

## Shriram Transport Finance Company Ltd.

|                                 |                |
|---------------------------------|----------------|
| No. of shares (m)               | 226.88         |
| Mkt cap (Rs crs/\$m)            | 28363/4380.6   |
| Current price (Rs/\$)           | 1250/19.3      |
| Price target (Rs/\$)            | 1475/22.8      |
| 52 W H/L (Rs.)                  | 1336/778       |
| Book Value (Rs/\$)              | 526/8.1        |
| Beta                            | 1.3            |
| Daily NSE volume (avg. monthly) | 1153730        |
| P/BV (FY18e/19e)                | 2.3/2.0        |
| P/E (FY18e/19e)                 | 18.3/14.9      |
| Cost to Income (FY17/18e/19e)   | 22.8/21.7/21.6 |
| EPS growth (FY17/18e/19e)       | 6.9/22.3/23.2  |
| NIM (FY17/18e/19e)              | 7.4/7.7/7.8    |
| ROE (FY17/18e/19e)              | 11.9/13.1/14.5 |
| ROA (FY17/18e/19e)              | 1.8/1.9/2.1    |
| D/E ratio (FY17/18e/19e)        | 4.8/4.9/5.0    |
| BSE Code                        | 511218         |
| NSE Code                        | SRTRANSFIN     |
| Bloomberg                       | SHTF IN        |
| Reuters                         | SRTR.BO        |

## Shareholding pattern

|                             | %            |
|-----------------------------|--------------|
| Promoters                   | 26.1         |
| MFs / Banks / FIs           | 4.9          |
| Foreign Portfolio Investors | 48.1         |
| Govt. Holding               | -            |
| Public & Others             | 20.9         |
| <b>Total</b>                | <b>100.0</b> |

As on Sep 30, 2017

## Recommendation

**ACCUMULATE**

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## Quarterly Highlights

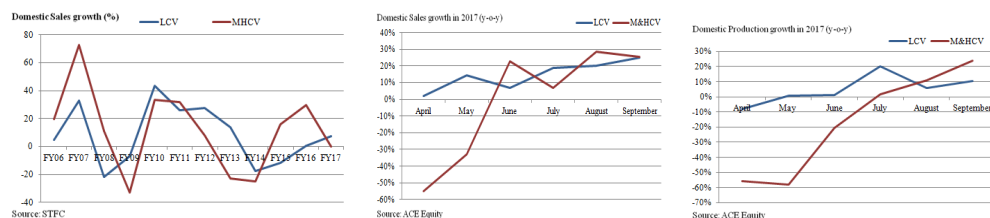
- Uptick in M&HCV sales augmented AUM growth (q-o-q) to 4.7% (Rs 85462.57 crs / \$13076.5 m in Q2FY18 from Rs 81611.95 crs / \$12606.5m). Share of new vehicle financing increased a tad bit to 10.1% last quarter from 9.9% in Q1FY18, while its core business – used vehicle financing – declined marginally by 47 bps to 86.6% of its total AUM to Rs 74013.90 crs (\$11324.9 m) which resulted in fall in margins by 20 bps to 7.6% vs 7.8% a quarter before.
- Disbursements witnessed a sharp uptick of 26.3% (y-o-y) last quarter to Rs 12377 crs (\$1925.1m) from Rs 9800 crs (\$1463.5m) after a few consecutive quarters of negative to single digit growth rate (down by 22.5% in Q3FY17 to growth of only 1.5% in the first quarter of current fiscal). It was mainly led by 19.3% growth in used CVs and 155.6% growth in new CVs.
- Higher other income (Rs 32.37 crs/\$ 5.0m) in Q2FY18 as against Rs 16.86 crs/\$2.5m in Q2FY17) and controlled operating expenditure (which grew by just 11.4% y-o-y) helped Shriram report strong operating performance. Cost to income ratio declined by 186 bps (y-o-y) and stood at 20.4% vs 22.3% in Q2FY17. Higher growth in some lower yielding newer vehicles was offset by lower cost of funds and helped profits to rise by 23.6% (y-o-y) to Rs 479.11 crs (\$74.5m) from Rs 387.65 crs (\$57.9m).
- The stock currently trades at 2.3x FY18e BV (18.3x FY18e EPS of Rs 68.20 and 2.0x FY19e BV (14.9x FY19e EPS of Rs 84.0). Pick up in the CV industry following a brief period of disruption caused by transition to GST has started showing signs of stabilization and is on a recovery trend. Government's commitment to double the farmers' income in five years along with boost to the rural and infrastructure sector in the Budget 2017 will power STFC's prospects – we expect its net interest income to grow at a CAGR of 16.3% in the next two years with AUM growth of 16.0% and 15.5% in FY18 and FY19 respectively. Underpenetrated market for used truck financing, with 60-65% of the market dominated by private financiers who charge high interest rates, holds strong growth potential. On balance, we recommend 'accumulate' rating on the stock with a target price of Rs 1475 (previous target Rs 1096) based on 2.4x FY19e BV for a period of 6-9 months.

| Consolidated Figures (in Rs crs) | FY15    | FY16    | FY17    | FY18e   | FY19e   |
|----------------------------------|---------|---------|---------|---------|---------|
| Net Interest Income              | 4437.83 | 5232.86 | 5643.67 | 6507.23 | 7629.35 |
| Non Interest Income              | 67.14   | 71.19   | 75.10   | 86.99   | 100.64  |
| Pre-provision Profit             | 3304.93 | 3933.71 | 4417.24 | 5160.29 | 6060.32 |
| Net Profit                       | 1028.44 | 1183.63 | 1265.63 | 1547.32 | 1905.89 |
| EPS(Rs)                          | 45.32   | 52.17   | 55.78   | 68.20   | 84.00   |
| EPS growth (%)                   | -24.3   | 15.1    | 6.9     | 22.3    | 23.2    |

## Outlook & Recommendation

### CV Industry Outlook

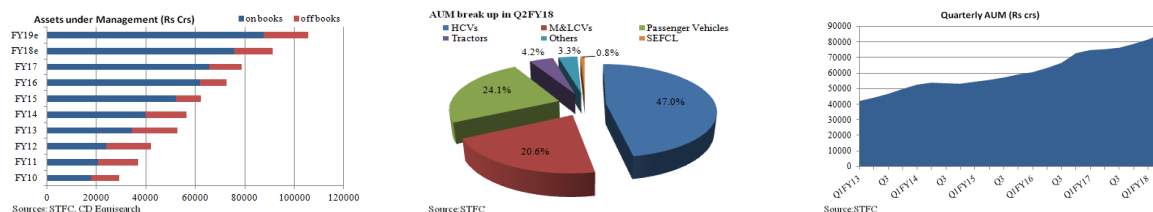
The domestic CV industry witnessed slow off take in current fiscal on back of pre-buying in the industry in Q4FY17 and deferment of new vehicle purchases by fleet operators because of impending GST implementation from July 2017. Limited availability of BS-IV compliant vehicles due to uncertainty related to implementation of new emission norms further aggravated tepid sales. However, since July 2017, the industry has regained its momentum driven by pent-up demand post GST, healthy replacement-led demand especially in tractor trailer segment owing to stricter implementation of Central Motor Vehicles Rules (CMVR) and pick-up in construction and mining activity, triggering demand for tipper trucks.



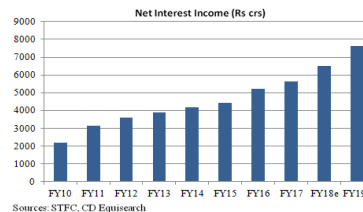
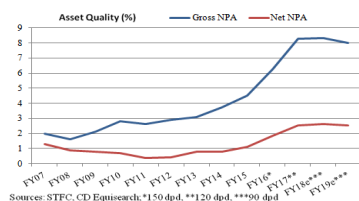
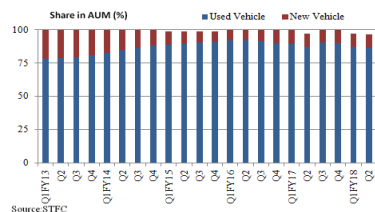
ICRA posits that the domestic CV industry is on a structural uptrend and expects it to register a growth of 6-7% in FY18. Within the CV industry, it foresees the M&HCV (truck) segment to grow by 2-4% aided by increased thrust on infrastructure and rural sectors in the last Budget and stricter implementation of regulatory norms especially related to vehicle length (for certain applications) and overloading norms. ICRA believes LCVs will continue to benefit from replacement-led demand stimulated by National Green Tribunal (NGT's) thrust on phasing out old diesel vehicles along with government's proposed vehicle modernization program which will help it grow by 14-16% in FY18. As companies across industries re-design their supply chain network and adopt hub-n-spoke mode of transportation, the demand for higher tonnage trucks (above 35T) is also expected to grow at a faster pace, which at present accounts for 15% and 30% of Indian truck market in terms of unit sales and tonnage, respectively (Source: ICRA).

### Financials & Valuation

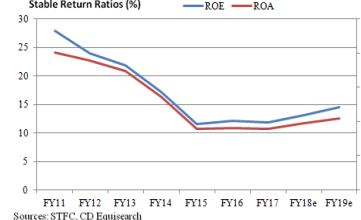
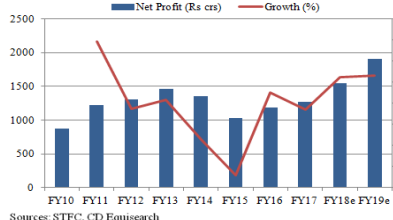
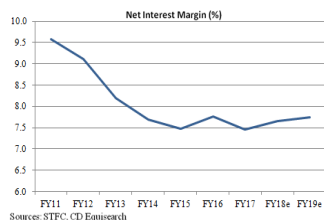
Recovery in the domestic CV sales in the second quarter of current fiscal (LCV and M&HCV segments grew by 21.5% and 20.4% respectively) after a sluggish first quarter aided AUM growth of Shriram by 13.5% in H1FY18 (y-o-y) to Rs 85462.57 crs (\$13076.5m) as against Rs 75322.58 crs (\$11299.6m) in H1FY17. The growth was driven by 26.5% rise in off book portfolio on back of hefty securitization done by the company which increased by 29.4% y-o-y and 11.1% growth in on-books portfolio.



Cost to income ratio declined by 260 bps (y-o-y) and stood at 20.5% in H1FY18. De-growth of 2.3% in interest expenses helped NII to grow by 19.2% and margins to improve by 36 bps (y-o-y) to 7.5% in the first half of the current fiscal. Higher provisions offset by slow growth rate in operating expenses aided PAT to rise by an impressive 21.8% to Rs 927.79 crs/\$144.1m compared to Rs 761.75 crs/\$113.8m in the same period last year.



Its asset quality continued to remain under pressure and gross NPA rose sharply by 148 bps to 8.1% in H1FY18 from 6.6% in H1FY17. Net NPA ratio also increased to 2.5% from 2.0% in the same period last year. Shifting to 90 days NPA recognition norms by the end of FY18 should add another 4.6 bps to gross NPA and increase it to 8.31% in FY18.



The stock currently trades at 2.3x FY18e BV (18.3x FY18e EPS of Rs 68.20 and 2.0x FY19e BV (14.9x FY19e EPS of Rs 84.0). Shriram is poised for good growth, thanks to its strong competitive advantage in used vehicles financing and opportunities in new vehicles financing. Pick-up in infra activities, decline in cost of ownership and good monsoons should trigger growth in the CV industry which augurs well for the company. With a strong pan-India network of 1035 branches and pick up in the CV industry, Shriram is all set to deliver notable performance in the second half of the current fiscal with expected increase in earnings of 22.3% and 23.2% in FY18 and FY19 respectively. On balance, we recommend 'accumulate' rating on the stock with a target price of Rs 1475 (previous target Rs 1096) based on 2.4x FY19e BV for a period of 6-9 months. For more information, refer to our January report.

## Cross Sectional Analysis

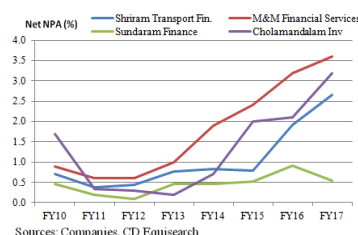
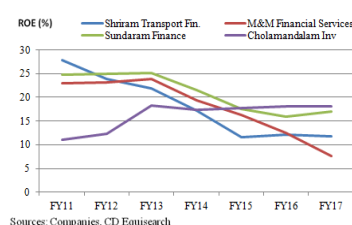
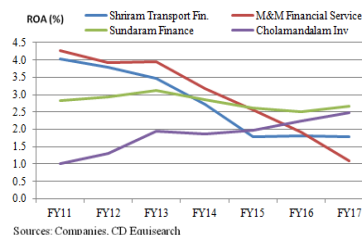
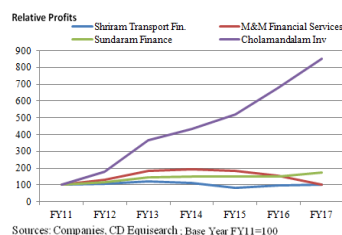
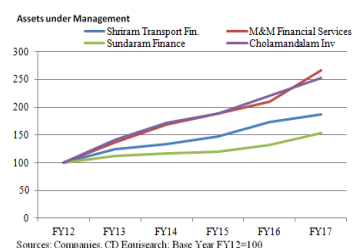
| Asset Financing NBFCs  | Equity* | CMP  | MCap* | IO    | Profit* | AUM growth (%) | Net NPA (%) | CAR (%) | ROA (%) | ROE (%) | P/E  | P/BV |
|------------------------|---------|------|-------|-------|---------|----------------|-------------|---------|---------|---------|------|------|
| Shriram Transport Fin. | 227     | 1250 | 28363 | 11306 | 1423    | 13.5           | 2.5         | 16.2    | 1.9     | 12.4    | 19.9 | 2.4  |
| M&M Financial Services | 113     | 433  | 24628 | 7711  | 449     | 13.8           | 6.5         | 19.3    | 0.9     | 6.6     | 54.8 | 3.5  |
| Sundaram Finance       | 111     | 1891 | 21013 | 2449  | 555     | 16.1           | 1.0         | 17.4    | 2.8     | 14.8    | 37.9 | 5.3  |
| Cholamandalam Inv      | 156     | 1279 | 19998 | 4966  | 820     | 14.4           | 2.9         | 19.3    | 2.5     | 18.9    | 24.4 | 4.3  |

\*figures in crores; calculations on ttm basis; data - standalone or consolidated as available on Sep 30, 2017

M&M Financial Services witnessed a de-growth of 28.2% (y-o-y) in its profit in first half of current fiscal on account of higher credit costs, as it transitioned to 90 dpd recognition against 120 dpd earlier. NII growth was sustained at 16.3% (y-o-y) last quarter, supported by healthy AUM traction – up by 13.8% from H1FY17 largely led by tractors and auto/utility vehicles. To raise growth capital, it has already got Board approval for an amount not exceeding Rs 2250 crs.

Cholamandalam Investments delivered a strong performance, outpacing its peers by registering consolidated profit growth of 30.1% (y-o-y) in H1FY18. Its disbursements (standalone) grew strongly by 14.8% to Rs 10345.3 crs, with vehicle finance disbursements growing by 23.4% (y-o-y). Its asset quality improved with gross NPA down by 20 bps (q-o-q) to 4.5% at 90 dpd recognition vs 4.7% in Q1FY18; the enhancement was led by improvement in vehicle finance asset quality, which fell from 4.7% in the first quarter of current fiscal to 4.5% in Q2FY18. Thanks to its better product-mix and lower cost of borrowings, NIM was up by 1.2% (y-o-y) last quarter. With strong pan India presence of 725 branches (191 branches added in last six quarters), Cholamandalam is on a steady growth path.

Sundaram Finance recorded the highest AUM growth of 16.1% (see table) with 64.7% of its business coming from south at the end of last quarter. Its asset quality was the best among its peers and remained under control with gross NPA and net NPA of 2% and 1% respectively in Q2FY18. Despite an increase in its total borrowing by 19.2% (y-o-y) at the end of H1FY18, its net interest income improved by nearly 20%. Strong CAR of 17.4% and best in class asset quality remain its key strengths.



\*All data ( except AUM) in the graphs consolidated

## Financials

## Standalone Quarterly Results

Figures in Rs crs

|                               | Q2FY18         | Q2FY17         | % chg.      | H1FY18         | H1FY17         | % chg.      |
|-------------------------------|----------------|----------------|-------------|----------------|----------------|-------------|
| Net Interest Income           | 1632.37        | 1352.99        | 20.6        | 3217.57        | 2700.38        | 19.2        |
| Non Interest Income           | 32.37          | 16.86          | 92.0        | 54.21          | 33.55          | 61.6        |
| <b>Total Operating Income</b> | <b>1664.74</b> | <b>1369.85</b> | <b>21.5</b> | <b>3271.78</b> | <b>2733.93</b> | <b>19.7</b> |
| Operating Expenses            | 339.70         | 305.07         | 11.4        | 669.50         | 630.35         | 6.2         |
| <b>Pre-Provision Profits</b>  | <b>1325.04</b> | <b>1064.78</b> | <b>24.4</b> | <b>2602.28</b> | <b>2103.58</b> | <b>23.7</b> |
| Provision & write-offs        | 587.91         | 462.08         | 27.2        | 1170.18        | 922.42         | 26.9        |
| <b>PBDT</b>                   | <b>737.13</b>  | <b>602.70</b>  | <b>22.3</b> | <b>1432.10</b> | <b>1181.16</b> | <b>21.2</b> |
| Depreciation                  | 8.80           | 8.73           | 0.8         | 16.90          | 17.54          | -3.6        |
| <b>PBT</b>                    | <b>728.33</b>  | <b>593.97</b>  | <b>22.6</b> | <b>1415.20</b> | <b>1163.62</b> | <b>21.6</b> |
| Provision for tax             | 249.22         | 206.32         | 20.8        | 487.41         | 401.87         | 21.3        |
| <b>PAT</b>                    | <b>479.11</b>  | <b>387.65</b>  | <b>23.6</b> | <b>927.79</b>  | <b>761.75</b>  | <b>21.8</b> |
| EPS (Rs) (F.V 10)             | 21.12          | 17.09          | 23.6        | 40.89          | 33.57          | 21.8        |
| Equity                        | 226.91         | 226.91         | -           | 226.91         | 226.91         | -           |

## Consolidated Income Statement

Figures in Rs crs

|                               | FY15           | FY16           | FY17           | FY18e          | FY19e          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net Interest Income           | 4437.83        | 5232.86        | 5643.67        | 6507.23        | 7629.35        |
| Non Interest Income           | 67.14          | 71.19          | 75.10          | 86.99          | 100.64         |
| <b>Total Operating Income</b> | <b>4504.97</b> | <b>5304.05</b> | <b>5718.77</b> | <b>6594.21</b> | <b>7730.00</b> |
| Staff Costs                   | 504.04         | 623.73         | 583.20         | 692.08         | 819.38         |
| Other operating Expenses      | 696.00         | 746.60         | 718.32         | 741.85         | 850.30         |
| <b>Pre-Provision Profits</b>  | <b>3304.93</b> | <b>3933.71</b> | <b>4417.24</b> | <b>5160.29</b> | <b>6060.32</b> |
| Provision & write-offs        | 1612.22        | 2106.79        | 2444.32        | 2755.23        | 3104.90        |
| <b>PBDT</b>                   | <b>1692.71</b> | <b>1826.92</b> | <b>1972.92</b> | <b>2405.05</b> | <b>2955.42</b> |
| Depreciation                  | 43.15          | 37.63          | 34.87          | 35.50          | 36.75          |
| <b>PBT</b>                    | <b>1649.56</b> | <b>1789.29</b> | <b>1938.05</b> | <b>2369.56</b> | <b>2918.67</b> |
| Provision for tax             | 621.11         | 605.66         | 672.42         | 822.24         | 1012.78        |
| <b>Net Profit</b>             | <b>1028.44</b> | <b>1183.63</b> | <b>1265.63</b> | <b>1547.32</b> | <b>1905.89</b> |
| EPS (Rs) (F.V 10)             | 45.33          | 52.17          | 55.78          | 68.20          | 84.00          |
| Equity                        | 226.91         | 226.91         | 226.91         | 226.91         | 226.91         |

## Balance Sheet

Figures in Rs crs

|                                | FY15            | FY16            | FY17            | FY18e           | FY19e           |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Equity and Liabilities</b>  | <b>62153.61</b> | <b>68013.47</b> | <b>74450.54</b> | <b>85031.12</b> | <b>98126.77</b> |
| <b>Shareholder's Funds</b>     | <b>9265.82</b>  | <b>10175.48</b> | <b>11331.93</b> | <b>12578.87</b> | <b>14157.07</b> |
| Share Capital                  | 226.91          | 226.91          | 226.91          | 226.91          | 226.91          |
| Reserves and Surplus           | 9038.91         | 9948.58         | 11105.03        | 12351.96        | 13930.16        |
| <b>Non Current Liabilities</b> | <b>35699.19</b> | <b>34275.07</b> | <b>38903.19</b> | <b>44942.04</b> | <b>52611.40</b> |
| Long Term Borrowings           | 32855.58        | 30268.89        | 33698.61        | 38218.84        | 44142.76        |
| Other Long Term Liabilities    | 971.62          | 1163.47         | 1310.64         | 1448.69         | 1600.89         |
| Long term provisions           | 1871.98         | 2842.72         | 3893.94         | 5274.52         | 6867.76         |
| <b>Current Liabilities</b>     | <b>17188.61</b> | <b>23562.91</b> | <b>24215.42</b> | <b>27510.21</b> | <b>31358.30</b> |
| Short term borrowings          | 2952.63         | 3330.44         | 4954.24         | 6066.48         | 7006.79         |
| Trade Payables                 | 1228.34         | 1536.58         | 1769.36         | 1827.25         | 1952.19         |
| Other Current Liabilities      | 12600.72        | 18183.70        | 17090.89        | 19145.72        | 21848.64        |
| Short term provisions          | 406.91          | 512.19          | 400.93          | 470.76          | 550.68          |
| <b>Assets</b>                  | <b>62153.61</b> | <b>68013.47</b> | <b>74450.54</b> | <b>85031.12</b> | <b>98126.77</b> |
| <b>Non Current Assets</b>      | <b>33810.67</b> | <b>44710.65</b> | <b>49352.86</b> | <b>57742.93</b> | <b>68086.43</b> |
| Fixed Assets                   | 154.26          | 152.11          | 134.23          | 118.73          | 101.98          |
| Non Current Investments        | 824.26          | 1222.51         | 1467.92         | 1547.92         | 1627.92         |
| Deferred Tax Assets (net)      | 257.78          | 308.87          | 363.49          | 422.55          | 487.57          |
| Long Term Loans and Advances   | 32481.25        | 43013.27        | 47312.03        | 55635.01        | 65849.44        |
| Other Non Current Assets       | 93.11           | 13.89           | 75.18           | 18.72           | 19.51           |
| <b>Current Assets</b>          | <b>28342.95</b> | <b>23302.81</b> | <b>25097.69</b> | <b>27288.19</b> | <b>30040.34</b> |
| Current Investments            | 2212.92         | 116.99          | 52.25           | 10.00           | 10.00           |
| Trade Receivables              | 2.99            | 10.09           | 8.68            | 9.55            | 10.50           |
| Cash and Bank balances         | 4761.18         | 2365.55         | 4445.31         | 4606.42         | 5807.02         |
| Short term loans and advances  | 21303.29        | 20759.53        | 20532.38        | 22590.00        | 24129.37        |
| Other current assets           | 62.57           | 50.64           | 59.07           | 72.22           | 83.45           |

## Cash Flow Statement

Figures in Rs crs

|                                                | FY15            | FY16            | FY17            | FY18e            | FY19e            |
|------------------------------------------------|-----------------|-----------------|-----------------|------------------|------------------|
| <b>Net Income (a)</b>                          | <b>1028.44</b>  | <b>1183.63</b>  | <b>1265.63</b>  | <b>1547.32</b>   | <b>1905.89</b>   |
| <b>Non cash exp &amp; others (b)</b>           | <b>1673.52</b>  | <b>2063.17</b>  | <b>2332.21</b>  | <b>2737.59</b>   | <b>3083.67</b>   |
| Depreciation                                   | 43.15           | 37.63           | 34.87           | 35.50            | 36.75            |
| Loss/(profit) on sale of assets                | 0.39            | 0.35            | 0.27            | 0.00             | 0.00             |
| Provisions                                     | 1613.28         | 2063.50         | 2340.41         | 2761.15          | 3111.94          |
| ESO compensation cost                          | 0.55            | -0.39           | 0.04            | -                | -                |
| Deferred tax                                   | -1.70           | -51.09          | -54.62          | -59.06           | -65.02           |
| Others                                         | 17.84           | 13.16           | 11.23           | -                | -                |
|                                                | -               | -               | -               | -                | -                |
| <b>Adjustment for NWC (c)</b>                  | <b>12312.86</b> | <b>-8753.97</b> | <b>-6259.35</b> | <b>-11388.64</b> | <b>-12844.31</b> |
| Trade receivables                              | -1.08           | -7.11           | 1.42            | -0.87            | -0.95            |
| Bank deposits                                  | 531.75          | -258.17         | -1810.10        | 56.50            | -0.75            |
| Investments                                    | -600.48         | 1699.05         | -179.66         | -37.75           | -80.00           |
|                                                | -               | -               | -               | -                | -                |
| Other assets                                   | 12243.05        | -10187.75       | -4271.02        | -11406.53        | -12762.61        |
| <b>Cash flow from Operations (a+b+c)</b>       | <b>-9610.90</b> | <b>-5507.18</b> | <b>-2661.51</b> | <b>-7103.74</b>  | <b>-7854.75</b>  |
| Purchase of fixed assets                       | -45.23          | -36.55          | -17.71          | -20.00           | -20.00           |
| Sale of fixed assets                           | 0.65            | 0.73            | 0.47            | -                | -                |
| <b>Cash Flow from Investing activities (d)</b> | <b>-44.59</b>   | <b>-35.82</b>   | <b>-17.24</b>   | <b>-20.00</b>    | <b>-20.00</b>    |
| Net Borrowings                                 | 8064.05         | 3095.49         | 3289.58         | 7585.23          | 9403.05          |
| Public issue exp for NCD paid                  | -12.55          | -               | -               | -                | -                |
| Dividends paid                                 | -215.07         | -273.07         | -273.07         | -300.38          | -327.69          |
| <b>Cash flow from Financing activities (e)</b> | <b>7836.42</b>  | <b>2822.42</b>  | <b>3016.51</b>  | <b>7284.84</b>   | <b>9075.36</b>   |
| Net Change (a+b+c+d+e)                         | -1819.06        | -2720.58        | 337.77          | 161.11           | 1200.61          |



## Key Financial Ratios

|                                               | FY15  | FY16 | FY17 | FY18e | FY19e |
|-----------------------------------------------|-------|------|------|-------|-------|
| <b>Growth Ratios (%)</b>                      |       |      |      |       |       |
| NII                                           | 5.6   | 17.9 | 7.9  | 15.3  | 17.2  |
| Pre-Provision Profit                          | 2.8   | 19.0 | 12.3 | 16.8  | 17.4  |
| Profit before tax                             | -16.3 | 8.5  | 8.3  | 22.3  | 23.2  |
| Net Profit                                    | -24.3 | 15.1 | 6.9  | 22.3  | 23.2  |
| EPS                                           | -24.3 | 15.1 | 6.9  | 22.3  | 23.2  |
| AUM*                                          | 9.9   | 17.2 | 8.2  | 16.0  | 15.5  |
| <b>Return (%)</b>                             |       |      |      |       |       |
| ROE                                           | 11.6  | 12.2 | 11.9 | 13.1  | 14.5  |
| ROA                                           | 1.8   | 1.8  | 1.8  | 1.9   | 2.1   |
| <b>Valuations</b>                             |       |      |      |       |       |
| P/E                                           | 24.6  | 18.3 | 19.3 | 18.3  | 14.9  |
| P/BV                                          | 2.7   | 2.1  | 2.2  | 2.3   | 2.0   |
| <b>Spread Analysis (%)</b>                    |       |      |      |       |       |
| NIM on AUM                                    | 7.5   | 7.8  | 7.4  | 7.7   | 7.8   |
| Average Cost of Borrowings                    | 11.0  | 10.5 | 10.1 | 10.0  | 10.0  |
| <b>Asset Quality</b>                          |       |      |      |       |       |
| Gross NPA**                                   | 4.5   | 6.3  | 8.26 | 8.31  | 8.0   |
| Net NPA**                                     | 1.1   | 1.8  | 2.5  | 2.6   | 2.6   |
| <b>Capitalization &amp; Efficiency ratios</b> |       |      |      |       |       |
| Cost to Income ratio                          | 26.6  | 25.8 | 22.8 | 21.7  | 21.6  |
| Opex/AUM                                      | 2.0   | 2.0  | 1.7  | 1.7   | 1.7   |
| <b>Other Ratios</b>                           |       |      |      |       |       |
| Debt Equity Ratio                             | 5.0   | 4.9  | 4.8  | 4.9   | 5.0   |
| Current Ratio                                 | 1.6   | 1.0  | 1.0  | 1.0   | 1.0   |

\*off-books included

\*\* On the basis of 180 dpd in FY15-Q3FY16, 150 dpd in Q4FY16-Q3FY17, 120 dpd in Q4FY17



**Cumulative Financial Data**

| Rs crs                           | FY11-13 | FY14-16 | FY17-19e |
|----------------------------------|---------|---------|----------|
| Net Interest Income              | 10643   | 13873   | 19780    |
| Non Interest Income              | 152     | 214     | 263      |
| Pre-provision profits            | 8182    | 10455   | 15638    |
| PBT                              | 5958    | 5409    | 7226     |
| PAT                              | 3989    | 3570    | 4719     |
| Dividends                        | 528     | 732     | 928      |
| AUM**                            | 52717   | 72761   | 105524   |
| Total debt*                      | 33386   | 49790   | 70068    |
| NII growth (%)                   |         | 30.3    | 42.6     |
| Pre-provision profits growth (%) |         | 27.8    | 49.6     |
| PAT growth (%)                   |         | -10.5   | 32.2     |
| AUM growth (%)                   | 81.00   | 38.0    | 45.0     |
| Cost to Income (%)               | 24.2    | 25.8    | 22.0     |
| NIM (%)                          | 8.7     | 7.4     | 7.4      |
| ROE (%)                          | 23.8    | 13.6    | 13.0     |
| ROA (%)                          | 3.5     | 2.1     | 1.9      |
| GNPA (%)*                        | 3.1     | 6.3     | 8.0      |
| Dividend payout ratio (%)        | 13.2    | 20.5    | 19.7     |

FY 11-13 implies three year period ending FY13;\*as on terminal year;\*\*standalone

Languid performance of the Indian CV industry starting in FY13 and declining further till FY15 affected the financial performance of Shriram especially in FY14-16 period. AUM growth was restrained to 38% because of growth of only 7.2% and 9.9% in FY14 and FY15 respectively as against simple average AUM growth of ~22% during FY11-13. De-growth of 40.3% in off balance sheet loan portfolio in FY16 from FY13 led to stress in earnings – Rs 3570 crs vs Rs 3989 crs in FY11-13 period (see table). Sharp jump in operating expenses increased cost to income ratio to 25.8% from 24.2% in three years ending FY13. Spurt in provisions and write offs – Rs 4932 crs during FY14-16 from Rs 2173 crs in the preceding three years too affected the bottomline.

We expect Shriram to show sturdy rise in both NIMs and AUM in FY17-19 period with the expectation that the underlying macroeconomic trends are likely to remain positive and will allow the AUM to grow by 45.0% in FY17-19 period from the previous three years. Higher provisions on account of stressed assets and change in NPA recognition norms will affect Gross NPA recognition and let profits grow by 32.2% from three years ending FY16 (see table). Return ratios are however likely to fall slightly – ROE and ROA of 13.0% and 1.9% respectively.

**Financial Summary- US Dollar denominated**

| million \$               | FY15    | FY16    | FY17    | FY18e   | FY19e   |
|--------------------------|---------|---------|---------|---------|---------|
| Equity capital           | 36.3    | 34.2    | 35.0    | 35.0    | 35.0    |
| Shareholders funds       | 1480.4  | 1534.0  | 1722.4  | 1913.3  | 2157.1  |
| Total debt               | 7460.3  | 7506.1  | 8186.4  | 9369.8  | 10822.1 |
| Total loans and advances | 8593.0  | 9614.1  | 10463.6 | 12082.0 | 13897.4 |
| Investments              | 485.2   | 201.9   | 234.5   | 240.6   | 253.0   |
| Net current assets       | 1782.1  | -39.2   | 110.8   | -63.8   | -233.1  |
| Total assets             | 9930.2  | 10253.4 | 11482.4 | 13133.2 | 15155.8 |
| Net Interest Income      | 725.8   | 799.4   | 841.2   | 1005.1  | 1178.4  |
| Pre-provision Profits    | 540.5   | 600.9   | 658.4   | 797.0   | 936.0   |
| PBT                      | 269.8   | 273.3   | 288.9   | 366.0   | 450.8   |
| PAT                      | 168.2   | 180.8   | 188.6   | 239.0   | 294.4   |
| EPS(\$)                  | 0.74    | 0.80    | 0.83    | 1.05    | 1.30    |
| Book value (\$)          | 6.52    | 6.76    | 7.59    | 8.43    | 9.51    |
| Operating Cash Flow      | -1535.5 | -830.2  | -410.5  | -1097.2 | -1213.2 |
| Investing Cash Flow      | -7.1    | -5.4    | -2.7    | -3.1    | -3.1    |
| Financing Cash Flow      | 1252.0  | 425.5   | 465.2   | 1125.2  | 1401.7  |
| Net Change               | -290.6  | -410.1  | 52.1    | 24.9    | 185.4   |

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs 64.75/\$).  
All dollar denominated figures are adjusted for extraordinary items.

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Exchange Rates Used- Indicative

| Rs/\$    | FY14 | FY15  | FY16  | FY17  |
|----------|------|-------|-------|-------|
| Average  | 60.5 | 61.15 | 65.46 | 67.09 |
| Year end | 60.1 | 62.59 | 66.33 | 64.84 |

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.