

SHRIRAM TRANSPORT FINANCE

BANKS & FINANCIAL SERVICES

4 MAY 2017

Quarterly Update

HOLD

Target Price: Rs 1,130

Lacklustre quarter

SHTF reported a weak Q4FY17 marked by de-growth in disbursement leading to muted AUM growth, significant pressure on margin and sharp deterioration in asset quality (change in DPD). PAT at Rs 1.5 bn (up 4.1% YoY) was lower than estimates despite reporting an in-line operating profit. The miss was largely on account higher provisioning, as it moved to 120 dpd NPL recognition from 150 dpd earlier.

The only comforting factor during the quarter was stable PCR at ~69%. Management expects the transition to 90 dpd could raise GNPLs by another 100 bps (FY18 end). It guided for AUM growth of ~12-15% in FY18 (pick-up in rural demand in H1 and improvement in infra demand in H2) while maintaining margin at >7% (expect 20 bps decrease in funding cost due to re-pricing of borrowings).

CMP : Rs 1,041
Potential Upside : 9%

MARKET DATA

No. of Shares : 227 mn
Free Float : 74%
Market Cap : Rs 236 bn
52-week High / Low : Rs 1,325 / Rs 778
Avg. Daily vol. (6mth) : 863,262 shares
Bloomberg Code : SHTF IB Equity
Promoters Holding : 26%
FII / DII : 47% / 2%

Q4FY17 highlights: (a) AUM growth was muted at 8% YoY due to weak disbursements (down 17% YoY). The demand was impacted due to demonetization, which was visible till first half of Q4; (b) Margin declined 20 bps QoQ to 6.97% due to interest reversals and pick-up in demand at later end of Q4; (c) Collection through cash decreased significantly in January (below 30% of overall collection), but increased in March (~50%) due to improved availability of currency; (d) Asset quality deteriorated with 154 bps QoQ increase in GNPL to 8.16%, out of which ~100 bps was contributed due to transitioning to 120 dpd NPL recognition norms from 150 dpd earlier.

Maintain HOLD with revised TP of Rs 1,130 vs. 1,041 earlier (2.2x FY19E ABV; 9% upside from CMP): Though management seems optimistic on NIM, we believe, NIM may face pressure due to incremental focus on low yielding assets (lower tenure used vehicles and new vehicles). Further, transition to 90 dpd by FY18 will add to challenges due to higher interest reversals. We roll forward our multiple to FY19E and value SHTF at 2.2x FY19E P/ABV to arrive at TP of Rs 1,130. At CMP of Rs 1,041, the stock trades at 2.3/2.0x FY18E/FY19E P/ABV of Rs 461/Rs 519, respectively.

Financial summary (Standalone)

Y/E March	FY16	FY17	FY18E	FY19E
PAT (Rs mn)	11,782	12,573	16,103	18,766
EPS (Rs)	52	55	71	83
EPS chg (%)	(4.8)	6.7	28.1	16.5
Book value (Rs)	448	498	553	616
Adj. BV (Rs)	412	447	461	519
PE (x)	20.1	18.8	14.7	12.6
P/ABV (x)	2.5	2.3	2.3	2.0
RoE (%)	12.2	11.7	13.5	14.1
RoA (%)	1.9	1.8	2.1	2.2
Net NPA (%)	1.8	2.5	4.1	3.8

Source: Company, Axis Capital

Key drivers

(%)	Q1'17	Q2'17	Q3'17	Q4'17
Disb. growth	15	3	(23)	(17)
AUM growth	24	19	15	8
Reported NIM	7.4	7.1	7.2	7.0
GNPA Ratio	6.4	6.6	6.6	8.2

Price performance

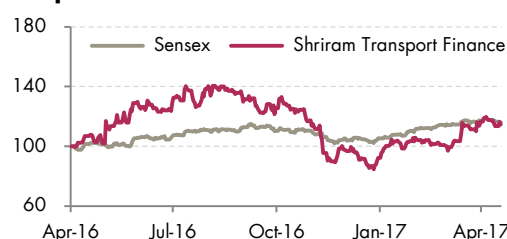
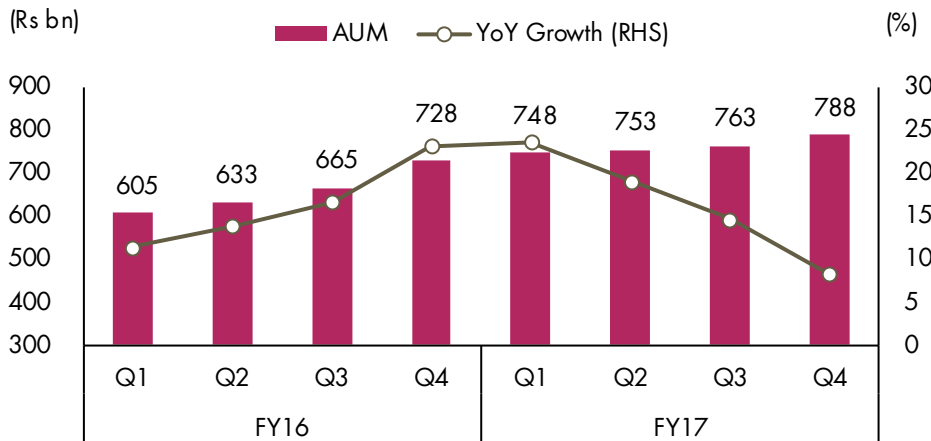
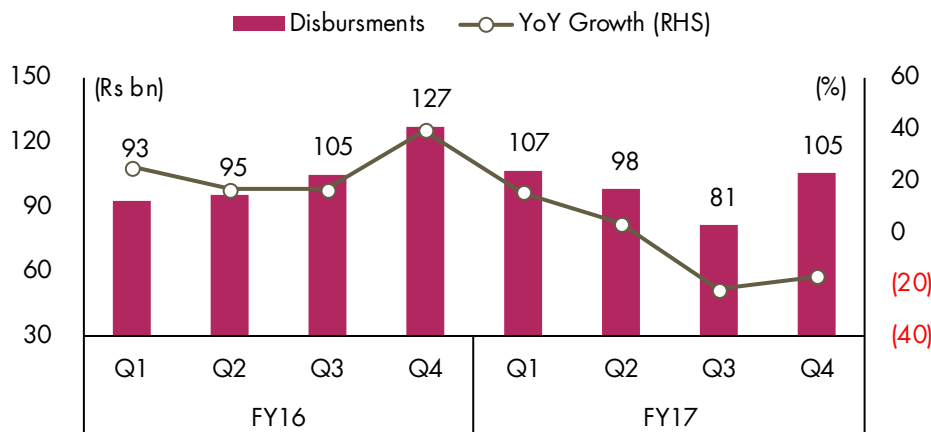


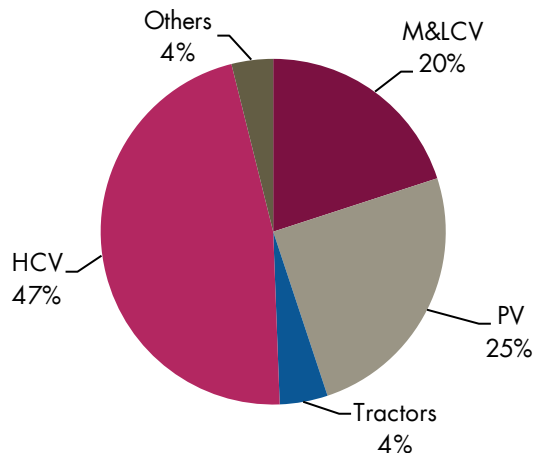
Exhibit 1: AUM growth slowed down materially due to weakened demand


Source: Company, Axis Capital

AUM growth was supported largely by pre-owned CV segment (8.7% YoY)

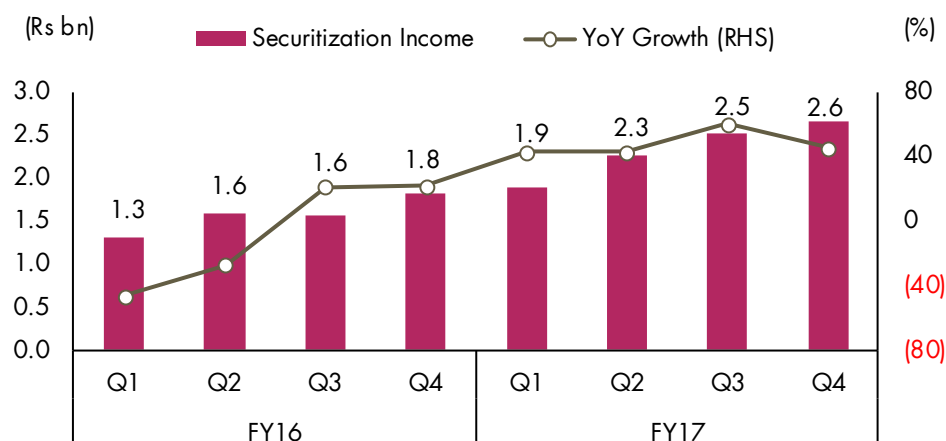
Exhibit 2: Decline in disbursement growth was accentuated further by demonetization


Source: Company, Axis Capital

Exhibit 3: Loan mix broadly unchanged over many quarters


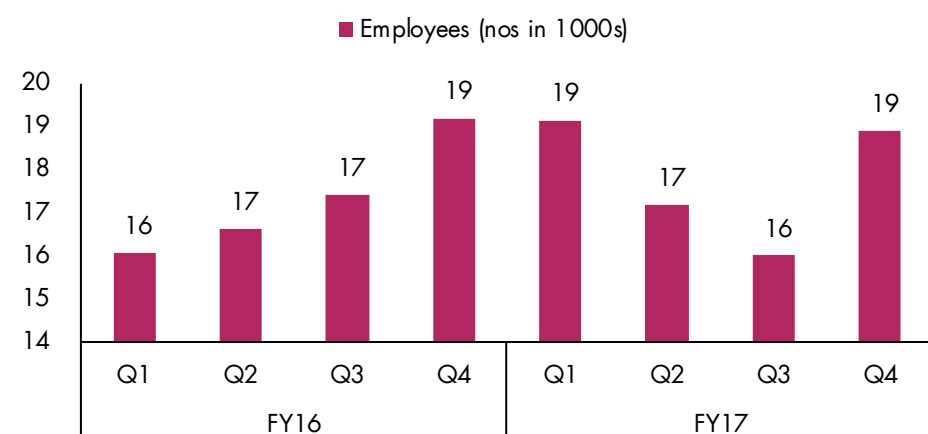
Source: Axis Capital, Company

Exhibit 4: Securitization income – rising consistently



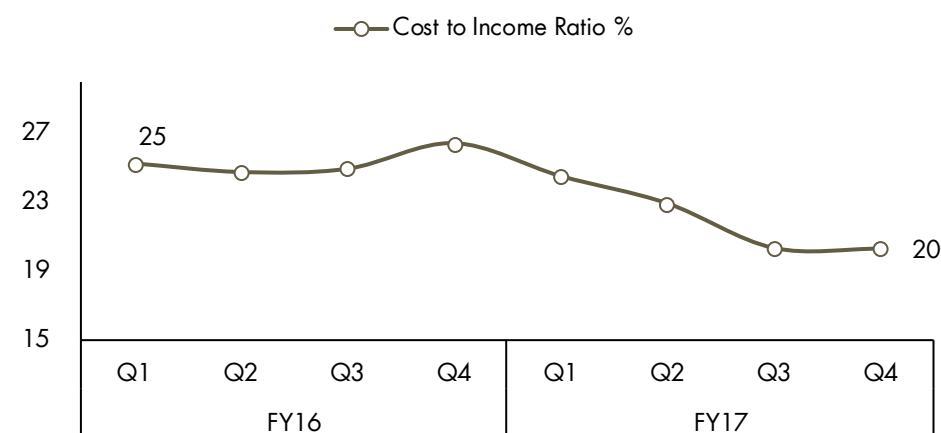
Source: Axis Capital, Company

Exhibit 5: 2,892 employees were added during the quarter



Source: Company, Axis Capital

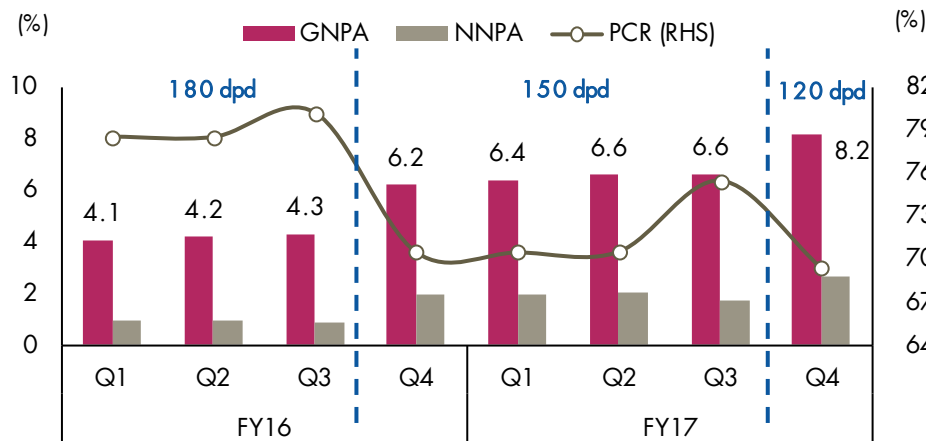
Exhibit 6: Cost-to-income ratio was stable during the quarter



Source: Axis Capital, Company

Management expects some rise in employee cost leading to marginal increase in cost to income in ensuing quarters

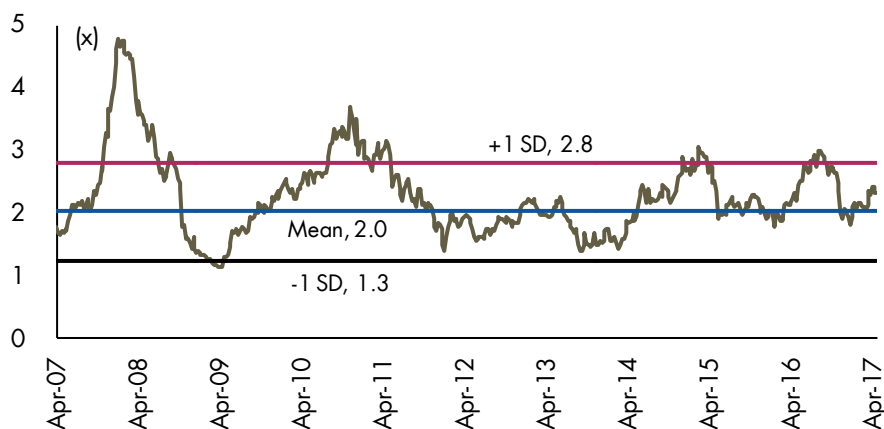
Exhibit 7: Transition to 120 dpd NPL recognition led to increase in GNPLs



Source: Axis Capital, Company

SHTF used RBI dispensation in Rs 4.4 bn of loans in Q3FY17, out of which 50% has been recovered and is confident of recovering the remaining in ensuing quarters

Exhibit 8: 10 years P/ABV movement



Source: Company, Axis Capital

Exhibit 9: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	Mar-18E	Mar-17	% Chg
Interest Earned	24,185	27,207	(11)	24,438	(1)	113,154	106,409	6
Interest Expended	12,746	14,474	(12)	12,825	(1)	56,084	51,874	8
Net Interest Income	11,440	12,733	(10)	11,613	(1)	57,070	54,535	5
Other Income	2,887	2,024	43	2,691	7	1,517	1,897	(20)
Total Net Income	14,327	14,757	(3)	14,304	0	58,588	56,432	4
Staff Expenses	24,185	27,207	(11)	24,438	(1)	6,031	5,482	10
Other operating expenses	1,638	2,016	(19)	1,600	2	7,635	7,267	5
Operating Profit	11,424	10,861	5	11,398	0	44,922	43,682	3
Provision & Contingencies	9,114	8,689	5	6,105	49	20,560	24,443	(16)
Provision for tax	813	733	11	1,834	(56)	8,259	6,666	24
Reported Profit	1,496	1,439	4	3,460	(57)	16,103	12,573	28
Return ratios (%)								
Net interest margin (on AUM)	7.0	7.7	(68) bps	7.2	(20) bps	7.8	8.0	(24) bps
Return on Avg. Net worth	5.3	5.7	(34) bps	12.5	(721) bps	13.5	11.7	179 bps
Return on Avg. Assets	0.8	0.9	(5) bps	1.9	(111) bps	2.1	1.8	30 bps
Asset quality (%)								
Gross NPAs (Rs.)	54,084	38,702	40	43,062	26	78,258	54,084	45
Gross NPA %	8.2	6.2	198 bps	6.6	154 bps	9.6	7.6	199 bps
Net NPAs (Rs.)	16,590	11,437	45	10,577	57	29,765	16,590	79
Net NPA %	2.7	1.9	74 bps	1.7	94 bps	4.1	2.5	152 bps
Provisioning % (PCR)	69	70	(112) bps	75	(611) bps	58	67	(888) bps
Business growth								
Disbursements	105,170	127,000	(17)	81,210	30	469,212	391,010	20
AUM	787,609	727,606	8	762,814	3	883,683	787,609	12

Source: Company, Axis Capital

Note: Full year ratios are on calculated basis & may be different from reported nos.

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Interest earned	101,953	106,409	113,154	125,144
Interest expended	(50,579)	(51,874)	(56,084)	(61,844)
Net interest income	51,374	54,535	57,070	63,299
Non interest income	982	1,897	1,517	1,669
Net income	52,356	56,432	58,588	64,968
Operating expenses	(13,473)	(12,750)	(13,666)	(14,556)
Staff expenses	(5,891)	(5,482)	(6,031)	(6,513)
Other operating expenses	(7,582)	(7,267)	(7,635)	(8,043)
Operating profit	38,882	43,682	44,922	50,413
Provisions & contingencies	(21,068)	(24,443)	(20,560)	(22,022)
Pre-tax profit	17,814	19,239	24,362	28,390
Tax expense	(6,032)	(6,666)	(8,259)	(9,624)
Profit after tax	11,782	12,573	16,103	18,766
Extraordinary item	-	-	-	-
Minority interest/Associates	-	-	-	-
Adj. PAT	11,782	12,573	16,103	18,766

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Total assets	679,633	744,103	814,969	923,050
Cash & Balances with RBI	39,239	44,407	29,390	33,294
Investments	13,562	15,494	17,043	18,747
Advances	618,784	654,629	734,745	832,351
Fixed assets	1,011	880	866	876
Other assets	7,038	28,694	32,925	37,782
Total liabilities	679,633	744,103	814,969	923,050
Equity capital	2,269	2,269	2,269	2,269
Preference capital	-	-	-	-
Reserves & surplus	99,272	110,753	123,153	137,603
Networth	101,541	113,022	125,422	139,872
Borrowings	497,907	531,100	596,549	661,704
Deposits	-	-	-	-
Other liabilities & prov.	80,185	99,981	92,998	121,475

Source: Company, Axis Capital

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
Per share data				
FDEPS (Rs.)	52	55	71	83
BV (Rs.)	448	498	553	616
Adj. BV (Rs.)	412	447	461	519
DPS (Rs.)	12	11	16	19
Dividend payout (%)	23	20	23	23
Yields & Margins (%)				
Yield on advances	18.4	16.7	16.3	16.0
Cost of deposit	-	-	-	-
Net interest margin	8.6	8.0	7.8	7.8
Asset quality (%)				
Gross NPAs	5.9	7.6	9.6	9.3
Net NPAs	1.8	2.5	4.1	3.8
Credit cost	3.6	3.5	2.7	2.0
Provisioning coverage	70.4	69.3	62.0	63.1
Capital (%)				
Tier-I	14.7	15.2	14.7	13.8
CAR	17.6	16.9	15.9	15.0
Efficiency (%)				
ROA	1.9	1.8	2.1	2.2
ROE	12.2	11.7	13.5	14.1
Cost to income	26	23	23	22
CASA	-	-	-	-
Effective tax rate	34	35	34	34
Growth (%)				
Net interest income	43	6	5	11
Fee income	-	-	-	-
Operating expenses	20	(5)	7	7
Profit after tax	(5)	7	28	17
Advances	26	6	12	13
Deposits	-	-	-	-
Total assets	15	9	10	13

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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