Shriram Finance (SHRTRA)

ICICI Direct

CMP: ₹ 1004 | Target: ₹ 1200 (20%) | Target Period: 12 months | BUY

Result Update

Steady Q3; levers exist for RoA improvement ahead....

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 Dec 2025, SHF has a huge presence with 3,225 branches across India and employee count of 77,724, customer base of ~97.6 lakhs.

Q3FY26 performance: Shriram Finance reported healthy performance, with growth supported by healthy demand across vehicle finance and improving rural traction. Disbursements grew 14.2% YoY to ₹48,645 crore, while AUM increased 14.6% YoY to ₹2.92 lakh crore. NII rose 16.2% YoY, with margins improving 39 bps QoQ driven by declining borrowing cost. Operating performance remained stable, with credit cost moderating to 1.62%, resulting in 21.2% YoY growth in PAT (ex-one-off) to ₹2,522 crore. Asset quality remained broadly stable, with GNPA declining 3 bps QoQ to 4.54%, despite stress in CE and export-linked MSME exposures.

Investment Rationale

- **Growth trajectory positioned to accelerate through FY27-28E:** Growth is expected to accelerate to 18-20% over medium term, driven by proposed MUFG equity infusion and an anticipated ~100 bps reduction in borrowing costs over next two years. Lower funding costs should enable more competitive pricing, supporting retention of customers who typically upgrade to banks after two lending cycles (6–8 years) driving incremental growth without materially altering the core customer profile. Management also plans to selectively increase exposure to new vehicles and slightly larger MSME borrowers through higher secured lending, while continuing to focus on rural and semi-urban markets.
- **Funding cost normalization to support margins**: Margins are expected to remain strong at ~8.5–9%, supported by gradual repricing of liabilities and recent credit rating upgrades. Incremental cost of borrowing has already declined to 7.73%, while overall cost of liabilities has eased to 8.69%, with cumulative ~100 bps reduction in borrowing cost over next 2–3 years. With liquidity normalization and equity infusion of ~₹40,000 crore, margins are positioned for structural improvement.
- **Asset quality expected to remain stable; return ratios set to improve:** Credit quality is expected to remain stable, backed by a diversified, collateralised portfolio and disciplined recovery framework with credit cost guided to remain <2% for FY26. Temporary stress in export-linked MSME segment is projected to normalise as borrowers diversify into new markets, while construction equipment stress is expected to be contained through calibrated lending. Improved funding profile, customer retention initiatives and improving operating leverage are expected to drive RoA expansion from ~2.8% to ~3.6%, with leverage targeted to normalise at 4–5x.

Rating and Target Price

- Steady growth and margin tailwinds are expected to support earnings trajectory. Factoring in healthy book accretion, we maintain our valuation multiple at ~2.2x FY28E BV, and target price of ₹1,200. Maintain Buy.

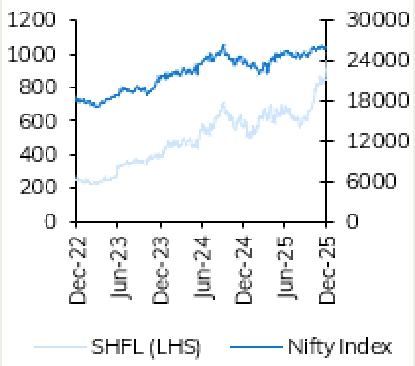
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,88,817 crore
52 week H/L	1026 / 508
Net worth	₹ 62,230 Crore
Face Value	2.0
DII Holding (%)	21.3
FII Holding (%)	47.2

Shareholding pattern

(in %)	Mar-25	Jun-25	Sep-25	Dec-25
Promoter	25.4	25.4	25.4	25.4
FII	53.6	52.6	49.6	47.2
DII	15.3	16.3	18.7	21.3
Others	5.7	5.6	6.3	6.1

Price Chart



Key risks

(i) Moderation in credit off-take could impact valuation

(ii) Rise in stress accretion

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Nivedita Choudhary
nivedita.choudhary@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY22	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
NII	9,316	16,698	18,794	21,853	14%	25,365	30,653	36,776	19%
PPP	7,410	12,344	14,202	16,261	15%	18,807	24,078	30,223	23%
PAT	2,708	5,979	7,190	9,761	28%	9,831	12,607	16,759	20%
ABV (₹)	794.3	1,005.0	227.5	263.7		303.4	450.6	505.9	
P/E	9.9	6.3	26.2	19.3		19.2	18.7	14.1	
P/ABV	1.3	1.0	4.4	3.8		3.3	2.2	2.0	
RoA	1.9	3.0	3.1	3.4		3.0	3.1	3.7	
RoE	10.4	13.8	14.8	17.3		15.2	11.0	13.0	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Business performance

- AUM grew 14.6% YoY and 3.7% QoQ to ₹2.92 lakh crore, supported by steady momentum across core vehicle finance and MSME segment. Disbursements rose 14.2% YoY to ₹48,645 crore, led by CVs, PVs and gold loans.
- Commercial vehicle (CV) portfolio grew 15% YoY to ₹1.3 lakh crore, and remained the key growth driver, aided by strong utilization levels (21–25 days/month), stable freight rates, and improving rural and semi-urban demand; management highlighted stronger traction in LCVs, SCVs and tractors driven by last-mile logistics and agri transportation, while HCV growth remained subdued due to slower infrastructure spending.
- Passenger vehicle (PV) demand rose 21.8% YoY and remained healthy, particularly in rural and semi-urban markets, supported by GST rationalization, festive demand and sustained replacement demand.
- MSME growth moderated as the company remained cautious on export-linked segments affected by US tariffs; management indicated early normalization as customers diversified into new markets and domestic demand. Growth slowed down from 15-30% earlier to ~18%, is expected to reaccelerate to ~20%. Management plans to increase ATS from ₹10 - 12 lakhs currently by targeting slightly larger enterprises and focusing more on secured lending and better pricing.
- Construction equipment (CE) continued to remain weak due to subdued infrastructure spending and delayed state-level payments, prompting a calibrated approach to fresh lending.
- Farm equipment witnessed strong traction, supported by healthy rural demand and favorable agri output; management indicated scope to scale the segment to ~5% of AUM over the medium term.
- Gold loan business saw steady traction with branch-level rollout continuing; management reiterated focus on volume growth without material change in asset mix.
- New vehicle disbursements constitute 10% of total disbursements. Lender to fund big ticket new vehicles aimed contributing not more than 5% of AUM. New vehicle (CV and PV together) market share at ~3%; target to double to ~6% in next 3 years
- PAT grew 21.2% YoY (ex-one-off) and 9.3% QoQ to ₹2,522 crore, supported by healthy NII growth and lower credit cost.
- Equity infusion of ~₹40,000 crore is expected to be absorbed in near term as average quarterly disbursement are ~₹45,000-50,000 crore, with management maintaining liquidity equivalent to ~3 months of upcoming liabilities.
- Management noted that large part of customer churn occurs after 2 cycles (i.e 6-8 years) as borrowers upgrade to banks, and aims to retain such customers by offering competitive pricing.
- RoE and RoA are expected to improve, driven by credit rating upgrades and subsequent reduction in funding cost.

Margins

- NIM improved to 8.58% (vs. 8.19% in Q2FY26), driven by declining borrowing cost and normalization of liquidity levels.
- Incremental cost of borrowing declined to 7.73% (from 8.12% in Q2FY26), while overall cost of liabilities reduced to 8.69% (from 8.83%). Rating upgrades by CARE and positive outlook from CRISIL and ICRA, along with S&P upgrade to BBB-, are expected to support further reduction in funding cost over the next few quarters. Management indicated potential borrowing cost benefit of 30–40 bps from recent rating actions, to accrue gradually.
- Cost-to-income ratio increased to 29.7% (27.8% in Q2FY26), primarily due to one-time impact of higher gratuity and long-term employee compensation cost following wage definition changes under the new labor code, along with festive-season incentives.
- Management guided for NIMs to sustain at ~8.5%, with scope for near-term volatility depending on asset mix and pace of benefit pass-through to customers.

Asset quality

- Gross Stage 3 declined to 4.54% and net Stage 3 to 2.38% (vs. 4.57% / 2.49% in Q2FY26), reflecting stable borrower cash flows and strong recovery performance.
- Credit cost moderated to 1.62% (vs. 1.68% in Q2FY26), aided by improving collection efficiency and normalization in stressed pockets.

- Temporary stress in MSME exposures linked to export-oriented sectors (textiles, leather, fisheries) showed early signs of resolution as borrowers adopted diversification of markets.
- CE portfolio continued to see relatively higher stress due to lower project execution and delayed payment, though management indicated no material deterioration in borrower behavior.
- CV asset quality remained stable, supported by high vehicle utilization (21–25 days/month) and sustained freight demand.

Guidance/ Outlook

- Management expects sustained disbursement momentum in Q4FY26, supported by rural demand, improving CV sales, and seasonal pickup.
- AUM growth targeted at 18–20% in FY27-28E, with asset mix remaining broadly steady at 80:20 with some more focus on gold segment.
- Leverage targeted at 4–5x in next 5–6 years.
- Upgrade in credit rating will result in lower cost of borrowing, particularly in retail deposits and capital market funding. 30% of customers generally leave the lender to get better terms. After MUFG deal, such customers could be retained.
- NIMs are guided to remain around ~8.5-9%, with borrowing cost benefits partially passed on to customers to retain high-quality borrowers. Cost of funds are expected to improve by 100 bps over next 2 years, as benefit of rate cut gets passed down.
- Asset quality is expected to remain stable, with credit cost guided to stay below 2% for FY26.
- RoA: ~2.8 → 3.6; RoE may dip initially and then improve
- RBI and CCI approval awaited to end the deal with MUFG which is expected to take 2-3 months. MUFG will be classified as non-promoter, with no discussion on further increase in stake. 2 board seats to be given. ₹200 million paid to promoters as non-compete fee. Appointments by MUFG will not be at key management level; could be in tech, reporting, and audit.
- MUFG has a substantial stake in DMI Finance, but that investment is done by the fund and not the bank and currently there is no discussion related to merger or acquisition of DMI Finance.

Exhibit 1: Variance Analysis

	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Comments
NII	6,574	5,590	17.6	6,026	9.1	Steady AUM expansion and margin improvement aided NII
Other Income	358	365	-1.7	366	-2.1	
Staff cost	1,237	970	27.5	944	31.1	Incremental impact of ₹196.95 crore due to changes under the new labour code and festive-season incentives
Other Operating Expenses	1,025	899	14.0	1,005	2.0	
PPP	4,671	4,085	14.3	4,443	5.1	
Provision	1,310	1,326	-1.2	1,333	-1.7	Credit cost declined to 1.62%
Exceptional item		1,657				
PBT	3,360	4,416	-23.9	3,110	8.0	
Tax Outgo	839	846	-0.9	803	4.4	
PAT	2,522	3,570	-29.4	2,307	9.3	PAT grew 21% excluding gain from disinvestment of SHFL last year
Key Metrics						
GNPA	13,121	13,521	-3.0	12,736	3.0	Marginal decline in GS3 at 4.54%
NNPA	6,722	6,539	2.8	6,788	-1.0	NNPA declined ~11 bps QoQ to 2.38%
AUM	291,709	254,470	14.6	281,309	3.7	Largely driven by PV, SME and CV segment

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Interest Earned	40,307.6	46,984.5	53,795.6	61,381.6
Interest Expended	18,454.6	21,619.8	23,143.0	24,605.5
Net Interest Income	21,853.1	25,364.7	30,652.6	36,776.1
growth (%)	16.3%	16.1%	20.8%	20.0%
Non Interest Income	1,564.4	1,697.9	2,527.9	3,770.9
Net Income	23,417.4	27,062.7	33,180.5	40,547.0
Opex	7,156.6	8,255.7	9,102.0	10,323.8
Operating Profit	16,260.8	18,807.0	24,078.4	30,223.2
Provisions	5,311.7	5,591.6	7,079.5	7,626.2
PBT	10,949.1	13,215.4	16,999.0	22,597.0
Exceptional Item	1,656.8	-	-	-
Taxes	2,845.0	3,384.1	4,392.0	5,838.3
Net Profit	9,760.9	9,831.3	12,607.0	16,758.7
growth (%)	35.7%	0.7%	28.2%	32.9%
EPS (₹)	51.9	52.3	53.6	71.3

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	188.0	188.0	235.1	235.1
EPS (₹)	51.9	52.3	53.6	71.3
BV (₹)	299.4	343.2	488.2	548.8
ABV (₹)	263.7	303.4	450.6	505.9
P/E	19.3	19.2	18.7	14.1
P/BV	3.4	2.9	2.1	1.8
P/ABV	3.8	3.3	2.2	2.0
NII/AUM	8.3	8.4	8.8	9.1
Cost to AUM	2.7	2.7	2.6	2.5
Gross Stage 3	4.5	4.6	4.7	4.8
Net Stage 3	2.6	2.5	2.5	2.5
RoE	17.3	15.2	11.0	13.0
RoA	3.4	3.0	3.1	3.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26E	FY27E	FY28E
Sources of Funds				
Capital	376	376	470	470
Reserves and Surplus	55905	64137	114282	128527
Networth	56281	64513	114752	128997
Borrowings	234197	263308	288447	322787
Other Liabilities & Provisions	3243	5090	5459	4415
Total	293721	332910	408658	456200
Application of Funds				
Cash & Bal	21366	17448	41950	32441
Advances	245393	284271	329654	381997
Investment	15788	17110	20798	22929
Other assets	11175	14081	16257	18832
Total	293721	332910	408658	456200

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26E	FY27E	FY28E
Total assets	23.8%	13.3%	22.8%	11.6%
Advances	18.0%	15.8%	16.0%	15.9%
Net interest income	16.3%	16.1%	20.8%	20.0%
Operating expenses	19.6%	15.4%	10.3%	13.4%
Net profit	35.7%	0.7%	28.2%	32.9%
Net worth	15.9%	14.6%	77.9%	12.4%

Source: Company, ICICI Direct Research

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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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