Shriram Finance (SHRTRA)

ICICI Direct

CMP: ₹ 749 | Target: ₹ 880 (18%) | Target Period: 12 months | BUY

Result Update

ICICI Securities – Retail Equity Research

Steady performance in Q2 with resilient asset quality....

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 Sep 2025, SHF has a huge presence with 3,225 branches across India and employee count of 78,833, customer base of ~96.6 lakhs.

Q2FY26 performance: Shriram Finance reported steady performance in Q2FY26, disbursement growth and asset quality remained broadly steady. Disbursements grew by 10.2% YoY to ₹49,019 crore, while AUM increased by 15.7% YoY to ₹2,81,309 crore. NII rose 11.7% YoY ₹6,266 crore, with margins inching up 8 bps QoQ amid utilization of excess liquidity. Operational efficiency continued to remain strong with credit cost stable at ~1.9% resulting in 11.4% YoY growth in earnings at ₹2,307 crore. While asset quality remained stable, marginal stress accretion in CE, PL and SME book led to GNPA being up 4 bps to 4.57% and NNPA 2.49% (-8 bps QoQ) supported by 239 bps improvement in PCR to 46.7%.

Investment Rationale

- **Growth trajectory positioned to accelerate through H2FY26:** Growth trajectory maintained at 15-16%, in-line with earlier guidance, despite weakness in construction equipment as rural and semi-urban demand sustained recovery across vehicle and gold loan portfolio. MSME momentum benefited from enhanced branch activation post-merger, though management remains cautious on select export-linked exposures impacted by tariff issues. Management expects AUM growth to increase by additional 2% in H2FY26, driven by festive and consumption trends.
- **Utilization of excess liquidity aids margins**: Margin witnessed a revival in Q2FY26, with 8 bps QoQ improvement to 8.19%, owing to deployment of excess liquidity. Going ahead, gradual improvement is anticipated in margins at ~8,5% (at exit of FY26) led by 1) liquidity normalization to a 3-month coverage, 2) funding mix optimization, and 3) gradual repricing of liabilities. Incremental cost of funds eased to 8.07%, aiding reduction in overall borrowing cost. With LCR at 297%, improving leverage at 3.9x, and diversified sourcing of funds positions margins for structural improvement.
- **Marginal accretion in stress; credit cost guidance maintained:** Credit quality is expected to remain stable, backed by a diversified, collateralized portfolio and disciplined recovery systems. Temporary softness in construction equipment and select MSME accounts is projected to normalize in H2 as state spending resumes. Management expects profitability to strengthen as operating leverage improves and funding costs moderates, enabling expansion in RoA/RoE through FY26–FY27.

Rating and Target Price

- Steady credit cost reflects asset quality resilience despite industry headwinds. Growth and margins tailwinds expected to aid earnings trajectory. Factoring improvement in RoA at ~2.9% in FY26-27E, we revise multiple to ~2.2x FY27E BV and thus target price at ₹880 (earlier ₹725). Maintain Buy rating on the stock.

SHRIRAM Finance

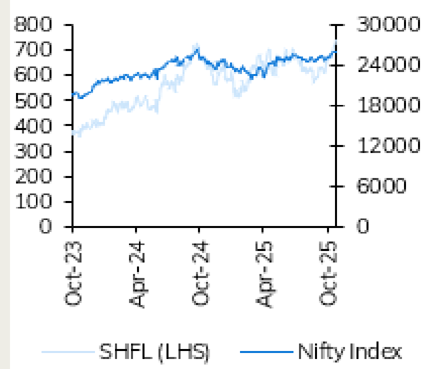
Particulars

Particulars	Amount
Market Capitalisation	₹ 1,40,876 crore
52 week H/L	770 / 493
Net worth	₹ 60,610 Crore
Face Value	2.0
DII Holding (%)	18.7
FII Holding (%)	49.6

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	25.4	25.4	25.4	25.4
FII	53.1	53.6	52.6	49.6
DII	15.9	15.3	16.3	18.7
Others	5.6	5.7	5.6	6.3

Price Chart



Key risks

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

(ii) Rise in stress accretion

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Key Financial Summary

₹ crore	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	3 year CAGR (FY24-27E)
NII	16,698	18,794	21,853	14%	24,910	28,937	15%
PPP	12,344	14,202	16,261	15%	18,650	21,788	16%
PAT	5,979	7,190	9,658	27%	9,369	10,913	6%
ABV (₹)	1,005.0	227.5	263.7		303.1	347.1	
P/E	4.7	19.6	14.6		15.0	12.9	
P/ABV	0.7	3.3	2.8		2.5	2.2	
RoA	3.0	3.1	3.3		2.9	2.9	
RoE	13.8	14.8	17.2		14.5	14.7	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Business growth

- AUM grew 15.7% YoY and 3.3% QoQ to ₹2.81 lakh crore, reflecting steady portfolio expansion across key segments. Disbursements grew 10.24% YoY to ₹ 49,019 crore.
- MSME segment disbursements rose sharply to ₹9,708 crore (vs 6357 crore in Q1FY26), aided by wider geographic reach and activation of merged branch network; management remains cautious on select export-linked accounts affected by US tariffs.
- Commercial vehicle (CV) financing continued to expand, with 14.2% YoY growth, supported by robust used-vehicle demand, stable freight rates, and healthy operator utilization despite monsoon-led disruptions in certain geographies.
- Passenger vehicle (PV) segment disbursements increased to ₹8,673 crore (₹8,162 crore in Q1FY26), benefiting from strong rural and semi-urban demand in entry-level models.
- Construction equipment (CE) portfolio remained weak with disbursements at ₹603 crore (₹526 crore in Q1FY26), as lower state-level infra spending weighed on demand.
- Farm equipment (FE) disbursements at ₹957 crore (₹1,273 crore in Q1FY26) reflected seasonal moderation but were supported by healthy kharif production and favorable monsoon conditions.
- Gold loan disbursements improved to ₹3,521 crore (₹3,291 crore in Q1FY26) with continued rollout of gold-loan products across branches.
- Two-wheeler and personal loan (PL) disbursements were ₹2,605 crore and ₹2,425 crore, respectively, marginally lower QoQ due to seasonality.

Margins

- NIM improved to 8.19% (8.11% in Q1FY26; 8.74% in Q2FY25), aided by utilization of excess liquidity. Excess liquidity reduced from 5 months to the target 3 months, lowering negative carry; LCR stood at 297% (268% in Q1FY26).
- Management reiterated exit NIM guidance of ~8.5% by Q4FY26, supported by normalization of liquidity and declining borrowing costs.
- Management expects full-year average NIM at 8.25–8.3%, improving further in H2 as repricing benefits accrue over the next 12–18 months.
- Cost to income ratio improved from 29.3% in Q1FY26 to 27.8% in Q2FY26.
- Incremental cost of funds declined to 8.07% (8.36% in Q1FY26); overall cost of liabilities eased to 8.83% (8.88% in Q1FY26, 8.95% in Mar'25). Leverage ratio came down from 4.15x to 3.88x due to reduction in overall liabilities.

Asset quality

- Gross Stage 3 was 4.57% and net Stage 3 was 2.49% in Q2FY26, showing improvement from 5.32% gross and 2.64% net in Q2FY25.
- Credit cost on total assets was 1.68% in Q2FY26, down from 1.84% in Q2FY25, and is expected to stay below 2% for FY26.
- Write-offs in Q2FY26 were ₹456 crores compared to ₹447 crores in Q1FY26, while provisions were ₹877 crores vs ₹838 crores in Q1FY26
- Stage 2 levels remained stable; temporary stress in CE and certain MSME exposures attributed to monsoon and delayed state bill payments.
- Management emphasized stable borrower cash flows and strong recovery performance, with SRTO and CV operator economics remaining healthy.

Guidance/ Outlook

- Management expects additional 2% AUM growth in H2FY26 driven by festive and rural demand momentum.
- Margins to reach ~8.5% by Q4FY26 as liquidity normalization and lower incremental funding cost support NIM improvement.
- Deposit share maintained at ~28–30% of total borrowings; incremental funding through domestic NCDs (₹1,000–1,500 crore/quarter) and selective offshore sources.
- Management indicated robust October trends, pointing to strong Q3 and Q4 performance, with asset quality expected to remain stable.
- CV prices have not reduced substantially as discounts offered by OEM have been reduced aligning with reduction in GST rates. Thus, used CV prices are broadly in a range without any substantial impact on repossession loss.

Exhibit 1: Variance Analysis

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	6,026	5,464	10.3	5,772	4.4	Steady AUM expansion and margin improvement aided NII
Other Income	366	282	29.8	369	-0.6	Other income traction remains sequentially steady
Staff cost	944	907	4.1	976	-3.3	
Other Operating Expenses	1,005	853	17.8	972	3.3	
PPP	4,443	3,987	11.5	4,192	6.0	
Provision	1,333	1,235	8.0	1,286	3.7	Credit cost stable at ~1.9%
PBT	3,110	2,752	13.0	2,907	7.0	
Tax Outgo	803	680	18.0	751	6.9	
PAT	2,307	2,071	11.4	2,156	7.0	Steady AUM expnsion aided earnings
Key Metrics						
GNPA	12,736	12,764	-0.2	12,199	4.4	Marginal uptick in GNPA at 4.57%, led by non-CV and PV segment
NNPA	6,788	6,166	10.1	6,793	-0.1	NNPA declined ~8 bps QoQ to 2.49%
AUM	281,309	243,043	15.7	272,249	3.3	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)	FY24	FY25	FY26E	FY27E
Interest Earned	33,599.7	40,307.6	47,424.7	54,006.5
Interest Expended	14,806.1	18,454.6	22,514.7	25,069.1
Net Interest Income	18,793.5	21,853.1	24,910.0	28,937.5
growth (%)	12.5%	16.3%	14.0%	16.2%
Non Interest Income	1,394.5	1,564.4	1,740.6	1,795.0
Net Income	20,188.1	23,417.4	26,650.6	30,732.5
Opex	5,986.1	7,156.6	8,000.9	8,944.5
Operating Profit	14,202.0	16,260.8	18,649.8	21,788.0
Provisions	4,518.3	5,311.7	6,017.6	7,072.7
PBT	9,683.6	10,949.1	12,632.1	14,715.3
Exceptional Item	-	1,553.7	-	-
Taxes	2,493.2	2,845.0	3,263.0	3,801.9
Net Profit	7,190.5	9,657.8	9,369.1	10,913.4
growth (%)	20.3%	34.3%	-3.0%	16.5%
EPS (₹)	38.3	51.4	49.8	58.1

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares (Crores)	187.9	188.0	188.0	188.0
EPS (₹)	38.3	51.4	49.8	58.1
BV (₹)	258.5	299.4	344.6	394.0
ABV (₹)	227.5	263.7	303.1	347.1
P/E	19.6	14.6	15.0	12.9
P/BV	2.9	2.5	2.2	1.9
P/ABV	3.3	2.8	2.5	2.2
NII/AUM	8.4	8.3	8.2	8.2
Cost to AUM	2.7	2.7	2.6	2.5
Gross Stage 3	5.4	4.5	4.8	4.9
Net Stage 3	2.6	2.6	2.6	2.5
RoE	14.8	17.2	14.5	14.7
RoA	3.1	3.3	2.9	2.9

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	376	376	376	376
Reserves and Surplus	48193	55905	64397	73674
Networth	48568	56281	64773	74050
Borrowings	185841	234197	260982	298292
Other Liabilities & Provisions	2866	3243	3436	3557
Total	237276	293721	329190	375899
Application of Funds				
Cash & Bal	7611	21366	14044	15448
Advances	207929	245393	286204	327120
Investment	10657	15788	14925	17124
Other assets	11079	11175	14018	16206
Total	237276	293721	329190	375899

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	16.5%	23.8%	12.1%	14.2%
Advances	20.9%	18.0%	16.6%	14.3%
Net interest income	12.5%	16.3%	14.0%	16.2%
Operating expenses	24.5%	19.6%	11.8%	11.8%
Net profit	20.3%	34.3%	-3.0%	16.5%
Net worth	12.2%	15.9%	15.1%	14.3%

Source: Company, ICICI Direct Research

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