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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

26 January 2024

Shriram Finance

Strong growth and steady NIMs drive performance

RESULT UPDATE

Sector: NBFCs Rating: BUY

CMP: Rs 2,306 Target Price: Rs 2,725

Stock Info

Sensex/Nifty	70,700/21,352
Bloomberg	SHFL IN
Equity shares	376mn
52-wk High/Low	2,352/1,190
Face value	Rs 10
M-Cap	Rs 866bn/ USD 10.4bn
3-m Avg volume	USD 30.6mn

Financial Snapshot (Rs mn)

Y/E March	FY24E	FY25E	FY26E
NII	188,679	226,083	260,138
PPP	142,176	172,653	200,572
PAT	73,471	91,535	106,510
EPS (Rs)	196.2	244.5	284.5
EPS Gr. (%)	22.9	24.6	16.4
BV/Sh (Rs)	1,285	1,484	1,706

Ratios

NIM (%)	9.2	9.3	9.2
C/I ratio (%)	29.6	28.7	28.0
RoA (%)	3.3	3.5	3.6
RoE (%)	15.9	17.4	17.7
Payout (%)	22.0	22.0	22.0

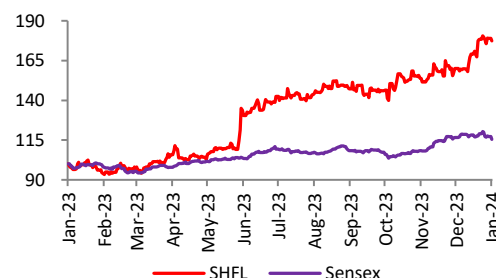
Valuations

P/E (x)	11.8	9.4	8.1
P/BV (x)	1.8	1.6	1.4
Div. Yield (%)	1.9	2.3	2.7

Shareholding pattern (%)

	Jun'23	Sep'23	Dec'23
Promoter	25.5	25.5	25.4
FII	55.4	54.7	53.9
DII	14.7	15.2	15.8
Others	4.5	4.7	4.8

Stock Performance (1-year)



Shriram Finance (SHFL) Q3FY24 operating performance in-line with our estimates with NII/ OP at Rs49.1bn/ 36.8bn, aided by steady margin QoQ at ~9% and 21% YoY growth in AUM. Strong growth in high yielding segments of Passenger vehicle, Gold loan and MSME aided in maintaining steady NIMs. Asset quality saw marginal improvement with GS3/ NS3 at 5.7%/2.7% vs 5.8%/2.8% in Q2, partially aided by higher write offs at Rs. 7.3bn. Higher than expected provisioning at Rs12.5bn (vs. est. of Rs10.9bn) led to lower PAT at Rs18.2bn (vs. est. of Rs19.3bn). Management's outlook remains positive with AUM growth guidance of 20% for FY24 and 15% over the long term and credit cost guidance of 2%. NIMs are broadly expected to remain steady at ~9% aided by focus on high yielding products. We have revised our earnings estimates upwards by 5%/ 10% for FY24/25, as we factor in higher AUM growth for FY24 and steady NIMs. We retain our BUY rating and increase our TP to Rs.2725 (from Rs.2,335) as we rollover to Mar-26, valuing the company at ~1.6x FY26E BV.

Q3FY24 Result key highlights:

- SHFL reported in-line operating performance with NII/OP at Rs49.1bn/ 36.8bn aided by strong AUM growth of 21% YoY / 6% QoQ and with steady margins of ~9%. However due to higher-than-expected provisions at Rs12.5bn (vs. est. of Rs10.9bn), PAT came in lower at Rs18.2bn (vs. est. of Rs19.3bn).
- NIMs were steady QoQ at ~9%, driven by focus on high yielding products and 20bps decline in cost of funds at ~8.7% in Q3. Management guided that the change in asset mix and ability to pass on the increased cost will aid steady NIMs.
- Operating expenses increased by 5% QoQ (28% YoY) led by 7.4% QoQ increase in other opex and 2.5% QoQ increase in employee cost. In long run, management guided to maintain CI ratio at around 27%.
- AUM growth of 6% QoQ (21% YoY) was aided by segments like MSME (8.3% QoQ), Passengers vehicles (4.6% QoQ), and other high yielding products like gold loans (9% QoQ) / personal loans (8% QoQ). 2W segment grew by 17% QoQ, construction equipment 8% QoQ and Commercial vehicles 4.1% QoQ.
- Asset quality shows marginal improvement, with Gross/ Net stage 3 at 5.66%/ 2.72 % (vs. 5.79%/ 2.80% in Q2) with steady provision coverage at 53%. During the quarter provisions increased by 11% QoQ (36.2% YoY) resulting in a credit cost of 2.4% vs. 2.3% in Q2FY24.

Valuation & Recommendation

SHFL's performance was strong on growth, NIMs and asset quality front. Company's outlook continues to remain positive with good visibility on 1) growth front and 2) asset quality. We expect the AUM/ earnings to grow at a CAGR of 18% / 21% over FY23-26, aided by higher growth in non-CV portfolio and stable credit cost. At CMP, the stock trades at an attractive valuation of 1.4x FY26E BV with RoA/RoE of 3.6%/ 17.7%. We reiterate BUY rating with a revised target price of Rs 2,725 (2,335 earlier). Any significant slowdown in the economy or sharp rise in fuel costs are key risks.

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Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: Quarterly performance

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Net Interest Income	41,921	41,810	42,004	45,947	49,110	17.1	6.9
Other Income	3,022	3,460	3,167	3,479	3,094	2.4	-11.1
Net Income	44,944	45,270	45,171	49,426	52,204	16.2	5.6
Total Operating Expenses	11,928	14,459	13,908	14,618	15,311	28.4	4.7
<i>As % Of Net Income</i>	<i>26.5</i>	<i>31.9</i>	<i>30.8</i>	<i>29.6</i>	<i>29.3</i>	<i>279bps</i>	<i>(25bps)</i>
Employee Expenses	6,391	6,907	7,904	7,904	8,099	26.7	2.5
<i>As % Of Net Income</i>	<i>14.2</i>	<i>15.3</i>	<i>17.5</i>	<i>16.0</i>	<i>15.5</i>	<i>129bps</i>	<i>(48bps)</i>
Other Expenses	5,537	7,552	6,004	6,714	7,212	30.3	7.4
<i>As % Of Net Income</i>	<i>12.3</i>	<i>16.7</i>	<i>13.3</i>	<i>13.6</i>	<i>13.8</i>	<i>150bps</i>	<i>23bps</i>
Operating Profit	33,016	30,810	31,262	34,808	36,893	11.7	6.0
<i>As % Of Net Income</i>	<i>73.5</i>	<i>68.1</i>	<i>69.2</i>	<i>70.4</i>	<i>70.7</i>	<i>(279bps)</i>	<i>25bps</i>
Provisions	9,173	11,846	8,786	11,286	12,497	36.2	10.7
PBT	23,844	18,964	22,476	23,523	24,396	2.3	3.7
Total Tax	6,074	5,881	5,722	6,014	6,213	2.3	3.3
Reported PAT	17,770	13,083	16,754	17,508	18,183	2.3	3.9
Yield Analysis (%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (bps)	QoQ (bps)
Yield on AUM	16.9	16.4	16.2	16.6	16.5	(32bps)	(7bps)
Yield on Advances	18.1	17.6	17.5	18.0	17.9	(22bps)	(5bps)
Cost of funds	7.2	7.1	7.4	7.3	7.1	(8bps)	(21bps)
Cost of borrowing	8.0	8.3	8.7	8.9	8.7	64bps	(20bps)
NIMs on AUM	9.7	9.2	8.9	9.29	9.42	(24bps)	14bps
Asset quality (Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Gross Stage 3	110,586	113,822	115,089	115,563	119,523	8.1	3.4
Net Stage 3	54,506	56,749	54,613	54,202	55,730	2.2	2.8
Gross Stage 3 (%)	6.3	6.2	6.0	5.8	5.7	(63bps)	(13bps)
Net Stage 3 (%)	3.2	3.2	3.0	2.8	2.7	(48bps)	(8bps)
Net NPAs/Net worth (%)	12.8	13.1	12.2	11.8	11.8	(101bps)	7bps
AUM (Rs bn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Commercial vehicles	906,152	932,949	959,047	984,363	1,024,651	13.1	4.1
Passenger vehicles	317,651	338,726	362,920	396,935	415,342	30.8	4.6
Construction equipment	138,672	143,627	146,262	150,582	162,228	17.0	7.7
Farm equipment	33,297	34,788	34,191	34,797	33,564	0.8	-3.5
MSME	176,597	191,013	200,448	213,104	230,859	30.7	8.3
2-Wheelers	100,049	103,692	100,235	104,191	121,397	21.3	16.5
Gold	44,370	44,784	49,848	54,055	58,910	32.8	9.0
Personal loans	57,674	66,751	79,197	88,384	95,384	65.4	7.9
Others	519	497	0	0	0	-	-
Total	1,774,980	1,856,829	1,932,147	2,026,410	2,142,335	20.7	5.7
Other details	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Branches	2,901	2,922	2,930	2,975	3,037	4.7	2.1
Employees	60,918	64,052	66,343	71,373	73,485	20.6	3.0

Source: Company, Systematix Institutional Research

Earnings call highlights

Business:

- Overall economy is in good shape led by manufacturing sector, favorable base, govt thrust on infra spending and good volumes. Rabi crop sowing is 4.4% higher vs previous cropping season. Government increased MSP on rabi crops (wheat, pulses and oil seeds) by 2-7%.
- Auto Industry in Q3 – CV sales stood at 2.35 lakh units, MHCV – 91000 units vs 87000 units, LCV – 1.44 lakh units vs 1.41 lakh units, PV – 8.21% YoY growth, Construction equipment grew 32% YoY. E-commerce and last mile delivery segment witnessing strong traction.
- Disbursements grew 29% YoY / 9.2% QoQ at Rs 377bn. Disbursement break up – CV: 144bn, PV: 61bn, Farm Equipment: 4.6bn, MSME: 46bn, Gold: 31bn, PL: 28bn.
- Disbursements in housing finance subsidiary was Rs 16.9bn registering a growth of 69% YoY.
- CV segment expected to grow at 12-15% YoY. High yield products (gold, PV & personal loans) will be offered from all the branches.
- Personal loans - Growth was led by expanded network. MSME – at initial stage and have only tied up with PayTM. Bus segment – post covid this segment has come to a standstill and have least credit cost.
- Housing Subsidiary – co-lending and DA volumes 20-21% of total AUM. Currently focusing on 8 states through 149 branches. Employee count – 3500.
- Liquidity surplus of 4 months.

Asset Quality:

- Personal loan segment asset quality steady as these loans are offered to only 2W customers who have good track record.
- Total break up – Rs 7.25bn write offs (Rs 8.4bn in Q2) and Rs 5.25bn NPA provisions.
- Asset quality to remain healthy irrespective of upcoming election.

Yields / CoB / NIMs:

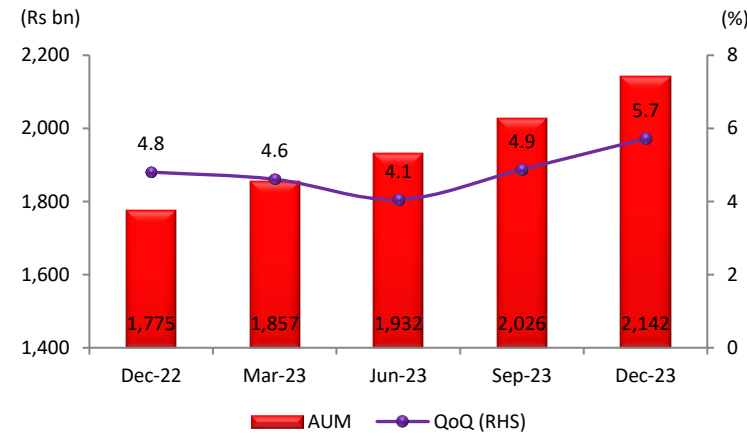
- Incremental cost of borrowing (CoB) was 8.95% vs 8.7% in Q2.
- Change in asset mix and ability to pass on the increased cost will aid steady NIMs.
- ECB fully hedged rate is 9.5%.
- Followed by RBI circular, 2-3 banks have increased their rates for the company. However, management does not expect it to breach 8.95% levels.

Opex:

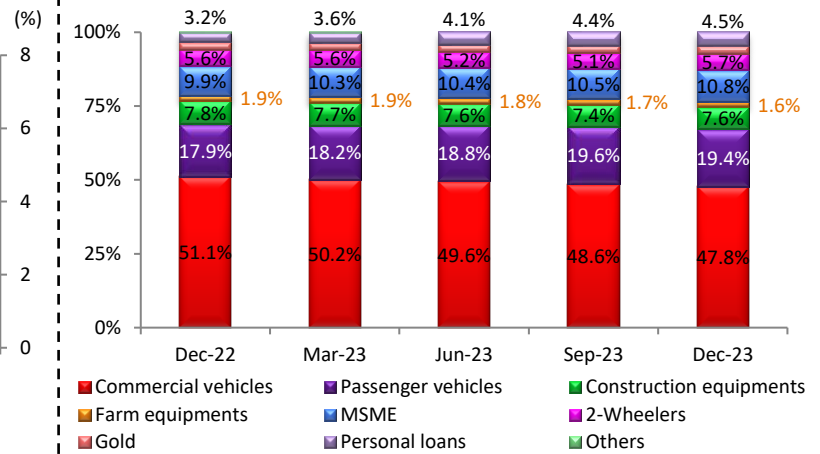
- Target of opening 100-150 branches.

FY24 Guidance:

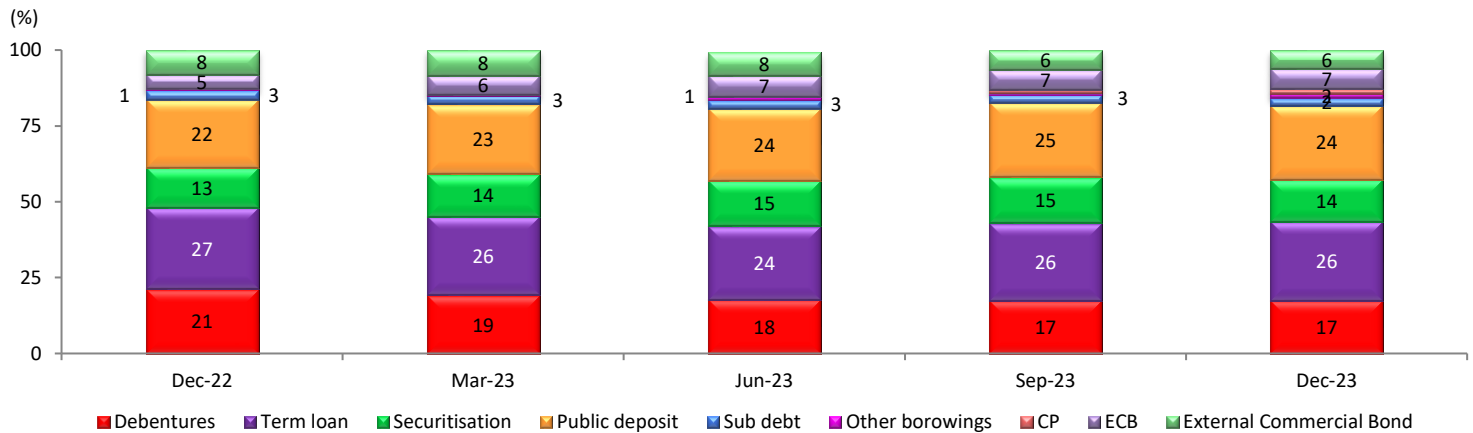
- AUM growth guidance at 20% for FY25 and 15% in long terms.
- NIMs guidance at 8.9%.
- Credit cost guidance was maintained at 2% for full year.

Exhibit 2: AUM growth continues to remain strong

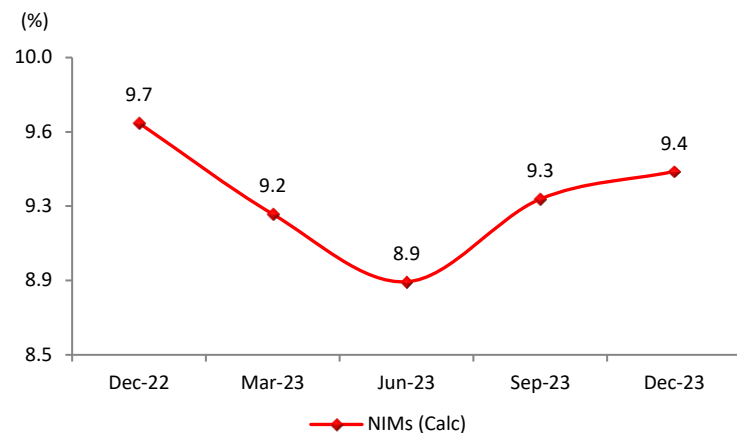
Source: Company, Systematix Institutional Research

Exhibit 3: High yield products share continue to increase in AUM

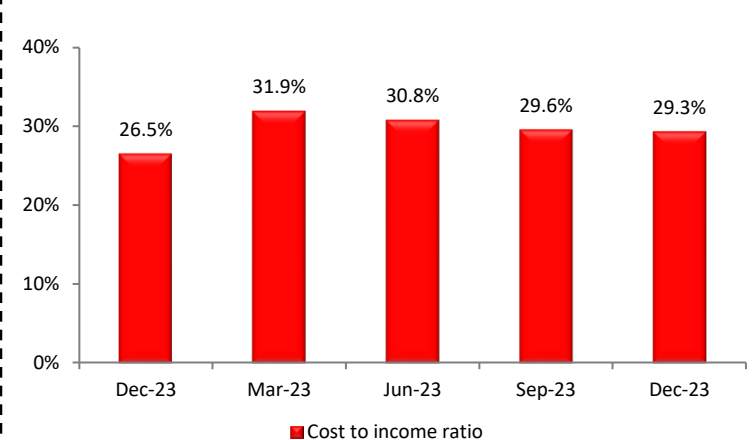
Source: Company, Systematix Institutional Research

Exhibit 4: Diversified borrowing mix

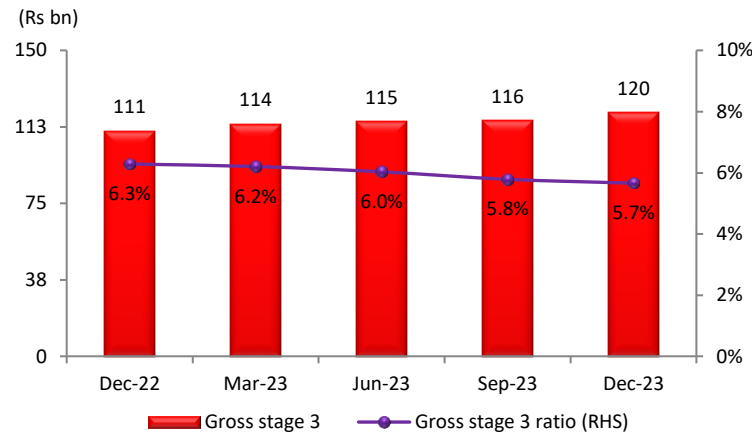
Source: Company, Systematix Institutional Research

Exhibit 5: Change in product mix aided steady NIMs

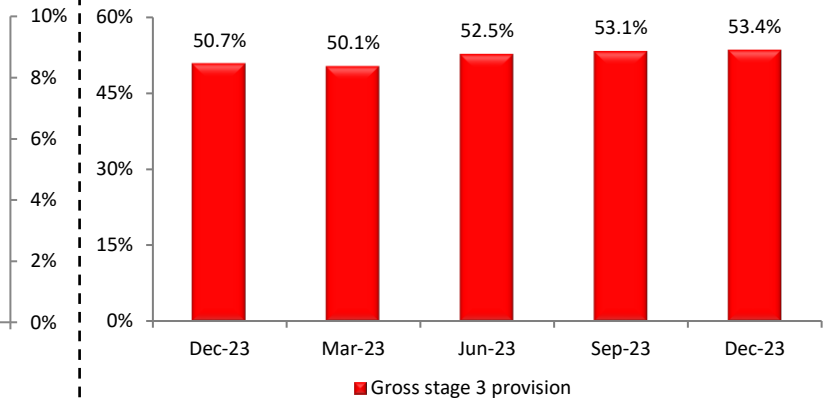
Source: Company, Systematix Institutional Research

Exhibit 6: C/I ratio continue to remain steady

Source: Company, Systematix Institutional Research

Exhibit 7: GS3 asset ratio largely steady

Source: Company, Systematix Institutional Research

Exhibit 8: Stage 3 assets adequately covered

Source: Company, Systematix Institutional Research

Exhibit 9: Change in estimates

(Rs bn)	Old Estimates			New Estimates			% Change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
NII	187.3	220.3	-	188.7	226.1	260.1	0.7	2.6	-
Operating Profit	140.6	166.1	-	142.2	172.7	200.6	1.1	3.9	-
PAT	70.2	83.2	-	73.5	91.5	106.5	4.7	10.0	-
BV	1,279	1,460	-	1,285	1,484	1,706	0.5	1.7	-
EPS	187	222	-	196	244	284	4.7	10.0	-

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	89,120	160,616	188,679	226,083	260,138
Other income	6,280	11,956	13,197	15,912	18,398
Net Income	95,399	172,572	201,876	241,994	278,535
Operating expenses	21,298	49,131	59,700	69,341	77,963
Preprovision profit	74,101	123,442	142,176	172,653	200,572
Provisions	38,609	41,592	43,159	48,790	56,446
Profit before tax	35,493	81,850	99,017	123,863	144,126
Tax	8,413	22,056	25,547	32,328	37,616
Tax rate	23.7	26.9	25.8	26.1	26.1
Reported Profit after tax	27,080	59,794	73,471	91,535	106,510

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity	2,705	3,744	3,744	3,744	3,744
Reserves	256,617	429,322	486,629	558,027	641,105
Net worth	259,322	433,066	490,374	561,771	644,849
Borrowings	1,144,967	1,579,063	1,885,900	2,149,926	2,450,916
Others	16,772	24,509	10,308	64,633	96,775
Total liabilities	1,421,061	2,036,639	2,386,582	2,776,330	3,192,540
Cash	163,552	158,174	119,438	139,151	160,012
Investments	68,092	85,651	101,409	118,147	135,859
Loans	1,166,652	1,719,846	2,082,354	2,421,888	2,784,963
Others	18,585	39,040	47,324	55,135	63,401
Total assets	1,421,061	2,036,638	2,386,582	2,776,330	3,192,540

Source: Company, Systematix Institutional Research

Dupont (as % of Average Assets)

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	13.7	16.5	15.2	15.3	15.2
Interest Expense	7.2	7.3	6.7	6.5	6.4
Net Interest Income	6.6	9.3	8.5	8.8	8.7
Other income total	0.5	0.7	0.6	0.6	0.6
Net Income total	7.0	10.0	9.1	9.4	9.3
Operating expenses total	1.6	2.8	2.7	2.7	2.6
Preprovision profit	5.5	7.1	6.4	6.7	6.7
Provisions	2.8	2.4	2.0	1.9	1.9
Profit before tax and exce. items	2.6	4.7	4.5	4.8	4.8
Profit before tax	2.6	4.7	4.5	4.8	4.8
Tax total	0.6	1.3	1.2	1.3	1.3
Profit after tax	2.0	3.5	3.3	3.5	3.6

Source: Company, Systematix Institutional Research

Key Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Yield on portfolio	16.6	19.8	17.7	17.5	17.4
cost of borrowings	8.8	9.2	8.5	8.4	8.4
Interest Spread	7.8	10.6	9.2	9.2	9.0
NIM (on AUM)	6.4	9.3	9.2	9.3	9.2
Cost/ Income (%)	22.3	28.5	29.6	28.7	28.0
Credit cost (%)	2.8	2.4	2.0	1.9	1.9
RoA(%)	2.0	3.5	3.3	3.5	3.6
RoE(%)	11.4	17.3	15.9	17.4	17.7
Leverage (x)	5.7	5.0	4.8	4.9	4.9
Tier I (%)	20.7	21.2	21.1	21.3	21.7
CAR (%)	23.0	22.6	22.3	22.3	22.6
Gross NPA (%)	7.1	6.2	5.7	5.7	5.7
Net NPA (%)	3.7	3.2	2.7	2.7	2.7
Provision coverage (%)	50.0	50.1	53.4	53.4	53.4

Source: Company, Systematix Institutional Research

Growth

YE: Mar (%)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	10.4	80.2	17.5	19.8	15.1
Net Income total	13.8	80.9	17.0	19.9	15.1
Preprovision profit	15.8	66.6	15.2	21.4	16.2
Profit before tax	8.3	130.6	21.0	25.1	16.4
Profit after tax	8.9	120.8	22.9	24.6	16.4
Loan	7.7	47.4	21.1	16.3	15.0
Disbursement	76.5	81.0	26.7	12.0	14.0
AUM	36.7	15.9	21.4	16.5	15.0

Source: Company, Systematix Institutional Research

Valuation ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
FDEPS (Rs)	72.3	159.7	196.2	244.5	284.5
PER (x)	31.9	14.4	11.8	9.4	8.1
Book value (Rs)	692.6	1,156.6	1,285.3	1,484.0	1,705.9
P/BV (Rs)	3.3	2.0	1.8	1.6	1.4
Adjusted book value (Rs)	573.8	1,005.0	1,152.1	1,317.1	1,511.5
P/ABV (Rs)	4.0	2.3	2.0	1.8	1.5
P/PPP (x)	11.7	7.0	6.1	5.0	4.3
Dividend yield (%)	1.1	1.5	1.9	2.3	2.7

Source: Company, Systematix Institutional Research

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