

**AuM growth sustained along with margin improvement**

Q2FY24 Result Update | Sector: NBFC | October 27, 2023

**BUY**

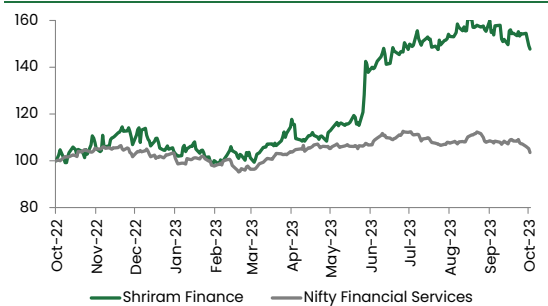
<b>CMP (Rs)</b>	<b>1,798</b>
<b>Target Price (Rs)</b>	<b>2,196</b>
<b>Potential Upside</b>	<b>22.2%</b>
<b>Sensex</b>	63,148
<b>Nifty</b>	18,857

**Key Stock data**

<b>BSE Code</b>	511218
<b>NSE Code</b>	SHRIRAMFIN
<b>Bloomberg</b>	SHFL:IN
<b>Shares o/s, Cr (FV 10)</b>	37.5
<b>Market Cap (Rs Cr)</b>	67,393
<b>3M Avg Volume</b>	1,216,461
<b>52 week H/L</b>	1,975/1,190

**Shareholding Pattern**

(%)	Mar-23	Jun-23	Sep-23
<b>Promoter</b>	25.5	25.5	25.5
<b>FII</b>	49.8	55.4	54.7
<b>DII</b>	11.8	14.7	15.2
<b>Public</b>	13.0	4.5	4.7

**1 Year relative price performance**

**1 year forward P/Adj. BV (x)**

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**Uptick in top-line growth:** Shriram Finance Net Interest Income (NII) in Q2FY24 was Rs 4,969 Cr with a growth of 8.5% QoQ/18.8% YoY. NII growth was mainly led by improvement in yields as the interest income increased by 6.8% QoQ/16.6% YoY to Rs 8,909 Cr. Interest expense remained moderate as the company managed its cost of funds effectively with a growth 4.8% QoQ/13.8% YoY to Rs 3,839 Cr.

**Margins improvement continues:** Net Interest Margin (NIM) during the quarter improved by 60bps QoQ/67bps YoY to 8.9%. The NBFC company has managed to sustain its margin as compared to peers in the environment of interest rate hikes. The management expects that such margin will continue going forward and expects NIM to be in the range of 9-9.5%. The margin improvement was also led by change in product mix.

**Passenger vehicles driving AuM growth:** AuM saw a healthy growth of 4.9% QoQ/19.7% YoY at Rs 2,02,641 Cr which was driven mainly by passenger vehicles growth of 9.4% QoQ/32.3% YoY. Commercial vehicles which constitute highest share of AuM mix saw a moderate growth of 2.6% QoQ/12.3% YoY. Commercial vehicles share in the overall AuM mix declined by 166bps QoQ/319bps YoY to 48.6%. The management expects moderate growth of Commercial vehicles going forward at 12-15% YoY while other segments will continue to see high growth. Post the merger, Personal loan segment during the quarter increased by 11.6% QoQ/73.3% YoY. The management expects AuM growth to sustain and guided growth of 18-20% in the next quarters.

**Operating efficiency and profitability:** Core operating profit increased by 10.2% QoQ/15.7% YoY to Rs 3,461 Cr as the company managed its costs efficiently. Cost to income ratio declined on QoQ basis by 166bps to 25.7%. PAT saw a growth of 4.6% QoQ/12.9% YoY to Rs 1,789 Cr as the company increased its provisions by 28.4% QoQ/26.4% YoY. The company expects costs to moderate going forward which will improve margins and increase profitability. RoA/RoE remained healthy at 3.1%/15.4%.

**Asset quality improves:** Asset quality on both segmental basis and on group level remained healthy. Gross/net stage-3 assets declined by 52bps QoQ/YoY to Rs 5.8%/2.8%. The company remains cautious in lending to the new customers. It disburses majority of personal loan to existing customers so that it is familiar with the behaviour of customers.

**Valuation:** We remain positive on Shriram Finance on the back strong growth in AuM, growth of high yielding segments and uptick in margins. The management remains positive on the growth path going forward and expects AuM growth as well as margins to sustain. It also marching towards technological development by launch of various digital initiatives and also partnering with fintech companies such as Paytm to widen its reach and provide superior user experience. We expect NII/PAT to grow at a CAGR of 16%/24% over FY23-25E. We maintain **Buy** rating with a target price of **Rs 2,196** valuing the company at 1.4x of its FY25E Adj. BV.

**Financial Summary - consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Interest Income	18,646	29,206	33,975	40,389
Revenue from Operations	19,255	30,477	35,842	42,864
Total Income	19,274	30,508	35,874	42,900
Net interest income	9,440	17,310	20,340	23,343
Profit before tax	3,562	8,222	10,200	12,714
Profit after tax	2,721	6,011	7,436	9,268
EPS (Rs)	101.2	160.5	198.9	247.9
P/Adj. BV (x)	1.9	1.6	1.3	1.1
RoE (%)	11.1	14.8	15.7	16.6

Source : RBL Research

**Con-call highlights:** 1) During the quarter, the company launched Superapp named 'Shriram One'. The app is loaded with features such as loan pre-repayment, investment, insurance, credit score checks and other utility function. 2) Disbursement during the quarter increased by 13.63% QoQ/30.91% YoY to Rs 34,605 Cr. Out of disbursement, CV was Rs 12,782 Cr while passenger vehicles were Rs 7379 Cr. Construction equipment disbursement was Rs 1,978 while farm equipment was at Rs 550 Cr and MSMEs disbursement was Rs 3,593 Cr, etc. 3) The management expects CV segment to grow at 12-15% YoY while other segments will grow at a faster pace. 4) In H1FY24, the highest growth has come from passenger vehicles. MSMEs, Gold and personal loans which are higher yielding products and therefore supported NIMs. 5) In the disbursement of commercial vehicles, 10-12% of disbursement was for new vehicles while rest of the disbursement were for old commercial vehicles. 6) The company did not take any rate hike for CV and PV segment. 7) The company expects net interest margin at 8.5-9% by FY24. It expects current margin to sustain going forward. 8) During the quarter, the company on-boarded 5,000 employees. 9) The management expects AuM growth of 18-20% in the next quarters. 10) Personal loans are 100% targeted at existing customers. Average ticket size of customers coming for 2W loan is Rs 45,000-Rs 50,000 while customers who are serviced 2-3 times is ~Rs 60,000-Rs 75,000. Yield of such loans ranges from 20-26%. 11) 85% of personal loans customers are either self-employed or small businessmen. Hence, the nature of personal loan is for business purposes. 12) The company is gaining market share in used commercial vehicles segment.

#### Quarterly Performance - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Interest income	8,809	7,557	16.6	8,245	6.8
Interest expended	3,839	3,374	13.8	3,665	4.8
<b>Net interest income</b>	<b>4,969</b>	<b>4,183</b>	<b>18.8</b>	<b>4,580</b>	<b>8.5</b>
Staff cost	852	608	40.0	847	0.5
Other operating expenditure	657	582	12.8	593	10.7
Operating expenditure	1,508	1,190	26.7	1,441	4.7
<b>Core operating profit</b>	<b>3,461</b>	<b>2,993</b>	<b>15.7</b>	<b>3,139</b>	<b>10.2</b>
Other income	83	34	147.4	49	68.5
<b>Operating profit</b>	<b>3,544</b>	<b>3,026</b>	<b>17.1</b>	<b>3,189</b>	<b>11.1</b>
Loan losses & provisions	1,140	902	26.4	888	28.4
Profit before tax	2,404	2,124	13.2	2,301	4.5
Tax	615	548	12.2	589	4.3
<b>Profit after tax</b>	<b>1,789</b>	<b>1,576</b>	<b>13.5</b>	<b>1,711</b>	<b>4.6</b>
EPS (Rs)	47.6	42.2	12.9	45.5	4.6
<b>RoA (%)</b>	<b>3.1</b>	<b>3.0</b>	<b>14bps</b>	<b>3.1</b>	<b>6bps</b>
<b>RoE (%)</b>	<b>15.4</b>	<b>15.6</b>	<b>-22bps</b>	<b>15.2</b>	<b>21bps</b>
<b>Net interest margin (%)</b>	<b>8.9</b>	<b>8.3</b>	<b>67bps</b>	<b>8.3</b>	<b>60bps</b>
Cost to income ratio (%)	25.68	24.42	126bps	27.34	-166bps

Source : RBL Research

Net interest income increased by 8.5% QoQ/18.8% YoY as yields continue to improve

Core operating profit increased by 10.2% QoQ/15.7% YoY in Q2FY24

PAT growth was moderate at 4.6% QoQ/13.5% YoY as provisions increased

Net interest margin improved by 60bps QoQ/67bps YoY due to favorable product mix

**AuM Components**

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
<b>On and off books AuM (Rs Cr)</b>					
On books	199,595	167,770	19.0	190,722	4.7
Off books	3,046	1,588	91.8	2,493	22.2
<b>AuM</b>	<b>202,641</b>	<b>169,358</b>	<b>19.7</b>	<b>193,215</b>	<b>4.9</b>
<b>Segment-wise AuM Break up (Rs Cr)</b>					
Commercial vehicles	98,436	87,676	12.3	95,905	2.6
<b>Passenger vehicles</b>	<b>39,694</b>	<b>30,004</b>	<b>32.3</b>	<b>36,292</b>	<b>9.4</b>
Construction equipments	15,058	13,387	12.5	14,626	3.0
Farm equipments	3,480	3,297	5.5	3,419	1.8
<b>MSME</b>	<b>21,310</b>	<b>16,888</b>	<b>26.2</b>	<b>20,045</b>	<b>6.3</b>
Two wheelers	10,419	8,506	22.5	10,023	3.9
Gold	5,406	4,433	21.9	4,985	8.4
Personal loans	8,838	5,099	73.3	7,920	11.6
<b>Segment-wise AUM Break up (%)</b>					
Commercial vehicles	48.6	51.8	-319bps	50.2	-166bps
<b>Passenger vehicles</b>	<b>19.6</b>	<b>17.7</b>	<b>187bps</b>	<b>18.2</b>	<b>135bps</b>
Construction equipments	7.4	7.9	-47bps	7.7	-31bps
Farm equipments	1.7	1.9	-23bps	1.9	-15bps
<b>MSME</b>	<b>10.5</b>	<b>10.0</b>	<b>54bps</b>	<b>10.3</b>	<b>23bps</b>
Two wheelers	5.1	5.0	12bps	5.6	-44bps
Gold	2.7	2.6	5bps	2.4	26bps
Personal loans	4.4	3.0	135bps	3.6	76bps

Source : RBL Research

**Asset Quality**

Particulars	Q2FY24	Q2FY23	Y-o-Y (bps)	Q1FY24	Q-o-Q (bps)
Gross stage 1	173,713	140,188	23.9	164,249	5.8
<b>Gross stage 2</b>	<b>14,325</b>	<b>16,999</b>	<b>(15.7)</b>	<b>14,964</b>	<b>(4.3)</b>
<b>Gross Stage 3</b>	<b>11,556</b>	<b>10,583</b>	<b>9.2</b>	<b>11,509</b>	<b>0.4</b>
Net stage 1	168,402	136,409	23.5	159,467	5.6
Net stage 2	13,351	15,825	(15.6)	13,918	(4.1)
Net Stage 3	5,420	5,391	0.5	5,461	(0.8)
Gross stage 1 (%)	87.0	83.6	347bps	86.1	91bps
Gross stage 2 (%)	7.2	10.1	-295bps	7.9	-67bps
<b>Gross stage 3 (%)</b>	<b>5.8</b>	<b>6.3</b>	<b>-52bps</b>	<b>6.0</b>	<b>-24bps</b>
<b>Net stage 3 (%)</b>	<b>2.8</b>	<b>3.3</b>	<b>-52bps</b>	<b>3.0</b>	<b>-16bps</b>

Source : RBL Research

Passenger vehicles segment saw a healthy growth of 9.4% QoQ/32.3% YoY

MSME and Two wheelers saw healthy double digit YoY growth

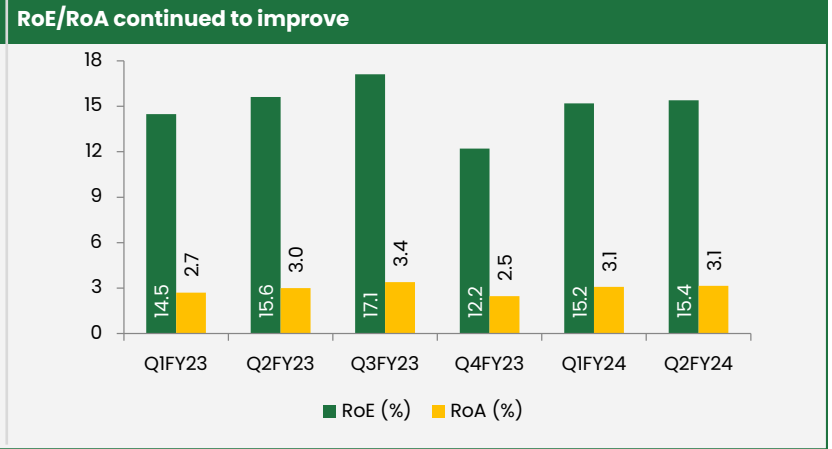
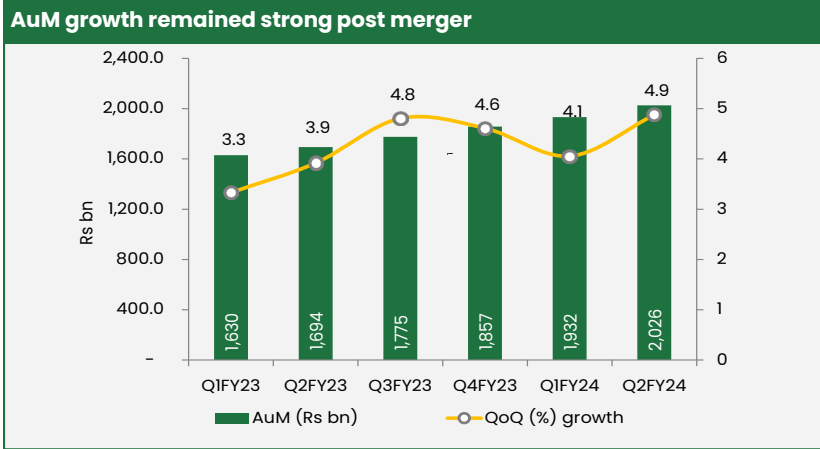
Passenger mix increased in the overall AuM by 135bps QoQ/187bps YoY

MSME and Personal proportional mix increased in the overall AuM due to high growth

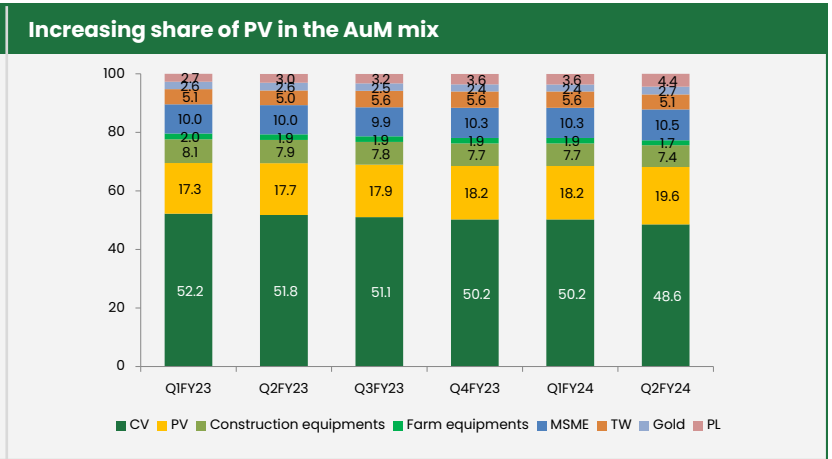
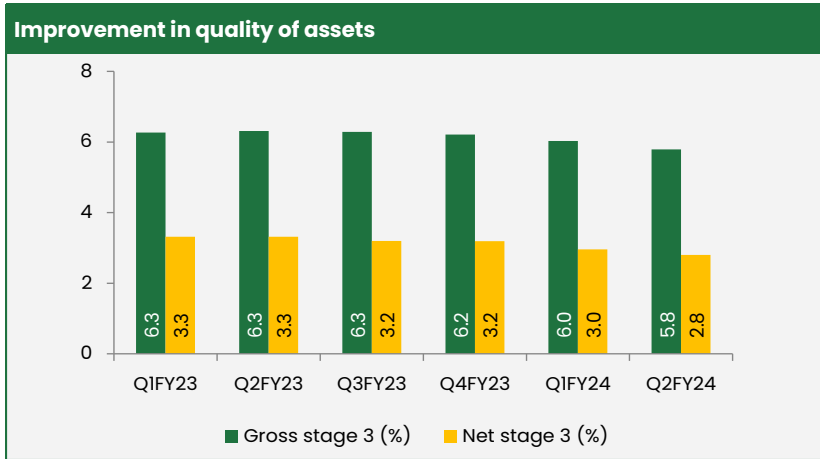
Gross stage 3 assets increased marginally by 0.4% QoQ/9.2% YoY

Asset quality improved as Gross stage 3 and Net stage 3 assets saw a decline

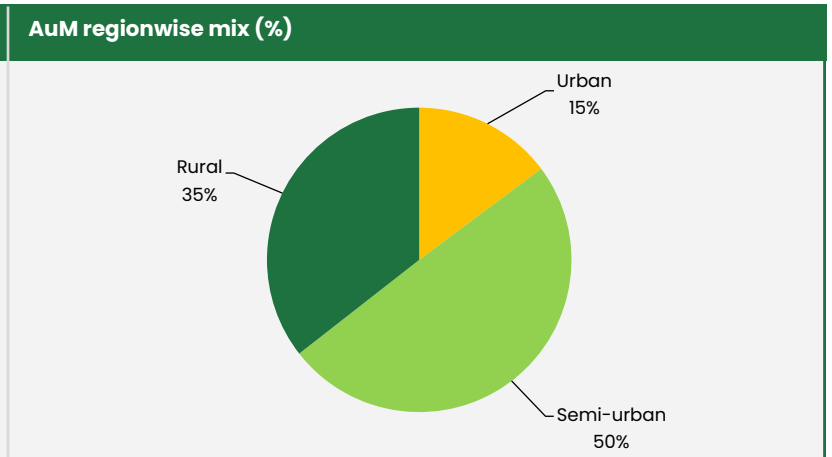
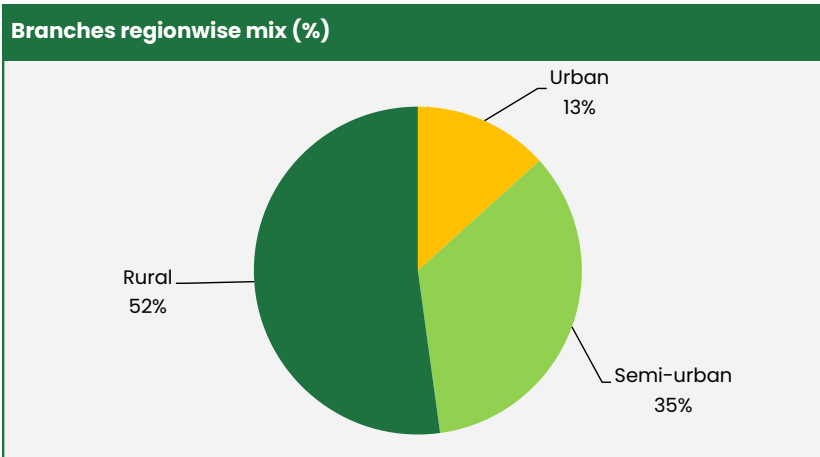
Story in charts



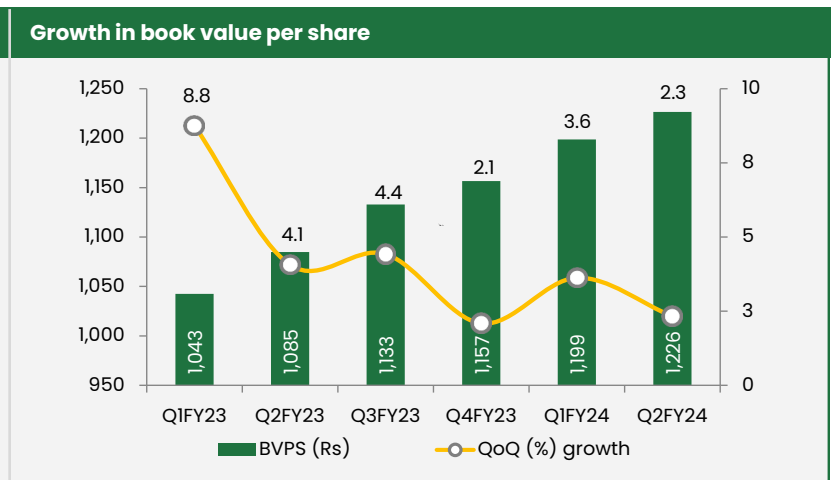
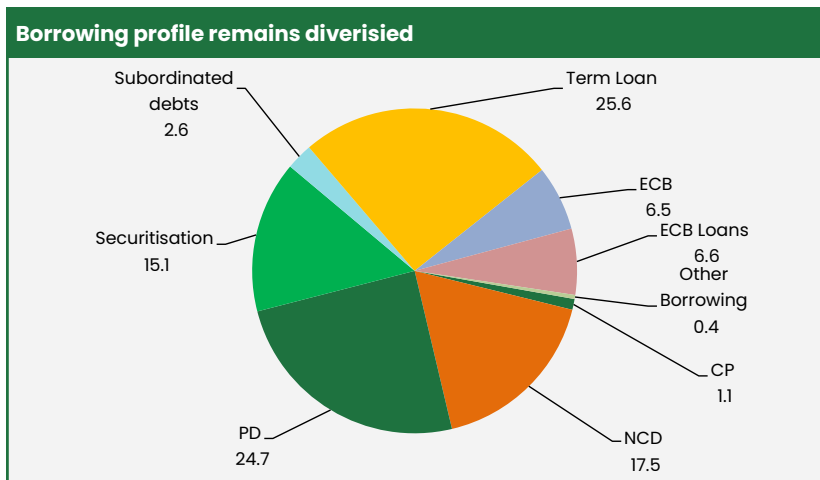
Source : RBL Research



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Source : RBL Research



Source : RBL Research

## Income Statement – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>Interest income</b>	<b>18,646</b>	<b>29,206</b>	<b>33,975</b>	<b>40,389</b>
Other operating income	609	1,271	1,867	2,476
<b>Revenue from operations</b>	<b>19,255</b>	<b>30,477</b>	<b>35,842</b>	<b>42,864</b>
Other income	19	32	32	36
<b>Total income</b>	<b>19,274</b>	<b>30,508</b>	<b>35,874</b>	<b>42,900</b>
Finance cost	9,734	12,931	13,635	17,046
<b>Net interest income (NII)</b>	<b>9,440</b>	<b>17,310</b>	<b>20,340</b>	<b>23,343</b>
Fees and commission expenses	92	313	258	300
Impairment on financial instruments	3,861	4,169	5,701	5,391
Employees cost	997	2,636	2,953	3,278
Depreciation	135	601	629	753
Misc expenses	906	1,644	2,511	3,432
<b>Total expenditure</b>	<b>15,725</b>	<b>22,295</b>	<b>25,687</b>	<b>30,200</b>
Profit before share of associates	3,549	8,213	10,187	12,700
Share of (loss)/profit in Associates and JV	13	9	13	14
<b>Profit before tax</b>	<b>3,562</b>	<b>8,222</b>	<b>10,200</b>	<b>12,714</b>
Tax	841	2,202	2,754	3,433
<b>Profit after tax</b>	<b>2,721</b>	<b>6,011</b>	<b>7,436</b>	<b>9,268</b>
<b>EPS (Rs)</b>	<b>101.2</b>	<b>160.5</b>	<b>198.9</b>	<b>247.9</b>

Source : RBL Research

## Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Cash and bank balance	16,355.2	16,307.0	20,896.6	19,316.2
Derivative financial instruments	201	669	646	688
Receivables	196	447	495	546
Loans	116,665	178,685	203,701	246,401
Investments	6,971	7,430	8,565	10,006
Other financial assets	51	77	90	102
<b>Total financial assets</b>	<b>140,440</b>	<b>203,616</b>	<b>234,393</b>	<b>277,059</b>
Current and Deferred Tax Assets	1,098	2,710	2,481	2,748
Investment property	2	3	3	3
Property, plant and equipment	111	223	305	371
Goodwill	-	1,741	1,741	1,741
Other Intangible Assets	618	2,308	2,318	2,336
<b>Total non-financial assets</b>	<b>1,828</b>	<b>6,984</b>	<b>6,847</b>	<b>7,199</b>
<b>Total assets</b>	<b>142,268</b>	<b>210,600</b>	<b>241,241</b>	<b>284,259</b>
Trade and Other	169	315	365	470
Debt securities	41,257	44,924	47,456	50,937
Borrowings	46,677	78,545	95,353	122,052
Deposits	21,949	36,140	39,379	42,234
Other financial liabilities	5,823	6,270	6,807	7,377
<b>Total financial liabilities</b>	<b>115,874</b>	<b>166,193</b>	<b>189,359</b>	<b>223,069</b>
Current and Deferred Tax Liabilities	37	188	199	209
Provisions	138	215	222	237
Other non-financial liabilities	124	205	225	239
<b>Total non-financial</b>	<b>299</b>	<b>608</b>	<b>646</b>	<b>685</b>
<b>Total liabilities</b>	<b>116,174</b>	<b>166,801</b>	<b>190,005</b>	<b>223,755</b>
Share capital	271	374	374	374
Other equity	25,824	43,138	50,575	59,843
<b>Equity attributable to</b>	<b>26,094</b>	<b>43,513</b>	<b>50,949</b>	<b>60,217</b>
Non controlling interest	-	287	287	287
<b>Total equity</b>	<b>26,094</b>	<b>43,800</b>	<b>51,236</b>	<b>60,504</b>
<b>Total equity and liabilities</b>	<b>142,268</b>	<b>210,600</b>	<b>241,241</b>	<b>284,259</b>

Source : RBL Research

**Business Parameters – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
New vehicles	5,796	17,620	23,496	26,885
Used vehicles	118,171	137,758	154,314	187,685
Total vehicles	123,968	155,378	177,810	214,571
Others	3,073	30,305	33,869	41,480
<b>Total AUM</b>	<b>127,041</b>	<b>185,683</b>	<b>211,678</b>	<b>256,051</b>
Networth	25,905	43,202	51,236	60,504
Gross Stage 3 (%)	7.1	6.2	6.1	5.9
Net Stage 3 (%)	3.7	3.2	3.1	2.9
Coverage Ratio (%) Stage 3	50.0	50.1	50.3	50.4
<b>RoA (%)</b>	<b>1.9</b>	<b>2.9</b>	<b>3.3</b>	<b>3.5</b>
RoE (%)	11.1	14.8	15.7	16.6

Source : RBL Research

**Valuation – consolidated**

Particulars (%)	FY22	FY23	FY24E	FY25E
Book Value per share (BVPS) (Rs.)	958.6	1,156.6	1,368.4	1,615.9
EPS (Rs.)	101.2	160.5	198.9	247.9
<b>Adj. book value per share (Rs.)</b>	<b>958.6</b>	<b>1,156.6</b>	<b>1,368.4</b>	<b>1,615.9</b>
P/E (x)	17.8	11.2	9.0	7.3
P/B (x)	1.9	1.6	1.3	1.1
<b>P/Adj. BV (x)</b>	<b>1.9</b>	<b>1.6</b>	<b>1.3</b>	<b>1.1</b>

Source : RBL Research

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**Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)**

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? <b>[If answer is yes, nature of Interest is given below this table]</b>		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

**[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]**

**Nature of Interest ( if answer to F (a) above is Yes :**

.....

**Name(s) with Signature(s) of RA(s).**

**[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]**

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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