

Shriram Finance (SFC)

BUY

Steady Execution with Improving ROA and ROE

Summary

Shriram Finance Limited reported a steady Q3FY26 performance, with management reiterating a clear roadmap focused on sustaining growth, improving capital efficiency and strengthening customer retention. The company continues to guide for 18–20% AUM growth, supported by a favourable outlook for vehicle sales and deeper penetration across rural, semi-urban and select urban markets. Profitability was impacted by a one-off regulatory expense linked to new labour codes, while underlying operating trends remain healthy. Reported ROA/ROE stood at 0.91%/12.7%, improving to ~1.0%/~14.1% on a normalised basis, highlighting a strengthening return profile. Management remains confident of further improvement as credit and borrowing costs ease. We upgrade the stock to BUY with a TP of ₹1,200, valuing the company at 2.4x FY28E ABV with 3%+ RoA.

Key Highlights and Investment Rationale

- Sustained growth with capital discipline:** Management guides for 18–20% growth, supported by CV, MSME and rural demand, with the ~₹40,000 crore equity infusion providing balance sheet headroom while prioritising efficient capital use over aggressive expansion.
- Margin resilience and stable asset quality:** NIMs are guided at 8.5–9.0%, with lower borrowing costs (~100 bps over two years) supporting margins. Asset quality remains stable (GS3 at 4.54%), with gradual improvement expected as credit costs ease and MSME stress stays contained.
- Outlook:** The outlook remains stable to positive, supported by strong growth visibility, improving funding costs and a calibrated risk approach. With improving normalised returns, disciplined liquidity management and focused segment strategies.

TP	Rs 1200			Key Stock Data	
CMP	Rs 1003			Bloomberg / Reuters	SHFL IN / SRTR.BO
Potential upside/downside	20%			Sector	NBFC
Previous Rating	BUY			Shares o/s (mn)	1,881
Price Performance (%)					
	-1m	-3m	-12m		
Absolute	3.1	40.2	90.3		
Rel to Sensex	7.6	43.4	83.3		
V/s Consensus					
EPS (Rs)	FY26E	FY27E	FY28E	Shareholding Pattern (%)	
IDBI Capital	50	57	67	Promoters	25.4
Consensus	51	60	70	FII	47.2
% difference	(2.3)	(4.6)	(3.9)	DII	18.2
				Public	9.1
Financial snapshot					
Year	FY2024	FY2025	FY2026E	FY2027E	FY2028E
NII	1,87,935	2,18,531	2,45,663	2,83,991	3,32,553
Change (yoY, %)	17%	16%	12%	16%	17%
Net Profit	71,905	97,610	93,222	1,07,291	1,26,796
Change (yoY, %)	20%	36%	-4%	15%	18%
EPS (Rs)	38	52	50	57	67
ABV (Rs)	233	271	311	358	415
PER (x)	26.2	19.3	20.2	17.6	14.9
P/ABV (x)	4.3	3.7	3.2	2.8	2.4
ROE (%)	15.7	18.6	15.4	15.4	15.7
ROA (%)	3.3	3.7	3.0	3.0	3.1
GNPA (%)	5.5	4.6	4.7	4.7	4.7
NNPA (%)	2.8	2.7	2.9	2.9	2.9
CAR (%)	31.4	31.3	22.5	22.3	22.3

Source: IDBI Capital Research

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Conference Call Highlights

Macro Economy

- Management highlighted a supportive macro environment, with India's GDP growth at 8.2% following 7.8% in the previous quarter, indicating sustained momentum over the next few quarters.
- Inflation remains benign, with CPI at ~1.33% and WPI at ~0.83%, supporting higher disposable income and consumer spending.
- RBI cut the repo rate by 25 bps to 5.25% while maintaining a neutral stance; RBI revised GDP growth forecast to 7.3% (from 6.8%) and lowered CPI forecast to ~2% (from 2.6%).
- Rate transmission has been slower than expected, though management noted QoQ reduction in borrowing costs, with incremental borrowing cost declining to 7.73% from 8.12%.
- Rural economy indicators remain strong, with healthy agri output, consumption and credit demand, translating into strong traction from rural and semi-urban geographies.
- GST collections improved in December; management expects further improvement to support higher infrastructure spending, which should benefit CV demand over time.

Margin Management

- NIMs improved to ~8.58%, with management reiterating long-term steady-state guidance of ~8.5%, noting that current margins are already above this level.
- Cost-to-income increased primarily due to a one-time impact of ₹196.95 crore related to gratuity and long-term compensation expenses arising from the new labour code.
- Borrowing costs continue to trend lower, with average cost on total borrowings at ~8.69% and incremental borrowing cost at ~7.73%.
- Rating upgrades and positive outlooks from domestic and international agencies are expected to support further reduction in cost of funds over 2–3 years, as higher-cost liabilities mature and get refinanced; management guided for ~100 bps reduction in cost of funds through NCDs.

Advances

- Management reiterated focus on core businesses of commercial vehicle (CV) and passenger vehicle (PV) financing, with no material change envisaged in overall asset mix.
- Vehicle demand outlook remains constructive, with management expecting 12–15% vehicle sales growth over the next three years, aligned with GDP growth of ~8%.
- Strong traction is being observed in LCVs and SCVs, driven by last-mile distribution, e-commerce penetration into smaller towns and improving rural consumption.
- Demand for heavy commercial vehicles remains linked to infrastructure spending, which has slowed over the past two quarters; management expects a recovery with higher budgetary allocation.
- In MSME, management plans to increase average ticket sizes from ₹10–12 lakh by expanding secured lending through mortgage-backed loans, supported by cash-flow-based underwriting.

Asset Quality

- Management acknowledged an increase in Stage 3 assets, but clarified that this largely reflects temporary liquidity-related delays rather than structural stress or business exits.
- MSME performance has remained resilient despite global trade concerns, with customers diversifying exports toward the Middle East, Europe and Asian markets.
- Sectors facing indirect pressure include leather, textiles and fisheries, while pharma and gems & jewellery are not part of the exposure mix.
- Credit cost guidance remains conservative at ~2% over the long term, with management unwilling to guide lower unless there is a meaningful change in portfolio mix, which is not expected for at least two years.
- Management expects 10–20 bps improvement in credit costs over time, driven by a higher share of new vehicle financing, which typically carries lower delinquency risk.

Operational Efficiency / Aspects

- Management highlighted stable asset quality across geographies, with no region-specific behavioural stress observed during the quarter.
- The company continues to focus on digital initiatives, particularly in two-wheeler lending and select asset classes, to improve operating efficiency and customer reach.

- In vehicle financing, management reiterated a preference for direct customer relationships over dealer-led sourcing, while acknowledging dealer diversion risks.
- To address this, a Chief Sales Officer (CSO) has been appointed, with a dedicated team engaging OEMs and dealers to reduce diversion of long-standing customers.

Future Outlook / Guidance

- Management reiterated confidence in achieving ~18% growth, supported by strong customer relationships and retention initiatives.
- Around 30% of customers typically migrate to banks or captive financiers after building a track record; management believes a meaningful portion can be retained by offering competitive pricing within 100–150 bps of bank offerings.
- Capital infusion-led leverage benefits are expected to fully reflect within ~6 months post receipt, subject to regulatory approvals.
- Management remains cautious on over-guiding and prefers to maintain margin discipline, asset quality stability and calibrated growth as capital and funding benefits gradually flow through.

Exhibit 1: Quarterly Snapshot

(Rs mn)

Year-end: March	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Interest Income	1,18,331	1,03,408	1,15,506	14.4	2.4
Interest Expenses	52,591	47,513	55,248	10.7	-4.8
Net Interest Income	65,740	55,896	60,258	17.6	9.1
NIM (%)	8.58	8.48	8.19	10 bps	39 bps
Non-Interest Income	3,585	3,646	3,662	-1.7	-2.1
Operating Income	69,325	59,542	63,919	16.4	8.5
Staff Cost	12,373	9,704	9,439	27.5	31.1
Other Op Exp	10,247	8,988	10,047	14.0	2.0
Total Operating Expenses	22,620	18,692	19,486	21.0	16.1
<i>Cost to Income (%)</i>	32.6	31.4	30.5	123 bps	214 bps
<i>Cost to AUM (%)</i>	3.10	2.94	2.77	16 bps	33 bps
Operating Profit	46,706	40,850	44,434	14.3	5.1
Provisions	13,103	13,258	13,333	-1.2	-1.7
<i>Credit Cost (%)</i>	1.8	2.1	1.9	-29 bps	-10 bps
PBT	33,603	27,592	31,100	21.8	8.0
Tax	8,385	8,462	8,028	-0.9	4.4
<i>-effective tax rate</i>	25.0	30.7	25.8	-571 bps	-86 bps
PAT	25,217	19,130	23,072	31.8	9.3
Adjusted PAT	25,217	19,130	23,072	31.8	9.3
EPS (Rs)	13.4	19.0	12.3	-29.4	9.2
BV (Rs)	330	292	321	12.8	2.8
AUM	29,17,090	25,44,697	28,13,095	14.6	3.7

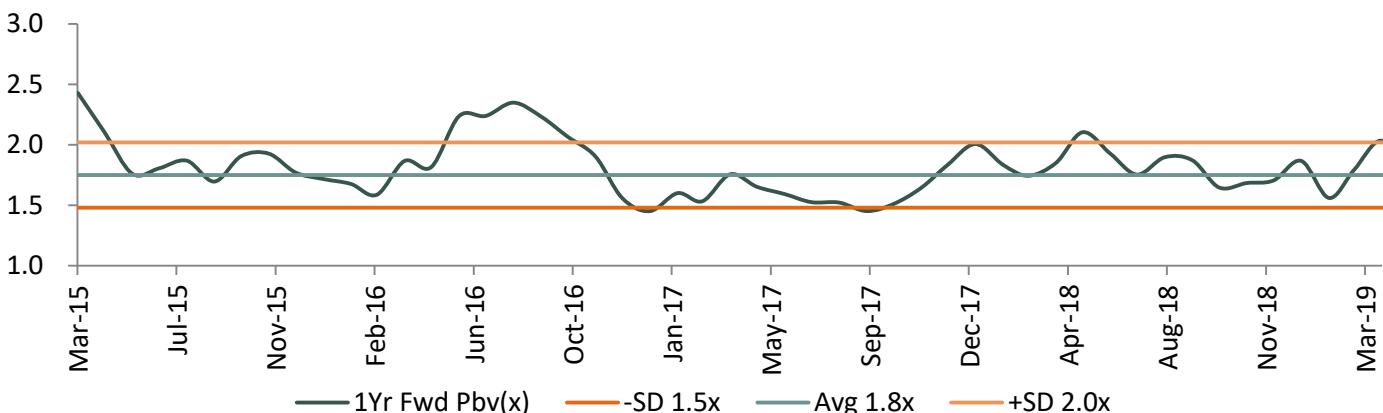
Source: Company; IDBI Capital Research

Exhibit 2: ROE Decomposition

(%)	FY24	FY25	FY26E	FY27E	FY28E
NII	9.3	8.5	8.2	7.8	8.2
Non-Int Inc	0.7	0.6	0.6	0.6	0.6
Net Revenue	10.0	9.2	8.8	8.4	8.7
Op.Exp	2.8	2.7	2.7	2.6	2.6
Op.Profit	7.1	6.4	6.1	5.8	6.1
Provisions	2.4	2.0	2.0	1.9	1.9
PBT	4.7	4.4	4.7	3.9	4.2
Tax	1.3	1.1	1.1	1.0	1.1
ROA	3.5	3.3	3.7	2.9	3.1
Leverage (x)	5.0	4.8	5.1	5.2	5.0
ROE	17.3	15.7	18.6	15.1	15.8

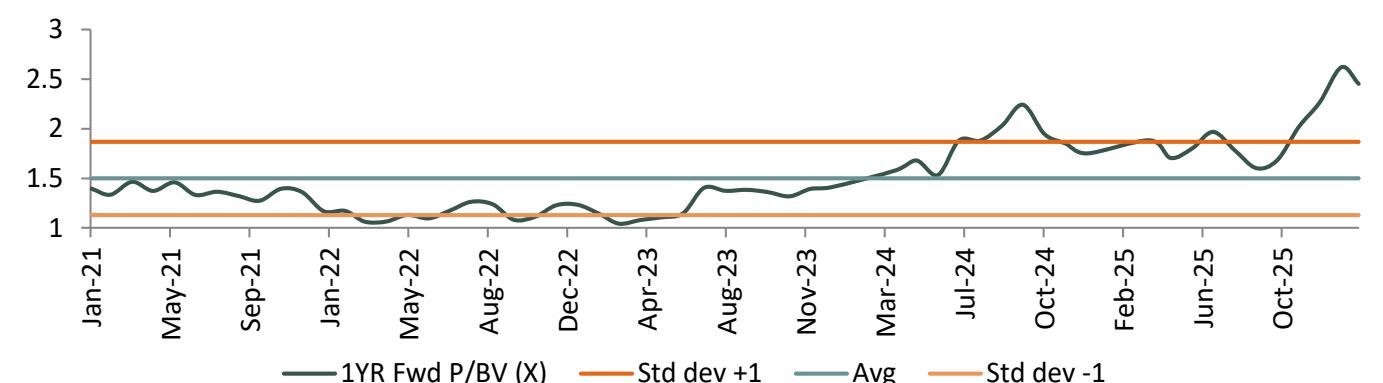
Source: Company; IDBI Capital Research

Exhibit 3: One-year forward P/ABV (FY15-19)



Source: Company; IDBI Capital Research

Exhibit 4: One-year forward P/ABV (2021-2026)



Source: Company; IDBI Capital Research

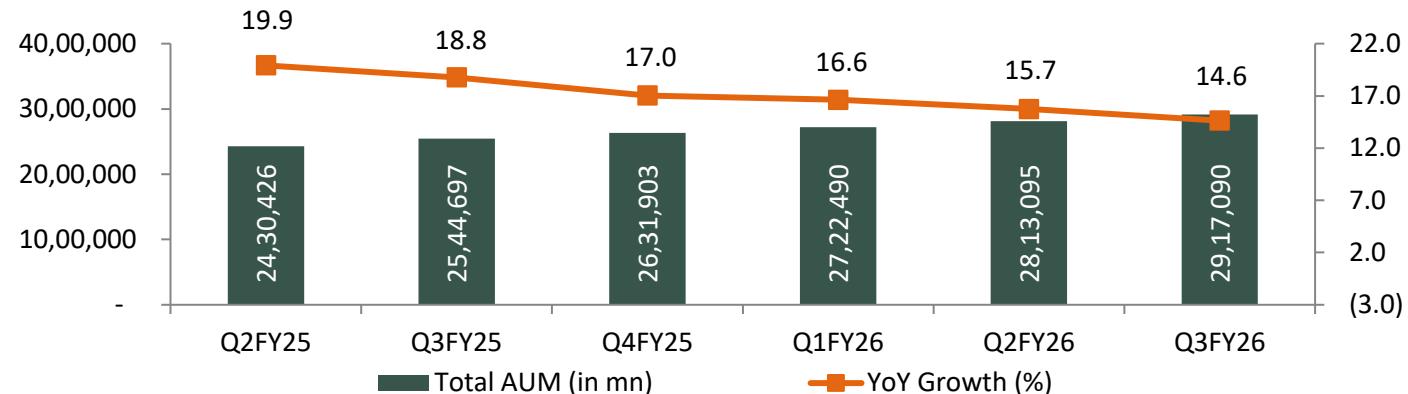
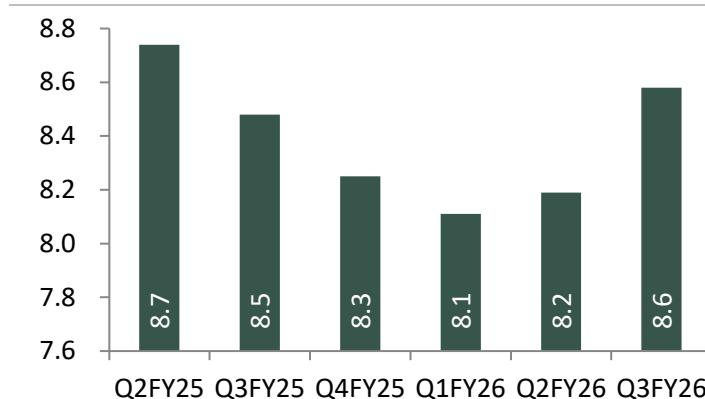
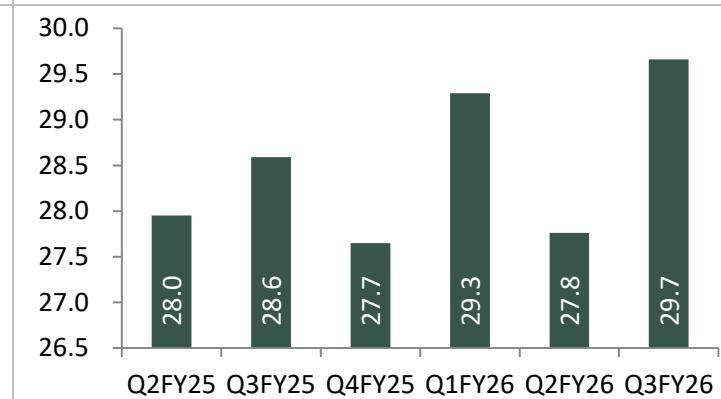
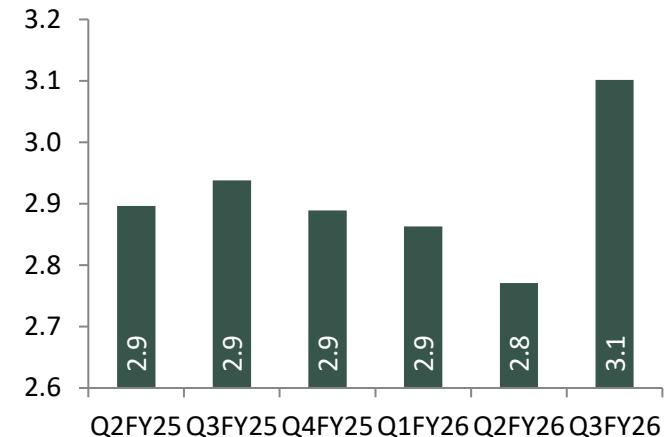
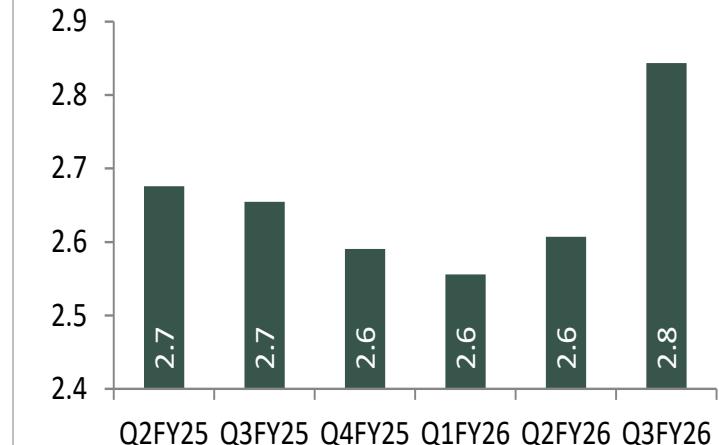
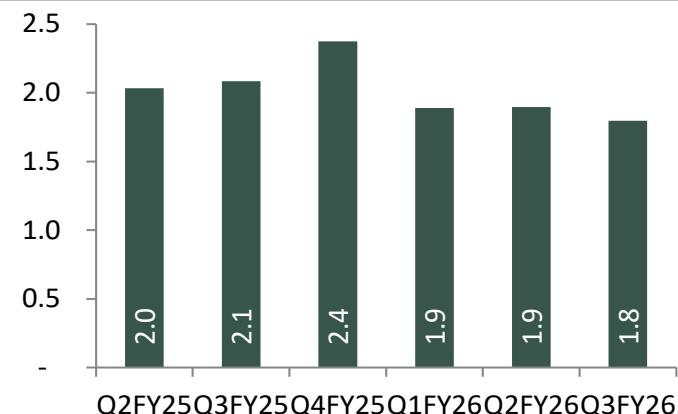
Exhibit 5: AUM growth remaining around the guided range

Source: Company; IDBI Capital Research
Exhibit 6: NIMs on AUM beats guidance

Source: Company; IDBI Capital Research
Exhibit 7: CI Ratio increased QoQ due to labor codes

Source: Company; IDBI Capital Research

Exhibit 8: Cost to AUM

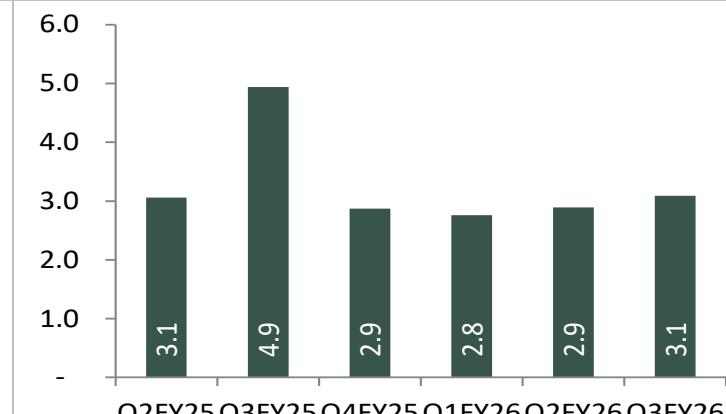
Source: Company; IDBI Capital Research

Exhibit 9: Cost to Asset

Source: Company; IDBI Capital Research

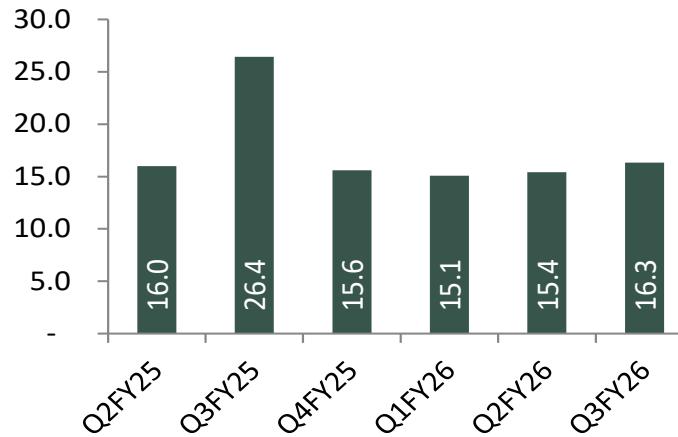
Exhibit 10: Credit Cost decreased QoQ

Source: Company; IDBI Capital Research

Exhibit 11: RoA increased QoQ

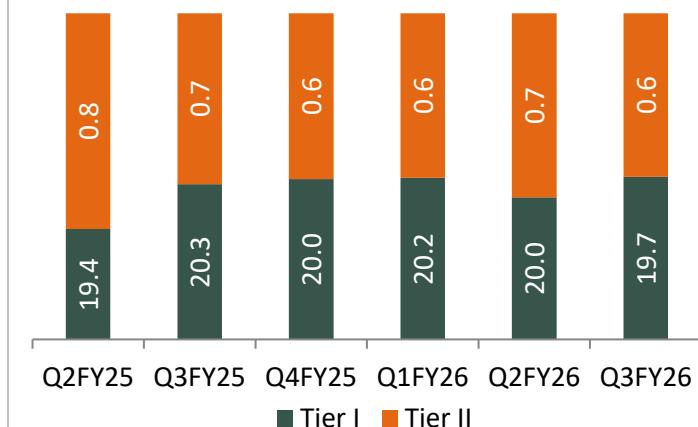
Source: Company; IDBI Capital Research; Note: Excluding one-time gains, RoA was 2.88% in Q3FY25.

Exhibit 12: RoE too increased in line with ROA



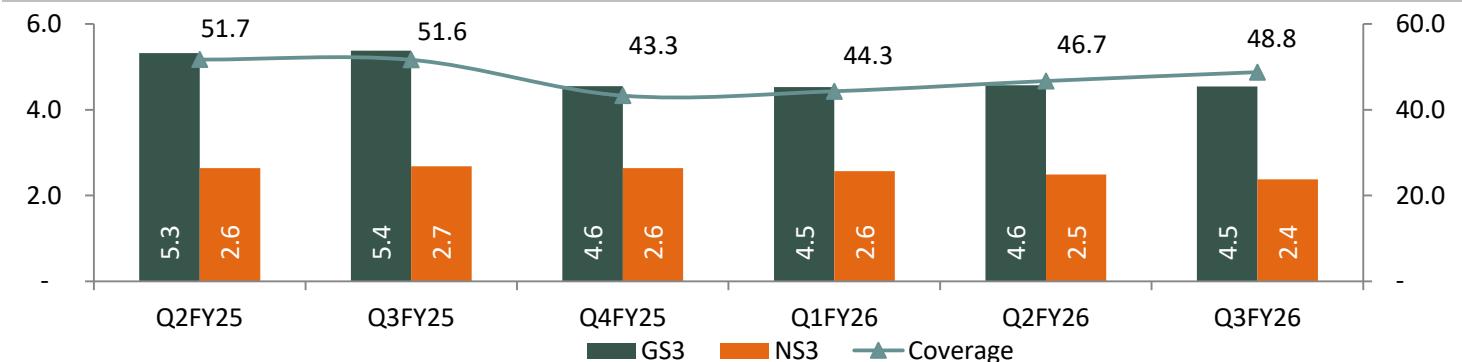
Source: Company; IDBI Capital Research; Note: Excluding one-time gains, ROE was 15.41% in Q3FY25.

Exhibit 13: CAR remained strong QoQ



Source: Company; IDBI Capital Research

Exhibit 14: Asset Quality improves with GS3 & NS3 decreasing QoQ



Source: Company; IDBI Capital Research

Exhibit 15: Composition of AUM-In Mn

Product Wise AUM (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Commercial Vehicles	13,31,695	11,57,669	12,81,402	15.0	3.9
Passenger Vehicles	6,32,169	5,18,839	5,95,506	21.8	6.2
Construction Equipment's	1,42,195	1,78,611	1,53,667	(20.4)	(7.5)
Farm Equipment's	65,660	47,756	61,818	37.5	6.2
MSME	4,10,770	3,46,321	4,06,350	18.6	1.1
Two Wheelers	1,73,721	1,54,109	1,55,514	12.7	11.7
Gold	56,442	54,881	53,363	2.8	5.8
Personal Loans	1,04,439	86,512	1,05,475	20.7	(1.0)
Total	29,17,090	25,44,697	28,13,095	14.6	3.7

Source: Company; IDBI Capital Research

Exhibit 16: Composition of AUM-In %

Product Wise AUM (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Commercial Vehicles	45.7	45.5	45.6	16 bps	10 bps
Passenger Vehicles	21.7	20.4	21.2	128 bps	50 bps
Construction Equipment's	4.9	7.0	5.5	-214 bps	-59 bps
Farm Equipment's	2.3	1.9	2.2	37 bps	5 bps
MSME	14.1	13.6	14.4	47 bps	-36 bps
Two Wheelers	6.0	6.1	5.5	-10 bps	43 bps
Gold	1.9	2.2	1.9	-22 bps	4 bps
Personal Loans	3.6	3.4	3.7	18 bps	-17 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

Exhibit 17: Composition of Borrowing-In Mn

Borrowing (In Mn)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Commercial Paper	-	12,900	-	(100.0)	-
Non-Convertible Debentures	4,01,000	3,73,200	3,95,500	7.4	1.4
Public Deposit	6,78,700	5,33,600	6,55,800	27.2	3.5
Securitisation	4,00,000	3,90,400	3,73,900	2.5	7.0
Subordinated debts	24,600	25,600	24,700	(3.9)	(0.4)
Term Loan	5,16,400	4,79,500	4,07,000	7.7	26.9
External Commercial Bond	1,24,400	1,57,100	1,24,300	(20.8)	0.1
ECB Loans	3,72,200	2,61,400	3,62,100	42.4	2.8
Other Borrowings	-	900	-	(100.0)	-
Total	25,17,300	22,34,600	23,43,300	12.7	7.4

Source: Company; IDBI Capital Research
Exhibit 18: Composition of Borrowing-In %

Borrowing Mix (%)	Q3FY26	Q3FY25	Q2FY26	YoY (%)	QoQ (%)
Commercial Paper	-	0.6	-	-58 bps	0 bps
Non-Convertible Debentures	15.9	16.7	16.9	-77 bps	-95 bps
Public Deposit	27.0	23.9	28.0	308 bps	-102 bps
Securitisation	15.9	17.5	16.0	-158 bps	-7 bps
Subordinated debts	1.0	1.1	1.1	-17 bps	-8 bps
Term Loan	20.5	21.5	17.4	-94 bps	315 bps
External Commercial Bond	4.9	7.0	5.3	-209 bps	-36 bps
ECB Loans	14.8	11.7	15.5	309 bps	-67 bps
Other Borrowings	-	0.0	-	-4 bps	0 bps
Total	100	100	100		

Source: Company; IDBI Capital Research

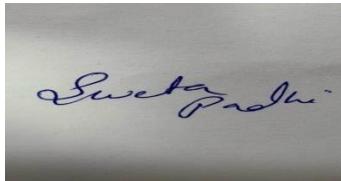
Financial Summary

Profit & Loss Account							(Rs mn)
Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E	
Net interest income	1,60,616	1,87,935	2,18,531	2,45,663	2,83,991	3,32,553	
<i>Change (yoY, %)</i>	80.2%	17.0%	16.3%	12.4%	15.6%	17.1%	
Other Income	11,955	13,980	15,518	15,265	17,707	20,541	
Net Revenue	1,72,571	2,01,915	2,34,049	2,60,928	3,01,698	3,53,094	
Operating expenses	49,131	59,895	71,440	80,479	93,356	1,08,293	
Employee expenses	25,061	32,156	36,512	39,794	46,161	53,547	
Other expenses	24,070	27,739	34,928	40,685	47,195	54,746	
Pre-Provision Profit	1,23,441	1,42,020	1,62,609	1,80,448	2,08,342	2,44,801	
<i>Change (yoY, %)</i>	66.6%	15.1%	14.5%	11.0%	15.5%	17.5%	
Provision	41,592	45,183	53,117	55,904	65,001	75,401	
PBT	81,849	96,836	1,26,060	1,24,545	1,43,341	1,69,401	
Taxes	22,056	24,932	28,450	31,323	36,050	42,604	
<i>Effective tax rate (%)</i>	26.9%	25.7%	22.6%	25.2%	25.2%	25.2%	
Net profit	59,793	71,905	97,610	93,222	1,07,291	1,26,796	
<i>Change (yoY, %)</i>	120.8%	20.3%	35.7%	-4.5%	15.1%	18.2%	
EPS	32	38	52	50	57	67	
Return on Equity (%)	17.3	15.7	18.6	15.4	15.4	15.7	
Return on Assets (%)	3.5	3.3	3.7	3.0	3.0	3.1	

Balance Sheet							(Rs mn)
Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E	
Capital	3,744	3,758	3,761	3,761	3,761	3,761	3,761
Reserves	4,29,322	4,81,926	5,59,045	6,44,745	7,44,514	8,63,789	
Net Worth	4,33,066	4,85,684	5,62,806	6,48,506	7,48,275	8,67,550	
Borrowings	15,79,063	18,15,411	23,16,833	26,16,856	29,12,030	33,54,618	
Other liabilities	24,509	71,665	55,691	48,406	74,982	1,03,280	
Total Liab. & Equity	20,36,639	23,72,760	29,35,329	33,13,769	37,35,288	43,25,448	
Cash	1,58,174	76,112	2,13,657	2,46,147	1,70,530	1,97,815	
Investments	85,651	1,06,571	1,55,987	1,18,738	1,50,853	1,74,990	
Advances	17,19,846	20,79,294	24,53,928	28,27,085	32,79,418	38,04,125	
Fixed Assets	19,861	8,458	10,257	10,149	11,672	13,422	
Other Assets	53,108	1,02,325	1,01,500	1,11,650	1,22,815	1,35,097	
Total assets	20,36,639	23,72,760	29,35,329	33,13,769	37,35,288	43,25,448	

Financial Ratios (%)						
Year-end: March	FY23	FY24	FY25	FY26E	FY27E	FY28E
Growth						
Advances	47.4	20.9	18.0	15.2	16.0	16.0
NII	80.2	17.0	16.3	12.4	15.6	17.1
Pre-Provision Profit	66.6	15.1	14.5	11.0	15.5	17.5
Net Profit	120.8	20.3	35.7	(4.5)	15.1	18.2
Spreads						
Yield on AUM	13.1	15.8	15.8	15.8	15.7	15.7
Cost of Borrowing	9.2	8.7	8.9	8.8	8.9	8.9
NIM (on AUM)	9.3	9.2	9.0	8.6	8.6	8.7
Spread	3.8	7.1	6.9	7.0	6.8	6.8
Operating Efficiency						
Cost-to-Income	28.5	29.7	30.5	30.8	30.9	30.7
Cost-to-Assets	3.4	3.2	3.2	3.0	3.1	3.1
Asset Quality						
GNPA	6.2	5.5	4.6	4.7	4.7	4.7
NNPA	3.3	2.8	2.7	2.9	2.9	2.9
Provision Coverage	50.1	51.8	43.3	43.0	43.0	43.0
Credit Cost	2.4	2.2	2.2	2.0	2.0	2.0
Capital Adequacy						
CAR	33.8	31.4	31.3	22.5	22.3	22.3
Tier I	31.7	29.4	29.1	20.5	20.4	20.3
Valuation						
EPS	31.9	38.3	51.9	49.6	57.1	67.4
ABV	206.9	233.4	271.2	310.7	358.3	415.4
P/E	31.4	26.2	19.3	20.2	17.6	14.9
P/ABV	4.8	4.3	3.7	3.2	2.8	2.4
ROE	17.3	15.7	18.6	15.4	15.4	15.7
ROA	3.5	3.3	3.7	3.0	3.0	3.1

Source: Company; IDBI Capital Research



Dealing

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Key to Ratings Stocks:

BUY: 15%+; HOLD: -5% to 15%; SELL: -5% and below.

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