Shriram Finance (SHRTRA)

CMP: ₹ 2962 | Target: ₹ 3400 (15%) | Target Period: 12 months

ICICI direct Research

BUY

August 1, 2024

Result Update

Consistent healthy quarter, valuation still provides room

About the stock: Shriram Finance (SHF) is large financier with a strong rural presence engaged in credit solution for commercial vehicles, two-wheeler, car loans, home loans, gold loans and small business.

- As of 30 June 2024, SHF has a huge presence with 3095 branches across India and employee count of 75813, customer base of ~87.2 lakhs.

Q1FY25 performance: Shriram Finance reported an all-round performance in Q1FY25. Growth in NII came at 20.6% YoY, backed by healthy traction in AUM (20.8% YoY to ₹ 2.33 lakh crore) offsetting impact of decline in margins (23 bps QoQ). Sequential decline in margins is attributable to moderation in growth of high yield segment i.e gold & personal loans. The same percolated in operating profit growth at 23.3% YoY partly offset by uptick in credit cost (35% YoY) resulting in 18.2% YoY growth in earnings at ₹ 1980 crore. Within AUM, PV (26.7% YoY), MSME (~44% YoY) and 2-wheeler (~29% YoY) witnessed healthy traction while CV and personal loans remained slower at 14.3% and 12.7% YoY, amid external environment. Asset quality remained resilient with 11 bps & 6 bps QoQ decline in Stage 2 & 3 asset at 6.66% & 5.39% with coverage maintained at ~51%.

Investment Rationale

- Relatively better show on asset quality amid prudent under-writing & collections: Shriram Finance has delivered relatively superior performance on asset quality, attributable to focus on collections, despite external vagaries of heatwave, seasonality and elections. Stage 2 & 3 assets have decline by 11 & 6 bps QoQ to 6.66% & 5.39%, resulting in moderation in credit cost at 2.2% in Q1FY25. Going ahead, management targets to bring Stage 3 asset at 5% and credit cost at 2% in FY25E which is seen to aid earnings. Expect 12.3% CAGR in PAT in FY25-26E.
- **Aim to surpass growth guidance and Opex synergy to aid return ratios:** Management aims to surpass credit growth ahead of its guidance of 15%, while auto business is likely to grow at 11-12%, non-auto is expected to continue being higher led by MSME and gold loans, thus, expect advance growth at 17% CAGR and NII/ AUM to be steady in the range of 8.2-8.4% in FY25-26E. Emphasizes on cross selling to shore up fee-based income and harnessing synergy benefit through enlarging product basket to result in improvement in Cost to AUM ratio ahead and plans to increase coverage of gold and MSME loans in 500 and 175 branches in FY25-26E, thereby enlarging customer base and thus opportunity to cross sell which will aid efficiency and thus earnings ahead.

Rating and Target Price

- Continued improvement in growth with focus on high yielding segments, tailwinds from steady cost of funds supporting margins in current environment, gradual improvement in asset quality and synergy benefit in terms of improving efficiency is seen to aid RoA at ~3% and RoE at 14-16%. Relatively strong performance and lower valuation warrants further re-rating. Thus, we revise our target price to ₹ 3400 per share, valuing standalone business at ~2x FY26E BV and assigning ₹ 103 for housing subsidiary. Maintain Buy rating on the stock

SHRIRAM Finance

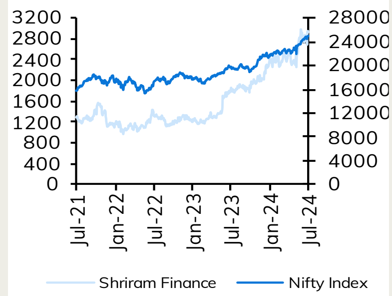
Particulars

Particulars	Amount
Market Capitalisation	₹ 11360 crore
52 week H/L	3059 / 1759
Net worth	₹ 50559 Crore
Face Value	10.0

Shareholding pattern

(in %)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	25.5	25.4	25.4	25.4
FII	54.7	54.0	53.9	54.3
DII	15.2	15.8	15.7	15.2
Others	4.7	4.8	5.0	5.1

Price Chart



Key risks

(i) Moderation in credit growth

(ii) Higher competition could impact margins

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Key Financial Summary

₹ crore	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	9,316	16,698	18,794	42%	21,445	24,246	14%
PPP	7,410	12,344	14,202	38%	16,012	17,997	13%
PAT	2,708	5,979	7,190	63%	8,164	9,072	12%
ABV (₹)	794.3	1005.0	1137.4		1316.3	1512.1	
P/E	29.1	18.5	15.5		13.6	12.3	
P/ABV	3.7	2.9	2.6		2.3	2.0	
RoA	1.9	3.0	3.1		3.0	2.9	
RoE	10.4	13.8	14.8		14.6	14.3	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Highlights & Guidance

- The company expects to benefit from the union budget as it would have direct impact on the company's operations such as increased rural and MSME lending, infrastructure development, agricultural productivity and employment. This would ultimately improve the transportation, manufacturing and the MSME business.
- Tractor sales de-grew mainly due to lower output in the agricultural segment in the previous year, but with the expectations of good monsoon, it is expected to improve in Q2.
- The board approved entire stake sale of Shriram Housing Finance Limited on 13th May 2024.
- The management expects cost of funds going forward to be stable around the current level of ~8%. The focus will be on securitization and off shore funding which would keep cost of borrowing in check.
- The management expects old trucks business to grow at 12%. Further it expects MSME to grow by 20% and 2W to grow in the range of 15-18%.
- The company has kept its per gram lending amount constant during the quarter. There was slowdown owing to the restriction on disbursing cash loan of more than ₹20,000 (ATS in gold loan business stood in the range of ~₹70,000-75,000).
- The company also undertook a complete revamping of its security measures for its legacy branches. All these factors combined led to a slower rate of disbursals in gold loans. However, the management expects the same to pick up post this adjustment phase.
- The growth outlook for AUM was steady at 15%. However, the current quarter surpassed expectations for a slowdown, thus the management is confident that the company will be able to outperform the stated AUM guidance.
- The QoQ decline in margins was mainly due to change in product mix. Going ahead, the management expects some improvement in margins.
- In the MSME sector, the company primarily provides loans to clients on a mortgage or LAP basis, with each loan approval decision focusing exclusively on the cashflows of the customers.
- 70% of the loans are towards small enterprises in the service and trading sectors, while the remaining 30% is lent among manufacturing companies with an ATS of ₹10L.
- Distribution mix of MSME business in terms of south v/s non-south business stood at 60:40. The company is focusing on non-south market for MSME lending due to increased demand. Hence the management is positive of the potential for a shift in the distribution over time as the non-south market expands.
- The management plans to add 175 branches in the MSME segment and 500 branches in the gold loan segment in the next 2 years.

Exhibit 1: Variance Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
NII	5,234	4,200	24.6	5,087	2.9	Backed by strong growth in Non CV segment
Other Income	247	317	-22.0	421	-41.3	
Staff cost	868	790	9.9	825	5.3	
Other Operating Expenses	758	600	26.3	778	-2.5	
PPP	3,854	3,126	23.3	3,906	-1.3	Healthy topline percolates into operating profit
Provision	1,188	879	35.2	1,261	-5.9	
PBT	2,667	2,248	18.6	2,644	0.8	
Tax Outgo	686	572	19.9	698	-1.8	
PAT	1,981	1,675	18.2	1,946	1.8	Stong AUM growth and healthy operating metrics aided earnings
Key Metrics						
GNPA	12,408	11,509	7.8	12,081	2.7	GNPA ratio decline 6bps QoQ to 5.29%
NNPA	6,062	5,461	11.0	5,824	4.1	NNPA ratio remains flat
AUM	2,33,444	1,93,215	20.8	2,24,862	3.8	Growth well above annual guidance of 15% led by MSME and Non CV segments

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	29,346.2	33,599.7	38,637.5	43,195.3
Interest Expended	12,648.0	14,806.1	17,192.8	18,949.8
Net Interest Income	16,698.2	18,793.5	21,444.6	24,245.6
growth (%)	79.2%	12.5%	14.1%	13.1%
Non Interest Income	452.2	1,394.5	1,307.5	1,341.4
Net Income	17,150.4	20,188.1	22,752.2	25,587.0
Opex	4,806.3	5,986.1	6,739.8	7,589.9
Operating Profit	12,344.0	14,202.0	16,012.4	17,997.1
Provisions	4,159.2	4,518.3	4,944.0	5,669.8
PBT	8,184.8	9,683.6	11,068.4	12,327.2
Taxes	2,205.6	2,493.2	2,904.7	3,255.3
Net Profit	5,979.2	7,190.5	8,163.7	9,071.9
growth (%)	120.8%	20.3%	13.5%	11.1%
EPS (₹)	159.7	191.3	217.2	241.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Valuation				
No. of Equity Shares (Crores)	37.4	37.6	37.6	37.6
EPS (₹)	159.7	191.3	217.2	241.3
BV (₹)	1156.6	1292.4	1484.8	1689.9
ABV (₹)	1005.0	1137.4	1316.3	1512.1
P/E	18.5	15.5	13.6	12.3
P/BV	2.6	2.3	2.0	1.8
P/ABV	2.9	2.6	2.3	2.0
NII/AUM	9.0	8.4	8.3	8.2
Cost to AUM	2.6	2.7	2.6	2.6
Gross Stage 3	6.1	5.4	5.0	4.6
Net Stage 3	3.1	2.6	2.5	2.3
RoE	13.8	14.8	14.6	14.3
RoA	3.0	3.1	3.0	2.9

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Capital	374	376	376	376
Reserves and Surplus	42932	48193	55439	63150
Networth	43307	48568	55815	63526
Borrowings	157906	185841	215109	245452
Other Liabilities & Provisions	2451	2866	5000	5742
Total	203664	237276	275925	314721
Application of Funds				
Cash & Bal	15817	10813	13548	15536
Advances	171985	207929	245623	282854
Investment	8565	10657	8263	7164
Other assets	7297	7877	8492	9168
Total	203664	237276	275925	314721

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Total assets	43.3%	16.5%	16.3%	14.1%
Advances	47.4%	20.9%	18.1%	15.2%
Net interest income	79.2%	12.5%	14.1%	13.1%
Operating expenses	141.9%	24.5%	12.6%	12.6%
Net profit	120.8%	20.3%	13.5%	11.1%
Net worth	67.0%	12.2%	14.9%	13.8%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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