

Shriram Transport Fin Co

Performance Highlights

Particulars (₹ cr)	2QFY19	1QFY19	% chg (qoq)	2QFY18	% chg (yoy)
NII	2,055	1,881	9.3	1,649	24.6
Pre.Prov. Profit	1,622	1,416	14.5	1,322	22.7
PAT	609	573	6.3	496	22.7

Source: Company

SHTF reported 2QFY19 PAT of ₹609cr (up 23% yoy/6% qoq), helped by strong AUM growth and marginal improvement in NIM. NII increased 25% yoy with reported NIM increased 6bps (8bps qoq) to 7.52%. Operating profit growth was healthy at 23% YoY to ₹1,622cr. Asset quality improved QoQ with Gross Stage 3 ratio falling 40bps QoQ to 8.71% (on AUM) while coverage ratio remained stable at 34%.

Healthy AUM growth; Stable NIM

During the quarter SHTF reported commendable growth of 21%yoy, led by business loan (105% yoy on low base) and new vehicle (46% yoy). The reported NIM increased 6bps yoy (8bps qoq), rise in yields (rate hike in June-18) and lower CoF on account of change in the borrowing mix. The Cost-income ratio increased 91bps YoY to 22% as the company continued investment into manpower and branches during the year. Credit cost sequentially increased 50bps to 2.6%, but the management is confident of reducing it to 2.0% over the coming 1-1.5 years.

On asset quality front, Absolute Gross stage 3 assets declined 1% qoq and similar qoq decline in Net stage 3 also. The Gross stage 3 ratio declined 40bps qoq to 8.7% (on AUM) while the net stage 3 ratio declined 28bps QoQ to 5.7%. Coverage ratio remained stable at 34%.

On liquidity front, SHTF has ₹1000cr of liquidity on its balance sheet, in addition to ₹2000cr of committed bank lines (equal to one month's liability payments).

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 10x FY20E EPS. We recommend a BUY on the stock with a target price of ₹1,760/-.

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
NII	5,052	5,561	6,771	8,042	9,702
YoY Growth (%)	32.0	10.1	21.8	18.8	20.6
PAT	1,178	1,257	1,569	2,315	3,284
YoY Growth (%)	(4.8)	6.7	24.8	47.5	41.9
EPS	52	55	69	102	145
Adj Book Value	397	425	460	561	675
P/E	22	20	16	11	8
P/Adj.BV	2.8	2.6	2.4	2.0	1.7
ROE (%)	12.2	11.7	13.1	16.6	19.7
ROA (%)	1.9	1.8	1.9	2.4	2.8

Source: Company

Please refer to important disclosures at the end of this report

BUY

CMP	₹1,301
Target Price	₹1,760

Investment Period 12 Months

Sector	NBFC
Market Cap (₹ cr)	25,473
Beta	1.2
52 Week High / Low	1670/898
Avg. Daily Volume	1,27,000
Face Value (₹)	10
BSE Sensex	33,891
Nifty	10,198
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	(9.6)	1.9	27.1
SHTF	(20.6)	(4.8)	19.1

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Result Update

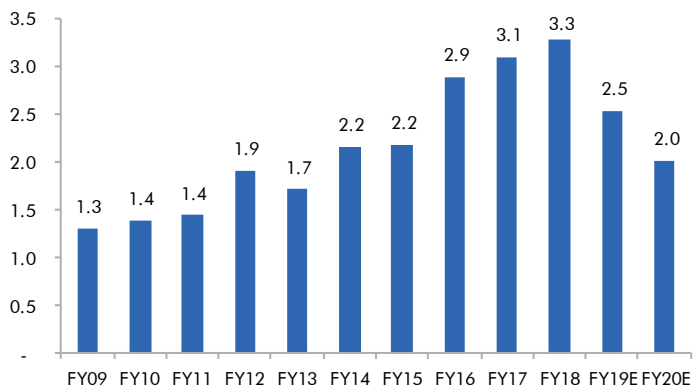
Particulars (₹ cr)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	% QoQ	% YoY
Total Interest Income	2,689	2,695	2,683	3,116	3,233	3,063	3,271	3,732	3,917	5	21
Interest Expenses	1,336	1,282	1,275	1,283	1,584	1,354	1,463	1,851	1,862	1	18
Net Interest Income (NII)	1,353	1,412	1,409	1,832	1,649	1,709	1,808	1,881	2,055	9	25
% Growth YoY	4	(2)	5	35	17	21	(1)	14	20	44	21
Other Income	17	18	24	22	27	22	172	7	24	229	(10)
Total Income	2,706	2,713	2,707	3,138	3,260	3,085	3,443	3,740	3,942	5	21
Net Income	1,370	1,430	1,433	1,854	1,676	1,731	1,979	1,888	2,080	10	24
Operating Expenses	314	291	290	338	354	383	419	472	458	(3)	29
Employee Expenses	139	131	127	173	164	181	206	225	232	3	42
Other Operating Expenses	175	160	164	165	190	202	213	247	226	(9)	19
Operating Profit	1,056	1,139	1,142	1,516	1,322	1,349	1,560	1,416	1,622	15	23
Provisions	462	611	911	582	567	585	1,367	533	684	28	21
PBT	594	529	231	934	755	763	193	883	938	6	24
Provisions for Tax	206	183	81	238	259	268	49	310	329	6	27
Tax Rate %	35	35	35	26	34	35	25	35	35	(0)	2
PAT	388	346	150	696	496	496	145	573	609	6	23
Asset Quality											
GNPA	4,242	4,306	5,408	5,549	5,773	6,046	7,376	7,459	7,749	4	34
NNPA	1,252	1,058	1,659	1,620	1,655	1,751	2,131	2,132	2,278	7	38
Gross NPAs (%)	7	7	8	8	8	8	9	9	9	(21)	71
Net NPAs (%)	2	2	3	2	2	2	3	3	3	1	30
PCR (Calculated, %)	69	74	68	69	70	69	69	69	69	(84)	(96)
Credit Cost (Annualised) AUM	2.5	3.2	4.6	2.9	2.6	2.6	5.7	2.1	2.6	50	(1)
GS 3				8,972	9,191		9,084	9,157	9,092	(1)	(1)
ECL prov stage 3				3,389	3,301		3,286	3,118	3,113	(0)	(6)
Net Stage 3				5,583	5,890		5,799	6,039	5,979	(1)	2
Coverage Ratio Stage 3				38	36		36	34	34	19	(168)
GS 1& 2				73,482	77,282		87,617	91,879	96,173	5	24
ECL prov stage 1& 2				2,148	2,280		2,364	2,341	2,604	11	14
Net Stage 1 & 2				71,336	75,002		85,253	89,538	93,568	5	25
ECL Prov (%) Stage 1&2				3	3		3	3	3	16	(24)
Business Details (₹)											
AUM	75,323	76,281	78,761	81,612	86,357	90,019	95,306	1,00,541	1,04,380	4	21
On book Loans	63,689	64,271	65,463	68,301	71,113	74,884	79,673	82,462	87,815	6	23
Off book (Securitization)	11,634	12,011	13,298	13,311	15,244	15,134	15,633	18,079	16,565	(8)	9
Total Borrowings	51,830	51,130	53,110	55,650	72,970	59,120	63,320	71,860	88,202	23	21
AUM Mix (%)											
New CV Loans	10	10	10	10	10	11	11	13	13	0	0
Used CV loans	90	90	87	87	87	86	84	87	87	0	0
Profitability											
NIM	7.0	7.2	7.0	7.4	7.5	7.5	7.5	7.4	7.5	8	6
C/I	22.9	20.3	20.3	18.2	21.1	22.1	21.2	25.0	22.0	(300)	89
ROE	14.5	12.5	5.3	24.3	17.1	16.4	4.6	17.2	17.0	(18)	(8)

Source: Company, Angel Research

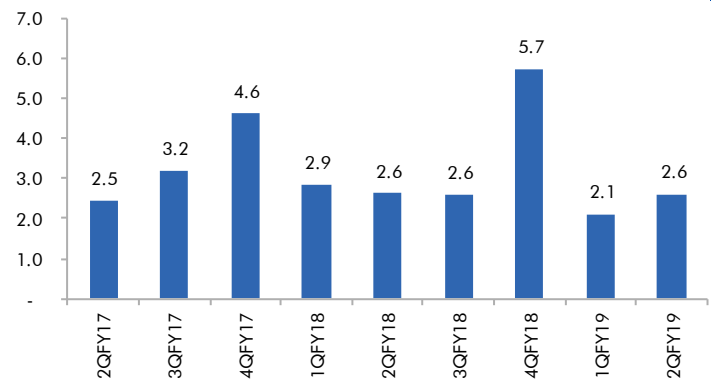
Exhibit 2: AUM Break-up

	1QFY18	2QFY18	1QFY19	2QFY19	% QoQ	% YoY
New	8,186	8,697	12,140	12,719	5	46
Used	71,957	74,744	83,919	86,057	3	15
Business Loan	1,197	1,615	2,978	3,314	11	105
Working Capital	1,224	1,209	1,895	2,171	15	80
Others	33	92	46	119	159	29
AUM	82,597	86,357	1,00,978	1,04,380	3	21

Source: Company, Angel Research

Exhibit 3: Annual trend of credit cost (%)


Source: Company, Angel Research, Note-CC on AUM

Exhibit 4: Quarterly trend of credit cost (%)


Source: Company, Angel Research, Note-CC on AUM

STFC credit cost is continually inching up owing to transition of NPA recognition from 180DPD (Q3FY16) to gradually move to 90DPD in Q4FY18. Credit cost has increased 50bps sequentially to 2.6% in Q2FY19. However, management is confident of reducing it to 2% over the coming 1.1.15 years.

During the quarter, provision expense increased by 23% qoq (15% yoy). Out of total provision of ₹683 cr in Q2FY19, ₹60 cr was adhoc provision for Kerala.

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 FY19 onwards, which would propel RoA/RoE to 2.8%/20.7% in FY20E. At CMP, the stock is trading at 1.5x FY20E ABV and 8x FY20E EPS. We recommend a BUY on the stock with a target price of ₹1,760 (2.7x FY20E ABV).

Income Statement

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

Balance Sheet

Y/E March (₹cr)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	227	227	227	227	227
Reserve & Surplus	9,927	11,075	12,345	15,072	17,833
Networth	10,154	11,302	12,572	15,299	18,060
Borrowing	49,791	53,110	63,320	75,494	90,007
- YoY Growth (%)	12.5	6.7	19.2	19.2	19.2
Other Liab. & Prov.	8,018	9,998	12,578	14,403	17,849
Total Liabilities	67,963	74,410	88,470	1,05,195	1,25,917
Investment	1,356	1,549	1,480	1,480	1,480
Cash	2,364	4,441	3,638	3,944	4,733
Advance	61,878	65,463	79,673	95,608	1,14,729
- YoY Growth (%)	25.7	5.8	21.7	20.0	20.0
Fixed Asset	101	84	120	144	151
Other Assets	2,264	2,874	3,560	4,020	4,824
Total Asset	67,963	74,410	88,470	1,05,195	1,25,917
Growth (%)	14.6	9.5	18.9	18.9	19.7

Exhibit 5: Key Ratio

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Profitability ratios (%)					
NIMs	8.7	8.5	9.1	9.0	9.1
Cost to Income Ratio	25.7	22.6	21.7	21.6	21.4
RoA	1.9	1.8	1.9	2.4	2.8
RoE	12.2	11.7	13.1	16.6	19.7
Asset Quality (%)					
Gross NPAs (%)	6.20	8.20	9.15	9.0	8.0
GNPA Amt	3,870	5,408	7,376	8,605	9,178
Net NPAs	1.9	2.7	2.83	2.7	2.4
NPA Amt	1,144	1,659	2,131	2,581	2,753
Provision Coverage	69.4	67.1	69.1	70.0	70.0
Credit Cost (AUM)	2.9	3.1	3.3	2.5	2.0
Per Share Data (₹)					
EPS	52	55	69	102	145
ABVPS	397	425	460	561	675
DPS	10	10	11	16	23
BVPS	448	498	554	674	796
Valuation Ratios					
PER (x)	21.6	20.3	16.3	11.0	7.8
P/ABVPS (x)	2.8	2.6	2.4	2.0	1.7
P/BVPS	2.5	2.3	2.0	1.7	1.4
Dividend Yield	0.9	0.9	1.0	1.4	2.0
DuPont Analysis					
NII	7.9	7.8	8.3	8.3	8.4
(-) Prov. Exp.	3.3	3.4	3.8	3.0	2.4
Adj. NII	4.6	4.4	4.5	5.3	6.0
Other Inc.	0.3	0.1	0.3	0.1	0.1
Op. Inc.	4.9	4.5	4.8	5.4	6.1
Opex	2.1	1.8	1.9	1.8	1.8
PBT	2.8	2.7	2.9	3.6	4.3
Taxes	0.9	0.9	1.0	1.2	1.5
RoA	1.9	1.8	1.9	2.4	2.8
Leverage	6.6	6.6	6.8	6.9	6.9
RoE	12.2	11.7	13.1	16.6	19.7

Source: Company

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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)