Shriram Finance (SHRTRA)

ICICI direct Research

CMP: ₹ 3094 | Target: ₹ 3600 (16.4%) | Target Period: 12 months | BUY

October 28, 2024

Result Update

Continued healthy performance makes valuation attractive...

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 Sept 2024, SHF has a huge presence with 3149 branches across India and employee count of 77764, customer base of ~90.2 lakhs.

Q2FY25 performance: Shriram Finance's Q2FY25 results reflected strong performance, with AUM growing by 20% YoY (4.5% QoQ) to ₹2,43,000 crore, driven primarily by PV (19.6% YoY), farm equipment (28.4% YoY) and MSME (51.2% YOY), supported by continued healthy growth in CV (~14% YoY). Loan disbursements remained robust at 16% YoY. However, margin declined by 23 bps YoY and 15 bps QoQ to 8.74%, primarily due to a rise in CoF which outpaced increase in yield on advances. Credit costs remained stable at ~1.84% broadly consistent with previous quarters. GNPA ratio improved by 7 bps QoQ, settling at 5.32% eventually improving NNPA by 7 bps QoQ to 2.64%. PAT increased by 18% YoY (4.6% QoQ) to ₹2,071 crore, in-lines with top-line growth.

Investment Rationale

- Stronger asset quality driven by disciplined underwriting and effective collections: Shriram Finance has delivered relatively superior performance on asset quality, attributable to focus on collections, despite external challenges in rural pockets. Stage 2 & 3 assets have decline by 6 & 7 bps QoQ to 6.6% & 5.32%, resulting in moderation in credit cost at 2.2% in Q2FY25. 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 ~11% CAGR in PAT in FY25-27E.
- **Aiming to exceed growth targets, with cost efficiencies driving improved return ratios**: Management aims to exceed its credit growth guidance of 17-18% in the CV portfolio, while non-CV segments particularly MSME and gold loans, are set to drive higher growth despite a QoQ decline in the gold loan portfolio due to regulatory adjustments in LTV, overall advance growth is projected at 16% CAGR and NII/ AUM to be steady in the range of 8.2-8.4% in FY25-27E. Emphasizes on cross selling to shore up fee-based income and harnessing synergy benefit through enlarging product basket to aid Cost to AUM ratio.

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 ~2.7-3% and RoE at 14-16%. Relatively strong performance on growth as well as profitability warrants further re-rating. Thus, we revise our target price to ₹ 3600 (earlier ₹3400), valuing standalone business at ~1.8x FY27E BV and assigning ₹ 103 for housing subsidiary. Maintain Buy rating on the stock

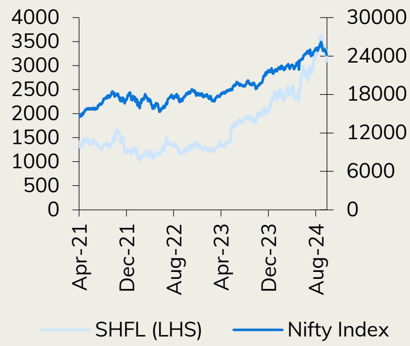
Particulars

Particulars	Amount
Market Capitalisation	₹ 116286 crore
52 week H/L	3652 / 1865
Net worth	₹ 52,392 Crore
Face Value	10.0
DII Holding (%)	16.2
FII Holding (%)	53.3

Shareholding pattern

(in %)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	25.4	25.4	25.4	25.4
FII	54.0	53.9	54.3	53.3
DII	15.8	15.7	15.2	16.2
Others	4.8	5.0	5.1	5.1

Price Chart



Key risks

(i) Moderation in growth in auto segment

(ii) Higher competition could impact margins

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

CA Parth Chintkindi
Parth.chintkindi@icicisecurities.com

Key Financial Summary

₹ crore	FY22	FY23	FY24	2 year CAGR (FY22-FY24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	9,316	16,698	18,794	42%	21,817	24,508	27,712	14%
PPP	7,410	12,344	14,202	38%	15,915	17,682	19,882	12%
PAT	2,708	5,979	7,190	63%	8,110	8,808	9,810	11%
ABV (₹)	794.3	1005.0	1137.4		1309.6	1499.3	1712.6	
P/E	30.4	19.4	16.2		14.3	13.2	11.9	
P/ABV	3.9	3.1	2.7		2.4	2.1	1.8	
RoA	1.9	3.0	3.1		2.9	2.7	2.7	
RoE	10.4	13.8	14.8		14.6	14.0	13.7	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Concall highlights and outlook

- Management expects to grow the Commercial Vehicle portfolio by 17-18% over the next two quarters, showing confidence in the demand for vehicles.
- The company has adhered to the regulator's advice to reduce LTV for gold loans to 60-65% from 70-73% to avoid classification as NPAs when exceeding 75% LTV, as a result gold loan portfolio saw a decline QoQ.
- Management has approved a stock split, lowering face value of its shares from ₹10 to ₹2, effectively splitting each share into five. The move aims to improve liquidity and make the stock more accessible to retail investors.
- Disbursement in Q2FY25 stood at ₹39,974 crore, including CV at ₹15,004 crore, PV at ₹7595 crore, MSME at ₹6876 crore, gold loans at ₹2697 crore, 2-wheeler at ₹2555 crore, construction equipment - ₹2267 crore, personal loans - ₹2081 crore and farm equipment at ₹899 crore.
- As of Sep'24, borrowing stood at ₹2.08 lakh crore with term loans at ₹51100 crore, ECB at ₹31700 crore, retail deposit - ₹50200 crore, securitisation - ₹34500 crore,
- The management expects cost of funds going forward to be stable around the current level of ~8%. The focus will be on borrowing mix and effective cost management. The company is actively engaging with rating agencies to secure a credit rating upgrade, which will eventually support margins.
- Management does not foresee any deterioration in asset quality and expects continued stability in asset-backed loans, targeting an improvement in Gross Stage 3 to ~5%, compared to current level of 5.32%
- PD for Stage 2 stood at 20.98% and LGD at 38.59%
- Management expects rate cut to occur no earlier than February 2025, implying no immediate funding cost reduction.
- With better monsoon conditions, management expects H2FY25 to perform better than H1, leading to increased credit demand.
- The benefits from merger of Shriram companies are expected to continue contributing to performance consistency. The company aims to increase reach of MSME and gold products to more geographies, which offers room for growth.
- Employee strength at 77764 as of Sep' 24

Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	5,464	4,595	18.9	5,234	4.4	Primarily due to an increase in yields on advances and a decrease in the CoF
Other Income	282	348	-18.9	247	14.3	Lower gains on de-recognition of Financial Instruments
Staff cost	907	790	14.7	868	4.4	
Other Operating Expenses	853	671	27.1	758	12.5	
PPP	3,987	3,481	14.5	3,854	3.4	Strong revenue growth translates into robust operating profit
Provision	1,235	1,129	9.4	1,188	4.0	
PBT	2,752	2,352	17.0	2,667	3.2	
Tax Outgo	680	601	13.1	686	-0.8	
PAT	2,071	1,751	18.3	1,981	4.6	Healthy top-line growth and effective borrowing mix boosting profitability
Key Metrics						
GNPA	12,764	11,556	10.5	12,408	2.9	GNPA ratio improved by 7 bps QoQ, settling at 5.32%
NNPA	6,166	5,420	13.8	6,062	1.7	Parallelly, NNPA as well improved by 7 bps QoQ to 2.64%
AUM	2,43,043	2,02,641	19.9	2,33,444	4.1	Key drivers with growth in CV (13.98% YoY) and MSME loans (51.57% YoY) contributed largely.

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Interest Earned	33,599.7	39,458.7	44,301.3	49,515.9
Interest Expended	14,806.1	17,642.1	19,793.2	21,803.4
Net Interest Income	18,793.5	21,816.6	24,508.1	27,712.4
growth (%)	12.5%	16.1%	12.3%	13.1%
Non Interest Income	1,394.5	1,100.1	1,136.3	1,139.9
Net Income	20,188.1	22,916.8	25,644.4	28,852.3
Opex	5,986.1	7,002.2	7,962.6	8,970.4
Operating Profit	14,202.0	15,914.6	17,681.8	19,881.9
Provisions	4,518.3	4,982.7	5,712.7	6,551.4
PBT	9,683.6	10,931.8	11,969.1	13,330.5
Taxes	2,493.2	2,822.3	3,160.8	3,520.3
Net Profit	7,190.5	8,109.5	8,808.3	9,810.2
growth (%)	20.3%	12.8%	8.6%	11.4%
EPS (₹)	191.3	215.7	234.3	261.0

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Valuation				
No. of Equity Shares (Crores)	37.6	37.6	37.6	37.6
EPS (₹)	191.3	215.7	234.3	261.0
BV (₹)	1292.4	1478.7	1677.8	1899.7
ABV (₹)	1137.4	1309.6	1499.3	1712.6
P/E	16.2	14.3	13.2	11.9
P/BV	2.4	2.1	1.8	1.6
P/ABV	2.7	2.4	2.1	1.8
NII/AUM	8.4	8.5	8.3	8.2
Cost to AUM	2.7	2.7	2.7	2.6
Gross Stage 3	5.4	5.1	4.7	4.3
Net Stage 3	2.6	2.5	2.3	2.1
RoE	14.8	14.6	14.0	13.7
RoA	3.1	2.9	2.7	2.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Capital	376	376	376	376
Reserves and Surplus	48193	55209	62696	71035
Networth	48568	55585	63072	71410
Borrowings	185841	225163	257604	294702
Other Liabilities & Provisions	2866	3903	3278	3447
Total	237276	284651	323954	369559
Application of Funds				
Cash & Bal	10813	19202	22020	25252
Advances	207929	244460	281516	324182
Investment	10657	10757	9327	8087
Other assets	7877	10231	11092	12038
Total	237276	284651	323954	369559

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Total assets	16.5%	20.0%	13.8%	14.1%
Advances	20.9%	17.6%	15.2%	15.2%
Net interest income	12.5%	16.1%	12.3%	13.1%
Operating expenses	24.5%	17.0%	13.7%	12.7%
Net profit	20.3%	12.8%	8.6%	11.4%
Net worth	12.2%	14.4%	13.5%	13.2%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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