

Shriram Finance

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	SHFL IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	485.8 / 5.9
52-Week Range (INR)	1509 / 1003
1, 6, 12 Rel. Per (%)	-3/-7/1
12M Avg Val (INR M)	1332

Financials & Valuations (INR b)

Y/E March	FY23E	FY24E	FY25E
Total Income	174	198	223
PPOP	126	145	165
PAT	66.0	73.3	83.8
EPS (INR)	176	196	224
EPS Gr. (%)	57	11	14
Standalone BV (INR)	1,170	1,327	1,509

Ratios

NIM on AUM (%)	9.3	9.1	9.0
C/I ratio (%)	27.5	26.8	26.1
RoAA (%)	3.4	3.3	3.3
RoE (%)	16.8	15.7	15.8
Div. Payout (%)	19.9	20.5	20.1

Valuations

P/E (x)	7.4	6.6	5.8
P/BV (x)	1.1	1.0	0.9
Div. Yield (%)	2.7	3.1	3.5

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	25.3	29.4	26.1
DII	11.1	14.5	15.2
FII	42.9	50.6	53.2
Others	20.7	5.5	5.6

FII Includes depository receipts

CMP: INR1,298 TP: INR1,700 (+31%) Buy

Merged entity on an even stronger footing

PAT beat driven by margin expansion and lower opex

- Shriram Finance ('SHFL') PAT grew 14% QoQ to ~INR17.8b in 3QFY23, driven by margin expansion and lower opex. Adjusted PAT grew 18% QoQ.
- NII grew 8% QoQ to INR40.6b (7% beat; in-line, if adjusted for the impact of merger accounting). Reported NIM expanded ~25bp QoQ to 8.5%.
- Other operating income grew 7% QoQ, led mainly by fees and commission income. Opex was flat sequentially with cost-income ratio at 26.6%.
- SHFL's customer and product proposition positions it to operate in a benign competitive landscape, and gives it the pricing power to pass on its higher cost of borrowings to customers in new loans disbursed. We estimate margin compression of ~15bp YoY in FY24 to offset the impact of fair valuation under merger accounting.
- We model an AUM CAGR of 14% over FY23-25, led by 12% CAGR in disbursements over the same period. We estimate ~13% PAT CAGR over FY23-25, resulting in an RoA/RoE of ~3.3%/16%, respectively, over FY25.
- Concerns around potential exits by investors (such as PIEL, Apax, and TPG) still remain an overhang on the stock. We believe the merged entity will emerge stronger than the respective standalone businesses, driven by better ability to cross-sell and due to the benefits on the liability side. We reiterate our BUY rating with a TP of INR1,700 (based on 1.2x Sep'24E BVPS).

Healthy disbursements drive 13% YoY AUM growth

- Operationally, the company clocked a healthy quarter with: 1) 26% YoY growth in disbursements to INR292.5b, and 2) AUM growth of 5% QoQ and 13% YoY to INR1.77t.
- The AUM mix was largely stable, with CVs/PVs/CE/MSME forming 51%/18%/8%/10% of the AUM mix, respectively.
- CAR was healthy at ~23%, of which, Tier I stood at ~21.4%

Asset quality stable sequentially

- GS3/NS3 was largely stable sequentially at 6.3%/3.2%. PCR on stage 3 loans improved 165bp QoQ to ~51%.
- Annualized credit costs declined ~10bp QoQ to 2.1% (PQ: 2.2%).
- SHFL utilized additional COVID provisions of ~INR900m in 3QFY23. Aggregate COVID provisions stood at INR16.5b (~95bp of EAD). Restructured pool outstanding stood at INR8.7b (0.5% of AUM). ~9.1% of this restructured pool is in the 90d+ bucket.

Key highlights from the management commentary

- The management guided for an AUM CAGR of 15% and steady-rate cost-income ratio of 24-25%.
- The company stated that the goodwill which accreted post-merger will be tested for impairment by an independent valuation expert. However, the management expects that there will not be any impairment for the next two years.

- Guided that the cost of borrowings (CoB) should not increase in 4QFY23 since the incremental CoB is lower than the portfolio cost of borrowings. SHFL is borrowing at 8.5%-8.6% and the CoB can only decline. The management expects 25-30bp benefit from the repricing of the SCUF liabilities.

Valuation and View

- SHTF's operational performance has been strong, as evidenced by the healthy growth in disbursements, which translated into a YoY AUM growth of ~13%.
- Asset quality was stable, with GS3 at pre-COVID levels of ~6.3%. It maintained a healthy (51%) PCR on its Stage 3 loans and delivered a NS3 of sub-4%.
- Technical reasons (of a potential supply overhang after the merger) aside, the merged entity is expected to emerge stronger than the respective standalone businesses. We reiterate our Buy rating with a TP of INR17 (based on 1.2x Sep'24E BVPS).

Quarterly Performance												(INR M)
Y/E March	FY22				FY23E				FY22	FY23E	3QFY23E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Interest Income	59,332	60,931	46,607	65,847	66,841	70,024	71,740	74,065	2,48,605	2,82,670	72,924	-2
Interest Expenses	30,727	30,510	23,973	30,973	29,444	32,249	31,120	31,954	1,22,668	1,24,766	35,058	-11
Net Interest Income	28,605	30,421	22,634	34,874	37,397	37,775	40,620	42,112	1,25,936	1,57,904	37,866	7
YoY Growth (%)					30.7	24.2	79.5	20.8	9.4	25.4	18.2	
Other Income	2,139	1,940	1,717	2,522	3,195	4,162	4,383	4,416	9,441	16,156	3,325	
Total Income	30,744	32,360	24,351	37,396	40,592	41,937	45,003	46,528	1,35,378	1,74,060	41,192	2
YoY Growth (%)					32.0	29.6	84.8	24.4	12.9	28.6	18.1	
Operating Expenses	8,308	9,397	5,275	10,352	10,916	11,999	11,987	12,943	37,805	47,845	13,029	-8
Operating Profit	22,436	22,963	19,076	27,044	29,676	29,938	33,016	33,584	97,573	1,26,215	28,163	6
YoY Growth (%)					32.3	30.4	73.1	24.2	13.0	29.4	12.1	
Provisions & Loan Losses	17,297	8,791	9,843	9,370	11,597	8,976	9,173	7,242	47,485	36,988	8,200	9
Profit before Tax	5,139	14,172	9,233	17,674	18,079	20,962	23,844	26,342	50,088	89,227	19,963	5
Tax Provisions	1,360	3,637	2,427	3,792	4,690	5,411	6,074	7,024	12,164	23,199	5,031	8
Net Profit	3,779	10,535	6,806	13,882	13,390	15,551	17,770	19,318	37,925	66,028	14,932	4
YoY Growth (%)					254.3	47.6	161.1	39.2	8.4	74.1	53.4	
Key Parameters (Calc., %)												
Yield on loans		16.2	12.1	16.7	16.7	16.9	16.5	16.4				
Cost of funds		9.2	6.9	8.6	7.9	8.3	8.0	8.2				
Spread		7.0	5.2	8.1	8.8	8.5	8.6	8.2				
NIM		8.1	5.9	8.9	9.3	9.1	9.4	9.3				
C/I ratio		29.0	21.7	27.7	26.9	28.6	26.6	27.8				
Credit cost		2.3	2.5	2.4	2.9	2.2	2.1	1.6				
Tax rate		25.7	26.3	21.5	25.9	25.8	25.5	26.7				
Balance Sheet Parameters												
Disbursements (INR b)	173	213	231	245	246	258	292	307				
Growth (%)					42.3	21.1	26.5	25.3				
AUM (INR b)	1,489	1,521	1,568	1,577	1,630	1,694	1,775	1,834				
Growth (%)					9.4	11.4	13	16.3				
Borrowings (INR b)	1,315	1,351	1,424	1,451	1,521	1,582	1,533	1,577				
Growth (%)					15.7	17.1	7.7	8.7				
Asset Quality Parameters												
GS 3 (INR B)	117.0	115.2	103.6	88.9	101.3	105.8	110.6					
GS 3 (%)	7.9	7.6	8.4	7.1	6.3	6.3	6.3					
NS 3 (INR B)	63.8	58.7	51.5	44.5	52.1	53.9	54.5					
NS 3 (%)	4.7	4.2	4.5	3.8	3.4	3.4	3.3					
PCR (%)	45.5	49.0	50.3	50.0	48.6	49.1	50.7					

E: MOFSL estimates



Highlights from the management commentary

Macro Outlook

- The management expects one more modest rate hike or none at all because of modest inflation print.
- Government spend on infrastructure is expected to continue; construction-related activities is expected to continue to grow
- Private Capital is not coming in as expected; recent economic survey suggests that private capital is expected to come in a reasonable way in this financial year

Liabilities

- 3QFY23 CoF stood at 8.77%, up 6bp QoQ; the management does not expect an increase in CoB in 4QFY23, since the company is already borrowing at a high rate of 8.5%-8.6% and the CoB can only come down. The company repaid some high-cost debt around end-Oct'22. Incremental CoB is lower than the portfolio cost of borrowings. All the earlier bank borrowings (before the repo rate increase) stood at 8.0-8.25%.
- Expects to increase the proportion of securitization and NCD/ECB going ahead. Liability mix might change with more securitization to come in the subsequent quarters.
- Leverage declined to 3.63x from 3.9x.
- The management expects 25-30bp benefit from the repricing of the SCUF liabilities.
- Earlier the company used to keep three months of liability repayments as the liquidity buffer; the company is at around five months now and will continue to maintain INR170b of liquidity till the March quarter.

Guidance

- Guided for credit costs of ~2%.
- Guided for an AUM CAGR of 15%.
- Guided for steady-rate cost-income ratio of 24-25% and RoA/RoE of 3% and 16%-18%.

Merger Accounting

- Intangibles will be tested for impairment at the end of every year and it will come only after a couple of years. Goodwill is not tax deductible but intangibles are tax deductible.
- The company did a fair valuation of the loans and the liabilities and ~INR10b is the fair value impact that it has taken on the balance sheet. This will be a positive impact spread over the next six-seven quarters.
- Net worth reconciliation: INR28b difference on account of the goodwill and intangibles; INR13b was the goodwill and INR15b was the intangibles. Charge to the P&L will happen only after a couple of years.
- Goodwill be tested for impairment by an independent valuer; management does not expect any impairment for the next two years.

Operating Expenses

- There was a one-off expense of INR650m in 2QFY23 because of write-off, driven by some amnesty schemes offered by various state governments.
- Expenses related to the merger stood at INR190m and it can be deferred over five years.

- The company does not expect to pay the Stamp duty with respect to this merger.

Merger Synergies

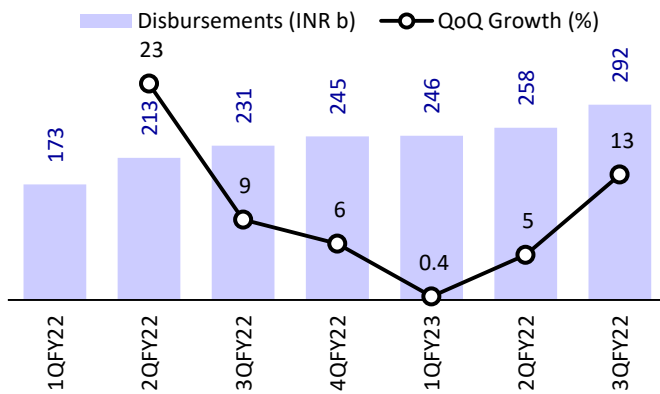
- SCUF businesses were mostly in the Southern and Western part of the country. With STFC branches, it will be able to take SCUF products to other geographies.
- Shriram finance leads in CV and 2W segments; in the merged entity, SME focus will increase because SME business, which was being done only in the Southern part of India will now be taken to other parts of India.

Asset Quality

- COVID provisions have been allocated to the respective contracts. Expects the COVID provisions to either be charged or written-back by Mar'24.
- LGD stood at 42.4% [for the merged entity].

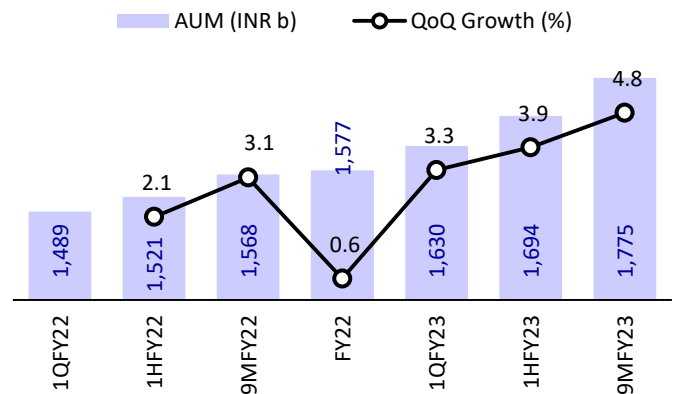
Key exhibits

Exhibit 1: Disbursements grew 26% YoY...



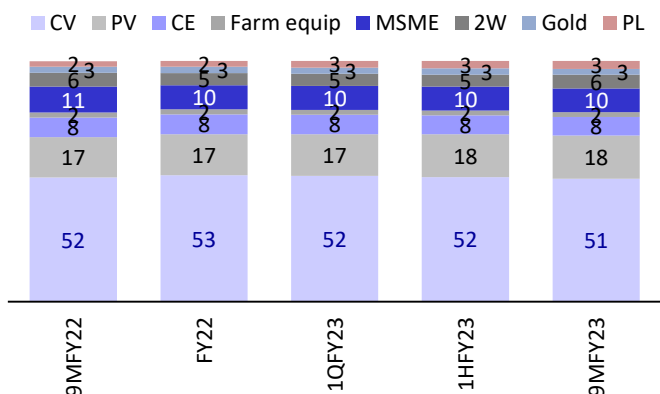
Source: MOFSL, Company

Exhibit 2: ...leading to AUM growth of 13% YoY



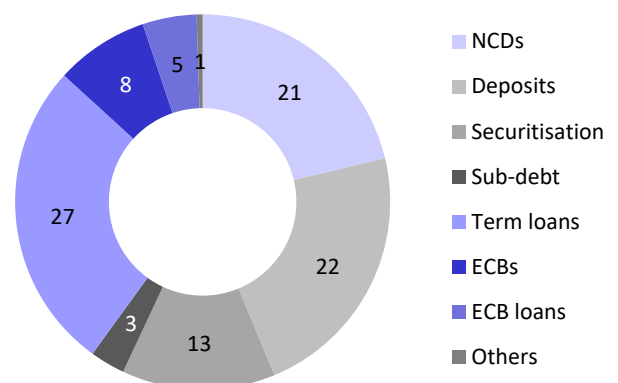
Source: MOFSL, Company

Exhibit 3: CVs form 51% of the AUM mix (%)

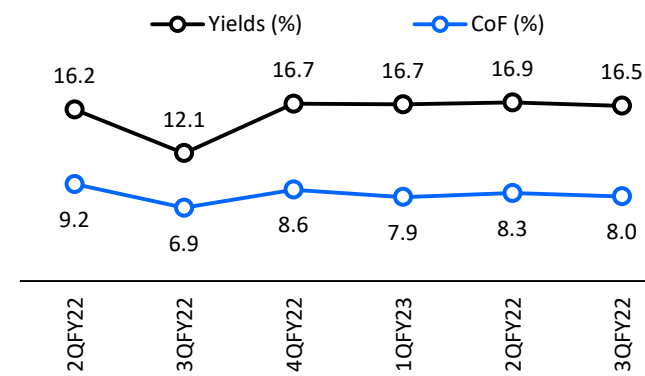


Source: MOFSL, Company

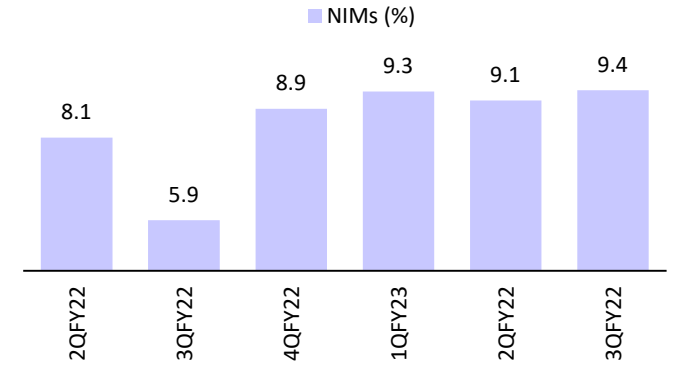
Exhibit 4: Borrowing mix (%)



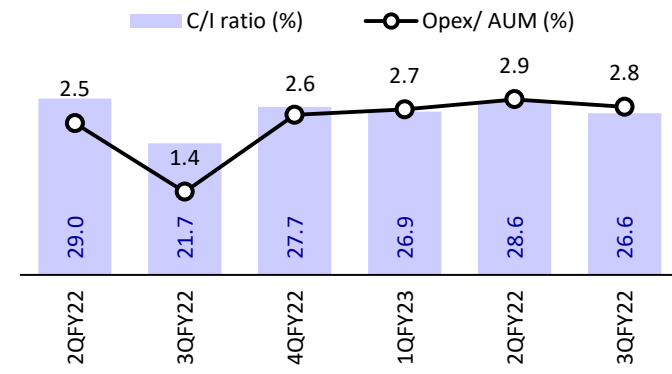
Source: MOFSL, Company

Exhibit 5: CoF declined ~30bp sequentially...

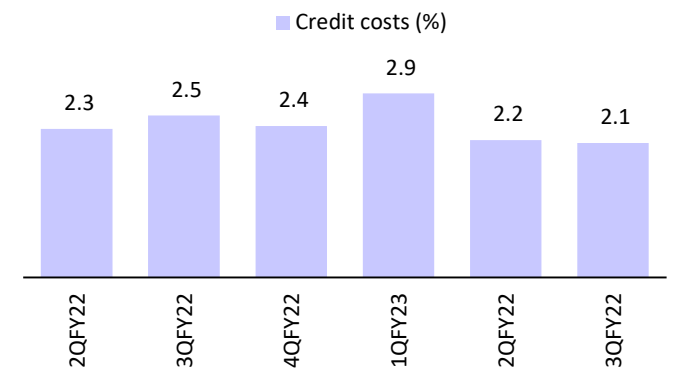
Source: MOFSL, Company

Exhibit 6: ...driving expansion in margins

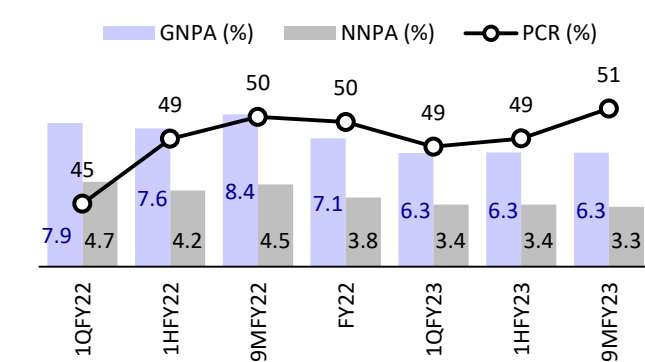
Source: MOFSL, Company

Exhibit 7: Merger synergies led to improvement in cost ratio

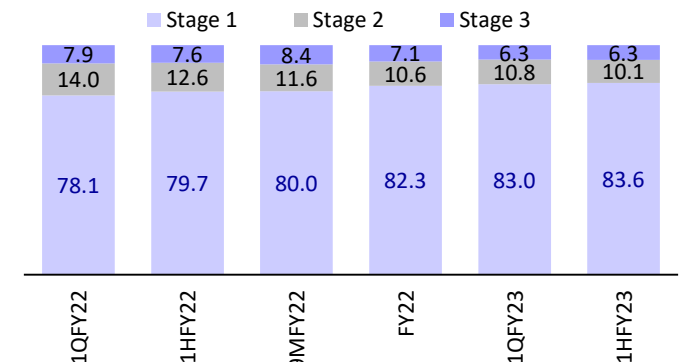
Source: MOFSL, Company

Exhibit 8: Credit costs moderated by ~10bp QoQ

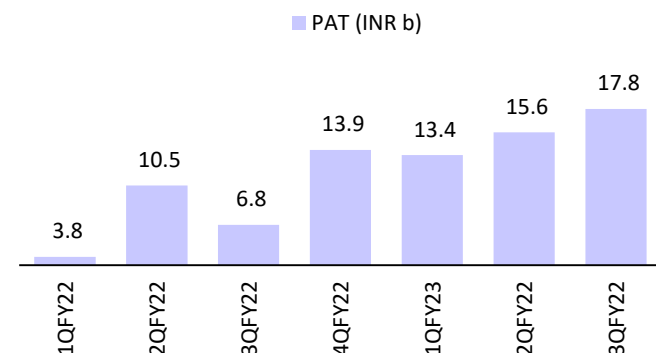
Source: MOFSL, Company

Exhibit 9: Asset quality was stable sequentially

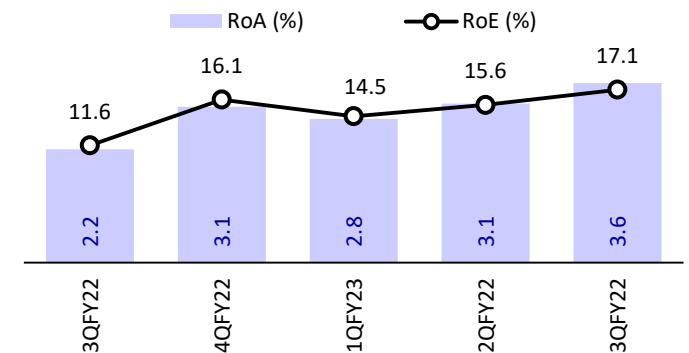
Source: MOFSL, Company

Exhibit 10: Gradual decline in Stage 3 assets (%)

Source: MOFSL, Company

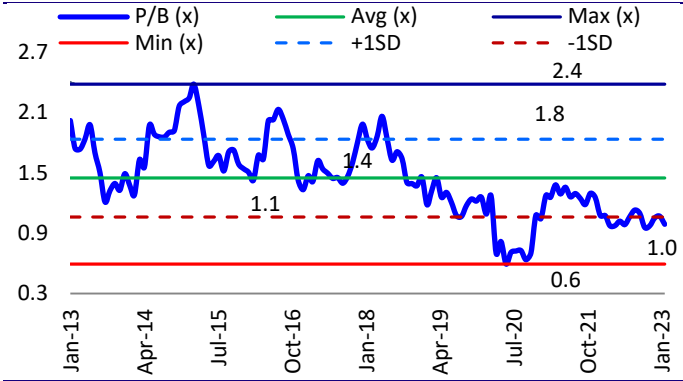
Exhibit 11: Significant PAT growth, driven by improvement in margins, lower opex, and benefits from merger accounting

Source: MOFSL, Company

Exhibit 12: 3QFY23 RoE stood at ~17% (%)

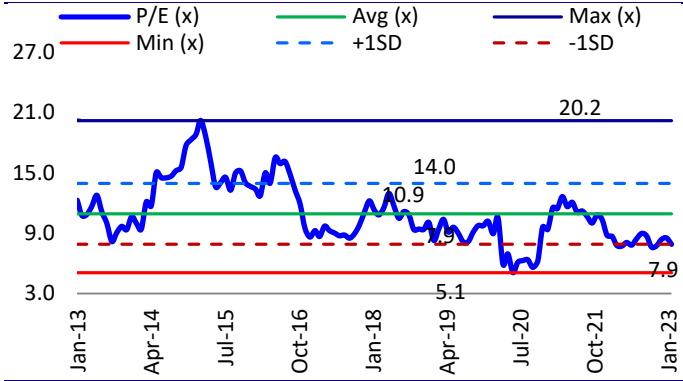
Source: MOFSL, Company, Reported

Exhibit 1: One-year forward P/B



Source: MOSL, Company

Exhibit 2: One-year forward P/E



Source: MOSL, Company

Financials and valuations

Income Statement (Standalone)					(INR M)		
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Interest Income	2,10,407	2,19,646	2,26,997	2,48,605	2,82,670	3,28,240	3,75,099
Interest Expenses	94,975	1,04,105	1,11,881	1,22,668	1,24,766	1,48,801	1,72,975
Net Interest Income	1,15,432	1,15,541	1,15,116	1,25,936	1,57,904	1,79,438	2,02,125
Change (%)	12.7	0.1	-0.4	9.4	25.4	13.6	12.6
Other Operating Income	2,605	4,748	4,514	9,214	15,941	18,332	20,532
Other Income	258	235	237	227	216	226	238
Total Income	1,18,295	1,20,524	1,19,867	1,35,378	1,74,060	1,97,997	2,22,894
Change (%)	11.3	1.9	-0.5	12.9	28.6	13.8	12.6
Total Operating Expenses	33,666	35,803	33,500	37,805	47,845	53,113	58,194
Change (%)	12.6	6.3	-6.4	12.8	26.6	11.0	9.6
Employee Expenses	17,210	18,585	16,699	19,695	24,815	28,289	31,684
Depreciation	742	2,232	2,172	2,137	2,266	2,379	2,498
Other Operating Expenses	15,715	14,986	14,629	15,973	20,765	22,426	23,996
Operating Profit	84,629	84,721	86,367	97,573	1,26,215	1,44,884	1,64,700
Change (%)	10.8	0.1	1.9	13.0	29.4	14.8	13.7
Total Provisions	31,643	36,786	39,693	47,485	36,988	46,101	51,774
% Loan loss provisions to Avg loans	2.6	2.9	3.0	3.4	2.3	2.5	2.5
PBT	52,986	47,935	46,674	50,088	89,227	98,783	1,12,926
Tax Provisions	17,457	12,913	11,692	12,164	23,199	25,486	29,135
Tax Rate (%)	32.9	26.9	25.1	24.3	26.0	25.8	25.8
PAT	35,529	35,022	34,982	37,925	66,028	73,297	83,791
Change (%)	12.0	-1.4	-0.1	8.4	74.1	11.0	14.3

Balance Sheet					(INR M)		
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	2,929	2,929	3,191	3,371	3,744	3,744	3,744
Reserves & Surplus	2,17,432	2,47,288	2,91,764	3,43,760	4,34,159	4,93,226	5,61,279
Net Worth	2,20,361	2,50,217	2,94,954	3,47,132	4,37,904	4,96,971	5,65,024
Borrowings	11,04,851	11,75,376	13,17,617	14,51,285	15,77,017	18,24,155	20,84,876
Change (%)	6.7	6.4	12.1	10.1	8.7	15.7	14.3
Other liabilities	21,865	25,436	26,317	23,320	27,284	30,013	33,014
Total Liabilities	13,47,077	14,51,029	16,38,888	18,21,754	20,42,205	23,51,139	26,82,913
Cash and bank balances	52,657	1,03,773	2,16,562	2,29,679	1,65,949	1,98,281	2,37,643
Investments	48,653	35,326	42,152	86,455	94,236	93,011	94,871
Loans	12,37,406	12,88,442	13,57,232	14,76,890	17,11,712	19,76,375	22,50,099
Change (%)	6.2	4.1	5.3	8.8	15.9	15.5	13.8
Fixed Assets	2,283	7,181	6,599	6,467	6,791	7,130	7,487
Deferred tax Assets	1,241	694	6,964	9,109	10,019	11,021	12,124
Goodwill					14,086	14,086	14,086
Other Assets	4,838	15,613	9,379	13,137	39,411	51,234	66,604
Total Assets	13,47,077	14,51,029	16,38,888	18,21,737	20,42,205	23,51,139	26,82,913

E: MOFSL Estimates; Note: For FY19-FY22, we have presented pro-forma merged financials of SHTF and SCUF

Financials and valuations

AUM Mix (%)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
AUM	13,40,643	13,88,342	14,68,128	15,77,122	18,33,740	21,08,850	23,96,409
Change (%)	8.3	3.6	5.7	7.4	16.3	15.0	13.6
Disbursements	7,28,076	7,05,733	5,21,985	8,62,135	11,03,533	12,46,992	13,84,161
Change (%)	-5.0	-3.1	-26.0	65.2	28.0	13.0	11.0

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Spreads Analysis (%)							
Avg. Yield on Loans	17.5	17.4	17.2	17.5	17.7	17.8	17.8
Avg Cost of Funds	8.9	9.1	9.0	8.9	8.2	8.8	8.9
Spread of loans	8.6	8.3	8.2	8.7	9.5	9.1	8.9
NIM (on loans)	9.6	9.1	8.7	8.9	9.9	9.7	9.6
NIM (on AUM)	9.0	8.5	8.1	8.3	9.3	9.1	9.0
C/I ratio	28.5	29.7	27.9	27.9	27.5	26.8	26.1

Profitability Ratios (%)

RoE	17.3	14.9	12.8	11.8	16.8	15.7	15.8
RoA	2.7	2.5	2.3	2.2	3.4	3.3	3.3
Int. Expended / Int.Earned	45.1	47.4	49.3	49.3	44.1	45.3	46.1
Other Inc. / Net Income	2.4	4.1	4.0	7.0	9.3	9.4	9.3

Efficiency Ratios (%)

Op. Exps. / Net Income	28.5	29.7	27.9	27.9	27.5	26.8	26.1
Empl. Cost/Op. Exps.	51.1	51.9	49.8	52.1	51.9	53.3	54.4

Asset-Liability Profile (%)

Loans/Borrowings Ratio	1.1	1.1	1.0	1.0	1.1	1.1	1.1
Assets/Equity	6.1	5.8	5.6	5.2	4.7	4.7	4.7

Asset quality (%)

GNPA	1,11,930	1,14,400	1,01,688	1,09,762	1,15,195	1,20,581	1,26,713
NNPA	65,678	66,256	51,523	49,731	54,142	60,291	63,356
GNPA ratio	8.5	8.3	6.9	7.1	6.4	5.9	5.5
NNPA ratio	5.0	4.8	3.5	3.2	3.0	3.0	2.7
PCR	41.3	42.1	49.3	54.7	53.0	50.0	50.0
Credit Costs (% of loans)	2.6	2.9	3.0	3.4	2.3	2.5	2.5

Valuations

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (INR)	752	854	924	1,030	1,170	1,327	1,509
BV Growth (%)	16	14	8	11	14	13	14
P/BV	1.7	1.5	1.4	1.3	1.1	1.0	0.9
EPS (INR)	121	120	110	112	176	196	224
EPS Growth (%)	12.0	-1.4	-8.3	2.6	56.8	11.0	14.3
P/E	10.7	10.9	11.8	11.5	7.4	6.6	5.8
DPS	14.3	5.2	21.1	23.4	35.0	40.0	44.9
Dividend Yield (%)	1.10	0.40	1.63	1.80	2.7	3.1	3.5

E: MOFSL Estimates; **Note: For FY19-FY22, we have presented pro-forma merged financials of SHTF and SCUF**

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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