

Shriram Finance (SHFL)

NBFC | 4QFY24 Result Update

ACCUMULATE

CMP: Rs2,502 | Target Price (TP): Rs2,675 | Upside: 7%

April 27, 2024

Growth outlook strong; asset quality improves

Key Points

- Shriram Finance's 4QFY24 performance was merely flat vs our estimates, with NII/PPOP coming in at a variation of 1.1%/-3.5%. PAT came in at Rs19.45bn (vs. our estimate of Rs 24.5 bn) on account of higher than expected provisions (+6.5% YoY).
- AUM grew robustly at 21% YoY to Rs 2,249bn, led by robust growth in the SCUF portfolio. We expect SHFL to deliver 17.5% RoE in FY25, led by steady growth in AUM, sustainable NIM and controlled credit costs.
- Strong growth outlook in SCUF portfolio, stable NIM and improving asset quality ratios are key positives. We tweak our estimates factoring in higher opex. Roll forward our valuation to Mar 2026E ABV of Rs1,614, with no change in target multiple of 1.7x, giving us a TP of Rs2,675 (same as earlier). The stock has rallied 8% over the past 3 months and valuation prices in all the positives. Downgrade to Accumulate.

Focus on high-yielding mix; 15% growth in FY25: 4QFY24 disbursements saw a strong growth of 26.6% YoY to Rs393.3bn. Consequently, AUM growth was robust at 21% YoY/ 5% QoQ to Rs2,249bn, led by strong growth in the SCUF portfolio (MSME, 2W, gold and personal loans grew 36.9%/ 21.1% / 40.7% / 34.6% respectively). The split among CV/PV/CE/Farm Equipment/ MSME/2W/ Gold/Personal Loans stood at 47.6%/ 19.2%/ 7.5%/ 1.7%/ 11.7%/ 5.6%/ 2.8%/ 4.0% respectively. Within the CV portfolio, the passenger vehicle segment continues to see strong growth (27.5% YoY), led by strong aspirational demand. The company expects steady growth of 12-15% in the CV portfolio over the next two years, primarily driven by replacement demand in the used portfolio. Incrementally, it is focusing on increasing high-yield businesses such as MSME, Gold and Personal loans by leveraging its expanded network (erstwhile SCUF branches). Management commentary indicated a calibration in growth to these segments to build a more granular portfolio. Moreover, it expects some near-term disruption in Q1FY25 due to the elections. We build a run-rate of 15% in FY25E.

NIM to sustain at ~9%: NII grew by 21.7% YoY (3.6% QoQ) to Rs50.87bn. Reported NIM stood stable at 9.02% vs. 8.99%/ 8.55% in 3QFY24/ 4QFY23, despite an increase in cost of borrowings. The company expects to maintain margins at ~9% aided by a pivot towards a high-yielding mix and stable interest costs in H1FY25. We expect CoF to remain at similar levels and NIMs to remain range-bound over the next two quarters. Cost/Income ratio improved slightly to 26.68% vs. 27.08% in 3Q (30.15% in 4QFY23) and the company highlighted that it will take another year to activate the entire product portfolio across branches. We expect opex to be elevated over the near-term as it is opening new branches for the MSME/ gold loan portfolio.

Asset quality shows improvement: Asset quality improved on a sequential basis, with GS3/NS3 at 5.45%/ 2.7% vs. 5.66%/ 2.72% in 3QFY24. Stage 3 PCR stood at 51.8%. Stage 1 ECL was higher due to revised PD/ LGD assumptions and daily stamping rules; however, the company expects it to stabilize at current levels of ~3.3%. Its PL portfolio (4% of AUM) has seen a slowdown in growth; however, the company does not expect to see significant asset quality challenges in this segment. It expects credit cost to be ~2% in FY25E and is targeting to reach a GS3 level of ~5% by end FY25.

Est Change	Downward
TP Change	No change
Rating Change	Downward

Company Data and Valuation Summary

Reuters	SHMF.BO
Bloomberg	SHFL IN Equity
Market Cap (Rsbn / US\$bn)	939.0 / 11.2
52 Wk H / L (Rs)	2,606 / 1,306
ADTV-3M (mn) (Rs / US\$)	4,047.9 / 48.7
Stock performance (%) 1M/6M/1yr	5.3 / 39.0 / 77.7
Nifty 50 performance (%) 1M/6M/1yr	2.7 / 5.0 / 25.1

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	25.5	25.4	25.4
DII's	15.2	15.8	15.7
FII's	54.7	54.0	53.9
Others	4.7	4.8	5.0
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Interest Income	160,616	187,935	218,643	254,357
% growth	27.5	17.0	16.3	16.3
Net Interest Margin %	10.0	9.9	9.8	9.9
Cost/Income Ratio	28.5	29.7	29.9	29.5
Operating Profit	123,441	142,020	164,707	192,287
% growth	26.5	15.1	16.0	16.7
Adjusted PAT	59,793	71,905	91,427	108,045
% growth	57.7	20.3	27.1	18.2
ABVPS	1,005	1,137	1,333	1,614
P/ABV	2.5	2.2	1.9	1.6
RoA (%)	3.1	3.3	3.6	3.7
Leverage (x)	4.9	4.8	4.9	4.8
RoE (%)	15.3	15.7	17.5	17.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links- [4QFY24 presentation](#)

Please refer to the disclaimer towards the end of the document.

Evaluating options for Shriram Housing: The Housing Finance subsidiary's AUM grew by 71.0% YoY and 14.4% QoQ to Rs137.62bn, led by strong growth in the HL and LAP portfolios. HL/ LAP and MLAP/ Top up loans/ CF/ CL comprise 54%/37%/0%/5%/3%/1% of the AUM respectively. The company is focusing on 8 states- (primarily TN, KA, AP, MH, GJ) with the strategy of deep expansion in these territories. Reported NIM contracted to 7.56% vs. 8.20% in 3Q, while C/I ratio was higher at 54.89% vs. 52.21% in 3Q. Provisions grew 387% YoY and PAT grew 67.1% YoY on a small base. GS3/NS3 deteriorated to 1.03%/ 0.8% vs. 1.01%/ 0.75% in 3Q. The company is exploring various options to fund growth capital for Shriram Housing Finance, including external investment, primary equity infusion, or even a complete sell-down of the subsidiary.

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24	4Q24E	Variation (%)	YoY	QoQ
NII	41,810	42,004	45,947	49,110	50,874	160,616	187,935	50,305	1.1	21.7%	3.6%
YoY (%)	65.6	5.4	21.6	20.9	21.7	27.5	17.0	20.3	-	-	-
Other Income	3,460	3,167	3,479	3,094	4,206	11,955	13,980	4,128	1.9	21.6%	35.9%
Net Revenue	45,270	45,171	49,426	52,204	55,080	172,571	201,915	54,432	1.2	21.7%	5.5%
Opex	14,459	13,908	14,618	15,311	16,024	49,131	59,895	13,942	14.9	10.8%	4.7%
PPOP	30,810	31,262	34,808	36,893	39,056	123,441	142,020	40,491	-3.5	26.8%	5.9%
YoY (%)	45.9	5.3	16.3	11.7	26.8	26.5	15.1	31.4	-	-	-
Provisions	11,846	8,786	11,286	12,497	12,615	41,592	45,183	7,556	67.0	6.5%	0.9%
PBT	18,964	22,476	23,523	24,396	26,441	81,849	96,836	32,935	-19.7	39.4%	8.4%
Tax	5,881	5,722	6,014	6,213	6,983	22,056	24,932	8,398	-16.9	18.7%	12.4%
ETR (%)	31.01	25.46	25.57	25.47	26.41	26.95	25.75	25.50	91bps	-460bps	94bps
PAT	13,083	16,754	17,508	18,183	19,459	59,793	71,905	24,536	-20.7	48.7%	7.0%
YoY (%)	20.5	25.1	12.6	2.3	48.7	57.7	20.3	87.5	-	-	-
Business Metrics											
Loans (Rs bn)	1,720	1,788	1,872	1,979	2,079	1,720	2,079	2,058	1.0	20.9%	5.1%
YoY (%)	47.4	17.7	18.7	19.9	20.9	16.5	20.9	19.7	-	-	-
AUM (Rs bn)	1,857	1,932	2,026	2,142	2,249	1,857	2,249	2,228	0.9	21.1%	5.0%
YoY (%)	15.9	18.6	19.7	20.7	21.1	15.9	21.1	20.0	-	-	-
Asset Quality Metrics											
GS3 (%)	6.21	6.03	5.79	5.66	5.45	6.21	5.49	5.54	-8bps	-76bps	-21bps
NS3 (%)	3.19	2.96	2.80	2.72	2.70	3.19	2.64	2.55	15bps	-49bps	-2bps
PCR - stage 3 (%)	50.14	52.55	53.10	53.37	51.79	50.14	51.79	53.87	-208bps	165bps	-158bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in estimates

	Revised Estimates		Earlier Estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Interest income (Rs mn)	218,643	254,357	219,824	256,499	-0.5	-0.8
Operating Profit (Rs mn)	164,707	192,287	176,503	208,986	-6.7	-8.0
Profit after tax (Rs mn)	91,427	108,045	100,380	120,717	-8.9	-10.5
ABV	1,333	1,614	1,374	1,697	-2.9	-4.9

Source: Company, Nirmal Bang Institutional Equities Research

Shriram Finance 4QFY24 Concall KTAs

Business Highlights

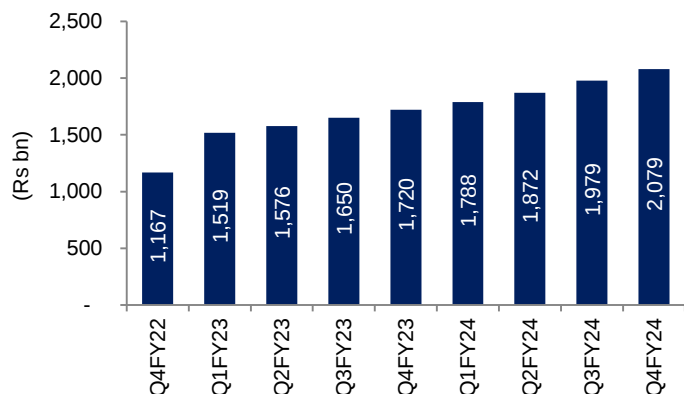
- The increase in stage 1 ECL from 3% to 3.3% QoQ is due to a reassessment of PD and LGD rates based on the last five years' data and economic parameters. It is expected that the ECL will stabilize around current levels of 3.3%.
- The AUM growth guidance for FY'25 may not reach 20% due to factors such as the upcoming elections potentially slowing down credit demand. The focus will be on granular, high-yielding products rather than top-line growth, aiming to grow the bottom line faster than the top line.
- Product integration across the ~3,000 branches is being conducted in stages. The integration process is ongoing and includes introducing products like gold loans and SME services and it may take about a year to fully implement these products across all feasible locations.
- The branches are operating on a hub-and-spoke model, with hubs serving as processing and underwriting offices, while spokes act as lead generators.
- The internal audit team consists of ~150 members who visit ~2,300 branches, as part of the audit plan for 2024-25. Additionally, there is a 200-member operational audit team that conducts parallel visits to branches to ensure the prevention of fraud.
- The growth in the commercial vehicle portfolio has been driven by a combination of volume growth and price increase. ~5% of the 15% growth is attributed to the price increase. The decline in personal loans is a result of tightening credit standards in response to market concerns.

Operational Performance

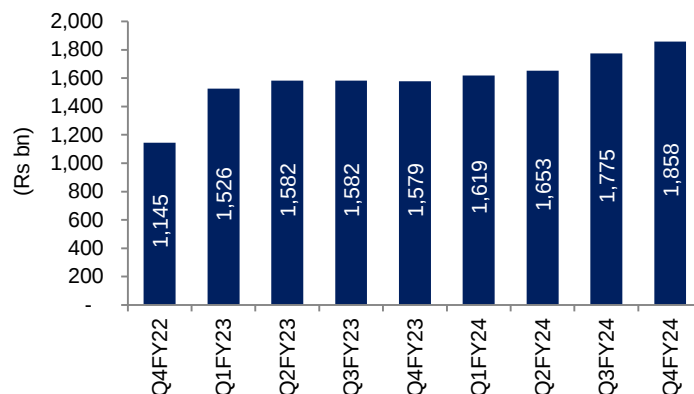
- The total disbursements for 4Q were Rs393.26bn. Disbursement growth YoY was 26.6% and QoQ was 4.1%. AUM stood at Rs2,248.6bn, compared to Rs1,856.8bn in FY23.
- Asset quality improved, with Gross Stage 3 at 5.45% and Net Stage 3 at 2.70% in 4QFY24.
- Credit costs for 4QFY24 were 2.06%. The cost to income ratio decreased to 26.68% in 4QFY24 from 30.15% in 4QFY23.
- Shriram Housing Finance Limited saw a disbursement growth of 76.88% over 4QFY23. AUM grew by 71.02% YoY and 14.44% QoQ. Gross Stage 3 for 4QFY24 stood at 1.03%, and Net Stage 3 came in at 0.80%.
- Cost of debt has increased by 5bps in the current quarter and by 19bps YoY.
- The incremental cost of funds is expected to be maintained without further increase. There are no reasons to anticipate a rise in the incremental cost of funds.
- ALM buckets remain positive, with a cumulative surplus up to one year at Rs381.9bn.
- Employee count as of 31st March'24 was 74,645. PD-LGD numbers: PD for stage 1 was 8.85, stage 2 PD was 20.12, and LGD was at 38.08%.

Guidance and Future Outlook

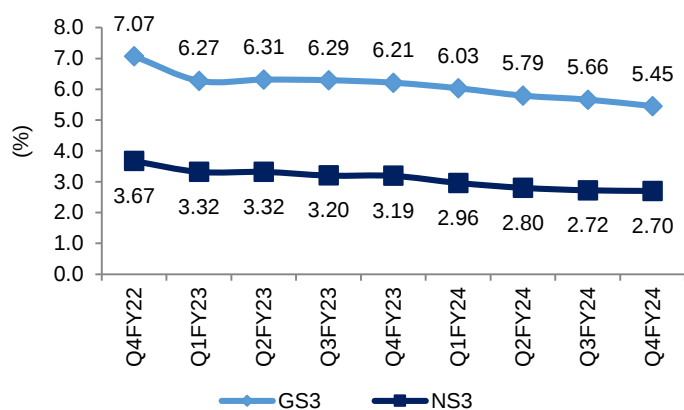
- The long-term guidance for credit costs is around 2%, with FY24 ending at 2.06%, compared to the previous year's 2.15% and the aim is to maintain it at ~2% for the full year.
- The CV segment is expected to grow at ~11-12%, requiring other products to grow at a higher rate, such as 20% or more, to balance and achieve the overall growth target.
- The current ROE stands at 16%, and the guidance for FY25 is in the range of 16% to 18%.
- The growth targets for FY25 are around 15%-16%. The focus will be on more granular growth, emphasizing small-ticket lending with a higher weightage on high-yielding assets.
- The target is to reduce GNPA to 5% by the end of FY25, with the NNPA's expected to be ~2.5%.

Exhibit 3: Advances


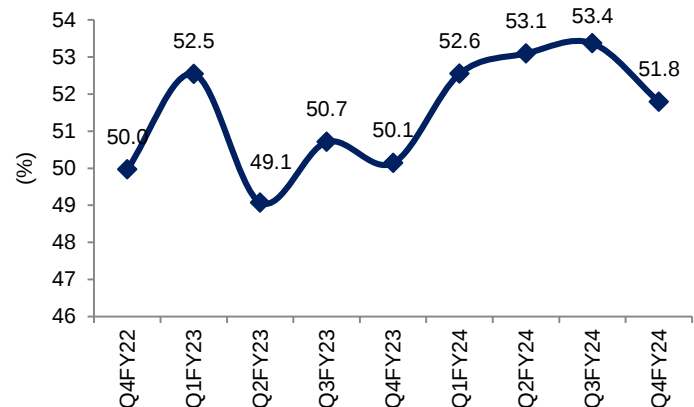
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Borrowings


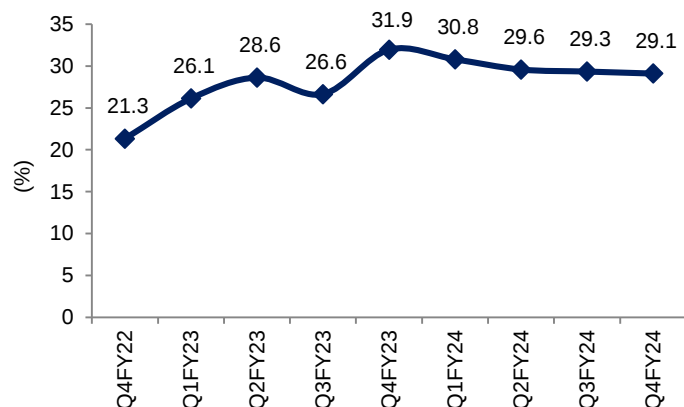
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: GS3 & NS3


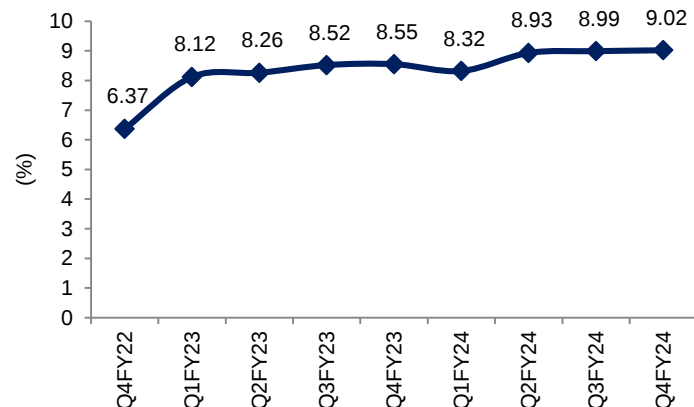
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Provision Coverage Ratio


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cost to income ratio


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: NIM on AUM


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key financial summary

Y/E March (Rs mn)	FY22*	FY23	FY24	FY25E	FY26E
Net Interest Income	125,937	160,616	187,935	218,643	254,357
Pre-provisioning operating profit	97,573	123,441	142,020	164,707	192,287
PAT	37,924	59,793	71,905	91,427	108,045
P/E (x)	24.6	15.7	13.0	10.2	8.7
P/BV (x)	1.8	2.2	1.9	1.7	1.4
P/ABV (x)	2.8	2.5	2.2	1.9	1.6
EPS (Rs)	102	160	192	244	289
BV (Rs)	1,372	1,157	1,297	1,487	1,775
ABV (Rs)	898	1,005	1,137	1,333	1,614
Gross NPAs (%)	5.7	6.2	5.5	5.0	4.5
Net NPAs (%)	3.7	3.1	2.6	2.4	2.2
RoA (%)	2.2	3.1	3.3	3.6	3.7
RoE (%)	11.8	15.3	15.7	17.5	17.7

*proforma number adjusted for the merger with SCUF.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Actual performance vs our estimates

(Rs mn)	4QFY24	4QFY23	3QFY24	YoY (%)	QoQ (%)	4QFY24E	Devi (%)
Net Interest Income	50,874	41,810	49,110	21.7	3.6	50,305	1.1
PPOP	39,056	30,810	36,893	26.8	5.9	40,491	(3.5)
Adjusted PAT	19,459	13,083	18,183	48.7	7.0	24,536	(20.7)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 11: One-year forward P/ABV



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 12: Income statement

Y/E March (Rsmn)	FY22*	FY23	FY24	FY25E	FY26E
Financing Income	248,605	286,074	335,997	389,638	442,538
Financing charges	122,668	125,458	148,061	170,995	188,181
Net Financing income	125,937	160,616	187,935	218,643	254,357
Change (%)	9.4	27.5	17.0	16.3	16.3
Other Income	9,441	11,955	13,980	16,219	18,410
Net Income	135,378	172,571	201,915	234,862	272,767
Change (%)	12.9	27.5	17.0	16.3	16.1
Employee Cost	19,695	25,061	32,156	35,720	39,553
Other Operating Exp.	18,110	24,070	27,739	34,435	40,927
Operating Profit	97,573	123,441	142,020	164,707	192,287
Change (%)	13.0	26.5	15.1	16.0	16.7
Total Provisions	47,485	41,592	45,183	41,987	47,260
% to operating income	48.7	33.7	31.8	25.5	24.6
PBT	50,088	81,849	96,836	122,720	145,027
Tax	12,164	22,056	24,932	31,294	36,982
Tax Rate (%)	24.3	26.9	25.7	25.5	25.5
PAT	37,924	59,793	71,905	91,427	108,045
Change (%)	8.4	57.7	20.3	27.1	18.2

*proforma number adjusted for the merger with SCUF.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E March (Rsmn)	FY22*	FY23	FY24	FY25E	FY26E
Capital	3,371	3,744	3,758	3,748	3,748
Reserves & Surplus	343,760	429,322	481,926	553,001	661,045
Net Worth	347,131	433,066	485,684	556,749	664,794
Borrowings	1,451,285	1,579,063	1,858,411	2,149,449	2,465,087
Change (%)	10.1	8.8	17.7	15.7	14.7
Other Liabilities	16,772	24,509	28,665	29,829	31,040
Total Liabilities	1,815,188	2,036,639	2,372,760	2,736,027	3,160,920
Investments	86,455	85,651	106,566	107,472	123,254
Change (%)	105.1	-0.9	24.4	0.9	14.7
Loans	1,476,890	1,719,846	2,079,294	2,396,834	2,748,799
Change (%)	8.8	16.5	20.9	15.3	14.7
Net Current Assets	251,843	231,142	186,900	231,721	288,867
Total Assets	1,815,188	2,036,639	2,372,760	2,736,027	3,160,920

*proforma number adjusted for the merger with SCUF.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

Y/E March (Rsmn)	FY22*	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)					
Interest yields (on advances)	17.5	17.9	17.7	17.4	17.2
Avg Cost of funds	8.9	8.3	8.6	8.5	8.2
NIMs	8.9	10.0	9.9	9.8	9.9
Interest spread	8.7	9.6	9.1	8.9	9.0
Profitability Ratios (%)					
RoE	11.8	15.3	15.7	17.5	17.7
RoA	2.2	3.1	3.3	3.6	3.7
Int. Expended/Int.Earned	49.3	43.9	44.1	43.9	42.5
Other Inc./Net Income	7.0	6.9	6.9	6.9	6.7
Asset-Liability Profile (%)					
Loans/Borrowings Ratio	101.8	108.9	111.9	111.5	111.5
GNPL ratio (%)	5.7	6.2	5.5	5.0	4.5
NNPL ratio (%)	3.7	3.1	2.6	2.4	2.2
Leverage	5.2	4.7	4.9	4.9	4.8
Average leverage (on BS)	5.4	4.9	4.8	4.9	4.8
CAR	23.0	21.5	20.6	20.3	20.8

*proforma number adjusted for the merger with SCUF.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Valuations

Valuations	FY22*	FY23	FY24	FY25E	FY26E
BVPS (INR)	1,371.7	1,156.6	1,297.1	1,486.9	1,775.5
BV Growth (%)	17.7	-15.7	12.1	14.6	19.4
Price-BV (x)	1.8	2.2	1.9	1.7	1.4
Adjusted BV (INR)	897.9	1,005.0	1,137.4	1,333.4	1,613.6
P/ABV	2.8	2.5	2.2	1.9	1.6
EPS (INR)	101.7	159.7	192.0	244.2	288.6
Growth (%)	0.8	57.0	20.3	27.1	18.2
Price-Earnings (x)	24.6	15.7	13.0	10.2	8.7
Dividend	20.0	35.0	38.4	48.8	57.7
Dividend Yield (%)	0.8	1.4	1.5	2.0	2.3

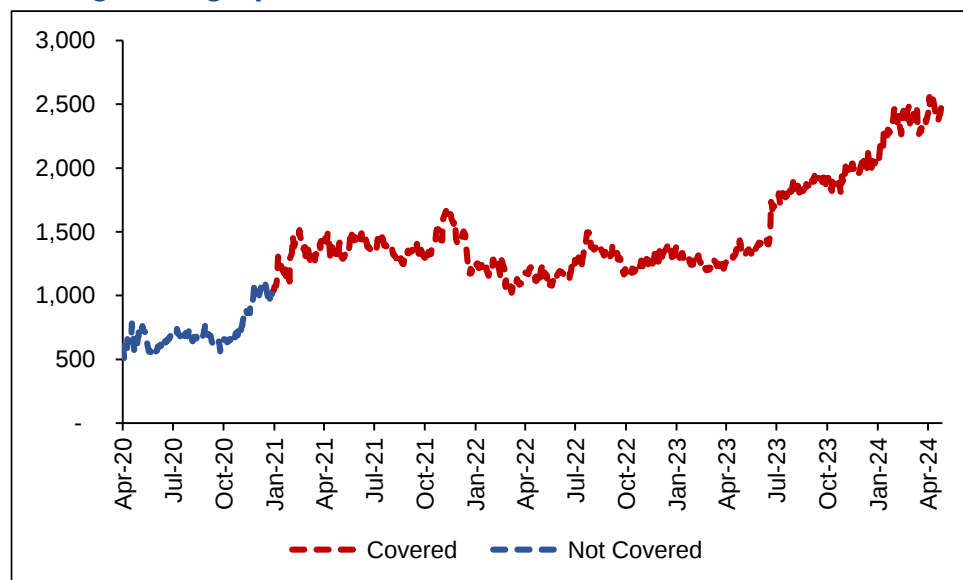
*proforma number adjusted for the merger with SCUF.

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 December 2020	Buy	1,016	1,265
31 Jan 2021	Buy	1,291	1,490
21 Feb 2021	Buy	1,405	1,714
3 May 2021	Buy	1,345	1,732
8 June 2021	Buy	1,487	1,730
2 Aug 2021	Buy	1,390	1,805
25 Aug 2021	Buy	1,267	1,805
26 Sep 2021	Buy	1,356	1,745
31 Oct 2021	Buy	1,449	1,785
9 Dec 2021	Buy	1,492	1,785
14 Dec 2021	Buy	1,385	1,785
26 Jan 2021	Buy	1,167	1,653
21 Feb 2022	Buy	1,254	1,761
29 Apr 2022	Buy	1,202	1,779
20 June 2022	Buy	1,150	1,515
29 July 2022	Accumulate	1,461	1,466
19 September	Buy	1,331	1,541
21 October 2022	Accumulate	1,217	1,345
28 April 2023	Accumulate	1,404	1,540
28 July 2023	Buy	1,812	2,162
27 October 2023	Buy	1,798	2,200
29 January 2024	Buy	2,306	2,675
27 April 2024	Accumulate	2,502	2,675

Rating track graph



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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