

CMP: ₹ 630

Target: ₹ 725 (15%)

Target Period: 12 months

BUY

### Other income dent earnings; steady outlook reiterated....

About the stock: Shriram Finance (SHF) is large financier with a strong rural presence engaged in credit solution for commercial vehicles, two-wheeler, car loans, home loans, gold loans and small business.

- As of 30 June 2025, SHF has a huge presence with 3,225 branches across India and employee count of 79,186, customer base of ~97.1 lakhs.

**Q1FY26 performance:** Shriram Finance reported mixed performance in Q1FY26, disbursement growth and asset quality remained broadly steady, though pressure was visible on margins and other income. Disbursements grew by 13% YoY to ₹41,816 crore, while AUM increased by 16.6% YoY to ₹2,72,249 crore. NII rose 12.5% YoY ₹6,026 crore, while PPOP fell by 3.3% QoQ to ₹4,192 crore. CI increased to 29.29% from 27.45% in Q1FY25 reflecting higher operational expenses. Margins declined to 8.11% (-68 bps YoY & -14 bps QoQ), largely due to surplus liquidity. PAT stood at ₹2,155 crore, grew by 8.84% YoY. Asset quality was stable with GNPA declined 2 bps QoQ to 4.53% and NNPA 2.57% (-7 bps QoQ) supported by 102 bps improvement in PCR to 44.31%.

### Investment Rationale

- Growth to sustain aligning with economic trajectory:** Management reiterated its FY26 AUM growth guidance of ~15% for FY26, driven by performance across key segments, including a projected 20% growth in PV and MSMEs, primarily driven by demand in Tier 2-3 towns. Moderation in momentum of MSME loans is attributed to seasonality with revival anticipated from Q2 onwards. CV segment continues to witness higher traction linked to higher ticket size of new CV. The company continues to anticipate healthy rural credit demand, steady urban consumption and narrowing infrastructure linked recovery to sustain credit offtake ahead.
- Margins compression persists, recovery likely as cost dynamics improve:** Continued excess liquidity kept margins under pressure (declining ~14 bps sequentially). NIMs guided to improve to 8.5% in FY26E aided by deployment of excess liquidity and lower cost of funds. Cost of funds is expected to decline over the next 6-12 months driven by lower incremental borrowings, 40bps cut in deposit rate and repricing of fixed-rate liabilities.
- Uptick in Stage 2 temporary; credit cost guidance maintained:** Credit cost moderated to 1.64% (2.07% QoQ) while write-off stood at ₹448 crore. While Stage 3 remained steady, Stage 2 witnessed an uptick (+40 bps QoQ), however, the same is indicated as temporary led by cash flow mismatch at borrower's end; not anticipated to slip further. Thus, management reiterated credit cost guidance of ~2% for FY26E.

### Rating and Target Price

- Core operational performance continued to remain resilient. Anticipation of steady growth at ~15% with focus on SME segment, margin tailwinds from easing cost of funds and steady asset quality is seen to aid RoA at ~2.7-2.8%. We maintain our multiple at ~1.9x FY27E BV and thus target price at ₹725. Maintain Buy rating on the stock.



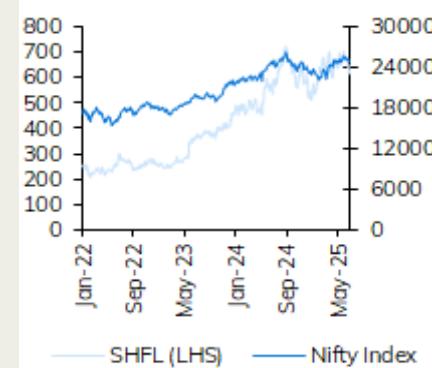
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1,18,855 crore
52 week H/L	730 / 493
Net worth	₹ 58,865 Crore
Face Value	2.0
DII Holding (%)	16.3
FII Holding (%)	52.6

### Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	25.4	25.4	25.4	25.4
FII	53.3	53.1	53.6	52.6
DII	16.2	15.9	15.3	16.3
Others	5.1	5.6	5.7	5.6

### Price Chart



### Key risks

- Moderation in credit off-take could impact valuation
- Pressure on yields could dent margins trajectory

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### Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	16,698.2	18,793.5	21,853.1	14%	24,593.1	28,790.3	15%
PPP	12,344.0	14,202.0	16,260.8	15%	18,242.5	21,601.2	15%
PAT	5,979.2	7,190.5	9,657.8	27%	9,027.4	10,692.2	5%
ABV (₹)	1,005.0	227.5	263.7		289.3	332.5	
P/E	3.9	16.1	12.0		12.8	10.8	
P/ABV	0.6	2.7	2.3		2.1	1.8	
RoA	3.0	3.1	3.3		2.7	2.8	
RoE	13.8	14.8	17.2		14.5	15.0	

Source: Company, ICICI Direct Research

## Concall highlights and outlook

### Business growth

- MSME loans experienced slowdown with sequential growth moderating to 3.5-4% vs 10% in Q1FY26, attributed to seasonal factors as first quarter is typically slow before festival season pickup.
- Commercial vehicle financing remains robust with 12% YoY growth, driven by strong used vehicle demand and healthy trucking operator economics despite industry wide CV sales decline of 0.6%.
- Passenger vehicle segment recorded strong 23% growth, despite industry de-growth of 1.4%, benefiting from increasing demand for used car in entry level segment in semi-urban/rural areas.
- Gold loan disbursements at ₹3,291 crore, with expectations of formal sector growth due to liberal RBI guidelines for small ticket loans.
- Construction equipment disbursements declined significantly to ₹526 crore from ₹2,180 crore, due to early monsoon onset disrupting construction activities, with recovery expected in August-September.

### Disbursement

- Overall disbursement at ₹ 41816 crore. CV - ₹ 16917 crore (₹16777 crore in Q4FY25), PV - ₹ 8162 crore (₹ 8256 crore in Q4FY25), MSME – 6357 crore (₹ 7660 crore in Q4FY25), Gold - ₹ 3291 crore (₹ 3105 crore in Q4FY25), 2-wheeler - ₹ 3081 crore (₹ 2919 crore in Q4FY25), PL - ₹ 2205 crore (₹ 2890 crore in Q4FY25), FE - ₹ 1273 crore (₹ 1061 crore in Q4FY25), CE - ₹ 526 crore (₹ 218 crore in Q4FY25)

### Margins

- NIM declined to 8.11% in Q1FY26 from 8.25% in Q4FY25, impacted by excess liquidity carrying negative cost with 5 months coverage vs target of 3 months. Margins expected to inch up to ~8.5% by Q4FY26.
- Fair value gains from mutual fund investments (included in NII) at ₹134.66 crore in Q1FY26 vs ₹111.27 crore in previous quarter. NIM guided at 8.5% aided by declining cost of funds. Cost of funds expected to decline due to lower incremental borrowing cost at 8.36% vs book cost of 8.86%, deposit rates reduced by 40 bps from August and overall borrowing cost expected to decline over 6-12 months despite 85% fixed rate borrowings taking time to reprice compared to 15% floating rate that adjusts immediately.

### Asset quality

- Gross Stage 3 improved to 4.3% from 5.39% in Q1FY25 and 4.55% in Q4FY25, with net Stage 3 at 2.57%.
- Stage 2 assets increased by 40 bps due to early monsoon related temporary cash flow mismatches, but management expects customers to roll back to Stage 1.
- Credit cost improved to 1.64% from 1.87% in Q1FY25, with strong recovery mechanisms due to 65% asset backed portfolio (CV+PV). Write-offs of ₹448 crore and provisions of ₹830 crore for the quarter, totalling ₹1,268 crore in credit cost was reported.
- Credit cost in Q1FY26 was 1.64%, showing improvement from 1.87% in Q1 FY'25 with guidance to remain under 2% for the full year on total asset

### Guidance

- AUM Growth:** Management expressed confidence in maintaining their growth trajectory despite some sectoral variations, in MSME sector despite Q1 slowdown, management remains confident of meeting their overall 15-16% growth guidance with expected pickup in Q2 and Q3 quarters.
- The company plans to reduce excess liquidity from current 5 months coverage to target 3 months coverage over the next 3-4 months, involving a rundown of ~₹10,000 crore of excess cash. Management will focus on moderating new borrowings, repaying higher cost debt where possible, and accessing only lower cost funding sources, with a steady state liquidity target of ₹18,000-19,000 crore to minimize negative carry impact on NIM.

## Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	5,772.5	5,233.9	10.3	5,565.5	3.7	AUM expansion offset by decline in margins
Other Income	368.5	246.9	49.3	670.6	-45.0	Other income traction remained muted
Staff cost	976.5	868.4	12.5	905.7	7.8	
Other Operating Expenses	972.1	758.3	28.2	995.3	-2.3	
PPP	4,192.4	3,854.1	8.8	4,335.2	-3.3	Lower other income and steady growth in opex impacted PPP
Provision	1,285.7	1,187.6	8.3	1,563.3	-17.8	Credit cost eased ~50 bps QoQ at ~1.9%
PBT	2,906.7	2,666.6	9.0	2,771.9	4.9	
Tax Outgo	751.0	686.0	9.5	632.6	18.7	
PAT	2,155.7	1,980.6	8.8	2,139.3	0.8	Lower other income and steady growth in opex impacted earnings momentum
<b>Key Metrics</b>						
GNPA	12,199.5	12,407.8	-1.7	11,838.8	3.0	GNPA remained steady at 4.53%; write-off at ₹ 448 crore
NNPA	6,793.3	6,061.8	12.1	6,714.5	1.2	NNPA declined ~7 bps QoQ to 2.57%
AUM	272,249.0	233,443.6	16.6	263,190.3	3.4	Largely driven by PV, SME and CV segment

Source: Company, ICICI Direct Research



## Financial Summary

Profit and loss statement		₹ crore			
(Year-end March)		FY24	FY25	FY26E	FY27E
Interest Earned		33,599.7	40,307.6	46,875.0	53,134.4
Interest Expended		14,806.1	18,454.6	22,281.8	24,344.1
Net Interest Income		18,793.5	21,853.1	24,593.1	28,790.3
growth (%)		0.1	0.2	0.1	0.2
Non Interest Income		1,394.5	1,564.4	1,817.7	1,999.5
Net Income		20,188.1	23,417.4	26,410.8	30,789.8
Opex		5,986.1	7,156.6	8,168.3	9,188.7
Operating Profit		14,202.0	16,260.8	18,242.5	21,601.2
Provisions		4,518.3	5,311.7	6,070.2	7,184.1
PBT		9,683.6	10,949.1	12,172.3	14,417.0
Exceptional Item		0.0	1,553.7	0.0	0.0
Taxes		2,493.2	2,845.0	3,144.9	3,724.9
Net Profit		7,190.5	9,657.8	9,027.4	10,692.2
growth (%)		0.2	0.3	-0.1	0.2
EPS (₹)		38.3	51.4	48.0	56.9

Source: Company, ICICI Direct Research

Exhibit 2: Key ratios					
(Year-end March)	FY24	FY25	FY26E	FY27E	
Valuation					
No. of Equity Shares (Crores)	187.9	188.0	188.0	188.0	
EPS (₹)	38.3	51.4	48.0	56.9	
BV (₹)	258.5	299.4	330.5	378.9	
ABV (₹)	227.5	263.7	289.3	332.5	
P/E	16.1	12.0	12.8	10.8	
P/BV	2.4	2.1	1.9	1.6	
P/ABV	2.7	2.3	2.1	1.8	
NII/AUM	8.4	8.3	8.1	8.3	
Cost to AUM	2.7	2.7	2.7	2.7	
Gross Stage 3	5.4	4.5	4.7	4.8	
Net Stage 3	2.6	2.6	2.6	2.5	
RoE	14.8	17.2	14.5	15.0	
RoA	3.1	3.3	2.7	2.8	

Source: Company, ICICI Direct Research

## Exhibit 3: Balance sheet

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	375.8	375.9	375.9	375.9
Reserves and Surplus	48,192.6	55,904.7	61,745.6	70,833.9
Networth	48,568.4	56,280.6	62,121.5	71,209.8
Borrowings	185,841.1	234,197.3	267,674.4	304,611.3
Other Liabilities & Provisions	2,866.5	3,243.4	3,862.2	3,569.6
Total	237,276.0	293,721.2	333,658.1	379,390.7
Application of Funds				
Cash & Bal	7,611.2	21,365.7	20,992.4	24,216.7
Advances	207,929.4	245,392.8	283,530.2	322,655.1
Investment	10,656.6	15,788.0	16,754.3	18,135.4
Other assets	11,078.8	11,174.7	12,381.1	14,383.5
Total	237,276.0	293,721.2	333,658.1	379,390.7

Source: Company, ICICI Direct Research

## Exhibit 4: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	17%	24%	14%	14%
Advances	21%	18%	16%	14%
Net interest income	13%	16%	13%	17%
Operating expenses	25%	20%	14%	12%
Net profit	20%	34%	-7%	18%
Net worth	12%	16%	10%	15%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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