

Shriram Finance

Mega capital infusion to drive next leg of growth

Shriram Finance (SHFL) has entered into a historic deal with MUFG Bank, which is set to infuse a whopping INR 396bn of equity capital into SHFL (post issue stake of 20% by MUFG Bank), subject to regulatory approvals. The equity infusion takes the net worth of SHFL to ~INR 1trn (almost equal to the net worth of BAF) providing sufficient capital to accelerate the loan growth. While SHFL historically has higher cost of funds vs. peers, it could witness improvement in its cost of funds and/or potential credit rating upgrade with a stronger balance sheet and presence of such a large partner. While the overcapitalization (pro-forma CRAR at ~35%; D/E at 2.3x) is likely to drive RoE lower during FY27-FY28E by ~300-350bps, SHFL is likely to accelerate the loan growth momentum with relatively improved pricing power in new CV/PV and MSME segments. We revise our FY26E/FY27E/FY28E earnings estimates to factor in equity capital infusion, higher loan growth and lower cost of funds and maintain ADD with a revised RI-based TP of INR 1,050 (implying 2.2x Sep-27 ABVPS vs. 2.0x earlier).

- **Growth capital for the foreseeable future:** SHFL has approved the preferential allotment of INR 396bn at INR 840.93 per share to MUFG Bank, a subsidiary of MUFG, implying post-issue stake of 20%, taking the promoter and promoter group stake down to 20.3%. MUFG Bank would nominate up to two non-independent directors to the SHFL's board, along with nomination of up to six non-senior management/non-key management personnel. With no trigger of an open offer and no change in promoter, we do not expect any major issues in regulatory approvals for the deal.
- **Tailwinds on the liabilities side of the balance sheet:** SHFL has the highest cost of funds among peers (~8.8% during FY25; ~80-120bps differential with peers). With a stronger balance sheet and MUFG Bank as a partner post the transaction, SHFL could benefit on the liabilities side with competitive rates as well as greater access to diversified source of funds. SHFL had increased the share of foreign borrowings during FY24-FY25, with slight contribution from domestic institutions.
- **Room for loan growth acceleration ahead:** SHFL is likely to accelerate the loan growth momentum (~16% YoY in Q2FY26) with reduced leverage levels and overcapitalization. With benefit on the liabilities side that has traditionally been a handicap vs. peers, SHFL is likely to compete in segments such as new CV and PVs, MSMEs, etc., driving ~17-18% AUM CAGR during FY27-FY28E.
- **Near-term RoE dilutive, valuation discount narrowing vs. peers:** SHFL has emerged as the third largest retail focused NBFC (post BAF and LICHF) and the second largest NBFC by net worth. While the RoEs during FY26-FY28E are likely to be muted, we expect acceleration in loan growth momentum, going ahead. However, our implied P/E multiple to SHFL (16.4x Sep-27 EPS) is at a ~20% discount to CIBC due to a differential in return ratios and steady state loan growth outlook.

Financial Summary (Standalone)

Y/E Mar (INR bn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
NII	160.6	187.9	218.5	253.5	330.8	383.1
PPOP	123.4	142.0	162.6	189.6	258.1	298.9
PAT	59.8	71.9	82.7	99.4	138.6	161.9
EPS (INR)	31.9	38.3	44.0	42.3	59.0	68.9
ROAE (%)	17.3	15.7	16.1	12.4	12.6	13.2
ROAA (%)	3.5	3.3	3.2	3.1	3.8	3.9
ABVPS (INR)	193	219	264	410	453	501
P/ABV (x)	4.7	4.1	3.4	2.2	2.0	1.8
P/E (x)	28.2	23.6	20.5	21.3	15.3	13.1

Source: Company, HSIE Research

ADD

CMP (as on 19 Dec 2025)	INR 902
Target Price	INR 1,050
NIFTY	25,966

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 750	INR 1,050
EPS %	FY26E	FY27E
	1.8%	22.9%

KEY STOCK DATA

Bloomberg code	SHFL IN
No. of Shares (mn)	1,881
MCap (INR bn) / (\$ mn)	1,697/18,923
6m avg traded value (INR mn)	4,680
52 Week high / low	INR 914/493

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	42.4	38.3	53.1
Relative (%)	39.6	33.9	45.9

SHAREHOLDING PATTERN (%)

	Jun-25	Sep-25
Promoters	25.4	25.4
FIs & Local MFs	16.3	18.7
FPIs	52.6	49.6
Public & Others	5.7	6.3
Pledged Shares	0.0	

Source: BSE

Pledged shares as % of total shares

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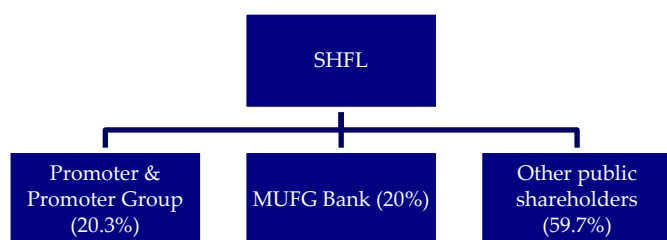
ayush.pandit@hdfcsec.com
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Exhibit 1: FY25 annual report dashboard

SHFL IN	Units	FY21	FY22	FY23	FY24	FY25
AUM (INR bn)	INR bn	1,172	1,270	1,857	2,249	2,632
As % of gross advances						
CRE exposure	%	0.0%	0.0%	0.7%	0.6%	0.7%
Capital market exposure	%	0.0%	0.0%	0.9%	0.8%	0.1%
Secured	%	98%	99%	94%	92%	90%
RWA as % of assets	%	73%	79%	82%	85%	80%
Productivity (per month)						
AUM/branch	INR mn	645.3	685.2	635.5	729.6	817.4
AUM/employee	INR mn	47.9	49.9	29.0	30.1	33.0
Disbursements/branch	INR mn	18.4	39.9	38.9	39.5	43.5
Disbursements/employee	INR mn	1.3	2.9	1.5	1.6	1.7
% YoY						
AUM/branch	%	3%	6%	-7%	15%	12%
AUM/employee	%	23%	4%	-42%	4%	9%
Disbursements/branch	%	-23%	116%	-3%	1%	10%
Disbursements/employee	%	-5%	113%	-50%	9%	8%
Concentration metrics						
Top 20 - % of advances	%	0.3%	0.3%	0.2%	0.2%	0.2%
Top 20 - % of exposure	%	0.3%	0.3%	0.2%	0.2%	0.2%
Top 20 - % of deposits	%	4.6%	3.8%	2.7%	1.9%	2.5%
Top 4 - % GNPA	%	1.7%	1.7%	1.2%	1.1%	0.6%
Off-balance sheet						
Securitised borrowings	%	22.0%	17.1%	14.0%	15.7%	16.2%
Assets assigned o/s (% of AUM)	%	0.9%	1.1%	1.3%	1.4%	1.2%
Liabilities						
Borrowings mix						
Banks - Term loans	%	13%	15%	20%	19%	16%
Banks - CC/OD	%	1%	0%	0%	2%	0%
ECB	%	21%	20%	14%	14%	21%
Debentures	%	21%	19%	20%	17%	16%
CPs	%	0%	0%	0%	1%	0%
Tier II	%	4%	4%	3%	2%	1%
Deposits	%	15%	19%	23%	24%	24%
Securitisation	%	22%	17%	14%	16%	16%
Others	%	4%	5%	6%	6%	5%
Cost of funds						
Debt securities	%	15.4%	17.6%	15.5%	12.2%	12.6%
Other borrowings	%	6.7%	5.5%	7.3%	7.3%	7.7%
Tier II	%	10.2%	11.0%	11.0%	10.9%	7.9%
Deposits	%	8.3%	9.0%	8.1%	8.3%	8.5%
LCR %	%		0%	210%	196%	287%
Employees						
Employee attrition rate %	%	20%	19%	31%	30%	31%
Asset Quality						
GS II %	%	12.0%	10.6%	8.9%	6.8%	6.9%
GS III %	%	7.1%	7.1%	6.2%	5.5%	4.6%
Write-offs (%)	%	1.3%	2.2%	2.1%	1.6%	2.2%
Gross Slippages (%)	%	5.0%	6.5%	8.8%	5.6%	4.9%
Upgrades & recoveries (%)	%	4.9%	4.6%	5.5%	4.3%	3.0%
Net Slippages (%)	%	0.1%	1.9%	3.3%	1.3%	1.9%
PCR – Stage I (%)	%	1.4%	3.3%	2.9%	3.3%	3.5%
PCR – Stage II (%)	%	9.7%	9.1%	6.8%	7.4%	8.0%
PCR – Stage III (%)	%	42.0%	50.0%	50.1%	51.8%	43.3%

Source: Company, HSIE Research

Exhibit 2: SHFL's shareholding pattern post equity infusion by MUFG Bank



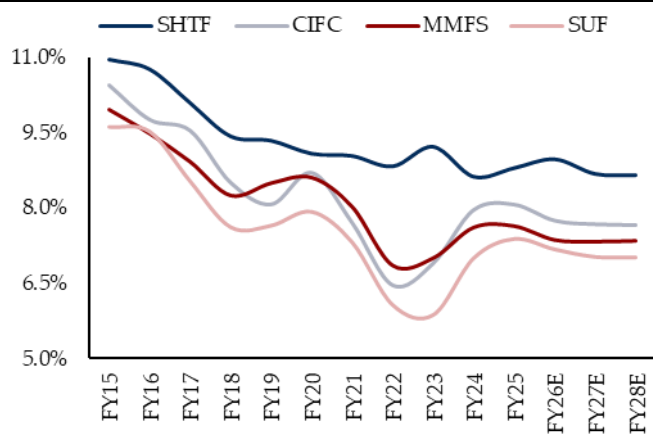
Source: Company, HSIE Research

Exhibit 3: SHFL would become the second largest NBFC by networth

NBFC (Sep-25)	Net worth (INR bn)	AUM (INR bn)
BAF	1,032	4,623
SHFL*	1,000	2,813
PFC	975	5,612
REC	827	5,822
LICHF	384	3,118
TATACAP	363	2,439
PIEL	274	914
ABCAP	264	1,396
LTF	264	1,071
CIFC	259	1,992
MMFS	230	1,272

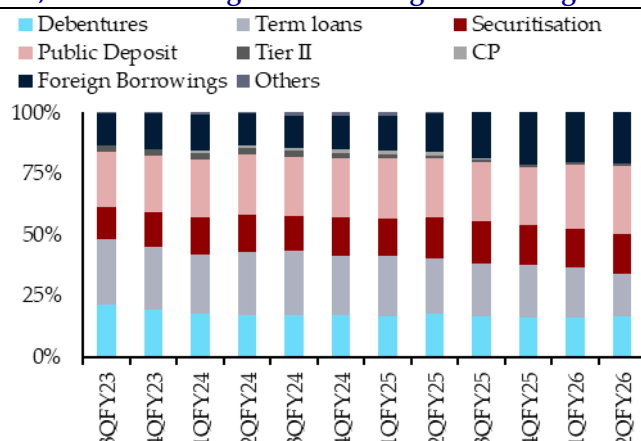
Source: Company, HSIE Research | Note: *Pro-forma networth post equity infusion by MUFG Bank

Exhibit 4: Significant gap in cost of funds vs. peers



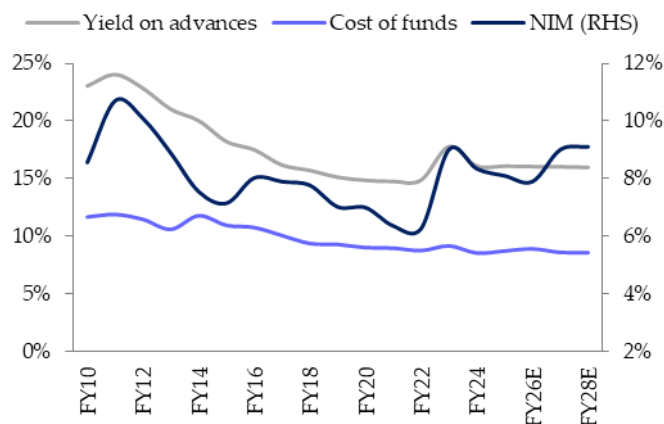
Source: Company, HSIE Research

Exhibit 5: Reducing share of term loans in the borrowings mix, with increasing share of foreign borrowings



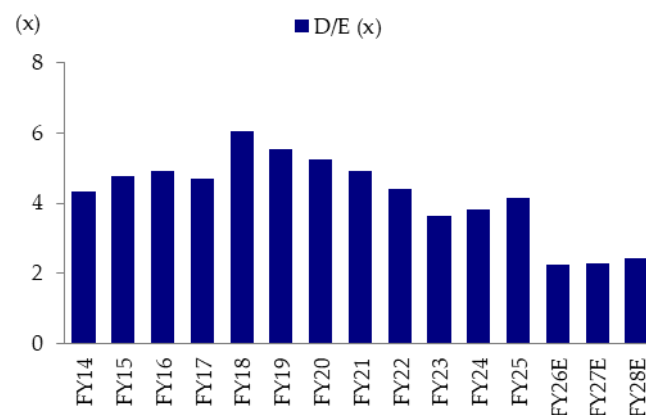
Source: Company, HSIE Research

Exhibit 6: NIMs likely to reflate sharply during FY27-FY28E



Source: Company, HSIE Research

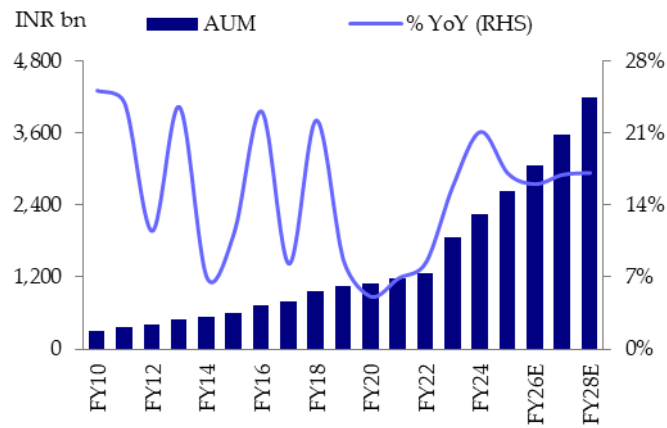
Exhibit 7: Leverage ratio likely to drop in the near-term



Source: Company, HSIE Research

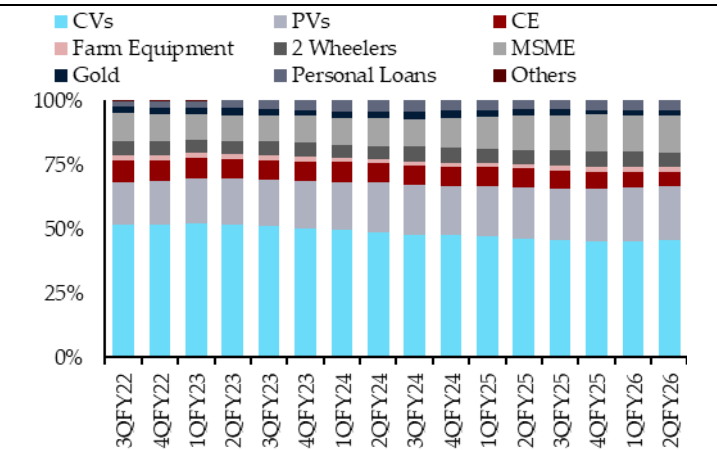
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Exhibit 8: Expect AUM CAGR of ~17% during FY26-FY28E



Source: Company, HSIE Research

Exhibit 9: AUM mix shifting towards non-CV segments



Source: Company, HSIE Research

Exhibit 10: SHFL's CV/CE loan growth has remained subdued vs. peers during FY23-FY25

% YoY	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
SHFL	9%	24%	10%	7%	11%	12%	12%	15%	10%
CIFC	8%	40%	35%	2%	9%	2%	24%	22%	18%
SUF	20%	23%	18%	4%	-4%	-7%	19%	25%	16%
HDFCB*	24%	29%	25%	0%	8%	18%	35%	26%	15%
IIB	14%	26%	26%	1%	1%	-3%	19%	17%	-4%
KMB	45%	40%	30%	-2%	6%	10%	24%	33%	17%

Source: Company, HSIE Research | * Consolidated | Note: HDFC securities is a subsidiary of HDFC Bank

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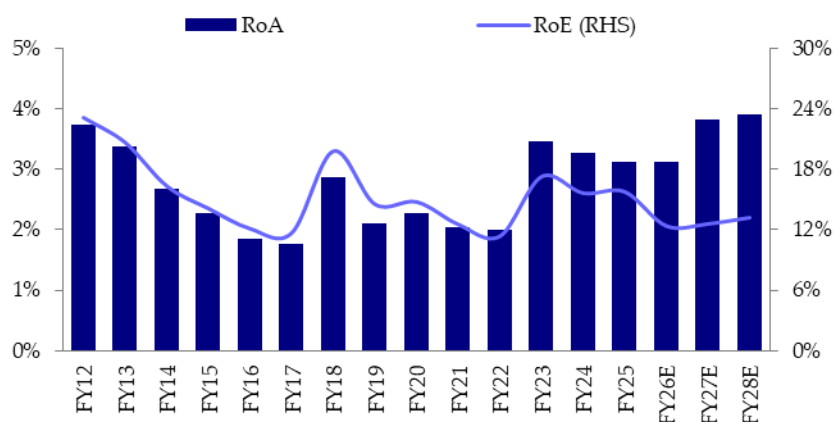
Exhibit 11: Peer comparison (FY25)

FY25	Units	CIFC	SHFL	MMFS	SUF	INDOSTAR	HINDUJA	SKFIN	KOGTA
AUM	INR bn	1,847	2,632	1,197	515	80	617	133	65
Disbursements	INR bn	1,009	1,646	579	284	53	282	84	40
Growth (% YoY)									
AUM	%	27%	17%	17%	17%	-9%	25%	27%	36%
Disbursements	%	14%	16%	3%	9%	15%	6%	16%	27%
Margins									
Yield on advances	%	13.9%	16.1%	13.0%	11.5%	16.8%	11.9%	17.4%	15.7%
Cost of funds	%	8.1%	8.8%	7.6%	7.4%	11.4%	8.6%	9.5%	8.7%
Spread	%	5.8%	7.3%	5.4%	4.1%	5.3%	3.3%	7.9%	7.0%
NIM	%	6.3%	8.1%	5.9%	4.4%	5.0%	3.6%	8.5%	7.6%
% Borrowings									
Banks	%	46%	16%	47%	47%	46%	79%	53%	76%
NCD + CPs	%	17%	16%	23%	34%	17%	3%	19%	8%
Off balance sheet	%	0%	1%	0%	3%	6%	21%	9%	15%
Cost efficiency									
Cost-to-income ratio	%	39%	31%	42%	31%	72%	38%	49%	52%
Opex-to-AUM ratio	%	3.2%	2.9%	3.1%	2.2%	5.8%	1.9%	5.8%	5.8%
Opex/branch (annualised)	INR mn	35.6	22.7	24.7	14.6	10.0	NA	11.2	13.7
Productivity									
AUM/branch	INR mn	1,232	835	865	725	166	NA	216	272
Disbursals/branch (p.m.)	INR mn	56.0	43.5	34.9	33.3	9.1	NA	11.4	14.1
Disbursals/employee (p.m.)	INR mn	1.4	1.8	1.9	4.6	1.0	NA	0.6	0.6
Employees/branch	x	40.3	24.8	18.5	7.2	9.9	NA	19.2	23.4
Repayment rate	%	42%	56%	40%	48%	69%	32%	54%	48%
Asset Quality									
GS III	%	2.8%	4.6%	3.7%	1.5%	4.5%	3.5%	4.7%	2.5%
NS III	%	1.6%	2.7%	1.9%	0.8%	2.5%	2.1%	3.4%	1.7%
GS II	%	2.5%	6.9%	5.4%	4.0%	6.1%	9.3%	3.4%	3.3%
PCR - Stage III	%	45%	43%	51%	49%	47%	42%	29%	32%
Credit costs	%	1.5%	2.2%	1.5%	0.5%	2.0%	1.5%	2.2%	1.5%
(% of avg. assets)									
Interest earned	%	13.2%	15.2%	12.2%	10.3%	11.9%	10.6%	15.3%	13.6%
Interest expended	%	7.0%	7.0%	6.3%	5.9%	7.4%	7.0%	7.0%	6.2%
Net interest income	%	6.3%	8.2%	5.9%	4.4%	4.5%	3.6%	8.3%	7.5%
Non-interest income	%	1.3%	0.6%	0.6%	1.7%	2.1%	1.8%	1.9%	2.7%
Operating expenses	%	3.0%	2.7%	2.7%	1.9%	4.8%	2.1%	5.0%	5.4%
Pre-provisioning profit	%	4.6%	6.1%	3.8%	4.2%	1.9%	3.3%	5.2%	4.9%
Provisions	%	1.4%	2.0%	1.3%	0.4%	1.4%	1.3%	1.7%	1.2%
PBT	%	3.2%	4.1%	2.5%	3.7%	0.5%	2.1%	3.5%	3.7%
ROAA	%	2.4%	3.1%	1.9%	2.8%	0.5%	1.5%	2.7%	2.7%
Assets/Equity	x	8.3	5.1	6.6	5.3	3.1	6.5	4.2	3.7
RoAE	%	19.7%	15.8%	12.4%	15.0%	1.6%	10.1%	11.5%	10.0%

Source: Company, HSIE Research | Note: SHFL's FY25 RoA/RoE exclude one-time gains from stake sale in erstwhile Shriram Housing Finance

We revise our FY26E/FY27E/FY28E earnings estimates upwards by 2%/23%/22% to factor in equity infusion, higher loan growth and lower cost of funds. We maintain ADD with a revised RI-based TP of INR 1,050 (implying 2.2x Sep-27 ABVPS).

Exhibit 12: Healthy cross-cycle RoEs



Source: Company, HSIE Research | IND AS from FY18 onwards

Exhibit 13: Change in estimates

(INR bn)	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
AUM	3,035	3,053	0.6%	3,490	3,570	2.3%	4,022	4,181	4.0%
NIM (%)	8.0	7.9	-9 bps	8.3	9.0	69 bps	8.3	9.1	77 bps
NII	250.3	253.5	1.3%	294.2	330.8	12.5%	338.7	383.1	13.1%
PPOP	186.5	189.6	1.6%	220.9	258.1	16.9%	255.1	298.9	17.1%
PAT	97.7	99.4	1.8%	112.8	138.6	22.9%	132.3	161.9	22.3%
Adj. BVPS (INR)	301	410	36.1%	342	453	32.6%	390	501	28.4%

Source: Company, HSIE Research

Financials (Standalone)

Income Statement

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest earned	286,074	335,997	403,076	463,143	546,493	631,708
Interest expended	125,458	148,061	184,546	209,690	215,672	248,591
Net interest income	160,616	187,935	218,531	253,453	330,821	383,117
Other income	11,955	13,980	15,518	17,062	19,207	21,391
Total income	172,571	201,915	234,049	270,515	350,029	404,509
Operating expenditure	49,131	59,895	71,440	80,963	91,885	105,653
Pre-provisioning operating profit	123,441	142,020	162,609	189,552	258,143	298,856
Non-tax provisions	41,592	45,183	53,117	56,082	72,051	81,528
Profit before tax	81,849	96,836	109,493	133,469	186,092	217,328
Share of net profit of associates and joint ventures	0	0	0	0	0	0
Exceptional gain/(loss)	0	0	14,893	0	0	0
Tax expenditure	22,056	24,932	26,776	34,035	47,453	55,419
Profit attributable to non-controlling interests	0	0	0	0	0	0
Profit after tax	59,793	71,905	97,610	99,435	138,639	161,909
Adjusted Profit after tax	59,793	71,905	82,717	99,435	138,639	161,909

Source: Company, HSIE Research

Balance Sheet

(INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,744	3,758	3,761	4,703	4,703	4,703
Reserves and surplus	427,374	481,222	558,616	1,034,672	1,152,147	1,283,486
Net worth	433,066	485,684	562,806	1,039,804	1,157,279	1,288,619
Borrowings	1,579,063	1,858,411	2,341,973	2,336,798	2,638,004	3,113,395
Other liabilities and provisions	24,509	28,665	30,551	36,996	43,222	50,591
Total equity and liabilities	2,036,639	2,372,760	2,935,329	3,413,598	3,838,505	4,452,605
Cash and cash equivalents	158,174	108,126	213,657	272,323	176,527	171,377
Investments	85,651	106,566	155,987	167,195	193,499	224,151
Advances	1,719,846	2,079,294	2,453,928	2,845,875	3,324,779	3,891,640
Fixed assets	19,861	18,807	17,246	18,971	20,868	22,955
Other assets	53,108	59,966	94,510	109,235	122,832	142,483
Total assets	2,036,639	2,372,760	2,935,329	3,413,598	3,838,505	4,452,605

Source: Company, HSIE Research

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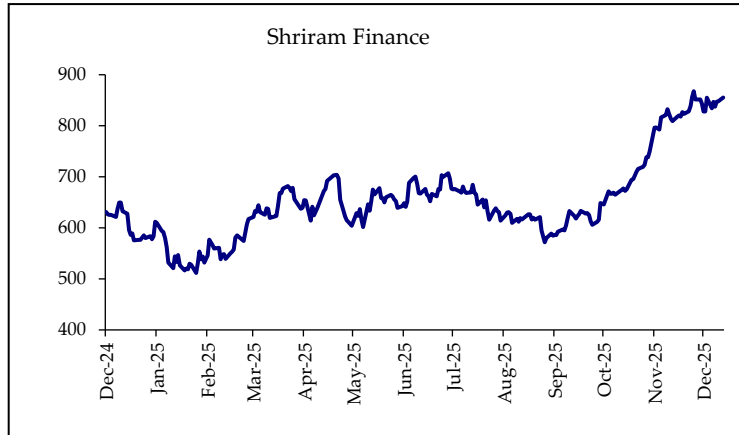
Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
VALUATION RATIOS						
EPS (INR)	31.9	38.3	44.0	42.3	59.0	68.9
Earnings Growth (%)	120.8%	20.3%	15.0%	20.2%	39.4%	16.8%
BVPS (ex reval.) (INR)	1,114.5	1,250.5	299.2	442.1	492.1	547.9
Adj. BVPS (ex reval. & 100% cover) (INR)	192.6	219.1	263.5	409.8	453.0	501.0
ROAA (%)	3.5%	3.3%	3.1%	3.1%	3.8%	3.9%
ROAE (%)	17.3%	15.7%	15.8%	12.4%	12.6%	13.2%
P/E (x)	28.2	23.6	20.5	21.3	15.3	13.1
P/ABV (x)	4.7	4.1	3.4	2.2	2.0	1.8
P/PPOP (x)	2.7	2.4	10.4	11.2	8.2	7.1
Dividend yield (%)	0.8%	1.2%	1.1%	1.0%	1.4%	1.7%
PROFITABILITY (%)						
Yield on Advances (%)	17.8%	16.1%	16.1%	16.1%	16.1%	16.0%
Cost of Funds (%)	9.2%	8.6%	8.8%	9.0%	8.7%	8.6%
Core Spread (%)	8.6%	7.5%	7.3%	7.1%	7.4%	7.4%
NIM (%)	9.0%	8.3%	8.1%	7.9%	9.0%	9.1%
OPERATING EFFICIENCY						
Cost to average AUM ratio (%)	3.1%	2.9%	2.9%	2.8%	2.8%	2.7%
Cost-income ratio (%)	28.5%	29.7%	30.5%	29.9%	26.3%	26.1%
BALANCE SHEET STRUCTURE RATIOS						
Loan growth (%)	47.4%	20.9%	18.0%	16.0%	16.8%	17.0%
AUM growth (%)	46.2%	21.1%	17.0%	16.0%	16.9%	17.1%
Borrowing growth (%)	37.9%	17.7%	26.0%	-0.2%	12.9%	18.0%
Debt/Equity (x)	3.6	3.8	4.2	2.2	2.3	2.4
Equity/Assets (%)	21.3%	20.5%	19.2%	30.5%	30.1%	28.9%
Equity/Loans (%)	25.2%	23.4%	22.9%	36.5%	34.8%	33.1%
Total Capital Adequacy Ratio (CAR) (%)	22.6%	20.3%	20.7%	35.2%	34.8%	33.6%
Tier I CAR (%)	21.2%	19.6%	20.0%	34.6%	34.3%	33.1%
ASSET QUALITY						
GS III (INR mn)	113,822	120,812	118,388	137,374	166,314	199,028
NS III (INR mn)	56,749	58,244	67,145	75,902	91,898	110,481
Slippages (%)	8.8%	5.6%	4.9%	5.5%	5.5%	5.5%
GS III (%)	6.2%	5.5%	4.6%	4.6%	4.7%	4.8%
NS III (%)	3.3%	2.8%	2.7%	2.7%	2.8%	2.8%
Coverage Ratio (%)	50.1%	51.8%	43.3%	44.7%	44.7%	44.5%
Provision/AUM (%)	2.7%	2.2%	2.2%	2.0%	2.2%	2.1%
Provision/Gross advances (%)	2.7%	2.2%	2.2%	2.0%	2.2%	2.1%
(% of average assets)						
Interest earned	16.5%	15.2%	15.2%	14.6%	15.1%	15.2%
Interest expended	7.3%	6.7%	7.0%	6.6%	5.9%	6.0%
Net interest income	9.3%	8.5%	8.2%	8.0%	9.1%	9.2%
Non-interest income	0.7%	0.6%	0.6%	0.5%	0.5%	0.5%
Operating expenses	2.8%	2.7%	2.7%	2.6%	2.5%	2.5%
Pre-provisioning profit	7.1%	6.4%	6.1%	6.0%	7.1%	7.2%
Non-tax provisions	2.4%	2.0%	2.0%	1.8%	2.0%	2.0%
Others	0.0%	0.0%	0.6%	0.0%	0.0%	0.0%
Provision for tax	1.3%	1.1%	1.0%	1.1%	1.3%	1.3%
ROAA	3.5%	3.3%	3.1%	3.1%	3.8%	3.9%
Average assets/Average equity (x)	5.0	4.8	5.1	4.0	3.3	3.4
ROAE	17.3%	15.7%	15.8%	12.4%	12.6%	13.2%

Source: Company, HSIE Research

Shriram Finance: Company Update

Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Shriram Finance: Company Update

Disclosure:

We, **Deepak Shinde, PGDM, Krishnan ASV, PGDM, and Ayush Pandit, CA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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