



### Capital Strength + Strategic Validation = Strong Sustainable Growth

SFL approved an investment of Rs 39,618 Cr, equivalent to 20% stake in the company to MUFG Bank Ltd. (MUFG), at a price of ~Rs 841/share through a preferential allotment of equity shares. The proposed minority investment by MUFG is subject to shareholder approval, regulatory clearances, and customary closing conditions. **This landmark transaction underscores SFL's status as India's 2<sup>nd</sup> largest retail-NBFC in terms of AUM and represents a significant milestone for the Indian financial services industry on account of being the largest FDI in a financial services company in India.** The deal gives MUFG the right to appoint two nominee directors to the board of SFL.

The transaction highlights the confidence exhibited by a trustworthy global investor in India's lending and financial services sector fundamentals and strong growth potential. MUFG's investment further strengthens SFL's balance sheet resilience and offers the company growth capital to fuel robust and sustained growth over the foreseeable future. Moreover, the investment could also augment SFL's chances for a ratings upgrade, thereby enabling improvement in CoF.

#### Strategic Rationale of the Deal

- The capital infusion will support SFL's business expansion in the segments such as New-CV and MSME by providing growth capital, while additionally enhancing funding capacity through improved creditworthiness.
- It also provides opportunities for transactions with MUFG's broad customer network. It also aligns well with MUFG's regional expansion strategy of establishing itself in the growth story of the MSME and Retail Segment.
- The deal will help support the development of road transport infrastructure, which is essential to India's growth, and contribute to advancing financial inclusion.

#### Financial Impact on SFL

- Assuming the deal to consummate in FY27, **SFL's networth is expected to surge nearly 2x by FY27E to Rs 1,13,256 Cr vs Rs 56,281 Cr in FY25 and Rs 60,404 Cr in Sep'25.** This would also drive the Tier I and CRAR significantly higher, providing adequate growth capital for SFL to deliver a strong and sustainable AUM growth. **We have tweaked our AUM growth estimates marginally higher, anticipating accelerated growth and pencil in ~17% CAGR over FY26-28E.**
- The capital infusion by MUFG would significantly reduce the need for incremental borrowings. Moreover, the strong backing by a credible foreign investor (MUFG) is likely to **support SFL's chances of a ratings upgrade, driving CoF lower, and thereby aiding margins.** Thus, a potential improvement in CoF coupled with lower incremental borrowings is likely to drive SFL's margins higher by ~80-90bps over FY27-28E.
- A **sharp improvement in margins coupled with steady Opex ratios and under control credit costs should drive RoA improvement over the medium term.** We expect RoA to improve to 3.6-3.8% over FY27-28E vs ~3.3% earlier. However, equity dilution will result in RoE settling lower at 13-15% vs 16-17% earlier.

#### Recommendation & Valuation

The deal is inarguably a positive development for SFL as it is a validation of the company's business model and governance framework by a reputed foreign investor like MUFG. The entry of a strategic shareholder marks a pivotal moment for SFL, significantly strengthening its balance sheet and reinforcing its long-term growth credentials.

The demand buoyancy in the rural markets and healthy growth visibility across most of the segment bode well for SFL to deliver a consistent and healthy AUM growth over the medium term. Furthermore, the capital infusion by MUFG provides SFL with ample opportunity to further accelerate the pace of growth while maintaining adequate capital levels. Over the medium term, MUFG's presence is expected to support SFL's funding profile, while lowering its CoF, driven by a potential rating upgrade, and could also enable diversification of SFL's borrowing profile. Lower CoF should drive better margins, eventually translating into higher RoA ranging between 3.6-3.8% over FY27-28E, while equity dilution would result in lower RoE of 13-15% vs 16-17% earlier. We broadly maintain our FY26E estimates, while increasing our NII/Earnings estimates by 7-11%/13-19% over FY27-28.

**On conclusion of the deal, the promoter stake will fall to 20.3% vs 25.4% in Sep'25, despite no stake sale from the promoter. Post capital infusion, SFL would trade at 1.9x Sep'27E ABV. We value the stock at 2.4x Sep'27E ABV to arrive at a target price of Rs 1,125/share, implying an upside of 25% from the CMP. We reiterate our BUY recommendation on the stock.**

 (CMP as of 19<sup>th</sup> December, 2025)

CMP (Rs)	902
Upside /Downside (%)	25%
High/Low (Rs)	914/494
Market cap (Cr)	1,69,652
Avg. daily vol. (6m) Shrs.	69,03,986
No. of shares (Cr)	188.1

#### Shareholding (%)

	Mar-25	Jun-25	Sep-25
Promoter	25.4	25.4	25.4
FII's	53.6	52.6	49.6
MFs / UTI	10.0	10.5	11.9
Others	11.0	11.5	13.1

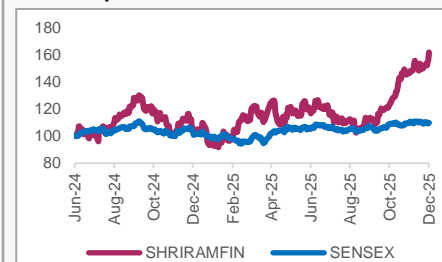
#### Financial & Valuations

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	24,906	31,395	37,495
PPOP	18,466	23,859	28,660
Net Profit	9,424	12,680	15,413
EPS (Rs)	50.1	53.9	65.5
ABV (Rs)	300.2	446.7	492.4
P/ABV (x)	3.0	2.0	1.8
RoA (%)	3.1	3.6	3.8
NNPA (%)	2.5	2.5	2.5

#### Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
NII	-0.4	+7.5	+11.3
PPOP	-1.0	+9.1	+13.6
PAT	-1.8	+13.2	+19.3

#### Relative performance



Source: AceEquity, Axis Securities Research

#### Results Gallery

- [Q2FY26](#)
- [Q1FY26](#)
- [Q4FY25](#)
- [Q3FY25](#)

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### Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, which could potentially derail earnings momentum for the company.
- Regulatory roadblocks in the completion of the deal

### Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	24,906	31,395	37,495	25,001	29,194	33,700	-0.4	7.5	11.3
PBP	18,466	23,859	28,660	18,654	21,862	25,230	-1.0	9.1	13.6
Provisions	5,765	6,907	8,055	5,819	6,894	7,965	-0.9	0.2	1.1
PAT	9,424	12,680	15,413	9,601	11,197	12,914	-1.8	13.2	19.3

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>Net Interest Income</b>	<b>21,853</b>	<b>24,906</b>	<b>31,395</b>	<b>37,495</b>
Other Income	1,552	1,771	1,996	2,243
<b>Total Income</b>	<b>23,405</b>	<b>26,677</b>	<b>33,391</b>	<b>39,738</b>
Total Operating Expense	7,144	8,211	9,532	11,078
<b>PPOP</b>	<b>16,261</b>	<b>18,466</b>	<b>23,859</b>	<b>28,660</b>
Provisions & Contingencies	5,312	5,765	6,907	8,055
Extraordinary Items	1,657	0	0	0
<b>PBT</b>	<b>12,606</b>	<b>12,701</b>	<b>16,951</b>	<b>20,605</b>
Provision for Tax	2,845	3,277	4,272	5,193
<b>PAT</b>	<b>9,761</b>	<b>9,424</b>	<b>12,680</b>	<b>15,413</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>				
Share Capital	376	376	470	470
Reserves	55,904	63,541	1,13,213	1,25,549
<b>Shareholder's Funds</b>	<b>56,281</b>	<b>63,918</b>	<b>1,13,684</b>	<b>1,26,020</b>
Borrowings	2,34,916	2,65,090	2,76,301	3,26,041
Other Liabilities & Provisions	2,336	3,310	3,923	4,548
<b>Total Liabilities</b>	<b>2,93,533</b>	<b>3,32,318</b>	<b>3,93,908</b>	<b>4,56,609</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	21,366	16,546	25,521	27,300
Investments	15,599	15,001	17,781	20,612
Advances	2,45,393	2,86,282	3,33,652	3,89,234
Goodwill	1,189	1,189	1,189	1,189
Fixed Assets & Other Assets	9,986	13,300	15,764	18,274
<b>Total Assets</b>	<b>2,93,533</b>	<b>3,32,318</b>	<b>3,93,908</b>	<b>4,56,609</b>

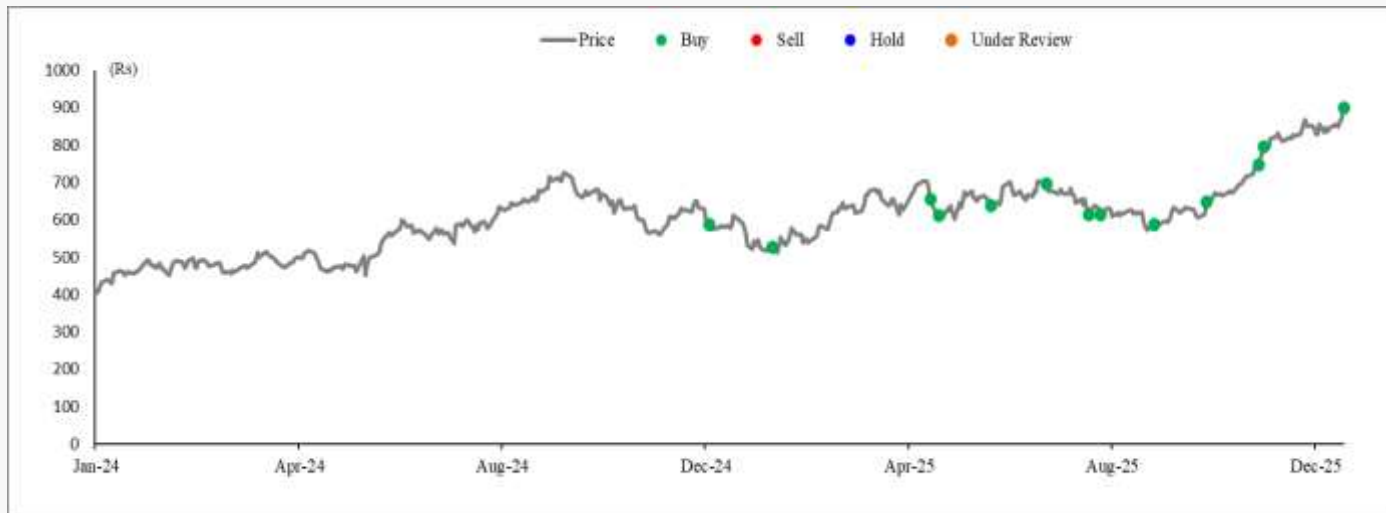
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>				
EPS	51.9	50.1	53.9	65.5
Earnings Growth (%)	35.6	-3.5	7.6	21.6
BVPS	299.3	339.8	483.3	535.8
Adj. BVPS	263.6	300.2	446.7	492.4
ROAA (%)	3.7	3.1	3.6	3.8
ROAE (%)	18.6	16.4	14.8	13.3
P/E (x)	17.4	18.0	16.7	13.8
P/BV (x)	3.4	3.0	2.0	1.8
<b>PROFITABILITY</b>				
NIM (%)	8.6	8.3	9.0	9.2
Cost-Assets Ratio	2.7	2.6	2.6	2.6
Cost-Income Ratio	30.5	30.8	28.5	27.9
<b>ASSET QUALITY</b>				
Gross NPLs (%)	4.6	4.5	4.4	4.5
Net NPLs (%)	2.6	2.5	2.5	2.5
Provision Coverage Ratio (%)	43.3	45.0	45.1	45.0
Credit Costs (%)	2.3	2.2	2.2	2.2
<b>ROAA TREE</b>				
Net Interest Income	8.2	8.0	8.6	8.8
Non-Interest Income	0.6	0.6	0.5	0.5
Operating Cost	2.7	2.6	2.6	2.6
Provisions	2.0	1.8	1.9	1.9
ROAA	3.7	3.1	3.6	3.8
Leverage (x)	5.1	5.2	4.1	3.5
ROAE	18.6	16.4	14.8	13.3

Source: Company, Axis Securities Research

## Shriram Finance Price Chart and Recommendation History



Date	Reco	TP	Research
20-Dec-24	BUY	765	Initiating Coverage
27-Jan-25	BUY	705	Result Update
28-Apr-25	BUY	790	Result Update
30-Apr-25	BUY	790	Top Picks
30-May-25	BUY	790	Top Picks
01-Jul-25	BUY	790	Top Picks
28-Jul-25	BUY	750	Result Update
01-Aug-25	BUY	750	Top Picks
01-Sep-25	BUY	750	Top Picks
01-Oct-25	BUY	750	Top Picks
03-Nov-25	BUY	860	Result Update
22-Dec-25	BUY	1,125	Company Update

Source: Axis Securities Research

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HOLD	Between 10% and -10%
SELL	Less than -10%
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