

February 02, 2023

RESULT REPORT Q3 FY23 | Sector: Financials

Shriram Finance

Encouraging growth and asset quality

Enthusing show on multiple fronts

Shriram Finance delivered a reasonably strong performance in Q3 FY23 that was characterized by a) brisk well-rounded disbursements growth (up 13% qoq/28% yoy), b) acceleration in AUM growth (up 4.8% qoq/13% yoy), c) 25-30 bps improvement in NIM underpinned by rationalization of borrowings/liquidity, and largely stable borrowing cost and loan mix, d) absolute opex being flat qoq on account of lower merger related expenses (Q2 also had Rs650mn of one-time sales tax litigation settlement expenses), e) stable credit cost owing to lower write-offs and marginal improvement in the share of Current/Stage-1 assets and f) impressive RoA/RoE levels of 3.4%/17%.

Product mix and liquidity level unlikely to change much

Shriram Finance witnessed strong sequential growth across its key product segments of used CV/PV financing, SEL and 2w loans. As per management, these key products would be made available across most/all branches over the next 3-4 quarters. For SEL, the co. would be targeting distribution in states like UP, MP, RJ, PJ and HR through its existing network. While the product/AUM mix is unlikely to undergo any significant change in next couple of years, the share of SEL is estimated to rise in the longer run. Current BS liquidity covers 5 months of liability repayment, and the co. intends to hold such buffer in the near term.

There is a creation of Goodwill/Intangible Assets worth of Rs14bn each on account of the merger which would be independently reviewed for impairment every year. However, the management does not foresee any impairment impact in the next couple of years.

12-15% growth in AUM and earnings likely; rate BUY

Management reiterated growth expectations of 15% pa and expects RoA/RoE to trend above 3%/15% on a steady-state credit cost of near 2%. In our view, double-digit growth for Shriram Finance looks plausible considering buoyancy in used CV/CE/PV markets and immense scope to distribute the small enterprise loan (SEL) product through the network of erstwhile Shriram Transport. Aided by merger benefits and the borrowings construct (lower share of bank loans), the CoF is expected to increase only gradually over the next couple of quarters. We expect the co. to deliver 12-15% growth in AUM and earnings in FY24/25 with RoE of 15-16%. Basis this expectation and an undemanding valuation (1.2x P/ABV and 6.6x P/E on FY24 estimates), we rate the stock as BUY with 12m PT of Rs1685.

Exhibit 1: Result table

(Rs mn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22*	% yoy
Operating Income	76,090	74,090	2.7	48,279	57.6
Interest expended	(31,120)	(32,249)	(3.5)	(23,973)	29.8
Net Interest Income	44,971	41,841	7.5	24,306	85.0
Other income	33	96	(65.7)	45	(26.6)
Total Income	45,003	41,937	7.3	24,351	84.8
Operating expenses	(11,987)	(11,999)	(0.1)	(5,275)	127.2
PPOP	33,016	29,938	10.3	19,076	73.1
Provisions	(9,173)	(8,976)	2.2	(9,843)	(6.8)
PBT	23,844	20,962	13.7	9,233	158.2
Tax	(6,074)	(5,411)	12.2	(2,427)	150.3
PAT	17,770	15,551	14.3	6,806	161.1

Source: Company, YES Sec. * Data pertains to erstwhile Shriram Transport

Reco : **BUY**

CMP : Rs 1,297

Target Price : Rs 1,685

Potential Return : 29.9%

Stock data (as on Feb 01, 2023)

Nifty	17,616
52 Week h/l (Rs)	1509 / 1002
Market cap (Rs/USD mn)	481738 / 5892
Outstanding Shares (mn)	374
6m Avg t/o (Rs mn):	1,151
Div yield (%):	1.1
Bloomberg code:	SHFL IN
NSE code:	SHRIRAMFIN

Stock performance



	1M	3M	1Y
Absolute return	-5.8%	7.4%	1.3%

Shareholding pattern

Promoter	25.3%
FII+DII	54.0%
Others	20.7%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	-
Target Price	1,685	-

Δ in earnings estimates

	FY23e	FY24e	FY25e
EPS (New)	173.8	196.8	226.0
EPS (Old)	-	-	-
% Change	-	-	-

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Op. income	173,792	198,711	227,952
PPOP	126,849	144,257	165,331
Net profit	65,079	73,670	84,636
Growth (%)	140.3	13.2	14.9
EPS (Rs)	173.8	196.8	226.0
ABVPS (Rs)	961.6	1,120.5	1,306.9
P/E (x)	7.5	6.6	5.7
P/ABV (x)	1.3	1.2	1.0
ROAE (%)	18.5	15.5	15.5
ROAA (%)	3.7	3.3	3.4

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KEY CON-CALL HIGHLIGHTS

- Disbursements in Q3 were at Rs292.5bn v/s Rs258bn in Q2 and Rs229bn yoy.
- Indicative break-up of current quarter disbursements as Rs77.5bn CV, Rs50.6bn PV, Rs29bn SEL, Rs21bn GL and Rs18.5bn PL.
- Overall AUM growth expected around 15% pa - SEL growth to be much faster than CV and 2w over the next five years - reaching out in UP, MP, RJ, PJ and HR for SEL growth.
- Out of 2900 branches, 85% are now running one additional product.
- Approach more calibrated for introduction/cross-selling of CV loans and Small Enterprise Loans (SEL), and the roll-out of these large ticket products across the branch network would take more 3-4 quarters.
- Total borrowings 1.53tn, of which 23% deposits and 24% NCDs.
- Liability mix might change in the coming quarters due to lower securitization.
- Fresh borrowings of Rs122bn raised in Q3 with ~Rs44bn through securitization and ~Rs49bn via retail deposits.
- Confident that CoB will not increase in Q4, as incr. CoF (8.5-8.6%) is marginally lower than that on the book (8.77%) - majority bank borrowings are linked to MCLR.
- Hold BS liquidity equivalent to 5 months of liabilities repayment - will continue with current buffer till March and review thereafter.
- Erstwhile SCUF borrowings to get the advantage of one-notch higher rating now.
- C/I is expected to trend down going forward - to reach 24-25% in the long run.
- Merger related expenses were Rs190mn in the quarter.
- LGD at 42.3% and PD for Stage-1 at 7% and for Stage-2 at 17.4%.
- Credit cost at 1.94% for 9m FY23 - should be around 2% on going forward basis.
- O/s Covid provision buffer/management overlay of Rs16.5bn is held against specific contracts which are maturing by Mar'24.
- Expect 3% RoA and 16-18% RoE on long-term basis.
- Goodwill created from merger of Rs14bn would be tested for impairment by independent valuer every year - however, management does not see any impairment in next 2 years.
- Shriram Housing disbursements grew by 30% yoy and AUM grew by 55% yoy - GS3 at 1.15%, a decline of 30 bps qoq.
- Shriram Housing would remain a largely owned subsidiary (85% stake).

Exhibit 2: Business Data

(Rs bn)	Q3 FY23	Q2 FY23	% qoq	Q3 FY22	% yoy
AUM	1,775	1,694	4.8	1,569	13.2
Commercial Vehicle	906	877	3.4	810	11.9
Passenger Vehicle	318	301	5.8	263	20.9
Construction Equipment	139	134	3.6	128	8.7
Farm Equipment	33	33	0.9	32	3.1
MSME	177	169	4.4	170	3.9
2-Wheelers	100	85	17.9	88	13.3
Gold	44	44	0.2	41	8.0
Personal Loans	58	51	13.6	35	63.0
Others	1	1	(28.6)	2	(68.8)

Source: Company, YES Sec.

Exhibit 3: Key Ratios

(%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22*	chg yoy
NIM (%)	8.5	8.3	0.3	6.7	1.9
Cost to Income (%)	22.3	24.5	(2.2)	19.7	2.6
BV (Rs)	1,132.9	1,084.9	4.4	935.6	21.1
RoE (%)	17.1	15.6	1.5	10.9	6.2
RoA (%)	3.4	3.0	0.4	1.9	1.5
CAR (%)	23.0	23.2	(0.2)	23.3	(0.3)
Gross Stage 3 (%)	6.3	6.3	(0.0)	8.4	(2.1)
Net Stage 3 (%)	3.2	3.3	(0.1)	4.4	(1.2)
Stage 3 Coverage (%)	50.7	49.1	1.7	50.3	0.5

Source: Company, YES Sec; *Data pertains to erstwhile Shriram Transport

Exhibit 4: Funding Mix

Share (%)	Q3 FY23	Q2 FY23	chg qoq	Q3 FY22	chg yoy
NCD	21.3	21.2	0.0	19.1	2.2
Public Deposits	22.5	20.6	1.9	19.7	2.8
Securitisation	13.2	12.5	0.7	16.2	(3.0)
Sub-ordinate debts	3.0	2.9	0.1	3.3	(0.3)
Term Loans	26.8	26.3	0.5	24.9	1.9
ECB (External Comm. bond)	8.1	12.2	(4.1)	13.4	(5.3)
ECB Loans	4.7	4.0	0.6	2.9	1.8
Other Borrowings	0.5	0.3	0.2	0.6	(0.1)

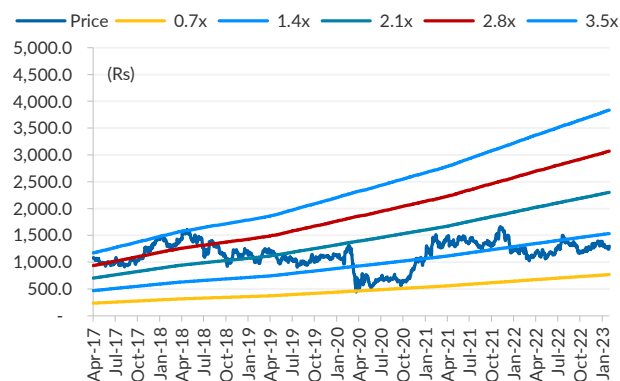
Source: Company, YES Sec

Exhibit 5: ECL Summary

ECL (Rs mn)	Q3 FY22*	Q4 FY22*	Q1 FY23	Q2 FY23	Q3 FY23
Gross Stage 3	103,581	88,876	101,316	105,831	110,586
ECL Provisions - Stage 3	52,054	44,415	49,256	51,923	56,081
Net Stage 3	51,527	44,461	52,060	53,908	54,506
Gross Stage 3 (%)	8.4	7.1	6.3	6.3	6.3
Net Stage 3 (%)	4.4	3.7	3.3	3.3	3.2
Coverage ratio - Stage 3 (%)	50.3	50.0	48.6	49.1	50.7
Gross Stage 1	986,528	1,034,930	1,340,247	1,401,882	1,484,831
ECL Provisions - Stage 1	32,251	33,813	34,491	37,793	41,120
Net Stage 1	954,277	1,001,116	1,305,756	1,364,089	1,443,711
Gross Stage 1 (%)	80.0	82.3	83.0	83.6	84.4
Coverage ratio - Stage 1 (%)	3.3	3.3	2.6	2.7	2.8
Gross Stage 2	143,147	133,185	174,141	169,988	163,005
ECL Provisions - Stage 2	13,150	12,110	12,947	11,741	10,779
Net Stage 2	129,997	121,075	161,195	158,247	152,226
Gross Stage 2 (%)	11.6	10.6	10.8	10.1	9.3
Coverage ratio - Stage 2 (%)	9.2	9.1	7.4	6.9	6.6

Source: Company, YES Sec. *Data pertains to erstwhile Shriram Transport

Exhibit 6: 1-yr rolling P/ABV band



Source: Company, YES Sec

Exhibit 7: 1-year rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	2,531	2,705	3,744	3,744	3,744
Other Equity	213,153	256,617	438,828	504,612	580,486
Share-holders fund	215,684	259,322	442,572	508,356	584,231
Financial Liabilities	1,078,492	1,158,745	1,613,889	1,823,116	2,059,485
Trade payables	1,534	1,687	-	-	-
Debt Securities	400,619	412,566	-	-	-
Borrowings (Excl. Debt Sec.)	452,814	466,769	1,594,607	1,801,906	2,036,153
Deposits	162,324	219,490	-	-	-
Subordinated Liabilities	46,208	46,143	-	-	-
Other Financial Liabilities	11,498	8,596	19,282	21,210	23,331
Non-Financial Liabilities	3,438	2,994	8,651	9,516	10,467
Current tax liabilities (net)	1,020	368	-	-	-
Provisions	1,425	1,382	8,651	9,516	10,467
Other non-financial liabilities	993	1,244	-	-	-
Total Liabilities & Equity	1,297,613	1,421,061	2,065,111	2,340,988	2,654,183
Financial Assets	1,282,198	1,402,803	2,003,008	2,278,884	2,592,079
Cash and Cash Equivalents	110,509	106,624	199,625	227,165	257,670
Bank balances	53,909	56,927	-	-	-
Derivative financial instruments	1,693	2,014	-	-	-
Receivables	588	1,980	-	-	-
Loans	1,083,030	1,166,652	1,699,946	1,937,939	2,209,250
Investments	31,979	68,092	93,596	102,955	113,251
Other Financial Assets	490	515	9,841	10,825	11,907
Non- Financial Assets	15,415	18,258	62,104	62,104	62,104
Current tax assets (Net)	1,717	2,282	-	-	-
Deferred tax assets (Net)	6,391	8,694	-	-	-
Investment Property	20	20	-	-	-
Property, Plant and Equipment	1,244	1,106	-	-	-
Intangible assets	24	30	14,086	14,086	14,086
Other Non-Financial Assets	2,933	3,100	48,018	48,018	48,018
Total Assets	1,297,613	1,421,061	2,065,111	2,340,988	2,654,183

Source: Company, YES Sec.*Note: Balance sheet projections are based on reported summarized BS line-items.

Exhibit 9: Income statement

Y/e 31 Mar (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Income from Operations	174,205	192,552	298,163	342,560	390,518
Interest expense	(90,543)	(97,343)	(124,852)	(144,402)	(163,175)
Net interest income	83,662	95,209	173,310	198,157	227,343
Non-interest income	160	191	481	553	609
Total op income	83,821	95,399	173,792	198,711	227,952
Total op expenses	(19,857)	(21,298)	(46,942)	(54,453)	(62,621)
PPoP	63,964	74,101	126,849	144,257	165,331
Provisions	(31,184)	(38,609)	(39,274)	(45,122)	(51,439)
Profit before tax	32,780	35,493	87,575	99,135	113,892
Taxes	(7,908)	(8,413)	(22,496)	(25,465)	(29,256)
Net profit	24,873	27,079	65,079	73,670	84,636

Source: Company, YES Sec

Exhibit 10: Growth and Ratio matrix

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Net interest income	0.9	13.8	82.0	14.3	14.7
Total op income	0.8	13.8	82.2	14.3	14.7
Op profit (pre-provision)	2.6	15.8	71.2	13.7	14.6
Net profit	(0.6)	8.9	140.3	13.2	14.9
Advances	5.9	7.7	45.7	14.0	14.0
Total Borrowings	12.5	7.8	39.3	13.0	13.0
Total assets	13.7	9.5	45.3	13.4	13.4
Profitability Ratios (%)					
NIM	7.4	6.9	10.2	10.1	10.2
Non-interest income /Total income	0.2	0.2	0.3	0.3	0.3
Return on Avg. Equity	12.6	11.4	18.5	15.5	15.5
Return on Avg. Assets	2.0	2.0	3.7	3.3	3.4
Per share ratios (Rs)					
EPS	98.3	100.1	173.8	196.8	226.0
Adj. BVPS	662.4	794.3	961.6	1120.5	1306.9
DPS	6.0	20.0	15.0	18.0	20.0
Other key ratios (%)					
Cost/Income	23.7	22.3	27.0	27.4	27.5
Tier-I capital	19.9	20.7	21.4	21.7	22.0
Credit Cost	2.7	2.8	2.3	2.3	2.3
Stage 1 and 2 ECL Provision	4.1	3.9	0.0	0.0	0.0
Tax rate	24.1	23.7	25.7	25.7	25.7
Dividend yield	0.5	1.5	1.2	1.4	1.5

Source: Company, YES Sec

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