

July 28, 2024

**RESULT REPORT Q1 FY25** | Sector: Financials

# Shriram Finance

## Sustained strong show

### Another quarter of steady performance

Shriram Finance delivered an in-line growth, softer NIM and stronger asset quality performance versus our expectations. Disbursement momentum (up 24% yoy) remained robust, underpinning a sturdy AUM growth (4% qoq/21% yoy). Growth was driven by continued traction in Used PV (book up 6% qoq/27% yoy) and MSME (book up 10% qoq/44% yoy) and revival in Farm Equipment financing (book up 7% qoq/17% yoy). Negligible impact on collections from heatwaves and elections led to benign new delinquency creation and forward flows. Persistent recovery efforts and buoyancy in used vehicle prices is underpinning sustained NPL resolution momentum. Mild decline in the level of Stage-3 and Stage-2 assets, stable write-off and steady ECL coverage drove lower-than-expected credit cost of 2.1%. Company continues to deliver 3%/+15%+ RoA/RoE.

### Growth outlook sanguine; company set to surpass 15% growth guidance

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 few 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 for a couple of years. 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 ~3500 people. Sharpened operational focus and the significant increase in gold price would also aid growth in this product.

### Expect 20% earnings CAGR over FY24-26; valuation to re-rate further

Shriram Finance has demonstrated strong and consistent execution on growth and asset quality fronts since H2 FY23. Further AUM mix shift towards relatively higher yielding products (MSME, Gold Loans & 2Ws) is likely to support stable margin delivery in ensuing quarters. We expect 16% AUM CAGR and 20% earnings CAGR over FY24-26 with average RoA/RoE delivery of 3.4%/17%. Despite recent rally, stock's valuation (2x P/ABV and 10.7x P/E on FY26 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 12m PT of Rs3420.

### Exhibit 1: Result table

(Rs mn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
Total Operating Income	96,050	94,837	1.3	79,995	20.1
Interest expended	(41,289)	(39,898)	3.5	(34,875)	18.4
Net Interest Income	54,761	54,939	(0.3)	45,119	21.4
Other Income	47	141	(66.5)	52	(8.2)
Total Income	54,808	55,080	(0.5)	45,171	21.3
Operating expenses	(16,267)	(16,024)	1.5	(13,908)	17.0
PPoP	38,541	39,056	(1.3)	31,262	23.3
Provisions	(11,876)	(12,615)	(5.9)	(8,786)	35.2
PBT	26,666	26,441	0.8	22,476	18.6
Tax	(6,860)	(6,983)	(1.8)	(5,722)	19.9
PAT	19,806	19,459	1.8	16,754	18.2

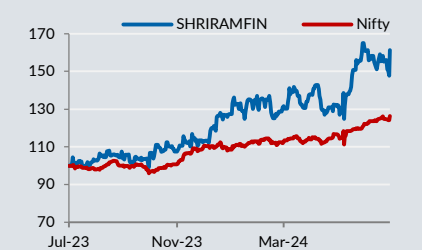
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 2,925
Target Price	: Rs 3,420
Potential Return	: +16.9%

### Stock data (as on July 26, 2024)

Nifty	24,835
52 Week h/l (Rs)	3059 / 1760
Market cap (Rs/USD mn)	1007120 / 12032
Outstanding Shares (mn)	376
6m Avg t/o (Rs mn):	3,561
Div. yield (%):	1.5
Bloomberg code:	SHFL IN
NSE code:	SHIRAMFIN

### Stock performance



	1M	3M	1Y
Absolute return	-0.9%	17.1%	61.5%

### Shareholding pattern

Promoter	25.4%
FII+DII	69.6%
Others	5.0%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,420	3,075

### Δ in earnings estimates

	FY24	FY25e	FY26e
EPS (New)	191.3	232.9	273.5
EPS (Old)	191.3	232.9	273.5
% Change	-	-	-

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Op. income	2,01,915	2,42,407	2,83,339
PPOP	1,42,020	1,72,957	2,04,796
Net profit	71,905	87,533	1,02,763
Growth (%)	20.3	21.7	17.4
EPS (Rs)	191.3	232.9	273.5
ABVPS (Rs)	1,137.4	1,292.7	1,491.9
P/E (x)	15.3	12.6	10.7
P/ABV (x)	2.6	2.3	2.0
ROAE (%)	15.7	16.8	17.3
ROAA (%)	3.3	3.4	3.5

### RAJIV MEHTA

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### MANUJ OBEROI, Associate

## Exhibit 2: Business Data

(Rs bn)	Q1 FY25	Q4 FY24	% qoq	Q1 FY24	% yoy
AUM	23,34,436	22,48,620	3.8	19,32,147	20.8
Commercial Vehicle	10,96,792	10,69,351	2.6	9,59,047	14.4
Passenger Vehicle	4,59,823	4,31,962	6.4	3,62,920	26.7
Construction Equipment	1,70,410	1,69,540	0.5	1,46,262	16.5
Farm Equipment	39,822	37,153	7.2	34,191	16.5
MSME	2,88,024	2,62,270	9.8	2,00,448	43.7
2-Wheelers	1,29,091	1,25,524	2.8	1,00,235	28.8
Gold	61,225	62,998	(2.8)	49,848	22.8
Personal Loans	89,251	89,823	(0.6)	79,197	12.7

Source: Company, YES Sec

## Exhibit 3: Key Ratios

(%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NIM (%)	8.8	9.0	(0.2)	8.3	0.5
Cost to Income (%)	27.5	26.6	0.8	28.9	(1.4)
BV (Rs)	1,345.0	1,292.4	4.1	1,198.6	12.2
RoE (%)	16.0	16.4	(0.3)	15.2	0.8
RoA (%)	3.1	3.2	(0.1)	3.1	0.0
CAR (%)	20.3	20.3	(0.0)	22.4	(2.1)
Gross Stage 3 (%)	5.4	5.5	(0.1)	6.0	(0.6)
Net Stage 3 (%)	2.7	2.7	0.0	3.0	(0.3)
Stage 3 Coverage (%)	51.1	51.8	(0.6)	52.5	(1.4)

Source: Company, YES Sec

## Exhibit 4: Funding Mix

Share (%)	Q1 FY25	Q4 FY24	chg qoq	Q1 FY24	chg yoy
NCD	16.8	17.0	(0.3)	17.7	(1.0)
Public Deposits	24.8	23.9	0.9	23.9	0.9
Securitisation	15.2	15.7	(3.3)	14.9	1.5
Sub-ordinate debts	1.4	2.3	(0.9)	2.7	(1.4)
Term Loans	24.8	24.6	0.2	24.3	0.5
ECB (External Comm. bond)	5.8	5.9	(0.1)	7.8	(2.0)
ECB Loans	8.3	7.8	0.5	6.9	1.3
Other Borrowings	1.3	1.6	(0.2)	1.0	0.3

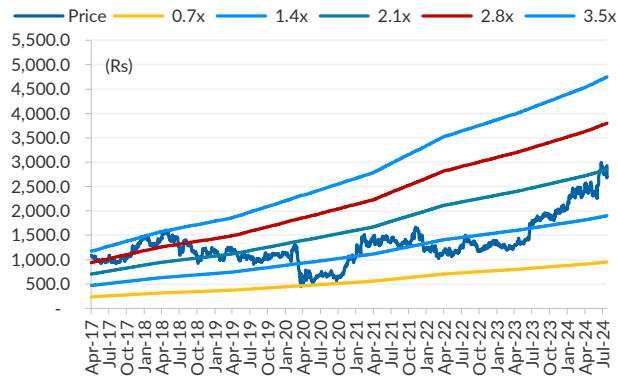
Source: Company, YES Sec

## Exhibit 5: ECL Summary

ECL (Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Gross Stage 3	115,089	115,563	1,19,523	1,20,812	1,24,078
ECL Provisions - Stage 3	60,475	61,362	63,793	62,567	63,460
Net Stage 3	54,613	54,202	55,730	58,244	60,618
<b>Gross Stage 3 (%)</b>	<b>6.0</b>	<b>5.8</b>	<b>5.7</b>	<b>5.5</b>	<b>5.4</b>
Net Stage 3 (%)	3.0	2.8	2.7	2.7	2.7
<b>Coverage ratio - Stage 3 (%)</b>	<b>52.5</b>	<b>53.1</b>	<b>53.4</b>	<b>51.8</b>	<b>51.1</b>
Gross Stage 1	1,642,486	1,737,133	18,43,116	19,45,799	20,25,068
ECL Provisions - Stage 1	47,817	53,115	57,364	63,741	69,197
Net Stage 1	1,594,669	1,684,018	17,85,752	18,82,058	19,55,871
<b>Gross Stage 1 (%)</b>	<b>86.1</b>	<b>87.0</b>	<b>87.3</b>	<b>87.8</b>	<b>88.0</b>
<b>Coverage ratio - Stage 1 (%)</b>	<b>2.9</b>	<b>3.1</b>	<b>3.1</b>	<b>3.3</b>	<b>3.4</b>
Gross Stage 2	149,644	143,250	1,47,923	1,50,067	1,53,317
ECL Provisions - Stage 2	10,465	9,743	10,450	11,075	11,586
Net Stage 2	139,179	133,507	1,37,474	1,38,992	1,41,731
<b>Gross Stage 2 (%)</b>	<b>7.8</b>	<b>7.2</b>	<b>7.0</b>	<b>6.8</b>	<b>6.7</b>
<b>Coverage ratio - Stage 2 (%)</b>	<b>7.0</b>	<b>6.8</b>	<b>7.1</b>	<b>7.4</b>	<b>7.6</b>

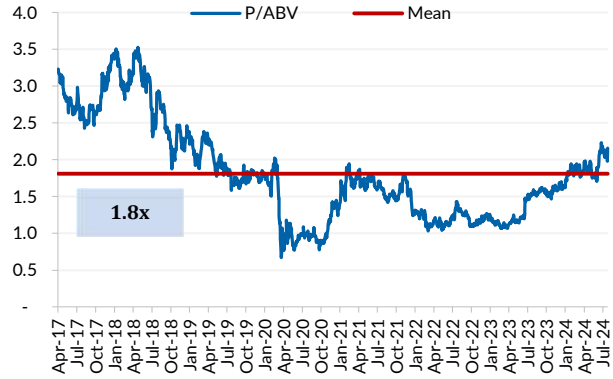
Source: Company, YES Sec

**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)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	2,705	3,744	3,758	3,758	3,758
Other Equity	2,56,617	4,29,322	4,81,926	5,49,674	6,32,652
<b>Share-holders fund</b>	<b>2,59,322</b>	<b>4,33,066</b>	<b>4,85,684</b>	<b>5,53,432</b>	<b>6,36,410</b>
<b>Financial Liabilities</b>	<b>11,58,745</b>	<b>15,97,851</b>	<b>18,79,063</b>	<b>21,58,425</b>	<b>24,39,020</b>
Trade payables	1,687	2,947	2,172	-	-
Debt Securities	4,12,566	4,36,526	4,49,486	5,16,909	5,84,107
Borrowings (Excl. Debt Sec.)	4,66,769	7,35,900	9,21,488	10,59,711	11,97,474
Deposits	2,19,490	3,61,398	4,44,436	5,11,102	5,77,545
Subordinated Liabilities	46,143	45,239	43,001	49,451	55,879
Other Financial Liabilities	8,596	10,207	18,480	21,252	24,015
Non-Financial Liabilities	2,994	5,721	8,013	8,814	9,696
Current tax liabilities (net)	368	1,609	2,378	2,616	2,877
Provisions	1,382	2,115	2,962	3,258	3,584
<b>Other non-financial liabilities</b>	<b>1,244</b>	<b>1,998</b>	<b>2,673</b>	<b>2,940</b>	<b>3,234</b>
<b>Total Liabilities &amp; Equity</b>	<b>14,21,061</b>	<b>20,36,639</b>	<b>23,72,760</b>	<b>27,20,671</b>	<b>30,85,125</b>
<b>Financial Assets</b>	<b>14,02,782</b>	<b>19,73,857</b>	<b>23,01,820</b>	<b>26,48,077</b>	<b>30,10,413</b>
Cash and Cash Equivalents	1,06,624	95,053	60,134	1,04,928	86,223
Bank balances	56,927	63,121	47,993	-	-
Derivative financial instruments	2,014	6,688	3,305	3,635	3,999
Receivables	1,958	2,771	3,846	4,230	4,654
Loans	11,66,652	17,19,846	20,79,294	24,11,981	27,73,778
Investments	68,092	85,651	1,06,566	1,22,551	1,40,934
Other Financial Assets	515	727	682	751	826
<b>Non- Financial Assets</b>	<b>18,279</b>	<b>62,782</b>	<b>70,940</b>	<b>72,593</b>	<b>74,712</b>
Current tax assets (Net)	2,282	7,170	5,725	6,298	6,927
Deferred tax assets (Net)	8,694	17,439	28,840	31,724	34,897
Investment Property	20	26	10	11	12
Property, Plant and Equipment	1,106	2,095	8,458	9,303	10,234
Intangible assets	30	26,905	24,407	21,407	18,407
Other Non-Financial Assets	3,122	4,245	3,501	3,851	4,236
<b>Total Assets</b>	<b>14,21,061</b>	<b>20,36,639</b>	<b>23,72,760</b>	<b>27,20,671</b>	<b>30,85,125</b>

Source: Company, YES Sec.

## Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY22	FY23	FY24	FY25E	FY26E
Income from Operations	1,92,552	2,97,722	3,49,644	4,18,121	4,78,975
Interest expense	(97,343)	(1,25,458)	(1,48,061)	(1,76,096)	(1,96,074)
<b>Net interest income</b>	<b>95,209</b>	<b>1,72,264</b>	<b>2,01,583</b>	<b>2,42,025</b>	<b>2,82,900</b>
Non-interest income	191	307	332	382	439
Total op income	95,399	1,72,571	2,01,915	2,42,407	2,83,339
Total op expenses	(21,298)	(49,131)	(59,895)	(69,450)	(78,543)
<b>PPoP</b>	<b>74,101</b>	<b>1,23,441</b>	<b>1,42,020</b>	<b>1,72,957</b>	<b>2,04,796</b>
Provisions	(38,609)	(41,592)	(45,183)	(54,669)	(65,927)
Profit before tax	35,493	81,849	96,836	1,18,288	1,38,869
Taxes	(8,413)	(22,056)	(24,932)	(30,755)	(36,106)
<b>Net profit</b>	<b>27,079</b>	<b>59,793</b>	<b>71,905</b>	<b>87,533</b>	<b>1,02,763</b>

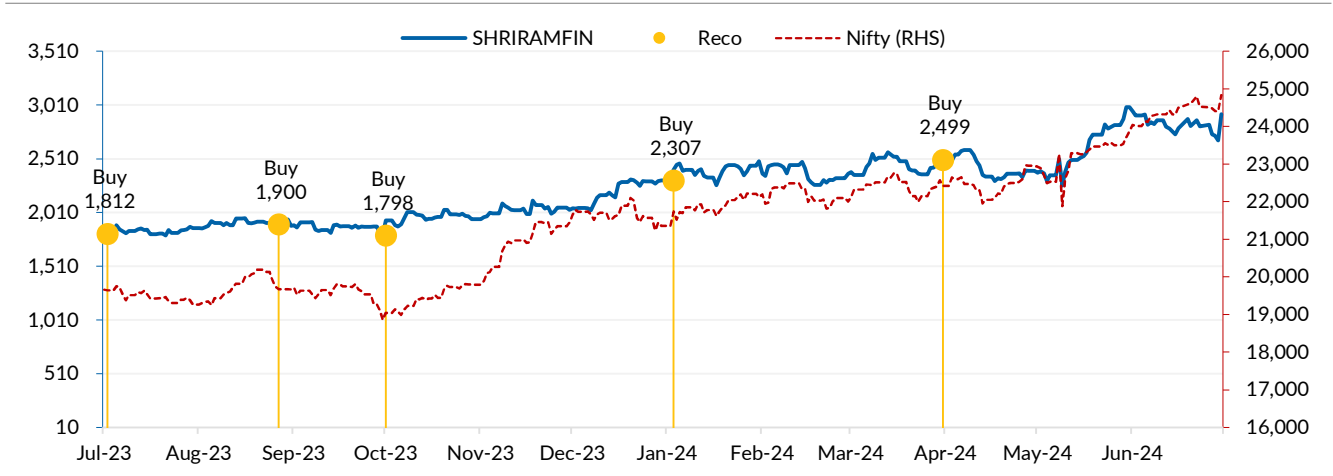
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Net interest income	13.8	80.9	17.0	20.1	16.9
Total op income	13.8	80.9	17.0	20.1	16.9
Op profit (pre-provision)	15.8	66.6	15.1	21.8	18.4
Net profit	8.9	120.8	20.3	21.7	17.4
Advances	7.7	47.4	20.9	16.0	15.0
Total Borrowings	7.8	37.9	17.7	15.0	13.0
Total assets	9.5	43.3	16.5	14.7	13.4
<b>Profitability Ratios (%)</b>					
NIM	6.9	10.0	9.8	10.0	10.1
Non-interest income /Total income	0.2	0.2	0.2	0.2	0.2
Return on Avg. Equity	11.4	17.3	15.7	16.8	17.3
Return on Avg. Assets	2.0	3.5	3.3	3.4	3.5
<b>Per share ratios (Rs)</b>					
EPS	100.1	159.7	191.3	232.9	273.5
Adj. BVPS	794.3	1005.0	1137.4	1292.7	1491.9
DPS	20.0	35.0	45.0	45.0	45.0
<b>Other key ratios (%)</b>					
Cost/Income	22.3	28.5	29.7	28.7	27.7
Tier-I capital	29.9	23.3	19.6	20.3	20.6
Credit Cost	2.8	2.4	2.2	2.3	2.4
Stage 1 and 2 ECL Provision	3.9	3.3	3.6	0.0	0.0
Tax rate	23.7	26.9	25.7	26.0	26.0
Dividend yield	0.7	1.2	1.5	1.5	1.5

Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

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