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India | Equity Research | Company Update

## Shriram Finance

NBFCs

**Focus on driving merger led to new business opportunities; thrust on sustainable growth and profitability**

Shriram Finance, post the STFC-SCUF merger in FY23, has now in its arsenal one of the largest distribution networks (>3,000 branches), formidable manpower (>70,000 employees) and a wide array of retail asset products. The merger has brought with it a second wind for growth too, which is progressively convalescing – FY24TD growth stands at 15%, following STFC's timid FY19-23 spell of 9%/5%/7%/8%/14% on a standalone basis. With early signs of merger synergies forming a strong premise, in terms of enhanced product offering and reach, arm in arm with the appreciable scope for cross-selling – given only ~15% branches offer the company's full product catalogue as on Dec'23 – management aims to outpace the industry growth rate by 20-25%. Likely operating leverage over the next 4-6 quarters and steady NIM would drive RoE to 16-18% from current level of 15.5% with RoA of 3%.

### We resume coverage with BUY

We resume coverage on Shriram Finance with a **BUY** rating and TP of INR 2,930, valuing the stock at 1.8x Sep'25E PBV. The stock is trading at 1.4x FY26E PBV, and we believe its current market valuation falls short of acknowledging a likely improvement in RoE to 17% by FY26E and AUM growth of >15% over FY23-26E. Further, >90% of its secured book reinforces our view that credit cost will likely remain ~2% over FY23-26E.

### Enhanced product portfolio to herald growth sustainability

Pre-merger, STFC's standalone product portfolio predominately comprised of commercial vehicle (CV); consequently, its business growth remained tied to CV cycles – directly correlated even. On the flipside, SCUF's geographical concentration in three southern states (majorly 2W & MSME) was restricting its incremental growth. Hence, STFC-SCUF has been an exemplary merger that helped disengage each company from the clutches of their respective limitations by leaning on each other's strengths, leading to product enhancement and wider reach. Shriram Finance's (post-merger) product offering is one of the most diversified within the NBFC space with CV share reducing to 50%, as on Dec'23. Enhanced product offering would help it navigate the CV cyclicity by offsetting CV disbursements with other products.

### Gradually moving to 'all-branch, all-product'

Shriram Finance is prudently enhancing its product offering at merged branches, basis customer preference and market appetite. Currently, only 15% branches are equipped with all product offering. The company plans to roll out all branch – all product.

**Key risks:** Slowdown in the CV cycle, deceleration in loan book growth.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Interest Income (NII)	1,59,614	1,87,372	2,22,487	2,58,451
PAT (INR mn)	60,115	72,279	88,784	1,05,553
EPS (INR)	160.5	193.0	237.1	281.9
% Chg YoY	60.4	20.2	22.8	18.9
P/E (x)	15.3	12.7	10.3	8.7
P/BV (x)	2.1	1.9	1.6	1.4
Gross Stage - 3 (%)	6.2	5.6	5.7	5.7
RoA (%)	3.4	3.2	3.4	3.5
RoE (%)	17.3	15.6	16.8	17.3

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#### Market Data

Market Cap (INR)	921bn
Market Cap (USD)	11,109mn
Bloomberg Code	SHFL IN
Reuters Code	SHMF.BO
52-week Range (INR)	2,535 / 1,193
Free Float (%)	74.0
ADTV-3M (mn) (USD)	39.9

Price Performance (%)	3m	6m	12m
Absolute	22.3	28.2	100.6
Relative to Sensex	13.0	15.4	76.5