

SHFL reported steady performance in Q2FY25 with AUM, profitability, asset quality, and credit cost coming in line with consensus and our expectations amid a volatile environment. In addition to meeting expectations, the performance was broadly stable to a slight improvement QoQ. There has been good progress on the guided path of ~17-18% AuM growth, and commensurate growth in profit with stable asset quality. Overall, SHFL continued to impress with increasing predictability of its performance. To reflect Q2FY25 performance and external developments, we have tweaked our FY25-27 estimates leading to ~4% earnings cut led by higher borrowing cost and opex. We reiterate our ADD rating on the stock with revised Sep-25E TP of Rs3,500 (from Rs3,700 earlier), implying FY26E P/BV of 2x for SHFL standalone.

Shriram Finance: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profits	59,794	71,905	86,376	104,696	125,043
AUM growths (%)	15.9	21.1	17.8	17.0	16.3
NII growths (%)	27.5	17.0	19.1	18.0	17.3
NIMs (%)	10.3	18.9	10.7	10.7	10.7
PPOP growth (%)	26.5	15.1	20.4	18.1	18.0
Adj. EPS (Rs)	168.1	191.6	229.9	278.7	332.9
Adj. EPS growth (%)	45.3	14.0	20.0	21.2	19.4
Adj. BV (Rs)	1,132.9	1,275.7	1,455.0	1,672.4	1,932.0
Adj. BVPS growth (%)	9.4	12.6	14.1	14.9	15.5
RoA (%)	3.1	3.3	3.4	3.5	3.6
RoE (%)	15.5	15.9	16.8	17.8	18.5
P/E (x)	18.4	16.1	13.5	11.1	9.3
P/ABV (x)	2.7	2.4	2.1	1.8	1.6

Source: Company, Emkay Research

Increasing predictability of earnings amid volatile environment

SHFL reported a broadly stable performance in Q2FY25 that met consensus and our expectations on most parameters. The reported NIM decreased by 5bps QoQ as the slightly reduced share of high-yielding segments (PL, Gold, and 2W) led to minor compression in yields. The borrowing cost increased by 1bps QoQ to 8.97%. The asset quality continues to see slight improvement with GS2+GS3 for Q2FY25 reducing by 13bps to 11.92%, and the net provisioning cost in absolute terms being broadly stable at Rs12bn. Opex to AUM saw an increase of 13bps QoQ to 2.95% on account of some increased sourcing cost in a few segments, including 2W loans. Overall, the reported RoA compressed marginally by 6bps QoQ to 3.06%; however, slight increase in leverage helped the RoE to be stable at 16%. The capital adequacy was robust with CRAR of 20.16% and Tier 1 ratio of 19.36%. The company declared an interim dividend of Rs22/sh (Exhibits 1 and 5).

Management confident of maintaining performance momentum

Notwithstanding the turbulences in different lending segments troubling some of the lenders, SHFL's management is confident of maintaining the current performance momentum and delivering ~17-18% AUM growth with commensurate growth in profit and maintaining of stable asset quality. The cost of borrowing is expected to be sticky in the near term and any benefit will be contingent on the rate cut by the RBI. The management expects the asset quality and credit cost to stay stable and they don't see any risk of a spike in credit cost. Disbursement growth in Personal Loan, which has been declining in the last few quarters due to recalibration, is expected to pick up in the coming quarters. The company will receive Rs39bn from the closure of Shriram Housing sale process that shall increase its CRAR by 80bps.

Minor tweak to estimates; reiterate ADD with Sep-25E TP of Rs3,500

To reflect Q2Y25 performance and the developments in external environment, we have tweaked our FY25-27 estimates resulting in ~4% earnings cut driven by slightly higher Cost of Borrowings and Opex. We reiterate ADD on the stock, with our revised Sep-25E TP of Rs3,500 (vs Rs3,700 earlier), implying adjusted FY26E P/BV of 2x (Exhibits 2-4).

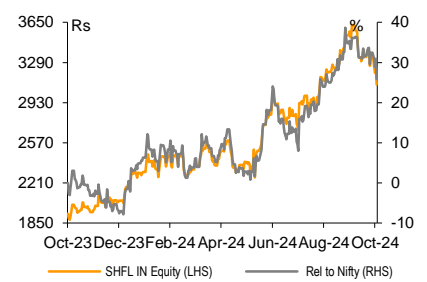
Target Price – 12M	Sep-25
Change in TP (%)	(5.4)
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	13.2
CMP (25-Oct-24) (Rs)	3,092.7

Stock Data	Ticker
52-week High (Rs)	3,652
52-week Low (Rs)	1,761
Shares outstanding (mn)	376.0
Market-cap (Rs bn)	1,163
Market-cap (USD mn)	13,830
Net-debt, FY25E (Rs mn)	66,725
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	4,481.2
ADTV-3M (USD mn)	53.3
Free float (%)	-
Nifty-50	24,181
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	25.4
FPIs/MFs (%)	53.3/16.2

Price Performance

(%)	1M	3M	12M
Absolute	(12.2)	15.4	70.3
Rel. to Nifty	(5.6)	16.5	34.7

1-Year share price trend (Rs)



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Exhibit 1: Actual vs estimates

Q2FY25	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Change		Emkay	
						QoQ	YoY	Estimate	variation
NII	45,947	49,110	50,874	52,339	54,641	2.9%	24.6%	55,137	-0.9%
Total Income	49,426	52,204	55,080	54,808	57,312	-0.5%	21.3%	57,342	-0.1%
Opex	14,618	15,311	16,024	16,140	17,597	0.7%	16.0%	16,989	3.6%
PPoP	34,808	36,893	39,056	38,668	39,715	-1.0%	23.7%	40,353	-1.6%
Provision	11,286	12,497	12,615	12,002	12,199	-4.9%	36.6%	12,736	-4.2%
PBT	23,523	24,396	26,441	26,666	27,515	0.8%	18.6%	27,617	-0.4%
PAT	17,508	18,183	19,459	19,806	20,713	1.8%	18.2%	20,520	0.9%
AUM	2,026,410	2,142,335	2,248,620	2,334,436	2,430,426	3.8%	20.8%	2,432,886	-0.1%
Credit cost	2.28%	2.40%	2.30%	2.10%	2.05%	-20bps	24bps	2.14%	-9bps
GS3	5.79%	5.66%	5.45%	5.39%	5.32%	-6bps	-65bps	5.40%	-8bps
NS3	2.80%	2.72%	2.70%	2.71%	2.74%	0bps	-9bps	2.77%	-2bps

Source: Company, Emkay Research

Exhibit 2: Changes in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Disbursement	1,672,285	1,672,285	0.0%	1,966,227	1,966,227	0.0%	2,313,965	2,313,965	0.0%
AUM	2,648,972	2,648,972	0.0%	3,098,354	3,098,354	0.0%	3,603,184	3,603,184	0.0%
Net Interest Income	230,836	227,804	-1.3%	272,043	268,487	-1.3%	318,746	314,606	-1.3%
Operating expenses	68,899	70,571	2.4%	78,472	80,439	2.5%	89,247	91,561	2.6%
PPOP	175,728	171,023	-2.7%	207,423	201,900	-2.7%	244,647	238,193	-2.6%
PAT	89,869	86,376	-3.9%	108,796	104,696	-3.8%	129,835	125,043	-3.7%
EPS (Rs)	239	230	-3.9%	290	279	-3.8%	346	333	-3.7%
BV (Rs)	1,462	1,455	-0.5%	1,688	1,672	-0.9%	1,958	1,932	-1.3%
Networth	549,301	546,576	-0.5%	634,162	628,238	-0.9%	735,433	725,772	-1.3%
Disbursement growth	17.6%	17.6%	0bps	17.6%	17.6%	0bps	17.7%	17.7%	0bps
AUM growth	17.8%	17.8%	0bps	17.0%	17.0%	0bps	16.3%	16.3%	0bps
Total PCR, as a % of AUM	51.79%	51.79%	0bps	51.79%	51.79%	0bps	51.79%	51.79%	0bps
NIM	10.7%	10.6%	-14bps	10.8%	10.6%	-14bps	10.8%	10.7%	-14bps
Opex-to-AUM	2.8%	2.9%	7bps	2.7%	2.8%	7bps	2.7%	2.7%	7bps
Cost-to-Income	28.2%	29.2%	105bps	27.4%	28.5%	104bps	26.7%	27.8%	104bps
Credit Cost	2.23%	2.23%	0bps	2.12%	2.12%	0bps	2.08%	2.08%	0bps
GS3	5.30%	5.30%	0bps	5.20%	5.20%	0bps	5.10%	5.10%	0bps
NS3	2.72%	2.72%	0bps	2.67%	2.67%	0bps	2.62%	2.62%	0bps
ROA	3.50%	3.36%	-13bps	3.63%	3.50%	-13bps	3.73%	3.60%	-13bps
ROE	17.48%	16.84%	-63bps	18.39%	17.82%	-56bps	18.96%	18.47%	-49bps

Source: Company, Emkay Research

Exhibit 3: SOTP Valuation

Entity name	Sep-26E BVPS (Rs)	No. of shares (mn)	Target multiple (x)	Holdco discount	M-Cap estimate (Rs mn)	Price per share (Rs)
Shriram Finance (Standalone) - A	1,802.21	376	1.9	0%	1,277,218	3,400
Shriram Housing (Standalone) - B					39,000	105
Shriram Finance Valuation (Rs mn) = A+B						3,500

Source: Company, Emkay Research

Exhibit 4: Valuation matrix

	CMP/TP (Rs)	Upside	Mkt Cap (Rs bn)	P/BV (x)			P/E (x)			RoA (%)			RoE (%)			Book Value (Rs/sh)			Adj. EPS (Rs)		
				FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
At current market price	3,093	13.2%	1,281.9	2.1	1.8	1.6	13.5	11.1	9.3	3.4	3.5	3.6	16.8	17.8	18.5	1,455	1,672	1,932	230	279	333
At target price	3,500			2.4	2.1	1.8	15.2	12.6	10.5	3.4	3.5	3.6	16.8	17.8	18.5	1,455	1,672	1,932	230	279	333

Source: Company, Emkay Research

Exhibit 5: Quarterly snapshot

(Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)
Net Interest Income	47,072	49,884	51,453	52,772	55,111	17.1%	4.4%
Other Income	2,354	2,320	3,627	2,037	2,201	-6.5%	8.1%
Total Income	49,426	52,204	55,080	54,808	57,312	16.0%	4.6%
Operating Expenses	14,618	15,311	16,024	16,140	17,597	20.4%	9.0%
Operating Profit	34,808	36,893	39,056	38,668	39,715	14.1%	2.7%
Provisions	11,286	12,497	12,615	12,002	12,199	8.1%	1.6%
Credit costs (%)	2.3%	2.4%	2.3%	2.1%	2.0%	-23bps	-5bps
PBT	23,523	24,396	26,441	26,666	27,515	17.0%	3.2%
Tax	6,014	6,213	6,983	6,860	6,803	13.1%	-0.8%
Tax rate (%)	25.6%	25.5%	26.4%	25.7%	24.7%		
PAT	17,508	18,183	19,459	19,806	20,713	18.3%	4.6%
Total AUM	2,026,410	2,142,335	2,248,620	2,334,436	2,430,426	19.9%	4.1%
Disbursement	346,056	377,878	393,240	377,090	399,730	15.5%	6.0%
Net worth	460,347	470,545	485,684	505,596	521,356	13.3%	3.1%
GS3 (%)	5.79%	5.66%	5.45%	5.39%	5.32%	-47bps	-7bps
NS3 (%)	2.80%	2.72%	2.70%	2.71%	2.74%	-6bps	4bps
PCR (%)	53.1%	53.4%	51.8%	51.1%	51.7%	-140bps	55bps

Source: Company, Emkay Research

Exhibit 6: AUM trend

AUM trend (Rs bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Commercial Vehicles	906	933	959	984	1,025	1,069	1,097	1,122
Passenger Vehicles	318	339	363	397	415	432	460	490
Construction Equipment	139	144	146	151	162	170	170	176
Farm Equipment	33	35	34	35	34	37	40	45
MSME	177	191	200	213	231	262	288	323
Two Wheelers	100	104	100	104	121	126	129	131
Gold	44	45	50	54	59	63	61	61
Personal Loans	58	67	79	88	95	90	89	83
Others	1	0	0	0	0	0	0	0
Total	1,775	1,857	1,932	2,026	2,142	2,249	2,334	2,430

Source: Company, Emkay Research

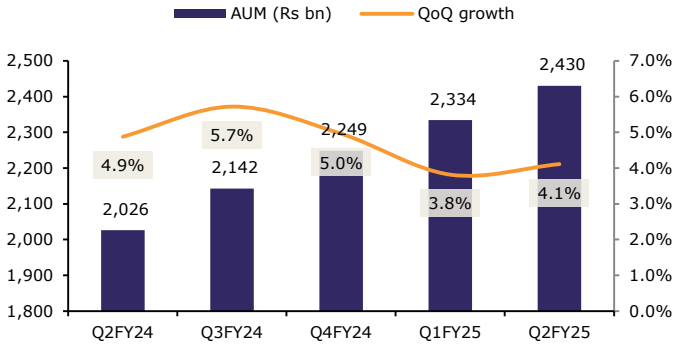
Exhibit 7: Disbursement trend

Disbursement trend (Rs bn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
CV	118	122	120	128	144	154	140	150
PV	57	56	59	74	61	67	74	76
CE	18	19	17	20	28	24	19	23
FE/tractor	5	6	5	6	5	9	8	9
MSME	29	36	31	36	43	64	62	69
2 Wheeler	32	23	22	24	37	26	27	26
Gold	21	25	28	31	31	32	27	27
PL	18	23	23	29	29	17	20	21
Total	298	311	305	346	378	393	377	400

Source: Company, Emkay Research

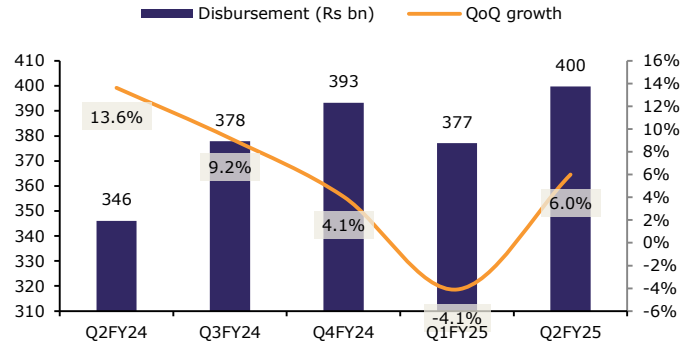
Result in charts

Exhibit 8: Strong growth momentum in AUM, growing by 4.1% QoQ



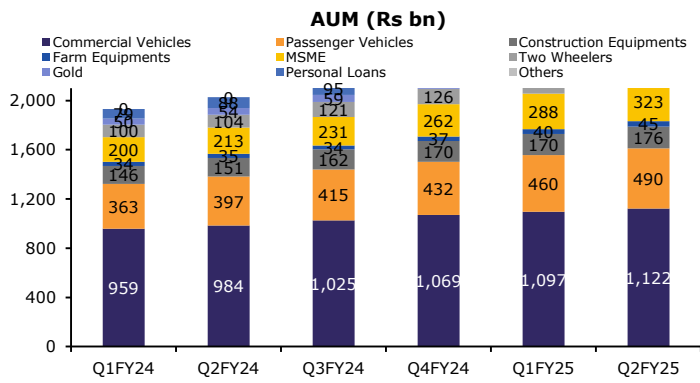
Source: Company, Emkay Research

Exhibit 9: Disbursement grows 6% QoQ during Q2FY25



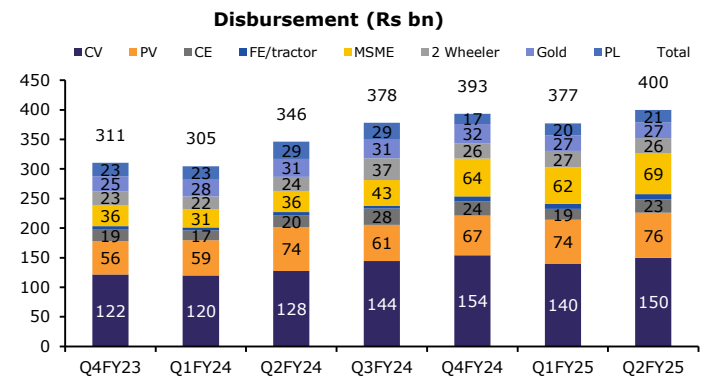
Source: Company, Emkay Research

Exhibit 10: AUM mix



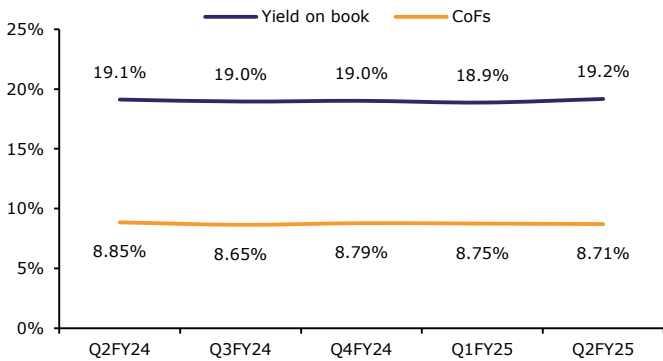
Source: Company, Emkay Research

Exhibit 11: Disbursement mix



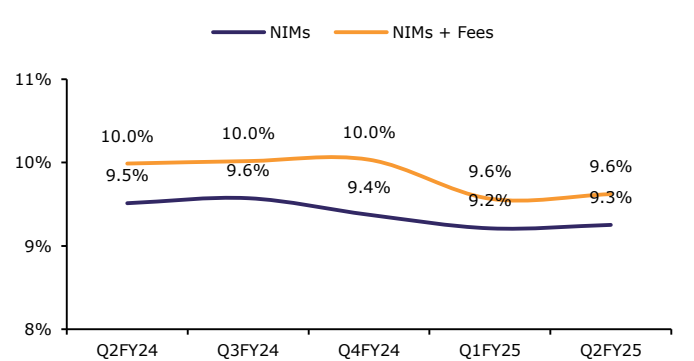
Source: Company, Emkay Research

Exhibit 12: Incremental CoFs improved marginally



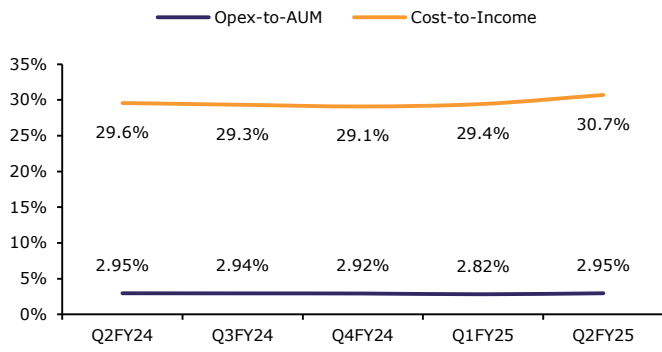
Source: Company, Emkay Research

Exhibit 13: NIMs remain broadly stable sequentially



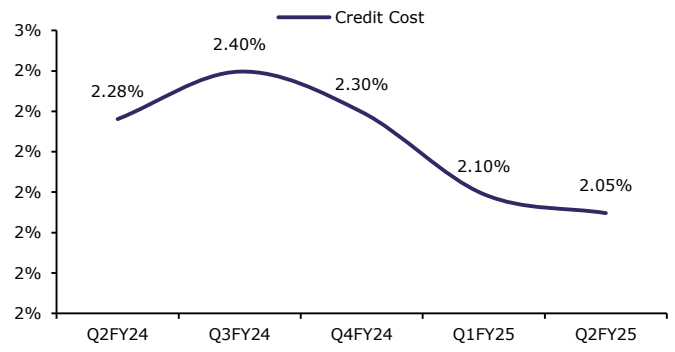
Source: Company, Emkay Research

Exhibit 14: Opex-to-AUM inches up slightly during the quarter



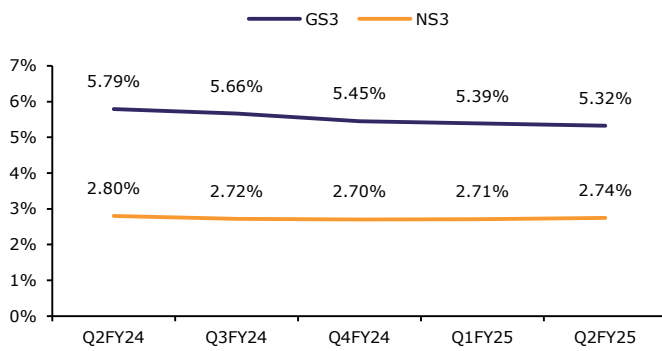
Source: Company, Emkay Research

Exhibit 15: Credit cost improves further on a sequential basis



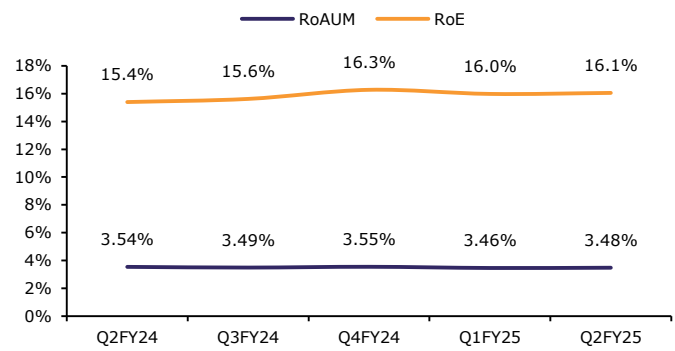
Source: Company, Emkay Research

Exhibit 16: Asset quality continues to see improvement



Source: Company, Emkay Research

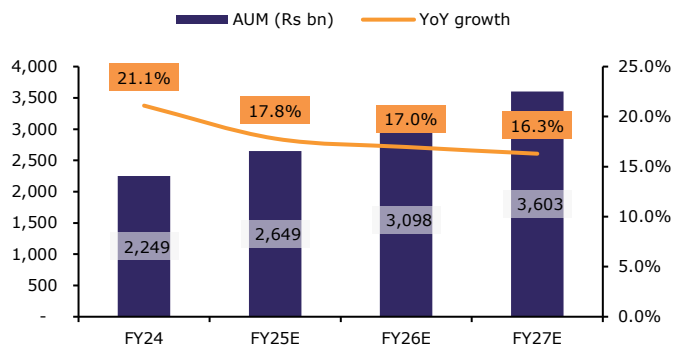
Exhibit 17: ROE/ROA remains broadly stable



Source: Company, Emkay Research

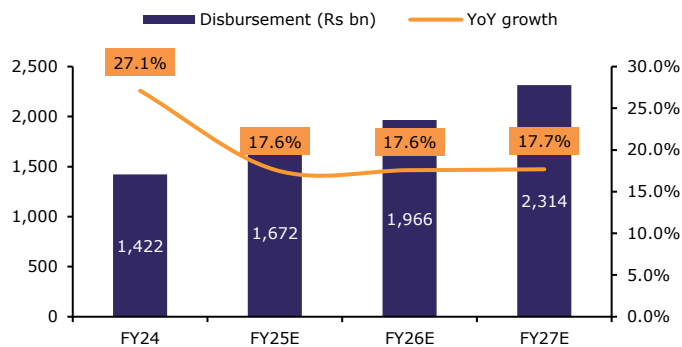
Story in charts

Exhibit 18: AUM is expected to grow in the 16-18% range



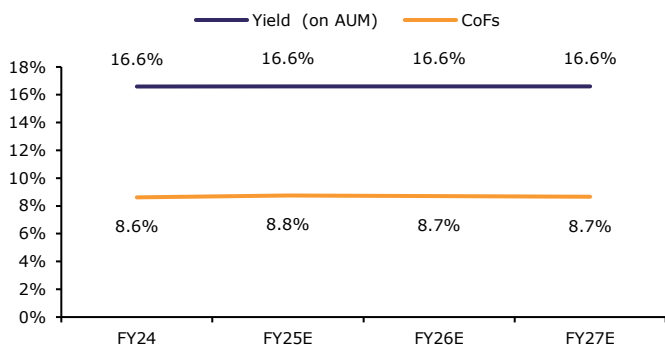
Source: Company, Emkay Research

Exhibit 19: Strong disbursement across product segments



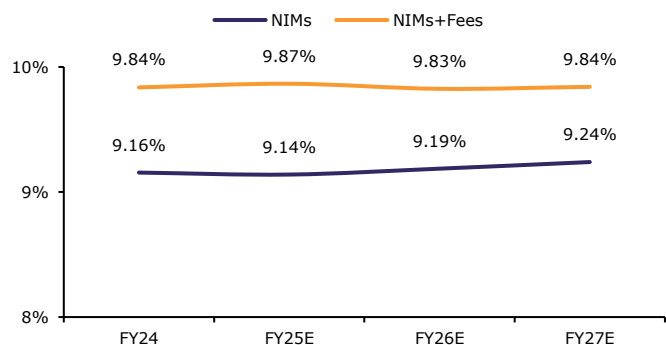
Source: Company, Emkay Research

Exhibit 20: We expect Yields and CoFs to remain stable over our forecast period



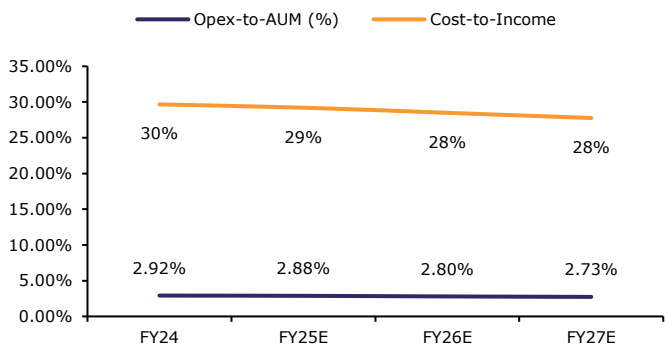
Source: Company, Emkay Research

Exhibit 21: Margins to remain broadly stable



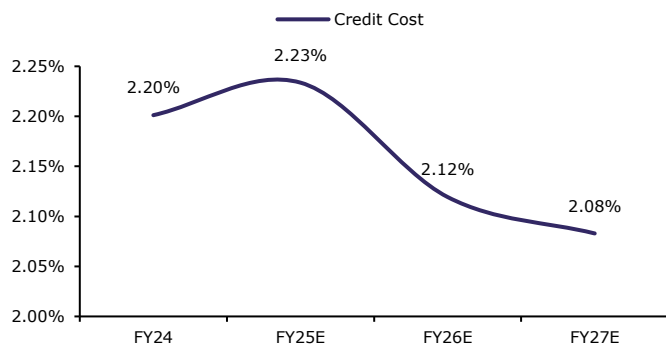
Source: Company, Emkay Research

Exhibit 22: Opex-to-AUM to improve on account of enhanced efficiency



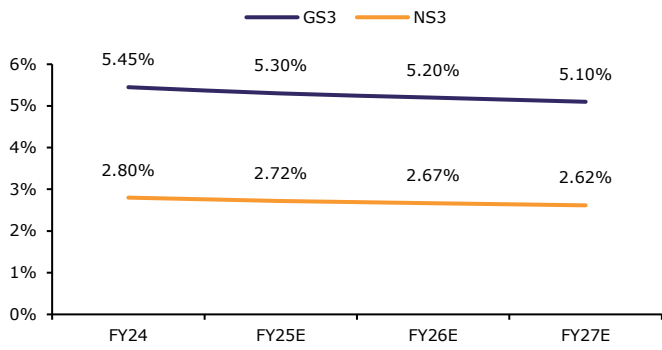
Source: Company, Emkay Research

Exhibit 23: We expect credit cost to continue improving on account of stable asset quality



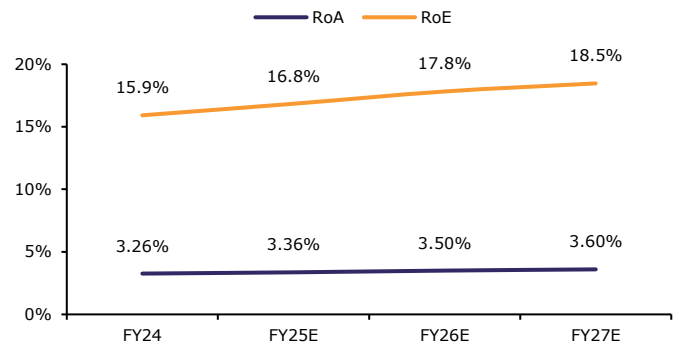
Source: Company, Emkay Research

Exhibit 24: Asset quality to remain stable



Source: Company, Emkay Research

Exhibit 25: ROA/ROE expanded on account of improved efficiency



Source: Company, Emkay Research

Shriram Finance: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	286,074	335,997	400,726	470,252	548,326
Interest Expense	125,458	148,061	176,917	206,257	238,730
Net interest income	160,616	187,935	223,809	263,994	309,596
NII growth (%)	27.5	17.0	19.1	18.0	17.3
Non interest income	11,956	13,980	17,785	18,344	20,158
Total income	172,572	201,915	241,594	282,339	329,754
Operating expenses	49,131	59,895	70,571	80,439	91,561
PPOP	123,441	142,020	171,023	201,900	238,193
PPOP growth (%)	26.5	15.1	20.4	18.1	18.0
Provisions & contingencies	41,592	45,183	54,698	60,903	69,794
PBT	81,849	96,836	116,325	140,997	168,399
Extraordinary items	0	0	0	0	0
Tax expense	22,056	24,932	29,949	36,301	43,356
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	59,794	71,905	86,376	104,696	125,043
PAT growth (%)	57.6	20.3	20.1	21.2	19.4
Adjusted PAT	59,794	71,905	86,376	104,696	125,043
Diluted EPS (Rs)	168.1	191.6	229.9	278.7	332.9
Diluted EPS growth (%)	45.3	14.0	20.0	21.2	19.4
DPS (Rs)	35.0	45.0	50.6	61.3	73.2
Dividend payout (%)	21.9	23.5	22.0	22.0	22.0
Effective tax rate (%)	26.9	25.7	25.7	25.7	25.7
Net interest margins (%)	10.3	18.9	10.7	10.7	10.7
Cost-income ratio (%)	28.5	29.7	29.2	28.5	27.8
PAT/PPOP (%)	48.4	50.6	50.5	51.9	52.5
Shares outstanding (mn)	374.4	375.7	375.7	375.7	375.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
GNPL - Stage 3	113,822	120,812	138,401	158,826	181,152
NNPL - Stage 3	56,749	58,244	66,725	76,571	87,335
GNPL ratio - Stage 3 (%)	6.2	5.5	5.3	5.2	5.1
NNPL ratio - Stage 3 (%)	3.2	2.8	2.7	2.7	2.6
ECL coverage - Stage 3 (%)	50.1	51.8	51.8	51.8	51.8
ECL coverage - 1 & 2 (%)	3.3	3.6	3.6	3.6	3.5
Gross slippage - Stage 3	0	0	0	0	0
Gross slippage ratio (%)	0.0	0.0	0.0	0.0	0.0
Write-off ratio (%)	23.8	24.4	25.7	26.3	26.7
Total credit costs (%)	2.4	2.2	2.2	2.1	2.1
NNPA to networth (%)	13.1	12.2	12.2	12.2	12.0
Capital adequacy					
Total CAR (%)	0.0	0.0	0.0	0.0	0.0
Tier-1 (%)	0.0	0.0	0.0	0.0	0.0
Miscellaneous					
Total income growth (%)	27.5	17.0	19.7	16.9	16.8
Opex growth (%)	30.0	21.9	17.8	14.0	13.8
PPOP margin (%)	7.1	6.9	7.0	7.0	7.1
Credit costs-to-PPOP (%)	33.7	31.8	32.0	30.2	29.3
Loan-to-Assets (%)	84.4	87.6	88.7	89.1	89.6
Yield on loans (%)	16.6	16.6	16.6	16.6	16.6
Cost of funds (%)	8.3	8.6	8.6	8.6	8.6
Spread (%)	8.3	8.0	8.0	8.0	8.0

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	3,744	3,757	3,757	3,757	3,757
Reserves & surplus	429,322	481,927	542,819	624,482	722,015
Net worth	433,066	485,684	546,576	628,238	725,772
Borrowings	1,579,063	1,858,411	2,185,402	2,556,142	2,963,619
Other liabilities & prov.	24,509	28,665	31,531	34,684	38,153
Total liabilities & equity	2,036,639	2,372,760	2,763,509	3,219,065	3,727,544
Net loans	1,719,846	2,079,294	2,450,293	2,868,788	3,339,058
Investments	85,651	106,566	117,223	128,945	141,840
Cash, other balances	158,174	108,126	110,749	128,970	146,455
Interest earning assets	1,963,671	2,293,987	2,678,265	3,126,704	3,627,353
Fixed assets	0	0	0	0	0
Other assets	72,968	78,773	85,244	92,361	100,191
Total assets	2,036,639	2,372,760	2,763,509	3,219,065	3,727,544
BVPS (Rs)	1,132.9	1,275.7	1,455.0	1,672.4	1,932.0
Adj. BVPS (INR)	1,132.9	1,275.7	1,455.0	1,672.4	1,932.0
Gross loans	1,833,384	2,216,677	2,611,342	3,054,340	3,551,999
Total AUM	1,856,829	2,248,620	2,648,972	3,098,354	3,603,184
On balance sheet	1,833,384	2,216,677	2,611,342	3,054,340	3,551,999
Off balance sheet	23,444	31,943	37,630	44,014	51,186
Disbursements	1,118,484	1,421,706	1,672,285	1,966,227	2,313,965
Disbursements growth (%)	29.7	27.1	17.6	17.6	17.7
Loan growth (%)	16.5	20.9	17.8	17.1	16.4
AUM growth (%)	15.9	21.1	17.8	17.0	16.3
Borrowings growth (%)	0.0	17.7	17.6	17.0	15.9
Book value growth (%)	9.4	12.6	14.1	14.9	15.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	18.4	16.1	13.5	11.1	9.3
P/B (x)	2.7	2.4	2.1	1.8	1.6
P/ABV (x)	2.7	2.4	2.1	1.8	1.6
P/PPOP (x)	2.5	2.2	1.8	1.5	1.3
Dividend yield (%)	1.1	1.5	1.6	2.0	2.4
DuPont-RoE split (%)					
NII/avg AUM	9.3	9.2	9.1	9.2	9.2
Other income	0.6	0.5	0.6	0.5	0.5
Securitization income	0.1	0.2	0.2	0.2	0.1
Opex	1.4	1.4	1.3	1.3	1.2
Employee expense	1.4	1.6	1.5	1.5	1.5
PPOP	7.1	6.9	7.0	7.0	7.1
Provisions	2.4	2.2	2.2	2.1	2.1
Tax expense	1.2	1.1	1.1	1.2	1.2
RoAUM (%)	3.5	3.5	3.5	3.6	3.7
Leverage ratio (x)	4.5	4.5	4.8	4.9	4.9
RoE (%)	15.5	15.9	16.8	17.8	18.5
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	45,947	49,110	50,874	52,339	54,641
NIM(%)	10.6	10.8	10.6	10.5	10.7
PPOP	34,808	36,893	39,056	38,668	39,715
PAT	17,508	18,183	19,459	19,806	20,713
EPS (Rs)	46.76	48.56	51.97	52.90	55.32

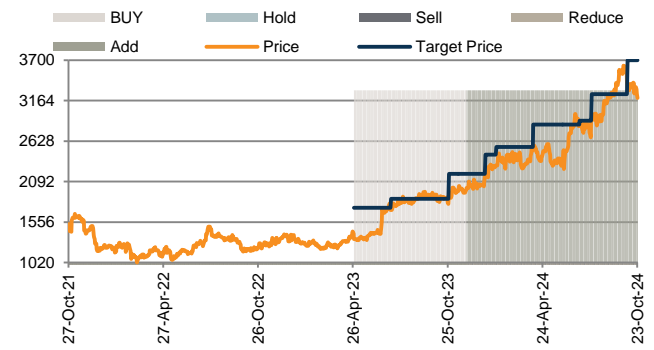
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
04-Oct-24	3,336	3,700	Add	Avinash Singh
02-Sep-24	3,225	3,250	Add	Avinash Singh
20-Aug-24	3,160	3,250	Add	Avinash Singh
27-Jul-24	2,925	3,250	Add	Avinash Singh
04-Jul-24	2,834	2,900	Add	Avinash Singh
05-Jun-24	2,387	2,850	Add	Avinash Singh
27-Apr-24	2,499	2,850	Add	Avinash Singh
06-Apr-24	2,519	2,850	Add	Avinash Singh
26-Jan-24	2,307	2,550	Add	Avinash Singh
05-Jan-24	2,172	2,450	Add	Avinash Singh
30-Nov-23	2,007	2,195	Add	Avinash Singh
27-Oct-23	1,935	2,195	Buy	Avinash Singh
08-Jul-23	1,719	1,865	Buy	Avinash Singh
28-Apr-23	1,333	1,745	Buy	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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