

Shriram Finance (SFC)

BUY

NIMs improved QoQ; AUM growth guidance revised up

Summary

SFC reported improvement in NIM led by rise in yields as against stable cost of funds. AUM growth improved to 19.7% YoY vs 18.6% YoY (Q1FY24) led by growth in passenger vehicle and MSME segments. Management revised guidance to 18-20% vs 15% AUM growth for FY24 backed by MSME segment. Asset quality improved with GS3 at 5.8% vs 6.0% led by higher write offs. NII grew by 9% QoQ led by improvement in NIMs; NIMs increased by 61bps QOQ to 8.93%. PPop grew by 11% QoQ due stable employee expenses (flat QoQ). However, PAT grew by 4.5% QoQ led by increase in provisions (up 28% QoQ). We maintain "BUY" rating on SFC with target price of Rs.2,230 valuing at 1.75X FY25E ABV (earlier 1.3X).

Key Highlights and Investment Rationale

- **AUM growth improved to 20%:** SFC's AUM growth improved to 19.7% YoY vs 18.6% YoY (Q1FY24); management revised guidance upwards to 18-20% vs 15% AUM growth for FY24. Disbursements stood at Rs.346bn (up 14% QoQ).
- **NIMs improved to 8.9%:** NIMs improved by 61bps QoQ to 8.93% as cost of funds remain stable sequentially; however yields improved backed by product mix and utilization of liquidity.
- **Asset quality improved with GS3 at 5.8%:** Asset quality improved with GS3 declined to 5.8% vs 6.0% due to higher write offs.. Credit cost increased during the quarter due to higher write offs; however management guided credit cost to remain 1.5 - 2% (FY24).
- **Outlook:** SFC has now diversified from mono line business of CV (mainly Used CV) to non-vehicle portfolio which was key hindrance in rating upgrade. We expect RoA to sustain above 3% post-merger with stable asset quality.

TP	Rs 2,230
CMP	Rs1,798
Potential upside/downside	24%
Previous Rating	BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.6)	(1.4)	47.6
Rel to Sensex	(3.3)	3.4	41.6

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	183	217
Consensus	185	213
% difference	(1.1)	1.7

Key Stock Data

Bloomberg / Reuters	SHFL IN / SRTR.BO
Sector	NBFC
Shares o/s (mn)	375
Market cap. (Rs mn)	674,923
3-m daily avg Trd value (Rs mn)	223.0
52-week high / low	Rs1,975 / 1,190
Sensex / Nifty	63,148 / 18,857

Shareholding Pattern (%)

Promoters	25.5
FII	54.7
DII	14.6
Public	5.2

Financial snapshot

(Rs mn)

Year	FY2021	FY2022	FY2023	FY2024E	FY2025E
NII	115,115	89,120	160,616	179,475	209,763
Change (yoy, %)	0%	-23%	80%	12%	17%
Net Profit	34,982	27,079	59,793	68,659	81,087
Change (yoy, %)	-0.1%	-23%	121%	15%	18%
EPS (Rs)	110	100	160	183	217
Change (yoy, %)	-8%	-9%	60%	15%	18%
ABV (Rs)	784	761	1,003	1,101	1,270
PER (x)	18	19	12	10	9
P/ABV (x)	2.4	2.5	1.9	1.7	1.5
ROE (%)	12.7	9.7	17.3	15.0	15.7
ROA (%)	2.3	1.8	3.5	3.2	3.3
GNPA (%)	6.9	6.9	6.2	6.2	6.2
NNPA (%)	4.2	4.7	3.3	3.3	3.3
CAR (%)	23.8	23.8	26.0	25.0	25.1

Source: IDBI Capital Research

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Conference Call Highlights

Operational highlights:

- The Net Interest Income for Q2FY24 increased by 17.38% and stood at Rs. 4,818.18 cr. as against Rs. 4,104.86 cr. in the same period of the previous year up 17.8% YoY and 8.55% QoQ.
- The profit after tax increased by 12.59 % and stands at Rs. 1,750.84 cr as against Rs.1,555.11 cr recorded in the same period of the previous year
- The EPS (basic) increased by 12.38% and stands at Rs. 46.67 v/s Rs. 41.53 YoY.
- NIMs stood at 8.93% in Q2FY24 and have improved due a favourable shift in the product mix towards higher yielding advances.
- PAT up by 12.59% YoY and 4.5% QoQ and stood at Rs. 7750.84 cr. v/s 1555.11 cr. in Q2FY23 and RS. 1675cr. in Q1FY24.
- EPS stood at Rs 44.73 in Q1FY24, Q2FY24
- Cost to income ratio stood at 25.44% vs 25.43% QoQ.

Advances:

- Total Assets under Management at the end of Q2FY24 increased by 19.65% and stood at Rs. 202,640.96 cr. v/s Rs. 169,359.08 cr. YoY (Rs. 193,214.67 cr. for Q1FY24).
- The disbursement grew by 13.63% QoQ and stood at Rs. 34,605cr in Q2FY24.
- Disbursement for Q2FY24 for CV were Rs. 12,782 cr, PV at Rs.7,379 cr, construction equipment at Rs. 1978 cr, farm equipment at Rs. 550 cr, MSME at Rs. 3593 cr, 2 wheeler loans at Rs. 2359 cr, gold loans at Rs. 3051 cr and personal loans at Rs. 2910 cr.
- Credit cost stood at 2.02% v/s 1.73% YoY and 1.64% QoQ
- The cost to income ratio stood at 25.68% v/s 24.42% YoY and 27.34% QoQ.
- Disbursement grew by 16.93% YoY for Shriram housing finance while its AUM grew by ~65% YoY and ~13% QoQ.
- Cost of debt decreased from 8.89 to 8.87 in Q2FY24. The incremental cost of funds stood at 8.7%.

Asset Quality:

- GNPA was up by 9.2% and NNPA increased by 0.5% on a YoY basis
- For Shriram housing finance, NNPA stood at 0.83% Vs 1.15% YoY and (0.75% in Q1FY24).
- The total debt stood at Rs. 1,65,547cr and grew by ~Rs. 3,500cr QoQ.
- Liquidity stood at Rs. 15,600 cr which is enough to cover repayment liability of 3 months amounting to Rs. 13,000cr.
- LCR stood at 219.57% at the end of Q2FY24.
- Borrowings stood at Rs. 21,000cr vs Rs. 18,000cr QoQ.
- Debt to equity stood at 3.59% vs 3.6% QoQ.
- The company has incurred ECB to the tune of Rs. 980Mn (recently concluded 400m of ECB loans).
- Average ticket size for personal loans is in the range of ~Rs. 45,000 to Rs. 50,000 for customers who are new to credit for the company and Rs. 60,000-75000 for repeat customers (majority of the loans are for 2 wheelers).

Future Guidance:

- Products apart from commercial vehicle (CV) are expected to grow at a faster pace than growth in CV. Passenger vehicle (PV) segment is expected to grow faster due to strong demand from tier 2 and tier 3 towns. CV will continue growing at the current pace, however the other segments might outpace the CV growth rate.
- PV, MSME, personal loans and gold loans are higher yielding products as compared to CV. The yield growth has come from the increased demand by the aforementioned segments.
- NIM to stay around 8.5%-9% for FY24.
- Going forward the liquidity will be maintained at ~6-6.5% of the total borrowings of the company thus covering a 3 month interest payment.
- The management expects to keep the coverage ratio at ~3% for gross stage 1 assets in the future.
- The company expects to grow at ~17-18% in FY24 in terms of credit growth.
- AUM growth is expected to be in the range of 18-20% for FY24.
- The company expects the ROE to grow in the range of 16-18% for the next 2 financial years.
- Credit cost is expected to remain in the range of 1.5-2% for FY24.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Interest Income	82,166	70,024	76,880	17.3	6.9
Interest Expenses	36,219	32,249	34,875	12.3	3.9
Net Interest Income	45,947	37,775	42,004	21.6	9.4
NIM (%)	8.9	8.4	8.3	50 bps	61 bps
Non-Interest Income	3,479	4,162	3,167	-16.4	9.9
Operating Income	49,426	41,937	45,171	17.9	9.4
Staff Cost	7,904	5,831	7,904	35.5	0.0
Other Op Exp	6,714	6,168	6,004	8.9	11.8
Total Operating Expenses	14,618	11,999	13,908	21.8	5.1
Cost to Income (%)	29.6	28.6	30.8	96 bps	-122 bps
Cost to AUM (%)	2.9	2.8	2.9	5 bps	1 bps
Operating Profit	34,808	29,938	31,262	16.3	11.3
Provisions	11,286	8,976	8,786	25.7	28.4
Credit Cost (%)	2.2	2.1	1.8	11 bps	41 bps
PBT	23,523	20,962	22,476	12.2	4.7
Tax	6,014	5,411	5,722	11.1	5.1
-effective tax rate	25.6	25.8	25.5	-25 bps	11 bps
PAT	17,509	15,551	16,754	12.6	4.5
EPS (Rs)	46.7	44.7	41.5	4.3	12.4
BV (Rs)	1229.5	1084.9	1199.9	13.3	2.5
AUM	20,26,410	16,93,591	19,32,147	19.7	4.9

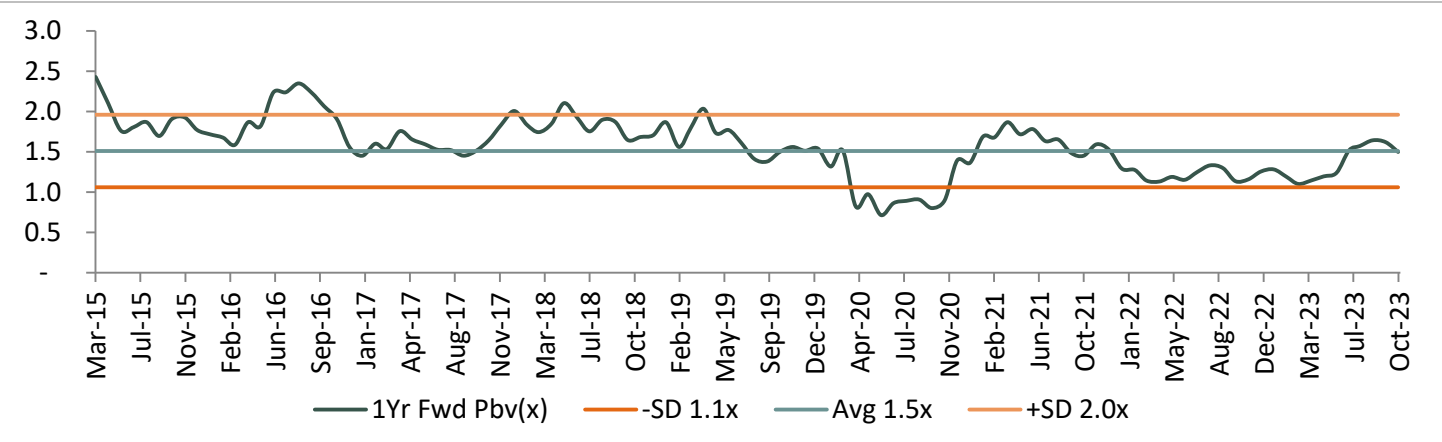
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY21	FY22	FY23	FY24E	FY25E
NII	7.4	5.8	9.3	8.2	8.4
Non-Int Inc	0.3	0.4	0.7	0.6	0.6
Net Revenue	7.8	6.2	10.0	8.9	9.1
Op.Exp	2.7	1.4	2.8	2.6	2.6
Op.Profit	5.0	4.8	7.1	6.3	6.5
Provisions	2.0	2.5	2.4	2.0	2.0
PBT	3.0	2.3	4.7	4.3	4.5
Tax	0.8	0.5	1.3	1.2	1.2
ROA	2.3	1.8	3.5	3.2	3.3
Leverage (x)	5.6	5.5	5.0	4.8	4.8
ROE	12.7	9.7	17.3	15.0	15.7

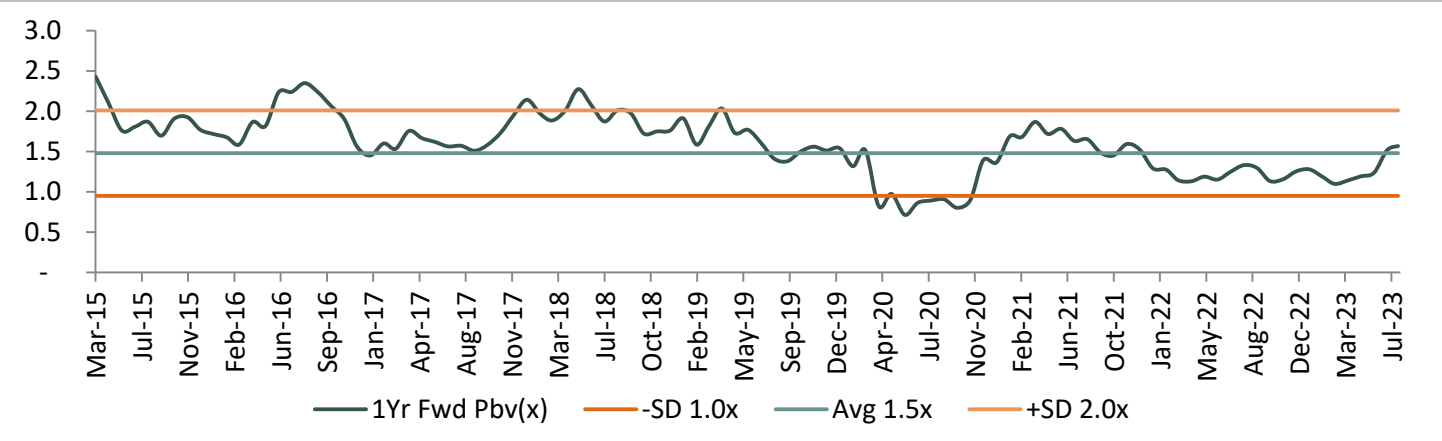
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY14-19)



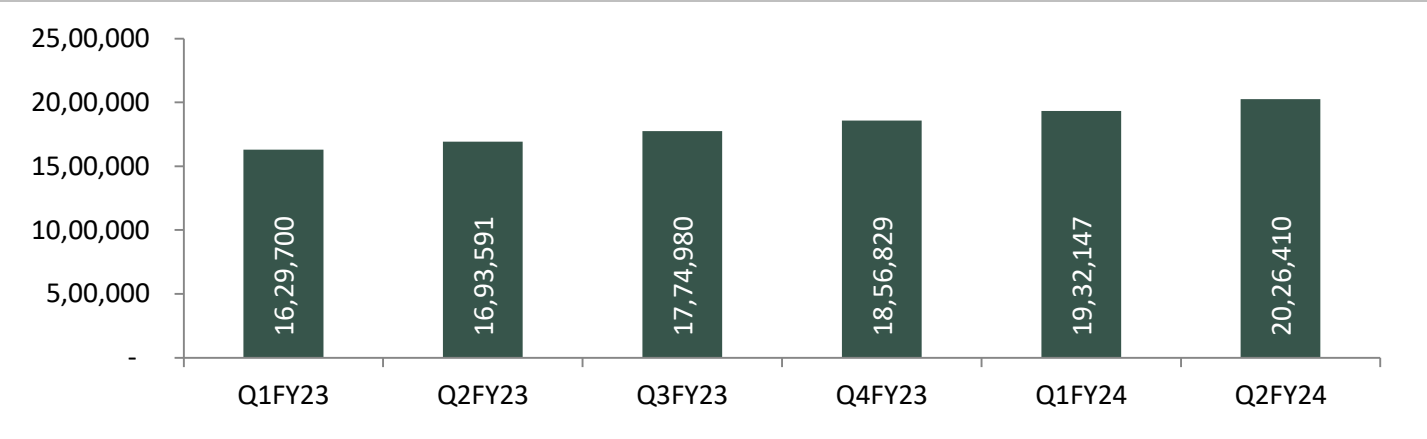
Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (FY15-24)



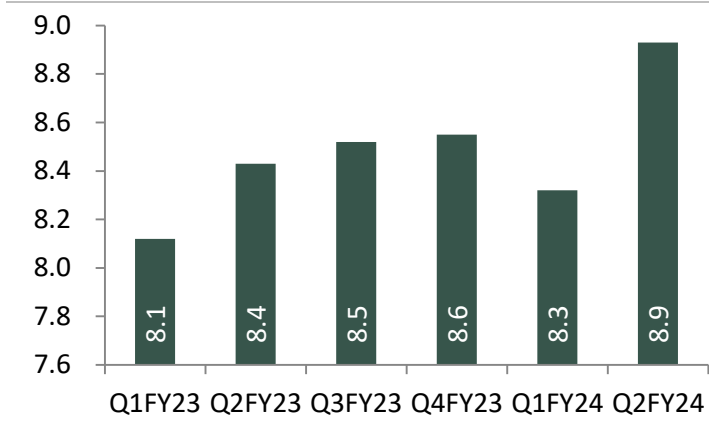
Source: Company; IDBI Capital Research

Exhibit 5: AUM growth continued to witness strong growth trajectory during the qtr



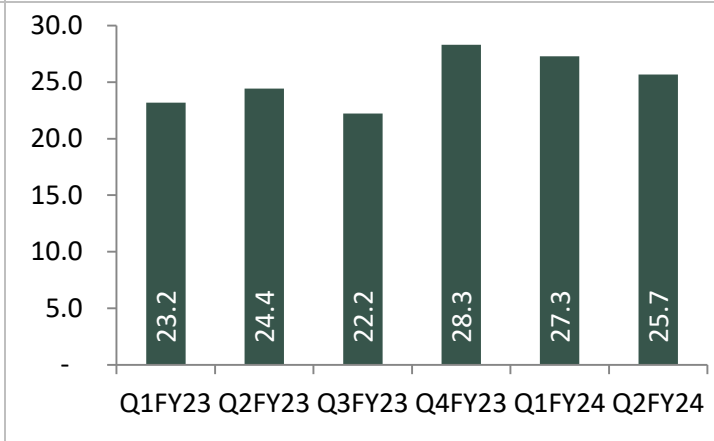
Source: Company; IDBI Capital Research

Exhibit 6: NIMs on AUM improved QoQ due to product mix shift towards higher yielding products



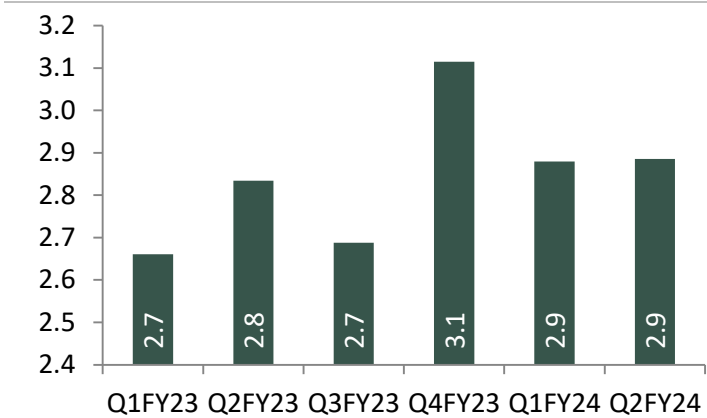
Source: Company; IDBI Capital Research

Exhibit 7: Cost to Income continued to improve



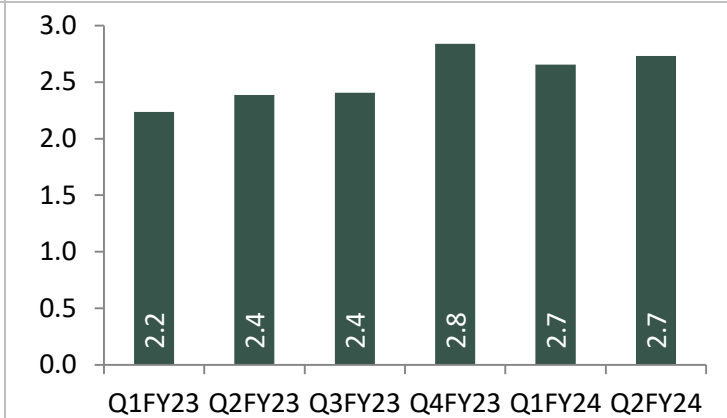
Source: Company; IDBI Capital Research

Exhibit 8: Cost to AUM remained stable



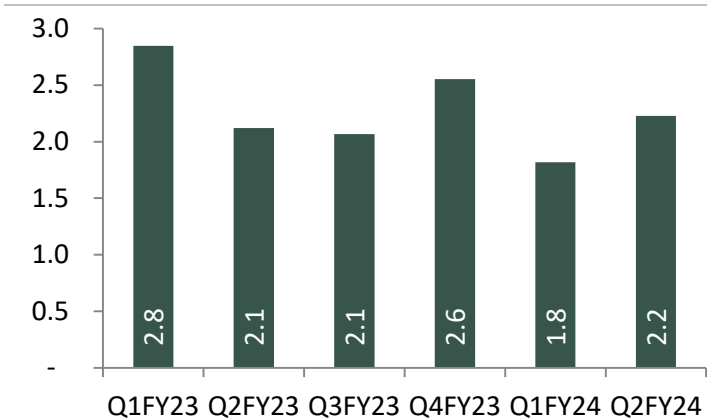
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Asset remained flat QoQ



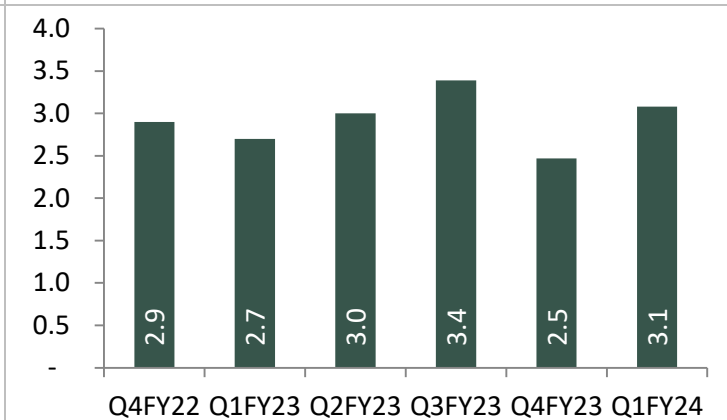
Source: Company; IDBI Capital Research

Exhibit 10: Credit Cost inched up sequentially



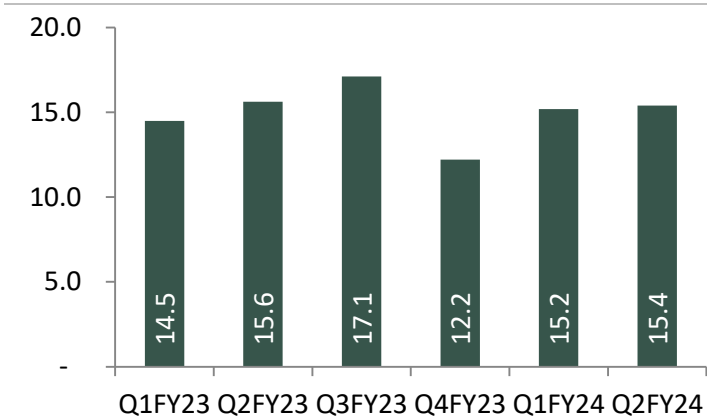
Source: Company; IDBI Capital Research

Exhibit 11: RoA witnessed improvement sequentially



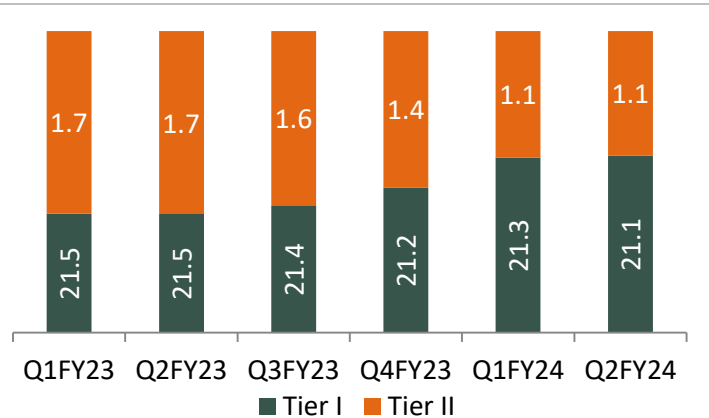
Source: Company; IDBI Capital Research

Exhibit 12: RoE witnessed improvement during the qtr



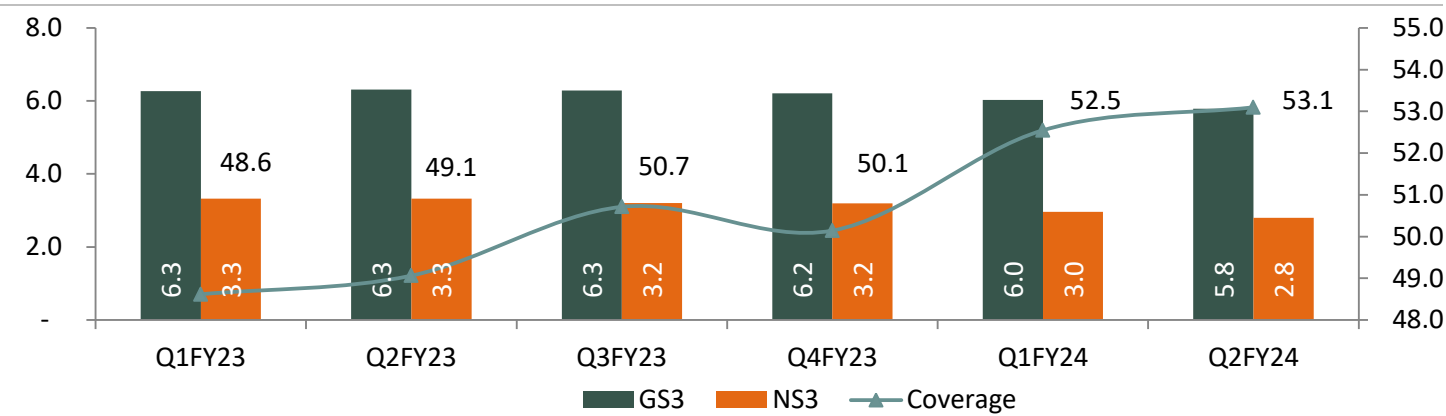
Source: Company; IDBI Capital Research

Exhibit 13: CAR remained strong QoQ



Source: Company; IDBI Capital Research

Exhibit 14: Asset Quality improved on a sequential basis



Source: Company; IDBI Capital Research

Exhibit 15: Composition of AUM-In Mn

Product Wise Advances (In Mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Commercial Vehicles	9,84,363	8,76,760	9,59,047	12.3	2.6
Passenger Vehicles	3,96,935	3,00,037	3,62,920	32.3	9.4
Construction Equipment's	1,50,582	1,33,866	1,46,262	12.5	3.0
Farm Equipment's	34,797	32,968	34,191	5.5	1.8
MSME	2,13,104	1,68,882	2,00,448	26.2	6.3
Two Wheelers	1,04,191	85,062	1,00,235	22.5	3.9
Gold	54,055	44,330	49,848	21.9	8.4
Personal Loans	88,384	50,989	79,197	73.3	11.6
Total	20,26,410	16,93,591	19,32,147	19.7	4.9

Source: Company; IDBI Capital Research

Exhibit 16: Composition of AUM-In %

Product Wise Advances (In Mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
Commercial Vehicles	48.6	51.8	49.6	-319 bps	-106 bps
Passenger Vehicles	19.6	17.7	18.8	187 bps	80 bps
Construction Equipment's	7.4	7.9	7.6	-47 bps	-14 bps
Farm Equipment's	1.7	1.9	1.8	-23 bps	-5 bps
MSME	10.5	10.0	10.4	54 bps	14 bps
Two Wheelers	5.1	5.0	5.2	12 bps	-5 bps
Gold	2.7	2.6	2.6	5 bps	9 bps
Personal Loans	4.4	3.0	4.1	135 bps	26 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net interest income	1,15,539	1,15,115	89,120	1,60,616	1,79,475	2,09,763
<i>Change (yoy, %)</i>	1%	0%	-23%	80%	12%	17%
Other Income	4,983	4,752	6,280	11,955	13,749	15,811
Net Revenue	1,20,522	1,19,867	95,399	1,72,571	1,93,224	2,25,573
Operating expenses	43,453	41,981	21,298	49,131	56,409	64,870
Employee expenses	18,585	16,699	9,971	25,061	26,692	30,696
Other expenses	24,868	25,281	11,327	24,070	29,717	34,175
Pre-Provision Profit	77,069	77,886	74,101	1,23,441	1,36,815	1,60,703
<i>Change (yoy, %)</i>	-1%	1%	-5%	67%	11%	17%
Provision	29,134	31,212	38,609	41,592	42,761	49,624
PBT	47,935	46,674	35,493	81,849	94,054	1,11,079
Taxes	12,913	11,691	8,413	22,056	25,395	29,991
<i>Effective tax rate (%)</i>	27%	25%	24%	27%	27%	27%
Net profit	35,022	34,982	27,079	59,793	68,660	81,088
<i>Change (yoy, %)</i>	-1%	-0.1%	-23%	121%	15%	18%
EPS	120	110	100	160	183	216
Return on Equity (%)	14.8	12.7	9.7	17.3	15.0	15.7
Return on Assets (%)	2.5	2.3	1.8	3.5	3.2	3.3

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Capital	2,929	3,191	2,705	3,744	3,754	3,754
Reserves	2,49,202	2,93,678	2,56,617	4,29,322	4,75,856	5,49,437
Net Worth	2,52,131	2,96,868	2,59,322	4,33,066	4,79,610	5,53,191
Borrowings	11,16,283	12,71,409	11,44,967	15,79,063	17,70,819	20,05,106
Other liabilities	82,615	71,435	16,772	24,509	66,415	99,380
Total Liab. & Equity	14,51,029	16,39,712	14,21,061	20,36,639	23,16,844	26,57,676
Cash	1,03,773	2,16,560	1,63,552	1,58,174	1,76,807	2,03,328
Investments	35,326	42,152	68,092	85,651	98,226	1,12,960
Advances	12,88,442	13,57,231	11,66,652	17,19,846	19,64,525	22,59,203
Fixed Assets	6,302	5,464	4,181	19,861	18,867	17,924
Other Assets	17,186	18,304	18,585	53,108	58,418	64,260
Total assets	14,51,029	16,39,712	14,21,061	20,36,639	23,16,844	26,57,676

Financial Ratios

(%)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth						
Advances	4.1	5.3	(14.0)	47.4	14.2	15.0
NII	0.5	(0.4)	(22.6)	80.2	11.7	16.9
Pre-Provision Profit	(1.4)	1.1	(4.9)	66.6	10.8	17.5
Net Profit	(1.4)	(0.1)	(22.6)	120.8	14.8	18.1
Spreads						
Yield on AUM	15.33	15.43	11.76	16.26	16.3	16.3
Cost of Borrowing	9.7	9.4	8.1	9.2	9.0	9.0
NIM (on AUM)	8.5	8.1	5.8	9.3	9.0	9.1
Spread	5.7	6.1	3.7	7.1	7.3	7.3
Operating Efficiency						
Cost-to-Income	36.1	35.0	22.3	28.5	29.2	28.8
Cost-to-Assets	3.4	3.2	1.7	3.4	2.6	2.6
Asset Quality						
GNPA	8.3	6.9	6.9	6.2	6.2	6.2
NNPA	5.6	4.2	4.7	3.3	3.3	3.3
Provision Coverage	37.5	42.3	47.5	48.5	48.5	48.5
Credit Cost	2.3	2.4	3.1	2.9	2.3	2.3
Capital Adequacy						
CAR	23.2	23.8	23.8	26.0	25.0	25.1
Tier I	20.2	21.8	22.0	23.8	23.0	23.0
Valuation						
EPS	120	110	100	160	183	216
ABV	610	784	761	1,003	1,100	1,270
P/E	16.1	17.5	19.2	12.0	10.5	8.9
P/ABV	3.1	2.4	2.5	1.9	1.7	1.5
ROE	14.8	12.7	9.7	17.3	15.0	15.7
ROA	2.5	2.3	1.8	3.5	3.2	3.3

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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