Shriram Transport Fin Co

Performance Highlights

Particulars (₹ cr)	4QFY19	3QFY19	% chg (qoq)	4QFY18	% chg (yoy)
NII	1,906	2,027	-6.0	1,855	2.8
Pre.Prov. Profit	1,512	1,620	-6.7	1,605	-5.8
PAT	746	635	17.4	962	-22.4

Source: Company

For Q4FY2019, STFC reported subdued numbers, NII grew -6/3% and AUM grew by 1%/9% on qoq/yoy. The primary reason behind moderate growth in AUM was lackluster real estate activity, slowdown in demand of CV as well as election period. Provisions during the quarter were ₹540cr against ₹97cr in 4QFY2018.

AUM growth moderated; pressure on NIM: During the quarter, STFC reported AUM growth of 9% yoy, led by working capital (61% yoy on low base) and business loan (14% yoy). The reported NIM declined 28bps yoy (22bps qoq), due to increase in lower yield investment and higher disbursement towards at the end of quarter. The cost-income ratio increased 91bps yoy to 22.1% as the company continued investment into manpower and branches during the year. Credit cost sequentially decreased 38bps to 2.07%, and management has given guidance of 2% credit cost for FY2020.

On asset quality front, GNPA declined from 8.78% to 8.37% sequentially, while NNPA decline from 5.86% to 5.49% qoq. Provision coverage ratio remained stable at 70%. We expect GNPA/NPA to stabiles as the transition to 90dpd and Ind AS completes.

Outlook & Valuation: We expect STFC's AUM to grow at CAGR of 16% over FY2019-21E primarily owing to (1) post election government to increase spending on infra project (macro recovery), and (2) pre-buying of CV before the BS VI will also improve the pricing of older vehicles. We expect STFC to report RoA/RoE to 2.7%/17.6% in FY2021E respectively. At CMP, the stock is trading at 1.3x FY2021E ABV and 7x FY2021E EPS, which we believe is reasonable for differentiated business model with return ratios. We recommend a BUY on the stock with a Target Price of ₹1,470.

Exhibit 1: Key Financials

Y/E March (` cr)	FY18	FY19	FY20E	FY21E
NII	6,800	7,808	8,804	10,305
YoY Growth (%)	*22.3*	*14.8*	*12.8*	*17.0*
PAT	2,460	2,562	2,910	3,531
YoY Growth (%)	*95.7*	*4.2*	*13.6*	*21.3*
EPS	108	113	128	156
Adj Book Value	504	607	696	815
P/E	10	9	8	7
P/Adj.BV	2.1	1.7	1.5	1.3
ROE (%)	19.8	17.4	17.0	17.6
ROA (%)	2.9	2.5	2.6	2.7

Source: Company, Note: CMP as of 25/05/2019

BUY

CMP	₹1,106
Target Price	₹1,470
Investment Period	12 Months

Sector	NBFC
Market Cap (₹ cr)	25,114
Beta	1.4
52 Week High / Low	1559/903
Avg. Daily Volume	39,722
Face Value (₹)	10
BSE Sensex	39,434
Nifty	11,844
Reuters Code	SRTS.NS
Bloomberg Code	SHTF.IN

Shareholding Pattern (%)	
Promoters	26.1
MF / Banks / Indian FIs	3.9
FII / NRIs / OCBs	52.1
Indian Public / Others	17.9

Abs.(%)	3m	1yr	3yr
Sensex	8.9	13.8	55.8
SHTF	0.8	(25.0)	(4.2)

3-year price chart

Source: Company, Angel Research

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Exhibit 1: Quarterly Summary

Particular (₹ cr)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	% QoQ	% YoY
Total Interest Income	3,572	3,732	3,917	3,968	3,845	(3)	8
Interest Expenses	1,717	1,851	1,862	1,941	1,939	(0)	13
Net Interest Income (NII)	**1,855**	**1,881**	**2,055**	**2,027**	**1,906**	**(6)**	**3**
Other Income	173	7	24	26	35	34	(80)
Total Income	3,745	3,740	3,942	3,994	3,880	(3)	4
Net Income	2,028	1,888	2,080	2,053	1,941	(5)	(4)
Operating Expenses	**423**	**472**	**458**	**433**	**429**	**(1)**	**1**
Employee Expenses	206	225	232	222	204	(8)	(1)
Other Operating Expenses	217	247	226	211	225	6	4
Operating Profit	1,605	1,416	1,622	1,620	1,512	(7)	(6)
Provisions	**97**	**533**	**684**	**636**	**540**	**(15)**	**455**
PBT	1,508	883	938	984	972	(1)	(36)
Provisions for Tax	546	310	329	348	226	(35)	(59)
Tax Rate %	36	35.1	35.1	35.4	23.3	(34)	(36)
PAT	**962**	**573**	**609**	**635**	**746**	**17**	**(22)**
Profitability							
C/I	21.2	25.0	22.0	21.1	22.1	101	91
ROE	4.6	17.2	17.0	17.2	19.4	217	1,472
Calc -Yield - AUM	14.05	15.25	15.29	15.25	14.77	(48)	72
Calc -Yield - Advance	16.89	18.42	18.40	18.42	18.13	(28)	124
Reported NIM	7.5	7.44	7.52	7.44	7.22	(22)	(28)
Calc - COF	8.3	9.97	8.59	8.74	8.74	0	42
Spread	8.6	8.5	9.8	9.7	9.4	(29)	83

Source: Company, Angel Research

Exhibit 2: Asset Quality

Particular (₹ cr)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	% QoQ	% YoY
GNPA	**7,376**	**7,459**	**7,749**	**7,641**	**7,100**	**(7)**	**(4)**
NNPA	**2,131**	**2,132**	**2,278**	**2,221**	**2,055**	**(7)**	**(4)**
Gross NPAs (%)	9.15	8.98	8.77	8.97	8.29	(68)	(86)
Net NPAs (%)	2.83	2.74	2.75	2.78	2.55	(23)	(28)
PCR (Calculated, %)	69	69	69	69	69	23	17
Credit Cost (Annualised) AUM	0.4	2.1	2.6	2.5	2.1	(38)	166
GS 3	9,084	9,157	9,092	9,033	8,623	(5)	(5)
GS 3 %	9.5	9.1	8.7	8.7	8.3	(5)	(13)
ECL prov stage 3	3,286	3,118	3,113	3,187	2,967	(7)	(10)
Net Stage 3	5,799	6,039	5,979	5,846	5,656	(3)	(2)
Coverage Ratio Stage 3	36	34	34	35	34	(87)	(179)
GS 1& 2	87,617	91,879	96,173	93,875	94,358	1	8
ECL Prov stage 1& 2	2,364	2,341	2,604	2,651	2,604	(2)	10
Net Stage 1 & 2	85,253	89,538	93,568	91,224	91,755	1	8
ECL Prov (%) Stage 1&2	2.70	2.55	2.71	2.82	2.76	(6)	6

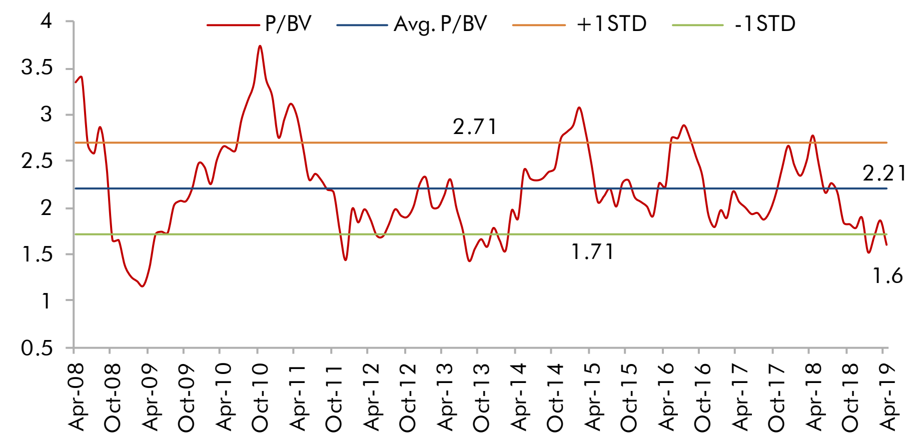
Source: Company, Angel Research

Exhibit 3: AUM Break-up

Particular (₹ cr)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	% QoQ	% YoY
New	11,042	12,140	12,719	12,077	11,594	(4)	5
Used	80,784	83,919	86,057	86,126	87,050	1	8
Business Loan	2,611	2,978	3,314	3,182	2,971	(7)	14
Working Capital	1,741	1,895	2,171	2,365	2,807	19	61
Others	81	46	119	68	60	(12)	(26)
Total AUM	96,260	1,00,978	1,04,380	1,03,818	1,04,482	1	9

Source: Company, Angel Research

Exhibit 4: 1 year forward P/B



Source: Company, Closing rate as on 23/5/19

Outlook & Valuation: We expect STFC's AUM to grow at CAGR of 16% over FY2019-21E primarily owing to (1) post election government to increase spending on infra project (macro recovery), and (2) pre-buying of CV before the BS VI will also improve the pricing of older vehicles. We expect STFC to report RoA/RoE to 2.7%/17.6% in FY2021E respectively. At CMP, the stock is trading at 1.3x FY2021E ABV and 7x FY2021E EPS, which we believe is reasonable for differentiated business model with return ratios. We recommend a BUY on the stock with a Target Price of ₹1,470.

Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
NII	6,800	7,808	8,804	10,305
- YoY Growth (%)	*22.3*	*14.8*	*12.8*	*17.0*
Other Income	215	101	113	130
- YoY Growth (%)	*162.8*	*-53.0*	*11.4*	*15.5*
Operating Income	7,015	7,909	8,916	10,435
- YoY Growth (%)	*24.3*	*12.7*	*12.7*	*17.0*
Operating Expenses	1,492	1,750	2,023	2,346
- YoY Growth (%)	*17.0*	*17.3*	*15.6*	*15.9*
Pre - Provision Profit	5,524	6,159	6,893	8,089
- YoY Growth (%)	*26.4*	*11.5*	*11.9*	*17.3*
Prov. & Cont.	1,722	2,382	2,484	2,739
- YoY Growth (%)	*-29.5*	*38.3*	*4.3*	*10.3*
Profit Before Tax	3,801	3,776	4,409	5,350
- YoY Growth (%)	*97.6*	*-0.7*	*16.7*	*21.3*
Prov. for Taxation	1,341	1,214	1,499	1,819
- as a % of PBT	*35.3*	*32.1*	*34.0*	*34.0*
PAT	2,460	2,562	2,910	3,531
- YoY Growth (%)	*95.7*	*4.2*	*13.6*	*21.3*

Balance Sheet

Y/E March (₹ cr)	*FY18*	*FY19*	*FY20E*	*FY21E*
Share Capital	227	227	227	227
Reserve & Surplus	13,349	15,609	18,224	21,397
Net worth	13,576	15,836	18,451	21,623
Borrowing	82,131	87,968	1,00,284	1,16,329
- YoY Growth (%)	*54.6*	*7.1*	*14.0*	*16.0*
Other Liab. & Prov.	1,539	1,487	1,821	2,351
Total Liabilities	**97,245**	**1,05,291**	**1,20,556**	**1,40,304**
Investment	2,341	3,999	3,999	3,999
Cash	3,675	3,981	4,680	5,432
Advance	90,738	96,751	1,11,264	1,30,178
- YoY Growth (%)	*38.6*	*6.6*	*15.0*	*17.0*
Fixed Asset	120	147	154	162
Other Assets	383	413	458	532
Total Asset	**97,257**	**1,05,291**	**1,20,556**	**1,40,304**
Growth (%)	*30.7*	*8.3*	*14.5*	*16.4*

Exhibit 5: Key Ratio

Y/E March	FY18	FY19	FY20E	FY21E
Profitability ratios (%)				
NIMs	8.5	8.1	8.2	8.3
Cost to Income Ratio	21.3	22.1	22.7	22.5
RoA	2.9	2.5	2.6	2.7
RoE	19.8	17.4	17.0	17.6
Asset Quality (%)				
Gross NPAs (%)	9.15	8.3	8.0	7.5
GNPA Amt	7,376	7,100	8,901	9,763
Net NPAs	2.83	2.6	2.4	2.4
NPA Amt	2,131	2,055	2,670	3,124
Provision Coverage	69.1	69.2	70.0	68.0
Credit Cost (AUM)	1.8	2.3	2.1	2.0
Per Share Data (₹)	FY18	FY19	FY20E	FY21E
EPS	108	113	128	156
ABVPS	504	607	696	815
DPS	11	11	13	16
BVPS	598	698	813	953
Valuation Ratios				
PER (x)	9.7	9.3	8.2	6.8
P/ABVPS (x)	2.1	1.7	1.5	1.3
P/BVPS	1.8	1.5	1.3	1.1
Dividend Yield	1.0	1.1	1.2	1.5
DuPont Analysis	FY18	FY19	FY20E	FY21E
NII	7.9	7.7	7.8	7.9
(-) Prov. Exp.	2.0	2.4	2.2	2.1
Adj. NII	5.9	5.4	5.6	5.8
Other Inc.	0.3	0.1	0.1	0.1
Op. Inc.	6.2	5.5	5.7	5.9
Opex	1.7	1.7	1.8	1.8
PBT	4.4	3.7	3.9	4.1
Taxes	1.6	1.2	1.3	1.4
RoA	2.9	2.5	2.6	2.7
Leverage	6.9	6.9	6.6	6.5
RoE	**19.8**	**17.4**	**17.0**	**17.6**

Valuation done on closing price of 24/5/19

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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 (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*