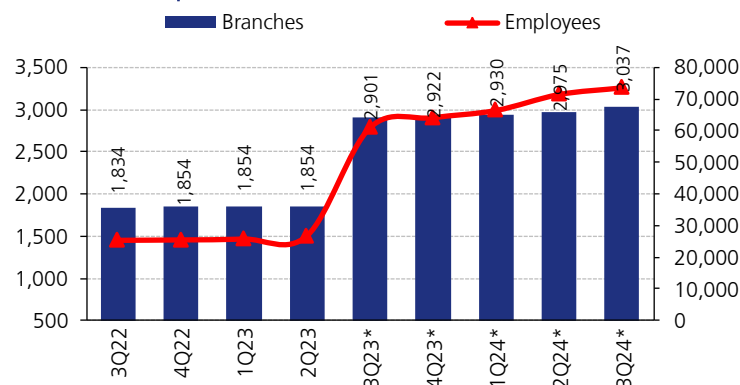
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 4. SFL: Trend in urban / rural split of AUM



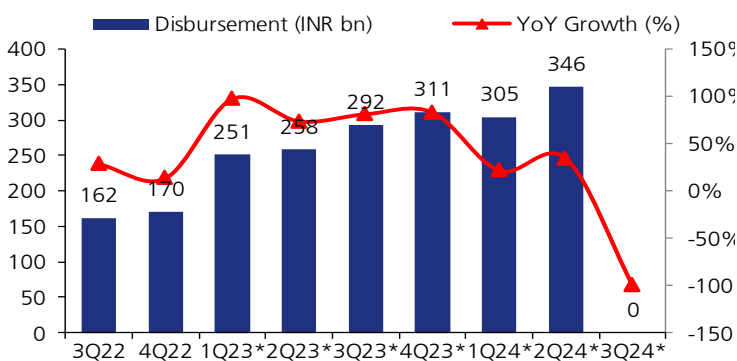
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 5. SFL: Operational data



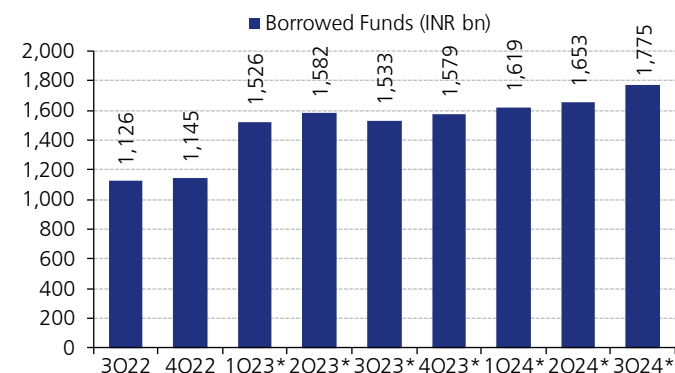
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 6. SFL: Trend in disbursements



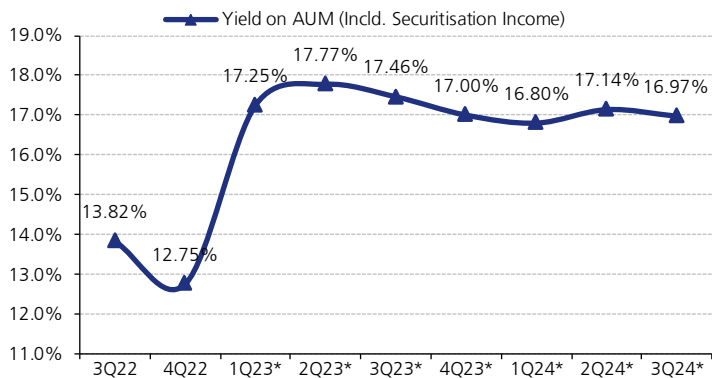
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 7. SFL: Trend in borrowings



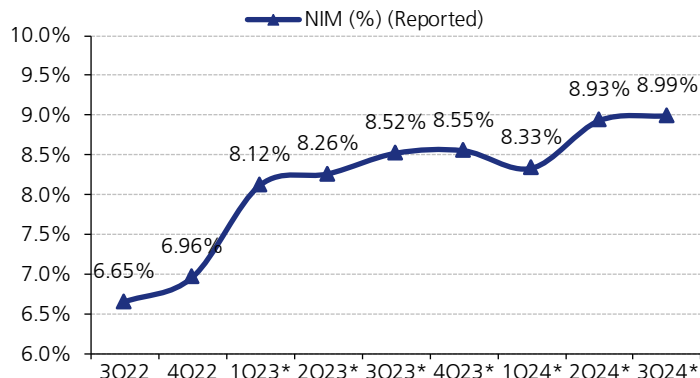
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 8. SFL: Trend in yield on AUM



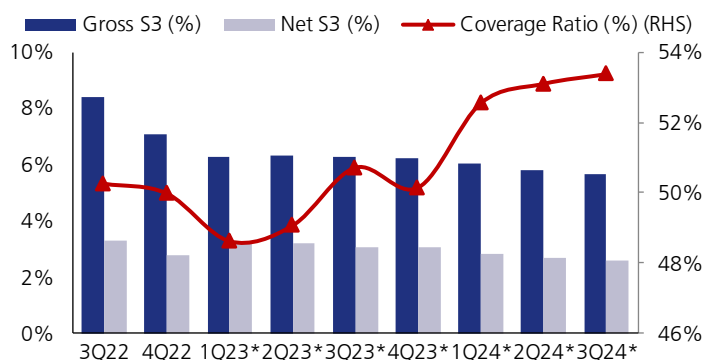
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 9. SFL: Trend in NII/AUM (%)



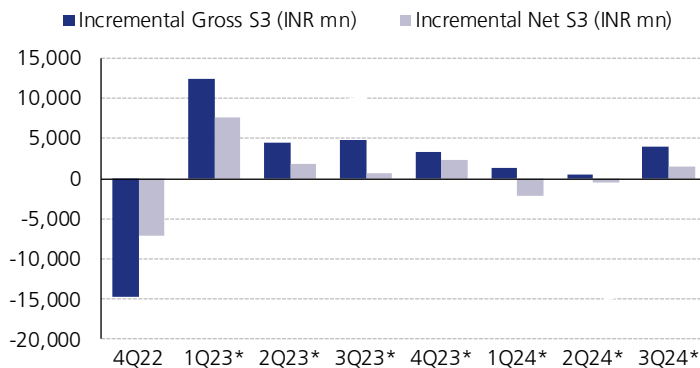
Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

Exhibit 10. SFL: Trend in asset quality



Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

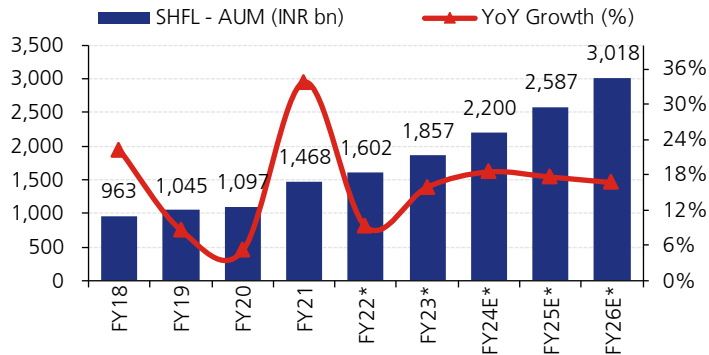
Exhibit 11. SFL: Trend in asset quality



Source: Company, JM Financial, * numbers for merged entity (SFL+ SCUF)

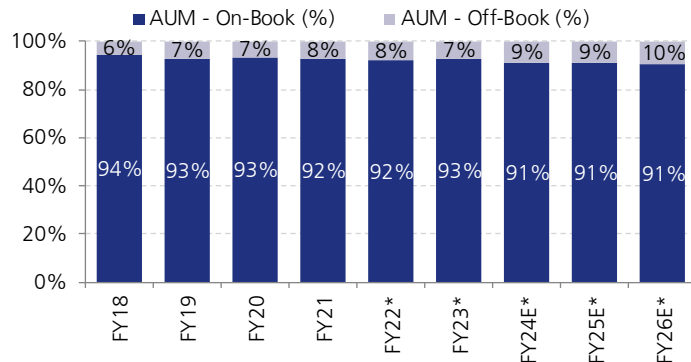
SFL – Annual trends

Exhibit 12. SFL: Trend in AUM (INR bn)



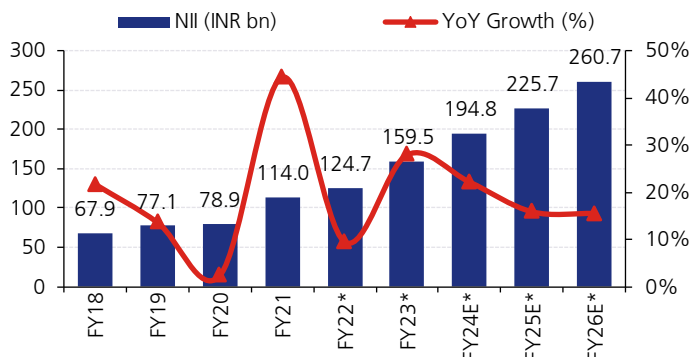
Source: Company, JM Financial

Exhibit 13. SFL: Trend in AUM split: on-book vs. off-book



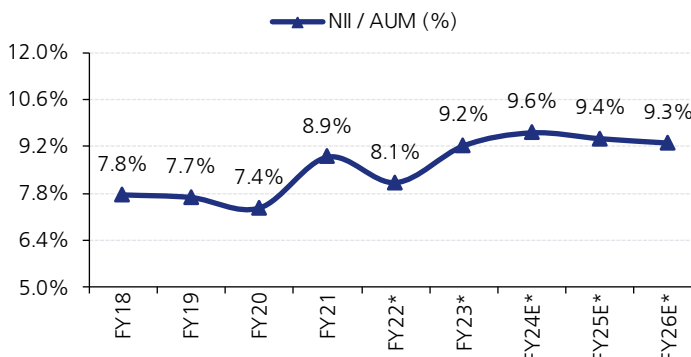
Source: Company, JM Financial

Exhibit 14. SFL: Trend in NII (INR bn)



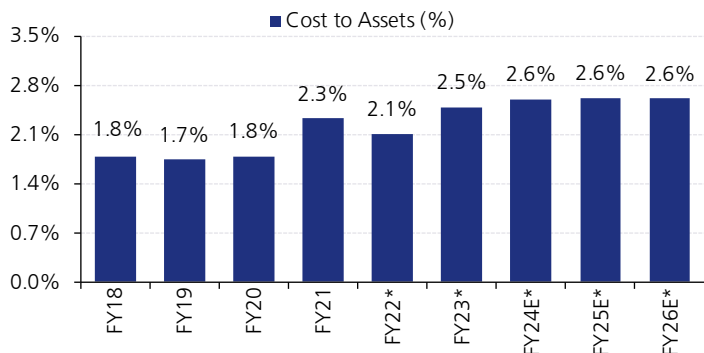
Source: Company, JM Financial

Exhibit 15. SFL: Trend in NII/AUM (%)



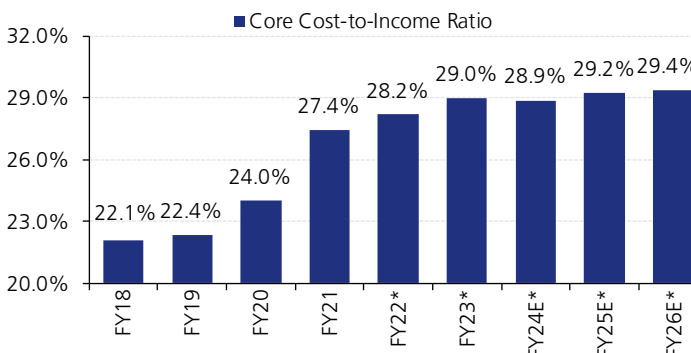
Source: Company, JM Financial

Exhibit 16. SFL: Trend in cost to assets



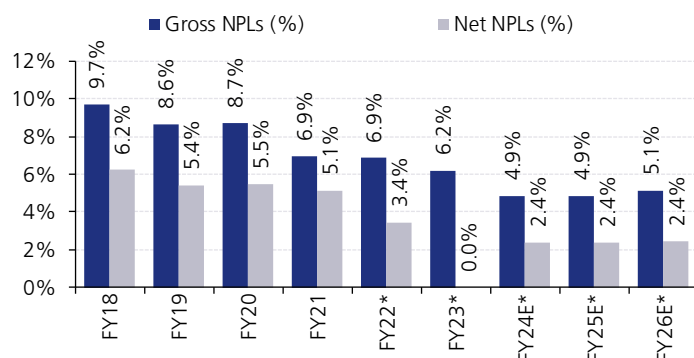
Source: Company, JM Financial

Exhibit 17. SFL: Trend in core cost to income



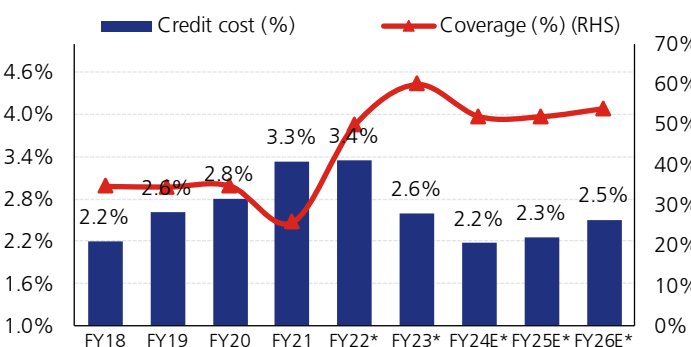
Source: Company, JM Financial

Exhibit 18. SFL: Trend in asset quality



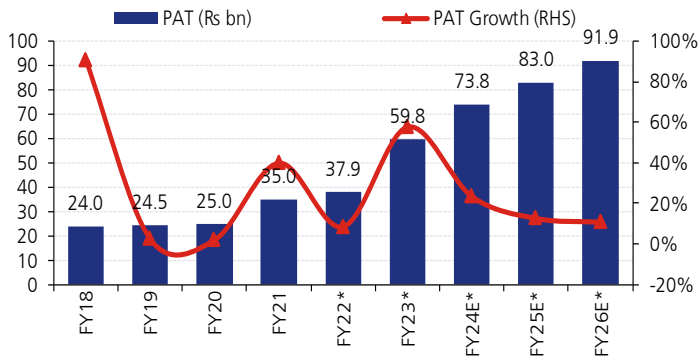
Source: Company, JM Financial

Exhibit 19. SFL: Trend in credit costs



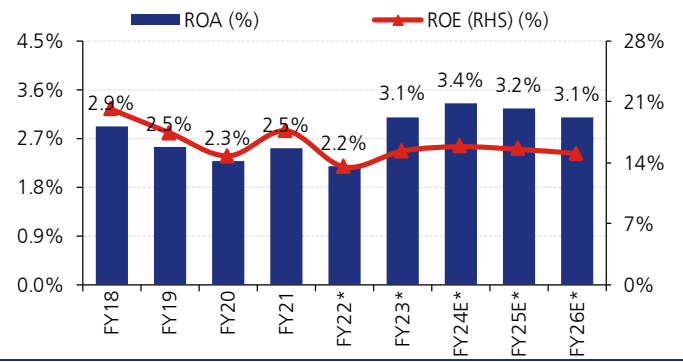
Source: Company, JM Financial

Exhibit 20. SFL: Trend in PAT



Source: Company, JM Financial

Exhibit 21. SFL: Trend in return ratios



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Interest Income (NII)	1,24,706	1,59,523	1,94,847	2,25,725	2,60,672	
Non Interest Income	9,441	11,955	3,247	3,375	3,644	
Total Income	1,34,148	1,71,479	1,98,094	2,29,100	2,64,315	
Operating Expenses	36,558	48,038	57,212	66,920	77,607	
Pre-provisioning Profits	97,590	1,23,441	1,40,882	1,62,180	1,86,708	
Loan-Loss Provisions	47,507	41,596	40,507	49,199	63,804	
Others Provisions	-22	-4	0	0	0	
Total Provisions	47,485	41,592	40,507	49,199	63,804	
PBT	50,105	81,849	1,00,375	1,12,981	1,22,905	
Tax	12,164	22,056	26,599	29,940	30,972	
PAT (Pre-Extra ordinaries)	37,941	59,793	73,776	83,041	91,933	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	37,941	59,793	73,776	83,041	91,933	
Dividend	9,459	7,489	8,986	10,783	12,940	
Retained Profits	28,483	52,305	64,790	72,258	78,993	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Equity Capital	3,722	3,744	3,744	3,744	3,744	
Reserves & Surplus	3,41,931	4,29,322	4,94,112	5,66,370	6,45,362	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	14,51,285	15,79,063	18,31,713	21,43,104	25,07,432	
Deferred tax liabilities	0	0	0	0	0	
Preference Shares	24,799	24,509	32,150	37,445	43,563	
Current Liabilities & Provisions	0	0	0	0	0	
Total Liabilities	18,21,737	20,36,639	23,61,719	27,50,663	32,00,101	
Net Advances	14,76,890	17,19,846	20,01,913	23,54,213	27,31,155	
Investments	86,454	85,651	1,00,096	1,17,711	1,36,558	
Cash & Bank Balances	1,27,503	99,929	1,00,096	1,17,711	1,36,558	
Loans and Advances	371	2,771	3,226	3,793	2,731	
Other Current Assets	64,379	18,830	61,639	53,016	43,380	
Fixed Assets	4,841	33,928	6,276	7,310	8,504	
Miscellaneous Expenditure	0	0	0	0	0	
Deferred Tax Assets	10,210	17,439	13,237	15,417	17,936	
Total Assets	18,21,737	20,36,639	23,61,719	27,50,663	32,00,101	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	10.1%	8.8%	16.0%	17.0%	17.0%
Advances	8.8%	16.5%	16.4%	17.6%	16.0%
Total Assets	11.1%	11.8%	16.0%	16.5%	16.3%
NII	9.4%	27.9%	22.1%	15.8%	15.5%
Non-interest Income	99.4%	26.6%	-72.8%	3.9%	8.0%
Operating Expenses	13.1%	31.4%	19.1%	17.0%	16.0%
Operating Profits	13.0%	26.5%	14.1%	15.1%	15.1%
Core Operating profit	8.9%	26.4%	19.6%	15.1%	15.0%
Provisions	19.6%	-12.4%	-2.6%	21.5%	29.7%
Reported PAT	8.5%	57.6%	23.4%	12.6%	10.7%
Yields / Margins (%)					
Interest Spread	5.85%	7.07%	7.40%	7.27%	7.13%
NIM	7.43%	8.60%	9.18%	9.11%	8.98%
Profitability (%)					
ROA	2.19%	3.10%	3.35%	3.25%	3.09%
ROE	13.5%	15.4%	15.9%	15.6%	15.1%
Cost to Income	27.3%	28.0%	28.9%	29.2%	29.4%
Asset quality (%)					
Gross NPA	7.17%	6.41%	4.87%	4.87%	5.14%
LLP	4.63%	1.18%	2.78%	2.81%	3.03%
Capital Adequacy (%)					
Tier I	20.70%	21.20%	19.76%	19.89%	19.62%
CAR	22.97%	22.61%	21.10%	21.03%	20.59%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
NII / Assets	7.21%	8.27%	8.86%	8.83%	8.76%
Other Income / Assets	0.55%	0.62%	0.15%	0.13%	0.12%
Total Income / Assets	7.75%	8.89%	9.01%	8.96%	8.88%
Cost / Assets	2.11%	2.49%	2.60%	2.62%	2.61%
PPP / Assets	5.64%	6.40%	6.41%	6.34%	6.28%
Provisions / Assets	2.74%	2.16%	1.84%	1.92%	2.14%
PBT / Assets	2.90%	4.24%	4.56%	4.42%	4.13%
Tax rate	24.3%	26.9%	26.5%	26.5%	25.2%
ROA	2.19%	3.10%	3.35%	3.25%	3.09%
Leverage	5.3	4.7	4.7	4.8	4.9
ROE	13.5%	15.4%	15.9%	15.6%	15.1%

Source: Company, JM Financial

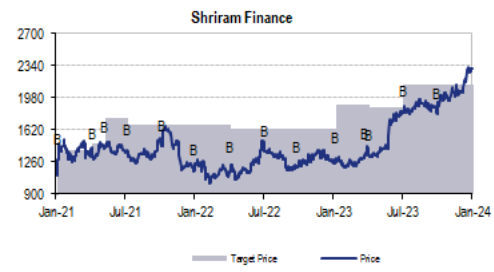
Valuations					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shares in Issue	372.2	374.4	374.4	374.4	374.4
EPS (INR)	101.9	159.7	197.0	221.8	245.5
EPS (YoY) (%)	-26.3%	56.7%	23.4%	12.6%	10.7%
P/E (x)	22.6	14.4	11.7	10.4	9.4
BV (INR)	929	1,157	1,330	1,523	1,734
BV (YoY) (%)	9.0%	24.5%	15.0%	14.5%	13.9%
P/BV (x)	2.48	1.99	1.74	1.52	1.33
DPS (INR)	25.4	20.0	24.0	28.8	34.6
Div. yield (%)	1.1%	0.9%	1.0%	1.2%	1.5%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
4-Feb-20	Buy	1,300	
11-Jun-20	Buy	810	-37.7
13-Aug-20	Buy	840	3.7
17-Sep-20	Buy	840	0.0
30-Oct-20	Buy	840	0.0
29-Jan-21	Buy	1,400	66.7
30-Apr-21	Buy	1,465	4.6
3-Jun-21	Buy	1,750	19.5
1-Aug-21	Buy	1,670	-4.6
31-Oct-21	Buy	1,670	0.0
25-Jan-22	Buy	1,670	0.0
29-Apr-22	Buy	1,630	-2.4
29-Jul-22	Buy	1,630	0.0
22-Oct-22	Buy	1,630	0.0
1-Feb-23	Buy	1,900	16.6
18-Apr-23	Buy	1,900	0.0
28-Apr-23	Buy	1,875	-1.3
28-Jul-23	Buy	2,130	13.6
26-Oct-23	Buy	2,130	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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