Shriram Finance Limited

ISIN :INE721A01013 | NSE :SHRIRAMFIN

Price: 702
Recommendation: Buy
Industry: Non Banking Financial
Sector: Financial Services
Report Date: 21-Apr-2025

Shriram Finance Limited is advancing its growth with new strategies, including a focus on electric vehicle lending and expanding passenger vehicle financing, particularly in semi-urban and rural areas. The company reports significant growth in disbursements and assets under management, despite a slight decline in net interest margins. Looking forward, Shriram Finance is optimistic about mid-teen growth, supported by strong asset quality and enhanced digital capabilities.

Sales		Profit & Loss		Profitability Matrix	
Current Year	39864 Cr	Operating Profit(Year)	28636 Cr	Operating Profit Margin	71.8 %
Previous Year	29787 Cr	Operating Profit(Quarter)	7665 Cr	EBITDA Margin	63.02 %
Current Quarter	10698 Cr	PAT (Year)	7190 Cr	Net Profit Margin	20.6 %
Previous Quarter	10090 Cr	PAT (Quarter)	2394 Cr	EPS	50.9
Revenue (QYoY)	8922 Cr				
Valuation Matrix		**Growth(YoY)**		**Growth(QoQ)**	
Trailing P/E	15.8	Sales Growth	19.9 %	Sales Growth	6.03 %
PEG Ratio	0.69	PAT Growth	20.23 %	Sales Growth QYoY	19.91 %
EV/EBITDA	11.3	EPS Growth	32.9 %	PAT Growth	15.6 %
P/B	2.43	Dividend Yield	1.33	PAT Growth QYoY	31.68 %
Capital Allocation		**Holdings**		**Leverage**	
RoE	15.6 %	Promoter	25.4 %	Debt/Equity	3.99
RoA	3.26 %	FII	53.6 %	Debt	207820 Cr
RoCE	11.3 %	DII	15.3 %	Market Cap	132097 Cr
RoIC	11.3 %	Public	5.69 %	Enterprise value	322762 Cr
		No of Shares	188 Cr	Cash Equivalents	17154 Cr

source : Company filings

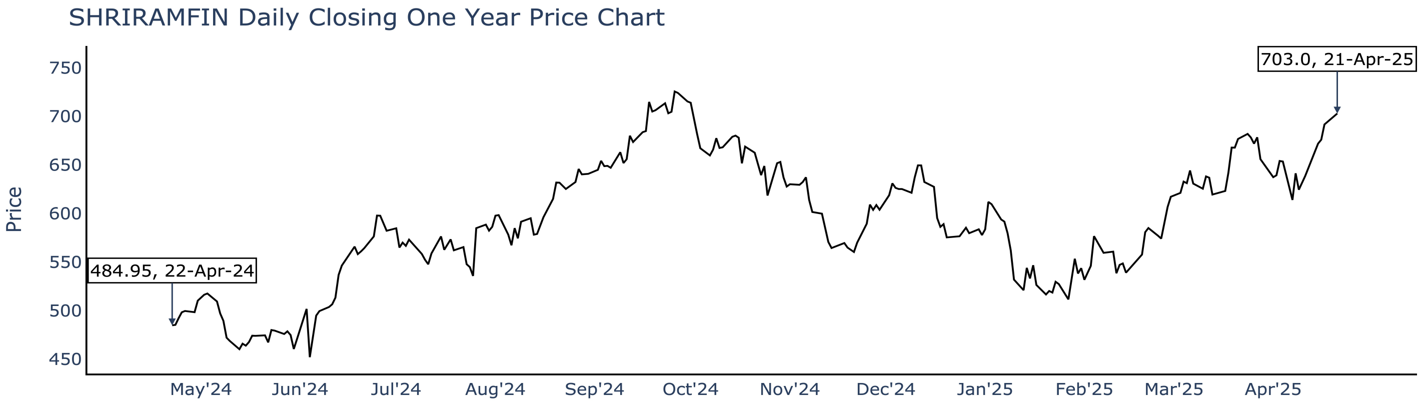
Company's Overview Based on Recent Concall and Performance:

In the recent earnings call, Shriram Finance Limited highlighted several new initiatives and business strategies aimed at sustaining growth and enhancing market presence. The company has introduced a new vertical focused on electric vehicle (EV) lending, termed as green financing. This initiative is designed to build a separate vertical with dedicated supervision and credit policy, although the growth in this segment is intended to be gradual. The company has also been actively expanding its market share in passenger vehicle financing, growing year-on-year by more than 20%. This growth is attributed to the increasing demand from semi-urban and rural markets, driven by the lack of new public transportation options and the rising need for private mobility.

The company's business strategies are centered around maintaining a robust asset quality and optimizing operational efficiency. Shriram Finance has reported a significant increase in disbursements, with a year-on-year growth of 15.82%, and an 18.78% growth in assets under management (AUM). The net interest income also saw a 14.31% increase. Despite a slight decline in net interest margins (NIMs) due to excess liquidity, the company expects normalization as liquidity levels are adjusted. The focus on maintaining a cost-to-income ratio below 30% and leveraging digital platforms to enhance productivity are key components of their strategy. The company is also working on moderating its borrowing to align with its liquidity policy, which aims to maintain three months of future liabilities in liquid assets.

Looking ahead, Shriram Finance is optimistic about its growth prospects, projecting a mid-teen growth rate in the next financial year, supported by an expected Indian GDP growth of over 6.5%. The company anticipates continued demand in the passenger vehicle segment, driven by unmet needs and government spending on infrastructure projects. The management is confident in maintaining strong asset quality, with credit costs consistently below 2%. The company is also focusing on enhancing its digital capabilities to improve customer service and reduce the need for additional hiring, thereby increasing operational efficiency.

While the company has demonstrated strong performance, there are areas for potential improvement. The net interest margin has been impacted by excess liquidity, which the company plans to address in the coming quarters. Additionally, the MSME portfolio has shown high forward-flows, attributed to temporary cash-flow mismatches, which the company expects to correct in the fourth quarter. The company could benefit from further diversifying its product offerings and exploring new markets to mitigate risks associated with market fluctuations and economic cycles. Overall, Shriram Finance's strategic initiatives and focus on operational efficiency position it well for future growth, though careful management of liquidity and asset quality will be crucial in sustaining this trajectory.



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
HDFC AMC	95366.66	38.72	32.35%	-3.55%	29.59%	-0.43%	18.05%
Bajaj Finance	574937.51	35.96	22.07%	5.52%	27.33%	6.17%	16.70%
Bajaj Finserv	336105.40	39.18	15.28%	-4.93%	10.34%	6.90%	3.40%
Jio Financial	156449.62	97.02	1.16%	12.52%	17.97%	7.24%	1.76%
Cholaman.Inv.&Fn	139596.13	34.32	20.16%	7.64%	34.46%	12.44%	24.79%

Aspect	Commentary
Revenue	The company shows a robust revenue increase, with a 19.9% YoY growth, indicating strong market demand and effective sales strategies. The quarterly growth of 6.03% suggests consistent performance, driven by strategic initiatives in expanding market presence and product offerings.
Profit & Loss	Operating profit margins are high at 71.8%, reflecting efficient cost management. The net profit margin of 20.6% indicates solid profitability, supported by a significant PAT growth of 20.23% YoY. This suggests effective operational strategies and market positioning.
Profitability Matrix	The company maintains strong profitability with an EBITDA margin of 63.02% and a net profit margin of 20.6%. The EPS growth of 32.9% highlights effective earnings management, while the operating profit margin of 71.8% underscores operational efficiency.
Valuation Matrix	The trailing P/E of 15.8 and PEG ratio of 0.69 suggest the stock is reasonably valued with growth potential. The EV/EBITDA of 11.3 indicates a fair valuation relative to earnings, while a P/B ratio of 2.43 reflects moderate market expectations.
Growth (YoY)	The company exhibits strong YoY growth with sales increasing by 19.9% and PAT by 20.23%. EPS growth of 32.9% further underscores robust financial health, driven by strategic market expansion and operational efficiencies.
Growth (QoQ)	Quarterly growth is solid with sales up by 6.03% and PAT by 15.6%. The QYoY sales growth of 19.91% and PAT growth of 31.68% reflect effective short-term strategies and market responsiveness, ensuring sustained performance.
Capital Allocation	The company demonstrates prudent capital allocation with a RoE of 15.6% and RoCE of 11.3%. The RoIC of 11.3% indicates efficient use of capital, supporting long-term value creation and shareholder returns.
Holdings	Promoter holding is stable at 25.4%, with significant FII interest at 53.6%, indicating strong institutional confidence. DII and public holdings are balanced, reflecting a diversified investor base and market trust.
Leverage	The debt/equity ratio of 3.99 suggests high leverage, which could pose risks if not managed carefully. However, the substantial market cap and enterprise value indicate strong market positioning, providing a buffer against financial volatility.

Analyst viewpoint: Shriram Finance Limited is positioned strongly for short to mid-term growth, bolstered by impressive quarterly sales growth of 6.03% and a PAT increase of 15.6%. These metrics are supported by strategic initiatives such as the expansion in electric vehicle lending and passenger vehicle financing, especially in semi-urban and rural areas, where demand remains robust. The company's relatively low valuation with a trailing P/E of 15.8 and a PEG ratio of 0.69 suggests room for further price appreciation, presenting a compelling opportunity for investors. With a RoE of 15.6% and an impressive operating profit margin of 71.8%, the company's ability to create shareholder value is evident. This is further complemented by high institutional confidence, as reflected in the 53.6% FII holding.

In comparison to its peers, Shriram Finance exhibits strong growth potential and competitive advantage through its innovative market strategies and financial robustness. Its digital enhancements and commitment to maintain a cost-to-income ratio below 30% underscore a future-ready business model. Although its high debt-to-equity ratio of 3.99 could be perceived as a risk, the company's substantial cash reserves and strategic borrowing policies mitigate this concern. The slight dip in net interest margins due to excess liquidity is a minor setback, which the company plans to address, ensuring continued financial health.

Please read detailed disclosure on next page.

Explanation of Investment Rating*	
Investment Rating	Expected Return (over 12-month)
BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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