RESULT UPDATE

SHRIRAM TRANSPORT FINANCE

Operationally strong; merger uncertainties prevail

India Equity Research| Banking and Financial Services

Shriram Transport Finance (SHTF) reported strong Q1FY18 performance—PAT at INR4.5bn jumped ~20% YoY, highest in the past 6 quarters. The beat was on account of robust NII traction (up ~15% YoY) driven by margin expansion (up >50bps QoQ to 7.5%) on funding cost benefit and lower interest reversal. Growth showed initial signs of pick up—disbursements rose ~1.5% YoY (had declined over past 2 quarters)—translating into sub-10% AUM growth. However, impact of BS-IV transition and GST implementation will be key monitorables. Asset quality remained stable with GNPAs falling to 8.0% (8.2% in FY17). We believe, anticipated cyclical tailwinds will enable SHTF sustain an operationally strong performance. Maintain 'BUY'. Key risks: impact of GST implementation, 90dpd NPA transition and the recent merger announcement with IDFC (uncertainties around swap ratios, execution and regulatory approvals).

Uptick in growth; asset quality stable

SHTF's disbursements showed signs of pick up during Q1FY18—at INR108bn, rose ~1.5% YoY versus decline over the past 2 quarters. While impact of demonetisation seems to be waning, pre-buying of vehicles (in Q4FY17) prior to BS-IV transition and deferment of purchases before GST implementation limited the traction—AUM grew at sub-10% YoY. Notwithstanding this, growth is expected to recover in H2FY18 on pent-up demand, greater infra activity and better monsoon. Consequently, management maintained FY18 growth guidance at >15% YoY. Asset quality was stable, with GNPAs declining to 8.0% (8.2% in FY17). While we anticipate underlying asset quality to improve given improving cash flows, transition to 90dpd recognition norms is a key monitorable.

Outlook and valuations: Growth levers in place; maintain 'BUY'

With improving operational efficiency and better fleet utilisation post the GST transitioning phase, we expect truck operators' cash flows to improve. This, coupled with underlying demand, undisputed leadership and niche positioning, will enable SHTF to deliver operationally strong performance. Q1FY18 reflected initial signs of pick up in performance. While uncertainties surrounding merger with the IDFC Group will be a key overhang, valuations of 1.7x FY19E P/ABV for >19% RoE potential leave scope for swap ratio to be in its favour. We maintain **'BUY/SO'** with TP of INR1,307 (2.2x FY19E P/ABV).

Financials **(INR mn)**

Year to March	Q1FY18	Q1FY17	*Growth (%)*	Q4FY17	*Growth (%)*	FY17	FY18E	FY19E
Net revenue	16,070	13,641	*17.8*	14,327	*12.2*	56,432	63,129	70,881
Net profit	4,487	3,741	*19.9*	1,496	*199.9*	12,573	17,216	26,530
Dil. EPS (INR)	19.8	16.5	*20.0*	6.6	*199.7*	55.4	75.9	116.9
Adj. BV (INR)						441.8	491.7	594.2
Price/ Adj book (x)						2.3	2.1	1.7
Price/ Earnings (x)						18.4	13.4	8.7

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Overweight

MARKET DATA *(R: SRTR.BO, B: SHTF IN)*

CMP	: INR 1,017
Target Price	: INR 1,307
52-week range (INR)	: 1,325 / 778
Share in issue (mn)	: 226.9
M cap (INR bn/USD mn)	: 231 / 3,598
Avg. Daily Vol.BSE/NSE('000)	: 807.8

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	26.1	26.1	26.1
MF's, FI's & BK's	2.9	2.1	3.5
FII's	49.5	47.4	37.3
Others	21.5	24.4	33.1

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	1.7	5.8	8.0
3 months	(2.1)	8.3	12.1
12 months	(20.6)	16.7	30.9

Kunal Shah
+91 22 4040 7579
kunal.shah@edelweissfin.com

Nilesh Parikh
+91 22 4063 5470
nilesh.parikh@edelweissfin.com

Prakhar Agarwal
+91 22 6620 3076
prakhar.agarwal@edelweissfin.com

Malav Simaria
+91 22 6623 3357
malav.simaria@edelweissfin.com

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Table 1: Key takeaways from Q1FY18 earnings

(INR mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	Comments
Interest income	26,198	24,764	*5.8*	24,185	*8.3*	
Interest expense	12,835	13,165	*(2.5)*	12,746	*0.7*	
Net interest income	13,364	11,598	*15.2*	11,440	*16.8*	*Healthy NII growth, driven by margin expansion*
Securitisation income (net)	2,488	1,876	*32.7*	2,647	*(6.0)*	
Net interest income (incl. sec)	15,852	13,474	*17.6*	14,087	*12.5*	
Non-interest income	218	167	*30.9*	240	*(9.1)*	
Net revenues	16,070	13,641	*17.8*	14,327	*12.2*	
Operating expenses	3,379	3,341	*1.1*	2,903	*16.4*	
Operating profit	12,691	10,300	*23.2*	11,424	*11.1*	
Provisions	5,823	4,603	*26.5*	9,114	*(36.1)*	
Profit before tax	6,869	5,697	*20.6*	2,310	*197.4*	
Tax expense	2,382	1,956	*21.8*	813	*192.8*	
Profit after tax	4,487	3,741	*19.9*	1,496	*199.9*	*Better revenue traction flows into strong earnings growth - highest in 6 quarters*
EPS (INR)	19.8	16.5	*20.0*	6.6	*199.7*	
Key Metrics						
AUM	8,16,120	7,48,085	*9.1*	7,87,609	*3.6*	*AUM growth gains momentum - FY18 guidance maintained at >15%*
On-book	6,83,006	6,39,620	*6.8*	6,54,629	*4.3*	
Off-book	1,33,114	1,08,465	*22.7*	1,32,981	*0.1*	
Disbursements	1,08,180	1,06,630	*1.5*	1,05,170	*2.9*	*Disbursements show signs of pick-up post demonetisation*
GNPA	55,490	41,259	*34.5*	54,084	*2.6*	
NNPA	16,197	12,202	*32.7*	16,590	*(2.4)*	
GNPA (%)	8.0	6.4		8.2		*Asset quality stable*
NNPA (%)	2.5	2.0		2.7		
NIM (reported, %)	7.5	7.4		7.0		*NIMs expand on funding cost benefits and lower interest reversal*
Cost/income (reported, %)	20.2	23.6		19.4		

Source: Company, Edelweiss research

Table 2: Disbursements show signs of pick-up post demonetisation

Disbursement analysis	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Total disbursement (INRbn)	92.3	95.1	104.8	127.1	106.6	98.0	81.2	105.2	108.2
Y-o-Y Growth (%)	24.7	16.5	16.5	39.6	15.5	3.1	(22.5)	(17.3)	1.5
Q-o-Q Growth (%)	1.4	2.9	10.2	21.3	(16.1)	(8.1)	(17.1)	29.5	2.9
- Pre owned CVs (%)	91.6	89.8	87.6	84.9	88.2	94.9	93.0	88.9	91.1
- New CVs (%)	8.4	10.2	12.4	15.1	11.8	5.1	7.0	11.1	8.9
Securitisation done (INRbn)	8.3	15.6	19.8	46.2	21.6	29.0	26.0	35.6	22.2
Securitisation % of disb.	8.9	16.4	18.9	36.3	20.3	29.6	32.0	33.8	20.6

Source: Company

Table 3: AUM growth gains momentum; management is confident of clocking >15% growth in FY18

AUM analysis	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Total AUM (INR bn)	605	633	665	728	748	753	763	788	816
Y-o-Y Growth (%)	11.4	13.9	16.6	23.1	23.6	19.1	14.6	8.2	9.1
Q-o-Q Growth (%)	2.4	4.5	5.2	9.4	2.8	0.7	1.3	3.3	3.6
- On books	518	551	584	619	640	637	643	655	683
- Off books	88	82	81	109	108	116	120	133	133
Off book % of AUM	14.5	12.9	12.2	15.0	14.5	15.4	15.7	16.9	16.3
- Pre owned CVs	558	583	609	651	667	677	687	708	735
- New CVs	47	49	55	76	80	76	75	79	81
Pre owned % of AUM	92.2	92.1	91.6	89.5	89.2	89.9	90.1	89.9	90.0

Source: Company

Table 4: Asset quality stable

Asset quality	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Gross NPAs (INR bn)	21.3	23.4	25.4	38.7	41.3	42.4	43.1	54.1	55.5
Net NPAs (INR bn)	4.6	5.0	5.0	11.4	12.2	12.5	10.6	16.6	16.2
Provisions (INR bn)	16.7	18.4	20.3	27.3	29.1	29.9	32.5	37.5	39.3
Ratio (%)									
Gross NPA	4.1	4.2	4.3	6.2	6.4	6.6	6.6	8.2	8.0
Net NPA	0.9	0.9	0.9	1.9	2.0	2.0	1.7	2.7	2.5
Provision coverage	78.5	78.5	80.2	70.5	70.4	70.5	75.4	69.3	70.8

Source: Company

Table 5: NIMs improve on funding cost benefits and lower interest reversal

NIM Analysis (%)	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
On book yield	17.4	16.8	16.7	18.1	15.7	15.4	15.3	14.9	15.7
Off book yield	6.3	7.5	8.7	7.2	6.9	8.0	8.5	8.4	7.5
Cost of funds	10.8	10.7	10.4	11.8	10.5	10.4	10.0	9.8	9.4
NIMs (On AUM)	7.7	7.7	8.1	8.3	7.3	7.2	7.5	7.3	7.9
NIMs without securitisation	8.0	7.7	8.1	8.5	7.4	7.1	7.3	7.1	8.0

Source: Company

Table 6: Borrowings proportion

Borrowings	Q116	Q216	Q316	Q416	Q117	Q217	Q317	Q417	Q118
Total borrowings (INR bn)	444	460	480	498	510	518	511	531	557
% Retail	20.2	20.0	19.8	19.4	19.2	18.8	19.2	18.5	17.3
% Institutional	79.8	80.0	80.2	80.6	80.8	81.2	80.8	81.5	82.7

Source: Company

Table 7: AUM composition

AUM Breakup (%)	Q317	Q417	Q118
-HCVs	46.1	46.7	46.8
- M&LCVs	19.5	20.0	20.4
-Passenger Vehicles	25.4	24.9	24.6
-Tractors	4.7	4.5	4.3
-Others	2.8	2.8	3.0
SEFCL construction equipment	1.5	1.1	0.9

Source: Company

Financial snapshot **(INR mn)**

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Inc. from Financing Ops.	28,715	26,651	*7.7*	26,852	*6.9*	103,989	113,125	127,109
Fee Based & Other Income	190	155	*22.8*	221	*(14.1)*	4,471	5,008	5,777
Interest expended	12,835	13,165	*(2.5)*	12,746	*0.7*	52,029	55,003	62,005
Net revenues	16,070	13,641	*17.8*	14,327	*12.2*	56,432	63,129	70,881
Operating expenses	3,379	3,341	*1.1*	2,903	*16.4*	12,750	14,638	17,133
Operating profit	12,691	10,300	*23.2*	11,424	*11.1*	43,682	48,491	53,749
Provisions	5,823	4,603	*26.5*	9,114	*(36.1)*	24,443	22,525	13,734
Profit before tax	6,869	5,697	*20.6*	2,310	*197.4*	19,239	25,967	40,015
Provision for taxes	2,382	1,956	*21.8*	813	*192.8*	6,666	8,751	13,485
PAT	4,487	3,741	*19.9*	1,496	*199.9*	12,573	17,216	26,530
Diluted EPS (INR)	19.8	16.5	*20.0*	6.6	*199.7*	55.4	75.9	116.9
Ratios								
Cost/income (%)	21.0	24.5		20.3		22.6	23.2	24.2
Tax rate (%)	34.7	34.3		35.2		34.6	33.7	33.7
Asset quality								
Gross NPA (INR bn)	55	41	*34.5*	54	*2.6*	54	70	69
Gross NPA (%)	8.0	6.4		8.2		8.2	9.3	8.0
Net NPA (INR bn)	16	12	*32.7*	17	*(2.4)*	17	21	21
Net NPA (%)	2.5	2.0		2.6		2.6	2.8	2.4
Coverage ratio (%)	70.8	70.4		69.3		69.3	69.7	70.0
Valuation metrics								
B/V per share (INR)						493.0	556.8	658.5
Adj book value / share						441.8	491.7	594.2
Price/ Book (x)						2.1	1.8	1.5
Price/ Adj. book (x)						2.3	2.1	1.7
Price/ Earnings						18.4	13.4	8.7

Q1FY18 earnings concall takeaways

Management commentary

- Domestic CV industry saw contraction in Q1FY18, with unit sales down ~9% YoY
  - This was largely due to MHCV segment, which saw sharp decline due to pre-buying in Feb and Mar prior to BS-IV rollout and deferment of purchase prior to GST implementation
  - On the other hand, the LCV segment has held up well due to uptick in consumption sector and good agriculture movement
- ***While Q2FY18 could see some uncertainty, outlook for 2nd half remains positive owing to pent-up demand post GST implementation, greater construction activity post October and good monsoons***
  - ***Consequently, management maintained its AUM growth guidance for the full year at 12-15%***
- While there has been some slowdown due to GST, management believes that things are settling down and should be normal by the end of the quarter

With respect to asset quality

- Asset quality saw improvement, with GNPAs (120dpd) declining sequentially to 8.0% (vs. 8.2% in FY17)
  - Difference between GNPAs based on 90dpd and 120dpd recognition norms is ~120-150bps
- ***Management aims to bring credit costs to 2.5% levels by end of the year***
- ***Post transition to 90dpd NPA recognition norms, provision coverage should be ~60-65% (vs. ~71% currently)***

Other highlights

- NIMs improved to 7.5% (vs. 6.9% in Q4FY17), led by replacement of maturing long-term borrowings and lower interest reversal (vis-a-vis Q4FY17)
- Disbursement breakup – Used CVs: INR98.57bn, New CVs: INR9.61bn

Q4FY17 analyst meet takeaways

Economic activity

- Things are improving post demon but not fully recovered. Impact to be there for 2 more quarters - post GST more clarity would emerge. Good monsoon will have positive impact in second half of the year.

With respect to growth

- Disbursements in Q4FY17 – INR 105bn - up 30% QoQ (though down 20% YoY on a higher base). Of this, disbursement in new vehicle segment was INR11.67bn & INR93.5bn old vehicle. BS-IV helped manufacturers to sell more vehicles. Did not participate in pre-selling activity. In April, disbursements have been good.
- MHCV demand is mostly in construction & iron ore/steel transport. Frieght has not moved up much.
- Ola Uber demand not so high in last 2 months as financiers have reduced its focus now. 1000 crs financing done to Ola Uber customers till date.
- Guiding for 12-15% AUM growth – upper end of guidance if monsoon is good. For the first half the growth will be tilted toward Passenger Vehicle /Tractor/Small CV and going into H2FY17 the growth will be driven by M&HCV and construction related business.

With respect to provisioning:

- Transitioned from 150 to 120 day norm which led to GNPLs moving up by 100 bps. Given the uncertainty with respect to GST and some pressure of demonetisation (in pockets) the company continued to maintain higher coverage ratio.
- RBI dispensation 50% has been recovered & balance will be recovered in next 2 quarters.
- Write-off 345 crs (305 crs) & 466 crs (305 crs) NPL. Full year write off 1100 crs

With respect to NIMs:

- Incremental yields to be broadly in 16-17% range based on the mix of Used/New CV.
- 40 crs interest income reversal - had this not been there, NIMs would have been higher by 15-20 bps GST - SSI exemption is only for below 20L to take input credit.
- Still see 15-20bps reduction in borrowing cost as all the higher cost borrowings are still not re-priced. Despite tilt towards New CV segment, management aims to have NIMs of 7% plus.

Other highlights:

- Employee strength increased : 800 people added to leverage the opportunity.
- Organized truckers will see increase in activity 80% truckers cater to SME, Agri & consumables.
- Will be aggressive on used vehicle loans. New vehicle lending will be careguo Yield will not be further increase, cost of funds coming down
- 8-10 year vehicle would be 15%, more than 10 yrs would be 5%.

Construction equipment

- 880 crs is outstanding book size
- NPL on that is 730 crs - 683 crs is provisioning on that Recovery 270 crs

Company Description

SHTF is one of the largest asset financing NBFCs with approximately 25% market share in pre-owned and approximately 5-6% market share in new truck financing. As on June 2017, the company's AUM stands at INR816bn. It is strategically present in high yield pre-owned CV financing with expertise in loan origination, valuation and collection. Over the past few years, SHTF has expanded its product portfolio to include financing of tractors, small commercial vehicles, three wheelers, passenger commercial vehicles and construction equipment. The split of AUM is HCV, M&LCV, passenger vehicles and tractors accounting for 46.8%, 20.4%, 24.6% and 4.3%, respectively. It is also involved in ancillary services (finance for working capital, engine replacement, bill discounting, credit cards and tyre loans) as holistic financing support.

The company has 962 branches and 857 rural centers with employee strength of 20,489 employees.

SHTF is the flagship company of the Shriram Group—a diversified play with interests in financial services, manufacturing, value-added services, project development, engineering services and pharmaceuticals.

Investment Theme

We have been staunch supporters of SHTF's sound business model, product niche and geographical depth. Although over past couple of years the company was impacted by: a) cyclical growth trends; b) slower regulatory change; and c) asset quality pangs, we see tailwinds emerging across these parameters. While uncertainties surrounding merger with the IDFC Group will be a key overhang, valuations of 1.7x FY19E P/ABV for >19% RoE potential leave scope for swap ratio to be in its favour.

Key Risks

Delayed pick up in economy: CV utilisation and freight rates, which depend on the economic cycle, ultimately influence vehicle sales and also SHTF's asset quality. Diversification of the loan book and growing emphasis on fee-based income should safeguard the company in case of a delay in recovery.

High dependency on financed asset: The borrower's (SFOs and FTUs) ability to earn and his ability to repay rests solely on the asset (pre-owned/new CV) financed. Well developed vehicle evaluation skills and conservative LTVs of the company should ensure adequate resale realisation in case of a default.

Increased competition: Growing presence and expanding reach of NBFCs and commercial banks is a cause for concern. However, structurally operational difficulty in the pre-owned CV segment implies that crucial business intelligence developed by SHTF over the years is difficult to replicate.

Wholesale dependent nature: Currently, retail funding attributes to ~18.5% of the borrowings of Shriram Transport. This leaves the NBFC vulnerable to sharp spikes in interest rates in the wholesale markets. Considering that majority of its assets carry fixed interest rates this may lead to NIM volatility.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Sector				
Credit growth	9.3	9.0	12.0	14.0
Borrowings growth (%)	8.6	14.0	12.0	13.0
Bank's base rate (%)	9.5	9.0	9.0	9.0
Wholesale borr. cost (%)	8.5	8.5	8.5	8.5
G-sec yield	7.5	6.5	6.5	6.5
Company				
Op. metric assumptions (%)				
-On book - Yield On adv	16.2	14.9	14.8	14.4
-Off book - Yield On adv	5.9	7.7	7.5	7.2
Cost of funds	9.8	9.6	9.2	9.1
Employee cost growth	37.1	(6.9)	15.0	20.0
Other opex growth	20.0	(5.4)	14.8	17.0
Tax rate (%)	33.9	34.6	33.7	33.7
Dividend payout	19.3	18.0	16.0	13.0
Balance sheet assumption (%)				
Disbursement growth	24.5	(6.8)	12.0	16.0
Securit. (% of disb.)	18.2	22.9	20.0	20.0
-On Book Repayment Rate	47.3	42.9	39.0	38.0
-Off Book Repayment Rate	67.0	60.0	56.0	55.0
Securit. inc. (% of AUM)	6.0	7.5	7.5	7.5
Bad debt written off	1.4	1.6	1.4	1.5
Gross NPLs	4.9	7.2	8.8	8.0
Net NPLs	1.4	2.5	2.8	2.4
Prov Cov	70.5	65.5	68.0	70.0

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Interest income	97,663	103,989	113,125	127,109
Interest expended	50,579	52,029	55,003	62,005
Net interest income	47,085	51,961	58,121	65,104
- Fee & forex income	4,788	4,471	5,008	5,777
Net revenues	51,873	56,432	63,129	70,881
Operating expense	13,473	12,750	14,638	17,133
- Employee exp	5,891	5,482	6,305	7,566
- Depn /amortisation	363	339	366	405
- Other opex	7,219	6,928	7,967	9,162
Preprovision profit	38,400	43,682	48,491	53,749
Provisions	20,586	24,443	22,525	13,734
Profit Before Tax	17,814	19,239	25,967	40,015
Less: Provision for Tax	6,032	6,666	8,751	13,485
Profit After Tax	11,782	12,573	17,216	26,530
Reported Profit	11,782	12,573	17,216	26,530
Shares o /s (mn)	227	227	227	227
Basic EPS (INR)	51.9	55.4	75.9	116.9
Diluted shares o/s (mn)	227	227	227	227
Adj. Diluted EPS (INR)	51.9	55.4	75.9	116.9
Dividend per share (DPS)	10.0	10.0	12.1	15.2
Dividend Payout Ratio(%)	19.3	18.0	16.0	13.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	25.3	8.8	11.9	12.3
NII growth	25.4	10.4	11.9	12.0
Opex growth	20.0	(5.4)	14.8	17.0
PPP growth	27.3	13.8	11.0	10.8
Provisions growth	75.3	18.7	(7.8)	(39.0)
Adjusted Profit	(4.8)	6.7	36.9	54.1

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Yield on adv. (On AUM)	14.8	13.7	13.5	13.2
Yield on adv. (on-book)	16.2	14.9	14.8	14.4
Yield on adv. (off-book)	5.9	7.7	7.5	7.2
Cost of funds (On Book)	10.3	9.6	9.2	9.1
Spread (On Book)	5.9	5.3	5.5	5.2
NIMs (On AUM)	7.1	6.9	6.9	6.8
Cost-income	26.0	22.6	23.2	24.2
Tax rate	33.9	34.6	33.7	33.7

Balance sheet (INR mn)

As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	2,269	2,269	2,269	2,269
Reserves & Surplus	99,272	109,582	124,044	147,125
Shareholders' funds	101,541	111,851	126,313	149,394
Short term borrowings	150,532	160,618	180,774	208,283
Long term borrowings	374,046	399,108	449,192	517,548
Total Borrowings	524,579	559,725	629,966	725,831
Long Term Liabilities	26,757	18,455	20,397	23,669
Def. Tax Liability (net)	(3,077)	(3,623)	(3,250)	(3,250)
Sources of funds	**649,800**	**686,409**	**773,426**	**895,644**
Gross Block	2,416	2,616	2,816	3,016
Net Block	998	827	926	1,025
Intangible Assets	13	11	12	13
Total Fixed Assets	1,011	838	938	1,038
Non current investments	4,069	4,648	4,724	4,934
Cash and Equivalents	33,132	27,149	29,042	32,423
Loans & Advances	638,345	672,228	759,118	880,919
Trade payable	9,532	6,575	7,267	8,432
Other Current Liab	17,224	11,880	13,130	15,237
Total Current Liab	26,757	18,455	20,397	23,669
Net Curr Assets-ex cash	(26,757)	(18,455)	(20,397)	(23,669)
Uses of funds	**649,800**	**686,409**	**773,426**	**895,644**
BVPS (INR)	447.6	493.0	556.8	658.5
Earning assets (EA)	710,566	781,765	884,254	1,024,245
Disbursements	419,314	391,010	437,931	508,000
AUM	727,890	787,714	892,218	1,035,264
Total borrowing	633,386	692,712	776,066	893,176
AUM growth	23.1	8.2	13.3	16.0
EA growth	13.1	10.0	13.1	15.8
Gross NPAs	38,404.1	54,086.0	69,526.5	69,468.6
Net NPAs	11,388.6	16,587.2	21,080.2	20,829.6
Provision coverage	70.3	69.3	69.7	70.0
Gross NPA ratio	6.2	8.3	9.3	8.0
Net NPA ratio	1.8	2.5	2.8	2.4

RoE decomposition (%)

Year to March	FY16	FY17	FY18E	FY19E
Net int. income/assets	7.0	7.0	7.0	6.8
Other income/Assets	0.7	0.6	0.6	0.6
Net revenues/assets	7.7	7.6	7.6	7.4
Operating expense/assets	2.0	1.7	1.8	1.8
Provisions/assets	3.1	3.3	2.7	1.4
Taxes/assets	0.9	0.9	1.1	1.4
Total costs/assets	6.0	5.9	5.5	4.6
ROA	1.8	1.7	2.1	2.8
Equity/assets	14.5	14.3	14.3	14.4
ROAE (%)	12.2	11.8	14.5	19.2

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	51.9	55.4	75.9	116.9
Y-o-Y growth (%)	*(4.8)*	*6.7*	*36.9*	*54.1*
BV per share (INR)	447.6	493.0	556.8	658.5
Adj. BV per share (INR)	412.4	441.8	491.7	594.2
Diluted P/E (x)	19.6	18.4	13.4	8.7
P/B (x)	2.3	2.1	1.8	1.5
Price/ Adj. BV (x)	2.5	2.3	2.1	1.7

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X) FY18E	Diluted P/E (X) FY19E	P/B (X) FY18E	P/B (X) FY19E	ROAE (%) FY18E	ROAE (%) FY19E
Shriram Transport Finance	3,598	13.4	8.7	1.8	1.5	14.5	19.2
Dewan Housing Finance	2,231	12.8	11.1	1.6	1.5	13.8	14.5
HDFC	44,313	22.6	19.3	4.5	3.7	19.9	20.9
Indiabulls Housing Finance	7,767	14.6	12.0	3.8	3.3	27.3	29.3
LIC Housing Finance	5,435	16.8	15.1	2.7	2.3	18.8	18.4
Mahindra & Mahindra Financial Services	3,552	35.1	21.9	3.3	3.0	9.8	14.4
Manappuram General Finance	1,400	10.7	9.3	2.5	2.2	24.9	24.9
Muthoot Finance	2,950	13.7	12.1	2.5	2.2	19.7	19.4
Power Finance Corp	5,115	4.8	4.7	0.8	0.7	17.8	16.1
Reliance Capital	2,844	14.7	11.8	1.1	1.0	7.5	8.7
Repco Home Finance	726	21.5	17.7	3.5	3.0	17.5	18.0
Rural Electrification Corporation	5,384	5.9	5.4	0.9	0.8	16.6	15.9
Shriram City Union Finance	2,360	17.9	12.6	2.6	2.2	15.7	19.3
Median	-	13.7	11.8	2.5	2.2	17.5	18.4
AVERAGE	-	14.0	11.0	2.1	1.8	17.2	18.4

Source: Edelweiss research

Additional Data

Directors Data

S. Lakshminarayanan	Chairman	Umesh Govind Revankar	Managing Director & CEO
Sumatiprasad Bafna	Director	Puneet Bhatia	Director
Amitabh Chaudhry	Director	Kishori Udeshi	Director
Gerrit Lodewyk Van Heerde	Director	S. Sridhar	Director
D. V. Ravi	Director		

Auditors - Pijush Gupta & Co.

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Piramal Enterprises Group	9.96	J.P. Morgan Chase & Co.	3.63
Sanlam Life Insurance	2.98	Vanguard Group	2.55
SBI Funds Management	2.51	Abu Dhabi Investment Authority	2.26
BlackRock	2.19	Capital Group Companies	2.12
Centaura Investments Mauritius	1.90	Comgest	1.50

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
22 Dec 2016	Valiant Mauritius Partners Offshore Ltd	Buy	1400300	813.00
22 Dec 2016	Morgan Stanley Mauritius Company Ltd	Sell	2500959	812.99

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
27 Dec 2016	Shriram Capital Limited	Buy	59526.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	HOLD	SU	M	Axis Bank	BUY	SO	M
Bajaj Finserv	HOLD	SP	L	Bank of Baroda	BUY	SP	M
Bharat Financial Inclusion	BUY	SO	M	Capital First	BUY	SO	M
DCB Bank	HOLD	SU	M	Dewan Housing Finance	BUY	SO	M
Equitas Holdings Ltd.	BUY	SO	M	Federal Bank	BUY	SP	L
HDFC	HOLD	SP	L	HDFC Bank	BUY	SO	L
ICICI Bank	BUY	SO	L	IDFC Bank	HOLD	SP	L
Indiabulls Housing Finance	BUY	SO	M	IndusInd Bank	BUY	SP	L
Karnataka Bank	BUY	SP	M	Kotak Mahindra Bank	HOLD	SP	M
L&T FINANCE HOLDINGS LTD	BUY	SO	M	LIC Housing Finance	BUY	SP	M
Magma Fincorp	BUY	SP	M	Mahindra & Mahindra Financial Services	HOLD	SU	M
Manappuram General Finance	BUY	SO	H	Max Financial Services	BUY	SO	L
Multi Commodity Exchange of India	BUY	SP	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	HOLD	SP	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	BUY	SP	M	Reliance Capital	BUY	SP	M
Repco Home Finance	BUY	SO	M	Rural Electrification Corporation	BUY	SO	M
Shriram City Union Finance	BUY	SO	M	Shriram Transport Finance	BUY	SO	L
South Indian Bank	BUY	SP	M	State Bank of India	BUY	SP	L
Union Bank Of India	HOLD	SP	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: *research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN
Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=HEAD RESEARCH, cn=ADITYA NARAIN, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, postalCode=400005, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, st=Maharashtra
Date: 2017.08.01 00:31:28 +05'30'

Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bharat Financial Inclusion, Bajaj Finserv, Bank of Baroda, Capital First, DCB Bank, Dewan Housing Finance, Equitas Holdings Ltd., Federal Bank, HDFC, HDFC Bank, ICICI Bank, IDFC Bank, Indiabulls Housing Finance, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, L&T FINANCE HOLDINGS LTD, Max Financial Services, Multi Commodity Exchange of India, Manappuram General Finance, Magma Fincorp, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, Repco Home Finance, State Bank of India, Shriram City Union Finance, Shriram Transport Finance, South Indian Bank, Union Bank Of India, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
28-Jul-17	**LIC Housing Finance**	Margins temper; individual growth improves; *Result Update*	721	Buy
28-Jul-17	**IDFC Bank**	Soft quarter; merger uncertainties loom large; *Result Update*	61	Hold
28-Jul-17	**Reliance Capital**	Value discovery in offing; *Result Update*	660	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

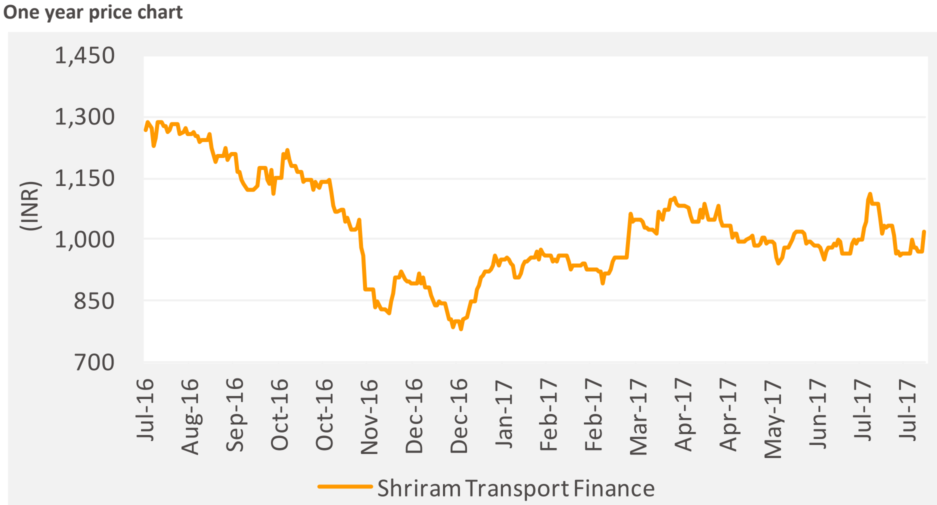
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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