

Shriram Transport Fin Co

Performance Highlights

Particulars (₹ cr)	Q2FY20	Q1FY20	% chg (qoq)	Q2FY19	% chg (yoy)
NII	2,037	1,962	3.8	2,055	-0.9
Pre. Prov. Profit	1,588	1,543	2.9	1,622	-2.1
PAT	765	634	20.6	609	25.6

Source: Company, Angel Research

For Q2FY2020, STFC has reported in-line numbers. For the quarter, PAT increased 25.6% yoy owing to tax benefit (₹170cr), AUM growth continued to be moderate at 4% yoy vs. 6% in Q1FY2020 and 21% in Q2FY2019. Disbursement stood at ₹13,120cr (New Vehicle at ₹666cr & Used Vehicle at ₹12,282 cr).

AUM growth moderated; NIM stable: During the quarter, STFC reported AUM growth of 4% yoy, led by working capital (39% yoy on low base) and used vehicle loans (6% yoy), while AUM of new vehicles and business loans declined 14% yoy. The tractor AUM declined 16% yoy in 2QFY2020, However, MLCVs reported a 13% yoy growth. The largest contributor, HCVs (46% of the book) reported minuscule growth of 2% yoy. We believe subdued economic growth, delayed infra spending, and higher LTV impacted AUM growth. NIM remained stable at 8.16% (up 3bps qoq), as the company managed to pass the incremental higher costs to borrowers

Moderate deterioration in asset quality; credit cost guidance maintained at 2%: Gross stage 3 increased marginally by 5%/declined 3% qoq /yoy primarily owing to heavy rain which impacted borrower's business. During the quarter credit cost jumped to 2.44% vs. 2.11% in Q1FY2020, however, Management has guided to bring down credit costs to below 2% in the next 1.5 years. We expect Gross stage 3 to improve gradually owing to (a) good monsoon to improve borrower's financials, (b) strengthening of collection team, (c) with implementation of BS VI collateral value of used vehicle will get stable/improve and consequently LGD would decline.

Outlook & Valuation: We expect STFC's AUM to grow at CAGR of 11% 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 and consequently improvement in pricing of older vehicles to improve asset quality. We expect STFC to report RoA/RoE of 3%/18.3% in FY2021E. At CMP, the stock is trading at 1.2x FY2021E ABV and 7x FY2021E EPS, which we believe is reasonable for a differentiated business model with return ratios. We recommend a BUY on the stock with a Target Price of ₹1,410.

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	5,561	6,800	7,808	8,572	9,604
YoY Growth (%)	10.1	22.3	14.8	9.8	12.0
PAT	1,257	2,460	2,562	3,157	3,713
YoY Growth (%)	6.7	95.7	4.2	23.2	17.6
EPS	55	108	113	139	164
Adj Book Value	498	598	698	823	970
P/E	21	11	10	8	7
P/Adj.BV	2.3	1.9	1.6	1.4	1.2
ROE (%)	11.7	19.8	17.4	18.3	18.3
ROA (%)	1.8	2.9	2.5	2.9	3.0

Valuation done on closing price of 29/10/2019

BUY

CMP	1,156
Target Price	1,410

Investment Period	12 Months
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Stock Info

Sector	NBFC
Market Cap (₹ cr)	26,030
Beta	1.5
52 Week High / Low	1297/909
Avg. Daily Volume	39,217
Face Value (₹)	10
BSE Sensex	39,832
Nifty	11,790
Reuters Code	SRTR.BO
Bloomberg Code	SHTF IN

Shareholding Pattern (%)

Promoters	26.3
MF / Banks / Indian Fls	4.8
FII / NRIs / OCBs	60.8
Indian Public / Others	8.2

Abs.(%)	3m	1yr	3yr
Sensex	5.7	16.9	42.9
SHTF	18.6	5.7	8.9

3 Year Price Chart



Source: Company

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Exhibit 1: Income Statement

Particular (₹ cr)	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	% QoQ	% YoY
Total Interest Income	3,712	3,917	3,968	3,845	4,001	4,113	3	5
Interest Expenses	1,889	1,862	1,941	1,939	2,040	2,076	2	12
Net Interest Income (NII)	1,823	2,055	2,027	1,906	1,962	2,037	4	(1)
Other Income	18	24	26	35	27	43	58	78
Total Income	3,729	3,942	3,994	3,880	4,029	4,156	3	5
Net Income	1,841	2,080	2,053	1,941	1,989	2,080	5	0
Operating Expenses	435	458	433	429	446.50	492.60	10	8
Employee Expenses	225	232	222	204	233	251	7	8
Other Operating Expenses	210	226	211	225	213	242	13	7
Operating Profit	1,406	1,622	1,620	1,512	1,543	1,588	3	(2)
Provisions	523	684	636	540	561	661	18	(3)
PBT	883	938	984	972	982	927	(6)	(1)
Provisions for Tax	310	329	348	226	347	162	(53)	(51)
Tax Rate %	35.1	35.1	35.4	23.3	35.4	17.5		
PAT	573	609	635	746	634.2	765.1	21	26

Source: Company, Angel Research

Exhibit 2: Quarterly performance

AUM Mix (%)	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	% QoQ	% YoY
New CV Loans	13	13	12	12	11.4	10.7	(66.4)bp	(212.7)bp
Used CV loans	87	87	88	88	88.6	89.3	66.4bp	212.7bp
Profitability								
Cal Nim	7.45	8.02	7.79	7.32	7.44	7.60	15.4bp	(42.6)bp
NIM	7.52	7.44	7.22	7.16	7.16	7.19	3bp	(25)bp
C/I	23.6	22.0	21.1	22.1	22.4	23.7	123.5bp	167.3bp
ROE	17.2	17.0	17.2	19.4	15.8	18.4	257.6bp	141.2bp
Calc -Yield - AUM	15.16	15.29	15.25	14.77	15.18	15.34	15.8bp	4.9bp
Calc -Yield - Advance	18.31	18.40	18.42	18.13	18.86	19.42	56.1bp	101.5bp
Calc - COF	9.02	8.59	8.74	8.74	9.14	9.17	2.8bp	58.1bp
Spread	9.3	9.8	9.7	9.4	9.7	10.3	53.3bp	43.4bp

Exhibit 3: Break Up

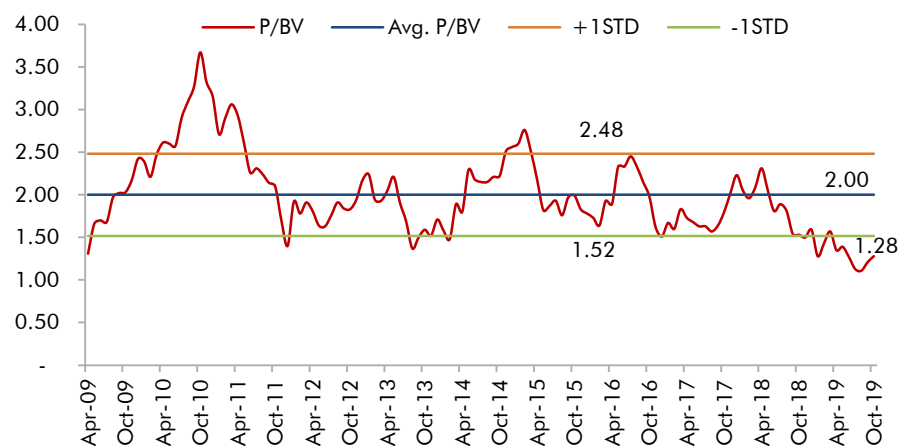
Particular (₹ cr)	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	% QoQ	% YoY
New	12,140	12,719	12,077	11,594	11,450	10,967	(4)	(14)
Used	83,919	86,057	86,126	87,050	89,021	91,215	2	6
Business Loan	2,978	3,314	3,182	2,971	2,912	2,852	(2)	(14)
Working Capital	1,895	2,171	2,365	2,807	2,898	3,027	4	39
Others	46	119	68	60	62	60	(3)	(50)
Total AUM	1,00,978	1,04,380	1,03,818	1,04,482	1,06,343	1,08,120	2	4

Source: Company, Angel Research

Exhibit 4: Asset Quality & Business Details

Asset Quality	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	Q1FY20	Q2FY20	% QoQ	% YoY
Credit Cost (Annualized) AUM	0.4	2.1	2.6	2.5	2.1	2.1	2.4	16	(7)
GS 3	9,084	9,157	9,092	9,033	8,623	8,926	9,397	5	3
GS 3 %	9.53	9.11	8.71	8.70	8.25	8.52	8.80	28bp	8.9bp
ECL prov stage 3	3,286	3,118	3,113	3,187	2,967	2,841	3,017	6	(3)
Net Stage 3	5,799	6,039	5,979	5,846	5,656	6,085	6,380	5	7
Coverage Ratio Satge 3	36	34	34	35	34	32	32.1	27.8bp	(213.7)bp
GS 1 & 2	87,617	91,879	96,173	93,875	94,358	95,889	97,406	2	1
ECL prov stage 1 & 2	2,364	2,341	2,604	2,651	2,604	2,762	2,766	0	6
Net Stage 1 & 2	85,253	89,538	93,568	91,224	91,755	93,127	94,639	2	1
ECL Prov (%) Stage 1&2	2.70	2.55	2.71	2.82	2.76	2.88	2.84	(4)bp	13bp
Business Details ()									
AUM	95,306	1,00,541	1,04,380	1,03,818	1,04,482	1,06,343	1,08,120	2	4
Disbursement	14,157	13,425	13,799	9,550	11,959	12,300	13,120	7	(5)
New	3,150	2,470	2,300	400	8,100	890	666	(25)	(71)
Old	11,970	10,960	11,510	9,020	11,020	11,260	12,282	9	7
On book Loans	79,673	82,462	87,815	84,533	85,085	84,661	8,477	(90)	(90)
Off book (Securitization)	15,633	18,079	16,565	19,285	17,223	19,750	21,691	10	31
DA	62	38	24	1,721	2,175	1,942	1,657	(15)	6,945

Source: Company, Angel Research

Exhibit 5: 1 year forward P/B


Source: Company, Angel Research

Income Statement

Y/E March (₹cr)	FY17	FY18	FY19	FY20E	FY21E
Nil	5,561	6,800	7,808	8,572	9,604
- YoY Growth (%)	10.1	22.3	14.8	9.8	12.0
Other Income	82	215	101	110	122
- YoY Growth (%)	-55.5	162.8	-53.0	8.9	10.6
Operating Income	5,643	7,015	7,909	8,682	9,726
- YoY Growth (%)	7.8	24.3	12.7	9.8	12.0
Operating Expenses	1,275	1,492	1,750	1,977	2,195
- YoY Growth (%)	-5.4	17.0	17.3	13.0	11.0
Pre - Provision Profit	4,368	5,524	6,159	6,705	7,530
- YoY Growth (%)	12.3	26.4	11.5	8.9	12.3
Prov. & Cont.	2,444	1,722	2,382	2,430	2,568
- YoY Growth (%)	16.0	-29.5	38.3	2.0	5.7
Profit Before Tax	1,924	3,801	3,776	4,275	4,963
- YoY Growth (%)	8.0	97.6	-0.7	13.2	16.1
Prov. for Taxation	667	1,341	1,214	1,118	1,249
- as a % of PBT	34.6	35.3	32.1	26.2	25.2
PAT	1,257	2,460	2,562	3,157	3,713
- YoY Growth (%)	6.7	95.7	4.2	23.2	17.6

Balance Sheet

Y/E March (₹cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	227	227	227	227	227
Reserve & Surplus	11,075	13,349	15,609	18,446	21,783
Net worth	11,302	13,576	15,836	18,673	22,010
Borrowing	53,110	82,131	87,968	95,885	1,06,432
- YoY Growth (%)	6.7	54.6	7.1	9.0	11.0
Other Liab. & Prov.	9,998	1,539	1,487	1,040	489
Total Liabilities	74,410	97,245	1,05,291	1,15,598	1,28,932
Investment	1,549	2,341	3,999	3,999	3,999
Cash	4,441	3,675	3,981	4,571	5,077
Advance	65,463	90,738	96,751	1,06,426	1,19,197
- YoY Growth (%)	5.8	38.6	6.6	10.0	12.0
Fixed Asset	84	120	147	154	162
Other Assets	2,874	383	413	448	497
Total Asset	74,410	97,245	1,05,291	1,15,598	1,28,932
Growth (%)	9.5	30.7	8.3	9.8	11.5

Exhibit 6: Key Ratio

Y/E March	FY17	FY18	FY19	FY20E	FY21E
Profitability ratios (%)					
NIMs	8.5	8.5	8.1	8.1	8.2
Cost to Income Ratio	22.6	21.3	22.1	22.8	22.6
RoA	1.8	2.9	2.5	2.9	3.0
RoE	11.7	19.8	17.4	18.3	18.3
Asset Quality (%)					
Gross NPAs	8.20	9.15	8.3	8.0	7.5
GNPA (₹ Cr)	5,408	7,376	7,100	8,514	8,940
Net NPAs (%)	2.7	2.83	2.6	2.4	2.4
NPA (₹ Cr)	1,659	2,131	2,055	2,554	2,861
Provision Coverage	67.1	69.1	69.2	70.0	68.0
Credit Cost (AUM)	3.1	1.8	2.3	2.0	1.9
Per Share Data (₹)					
EPS	55	108	113	139	164
ABVPS	425	504	607	710	844
DPS	10	11	11	14	17
BVPS	498	598	698	823	970
Valuation Ratios					
PER (x)	20.7	10.6	10.2	8.2	7.0
P/ABVPS (x)	2.3	1.9	1.6	1.4	1.2
P/BVPS	2.3	1.9	1.6	1.4	1.2
Dividend Yield	0.9	1.0	1.0	1.2	1.4
DuPont Analysis					
NII	7.8	7.9	7.7	7.8	7.9
(-) Prov. Exp.	3.4	2.0	2.4	2.2	2.1
Adj. NII	4.4	5.9	5.4	5.6	5.8
Other Inc.	0.1	0.3	0.1	0.1	0.1
Op. Inc.	4.5	6.2	5.5	5.7	5.9
Opex	1.8	1.7	1.7	1.8	1.8
PBT	2.7	4.4	3.7	3.9	4.1
Taxes	0.9	1.6	1.2	1.0	1.0
RoA	1.8	2.9	2.5	2.9	3.0
Leverage	6.6	6.9	6.9	6.4	6.0
RoE	11.7	19.8	17.4	18.3	18.3

Valuation done on closing price of 29/10/2019

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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)