Shriram Finance (SHRTRA)

CMP: ₹865 | Target ₹ 1080 (25%) | Target Period: 12 months | BUY

October 25, 2026

Weak monsoon trims growth; margins sustain earnings...

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 September 2026, SHF has a huge presence with 3,225 branches across India and employee count of 82,292 customer base of ~1.06 crore.

Q2FY27 performance: Shriram Finance reported healthy Q2FY27 performance, with AUM growing 17% YoY (4.9% QoQ) to ₹3.29 lakh crore, supported by continued traction in vehicle finance and strong growth in MSME and Gold. NIM expanded 48 bps QoQ to 9.52%, aided by deployment of equity capital raised from MUFG and lower funding cost (cost of liabilities down 15 bps QoQ to 8.41%). Credit cost increased to 2.03%, while PAT grew 59.4% YoY (6.7% QoQ) to ₹3,677 crore.

Investment Rationale:

- **Growth outlook moderated, though diversification cushions near-term headwinds:** FY27 AUM growth guidance was revised to 15–17% from ~18% earlier, reflecting caution amid weak monsoon. Growth remains supported by healthy CV/PV momentum, MSME expansion and continued scaling in Gold Finance, where the target of reaching ~5% of AUM over three years remains unchanged. Signs of revival in CE demand and a gradual increase in new-vehicle financing provide additional levers. Drought-related pressure on rural income remains the key near-term risk.
- **Profitability remains supported despite easing margin tailwinds:** NIM expanded to 9.5%, aided by MUFG capital infusion, while cost of liabilities declined to 8.4% and incremental borrowing cost to 7.3%. With residual MUFG proceeds fully deployed and excess liquidity utilised, the temporary capital benefit should gradually normalise as fresh borrowings increasingly fund growth. Management expects NIM to remain near current levels for one to two quarters before easing to ~9% over the medium term and ~8.5% over the long term. Cost-to-income is expected to rise towards ~25%, with technology spends likely to add to opex.
- **Healthy asset quality and improving profitability outlook:** Credit cost increased to ~2% of total assets as weak rainfall affected select geographies, though GS3/NS3 remained contained at 4.65%/2.31%. Management expects a temporary ~30–40 bps elevation in credit cost across select geographies during H2FY27, while retaining ~2% as the normalised long-term level. MSME stress remains largely seasonal, while higher gold delinquencies reflect transition to EMI/interest-servicing products rather than underlying credit deterioration. Healthy collateral values and improving coverage should contain loss severity, while credit cost normalisation should support profitability.

Rating and Target Price

- Diversified AUM growth, improving funding profile and operating leverage remain supportive of earnings, though management has moderated FY27 growth guidance to 15–17% amid weak monsoon and geopolitical uncertainty. Factoring impact of uneven mons0on on business growth and asset quality, we revise our valuation multiple at ~1.9x FY28E BV and target price of ₹1,080 (earlier ₹1200). Given recent correction in stock price, maintain BUY rating.

Key Financial Summary

₹ crore	FY24	FY25	FY26	3 year CAGR (FY23-FY26)	FY27E	FY28E	2 year CAGR (FY26-28E)
NII	18,794	21,853	25,124	15%	33,160	37,243	22%
PPP	14,202	16,261	18,631	15%	25,713	28,872	24%
PAT	7,190	9,761	9,998	19%	14,329	16,249	27%
ABV (₹)	227.5	263.7	313.0		463.7	516.7	
P/E	26.3	19.4	18.9		14.2	12.5	
P/ABV	4.4	3.8	3.2		1.9	1.7	
RoA	3.1	3.4	3.2		3.9	3.8	

Source: Company, ICICI Direct Research

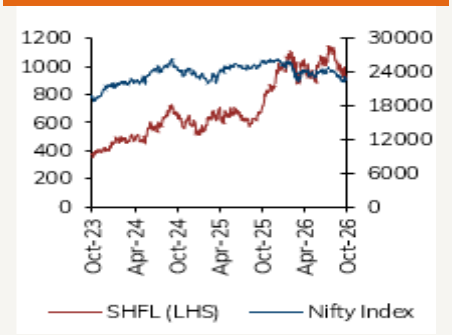
Particulars

Particulars	Amount
Market Capitalisation	₹ 2,03,542 crore
Networth	₹ 1,10,563 crore
52-week H/L	1154 / 710
Face Value	₹ 2

Shareholding pattern

	Dec 25	Mar 26	Jun 26	Sep 26
Promoter	25.4	25.4	20.3	20.3
FII	47.2	45.2	54.8	55.6
DII	21.3	23.3	19.9	19.0
Others	6.1	6.2	5.0	5.0

Price Chart



Key risks

(i) Moderation in AUM growth

(ii) Higher than expected stress accretion amid adverse monsoon, or prolonged geopolitical uncertainties

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Result Update

ICICI Securities – Retail Equity Research

Concall highlights and outlook

Operational Performance

- AUM grew 17% YoY (4.9% QoQ) to ₹3,29,022 crore; disbursements grew 25.7% YoY to ₹54,079 crore. PAT grew 59.4% YoY to ₹3,677 crore, while NII grew 38.2% YoY to ₹8,661 crore.
- CV AUM grew 19.4% YoY to ₹1,53,030 crore (~46.5% of AUM), while PV AUM grew 20.1% YoY to ₹71,542 crore (~21.7% of AUM).
- MSME AUM grew 13.7% YoY (10.1% QoQ) to ₹46,184 crore (~14% of AUM). Management attributed the acceleration to expansion beyond South/West to pan India, coupled with selective increase in ticket sizes. ~28% of the MSME book remains unsecured.
- Gold AUM grew 68.2% YoY (19.4% QoQ) to ₹8,974 crore (~2.7% of AUM). Disbursement stood at ₹5,443 crore (vs. ₹5,153 crore in Q1FY27), while LTV including accrued interest remained broadly stable at ~72–73%.
- CE AUM declined 22.4% YoY to ₹11,930 crore (~3.6% of AUM), though disbursement improved as government infrastructure spending and equipment demand picked up; industry CE sales grew 23% YoYs.

Margins

- NIM expanded to 9.5% (vs. 9.0% in Q1FY27 and 8.2% in Q2FY26), aided by the MUFG capital infusion. Residual proceeds of ₹2,167 crore were deployed during the quarter, taking utilisation of issue proceeds to 100%.
- Cost of liabilities declined 15 bps QoQ to 8.4% (down 18 bps since March), while incremental borrowing cost declined to 7.3% (vs. 7.7% in Q1FY27).
- Fresh borrowings stood at ~₹27,000 crore during the quarter as the borrowing program normalized to pre-March levels. Excess liquidity has been utilised, with liquidity now maintained at ~3 months of future liabilities. LCR stood at 303.8%.
- Debt to equity stood at 2.12x (vs. 2.14x in Q1FY27 and 3.82x in March 2026), while capital adequacy moderated to 33.2% (vs. 34.2% in Q1FY27).
- Cost to income improved to 22.5% (vs. 25.5% in Q1FY27 and 27.8% in Q2FY26), with Q1FY27 opex elevated due to annual back office bonuses.
- Insurance commission stood at ~₹350 crore in FY26. Management indicated potential annual impact of ~₹100 crore from the proposed IRDAI guidelines, which remains immaterial at the company level.

Asset Quality

- Gross Stage 3 remained broadly stable at 4.65% (vs. 4.64% in Q1FY27 and 4.57% in Q2FY26).
- Net Stage 3 improved to 2.31% (vs. 2.33% in Q1FY27 and 2.49% in Q2FY26), while Stage 3 PCR improved to 51.5% (vs. 51% in Q1FY27 and 46.7% in Q2FY26).
- Gross Stage 2 increased marginally to 7.04% (vs. 6.96% in Q1FY27 and 6.92% in Q2FY26).
- Credit cost increased to 2% of total assets (vs. 1.7% in Q1FY27 and Q2FY26), equivalent to ~2.3% of the loan book.
- Management attributed higher slippages largely to weak rainfall in drought prone regions, particularly Maharashtra, Karnataka and Telangana. However, given the largely asset backed portfolio and healthy underlying asset value, management does not

expects the current deterioration to translate into a structural increase in credit cost.

- MSME GS3 improved marginally to 5.1% (vs. 5.2% in Q1FY27), with PCR improving to 68.2%.
- Gold GS3 increased to 3.1% (vs. 2.6% in Q1FY27), largely due to customers transitioning from bullet repayment to EMI/interest servicing products. Management expects normalisation as customers adjust to the repayment structure, with collateral protection limiting loss risk.
- CE GS3 increased to 7.3% (vs. 7.1% in Q1FY27), though absolute GS3 declined to ₹862 crore (vs. ₹874 crore), reflecting contraction in the underlying book.
- Credit filters remain unchanged, though management has turned incrementally cautious in drought affected geographies.

Guidance

- FY27 AUM growth guidance was revised to 15–17% from ~18% earlier, reflecting caution amid weak monsoon and West Asia related uncertainty. Management remains constructive on H2 given seasonally stronger demand.
- Normalized credit cost guidance remains at ~2%; however, credit cost could remain ~30–40 bps higher in select products/geographies during Q2–Q3FY27. Management refrained from giving a revised FY27 guidance but expects the full year level to remain well below 2.3%.
- NIM is expected to remain near current levels for the next one to two quarters before moderating to ~9% over the medium term and ~8.5% over the long term, as the benefit from capital infusion normalises, borrowing cost increase and relatively lower yielding new vehicle mix rises.
- Incremental cost of funds is expected at ≤8%, though it could increase to ~8.35% if further rate hikes push up capital market rates. Overall liability cost is expected to remain around 8.4%. Management no longer expects the earlier targeted ~100 bps reduction in funding cost if the rate environment remains adverse.
- Cost to income is guided at ~25% over the medium to long term, with incremental technology investments likely to add to opex.
- MSME growth is expected to outpace overall AUM growth, while Gold remains targeted at ~5% of AUM over three years. Share of new vehicle financing is also expected to increase gradually.
- With excess liquidity utilized, incremental borrowings are expected to broadly track AUM growth here on.

Exhibit 1: Variance Analysis

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
NII	8,415	6,026	39.6	7,706	9.2	NIM expansion aided by MUFG capital infusion and lower funding cost
Other Income	419	366	14.5	502	-16.5	
Staff cost	1,084	944	14.8	1,142	-5.1	Led by employee addition for branch expansion.
Other Operating Expenses	941	1,005	-6.3	980	-4.0	
PPP	6,809	4,443	53.2	6,085	11.9	
Provision	1,877	1,333	40.8	1,463	28.3	Credit cost rose to 2.03% for Q2FY27 due to drought led stress
PBT	4,932	3,110	58.6	4,622	6.7	
Tax Outgo	1,255	803	56.3	1,178	6.6	
PAT	3,677	2,307	59.4	3,445	6.7	PAT grew 59%, supported by margin expansion and controlled opex
Key Metrics						
GNPA	15,213	12,736	19.4	14,478	5.1	GS3 stable at 4.65%
NNPA	7,381	6,788	8.7	7,096	4.0	NNPA stable at 2.31%
AUM	3,29,022	2,81,309	17.0	3,13,798	4.9	Growth led by healthy CV/PV and acceleration in MSME and gold. CE remained a drag

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	40,308	46,644	54,067	61,890
Interest Expended	18,455	21,520	20,907	24,648
Net Interest Income	21,853	25,124	33,160	37,243
growth (%)	16.3%	15.0%	32.0%	12.3%
Non Interest Income	1,564	1,534	1,761	1,937
Net Income	23,417	26,658	34,921	39,179
Opex	7,157	8,026	9,208	10,308
Operating Profit	16,261	18,631	25,713	28,872
Provisions	5,312	5,339	6,594	7,309
PBT	10,949	13,292	19,119	21,563
Exceptional Item	1,657	-	-	-
Taxes	2,845	3,294	4,790	5,314
Net Profit	9,761	9,998	14,329	16,249
growth (%)	35.7%	2.4%	54,067	61,890
EPS (₹)	51.9	53.2	20,907	24,648

Source: Company, ICICI Research

Exhibit 3: Key Ratios (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	188.0	188.1	235.3	235.3
EPS (₹)	51.9	53.2	60.9	69.1
BV (₹)	299.4	349.3	498.7	557.4
ABV (₹)	263.7	313.0	463.7	516.7
P/E	19.4	18.9	14.2	12.5
P/BV	3.4	2.9	1.7	1.6
P/ABV	3.8	3.2	1.9	1.7
NII/AUM	8.3	8.3	9.5	9.2
Cost to AUM	2.7	2.7	2.6	2.5
Gross Stage 3	4.5	4.5	4.8	5.0
Net Stage 3	2.6	2.3	2.4	2.4
RoE	17.3	15.2	12.2	12.4
RoA	3.4	3.2	3.9	3.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet (₹ crore)

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	376	376	471	471
Reserves and Surplus	55905	65329	116862	130673
Networth	56281	65705	117332	131144
Borrowings	234197	250690	252378	294545
Other Liabilities & Provisions	3331	4760	4823	4533
Total	293808	321155	374533	430221
Application of Funds				
Cash & Bal	21366	7938	13812	12042
Advances	245393	282452	327539	380781
Investment	15599	14783	17255	19024
Other assets	11451	15982	15927	18375
Total	293808	321155	374533	430221

Source: Company, ICICI Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	23.8%	9.3%	16.6%	14.9%
Advances	18.0%	15.1%	16.0%	16.3%
Net interest income	16.3%	15.0%	32.0%	12.3%
Operating expenses	19.6%	12.2%	14.7%	11.9%
Net profit	35.7%	2.4%	43.3%	13.4%
Net worth	15.9%	16.7%	78.6%	11.8%

Source: Company, ICICI Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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