January 10, 2025

Shriram Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	-	-	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debenture programme	975.0	975.0	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debenture programme	50.0	0.0	[ICRA]AA+ (Stable); reaffirmed and withdrawn
Total	**1,025.0**	**975.0**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has reaffirmed the rating for the various borrowing programmes of Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)]. The rating continues to factor in SFL's leadership position in the preowned commercial vehicle (CV) financing segment with a long-standing track record, established brand, strong customer reach and granular retail loan book. Also, the merger with Shriram City Union Finance Limited (SCUF) resulted in a diversification in SFL's product offering, which now includes vehicle finance, personal loans, auto loans, two-wheeler (2W) finance, gold loans and small enterprise loans. While the share of other products in the assets under management (AUM) will increase over the medium term, SFL is expected to maintain its competitive position in the CV segment.

The rating also considers the company's track record of healthy profitability and its comfortable capitalisation profile. SFL's standalone capitalisation profile is comfortable with a reported net worth of Rs. 50,729 crore[1], a managed gearing of 4.2 times and a capital adequacy ratio of 20.2% (Tier I: 19.4%) as on September 30, 2024. On a consolidated basis, the net worth stood at Rs. 51,736 crore[2] with a managed gearing of 4.1 times as on September 30, 2024.

Given the exposure to the high-yielding borrower segment with modest credit profiles, the overall asset quality remains moderate, though it has been improving. SFL's standalone gross and net stage 3 assets declined to 5.3% and 2.6%, respectively, as on September 30, 2024[3], from 5.5% and 2.7%, respectively, as on March 31, 2024 (6.2% and 3.2%, respectively, as on March 31, 2023). The asset quality remains monitorable considering the target borrower segment. However, SFL has demonstrated its ability to manage delinquencies across business cycles.

SFL has a track record of raising retail borrowings besides tapping funds from a diverse set of investors. This has facilitated a diversified borrowing mix for supporting the large-scale operations. However, the borrowing cost has remained relatively higher than peers. In this regard, SFL's sustained ability to mobilise funds from different sources at competitive rates remains key from a rating perspective.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's expectation that SFL's strong market position in the preowned CV financing segment will continue to result in a steady growth trajectory and healthy profitability. This, coupled with comfortable capitalisation, will continue to support the credit profile despite the moderate asset quality.

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[1] *Adjusted for goodwill of Rs. 1,407 crore*

[2] *Adjusted for goodwill of Rs. 1,407 crore and including non-controlling interest of Rs. 751 crore*

[3] *Consolidated gross stage 3 and net stage 3 assets of 5.1% and 2.7%, respectively, as of September 2024, including the housing loan business of its erstwhile subsidiary, Shriram Housing Finance Limited*

ICRA has reaffirmed and simultaneously withdrawn the rating assigned to the Rs. 50.00-crore non-convertible debenture (NCD) programme as the instruments have matured/been redeemed with no amount outstanding against the same. This is in accordance with ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Diversified product offerings with leadership position in preowned CV financing segment – SFL is one of the largest retail non-banking financial companies (NBFCs) with consolidated AUM of about Rs. 2,58,279 crore as on September 30, 2024 (standalone AUM of Rs. 2,43,043 crore). It is the largest player in the preowned CV financing segment in the country with a dominant market position. The company's proven track record, along with its well-established franchise (3,828 branches and rural centres as on September 30, 2024), results in strong customer reach and a granular retail loan book. Moreover, the merger has resulted in a diversification in SFL's product offering, which now includes CV financing (75%), small enterprise loans (13%), and 2W finance (5%) with personal loan, gold loan and small and medium-sized enterprise (SME) loans accounting for the balance on a standalone basis. Pre-merger, SFL had a pan-India presence in the CV finance business while the other offerings through SCUF were largely concentrated in the southern states of India. The merger provided SFL access to a larger customer base and the chance to explore cross-selling opportunities, besides widening the reach of relatively less penetrated products in newer geographies. While the share of other products in the AUM will increase over the medium term, SFL is expected to maintain its competitive position in the CV segment.

Healthy profitability – SFL has healthy yields and lending spreads, commensurate with the underlying credit risk of its target borrower segment. The company was largely able to maintain its net interest margin (NIM) in H1 FY2025, which was 7.9% of average managed assets (AMA) vis-à-vis 8.0% in FY2024 at the standalone level, while operating efficiency continues to improve gradually. Also, with the improving asset quality, SFL's credit cost has been moderating and stood at 1.7% of AMA in H1 FY2025 on a standalone basis compared to 1.7% in FY2024 and 2.1% in FY2023. At the standalone level, the company reported a return on average managed assets (RoMA) of 3.0% in H1 FY2025 compared to 3.1% in FY2024. On a consolidated basis, RoMA was 3.0% in H1 FY2025 (3.0% in FY2024). Overall, SFL is expected to maintain a healthy profitability profile with a gradual improvement in the operating efficiency, provided credit costs remain under control.

Comfortable capitalisation – SFL's standalone capitalisation profile is comfortable with a reported net worth of Rs. 50,729 crore, a managed gearing of 4.2 times and a capital adequacy ratio of 20.2% (Tier I: 19.4%) as on September 30, 2024. On a consolidated basis, the net worth stood at Rs. 51,736 crore while the managed gearing was 4.1 times as on September 30, 2024. The company had last raised capital in FY2022 through the issuance of equity shares via a qualified institutional placement and a preferential issuance of shares to promoters, aggregating Rs. 2,479 crore (net of issue expenses). Prior to this the company has raised Rs. 1,492 crore via rights issue in FY2021. Given the expected growth trajectory and adequate internal capital generation, the capitalisation shall remain at a reasonable level with a comfortable cushion over the regulatory minimum requirements.

Diversified funding mix; ability to reduce cost of funding remains monitorable – As on September 30, 2024, SFL's standalone on-balance sheet borrowings exceeded Rs. 2,07,000 crore (exceeded Rs. 2,18,000 crore on a consolidated basis) and are fairly diversified, primarily comprising public deposits (24%), term loans (22%), non-convertible debentures (NCDs; 18%), external commercial borrowings (ECBs; 15%), and securitisation (17%). It raised Rs. 58,102 crore in H1 FY2025 vis-à-vis Rs. 39,705 crore in H1 FY2024 (Rs. 94,792 crore in FY2024) from diverse sources, including Rs. 6,225 crore through ECBs. ICRA takes cognisance of the company's track record of raising retail borrowings, besides tapping funds from a diverse set of investors, which has supported its large-scale operations and borrowing programme. Further, SFL has limited reliance on short-term sources of funding such as commercial paper (2% as on September 30, 2024), which augurs well from a liquidity perspective. Nonetheless, its borrowing cost has remained relatively higher than peers. In this regard, SFL's sustained ability to mobilise funds from different sources at competitive rates remains monitorable.

Credit challenges

Modest borrower profile and moderate asset quality – SFL's target borrowers primarily comprise high-yielding segments with modest credit profiles. These borrowers generally have a limited credit history and restricted buffer to absorb income shocks. Hence, the inherent credit risk in the portfolio is high. The same has been reflected in the moderate asset quality over the years. Consequently, SFL's asset quality indicators also remain moderate, but improving, with standalone gross and net stage 3 assets of 5.3% and 2.6%[4], respectively, as on September 30, 2024, compared to 5.5% and 2.7%, respectively, as on March 31, 2024 (6.2% and 3.2%, respectively, as on March 31, 2023). Although the company has demonstrated a track record of managing delinquencies through business cycles, the asset quality metrics shall remain key monitorable factors.

Environmental and social risks

Given the service-oriented business of SFL, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. However, the residual value of the security could reduce in case of policy changes, such as incremental rulings on the reduction in the operating life of CVs, thereby impacting the profitability. Further, there is increasing interest from policymakers towards identifying the exposure of financing companies to carbon emissions through their financing activities. However, this process is in an early stage and ICRA expects any adverse implications to manifest only over a longer time horizon, giving financing companies adequate time to adapt and minimise the credit implications.

Exposure to social risks is low for a financial institution like SFL. The company serves the financing needs of a relatively underserved borrower category, which supports social inclusion and economic development. ICRA notes that a large portion of SFL's portfolio qualifies for priority sector lending, which augurs well for its ability to do securitisation transactions. Moreover, the company has demonstrated its ability to tap resources from overseas markets/impact investors through social bond issuances.

Liquidity position: Strong

The company had lien-free on-balance sheet liquidity of Rs. 12,423 crore, as on September 30, 2024, and its liquidity profile is further supported by the availability of unutilised funding lines. SFL has consistently maintained a high liquidity coverage ratio (235% for the quarter ended September 30, 2024; 196% for the quarter ended March 31, 2024; 220% for the quarter ended September 30, 2023), well above the regulatory requirement. As on September 30, 2024, its asset-liability maturity (ALM) profile was characterised by positive cumulative mismatches across the near-term and medium-term maturity buckets, supported by the relatively comfortable matching of the average tenor of the assets and liabilities. The company's diversified funding mix with an established track record of raising funds from diverse sources also supports its liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in the asset quality with the gross stage 3 assets remaining below 5%, while maintaining healthy earnings and an adequate capitalisation profile, and improvement in the cost of borrowings could positively impact the rating.

Negative factors – A deterioration in the asset quality, leading to the sustained weakening of the solvency and/or profitability, could negatively impact the rating. Significant weakening in the capital adequacy would also exert pressure on the rating.

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[4] *Consolidated gross stage 3 and net stage 3 assets of 5.1% and 2.7%, respectively, as of September 2024, including the housing loan business of its erstwhile subsidiary, Shriram Housing Finance Limited*

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies Policy on Withdrawal of Credit Ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Shriram Finance Limited [SFL; erstwhile Shriram Transport Finance Company Limited (STFC)], incorporated in 1979, is a part of the Shriram Group of companies and an upper layer non-banking financial company (NBFC). Based on the National Company Law Tribunal (NCLT) order dated November 14, 2022, the operations of Shriram City Union Finance Limited (SCUF) and Shriram Capital Limited were merged with STFC, which was rechristened Shriram Finance Limited on November 30, 2022.

SFL enjoys a leadership position in preowned commercial vehicle finance and has a pan-India presence with more than 3,700 branches and other offices. As on September 30, 2024, SFL had a standalone AUM of Rs. 2.43 lakh crore comprising commercial vehicle finance (46%), passenger vehicle finance (20%), small and medium-sized enterprise (SME) lending (13%), construction equipment and farm equipment finance (9%), two-wheeler loans (6%), personal loans (3%) and gold loans (3%). On a consolidated basis, the AUM stood at Rs. 2.58 lakh crore comprising commercial vehicle finance (43%), passenger vehicle finance (19%), SME lending (13%), construction equipment and farm equipment finance (9%), two-wheeler loans (5%), housing loans (6%; through its erstwhile subsidiary Shriram Housing Finance Limited), personal loans (3%), and gold loans (2%).

Key financial indicators

Shriram Finance Limited (consolidated)	FY2023	FY2024	H1 FY2025*
Total income	30,508	36,413	19,694
Profit after tax	6,011	7,391	4,179
Total managed assets	2,23,769	2,66,453	2,84,652
Return on managed assets	2.8%	3.0%	3.0%
Managed gearing (times)	4.0	4.2	4.1
Gross stage 3 assets	6.0%	5.2%	5.1%
Capital-to-risk weighted assets ratio#	22.6%	20.3%	20.2%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; *Limited review; #Standalone basis*

Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill; Managed gearing includes direct assignment as debt

Shriram Finance Limited (standalone)	FY2023	FY2024	H1 FY2025
Total income	29,803	34,998	19,694
Profit after tax	5,979	7,190	4,052
Total managed assets	2,16,010	2,52,802	2,80,054
Return on managed assets	3.2%	3.1%	3.0%
Managed gearing (times)	3.8	4.0	4.2
Gross stage 3 assets	6.2%	5.5%	5.3%
Capital-to-risk weighted assets ratio	22.6%	20.3%	20.2%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill; Managed gearing includes direct assignment as debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)					Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025			Date & Rating in FY2024	Date & Rating in FY2023			Date & Rating in FY2022	
				Jan 10, 2025	Dec 20, 2024	May 22, 2024	Jan 11, 2024	Jan 12, 2023	Sep 30, 2022	Jun 17, 2022	Dec 21, 2021	Jun 22, 2021
1	Fixed deposit programme	Long term	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	MAA+ (Stable)	MAA+ (Stable)
2	NCD programme	Long term	525.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-	-
3	NCD programme	Long term	450.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	
4	NCD programme	Long term	50.0	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed deposit programme	Very Simple
NCD programme	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate / Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fixed deposit programme**	NA	NA	NA	NA	[ICRA]AA+ (Stable)
INE722A07AW2*	**NCD programme**	Jul 23, 2021	8.25%	Jul 23, 2024	50.0	[ICRA]AA+ (Stable); withdrawn
INE722A07AX0*	**NCD programme**	Jul 23, 2021	8.75%	Jul 23, 2031	100.0	[ICRA]AA+ (Stable)
INE722A07AV4*	**NCD programme**	Jun 23, 2021	9.00%	Jun 23, 2031	100.0	[ICRA]AA+ (Stable)
INE722A07AQ4*	**NCD programme**	Feb 22, 2021	9.50%	Feb 21, 2031	75.0	[ICRA]AA+ (Stable)
INE722A07AP6*	**NCD programme**	Feb 22, 2021	9.25%	Feb 22, 2030	50.0	[ICRA]AA+ (Stable)
INE772A07AN1*	**NCD programme**	Feb 08, 2021	9.25%	Feb 08, 2030	10.0	[ICRA]AA+ (Stable)
INE772A07AO9*	**NCD programme**	Feb 08, 2021	9.50%	Feb 07, 2031	30.0	[ICRA]AA+ (Stable)
NA	**NCD programme (yet to be placed)**	-	-	-	610.0	[ICRA]AA+ (Stable)

*Source: Company; *ISIN transferred from SCUF; NCD – Non-convertible debentures; NA – Not applicable*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership (Mar 31, 2024)	Consolidation Approach
Shriram Finance Limited	100.00% (rated entity)	Full Consolidation
Shriram Housing Finance Limited *	84.82%	Full Consolidation
Shriram Automall Limited	44.56%	Equity Method

**SHFL has ceased to be a subsidiary of SFL w.e.f. December 11, 2024*

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