

February 2, 2023

Q3FY23 Result Update

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Int.Inc. (Rs m)	1,35,151	1,57,934	1,86,342	2,06,582
Growth (%)	50.5	25.4	18.0	10.9
Op. Profit (Rs m)	97,573	1,22,004	1,47,311	1,60,508
PAT (Rs m)	37,924	65,286	79,021	82,654
EPS (Rs.)	110.0	183.5	211.1	220.8
Gr. (%)	6.1	66.8	15.0	4.6
DPS (Rs.)	15.5	15.5	15.5	15.5
Yield (%)	1.2	1.2	1.2	1.2
Margin (%)	8.1	9.3	9.2	6.6
RoAE (%)	11.5	17.2	17.5	17.6
RoAA (%)	2.1	3.4	3.5	3.5
PE (x)	11.5	6.9	6.0	5.8
P/BV (x)	1.2	1.2	1.0	0.9
P/ABV (x)	1.2	1.2	1.0	0.8

Key Data

SRTR.BO | SHFL IN

52-W High / Low	Rs.1,509 / Rs.1,002
Sensex / Nifty	59,932 / 17,610
Market Cap	Rs.475bn/ \$ 5,784m
Shares Outstanding	374m
3M Avg. Daily Value	Rs.1413.52m

Shareholding Pattern (%)

Promoter's	25.29
Foreign	42.91
Domestic Institution	11.14
Public & Others	20.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.4)	(7.9)	(1.1)
Relative	(6.5)	(10.7)	(1.7)

Akshay Ashok

akshayashok@plindia.com | 91-22-66322245

Raj Mange

rajmange@plindia.com | 91-22-66322258

Strong AUM Growth, Asset Quality Improves

Quick Pointers:

- Improvement in Asset Quality- GNPA at 6.29% vs 6.31% in Q3'23

Shriram Finance (SHFL) reported stronger than expected AUM growth in Q3 (4.8%QoQ/13.2% YoY), led by robust growth in passenger vehicles (+20.9% YoY) and Personal/MSME loans (+62.9%/3.9%YoY). The company surprised positively on margins, which came in at 8.52% vs 8.3% (Q2FY23) as cost of borrowing saw only 6bps increase in Q3FY23. We continue with our 16% AUM CAGR for FY23-25E and maintain 'BUY' rating with TP of Rs1,486 (unchanged) at 1.3x on Sep'24E PABV. Re-rating can happen if SHFL maintains its growth momentum, while retaining asset quality in personal and MSME loan book.

- Strong disbursement of 26% YoY leads to stable AUM growth:** Disbursements in Q3FY23 stood at Rs. 292.5bn vs Rs. 257.9bn in Q2FY23 (+13.4% QoQ/26% YoY). AUM at Rs. 1,774bn grew by 5% on QoQ basis. AUM mix post-merger largely constituted of CVs, PVs, MSME, CE, 2W with respective shares at 51%,18%, 10%, 8% and 6%. CV/CE, PV, Farm equipments and MSME/Personal loans showed 3.4%,8.5%,0.9%, 5.4% QoQ AUM growth. CV industry upcycle with positive macro indicators have aided vehicle sales. Further, company expects MSME and retail segment to grow faster than other segments which will benefit from merger synergies. NIM came in at 8.52% vs 8.26% QoQ, as CoF increased by only 7bps QoQ. Company expects borrowing costs to be stable in Q4.
- Asset quality improved; Collection as a percentage of demand at 99.3%:** PCR on stage 3 increased to 50.71% from 49.6% in Q2'23. Asset quality was stable with GNPA at 6.29% vs 6.31% in Q2'23 and NNPA at 3.20% vs 3.32% in Q2'23. The company utilized COVID-related provisions of Rs.900mn in Q3'23 and overall COVID-related provisions stood at Rs16.5bn.
- Highlights from management commentary:** Management guided for AUM CAGR of 15% and cost income ratio of 24-25%. Cost of borrowings (CoB) should not increase in Q4FY23, since incremental CoB is lower than portfolio cost of borrowings. SHFL is borrowing at 8.5%-8.6% and CoB can only decline here on in Q4. Management expects 25-30bps benefit from repricing of SCUF liabilities. Company stated that goodwill which accreted post-merger will be tested for impairment by independent valuation expert. However, management expects there will not be any impairment for atleast next two years. Expenses related to the merger stood at Rs190mn which can be deferred over next five years.

PAT at Rs 17.7bn came above our estimates (PLe: Rs 17.0bn) growing 14.3% QoQ on account of strong NII growth.

NII at Rs 40.6bn came above our estimates (PLe: Rs39.9bn) growing 7.5%QoQ NIM came in at 8.52% vs 8.3% in Q2'23 and 7.1% in Q3'22.

Loans at Rs 1774bn grew 4.8% QoQ/13.2 YoY and above our estimates of Rs 1762bn.

Provisions at Rs9.1bn stood above our estimates (PLe:Rs8.9bn) up 2.2% on a QoQ basis and down by 6.8% on a YoY basis.

Operating profit at Rs33.0bn stood above our estimates (PLe:Rs31.5bn) growing 10.3%QoQ basis

GNPA/stage 3 stood at 6.29%, and NNPA at 3.20%

Exhibit 1: SHTF Q3FY23: Strong NII growth leads to PAT beat by 0.7bn

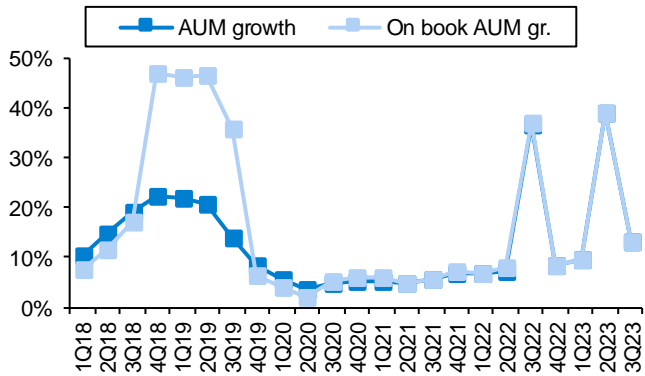
Y/e March (Rs mn)	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Interest income	71,740	46,607	53.9	70,024	2.5
Interest expenses	31,120	23,973	29.8	32,249	(3.5)
Net Interest Income	40,620	22,634	79.5	37,775	7.5
Total Net Interest Income	40,620	22,634	79.5	37,775	7.5
Operating & Other Income	4,383	1,717	155.4	4,162	5.3
Net revenue	45,003	24,351	84.8	41,937	7.3
Operating expenses	11,987	5,275	127.2	11,999	(0.1)
Staff Cost	6,391	2,429	163.1	5,831	9.6
Operating profit	33,016	19,076	73.1	29,938	10.3
Provisions	9,173	9,843	(6.8)	8,976	2.2
Profit before tax	23,844	9,233	158.2	20,962	13.7
Tax	6,074	2,427	150.3	5,411	12.2
Profit after tax	17,770	6,806	161.1	15,551	14.3
Biz Details					
Total AUM	17,74,982	15,68,486	13.2	16,93,582	4.8
on book	17,58,439	15,54,813	13.1	16,77,700	4.8
off book	16,543	13,674	21.0	15,882	4.2
on book %	99%	99%	(6.0)	99%	0.6
CV/CE	10,44,900	9,37,200	11.5	10,10,700	3.4
PV	4,17,700	3,51,000	19.0	3,85,100	8.5
Farm Equipments	33,300	32,300	3.1	33,000	0.9
MSME&Others	2,79,082	2,47,986	12.5	2,64,782	5.4
Asset quality					
Gross NPA (mn)	1,10,586	1,03,581	6.8	1,05,831	4.5
Net NPA (mn)	54,506	51,527	5.8	53,908	1.1
Gross NPA (%)	6.29%	8.4%	(211.0)	6.3%	(2.0)
Net NPA (%)	3.20%	4.4%	(116.0)	3.3%	(12.0)
Coverage ratio(%)	50.7%	50.3%	45.8	49.1%	165.0
Credit Cost (%)	2.1%	2.8%	(71.2)	2.2%	(4.5)
Ratios					
Gross Spread (on book)	11.3%	6.5%	483	10.5%	78
NIM/AUM	9.37%	6.5%	287	9.09%	28
NIM/AUM - Reported	8.52%	6.7%	187	8.3%	26
CRAR	23.0%	23.3%	(32)	23.2%	(21)
Asset quality under IND-AS					
Gross Stage 3	1,10,586	1,03,581	6.8	1,05,831	4.5
Gross Stage 3 (%)	6.3%	8.4%	(211.0)	6.3%	(2)
Net Stage 3	54,506	51,527	5.8	53,908	1.1
Net Stage 3 (%)	3.2%	4.4%	(116.0)	3.3%	(12)
ECL Provision on Gross Stage 3	56,081	52,054	7.7	51,923	8.0
Coverage Ratio Stage 3	50.7%	50.3%	46.0	49.1%	165
Gross Stage 1 & 2	16,47,836	11,29,675	45.9	15,71,869	4.8
Net Stage 1 & 2	15,95,938	10,84,274	47.2	15,22,336	4.8
ECL Provision on Gross Stage 1 & 2	51,899	45,401	14.3	49,533	4.8
ECL Provision (%) Stage 1 & 2	3.1%	4.0%	(86.9)	3.2%	(0)

Source: Company, PL

Conference Call Highlights:

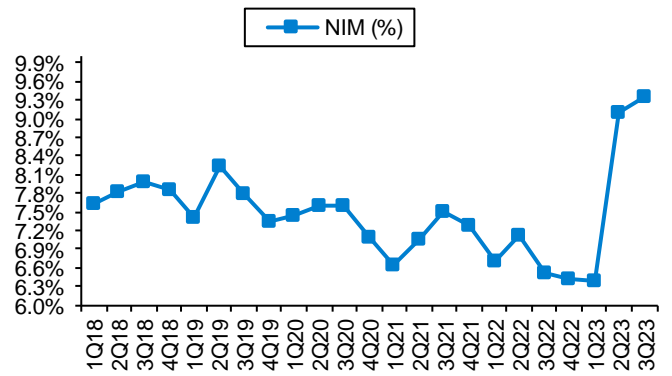
- **Overall CV sales have gone up by 16.6%** YoY in Q3 with healthy growth in HCVs, LCVs, 3W and Construction Equipment segments. Utilization levels have gone up to 23-24 days from 21-22 days.
- **Disbursements for Q3 stood at Rs. 292.4bn** vs Rs. 257.9bn in Q2FY23 largely led by CV segment, PV segment, 2W and MSME loans. Within CV, share of new CV loans was around 10%.
- **Cost to Income ratio improved to 22.29%** vs 24.5% in Q2FY23 due to one-off sales impact in Q2. It is expected to be around 22-24% in medium term. Merger expenses were Rs.190mn which was below than expected figures.
- **NII is expected to show an increase of Rs. 1bn** per quarter for next 4-5 quarter due to Fair Value changes in accounting of merger.
- **Cost of Funds increased marginally by 6bps** sequentially to 8.77%. The company does not expect CoF to go up in Q4 as incremental cost is less than balance sheet cost as on date.
- **AUM growth guidance is maintained at 15%** for the combined entity. 9MFY23 growth stands at 13.7% and company is confident of achieving target growth in Q4.
- **Post-merger RoA is expected to be 3%** on long-term basis with RoE in the range of 16-18%. Credit cost guidance is around 2% and company maintains its stance.
- **SME business is expected to grow at 20-25%**, faster than other traditional business as SME business will be expanded to rest of India branches. Focus is to tap underpenetrated states of UP, Bihar and some parts of North-East.
- **Common customers count was 65,000 out of total 7 mn customers** of SCUF and SHTF.
- **Liquidity is maintained at Rs. 170bn** which is 5 months of liabilities. There will be gradual reduction in the liquidity chest.

Exhibit 2: AUM shows strong 13% YoY growth



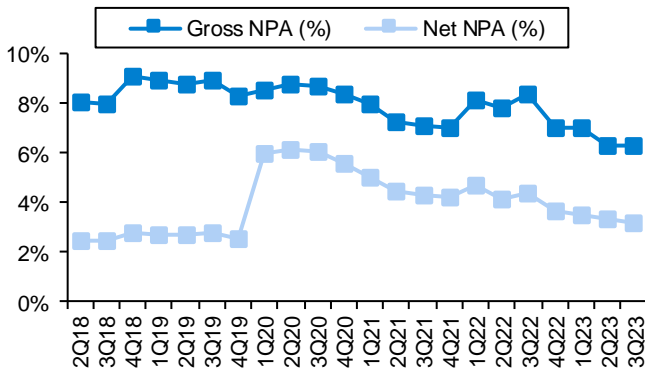
Source: Company, PL

Exhibit 3: NIMs see marginal rise by 26bps in Q3'23



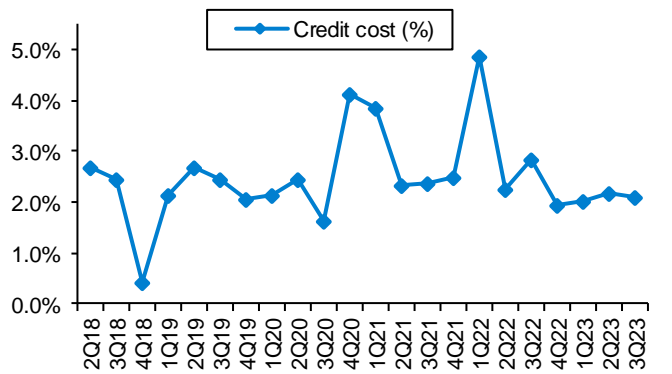
Source: Company, PL

Exhibit 4: Asset quality improvement on both QoQ and YoY



Source: Company, PL

Exhibit 5: Credit Cost fell sequentially on strong collections



Source: Company, PL

Exhibit 6: Maintain 1.3x PABV; Outlook optimistic; Reiterate 'BUY'

Fair price – EVA	1,160
Fair price - P/ABV	1,812
Average of the two	1,486
Target P/ABV	1.3
Target P/E	10.1
Current price, Rs	1293
Upside (%)	15%
Dividend yield (%)	0%
Total return (%)	15%

Source: Company, PL

Income Statement (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Int. Inc. / Opt. Inc.	2,57,819	2,74,147	3,46,828	3,99,165
Interest Expenses	1,22,668	1,05,156	1,47,218	1,76,662
Net interest income	1,35,151	1,57,934	1,86,342	2,06,582
Growth(%)	61.5	16.9	18.0	10.9
Non-interest income	227	254	285	319
Growth(%)	42.3	12.0	12.0	12.0
Net operating income	1,35,378	1,58,189	1,86,627	2,06,901
Expenditures				
Employees	19,695	19,892	20,091	23,707
Other Expenses	18,110	16,292	19,225	22,686
Depreciation	2,137	-	-	-
Operating Expenses	37,805	36,184	39,316	46,393
PPP	97,573	1,22,004	1,47,311	1,60,508
Growth(%)	52.5	25.0	20.7	9.0
Provisions	47,485	34,758	41,710	50,052
Profit Before Tax	50,088	87,246	1,05,601	1,10,456
Tax	12,164	21,960	26,580	27,802
Effective Tax rate(%)	24.3	25.2	25.2	25.2
PAT	37,924	65,286	79,021	82,654
Growth(%)	52.5	72.1	21.0	4.6

Balance Sheet (Rs. m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Source of funds				
Equity	3,371	3,744	3,744	3,744
Reserves and Surplus	3,43,760	4,09,046	4,88,067	5,70,722
Networth	3,47,131	4,12,790	4,91,811	5,74,466
Growth (%)	60.9	18.9	19.1	16.8
Loan funds	14,51,285	15,81,901	17,87,548	20,29,728
Growth (%)	36.7	9.0	13.0	13.5
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	23,338	23,338	23,338	23,338
Other Liabilities	-	-	-	-
Total Liabilities	18,21,754	20,18,029	23,02,697	26,27,532
Application of funds				
Net fixed assets	6,487	7,005	7,215	7,431
Advances	14,76,890	16,98,424	19,53,187	22,46,165
Growth (%)	36.4	15.0	15.0	15.0
Investments	86,455	92,507	82,846	89,775
Current Assets	2,34,188	1,70,368	2,04,298	2,44,815
Net current assets	2,10,849	1,47,029	1,80,959	2,21,476
Other Assets	17,735	49,726	55,151	39,346
Total Assets	18,21,754	20,18,029	23,02,697	26,27,532
Growth (%)	40.5	10.8	14.1	14.1
Business Mix				
AUM	15,77,122	18,13,690	21,03,881	24,40,502
Growth (%)	34.5	15.0	16.0	16.0
On Balance Sheet	12,56,990	14,07,829	16,04,925	17,81,467
% of AUM	79.70	77.62	76.28	73.00
Off Balance Sheet	13,418	13,955	14,513	15,093
% of AUM	0.85	0.77	0.69	0.62

Profitability & Capital (%)

Y/e Mar	FY22	FY23E	FY24E	FY25E
NIM	8.1	9.3	9.2	6.6
ROAA	2.1	3.4	3.5	3.5
ROAE	11.5	17.2	17.5	17.6

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Int. Inc. / Operating Inc.	49,282	50,197	70,024	71,740
Income from securitization	-	-	-	-
Interest Expenses	24,037	24,579	32,249	31,120
Net Interest Income	25,244	25,618	37,775	40,620
Growth (%)	19.3	29.3	76.3	79.5
Non-Interest Income	1,594	1,296	4,162	4,383
Net Operating Income	26,839	26,913	41,937	45,003
Growth (%)	21.4	25.0	84.9	84.8
Operating expenditure	5,725	5,793	11,999	11,987
PPP	21,114	21,120	29,938	33,016
Growth (%)	-	-	-	-
Provision	7,608	8,052	8,976	9,173
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	13,506	13,069	20,962	23,844
Tax	2,645	3,416	5,411	6,074
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.6	26.1	25.8	25.5
PAT	10,861	9,653	15,551	17,770
Growth	44	468	102	161
AUM	15,77,122	16,29,701	16,93,582	17,74,982
YoY growth (%)	34.5	36.6	39.2	13.2
Borrowing	-	-	-	-
YoY growth (%)	(100.0)	-	-	-

Key Ratios

Y/e Mar	FY22	FY23E	FY24E	FY25E
CMP (Rs)	1,270	1,270	1,270	1,270
EPS (Rs)	110.0	183.5	211.1	220.8
Book value (Rs)	1,029.8	1,102.5	1,313.6	1,490.4
Adj. BV(Rs)	1,029.8	1,102.5	1,313.6	1,534.4
P/E(x)	11.5	6.9	6.0	5.8
P/BV(x)	1.2	1.2	1.0	0.9
P/ABV(x)	1.2	1.2	1.0	0.8
DPS (Rs)	15.5	15.5	15.5	15.5
Dividend Payout Ratio(%)	11.1	6.4	5.3	5.1
Dividend Yield(%)	1.2	1.2	1.2	1.2

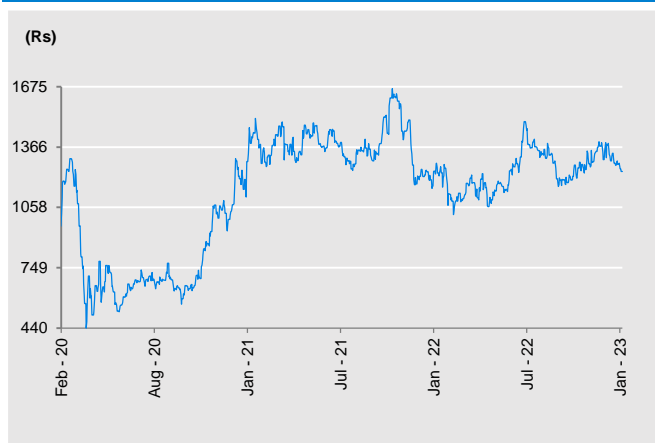
Asset Quality

Y/e Mar	FY22	FY23E	FY24E	FY25E
Gross NPAs(Rs m)	92,674	1,08,320	1,25,922	1,38,514
Net NPA(Rs m)	15,084	20,461	27,099	29,267
Gross NPAs to Gross Adv.(%)	7.1	6.8	6.5	-
Net NPAs to net Adv.(%)	3.7	3.5	3.2	3.2
NPA coverage(%)	83.7	81.1	78.5	78.9

Du-Pont as a % of AUM

Y/e Mar	FY22	FY23E	FY24E	FY25E
NII	8.1	8.2	8.6	6.7
NII INCl. Securitization	8.7	8.8	9.2	6.7
Total income	8.7	8.8	9.3	6.8
Operating Expenses	2.4	1.9	1.8	1.6
PPOP	6.3	6.9	7.4	5.2
Total Provisions	3.0	1.8	1.9	1.7
RoAA	2.1	3.4	3.5	3.5
Avg. Assets/Avg. net worth	5.5	5.1	4.8	4.6
RoAE	11.5	17.2	17.5	17.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	1,521	1,294

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	BUY	7,835	5,761
2	Cholamandalam Investment and Finance Company	BUY	820	750
3	L&T Finance Holdings	BUY	109	95
4	Mahindra & Mahindra Financial Services	Hold	230	234
5	Manappuram Finance	BUY	144	119
6	Muthoot Finance	BUY	1,431	1,068
7	SBI Cards and Payment Services	Accumulate	935	745
8	Shriram Finance	BUY	1,521	1,294

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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