SHRIRAM FINANCE

nuvama institutional equities

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	615
12 month price target (INR)	710
52 Week High/Low	730/493
Market cap (INR bn/USD bn)	1,192/13.8
Free float (%)	74.2
Avg. daily value traded (INR mn)	4,319.7

SHAREHOLDING PATTERN

	Jun-25	Mar-24	Dec-24
Promoter	25.4%	25.4%	25.4%
FII	52.6%	53.6%	53.1%
DII	16.3%	15.3%	15.9%
Pledge	0.0%	0.0%	0.0%

FINANCIALS

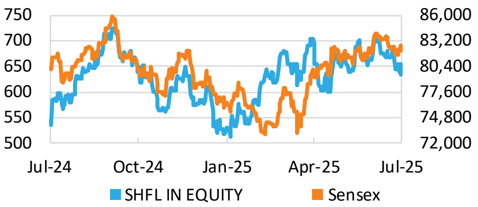
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	201950	234049	267118	301737
PPoP	142020	162609	185161	208498
Adjusted profit	71905	97610	90180	103091
Diluted EPS (INR)	38.2	51.9	48.0	54.8
EPS growth (%)	20.2	35.7	(7.5)	14.3
RoAE (%)	15.7	18.6	15.1	15.2
P/E (x)	16.1	11.9	12.8	11.2
P/BV (x)	2.4	2.1	1.8	1.6

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	2,67,118	3,01,737	-1.1%	-1.1%
PPoP	1,85,161	2,08,498	-1.6%	-1.6%
Adjusted profit	90,180	1,03,091	-2.4%	-2.4%
Diluted EPS (INR)	48.0	54.8	-2.4%	-2.4%

PRICE PERFORMANCE



Credit cost lower; MSME not a concern

After a subdued Q4FY25, SFL announced a healthy quarter with 3% QoQ AUM growth in Q1FY26, lower-than-expected credit cost and healthy asset quality. While GS2 rose 9% by 40bp QoQ, the increase is tolerable relative to peers. Increase in GS3 is also moderate at 3% QoQ. Credit cost fell more than expected to 1.9% of AUM versus core credit cost of 2.1% and reported credit cost of 2.4% QoQ. BAU W/O of INR4.5bn returned to the normalised range versus INR8bn QoQ .

The sentiment towards small CV/MSME is weak due to negative commentary from other lenders. With a healthy quarter and sharp correction in stock price, we maintain 'BUY'. We are cutting the TP to INR710/2.1x BV FY26E from INR760 earlier.

Healthy AUM growth but NIM declines

AUM growth remained healthy at 17% YoY/3% QoQ. Growth was driven by gold, PL, PV, farm and MSME, whereas CE declined. The share of CV+CE+PV declined marginally to 72.1% from 72.4% QoQ. CE declined because of a demand slowdown, mainly in infra. NIM dipped again, by 14bp QoQ to 8.11%, but management maintains guidance of 8.5% for exit NIM in FY26. The NII decline was driven by higher liquidity that came from higher deposit mobilisation. Free liquidity available for disbursements is INR270bn versus INR180bn historically. SFL has cut deposit rates thrice. NIM is expected to start recovering from Q2FY26E with lower CoF and move to 8.5% by Q4FY26. NII grew 10% YoY/4% QoQ. Opex rose 21% YoY/3% QoQ driven by staff incentives and salary hikes. Other operating income fell 46% QoQ due to a one-off of INR1.7bn in Q4FY25. PPOP: up 8% YoY/down 3% QoQ. PAT grew 8% YoY.

Credit cost lower than expected; MSME not a concern

Credit cost came off sharply, down 18% YoY, higher than expected. Core credit cost fell to 1.9% of AUM from core credit cost of 2.1% and reported credit cost of 2.4% QoQ. Of the total credit cost, provisions stood at INR8.3bn versus INR7.5bn QoQ while write-offs declined to INR4.4bn from INR8.2bn QoQ. GS3 rose 3% QoQ while the GS3 ratio stayed stable at 4.53% (4.55% QoQ). GS2 rose 9% QoQ while the GS2 ratio rose 40bp QoQ to 7.3%. In terms of 2wheeler delinquency, collection efforts are better than competition and there will be a pullback in the remaining quarters. SFL is comfortable with credit quality in the MSME sector. Small-ticket loans with ATS of INR200,000–300,000 are seeing some stress, but account for only 7–8% of total MSME. Meanwhile, higher-ticket loans with ATS of INR1mn are linked to CC bank accounts and are not seeing stress. MSME loans are linked to trading/service; hence, growth will likely remain strong. MSME borrowers would have only one MSME and one gold loan. As such, loans per borrower are limited.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	57,725	52,339	10.29%	55,655	3.72%
Pre-provisioning Profits	41,924	38,541	8.78%	43,353	-3.30%
Reported Profits	21,557	19,806	8.84%	21,394	0.76%
EPS	11.5	10.5	8.73%	11.4	0.70%

Mahrukh Adajania
Mahrukh.Adajania@nuvama.com

Madhukar Ladha
madhukar.ladha@nuvama.com

Anant Dumbhare
Anant.Dumbhare@nuvama.com

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest income	1,87,971	2,18,531	2,50,048	2,82,960
Non interest income	13,980	15,518	17,070	18,777
Fee and forex income	13,980	15,518	17,070	18,777
Net revenues	2,01,950	2,34,049	2,67,118	3,01,737
Operating expense	59,930	71,440	81,957	93,239
Employee exp.	32,156	36,512	41,258	46,622
Other opex	27,774	34,928	40,699	46,617
Preprovision profit	1,42,020	1,62,609	1,85,161	2,08,498
Provisions	45,183	53,117	64,113	70,121
PBT	96,836	1,09,493	1,21,047	1,38,377
Taxes	24,932	28,450	30,867	35,286
PAT	71,905	81,042	90,180	1,03,091
Extraordinaries	0	16,568	0	0
Reported PAT	71,905	97,610	90,180	1,03,091
Diluted EPS (INR)	38.2	51.9	48.0	54.8

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Equity capital	3,758	3,761	3,761	3,761
Reserves	4,81,926	5,59,045	6,31,189	7,13,662
Net worth	4,85,684	5,62,806	6,34,950	7,17,422
Borrowings	18,87,076	23,72,523	26,80,951	31,09,904
Other liabilities	20,652	24,782	26,021	27,322
Total	23,72,760	29,35,329	33,15,901	38,27,326
Assets				
Loans	20,79,294	24,53,928	28,46,556	33,02,005
Investments	1,06,566	1,55,987	1,54,418	1,95,413
Cash & equi.	1,15,960	2,51,775	2,64,364	2,77,582
Fixed assets	70,940	73,639	76,585	79,648
Total	23,72,760	29,35,329	33,15,901	38,27,326
BV/share (INR)	258.5	299.3	337.7	381.5

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Net interest margins	9.2	9.0	8.5	8.6
Cost-income	29.7	30.5	30.7	30.9
Tax rate	25.7	26.0	25.5	25.5

Balance Sheet Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Credit growth	20.9	18.0	16.0	16.0
Gross NPA ratio	5.5	4.5	4.4	4.1

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted PE (x)	16.1	11.9	12.8	11.2
Price/BV (x)	2.4	2.1	1.8	1.6

Source: Company and Nuvama estimates

ROA Decomposition (%)

Year to March	FY24A	FY25A	FY26E	FY27E
NII/Assets	8.5	8.2	8.0	7.9
Net revenues/assets	9.2	8.8	8.5	8.4
Opex/Assets	(2.7)	(2.7)	(2.6)	(2.6)
Provisions/Assets	2.0	2.0	2.1	2.0
Taxes/Assets	1.1	1.1	1.0	1.0
Total costs/Assets	5.9	5.8	5.7	5.6
RoA	3.3	3.1	2.9	2.9
Equity/Assets	20.8	19.8	19.2	18.9
RoAE	15.7	18.6	15.1	15.2

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	20.2	35.7	(7.5)	14.3
RoAE	15.7	18.6	15.1	15.2

Q1FY26 earnings call takeaways

Guidance

- Management reiterated the FY26 loan growth guidance of 15%. CV is expected to grow 12%, PV 20%, and MSME & other segments 20%-plus.
- NIM will improve to 8.5% by Q4FY26E aided by normalisation of excess liquidity and benefit from deposit rate cuts.
- Opex is likely to remain elevated until Q2FY26, but should begin to taper off thereafter in percentage terms.
- FY26 RoA guidance is 3%+ while credit cost to total assets would be ~2%.

Demand and growth

- Rainfall has been well-distributed across regions. However, the early onset of the monsoon in Q1FY26 led to some delay in infrastructure-related demand.
- The LCV segment is expected to see faster growth on the back of a strong rural economy while HCV demand should be supported by infrastructure projects.
- The company saw good demand for CVs with new outpacing old.

Loans

- Disbursements rose 13% YoY during the quarter to ~INR418.16bn while AUM grew 16.6% YoY to INR2.7tn.
- The gold loan book is expected to scale up faster supported by a branch-level build-out and focus on cross-sell to existing customers.

Liabilities

- The company has historically maintained a liquidity buffer of INR170–180bn (roughly three months of liquidity). Current liquidity (ex-SLR and other instruments) stands at ~INR270bn. The surplus is expected to be deployed in Q2FY26 as credit growth picks up in August–September supported by rural demand.
- Deposit rates have been cut thrice: by 25bp on May 2, 25bp on June 26 and 40bp effective August 5—bringing deposit rates down to 7.6% from 8%.
- Going forward, the company intends to focus more on securitisation and capital markets for funding needs as bank borrowings remain the costliest source.

Asset quality

- Gross Stage 3 came in at 4.53% versus 4.55% in Q4FY25 while Net Stage 3 declined to 2.57% from 2.64%.
- Credit cost was INR12.85bn for the quarter, lower than INR15.59bn in Q4FY25. Write-offs stood at INR4.48bn (versus INR8.17bn QoQ), ECL provisions at INR8.38bn (versus INR7.42bn QoQ) and recoveries at INR1.28bn (versus INR2.09bn QoQ).
- Gross Stage 2 rose by 40bp QoQ, attributable to the early monsoon in some areas. However, the rise is being actively managed through improved collections.

- SFL often witnesses GS1 loans moving to GS2 due to temporary cash flow mismatches, but most of these slippages do not flow forward to GS3. Furthermore in CVs, the collateral is liquid and realisable.
- Sector-wide, there is visible stress in unsecured MSME loans, though the company's exposure is minimal at 7–8% of the total MSME book. Stress in secured MSME loans is evident in select regions such as Telangana, Karnataka and Uttar Pradesh.
- SFL is comfortable with credit quality in the MSME sector. Small-ticket loans with ATS of INR200,000–300,000 are seeing some stress, but account for only 7–8% of total MSME while higher-ticket loans with ATS of INR1mn are linked to CC bank accounts and are not seeing stress. MSME loans are linked to trading/service; hence growth will likely remain strong. MSME borrowers would have only one MSME and one gold loan. As such, loans per borrower is limited.

Yield, costs and margins

- NIM for the quarter came in at 8.11% versus 8.25% in Q4FY25 due to negative carry on excess liquidity. Margins are expected to improve from Q2FY26E.
- Incremental CoF as of June 30, 2025, stood at 8.4%, about 50bp lower QoQ, while overall CoF was 8.88%, 7bp lower QoQ.
- Yield on gold loans stands at 18% and MSME at 18% while unsecured MSME yields range from 14–22%.

Exhibit 1: Changes in estimates

	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
	Old		New		% change	
NII, INR M	2,52,986	2,86,318	2,50,048	2,82,960	-1.2%	-1.2%
PAT, INR M	92,369	1,05,593	90,180	1,03,091	-2.4%	-2.4%
EPS, INR	49.1	56.2	48.0	54.8	-2.4%	-2.4%
Target Price, INR		**760**		**710**		**-6.6%**
CMP				615		
% Upside				15.4%		
Rating		**BUY**		**BUY**		

Source: Company, Nuvama Research

Exhibit 2: AUM breakdown

INR bn	Q1FY26		Q4FY25		Q1FY25		YoY (%)	QoQ (%)
	INR bn	% of total	INR bn	% of total	INR bn	% of total		
Commercial Vehicles	1,231	45.2%	1,186	45.1%	1,097	47.0%	12.3%	3.9%
Passenger Vehicles	566	20.8%	541	20.6%	460	19.7%	23.1%	4.6%
Construction Equipment	165	6.1%	179	6.8%	170	7.3%	-3.0%	-7.5%
Farm Equipment	58	2.1%	52	2.0%	40	1.7%	45.9%	11.8%
MSME	388	14.3%	374	14.2%	288	12.3%	34.8%	3.7%
Two Wheelers	158	5.8%	156	5.9%	129	5.5%	22.7%	1.7%
Gold	51	1.9%	48	1.8%	61	2.6%	-15.9%	6.3%
Personal Loans	103	3.8%	96	3.6%	89	3.8%	15.7%	7.7%
Total AUM	**2,722**	**100.0%**	**2,632**	**100.0%**	**2,334**	**100.0%**	**16.6%**	**3.4%**

Source: Company, Nuvama Research

Exhibit 3: Provisions by segment

INR, Bn	AUM	GS3	% QoQ	% YoY	GS2	% QoQ	% YoY	GS1	% QoQ	% YoY
CV	1,231	58.82	3.1%	-7.1%	87.68	12.6%	23.7%	1,068.90	3.4%	12.8%
PV	566	23.06	3.0%	-3.1%	40.36	14.7%	42.4%	494.87	4.3%	24.0%
CE	165	9.69	-2.5%	-7.6%	11.37	1.3%	1.8%	142.31	-8.4%	-2.9%
Farm	58	4.39	8.1%	26.4%	6.23	8.2%	65.2%	47.25	13.2%	49.2%
MSME	388	15.85	5.0%	15.5%	28.09	1.2%	39.1%	340.45	4.1%	37.1%
Two wheelers	159	5.01	4.3%	25.5%	9.97	4.3%	36.4%	143.58	1.5%	21.9%
Gold	52	1.06	6.7%	-10.6%	4.65	9.2%	-1.7%	45.82	6.3%	-17.1%
PL	103	4.10	2.2%	1.0%	7.80	3.7%	13.0%	90.95	7.6%	16.2%
Total	**2,722**	**121.99**	**3.1%**	**-1.7%**	**196.15**	**9.5%**	**27.9%**	**2,374.12**	**3.2%**	**17.2%**

Source: Company, Nuvama Research

Exhibit 4: Distribution of branches by region

Nos.	Q1FY26	Q1FY25
Urban	1,145	1,130
Semi - Urban and Rural	1,753	1,643
Metro	327	322
Total	**3,225**	**3,095**

Source: Company, Nuvama Research

Exhibit 5: AUM breakdown by region

INR bn	Q1FY26	Q1FY25
Urban	1,044	929
Semi - Urban and Rural	1,352	1,126
Metro	327	279
Total	**2,722**	**2,334**

Source: Company, Nuvama Research

Exhibit 6: Stress loans and provisions

INR mn	Q1FY26	Q4FY25	Q1FY25	YoY (%)	QoQ (%)
Gross Stage 3	1,21,995	1,18,388	1,24,078	-1.7	3.0
ECL provision-Stage 3	54,062	51,243	63,460	-14.8	5.5
Net Stage 3	67,933	67,145	60,618	12.1	1.2
Gross Stage 3 (%)	4.5%	4.6%	5.4%	-86 bps	-2 bps
Net Stage 3 (%)	2.6%	2.6%	2.7%	-14 bps	-7 bps
Coverage Ratio (%) Stage 3	44.3%	43.3%	51.1%	-683 bps	103 bps
Gross Stage 1	23,74,123	23,01,615	20,25,068	17.2	3.2
ECL provision-Stage 1	82,675	79,701	69,197	19.5	3.7
Net Stage 1	22,91,448	22,21,914	19,55,871	17.2	3.1
Gross Stage 1 (%)	88.2%	88.6%	88.0%	23 bps	-38 bps
ECL provision (%) Stage 1	3.5%	3.5%	3.4%	7 bps	2 bps
Gross Stage 2	1,96,153	1,79,156	1,53,317	27.9	9.5
ECL provision-Stage 2	16,187	14,286	11,586	39.7	13.3
Net Stage 2	1,79,966	1,64,870	1,41,731	27.0	9.2
Gross Stage 2 (%)	7.3%	6.9%	6.7%	63 bps	40 bps
ECL provision (%) Stage 2	8.3%	8.0%	7.6%	70 bps	28 bps

Source: Company, Nuvama Research

Exhibit 7: Borrowing profile

Product	Q1FY26		Q4FY25		Q1FY25	
	INR bn	% of total	INR bn	% of total	INR bn	% of total
Commercial Paper	-	0.0%	-	0.0%	33.8	1.8%
NCDs	396.1	16.3%	383.0	16.4%	321.2	16.8%
Public Deposit	630.3	25.9%	560.9	24.0%	474.9	24.8%
Securitisation	388.2	16.0%	380.5	16.2%	290.6	15.2%
Subordinated debts	24.8	1.0%	25.1	1.1%	26.3	1.4%
Term Loan	493.3	20.3%	493.4	21.1%	474.9	24.8%
External Commercial Bonds	157.5	6.5%	158.5	6.8%	111.5	5.8%
ECB loans	338.1	13.9%	336.5	14.4%	159.0	8.3%
Other Borrowings	0.7	0.0%	4.0	0.2%	25.2	1.3%
Total	**2,429.0**	**100.0%**	**2,341.9**	**100.0%**	**1,917.4**	**100.0%**

Source: Company, Nuvama Research

Exhibit 8: Income statement summary

INR bn	Q1FY26	Q4FY25	Q1FY25	YoY (%)	QoQ (%)
Interest Income	111.7	107.9	93.6	19.3	3.6
Interest expended	54.0	52.2	41.3	30.8	3.4
Net Interest Income (Excl securitisation)	**57.7**	**55.7**	**52.3**	**10.3**	**3.7**
Other operating income	3.6	6.6	2.3	57.9	-45.5
Other income	0.1	0.1	0.0	29.6	1.8
Total Non-interest income	3.7	6.7	2.3	57.3	-45.1
Employee expenses	9.8	9.1	8.7	12.5	7.8
Other Operating expenses	9.7	10.0	7.5	30.4	-2.3
Total Operating expenses	19.5	19.0	16.1	20.7	2.5
Operating Profit	41.9	43.4	38.5	8.8	-3.3
Provisions	12.9	15.6	11.9	8.3	-17.8
PBT	**29.1**	**27.7**	**26.7**	**9.0**	**4.9**
Tax	7.5	6.3	6.9	9.5	18.7
Net Profit	**21.6**	**21.4**	**19.8**	**8.8**	**0.8**

Source: Company, Nuvama Research

Company Description

Shriram Finance Limited began its journey in 1979 as a NBFC specializing in asset financing. It offers a wide range of credit solutions, including commercial vehicle financing, 2W loans, car loans, gold loans, personal loans, and small business loans.

Last year, Shriram Finance Limited became a merged entity through amalgamation of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited (SCL) with Shriram Transport Finance Company Limited (STFC). The amalgamation turned Shriram Finance into one of the largest retail finance NBFCs in the country.

Investment Theme

The sentiment towards small CV/MSME is weak due to negative commentary from other lenders. With a healthy quarter and sharp correction in stock price, we maintain BUY. We cut TP to INR 710/2.1x BV FY26E from INR 760 earlier.

Key Risks

- Slowdown in the CV cycle
- High competition and higher delinquencies in MSME
- Elevated write-offs

Additional Data

Management

Executive VC	Mr. Umesh Revankar
CEO	Mr. Y. S. Chakravarthy
CFO	Mr. Parag Sharma
Other	
Auditor	M/s. KKC & Associates LLP

Holdings – Top 10*

	% Holding		% Holding
Govt of Singapo	5.41	New World Fund	1.21
NPS Trust	1.81	Monetary Author	1.20
SBI MF	1.61	Fidelity Investment	1.16
Kotak MF	1.48	Aditya Birla MF	1.09
Govt. Pension Fund	1.31		

**Latest public data*

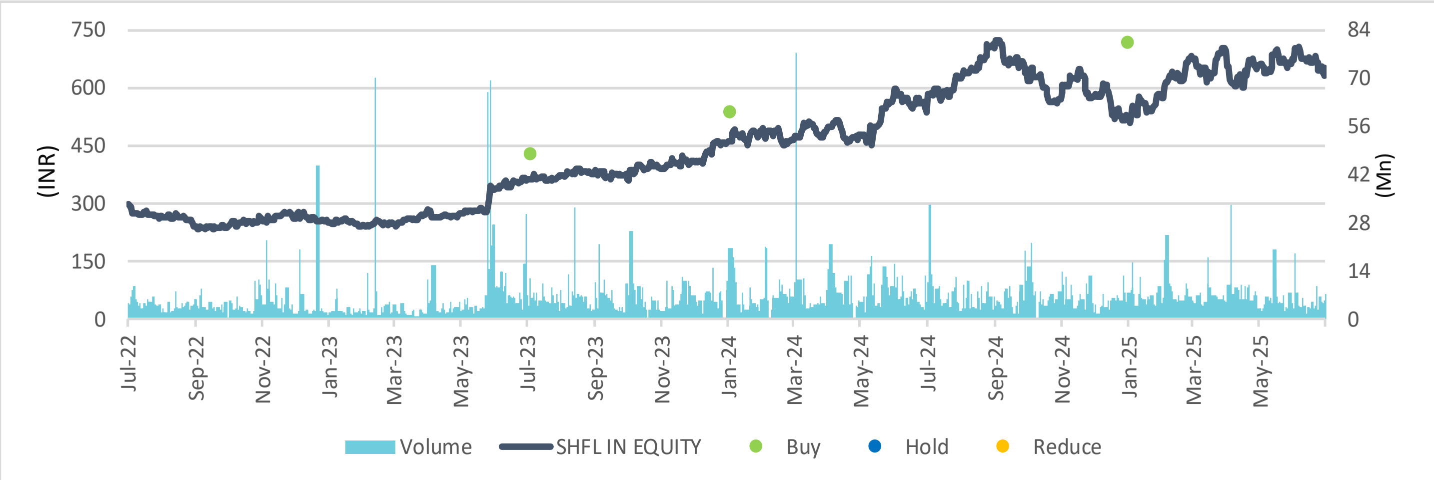
Recent Company Research

Date	Title	Price	Reco
25-Apr-25	Miss on NIM, credit cost; FY26E healthy; *Result Update*	655	Buy
24-Jan-25	Q3FY25 – A healthy quarter; *Result Update*	533	Buy
25-Oct-24	Going strong in weak sector; *Result Update*	3,093	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
22-Jul-25	M & M Fin. Serv.	Higher NIM; PCR maintained; *Result Update*
21-Jul-25	L&T Finance	Q1FY26 — Healthy performance; *Result Update*
17-Jul-25	Capri Global Capital	Productivity gains to boost profitabilit; *Initiating Coverage*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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Abneesh Roy
Head of Research Committee
Abneesh.Roy@nuvama.com

ABNEESH KUMAR ROY

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