

Recommendation: **BUY****EXECUTIVE SUMMARY**

Shriram Finance Ltd (SFL), trading at ₹2,883 (as of 24 December 2024), presents a 30% upside with a target price of **₹3,825**, based on a **2.2x FY27E Adjusted Book Value (ABV)** valuation. The company's Net Interest Income (NII) is projected to grow from ₹18,794 crore in FY24 to ₹30,150 crore in FY27, reflecting a **17% CAGR**, while net profit is expected to rise from ₹7,190 crore in FY24 to ₹12,161 crore in FY27, at a 19% CAGR. Return on Assets (RoA) is forecasted to remain steady at **~3.2-3.3%**, while Return on Equity (RoE) improves to 17% by FY27. Shriram Finance's unique positioning in used commercial vehicle (CV) financing, with a ~30% market share, remains a strong growth driver. The company's successful merger has diversified its portfolio, reduced cyclicality and driving healthy growth in non-vehicle segments like MSME, gold loans, and two-wheeler financing. The AUM is expected to grow at a **17% CAGR over FY24-FY27**, supported by diversification and an expanding footprint in rural and semi-urban markets. The company's capital adequacy ratio (CAR) of **22.6%** and Tier-1 ratio of **20.3%** provide a solid buffer for future growth. With strong asset quality, steady credit costs, and a well-diversified borrowing profile, Shriram Finance is well-positioned to deliver consistent performance. Trading at just 1.7x FY27E ABV, a significant discount compared to its peers, the stock offers a compelling valuation with significant upside potential, underpinned by its market leadership, diversified growth drivers, and consistent return metrics. This positions Shriram Finance as a highly attractive long-term investment opportunity.

1. Dominance in Used Commercial Vehicle (CV) Financing:

Shriram Finance Ltd (SFL) is the market leader in financing used commercial vehicles, a niche segment with high entry barriers. The company holds a commanding ~30% market share in a largely unorganized market (~50-55% unorganized). Over the past 15 years, SFL has grown its share from ~13%, driven by its deep understanding of the borrower profile, a strong on-ground presence, and innovative credit assessment models tailored for small road transport operators (SRTOs). The company's focus on financing 5-10-year-old used vehicles offers significant growth potential, particularly as new vehicle sales flow into the used market with a lag of 3-5 years. The replacement demand for 1.45 million trucks, coupled with buoyant freight growth (1.25x GDP), supports sustained growth in this segment. Management targets a further 6-8% market share gain over the next decade. SFL operates through a vast network of 3,149 branches and 679 rural centres, with ~87% of its customer base in rural and semi-urban areas. This focus enables the company to tap into underpenetrated markets and leverage growth opportunities in India's hinterlands. Over time, SFL is strategically expanding its footprint in non-Southern geographies to further diversify its business.

2. Strong Growth Prospects Across Segments

The merger of Shriram Transport Finance (SHTF) and Shriram City Union Finance (SCUF) has transformed SFL into a diversified NBFC with reduced dependence on CV financing (46% of the portfolio in Sep'24, down from 52% in Sep'22). The non-vehicle finance portfolio, which includes gold loans, MSME loans, personal loans, and two-wheeler loans, has shown impressive growth, contributing to portfolio stability and insulating the company from CV cyclicality.

- **MSME Loans (13% of AUM):** MSME lending is expected to grow at ~27% CAGR over FY24-27, driven by demand for working capital and business expansion loans. SFL is doubling its branch network for MSME products to 1,500 in 4-6 quarters, focusing on North, East, and West
- **Two-Wheeler Loans (5% of AUM):** With ~85% loans extended to non-salaried customers for commercial use, this segment is expected to grow at ~18% CAGR, leveraging SFL's strong rural reach.
- **Gold Loans (3% of AUM):** Increasing acceptance of gold as collateral across India, combined with SFL's expertise in South India, positions this segment for robust growth (~17% CAGR).

3. Attractive Valuation & Healthy Return Ratios Supported by NIM Stability

Shriram Finance's diversified borrowing profile, consisting of retail deposits, securitization, and term loans, ensures a stable cost of funds. Its ability to maintain Net Interest Margins (NIMs) (~8.8% projected for FY25-27) is supported by its pricing power in CV financing and its focus on high-yielding segments. This, combined with improving credit costs and operating efficiency, underpins healthy RoA (3.2-3.3%) and RoE (16-17%) delivery over the forecast period. Trading at just 1.7x FY27E Adjusted Book Value, SFL offers a compelling valuation relative to peers like Bajaj Finance (5.5x) and Cholamandalam (3.2x). Its ability to deliver ~17% CAGR AUM growth, backed by diversification and strong return metrics, provides a clear path for valuation rerating, with a target price of ₹3,825 offering a 30% upside from current levels.

Key Financial Figures (INR Billion)
(source, Axis Securities)

	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	100.59	160.54	196.02	263.1	273.1	323.6
BVPS	958.61	1,156.60	1,292.43	1,502.9	1,721.4	1,980.3
RoA %	1.90	2.93	3.03	3.7	3.2	3.2
P/BV	1.18	1.09	2.03	2.0	1.7	1.5
P/ABV	3.2	2.7	2.6	2.2	2.0	1.7
NIM	-	-	1.9	1.8	1.8	1.9
Tier 1 Capital %	-	-	19.6	19.6	19.0	18.3
CA Ratio	23.8	-	20.3	20.5	19.8	19.1
Gross NPL %	6.9	6.2	5.5	5.4	5.3	5.2
NIM %	-	-	8.8	8.9	8.8	8.8

HDFCBANK Overview	
Target Price	₹2,883
Last close	₹3,825
Upside	30%
Market Cap	₹1,08,416 Cr.
Shares Out.	37.61 Cr.
52-Week High	₹3,652.25
52-Week Low	₹2,016
P / E (LTM)	14.06x
P / B (LTM)	2.10x

Price History**Market Multiples**

Ticker	Market Cap	P/E	P/B
SHRIRAMFIN	12.6T CMC	14.06x TTM	2.1x TTM
BAJFINANCE		27x	5.33x
JIOFIN		368x	7.8x
BAJAJHLDRG		51.5x	6x
CHOLAFIN		26x	4.67x
MUTHOOTFIN		18.5x	3.18x
SBICARD		30x	5.06x
SUNDARAMFI		33.3x	4.58x
ABCAPITAL		45.17x	3.32x
MMFIN		16x	1.79x
Median		29.05x	4.0x

Shriram Finance Operational Strategies

Shriram Finance has maintained stable asset quality, with Gross Stage 3 assets improving to ~5.3% as of Q2FY25

The company emphasizes AUM growth, projected at 16% CAGR over FY25-27

Tightened underwriting policies, especially in personal loans and high-risk segments

Shriram Finance maintains a strong Capital Adequacy Ratio (CAR) at 21%

Tightened underwriting policies, especially in personal loans and high-risk segments

The company is leveraging technology to enhance efficiency, and cross-selling opportunities