BUY (Maintain)

CMP: **INR 902** Target Price: **INR 1,225 (INR 920)** ▲ 36%

ICICI Securities

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19 December 2025

India | Equity Research | Company Update

Shriram Finance

NBFCs

MUFG Bank to acquire 20% stake in SFL; profitability to improve structurally

Shriram Finance (SFL) has entered into a strategic partnership with MUFG Bank (Japan-based), wherein the partner has agreed to invest ~USD 4.4bn for 20% stake in SFL via preferential issue. On a fully diluted basis, MUFG Bank and the existing promoter group led by Shriram Capital Private would own ~20% each. Further, MUFG Bank will have the right to appoint two nominee directors on SFL's Board, which will further strengthen its governance. Post its merger with SCUF in CY22, this is the second major corporate event in SFL's journey; the merger brought with it the second wind for growth, as reflected in SFL's AUM growth accelerating to >15% YoY by Sep'25 vs. STFC's timid FY19–23 spell of 9%/5%/7%/8%/14% (standalone basis). Similarly, the enhanced capital base may accelerate its growth journey going ahead.

Capital infusion with MUFG Bank's ownership could provide access to low-cost funding

We believe improved leverage driven by equity infusion and foreign partner bringing in strong banking parentage could fast track the credit rating upgrade. Our analysis suggests SFL's current borrowing cost is higher by 100-125bps than peers as on Sep'25 and a credit rating upgrade would help it in narrowing the gap in near term. As on Sep'25, SFL's CoB is 8.8% vs. 7.5% for Bajaj Finance and Aditya Birla Finance, 7.4% for Tata Capital and 7.3% for L&T Finance. We estimate revised BVPS at INR 490 vs. INR 393 earlier for FY27E, driven by earnings upgrade of 25% for FY27E. Maintain **BUY** with a revised TP of 1,225 (INR 920 earlier), valuing SFL at 2.5x FY27E BVPS (earlier: 2.5x Sep'26E)

Either growth acceleration or RoA expansion on the cards

Fresh equity infusion would improve CRAR to ~36% and a potential credit rating upgrade would help it narrow the gap between its funding cost among peers. Lower cost of funds would help SFL on two critical aspects – a) better competitive edge due to lower cost of funds and it could accelerate growth from the current level of 15-17% in the near term or b) it could retain the benefit arising from lower cost of fund and improve profitability (NIM expansion). In both the cases, structural RoE of SFL is likely to expand going forward.

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	218,548	261,912	328,231	397,084
PAT (INR mn)	88,501	95,008	131,402	166,175
EPS (INR)	47.1	50.5	55.9	70.7
% Chg YoY	9.2	7.4	10.6	26.5
P/E (x)	19.2	17.8	16.1	12.8
P/BV (x)	3.0	2.6	1.8	1.6
Gross Stage - 3 (%)	4.6	5.0	5.1	5.6
Dividend Yield (%)	-	-	-	-
RoA (%)	3.7	3.0	3.6	3.8
RoE (%)	18.6	15.7	11.9	13.2

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Market Data

Market Cap (INR)	1,696bn
Market Cap (USD)	18,922mn
Bloomberg Code	SHFL IN EQUITY
Reuters Code	SHMF.BO
52-week Range (INR)	914 /493
Free Float (%)	74.0
ADTV-3M (mn) (USD)	61.6

Price Performance (%)	3m	6m	12m
Absolute	42.4	38.3	53.1
Relative to Sensex	39.6	33.9	45.9

ESG Score	2024	2025	Change
ESG score	**80.1**	**81.1**	**1.0**
Environment	63.2	65.3	2.1
Social	75.8	79.4	3.6
Governance	89.9	88.3	(1.6)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
PAT	-	18

Previous Reports

01-11-2025: Q2FY26 results review

04-10-2025: NBFCs Q2FY26 preview

Equity infusion ring-fenced to ensure transparency and ownership

The equity infusion by MUFG Bank is carefully ring-fenced through a differentiated lock-in and restriction framework, ensuring transparency of ownership and long-term alignment across stakeholders.

- MUFG (Investor) is subject to a 12-month lock-in on third-party transfer of shares post completion of deal (affiliate transfers permitted) and a 24-month restriction on secondary market purchases. MUFG is restricted from acquiring ≥20% stake in any competing Indian NBFC as long as it holds ≥10% in Shriram Finance on a fully diluted basis.
- Promoter and other entities (excluding Sanlam entities) are bound by a 3-year lock-in for transfer of their existing shares and 48-month standstill clause on acquiring additional equity securities (other than pro rata rights issue or possible restructuring).
- Sanlam entities are subject to a shorter 1-year lock-in for transfer of securities.

There are customary restrictions on transfers to sanctioned entities, competitors and other restricted parties, etc. Post lock-in, promoter and other parties (excluding Sanlam) are further ring-fenced through a Customary Right of First Offer (ROFO) in favour of MUFG, providing ownership stability and optionality to the investor.

Governance safeguards are reinforced through board nomination rights of up to two non-independent directors for MUFG (linked to a ≥15% stake). Additionally, competitive risk is addressed via a non-compete and non-solicit obligation on Shriram Ownership Trust, supported by a one-time USD 200mn fee to prevent any potential conflict of interest between business of the company and other financial service business of Shriram Ownership Trust and affiliates. However, there is no non-compete and non-solicit restrictions on Sanlam entities.

Overall, the deal structure creates a clean and transparent ownership framework by providing a balance between promoter stability and investor protection, thereby, strengthening the overall governance architecture around the deal.

Exhibit 1: Equity infusion ring-fenced to ensure transparency and ownership

Particulars	Promoter & Other Parties (excl. Sanlam)	Sanlam Entities	MUFG (Investor)
Equity lock-in	3 years	1 year	12 months lock-in to transfer to third parties
Affiliate transfers	Restricted	Restricted	Permitted
Standstill clause	48 months (no additional share acquisition except for pro rata rights issue or possible restructuring)	NA	NA
Secondary market purchase restriction	NA	NA	24 months
Right of First Offer (ROFO) applicability	MUFG has ROFO on promoter sell-down (post lock-in)	NA	NA
Competing NBFC investment restriction	NA	NA	Cannot acquire ≥20% in competing Indian NBFC while holding ≥10% in Shriram Finance
Board representation rights	Control retained	NA	Up to 2 directors (linked to stake)

Note: Sanlam Emerging Markets (Mauritius) Limited and Sanlam Life Insurance Limited are referred to as Sanlam Entities

Source: Shriram Finance Press release dated 19th Dec'25

Deal contours: MUFG Bank to acquire 20% stake in Shriram Finance for ~INR 396bn; likely to boost RoA, BVPS

Shriram Finance has announced that MUFG Bank would acquire 20% stake for ~INR 396.2bn, subject to regulatory approvals. This values the deal at 1.7x/1.5x for FY27E/28E P/B, respectively, post equity infusion, as per our estimates. Equity infusion along with strong parentage could potentially help SFL bring down its borrowing cost sharply in coming years. The same would drive NIM expansion and boost RoA to 3.6% (earlier: 3.0%) for FY27E and 3.8% for FY28E. However, sizeable equity infusion (revised CAR to 36% vs 20.7% currently) is likely to impact leverage in near term and SFL's near-term AUM target of ~15% CAGR until FY28 would result in lower capital consumption.

Overall, we expect RoE to moderate to 12% for FY27E (earlier estimate of 16%) and 13% for FY28E. We expect Shriram Finance's book value to inch up by 25% to INR 490 vs. our initial estimate of INR 393 for FY27E and expect book value to reach INR 550 for FY28E.

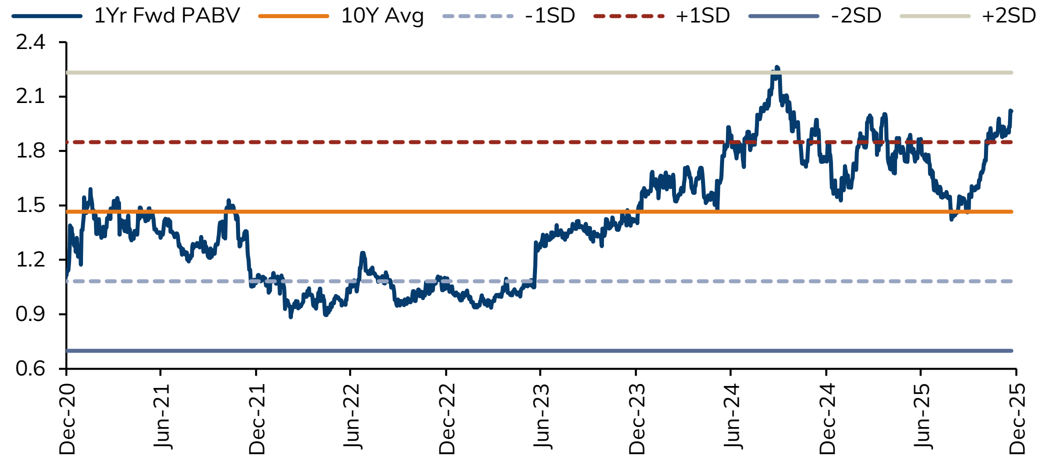
Exhibit 2: We expect book value accretion of 25% to INR 490 for FY27E

FY27E	Earlier	Revised	Change
BVPS	393	490	25%
RoA	3.0%	3.6%	60 bps
RoE	16.2%	11.9%	-428 bps

Source: Company data, I-Sec research

Note: We have assumed equity infusion by end of FY26 for the purpose of RoE calculation

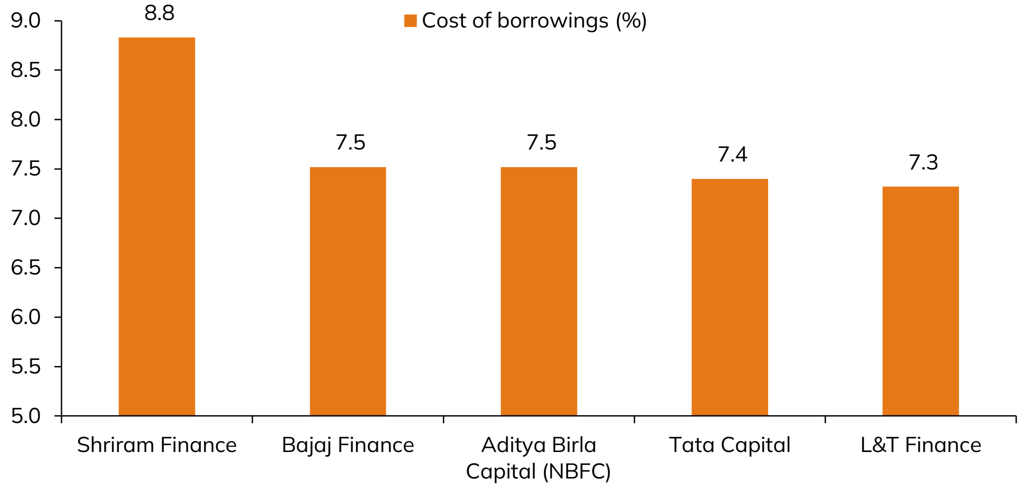
Exhibit 3: Shriram Finance breached its 10-year historical average and with likelihood of structurally higher RoE, we expect re-rating to continue



Source: Company data, I-Sec research

SFL's cost of borrowings stood at 8.8% vs. borrowing cost in the range of 7.3-7.5% for peers. The last credit rating upgrade by a domestic rating agency for SFL took place in CY15. Post its last rating upgrade, SFL's balance sheet has scaled up by ~5x to ~INR 3trn. Moreover, it has delivered consistent performance with an average calculated RoA/RoE of 2.5%/15%, respectively, over the past decade. Hence, post this long decadal journey, SFL seems to be on a strong footing for a credit rating upgrade. Management has also mentioned in previous conference calls that it is in discussions with credit rating agencies as part of its rating review process. Japan's MUFG Bank acquiring 20% equity ownership could fast track a rating upgrade for SFL, in our view.

Exhibit 4: SFL likely to see credit rating upgrade, which could narrow the gap in borrowing cost vs. peers



Source: Company data, I-Sec research

Note: Borrowing cost is for the latest reported quarter

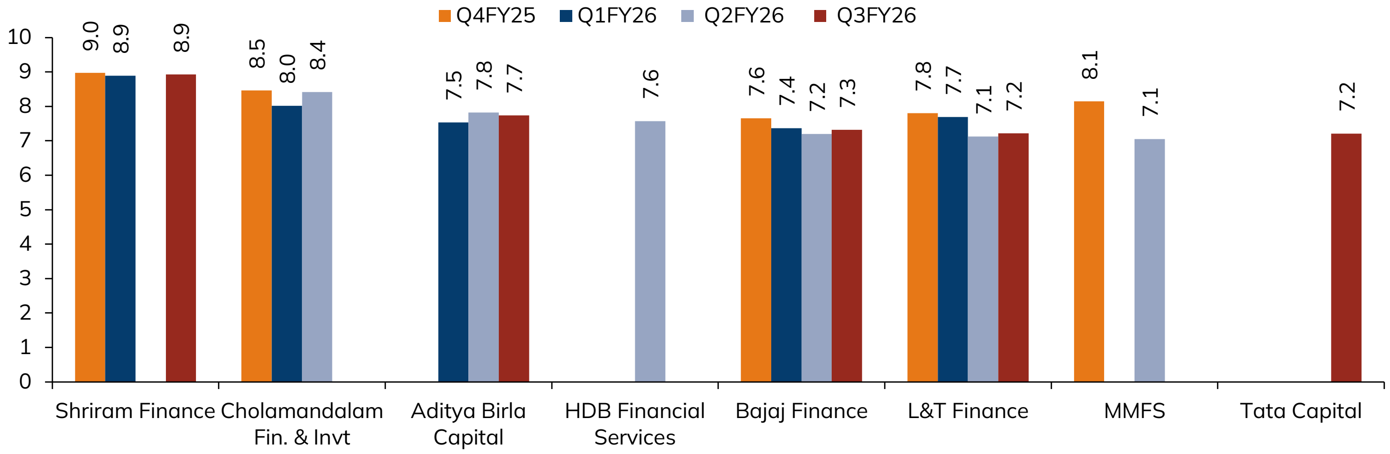
Exhibit 5: SFL's credit rating gap may narrow post equity infusion by MUFG

Company Name	Credit rating (long term)
Shriram Finance	Crisil AA+ / Stable
Tata Capital	Crisil AAA / Stable
Bajaj Finance	Crisil AAA / Stable
L&T Finance	Crisil AAA / Stable
Aditya Birla Capital (NBFC)	Crisil AAA / Stable

Source: Company data, I-Sec research

Since the start of CY25, we have collated the bond issuances by large well-rated NBFCs and looked at their average quarterly coupon rate. This suggests SFL has been raising funds at 50-150bps premium to its NBFC peers, which we believe is largely due to the gap in credit rating. In the event of a rating upgrade, we believe the premium in bond issuance rate to its peers is likely to narrow, which may provide an impetus to its margins.

Exhibit 6: Exhibit 3: In past 3-4 quarters, SFL has raised NCDs at 50-150bps premium to its NBFC peers, which could narrow down in coming quarters



Source: Company data, BSE, NSE, I-Sec research

Note: Above is the average coupon rate of NCDs raised during the quarter for the respective entity as per exchange filing

Promoter entities cumulatively hold 25.4% stake in SFL as of Sep'25. However, post the consummation of the deal, MUFG Bank will be a new holder with 20% stake and promoter stake is likely to dilute to 20.3% vs. 25.4% currently.

Exhibit 7: Post equity infusion, MUFG Bank and Shriram group would own ~20% each

Particulars	Existing holding (%)	No of shares	Holding post pref (%)
Shriram Capital	17.85	33,57,28,920	14.3%
Shriram Value	7.1	13,37,57,305	5.7%
Shriram ownership	0.02	3,10,400	0.0%
Sanlam Life	0.41	77,84,755	0.3%
Promoter holding	**25.38**	**47,75,81,380**	**20.3%**
Total shares		**1,88,10,07,883**	
		New Investor	
MUFG		47,11,21,055	**20.0%**
New shares		**2,35,21,28,938**	

Source: Company data, BSE, I-Sec research

Post the capital infusion, SFL is likely to top the chart among its NBFC peers in terms of overall NW. As of now, SFL stands after Bajaj Finance in terms of total NW. Currently, SFL's NW is INR 600bn as of Q2FY26 and incremental equity infusion of INR 396bn would take the NW to ~INR 1trn. Also, due to the equity infusion, SFL's capital adequacy could further strengthen and may cross 36% vs. the regulatory requirement of 15%. This will provide enough headroom to SFL to accelerate its growth momentum by expanding into existing segments as well as look for opportunities in new segments.

Exhibit 8: SFL is currently the 2nd highest in terms of NW and may reach much closer to the top spot, after considering equity infusion by MUFG Bank

Net worth (INR mn)	Q2FY26
Bajaj Finance (Consolidated)	10,55,984
Shriram (pre-equity infusion)	6,04,040
Tata Capital	3,62,839
AB Capital (Standalone)	2,68,930
L&T Finance	2,63,580
Cholamandalam Investment & Finance	2,58,950
Mahindra & Mahindra Financial Services	2,30,160
HDB Financials	1,93,380

Source: Company data, I-Sec research

Exhibit 9: CRAR to improve to >35%, post the equity infusion

INR mn	Proforma	Q2FY26	Q4FY25
CRAR (%)	**36.4**	**20.7**	**20.7**
Capital infusion	3,96,180	-	-
Total Capital for CRAR calculation	9,16,558	5,20,378	4,86,139
RWA	25,16,333	25,16,333	23,53,044
Loan book		26,24,218	24,53,928
% of RWA			96

Source: Company data, I-Sec research

Note: Total Capital for Q2FY26 is calculated using FY25 RWA as a % of loans

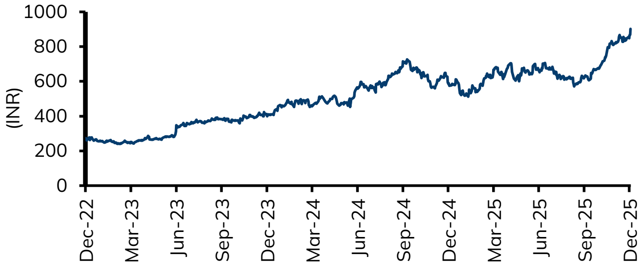
Key risks: Lower than expected loan book growth and higher-than-anticipated credit cost.

Exhibit 10: Shareholding pattern

%	Mar'25	Jun'25	Sep'25
Promoters	25.4	25.4	25.4
Institutional investors	68.5	68.9	68.2
MFs and others	10.0	10.5	11.9
FIs/Banks	1.7	1.8	2.0
Insurance	3.2	3.5	4.1
FIIs	53.6	53.1	50.2
Others	6.1	5.7	6.4

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Interest Income	403,093	477,184	564,478	659,208
Net gain on fair value changes	-	-	-	-
Interest Expenses	(184,546)	(215,272)	(236,248)	(262,124)
Net Interest Income (NII)	**218,548**	**261,912**	**328,231**	**397,084**
Total Income (net of interest expenses)	234,049	277,867	346,881	426,678
Employee benefit expenses	**(36,512)**	**(42,726)**	**(50,465)**	**(57,764)**
Depreciation and amortization	(6,453)	(6,998)	(8,181)	(9,741)
Fee and commission expenses	-	-	-	-
Other operating expenses	(28,475)	(33,902)	(40,364)	(47,552)
Total Operating Expense	(71,440)	(83,627)	(99,010)	(115,056)
Pre Provisioning Profits (PPoP)	**162,609**	**194,240**	**247,871**	**311,621**
Provisions and write offs	(53,117)	(67,274)	(72,271)	(89,551)
Profit before tax (PBT)	**109,493**	**126,966**	**175,600**	**222,070**
Total tax expenses	(20,992)	(31,957)	(44,199)	(55,895)
Profit after tax (PAT)	**88,501**	**95,008**	**131,402**	**166,175**

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Share capital	3,761	3,761	4,703	4,703
Reserves & surplus	559,045	640,187	1,147,550	1,289,288
Shareholders' funds	**562,806**	**643,948**	**1,152,253**	**1,293,991**
Borrowings	2,341,973	2,632,169	2,898,183	3,237,918
Provisions & Other Liabilities	30,551	35,134	40,404	46,464
Deferred tax liabilities (net)	-	-	-	-
Current Liabilities and short-term provisions	-	-	-	-
Total Liabilities and Stakeholder's Equity	**2,935,329**	**3,311,250**	**4,090,840**	**4,578,373**
Cash and balance with RBI	213,657	344,223	620,336	547,770
Fixed assets	10,257	11,795	13,565	15,599
Loans	**2,313,411**	**2,685,834**	**3,135,092**	**3,648,785**
Investments	155,987	155,901	194,876	224,107
Deferred tax assets (net)	36,949	42,491	48,865	56,194
Current Assets including cash and bank	-	-	-	-
Other Assets	205,068	71,006	78,107	85,918
Total Assets	**2,935,329**	**3,311,250**	**4,090,840**	**4,578,373**

Source Company data, I-Sec research

Exhibit 14: Key Ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
AUM and Disbursements (INR mn)				
AUM	2,631,903	3,076,573	3,596,361	4,196,412
On-book Loans	2,599,159	3,038,298	3,551,618	4,144,204
Off-book Loans	32,744	38,276	44,742	52,208
Disbursements	1,550,653	1,810,269	2,121,553	2,496,275
Sanctions	-	-	-	-
Repayments	-	-	-	-
Growth (%):				
Total AUM (%)	17.0	16.9	16.9	16.7
Disbursements (%)	14.2	16.7	17.2	17.7
Sanctions (%)	-	-	-	-
Repayments (%)	-	-	-	-
Loan book (on balance sheet) (%)	17.3	16.9	16.9	16.7
Total Assets (%)	23.7	12.8	23.5	11.9
Net Interest Income (NII) (%)	16.3	19.8	25.3	21.0
Non-interest income (%)	11.0	2.9	16.9	58.7
Total Income (net of interest expenses) (%)	15.9	18.7	24.8	23.0
Operating Expenses (%)	19.2	17.1	18.4	16.2
Employee Cost (%)	13.5	17.0	18.1	14.5
Non-Employee Cost (%)	28.9	19.1	19.1	17.8
Pre provisioning operating profits (PPoP) (%)	14.5	19.5	27.6	25.7
Provisions (%)	17.6	26.7	7.4	23.9
PBT (%)	13.1	16.0	38.3	26.5
PAT (%)	9.3	7.4	38.3	26.5
EPS (%)	9.2	7.4	10.6	26.5
Yields, interest costs and spreads (%)				
NIM on loan assets (%)	9.7	10.5	11.3	11.7
NIM on IEA (%)	8.5	8.4	8.6	8.9
NIM on AUM (%)	9.0	9.2	9.8	10.2
Yield on loan assets (%)	17.9	19.1	19.4	19.4
Yield on IEA (%)	15.6	15.2	14.8	14.7
Yield on AUM (%)	16.5	16.7	16.9	16.9
Cost of borrowings (%)	8.8	8.7	8.5	8.5
Interest Spreads (%)	9.1	10.4	10.9	10.9
Operating efficiencies				
Non interest income as % of total income	52.2	53.1	56.3	57.6
Cost to income ratio	30.5	30.1	28.5	27.0
Op.costs/avg assets (%)	2.7	2.7	2.7	2.7
Op.costs/avg AUM (%)	2.9	2.9	3.0	3.0
No of employees (estimate) (x)	79,872	87,259	95,328	105,937
No of branches (x)	3,220	3,485	3,772	4,232
Salaries as % of non-interest costs (%)	51.1	51.1	51.0	50.2
NII /employee (INR mn)	2.7	3.0	3.4	3.7
AUM/employee(INR mn)	33.0	35.3	37.7	39.6
AUM/ branch (INR mn)	817.4	882.8	953.4	991.5

Source Company data, I-Sec research

	FY25A	FY26E	FY27E	FY28E
Asset quality and provisioning				
GNPA (%)	4.6	5.0	5.1	5.6
NNPA (%)	2.6	2.8	2.8	3.2
GNPA (INR mn)	118,388	152,452	180,881	231,581
NNPA (INR mn)	67,145	83,848	99,484	134,317
Coverage ratio (%)	43.3	45.0	45.0	42.0
Credit Costs as a % of avg AUM (bps)	218	236	217	230
Credit Costs as a % of avg on book loans (bps)	221	239	219	233
Return ratios				
RoAA (%)	3.7	3.0	3.6	3.8
RoAE (%)	18.6	15.7	11.9	13.2
ROAAUM (%)	4.0	3.3	3.9	4.3
Dividend Payout ratio (%)	-	-	-	-
Valuation Ratios				
No of shares	1,880	1,880	2,352	2,352
No of shares (fully diluted)	1,880	1,880	2,352	2,352
ESOP Outstanding	-	-	-	-
EPS (INR)	47.1	50.5	55.9	70.7
EPS fully diluted (INR)	47.1	50.5	55.9	70.7
Price to Earnings (x)	19.2	17.8	16.1	12.8
Price to Earnings (fully diluted) (x)	19.2	17.8	16.1	12.8
Book Value (fully diluted)	299	342	490	550
Adjusted book value	273	309	458	507
Price to Book	3.0	2.6	1.8	1.6
Price to Adjusted Book	3.3	2.9	2.0	1.8
DPS (INR)	-	-	-	-
Dividend yield (%)	-	-	-	-

Source Company data, I-Sec research

Note; RoE adjusted for capital infusion for FY27E and FY28E

Exhibit 15: Key Metrics

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
DuPont Analysis				
Average Assets (INR mn)	2,653,984	3,123,290	3,701,045	4,334,607
Average Loans (INR mn)	2,250,184	2,499,622	2,910,463	3,391,938
Average Equity (INR mn)	524,245	603,377	898,101	1,223,122
Interest earned (%)	15.2	15.3	15.3	15.2
Net gain on fair value changes (%)	-	-	-	-
Interest expended (%)	7.0	6.9	6.4	6.0
Gross Interest Spread (%)	**8.2**	**8.4**	**8.9**	**9.2**
Credit cost (%)	2.0	2.2	2.0	2.1
Net Interest Spread (%)	**6.2**	**6.2**	**6.9**	**7.1**
Operating cost (%)	2.7	2.7	2.7	2.7
Lending spread (%)	**3.5**	**3.6**	**4.2**	**4.4**
Non interest income (%)	0.6	0.5	0.5	0.7
Operating Spread (%)	**4.1**	**4.1**	**4.7**	**5.1**
Tax rate (%)	19.2	25.2	25.2	25.2
ROAA (%)	**3.7**	**3.0**	**3.6**	**3.8**
Effective leverage (AA/ AE)	5.1	5.2	3.3	3.5
RoAE (%)	**18.6**	**15.7**	**11.9**	**13.2**

Source Company data, I-Sec research

Note; Leverage and RoE adjusted for capital infusion for FY27E and FY28E

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