

December 31, 2025

Shriram Finance Limited: Rating placed on Watch with Positive Implications

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Fixed deposit programme	-	-	[ICRA]AA+; placed on Watch with Positive Implications
Non-convertible debenture programme	975.0	975.0	[ICRA]AA+; placed on Watch with Positive Implications
Total	975.0	975.0	

*Instrument details are provided in Annexure I

Rationale

On December 19, 2025, Shriram Finance Limited's (SFL) board of directors considered and approved the raising of Rs. 39,618 crore of primary equity capital through a preferential issue on a private placement basis from MUFG Bank Ltd¹ (MUFG). The transaction is subject to approval of the shareholders of the company and other regulatory/governmental authorities. ICRA notes that MUFG shall be eligible to appoint two nominee directors on SFL's board of directors while management control shall remain with Shriram Group. The transaction is expected to be concluded in 2026 and would result in MUFG holding a 20% stake in SFL, post equity infusion.

This transaction will significantly improve SFL's capitalisation profile, providing sizeable buffer for growth and for managing volatility in its asset quality, given the target asset class/borrower profile. This, in turn, shall strengthen its credit risk profile, leading to an improvement in its financial flexibility and earnings performance. The investment from MUFG is also expected to improve the company's cost of funding, which has remained higher than peers, while further improving its liabilities franchise. ICRA notes that SFL intends to utilise the expected equity infusion towards scaling up its existing businesses and focus segments. The rating watch shall be resolved upon the conclusion of this transaction.

The rating continues to factor in the company's leadership position in the preowned commercial vehicle (CV) financing segment with an established track record, brand, strong customer reach and granular retail loan book. SFL is India's second largest non-banking financial company (NBFC) by assets under management (AUM) as of September 2025 with 74% of its AUM focussed on vehicle financing. The rating also considers the company's track record of maintaining healthy profitability across cycles. The rating remains constrained by SFL's moderate, albeit improving, asset quality, given the modest borrower profile. The company's gross stage 3 assets declined, partly on account of technical write-offs, to 4.6% as of September 2025 (4.5% as of June 2025; 4.6% as of March 2025) from 5.3% as of September 2024. While ICRA takes comfort from SFL's track record of managing credit costs through business cycles, the asset quality remains monitorable.

¹ Rated A1/Stable by Moody's Investors Service with baseline credit assessment (BCA) of A3

Key rating drivers and their description

Credit strengths

Diversified product offerings with leadership position in preowned vehicle financing segment – SFL is one of the largest retail NBFCs with AUM of about Rs. 2,81,309 crore as on September 30, 2025. 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 (3,777 branches and rural centres as on September 30, 2025), results in strong customer reach and a granular retail loan book. Moreover, SFL's product offering remains diversified, which now includes CV financing (46%), passenger vehicles (21%), loans to micro, small and medium enterprises (14%), two-wheeler (2W) finance (6%), construction equipment (5%), personal loans (4%), farm equipment (2%) and gold loans (2%) on a standalone basis. 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.

Comfortable capitalisation; proposed equity infusion to further bolster capitalisation profile – SFL's standalone capitalisation profile is comfortable with a reported net worth of Rs. 59,214 crore, a managed gearing² of 4.0 times and a capital adequacy ratio of 20.7% (Tier I: 20.0%) as on September 30, 2025. On a consolidated basis, the net worth stood at Rs. 59,414 crore while the managed gearing was 4.0 times as on September 30, 2025. The proposed equity infusion of Rs. 39,618 crore will significantly strengthen SFL's capitalisation profile with the managed gearing declining to 2.5 times (pro forma; September 2025). It shall provide sufficient headroom for growth over the medium term and cushion against volatility in SFL's asset quality, given the target asset class/borrower profile. 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). Given the expected growth trajectory, planned equity infusion and adequate internal capital generation, the capitalisation shall remain at a comfortable level with a healthy cushion in relation to the underlying risks from the target segments.

Healthy profitability – SFL has reported healthy yields and lending spreads, commensurate with the underlying credit risk of its target borrower segment. Its net interest margin (NIM) remained healthy at 7.3%³ of average managed assets (AMA) in H1 FY2026 (7.6% in FY2025) at the standalone level while its operating efficiency continues to improve gradually. Further, with the improvement in the asset quality, SFL's credit cost declined to 1.5% of AMA in H1 FY2026 on a standalone basis from 1.7% in FY2025 as well as FY2024. At the standalone level, the company reported a return on average managed assets (RoMA) of 2.8% in H1 FY2026 compared to 3.5% in FY2025. On a consolidated basis, RoMA was 2.8% in H1 FY2026 (3.3% in FY2025). With the planned equity infusion, SFL's credit profile shall strengthen, leading to an improvement in its borrowing costs and earnings performance. However, keeping credit costs under controls shall remain key.

Diversified funding mix; cost of funding expected to improve, going forward – As on September 30, 2025, SFL's standalone on-balance sheet borrowings exceeded Rs. 2,34,000 crore and are fairly diversified, primarily comprising public deposits (28%), external commercial borrowings (ECBs; 20%), term loans (17%), non-convertible debentures (NCDs; 17%), and securitisation (16%). It raised Rs. 38,593 crore in H1 FY2026 vis-à-vis Rs. 58,102 crore in H1 FY2025 (Rs. 1,33,568 crore in FY2025) from diverse sources, including Rs. 1,083 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 very limited reliance on short-term sources of funding such as commercial paper, which augurs well from a liquidity perspective. The investment from MUFG is also expected to improve the company's cost of funding, which has remained higher than peers, while further improving its liabilities franchise.

Credit challenges

Moderate borrower profile and 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,

² Managed gearing includes direct assignment as debt and net worth is adjusted for goodwill

³ 8.15% and 8.55% during H1 FY2026 and FY2025 respectively as reported by company in its quarterly investor presentation

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 4.6% and 2.5%⁴, respectively, as on September 30, 2025, compared to 4.6% and 2.6%, respectively, as on March 31, 2025 (5.5% and 2.7%, respectively, as on March 31, 2024). The company has a track record of managing credit costs through business cycles, which provides comfort.

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. 8,390 crore, as on September 30, 2025, and its liquidity profile is further supported by the availability of unutilised funding lines of Rs. 8,160 crore. SFL has consistently maintained a high liquidity coverage ratio (297% for the quarter ended September 30, 2025; 287% for the quarter ended March 31, 2025; 235% for the quarter ended September 30, 2024), well above the regulatory requirement. As on September 30, 2025, its asset-liability maturity (ALM) profile was characterised by positive cumulative mismatches across buckets. The company's diversified funding mix, with an established track record of raising funds from various sources, also supports its liquidity profile.

Rating sensitivities

Positive factors – The completion of the proposed equity infusion by MUFG Bank shall positively impact the rating and shall resolve the rating watch.

Negative factors – The rating will no longer be on Watch with Positive Implications if the proposed transaction with MUFG does not materialise. Thereafter, 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 capital adequacy would also exert pressure on the rating.

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
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, 2025, SFL had a standalone AUM of Rs. 2.81 lakh crore comprising commercial vehicle finance (46%), passenger vehicle finance (21%), loans to micro, small and medium-sized enterprises (MSMEs; 14%), construction equipment and farm equipment finance (7%), two-wheeler loans (6%), personal loans (4%) and gold loans (2%).

Key financial indicators

Shriram Finance Limited (consolidated)	FY2024	FY2025	H1 FY2026*
Total income	34,998	41,859	23,464
Profit after tax	7,391	9,564	4,465
Total managed assets	2,66,453	3,10,330	3,16,887
Return on managed assets	3.0%	3.3%	2.8%
Managed gearing (times)	4.2	4.3	4.0
Gross stage 3 assets	5.2%	4.6%	4.6%
Capital-to-risk weighted assets ratio[#]	20.3%	20.7%	20.7%

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 and net worth is adjusted for goodwill

Shriram Finance Limited (standalone)	FY2024	FY2025	H1 FY2026*
Total income	34,998	41,859	23,458
Profit after tax	5,979	7,190	4,463
Total managed assets	2,52,802	3,10,141	3,16,685
Return on managed assets	3.1%	3.5%	2.8%
Managed gearing (times)	4.0	4.3	4.0
Gross stage 3 assets	5.5%	4.6%	4.6%
Capital-to-risk weighted assets ratio	20.3%	20.7%	20.7%

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

Total managed assets = Total assets + Impairment allowance + Direct assignment – Goodwill; Managed gearing includes direct assignment as debt and net worth is adjusted for goodwill

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument			Current rating (FY2026)	Chronology of rating history for the past 3 years								
	Type	Amount rated (Rs. crore)		Date & rating in FY2026	Date & rating in FY2025			Date & rating in FY2024	Date & rating in FY2023			
					Dec 31, 2025	Jan 10, 2025	Dec 20, 2024		May 22, 2024	Jan 11, 2024	Jan 12, 2023	
Fixed deposit programme	Long term	-	[ICRA]AA+; Rating Watch with Positive Implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
NCD programme	Long term	525.0	[ICRA]AA+; Rating Watch with Positive Implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	
NCD programme	Long term	450.0	[ICRA]AA+; Rating Watch with Positive Implications	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	
NCD programme	Long term	-	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	[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	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+; Rating Watch with Positive Implications
INE722A07AX0*	NCD programme	Jul 23, 2021	8.75%	Jul 23, 2031	100.0	[ICRA]AA+; Rating Watch with Positive Implications
INE722A07AV4*	NCD programme	Jun 23, 2021	9.00%	Jun 23, 2031	100.0	[ICRA]AA+; Rating Watch with Positive Implications
INE722A07AQ4*	NCD programme	Feb 22, 2021	9.50%	Feb 21, 2031	75.0	[ICRA]AA+; Rating Watch with Positive Implications
INE722A07AP6*	NCD programme	Feb 22, 2021	9.25%	Feb 22, 2030	50.0	[ICRA]AA+; Rating Watch with Positive Implications
INE772A07AN1*	NCD programme	Feb 08, 2021	9.25%	Feb 08, 2030	10.0	[ICRA]AA+; Rating Watch with Positive Implications
INE772A07AO9*	NCD programme	Feb 08, 2021	9.50%	Feb 07, 2031	30.0	[ICRA]AA+; Rating Watch with Positive Implications
NA	NCD programme (yet to be placed)	-	-	-	610.0	[ICRA]AA+; Rating Watch with Positive Implications

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 (Sep 30, 2025)	Consolidation approach
Shriram Finance Limited	100.00% (rated entity)	Full consolidation
Shriram Overseas Investment Limited	100.00%	Full consolidation
Bharath Investment Pte. Limited	81.63%*	Full consolidation
Armour Insurance Services WLL	40.00%**	Equity method
Shriram Automall India Limited	44.56%	Equity method

*Held by Shriram Overseas Investment Limited

** Held by Bharath Investment Pte. Limited

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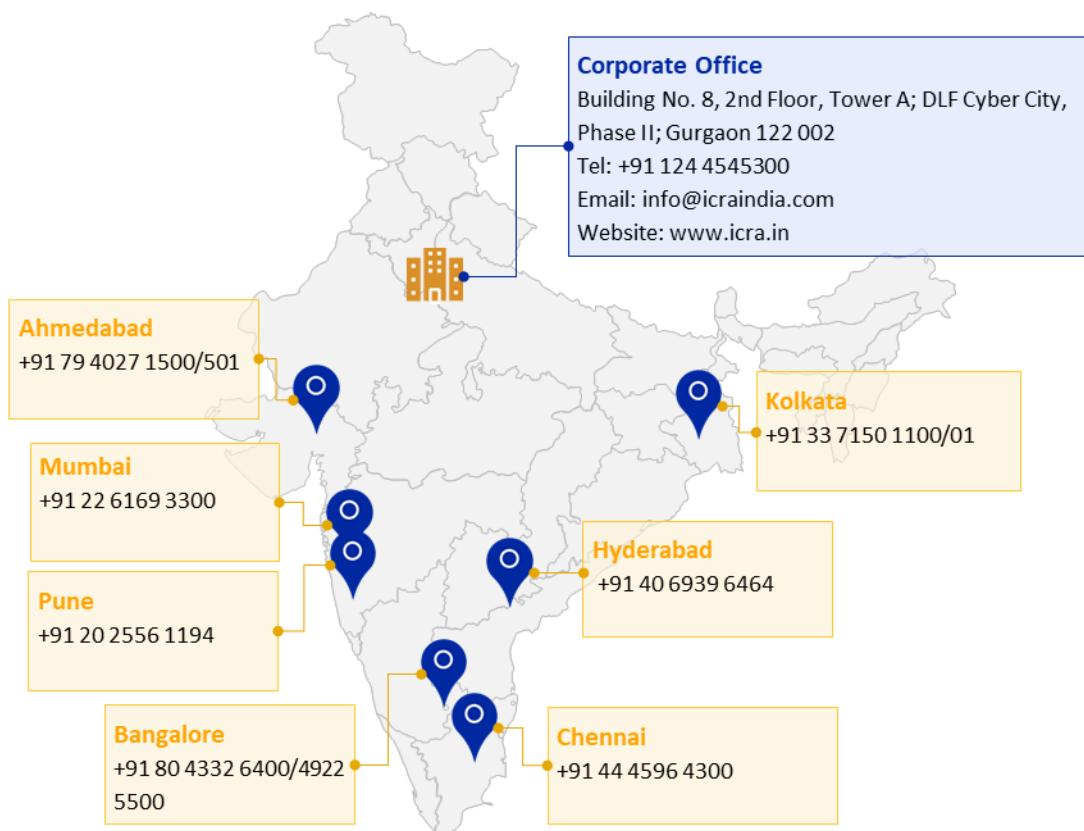
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