

## Shriram Transport Fin Co

Uncontested leader in niche category

Shriram Transport Finance Company (SHTF) is a NBFC with differentiated business model. The company pioneers in financing used commercial vehicles and had AUM of ₹95,306cr in FY18; it also focuses on small truck owners (having less than 5 trucks). SHTF has presence in almost all regions of the country with 1,213 branches.

**Multiple AUM growth levers:** CV and M&HCV sales grew 20% and 25.5% yoy, respectively in FY18. We expect AUM growth momentum to continue led by (1) macro-economic revival, vehicles typically change hands in three years in good economic environment and in five years in subdued economy, (2) business loans are gaining traction (₹2,600cr portfolio in FY18). The company started with business loans from the South (Tamil Nadu), but is now expanding it to Karnataka and Andhra Pradesh, (3) ramping up of rural distribution, which led to 49% yoy growth in rural AUM to ₹3,100cr. It has opened incremental branches (217) in rural areas in FY18.

**Stabilizing asset quality to lead to lower credit costs:** SHTF recognized NPA on 180DPD basis till Q3FY16, but has gradually moved to 90DPD in Q4FY18. This has led to spike in GNPA (from 3.8% in FY15 to 9.15% in FY18) and credit cost (from 2.4 in FY15 to 3.8% in FY18). Credit cost over FY09-15 was in the range of 1.4-2.4% and due to a regulatory requirement; it reached 3.8% in Q4FY18. We expect credit cost to fall by 140bps over FY18-20E, which would drive RoA expansion.

**Outlook & Valuation:** We expect SHTF's AUM to grow at CAGR of 20% over FY18-20E led by stronger CV volume, macro recovery and improving rural market. The company's return ratios are at decade low levels (RoA/RoE – 1.9%/13% in FY18) primarily owing to higher credit cost, which we believe to normalize from FY19E onwards, which would propel RoA/RoE to 2.8%/20.7% in FY20E. At CMP, the stock is trading at 2.1x FY20E ABV and 9x FY20E EPS. We recommend a BUY on the stock with a target price of ₹1,760 (2.7x FY2020E ABV).

### Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
<b>NII</b>	<b>5,052</b>	<b>5,561</b>	<b>6,771</b>	<b>8,042</b>	<b>9,702</b>
YoY Growth (%)	32.0	10.1	21.8	18.8	20.6
<b>PAT</b>	<b>1,178</b>	<b>1,257</b>	<b>1,569</b>	<b>2,315</b>	<b>3,284</b>
YoY Growth (%)	-4.8	6.7	24.8	47.5	41.9
EPS	52	55	69	102	145
Adj Book Value	397	425	460	526	640
P/E	25	24	19	13	9
P/Adj.BV	3.3	3.1	2.9	2.5	2.1
ROE (%)	12.2	11.7	13.1	17.1	20.7
ROA (%)	1.9	1.8	1.9	2.4	2.8

Source: Company, Angel Research; Note: CMP as of June 28, 2018

## BUY

CMP	₹1,301
Target Price	₹1,760

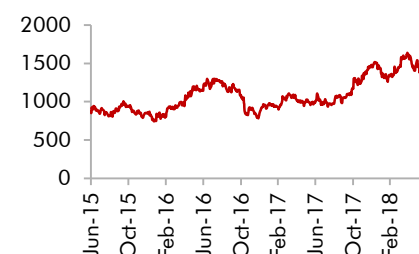
Investment Period	12 Months
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Stock Info	
Sector	NBFC
Market Cap (₹ cr)	29,532
Beta	1.0
52 Week High / Low	1670/898
Avg. Daily Volume	70,755
Face Value (₹)	10
BSE Sensex	35,038
Nifty	10,589
Reuters Code	SRTS.NS
Bloomberg Code	SHTF.IN

Shareholding Pattern (%)	
Promoters	26.1
MF / Banks / Indian Fls	4.0
FII / NRIs / OCBs	51.2
Indian Public / Others	6.9

Abs.(%)	3m	1yr	3yr
Sensex	5.6	13.2	26.7
SHTF	(10.2)	31.6	49.8

### 3-year price chart



Source: Company, Angel Research

Jaikishan J Parmar

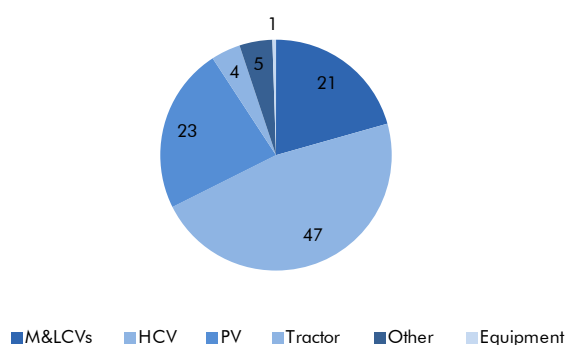
022 39357600, Extn: 6810

jaikishan.parmar@angelbroking.com

## Company background

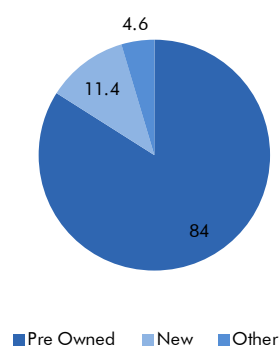
Shriram Transport Finance Company (SHTF) is a NBFC with differentiated business model that pioneers in financing used commercial vehicles. The company also focuses on small truck owners (having less than 5 trucks) with underdeveloped banking habits. The company was established in 1979 and belongs to the business conglomerate, Shriram Group. Started by financing pre-owned commercial vehicles, the company has added ancillary services also to its portfolio. As on date, SHTF has presence in almost all regions of the country with 1,213 branches. On the business operations front, its AUM reached ₹95,306cr and NIM at 7.5% in FY18.

### Exhibit 1: Loan Mix



Source: Company, Angel Research

### Exhibit 2: Break Up of Used & New vehicles



Source: Company, Angel Research

## Key Management Personnel

**Mr. S. Lakshminarayan Chairman:** Mr. Lakshminarayanan Subramanian is a non-executive Director on the company's Board. He holds Master's degree in Science in Chemistry and post graduate diploma from University of Manchester (U.K.) in Advanced Social & Economic Studies.

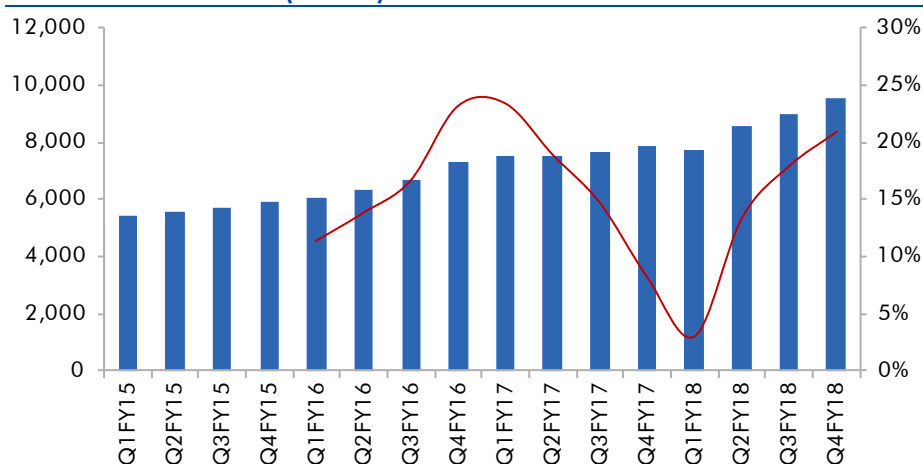
**Mr. Umesh Revankar MD & CEO:** Mr. Umesh Govind Revankar holds a Bachelor's degree in business management from Mangalore University and a Master of Business Administration (MBA) in finance. Mr. Revankar started his career with the Shriram Group as an executive trainee in 1987. He has been associated with the Shriram Group for the last 28 years and has extensive experience in the financial services industry.

**Mr. Parag Sharma CFO:** Mr. Parag joined the company 1995 and now heads the Finance functions of the company. He is a qualified Cost Accountant. He has over 27 years experience in finance industry.

## Investment Argument

**Multiple AUM growth levers:** CV and M&HCV sales grew 20% and 25.5% yoy respectively in FY18. We expect AUM growth momentum to continue led by macro-economic revival; vehicles typically change hands in three years in good economic environment and in five years in subdued economy.

### Exhibit 3: AUM Trend (₹ in Cr)



Source: Company

### Exhibit 4: Vehicles Sold

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
LCV	2,87,777	3,61,846	4,60,831	5,24,887	4,32,233	3,82,206	3,83,307	4,11,703	5,16,140
MHCV	2,44,944	3,23,059	3,48,701	2,68,263	2,00,618	2,32,755	3,02,397	3,02,529	3,40,313
<b>Total</b>	<b>5,32,721</b>	<b>6,84,905</b>	<b>8,09,532</b>	<b>7,93,150</b>	<b>6,32,851</b>	<b>6,14,961</b>	<b>6,85,704</b>	<b>7,14,232</b>	<b>8,56,453</b>

Source: Company

The company's business loans segment is also gaining traction and as on FY18 the portfolio was ~₹2,600cr. The business loans are given to existing customers who have other business such as warehousing, petrol pump, workshop, crusher for the bricks, etc. This strategy of the company would reduce NPA risks, as SHTF already has the track record of the customers. Further, most of these people had been borrowing from the local money lenders earlier, which provided SHTF an opportunity to replace the money lenders' loan with its business loans.

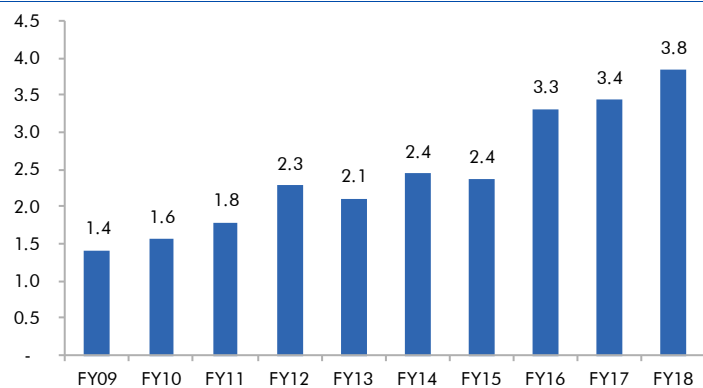
In FY18, company ramped up its rural distribution, which led to 49% yoy growth in rural AUM (₹3,100cr). In FY18, it opened 295 branches, higher than those added in FY16/17. Out of 295 branches, 217 were opened in rural areas.

### Exhibit 5: Branch & AUM distribution – Q4FY18 vs. Q4FY17

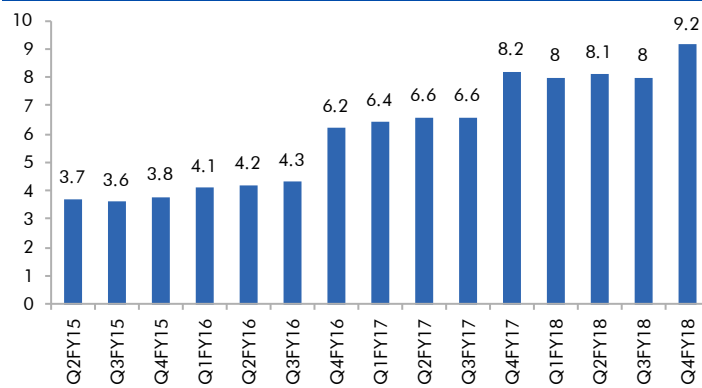
	Branch		AUM (₹cr)			
	Q4FY17	Q4FY18 % Change	Q4FY17	Q4FY18	% Change	
Rural	366	583	59%	208	310	49%
Urban	583	630	8%	580	643	11%
Total	949	1,213	28%	788	953	21%

Source: Company

**Stabilizing asset quality to lead to lower credit costs:** SHTF recognized NPA on 180DPD basis till Q3FY16, but has gradually moved to 90DPD in Q4FY18. This has led to spike in GNPA (from 3.8% in FY15 to 9.15% in FY18) and credit cost (from 2.4 in FY15 to 3.8% in FY18). Credit cost over FY09-15 was in the range of 1.4-2.4% and due to a regulatory requirement; it reached 3.8% in Q4FY18. We expect credit cost to fall by 140bps over FY18-20E, which would drive RoA expansion.

**Exhibit 6: Credit cost (%)**


Source: Company, Angel Research

**Exhibit 7: Jump in GNPA due to transition to 90DPD (%)**


Source: Company, Angel Research

Since Q4FY16, SHTF GNPA and credit cost have been increasing primarily owing to regulatory requirement (transition from 180DPD to 90DPD). Demonetization and GST added further stress to the increasing GNPA. However, with improving macros, fresh slippages should slow from Q1FY19 onwards.

**NIM to remain stable:** Going forward, we expect limited pressure on NIM despite increase in bond yield.

- Low competitive pressure in niche used CV market.
- Recent effort to penetrate rural area would help to increase high yield assets.
- Cost of borrowing, which is coming for repricing in FY19, is around 8.5% and current G-sec yield is 8.8%. Hence, incremental cost of fund would be minimal.

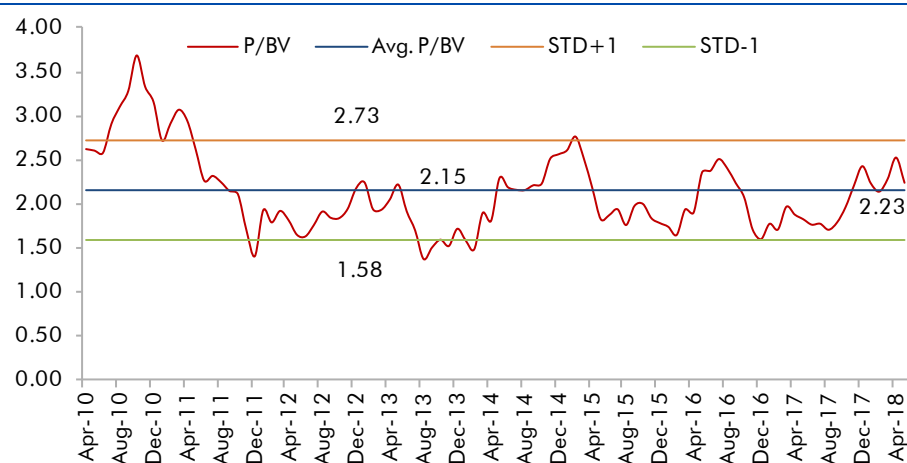
**Exhibit 8: Borrowing Profile**

Particular	(%)
NCD	39
Term Loan Bank	30
Fixed Deposit	16
Term loan Corporate	4
Working cap Loan	5
Subordinate Debt	7

Source: Company

**Outlook & Valuation:** We expect SHTF's AUM to grow at CAGR of 20% over FY18-20E led by stronger CV volume, macro recovery and improving rural market. The company's return ratios are at decade low levels (RoA/RoE – 1.9%/13% in FY18) primarily owing to higher credit cost, which we believe to normalize FY19E onwards, which would propel RoA/RoE to 2.8%/20.7% in FY20E. At CMP, the stock is trading at 2.1x FY20E ABV and 9x FY20E EPS. We recommend a BUY on the stock with a target price of ₹1,760 (2.7x FY2020E ABV).

#### Exhibit 9: P/BV chart



Source: Company, Angel Research

#### Risk

Sale of used CV is mostly linked to economic activity. Hence, any slowdown in economy activity would impact the company's AUM growth.

Any sudden spike in interest rate cycle may adversely impact the company's NIM.

**Income Statement**

Y/E March ( ₹cr)	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>NII</b>	<b>3,827</b>	<b>5,052</b>	<b>5,561</b>	<b>6,771</b>	<b>8,042</b>	<b>9,702</b>
- YoY Growth (%)	9.5	32.0	10.1	21.8	18.8	20.6
<b>Other Income</b>	<b>428</b>	<b>184</b>	<b>82</b>	<b>248</b>	<b>134</b>	<b>160</b>
- YoY Growth (%)	(6.9)	(57)	(55.5)	202.9	(46.1)	19.7
<b>Operating Income</b>	<b>4,255</b>	<b>5,236</b>	<b>5,643</b>	<b>7,019</b>	<b>8,176</b>	<b>9,862</b>
- YoY Growth (%)	7.6	23.1	7.8	24.4	16.5	20.6
<b>Operating Expenses</b>	<b>1,123</b>	<b>1,347</b>	<b>1,275</b>	<b>1,524</b>	<b>1,764</b>	<b>2,113</b>
- YoY Growth (%)	14.7	20.0	(5.4)	19.6	15.7	19.8
<b>Pre - Provision Profit</b>	<b>3,132</b>	<b>3,888</b>	<b>4,368</b>	<b>5,495</b>	<b>6,412</b>	<b>7,749</b>
- YoY Growth (%)	5.2	24.2	12.3	25.8	16.7	20.9
<b>Prov. &amp; Cont.</b>	<b>1,289</b>	<b>2,107</b>	<b>2,444</b>	<b>3,122</b>	<b>2,905</b>	<b>2,773</b>
- YoY Growth (%)	12.2	63.4	16.0	27.7	(7)	(4.5)
<b>Profit Before Tax</b>	<b>1,842</b>	<b>1,781</b>	<b>1,924</b>	<b>2,373</b>	<b>3,507</b>	<b>4,976</b>
- YoY Growth (%)	0.8	(3.3)	8.0	23.3	47.8	41.9
<b>Prov. for Taxation</b>	<b>605</b>	<b>603</b>	<b>667</b>	<b>804</b>	<b>1,192</b>	<b>1,692</b>
- as a % of PBT	32.8	33.9	34.6	33.9	34.0	34.0
<b>PAT</b>	<b>1,238</b>	<b>1,178</b>	<b>1,257</b>	<b>1,569</b>	<b>2,315</b>	<b>3,284</b>
- YoY Growth (%)	(2.1)	(4.8)	6.7	24.8	47.5	41.9

Source: Company

**Balance Sheet**

Y/E March ( ₹ cr)	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	227	227	227	227	227	227
Reserve & Surplus	9,011	9,927	11,075	12,345	14,292	17,053
Networth	9,238	10,154	11,302	12,572	14,519	17,280
Borrowing	44,276	49,791	53,110	63,320	75,494	90,007
- YoY Growth (%)	23.2	12.5	6.7	19.2	19.2	19.2
Other Liab. & Prov.	5,813	8,018	9,998	12,578	15,183	18,629
<b>Total Liabilities</b>	<b>59,327</b>	<b>67,963</b>	<b>74,410</b>	<b>88,470</b>	<b>1,05,195</b>	<b>1,25,917</b>
<b>Investment</b>	<b>3,327</b>	<b>1,356</b>	<b>1,549</b>	<b>1,480</b>	<b>1,480</b>	<b>1,480</b>
<b>Cash</b>	<b>4,723</b>	<b>2,364</b>	<b>4,441</b>	<b>3,638</b>	<b>3,944</b>	<b>4,733</b>
Advance	49,227	61,878	65,463	79,673	95,608	1,14,729
- YoY Growth (%)	34.9	25.7	5.8	21.7	20.0	20.0
Fixed Asset	101	101	84	120	144	151
<b>Other Assets</b>	<b>1,949</b>	<b>2,264</b>	<b>2,874</b>	<b>3,560</b>	<b>4,020</b>	<b>4,824</b>
<b>Total Asset</b>	<b>59,327</b>	<b>67,963</b>	<b>74,410</b>	<b>88,470</b>	<b>1,05,195</b>	<b>1,25,917</b>
Growth (%)	20.5	14.6	9.5	18.9	18.9	19.7

Source: Company

**Key Ratio**

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability ratios (%)</b>						
NIMs	8.3	8.7	8.5	9.1	9.0	9.1
Cost to Income Ratio	26.4	25.7	22.6	21.7	21.6	21.4
RoA	2.3	1.9	1.8	1.9	2.4	2.8
RoE	14.1	12.2	11.7	13.1	17.1	20.7
<b>Asset Quality (%)</b>						
Gross NPAs (%)	3.80	6.20	8.20	9.15	9.0	8.0
GNPA Amt	1,894	3,870	5,408	7,376	8,605	9,178
Net NPAs	0.8	1.9	2.7	2.83	2.7	2.4
NPA Amt	379	1,144	1,659	2,131	2,581	2,753
Provision Coverage	78.9	69.4	67.1	69.1	70.0	70.0
Credit Cost	2.4	3.3	3.4	3.8	3.0	2.4
<b>Per Share Data (₹)</b>						
EPS	55	52	55	69	102	145
ABVPS	390	397	425	460	526	640
DPS	8	10	10	11	16	23
BVPS	407	448	498	554	640	762
<b>Valuation Ratios (x)</b>						
PER	24.1	25.4	23.8	19.0	12.9	9.1
P/ABVPS	3.4	3.3	3.1	2.9	2.5	2.1
P/BVPS	3.2	2.9	2.6	2.4	2.1	1.7
Dividend Yield (%)	0.6	0.8	0.8	0.8	1.2	1.7

Note - Valuation done on closing price of 28/06/2018

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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**Disclosure of Interest Statement**
**Shriram Transport Fin**

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (&gt; 15%)

 Accumulate (5% to 15%)  
 Reduce (-5% to -15%)

 Neutral (-5 to 5%)  
 Sell (< -15)