Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Shriram Transport Finance (SHTF IN)

Rating: BUY | CMP: Rs1,072 | TP: Rs1,660

October 27, 2018

Q2FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	1,660		1,692	
NII (Rs.)	82,073	99,472	71,130	84,805
% Chng.			*15.4*	*17.3*
PPoP (Rs.)	66,408	79,549	65,094	77,166
% Chng.			*2.0*	*3.1*
EPS (Rs.)	121.7	151.7	110.0	135.5
% Chng.			*10.6*	*12.0*

Key Financials

	FY18	FY19E	FY20E	FY21E
Net Int.Inc. (Rs m)	67,833	82,073	99,472	117,493
Growth (%)	*22.0*	*21.0*	*21.2*	*18.1*
Op. Profit (Rs m)	55,253	66,408	79,549	92,464
PAT (Rs m)	24,701	27,618	34,432	41,454
EPS (Rs.)	108.9	121.7	151.7	182.7
Gr. (%)	*96.5*	*11.8*	*24.7*	*20.4*
DPS (Rs.)	11.0	13.0	15.5	15.5
Yield (%)	*1.0*	*1.2*	*1.4*	*1.4*
Margin (%)	*8.1*	*7.9*	*8.1*	*8.1*
RoAE (%)	*19.9*	*18.2*	*18.6*	*18.6*
RoAA (%)	*2.9*	*2.6*	*2.7*	*2.8*
PE (x)	9.8	8.8	7.1	5.9
P/BV (x)	1.8	1.4	1.2	1.0
P/ABV (x)	2.1	1.7	1.4	1.2

Key Data	SRTR.BO | SHTF IN
52-W High / Low	Rs.1,671 / Rs.902
Sensex / Nifty	33,349 / 10,030
Market Cap	Rs.243bn/ $ 3,315m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.3946.07m

Shareholding Pattern (%)

Promoter's	26.08
Foreign	48.70
Domestic Institution	4.53
Public & Others	20.69
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.9)	(34.6)	(4.2)
Relative	(1.2)	(31.9)	(4.8)

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Long term story intact

Quick Pointer:

- Sequential decline is new CV lending, used CV share rises, PAT>AUM growth

Buoyancy in loan book (21% YoY) led by new CV business expansion (46%+ YoY growth), SHTF recorded robust 25% YoY growth in NII healthy PAT at Rs 6.09bn (PLe: Rs 5.89bn). However, the core used CV momentum stood at 15%, the incremental sequential reduction in lower yielding new CV lending, complete transmission of cost pressures steered NIM expansion to 7.52% in Q2FY19 from 7.44%/7.46% in Q1FY19/Q2FY18. However, responding to current liquidity turmoil and need for healthy ALM, recalibration in growth and margins stand imminent in near term prompting us to prune our growth target for FY19 to 15% (earlier 20%). While NIMs are expected to compress to 7.9% in FY19 (from 8%+ a year ago) as we build in 100 bps funding costs increase, these should stabilize at 8.1% FY20-21E. SHTF's mindful strategy on uncompromising NIM but cautious growth, ability to raise money (ECB, securitization) offsetting unwarranted cost pressures, less competitive intensity in domain market, improving portfolio quality (GNPAs expected decline to 6.8% by FY21 from 9.2% in FY18, credit costs fall to 2.4% in FY19 from 3.5%+ levels since past 3 years, with troubled SVL liability out of picture) and return of used CV demand cycle in FY20-21, reinforces our belief in the business model. Against this backdrop, we reiterate BUY reco on the stock, but roll over our multiple to Sep-21 ABV at 2.0x arriving at TP Rs 1660 (earlier 1692) incorporating near term market apprehensions.

- **Operating dynamics strong:** Q2FY19 proved to be operationally strong quarter as core business share inched up aiding steady yields that largely supported NIM expansion, Stage 3 NPAs declined leading to consistency in RoA trends at 2.2%. Management remains confident on the overall used CV demand with sustainability of operator's productivity in-line with improvement in vehicle utilization levels. While SHTF has witnessed increased CP exposure (1% in Q2FY18 to 7.6% in Q2FY19) in recent periods, the quantum stands only to the extent of funding certain short term lending assets (tyre – loan tenure 5 mnths/fuel finance – loan tenure 1 month) of Rs 25bn. The diversified liability mix (, undrawn bank lines Rs 20 bn and minimal damage of Kerala floods deluge (affected area: 3% of overall portfolio) translated into healthy 23% operating profit growth; steady provisions further aided PAT.

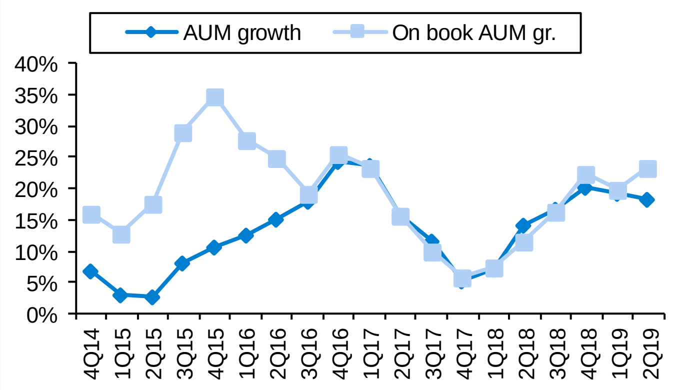
- **Near term challenges inevitable, long term potential strong:** While current market challenges have resulted into steep growth shrinkage for FY19, the normalized NIMs (8.1% over FY20-21), lower Stage 3 ECL provision and further positive impact of IND AS as FY18 operating parameters being reinstated on higher side, we envisage decent 23% earnings CAGR over FY19-21E. Our belief is further reinforced with the sustainability in business model arising out of pricing power potential underpinned by market leadership, rich parentage back-up (biggest strength in difficult times to fall back on), unchanged diversified product mix (45-46% HCVs, 20-21% MHCVs, 23% PVs since past 10 quarters now) and return of robust used CV demand in FY20-21E on replacement cycle picking up. Reiterate BUY.

Exhibit 1: Strong operational performance, used CVs disbursement catching up

Rs in million	Q2FY19	Q2FY18	YoY gr.	Q1FY19	QoQ gr.
Interest income	39,173	32,326	21.2	37,107	5.6
Interest expenses	18,620	15,835	17.6	18,888	(1.4)
Net Interest Income	**20,553**	**16,491**	**24.6**	**18,220**	**12.8**
Total Net Interest Income	**20,553**	**16,491**	**24.6**	**18,220**	**12.8**
Operating & Other Income	244	270	(9.6)	186	31.2
Net revenue	**20,797**	**16,761**	**24.1**	**18,406**	**13.0**
Operating expenses	4,571	3,531	29.5	4,348	5.1
Operating profit	**16,226**	**13,230**	**22.6**	**14,057**	**15.4**
Provisions	6,836	5,669	20.6	5,227	30.8
Profit before tax	**9,390**	**7,560**	**24.2**	**8,830**	**6.3**
Tax	3,295	2,588	27.3	3,101	6.2
Profit after tax	**6,096**	**4,972**	**22.6**	**5,729**	**6.4**
Business mix					
Total AUM	**1,043,798**	**863,565**	**20.9**	**1,005,406**	**3.8**
on book	878,147	711,127	23.5	824,615	6.5
off book	165,651	152,438	8.7	180,791	(8.4)
on book %	84%	82%	1.8	82%	2.1
Used CV book	860,574	747,443	15.1	834,642	3.1
New CV book	127,188	86,970	46.2	121,371	4.8
Used CV book share	82%	87%	(4.1)	83%	(0.6)
Disbursement	**138,030**	**130,010**	6.2	**134,250**	2.8
Used CVs	115,080	110,990	3.7	109,550	5.0
New CVs	16,910	12,780	32.3	19,360	(12.7)
Asset quality					
Gross NPA (mn)	77,488	57,730	34.2	74,585	3.9
Net NPA (mn)	22,782	16,552	37.6	21,319	6.9
Gross NPA (%)	8.8%	8.1%	0.7	9.0%	(0.2)
Net NPA (%)	2.8%	2.5%	0.3	2.7%	0.0
Coverage ratio (%)	70.6%	71.3%	(0.7)	71.4%	(0.8)
Credit Cost (%)	2.7%	2.7%	(0.0)	2.1%	0.5
Ratios					
Gross Spread (on book)	6.4%	9.8%	(335)	9.7%	(321)
NIM/AUM	**8.2%**	**7.8%**	**38**	**7.4%**	**79**
NIM/AUM - Reported	**7.5%**	**7.5%**	**6**	**7.4%**	**8**
CRAR	16.7%	15.9%	84	16.9%	(23)

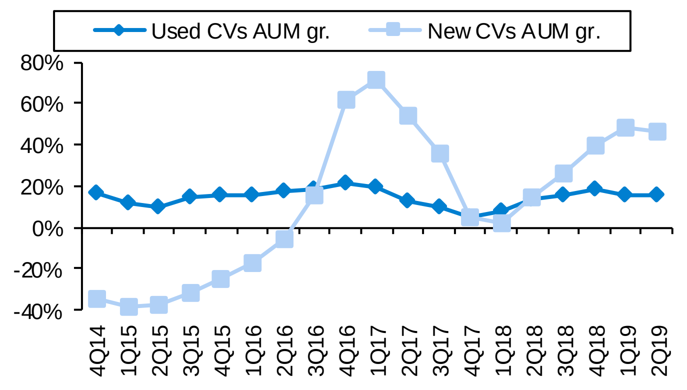
Source: Company, PL

Exhibit 2: AUM growth was much stronger…



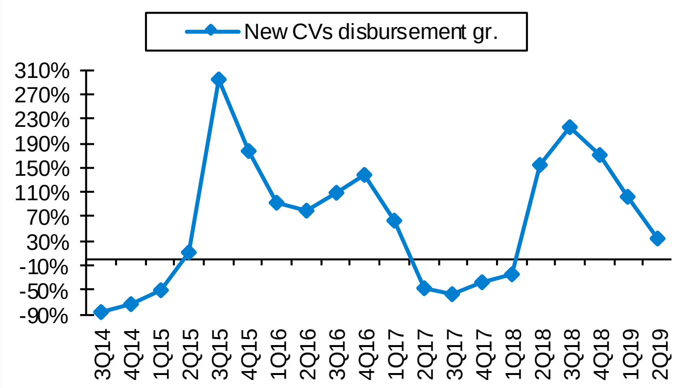
Source: Company, PL

Exhibit 3: …contributed from new CVs



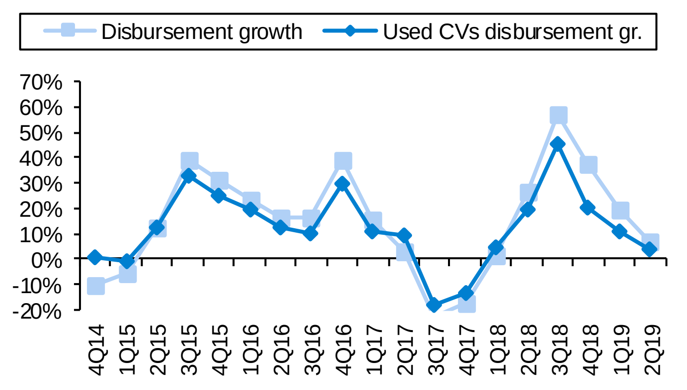
Source: Company, PL

Exhibit 4: New CV disbursement tepid…



Source: Company, PL

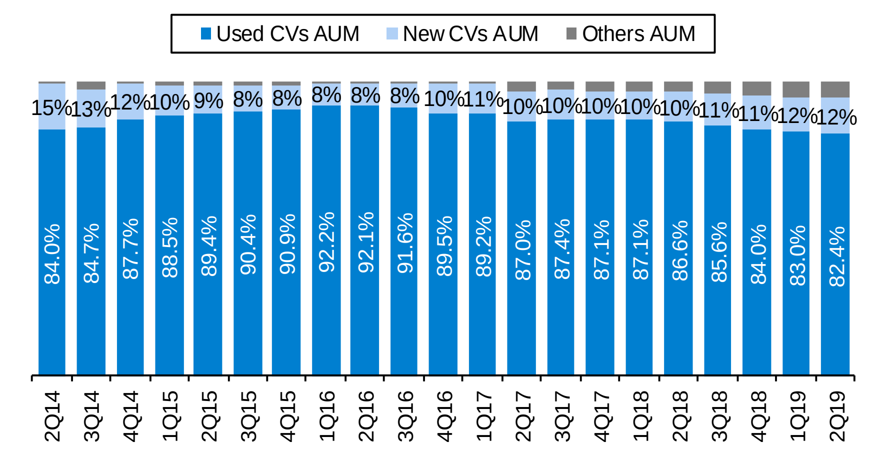
Exhibit 5: …sequential increase in used CV with new CV down



Source: Company, PL

Incremental new CV lending declined, used CV uptick seen on sequential basis

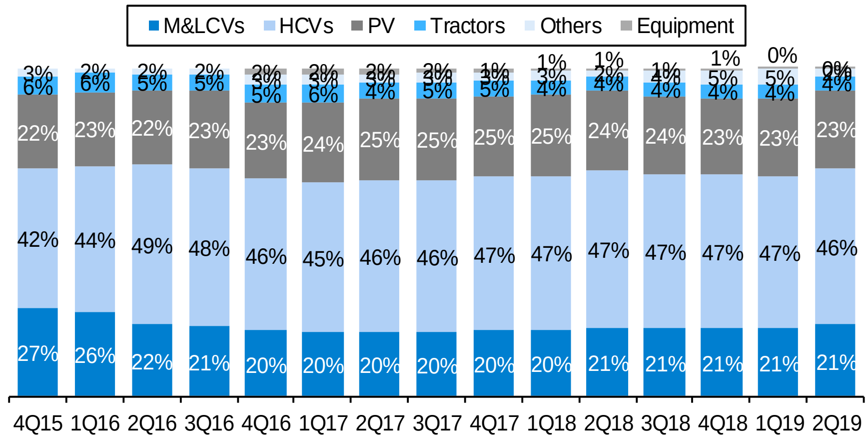
Exhibit 6: New CVs share has seen slight improvement on strong growth



Source: Company, PL

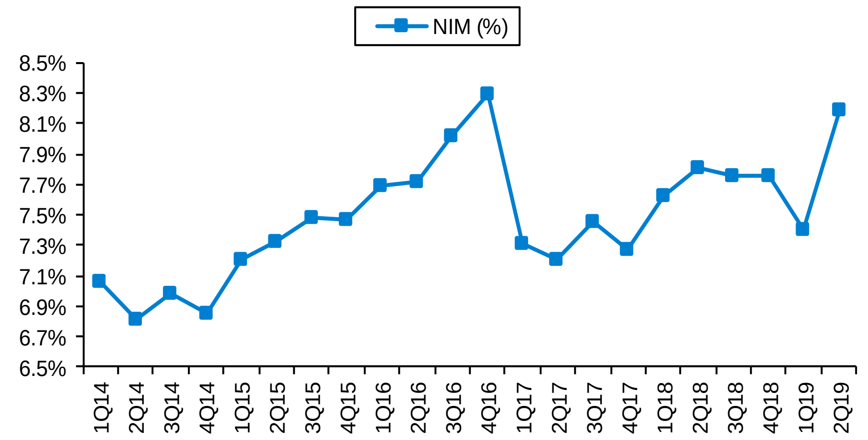
Company's cost-income still continues to be lower despite investing into network expansion and penetration

Exhibit 7: Steady mix since past 10 quarters



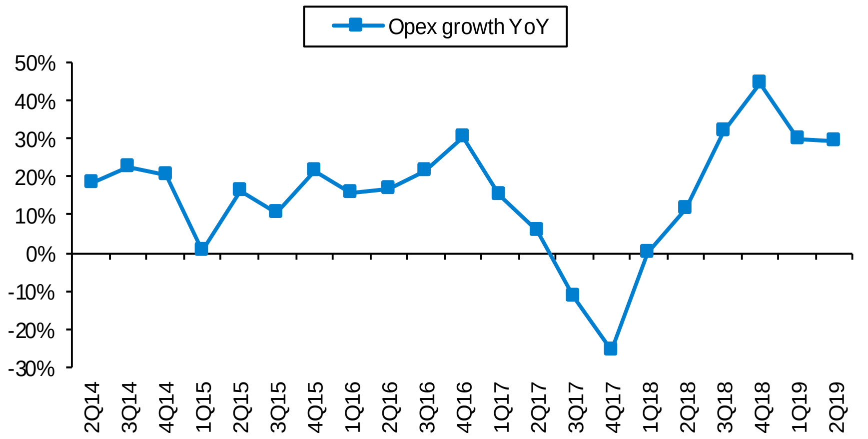
Source: Company, PL

Exhibit 8: Margins stood up as higher yielding used CV disbursements grew



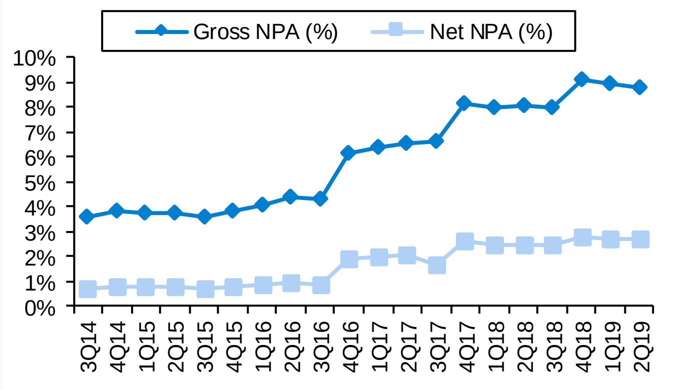
Source: Company, PL

Exhibit 9: Opex saw increase yet under control



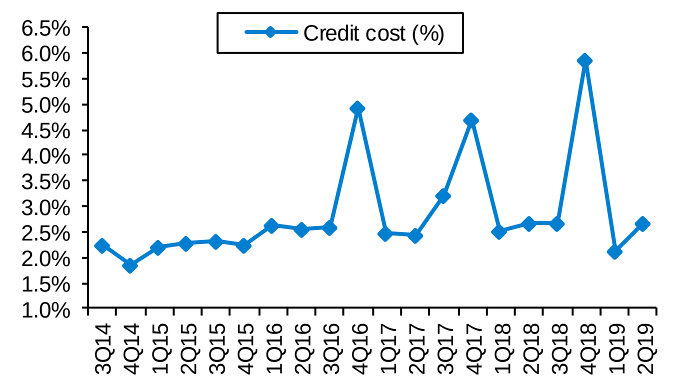
Source: Company, PL

Exhibit 10: Stage 3 asset quality improves



Source: Company, PL

Exhibit 11: PCR maintained at healthy levels



Source: Company, PL

Exhibit 12: Target price revised marginally to accommodate increased CoE and growth cuts

PT calculation and upside	
Fair price - EVA	1,919
Fair price - P/ABV	1,400
Average of the two	**1,660**
Target P/ABV	**2.0**
Target P/E	**10.9**
Current price, Rs	1078
Upside (%)	**54%**
Dividend yield (%)	1%
Total return (%)	55%

Source: PL

Income Statement (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Int. Inc. / Opt. Inc.	144,287	159,638	188,304	218,556
Interest Expenses	64,805	69,435	78,199	89,472
Net interest income	**67,833**	**82,073**	**99,472**	**117,493**
Growth(%)	*22.0*	*21.0*	*21.2*	*18.1*
Non-interest income	2,333	3,267	3,593	4,025
Growth(%)	*185.1*	*40.0*	*10.0*	*12.0*
Net operating income	70,166	85,340	103,065	121,518
Expenditures				
Employees	7,152	9,154	11,900	15,232
Other Expenses	7,990	9,188	11,026	13,231
Depreciation	361	590	590	590
Operating Expenses	14,913	18,342	22,926	28,464
PPP	**55,253**	**66,408**	**79,549**	**92,464**
Growth(%)	*26.5*	*20.2*	*19.8*	*16.2*
Provisions	17,223	24,243	26,577	28,688
Profit Before Tax	**38,030**	**42,164**	**52,972**	**63,776**
Tax	13,328	14,547	18,540	22,322
Effective Tax rate(%)	*35.0*	*34.5*	*35.0*	*35.0*
PAT	**24,701**	**27,618**	**34,432**	**41,454**
Growth(%)	*96.5*	*11.8*	*24.7*	*20.4*

Balance Sheet (Rs. m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Source of funds				
Equity	2,269	2,269	2,269	2,269
Reserves and Surplus	133,155	165,772	200,204	241,659
Networth	135,424	168,042	202,473	243,928
Growth (%)	*19.8*	*24.1*	*20.5*	*20.5*
Loan funds	373,496	436,990	504,897	594,514
Growth (%)	*(29.7)*	*17.0*	*15.5*	*17.7*
Deferred Tax Liability	-	-	-	-
Other Current Liabilities	467,837	561,565	655,463	765,526
Other Liabilities	-	-	-	-
Total Liabilities	**976,757**	**1,166,597**	**1,362,833**	**1,603,968**
Application of funds				
Net fixed assets	1,221	1,284	1,348	1,414
Advances	908,364	1,035,535	1,201,220	1,417,440
Growth (%)	*33.9*	*14.0*	*16.0*	*18.0*
Investments	23,414	24,584	25,813	27,104
Current Assets	42,833	104,148	133,263	156,644
Net current assets	**(425,004)**	**(457,418)**	**(522,200)**	**(608,882)**
Other Assets	926	1,046	1,189	1,367
Total Assets	**976,757**	**1,166,597**	**1,362,833**	**1,603,968**
Growth (%)	*31.3*	*19.4*	*16.8*	*17.7*
Business Mix				
AUM	962,606	1,088,703	1,239,856	1,459,939
Growth (%)	*22.2*	*13.1*	*13.9*	*17.8*
On Balance Sheet	800,011	911,475	1,046,677	1,247,442
% of AUM	*83.11*	*83.72*	*84.42*	*85.44*
Off Balance Sheet	162,595	177,229	193,179	212,497
% of AUM	*16.89*	*16.28*	*15.58*	*14.56*

Profitability & Capital (%)

Y/e Mar	FY18	FY19E	FY20E	FY21E
NIM	8.1	7.9	8.1	8.1
ROAA	2.9	2.6	2.7	2.8
ROAE	19.9	18.2	18.6	18.6

Source: Company Data, PL Research

Comparison to old estimates stand irrelevant as FY18 numbers stand reinstated as per IND-AS

Quarterly Financials (Rs. m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Int. Inc. / Operating Inc.	27,573	29,502	37,107	39,173
Income from securitization	3,061	3,206	-	-
Interest Expenses	13,540	14,633	18,888	18,620
Net Interest Income	**17,094**	**18,076**	**18,220**	**20,553**
Growth (%)	*21.1*	*28.3*	*18.4*	*24.6*
Non-Interest Income	221	1,717	186	244
Net Operating Income	**17,315**	**19,792**	**18,406**	**20,797**
Growth (%)	*21.1*	*38.1*	*18.8*	*24.1*
Operating expenditure	3,828	4,193	4,348	4,571
PPP	**13,486**	**15,599**	**14,057**	**16,226**
Growth (%)	-	-	-	-
Provision	5,854	13,666	5,227	6,836
Exchange Gain / (Loss)	-	-	-	-
Profit before tax	7,633	1,934	8,830	9,390
Tax	2,676	488	3,101	3,295
Prov. for deferred tax liability	6,783	4,319	-	-
Effective Tax Rate	35.1	25.2	35.1	35.1
PAT	**4,956**	**1,446**	**5,729**	**6,096**
Growth	*43*	*(3)*	*25*	*23*
AUM	900,186	964,624	1,005,406	1,043,798
YoY growth (%)	18.0	22.5	21.7	20.9
Borrowing	622,141	681,687	868,523	923,862
YoY growth (%)	*15.8*	*22.2*	*48.0*	*24.0*

Key Ratios

Y/e Mar	FY18	FY19E	FY20E	FY21E
CMP (Rs)	1,072	1,072	1,072	1,072
EPS (Rs)	108.9	121.7	151.7	182.7
Book value (Rs)	597	741	892	1,075
Adj. BV(Rs)	503	631	758	910
P/E(x)	10	9	7	6
P/BV(x)	2	1	1	1
P/ABV(x)	2	2	1	1
DPS (Rs)	11	13	16	16
Dividend Payout Ratio(%)	*10.1*	*10.7*	*10.2*	*8.5*
Dividend Yield(%)	*1.0*	*1.2*	*1.4*	*1.4*

Asset Quality

Y/e Mar	FY18	FY19E	FY20E	FY21E
Gross NPAs(Rs m)	73,764	77,529	81,832	89,883
Net NPA(Rs m)	21,311	24,786	30,473	37,514
Gross NPAs to Gross Adv.(%)	-	-	-	-
Net NPAs to net Adv.(%)	2.8	2.6	2.7	2.9
NPA coverage(%)	71.1	68.0	62.8	58.3

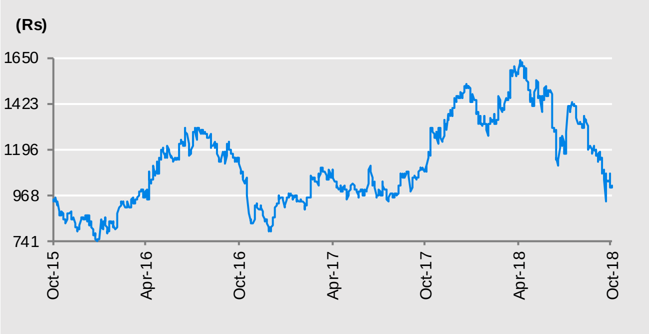
Du-Pont

Y/e Mar	FY18	FY19E	FY20E	FY21E
NII	7.9	7.7	7.9	7.9
NII INCI. Securitization	9.2	8.4	8.7	8.7
Total income	9.5	8.7	9.0	9.0
Operating Expenses	1.7	1.8	**1.9**	2.0
PPOP	7.8	7.0	7.1	7.0
Total Provisions	2.0	2.3	2.1	1.9
RoAA	2.9	2.6	2.7	2.8
Avg. Assets/Avg. net worth	-	-	-	-
RoAE	19.9	18.2	18.6	18.6

Source: Company Data, PL Research

Comparison to old estimates stand irrelevant as FY18 numbers stand reinstated as per IND-AS

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	1-Nov-17	BUY	1,402	1,197
2	10-Jan-18	BUY	1,402	1,515
3	13-Apr-18	BUY	1,705	1,559
4	27-Apr-18	BUY	1,822	1,628
5	10-Jul-18	BUY	1,822	1,132
6	27-Jul-18	BUY	1,787	1,411
7	5-Oct-18	BUY	1,692	1,094

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Capital First	UR	-	495
2	Cholamandalam Investment and Finance Company	BUY	1,597	1,193
3	Edelweiss Capital	NR	-	276
4	L&T Finance Holdings	Accumulate	170	117
5	LIC Housing Finance	Accumulate	569	411
6	Mahindra & Mahindra Financial Services	Accumulate	516	401
7	Shriram Transport Finance	BUY	1,692	1,094

PL's Recommendation Nomenclature (Absolute Performance)

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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