Shriram Finance (SHRTRA)

CMP: ₹1005 | Target ₹ 1200 (19%) | Target Period: 12 months | BUY

July 27, 2026

Funding tailwinds support profitability; outlook optimistic...

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 June 2026, SHF has a huge presence with 3,225 branches across India and employee count of 78,902, customer base of ~1.03 crore.

Q1FY27 performance: Shriram Finance reported healthy performance, with growth supported by continued traction in vehicle finance and expanding non-vehicle businesses. AUM increased 15.3% YoY to ₹3.14 lakh crore. NIM expanded 43 bps QoQ to 9.04%, aided by lower funding cost and additional income from surplus MUFG capital. Operating performance remained strong, with credit cost at 1.66%, resulting in 59.8% YoY growth in PAT to ₹3,445 crore.

Investment Rationale:

- **Growth outlook supported by diversified portfolio expansion:** Management reiterated 18% AUM growth guidance for FY27, with reassessment after Q2 depending on the monsoon and geopolitical development. Growth is expected from strong CV performance (~15%), increasing MSME disbursement, rapid gold loan expansion (targeting ~5% of AUM in three years), and higher new vehicle financing share (projected to rise from 16–17% to 20–25%). MSME expansion beyond South India, improved pricing from lower borrowing cost, and cross-selling to current customers will aid growth, while monsoon progress, rural income, and West Asia developments are key factors to watch.
- **Funding cost tailwinds and liquidity deployment to support profitability:** NIM expanded to 9.04%, aided by around ₹500 crore of additional NII from surplus MUFG capital pending deployment. Management expects NIM to stay stable for two quarters before normalizing to ~8.5% as the vehicle mix changes and liquidity benefits decline. Cost of liabilities declined to 8.56%, while incremental borrowing cost stood at 7.77%, reflecting the benefit of an improving funding profile. Surplus liquidity deployment in the next 1-1.5 months and lower borrowing cost should support profitability despite gradual NIM normalization.
- **Healthy asset quality and improving profitability outlook:** Asset quality remains strong, with GS3/NS3 at 4.64%/2.33% and credit cost at 1.66%. Management links the slight increase in Stage 3 assets to seasonal factors, not structural issues. Gold, MSME and construction equipment portfolios continue to exhibit healthy asset quality, with management reiterating ~2% credit cost guidance and indicating no major stress from the West Asia conflict or higher fuel prices. Improving funding cost, gradual moderation in credit cost and stable operating expenses are expected to support profitability.

Rating and Target Price

- Healthy AUM growth, improving funding profile and stable asset quality are expected to support the long-term growth outlook. Factoring in healthy book accretion, we maintain our valuation multiple at ~2.1x FY28E BV and target price of ₹1,200. Maintain BUY rating.

Key Financial Summary

₹ crore	FY24	FY25	FY26	3 year CAGR (FY23-FY26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	18,794	21,853	25,124	15%	32,712	37,829	14.3%
PPP	14,202	16,261	18,631	15%	25,170	29,253	14.4%
PAT	7,190	9,761	9,998	19%	14,071	16,223	9.8%
ABV (₹)	227.5	263.7	313.0		465.2	518.7	17.7%
P/E	26.3	19.4	18.9		16.8	14.6	
P/ABV	4.4	3.8	3.2		2.2	1.9	
RoA	3.1	3.4	3.2		3.8	3.8	
RoE	14.8	17.3	15.2		12.0	12.3	

Source: Company, ICICI Direct Research

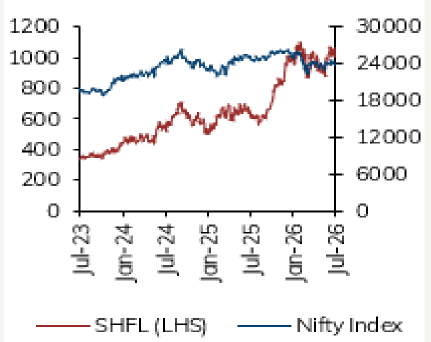
Particulars

Particulars	Amount
Market Capitalisation	₹ 2,36,495 crore
Networth	₹ 1,08,297 crore
52-week H/L	1108 / 566
Face Value	₹ 2
DII Holding (%)	19.9
FII Holding (%)	54.8

Shareholding pattern

	Sept 25	Dec 25	Mar 26	Jun 26
Promoter	25.4	25.4	25.4	20.3
FII	49.6	47.2	45.2	54.8
DII	18.7	21.3	23.3	19.9
Others	6.3	6.1	6.2	5.0

Price Chart



Key risks

(i) Moderation in AUM growth amid weaker vehicle demand

(ii) Higher than expected stress accretion costs due to adverse monsoon, or prolonged geopolitical uncertainties

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Nivedita Choudhary
nivedita.choudhary@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Operational Performance

- Q1FY27 AUM grew 15.26% YoY and 3.81% QoQ to ₹3,13,798 crore; disbursement grew 19.51% YoY to ₹49,974 crore.
- PAT grew 59.8% YoY to ₹3,445 crore, while NII grew 33.7% YoY to ₹8,056 crore.
- CV AUM grew 19.4% YoY to ₹1,47,034 crore (~46.9% of AUM), tracking ~20% industry CV sales growth.
- New vehicle disbursement mix rose to 16–17% from ~10% earlier; management guided the share to reach 20–25% over two to three years, with the new vehicle book eventually exceeding 30% of AUM.
- MSME AUM grew a modest 8.1% YoY to ₹41,962 crore; disbursement run-rate guided to scale from ₹6,184 crore in Q1FY27 to ₹7,000+ crore by H2FY27, with growth expected to outpace the overall book. Management also targets MSME to increase from ~15% to ~20% of the overall portfolio over time through expansion beyond South India.
- Gold AUM grew 45.8% YoY to ₹7,514 crore (~2.4% of AUM); ~2,200 branches now enabled for gold lending, with the book targeted to increase from ~2.5% to ~5% of AUM over three years.
- Construction equipment AUM declined 25.2% YoY to ₹12,373 crore, though disbursement turned positive YoY in Q1FY27 after four consecutive quarters of decline.
- Personal loan sourcing will increasingly be expanded to existing Gold and MSME customers, while continuing to focus on known customers rather than aggressive outsourced sourcing.

Margins

- Book NII grew 33.7% YoY to ₹8,056 crore; NIM expanded to 9.04% (vs 8.61% in Q4FY26 and 8.11% in Q1FY26), aided by around ₹500 crore of additional NII generated from the surplus MUFG capital temporarily parked before deployment.
- Cost of liabilities declined 3 bps QoQ to 8.56%, with incremental borrowing cost at 7.77%, expected to trend toward ~8% once bank borrowing resumes.
- Overall liabilities declined from ₹2,50,690 crore in March to ₹2,32,639 crore as surplus capital was used to run down borrowings; leverage compressed to 2.14x (vs 3.82x in March) and capital adequacy rose to 34.17%.
- Liquidity Coverage Ratio remained strong at 262.5%, with liquidity maintained for nearly six months of liability repayments.
- Management guided NIM to hold near current levels for the next two quarters before gradually gliding to the long-term operating range of ~8.5% over the medium term as the new vehicle mix rises and the benefit from surplus liquidity fades.
- Cost-to-income ratio improved to 25.5% (vs 29.3% in Q1FY26); guided to remain broadly stable despite ~150 planned branch additions and headcount growth in FY27.
- Excess liquidity is expected to be fully deployed toward growth within one to one-and-a-half months, after which fresh borrowing, including bank funding and securitization is expected to resume towards quarter-end.

Asset Quality

- Gross Stage 3 inched up to 4.64% (vs 4.58% in Q4FY26 and 4.53% in Q1FY26). Net Stage 3 held flat QoQ at 2.33%, improving from 2.57% a year ago.

- Stage 3 coverage ratio improved to ~51% (vs 50.3% in Q4FY26 and 44.3% in Q1FY26).
- Management characterised the sequential Stage 3 uptick as seasonal and marginal, noting they do not really see this as a big change.
- Credit cost held at 1.66% (vs 1.64% in Q1FY26 and 1.68% in Q4FY26), with no signs of stress from the West Asia conflict as operators passed fuel cost increase on to shippers and end customers.
- Gold and MSME asset quality were described as robust. Management attributed the increase in Gold Stage 3 largely to customers transitioning from bullet repayment towards periodic interest servicing rather than any deterioration in portfolio quality, while remaining confident on MSME asset quality.
- Construction equipment asset quality was also described as robust, with no fresh concerns despite the extended disbursement slowdown.

Asset Quality

- FY27 AUM growth guidance was maintained at 18%, with a formal reassessment planned after Q2FY27 depending on the impact of monsoon and West Asia development. Seasonal rainfall was already running 24% below normal between June 4 and July 16.
- Management highlighted Q2FY27 as a seasonally weaker quarter and intends to reassess the outlook after gaining better visibility on rural income and the eventual impact of El Nino before considering any revision to guidance.
- Segment guidance: CV growth guided at ~15%, MSME growth to exceed the overall book rate, and Gold to remain the fastest-growing segment.
- Credit cost guidance remained unchanged at ~2% in the near-to-medium term, with management noting no major risks on the current trajectory.
- NIM guided to normalise gradually to ~8.5% over the medium term (two to three years) as the new vehicle mix rises and liquidity benefit from MUFG is utilized.
- Fresh borrowing, including bank funding at an estimated incremental cost of ~8% and securitisation, is expected to resume between August and October as surplus liquidity gets utilised.
- Management reiterated confidence in FY27 guidance holding, even amid the added uncertainty of a resurgent Iran conflict and below-average monsoon signals.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	7,706	5,772	33.5	6,751	14.1	Lower funding cost, liquidity normalisation and ~₹500 crore parked fund income from MUFG capital drove up NII
Other Income	502	369	36.3	441	13.9	
Staff cost	1,142	976	17.0	968	18.0	Led by employee addition for branch expansion. No cost step up expected
Other Operating Expenses	980	972	0.8	899	9.1	
PPP	6,085	4,192	45.2	5,325	14.3	
Provision	1,463	1,286	13.8	1,410	3.8	Credit cost declined to 1.66% for Q1FY27
PBT	4,622	2,907	59.0	3,915	18.1	
Tax Outgo	1,178	751	56.8	902	30.6	
PAT	3,445	2,156	59.8	3,014	14.3	PAT grew 60%, supported by margin expansion
Key Metrics						
GNPA	14,478	12,199	18.7	13,743	5.3	GS3 rose to 4.64% led by seasonality
NNPA	7,096	6,793	4.5	6,825	4.0	NNPA stable at 2.33%
AUM	313,798	272,249	15.3	302,274	3.8	Led by vehicle push and rural CV/PV demand, MSME/CE lagged

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	40,308	46,644	54,134	62,178
Interest Expended	18,455	21,520	21,423	24,349
Net Interest Income	21,853	25,124	32,712	37,829
growth (%)	16.3%	15.0%	30.2%	15.6%
Non Interest Income	1,564	1,534	1,784	1,962
Net Income	23,417	26,658	34,496	39,792
Opex	7,157	8,026	9,326	10,538
Operating Profit	16,261	18,631	25,170	29,253
Provisions	5,312	5,339	6,420	7,686
PBT	10,949	13,292	18,750	21,568
Exceptional Item	1,657	-	-	-
Taxes	2,845	3,294	4,679	5,345
Net Profit	9,761	9,998	14,071	16,223
growth (%)	35.7%	2.4%	40.7%	15.3%
EPS (₹)	51.9	53.2	59.8	68.9

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	188.0	188.1	235.3	235.3
EPS (₹)	51.9	53.2	59.8	68.9
BV (₹)	299.4	349.3	500.2	558.8
ABV (₹)	263.7	313.0	465.2	518.7
P/E	19.4	18.9	16.8	14.6
P/BV	3.4	2.9	2.0	1.8
P/ABV	3.8	3.2	2.2	1.9
NII/AUM	8.3	8.3	9.4	9.3
Cost to AUM	2.7	2.7	2.7	2.6
Gross Stage 3	4.5	4.5	4.8	4.9
Net Stage 3	2.6	2.3	2.4	2.3
RoE	17.3	15.2	12.0	12.3
RoA	3.4	3.2	3.8	3.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	376	376	471	471
Reserves and Surplus	55905	65329	117214	131003
Networth	56281	65705	117685	131474
Borrowings	234197	250690	257543	301009
Other Liabilities & Provisions	3331	4760	7412	9240
Total	293808	321155	382640	441723
Application of Funds				
Cash & Bal	21366	7938	19202	18381
Advances	245393	282452	328996	384521
Investment	15599	14783	17712	19527
Other assets	11451	15982	16730	19293
Total	293808	321155	382640	441723

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	23.8%	9.3%	19.1%	15.4%
Advances	18.0%	15.1%	16.5%	16.9%
Net interest income	16.3%	15.0%	30.2%	15.6%
Operating expenses	19.6%	12.2%	16.2%	13.0%
Net profit	35.7%	2.4%	40.7%	15.3%
Net worth	15.9%	16.7%	79.1%	11.7%

Source: Company, ICICI Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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