

Shriram Finance

A strong quarter on expected lines

Shriram reported strong performance in 3QFY24 aided by strong AUM growth (up 21% YoY and 6% QoQ) and healthy return profile: RoA at 3.3%. NIMs (on AUM) improved 10bps QoQ to 9.4%. Operating profits increased 6% QoQ (2.6% ahead of our estimates) while PAT increased 4% QoQ (in-line with our estimates). Asset Quality continues to improve further. The company is evaluating various options to raise capital in its housing finance subsidiary. We maintain BUY with a revised Target Price of Rs 2800, premised on 2x 1HFY26P/ABV (1.7x earlier). Strong execution on merger synergies, improved return profile and sector tailwinds in asset quality justifies re-rating.

Merger synergies visible as AUM growth scales up

Shriram reported AUM of Rs 2.14 tn, up 21% YoY and 6% QoQ. Disbursements for 3QFY24 stood at Rs 377.9bn, up 29% YoY and 9% QoQ (9M growth of 28% YoY). Strong growth was witnessed in PV/MSME/2W/Gold/PL which grew 31%/31%/22%/33%/65% YoY. Our calculation suggests that erstwhile Shriram Transport portfolio increased by 17% YoY, largely driven by growth in PV segment as against 13% YoY growth in CV AUM. Cross-sell of PV, 2W, Gold Loans and PL across branches has led to scale up in AUM growth. Company has large network of 3062 branches and 700 rural centres.

NIMs expansion surprise positively resulting in higher growth in operating profit

NIMs (reported) expanded 6bps QoQ to 8.99%. Cost of funds (calc) declined 20bps QoQ to 8.65%. Incremental CoB for 3QFY24 stood at 8.95% as against 8.7% in 2QFY24. Post circular on increase in risk weights, few banks have increased rates and other banks will also increase on incremental borrowings. However, management remains confident of maintaining NIMs at 8.9% through change in product mix and its ability to pass on rate hikes. NIMs expansion led to NII growth of 7% QoQ as against 6% QoQ growth in AUM. Opex remained under control and increased 5% QoQ resulting in C/I ratio of 29.3% as against 29.6% in 2QFY24. Operating profit grew 6% QoQ to Rs 36.9bn driven by strong NII growth and controlled opex.

Asset Quality continues to improve; write-offs below long term trends

Credit costs at 2.4% of AUM was higher than management guidance of 2% for FY24. This was largely driven by increase in provisions while write-offs remained at 1.5% of opening AUM. Stage 2 and Stage 3 assets stood at 7.0%/5.7% as against 9.3%/ 6.3% in 3QFY23 and 7.2% /5.8% and in 2QFY24. Stage 3 PCR improved to 53.4% (up 2.7p.p. YoY) while total PCR Stage 3 assets increased to 6.2% (up 6bps YoY). Stage 3 assets improved/remained stable across products (QoQ) barring PV where it increased marginally by 14bps QoQ to 5.4%

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
NII	49,110	41,921	17.1	45,947	6.9	1,87,062	2,20,292	2,50,147
PPoP	36,893	33,016	11.7	34,808	6.0	1,39,730	1,66,589	1,91,461
Provisions	12,497	9,173	36.2	11,286	10.7	45,233	53,135	64,096
PAT	18,183	17,770	2.3	17,508	3.9	70,402	84,523	94,887
AUM growth (%)	20.7	13.2	57.1	19.6	5.3	21.7	16.1	14.0
NIM (%)	9.4	9.7	(2.5)	9.3	1.5	9.8	9.7	9.6
C / I (%)	29.3	26.5	10.5	29.6	(0.8)	30.0	28.4	27.4
GNPA (%)	2.7	3.2	(15.0)	2.8	(2.9)	5.6	5.8	6.0
RoA (%)	3.3	3.6	(7.4)	3.3	(0.3)	3.2	3.3	3.2
RoE (%)	15.6	17.1	(8.7)	15.4	1.5	15.4	16.4	16.1
P/BV (x)	0.0	0.0	0.0	0.0	0.0	2.2	2.0	1.7

Source: Company, Centrum Broking

Result Update

India I NBFC

28 January, 2024

BUY

Price: Rs2,307.2

Target Price: Rs2,800.0

Forecast return: 21%

Market Data

Bloomberg:	SHFL IN
52 week H/L:	2,353/1,190
Market cap:	Rs866.7bn
Shares Outstanding:	375.7mn
Free float:	71.6%
Avg. daily vol. 3mth:	12,75,422

Source: Bloomberg

Changes in the report

Rating:	BUY; Unchanged
Target price:	Rs2800; Changed by 16.7%
EPS:	FY24E; Changed by 1.1% FY25E; Changed by 2.0%

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	25.4	25.5	25.5	25.5
FIIs	54.0	54.7	55.4	49.8
DIIIs	15.8	15.2	14.7	11.8
Public/other	4.8	4.7	4.5	13.0

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
NII	48,121	49,110	2.1
PPoP	35,948	36,893	2.6
PAT	18,230	18,183	(0.3)

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
NII	1,87,062	1,85,970	0.0	2,20,292	2,18,145	0.0
PPoP	1,39,729	1,38,845	0.6	1,66,589	1,66,180	0.2
PAT	70,402	70,739	(0.5)	84,523	82,805	2.1

Source: Centrum Broking

Shriram Finance versus Nifty Midcap 100

	1m	6m	1 year
SHFL IN	12.2	26.5	84.0
Nifty Midcap 100	4.7	28.0	53.8

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY23A	FY24E	FY25E
Disbursement growth	31	28	12
AUM growth	16	22	16
NIMs	10.1	9.8	9.7
C/I ratio	28.5	30.0	28.4
Credit costs	2.6	2.4	2.3

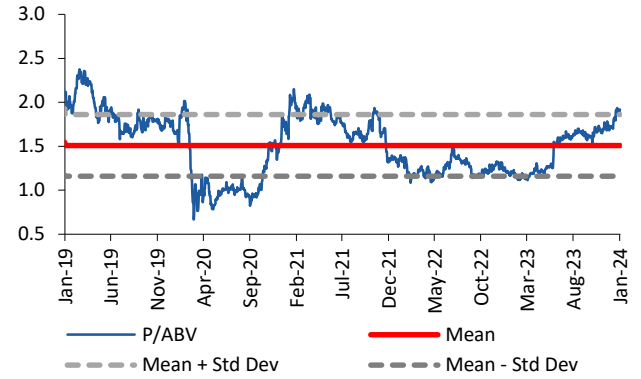
Source: Centrum Broking

Valuations

The company is evaluating various options to raise capital in its housing finance subsidiary. We retain BUY with a revised Target Price of Rs 2800, premised on 2x 1HFY26P/ABV (1.7x earlier). Strong execution on merger synergies, improved return profile and sector tailwinds in asset quality justifies re-rating.

Valuations	Networth	Multiple	Value(Bn)	Value/Sh	% of Total
Shriram Finance(A)	507	2.0	1013	2,700	96.4%
Shriram Housing fin	18	3.0	46.8	125	
Holding Co Disc @20%			9	25	
Value of Subsidiary(B)			37	100.0	3.6%
Target Price (A+B)				2,800	
CMP				2,307	
Upside				21.4%	

P/ABV mean and standard deviation



Peer comparison

Company	Market cap		P/B (x)				P/ABV(x)				RoE (%)			
	Rs bn	US \$bn	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Cholamandalam	1045.7	12.5	7.2	5.4	4.5	3.7	7.4	5.5	4.5	3.7	20.5	19.3	19.9	20.7
Mahindra Fin	333.4	3.9	1.9	1.8	1.7	1.5	2.08	1.97	1.83	1.66	12.5	10.9	13.5	15.0
Sundaram Fin	395.1	4.8	5.1	4.5	4.0	3.5	5.6	4.9	4.2	3.6	14.9	15.2	17.2	18.2
Shriram Fin	866.7	10.4	2.1	1.9	1.7	1.5	2.4	2.2	2.0	1.7	14.8	15.4	16.4	16.1

Source: Company, Centrum Broking

Concall Key Takeaways

Growth

- Expect AUM growth at 15-20% for FY25E and 15% over the medium term.
- Disbursements for 3QFY24 stood at Rs 377.8bn, up 29% YoY and 9% QoQ
- Two Wheelers, Gold Loans and Used Passenger Vehicles will see faster growth due to ease in cross-selling these products in all branches. Personal loans is also growing well because of increase in distribution. Has board approval to take PL to 8% of AUM but may cap it at 6% (earlier guidance of ~5%). PL may grow at 20-25%
- Post merger, Gold loans started in 600 branches of Shriram Transport which has still not reached full scale. Will add another 600 branches next year.
- Growth in 2W was strong QoQ due to festive season and growth coming post merger from the states of UP, MP, Odisha, West Bengal where SCUF did not have distribution
- Guidance for growth in CV segment maintained at 12%-15%. Elections may not have a major impact as CV demand is dependent on economic growth and infra activities. Used CV demand picks with a lag and expect FY 25 to remain good
- In MSME segment, company is still training people and gradually this segment will pick up. Tie-up with Paytm for merchant loans is not fully operational yet. It is still exploring and may guide on business a quarter down.
- Company expects 4Q to be a strong quarter based on historical trends and strong infra spends
- Branch expansion – Will add 100-150 branches wither by conversion of Rural Centres of new branch additions

Margins

- Will maintain NIMs at 8.9% (8.99% reported this qtr). Incremental CoF has increased from 8.7% in 2QFY24 to 8.95% in 3QFY24. Increase in CoF will be compensated by increase in mix of high yield, short tenor products and ability to pass on increased cost
- Post RBI circular on increase in risk weights for NBFC lending, company has seen rise in CoB from banks for incremental borrowing. Capital market rates have gone up however, company does not expect further rise in CoB
- Recently raised US\$750mn from ECB bonds, landed cost on fully hedged basis will be at 10%
- Liquidity increased to 4 months of repayment after recent raise of US\$750mn through ECB bonds

Asset Quality

- Credit costs increased due to higher provisioning requirement. Write-offs for the quarter stood at Rs 7.25bn (1.5% of opening gross loans) as against 8.4bn in 2QFY24 (1.8% of opening gross loans).
- Company expects to maintain credit costs at 2% for full year as against 2.4% in this quarter
- Asset Quality continue to improve and does not expect any material deterioration over the next few quarters

Shriram Housing Finance

- Exploring option for capital raise. It did not comment whether the company is looking at selling full stake as suggested by news articles or just raise growth capital
- HFC is focused on 8 states and adding one more states. It has its independent network of 149 branches

Exhibit 1: Quarterly result review

Shriram Finance (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Interest Income	73,099	74,231	76,880	82,166	86,179	17.9%	4.9%
Interest Expense	31,178	32,422	34,875	36,219	37,069	18.9%	2.3%
Net Interest Income	41,921	41,809	42,004	45,947	49,110	17.1%	6.9%
NIMs (calculated)	10.4%	9.9%	9.6%	10.0%	10.2%	-19bps	16bps
Non Interest Income	3,022	3,460	3,167	3,479	3,094	2.4%	-11.1%
Total Income	44,944	45,269	45,171	49,426	52,204	16.2%	5.6%
Staff Cost	6,391	6,907	7,904	7,904	8,099	26.7%	2.5%
Other Op Exp	5,537	7,552	6,004	6,714	7,212	30.3%	7.4%
Total Op Exp	11,928	14,459	13,908	14,618	15,311	28.4%	4.7%
Cost to Income (%)	26.5%	31.9%	30.8%	29.6%	29.3%	279bps	-25bps
Opex to AUM	2.8%	3.2%	2.9%	3.0%	2.9%	19bps	-2bps
Pre-provision op profit	33,016	30,810	31,262	34,808	36,893	11.7%	6.0%
Provisions	9,173	11,846	8,786	11,286	12,497	36.2%	10.7%
PBT	23,844	18,963	22,476	23,523	24,396	2.3%	3.7%
Tax	6,074	5,881	5,722	6,014	6,213	2.3%	3.3%
-effective tax rate	25.5%	31.0%	25.5%	25.6%	25.5%	-1bps	-10bps
PAT	17,769.70	13,082	16,754	17,508	18,183	2.3%	3.9%
RoA	3.6%	2.6%	3.2%	3.3%	3.3%	-26bps	-1bps
RoE	17.1%	12.2%	15.2%	15.4%	15.6%	-149bps	23bps
Gross Stage 3	6.29%	6.21%	6.03%	5.79%	5.66%	-63bps	-13bps
Net Stage 3	3.20%	3.19%	2.86%	2.80%	2.72%	-48bps	-8bps
Stage 3 PCR	50.7%	50.1%	52.5%	53.1%	53.4%	266bps	28bps
30+ DPD	15.6%	15.1%	13.9%	13.0%	12.7%	-289bps	-30bps
Borrowings	15,33,276	15,79,063	16,19,466	16,53,444	17,74,702	15.7%	7.3%
Disbursements	2,92,453	3,10,541	3,04,548	3,46,050	3,77,878	29.2%	9.2%
AUM	17,74,982	18,56,829	19,32,147	20,26,410	21,42,335	20.7%	5.7%

Source: NBFC, Centrum Broking

Exhibit 2: AUM break-up

AUM Mix	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Commercial Vehicles	9,06,152	9,32,949	9,59,047	9,84,363	10,24,651
YoY growth	11.9%	12.6%	12.7%	12.3%	13.1%
QoQ growth	3.4%	3.0%	2.8%	2.6%	4.1%
Passenger Vehicles	3,17,651	3,38,726	3,62,920	3,96,935	4,15,342
YoY growth	20.7%	25.4%	28.5%	32.0%	30.6%
QoQ growth	5.9%	6.5%	7.1%	9.4%	4.6%
Construction Equipments	1,38,672	1,43,627	1,46,262	1,50,582	1,62,228
YoY growth	8.7%	10.7%	11.0%	12.5%	17.0%
QoQ growth	3.6%	3.6%	1.8%	3.0%	7.7%
Farm Equipments	33,297	34,788	34,191	34,797	33,564
YoY growth	3.1%	5.1%	5.9%	5.4%	0.8%
QoQ growth	1.0%	4.5%	-1.7%	1.8%	-3.5%
MSME	1,76,597	1,91,508	2,00,448	2,13,104	2,30,859
YoY growth	3.9%	12.8%	23.2%	26.0%	30.7%
QoQ growth	4.6%	8.4%	4.7%	6.3%	8.3%
Two Wheelers	1,00,049	1,03,692	1,00,235	1,04,191	1,21,397
YoY growth	13.8%	18.0%	19.5%	23.3%	21.9%
QoQ growth	17.6%	3.6%	-3.3%	3.9%	16.5%
Gold	44,370	44,784	49,848	54,055	58,910
YoY growth	8.0%	9.8%	18.7%	22.0%	32.7%
QoQ growth	0.1%	0.9%	11.3%	8.4%	9.0%
Personal loans	57,764	66,754	79,197	88,384	95,384
YoY growth	62.9%	60.8%	81.3%	74.0%	65.3%
QoQ growth	13.1%	15.7%	18.6%	11.6%	7.9%
Others	519	-	-	-	-
YoY growth	-67.6%	-	0.0%	0.0%	0.0%
QoQ growth	-25.5%	-	0.0%	0.0%	0.0%
Total	17,74,980	18,56,829	19,32,147	20,26,410	21,42,335
YoY growth	13.2%	15.9%	18.6%	19.6%	20.7%
QoQ growth	4.8%	4.6%	4.1%	4.9%	5.7%

Source: NBFC, Centrum Broking

Exhibit 3: AUM mix

AUM Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Commercial Vehicles	52.2%	51.8%	51.1%	50.2%	49.6%	48.6%	47.8%
Passenger Vehicles	17.3%	17.7%	17.9%	18.2%	18.8%	19.6%	19.4%
Construction Equipments	8.1%	7.9%	7.8%	7.7%	7.6%	7.4%	7.6%
Farm Equipments	2.0%	1.9%	1.9%	1.9%	1.8%	1.7%	1.6%
MSME	10.0%	10.0%	9.9%	10.3%	10.4%	10.5%	10.8%
Two Wheelers	5.1%	5.0%	5.6%	5.6%	5.2%	5.1%	5.7%
Gold	2.6%	2.6%	2.5%	2.4%	2.6%	2.7%	2.8%
Personal loans	2.7%	3.0%	3.2%	3.6%	4.1%	4.4%	4.5%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: NBFC, Centrum Broking

Exhibit 4: Actual performance vs our estimates

(Rs mn)	Q3FY24A	Q3FY24E	Devi (%)
Net Interest Income	49,110	48,121	2.1
Pre-provisioning operating profit	36,893	35,948	2.6
PAT	18,183	18,230	(0.3)

Source: NBFC, Centrum Broking

Exhibit 5: Change in our estimates

	Revised Estimates			Earlier Estimates			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest income (Rs mn)	1,87,062	2,20,292	2,50,147	1,85,970	2,18,145	2,47,650	0.0	0.0	0.0
Operating Profit (Rs mn)	1,39,729	1,66,589	1,91,461	1,38,845	1,66,180	1,90,690	0.6	0.2	0.4
Profit after tax (Rs mn)	70,402	84,523	94,887	70,739	82,805	93,285	(0.5)	2.1	1.7

Source: NBFC, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	1,86,463	2,86,074	3,36,283	4,00,647	4,55,581
Interest expense	97,343	1,25,458	1,49,221	1,80,354	2,05,434
NII	89,120	1,60,616	1,87,062	2,20,292	2,50,147
Other income	6,280	11,955	12,462	12,527	13,597
Total income	95,399	1,72,571	1,99,523	2,32,819	2,63,745
Operating expenses	21,298	49,131	59,794	66,230	72,283
Employee	9,971	25,061	32,783	36,980	39,984
Others	11,327	24,070	27,011	29,250	32,299
PPOP	74,101	1,23,441	1,39,730	1,66,589	1,91,461
Provisions	38,609	41,592	45,233	53,135	64,096
PBT	35,493	81,849	94,496	1,13,454	1,27,365
Tax	8,413	22,056	24,095	28,931	32,478
PAT	27,079	59,793	70,402	84,523	94,887

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
AUM	8.4	46.2	21.7	16.1	14.0
Borrowings	7.8	37.9	18.7	16.5	14.0
NII	10.4	80.2	16.5	17.8	13.6
Other income	103.7	90.4	4.2	0.5	8.5
Opex	7.3	130.7	21.7	10.8	9.1
PPoP	15.8	66.6	13.2	19.2	14.9
Provisions	23.8	7.7	8.8	17.5	20.6
PAT	8.9	120.8	17.7	20.1	12.3
Profitability (%)					
Yield on advances	16.6	18.0	17.7	17.7	17.5
Cost of funds	8.8	8.3	8.6	8.9	8.8
NIM (on AuM)	7.9	10.1	9.8	9.7	9.6
Other Income/ Total Income	6.6	6.9	6.2	5.4	5.2
Other Income / Total Assets	0.5	0.7	0.6	0.5	0.5
Cost/Income	22.3	28.5	30.0	28.4	27.4
Employee	10.5	14.5	16.4	15.9	15.2
Others	11.9	13.9	13.5	12.6	12.2
Opex/ Avg AuM	0.9	1.5	1.3	1.2	1.1
Provisions	3.2	2.7	2.2	2.2	2.3
Tax Rate	23.7	26.9	25.5	25.5	25.5
RoA	2.0	3.5	3.2	3.3	3.2
RoE	11.4	17.3	15.4	16.4	16.1

DuPont (% avg assets)					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Interest income	13.7	16.5	15.2	15.6	15.4
Interest expense	7.2	7.3	6.8	7.0	6.9
NII	6.6	9.3	8.5	8.6	8.5
Other income	0.5	0.7	0.6	0.5	0.5
Total income	7.0	10.0	9.0	9.0	8.9
Operating expenses	1.6	2.8	2.7	2.6	2.4
Employee	0.7	1.4	1.5	1.4	1.4
Others	0.8	1.4	1.2	1.1	1.1
PPOP	5.5	7.1	6.3	6.5	6.5
Provisions	2.8	2.4	2.0	2.1	2.2
PBT	2.6	4.7	4.3	4.4	4.3
Tax	0.6	1.3	1.1	1.1	1.1
PAT	2.0	3.5	3.2	3.3	3.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Financial assets	14,02,803	19,73,857	23,14,687	26,87,523	30,66,535
Cash	1,06,624	95,053	41,996	52,705	71,949
Loans	11,66,652	17,19,846	20,90,720	24,36,147	27,77,660
Investment	68,092	85,651	95,208	1,03,056	1,11,552
Non-financial assets	18,258	62,782	69,099	76,006	83,779
Deferred tax assets	8,694	17,439	19,183	20,142	21,149
Fixed Assets	1,106	2,095	2,409	2,771	3,186
Other Non-fin. assets	8,458	43,248	47,506	53,093	59,444
Total Assets	14,21,061	20,36,639	23,83,785	27,63,528	31,50,315
Financial liabilities	11,44,967	15,79,063	18,74,931	21,84,705	24,90,969
Borrowings	11,44,967	15,79,063	18,74,931	21,84,705	24,90,969
Non-financial liabilities	16,772	24,509	27,843	30,138	32,622
Other Non-fin liabilities	16,772	24,509	27,843	30,138	32,622
Total equity	2,59,322	4,33,066	4,81,012	5,48,686	6,26,723
Share capital	2,705	3,744	3,754	3,754	3,754
Other equity	2,56,617	4,29,322	4,77,258	5,44,932	6,22,970
Total Liabilities	14,21,061	20,36,639	23,83,785	27,63,528	31,50,314
Balance Sheet ratios (%)					
Debt / Equity	4.4	3.6	3.9	4.0	4.0
Assets / Equity	5.5	4.7	5.0	5.0	5.0
Cash / Borrowings	14.3	10.0	5.9	5.9	6.3
Details on loans					
AUM	12,70,409	18,56,829	22,60,604	26,25,652	29,94,454
Disbursements	6,00,734	11,14,847	14,25,249	15,96,279	17,87,832
Capital Adequacy (%)					
CRAR	23.0	22.6	21.1	20.4	19.9
Tier-1	20.7	21.2	19.7	19.2	18.8
Tier-2	2.3	1.4	1.3	1.2	1.1
Asset quality (%)					
GNPA (Rs mn)	88,876	1,13,822	1,24,369	1,50,055	1,78,473
Growth (%)	7.2	28.1	9.3	20.7	18.9
NNPA (Rs mn)	67,339	56,749	58,453	75,027	89,236
Growth (%)	40.1	(15.7)	3.0	28.4	18.9
GNPA	7.1	6.2	5.6	5.8	6.0
NNPA	5.4	3.1	2.6	2.9	3.0
PCR	61.6	49.9	47.0	50.0	50.0
NNPA / Equity	26.0	13.1	12.2	13.7	14.2
Per share (Rs)					
EPS	101.7	159.7	188.0	225.7	253.4
BVPS	974.2	1,107.7	1,219.6	1,380.9	1,568.3
ABVPS	709.6	956.1	1,060.9	1,177.7	1,326.7
DPS	20.0	35.0	40.0	45.0	50.0
Valuation (x)					
P/E	22.7	14.4	12.3	10.2	9.1
P/BV	3.3	2.4	2.2	2.0	1.7
P/ABV	3.3	2.4	2.2	2.0	1.7
Dividend yield	0.9	1.5	1.7	2.0	2.2

Source: Company, Centrum Broking

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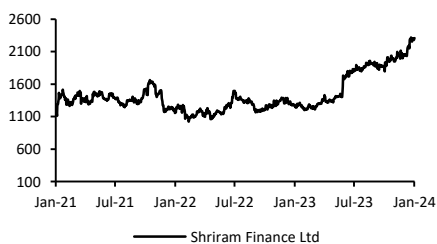
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Shriram Finance



Source: Bloomberg

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