Shriram Finance (SHFL IN)

Rating: BUY | CMP: Rs749 | TP: Rs875

November 1, 2025

Q2FY26 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY27E	FY28E	FY27E	FY28E
Rating	BUY		HOLD	
Target Price	875		685	
NII (Rs.)	3,02,769	3,50,194	2,90,223	3,38,692
% Chng.	*4.3*	*3.4*		
PPoP (Rs.)	2,24,902	2,60,455	2,10,430	2,46,711
% Chng.	*6.9*	*5.6*		
EPS (Rs.)	65.2	76.5	58.8	71.8
% Chng.	*10.9*	*6.6*		

Key Financials - Standalone

Y/e Mar	FY25	FY26E	FY27E	FY28E
Net Int.Inc.(Rs m)	2,18,531	2,56,810	3,02,769	3,50,194
Growth (%)	*16.3*	*17.5*	*17.9*	*15.7*
Op. Profit (Rs m)	1,62,609	1,89,528	2,24,902	2,60,455
PAT (Rs m)	81,042	1,00,350	1,22,637	1,43,968
EPS (Rs.)	43.1	53.4	65.2	76.5
Gr. (%)	*12.5*	*23.8*	*22.2*	*17.4*
DPS (Rs.)	8.6	10.7	9.8	11.5
Yield (%)	*1.2*	*1.4*	*1.3*	*1.5*
Margin (%)	*9.0*	*9.0*	*9.1*	*9.1*
RoAE (%)	*15.5*	*16.4*	*17.0*	*16.9*
RoAA (%)	*3.1*	*3.2*	*3.4*	*3.4*
PE (x)	17.4	14.0	11.5	9.8
P/BV (x)	2.5	2.1	1.8	1.5
P/ABV (x)	2.8	2.4	2.0	1.7

Key Data	SHMF.BO | SHFL IN
52-W High / Low	Rs.770 / Rs.493
Sensex / Nifty	83,939 / 25,722
Market Cap	Rs.1,409bn/ $ 15,870m
Shares Outstanding	1,881m
3M Avg. Daily Value	Rs.3748.39m

Shareholding Pattern (%)

Promoter's	25.39
Foreign	52.62
Domestic Institution	16.45
Public & Others	5.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	21.6	22.4	19.3
Relative	16.2	17.0	12.8

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Expect NIM to improve; asset quality resilient

Quick Pointers:

- Expect 17%/16% AUM growth in FY26/ FY27E led by strong volumes in H2
- NIM to improve in subsequent quarters; asset quality trend stable

Q2FY26 AUM grew 15.7% YoY to Rs 2,813.1bn, led by strong growth in the CV, PV, MSME portfolio. Commentary indicated strong volume growth in PV post GST rationalization to result in a stronger H2; we build ~17% AUM growth in FY26E. NII improved to 8.2% supported by a reduction in CoF and we expect NIM to improve by ~10 bps in FY26E. Asset quality ratios were largely stable QoQ, with a significant improvement in Stage 2 across categories. We remain conservative and build a credit cost of 2% for FY26E (vs. guidance of <2%). We increase our FY26/ FY27E estimates on strong AUM growth, favorable margin profile and controlled asset quality trend, resulting in RoA/ RoE of 3.4%/ 17.0% by FY28E. Upgrade to BUY with a multiple of 2.2x on Sep'27 ABV and a TP of Rs 875.

- **Expect ~17% AUM growth in FY26:** 2QFY26 disbursements registered a growth of 10% YoY to Rs 430.9bn. AUM growth was robust at 15.7% YoY/ 3.3% QoQ to Rs 2,813.1bn, led by the CV, PV and MSME segment (+14.2%/ 21.5%/ 25.8% YoY respectively). Growth in Construction Equipment was subdued (-12.9% YoY) due to low state-level/ local spending and cash-flow challenges. The split among CV/PV/CE/Farm Equipment/MSME/2W/Gold/Personal Loans stood at 45.5%/ 21.2%/ 5.5%/ 2.2%/ 14.4%/ 5.5%/ 1.9%/ 3.7% respectively. Commentary indicated strong uptick in PV and tractor sales in Oct-25 post GST cuts and expects a higher growth run-rate (~18%) in H2 on strong rural consumption. We build an AUM growth of ~17%/ 16% for FY26/ FY27E led by higher volumes in new vehicles, replacement demand driving growth in Used Vehicles and a strong ramp-up in the non-VF portfolio (MSME and gold loans).

- **NIM to improve by ~10 bps in FY26E:** NII grew 10.3% YoY (4.4% QoQ) to Rs 60.3bn. Reported NIM saw an expansion of 8 bps QoQ to 8.2% and company has been able to revert to its usual policy of maintaining liquidity equivalent to 3M of liabilities, reducing negative carry. Commentary highlighted a reduction in incremental cost of borrowing in the quarter (8.07% vs. 8.37% in Q1FY26) and expects it to come down further in FY26. Factoring a normalizing trend in liquidity and a reduction in CoF, we expect NIM to improve by +10 bps in FY26E. Cost/Income ratio moderated to 27.8% vs. 29.3% in Q1; we expect opex to be elevated (~29%) over the near-term as the company invests in the franchise.

- **Asset quality trend resilient:** Headline asset quality ratio remained largely stable at GS3/NS3 at 4.57%/ 2.49% vs. 4.53%/ 2.57% in Q1FY26. Stage 2 stood at 6.9% vs. 7.3% in Q1FY26, led by a 21-285 bps improvement in the CV, PV, Farm equipment and MSME portfolio. On the MSME side, while GST cut has helped borrowers, company highlighted a cautionary stance on account of exposure to tariff uncertainties in the US. Stage 3 PCR stood at 46.7% (vs. 44.3% in Q1FY26) and company has guided for a credit cost of <2% for FY26 (vs. 2.1% for Q2FY26). We remain conservative and build a 2.0%/ 1.9% in FY26/ FY27E.

Exhibit 1: Q2FY26 Result Overview (Rs mn)

Y/e March	Q2FY26	Q2FY25	YoY gr. (%)	Q2FY26E	% Var	Q1FY26	QoQ gr. (%)	H1FY26	H1FY25	YoY gr. (%)
NII	**60,258**	**54,641**	**10.3**	**60,446**	**(0.3)**	**57,725**	**4.4**	**117,982**	**106,980**	**10.3**
Spread (%) (calc)	8.7	9.2	-47bps	8.7	-2bps	0.1	862bps	8.7	9.1	-48bps
Other income	3,662	2,671	37.1	2,476	47.9	3,685	(0.6)	7,347	5,140	42.9
Net Revenue	63,919	57,312	11.5	62,922	1.6	61,410	4.1	125,329	112,120	11.8
Opex	19,486	17,447	11.7	19,584	(0.5)	19,486	0.0	38,972	33,713	15.6
PPOP	**44,434**	**39,865**	**11.5**	**43,338**	**2.5**	**41,924**	**6.0**	**86,358**	**78,407**	**10.1**
Provisions	13,333	12,350	8.0	13,406	(0.5)	12,857	3.7	26,190	24,225	8.1
PBT	**31,100**	**27,515**	**13.0**	**29,932**	**3.9**	**29,067**	**7.0**	**60,168**	**54,181**	**11.0**
Tax	8,028	6,803	18.0	7,633	5.2	7,510	6.9	15,538	13,663	13.7
ETR (%)	25.8	24.7		25.5		25.8		25.8	25.2	
PAT	**23,072**	**20,713**	**11.4**	**22,300**	**3.5**	**21,557**	**7.0**	**44,629**	**40,519**	**10.1**
Business Metrics										
AUM	2,813,095	2,430,426	15.7	2,817,777	(0.2)	2,722,490	3.3	2,817,777	2,430,426	15.9
Borrowings	2,343,094	1,917,455	22.2	2,503,070	(6.4)	2,429,113	(3.5)	2,503,070	1,917,455	30.5
Asset Quality Metrics										
GNPA (%)	4.57	5.32	75bps	4.50	-7bps	4.53	-4bps	4.57	5.32	75bps
NNPA (%)	2.49	2.64	15bps	2.61	12bps	2.57	8bps	2.49	2.64	15bps
PCR (%)	46.7	51.7	-500bps	42.00	470bps	44.3	239bps	46.7	51.7	-500bps

Source: Company, PL

Exhibit 2: Change in Estimates

	Revised Estimates			Earlier Estimates			% Revision		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII (Rs mn)	256,810	302,769	350,194	248,853	290,223	338,692	3.2	4.3	3.4
PPOP (Rs Mn)	189,528	224,902	260,455	180,023	210,430	246,711	5.3	6.9	5.6
PAT (Rs Mn)	100,350	122,637	143,968	93,131	110,540	134,996	7.8	10.9	6.6
ABV (Rs)	310	368	438	297	349	414	4.4	5.5	5.9

Source: PL

Q2FY26 Concall Highlights

Growth

- Disbursements grew 10% YoY to Rs 430.2bn in Q2FY26 led by growth in the CV/ PV/ MSME segments.
- Management expects AUM growth to accelerate in H2, ~200bps higher than the current growth level of ~16%.
- The company is cautious on MSME segment due to tariffs on US exports; thereby avoiding lending to manufacturers. However, credit growth in October remained strong as GST benefits partly offset tariff impact
- Truck utilization remains strong across all segments including urban and rural with no decline observed. Certain geographies faced temporary disruptions (10–15 days) due to excessive rains and transportation stoppages; relief requests from affected areas were received for payments

Operating profitability

- Excess liquidity was pared down through debt reduction in the month of September, adequately sufficient to meet 3 months of liability obligations. The current LCR stood at 297%
- Incremental CoF stood at lower 8.07% which will give out benefit in coming quarters. The liability mix comprises 87% fixed and 13% floating; management noted that banks have not yet completely transmitted the benefit of repo rate reduction.
- Management expects NIM to reach ~8.5% by Q4FY26; FY26 NIM projected at 8.25–8.30%. The company aims to reduce the CoF and enhance NIM by maintaining an optimal mix of liabilities
- The company targets Rs 10-15bn NCD issuance in Q3FY26; incremental funding may include bank or offshore borrowings

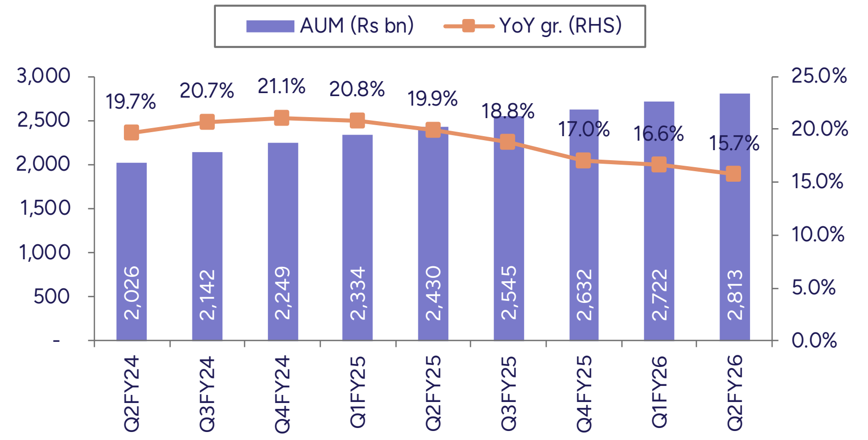
Asset quality

- GS3 ratio stood at 4.57% with Construction and Farm Equipment segments exhibiting higher GS3 ratios of 6.77% and 6.79% respectively while Two Wheeler and Gold Loan segments reported lower GS3 ratios of 3.29% and 2.28%
- GS2 ratio improved QoQ to 6.92% in Q2FY26 from 7.29% in Q1FY26 reflecting better asset quality management. Company had write-offs of Rs 4.5 bn during the quarter

Other

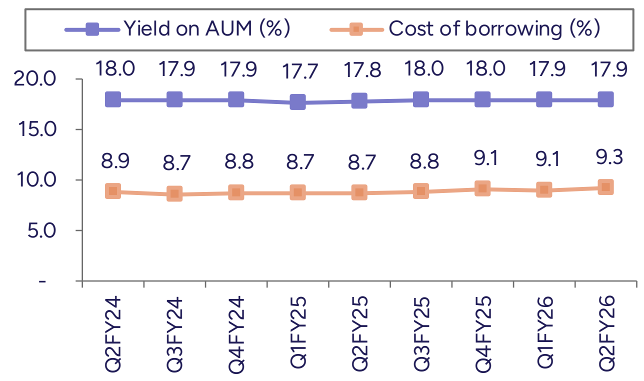
- The company has declared an interim dividend of Rs 4.8 per share (240% of the face value)
- Capital adequacy remained strong at 20.7%. Tier-1 capital was at 20.0%

Exhibit 3: AUM grew 15.7% YoY on strong growth in CV, PV and MSME



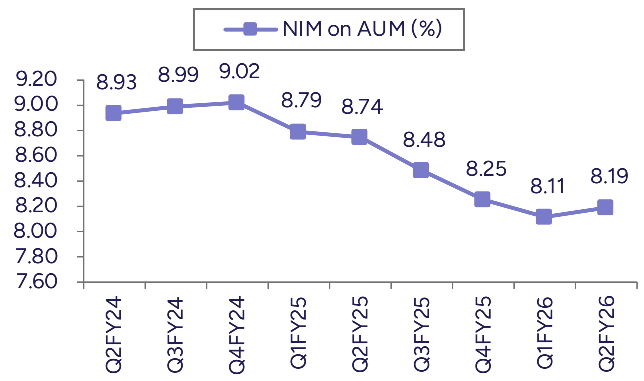
Source: Company, PL

Exhibit 4: Expect cost of borrowing to come down



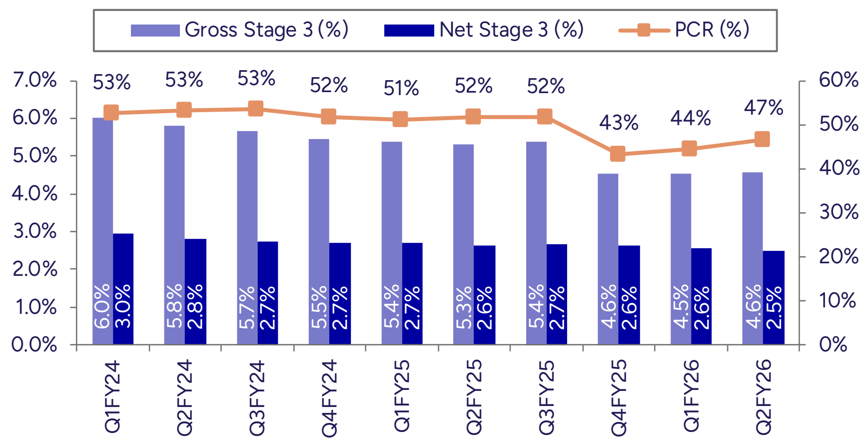
Source: Company, PL

Exhibit 5: NIM improved by 8 bps QoQ



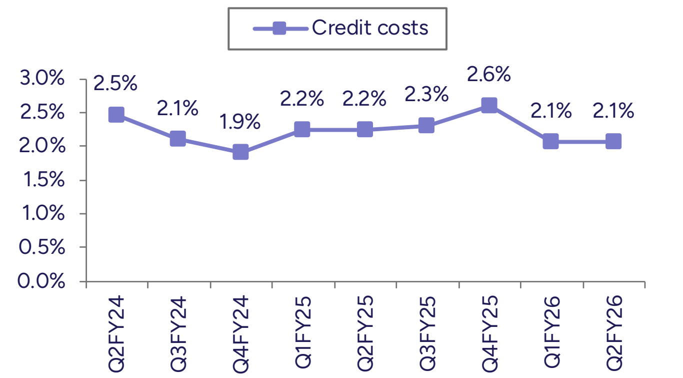
Source: Company, PL

Exhibit 6: Stable asset quality trend QoQ



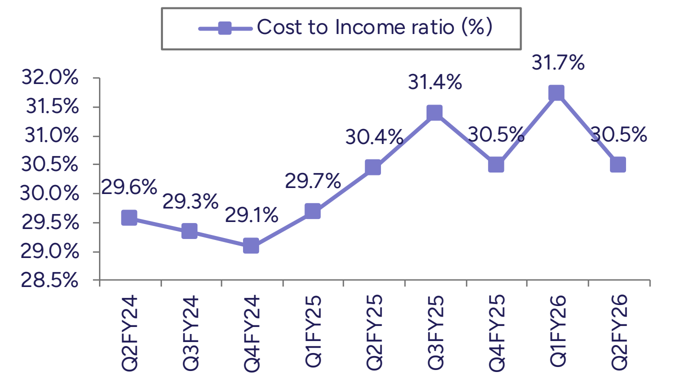
Source: Company, PL

Exhibit 7: Credit cost stabilized during the quarter



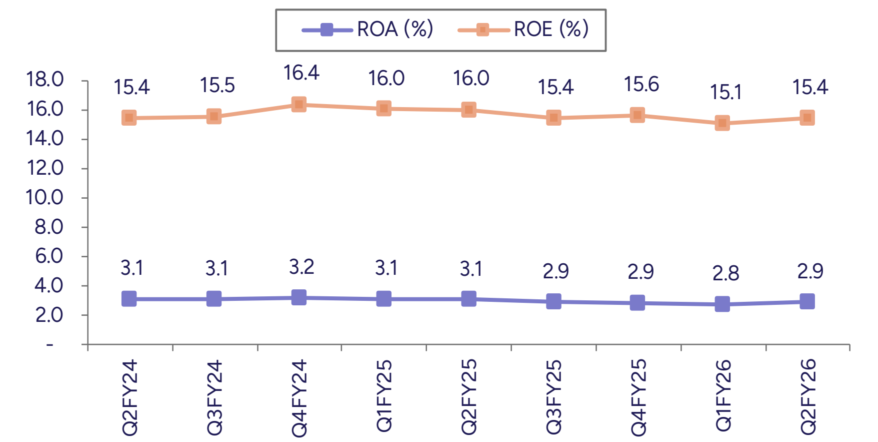
Source: Company, PL

Exhibit 8: Opex improved and remained broadly at YoY level



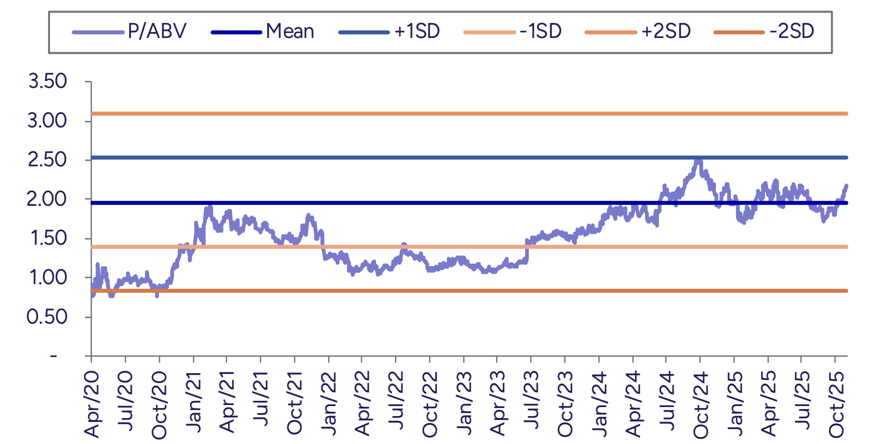
Source: Company, PL

Exhibit 9: RoA/RoE stood at 2.9%/ 15.4% in Q2FY26



Source: Company, PL

Exhibit 10: One-year forward P/ABV of SHFL trades at 2.2x



Source: Company, PL

Income Statement (Rs. m)

Y/e r	FY25	FY26E	FY27E	FY28E
Int. Inc. / Opt. Inc.	4,03,076	4,74,728	5,46,894	6,35,983
Interest Expenses	1,84,546	2,17,918	2,44,125	2,85,789
Net interest income	**2,18,531**	**2,56,810**	**3,02,769**	**3,50,194**
Growth(%)	*16.3*	*17.5*	*17.9*	*15.7*
Non-interest income	15,494	13,018	13,749	15,012
Growth(%)	*10.8*	*(16.0)*	*5.6*	*9.2*
Net operating income	2,34,025	2,69,828	3,16,518	3,65,206
Expenditures				
Employees	36,512	39,423	44,425	50,231
Other Expenses	34,904	40,878	47,191	54,520
Depreciation	-	-	-	-
Operating Expenses	71,416	80,301	91,616	1,04,752
PPP	**1,62,609**	**1,89,528**	**2,24,902**	**2,60,455**
Growth(%)	*14.5*	*16.6*	*18.7*	*15.8*
Provisions	53,117	54,567	60,288	67,209
Profit Before Tax	**1,09,493**	**1,34,961**	**1,64,614**	**1,93,246**
Tax	28,450	34,611	41,977	49,278
Effective Tax rate(%)	*26.0*	*25.6*	*25.5*	*25.5*
PAT	**81,042**	**1,00,350**	**1,22,637**	**1,43,968**
Growth(%)	*12.7*	*23.8*	*22.2*	*17.4*

Balance Sheet (Rs. m)

Y/e r	FY25	FY26E	FY27E	FY28E
Source of funds				
Equity	3,761	3,762	3,762	3,762
Reserves and Surplus	5,59,045	6,56,000	7,78,637	9,22,605
Networth	5,62,806	6,59,762	7,82,399	9,26,367
Growth (%)	*15.9*	*17.2*	*18.6*	*18.4*
Loan funds	23,41,973	26,66,133	30,87,628	36,43,414
Growth (%)	*26.0*	*13.8*	*15.8*	*18.0*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	9,647	19,829	20,634	21,472
Other Liabilities	20,904	23,770	24,736	25,740
Total Liabilities	**29,35,329**	**33,69,493**	**39,15,396**	**46,16,992**
Application of funds				
Net fixed assets	-	-	-	-
Advances	24,53,928	28,79,423	33,34,638	38,25,584
Growth (%)	*18.0*	*17.3*	*15.8*	*14.7*
Investments	1,55,987	1,73,299	1,91,433	2,25,892
Current Assets	2,13,657	1,82,800	2,49,914	4,20,445
Net current assets	**2,04,011**	**1,62,972**	**2,29,281**	**3,98,974**
Other Assets	1,11,757	1,33,971	1,39,411	1,45,071
Total Assets	**29,35,329**	**33,69,493**	**39,15,396**	**46,16,992**
Growth (%)	*23.7*	*14.8*	*16.2*	*17.9*
Business Mix				
AUM	26,31,903	30,86,668	35,74,647	41,00,928
Growth (%)	*17.0*	*17.3*	*15.8*	*14.7*
On Balance Sheet	25,99,159	30,31,108	35,03,154	40,18,910
% of AUM	*98.76*	*98.20*	*98.00*	*98.00*
Off Balance Sheet	32,744	55,560	71,493	82,019
% of AUM	*1.24*	*1.80*	*2.00*	*2.00*

Profitability & Capital (%)

Y/e r	FY25	FY26E	FY27E	FY28E
NIM	9.0	9.0	9.1	9.1
ROAA	3.1	3.2	3.4	3.4
ROAE	15.5	16.4	17.0	16.9

Source: Company Data, PL Research

Quarterly Financials (Rs. m)

Y/e r	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Int. Inc. / Operating Inc.	1,03,408	1,07,895	1,11,732	1,15,506
Income from securitization	-	-	-	-
Interest Expenses	47,513	52,240	54,008	55,248
Net Interest Income	**55,896**	**55,655**	**57,725**	**60,258**
Growth (%)	*13.8*	*9.4*	*10.3*	*10.3*
Non-Interest Income	3,646	6,707	3,685	3,662
Net Operating Income	**59,542**	**62,363**	**61,410**	**63,919**
Growth (%)	*14.1*	*13.2*	*12.0*	*11.5*
Operating expenditure	18,692	19,010	19,486	19,486
PPP	**40,850**	**43,353**	**41,924**	**44,434**
Growth (%)	-	-	-	-
Provision	13,258	15,633	12,857	13,333
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	44,159	27,720	29,067	31,100
Tax	8,462	6,326	7,510	8,028
Prov. for deferred tax liability	-	-	-	-
Effective Tax Rate	19.2	22.8	25.8	25.8
PAT	**35,698**	**21,394**	**21,557**	**23,072**
Growth	*96.3*	*9.9*	*8.8*	*11.4*
AUM	25,44,697	26,31,903	27,22,490	28,13,095
YoY growth (%)	18.8	17.0	16.6	15.7
Borrowing	22,34,597	23,41,973	24,29,113	23,43,094
YoY growth (%)	*25.9*	*26.0*	*26.7*	*12.7*

Key Ratios

Y/e r	FY25	FY26E	FY27E	FY28E
CMP (Rs)	749	749	749	749
EPS (Rs)	43.1	53.4	65.2	76.5
Book value (Rs)	299.4	350.8	415.9	492.5
Adj. BV(Rs)	263.7	309.9	368.1	438.3
P/E(x)	17.4	14.0	11.5	9.8
P/BV(x)	2.5	2.1	1.8	1.5
P/ABV(x)	2.8	2.4	2.0	1.7
DPS (Rs)	8.6	10.7	9.8	11.5
Dividend Payout Ratio(%)	-	-	-	-
Dividend Yield(%)	*1.2*	*1.4*	*1.3*	*1.5*

Asset Quality

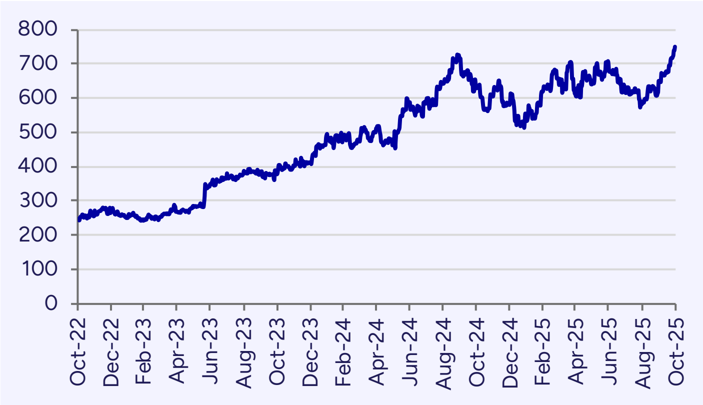
Y/e r	FY25	FY26E	FY27E	FY28E
Gross NPAs(Rs m)	1,18,388	1,28,134	1,45,057	1,64,500
Net NPA(Rs m)	67,145	76,881	89,935	1,01,990
Gross NPAs to Gross Adv.(%)	4.6	4.5	4.4	4.3
Net NPAs to net Adv.(%)	2.6	2.7	2.7	2.7
NPA coverage(%)	43.3	40.0	38.0	38.0

Du-Pont as a % of AUM

Y/e r	FY25	FY26E	FY27E	FY28E
NII	8.2	8.1	8.3	8.2
NII INCI. Securitization	8.2	8.1	8.3	8.2
Total income	8.8	8.6	8.7	8.6
Operating Expenses	2.7	2.5	2.5	2.5
PPOP	6.1	6.0	6.2	6.1
Total Provisions	2.0	1.7	1.7	1.6
RoAA	3.1	3.2	3.4	3.4
Avg. Assets/Avg. net worth	5.2	5.1	5.0	5.0
RoAE	15.5	16.4	17.0	16.9

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-25	Hold	685	667
2	27-Jul-25	Hold	650	616
3	08-Jul-25	Hold	685	671
4	28-Apr-25	Hold	685	655

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Bajaj Finance	Hold	950	1,017
2	Cholamandalam Investment and Finance Company	Hold	1,550	1,632
3	HDFC Life Insurance Company	BUY	900	761
4	ICICI Prudential Life Insurance Company	BUY	710	597
5	Mahindra & Mahindra Financial Services	Hold	300	300
6	Max Financial Services	BUY	1,850	1,604
7	SBI Life Insurance Company	Hold	1,950	1,903
8	Shriram Finance	Hold	685	667
9	Sundaram Finance	Hold	4,750	4,427

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

ANALYST CERTIFICATION

(Indian Clients)

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