

Jan 26, 2025

**RESULT REPORT Q3 FY25** | Sector: Financials

# Shriram Finance

## Reasonable delivery in a challenging environment

### In-line earnings - sustained brisk growth, some increase in flows

Pre-exceptional PBT (before Rs16.6bn profit from entire stake sale in erstwhile Shriram Housing Finance) was in-line with our expectations, and the operational performance was characterized by strong AUM growth, a transient compression in NIM and stable credit cost (though bucket flows increased QoQ). Disbursement traction remained brisk (up 8% qoq/15% yoy), driving a sturdy AUM growth (5% qoq/19% yoy). The loan portfolio growth was driven by Used CV (AUM up 3% qoq/13% yoy), Used PV (6% qoq/25% yoy), MSME (7% qoq/50% yoy) and 2W (18% qoq/27% yoy). Growth in PL was resumed, and GL portfolio declined sharply on sequential basis with higher pledge releases in a festive quarter.

Gross Stage-2 and Stage-3 assets witnessed a marginal inch-up, and increased forward flows were seen in PV, MSME, 2W and PL. ECL Coverage across loan stages and across products was maintained and write-offs continue to be moderate. Asset quality in the largest portfolio of Used CV remained sturdy in a quarter which was challenging. Credit Cost was stable at annualized 2.1%. NIM declined by 25 bps qoq owing to an uptick in CoF due to availment of long-term funds from relatively costlier sources (external commercial loans and bonds) and significant increase in balance sheet liquidity. RoA/RoE excluding stake sale gains were healthy at 2.9%/15%.

### Key monitorables for Q4 FY25 - sustenance of business traction, NIM recovery and asset quality pull-back

The resilience in Used CV & PV growth in context of macro slowdown has been pleasing. Traction in Used CV continues to be largely driven by value/pricing increases thus far, but the management expects a volume uptick in coming years with stronger new CV sales during FY22-23. Growth in Used PV financing is aided by good traction/demand for used Buses and used Cars, and the management is confident about sustaining this growth even in next year. 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 would be introduced in another 250 CV branches in next two years. In Gold Loans, the co. has substantially ramped-up distribution and team.

Management expects to pull-back the flows witnessed in Q3 FY25 across Used PV, MSME, 2W and PL products, with the help of better economic backdrop (income backdrop for customers) and usual strength in collections and recoveries seen in the last quarter of a fiscal. NIM by virtue of liquidity utilization should improve over the next two quarters. CoF seems to have peaked and Portfolio Yield could likely receive slight lift from the changing AUM mix.

### Valuation to recover after a better Q4 FY25

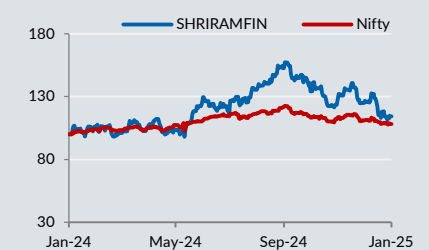
We estimate Shriram Finance to deliver 15%/18% AUM/earnings CAGR over FY25-27 with average RoA/RoE delivery of 3.3%/16%. The company has thus far demonstrated consistent and resilient execution on growth and asset quality. While we expect such execution to continue in the medium term, we would like to see some asset quality pull-back in the current quarter. Post the recent correction in price, stock's valuation has become more attractive 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 Rs690.

|                  |          |
|------------------|----------|
| Reco             | : BUY    |
| CMP              | : Rs 528 |
| Target Price     | : Rs 690 |
| Potential Return | : +30.8% |

#### Stock data (as on Jan 24, 2025)

|                         |                |
|-------------------------|----------------|
| Nifty                   | 23,092         |
| 52 Week h/l (Rs)        | 730 / 439      |
| Market cap (Rs/USD mn)  | 996180 / 11557 |
| Outstanding Shares (mn) | 1,880          |
| 6m Avg t/o (Rs mn):     | 4,046          |
| Div. yield (%):         | 1.7            |
| Bloomberg code:         | SHFL IN        |
| NSE code:               | SHRIRAMFIN     |

#### Stock performance



|                 | 1M    | 3M     | 1Y    |
|-----------------|-------|--------|-------|
| Absolute return | -8.5% | -14.7% | 14.3% |

#### Shareholding pattern

|          |       |
|----------|-------|
| Promoter | 25.4% |
| FII+DII  | 69.5% |
| Others   | 5.1%  |

#### Δ in stance

| (1-Yr)       | New | Old |
|--------------|-----|-----|
| Rating       | BUY | BUY |
| Target Price | 690 | 740 |

#### Δ in earnings estimates

|           | FY25e | FY26e | FY27e |
|-----------|-------|-------|-------|
| EPS (New) | 51.4  | 52.1  | 59.8  |
| EPS (Old) | 45.9  | 53.5  | 61.6  |
| % Change  | 11.9% | -2.7% | -2.9% |

#### Financial Summary

| (Rs mn)    | FY25E    | FY26E    | FY27E    |
|------------|----------|----------|----------|
| Op. income | 2,33,926 | 2,74,307 | 3,15,691 |
| PPOP       | 1,62,020 | 1,93,471 | 2,24,774 |
| Net profit | 96,609   | 97,917   | 1,12,472 |
| Growth (%) | 34.4     | 1.4      | 14.9     |
| EPS (Rs)   | 51.4     | 52.1     | 59.8     |
| ABVPS (Rs) | 263.2    | 300.4    | 344.8    |
| P/E (x)    | 10.3     | 10.1     | 8.8      |
| P/ABV (x)  | 2.0      | 1.8      | 1.5      |
| ROAE (%)   | 18.4     | 16.3     | 16.4     |
| ROAA (%)   | 3.8      | 3.3      | 3.3      |

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## Exhibit 1: Result table

| (Rs mn)                    | Q3 FY25       | Q2 FY25       | % qoq       | Q3 FY24       | % yoy       |
|----------------------------|---------------|---------------|-------------|---------------|-------------|
| Total Operating Income     | 1,06,983      | 1,00,895      | 6.0         | 89,224        | 19.9        |
| Interest expended          | (47,513)      | (43,504)      | 9.2         | (37,069)      | 28.2        |
| <b>Net Interest Income</b> | <b>59,471</b> | <b>57,391</b> | <b>3.6</b>  | <b>52,155</b> | <b>14.0</b> |
| Other Income               | 72            | 71            | 0.3         | 49            | 45.8        |
| Total Income               | 59,542        | 57,463        | 3.6         | 52,204        | 14.1        |
| Operating expenses         | (18,692)      | (17,597)      | 6.2         | (15,311)      | 22.1        |
| <b>PPoP</b>                | <b>40,850</b> | <b>39,865</b> | <b>2.5</b>  | <b>36,893</b> | <b>10.7</b> |
| Provisions                 | (13,258)      | (12,350)      | 7.4         | (12,497)      | 6.1         |
| Exceptionals               | 16,568        | -             | -           | -             | -           |
| <b>PBT</b>                 | <b>44,159</b> | <b>27,515</b> | <b>60.5</b> | <b>24,396</b> | <b>81.0</b> |
| Tax                        | (8,462)       | (6,803)       | 24.4        | (6,213)       | 36.2        |
| <b>PAT</b>                 | <b>35,698</b> | <b>20,713</b> | <b>72.3</b> | <b>18,183</b> | <b>96.3</b> |

Source: Company, YES Sec

## Exhibit 2: Business Data

| (Rs bn)                | Q3 FY25   | Q2 FY25   | % qoq | Q3 FY24   | % yoy |
|------------------------|-----------|-----------|-------|-----------|-------|
| AUM                    | 25,44,697 | 24,30,426 | 4.7   | 21,42,335 | 18.8  |
| Commercial Vehicle     | 11,57,669 | 11,21,941 | 3.2   | 10,24,651 | 13.0  |
| Passenger Vehicle      | 5,18,839  | 4,90,003  | 5.9   | 4,15,342  | 24.9  |
| Construction Equipment | 1,78,611  | 1,76,377  | 1.3   | 1,62,228  | 10.1  |
| Farm Equipment         | 47,756    | 44,677    | 6.9   | 33,564    | 42.3  |
| MSME                   | 3,46,321  | 3,22,997  | 7.2   | 2,30,859  | 50.0  |
| 2-Wheelers             | 1,54,109  | 1,30,891  | 17.7  | 1,21,397  | 26.9  |
| Gold                   | 54,881    | 60,805    | (9.7) | 58,910    | (6.8) |
| Personal Loans         | 86,512    | 82,735    | 4.6   | 95,384    | (9.3) |

Source: Company, YES Sec

## Exhibit 3: Key Ratios

| (%)                  | Q3 FY25 | Q2 FY25 | chg qoq | Q2 FY24 | chg yoy |
|----------------------|---------|---------|---------|---------|---------|
| NIM (%)              | 8.5     | 8.7     | (0.3)   | 9.0     | (0.5)   |
| Cost to Income (%)   | 28.6    | 28.0    | 0.6     | 27.1    | 1.5     |
| BV (Rs)              | 292.5   | 277.3   | 5.5     | 250.6   | 16.7    |
| RoE (%)              | 15.4    | 16.0    | (0.6)   | 15.5    | (0.1)   |
| RoA (%)              | 2.9     | 3.1     | (0.2)   | 3.1     | (0.2)   |
| CAR (%)              | 21.0    | 20.2    | 0.8     | 21.0    | (0.0)   |
| Gross Stage 3 (%)    | 5.4     | 5.3     | 0.1     | 5.7     | (0.3)   |
| Net Stage 3 (%)      | 2.7     | 2.6     | 0.0     | 2.7     | (0.0)   |
| Stage 3 Coverage (%) | 51.6    | 51.7    | (0.1)   | 53.4    | (1.7)   |

Source: Company, YES Sec

## Exhibit 4: Funding Mix

| Share (%)                 | Q3 FY25 | Q2 FY25 | chg qoq | Q3 FY24 | chg yoy |
|---------------------------|---------|---------|---------|---------|---------|
| NCD                       | 16.7    | 17.9    | (1.2)   | 17.4    | (0.7)   |
| Public Deposits           | 23.9    | 24.2    | (0.3)   | 24.3    | (0.4)   |
| Securitisation            | 17.5    | 16.6    | 5.3     | 14.1    | 24.3    |
| Sub-ordinate debts        | 1.1     | 1.4     | (0.3)   | 2.4     | (1.3)   |
| Term Loans                | 21.5    | 22.4    | (0.9)   | 26.0    | (4.5)   |
| ECB (External Comm. bond) | 7.0     | 7.4     | (0.4)   | 6.1     | 0.9     |
| ECB Loans                 | 11.7    | 7.8     | 3.8     | 6.8     | 4.9     |
| Other Borrowings          | 0.0     | 0.5     | (0.5)   | 1.5     | (1.5)   |

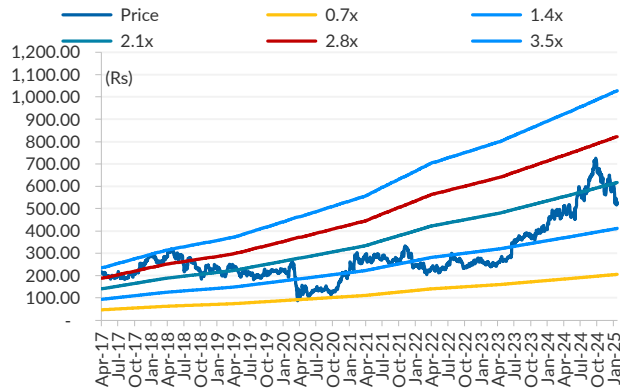
Source: Company, YES Sec

## Exhibit 5: ECL Summary

| ECL (Rs mn)                         | Q3 FY24     | Q4 FY24     | Q1 FY25     | Q2 FY25     | Q3 FY25     |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Gross Stage 3                       | 1,19,523    | 1,20,812    | 1,24,078    | 1,27,642    | 1,35,212    |
| ECL Provisions - Stage 3            | 63,793      | 62,567      | 63,460      | 65,986      | 69,818      |
| Net Stage 3                         | 55,730      | 58,244      | 60,618      | 61,656      | 65,393      |
| <b>Gross Stage 3 (%)</b>            | <b>5.7</b>  | <b>5.5</b>  | <b>5.4</b>  | <b>5.3</b>  | <b>5.4</b>  |
| Net Stage 3 (%)                     | 2.7         | 2.7         | 2.7         | 2.6         | 2.7         |
| <b>Coverage ratio - Stage 3 (%)</b> | <b>53.4</b> | <b>51.8</b> | <b>51.1</b> | <b>51.7</b> | <b>51.6</b> |
| Gross Stage 1                       | 18,43,116   | 19,45,799   | 20,25,068   | 21,12,198   | 22,07,826   |
| ECL Provisions - Stage 1            | 57,364      | 63,741      | 69,197      | 73,272      | 77,432      |
| Net Stage 1                         | 17,85,752   | 18,82,058   | 19,55,871   | 20,38,926   | 21,30,394   |
| <b>Gross Stage 1 (%)</b>            | <b>87.3</b> | <b>87.8</b> | <b>88.0</b> | <b>88.1</b> | <b>87.9</b> |
| <b>Coverage ratio - Stage 1 (%)</b> | <b>3.1</b>  | <b>3.3</b>  | <b>3.4</b>  | <b>3.5</b>  | <b>3.5</b>  |
| Gross Stage 2                       | 1,47,923    | 1,50,067    | 1,53,317    | 1,58,385    | 1,68,641    |
| ECL Provisions - Stage 2            | 10,450      | 11,075      | 11,586      | 12,420      | 13,286      |
| Net Stage 2                         | 1,37,474    | 1,38,992    | 1,41,731    | 1,45,965    | 1,55,355    |
| <b>Gross Stage 2 (%)</b>            | <b>7.0</b>  | <b>6.8</b>  | <b>6.7</b>  | <b>6.6</b>  | <b>6.7</b>  |
| <b>Coverage ratio - Stage 2 (%)</b> | <b>7.1</b>  | <b>7.4</b>  | <b>7.6</b>  | <b>7.8</b>  | <b>7.9</b>  |

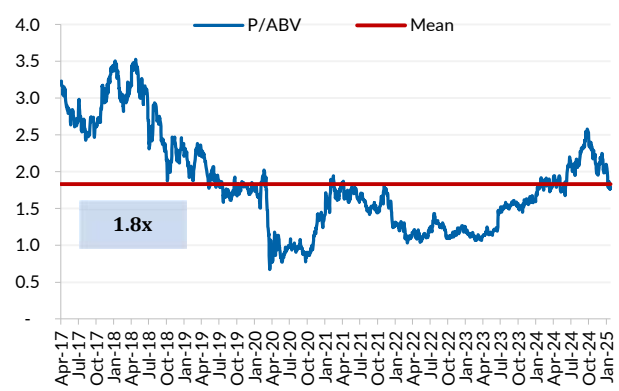
Source: Company, YES Sec

**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)                      | FY23             | FY24             | FY25E            | FY26E            | FY27E            |
|--|------------------|------------------|------------------|------------------|------------------|
| <b>Equity and Liabilities</b>          |                  |                  |                  |                  |                  |
| Equity Share Capital                   | 3,744            | 3,758            | 3,761            | 3,761            | 3,761            |
| Other Equity                           | 4,29,322         | 4,81,926         | 5,58,735         | 6,36,853         | 7,29,525         |
| <b>Share-holders fund</b>              | <b>4,33,066</b>  | <b>4,85,684</b>  | <b>5,62,496</b>  | <b>6,40,613</b>  | <b>7,33,286</b>  |
| <b>Financial Liabilities</b>           |                  |                  |                  |                  |                  |
| Trade payables                         | 2,947            | 2,172            | -                | -                | -                |
| Debt Securities                        | 4,36,526         | 4,49,486         | 5,25,899         | 6,02,154         | 6,89,466         |
| Borrowings (Excl. Debt Sec.)           | 7,35,900         | 9,21,488         | 10,78,141        | 12,34,471        | 14,13,470        |
| Deposits                               | 3,61,398         | 4,44,436         | 5,19,990         | 5,95,389         | 6,81,721         |
| Subordinated Liabilities               | 45,239           | 43,001           | 50,311           | 57,606           | 65,959           |
| Other Financial Liabilities            | 10,207           | 18,480           | 21,621           | 24,757           | 28,346           |
| <b>Non-Financial Liabilities</b>       |                  |                  |                  |                  |                  |
| Current tax liabilities (net)          | 1,609            | 2,378            | 2,616            | 2,877            | 3,165            |
| Provisions                             | 2,115            | 2,962            | 3,258            | 3,584            | 3,943            |
| <b>Other non-financial liabilities</b> | <b>1,998</b>     | <b>2,673</b>     | <b>2,940</b>     | <b>3,234</b>     | <b>3,558</b>     |
| <b>Total Liabilities &amp; Equity</b>  | <b>20,36,639</b> | <b>23,72,760</b> | <b>27,67,273</b> | <b>31,64,686</b> | <b>36,22,913</b> |
| <b>Financial Assets</b>                |                  |                  |                  |                  |                  |
| Cash and Cash Equivalents              | 95,053           | 60,134           | 1,06,747         | 1,14,283         | 1,24,000         |
| Bank balances                          | 63,121           | 47,993           | -                | -                | -                |
| Derivative financial instruments       | 6,688            | 3,305            | 3,635            | 3,999            | 4,399            |
| Receivables                            | 2,771            | 3,846            | 4,230            | 4,654            | 5,119            |
| Loans                                  | 17,19,846        | 20,79,294        | 24,53,567        | 28,21,602        | 32,44,842        |
| Investments                            | 85,651           | 1,06,566         | 1,25,748         | 1,44,611         | 1,66,302         |
| Other Financial Assets                 | 727              | 682              | 751              | 826              | 908              |
| <b>Non- Financial Assets</b>           |                  |                  |                  |                  |                  |
| Current tax assets (Net)               | 7,170            | 5,725            | 6,298            | 6,927            | 7,620            |
| Deferred tax assets (Net)              | 17,439           | 28,840           | 31,724           | 34,897           | 38,386           |
| Investment Property                    | 26               | 10               | 11               | 12               | 13               |
| Property, Plant and Equipment          | 2,095            | 8,458            | 9,303            | 10,234           | 11,257           |
| Intangible assets                      | 26,905           | 24,407           | 21,407           | 18,407           | 15,407           |
| Other Non-Financial Assets             | 4,245            | 3,501            | 3,851            | 4,236            | 4,659            |
| <b>Total Assets</b>                    | <b>20,36,639</b> | <b>23,72,760</b> | <b>27,67,273</b> | <b>31,64,686</b> | <b>36,22,913</b> |

Source: Company, YES Sec.

## Exhibit 9: Income statement

| Y/e 31 Mar (Rs m)          | FY23            | FY24            | FY25E           | FY26E           | FY27E           |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Income from Operations     | 2,97,722        | 3,49,644        | 4,15,931        | 4,77,806        | 5,32,675        |
| Interest expense           | (1,25,458)      | (1,48,061)      | (1,82,271)      | (2,03,804)      | (2,17,335)      |
| <b>Net interest income</b> | <b>1,72,264</b> | <b>2,01,583</b> | <b>2,33,660</b> | <b>2,74,002</b> | <b>3,15,340</b> |
| Non-interest income        | 307             | 332             | 266             | 305             | 351             |
| Total op income            | 1,72,571        | 2,01,915        | 2,33,926        | 2,74,307        | 3,15,691        |
| Total op expenses          | (49,131)        | (59,895)        | (71,906)        | (80,836)        | (90,917)        |
| <b>PPoP</b>                | <b>1,23,441</b> | <b>1,42,020</b> | <b>1,62,020</b> | <b>1,93,471</b> | <b>2,24,774</b> |
| Provisions                 | (41,592)        | (45,183)        | (51,471)        | (62,039)        | (73,805)        |
| Profit before tax          | 81,849          | 96,836          | 1,27,117        | 1,31,432        | 1,50,969        |
| Taxes                      | (22,056)        | (24,932)        | (30,508)        | (33,515)        | (38,497)        |
| <b>Net profit</b>          | <b>59,793</b>   | <b>71,905</b>   | <b>96,609</b>   | <b>97,917</b>   | <b>1,12,472</b> |

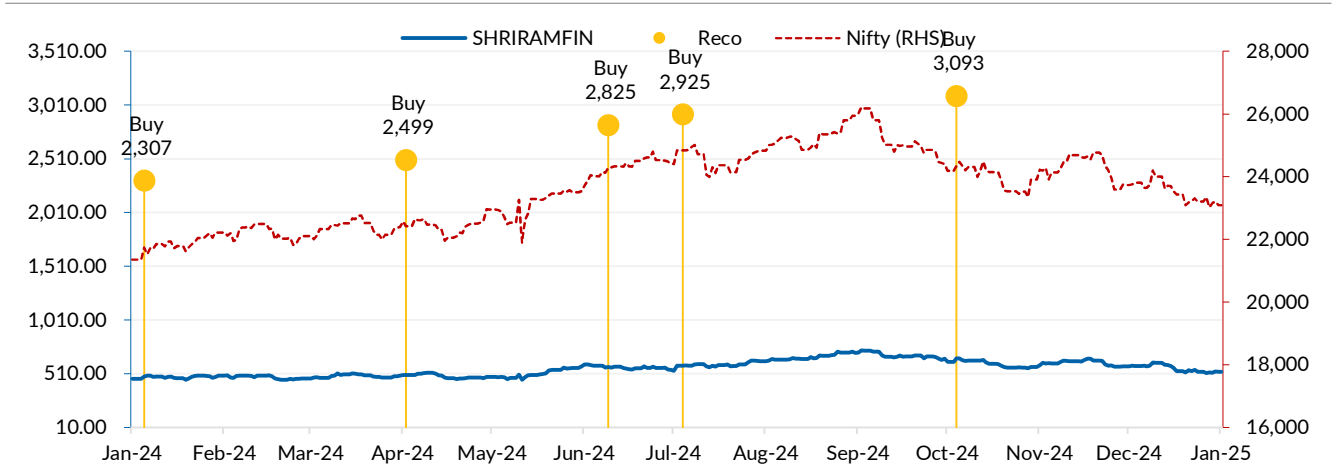
Source: Company, YES Sec

## Exhibit 10: Growth and Ratio matrix

| Y/e 31 Mar                        | FY23  | FY24  | FY25E | FY26E | FY27E |
|-----------------------------------|-------|-------|-------|-------|-------|
| <b>Growth matrix (%)</b>          |       |       |       |       |       |
| Net interest income               | 80.9  | 17.0  | 15.9  | 17.3  | 15.1  |
| Total op income                   | 80.9  | 17.0  | 15.9  | 17.3  | 15.1  |
| Op profit (pre-provision)         | 66.6  | 15.1  | 14.1  | 19.4  | 16.2  |
| Net profit                        | 120.8 | 20.3  | 34.4  | 1.4   | 14.9  |
| Advances                          | 47.4  | 20.9  | 18.0  | 15.0  | 15.0  |
| Total Borrowings                  | 37.9  | 17.7  | 17.0  | 14.5  | 14.5  |
| Total assets                      | 43.3  | 16.5  | 16.6  | 14.4  | 14.5  |
| <b>Profitability Ratios (%)</b>   |       |       |       |       |       |
| NIM                               | 10.0  | 9.8   | 9.5   | 9.6   | 9.6   |
| Non-interest income /Total income | 0.2   | 0.2   | 0.1   | 0.1   | 0.1   |
| Return on Avg. Equity             | 17.3  | 15.7  | 18.4  | 16.3  | 16.4  |
| Return on Avg. Assets             | 3.5   | 3.3   | 3.8   | 3.3   | 3.3   |
| <b>Per share ratios (Rs)</b>      |       |       |       |       |       |
| EPS                               | 31.9  | 38.3  | 51.4  | 52.1  | 59.8  |
| Adj. BVPS                         | 201.0 | 227.5 | 263.2 | 300.4 | 344.8 |
| DPS                               | 7.0   | 9.0   | 9.0   | 9.0   | 9.0   |
| <b>Other key ratios (%)</b>       |       |       |       |       |       |
| Cost/Income                       | 28.5  | 29.7  | 30.7  | 29.5  | 28.8  |
| Tier-I capital                    | 23.3  | 19.6  | 20.3  | 20.2  | 20.2  |
| Credit Cost                       | 2.4   | 2.2   | 2.1   | 2.2   | 2.3   |
| Stage 1 and 2 ECL Provision       | 3.3   | 3.6   | 0.0   | 0.0   | 0.0   |
| Tax rate                          | 26.9  | 25.7  | 24.0  | 25.5  | 25.5  |
| Dividend yield                    | 1.3   | 1.7   | 1.7   | 1.7   | 1.7   |

Source: Company, YES Sec

## Recommendation Tracker



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Analyst signature

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